

Dear Colleagues:

Eighty-five days into the fiscal year, Governor Schwarzenegger signed into law the 2008-09 State Budget and related trailer bill legislation. In doing so, he exercised his line-item veto authority, striking \$510 million from the roughly \$144 billion spending plan. Having stated earlier that “this budget is nothing to be proud of,” the governor signed the budget in private rather than the normal public signing ceremony.

There were no vetoes to local assistance funds for the community colleges. The Chancellor’s Office did experience a veto of \$331,000, bringing the office’s total reduction to \$531,000.

Overall highlights of the state budget include:

- The budget contains \$103.4 billion in General Fund spending; \$144.4 billion from all sources.
- Bridges a \$15.2 billion budget shortfall through a combination of cuts and borrowing.
- Makes \$9.7 billion in cuts to numerous program areas.
- Relies on a grab bag of borrowing and one-time budget maneuvers totaling approximately \$7.5 billion. These provisions include: accelerating payments for tax-filers individuals and corporations paying estimated taxes (\$1.3 billion); a two-year suspension on net operating loss tax deduction (\$1.3 billion); changing to an accrual accounting model (\$1.4 billion); requiring limited liability corporations to prepay fees (\$336 million); and increased penalties on corporations that underpay taxes (\$1.4 billion).
- Provides \$58.1 billion for K-12 schools and community colleges under Proposition 98. This funding level just meets the Proposition 98 minimum funding obligation.
- Lays the groundwork for “securitization” of State Lottery funds to provide \$5 billion in each of the 2009-10 and 2010-11 state budgets. Essentially, this proposal amounts to borrowing against future lottery receipts. This proposal is implemented through three separate measures, including a proposed Constitutional amendment that will go before the voters at the next statewide election.
- Includes various budget reforms including: 1) a strengthened rainy day fund; 2) expanded authority for the governor to make mid-year budget cuts to state agencies (but not to local assistance funding for the colleges); and 3) expanded authority of the governor to temporarily suspend COLAs in the event of a fiscal emergency. The rainy day provisions (1) will go before the voters as a proposed Constitutional amendment at the next statewide election. The mid-year cut authority (2) and COLA suspension provisions (3) would go into effect only if the voters approve the Constitutional amendment related to the rainy day fund. For those of you interested in studying these proposed budget reforms more closely, they can be found in AB 1389 and SCA 13.
- Contains a reserve fund of \$1.7 billion.
- The enacted budget includes the following features for the California Community Colleges:
- \$38.9 million to provide a 0.68 percent COLA on general purpose apportionments (no COLA is provided for categorical program funds). K-12 schools also received this same level of COLA.
- Enrollment growth is funded at 2 percent
- Categorical programs are flat-lined at 2007-08 levels

- Student fees remain level at \$20 per unit
- \$75 million is provided to partially backfill a property tax shortfall for the 2007-08 fiscal year. The total property tax shortfall for 2007-08 was \$92 million.
- A new deferral of apportionment payments was instituted in order to address cash flow concerns at the state level. Specifically, \$250 million in general purpose apportionments that normally would be paid in January, February, and March will now be paid in April, May, and June.
- A \$531,000 cut to the Chancellor's Office budget.
- The Competitive Cal Grant program is sustained rather than eliminated as earlier proposed. This program, operated by the California Student Aid Commission, provides support to students in all segments of California public higher education.

While clearly not meeting the collective needs of the California Community Colleges, the budget details specific to the colleges are better than many anticipated earlier in this budget process, given the severity of the state's fiscal crisis. The colleges secured some growth funds (albeit not enough), a small COLA, and avoided deep cuts to student services programs. The largest property tax shortfall in community college history was largely backfilled. Student fees remained level for community college students and the Competitive Cal Grant program was saved. The colleges were treated fairly alongside K-12 and other public education segments.

These successes reflect this year's tremendous budget advocacy on the part of all the CCC stakeholders—students, districts, trustees, faculty, classified employees, college presidents, the League, and everyone else. The advocacy took many forms: writing letters to state officials; visits with legislative leaders, the Governor's Office, and the Department of Finance; visits to editorial boards; letters to the editor; outreach to the media; marches on the Capitol; and more. Kudos to everyone who contributed to this effort.

As we look toward the remainder of 2008-09 and ahead toward the 2009-10 fiscal year, it is sobering to remember that the state is still in the midst of a severe fiscal crisis. The enacted state budget is based on many favorable assumptions and one-time solutions and fails to provide any meaningful long-term solutions to the structural imbalance. Already, the spending plan has been disowned by legislators and the governor as they criticize it for "pushing the problems into next year." Many involved in the state budget process believe that this budget is likely to fall out of balance during the 2008-09 fiscal year and may require mid-year cuts and/or tax increases in order to bring it back into balance. While it is too soon to know if that will occur, it is clear that we must remain vigilant and engaged on the budget front in the coming weeks and months.

In the more immediate term, the State Controller has indicated that he will expedite payments now that the budget is in place. We are hopeful that the overdue July and August payments will be out to districts within a week. As noted in earlier updates, System Office staff have submitted all necessary paperwork to the Controller in order to ensure rapid action.

More updates will follow as warranted.

Regards,

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