

California Community Colleges

Background Information

2007-08 Recalculation –MARCH REVISION

This March Revision updates the 2007-08 Recalculation posted in February. Two items of note required a change to the 2007-08 Recalculation and resulted in this March Revision: First, the General Deficit increased by \$2.2 million, going from \$18.1 million in February to \$20.3 million in March with the change being caused by an error in calculating a few districts' growth and basic allocation amounts. Second, the amount of Funded Growth decreased by roughly \$500,000, going from \$74.1 million in February to \$73.6 million (Basic Aid Districts Inclusive) in March with the change being caused by a provision in the Budget Act that requires the use of growth funds to cover increases in basic allocation adjustments.

The state general revenue on the 2007-08 Recalculation of Principal Apportionment is calculated pursuant to the funding provisions of SB 361 as incorporated in the regulations of Title 5 of the California Code of Regulations, Sections 58770, et. al. and provisions of Item 6870-101-0001 of the Budget Act of 2007. This background memo summarizes the statewide information displayed on Exhibit E of the 2007-08 Recalculation Apportionment –March Revision.

General Issues - Overall reported total statewide FTES for 2007-08 increased by 36,464 going from 1,146,163 (corrected for Compton) in 2006-07 to 1,182,627 FTES in 2007-8 or a year-to-year increase of 3.18 percent. Districts restoring prior year declines represented roughly 15,000 FTES and districts experiencing actual growth (FTES above their 2007-08 base) represented approximately 28,500 FTES. Districts with declining FTES and eligible for Stability funding represented -9,400 FTES, which includes 2,400 FTES associated with the Compton Recovery Act of 2006.

The marginal funding rates for both growth and restoration during 2007-08 are calculated from the rates specified in the SB 361. These rates are displayed at the top of the page on each district's Exhibit C.

For 2007-08, a 4.53% Inflation Adjustment is applied to funding rates.

Unfunded FTES - The system served over 17,500 full-time students above the amount provided in the state budget, equating to \$75.8 million in unreimbursed costs for serving these students.

- Over 13,000 unfunded FTES (\$55.5 million) resulted from unfunded growth
- Over 4,500 unfunded FTES (\$20.3 million) resulted from a combination of the property tax shortfall and the general fund structural deficit.

Property Tax Shortfall and the General Deficit – Total property tax revenue within the system came in significantly below the 2007 Budget Act amount resulting in a revenue shortfall of approximately \$97.0 million. Fortunately, a number of factors helped mitigate the property tax shortfall, including \$69 million in relief from the state, \$11 million in one-time property tax payments from two counties and \$7 million in excess student fee revenue, reducing the shortfall to \$10 million.

In addition to the \$10 million property tax shortfall, the system also experienced a structural deficit of approximately \$10.3 million. The total general deficit, therefore, equals \$20.3 million. Title 5 section 58779 provides that to the extent a deficit is caused by a revenue shortfall of either State or local resources, that deficit shall be mitigated by adjusting each district's entitlement by the ratio of total available revenue to the total unadjusted system entitlement. In other words, each district's total entitlement or Total Computational Revenue was adjusted proportionally using the deficit coefficient of 0.9964424564.

Growth - Districts reported \$129 million in *actual* growth (including \$7.6 million in growth for basic aid districts). The *2007-08 Budget Act* provides only \$97.5 million in state general fund for new growth. Normally, the Chancellor's Office would fund all growth up to the Budget Act amount and constrain (deficit) district growth appropriately. However, because of provision 9.5 of the *2007 -08 budget Act*, which requires the Chancellor's Office to first fund restoration if base dollars are not sufficient to meet restoration demand,

we transferred approximately \$31.5 million from growth to fund non-basic aid districts that restored prior year declines. This means, after adjusting for growth at basic aid districts, that only \$66 million remained available to fund the \$129 million in new growth.

This growth deficit is separate from the existing general deficit reduction. Reductions in a district's growth are determined by comparing the district's actual growth revenue to its revenue growth cap. Those districts with the largest percentage of growth above their growth revenue cap are the first districts reduced in any growth deficit scenario. The combination of growth in excess of the original growth appropriation and the transfer of funds from growth to base per provision 9.5 has resulted in an overall growth deficit of \$55.7 million.

Restoration – Restoration eligibility for 2007-08 has been calculated to restore previously un-restored declines from 2004-05 through 2006-07. Actual restored FTES provides restoration revenue equivalent to the revenue lost from the base during the three-year restoration window indicated above. Total restoration by districts in 2007-08 amounted to \$66.5 million out of a total eligible restoration potential of \$122 million. District stability payments in 2007-08 amounted to \$42.5 million. This 2007-08 stability amount will be added to the amount of eligible restoration not restored from the prior two fiscal years to become the amount of outstanding restoration eligible to be restored in 2008-09 or \$91.8 million (2005-06 = 23.7 million, 2006-07 = 25.6 million, and 2007-08 = 42.5 million).

Growth Rates –The factors used to calculate growth rates are (1) the district's rate of change in its adult population, (2) the change in high school graduation rates, (3) adjustment for underserved areas or FTES in new facilities, and (4) adjustment (if needed) to provide an initial growth rate of 1 percent before being constrained to the system's growth appropriation. The final growth rate will provide an increase of at least 100 FTES.

Exhibit D (Prior Year Adjustment): Exhibit D displays district payment adjustments for the fiscal year and are made as revenue adjustments to the 2008-09 P1 payment schedules.

Categorical Program 2007-08 Funding Adjustments will be published along with the 2008-09 P1.