

On July 28, the Governor signed legislation making significant revisions to the 2009–10 state budget. The revised budget allocates \$85 billion in State General Fund spending, down from the \$92 billion in the budget approved by the Governor and Legislature in February. This budget revision also captures some savings from the just-completed 2008–09 fiscal year. These revisions were necessitated by continuing weakness in the economy resulting in declining state revenues.

The revised 2009–10 budget lowers General Funds by \$813 million for the University of California and by \$718 million for California State University. It reduces Proposition 98 funding for the community colleges by \$812 million through a combination of cuts and deferrals, but provides full funding for the Cal Grant student financial aid programs.

Like the February budget, the July budget assumes that California will receive more than \$8 billion in federal stimulus funds from the American Recovery and Reinvestment Act in 2008–09 and 2009–10. \$6 billion of these funds are to be provided to K-12 and the community colleges.

It is estimated that 2009–10 general funds for each higher education system will be 8% lower than the 2008–09 revised level. Year-to-year comparisons are difficult because of the large variety of one-time budget actions adopted by the Governor and Legislature.

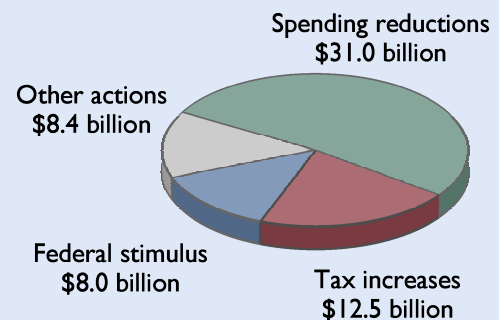
Higher Education Actions

Some of the major changes in higher education funding are as follows:

- *Combined 2008–09 and 2009–10 unallocated reductions – \$2.8 billion*
\$1 billion from UC, \$1 billion from CSU, \$812 million from community college Prop 98 funding. Includes one-time funding deferrals in 2009–10 of \$750 million at UC, \$290 million at CSU, and \$703 million at the community colleges.
- *Anticipated federal stimulus funding – \$1.2 billion to \$1.5 billion*
At least \$600 million to UC, \$600 million to CSU, and \$130 million to the community colleges.
- *Projected additional student fee revenues – \$600 million*
\$360 million at CSU (32% fee increase), \$160 million at UC (9.3% fee increase), \$80 million at the community colleges (\$6 per unit fee increase to \$26 per unit).

Closing the Budget Gap

Including earlier actions, the budget approved in July closes a gap of \$60 billion between spending and revenues with spending reductions, tax increases, use of federal stimulus funds and a variety of other actions.



Other actions include loans and shifts involving special funds.

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- *CSAC financial aid programs – \$1 billion*

Includes \$32 million in Student Loan Operating Funds — an increase of \$110 million (12%) from 2008–09. The Governor vetoed \$6 million in financial aid administration, with \$4 million to be restored on adoption of legislation to decentralize Cal Grants.

Reductions in Other Areas

Reductions in General Fund spending for 2008–09 and 2009–10 will give total projected budget savings of \$23.7 billion. Some of the major items are:

K-14 Education: \$6.5 billion. Reduce Prop 98 appropriations by \$6.1 billion (\$5.3 billion for K-12, \$812 million for community colleges) through various actions, including providing districts with flexibility to use funds from 43 categorical programs, delaying for one year required payments for the Quality Education Investment Act. Defer some scheduled payments into the next fiscal year.

Health and Human Services: \$3.3 billion. Reduce funding to counties for CalWORKS and Child Welfare Services. Eliminate some In Home Support Services program functions.

Corrections and Rehabilitation: \$1.2 billion. Reduce General Funds by \$800 million, lower reimbursement rates for contractors providing inmate medical services. Reduce funding for the court system by \$169 million. Deport selected undocumented persons in state prisons.

Local government: \$1.8 billion. Shift \$1.7 billion of local redevelopment funds to state programs and suspend some local mandates, including the Williamson Act Open Space program.

Transportation: \$900 million. Redirect fuel sales tax spillover revenues that result from increased fuel prices to replace General Funds for selected transit, debt service, and regional center transportation costs. Shift \$225 million of Home-to-School Transportation funds to pay for public transit bond debt costs.

State operations: \$1.8 billion. Delay June 30, 2010 payroll for state employees to July 1 (\$937 million). Furlough most state employees for three unpaid days each month (\$425 million). Reject proposed collective bargaining agreements with largest state employee union (\$210 million). Reduce active and retiree health premiums costs due to CalPERS actions (\$150 million).

Revenue increases: \$3.5 billion. Increase schedules for payroll withholding by 10% (\$1.7 billion). Accelerate personal income and corporation tax estimated payments. (\$600 million). Increase tax compliance enforcement (\$26 million). Sell parts of the book of business of the State Compensation Insurance Fund (\$1 billion). Implement other revenue-related actions (\$200 million).

Other actions: \$2.9 billion. Reduce cash-flow borrowing costs (\$210 million). Renegotiate information technology contracts (\$100 million). Suspend Prop 1A to borrow local government property taxes and offset selected state General Fund spending (\$1.9 billion). Make loans to the General Fund from the State Highway Account and other special funds (\$135 million).

The following offices provided information for this report

Funding Levels Uncertain

The last revisions to the state budget have generally resulted in lower funding levels for 2008–09 and 2009–10 than was contained in the state budget approved in February. However, the many one-time budget changes affecting the 2008–09 and 2009–10 fiscal years make traditional year-to-year comparisons of funding levels difficult.

Table 1 on page 4 gives a breakdown of general fund spending by function. For both K-12 Education and Higher Education, the year-to-year increase shown for State General Funds is misleading, resulting from mid-year reductions in 2008 spending and how recently adopted budget reductions are accounted for in the two fiscal years.

The graph, left, compares proposed and actual funding for the past three years. This presentation of the evolving state budgets show how much General Fund spending has declined in recent years from initially proposed levels to what was actually expended.

Impact on Higher Education

The higher education systems are struggling to adapt to the reductions in state resources, while fulfilling their educational missions. The fixed costs of operating the campuses, as with all enterprises, continue to increase in the face of declining funding. UC, CSU, and the community colleges have raised student fees and are furloughing employees, freezing salaries, and laying off staff. All three systems are taking other measures to balance their resources with their operations such as reducing class offerings, increasing class sizes, and delaying planned programmatic changes.

The February budget made permanent earlier reductions of \$66 million each for UC and CSU and the current revision does not backfill the community colleges for shortfalls in local property tax revenues that are expected to continue for the remainder of this fiscal year.

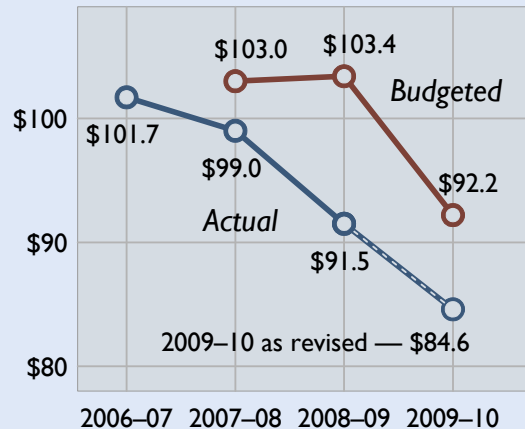
Future Budget Problems

Despite the major reductions to state funding and public program offerings adopted to realign the budget, significant future hurdles remain. The budget relies on billions of dollars of one-time resources, such as the \$8 billion in federal stimulus funds. The February budget included several tax increases that expire in 2011 and the July revision includes accelerated tax collections and immediate shifts of expenditures that generate only one-time budgetary savings.

The process of balancing California's public finances over the past two years has been an ongoing challenge. Even with some evidence that the national economy may be bottoming out, California tax revenues have yet to recover. State policymakers will have to make more adjustments to the budget in the months ahead which will likely center on additional cuts.

Budgeted and Actual General Fund Expenditures for Recent Fiscal Years

\$ in billions



A comparison of budgeted and actual spending by agency is shown in Table 2 on page 4.

Table 1. Funding by Agency in the 2009–10 Budget (\$ in millions)

	General funds				Other funds 2009–10		2009–10 total: general, special and bond funds
	2008–09	2009–10	Change		Special	Bond	
Leg, Judicial, Executive	\$3,765	\$1,884	-\$1,881	-50.0%	\$2,529	\$187	\$4,600
State & Consumer Services	567	569	2	0.4%	708	19	1,296
Business, Transp, Housing	1,547	2,585	1,038	67.1%	5,755	4,206	12,546
Resources, Environment	2,104	1,915	-189	-9.0%	3,258	2,098	7,271
Health & Human Services	28,803	24,953	-3,850	-13.4%	7,665	208	32,826
Corrections & Rehabilitation	10,008	8,210	-1,798	-18.0%	22	2	8,234
K-12 Education	33,890	35,042	1,152	3.4%	106	505	35,653
Higher Education	10,181	10,547	366	3.6%	47	1,612	12,206
Labor & Workforce Dev.	102	64	-38	-37.3%	369	—	433
General Government*	580	-1,186	-1,766	-304.5%	4,664	702	4,180
Total	\$91,547	\$84,583	-\$6,964	-7.6%	\$25,123	\$9,539	\$119,245

* Consists of non-agency state departments, tax relief/local government, and savings projected from statewide expenditures.

Special and Bond funds are selected general-purpose funds.

Table 2. Budgeted and Actual General Fund Spending (\$ in millions)

	2006–07	2007–08		2008–09		2009–10				
	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Revised			
Leg, Judicial, Executive	\$3,522	\$3,856	\$3,522	-9%	\$3,816	\$3,765	-1%	\$3,566	\$1,884	-47%
State & Consumer Services	613	581	613	6%	563	567	1%	575	569	-1%
Business, Transp, Housing	3,019	1,485	3,019	103%	1,628	1,547	-5%	2,625	2,585	-2%
Resources, Environment	2,197	1,960	-433	—	1,913	2,104	10%	1,942	1,915	-1%
Health & Human Services	29,418	29,339	29,418	0%	31,121	28,803	-7%	31,555	24,953	-21%
Corrections & Rehabilitation	9,293	10,114	9,293	-8%	10,342	10,008	-3%	9,989	8,210	-18%
K-12 Education	39,761	42,469	39,761	-6%	41,579	33,890	-18%	39,657	35,042	-12%
Higher Education	11,331	11,861	11,331	-4%	12,113	10,181	-16%	12,013	10,547	-12%
Labor & Workforce Dev.	108	103	108	5%	98	102	4%	104	64	-38%
General Government	2,394	1,217	2,394	97%	228	580	154%	-9,820	-1,186	-88%
Total	\$101,656	\$102,985	\$99,026	-4%	\$103,401	\$91,547	-11%	\$92,206	\$84,583	-8%

California higher education and most other state and local public services are at a crossroads where declining funding will result in lower levels of service. If funding for K-12 and higher education continues to erode, there will be long-term negative effects on California's economy. Declining educational services will hinder our state's ability to provide Californians with the learning, training, and other tools they need to succeed economically and socially in the decades ahead.

Cycle of Budget Reductions 2007–2009

There have been several revisions to anticipated spending levels over the last three state budgets. Nearly all of them have resulted in lower funding levels for higher education than had been previously proposed. The Legislature and Governor have been working on the budget virtually non-stop for the past two years.

January 2007. The Governor introduces his proposed 2007–08 budget. It contains \$103 billion in State General Funds. The budget proposes a 6% increase in combined state and local funds for higher education.

May 2007. The May revise projects lower revenues and reduces spending and proposals to generate additional revenues.

August 2007. The Legislature passes the 2007–08 budget. The budget authorizes General Fund spending of \$102.3 billion with a \$4.1 billion reserve. The Governor makes line-item vetoes to reduce spending by \$703 million. This budget provides \$11.3 billion in General Funds for higher education.

January 2008. The Governor releases his proposed 2008–09 budget, with some changes to take effect in the second half of the 2007–08 fiscal year (January to June 2008). The budget projects an 18-month, \$1.6 billion deficit. To close this gap, the budget proposes to cut 2008–09 spending by 10%.

May 2008. The 2008–09 May revise estimates a two-year budget deficit of \$6 billion. The May revise proposes spending cuts, selling Ed Fund and securitizing receipts from the State Lottery.

September 2008. The Governor signs the 2008–09 budget. The budget authorizes General Fund spending of \$104 billion. The projected two-year budget deficit is estimated to be \$25 billion. The Governor calls the Legislature into special session, to start in mid-November.

November 2008. The Governor uses the authority provided to him in the 2008–09 Budget Act to make a 1% across-the-board cut, and presents a plan to the Legislature to further reduce spending by \$4.5 billion and increase state revenues by \$4.7 billion. The Legislature holds hearings on the budget situation but does not adopt any changes. The Governor's spending reduction plan includes \$464 million from higher education.

January 2009. The Governor releases his proposed 2009–10 budget. The revised budget reduces higher education funding by \$1.1 billion. The budget proposes eliminating Cal Grants.

February 2009. The Governor signs the 2009–10 budget. This plan is meant to address the \$40 billion shortfall.

July 2009. The Governor signs a revised 2009–10 budget that reduces General Fund spending by billions of dollars for 2008–09 and 2009–10.