



California Postsecondary Education Commission

Overview of Governor Schwarzenegger's Proposed 2008–09 State Budget

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On January 10, 2008, Governor Arnold Schwarzenegger released his proposed budget for the 2008–09 fiscal year. State revenues for the 18 months covering the last half of 2007–08 and 2008–09 are projected to be nearly \$16 billion below planned expenditures. The budget seeks to close this shortfall by cutting 2008–09 funding for most programs by 10% below initial allocations based on workload growth and cost factors. Current-year spending will be cut by \$217 million. Proposed General Fund spending is \$2.4 billion (2.3%) below 2007–08. The total budget, including the public transportation account and other special funds, will be \$141 billion, \$4.2 billion (2.9%) lower than estimated 2007–08 spending.

The budget-balancing reductions in the Governor's proposal will generate savings of \$9.13 billion in 2008–09 (see table on right). With other adjustments, savings will total \$17 billion over the remainder of the current year and 2008–09.

The Legislature deliberated the budget proposal during a 45-day emergency session called by the Governor in January. By mid-February, the Legislature had approved preliminary actions to reduce current year spending by \$1 billion and taken other steps to lessen pressures for 2008–09. Their actions were wide-ranging and included withholding unspent funds from prior fiscal years, delaying cost-of-living adjustments for some social programs, and deferring and reducing spending in many state agencies.

Initial estimates are that these actions lowered the projected deficit from \$16 billion to around \$8 billion and addressed an impending cash flow crunch the state was facing later this summer. However, many of the measures approved by the Legislature were one-time in nature and do not address the underlying imbalance between state revenues and caseload-driven expenditure levels.

The Legislative Analyst's Office released its analysis of the Governor's proposal on February 20. Highlights of LAO recommendations are on page 5.

General Fund Revenues and Expenditures and Governor's Proposed Budget-Balancing Reductions

| | Actual 2006–07 | 2007–08 ^a | Proposed 2008–09 |
|------------------------------------|-----------------------|----------------------|---------------------|
| Revenues and expenditures | ———— million \$ ———— | | |
| Revenues | | | |
| Carry-forward from prior year | \$9,898 | \$4,372 | \$1,757 |
| In-year revenues and transfers | 95,887 | 100,758 | 102,904 |
| Total revenues | 105,785 | 105,130 | 104,661 |
| Expenditures | 101,413 | 103,373 | 100,998 |
| Ending balance (reserves) | 4,372 | 1,757 | 3,663 |
| Budget-balancing reductions | ———— thousand \$ ———— | | |
| Legislative, Judicial, Executive | | \$6,568 | \$362,847 |
| State & Consumer Services | | 1,179 | 5,345 |
| Business, Transportation & Housing | | 200 | 2,028 |
| Resources, Environment | | 5,804 | 97,609 |
| Health & Human Services | | 181,062 | 2,661,209 |
| Corrections & Rehabilitation | | 17,882 | 378,901 |
| K-12 Education | | 0 | 4,357,251 |
| Higher Education | | 0 | 1,132,903 |
| Labor & Workforce Development | | 150 | 2,055 |
| General Government | | 3,788 | 131,947 |
| Total Reductions | | \$216,633 | \$9,132,095 |

a— For 2007–08, total revenues and expenditures are as estimated in November 2007. Budget-balancing reductions are as in the Governor's proposal.

Sources: Department of Finance, Legislative Analyst's Office.

Higher Education

For higher education, the budget proposes some increased funding offset by budget reductions. The reduction in General Fund spending on postsecondary is nearly half a billion dollars, with the California State University and the University of California taking 10% of their reductions in administration. The proposed budget gives CSU and UC discretion in managing the remainder of their funding reductions. Nearly all of the community college's funding reductions are from enrollment funding (apportionments) and categorical programs. The budget encourages the systems to improve efficiencies and take other steps to minimize the impact of cuts on educational operations. However, the budget also assumes that CSU and UC may increase systemwide student fees beyond currently-planned increases to generate additional revenue.

Recommendations on the budget for consideration by the Commission are in *Budget Perspectives and Proposed Commission Recommendations*, included in the Agenda for the March 2008 Commission meeting.

University of California

No major changes are proposed for the current year. Some highlights for 2008–09 are as follows:

- \$154.8 million (5%) increase for base budget and instructional support.
- \$56.4 million (2.5%) increase for enrollment growth of 5,000 full-time equivalent students (FTES).
- \$124.8 million for a proposed increase of 7.4% in systemwide fees, and increases of 7–19% for professional school programs.
- \$6 million for the Institute for Transportation Studies, a project to develop land use and transportation models to measure the impact of local government action on greenhouse gas emissions.
- \$332 million in budget-balancing reductions including a reduction of \$32 million from Institutional Support and an unallocated reduction of \$300 million.

California State University

No major changes are proposed for the current year. Some highlights for 2008–09 are as follows:

- \$146.2 million (5%) increase for base budget and instructional support.
- \$70.1 million increase (2.5%) for enrollment growth of 8,600 FTES.
- \$109.8 million for a proposed increase of 10% in systemwide fees.

Higher Education General Funds

| | Estimated 2007–08 ^a | Proposed 2008–09 Funding | | |
|---------------------------------------|-----------------------------------|------------------------------------|---------------------|-----------------|
| | | Initial allocation ^b | Budget reduction | Net funding |
| million \$ | | | | |
| University of California | 3,260.7 | 3,494.1 | -331.9 | 3,162.2 |
| California State University | 2,970.7 | 3,186.0 | -312.9 | 2,873.1 |
| Community Colleges ^c | 6,452.4 | 6,596.5 | -484.5 | 6,112.0 |
| Hastings College of Law | 10.6 | 11.2 | -1.1 | 10.1 |
| Student Aid Commission | 842.9 | 892.7 | -2.2 | 890.5 |
| Postsecondary Education Commission | 2.2 | 2.2 | -0.2 | 2.0 |
| Total | 13,539.6 | 14,182.8 | -1,132.8 | 13,050.0 |

a– 2007–08 budget as estimated in November 2007.

b– An initial allocation based on enrollment growth and budgeted cost increases.

c– General Fund revenues for the community colleges include local property tax revenues, so the community college figures and the totals here may differ from figures published elsewhere.

Sources: Department of Finance, Legislative Analyst's Office.

- \$312.9 million budget-balancing reduction includes a reduction of \$43.2 million from Institutional Support and an unallocated reduction of \$269.7 million.

California Community Colleges

For the current year, the budget proposes adjustments, based on the following revised revenues estimates: \$4.6 million less in local property tax revenues; \$2.2 million less in student fee revenues and; \$1.1 million reduction in lease-purchase debt obligations. The Governor had proposed a current-year reduction of \$40 million by reducing apportionment (enrollment) funding. However the Legislature cut current-year funding by \$33 million by reappropriating unspent monies from earlier years from apportionments and categorical programs. The budget also increases funding for the Chancellor's Office by a net amount of \$93,000 for the current year through miscellaneous baseline adjustments. Budget highlights for 2008–09 include:

- \$171.9 million increase for 3% enrollment growth of more than 35,000 FTES.
- \$291.7 million increase for 4.94% COLA for general-purpose apportionments.
- \$28.5 million increase for categorical programs enrollment growth (3%) and COLA (4.94%).
- \$484.5 million in combined current-year and budget-year budget-balancing reductions. These consist of \$40 million to current-year apportionments, \$291.7 million to budget-year apportionments (rescind COLA), \$111.8 million from growth for budget-year apportionments, \$79.9 million from categorical programs, and \$1 million from Chancellor's Office state operations.

California Student Aid Commission

For the current year, the budget proposes \$30.2 million in savings in the Cal Grant and Assumption Program of Loans for Education (APLE) programs due to revised projections of program funding needs. The budget also assumes the sale of EdFund, the state's Federal Family Education Loan program guaranty agency. This sale is now expected to generate \$500 million in General Fund revenues, which is only half of the initial estimate. Budget highlights for 2008–09 include:

- \$26.7 million increase in Cal Grant funding above current year levels, to account for fee increases of 10% at CSU and 7.4% at UC.
- \$80 million increase in Cal Grant Program funding, set aside in anticipation of additional CSU and UC fee increases.
- \$281,000 net increase in loan assumption payments over the revised 2007–08 level for workload change in the various loan assumption programs.
- Authorization for a total of 8,000 new warrants for the APLE program, 100 new warrants for the State Nursing APLE program, and 100 new warrants for the Nurses in State Facilities APLE program.
- \$57.4 million reduction by eliminating new Cal Grant Competitive awards. The program will be phased out as current recipients complete their eligibility.
- \$2.2 million budget-balancing reduction, with \$1.6 million allocated to state operations and \$637,000 allocated to the Cal-SOAP local assistance budget.

Hastings College of the Law

The college will receive a \$531,000 increase for basic budget support, library material replacements, deferred maintenance, and instructional equipment, plus \$77,000 for annuitant benefit costs for college employees.

K-12 Education

The Governor proposes a total of \$68.5 billion in state, federal, and local property tax funding in 2008–09. For the current year, a reduction of \$360 million in General Fund spending is proposed. The budget also proposes to reduce projected workload funding levels for 2008–09 by \$4.4 billion, resulting in a net decline of \$865 million below the figure in the 2007–08 estimated budget.

- Workload increases of \$2.4 billion for the 4.94% statutory COLA, \$1.8 billion for revenue limits, \$663 million for various other statutorily-required programs, and \$300 million in Proposition 98 settle-up funds, owed from prior years.
- \$10.2 million in combined state, federal and special funds for two K-12 longitudinal data systems. This consists of \$8.1 million for the California Longitudinal Pupil Achievement Data System (CALPADS), designed to monitor individual student enrollment history and academic performance over time; and \$2.1 million for the California Longitudinal Teacher Integrated Data Education System (CalTIDES), which will serve as a central state repository of teacher workforce information.
- \$4.4 billion funding reduction — \$2.6 billion from apportionments, \$1.1 billion from categorical programs, \$358 million from special education, \$260 million from child development and before- and after-school programs, and other reductions.

Other 2008–09 Budget Proposals

Labor and Workforce Development. Proposes continuation of the Economic and Employment Enforcement (Triple E) Coalition. This initiative began in 2005 to combat the underground economy and help legitimate employers by increasing enforcement of California's labor, employment tax, and licensing laws in industries where abuse is most common.

Cash Management. Proposes the transfer of \$1.5 billion from the Budget Stabilization Account to the General Fund and the suspension of the scheduled payment of \$1.5 billion from the General Fund to the stabilization account. These actions are allowed by constitutional provisions of Proposition 58 of 2004 and generate a total savings of \$3 billion in 2008–09. Additional short-term cash savings of \$814.2 million are proposed by delaying scheduled Department of Social Services payments to counties from July 2008 to September 2008.

Health and Human Services. Proposes \$29.6 billion in General Funds, a reduction of \$279 million below estimated 2008–09 funding, but \$1.3 billion below the initial allocation based on workload growth.

Corrections and Rehabilitation. Proposes \$10.3 billion in General Funds, an increase of 1.7% (\$172 million) above revised current year estimates. This is \$379 million (3.6%) below the initial allocation based on workload growth.

The Legislative Analyst's Perspectives

The Legislative Analyst's Office (LAO) projects a budget deficit of \$16 billion, consistent with the Governor's forecast. LAO estimates that actions taken by the Legislature during the special session addressed about half of this projected shortfall. For the remainder, LAO recommends that the Legislature make targeted reductions focused on less effective or nonessential programs.

LAO's spending plan would save the General Fund nearly \$14 billion over the next year and a half. LAO also recommends reducing some tax breaks enacted during better economic times. This would generate nearly \$3 billion in additional revenue on an ongoing basis. LAO estimates that its budget recommendations would leave the state with a \$1.3 billion reserve at the end of the 2008–09 fiscal year.

For higher education, LAO recommendations would reduce General Fund spending by \$553 million below the initial allocation in the Governor's budget. Part of this reduction would be recouped through increased student fee revenues.

The adjacent table shows LAO's higher education budget recommendations. The amounts shown assume adoption of related LAO budget recommendations in other areas that may affect workload in higher education.

The Months Ahead

The Governor's budget proposal closes the deficit with varied actions including shuttering 48 state parks, early releases for some prisoners, dropping MediCal dental benefits, suspending COLAs, deferring some scheduled payments, and eliminating 6,900 positions from state agencies. The budget authorizes the sale of the remaining \$3.3 billion of Economic Recovery Bonds and proposes a constitutional amendment that creates a "rainy day" reserve fund and provides for automatic spending reductions when future budget deficits are projected. LAO's proposal reduces the budget in a more targeted manner that appears to generate greater long-term savings.

Under either of these scenarios, General Funds for higher education will be 1% lower than in 2007–08. While this may seem small, the true impact of these

LAO proposals for Higher Education

| | Reduction from the Governor's initial allocation for 2008–09 |
|-------------------------------------------------------------------------------|-----------------------------------------------------------------|
| | million \$ |
| University of California | |
| Reduce 5% base funding increase to 1.5% | \$105.3 |
| Reduce enrollment growth from 2.5% to 1.8% | 16.4 |
| Revenues from fee increases moved to General Fund–c | 167.5 |
| Increase institutional financial aid–a | <i>Increase</i> 32.5 |
| Cuts in administrative spending–b | 32.3 |
| Total funding reduction | \$289.0 |
| Hastings College of the Law | |
| Cuts in administrative spending–b | \$0.3 |
| California State University | |
| Reduce 5% base funding increase to 1.5% | \$101.2 |
| Reduce enrollment growth from 2.5% to 1.8% | 22.0 |
| Revenues from fee increases moved to General Fund–c | 108.7 |
| Increase institutional financial aid–a | <i>Increase</i> 28.5 |
| Cuts in administrative spending–b | 43.2 |
| Total funding reduction | \$246.6 |
| California Community Colleges | |
| Cuts in administrative spending | \$0.2 |
| California Student Aid Commission | |
| Cal Grant Entitlement program, per LAO fee increase | \$74.3 |
| Maintain Cal Grant competitive program | <i>Increase</i> \$58.3 |
| Reduce state operations funding–d | \$0.6 |
| Total funding reduction | \$16.6 |
| California Postsecondary Education Commission | |
| Cuts in spending–b | \$0.2 |
| Estimated LAO funding reduction below Governor' initial allocation | \$552.9 |

a– Reflects increase in student fees in the LAO proposal. Under CSU and UC policy, one-third of additional fee revenues will be used for financial aid.

b– As in the across-the-board 10% cut in the Governor's proposal.

c– LAO treats fee revenues as being interchangeable with all General Fund dollars.

d– LAO recommends using anticipated sale of EdFund to restructure CSAC programs and reduce costs.

Source: Legislative Analyst's Office *The 2008-09 Budget: Perspectives and Issues*.

reductions is substantial given enrollment growth and the cost pressures faced by the systems. The budget anticipates that the funding reductions will result in larger than planned increases in student fee levels at CSU and UC.

The Governor's proposal was based in revenue forecasts made in December. The economic outlook has deteriorated significantly since then. With the economy showing signs of continued weakness, many analysts expect the revenue shortfalls to increase beyond the January estimate. Lawmakers are required to deal with the challenge of crafting a balanced budget by June 30, 2008. State policymakers have adopted some budget cuts and are continuing to wrestle with the complicated budgetary issues and will continue to do so throughout the year ahead.

Websites with information on the proposed budget and on California state financing

Department of Finance

www.ebudget.ca.gov

Legislative Analyst

www.lao.ca.gov/laoapp/PubDetails.aspx?id=1692

www.lao.ca.gov/laoapp/Analysis.aspx?year=2008&chap=0&toc=4

State Assembly

www.assembly.ca.gov/acs/newcomframeset.asp?committee=4

State Senate

www.senate.ca.gov/ftp/sen/committee/standing/bfr_home/2008QSCompletedocument.pdf

California Budget Project

www.cbp.org

www.cbp.org/pdfs/2008/080116_govbudget.pdf

Public Policy Institute of California

www.ppic.org/main/policyarea.asp?i=12
