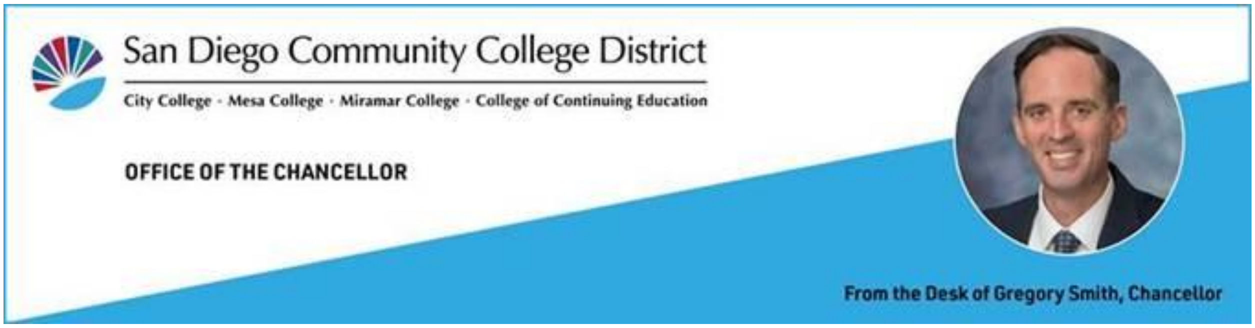
From: Gregory Smith <gsmith@sdccd.edu>
Sent: Wednesday, May 14, 2025 5:04 PM
Subject: Chancellor's Message: California 2025-2026 Budget - May Revision



May 14, 2025

The California Budget 2025-2026
The May Revision: Cautious Pessimism

Hello SDCCD Community,

This email contains detailed information about the Governor's January budget proposal. Here are some key takeaways:

- Revenues continue to exceed projections for the 2024-2025 fiscal year, but those are largely one-time revenues
- Fiscal estimates for 2025-2026 suggest a $12 billion state budget deficit
- COLA is revised down from 2.43% to 2.30% for the Student Centered Funding Formula and select categorical programs
- COLA would not apply to Strong Workforce or the Student Equity and Achievement programs
- Enrollment growth funding is proposed at 2.35%, a significant increase from the initial 0.5% proposed growth funding
- The proposed budget makes no assumptions about federal spending reductions

Governor's Budget Proposal Overview
Earlier today, Governor Gavin Newsom released the May Revision to the January Budget Proposal. Back in January, I described the budget as cautiously optimistic. The May Revision, while generally positive for K-14 education, certainly reflects deeper concerns about the economy and the state's fiscal condition over the next few years.

Much has changed in the global, national, state, and local economy since January. The dominant theme of the moment is volatility and uncertainty. The stock market has fluctuated significantly with threats of tariffs, pauses on tariffs, imposition of some tariffs, and negotiated reductions to tariffs. The fluctuations in the stock market will increase capital gains tax revenues in California in the short term as many large investors sold stocks as values began to decline, cashing in on gains in the value of stocks and moving investments to other places. Capital gains tax revenues, however, are one-time increases. As a result, the

May Revision deals with increased revenues cautiously, including a discretionary deposit of $376 million into the Public School System Stabilization Account (commonly referred to as the Proposition 98 Rainy Day Fund) in the 2025-2026 budget year on top of a mandated deposit of $1.2 billion in the 2024-2025 budget year.

Among the three state higher education systems, community colleges fare best due the Proposition 98 minimum guarantee. The University of California and California State University systems are proposed to have a 3% reduction in base funding (down from a projected reduction of 7.95% in January), while community college base funding is proposed to increase by the 2.30% COLA adjustment, equal to the COLA to be applied to K-12 funding.

Unfortunately, the disparity in per-student funding between the community college and K-12 systems would increase under the proposed budget. Proposition 98 directs 89.07% of revenues to K-12 education and 10.93% to community colleges. The split has not been revised to keep pace with changes in statewide enrollment. For the 2024-2025 academic year, current enrollment estimates are 5.5 million students in the K-12 system and 1.07 million in the community college system. This means community colleges are serving 19% of K-14 students but only receiving approximately 10.93% of the revenue. The May Revision proposes to shift $492 million in revenue over three years from the community colleges to the K-12 system to fully fund universal transitional kindergarten (TK), with a $233 million ongoing reduction to community college funding. While we support fully funding TK, taking funds from community colleges to do so only exacerbates the chronic underinvestment in California community colleges, the most diverse higher education system in the nation and the lowest per-student funded public education system in California.

The good news is the revised budget proposal fully funds the 2024-2025 Student Centered Funding Formula (SCFF) with a $210 million investment of one-time funds and the 2.30% COLA to the 2025-2026 SCFF with an ongoing increase of $104.7 million. The proposal increases funding for enrollment growth to $109.5 million, up from $30.4 million in the January proposal. The May Revision cuts the one-time investment of $168 million for a common ERP system from the January proposal and reduces the proposed $162 million investment of one-time funds in a common cloud data platform to just $12 million. The May Revision also reduces one-time investments in the Career Passport proposal and Credit for Prior Learning program. Finally, the revised budget proposal reduces funding for the Rising Scholars program from $30 million to $10 million.

Local Impact
Overall, the proposed budget is welcome news for the San Diego Community College District in a time of fiscal volatility and a statewide budget deficit projected for 2025-2026. The COLA will ensure we have additional revenues to cover increases in employee salaries and benefits and operational expenses. The growth funding will ensure we can continue increasing enrollment opportunities for our local communities.

SCFF and Categorical COLAs
The 2.30% COLA to the SCFF will add an estimated $7.5 million to the District's base revenue under the SCFF. The additional revenue would be distributed in accordance with the Resource Allocation Formula (RAF).

The COLA will apply to categorical programs including Adult Education, EOPS, DSPS, Apprenticeship, and CalWORKs, but does not apply to Strong Workforce or the SEAT program.

Advocacy
The May Revision is somewhat disappointing as it does not address several areas of significant advocacy for the community college system and our District. Enrollment growth in our District and across the system has exceeded allocated funding in 2023-2024 and 2024-2025. We have advocated for additional revenues to fully fund prior and current enrollment growth, which are not included in the May Revision. The Strong Workforce program was reduced by $60 million last year, a $12 million reduction for our region, and those funds are not backfilled. Finally, given the threats to cuts in federal funding and impacts of environmental disasters for Los Angeles-area districts, we have advocated for a flexible block grant for community colleges, which was not included in the May Revision. The shift of nearly $500 million from community colleges to fund TK prevents these important investments from being made and will be a center point of advocacy before the budget is finalized in June.

In Conclusion
The May Revision continues to demonstrate the state's commitment to funding public education. However, there are concerning trends in the world, U.S., and state economy that could impact community college funding negatively in the years ahead. Real Gross Domestic Product in the United States declined 0.3% in the first quarter of 2025, the first decline since 2022. The full impact of tariffs, reductions in federal employment and services, and related disruptions are unknown. If the economy shrinks again in the second quarter, the U.S. economy will be in a recession. If the federal government cuts funding to California and other states, we will experience much more significant budget challenges in the next year. Fortunately, our District has restored its financial position and will likely end the 2024-2025 fiscal year with nearly $80 million in our general fund unrestricted reserve and flexibility to meet short-term financial needs. Prudent planning and action will ensure we continue to serve our communities and persist through whatever challenges may lie ahead.

SAN DIEGO Community College District | Be. Belong. Become.

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