

SYSTEM BUDGET UPDATE

5.1

INFORMATION AND REPORTS

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Issue

This item presents an oral briefing on the System Budget. The update will cover both the status the *2008-09 State Budget*, including developments in the recent special legislative sessions to address the state's fiscal crisis, as well as details of the newly released *2009-10 Governor's Budget*.

Background

Since November 6, 2008, when the Governor first declared that California is in a fiscal emergency, there have been two special legislative sessions to address the problem. Current estimates of the state's budget shortfall have risen to \$41 billion for the 2008-09 and 2009-10 fiscal years, combined. To date, no budget solutions have been implemented. At the time that this agenda item was drafted, a set of budget trailer bills intended to address roughly half of the budget problem has been passed by the Legislature and awaits action by the Governor. However, the Governor has indicated that he intends to veto those bills. Given these circumstances, great uncertainty remains regarding the 2008-09 budget.

Under the State Constitution, the Governor's Budget is presented to the Legislature annually on or before January 10. At the time this item was written, no information was available about the Governor's budget proposal for 2009-10. However, the verbal update will include an overview of that proposal as well as some initial analysis.

Analysis

Below is an overview of recent activity in the state budget process.

Legislature Passes Budget Package

On December 18, Democratic leaders in the Senate and Assembly succeeded in passing a budget package closing \$18 billion of the state's \$41 billion budget shortfall. The package included

\$7.3 billion in budget reductions, including \$2.5 billion in mid-year cuts to schools and colleges funded under Proposition 98. In addition, the package would have generated \$9.3 billion in new revenues through a variety of complex maneuvers designed to avoid a two-thirds vote requirement. The package also included approximately \$1.5 billion in funding shifts and accounting tricks.

The \$7.3 billion in spending reductions extended to virtually all sectors of the state budget, including education, health, social services, local law enforcement, and transportation.

The package included \$157 million in cuts to the California Community Colleges, as follows:

- COLA (0.68 percent) \$39.8 million
- Enrollment Growth \$13.8 million (leaving \$99.8 million)
- Mandate payments \$4 million
- Reductions to “workload” categorical programs \$96 million (see chart)
- Unused prior-year funds \$3.6 million
- Funding for “non-workload” categorical programs was not cut
(Basic Skills, Disabled Students, Matriculation, EOPS, CalWORKs, Financial Aid Administration)

Non-Workload Categorical Programs	2008-09 Budget Act	Mid-Year Cut	Remaining Funds
<i>(dollars in millions)</i>			
Fund for Student Success (Puente, Middle College High School, MESA)	\$ 6.2	\$ 1.2	\$ 4.9
Foster Care Education	5.3	1.1	4.2
Apprenticeship	14.6	3	11.7
Academic Senate	0.5	0.1	0.4
Equal Opportunity Program	1.7	0.4	1.4
Part-Time Faculty	1	0.2	0.8
Part-Time Faculty	50.8	10.3	40.5
Part-Time Faculty	7.2	1.5	5.7
Telecommunications And Technology	26.2	5.3	21
Economic Development	46.8	9.5	37.3
Transfer Programs	1.4	0.3	1.1
Physical Plant/Instructional Equipment	27.3	27.3	0
Career Technical Education (SB 70)	20	20	0
Childcare Tax Bailout	6.8	1.4	5.5
Nursing	22.1	4.5	17.6
CAHSEE Grants	10	10	0
Total	\$ 243	\$ 96	\$ 147

The CCC budget package **did not** contain the following two changes that had been proposed by the Legislative Analyst’s Office: 1) the reduction in funding rates for certain physical education courses; and 2) a mid-year student fee increase.

Clearly, the magnitude of the cuts outlined above would have been extremely challenging for community college districts to accommodate midway through the fiscal year. Many of the enacted cuts would have impacted activities that are already underway and for which staffing and funding commitments have already been made.

However, it is noteworthy that the community college cuts were less than half the \$332.3 million originally proposed by the Governor at the beginning of the special session. In addition, cuts would have been directed away from general purpose funds and towards categorical programs in order to preserve the flexibility of districts in responding to mid-year cuts. These improvements over earlier special session budget proposals were evidence that state budget makers had listened to the community college advocates and understood the important role that the community colleges play in helping the California economy rebound.

The new revenues generated by the package included:

- State sales tax increase of three-quarters of a percent (\$4.9 billion through the 2009-10 fiscal year)
- 2.5 percent surcharge on state income tax bills (\$1.75 billion through the 2009-10 fiscal year)
- Oil severance tax of 9.9 percent on all oil extracted from the ground in the state (\$845 million through the 2009-10 fiscal year)
- Current gas sales and excise taxes eliminated and replaced with higher gas “fees.” The net effect is an increase of 13.5 cents per gallon at the pump currently pay. New funds earmarked for transportation spending.
- 3 percent withholding tax collected by businesses for payments to general contractors

During floor debate, Republican legislators were highly critical of the new revenue proposals, calling into question their legality. By structuring revenue generating mechanisms as “fees” rather than “taxes” Democrats attempted to circumvent the constitutional requirement for a two-thirds vote to raise taxes. Assembly Republican leader Mike Villines said he did not believe the plan was legal, calling it “raising taxes on people and playing funny math and calling it fees.” It is likely that had the revenue options been enacted, that the legality of the new revenue measures would have been challenged in the courts.

Governor Plans to Veto Budget Package

Late on December 18, the Governor held a press conference to announce that he would veto the recently passed special session budget package. During the press conference, the Governor identified a number of flaws, but focused primarily on the lack of an “economic recovery package.” When questioned, the Governor described the need for CEQA reforms and expanded public-private infrastructure initiatives in order to spur economic recovery.

In his statements, the Governor did not focus on the “budget-related” features of the package, including the specific cuts or revenues that were included. His only comments in regards to these issues were on the need for additional cuts in welfare programs and expanded authority to furlough state workers. The Governor made no mention of demands for additional cuts in education.

At a subsequent press conference, the Governor announced his plans to declare a fiscal emergency for a third time. Doing so will trigger a third special legislative session and begin a new 45-day clock for the Legislature to take action. At this time, it is unclear whether the Legislature will return immediately to Sacramento to work on the budget or wait until the new year.