

From: Skinner, Erik
Sent: Thursday, August 05, 2010 2:04 PM
Subject: Budget Update--August 5, 2010

Dear Colleagues:

Last night, the Budget Conference Committee completed its work on the education budget, adopting the recently unveiled Democratic plan in a series of votes. As expected nearly every vote was split along partisan lines.

For the California Community Colleges, the actions were consistent with the details provided in my August 4 budget update:

- ✓ \$126 million for enrollment funding (2.21 percent)
- ✓ Reject negative COLA (\$23 million)
- ✓ \$35 million to backfill one-time federal ARRA funding (directed to categorical programs)
- ✓ \$25 million augmentation for the Economic and Workforce Development program to support workforce training enrollments
- ✓ Reject Governor's proposed \$10 million cut to EOPS
- ✓ Reject Governor's proposed \$10 million cut to Part-Time Faculty Compensation
- ✓ Reject Governor's proposed \$20 million augmentation for SB 70 CTE programs
- ✓ Reject Senate's proposed language to revise Basic Skills categorical funding formula
- ✓ Establish Joint Powers Authority (JPA) to accelerate repayment of mandated cost reimbursements.

At last night's hearing, new details were provided in regards to the mandate proposal. Language explaining the mandate reimbursement JPA is attached to this update. This mechanism could help community college districts to access over \$380 million in overdue mandate reimbursements, providing a welcome infusion of one-time funds. In addition, the Committee voted to suspend or modify a number of K-12 and CCC mandates. For the colleges, the Committee voted to suspend two mandates: Law Enforcement Jurisdiction Agreements and Integrated Waste Management (recycling). If these mandate suspensions are enacted into law, the effect would be to free colleges from the related programmatic requirements for one year and also to free the state of any obligation to cover related costs incurred during that same period.

With the Conference Committee closing out its actions, the stage is set for the next steps in this year's budget battle. While we anticipate that these steps will include floor votes on the Democratic plan as well as Big 5 meetings among legislative leaders and the Governor, no specific timeframes have been announced at this time. More updates to follow.

Regards,

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**Education and Local Government Mandate Securitization
Establishment of Joint Powers Authority**

Background: The State of California owes school districts as well as counties, cities, and special districts reimbursement for past mandate-related costs that must be paid, with interest. This proposal will enable the local governments to accelerate the receipt of those funds, without any additional debt burden to the state.

The state's current obligations are:

- Through the budget year, the state owes school districts over \$1.6 billion in mandate costs which—pending court-ordered settlement—may grow to as much as \$4 billion.
- The state currently owes counties, cities, and special districts over \$931 million in past mandate-related costs that must be paid, with interest, by 2020-21.

This Proposal: This proposal provides a mechanism for school districts and local governments to receive the full amount of their mandate obligation in 2010-11, providing significant one-time financial relief. This would be accomplished by establishing a Joint Power Authority (JPA) that would allow school districts and local districts to opt-in to get immediate repayment of their mandate obligations this year. The mechanism would be similar to last year's successful JPA program for local governments that allowed them the ability to accelerate the \$2 billion from last year's Prop 1A suspension.

Under the proposal:

- School districts and local governments would assign their annual mandate payments to the JPA.
- The JPA would then pledge to sell securities to outside investors with the proceeds of the sale going immediately to participating school districts and local governments.
- The state would make its annual payments for past mandates which would be sufficient to pay-off principal and interest on the securities.

The Legislature would enact a continuous appropriation to make the annual past mandate payments. These payments would not make the state's General Fund condition worse, since they would count toward meeting the annual Prop 98 minimum obligation. By establishing the ability for local governments to accelerate the receipt of past mandate costs, the state is able to provide financial relief to school districts and local governments without increasing total state debt.