



CPEC

Update on the 2009–10 State Budget

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Summary

On February 20, 2009, Governor Arnold Schwarzenegger signed into law the 2009 Budget Package. This set of bills revised the current year (2008–09) budget and adopted a budget for the upcoming 2009–10 fiscal year. This 17-month spending plan was designed to address a two-year budgetary shortfall of more than \$40 billion. The plan contains the following components:

- \$14.9 billion in state spending reductions below current-year and anticipated budget-year levels
- \$957 million in additional spending reductions through Governor's vetoes of other items in the budget bills
- \$12.5 billion in expected new revenues from increases in various taxes and fees
- \$7.8 billion in funds to the state from the federal government's economic stimulus package
- \$5.4 billion in borrowing and special fund loans and transfers, including \$5 billion anticipated from a proposal to securitize the State Lottery.

The budget reduces current-year State General Fund spending from the \$102 billion in the Budget Act adopted last September to less than \$92 billion. It authorizes just over \$95 billion in State General Fund spending for 2009–10, a lower total than in any fiscal year since 2005–06. The budget plan relies on several important ballot initiatives to be put before the voters in a statewide special election to be held on Tuesday, May 19. These initiatives are:

- Proposition 1A — Increases size of the budget's Rainy Day fund from 5% to 12.5% and specifies how monies are to be deposited in and withdrawn from that account.
- Proposition 1B — Requires supplemental payments to local school districts and community colleges beginning in 2011–12 to address recently adopted budget cuts to education.
- Proposition 1C — Allows for modernization of the State Lottery with a broader offering of games, increased payouts, improved marketing, and more effective management.
- Proposition 1D — Revises Proposition 10 of 1998, "The California Children and Families Act," to permit temporary redirections of funds to other children's health and human service programs.
- Proposition 1E — Revises Proposition 63 of 2004, "The Mental Health Act," to permit redirections of funds for two years to fund early and periodic screening, diagnosis, and treatment programs.
- Proposition 1F — Prevents all statewide elected constitutional officers and the State Legislature from receiving pay raises in years when the state is running a deficit.

The budget package is heavily dependent upon passage of many of the ballot initiatives. If Proposition 1A is not approved by the voters, most of the tax increases adopted as part of the budget would only be in effect through the 2010–11 fiscal year and would generate an estimated \$16 billion less in new funds than anticipated. Similarly, unless both Propositions 1A and 1B pass, the state would not be obliged to make \$9.3 billion in supplemental payments to education in future years to help make up for the billions of dollars in education cuts that are part of the current budget agreement. Finally, if Proposition 1C is not approved, the budget will be an additional \$5 billion shortfall, revenues assumed to be generated by the securitization proposal.

Higher Education

The adopted budget revises several earlier proposals. CSU and UC will each have \$50 million of their unallocated budget cuts restored if California receives additional funds from the federal stimulus package. This is part of a broader state budget agreement whereby \$1.8 billion in planned income tax increases and \$948 million in adopted spending cuts will be rescinded if California receives \$10 billion in federal stimulus funds. At present, the Department of Finance estimates that federal stimulus funding to California will not reach the \$10 billion threshold.

The table below shows the funding levels for higher education, in the just-adopted budget. The table on page 3 summarizes changes to previously-proposed actions affecting higher education in the current and budget years.

Higher Education State General Funds

| | 2008–09 | | 2009–10 Enacted | | |
|---------------------------------|---------------|------------|-----------------|---------------------|----------------------|
| | Budget Act | Revised | Dollar amount | Change from 2008–09 | |
| | | | | Budget Act | Revised |
| | (thousand \$) | | | | |
| CPEC | \$2,005 | \$2,007 | \$2,018 | \$13 | \$11 |
| UC ¹ | 3,250,248 | 3,168,085 | 2,932,640 | -317,708 | -235,445 |
| Hastings | 10,631 | 10,229 | 10,470 | -161 | 241 |
| CSU ¹ | 2,970,706 | 2,903,069 | 2,653,626 | -317,080 | -249,443 |
| Community colleges ² | 6,746,200 | 6,358,364 | 7,075,820 | 329,620 | 717,456 |
| CSAC | 837,511 | 900,641 | 1,010,751 | 173,240 | 110,110 |
| Total | 13,817,401 | 13,342,395 | 13,685,325 | -132,076 | 342,930 ³ |

1. The General Fund amounts for UC and CSU reflect reductions of \$255 million for each system that will be offset by federal stimulus funds.
2. State General Funds for community colleges **include** local property tax revenues.
3. The \$343 million change from Revised 2008–09 to Enacted 2009–10 includes \$247 million to replace all higher education Lottery funds and the deferral of \$340 million in community college apportionment payments from 2008–09 to 2009–10. These two actions restore existing funding and do not actually result in increased funding for 2009–10.

Sources: California Department of Finance, Legislative Analyst's Office. Information shown here is from a variety of sources and will not reconcile with any one source of budget data.

Budget Changes Affecting Higher Education

| Initial Budget Proposed by the Governor on January 10 | Budget as Adopted on February 20 |
|---|--|
| No price increases for the core budgets of the community colleges, CSU, UC, and Hastings College of the Law, which would have provided \$623 million in funding | Maintained |
| Provide the segments a total of \$247 million in additional State General Funds to replace State Lottery revenues as part of the budget proposal to securitize the lottery | Maintained |
| \$20 million to re-start employer contributions to the UC Retirement Plan | Not included |
| 10% (CSU), 9.3% (UC) undergraduate student fee increases, generating \$299 million in new net revenues | Included |
| \$66.3 million (CSU) and \$65.5 million (UC) unallocated General Fund reductions | Made permanent |
| UC and CSU funding to increase nursing and medical school enrollments | Not included |
| No FTE funding for 2009-10 UC and CSU enrollment growth, which would have totaled \$128 million | Maintained |
| None | UC and CSU State General Funds each reduced by \$255 million (money to be replaced by federal stimulus funding) |
| None | Additional \$50 million unallocated reduction for UC and CSU (each) will be implemented if California does not receive \$10 billion (as defined) in federal stimulus funds |
| \$230 million in CCC 2008-09 apportionment funding deferred into 2009-10 | Maintained, added an additional \$110 million, for a total of \$340 million in deferrals |
| Eliminating the 2009-10 COLA for CCC funding for savings of \$323 million | Maintained |
| Fund swap replacing \$193 million in State General Funds for student financial aid with TANF funds | Not included |
| Fund 3% CCC enrollment growth (\$175 million for apportionments, and \$10 million for categorical programs) | Maintained |
| Authorize community college districts to transfer categorical funds to their general funds to maintain course offerings. | Not included |
| Provide no new Cal Grant Competitive Program awards. Freeze Cal Grant income eligibility at 2008-09 levels. Reduce Cal Grant maximum award for students attending non-public institutions. Decouple Cal Grants from fee levels. | Not included |
| Decentralize administration of Cal Grants and other financial aid to the recipient colleges and universities. | Not included |
| Disseminate CPEC and CSAC functions into existing and newly proposed agencies | Not included |

Sources: California Department of Finance, Legislative Analyst Office.

Conclusion

The Governor and Legislature struggled through many months and many versions before finally adopting a set of actions designed to close the widening state budget deficit. The solution includes budget cuts and additional revenues that would have been difficult to predict even one year ago. The budget fix is dependent upon several unknowns, such as voter approval of the propositions on the May 19 ballot and how much of the envisioned new tax revenues does materialize. The main wild card in state and local government finances is the state and national economies, both of which are continuing their year-long decline. Should economic circumstances not improve, the state could well find itself facing a continuing budget shortfall and be forced to take even more drastic actions to balance its finances.