



Digest

CONSULTATION

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Title: State Budget Update
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Issue

This digest provides an overview of recent activity regarding the State Budget. At Consultation Council, Vice Chancellor Erik Skinner will provide an update on the most recent developments in the state budget process.

Background

On November 6, Governor Schwarzenegger declared a fiscal emergency, thus triggering a special session of the Legislature to address the state's current-year budget problem. Here are the highlights of the Governor's declaration:

- The Governor identifies a current-year revenue shortfall of \$11.2 billion. In addition, he projects a \$13 billion shortfall for 2009-10 if no corrective action is taken.
- The Governor's proposal to balance the budget includes a total of \$9.2 billion in new solutions--\$4.5 billion in cuts to current-year spending and \$4.7 billion in current-year tax increases.
- For the community colleges, the Governor proposes \$332.2 million in current-year reductions. These include:
 - Elimination of the 0.68 percent COLA for apportionments provided in the 2008-09 State Budget (\$39.8 million)
 - \$292.4 million reduction to apportionments.
 - Flexibility for districts to redirect categorical monies to the district general fund. This flexibility would be limited to the amount of the apportionment reduction. In addition, districts would be required to hold public meetings in regards to any such redirections.
 - The Governor stated his expectation that districts would take steps to protect course offerings in the areas of transfer, basic skills, and CTE.

All these proposed changes would require passage by the Legislature and approval by the Governor. To date, budget negotiations between the Governor and legislators have failed to deliver a workable plan to balance the budget. The end of the current legislative session on November 30 creates an immovable deadline for state leaders to enact a budget solution if they hope to do so before a new batch of legislators are sworn in.

On November 11, the Legislative Analyst's Office (LAO) released an overview of the Governor's special session budget package in which they analyze the Governor's proposed budget solution and also provide additional budget options for the Legislature to consider.

In general, LAO concurs with the administration's economic and budget estimates. The Governor had pegged the two-year shortfall at \$24.2 billion--\$11.2 billion in 2008-09 and \$13 billion in 2009-10. LAO estimates the shortfall at \$27.8 billion, attributing the difference in these projections to updated caseload and expenditure estimates.

LAO praises the Governor for taking a "balanced" approach that includes additional revenues in addition to further cuts. LAO generally concurs in the Governor's proposals for increased taxes, but also recommends that additional revenues be raised by a partial restoration of the Vehicle Licensing Fee--a tax increase that the Governor did not include in his recent proposal.

In regards to funding for schools and colleges (Proposition 98), LAO offers a proposal that is significantly different from the Governor's. To begin with, LAO's recommendation is weighted less toward mid-year cuts and instead identifies larger budget reductions for 2009-10. While the Governor proposes \$2.5 billion in midyear cuts, LAO proposes \$1 billion. For 2009-10, LAO recommends \$2.25 billion in reductions compared to the Governor's proposed reduction of \$700 million.

In addition, LAO recommends rejection of the Governor's proposed reduction in general purpose apportionment funds for schools and colleges and instead recommends targeted cuts. Below are LAO's specific recommendations related to the community college budget:

Current Year, 2008-09

- Eliminate the 0.68 percent COLA provided in the 2008-09 State Budget. This proposal would generate \$39.8 million in savings to the state.
- Increase the credit fee to \$26 per unit (up from \$20 per unit), effective January 1, 2009. LAO estimates that this proposal would generate \$40 million in the current year; all of these funds would be used to generate cost savings to the state.
- Reduce funding for "certain credit-bearing physical education courses (such as pilates, racquetball, and golf)" to the regular noncredit rate. LAO estimates that this proposal would generate \$60 million in cost savings to the state.

Budget Year, 2009-10

- Further increase the credit fee to \$30 per unit, effective July 1, 2009. LAO estimates that this proposal would generate \$120 million in the budget year; all of these funds would be used to generate cost savings to the state.
- Apply the regular noncredit funding rate to additional "enrichment courses (such as ballroom dancing, drawing, and photography)." LAO estimates that this proposal would generate \$200 million in cost savings to the state.

Whether or not the current Legislature will pass any budget revisions before their term comes to an end on November 30 is very much up in the air at this point. Many folks in the Legislature appear very skeptical about the chances of a deal coming together. However, the magnitude of the state's fiscal crisis is so large that state leaders will feel great pressure to do something.

As of the writing of this digest (November 12), the Legislature has not yet held any special session hearings. The Assembly Budget Committee will hold a hearing on Friday, November 14 to debate the Governor's special session proposal. The Senate has no special session hearings scheduled.

A full update on recent developments in the budget process will be provided at Consultation Council.