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Sent: Tuesday, December 02, 2008 1:51 PM
To: Gari Browning
Subject: League Budget Update #24: December 1, 2008



Due to distribution errors, many of our recipients did not receive yesterday's budget update, which is being resent.

League Budget Update #24 - December 1, 2008

A new Legislature, facing the same old problems

At noon, the 2009-10 State Legislature will be sworn in, with [twenty-five new legislators](#) (15 Democrat, 10 Republican) coming to Sacramento. Also today, the governor is likely to call a special session to tackle the state's budget problem, something the lame duck Legislature was unable to do last week.

In the special session, most budget watchers expect the governor to keep his same proposal on the table, which calls for \$332.2 million in cuts to community colleges. The Legislative Analyst's Office proposed \$100 million in current-year community college cuts, and the Legislature considered a similar cut in a failed vote Tuesday night.

It is unclear whether the newly constituted Legislature will attempt to tackle the budget problem in December. While the possible solutions (including both mid-year expenditure cuts and the revenue from any tax increase) are reduced with each day that passes, the true crisis isn't seen until late February. That's when, barring unexpected revenues or legislative action, the state is expected to run out of cash until April's large tax revenues are collected. To meet obligations through April, the state needs to issue at least \$2 billion in revenue anticipation notes, which will likely be more difficult as the state's fiscal condition has deteriorated and the credit markets stabilize (reducing the attractiveness of fixed income investments).

The new legislators arriving in Sacramento are no less politically polarized than their departing counterparts. Instead, most of the twenty-five new members won election by running on hard anti-tax or pro-spending platforms. They know the state has a serious problem and want to take action, but their strategies for such action could not be further apart. The wrong vote this month could mean an immediate primary election challenge from two years from now, and both labor and anti-tax groups will be holding receptions in Sacramento this week to gently remind legislators of that fact.

Meanwhile, two champions for community colleges are gone. Both **John Laird** and **Jack Scott** left due to term limits, and Scott becomes Chancellor on January 1. The two have been among the most effective leaders on community college policy since the colleges are created in 1909.

Two community college trustees join the Democratic caucus in the Assembly--**Marty Block** (San Diego) and **Paul Fong** (Foothill-DeAnza).

Taking the reins of education policy as both Education Committee chair and Budget Subcommittee 1 chair in the State Senate is expected to be former LACCD trustee **Gloria Romero**, who is also running for Superintendent of Public Instruction in 2010. Romero, a former CSU faculty member, will likely focus on education as social justice and labor issues.

On the Assembly side, **Julie Brownley** is expected to continue as chair of the education budget-writing committee ("Sub 2"), and **Anthony Portantino** is expected to continue as Higher Education Committee chair.

LAO 5-Year Fiscal Outlook

While most budget watchers have been talking about 6-to-18 month revenues, the Legislative Analyst's Office (LAO) [recently released its annual five-year forecast](#) of both state expenditures and revenues. In summary, the LAO projects that the state will bottom-out in the 2009-10 fiscal year after a 15.9% drop from the 2007-08 fiscal year, followed by a slow climb that will only return state revenues to the 2007-08 level in 2013-14.

For Proposition 98, the forecast has taken a dramatic turn from last year. In last year's forecast, the LAO projected that soaring General Fund revenues would allow significant increases in per-student K-12 funding and more than accommodate community college enrollment growth (after moving to a "Test 1" guarantee). Last year's optimistic forecast was repeatedly used by opponents of the Community College Initiative (Proposition 92), as they argued the funding formula would provide more funding than needed for community colleges.

For the term of the forecast, Proposition 98 will no longer be switching to the more generous "Test 1," and will instead be increased based on K-12 enrollment and either per capita personal income (Test 2) or state general fund revenues (Test 3). **Unless the Legislature decides to treat Proposition 98 as a floor rather than a ceiling or to shift a larger share of the Proposition 98 pie to community colleges, the guarantee will not likely increase enough to fund both COLA and enrollment growth in each of the next five years.**

LAO Five-Year Proposition 98 Forecast						
<i>(in billions)</i>	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
General Fund	\$42.4	38.8	40.1	42.4	44.9	47.2
Local Property Taxes	15.7	15.5	15.6	15.9	16.4	17.1
TOTAL	58.1	54.3	55.6	58.3	61.2	64.3
Percent Change	--	(6.5%)	2.4%	4.9%	5.0%	5.1%
New Community College Funds at 11%	(\$32)	(386)	143	297	319	341

(in millions) _____

Projecting the Property Tax Shortfall

As part of the 5-year fiscal outlook, the LAO included projections for local property tax revenues for K-14 education agencies. Most importantly, for the current fiscal year (2008-09), the LAO estimates that K-14 property taxes will fall \$460 million below projections. While the LAO doesn't disaggregate the estimates between school and community college districts and makes a statewide estimate (as opposed to a series of local estimates), the numbers should offer a strong caution to community college districts.

Should the LAO's estimate prove to be true and proportional to the Budget Act's estimates, community college property taxes will likely be short between \$55-60 million in the current year. Unlike K-12 schools, these funds are not backfilled by the state's General Fund, and would be taken as an additional 1% cut to community colleges. We have been informing the legislative budget staff and key lawmakers about this threat, which may provide an additional explanation to the favorable treatment for community colleges in last week's special session budget vote.

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