

COUNCIL ON BUDGET AND FACILITIES

December 9, 2024

2:00 p.m.

Chancellor's Conference Room – Anaheim Campus 9th Floor

Videoconferencing of the meeting will be available at Cypress College President's Conference Room and the Fullerton College President's Conference Room A

AGENDA

- | | | |
|---|-----------------|-------------|
| 1. Approval of September 9, 2024, and October 14, 2024, Summary Notes | Irma Ramos | Action |
| 2. Budget Updates <ul style="list-style-type: none">➤ School Services of California<ul style="list-style-type: none">• LAO Fiscal Outlook➤ Budget Workshop – January 15, 2025 | Fred Williams | Information |
| 3. Allocation of One-time Funds <ul style="list-style-type: none">• Spending Plans | Budget Officers | Discussion |
| 4. Facilities Updates | Budget Officers | Information |
| 5. Other Items | Irma Ramos | Discussion |
| 6. 2025 Future Meetings <ul style="list-style-type: none">➤ January 13* <i>Tentative meeting that will only take place if deemed necessary</i>➤ February 10➤ March 10➤ April 14*➤ May 12➤ June 9 | Fred Williams | Discussion |

NOTE: The numerical order of items on this agenda is for convenience of reference. To promote efficiency and as an accommodation to the parties involved, agenda items may be taken out of order upon request of the Chair or Members of the CBF.

COUNCIL ON BUDGET AND FACILITIES
September 9, 2024

REVISED UNAPPROVED SUMMARY

Members Present: Erika Almaraz, Terry Cox, Karla Frizler, Henry Hua, Cherry Li-Bugg, Elaine Loayza, Kathleen McAlister, Thu Nguyen, Michelle Patrick-Norng, Jeremy Peters, Jeanette Rodriguez, Marlo Smith, Leslie Tsubaki, Lourdes Valiente, and Fred Williams

Members Absent: Irma Ramos

Guests Present: Byron D. Clift Breland, Danielle Davy, Geoff Hurst, Bridget Kominek (alternate), Jaclyn Magginetti (alternate), Debbie Shandy, Scott Thayer, and Richard Williams

Call to Order: The meeting was called to order at 2:03 p.m.

1. **Summary:** The summary of the August 10, 2024, meeting notes were approved.
2. **Memberships:** Student representative seats remain vacant. Cypress' Associated Students will be hosting elections this week and hope to have a representative appointed thereafter.
3. **Budget Update** Fred Williams, Vice Chancellor of Finance & Facilities, and Erika Almaraz, Executive Director of Fiscal Affairs, presented the District's 2024-25 Proposed Budget which highlighted ending fund balances, the State budget, the California Community College System budget, the District budget, the structural deficit, six-year forecasts, and other considerations.

Ending Fund Balance (Carryovers)

Non-spendable	\$190,000
Restricted	\$10,590,000
Assigned By Campus Action	\$57,870,000
Assigned One Time Funds	\$17,370,000
Assigned – Other	\$396,000
Board Policy Reserve	\$46,500,000
Unallocated Districtwide	\$5,980,000
Unallocated Budget Centers	\$2,630,000
Total	<u>\$141,520,000</u>

Board Policy Reserves

The Board Policy on reserves changed from 5% of general fund unrestricted expenditures to two months of general fund expenditures. Two months of a \$279 million ongoing operating expense budget equals \$46.5 million.

Prior 5% Reserve	\$14,900,000
Committed Fund Balance	\$6,300,000
2022-23 Emergency Conditions	\$10,900,000
2023-24 Emergency Conditions	\$10,900,000
Unallocated Resources Transfer	\$1,200,000
Unallocated Resources Transfer	<u>\$2,300,000</u>
Board Policy Reserve for 2023-24	\$46,500,000

State Budget

- The State is taking a two-year budget approach with multi-year budget deficits of \$45 billion in 2024-25 and \$30 billion in 2025-26.
- Measures include cuts to government operations, reductions to programs, and a pause on new investments including a 7.95% reduction to operations and permanently eliminating 10,000 vacant positions beginning in 2025-26.
- There are no major reductions to core community college programs or services, but the State is utilizing deferrals and reserves to balance the budget

Community College System Budget

- COLA 1.07% for apportionment and select categoricals
- Enrollment growth funding 0.5% to address unfunded growth in the system
- Reallocation of unspent funds for 2020 Strong Workforce Programs and the 2022 Student Success Completion Grant

General Fund Summary

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Beg. Balance	\$ 130,930,000	\$ 10,590,000	\$ 141,520,000
Revenues	\$ 287,420,000	\$ 96,250,000	\$ 383,670,000
Expenditures	\$ 308,600,000	\$ 107,780,000	\$ 416,380,000
Other Sources	\$ (17,170,000)	\$ 1,990,000	\$ (15,180,000)
Net	<u>\$ (38,350,000)</u>	<u>\$ (9,540,000)</u>	<u>\$ (47,890,000)</u>
Ending Balance	\$ 92,580,000	\$ 1,050,000	\$ 93,630,000

Structural Deficit

	<u>23-24 Proposed Budget</u>	<u>24-25 Proposed Budget</u>
Earned Revenues	\$227,500,000	\$247,800,000
Other Revenue	\$22,600,000	\$21,300,000
Estimated Expenses	<u>\$272,100,000</u>	<u>\$278,800,000</u>
Deficit	(\$22,000,000)	(\$9,700,000)
Emergency Conditions	\$18,200,000	\$9,100,000
Stability Funding	<u>\$20,100,000</u>	<u>\$0</u>
Hold Harmless	<u>\$0</u>	<u>\$5,600,000</u>
Overall Surplus	\$38,300,000	\$14,700,000

FTES Trend

For 2024-25 the target is 31,230.95 based on the following FTES trends:

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
FTES	33,268.05	33,337.45	31,842.56	26,071.85	26,565.68	29,199.56

Why is the District in a Different Position?

- Funding received in 2024-25 creates the District’s new hold harmless “funding floor” and no future COLA will be applied to the new floor.
- Earned revenues will need to grow above the new funding floor to receive additional dollars.

- Growth in FTES shows that the District is moving in the right direction. 185 2024-2025 185

Six-Year Forecast

The following five different scenarios were provided, each illustrating the different impacts:

- Scenario 1: Uses the 2024-25 budget expenses and 2023-24 FTES and assumes that any COLA increases are passed through as salary increases and benefit costs increase by COLA as well. \$17,202,609 budget deficit by 2029-30.
- Scenario 2: Includes the Scenario 1 assumptions, less the \$5.395 million in retiree benefit contribution. \$7,443,303,000 budget surplus by 2029-30.
- Scenario 3: Includes Scenario 2 assumptions, uses the 2024-25 FTES targets. \$20,227,237 budget surplus by 2029-30.
- Scenario 4: Includes Scenario 3 assumptions but illustrates the impact of annual step and column increases in out years and the impact of the Consumer Price Index increases to non-personnel costs. \$4,355,542 budget deficit by 2029-30.
- Scenario 5: Includes the Scenario 4 assumptions but illustrates 1% annual growth in FTES. \$4,118,967 budget deficit by 2029-30.

Other Considerations

- Deficit Factor: 6.8538% deficit factor (\$18 million) used for 2024-25 Advance Revision (page 51) and a 1% deficit factor (\$2.6 million).
- Negotiations for all groups have not been settled.
- Job Family Studies are still in-progress. The IT family study is expected to increase the budget by approximately \$900,000.
- Change in Attendance Accounting Formula: A systemwide change to standardize calculations for credit FTES is estimating a 2% decline in calculated FTES based on existing class schedules and rosters.
- As federal COVID funds used to support student basic needs are exhausted, impact to enrollments is uncertain.
- Fullerton College Construction Program: The College started a lot of capital projects but is running out of funds to complete them due to continuing escalation of prices in the construction industry.

Questions/Comments:

1. *Why weren't one-time funds used to offset the parking fees instead of using the current budget?* Funding is allocated to the campuses, but no discussions were held about using it for parking. The parking deficit was highlighted to show that no contributions were made for this purpose. However, all expenses ultimately draw from the same pool of restricted funds.
2. *Where is the line item for District legal expenses?* Legal expenses are budgeted at different organizations such as HR, Finance and Facilities, etc. A budget for legal fees are set aside that haven't been allocated to a specific organization.
3. *A comment was made that United Faculty (UF) requested information related to legal expenses and was not received.* Mr. Williams will follow up on this request. *Upon follow up, information was received by UF.*
4. *When do we find out what the actual deficit is?* In February, we'll know the deficit for the previous year. Since we are about a year behind, we rely on predictions based on information from the State Chancellor's Office. Local districts are applying a deficit factor ranging from 0% to 3.5%.
5. *If the actual expenditures are dependent on the number of vacant positions filled, who is making the final decision on how and who fills those positions?* The campuses ultimately review and decide on the positions. While discussions at the Chancellor's Staff level

focus on the number of full-time faculty positions to be filled, budget decisions are left to the individual campuses.

6. *At the campus level, faculty are being told not to add students, not to provide add codes, and blocking of adding forces to increase FTES. Are we trying to manage the extended day budget at this point?* While adding classes may increase costs, both increasing FTES and managing the extended day budget are important considerations. Dr. Breland emphasized that the District has not issued any directive to limit opportunities for growth. Although there may be unique circumstances regarding the extended day budget, the District remains focused on increasing FTES and is always open to new ideas for expanding course offerings and growth.
7. *What are the Job Family Studies? Can you tell me more about that?* Human Resources has contracted with McNight Associates to complete a detailed analysis of our current job classifications, compensation, and leveling structure. The study encompasses all classifications to ensure job descriptions and compensation are comparable to other California community colleges. The goal is to complete the study within a two-year span.

4. One-Time Funding

As part of the year-end closing process, District staff analyzed the final balances. After this year's close, the District has \$5.8 million in unallocated resources as of June 30, 2024.

At the June 10, 2024, CBF meeting, \$4,490,000 was approved for Phase II of the Network Refresh project, and this funding was later approved by DCC at their August 26 meeting.

Following the allocation for Phase II of the Network Refresh project, \$1,307,284 remains available for further allocation. Governance groups now have the opportunity to submit suggestions or requests for one-time funding.

Detailed Spending Allocations of One-time Funds

Over the previous years, allocations have been made through CBF and DCC. As of June 30, 2024, \$17,369,143 was remaining. It is recommended that the budget centers create and share a spending plan for the remaining balances at the December 9, 2024, meeting.

5. Calendar for the 2025-26 Budget

Erikas Almaraz provided a copy of the 2025-26 budget calendar. The calendar will be taken to the October 22 Board of Trustees meeting.

Questions/Comments:

1. *April – Budget Centers are requested to start Faculty Position Clean up. What does this mean? Does this happen every April?* The campuses are asked to review their positions, along with any unfilled positions, and remove the unused budget allocations. This helps obtain a better cost estimate. This is part of the position control process.

6. Facilities Updates

Fullerton College – VPAS, Henry Hua provided an update on behalf of the campus.

- 300 Building Renovation – Project completion is anticipated in October 2025.
- M&O Building – Internal infrastructure frames are being put in. Safety inspections are complete. Fire line installations are running into some minor issues and staff are working to fix those. Anticipated completion date in early January/mid-February.
- Chapman Chapman/Newell Instructional Building – Elevator will be installed next week. Staff continue to try and preserve the campus oak tree. HVAC was installed. Inspection of the electric conduits and piping is scheduled to take place within the next three weeks.

- Wilshire Chiller Plant Relocation – The new location is an old high school and underground utility line issues have surfaced with this project and staff are running into a lot of cost escalations and unforeseen issues.
- Performing Arts Complex – The bidding process is expected to begin shortly.
- Softball field – Currently in the last phase of design. Architects have come out to view facilities.

Vice Chancellor Williams notes that Fullerton is \$9 million short for facilities projects and \$30 million short on construction needs, in total about ~\$42M short on resources that have not yet been identified. Decisions will need to be made on welcome center, STEM building (state approval of match funding).

Questions/Comments:

1. *What programs are moving into Chapman Newell center?* Veterans, CalWorks, Health Center, etc. There are 18 programs that will be moving into the center. *Concluding the meeting, Vice President Henry Hua shared a list of programs with CBF.*

Anaheim Campus – Richard Williams provided an update on behalf of the campus.

- Upper Deck Renovation – State is funding 80% of the project. Waterproofing and seismic joints are still being installed. The project will also include fixes to the existing water damage that has affected 15-18 rooms. There was a foundation set back, but at no cost to the District.
- Board Room Renovation – Currently working on color selections for the interior. Minor comments from DSA were received. Architects are still working with the city for the sprinkler system (water flow) requirements. Expected completion in mid-spring. Approval of the fire line, no need for additional lines. DSA backcheck
- Outdoor Patio Remodel – A good turnout of 15 contractors walked the site and 8-10 submitted their bids.
- Interior and Exterior Signage – Currently resolving some coloring issues and hoping to hear back from DSA for the marquee sign within a week.
- East Parking Lot Restoration – Portable usage is expected to be extended due to the Board Room Renovation noise interruptions.
- 9th Floor Renovation – Will be finishing up in the next few weeks.
- Community Green Space/Lower-level circle – Ramps and parking lot will be reconfigured to comply with the new ADA requirements/codes. The project will also include a gathering space for campus events. Project will start after the upper deck renovation is finished, end of September.

Cypress College – *Dr. Thayer and Fred Williams provided an update on behalf of the campus.*

- Fine Arts Renovation – Occupancy is expected in fall 2026. The exterior caissons and interior micropyles are being installed. This is a CM multi-prime project, which includes several contractors and where the campus acts as the PM. Each change order is taken to the Board for approval.
- Auto Yard – The auto lifts were installed, and the project is nearing completion.
- Electrical Vehicle Charging Stations – Stations are anticipated to be up and running at the end of September. Looking to add additional staff parking due to spaces lost from the project.
- Health and Wellness Center – The expansion is targeted to begin summer 2025.

Questions/Comments:

1. In the Budget Book, why aren't the constituency groups included with the organizational charts? The formats are followed by the campus and District's current organizational charts. If this is something the groups wish to do, further discussion can be made for next year's publication.

4. **Future Meeting** – During the Anaheim Campus construction, meetings will be held in the Chancellor's Conference Room. Videoconferencing options are also available on the campuses.

November 11 (holiday)

December 9

Meeting was adjourned at 3:24 p.m.

COUNCIL ON BUDGET AND FACILITIES
October 14, 2024

UNAPPROVED SUMMARY

Members Present: Belinda Allan, Erika Almaraz, Karla Frizler, Bridget Kominek, Kathleen McAlister, Michelle Patrick-Norng (virtual attendance, non-voting), Jeremy Peters, Oscar Saghieh (Alternate), Marlo Smith, Leslie Tsubaki, Lourdes Valiente, and Fred Williams (virtual attendance, non-voting)

Members Absent: Terry Cox, Cherry Li-Bugg, Elaine Loayza, and Irma Ramos

Guests Present: Geoff Hurst, Jaclyn Magginiti (alternate), Debbie Shandy, Scott Thayer, and Richard Williams

Call to Order: The meeting was called to order at 2:08 p.m. Quorum was not met.

1. **Summary:** The summary of the September 9, 2024, meeting will be brought back for approval at the December 9, 2024, meeting.

The summary notes will be amended to reflect the receipt of the requested documentation for legal fees by United Faculty.

2. **Resource Allocation Model Evaluation –** Erika Almaraz, Executive Director of Fiscal Affairs, presented the evaluation of the Resource Allocation Model (RAM).

Some of the highlights and changes during the year included:

- The 2024-25 RAM budget uses 2024-25 target FTES rather than prior year actual FTES. The RAM Settle-up continues to be based on the actual final FTES numbers. Any additional funding due to participation in the Emergency Conditions Provision and Hold Harmless continues to be considered separately from the RAM's ongoing structure.
- The District continues to participate in the Emergency Conditions Provision which holds our FTES to the 2019-20 P1 levels for funding purposes. Funding received above the earned SCFF RAM calculations was also allocated as supplemental revenue to the budget centers. The institutions' remaining balances have now been allocated.
- Based on information received from the State Chancellor's Office, the apportionment deficit factor was revised to 4.7%, compared to the 6.8% that was previously shown in the proposed budget presentation.

Questions/Comments:

1. *Was a 1% deficit factor calculated for 2024-25?* No. No deficit factors have been included for 2024-25, but a 1% deficit factor was included for 2023-24.
2. *What information was received from the Chancellor's Office to determine the 4.7% deficit factor?* The calculation is provided by the State Chancellor's Office and is included in one of the schedules. The calculation is just an estimate, and we won't have an actual number until later.
3. *Are we able to use the ending balance of \$141 million to offset the deficit factor?* Once we know what the deficit factor is, it will be incorporated into the model and picked up by the centers when we complete the settle up. The District will be shorted in cash payments by \$12.3 million until apportionment revenue is adjusted.

Ms. Almaraz also provided the committee with a side-by-side comparison of the budget versus actuals. Some of the major updates included:

- The cost of the part-time faculty health insurance will be offset by the State Chancellor's office and will now be placed under the Districtwide expenses.
- The investment income budget was increased from \$1 million to \$3 million for the 2024-25 budget.
- \$1 million dollars of RDA funds will continue to be budgeted for capital outlay projects.
- Emergency condition funding was less due to an increase in earned SCFF revenues.

Questions/comments:

1. *Could you clarify the situation with part-time faculty office hours and the gap between budgeted and actual funding?* Previously, districts were receiving only a fraction—pennies on the dollar—for part-time faculty office hours and health insurance. However, we're now receiving funding from the state. *Would you estimate that we're receiving around 90%?* We won't know the exact amount until the claims are finalized in November, but the key point is that we're now seeing financial support from the state that wasn't available before.
2. *Where does the \$24 million from the 2023-24 settle-up ending balance go?* This amount is incorporated into our ending fund balance (see page 67 of the Budget Book). A significant portion of these funds has already been allocated by the centers for specific expenditures.
3. *What percentage of the \$24 million settle-up ending balance consists of restricted funds?* The lottery funds have two components: unrestricted and restricted. Recently, there has been an increase in restricted funds, detailed on page 67 of the Budget Book, with approximately \$10 million in restricted funds still unspent at the campuses. Changes to the restrictions on these funds have made them somewhat more flexible, allowing for use in addressing student basic needs.
4. *Fred Williams informed the Committee that our District's Resource Allocation Model (RAM) is designed based on the state model, where funding is determined by factors such as FTES, student success rates, and demographics. The funds earned are allocated to the budget centers, with 9.25% charged back and proportionately distributed to cover Districtwide expenditures. The RAM evaluation process helps identify and implement any necessary adjustments to the model.*
5. A request was made for greater transparency at the campus level, specifically with PAC and PBC. Mr. Williams acknowledged this and noted that follow-up forums will be held at each campus to address campus-specific budget questions. Additionally, the recommendation will be shared with the budget officers for further consideration.
6. *When the District stops receiving hold-harmless funding and additional State assistance, will the model include any protective measures to support campuses in emergencies where they cannot cover their expenses? Is there anything to hold campuses harmless?* Currently, we don't have specific protections in place beyond what is embedded in the State allocation model, which includes a three-year average. However, this primarily applies to credit institutions. NOCE is particularly concerning in terms of allocations. While the recent increase in FTES helps mitigate some concerns, NOCE has accumulated significant reserves over the past few years while being held harmless, in preparation for potential funding declines.
7. *Is it possible to provide projections of potential impacts from negotiations for each institution?* Yes, we have estimates prepared by the Budget Centers detailing these costs. We collaborate with campus budget officers to share the available information, though these figures remain estimates. A 1.5% increase was factored in for all constituent groups, and medical cost rates were adjusted to reflect January 2025 rates.

However, overload cost increases were not included. Information can be found on page 34 of the Budget Book.

8. *How do chargebacks work?* There are different things that we charge back for, including things such as utilities, security, and custodian work for the spaces that one of our budget centers may be utilizing at another. The most significant areas are NOCE at credit campuses and Culinary Arts at the Anaheim Campus.

3. Facilities Updates

Anaheim Campus – Richard Williams provided an update on behalf of the campus.

- Upper Deck Renovation – 90% complete with an anticipated completion date of November 15. Final water proofing of the layers around the building are underway.
- Board Room Renovation – Project is 2/3 approved with DSA with fire, life, safety, and access compliance approved, with structural approval anticipated later in the week.
- Outdoor Patio Remodel – The project was awarded to American Building Services. Demolition is expected to begin in November.
- Community Green Space/Lower-level circle – Ramps and parking lot will be reconfigured to comply with the new ADA requirements/codes. The project will also include a gathering space for campus events. Planning will start after the upper deck renovation is finished.
- Interior and Exterior Wayfinding Signage – Project was awarded to Courtney Incorporated and is \$20,000 more than anticipated, but still under the change order limitations.
- Chiller Water Piping – A major study is being conducted before the project proceeds to determine the impacts of the utility linkage and the final cost.
- Lighting Control for the Tower – The study results from P2S Engineers should be completed within the week. East Parking Lot Restoration – Portable usage is expected to be extended due to the Board Room Renovation noise interruptions.

Questions/Comments:

1. *Will the new marquee at the Anaheim Campus be digital?* No, the new marquee will replace the existing one, but it will not be digital. While there were discussions about installing a digital marquee, the City of Anaheim has specific ordinances that restrict the use of digital marquees.
2. *Is there a visual rendering of the Community Green Space/Lower-level circle?* Yes, the Master Plan includes three design options for this area. These options will be reviewed in more detail at the next meeting, where discussions will focus on project priorities, taking into account budget constraints and accessibility needs.

Cypress College – Dr. Thayer provided an update on behalf of the campus.

- EV Charging Station - 60 units are now available for use and two (2) stations will need repairs. In addition, restriping of some of the parking stalls was completed.
- Fine Arts Renovation – Occupancy is expected in fall 2026. The exterior caissons and interior micropiles are being installed. This is a CM multi-prime project, which includes numerous contractors and where the campus acts as the contractor. Each change order is taken to the Board for approval.

Fullerton College – VPAS, Oscar Saghieh provided an update on behalf of the campus.

- 300 Building Renovation – The cast and drilled piles all around the building perimeter were completed last week. Micropile submittal to DSA was approved and procurement of materials is complete. Substantial completion is anticipated for January 2025.
- M&O Building – Copper piping is underway on the second floor. DFRC was approved by DSA, which took longer than expected with a 7-week delay from DSA. Targeted construction completion is scheduled for February 2025.
- Chapman/Newell Instructional Building – On the exterior, window installation and glazing are in progress on the second floor. Window flashing and water barrier installation are also being addressed. Completion of targeted construction is anticipated for February 2025.
- Wilshire Chiller Plant Relocation – PPC provided the estimated cost and schedule impact for the relocation of the unforeseen conditions that were previously identified during digging activities earlier in the year. Sewer line connections to Lemon Street are still waiting approval from the City and are anticipated to be received by the end of October.
- Performing Arts Complex – Bid proposals are anticipated to be received in mid-December and a contractor selected in February 2025.

Questions/Comments:

A concern was raised regarding the space inventory for the new Instructional Building. It was noted that out of 18,000 square feet and \$30 million in construction costs, only 72 seats were allocated for students. If the District aims to increase Full-Time Equivalent Students (FTES), it is recommended that facilities prioritize and expand spaces designed for student use.

4. **Future Meeting** – During the Anaheim Campus construction, meetings will be held in the Chancellor’s Conference Room. Videoconferencing options are also available on the campuses.

November 11 (holiday) CANCELED
 December 9
 January 13*
 February 10
 March 10
 April 14*
 May 12
 June 9

Meeting was adjourned at 3:05 p.m.

COUNCIL ON BUDGET & FACILITIES

Agenda Item Submittal Form

Date: December 5, 2024

From: Fred Williams, Vice Chancellor, Finance and Facilities

Re: Agenda Item for Council on Budget and Facilities of December 9, 2024

1. AGENDA ITEM NAME

Schools Services of California - Legislative Analyst's Office (LAO) Fiscal Outlook

2. AGENDA ITEM ACTION (Please check all that apply.)

- Information Only
- Review/Discussion
- Action

3. ESTIMATED TIME REQUIRED FOR PRESENTATION/DISCUSSION:

10 minutes

4. BRIEF NARRATIVE SUMMARY OF AGENDA ITEM:

On November 22, 2023, School Services of California provided a summary of the recently issued Fiscal Outlook released by the Legislative Analyst's Office (LAO). The Governor's State Budget proposal will be released no later than January 10, 2025.

5. RECOMMENDATION:

Members are asked to receive and review the information provided by the Legislative Analyst's Office (LAO) Fiscal Outlook.

Happy Holidays from . . .

COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

LAO's Fiscal Outlook for Education—Positive, but Modest

✓ BY MEGAN BAIER

✓ BY PATTI F. HERRERA, EDD

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posted November 22, 2024

Wednesday, November 20, 2024, the Legislative Analyst's Office (LAO) released its *2025-26 Budget Fiscal Outlook (Fiscal Outlook)* report that includes a specific forecast for Proposition 98 affecting TK-12 and community college agencies. This annual report offers an updated multiyear forecast of the State Budget condition, including economic and revenue assumptions that impact the annual State Budget and the programs that rely on it, such as public education.

The report predicts that, while better-than-expected General Fund revenues are offset by higher spending, the state can anticipate a relatively balanced budget for the 2025-26 fiscal year. The LAO warns, however, that the state is likely to face deficits in the outyears due to anomalously high spending obligations that lawmakers would need to address either through program reductions or increased revenue via tax increases.

Proposition 98: Outlook for TK-12 and Community College Funding

Within the broader context of the multiyear State Budget condition, the *Fiscal Outlook* revises estimates of the Proposition 98 minimum guarantee for 2024-25, issues an estimate for 2025-26, projects a statutory cost-of-living adjustment (COLA) for 2025-26 of 2.46%, and explains why the state will be required to make a deposit into the Proposition 98 reserve and will not be required to make a restoration (or maintenance factor) payment to public education. Following the shifting pieces of Proposition 98 can be difficult, so below we provide a brief summary of the LAO's report as it relates to public education.

- **2024-25 Minimum Guarantee up \$3.0 Billion**

Due to upward revisions in General Fund revenues and local property taxes, the LAO estimates that the current-year minimum guarantee will be \$3.0 billion higher than the 2024-25 Budget Act estimates from June, now totaling \$118.3 billion (up from \$115.3 billion). However, this increased revenue will not be available as the state will be required to deposit the funds into the Proposition 98 reserve. This is because the State Constitution requires deposits into the reserve when robust revenues are due largely to increases in capital gains. The *Fiscal Outlook* assumes a revised 2024-25 required deposit of \$3.7 billion (\$1.1 billion of which was already included in the June budget). This higher deposit will once again trigger caps on TK-12 district reserves in fiscal year 2025-26.

- **\$2.8 Billion Proposition 98 Surplus in 2025-26**

Based on the constitutional formulas to calculate Proposition 98, the *Fiscal Outlook* estimates that the minimum guarantee for 2025-26 will be \$116.8 billion, which is notably lower than the LAO's revised 2024-25 level of \$118.3 billion. This funding level is driven by Test 1 remaining operative (meaning, K-14 education receives approximately 40 cents of every General Fund dollar) and a constitutional provision that protects the state from unsustainable Proposition 98 obligations when there are temporary spikes in revenue (referred to as "spike protection").

Despite the year-over-year modest decline in the minimum guarantee levels, the LAO estimates that Proposition 98 will enjoy a \$2.8 billion surplus in 2025-26, resulting from the net of \$3.7 billion freed up from expired, one-time costs, offset by an ongoing cost of a 2.46% COLA.

- **No Required Restoration (Maintenance Factor) Payment in 2025-26, but New Obligation Created in 2026-27**

The state’s decision to use their constitutional authority to suspend Proposition 98 in fiscal year 2023-24 creates an obligation to restore funding for TK-12 and community colleges to the level the state *should* have provided, an obligation known as the “maintenance factor.” The 2024-25 Budget Act included a \$4.1 billion maintenance factor payment based on June revenue assumptions. According to the LAO’s revised revenue estimates in the *Fiscal Outlook*, the maintenance factor and payment obligation to TK-12 and community college agencies increases by \$761 million, leaving an outstanding obligation at the end of the current fiscal year of \$3.3 billion.

However, because the LAO’s broader economic assumptions include robust capital gains revenues, the *Fiscal Outlook* assumes that the state will not be required to make a restoration payment in 2025-26. This is because the State Constitution requires maintenance factor payments only in fiscal years in which General Fund revenue growth outpaces per capita personal income growth. Finally, the LAO estimates that the Proposition 98 minimum guarantee will be determined by Test 3 in fiscal year 2026-27, which will create a new maintenance factor obligation of approximately \$2.0 billion, totaling \$5.9 billion at the end of 2026-27 when added to the existing obligation. Any remaining balance in the state’s obligation to restore education funding is adjusted each year for changes in average daily attendance and per capita personal income. At the end of the *Fiscal Outlook*’s forecast period in 2028-29, the total maintenance factor obligation is estimated to be \$6.5 billion.

- **Minimum Guarantee Experiences Moderate Increases After 2025-26—up \$17.4 Billion by 2028-29**

Finally, tracking with the LAO’s larger state economic and revenue forecast, the *Fiscal Outlook* projects that, after a sluggish 2025-26, education funding will enjoy annual increases averaging \$5.8 billion over the three-year period. It assumes that the minimum guarantee will benefit from increases in both state General Fund revenue and local property taxes.

	2024-25	2025-26	2026-27	2027-28	2028-29
General Fund	\$ 84.8	\$ 81.7	\$ 85.2	\$ 89.7	\$ 94.1
Local Property Taxes	33.5	35.1	36.1	38.1	40.1
Total	\$ 118.3	\$ 116.8	\$ 121.3	\$ 127.8	\$ 134.2

- **Proposition 98 Reserve**

As noted earlier, better-than-expected revenues resulting from strong capital gains increase the required deposit into the Proposition 98 reserve in 2024-25. Under the LAO’s forecast assumptions, there would be no required deposits into, nor withdrawals from, the fund in 2025-26. However, the state would be required to make a \$2.0 billion and a \$1.7 billion withdrawal in fiscal years 2026-27 and 2027-28, respectively. The \$1.7 billion account balance at the end of 2026-27 and the depletion of the account the following year would make the cap on TK-12 district reserves inoperative beginning in 2027-28 through the remainder of the forecast period.

- **Annual Statutory COLA Increases**

The LAO’s forecast of the statutory COLA increases to above-average trends of 3.00% beginning in 2026-27 through the 2028-29. The Proposition 98 costs associated with estimated outyear COLAs are \$3.2 billion, \$4.0 billion, and \$4.3 billion in 2026-27, 2027-28, and 2028-29, respectively.

2025-26	2026-27	2027-28	2028-29
2.46%	3.10%	3.80%	4.00%

The LAO concludes its forecast cautioning its susceptibility to over- and under-projections, depending on state General Fund revenue performance. Consistent with its broader concern about budget headwinds in the outyears, the LAO recommends that the Legislature consider using its modest \$2.8 billion Proposition 98 surplus to build resiliency in the education budget, which could include retiring deferrals and using the surplus to fund one-time investments. Each fiscal policy decision comes with trade-offs, of course, which the LAO begins to outline for lawmakers in advance of spring budget hearings.

Those hearings will begin in the weeks following the release of Governor Gavin Newsom’s 2025-26 January State Budget proposal, which he must release no later than January 10, 2025. His proposed budget will lay the fiscal framework for the budget discussion and negotiations, as well as highlight his priorities for California and public education.

COUNCIL ON BUDGET & FACILITIES

Agenda Item Submittal Form

Date: December 5, 2024

From: Fred Williams, Vice Chancellor, Finance and Facilities

Re: Agenda Item for Council on Budget and Facilities of December 9, 2024

1. AGENDA ITEM NAME

Spending Plan of One-time Funds.

2. AGENDA ITEM ACTION (Please check all that apply.)

- Information Only
- Review/Discussion
- Action

3. ESTIMATED TIME REQUIRED FOR PRESENTATION/DISCUSSION:

20 minutes

4. BRIEF NARRATIVE SUMMARY OF AGENDA ITEM:

At the September CBF meeting it was requested that each of the budget officers come to the December CBF meeting prepared to discuss spending plans for funds that had been previously allocated through the CBF process. It was noted that there were a number of line items that had not changed from the previous year's analysis. This was warranted to evaluate if any of the dollars could be reallocated.

5. RECOMMENDATION:

Members are asked to receive and review the information provided by the Budget Officers.

DETAIL OF ALLOCATIONS OF ONE-TIME FUNDS

(Part of Assigned Fund Balance)

JUNE 30, 2024

	<u>Districtwide</u>	<u>DS</u>	<u>CC</u>	<u>FC</u>	<u>NOCE</u>	<u>Total</u>
Balance of Allocated of One-Time Funds P/Ys:						
Assist with Fraudulent Student Investigation activities			77,494.86	-		77,494.86
Campus Enrollment Support			2,341,233.33	3,412,589.16	394,813.81	6,148,636.30
Capital Expenses						
ADA			170,228.59		219,385.42	389,614.01
Campus Priorities			96,916.04	866,216.17		963,132.21
CC Pilot Internship Program: Legacy/Puente			3,018.72			3,018.72
Diversity Programs	2,070.09					2,070.09
Equipment		316,030.36				316,030.36
Foundations				-		-
HR Banner Projects		27,977.10				27,977.10
Hunger Initiative			100,000.00		3,182.04	103,182.04
Institutional Capacity	23,264.00					23,264.00
Professional Development Program	192,542.18			-		192,542.18
Safety	300,000.00					300,000.00
Business Process Analysis	130,151.78					130,151.78
Campus Priorities						-
Local Funding Requests		294,794.92		476,779.01		771,573.93
Outreach/Recruitment/Onboarding/Advertising				-		-
Pathways Support				121,002.73		121,002.73
Strategic Plan Allocation for DEIA			136,931.57	78,253.60	39,898.76	255,083.93
Student Success Advocates			792,000.00	952,000.00	396,000.00	2,140,000.00
Student Success Funds - Online Education			68,114.10			68,114.10
Student Success Funds - Supplemental Instruction				351,463.00		351,463.00
Student Success Funds - Universal Design					87,451.23	87,451.23
Technology - Microsoft 365 Collaboration			-			-
Title IX		87,618.63				87,618.63
Website Modifications				17,863.71		17,863.71
5-Yr Cyber Security Plan		1,479,238.28				1,479,238.28
Book Program Pilot Supplement			-	1,570,613.32	51,974.05	1,622,587.37
Foundation to supplement initial cost of new position			203,547.26	391,639.00		595,186.26
Hospitality Supplement			3,786.59	-		3,786.59
Part-Time Faculty Office Hours - Fall Semester			74,467.00	135,893.00		210,360.00
Part-Time Faculty Office Hours - Spring Semester			-	-		-
Sustainability Plan		880,699.34				880,699.34
Funds already allocated	648,028.05	3,086,358.63	4,067,738.06	8,374,312.70	1,192,705.31	17,369,142.75
Add'l One-Time Funds to be Allocated						
Subtotal Additional Allocations	-	-	-	-	-	-
Total	\$ 648,028.05	\$ 3,086,358.63	\$ 4,067,738.06	\$ 8,374,312.70	\$ 1,192,705.31	\$ 17,369,142.75