From: Troy, Dan <dtroy@CCCCO.EDU>
Sent: Friday, July 08, 2011 5:45 PM
To: SO2CBO@LISTSERV.CCCNEXT.NET
Subject: Budget Update
Attachments: Final Budget Wrap (July, 2011).docx

Colleagues,

Attached is an overview of the recently adopted budget.

Regards,
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July 2011 Update: Enacted Budget

The budget process began with a call for compromise and hope for an expedited agreement to allow the public to vote on tax extensions and other major reforms. It ended with a majority-vote budget featuring deep program cuts, deferred payments, assumptions of higher revenues, and the threat of mid-year trigger cuts.

Using the authority provided by the voters through Proposition 25 (November, 2010), the Legislature passed the 2011-12 Budget Act (SB 87) with a simple majority rather than the 2/3rds vote that had been required for the past several decades. The plan solves what was identified in January as a $26.6 billion gap through major program reductions, borrowing and transfers, and an assumption of major revenue gains beyond what had been estimated in January. The following represents the Legislative Analyst's summary of the major solution categories:

- $11.1 billion in expenditure reductions
- $11.8 billion in baseline revenue adjustments
- $2.9 billion in borrowing, shifts, and fund transfers
- $1 billion in new revenue changes (e.g., new and extended fees, revenue collections)
- $0.5 billion in local realignment revenue impacts

The final budget assumes General Fund expenditures of $85.9 billion, a decrease of $5.5 billion from the 2010-11 fiscal year. Even with all of these actions, the Department of Finance preliminarily anticipates a 2012-13 deficit of $3.1 billion, though there are many moving pieces to account for in this estimate.

Higher Revenues and Trigger Cuts

On top of $6.6 billion in new revenue estimated by the Department of Finance at the May Revise, the final budget assumes an additional $4 billion in revenue to help close the gap. This optimism is based in part on the fact that tax receipts for May and June were running about $1 billion higher than estimates, giving rise to hopes of an economy improving faster than anticipated, though primarily through gains made by high income earners.

To allay concerns that the revenues will not match assumptions, the budget includes a control section giving the Director of Finance authority to reduce appropriations as specified below upon a finding by December 15th that revenues are not keeping pace with budget assumptions.

- Tier 0 – There will be no midyear cuts if at least $3 billion of the $4 billion of the higher revenues materialize.
- Tier 1 – If only $2 billion to $3 billion of the revenues materialize, up to $601 million in midyear cuts could be enacted. These actions would include an additional $100 million reduction to each of UC and CSU and a $30 million General Fund reduction to the California Community Colleges offset by an increase in fees to $46 per unit.
- Tier 2 – If less than $2 billion of the revenues, over $1.8 billion in cuts could be meted out to K-14. Specifically, K-12 could see the elimination of transportation funding ($248 million) and a

reduction of funding equivalent of 7 school days ($1.5 billion). The California Community Colleges could receive a reduction to apportionments of up to $72 million beyond the Tier 1 cuts. These reductions would be proportionate to revenue estimates.

Education Highlights

Proposition 98 - The budget funds Proposition 98 at $48.6 billion. Total funding for programs generally included within Proposition 98 remained relatively flat year-over-year ($49.7 billion was provided in the 2010-11 fiscal year), but over a billion in funding for child care programs is provided outside of Proposition 98 in the 2011 Budget Act. The budget also reflects other major changes to the Proposition 98 minimum guarantee, including a $222 million increase to reflect the shift of mental health services to school districts, a $578 million increase to ensure the minimum guarantee is not impacted by the shift in motor vehicle fuel revenues, and a decrease of $1.7 billion to reflect Redevelopment Agency remittances.

K-12 - The major funding adjustment for K-12 was a new deferral of $2.1 billion and the shift in funding for mental health services from counties to local education agencies, as referenced above. The budget also eliminated the Office of the Secretary of Education and funding (federal) for the CALTIDES data system.

Trailer legislation extended recent flexibility related to categorical program spending, class size reduction penalties, deferred maintenance, and sale of surplus property, and some other areas. Provisions adopted as part of the final budget agreement created controversy by requiring districts to project the same level of revenue in 2011-12 as in 2010-11 and to maintain staffing and program levels commensurate with the 2010-11 fiscal year.

Higher Education - Higher education did not fare well in the budget. A total of $1.7 billion was cut from higher education, including $650 million each from UC and CSU, as well as $400 million from the California Community Colleges (more detail on the CCCs below). The budget reflects savings of $100 million related to annual CSAC verification that Cal Grant renewal recipients do not exceed income and asset ceilings, and an additional $10.7 million is eliminated to reflect the prohibition of Cal Grant participation by institutions that fail to meet specified student loan default rates. Additionally, the Governor eliminated General Fund support for the California Postsecondary Education Commission.

California Community Colleges

The major changes to the CCC budget are as follows:

- $400 million cut to base apportionments.
- $110 million in increased fee revenue owing to an increase in fees from $26 to $36 per unit. This revenue mitigates the base cut for a net apportionment reduction of $290 million (about 4.9%).
- $129 million in new deferrals, bringing the total deferrals for CCCs to $961 million (about 17% of the budget).

- The new suspension of two mandates: 1) Sexual Assault Response Procedures and 2) Student Records.
- An extension of categorical funding flexibility through the 2014-15 fiscal year.
- No funding was provided for either growth or COLA.
- No restoration of the categorical program reductions that were enacted in the 2009 Budget Act.

Similar to language included in the Budget Act of 2009, the $290 million net reduction will be allocated as a workload reduction and with the Legislature expressing intent that community college districts will prioritize courses relating to transfer, career technical education, and basic skills.

Risks

The Budget contains several risks for the California Community Colleges:

Midyear Triggers – The largest risk is the threat of midyear trigger actions if revenues do not materialize at the levels assumed in the budget. While midyear cuts cause hardship under any circumstances, the Chancellor's Office is especially concerned about the possibility of a fee increase that would occur just prior to the spring term. This would impose a last minute unexpected cost for students and would be extremely difficult for districts to administer. We are working with the Legislature on alternatives to this potential trigger action.

Fee shortage – Based on preliminary figures for the 2010-11 fiscal year, we believe there has been an increase in the percentage of waivers granted to students. The fee collections estimated by the Department of Finance do not appear to adequately account for this growth as they rely upon actual figures from the 2009-10 fiscal year. We believe a conservative estimate of the shortage is approximately $25 million. This would represent a deficit in the apportionments unless mitigated by other factors (e.g., higher than estimated property tax).

Recovery? – The budget assumed a whopping $11.8 billion in revenues in excess of what was estimated in January. While a large chunk of this is based on actual current year tax receipts, it is difficult to square these figures with other troubling economic indicators, such as slow job growth. We can hope the worst is over, but we can't assume that is the case.

Conclusion

The Governor and the Legislature were faced with few good choices to close a $26.6 billion fiscal gap. While Proposition 25 gave the majority Democrats the opportunity to pass a budget without Republican support, it did not give them the same authority to raise revenues. Given that, they saw few better options other than to cut and to employ some smoke and mirrors. While it may be easy to deride some of the choices made in the budget, it should be noted that the changes implemented in budget have reduced the estimated 2012-13 shortfall from $19 billion to about $3 billion. We may not like all of the choices made, but it's certainly the case that progress was made toward putting the budget back into balance. Hopefully, the revenue growth seen during the first part of this year will carry forward into the future, so we can begin to reinvest in higher education.