

SYSTEM BUDGET UPDATE

4.1

INFORMATION AND REPORTS

Presentation: Erik Skinner, Vice Chancellor, Fiscal Policy

Issue

This item provides a briefing on the System Budget. The update will cover the status of the State Budget for 2008-09 and 2009-10, including recent legislative deliberations.

Background

The State of California continues to wrestle with a major fiscal crisis rooted in a longstanding structural budget imbalance made worse by a precipitous drop in state revenues linked with the worldwide economic collapse. On May 14, Governor Schwarzenegger released an overview of the May Revision, which revealed his blueprint for solving the state's budget shortfall. The Legislature then convened a Joint Legislative Budget Conference Committee to consider the May Revision proposal and develop a proposed state budget. On Tuesday, June 16, the Conference Committee finalized its actions related to the 2008-09 and 2009-10 state budgets. At the time this *Agenda* item was written, the State Senate and Assembly are in the midst of a third day of floor debate on the Conference Committee budget plan.

Analysis

For the California Community Colleges, the conference package contains \$630 million in cuts and \$115 million in funding deferrals. The major change compared to the Governor's May Revision is the addition of \$210 million in new revenues (\$80 million from a student fee increase and \$130 million from federal stimulus funds). The committee's spending plan utilizes these new revenues to reduce cuts to categorical programs by \$140 million and cuts to general apportionments by \$70 million. The specifics are as follows.

Current Year (2008-09)

- Defer \$115 in apportionment payments from fiscal year 2008-09 to fiscal year 2009-10.
- \$85 million in unallocated cuts.
- A \$42.1 million local property tax shortfall with no backfill.

Budget Year (2009-10)

- Increase student fees to \$26 per credit unit effective fall 2009 (raises \$80 million in revenues used to mitigate cuts to categorical programs and general apportionments).
- Allocate \$130 million in federal stimulus funds to backfill community college cuts (one-time funds).
- Eliminate 3 percent enrollment growth, cut of \$175.2 million (leaves no growth funding)
- \$193 million in cuts to categorical programs (this is the net reduction after accounting for a backfill of \$140 million in federal funds and student fee revenue). Cuts vary by program:
 - No cuts: Student Financial Aid Administration, Foster Care Education
 - Approximately 16 percent cut: CalWORKs services, Basic Skills, DSPS, EOPS, CARE, Fund for Student Success, Nursing
 - Approximately 20 percent cut: Telecommunication/Technology
 - Approximately 32 percent cut: Academic Senate, Apprenticeship, Child Care Tax Bailout, Economic Development, Equal Employment Opportunity, Transfer Education and Articulation, Matriculation, Part-time Faculty Compensation, Part-time Faculty Health Insurance, Part-time Faculty Office Hours
 - Elimination: Physical Plant/Instructional Equipment, California High School Exit Exam, Senate Bill 70 Career Technical Education (CTE) funding (\$38 million appropriated in Senate Bill 1133 remains intact)
- Provide categorical flexibility for districts. Specifically, districts would be able to redirect funds from any of the categorical programs subject to the 32 percent reduction (see above) to support any other categorical program funded in the state budget. Before exercising flexibility, districts would be required to discuss the redirection of funds at a regularly scheduled public meeting. This flexibility applies to fiscal years 2009-10 through 2012-13.
- Reject May Revision proposal to lower the funding rate for Physical Education courses to the noncredit rate. Instead, approve an unallocated \$120 million reduction to community college general apportionments (\$70 million of this reduction is then backfilled with new revenues).
- Authorize adjustments to base workload measures commensurate with reductions in general apportionments. This will reduce base workload expectations for purposes of apportionment calculations and make it easier for districts to make necessary cuts to

course sections. Language states intent that reductions in course sections, to the greatest extent possible, be achieved in areas other than basic skills, CTE, and transfer.

- A \$116.7 million local property tax shortfall with a partial backfill of \$63.3 million.
- The committee does not incorporate the Governor's proposal to suspend the 50 Percent Law and 75/25 requirements for five years.
- The conference package also rejects the Governor's proposal to eliminate new Cal Grant awards. It does include, however, some cost savings beginning in 2010-11 by freezing income eligibility for Cal Grant A and reducing Cal Grant private awards by 5 percent.

In recent days, the State Senate and Assembly have debated the Conference Committee budget plan in floor session. These deliberations have been dominated by partisan arguments typical of the budget debates that have been held throughout this budget crisis. On June 24, the Conference Committee budget package failed passage on largely partisan lines in both houses. Legislative leaders have indicated that floor sessions will be held daily, including weekends, in order resolve the budget impasse.

This item will include an oral briefing on the latest developments in the budget process.