



## League Budget Update #1: January 5, 2009

### More on the Governor's Budget Proposal

With Sacramento returning to work, more details are available on the budget proposal released by Governor Schwarzenegger's office on December 31. The release has generated a lot of questions, so here are some answers that we have been able to get.

#### 2008-09 Current Year

- **What cuts does the governor propose for the current year?**

The only actual cut the governor proposes is the elimination of the \$39.8 million provided for a 0.68% cost-of-living adjustment. The other proposed reduction to the general apportionment has been withdrawn. *(Note: this corrects inaccurate information in the last League Budget Update)*

- **What about the 20% cuts to categorical programs?**

In [ABX1 4](#), the Legislature approved cuts to 20.2% to non-workload categorical programs. The governor did not sign the bill. The Legislature is expected to now consider the new proposals offered by the governor, which do not include any current year categorical cuts.

- **How would the deferral of January and February apportionments work?**

The governor's new proposal would **replace the deferral adopted in the September budget**. Therefore, instead of deferring portions of the January, February and March apportionment payments in April, about one-third (\$115 million) of the payments scheduled for January and February would be deferred until July.

- **Why is the state delaying cash payments through deferrals?**

The two deferrals are for two different purposes, although they both rely on a cash cushion many school and community college districts have after they receive December local property tax revenues. The \$250 million deferral previously approved that is scheduled to be repaid in April is solely to save cash for the state, so that it may avoid borrowing additional money in revenue anticipation notes. The newly proposed \$230 million proposal is meant to minimize the amount of new money the state is required to provide K-12 and community college districts under Proposition 98 (and also saves the state cash). By reducing current year legal expenditures and providing them instead in the budget year, the state is able to reduce its deficit (through reduction of the Prop. 98 guarantee) by billions.

- **What if the later repayment of the January and February deferrals creates a cash problem for our district?**

If your district is going to incur a real cash shortfall because newly proposed deferral wouldn't be repaid until July, contact either [Kimi Shigetani](#) or [Theresa Tena](#) on the League staff. While the proposed deferral would avoid significant current year cuts and thus may be preferable, we understand some districts might need assistance to manage without the state-provided cash. We

are exploring language that could minimize the deferral for some districts and private sector cash-management solutions to mitigate this proposal if necessary.

### **2009-10 Budget Year**

- **What cuts does the governor propose for next year?**  
The governor proposes eliminating the \$4 million provided to reimburse colleges for state-mandated local costs (creating a deferral of reimbursements), and eliminating the \$322.5 million that should be provided for a 5.02% statutory cost-of-living adjustment.
- **What about lottery revenues?**  
The governor continues to propose, with voter approval, to "securitize" the state lottery. This would reduce community college lottery revenues by \$167.5 million in 2009-10, and would replace the revenues with state General Fund money.

### **Making Sense of it All**

- **In summary, what does the governor's budget proposal do?**  
The governor's essentially funds community colleges in 2007-08 dollars constantly in 2008-09 and 2009-10, with allowances for 2% enrollment growth in the current year (2008-09) and 3% growth in the budget year (2009-10). Instead of cuts, the governor has prioritized community colleges, recognizing that cuts at UC and CSU and the increasing unemployment rate is creating a surge of community college enrollment across the state.
- **What's next?**  
The governor's proposal will now be considered by the Legislature. However, it contains a larger tax increase package than included in his previous proposal, which was now supported by Republican legislators. We are told that the governor and Democratic leaders are close in negotiations over economic stimulus that would enable the governor to sign a majority-vote tax package, but it's unclear how Democrats would approach the new, revised expenditure reductions, including the "deferral instead of cuts" proposal for community colleges.