

COMMUNITY COLLEGE UPDATE

Copyright © 2019 School Services of California, Inc.

Volume 39

For Publication Date: May 17, 2019

No. 10

LAO Recommendations on CalSTRS Rate Relief and SCFF Hold Harmless

In its *Analysis of the May Revision Education Proposals* report, the Legislative Analyst's Office (LAO) selects certain proposals in the Governor's 2019-20 May Revision for deeper analysis. Of greatest interest to community colleges is the LAO's analysis of the Governor's proposed reductions to the California State Teachers' Retirement System (CalSTRS) employer contribution rates and the Governor's proposal to extend the Student-Centered Funding Formula (SCFF) hold harmless provision.

CalSTRS Employer Contribution Rates

In response to the Governor's proposal to add \$150 million to his January proposal of \$700 million to buy down the CalSTRS employer contribution rates, the LAO cites that this proposal is being made at a time when school and community college funding is at a historically high level and growing. The LAO acknowledges that the pension contribution rate increases pose a real fiscal challenge for local school agency budgets, but that the challenge would be more significant if a recession occurred.

The LAO stays with its January recommendation to set the proposed funding aside but not reduce the CalSTRS employer contribution rates until a recession occurs. The LAO believes that relief from the contribution rate increases will be needed more during an economic downturn to assist with fiscal stability.

In the meantime, today the Senate Budget Subcommittee #4 on State Administration and General Government took action to shift some funds away from the Governor's May Revision proposal in order to provide additional CalSTRS contribution rate relief for employers as well as some relief from the increasing employer contributions to the California Public Employees' Retirement System.

SCFF Hold Harmless

Given the Governor's May Revision proposal to extend the SCFF hold harmless provision for another year, through 2021-22, the LAO opines that it's too early to determine whether another year of the hold harmless provision is really necessary. This is in light of the other proposals in play to provide more stability for community colleges in the early years of the SCFF implementation (such as maintaining the current split between the different types of SCFF allocations).

The LAO opines that there is no strong rationale for acting now to extend the hold harmless provision beyond the initial three years provided in statute. Once stakeholders work through this year to consider changes to the SCFF for the 2020-21 budget, the LAO recommends that extending the hold harmless provision should be considered at that time, especially since another year of the hold harmless provision comes at a cost to the state.

Conclusion

These proposals and many others are currently under consideration by both houses of the Legislature, so many things can happen between now and the time the Legislature approves a budget package to send to the Governor next month. Stay tuned . . .

—Sheila G. Vickers