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COMMUNITY COLLEGE UPDATE

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Lessons from the Great Recession

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History has shown us that the economy is cyclical over time—it ebbs and flows. And, starting with former Governor Jerry Brown, our state policy makers have been warning us that the recovery from the Great Recession has been the longest in recorded history, and that a recession could be just around the corner.

Although never anticipated to happen so precipitously, all indications are that the COVID-19 pandemic is pushing us into a recession—worldwide, nationwide, and statewide. Our state policy makers are now saying that the State Budget for the coming year will be a workload budget—not only due to the lack of opportunity to vet proposals as usual due to suspension of this legislative session, but also because there will be fewer resources available. (For more information on the workload budget, see "DOF Planning for Workload Budget in 2020–21" in the March 2020 *Community College Update*.)

As we move into recession territory once again, there is much to learn from the past. Many of our current local community college administrators were also leaders during the Great Recession, but many were not. Either way, we at School Services of California Inc. (SSC) thought it would be helpful to dredge our Community College Update articles from the time of the Great Recession to help us all get prepared with what may happen as reduced state revenues are dealt with by Governor Gavin Newsom and our Legislature.

As our state policy makers grappled with the reduced state revenues during the Great Recession, here are some of the solutions they implemented in the state budgets for the community college system during those years:

1. Not funding the statutory cost-of-living adjustment (COLA) on apportionments and categorical programs, which added up to approximately 15% in foregone COLAs

2. Deferring (delaying) cash apportionments to community colleges, some within the same year and some to the next year, to the tune of over 25% of total apportionments—almost $1 billion

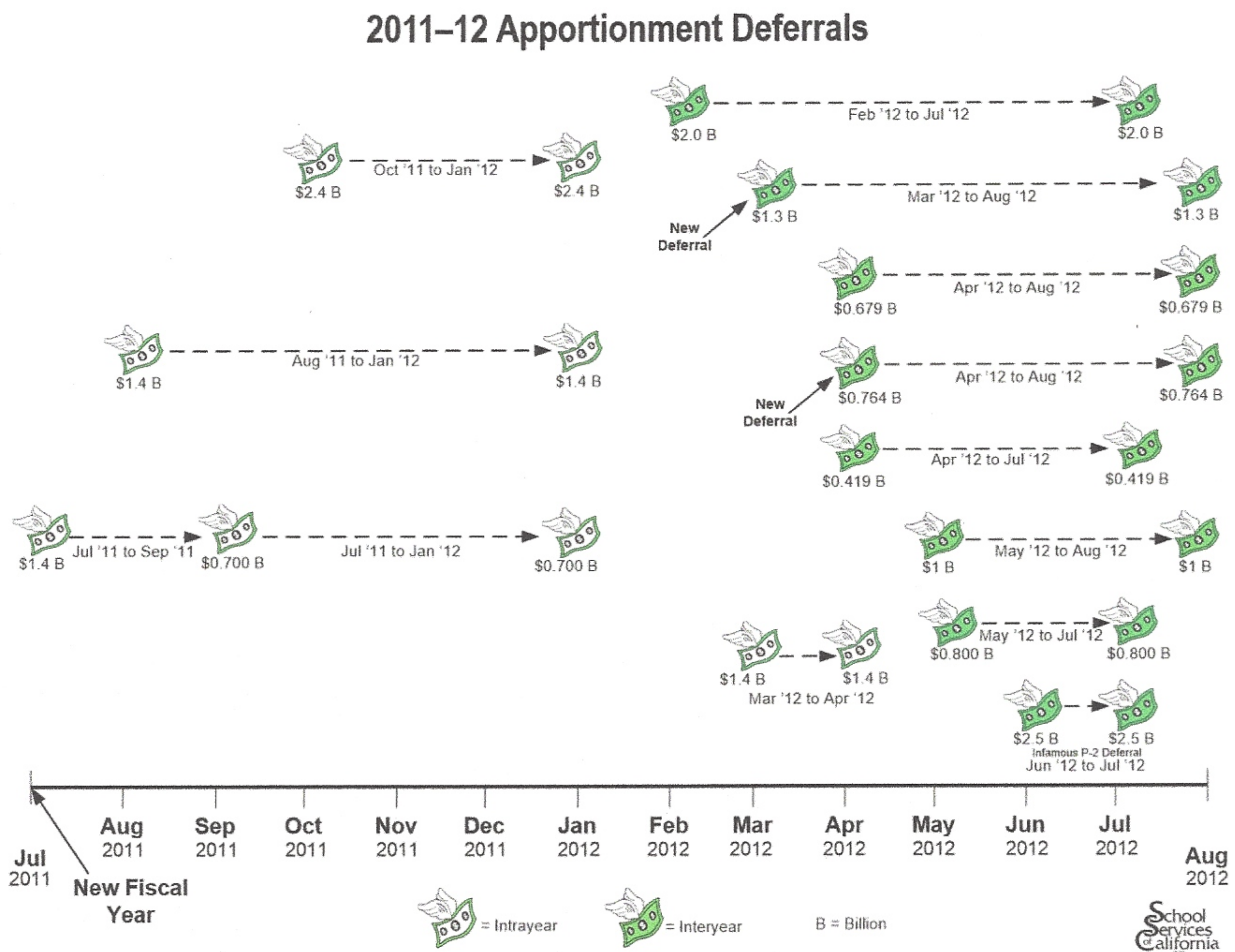
3. Cutting apportionment funding and categorical funds by almost 20%

4. Reducing workload, and constraining funding for enrollment growth far below the system's level of actual growth

5. Increasing student credit enrollment fees from $26 per unit to $36 per unit

6. Deferring reimbursements for state-mandated programs—which still continues to this day, to a lesser degree

We at SSC created a visual depiction of the cash deferrals that the state imposed during the Great Recession, which caused local community colleges to bear the brunt of the borrowing costs to make ends meet. This is the illustration of cash deferrals at the peak of $961 million in 2011–12:



An additional $9.5 billion in cash deferrals were imposed on K-12 school districts during this time. In essence, the state pushed its cash flow issues to all of the local school and community college districts, who were required to borrow significant amounts of money—and to pay those borrowing costs—just to have cash to pay employees and to fund other operating costs. Coming out of the Great Recession, the cash deferrals were eliminated over a number of years, with the last deferral having been eliminated in the 2014–15 fiscal year.

Along with the funding cuts and deferrals of the Great Recession, the governor and the legislature at the time were able to agree on language that provided community colleges with temporary flexibility to transfer funds from certain categorical programs to their general fund, provided that the transfers were sunshined in public hearings. Also, during the Great Recession the Board of Governors determined that adequate funds were not available each year to cause an increase in the full-time faculty obligation for the community colleges, eliminating the pressure to increase staffing during that time.

Even with the temporary flexibility above, community colleges found it necessary to implement massive cuts in class schedules and program offerings, at a time when student needs for building knowledge and skills, earning certificates and degrees, and retraining were much greater because of the tight job market. As a result, droves of part-time faculty were no longer needed. Many colleges reduced employer contributions to health benefits, laid off regular staff, reduced hours, and implemented unpaid furlough days. These draconian actions were required because the cuts and deferrals were so significant, and because most of the local community college budget is made up of people.

As we emerged from the Great Recession, the purchasing power of community colleges was more than 30% below what it was in 2007-08, the year before the recession began. While the cuts to the community college system have been restored in the years after the Great Recession, they have been distributed somewhat differently among programs and community college districts. However, other financial challenges have arisen along the way, such as declining student enrollment and increasing pension contributions. From this perspective, community college funding already starts out behind the curve as we face the coming recession.

Moving Forward

For community colleges that haven't already, it's time to prepare for the potential impact of a recession on local budgets and operations. We do not know how serious it will be, nor do we know how long it will last. But we all need to draw on the experience of those that were around during the Great Recession and implement the policies of the past that worked to keep us solvent. There will also be strategies that weren't used then but could be helpful now. As your partners in this, we at SSC will continue to keep you informed and provide our best advice.