Colleagues,

The Governor released his May Revision update on the morning of Tuesday, May 13th. While those watching the updated revenues flow into the Treasury for the 13-14 fiscal year may have hoped for ongoing increases even beyond the relatively strong proposal outlined in January, the Governor and his staff see a more complicated picture. While there was strong revenue growth in the 13-14 fiscal year, the Governor does not see the current year increase carrying over into the 14-15 fiscal year to any large extent.

Further, as the Proposition 98 minimum guarantee is based largely on year-over-year change, the upward tick in the 13-14 year combined with a modest revenue increase in the 14-15 projection actually decreases the minimum guarantee in the budget year relative to the January estimate. Despite the decrease in the 14-15 guarantee, the Governor’s proposal actually manages to create room for some increased programmatic support by shifting some of the buy down of deferrals from the budget year to the current year.

While more time and details are needed to get a fuller picture of the proposal, the key highlights are as follows:

- $50M is added to the Economic and Workforce Development Program (EWD) on a one-time basis “to improve student success in career technical education.” The funds are intended to develop, enhance, and expand CTE programs that build upon existing regional capacity to better meet regional market demands.
- $42.4M is added to offset decreases in local property tax and fee revenue estimates for the 14-15 year.
- $6M for increased technology infrastructure ($1.4M one-time, $4.6M ongoing) to upgrade bandwidth and replace technology equipment at local campuses
- Adjustments to Access Funding and COLA –
  - A decrease of $14.8M to reflect a change from 3 percent to 2.75 percent in funds for new access for the 2014-15 fiscal year. Additionally, the Governor will push back the implementation of a revised growth formula until the 2015-16 fiscal year.
  - A decrease of $1.2M to reflect a drop in the COLA from 0.86 percent to 0.85 percent
- Adjustment to the January maintenance and instructional equipment proposal –
  - A decrease from $175M to $148M
  - All funds will go toward deferred maintenance in the revised proposal, rather than a 50/50 split with instructional equipment
  - A local match will not be required in 2014-15
- A decrease of $1.5M for Proposition 39 projects/workforce development, due to reduced revenues attributable to the California Clean Energy Jobs Act
- The May Revise will also propose increasing the funding rate for Career Development and College Preparation courses to the rate for credit courses commencing with the 2015-16 year
- Deferral pay down adjustments –
  - A decrease of $55.5M in the prior year
  - An increase of $133.6M in the current year
  - A decrease of $78.1M in the budget year
  - While there are adjustment of payments among the three fiscal years, the net result is still a complete pay down of system deferrals as of the 14-15 fiscal year
The Governor is expected to emphasize the need for fiscal restraint amid many calls for greater spending and restoration of general fund programs that were negatively impacted during the Great Recession. To this end, the Governor will be pushing passage within the Legislature of a ballot initiative to be placed before voters this fall that will modify a proposed Rainy Day Fund that will smooth out the state’s boom and bust budget cycles (fueled primarily by capital gains returns) and require the state to pay down liabilities. Further, it is anticipated that the Governor will work on a solution regarding CalSTRS obligations, though it is not clear at this time what he will propose.

Next steps will include a response by the Legislative Analyst’s Office (recall that at this time last year, the LAO projection of revenues was far more optimistic the Governor’s figures), review by the budget committees of each house, and a legislative conference committee to iron out differences between the two houses. It is expected that the budget will be approved and signed by the Governor prior to July 1, 2014.

Regards,
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