California Community Colleges

State Budget Update:
Governor's May Revision

Background

This May Revision analysis builds on a January 25, 2019 analysis of the Governor's January budget proposal. In this update, we present major changes included in the Governor's May Revision. For additional details on the January proposal, please see our earlier analysis.

This analysis was developed jointly by:

- Association of California Community College Administrators (ACCCA)
- Association of Chief Business Officials (ACBO)
- California Community Colleges Chancellor's Office (Chancellor's Office)
- Community College League of California (League)

Its purpose is to provide factual information about the Governor's May Revision as a common resource for each organization's further analyses and advocacy efforts. An upcoming analysis at the conclusion of the annual budget process will describe the budget as it is enacted by the Governor and Legislature.

Introduction

On May 9, Governor Newsom released his May Revision budget proposal for the 2019-20 fiscal year. Below we describe major changes in the overall state budget framework and the budget for California Community Colleges (CCC) relative to January. We then review changes to proposed CCC budget adjustments in detail.

Changes in Overall Budget Framework

Continued Focus on Budget Resiliency. The May Revision maintains the Governor's commitment to reducing state debt, paying down liabilities, building reserves, and allocating spending to one-time initiatives. It deposits an additional $1.2 billion into the Rainy Day Fund, bringing the reserve to $16.5 billion in 2019-20. By the end of 2022-23, the Rainy Day Fund balance is projected to be $18.7 billion. The May Revision also deposits $389 million in Proposition 98 funds in the Public School System Stabilization Account, as required by Proposition 2, the first time such a deposit has been made.

New Proposals Addressing Affordability. The Governor proposes new sales tax exemptions for diapers and menstrual products, an additional $54.2 million General Fund for CalWORKs child care services, and an allocation of $80.5 million in Proposition 64 revenue (California Marijuana Tax Fund) to child care. These proposals supplement efforts

in the January budget to improve support for working families. Continued affordability proposals from January include paid family leave, early childhood education, health screening, and supplemental Cal Grants and child care services for college students with dependent children.

Changes to CCC Funding

The May Revision leaves the Governor's January proposal for CCC largely unchanged. The proposal includes routine adjustments using updated estimates of revenue, enrollment, program participation, and inflation, but makes no major policy changes.

PROPOSITION 98 ESTIMATES

Minimum Guarantee. Table 1 shows the Department of Finance's (DOF) estimates of the minimum guarantee for the prior, current, and budget years in the Governor's January budget and May Revision. Total Proposition 98 funding is slightly higher than estimated in January for the current and budget years. Lower local property tax revenues are offset by higher General Fund amounts.

Table 1: Estimates of the Proposition 98 Minimum Guarantee (In Millions)
Preliminary information – may be updated when detailed data is available from DOF.

Source	Governor's Budget	May Revision	Change	
			Amount	Percent
2017-18				
General Fund	$52,887	$52,834	-$53	-0.1%
Local property tax	22,610	22,625	15	0.1%
Totals	**$75,497**	**$75,459**	**-$38**	**-0.1%**
2018-19				
General Fund	$54,028	$54,445	$417	0.8%
Local property tax	23,839	23,701	-138	-0.6%
Totals	**$77,867**	**$78,146**	**$279**	**0.4%**
2019-20				
General Fund	$55,295	$55,903	$608	1.1%
Local property tax	25,384	25,166	-218	-0.9%
Totals	**$80,679**	**$81,069**	**$390**	**0.5%**

Required Transfer to Public School System Stabilization Account. Proposition 2, approved by voters in November 2014, created the Public School System Stabilization Account (PSSSA), a new state reserve for schools and community colleges. The May Revision makes the first transfers into the PSSSA, appropriating $389.3 million for this purpose.

Under Proposition 2, transfers are made to this account only if several conditions are satisfied. That is, the state must have paid off all Proposition 98 debt created before 2014-15 and the minimum guarantee must be growing more quickly than per capita personal

income. Though Proposition 2 changes when the state would spend money on schools and community colleges, it does not directly change the total amount of state spending for schools and community colleges across years. Therefore, appropriations to schools and community colleges will be lower in 2019-20 because of this transfer, but they will be higher than otherwise required by Proposition 98 in the years when money is spent out of this reserve. Because transferring funds into this reserve is a new practice, the state has not yet established practices governing when funds are appropriated from the account and how those funds are distributed between schools and community colleges.

CCC FUNDING LEVELS

Table 2 shows the Governor's proposed Proposition 98 funding levels for CCC in the Governor's January budget and May Revision. In contrast with overall Proposition 98 funding, proposed CCC funding totals for the current and budget years at the May Revision are unchanged from January. Lower property tax is offset by higher General Fund amounts.

Table 2: California Community Colleges Proposition 98 Funding by Source (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

Source	2017-18 Revised	2018-19 Revised	2019-20 Proposed	Change From 2018-19	
				Amount	Percent
Governor's Budget					
General Fund	$5,257	$5,364	$5,408	$44	1%
Local property tax	2,963	3,119	3,321	202	6%
Totals	$8,220	$8,483	$8,729	$246	3%
May Revision					
General Fund	$5,257	$5,427	$5,485	$58	1%
Local property tax	2,980	3,056	3,244	188	6%
Totals	$8,237	$8,483	$8,729	$246	3%
Change from Governor's Budget					
General Fund	$0	$63	$77		
Local property tax	17	-63	-77		
Totals	$17	$0	$0		

The CCC shares of Proposition 98 funding at the May Revision are 10.99%, 10.97%, and 10.93% for the prior year, current year, and budget year, respectively. These shares are at or above the traditional CCC share of 10.93%. Prior to calculating the CCC shares, funding for the Adult Education, Adults in Correctional Facilities, and K-12 Strong Workforce programs and transfer to the PSSSA are excluded from the total.

CHANGES IN FUNDING

The Governor's January budget proposed $272 million in ongoing policy adjustments for CCC. In the May Revision, the administration increased this amount to $340 million, as reflected in Table 3. Most notably, new funding is proposed for deferred maintenance and to backfill reduced federal funding in the Foster Parent Education Program. In addition, the May Revision restores ongoing funding for Strong Workforce, largely reversing a January proposal to fund a portion of the program with one-time sources in 2019-20. The remaining changes are mainly technical or related to updated estimates of inflation and program participation. The COLA rate is reduced from 3.46% to 3.26%. The enrollment growth rate is unchanged from January, but the estimated numbers of recipients for the California College Promise and the Student Success Completion Grant are revised upward.

Table 3: Proposed 2019-20 Changes in California Community Colleges Proposition 98 Funding (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

	Governor's Budget	May Revision	Change
2018-19 Revised Budget[a]	**$8,483**	**$8,483**	**$0**
Technical Adjustments			
Student Centered Funding Formula base adjustments	$112	$62	-$49.2
Remove one-time spending	-110	-110	0.0
Other technical adjustments	-28	-47	-18.7
Subtotal	**-$26**	**-$94**	**-$67.9**
Policy Adjustments			
Provide 3.26% COLA for Student Centered Funding Formula (3.46% in January)	$248	$230	-$18.3
Expand California College Promise	40	45	5.2
Fund 0.55% enrollment growth	26	25	-1.3
Adjust Student Success Completion Grant funding for workload	11	18	7.5
Provide 3.26% COLA for certain categorical programs[b]	14	13	-0.9
Make legal services to undocumented immigrants ongoing	10	10	0.0
Use reappropriation funds for CCC Strong Workforce program	-77	-1	75.2
Backfill federal funds for Foster Parent Education Program	0	0.4	0.4
Fund deferred maintenance and instructional equipment (one-time)[c]	0	0	0.0
Subtotal	**$272**	**$340**	**$67.9**
Total Changes	**$246**	**$246**	**$0.0**
2019-20 Proposed Budget[a]	**$8,729**	**$8,729**	**$0.0**

[a] Amounts exclude Adult Education Program and K-12 Strong Workforce Program funding.

[b] Applies to CalWORKs, Campus Childcare, DSPS, EOPS, apprenticeships, and Mandates Block Grant programs.

c May Revision provides $39.6 million for deferred maintenance from reappropriation funds.

COLA = Cost-of-living adjustment

If the final budget includes deferred maintenance funding, the Chancellor's Office would distribute the funds based on full time equivalent student enrollment as of the second principal apportionment.

Later in this analysis, we detail May Revision changes in local support by program, capital outlay funding, and state operations.

CHANGES TO JANUARY PROPOSALS

Student Centered Funding Formula. Consistent with the Governor's January proposals, the May Revision proposes continued implementation of the Student Centered Funding Formula (SCFF). The May Revision estimates increases in SCFF factors consistent with prior trends. In January, the administration proposed three refinements:

(1) For 2019-20, using 2018-19 funding rates adjusted by COLA.
(2) Capping year-to-year growth in a district's student success allocation to 10% beginning in 2019-20.
(3) Refining the definition of a transfer outcome for the student success allocation, effective for 2018-19. Under the proposed definition, a student's successful transfer would be attributed to the student's district of residence. Under the current interpretation, a transfer is attributed to each district in which a student enrolled before transferring.

The administration noted that these implementation adjustments are intended to provide time for the Chancellor's Office and the SCFF Oversight Committee to consider longer-term revisions to further the goals of the formula, provide long-term fiscal stability, and improve data collection. The administration plans to consider revisions to the SCFF as part of the 2020-21 budget process. Given those pending decisions, the administration proposes to extend the existing minimum revenue provision of the SCFF, specifying that districts will receive at least the 2017-18 TCR, adjusted by COLA each year, through 2021-22. Current law provides this commitment through 2020-21.

Table C-1 in Appendix C shows the proposed funding rates under the SCFF through the forecast period. Compared to the table included in the January analysis, this table reflects updated SCFF rates to make technical adjustments to base allocation rates and to adjust all rates in the out-years based on the revised COLA.

The Chancellor's Office requested a Fiscal Crisis and Management Assistance Team review of funding formula data with recommended changes to policies, protocols, or audit procedures that could improve data quality. The team's report will be finalized by early June.

Expansion of College Promise. The Governor's January budget proposed expanding the California College Promise (Assembly Bill 19 of 2017, Santiago) to provide funding for a second year of fee waivers for all first-time, full-time students. The May Revision makes no substantive changes to the January proposal but provides an additional $5.2 million based on revised cost estimates.

Since January, separate legislation has advanced amending requirements for program participation. Assembly Bill 2 (Santiago), like the Governor's proposal, would extend

eligibility for a second year of fee waivers for eligible CCC students. The bill also allows colleges to alter the definition of full-time for students with disabilities and permits students who are full-time during primary terms to receive fee waivers during summer sessions.

Cal Grant Expansion. The May Revision makes no change to the Governor's January proposal for Cal Grants. That proposal expands the number of competitive Cal Grant awards and creates a new supplemental award for Cal Grant recipients who are enrolled in one of the public higher education segments and who have dependent children.

Relief on Pension Costs. The May Revision expands on the Governor's January proposal on pension costs. The proposal continues to include a one-time, $2.3 billion CalSTRS payment that would reduce school and community college districts' share of the unfunded liability for teacher pensions. According to CalSTRS, the payment—which would come from non-Proposition 98 General Fund—would reduce the district contribution rate by about four-tenths of a percentage point beginning in 2021-22. The exact rate reduction depends on a number of factors and is likely to fluctuate from year to year.

Additional funding is proposed to pay districts' statutory employer contributions to CalSTRS for 2019-20. In January, the Governor proposed a payment of $350 million in each of the next two years to reduce these districts contributions. The May Revision increases the 2019-20 payment to $500 million. As a result, districts' required contributions for 2019-20 would drop from 18.1% of covered payroll to 16.7% for 2019-20 and from 19.1% to 18.1% for 2020-21. This action would free up local funds for other district priorities in those two years.

State fiscal experts caution that the proposed budget relief is temporary and should be treated as a one-time savings with no ongoing benefit. Moreover, LAO cautions that, though districts currently view rising pension costs as difficult to manage, these difficulties could become much more pronounced during a downturn. Districts could set aside funds from the proposed budget relief, if adopted, to help them pay growing pension costs when state funding for districts flattens or declines.

The Governor also maintains his proposal for a one-time payment to CalPERS to reduce the state's unfunded liability for employee pensions. This payment is applied only to the state's liability and does not directly reduce districts' liability.

Longitudinal Data System. In January, the Governor proposed funding to plan a new statewide longitudinal data system connecting information from education providers, employers, and workforce and health and human service agencies. Under the proposal, the California Department of Education serves as fiscal agent and the education segments participate in planning and implementation.

The administration provided more detail in trailer bill language released earlier this year. The language establishes a planning workgroup consisting of "partner entities" that provide data to the system. Specifically, the workgroup includes representatives from the State Board of Education, California Department of Education, CCC, University of California, California State University, Commission on Teacher Credentialing, Student Aid Commission, Employment Development Department, Labor and Workforce Development

Agency, and Health and Human Services Agency. The proposed legislation authorizes (but does not require) the California Department of Education, through its contractors, to convene one or more advisory groups of data system end-users to provide additional input. It also sets deadlines for various reports and recommendations and requires the partner entities to enter into memoranda of understanding for data sharing.

POTENTIAL 2018-19 APPORTIONMENT SHORTFALL

Table 4 shows the 2018-19 apportionment at three points in time: adoption of the 2018 Budget Act, the April revision to the first principal apportionment, and the Governor's May Revision. Under the Governor's May Revision estimates, the revenues would be sufficient to cover 2018-19 Total Computational Revenue (TCR), which would mean the Chancellor's Office would not administer a deficit. Although the first principal apportionment had assumed a shortfall of $228 million, the Governor's proposal (1) reduces apportionments in 2018-19 mainly through reducing the transfer counts in the student success allocation ($49 million) and (2) assumes higher revenues ($178 million).

At this time, the Chancellor's Office does not have the district-level data on eligible transfer awards that would be necessary to implement the Governor's proposed change for 2018-19. Therefore, recommendations from the Chancellor's Office include alternative adjustments to the transfer metric.

Table 4: 2018-19 General Apportionment Estimates (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

	Budget Act of 2018	First Principal Apportionment (P1) Revision (April 2019)	May Revision	Change P1 Revision to May Revision
Student Centered Funding Formula Allocations				
Base	$4,974	$4,918	$4,919	$1
Supplemental	1,421	1,396	1,391	(5)
Student Success	710	787	739	(48)
Total	$7,105	$7,102	$7,049	($52)
Minimum Revenue	25	112	116	3
Total Computational Revenue	$7,130	$7,214	$7,165	($49)
Available Revenues				
General Fund	$3,599	$3,604	$3,641	$33
Local Property Tax	3,110	2,919	3,056	137
Enrollment Fees	418	459	464	5
Other Offsetting Revenues	3	4	4	(0)
Total Available Revenues	$7,130	$6,987	$7,165	$178
Surplus (Shortfall)	**$0**	**($228)**	**$0**	**$228**

As in any year, the final budget could include a general apportionment shortfall, particularly if the Governor and Legislature do not make changes to the SCFF or if offsetting revenues do not materialize. In that event, the Chancellor's Office would intend to limit year-to-year increases in districts' TCR for 2018-19. At the April revision of the first principal apportionment, the Chancellor's Office used a limit of about 8% above the 2017-18 TCR. All districts would receive, at minimum, their 2017-18 TCR adjusted by COLA. ACCCA, ACBO the Chancellor's Office, and the League have been working with the Governor and the Legislature to obtain full funding for general apportionment costs for 2018-19.

LOCAL SUPPORT FUNDING BY PROGRAM

Table 5 shows the Governor's proposed local assistance funding by program for the current and budget years as of the May Revision. As the table shows, most categorical programs received level funding in the Governor's proposal, with certain programs receiving cost-of-living adjustments consistent with recent practices. Decreases in funding are primarily due to removing one-time funding allocated in 2018-19.

Table 5: California Community Colleges Funding by Program at 2019 May Revision[a] (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

Program	2018-19 Revised	2019-20 Proposed	Change		
			Amount	Percent	Explanation of change
Student Centered Funding Formula	$7,170	$7,435	265	3.69%	COLA, enrollment growth, minimum revenue provision
Student Equity and Achievement Program	475	475	-	-	
Strong Workforce Program	255	248	-7	-2.75%	Remove $6 one-time, $1.4 in 2019-20 is from one-time sources
Student Success Completion Grant	132	150	18	13.98%	Adjust for revised estimates of recipients
Adult Education Program	131	135	4	3.14%	COLA (does not apply to $5 million for data system)
Disabled Students Programs and Services (DSPS)	120	124	4	3.26%	COLA
Extended Opportunity Programs and Services (EOPS)	112	116	4	3.26%	COLA
California College Promise (AB 19)	46	83	37	79.4%	Remove $6 for revised estimates of recipients, add $43 expansion
Financial aid administration	92	76	-16	-17.28%	Remove $14 one-time, adjust for revised estimates of fee waivers
Full-time faculty hiring	50	50	-	-	
CalWORKs student services	45	47	1	3.26%	COLA
Apprenticeship (CCC districts)	53	44	-9	-17.13%	Remove $10 one-time, COLA

Table 5: California Community Colleges Funding by Program at 2019 May Revision[a] (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

Program	2018-19 Revised	2019-20 Proposed	Change		
			Amount	Percent	Explanation of change
Integrated technology	42	42	-	-	
Deferred maintenance and instructional equipment (one time)	28	40	11	39.12%	Remove and add one-time funding
Mandates Block Grant and reimbursements	34	33	-1	-3.73%	COLA, revised enrollment estimates
Institutional effectiveness initiative	29	28	-1	-4.78%	Remove one-time funding
Part-time faculty compensation	25	25	-	-	
Online education initiative	58	23	-35	-60.34%	Remove one-time funding
Economic and Workforce Development	23	23	-	-	
NextUp (foster youth program)	20	20	-	-	
California Online Community College	120	20	-100	-83.33%	Remove one-time funding
Cooperative Agencies Resources for Education (CARE)	16	17	1	3.26%	COLA
Lease revenue bond payments	32	16	-16	-49.00%	Adjust for actual obligations
Nursing grants	13	13	-	-	
Part-time faculty office hours	62	12	-50	-80.42%	Remove one-time funding
Legal services	10	10	-	-	Make permanent
Foster Parent Education Program	5	6	0	7.61%	Backfill federal funding ($0.4 million)
Veterans Resource Centers	13	5	-8	-62.93%	Remove one-time funding
Childcare tax bailout	4	4	0	3.26%	COLA
Other[b]	3	3	-	-	
Equal Employment Opportunity Program	5	3	-2	-43.39%	Remove one-time funding (EEO Fund)
Umoja	3	3	-	-	
Mathematics, Engineering, Science Achievement (MESA)	2	2	-	-	
Puente Project	2	2	-	-	
Middle College High School Program	2	2	-	-	
One-time program funding[c]	31	-	-31	-100.00%	Remove one-time funding
College-specific allocations	16	-	-16	-100.00%	Remove one-time funding

Table 5: California Community Colleges Funding by Program at 2019 May Revision[a] (In Millions)

Preliminary information – may be updated when detailed data is available from DOF.

Program	2018-19 Revised	2019-20 Proposed	Change		
			Amount	Percent	Explanation of change
K-12 passthroughs (adult ed, K-12 apprenticeship, workforce)	621	606	-15	-2.42%	Remove one-time funding, COLA
Totals	**$9,902**	**$9,939**	**$37**	**0.38%**	

[a] Table reflects total programmatic funding for CCC, including amounts from prior years available for use in the years displayed.

[b] Other programs include Academic Senate, transfer, FCMAT, and part-time faculty health insurance.

[c] Includes one-time allocations for hunger-free campus, mental health services and training, re-entry grant program, and open educational resources.

COLA = cost-of-living adjustment.

As noted earlier, the majority of changes to the Governor's January proposals are based on workload and COLA, and are detailed in Table 3.

CAPITAL OUTLAY

Governor's Proposals. The Governor's January budget proposal included $358.7 million in capital outlay funding from Proposition 51, approved by voters in 2016. The funding is to support 15 continuing projects and 12 new projects. The administration's April Finance Letters proposed an additional $2.5 million in Proposition 51 funds to augment one of the new projects proposed in January and to support three more new projects. The letter also proposed reappropriating previously approved funding for three existing CCC projects due to delays in their design phases. Table 6 shows the administration's complete proposal (excluding reappropriations), highlighting the April changes.

Table 6: Governor's Proposed CCC Capital Outlay Projects

Highlighted rows reflect changes from Governor's January Proposal

Preliminary information – may be updated when detailed data is available from DOF.

College	Project	Phase	2019-20		All Years	
			State Cost	Total Cost	State Cost	Total Cost
Continuing Projects						
Santa Monica College	Math/Science Addition	C	37,031,000	72,934,000	39,615,000	78,102,000
Laney College	Learning Resource Center	C	22,812,000	70,556,000	24,417,000	75,686,000
Mt. San Antonio College	New Physical Education Complex	C	53,993,000	67,768,000	57,541,000	72,238,000
Santa Rosa Junior College	Science and Mathematics Replacement Building	C	30,882,000	61,200,000	33,076,000	65,589,000
Orange Coast College	Language Arts and Social Sciences Building	C	28,305,000	55,706,000	30,353,000	59,803,000
Allan Hancock College	Fine Arts Complex	C	22,873,000	45,012,000	24,526,000	48,318,000
Golden West College	Language Arts Complex	C	21,925,000	43,248,000	23,540,000	46,478,000
West Hills CCD North District Center	Center Expansion	C	40,275,000	40,275,000	42,403,000	43,285,000
Santa Ana College	Russell Hall Replacement	C	19,192,000	37,875,000	20,729,000	40,948,000
Solano College	Library Building 100 Replacement	C	17,396,000	36,987,000	20,148,000	39,739,000
Compton College	Instructional Building 2 Replacement	C	14,891,000	23,050,000	16,167,000	24,995,000
Mission College	MT Portables Replacement Building	C	10,073,000	20,019,000	10,814,000	21,500,000
Merritt College	Child Development Center	C	5,692,000	18,593,000	6,128,000	20,013,000
Imperial College	Academic Buildings Modernization	WC	8,647,000	16,949,000	9,043,000	17,741,000
Long Beach City College	Construction Trades Phase 1	C	6,712,000	12,032,000	7,304,000	13,107,000
New Projects						
San Bernardino Valley College	Technical Building Replacement	PW	2,313,000	5,174,000	34,411,000	75,647,000
College of the Redwoods	Phys Ed Replacement	PW	5,379,000	5,379,000	60,648,000	60,648,000
American River College	Technical Building Modernization	PW	1,258,000	4,191,000	29,959,000	57,966,000

Table 6: Governor's Proposed CCC Capital Outlay Projects

Highlighted rows reflect changes from Governor's January Proposal

Preliminary information – may be updated when detailed data is available from DOF.

College	Project	Phase	2019-20		All Years	
			State Cost	Total Cost	State Cost	Total Cost
Saddleback College	Gateway Building	PW	1,719,000	3,501,000	26,080,000	52,338,000
College of Alameda	Replacement of Buildings B and E (Auto and Diesel Technologies)	PW	1,278,000	2,555,000	17,044,000	33,650,000
Skyline College	Workforce and Economic Development	PW	1,197,000	3,546,000	19,908,000	39,323,000
Los Angeles City College	Theater Arts Replacement	PW	1,112,000	2,245,000	15,140,000	30,095,000
Canada College	Multiple Program Instructional Center	PW	815,000	2,289,000	9,700,000	26,955,000
Merced College	Agriculture Science and Industrial Technologies Complex	PW	431,000	2,153,000	12,974,000	25,629,000
Santa Monica College	Art Complex Replacement	PW	793,000	1,585,000	10,901,000	21,526,000
Rio Hondo College	Music/Wray Theater Renovation	PW	979,000	2,226,000	11,519,000	23,777,000
College of the Sequoias	Basic Skills Center	PW	1,365,000	1,365,000	15,635,000	17,350,000
Fresno City College	New Child Development Center	PW	1,036,000	1,295,000	13,520,000	16,850,000
College of the Canyons	Modernize Academic Building - Boykin Hall	PW	397,000	793,000	4,879,000	9,494,000
Butte College	Technology Remodel	PW	518,000	1,034,000	8,088,000	10,722,000
Totals			**361,289,000**	**661,535,000**	**656,210,000**	**1,169,512,000**

C = construction. P = preliminary plans. W = working drawings.

The Governor's budget proposal, including the April letters, would bring the total CCC Proposition 51 bond allocation to $734 million. If these projects are included in the final budget, $1.3 billion would remain in Proposition 51 bond authority to allocate to future CCC projects. In addition, the administration plans to release a five-year infrastructure plan which we expect will include additional information with respect to the administration's approach to community college facilities.

Appendix A, Table A-2, compares the Board of Governors' capital outlay request (for 19 continuing projects and 39 new projects) to the Governor's proposal. The DOF reports that proposals were funded only if they clearly demonstrated that existing facilities do not meet programmatic needs and the projects represented critical needs (i.e., responding to

fire, life, and safety concerns). Further, DOF indicated an expectation that districts provide a reasonable match using local funds.

Assembly Proposal. The Legislature can choose to make adjustments to the Governor's project list or fund additional projects. The Assembly budget subcommittee on education finance acted unanimously on April 23 to approve all the remaining projects in the Board of Governors' capital outlay request. Under the Assembly proposal, 24 new projects that were excluded from the Governor's January budget and April letters would be approved for preliminary plans and working drawings, and five previously approved projects would move to the construction phase.

STATE OPERATIONS

January Proposals. The Governor's January budget proposal for 2019-20 included three substantive changes for state operations, all from non-Proposition 98 General Fund:

- $5 million one time for outreach related to the California College Promise.
- $435,000 one time to support the work of the SCFF Implementation Oversight Committee.
- $135,000 ongoing for an information security officer.

May Revision. The Governor's May Revision proposal adds $381,000 in non-Proposition 98 General Fund to support 3 positions. Two positions are for accounting and one is for monitoring districts' fiscal health.

Combined, the Governor's proposals would result in total budgeted resources for the Chancellor's Office of $35.1 million in 2019-20 (including $24.1 million General Fund).

Next Steps

Following release of the Governor's May Revision, the budget process moves very quickly. LAO typically publishes analyses of the May Revision proposals within a few days. Budget subcommittees convene to review the proposals and often take action on both January and May proposals within about a week. Subcommittees report their recommendations to full committees, which in turn report to their respective houses. Not long after, a budget conference committee convenes to resolve differences between the two houses' versions of the budget by June 15, the state constitutional deadline for the Legislature to approve a budget. (See Appendix B for a more complete overview of the state budget process.)

The Appendix contains additional information including the CCC Board of Governors' budget request, an overview of the state budget process, information about districts' local budgets and fiscal health, and a glossary.

For further information throughout the budget process, please visit the Budget News section of the Chancellor's Office website:

http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/BudgetNews.aspx.

The ACBO, ACCCA, Chancellor's Office, and the League will provide another update following final budget enactment.

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ASSOCIATION OF CALIFORNIA COMMUNITY COLLEGE ADMINISTRATORS

COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

Appendix A: Board of Governors' Budget Request

Table A-1: Local Assistance

Item	Board of Governors Request	Governor's Budget Proposal at May Revision
1. Student Centered Funding Formula		
Formula Adjustments	Additional funding and changes in statute to adjust rates.	Adjusts implementation to use 2018-19 rates plus cost-of-living adjustment in 2019-20. Caps increases in student success allocation. Modifies definition of transfer outcome. Extends provision for minimum revenue through 2021-22.
2. Comprehensive Support for All Students		
California College Promise	---	$45 million to expand program by amount needed to cover second year of attendance for first-time, full-time students.
Student Equity and Achievement Program	$23 million ongoing and changes in allocation.	---
3. Faculty and Staff Programs		
College-Wide Professional Development	$25 million ongoing and statutes to establish program.	---
Faculty Support Programs	$50 million ongoing and related statutes.	---
Faculty Diversity	$15 million one-time for pilot program.	---
4. Work-Based Learning		
Work-based learning within Guided Pathways	$20 million one-time and statutes to establish program. One position for statewide leadership.	---
Statewide Approach to Library Services	$4 million annually over five years ($20 million total) and related language.	---

Appendix A: Board of Governors' Budget Request (continued)

Table A-2: Capital Outlay 1/

Projects included in Governor's Proposed Budget as of May Revision are highlighted in yellow. All other projects not highlighted appear in the Assembly Budget subcommittee on education finance proposal.

New/ Cont.	Cat.	District	Location	Project Name	Ph.	State 19-20	Ph.	Local 19-20
Cont.	A3	Pasadena CCD	Pasadena College	Armen Sarafian Building Seismic Replacement 2/	C	$52,496,000	C	$2,437,000
Cont.	A3	Redwoods CCD	College of the Redwoods	Arts Building Replace Existing 3/	C	22,010,000	--	0
Cont.	A3	San Francisco CCD	Alemany Campus	Seismic and Code Upgrades 2/	C	13,979,000	--	0
Cont.	A4	San Francisco CCD	Ocean Campus	Utility Infrastructure Replacement 2/	C	73,947,000	--	0
New	A3	Redwoods CCD	College of the Redwoods	Phys Ed Replacement	PW	5,379,000	--	0
New	A3	Santa Barbara CCD	Santa Barbara City College	Physical Education Replacement	PW	3,189,000	PW	18,000
New	A4	San Mateo County CCD	College of San Mateo	Water Supply Tank Replacement	PW	505,000	PW	56,000
Total Health & Safety						**$171,505,000**		**$2,511,000**
Cont.	B	Allan Hancock Joint CCD	Allan Hancock College	Fine Arts Complex 2/	CE	$22,873,000	CE	$22,139,000
Cont.	B	Coast CCD	Orange Coast College	Language Arts and Social Sciences Building 2/	CE	28,305,000	CE	27,401,000
Cont.	B	Peralta CCD	Laney College	Learning Resource Center 3/	CE	22,812,000	CE	47,744,000
Cont.	B	Santa Monica CCD	Santa Monica College	Math/Science Addition 2/	C	37,031,000	CE	35,903,000
Cont.	B	Sonoma County CCD	Santa Rosa Junior College	Science and Mathematics Replacement Building 2/	C	30,882,000	CE	30,318,000
Cont.	B	West Hills CCD	North District Center	Center Expansion 2/	CE	40,275,000	--	0
New	B	Chaffey CCD	Chino Campus	Instructional Building 1	PW	951,000	PW	950,000
New	B	Kern CCD	Delano Center	LRC Multi-Purpose Building	PW	1,191,000	PW	1,212,000
New	B	Kern CCD	Porterville College	PC Allied Health Building	PW	835,000	PW	833,000

Table A-2: Capital Outlay 1/

Projects included in Governor's Proposed Budget as of May Revision are highlighted in yellow. All other projects not highlighted appear in the Assembly Budget subcommittee on education finance proposal.

New/ Cont.	Cat.	District	Location	Project Name	Ph.	State 19-20	Ph.	Local 19-20
New	B	Long Beach CCD	Liberal Arts Campus	Music/Theatre Complex	PW	1,681,000	PW	1,681,000
New	B	Los Rios CCD	Elk Grove Center	Elk Grove Center Ph 2	PW	410,000	PW	954,000
New	B	Los Rios CCD	Folsom Lake	Instructional Buildings Ph 2	PW	1,280,000	PW	2,987,000
New	B	Los Rios CCD	Natomas Education Center	Natomas Center Phase 2 & 3 4/	PW	886,000	PW	1,849,000
New	B	Merced CCD	Merced College	Agriculture Science and Industrial Technologies Complex	PW	431,000	PW	1,722,000
New	B	Mt San Jacinto CCD	Mt San Jacinto College	Science and Technology Building	PW	1,854,000	PW	1,455,000
New	B	Mt. San Jacinto CCD	Menifee Valley Center	Math and Science Building 4/	PW	1,560,000	PW	1,983,000
New	B	San Bernardino CCD	San Bernardino Valley College	Technical Building Replacement	PW	2,313,000	PW	2,861,000
New	B	South Orange County CCD	Irvine Valley College	Fine Arts Building	PW	1,624,000	PW	1,623,000
New	B	South Orange County CCD	Saddleback College	Gateway Building	PW	1,719,000	PW	1,782,000
New	B	State Center CCD	Clovis Community College	Applied Technology Building, Phase 1	PW	1,794,000	PW	1,793,000
New	B	West Hills CCD	West Hills College Lemoore	WHCL Instructional Center Phase 1	PW	1,634,000	P	756,000
Total Growth						**$202,341,000**		**$187,946,000**
Cont.	C	Coast CCD	Golden West College	Language Arts Complex 3/	CE	$21,925,000	CE	$21,323,000
Cont.	C	Compton CCD	Compton College	Instructional Building 2 Replacement 2/	C	14,891,000	CE	8,159,000
Cont.	C	Imperial Valley CCD	Imperial College	Academic Buildings Modernization 3 & 5/	WC	8,647,000	WCE	8,302,000
Cont.	C	Long Beach CCD	Pacific Coast Campus	Construction Trades Phase 1 2/	C	6,712,000	CE	5,320,000

Table A-2: Capital Outlay 1/

Projects included in Governor's Proposed Budget as of May Revision are highlighted in yellow. All other projects not highlighted appear in the Assembly Budget subcommittee on education finance proposal.

New/ Cont.	Cat.	District	Location	Project Name	Ph.	State 19-20	Ph.	Local 19-20
Cont.	C	Rancho Santiago CCD	Santa Ana College	Russell Hall Replacement 2/	CE	19,192,000	CE	18,683,000
Cont.	C	Solano CCD	Solano College	Library Building 100 Replacement 2/	CE	17,396,000	C	19,591,000
Cont.	C	West Valley-Mission CCD	Mission College	MT Portables Replacement Building 2/	C	10,073,000	CE	9,946,000
New	C	Butte-Glenn CCD	Butte College	Technology Remodel	PW	518,000	PW	516,000
New	C	Cabrillo CCD	Cabrillo College	Modernization of Buildings 500, 600 & 1600 4/	PW	252,000	PW	269,000
New	C	Cerritos CCD	Cerritos College	Health Sciences Bldg. #26 Renovation	PW	1,054,000	PW	1,053,000
New	C	Lake Tahoe CCD	Lake Tahoe Community College	RFE and Science Modernization Phase I	PW	1,447,000	P	609,000
New	C	Los Rios CCD	American River College	Technical Building Modernization	PW	1,258,000	PW	2,933,000
New	C	Monterey Peninsula CCD	Monterey Peninsula College	Music Facilities Ph 1	PW	222,000	PW	155,000
New	C	Peralta CCD	College of Alameda	Replacement of Buildings B and E (Auto and Diesel Technologies)	PW	1,278,000	PW	1,277,000
New	C	Peralta CCD	Laney College	Modernize Theatre Buildings	PW	709,000	PW	1,564,000
New	C	Peralta CCD	Merritt College	Horticulture Building Replacement	PW	755,000	PW	933,000
New	C	San Mateo County CCD	Canada College	Bldg 13 - Multiple Program Instructional Center	PW	815,000	PW	1,474,000
New	C	San Mateo County CCD	Skyline College	Workforce and Economic Development Prosperity Center 4/	PW	1,197,000	PW	2,349,000

Table A-2: Capital Outlay 1/

Projects included in Governor's Proposed Budget as of May Revision are highlighted in yellow. All other projects not highlighted appear in the Assembly Budget subcommittee on education finance proposal.

New/ Cont.	Cat.	District	Location	Project Name	Ph.	State 19-20	Ph.	Local 19-20
New	C	Santa Clarita CCD	College of the Canyons	Modernize Academic Building - Boykin Hall	PW	397,000	PW	396,000
New	C	Santa Monica CCD	Santa Monica College	Art Complex Replacement	PW	793,000	PW	792,000
New	C	Sequoias CCD	College of the Sequoias	Basic Skills Center 4/	PW	1,365,000	--	0
New	C	West Valley-Mission CCD	West Valley College	Learning Resource Center Renovation	PW	1,623,000	PW	1,623,000
Total Modernization						**$111,980,000**		**$106,404,000**
Cont.	D1	Mt. San Antonio CCD	Mt. San Antonio College	New Physical Education Complex 3/	CE	$53,993,000	CE	$13,775,000
Cont.	D1	Peralta CCD	Merritt College	Child Development Center 3/	CE	5,692,000	CE	12,901,000
New	D1	Los Angeles CCD	Los Angeles City College	Theater Arts Replacement	PW	1,112,000	PW	1,133,000
New	D1	Monterey Peninsula CCD	Fort Ord Center	Public Safety Center Phase 2 4/	PW	714,000	PW	713,000
New	D1	Rio Hondo CCD	Rio Hondo College	Music/Wray Theater Renovation	PW	979,000	PW	1,247,000
New	D1	State Center CCD	Fresno City College	New Child Development Center	PW	1,036,000	PW	259,000
New	D1	State Center CCD	Reedley College	Child Development Center	PW	818,000	PW	205,000
New	D1	Yuba CCD	Woodland Community College	Performing Arts Facility 4/	PW	1,427,000	PW	1,425,000
Total Complete Campus						**$65,639,000**		**$31,523,000**
TOTAL						**$551,465,000**		**$328,384,000**

1/ Reflects projects updated to reflect April Finance Letters. Project phases: P= preliminary plans, W= working drawings, C= construction, E= equipment.
2/ Continuing from 17-18: 13 projects (excludes Long Beach Multi-Disciplinary design build and North Orange Business 300 CE proposed for 20-21).
3/ Continuing from 18-19: Six projects.
4/ Unfunded from 18-19: Seven projects.
5/ 18-19 Budget appropriated funds for only the preliminary plans phase for this project.

Appendix A: Board of Governors'Budget Request (continued)

Table A-3: State Operations and Other Agencies

Item	Board of Governors Request	Governor's Budget Proposal at May Revision
1. Student Centered Funding Formula		
Oversight	$500,000 (spread over 2019-20 and 2020-21) for support of oversight committee.	$435,000 non-Proposition 98 in 2019-20.
Evaluation	$750,000 (spread over 2019-20, 2020-21, and 2021-22) for evaluation.	---
2. Comprehensive Support for All Students		
Cal Grant Program	Changes focused on CCC students, estimated at $1.5 billion ongoing, to be funded from non-Proposition 98 General Fund.	$122 million for supplemental grants to Cal Grant recipients with dependent children. $10 million for 4,250 additional competitive awards, bringing total to 30,000 awards. All non-Proposition 98.
Student Equity and Achievement Program	One position for statewide leadership.	---
"College Promise" Outreach	$5 million one-time and statutes to establish program. Two positions for statewide leadership.	$5 million non-Proposition 98 one time.
3. Faculty and Staff Programs		
College-Wide Professional Development	One position for statewide leadership.	---
Faculty Support Programs	One position for statewide leadership.	---
Faculty Diversity	One position for statewide leadership.	---
4. Work-Based Learning		
Work-based learning within Guided Pathways	One position for statewide leadership.	---
5. Statewide Leadership		
Data Use for Educational Improvement	Changes in statutes and expected General Fund costs.	$10 million non-Proposition 98 one time in Department of Education for all segments to collaborate on planning and implementation of longitudinal student data system.
Chancellor’s Office Capacity for Leadership of Statewide Change	$2 million for state operations and changes in statutes for various local assistance programs.	$516,000 non-Proposition 98 and four positions for information security, accounting, and monitoring districts' fiscal health.

Appendix B: Overview of the State Budget Process

The Governor and the Legislature adopt a new budget every year. The Constitution requires a balanced budget such that, if proposed expenditures exceed estimated revenues, the Governor is required to recommend changes in the budget. The fiscal year runs from July 1 through June 30.

Governor's Budget Proposal. The California Constitution requires that the Governor submit a budget to the Legislature by January 10 of each year. The Director of Finance, who functions as the chief financial advisor to the Governor, directs the preparation of the Governor's Budget. The state's basic approach is incremental budgeting, estimating first the costs of existing programs and then making adjustments to those program levels. By law, the chairs of the budget committees in each house of the Legislature—the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee—introduce bills reflecting the Governor's proposal. These are called budget bills, and the two budget bills are identical at the time they are introduced.

Related Legislation. Some budget changes require that changes be made to existing law. In these cases, separate bills—called "trailer bills"—are considered with the budget. By law, all proposed statutory changes necessary to implement the Governor's Budget are due to the Legislature by February 1.

Legislative Analyses. Following the release of the Governor's Budget in January, the LAO begins its analyses of and recommendations on the Governor's proposals. These analyses, each specific to a budget area (such as higher education) or set of budget proposal (such as transportation proposals), typically are released beginning in mid-January and continuing into March.

Governor's Revised Proposals. The DOF proposes adjustments to the January budget through "spring letters." Existing law requires the DOF to submit most changes to the Legislature by April 1. Existing law requires DOF to submit, by May 14, revised revenue estimates, changes to Proposition 98, and changes to programs budgeted based on enrollment, caseload, and population. For that reason, the May Revision typically includes significant changes for the CCC budget. Following release of the May Revision, the LAO publishes additional analyses evaluating new and amended proposals.

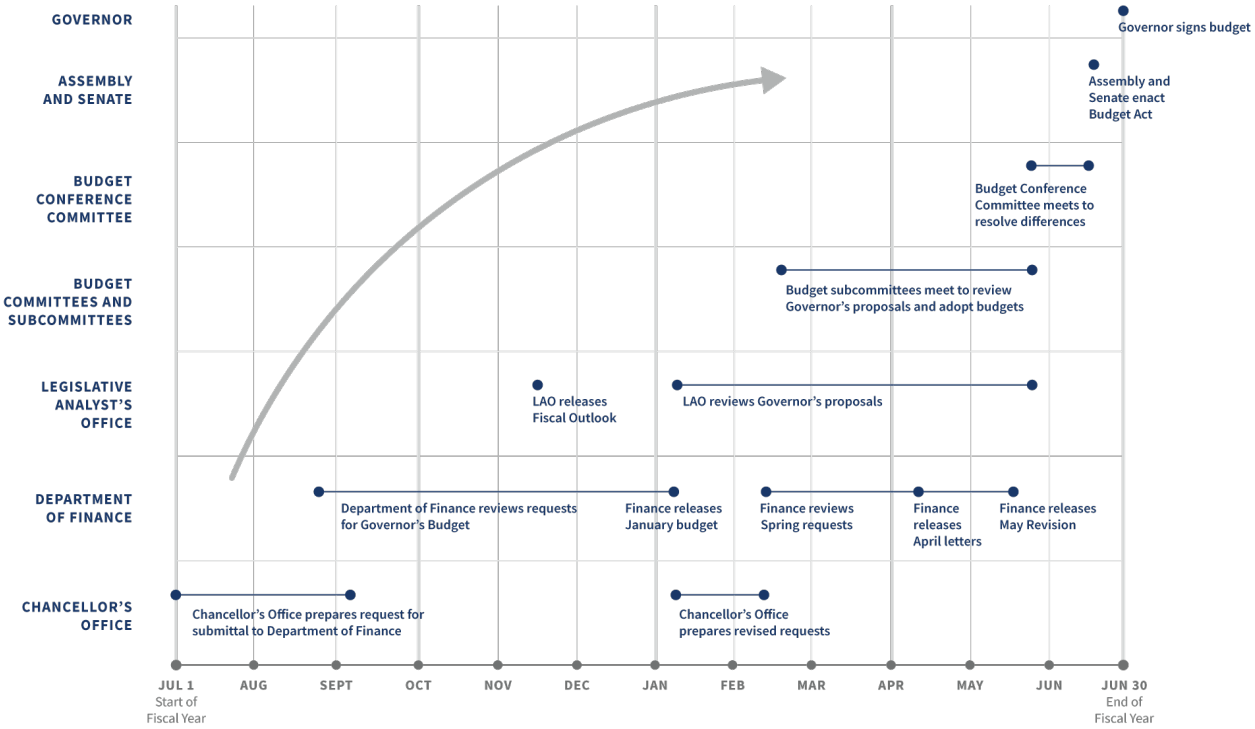
Legislative Review. The budget committees assign the items in the budget to subcommittees, which are organized by areas of state government (e.g., education). Many subcommittees rely heavily on the LAO analyses in developing their hearing agendas. For each January budget proposal, a subcommittee can adopt, reject, or modify the proposal. Any January proposals not acted on remain in the budget by default. May proposals, in contrast, must be acted on to be included in the budget. In addition to acting on the Governor's budget proposals, subcommittees also can add their own proposals to the budget.

When a subcommittee completes its actions, it reports its recommendations back to the full committee for approval. Through this process, each house develops a version of the budget that is a modification of the Governor's January budget proposal.

A budget conference committee is then appointed to resolve differences between the Senate and Assembly versions of the budget. The administration commonly engages with legislative leaders during this time to influence conference committee negotiations. The committee's report reflecting the budget deal between the houses is then sent to the full houses for approval.

Budget Enactment. Typically, the Governor has 12 days to sign or veto the budget bill. The Governor also has the authority to reduce or eliminate any appropriation included in the budget. Because the budget bill is an urgency measure, the bill takes effect as soon as it is signed.

SEQUENCE OF THE ANNUAL STATE BUDGET PROCESS



Appendix C: Local Budgets and Districts' Fiscal Health

LOCAL BUDGETS

Budget Planning and Forecasting

Based on the information DOF used in developing the Governor's budget proposal, it would be reasonable for districts to plan their budgets using information shown in the tables below. Note that the out-year estimates likely will change as time goes on.

Table C-1: Student Centered Funding Formula Factors and Rates at 2019 May Revision

Preliminary information – may be updated when detailed data is available from DOF.

Factors	2018-19	2019-20	2020-21	2021-22	2022-23
Base Allocation (per FTES)					
Credit FTES[a]	$3,727	$3,849	$3,240	$3,330	$3,436
Credit FTES of special admits	5,457	5,635	5,804	5,966	6,155
Credit FTES of inmates in correctional facilities	5,457	5,635	5,804	5,966	6,155
Noncredit FTES	3,347	3,456	3,560	3,659	3,775
CDCP noncredit FTES	5,457	5,635	5,804	5,966	6,155
Basic Allocation (by category)					
Single college district, fewer than 10,000 FTES	3,917,761	4,045,480	4,166,845	4,283,516	4,418,876
Single college district, 10,000-19,999 FTES	5,223,684	5,393,976	5,555,795	5,711,357	5,891,836
Single college district, 20,000 or more FTES	6,529,605	6,742,470	6,944,744	7,139,197	7,364,795
Multi-college district, fewer than 10,000 FTES	3,917,761	4,045,480	4,166,845	4,283,516	4,418,876
Multi-college district, 10,000-19,999 FTES	4,570,724	4,719,729	4,861,321	4,997,438	5,155,357
Multi-college district, 20,000 or more FTES	5,223,684	5,393,976	5,555,795	5,711,357	5,891,836
Rural college designation	1,246,089	1,286,712	1,325,313	1,362,422	1,405,474
State approved centers	1,305,921	1,348,494	1,388,949	1,427,840	1,472,959
Grandparented centers, 100-249 FTES	163,241	168,563	173,620	178,481	184,121
Grandparented centers, 250-499 FTES	326,480	337,123	347,237	356,960	368,240
Grandparented centers, 500-749 FTES	652,960	674,247	694,474	713,919	736,479
Grandparented centers, 750-999 FTES	979,440	1,011,370	1,041,711	1,070,879	1,104,719
Grandparented centers, more than 1,000 FTES	1,305,921	1,348,494	1,388,949	1,427,840	1,472,959
Supplemental Allocation (per headcount)					
Pell Grant recipient	919	949	977	1,005	1,037
California College Promise Grant recipient	919	949	977	1,005	1,037
AB 540 Fee Waiver recipient	919	949	977	1,005	1,037

Table C-1: Student Centered Funding Formula Factors and Rates at 2019 May Revision

Preliminary information – may be updated when detailed data is available from DOF.

Factors	2018-19	2019-20	2020-21	2021-22	2022-23
Student Success Allocation (per outcome)					
All Students					
Associate degree for transfer	1,760	1,817	3,744	3,849	3,970
Associate degree	1,320	1,363	2,808	2,886	2,978
Baccalaureate degree	1,320	1,363	2,808	2,886	2,978
Credit certificate requiring 16 or more units	880	909	1,872	1,924	1,985
Transfer-level math and English courses completed within the student's first academic year of enrollment	880	909	1,872	1,924	1,985
Transfer to a four-year university	660	682	1,404	1,443	1,489
9 or more career technical education units completed	440	454	936	962	993
Regional living wage obtained within one year of community college completion	440	454	936	962	993
Additional for Pell Grant recipients					
Associate degree for transfer	666	688	1,417	1,456	1,502
Associate degree	500	516	1,063	1,092	1,127
Baccalaureate degree	500	516	1,063	1,092	1,127
Credit certificate requiring 16 or more units	333	344	708	728	751
Transfer-level math and English courses completed within the student's first academic year of enrollment	333	344	708	728	751
Transfer to a four-year university	250	258	531	546	563
9 or more career technical education units completed	167	172	354	364	376
Regional living wage obtained within one year of community college completion	167	172	354	364	376
Additional for California College Promise Grant recipients					
Associate degree for transfer	444	458	944	971	1,002
Associate degree	333	344	708	728	751
Baccalaureate degree	333	344	708	728	751
Credit certificate requiring 16 or more units	222	229	472	485	501

Table C-1: Student Centered Funding Formula Factors and Rates at 2019 May Revision

Preliminary information – may be updated when detailed data is available from DOF.

Factors	2018-19	2019-20	2020-21	2021-22	2022-23
Transfer-level math and English courses completed within the student's first academic year of enrollment	222	229	472	485	501
Transfer to a four-year university	167	172	354	364	376
9 or more career technical education units completed	111	115	236	243	250
Regional living wage obtained within one year of community college completion	111	115	236	243	250
[a] *For some districts, existing law supersedes these rates with district-specific rates.*					

Table C-2: Other Planning Factors for 2019-20 Budget

Preliminary information – may be updated when detailed data is available from DOF.

Factor	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Cost-of-living adjustment (COLA)	1.56%	2.71%	3.26%	3.00%	2.80%	3.16%
State Lottery funding per FTES	$205.60	$223.23	$222.37	$222.37	$222.37	$222.37
Mandates Block Grant funding per FTES	28.44	29.21	32.95	33.94	34.89	36.00
RSI reimbursement per hour	5.90	6.26	6.46	6.66	6.84	7.06
Financial aid administration per College Promise Grant	0.91	0.91	0.91	0.91	0.91	0.91
Employer pension contribution rates						
Public Employees' Retirement System (CalPERS)	15.5%	18.1%	20.7%	23.6%	24.9%	25.7%
State Teachers' Retirement System (CalSTRS)	14.4%	16.3%	16.7%	18.1%	17.9%	17.9%

We are not aware of any other changes in allocation methods or match requirements for local support programs, other than the funding formula adjustments described above.

State Requirements for District Budget Approval

Existing law requires the governing board of each district to adopt an annual budget and financial report that shows proposed expenditures and estimated revenues. Specifically:

- By July 1, each district is required to adopt a tentative budget.
- By September 15, each district is required to hold a public hearing and adopt a final budget.
- By September 30, each district is required to complete its adopted annual budget and financial report (CCFS-311).
- By October 10, each district is required to submit its adopted annual budget and financial report to the Chancellor.

If the governing board of any district fails to develop a budget as described, the Chancellor may withhold any apportionment of state or local money to the district for the current fiscal year until the district makes a proper budget. These penalties are not imposed on a district if the Chancellor determines that unique circumstances make it impossible for the district to comply with the provisions or if there are delays in the adoption of the annual state budget.

The total amount proposed for each major classification of expenditures is the maximum amount that may be expended for that classification for the fiscal year. Through a resolution, the governing board may make budget adjustments or authorize transfers from the reserve for contingencies to any classification (with a two-thirds vote) or between classifications (with a majority vote).

State Requirements Related to Expenditures

State law includes two main requirements for districts' use of apportionments. The Chancellor's Office monitors district compliance with both of these requirements and annually updates the Board of Governors.

Full-Time Faculty Obligation. State law sets a goal that 75% of instructional hours in each district should be taught by full-time faculty. Each district has a baseline reflecting the number of full-time faculty in 1988-89. Each year, if the Board of Governors determines that adequate funds exist in the budget, districts are required to increase their base number of full-time faculty over the prior year in proportion to the amount of growth in funded credit full time equivalent students. The target number of faculty is called the Faculty Obligation Number (FON). An additional increase to the FON is required when the budget includes funds specifically for the purposes of increasing the full-time faculty percentage.

Fifty Percent Law. A second requirement related to budget levels is a statutory requirement that each district spend at least half of its Current Expense of Education each fiscal year for salaries and benefits of classroom instructors. A district may apply for an exemption under limited circumstances.

DISTRICTS' FISCAL HEALTH

The Board of Governors has established standards for sound fiscal management and a process to monitor and evaluate the financial health of community college districts. These standards are intended to be progressive, with the focus on prevention and assistance at the initial level and more direct intervention at the highest level.

Under that process, each district is required to regularly report to its governing board the status of the district's financial condition and to submit quarterly reports to the Chancellor's Office. Based on these reports, the Chancellor is required to determine if intervention is needed. Specifically, intervention may be necessary if a district's report indicates a high probability that, if trends continue unabated, the district will need an emergency apportionment from the state within three years or that the district is not in compliance with principles of sound fiscal management. The Chancellor's Office's intervention could include, but is not limited to, requiring the submission of additional reports, requiring the district to respond to specific concerns, or directing the district to prepare and adopt a plan for achieving fiscal stability. The Chancellor also could assign a special trustee.

The Chancellor's Office's primary focus is the district's unrestricted general fund. The Chancellor's Office reviews the current, historical, and projected fund balances. Specifically, the Chancellor's Office assesses the unrestricted general fund balance as a percentage of all expenditures and other outgo of unrestricted general fund. The minimum prudent percentage of unrestricted general fund balance to all expenditures and other outgo of unrestricted general fund is 5%. This minimum prudent percentage is considered necessary to protect cash flow and respond to uncertainties.

Although this percentage represents a minimum standard, other entities, such as the Government Finance Officers Association (GFOA), have recommended that districts maintain higher balances equaling no less than two months of regular general fund operating revenues or regular general fund operating expenditures. (For many districts, this totals closer to 15%). Districts are strongly encouraged to regularly assess risks to their fiscal health. The Fiscal Crisis and Management Assistance Team has developed a Fiscal Health Risk Analysis for districts as a management tool to evaluate key fiscal indicators that may help measure a district's risk of insolvency in the current and two subsequent fiscal years.

Appendix D: Glossary

Appropriation: Money set apart by legislation for a specific use, with limits in the amount and period of time during which the expenditure is to be recognized.

Augmentation: An increase to a previously authorized appropriation or allotment.

Bond Funds: Funds used to account for the receipt and disbursement of non-self-liquidating general obligation bond proceeds.

Budget: A plan of operation expressed in terms of financial or other resource requirements for a specific period of time.

Budget Act (BA): An annual statute authorizing state departments to expend appropriated funds for the purposes stated in the Governor's Budget, amended by the Legislature, and signed by the Governor.

Budget Year (BY): The next state fiscal year, beginning July 1 and ending June 30, for which the Governor's Budget is submitted (i.e., the year following the current fiscal year).

Capital Outlay: Expenditures which result in acquisition or addition of land, planning and construction of new buildings, expansion or modification of existing buildings, or purchase of equipment related to such construction, or a combination of these.

Cost Of Living Adjustment (COLA): Increases provided in state-funded programs intended to offset the effects of inflation.

Current Year (CY): The present state fiscal year, beginning July 1 and ending June 30 (in contrast to past or future periods).

Department of Finance (DOF): A state fiscal control agency. The Director of Finance is appointed by the Governor and serves as the chief fiscal policy advisor.

Expenditure: Amount of an appropriation spent or used.

Fiscal Year (FY): A 12-month budgeting and accounting period. In California state government, the fiscal year begins July 1 and ends the following June 30.

Fund: A legal budgeting and accounting entity that provides for the segregation of moneys or other resources in the State Treasury for obligations in accordance with specific restrictions or limitations.

General Fund (GF): The predominant fund for financing state operations; used to account for revenues which are not specifically designated by any other fund.

Governor's Budget: The publication the Governor presents to the Legislature by January 10 each year, which includes recommended expenditures and estimates of revenues.

Legislative Analyst's Office (LAO): A nonpartisan office that provides fiscal and policy advice to the Legislature.

Local Assistance: Expenditures made for the support of local government or other locally-administered activities.

May Revision: An update to the Governor's Budget presented by the Department of Finance to the Legislature by May 14 of each year.

Past Year or Prior Year (PY): The most recently completed state fiscal year, beginning July 1 and ending June 30.

Proposition 98: A section of the California Constitution that, among other provisions, specifies a minimum funding guarantee for schools and community colleges. California Community Colleges typically receive 10.93% of the funds.

Reserve: An amount set aside in a fund to provide for an unanticipated decline in revenue or increase in expenditures.

Revenue: Government income, generally derived from taxes, licenses and fees, and investment earnings, which are appropriated for the payment of public expenses.

State Operations: Expenditures for the support of state government.

Statute: A law enacted by the Legislature.

Workload Budget: The level of funding needed to support the current cost of already-authorized services.