Summary of the Governor's Proposals for the 2018-19 State Budget and California Community Colleges

By School Services of California, Inc.

Introduction

What if life gave each of us a "mulligan" which in golf allows us to replay a shot to see if we can do better? How would we use that "mulligan" to our best advantage?

Well, Governor Jerry Brown got that "mulligan" and used it fully. The opportunity to be Governor at a young age, leaving office in 1974, then holding a variety of elected positions over nearly three decades, then becoming Governor again in 2010 gave Governor Brown the replay he wanted. Equipped with the experience and knowledge gained over a long political life, Governor Brown was clearly ready to put his mark on the state a second time as Governor. However, this was going to be the toughest course he had ever played!

The Challenge

Most of us remember what California looked like when Governor Brown was elected in the middle of the Great Recession: Unemployment rates of 14%, among the highest in the nation; significant cuts to education funding; the worst credit rating of any state in the U.S.; companies moving out of California for greener pastures elsewhere; state revenues that consistently came in lower than projected and left the state so cash-poor that it could not even pay annual apportionments to schools and community colleges without substantial deferrals; reductions in school and community college staffing, in addition to layoffs, furlough days, increased class sizes, and significant cuts to categorical programs.

And the dysfunction extended far beyond public education. The rancorous environment and partisan bickering in the Legislature led to State Budgets that were consistently months late and filled with gimmicks to try to survive another year. The state General Fund carried a negative reserve that was getting worse, not better. Federal judges were ordering the state to release prisoners to reduce overcrowding. The housing market had collapsed to the extent that the median price of homes was half what it had been four years before. Anyone longing for the bad old days?

The Path to Recovery

Crisis leadership is about defining the key controllable elements of a critical situation and massing resources at those points to bring about positive change. To accomplish that in a situation like Governor Brown inherited, he used his extensive experience in governance, built legislative support often by supermajority, and put his own personal charisma and reputation on the line.

Later on, when the national economic recovery started, the Governor's plan received a needed and expected boost, but for the first three years of his term we remained mired in the Great Recession and there was no external help to be had. California needed to create jobs, opportunities for employers, and a stronger more sustainable tax base, all while supporting the needs of former tax payers who had suddenly become tax receivers. Aided by temporary taxes, spending reductions and difficult policy choices, Governor Brown tackled the problems facing the state.

We are advocates for public education and do not like the fact that during the Great Recession the bulk of the State Budget cuts were taken by education. We felt the same about the classified, certificated, and management staff members in school and community college districts shouldering the sacrifice of lower budgets and fewer jobs. But we also recognize that in order to save the ship you may have to offload the heaviest cargo, so sometimes the gold (in this case, our education programs) must be jettisoned. Moving the needle on California's recovery required bold, immediate actions; and Governor Brown took those actions. There was no guarantee that the Governor's plan would save our state, but the absence of action would guarantee defeat.

The Recovery

Aided by improving national and state economic conditions, California's recovery allowed the Governor to reshape major state institutions. No more property tax diversions to Redevelopment Agencies, a long-term solvency plan for the state's defunct pension plans, greater reliance on the top one-percent of taxpayers, and of course, restructuring of the entire educational delivery model.

Beginning in 2013, and continuing today, we have enjoyed revenues that are higher than those projected by the state in every year. Conservative budgeting has allowed the Administration to avoid the temptation to restore spending too quickly and risk falling back into the downward spiral. The constitutionally required "true-up mechanism" for Proposition 98 is intended to ensure that education will eventually receive at least the minimum guarantee. By paying significant amounts in arrears, each year the Administration created a safety net in case future revenues did not come in as planned.

Overview of the Governor's Budget Proposals

On Wednesday, January 10, 2018, shortly after 10:00 a.m., Governor Jerry Brown unveiled his final proposed State Budget for the upcoming 2018-19 fiscal year. He completed his "prepared" remarks on his State Budget proposal in about five minutes and then turned to questions from the press.

The Governor led off with a statement that he was presenting a solid State Budget that prepares California for the future. Repeating the theme that has remained consistent throughout his second stint as Governor, Brown warned of the dire consequences of a recession, especially given the state's volatile tax system. He noted that there have been ten recessions since World War II and that we must prepare for the eleventh. As a result, he is again highlighting the need to build up the state's Rainy Day Fund and referenced last year's Department of Finance (DOF) analysis of the devastating impacts of even a normal recession—a loss of $20 billion in revenues a year for three years.

During the Q&A period, the Governor was asked by former Sacramento Bee columnist Dan Walters about his proposal to aggressively fund the Rainy Day Fund. The Governor responded with, "I thought you retired," which got a big laugh. He then went on to say, "This is about steady as you go or exuberance followed by regret and pain," noting the effects of the dot-com bubble under the Davis Administration and the fiscal aftermath inherited by former Governor Arnold Schwarzenegger.

In addition to significant proposals in Proposition 98, some of the major initiatives of the Governor's State Budget include:

Full Funding of the Rainy Day Fund: Proposition 2, approved by California voters in 2014, established a constitutional goal of reserving 10% of tax revenues in a Rainy Day Fund. The Governor's Budget proposes a $3.5 billion supplemental payment in addition to the constitutionally required transfer to the Rainy Day Fund for 2018-19. The two payments would bring the total Rainy Day Fund to $13.5 billion, which hits the 10% goal.

Health Care Expansion: Amidst growing uncertainly at the federal level, the Governor's Budget provides funding to increase health care coverage to low-income Californians under the federal Affordable Care Act (ACA).

Transportation Infrastructure: The Budget reflects the first full year of funding under the Road Repair and Accountability Act of 2017 (Senate Bill 1), which provides stable, long-term funding for both state and local transportation infrastructure. This act provides $55 billion in new funding over the next decade, split evenly between state and local projects. For 2018-19, the Budget includes $4.6 billion in new transportation funding.

In closing his press conference, the Governor responded to a question about the changes he has seen in California since first becoming Governor in 1974. He noted the influence of Proposition 13, which inserted Sacramento decision making into the affairs of local government. He also said that there was more bipartisanship in the Legislature four decades ago, noting that both Republicans and Democrats elected the leadership of their houses. With regard to the State Budget, the Governor pointed out that prisons now account for 9% of the Budget compared to 3% during his first term as Governor in the late 1970s. He did acknowledge, however, that a Governor has a greater impact now than 40 years ago.

The Economy and Revenues

Economic Outlook

While acknowledging the continued strength of both the state and national economies, and the subsequent increased revenues they produce, the Governor still has his eyes on ensuring California is prepared for the next inevitable downturn. In both his State Budget proposal and press conference, the Governor calls our attention to the fact that by the end of 2018-19 this recovery will match the longest recovery in post-war history. The previous periods of balanced State Budgets were all followed by large State Budget shortfalls, and the effects on California of the passage of the new federal tax bill, among other federal policies, are still largely unknown.

In light of these realities, Governor Brown proposes another State Budget based on the implementation of prudent fiscal practices that provide a balanced State Budget while continuing to plan and save for the future. While the economy continues to expand, even a moderate recession could significantly impact state revenues for several years to come. To ensure the state is ready for a potential slow down, the Governor's State Budget proposes fully funding the Rainy Day Fund and allocating the majority of the revenue surplus to one-time expenses. The State Budget is clear that fully funding the Rainy Day Fund may not eliminate the need for spending reductions should a recession or federal policy changes come to pass, but it should allow for the softening of potential cuts and/or shortening of the length of time any potential cuts would be effective.

At the national level, the stock market has reached an all-time high with no signs of slowing down. All three major indices reached new levels the first week in January, with the Dow Jones surpassing 25,000 for the first time. In spite of the Federal Reserve's continued interest rate hikes, housing prices continue to rise and mortgage rates remain historically low. Wages are increasing and the unemployment rate for both the nation and California dropped to 4.6% and 4.1%, respectively, further narrowing the gap between the two. In addition, the country added 228,000 jobs in November 2017 and, as previously noted, the Governor's State Budget anticipates modest growth for the California economy.

State Revenues

The Governor's State Budget presents a rosy picture, with revenues higher than projections. Total state revenues are higher year over year, and the economy continues to grow, though modestly. The higher revenues, as expected, are due largely to an increase in personal income tax collections with sales and use tax also seeing an increase over those estimated by the DOF in the adopted 2017-18 Budget Act.

The Legislative Analyst's Office (LAO) forecast released in November 2017 also estimated a significant increase in General Fund revenues. The LAO continued to provide two long-term estimates—one based on an economic growth scenario and another based on a mild recession scenario. Under the economic growth scenario, the State Budget will retain a surplus, with increases in revenues from the personal income tax driving the majority of the growth, while the recession scenario reflects a roughly $80 billion revenue loss, compared to the growth scenario, over the three fiscal years between 2019-20 and 2021-22.

Proposition 98

Adopted by state voters in 1988, Proposition 98 sets in the State Constitution a series of complex formulas that establish the minimum funding level for K-12 education and community colleges from one year to the next. This target level is determined by prior-year appropriations that count toward the guarantee and (1) workload changes as measured by the change in average daily attendance (ADA), and (2) inflation adjustments as measured by the change in either per capita personal income or per capita state General Fund revenues, whichever is less. Over the last several years, Proposition 98 has provided significant gains to schools and community colleges as funding cuts endured through the Great Recession have been restored.

Current-Year Minimum Guarantee

For the current year, the Governor's State Budget acknowledges that revenues are higher than projected in the adopted 2017-18 Budget Act, resulting in the increase of the current-year minimum guarantee. For the current year, the Proposition 98 guarantee is now estimated at $75.2 billion, up approximately $700 million from the enacted level.

Proposition 98 also requires the state to account for state funding that falls below the long-term target established by Test 2 (i.e., adjustments required by annual changes in per capita personal income). This cumulative shortfall is termed Maintenance Factor. The Governor's State Budget notes that as of the end of 2017-18, the Maintenance Factor will be down to $228 million, as the Budget proposes a payment of $1.12 billion in the current year.

2017-18 Minimum Guarantee

For 2018-19, the Governor's State Budget proposes a Proposition 98 guarantee of $78.3 billion, an increase of $3.1 billion year over year. The guarantee is based on Test 3, the change in per capita General Fund revenues, plus 0.5%, and the change in K-12 ADA, which is expected to decline in the budget year. The Governor's State Budget notes that an additional $92 million in Maintenance Factor will be created—due to it being a Test 3 year—totaling just over $320 million at the end of 2018-19.

Community College Proposals

The most significant proposals to the 2018-19 Governor's Budget are new initiatives that have been the subject of some recent discussions: a new funding formula for general apportionments and an online California community college.

New Funding Formula

The Governor proposes $175 million to fund the transition of community colleges to a new Student-Focused Funding Formula for general apportionments, which has some similarities to the K-12 Local Control Funding Formula (LCFF) that was implemented beginning in 2013-14. The proposed formula is composed of:

- Base Grant (50% of funding)—based on enrollment using a per-full-time equivalent student (FTES) funding rate, similar to the current general apportionment calculation
- Supplemental Grant (25% of funding)—based on the number of low-income students; those who receive a College Promise Grant (formerly Board of Governors) fee waiver or Pell Grant
- Student Success Incentive Grant (25% of funding)—based on the number of degrees and certificates granted and the number of students completing them in three years or less, with additional funds for each Associate Degree for Transfer granted

Along with this new formula the Governor is proposing requirements that community colleges incorporate the goals of the Vision for Success within each college's educational master plan and align each college's budget with that plan (similar to the Local Control and Accountability Plan and budget requirements for K-12 education under the LCFF).

The proposed Student-Focused Funding Formula includes a hold harmless provision that ensures that no district receives less funding in 2018-19 than is allocated through the general apportionment in 2017-18. Thereafter, the hold harmless provision is determined based upon the 2017-18 per-FTES general apportionment funding multiplied by the FTES for the year for which funding is being calculated.

Also, the Chancellor's Office is urged to consult with stakeholders to develop a proposal for consolidating categorical programs in time to be considered for the May Revision. When the LCFF was implemented for K-12 education, over 40 categorical programs were eliminated and the funding was rolled into the LCFF. However, the Administration has stated that this is not the intent for community colleges—rather, the Administration is interested in consolidating the programs while keeping them restricted.

California College Online

The Governor proposes $120 million ($20 million ongoing) to create a fully online community college that would focus on vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, healthcare, in-home supportive services, and other areas. The enrollment focus would be on working adults that are not currently accessing higher education.

Apportionment funding for the fully online college would take into account student enrollment and the number of underrepresented students enrolled in the college, and would encourage the online college to focus on student success. Reflecting some of the concerns shared while this concept was discussed over the fall, the college will not impact traditional community colleges' enrollment because its enrollment base will be working adults that are not currently accessing higher education.

Other General Apportionment Proposals

In addition to the $175 million proposed for transitioning to the new funding formula, the Governor's 2018-19 State Budget proposal provides the following for general apportionments:

- $161.2 million increase to fund the estimated 2.51% statutory cost-o-living adjustment (COLA)
- $60 million increase to fund 1% growth
- $73.7 million decrease to reflect unused 2016-17 growth
- $5.4 million increase for offsetting enrollment fee revenues
- $230.2 million decrease to offset local property tax revenues

Similar to last year, the Governor does not propose any one-time discretionary funds for 2018-19—funds that have historically been counted as paying down outstanding state mandate claims. Also, consistent with the Governor's prior proposals, there is no proposed change to current fee levels for the California Community Colleges (CCCs).

Workforce Programs

The Governor proposes $212 million for K-12 education to expand Career Technical Education programs aligned with the goals of the Strong Workforce Program. The Governor also proposes:

- $20.5 million for a COLA for the Adult Education Block Grant program, along with $5 million for a shared data collection and accountability system

- $17.8 million in ongoing funds for K-12 and community college apprenticeship programs, along with $30.6 million in one-time funds to backfill shortfalls in the reimbursements provided from 2013-14 through 2017-18

- $2 million to fund certified nursing assistant programs

Other Programs

The Governor's 2018-19 State Budget proposals for other community college programs include:

- $275.2 million in one-time funds for deferred maintenance, instructional equipment, and specified water conservation projects, with no matching funds requirement

- $46 million to support the implementation of the California College Promise program, which rescinds the $46 per unit fee for all first-time resident students enrolled in 12 units or more per semester during their first year

- $44.9 million in Proposition 51 bond funds for 5 new and 15 continuing facilities projects

- $32.9 million to consolidate the Full-Time Student Success Grant and the Completion Grant programs, increasing the grant amounts and shifting to a per-unit per-semester/per-year grant; the proposed unit range is between 12 and 15 units per semester or 24 and 30 units per year

- $20 million in one-time funds for the Innovation Awards program for grants focused on enhancing equity

- $7.3 million to fund the 2.51% COLA for Disabled Student Programs and Services, Extended Opportunity Programs and Services, California Work Opportunity and Responsibility to Kids (CalWORKs), and Child Care Tax Bailout programs

- $2 million for the Chancellor's Office to fill vacant positions and further support the local colleges in improving student success

Other Policy Initiatives

The Governor's proposal includes imposing a new requirement on nonprofit institutions with students receiving Cal Grants that, starting in 2019-20, the sector must admit at least 2,500 students who have earned Associate Degrees for Transfer from the community colleges, and they must be guaranteed junior standing. Starting in 2020-21 this requirement increases to 3,000 students.

The Rest of Higher Education

The Governor's State Budget proposal acknowledges that both the University of California (UC) and the California State University (CSU) systems are proposing to increase tuition for 2018-19 by 2.5% and 4%, respectively. The Governor urges both systems to reduce their cost structures before increasing tuition again.

The UC and CSU systems are each proposed to receive $92.1 million consistent with the Governor's long-term plan. In addition, the UC is proposed to receive $50 million upon meeting expectations related to the initiative that began last year to reduce its cost structure as well as addressing the findings in the State Auditor's 2017 report regarding the Office of the President.

K-12 Education Proposals

The 2.51% statutory COLA is applied to the K-12 LCFF and the few categorical programs that still exist for K-12 education. Further, the Governor proposes to fully fund the LCFF, two years earlier than originally anticipated, at a cost of almost $3 billion. Also, K-12 education is proposed to receive approximately $295 per ADA in one-time discretionary funds that are scored against outstanding state mandate claims. There are no such funds proposed for the CCC at this point. However, the CCC is proposed to receive the one-time deferred maintenance and instructional equipment funds.

Child Care and Preschool

Maintaining a three-year agreement with the Legislature to increase investments in child care and preschool, the Governor's Budget proposes to increase reimbursement rates and fund the final tranche of state preschool slots. Specifically, the 2018-19 State Budget proposes to:

- Increase the Standard Reimbursement Rate by 2.8%, for a total General Fund and Proposition 98 investment of $47.7 million—$16.1 million and $31.6 million, respectively
- Provide an ongoing $34.2 million to convert the temporary Regional Market Rate (RMR) "hold harmless" provision to a permanent provision, beginning in 2019-20
- Fund an additional 2,959 full-day State Preschool slots, beginning in April 2018
- Fulfill the fiscal year 2017-18 increase to the RMR to the 75th percentile of the 2016 regional market rate survey, beginning January 1, 2018
- Make a modest adjustment to CalWORKs Stage 2 and Stage 3 to reflect caseload and estimated costs of care
- Provide $125 million in one-time Proposition 98 funding and $42.2 million in federal Temporary Assistance for Needy Families funds to create the Inclusive Early Education Expansion Program to increase the availability of early education and care for children ages 0 to 5, targeting children in low-income areas

The Governor also acknowledges the operation of state-approved pilot programs in 13 counties that authorizes providers in those counties to earn their full contracts through greater program flexibility. His proposal commits to working with providers in those counties to help streamline requirements.

Federal Programs

At the federal level, there remains continued uncertainty regarding federal appropriations for public education programs. In December 2017, Congress passed a Continuing Resolution (CR) that funds all discretionary funding at current levels until January 19, 2018. There are rumors that the CR will be extended through mid-February to allow Congress to work out deals on immigration and health care issues.

In his 2018-19 State Budget proposal, Governor Brown notes that, "California's relationship with the federal government has never been more uncertain." The Budget proposal does not factor in the ramifications of the recently enacted federal tax bill, nor any additional proposed federal cost shifts resulting from the repeal of the ACA or other federal entitlements. The Governor indicates the May Revision will include a preliminary analysis of the proposed impact of the tax cuts and any enacted cost shifts on the state's economy and revenues.

In Closing

In closing, remember that the Governor's Budget proposals mark the beginning of the process, not the end. We expect the Legislature to push back on the Governor's priorities and especially his revenue estimates. As the various proposals are considered by legislative committees, we can expect both confrontation and compromise; in our opinion, the Governor continues to win on the issues most important to him.

There was a time, not so long ago (certainly during Governor Brown's political lifetime), when California was the envy of the world. We had the best public education system in the world. The best jobs, the best homes, the best weather, the best beaches, and we even had Disneyland! Employers came here for our educated work force and created high-paying jobs in aerospace, medicine, manufacturing, agriculture and construction. We were leaders in all those areas.

Then came Proposition 13 and the erosion of our infrastructure began. Our education system suffered immediate damage and we dropped from the top 5 to the bottom 10 states by any measure. The roads lasted, but not forever. The jobs first stopped coming to California, then started leaving. High-paying technical and professional jobs left and were replaced by lower-paying service industry jobs. More of California's governmental and education expenditures were funded by volatile sales and income taxes as opposed to the more stable property tax. By the 1980s, for the first time in our history, the population of tax receivers was growing faster than the economy itself.

We care about public education because we know it is the great equalizer. Not just economics, or safety, or social justice, or human dignity—but all of them are dependent upon an education system that builds our country one student at a time. No one Governor or one State Budget can be expected to address all of our needs, but every State Budget should be expected to make progress on the ones we hold most dear. We think this State Budget continues to advance those choices and priorities.

We also think Governor Brown is going out on top. He didn't address every issue, perhaps not even to his own satisfaction, but he was our Winston Churchill and he "never gave up" on California, even in our "darkest hour." Perhaps that is his greatest legacy.

—School Services of California, Inc. Staff