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Budget Update: June 3, 2010

California Postsecondary Education Commission
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On May 14, Governor Arnold Schwarzenegger released the May Revision to the proposed budget for the current year (2009–10) and budget year (2010–11). State finances have continued a three-year decline, with anticipated General Fund spending of \$83 billion, their lowest in six years (see Table 3 on page 4). Since January, the Legislature has acted in special session, adopting \$2.1 billion in budget solutions. Expected revenues have decreased \$600 million and anticipated expenditures have increased \$700 million. The net effect of these developments, and federal actions, is a projected 13-month deficit of \$19.1 billion.

To address the budget shortfall, the Governor proposes major reductions to social services programs. The May revise proposes elimination of the CalWORKs program as of October 1, 2010, and elimination of all state funding for need-based, subsidized child care except for preschool with combined savings of \$3.3 billion.

Before the May revise was released, both houses' budget subcommittees had held extensive deliberations on higher education issues, including access, affordability for students and families, financial aid, system responses to budget reductions, institutional efficiency, and student persistence and completion. Most budget items were left unresolved pending receipt and consideration of the May revise.

Since the May revise was released, the Legislature has held budget subcommittee hearings on the proposed budget. Page 6 shows legislative actions taken as of May 28.

Higher Education

The May revise essentially maintains the Governor's January budget proposals for current and budget year Higher Education funding levels, but rescinds two major cuts to the Cal Grant program. The Governor now proposes to fully fund Cal Grant Entitlement Awards and Competitive Awards. The January proposal was to lock in current-year family income eligibility and grant award in the Entitlement program and eliminate funding for the 2010–11 cohort of 22,550 new Competitive Awards. The budget now proposes a one-time shift of \$75 million in Cal Grant costs to the Student Loan Operating Fund.

Table 1 Governor's proposed budget solutions for 2010–11

	January proposal	May revise	Total
———— million \$ ————			
Expenditure reductions	\$5,844.5	\$6,523.4	\$12,367.9
Federal funds	1,967.9	1,414.1	3,382.0
Alternative funding ¹	1,025.9	252.4	1,278.3
Fund shifts, other revenues ²	477.1	1,636.5	2,113.6

¹Use of special funds and one-time transactions, such as use of Student Loan Operating Funds for CSAC financial aid programs.

²May Revision includes loan of \$650 million in excise taxes on gasoline and \$250 million from the Motor Vehicle Account to the State General Fund.

Table 2 Governor's General Fund Proposals

This table is from the Legislative Analyst's report, *The 2010–11 Budget: Overview of the May Revision*, summarizing the Governor's proposed actions and associated savings for the current and budget years.

Expenditure-related solutions	Reduced costs or increased revenues
Combined 2009–10 and 2010–11 Proposals	
	billion \$
Reduce Proposition 98 spending (including elimination of child care)	\$4.3
Reduce state employee pay and staffing, and shift pension costs to employees	2.1
Eliminate CalWORKs program	1.2
Implement various changes to Medi-Cal	0.9
Reduce inmate medical care costs	0.8
Reduce IHSS spending (excluding enhanced federal match)	0.8
Reduce county mental health realignment funds by 60%	0.6
Redirect county savings from social services reductions	0.4
Commit certain offenders to county jails, not state prisons	0.2
Suspend or defer certain mandate reimbursements (a)	0.2
Reduce spending in various health programs	0.2
Reduce spending in various social services programs	0.2
Reduce SSI/SSP grants for individuals to the federal minimum	0.1
Reduce other spending	0.3
	Subtotal \$12.2
Assumed Federal Funding and Flexibility Solutions	
Assume more federal money or flexibility in Medi-Cal and other programs	\$1.6
Assume extension of enhanced FMAP funding for Medi-Cal	1.4
Assume enhanced funding for other programs	0.4
	Subtotal \$3.4
Loans, Loan Extensions, Transfers, and Funding Shifts	
Borrow from special funds	\$1.1
Extend due dates for existing special fund loans to General Fund	0.5
Use remaining authorized hospital fees for Medi-Cal children's health coverage	0.2
Use temporary federal retiree reinsurance funds to reduce state retiree health costs	0.2
Transfer special fund monies to the General Fund	0.1
Use excess Student Loan Operating Fund monies for Cal Grant costs	0.1
Adopt other funding shifts	0.4
	Subtotal \$2.6
Revenue Solutions	
Score additional revenues from previously authorized state asset sales	\$0.5
Authorize automated speed enforcement to offset trial court costs	0.2
Extend hospital fees	0.2
Levy 4.8% charge on all property insurance for emergency response activities	0.1
	Subtotal \$0.9
	Total, all proposed solutions \$19.1

a – Does not include \$131 million for the proposed suspension of the AB 3632 mental health mandate.

FMAP = Federal Medical Assistance Percentages.

Source: Legislative Analyst's Office

Table 4 shows funding to public higher education for the past four years. These numbers are difficult to reconcile with prior year funding due to the variety of actions taken, such as one-time cuts, replacing state monies with federal funds, and deferrals of expenditures into future years.

The May revise provides \$22 million in additional funding to CSAC to fund current year and budget year estimates for Cal Grants and APLE awards and to fund CSAC services now provided by EdFund in anticipation of its sale. The May revise maintains proposed enrollment growth funding for UC (\$51.3 million) and CSU (\$60.6 million), community college apportionment funding (\$126 million), and provides Workforce Investment Act funding to UC (\$4.4 million) and the community colleges for nursing education and training programs (\$2.7 million).

K-12 Education

The May Revision maintains the January budget proposal, keeping Proposition 98 funding roughly the same in 2010–11 as in the current year. The proposal to eliminate subsidized child care further lowers the Proposition 98 funding guarantee. The Governor now proposes to allow local school districts some flexibility in meeting budget reduction targets, dropping his earlier proposal that cuts be made in specified areas. The May revise proposes to increase current year K-12 General Fund spending by \$1.4 billion (4.1%) and decrease budget year spending by \$829 million (2.3%) from the January proposal.

Other Budget Proposals

In addition to elimination of CalWORKs and cuts to child care, the May revise cuts Medi-Cal \$750 million beyond the January proposal. It assumes savings of \$1.6 billion from requested federal waivers to provide program flexibility in a number of areas. It also proposes a \$602 million decrease to Food Stamps and Child Welfare Services, in part by reducing state funding for county mental health services to the amounts necessary to fund mandated mental health services.

The May revise continues many proposed prison reforms, including changes in adult parole and juvenile detention programs, with a net effect of increasing current year and budget year General Fund spending by \$190 million. It increases funding for Natural Resources by \$259 million, mostly to backfill funding related to the withdrawn January proposal to fund state parks with oil lease revenues from oil exploration on the Tranquillon Ridge off the Santa Barbara coast.

The Governor proposes to save an additional \$446 million in employee costs by requiring state civil service employees to take one unpaid leave day each month. This 4.65% pay cut would be in addition to the January proposal for a 5% salary reduction and 5% increase in employee pension contributions. The January proposal also includes a requirement that all state agencies reduce payroll costs by 5% for the 2010–11 fiscal year.

The May revise also includes fund swaps and loans to the General Fund from selected Special Funds for the 2010–11 fiscal year.

Table 3 State General Funds, Fiscal Years 2009–10 and 2010–11

	2009–10			2010–11		
	Budgeted	Revised	Difference	Budgeted	May revise	Difference
	— million \$ —			— million \$ —		
Leg., Judicial, Executive	\$3,566	\$1,884	-47.2%	\$2,825	\$2,905	2.8%
State & Consumer Services	575	569	-1.0%	587	599	2.0%
Business, Transp. & Housing	2,625	2,585	-1.5%	902	765	-15.2%
Resources, Environment	1,942	1,915	-1.4%	1,800	2,102	16.8%
Health & Human Services	31,555	24,953	-20.9%	21,000	22,859	8.9%
Corrections, Rehabilitation	9,989	8,210	-17.8%	7,983	8,981	12.5%
K-12 Education	39,657	35,042	-11.6%	36,004	35,133	-2.4%
Higher Education	12,013	10,547	-12.2%	11,836	11,794	-0.4%
Labor & Workforce	104	64	-38.5%	59	58	-1.7%
General Government	-9,820	-1,186	-87.9%	-95	-1,792	—
Totals	\$92,206	\$84,583	-8.3%	\$82,901	\$83,404	0.6%

Table 4 Recent Higher Education Funding

	2007–08	2008–09	2009–10 estimated	2010–11 proposed	One-year pct change	Four-year pct change
	— million \$ —					
University of California						
Total	\$4,322	\$3,533	\$3,967	\$4,813	21.3%	11.4%
General Funds	\$3,257	\$2,418	\$2,596	\$3,019	16.3%	-7.3%
Student Fee Revenue	1,065	1,115	1,371	1,794	30.9%	68.5%
California State University						
Total	3,871	3,247	3,508	3,984	13.6%	2.9%
General Funds	2,971	2,155	2,350	2,723	15.9%	-8.3%
Student Fee Revenue	900	1,092	1,158	1,261	8.8%	40.0%
California Community Colleges						
Total	6,503	6,258	6,045	6,278	3.9%	-3.5%
General Funds	4,170	3,944	3,734	4,006	7.3%	-3.9%
Student Fee Revenue	281	303	357	365	2.2%	29.8%
Property taxes	2,052	2,011	1,953	1,907	-2.4%	-7.1%
Total, all systems	\$14,696	\$13,038	\$13,520	\$15,075	11.5%	2.6%

2008–09 funding for UC and CSU were each supplemented with \$744 million in federal ARRA monies. 2009–10 funding for UC and CSU each includes a \$305 million one-time reduction in General Funds.

Source: Senate Committee on Budget and Fiscal Review

Recent Budget Developments

Table 5 on the next page summarizes legislative actions taken on higher education issues taken since the May revise. The Assembly and the Senate majority leaders have each proposed major budget packages. Each of these packages would affect funding for the 2010–11 state budget. Some of the subcommittee actions do not yet reflect these proposals.

Conclusion

Higher education is well protected in the May Revision, but many important social services would be eliminated. K-12 funding is also maintained essentially as proposed in January, however, the January budget includes policy changes that could result in the loss of significant anticipated revenues for K-12 in 2010–11 and beyond.

The Governor also calls for budget reforms and public employee pension reforms and for the Legislature to act on the recommendations of the Tax Commission that were presented last year. The latest state operating revenue projections do not indicate a cash flow problem in the coming months. But this situation could change if there are delays in enacting a 2010–11 budget.

The legislative budget subcommittees and full committees have finished their hearings on the May revise. The two houses took varying actions, accepting some proposals and rejecting or amending others. In the coming weeks the Budget Conference Committee will convene to reconcile the Senate and Assembly versions of the budget and to grapple with the state's 13-month, \$19.1 billion budget deficit.

More information

Department of Finance — www.dof.ca.gov/budget/historical/2010-11/governors/documents/fullbudgetsummary.pdf

Legislative Analyst — www.lao.ca.gov/reports/2010/bud/may_revise/may_revision_051810.pdf

State Senate — www.senate.ca.gov/ftp/sen/committee/standing/bfr/_home/mar/2010mayrevhighlights.pdf

State Assembly — www.assembly.ca.gov/acs/acsframeset8text.asp

California Budget Project — www.cbp.org/documents/100514_may_revise.pdf

Senate Democratic Caucus Agenda 2010 — senweb03.sen.ca.gov/focus/agenda2010/

Assembly Speaker Jobs Budget — asmdc.org/issues/budget/pdf/jobsbudget/californiajobsbudget.pdf

Table 5 Budget Committee Actions on Selected Higher Education Items

Governor's proposal	Senate action	Assembly action
California Community Colleges		
2.2% enrollment growth funding, 26,000 FTES	Approved, \$126 million (2.21% growth)	Approved, \$129 million (2.26% growth)
Negative Cost of Living Adjustment (COLA) of 0.38%	Rejected	Rejected
\$100 million augmentation to support workforce training enrollments Proposed by the Assembly, not in the Governor's proposal	Not acted upon	Approved
Contracting out for personal services	Rejected	Rejected
Remove Career Technical Education (CTE) from categorical "flex" (local district funding flexibility) items, add Basic Skills, Extended Opportunities Programs and Services (EOPS), Fund for Student Success to "flex" items	Rejected, kept CTE in flex, other three programs out of flex	Rejected, kept CTE in flex, other three programs out of flex
Reduce EOPS and part-time faculty compensation programs by \$10 million each, augment SB 70 CTE programs by \$20 million	Rejected	Rejected, funding for programs differs from Governor and Assembly
Capital outlay funding, various construction projects	Approved, different mix of projects	Approved, different mix of projects
Proposition 98 items and funding levels	Approved, differs from Governor, Assembly	Approved, Assembly Prop 98 package
California State University		
Backfill for \$305 million in one-time, current year funding reductions	Approved, contingent on new revenues	Approved, from Assembly Jobs Fund
2.5% enrollment growth funding, 8,290 FTES	Approved	Approved
Budget bill language directives on funding for student academic preparation programs	Approved, different language than Assembly	Approved, different language than Senate
Capital outlay funding, various construction projects	Approved, different mix of projects	Approved, different mix of projects

Table 5 Budget Committee Actions on Selected Higher Education Items

Governor's proposal	Senate action	Assembly action
University of California		
Backfill for \$305 million in one-time, current year funding reductions	Approved, contingent on new revenues	Approved, from Assembly Jobs Fund
2.5% enrollment growth funding, 5,121 FTES	Approved	Approved
Budget bill language directives on funding for student academic preparation programs	Approved, different language than Assembly	Approved, different language than Senate
Capital outlay funding, various construction projects	Approved, different mix of projects	Approved, different mix of projects
California Student Aid Commission		
May revise withdraws proposal to suspend Competitive Cal Grants and make other program changes	Approved May revise Proposal	Approved May revise Proposal
Funds for CSAC to resume activities currently being performed by EdFund	Approved, different funding level	Approved, different funding level
Redirect \$75 million in Student Loan Operating Fund to offset General Funds for Cal Grants	Approved, \$100 million funding level	Approved, \$115 million funding level
Budget trailer bill language on Cal Grant Decentralization Pilot Program	Rejected	Rejected