

Dear Colleagues:

The state budget process is once again in full gear. In reality it never slowed down after the passage of 2008-09/2009-10 budget package on February 19. Almost immediately, attention turned to the Federal Economic Stimulus package and how these resources will be used to help address California's needs by creating jobs, restoring programs, and balancing the state budget. Attention in the State Capitol is currently focused on the upcoming special session, a newly identified budget shortfall for 2009-10, and the massive infusion of new federal funds. There is a tremendous degree of interaction among these events. Propositions on the May 19 ballot will determine whether \$5.9 billion in budget solutions assumed in the February budget package are, in fact, achievable. The new federal funds provide an opportunity for state leaders to avert additional program cuts that might otherwise be required due to projected \$8 billion decline in state revenues in 2009-10. You can imagine that with this many moving pieces and the full contingent of public interests weighing in, the state budget process is as dynamic as ever.

Below are some of the major issues shaping the budget process:

Ballot Initiatives

As part of the February budget package, the Legislature agreed to place a total of five ballot measure before the voters in a statewide special election scheduled for May 19. One additional measure—a constitutional amendment to establish an open primary system—will be placed on the ballot in 2010. Three of the May 19 measures have significant fiscal consequences for the state in the 2009-10 fiscal year. These are:

- Proposition 1C—which would enable the state to borrow funds in the credit markets and repay these funds from future proceeds of the State Lottery. This Proposition would provide the state with \$5 billion in 2009-10 and \$5 billion in 2010-11.
- Proposition 1D—which would authorize the state to redirect a portion of childhood development funds authorized by the voters under Proposition 10 to support existing childhood development programs, thereby reducing state costs. This redirection would generate \$608 million in savings for 2009-10 and \$268 million annually thereafter.
- Proposition 1E—which would authorize the state to redirect mental health funding authorized by the voters under Proposition 63 to support existing mental health programs, thereby reducing state costs. This redirection would generate \$227 million in savings during 2009-10 and up to \$234 million in savings in 2010-11.

For 2009-10, these three propositions represent \$5.9 billion in budget solutions that are already built into the budget package enacted last month. Therefore, if the measures fail, it would result in a significant budget shortfall that state leaders would need to address through additional cuts, taxes, or borrowing.

Two other Propositions would have significant implications for the state budget, however, they would not impact the 2009-10 fiscal year:

- Proposition 1A would establish a “rainy day fund” that would constrain state spending so that short-term revenue spikes are placed in a savings account to address years in which revenues lag. It should be noted that the duration of many of the temporary tax increases enacted in the February budget package are tied to the failure or passage of Proposition 1A. If the measure

fails, then the tax increases will be in effect for two years; if the measure passes, then the taxes will be extended for another one to two years.

- Proposition 1B would ensure that funding for colleges and K-12 schools is increased by \$9.3 billion in future years in order to resolve a dispute over Proposition 98 calculations that emerged during special session budget deliberations. Proposition 1B is crafted so that it will not go into effect unless Proposition 1A is approved by the voters.

LAO Projects an \$8 billion Fall in Revenues

On March 13, the Legislative Analyst's Office (LAO) issued a budget report entitled "The Fiscal Outlook Under the February Budget Package" (available at http://www.lao.ca.gov/2009/bud/feb_overview/feb_overview_031309.pdf). This report provides an updated fiscal outlook for the state reflecting the recently enacted budget package as well as new economic projections. Major findings include:

- The state's economic and revenue outlook continues to deteriorate.
- State revenues for 2009-10 are projected to fall \$8 billion short of the levels assumed in the recently adopted budget package. Because the budget package has a \$2 billion reserve for 2009-10, LAO pegs the budget deficit at \$6 billion.
- This drop in revenues is projected to cause a \$3.6 billion decline in the Proposition 98 minimum funding guarantee for 2009-10. This would allow the Legislature to cut funding for K-12 schools and community colleges by this amount in 2009-10 without suspending Proposition 98.
- LAO recommends that the Legislature reduce Proposition 98 funding by roughly \$3 billion in 2009-10 and backfill these cuts with federal funds.
- The new infusion of federal economic stimulus funds provides an opportunity to close the budget gap without making significant new cuts or raising new taxes.
- LAO recommends raising CCC student fees by 100 percent to \$40 per unit in order to take advantage of new expansions in federal financial aid. It is important to note that LAO has made similar recommendations for many years without success and we have not received any indication that the Legislature is jumping on board this recommendation. We have raised concerns that such a massive increase in fees would have incredibly disruptive impacts on students, families, and colleges. We are encouraging state leaders to see the expansion in federal financial aid as an opportunity to improve college affordability and student success, rather than a windfall to the state coffers.

These findings and recommendations will help to frame upcoming legislative budget hearings. It is worth noting that the updated revenue projection is not typical this time of year. Normally, the revenue picture would not be updated until after April when the majority of state tax receipts are collected. LAO may have felt a need to warn Legislators of softening revenues in order to keep them from spending the new federal revenues on program expansions. In any case, much more solid estimates will be provided later in the Spring as part of the Governor's May Revision. Given recent economic trends, there is a general concern that the revenue numbers may grow worse compared to LAO's recent forecast.

Federal Economic Stimulus Package

Under the Federal Economic Stimulus package, California will receive an estimated \$31 billion in federal aid during the current and next two fiscal years. Of this amount, K-12 and higher education are expected to receive \$7.9 billion in a variety of areas, such as grants, subsidized bonds, tax credits, and

subsidies to individuals, colleges, and local educational agencies. The federal package also provides \$6 billion to fund various labor and workforce development activities, of which the community colleges are in a strong position to secure a portion of these funds. The attached memo from Chancellor Scott outlines the elements of the package that present funding opportunities for the community colleges. In particular, I encourage you to review the local Workforce Investment Act funds which will be allocated on a more expedited basis.

Just as a note, the LAO's proposal to reduce Proposition 98 spending by \$3 billion and backfill with federal funds (described above) would rely upon resources from the "State Fiscal Stabilization Fund."

CCC Budget Advocacy

California Community College advocates have hit the ground running this year:

- On March 3rd the Board of Governors sponsored a California Community College Advocacy Day during which teams of community college representatives—administrators, faculty, students, staff—met with Legislators and key budget staff to discuss budget and legislative priorities. Key themes were: 1) the community colleges are the key to California's economic recovery; 2) the colleges are meeting the needs of hundreds of thousands of unemployed Californians and thousands of students displaced from UC and CSU due to restricted admissions; and 3) please continue to protect the capacity of the community colleges to serve California. Groups also thanked state leaders for taking steps to minimize the fiscal damage to the colleges in the recent budget package.
- Other groups, including the Community College League of California and the Faculty Association of the California Community Colleges Community College, have also hosted successful advocacy days in the Capitol.
- On Monday of this week, community college students held a rally at the State Capitol. The event had an impressive showing of more than 5,000 students and a well-crafted message, thanking state leaders for protecting the community colleges while also calling on them to protect and increase investment in public education.
- On Tuesday, Chancellor Jack Scott addressed the Assembly Budget Subcommittee #2 on Education and presented an overview of community college budget priorities. He was greeted with a warm and enthusiastic welcome from his former colleagues in the Legislature.

Delay in Governor's May Revision

In an interesting twist on an already strange year, the Governor's May Revision—typically released May 14—will instead be released later, most likely around June 8. For those not familiar with the state budget process, the May Revision provides the Governor with an opportunity to update his budget proposal based on more current revenue and caseload information. This one-time change in the release date was made as part of the February budget package to give the Administration time after the May 19 special election to adjust its proposal based on the outcomes of the three Propositions with 2009-10 implications. Chancellor's Office staff will present the latest budget information available at the ACBO Spring Conference, May 18-20 in Sacramento.

Apologies for the length of this update, but there has been a lot of activity to report. Indeed, it is a very volatile and unusual time for the state budget. In the coming weeks and months, I encourage you to stay

informed and engaged. The next four months present a period of considerable risk for the colleges as the state budget picture deteriorates, and at the same time a period of great opportunity as large amounts of federal funding become available for key community college priorities such as workforce training and student financial aid. Our advocacy will be more important than ever as we move ahead in order to ensure that we emerge in the strongest position possible.

More updates to follow as the situation unfolds.

Regards,

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