

Dear Colleagues:

Since my last update, there has been a flurry of activity in the state budget process. I want to take a few minutes to bring you up to speed on the most significant developments. The bottom line is that several different budget proposals have been released, leading to renewed budget discussions and deliberations. It will likely take the next couple weeks for the dust to begin to settle.

Legislative Analyst Responds to Governor's May Revision

On May 18, the Legislative Analyst's Office released its analysis of the Governor's May Revision. The LAO recommends rejection of two of the Governor's more controversial proposals—the elimination of CalWORKs and drastic reduction in child care programs. Instead, they recommend alternative spending reductions as well as revenue increases in order to close the \$19.1 billion budget gap. Highlights include:

- Due to a slightly more optimistic economic forecast, LAO estimates state revenues will be approximately \$1.4 billion higher than estimated by the Administration (\$400 million in 2009-10 and \$1 billion in 2010-11).
- LAO recommends that the Legislature Suspend Proposition 98. This proposal is primarily intended to eliminate legal uncertainty about the Proposition 98 minimum funding guarantee, rather than to create state budget savings. LAO provides a number of options under which the Legislature could provide various levels of funding for K-12 schools and community colleges.
- For the community colleges, LAO recommends reducing funding for Physical Education courses. Rather than reduce the funding rate for PE courses, as they have proposed in the past, this time LAO proposes limiting the amount of PE instruction by imposing district-level caps on the amount of FTES that can be claimed in PE. As part of this proposal, community college apportionments would be reduced by \$150 million. LAO estimates that this would result in a statewide reduction of 50 percent in PE instruction.

In response to this proposal, we have argued that the \$120 million in workload reduction that was included in the current year community college budget was aimed at reducing lower priority courses outside the areas of basic skills, CTE, and transfer and that is what the colleges are currently in the process of doing. It would thus be unfair and premature to cut the community colleges a second time, since it will not be until early fall that we have complete data on which course offerings were cut in 2009-10. While LAO's new PE proposal has not gained much traction since its release, it reflects the continued scrutiny that we will face concerning how we use our FTES funding. If the Legislature is forced to cut Proposition 98 spending, it is possible this proposal could gain steam.

- In addition, LAO continues to recommend that community college student fees be increased to \$40 per credit unit with the resulting revenues dedicated to: 1) funding 2.21 percent enrollment growth (thus saving the state \$126 million in General Fund resources compared to the Governor's budget); and 2) rejecting the Governor's proposal for a negative 0.38 percent COLA (at a cost of \$23 million). At this point, the fee increase proposal has not received much support in the Legislature. However, it is common for community college student fees to be a late hour negotiation as the overall community college budget package comes together.

- LAO recommends that the Legislature consider new revenue options, including: 1) extending temporary tax increases and delaying tax breaks adopted in February 2009; 2) eliminating certain tax credits, exemptions, and deductions; 3) increasing fees, including those paid by community college students; and 4) increasing targeted taxes (Vehicle Licensing Fee and alcohol tax).

Assembly Speaker Unveils “California Jobs Budget”

On May 25, Assembly Speaker John Perez unveiled a “California Jobs Budget” representing Assembly Democrats’ plan to close the budget gap while also promoting job growth. The centerpiece of the proposal is a complex \$10.1 billion financing scheme that relies on borrowing against a future stream of oil severance tax revenues. The plan calls for using these funds to protect education and social services from deeper cuts while also making targeted investments to spur economic recovery. The single largest component is a proposed augmentation of \$5.9 billion in Proposition 98 funding (key community college features are outlined in the Assembly Budget Actions, in the next section). The Speaker’s Office estimates that this plan would preserve and create over 465,000 jobs.

Senate and Assembly Budget Actions

Late last week, the Senate and Assembly budget committees each took actions to close out their respective budget packages. In both houses, budget packages were adopted on partisan votes. These budget plans will now proceed to the Conference Committee for further deliberation. For the community colleges, highlights include:

Senate:

- ✓ \$126 million for enrollment funding (2.21 percent)
- ✓ Rejected negative COLA
- ✓ Rejected Governor’s proposed \$10 million cut to EOPS
- ✓ Rejected Governor’s proposed \$10 million cut to Part-Time Faculty Compensation
- ✓ Rejected Governor’s proposed \$20 million augmentation for SB 70 CTE programs
- ✓ Redirected \$3.8 million in Basic Skills categorical funds to establish a pot of incentive funding for districts that increase completion rates in Basic Skills courses.
- ✓ Modified funding formula for Financial Aid Administration categorical dollars to be based on number of Pell Grant recipients rather than BOG Waiver recipients.

Assembly:

- ✓ \$129 million for enrollment funding (2.26 percent)
- ✓ \$100 million augmentation for the Economic and Workforce Development program to support workforce training enrollments
- ✓ Rejected negative COLA
- ✓ \$35 million to backfill ARRA funds (allocated as an across-the-board adjustment to categorical programs)
- ✓ \$383 million in one-time funding to fully pay the backlog of community college mandate claims (an additional \$983 million is provided for K-12 mandate claims)

Conference Committee to Convene

On Thursday, June 3, the Joint Legislative Budget Conference Committee will convene to begin its work of reconciling the Senate and Assembly budget proposals. In a process that will likely take the next two to four weeks, committee members (three Democrats and two Republicans from each house) will plod methodically through the budget, resolving each difference. Testimony is limited to staff from the Department of Finance and the Legislative Analyst's Office. The work of advocates takes place behind the scenes in meetings with members and staff as well as through letter, email, and phone call campaigns.

Today, Senate leader Darrell Steinberg announced the Senate Conferees: Senators Denise Ducheny; Mark Leno; Alan Lowenthal; Bob Dutton; and Bob Huff. The Assembly Speaker has not yet released the names of the Assembly conferees. If convention holds, the following Assemblymembers are likely to be among those named as conferees: Bob Blumenfield (Budget Committee Chair); Felipe Fuentes (Appropriations Committee Chair); Jim Nielson (Budget Committee Vice Chair); and Connie Conway (Appropriations Committee Vice Chair).

More updates will follow as the situation develops.

Regards,

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