Community College League of California

November 25, 2013

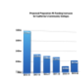
It was such a pleasure seeing so many of you at the League's Annual Convention in Burlingame last week. It sure was nice having significant education policy conversations and not just worrying when the next budgetary axe would fall.

Last Wednesday, the Legislative Analyst's Office ("LAO") released its multi-year fiscal outlook, projecting state revenues through 2019-20. The analysis shows a moderate economic recovery, supplemented by the temporary tax revenues of Propositon 30, leading to state "surpluses" in each of the forecast years.

"Current Year"

As expected, tax revenues for 2012-13 and 2013-14 are above the levels projected when the current year (2013-14) budget was adopted in June. These revenues drive up the Proposition 98 guarantee by $4.4 billion, which will need to be provided to K-12 and community colleges at some point. While this amounts to $483 million for community colleges, it is not required that the governor and Legislature provide the entire amount as programmatic funding. Instead, it could be used to further pay down outstanding liabilities--including deferrals and the CalSTRS actuarial deficit.

"Budget Year"



For the 2014-15 budget, which will be proposed by the governor in January and enacted by the Legislature by July 1, the LAO projects a whopping $7.7 billion increase in the Proposition 98 guarantee. This is because the increased tax revenues in 2014-15 are built on top of the projected inflation of the "current year" revenues.

Again, it's important to note that it is highly unlikely community colleges would be provided programmatic funds equivalent to the system's "share" of the increased Proposition 98 guarantee. Instead, significant funds will likely be used to pay down debt, as promised to the voters in the campaign for Proposition 30. The LAO reporst that there are $6.2 billion in outstanding deferrals for K-14 education and $4.8 billion in unpaid mandate claims. Clearly, depending on the repayment of these obligations, much of the new money could be gobbled up, leaving little for programmatic increases.

Additionally, much of the increased revenue attributed to the 2012-13 and 2013-14 fiscal years is believed to be attributable to personal income taxes paid on one-time occurences, such as capital gains and the exercise of stock options. This was likely amplified given the December 31, 2012 federal "fiscal cliff," which provided significant tax system uncertainty and may have driven unusual behavior.

"Out Years"

As shown in the above chart, after robust growth in funding in the first year, projected funding for community colleges returns to a more "normal" range for a few years, and then drops to a small gain in 2018-19 as Proposition 30's personal income tax component ends. In that year, the $109 million estimated would not be sufficient for even 1% growth and 1% cost-of-living adjustment. However, the projection is better news than the possibility that Proposition 98 revenues actually drop when the temporary taxes expire.

Of course, the further "out" the budget projections, the less reliable that can be, on either the upside or downside.

In short, the budget outlook is far better than we have become accustomed to in recent years, but significant debt and other deferred obligations will make seemingly large augmentations as insufficient to meet the programmatic needs of our colleges.

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