

Dear Colleagues:

Early this morning, after 45.5 hours in “lockdown,” the State Senate finally broke its impasse and approved a budget package addressing the state’s fiscal crisis. The Assembly passed the budget package shortly thereafter, sending it to the Governor for signature. The package covers both the current year (2008-09) and the budget year (2009-10) and contains significant budget cuts and new taxes impacting every sector of the budget and giving every constituency something to hate. The package is in most respects identical to the one described in my update from February 15—all the community college provisions are identical to the February 15 update.

The crucial 27th vote in the Senate was cast by Senator Abel Maldonado. He had been holding out while negotiating with Governor Schwarzenegger and Democratic legislative leaders. In exchange for Senator Maldonado’s vote, the budget package was modified as follows:

- Constitutional amendment to establish an open primary system (will go before the voters in 2010)
- Constitutional amendment to prohibit pay increases for legislators while the state has a budget deficit (will go before the voters)
- Elimination of the proposed gas tax increase and the personal income tax surcharge
- Increase in personal income tax rates (to replace revenue lost due to elimination of gas tax and income tax surcharge)

Highlights of the budget package just passed by the Legislature are provided below.

\$41 Billion in budget solutions (2008-09 and 2009-10, combined):

- \$15.8 billion in expenditure reductions, including \$13.3 billion in cuts and \$1.8 billion in other reductions (delays, fund shifts)
- \$14.4 billion in temporary tax increases
- \$11.4 billion in borrowing
- \$1 billion reserve

Proposition 98 Cuts and Deferrals:

- Lowers Proposition 98 spending for the colleges and K-12 schools to \$50.7 billion in the current year (2008-09), a reduction of \$7.4 billion from 2008-09 Budget Act levels.
- The current year-reduction is accomplished by \$5 billion in funding swaps and deferrals and \$2.4 billion in program cuts.
- After accounting for deferrals and funding swaps, the budget package provides about \$700 million less in Proposition 98 funding in the budget year (2009-10) than provided for 2008-09.

California Community Colleges, current year (2008-09):

- \$39.8 million cut to eliminate the 0.68 COLA
- \$3.6 million reduction to capture unspent prior-year funds
- \$4 million cut to mandate payments
- \$340 million in apportionment funding deferred from January, February, March, and April to be repaid in July (this replaces the existing \$245 million deferral that was added to the community college budget in 2008-09). This new deferral is likely to be a permanent feature of our budget.

- Delay repayment of existing \$200 million June-to-July deferral, now to be repaid in October. This change is assumed to be permanent.

California Community Colleges, budget year (2009-10):

- No COLA
- \$185.4 million augmentation to fund 3 percent enrollment growth
- The budget does not include categorical flexibility provisions for the colleges
- The budget does not include student fee increases
- The budget does not include other policy changes that have been discussed in recent weeks (property tax shortfall protection, lowering funding rates for certain courses, etc.) Such policy proposals will be heard in policy committees or budget hearings during the Spring.
- The budget maintains funding for the Cal Grant program. The proposal to eliminate new Competitive Cal Grants was rejected.

\$14.4 billion in Tax Increases:

- Duration of taxes depends on passage of spending cap constitutional amendment.
- Sales tax: Increased by 1 cent on the dollar, through 2011-12
- VLF: Increased to 1%, through 2013-14 if cap passes (2011-12 if cap fails). Separate 0.15% VLF increase to pay for local law enforcement programs (saves General Fund \$600 million)
- 0.25 percent increase in the state personal income tax rate
- Reduction in Dependent Credit Exemption (Personal Income Tax) for 4 years if cap passes (2 years if cap fails)

\$11.4 billion in New Borrowing:

- \$5 billion from lottery securitization (requires voter approval in special election in May or June).
- \$5.9 billion from Revenue Anticipation Warrant sales
- \$400 million in loans and transfers from various special funds.

Spending Cap:

- Limits spending to rolling 10-year trend in revenues, amounts above the 10-year trend would go into the rainy day fund.
- Allows adjustment of the spending limit to accommodate new tax increases
- Money can be removed from the rainy day fund when revenues fall below amount needed to support a baseline budget
- Reduces the annual deposit from 3% to 1.5% (other 1.5% dedicated to education). 1.5% annual deposit ceases when fund is equal to 12.5% of revenues.
- Revenues above the trend line after the rainy day fund is full can be used for various one-time spending purposes, which can help balance the annual budget

Economic stimulus:

- Expanded Public Private Partnerships for transportation projects and corrections facilities
- Expanded use of design-build
- Meal break flexibility for employees

- CEQA exemptions for 8 specific projects
- Film/TV Production Tax Credit
- Small Business Hiring Tax Credit

Constitutional Amendments:

The following elements of the budget package will be placed on the next state wide ballot:

- Spending Cap (see above)
- Proposition 98. Addresses technical issue over the treatment of the maintenance factor in the Proposition 98 calculation. Ensures that colleges and K-12 schools will receive an additional \$9.3 billion in future years.
- Mental health funds (Proposition 63). Redirects a portion of these special funds to create General Fund savings.
- Early Childhood development funds (Proposition 10). Redirects a portion of these special funds to create General Fund savings.
- Open primary elections
- Prohibition on pay increases for legislators in during years in which the state has a budget deficit

This sprawling budget package is one of the most complex—both technically and politically—that the state has ever seen. Clearly, the budget package's many painful cuts will have significant negative impacts on Californians. The new taxes will put additional strain on households and businesses during these dismal economic times. However, despite these difficult consequences, a budget solution was long overdue and lack of action was beginning to risk profound, long-term damage to California's fiscal health and ability to access credit markets. This package puts in place substantial solutions that give some hope the California has, at least for the moment, stabilized its fiscal crisis.

This budget package, while it leaves the community colleges with significant challenges to tackle in the current and budget years, is a good one under the circumstances. It is clear that the state leaders who negotiated this budget deal placed a very high priority on protecting the capacity of the community colleges to meet surging enrollment demand. The relatively modest cuts to the community colleges and the provision of \$185 million in growth funds for the budget year are proof that state leaders value the indispensable role that the colleges are playing during these difficult times. While all the leaders deserve credit for this, we understand that Governor Schwarzenegger in particular was steadfast in his commitment to limit the cuts to community colleges.

The Governor has not yet reacted publicly to the passage of the overall budget package. However, all signals are that it will meet with his approval and be signed into law expeditiously.

To the extent this budget protects the colleges, credit belongs to all of you who made your voices heard in the budget process during the past several months. So many of you lobbied in the Capitol, met with your local legislators, sent letters to state leaders, and convinced local newspapers to cover community college issues. We were also fortunate to have had Chancellor Scott join us at this challenging time—his meetings and phone calls with state leaders were pivotal to this budget outcome. Lastly I would note the great teamwork among the corps of full-time community college advocates working in the Capitol who stayed on message and kept pushing in the same direction. All these efforts combined to ensure that state leaders were aware of the surging demand we are seeing on our campuses and the critical role the colleges are playing to help Californians pick themselves up.

While today's vote brings some temporary resolution to the budget process, I urge you to stay actively involved. The weeks and months ahead will present new challenges as the economy continues to sputter and, as a result, the state will face new fiscal challenges. As this occurs, we will need to be vigilant and active in order to continue to protect the capacity of the community colleges to serve Californians. For the moment, we will pause to take a breath and analyze the fine print in the budget package. But tomorrow we must begin preparing for the next round.