



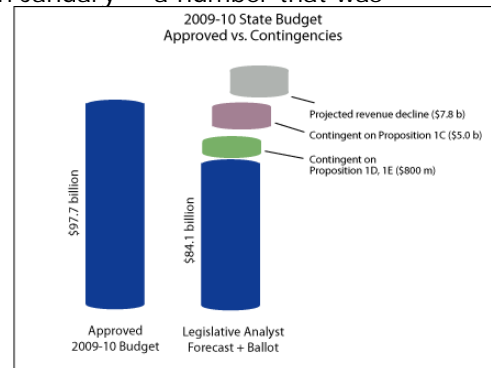
March 26, 2009

As I cross the state this week--from Monday's Phi Theta Kappa luncheon to visits at Cuesta, Santa Barbara City, and Contra Costa Colleges--I am hearing increasing fear about what risks community colleges face as the state's economy and budget situation continue to crumble. Last night, I visited with education doctoral students at UCLA representing both public and private K-12 and higher education, and the fear was palpable as many of them worried about their jobs and the students they serve.

Meanwhile, many community college leaders are meeting now to talk about their 2009-10 budget, and wondering how to get a budget put together when so many uncertainties are present. It is impossible to provide exact guidance as many factors will drive the budget discussion, as revenues are clearly down, the fate of May 19 budget-related ballot measures is unclear, and case loads in public safety, health and human service programs are increasing, but nobody knows by how much. Nevertheless, I wanted to provide you with a little bit of information that can help you assess the risk to community colleges, so we can all prepare for what might be ahead.

Two weeks ago, the state's nonpartisan Legislative Analyst's Office (LAO) released its first [comprehensive review](#) of the spending plan. In it, the LAO cautioned lawmakers that the plan is already significantly out of balance. Specifically, the Legislative Analyst projects that revenues in 2009-10 will be \$7.8 billion less than approved in the budget act, which creates a shortfall accounting for 8.0% of the overall budget. This is the result of the state's unemployment rate soaring to 10.1% in January -- a number that was previously expected to not be reached until the peak of the recession.

Unfortunately, many analysts now believe that even the LAO's disappointing forecast was too rosy. Budget-writers are now talking about a shortfall in revenues of \$10-12 billion--even with the \$12.5 billion increase in taxes over the 18-month spending plan. With economists now predicting the [state's unemployment rate will reach 11.9%](#) by 2010, this is likely a deeper and more prolonged budget problem than anyone imagined.



Additionally, the approval by the voters of three ballot measures that account for \$5.8 billion of the state budget on the May 19 ballot is anything but certain. The Public Policy Institute of California poll [released this morning](#) shows an almost insurmountable political hurdle for Proposition 1C, the lottery securitization measure that the state is counting on for \$5 billion in revenue in 2009-10. The measure has just 37% support and 50% of voters plan to vote "no" on the measure. The Proposition 10 (early childhood education) and Proposition 63 (mental health) redirects also trail, and they account for \$800 million in the 18-month budget plan.

If the Legislative Analyst's Office is correct in its revenue projections and the ballot measures fail, there would be a \$13.6 billion shortfall in the 2009-10 budget, with the possibility of a \$15-17 billion shortfall if the latest rumored estimates prove true. ([larger chart version](#))

Proposition 98

With the lower revenue projections, the Proposition 98 guarantee for community colleges will drop from between \$3.6 billion (LAO) to over \$5 billion (latest rumors). The Legislature could backfill most of this drop on a one-time basis with federal funds, and significantly help the state's general fund. However, education advocates would likely oppose such a move, as it would create a huge Proposition 98 hole in 2010-11 and beyond. Nevertheless, legislators and the governor may have no choice. In summary, it's

possible that funds could be cut significantly in 2009-10 for K-12 and community colleges, but the largest impact wouldn't be felt by community colleges until 2010-11 fiscal year. Under the larger revenue shortfall estimates, however, there wouldn't be enough federal funds to backfill the 2009-10 reduction, and between \$100-200 million could be cut from community colleges.

Community College Revenues

In addition to the overall revenue picture, community colleges are likely to face apportionment shortfalls in 2009-10 from both an operational shortfall in our apportionment calculation (\$40 million) and declining local property taxes. While property taxes have been extraordinarily difficult to project, the latest developments of the housing market picking up due to financial institutions bundling and selling loans at a huge discount to investors who can sell them for much less than their assessed valuation and realize a profit could lead to huge numbers of properties being reassessed lower, leading to lower property tax revenues. Unfortunately, there is no way to know what this impact will be until the situation transpires.

Districts should prepare for an apportionment shortfall of at least the 1.2% expected in the current year, and the number is likely to escalate depending on the property tax situation.

In closing, these are very difficult times for our state and its community colleges. While we have been treated comparatively well in the early budget debates, the situation is clearly worsening. Further, community colleges are on the front lines of this economic crisis. Nobody is left untouched--students, faculty, staff, administrators and trustees. Indeed, many of the people that put on a strong face to make this system work every day return home facing the same scary personal crises that our students face. This is a time for us to work together to be creative, find ways to continue serving students while our funding may indeed decline, and most importantly to treat people compassionately. We are all here for the same purpose, to serve students, and to bring our diverse backgrounds together to find solutions for the challenges we face.

Community colleges have weathered many crises before, and we will again this time.



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