

# 2013-2014 BUDGET UPDATE

## SEPTEMBER 2013

Risk and Rewards on the Proposition 30  
Budget Landscape



# 2013-2014 State Budget

- AB100 signed by Governor on June 27, 2013
- Third consecutive year, an on time budget (and with no Republican votes)
- Prop 25 has put the majority party clearly in control of the budget.

# Big Picture

- Total General Fund expenditures = \$96.3 billion
- General Fund expenditures are increasing but remain \$6 billion below 2007-2008 levels.
- Best News?

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No threat of trigger cuts!!!!

# Big Picture

- Budget includes a reserve of \$1.1 billion
- Despite passage of Prop 30 and seemingly strongly tax receipts, the Governor actually revised 2013-2014 revenues in the May revise downward from January estimates
- The Legislative Analyst Office (LAO) is projecting \$2.8 billion in 2013-2014 revenues.

# Big Picture

- Initial data suggests the LAO is closer to the mark with 2012-2013 tax receipts finished over \$2 billion higher than estimated by the Department of Finance (DOF)
- The budget is based on the Governor's more conservative forecast
- Approach may be intended to protect state from boom and bust budgeting cycles.

# Community Colleges

- Access funding = \$89.4 million (1.63%)
- Cost of Living (COLA) = \$87.5 million (1.57%)
- Categorical = \$88 million:
  - ⊗ \$50 million for Student Success and Support
  - ⊗ \$15 million for DSPS
  - ⊗ \$15 million for EOPS
  - ⊗ \$8 million for CalWorks

# Community Colleges

- *Side notes:*

- ✧ *“Access” rather than restoration or growth*
- ✧ *COLA only covers this year. About 16% has been lost in COLA in the past few years*
- ✧ *Legislature not the governor included funding increasing for categoricals*

# Community Colleges

- Major progress towards paying down deferrals.  
*(Down to about \$592 million from \$961 million before passage of Prop 30)*
- \$30 million for deferred maintenance and instructional equipment. (specified as “one-time”)
- \$150,000 increase for Academic Senate.  
*(For Student Success Program efforts)*
- Priority enrollment for CalWORKs participants.  
*(To help with their (“24 month clock”))*

# New Initiatives

## • Adult Education

- ✧ \$25 million for Adult Education local planning grants.
- ✧ Grants to local consortia which must include at least one CCD and K12 LEA.
- ✧ Funding available over 2 years.
- ✧ Criteria for awards to be jointly determined by CCCCO and CDE
- ✧ Intent is for local consortia to develop plans for providing adults with
- ✧ Basic skills, high school diploma or equivalency, classes and courses for immigrants, education for adults with disabilities and career technical education and programs for apprentices.
- ✧ No change to existing noncredit programs or funding

*Side note: Not sure of funding after the planning phase*

# New Initiatives

## • Online Education

- ⊗ \$16.9 million approved
- ⊗ Expand availability of courses through online technology
- ⊗ “The Legislature’s intent is to maximize the development of online courses availability across campuses to alleviate shortages of certain core course at certain campuses.”
- ⊗ The CCCCO will develop a common learning management system available for use by all colleges.

# •New Initiatives

## • Proposition 39

- ⊗ \$47 million approved to be allocated at the discretion of the Chancellor
- ⊗ Allocation subject to guidance approved by the Energy Commission
- ⊗ Workforce component as well as projects

# Concerns

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  - ⊗ Sales tax increase terminates at end of 2016
  - ⊗ Income tax increase terminates at end of 2018

# System Concerns

- State is finally reinvesting in education, thanks to Prop 30 and improving (slowly) economy
- But... Proposition 30 is *temporary*
  - ✧ Sales tax increase terminates at end of 2016
  - ✧ Income tax increase terminates at end of 2018
- Will Pro 30 be extended?

# System Concerns

- Apportionment is getting more complicated
- In 2008-2009, about 2/3 of apportionment was General Fund approved in the Budget Act. It's only now about a third.
- Two-thirds of the apportionment is based on estimates that may or may hold up.

# Structure of the 2013-2014 District General Fund Budget (~\$45 mil)

- .. \$29.0 mil Property Tax Paid
  - ⊗ (primarily paid in December and April)
- .. \$ 4.4 mil Enrollment Fees
- .. **\$ 5.5 mil Education Protection Account**
  - ⊗ (paid quarterly)
- .. \$ 1.0 mil Apportionment
  - ⊗ (paid per a monthly schedule)
- .. **\$ 5.0 mil** \*Deferral Payments (paid July 2014)
- .. \$44.9 mil Total General Fund Budget
  
- .. \$39.9 mil \*Total Revenue to be received in 2013-2014

# System Concerns

- Statutorily guaranteed backfills of EPA and RDA related revenues , but timing and determination of gaps creates delays and confusion.

# 2012-2013 Deficit

- There was a guarantee for the 2012-2103 budget by the DOF to the CCCCCO that any RDA shortfall would be backfilled.
- Discrepancy in how much the backfill should be
  - ⊗ CCCCCO = \$97.4 million (for a remaining deficit of 0.7%)
  - ⊗ DOF = \$8.9 million (for a remaining deficit of 2.4%)
- What does this mean for the district?
  - ⊗ 0.7% deficit = \$ 312,885
  - ⊗ 2.4% deficit = \$1,072,646

# System Concerns

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- Lack of continuous appropriation is an increasing problem

# Update on Five Year Budget Reduction Plan

- On target with contingency set aside
- Revenue influx due to
  - ✧ RDA deficit factor
  - ✧ FTES generation

# In summary—according to Moody's

- STRENGTHS

- Large coastal tax base with average wealth levels
- Stable unrestricted general fund financial position with improving cash levels
- Strong managerial policies
- Lower exposure to state cuts and deferrals due to the high percentage of funding coming from property taxes

- CHALLENGES

- Somewhat depressed enrollment levels
- High lease burden
- Limited financial flexibility due to state mandate that 50% of expenditures go towards academic salaries
- Accreditation status on Warning

- DETAILED CREDIT DISCUSSION

- SOLID FINANCES DESPITE STATE CUTS AND ENROLLMENT DECLINES; FLEXIBILITY LIMITED

# Credit Rating-Moody's

## Opinion

NEW YORK, September 03, 2013 --Moody's Investors Services affirms San Luis Obispo Community College District's Aa2 general obligation (GO) equivalent long-term issuer rating and the A1 lease-backed rating on its certificates of participation (COPs) series 2003, 2006, and 2009B.

## RATING RATIONALE

The affirmation of the issuer and COP ratings reflects the district's large coastal tax base, stable financial performance, and strong managerial policies, which have helped counteract sector-wide pressure associated with reduced state funding. It also considers the recent upgrade of the district's accreditation status, which moved to Warning in 2013. This is a significant improvement from 2012, when the district's accreditor placed it on Show Cause and ordered it to demonstrate why its accreditation should not be terminated. Moody's projects the district's finances will remain satisfactory for the current rating categories despite likely pressure from state enrollment targets and limited financial flexibility. We note that the Aa2 and A1 ratings depend on the district's ability to maintain stable reserve levels and avoid further accreditation sanctions.

# WHAT COULD MAKE THE RATING GO UP

- Trend of operating surpluses leading to substantial reserve growth

# WHAT COULD MAKE THE RATING GO DOWN

- Narrowing of general fund reserves beyond current expectations
- Escalation of accreditation sanctions