

Budget Update – May 2012

Budget Hearings

Senate Budget Subcommittee #1 held a hearing overviewing the Governor’s proposal for the CCCs on April 9th. While no actions were taken, the Chair expressed concern with the Governor’s proposal to provide nearly complete flexibility over categorical funding and to undo the SB 361 funding model. While the committee believes the Governor’s approach to loosen almost all of the strings on categorical funding goes too far, it does not appear that other ideas for reform in this area have been ruled out. The Chair expressed concern over the CCC’s current year deficit, but clearly indicated that no remedy could be considered prior to the May Revision, if at all.

Assembly Budget Subcommittee #2 held their CCC overview hearing on April 25th. The committee took two significant actions: 1) Unanimous rejection of the proposed categorical program consolidation, and 2) Unanimous rejection to repeal the SB 361 funding model. The Assembly clearly prefers to maintain categorical programs as they are. This point was made clear when the Chair allowed for over an hour of public testimony for categorical program advocates in the middle of the hearing. The topic of shifting budget year money away from the paying down of deferral payments to “positive” program allocations (e.g., restoration of FTES and/or categorical program reduction) - assuming the Governor’s November tax initiative passes - was discussed. As with the Senate, no decisions regarding the current year deficit were made, pending the May Revision.

Current Year Deficit

At the March BOG meeting, we discussed an unanticipated P1 apportionment deficit of \$149M, due primarily to a shortage in fee revenues and property taxes. As we collecting information for the P2 reporting period, it appears that deficit will be closer to \$100M, due to a modest uptick in fee revenues and the apparent achievement of basic aid status by the San Mateo Community College District (SMCCD). The numbers will not be completely finalized for a few weeks, but at least there is some good news in this area. We have expended a lot of time and

energy lobbying the Legislature and Governor on this issue, and we hope the Administration will find a way to further mitigate or eliminate the deficit in their May Revise proposal.

In the meantime, Asm. Furutani has agreed to carry AB 2591, which would require the state to backfill shortages in property taxes or fee revenues, prospectively. This bill is currently awaiting action on the Assembly Appropriations suspense file.

Revenues

While the Governor's May Revise is not scheduled for release until May 14th, it is apparent that current year revenues are down from January estimates. The LAO opines that the decrease may be \$3B or more, though the Governor has been more conservative in his statements. While this news is not good, it should be noted that a downward tick in CY receipts does not necessarily change the prospective economic forecast. We won't have a clear picture of the impacts until the 14th.