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Subject: Budget Update/P-2 Update--April 30, 2009

Dear Colleagues:

Greetings. Here is the latest from Sacramento:

Budget Update

There is little to report from Sacramento in terms of action in the state budget process. While legislative budget subcommittees are holding hearings to discuss various sectors of the budget, they are largely marking time until they have a more accurate sense of the state's fiscal circumstances.

It is widely believed that the state's fiscal condition has deteriorated since the enactment of the February budget package, however, events scheduled for later this month will make clear by just how much. Specifically, the May 19th Special Election and the Governor's May Revision, scheduled for release on May 28, will be critical in determining the severity of the state's budget shortfall:

- Special Election ballot measures will determine the fate of \$6 billion the state is counting on to balance the 2009-10 budget. Proposition 1 C would authorize changes to the State Lottery and provide the state with \$5 billion in revenue in 2009-10 (and another \$5 billion in 2010-11). Propositions 1D and 1E would generate state savings of nearly \$1 billion by redirecting special funds currently dedicated to early childhood development and mental health, respectively.
- The May Revision will include updated revenue projections that will provide the framework for upcoming budget deliberations. In a March 13 report, the Legislative Analyst's Office forecast that state revenues for 2009-10 would fall \$8 billion below estimates used in the February budget package. They indicated that a \$2 billion budgeted reserve would mitigate this decline, leaving a \$6 billion shortfall for 2009-10. Since the time that forecast was developed, many economists have lowered their expectations for state and local economic activity in the coming year. The conventional wisdom in the Capitol is that the Governor's May Revision revenue projections will be lower, but no one knows by how much.
- Taken together, the ballot measures and LAO's revenue projections present a threat of \$12 billion to the 2009-10 state budget. It is quite possible that further erosions in revenue estimates could make this number grow. The only silver lining at the moment is that the infusion of federal stimulus dollars provides an opportunity for state leaders to get creative and generate some temporary budget solutions.

This year is unusual in that a *2009-10 Budget Act* has already been enacted, well in advance of the beginning of the 2009-10 fiscal year. However, it is clear that state leaders will need to significantly amend this budget plan in order to reflect deteriorating revenues and possibly the outcomes of the special election (if any of Propositions 1C, 1D, or 1E fail). While nobody knows exactly how the next round of budget deliberations will unfold, it appears most likely that the process will be modeled on the usual budget process. That is, the Governor's May Revision will set the stage for the deliberations. Next the State Senate and State Assembly will each consider the May Revision and adopt its own version of the budget. Then the two houses will convene a Budget Conference Committee to merge the Senate and Assembly versions. At the tail end of this of this process, the "Big Five"—consisting Senate and

Assembly leaders from both parties and the Governor—will meet privately to strike a deal to resolve any remaining differences. The goal of this process is to have a budget in place by June 30, prior to the start of the new fiscal year.

Given the rigid ideological stances in the last round of budget deliberations, and the fact that many budget solutions have been exhausted, many observers are predicting that the upcoming budget battles will be lengthy and heated.

P-2 Update

Staff in the State Chancellor's Office have just completed the tabulation of districts' P-2 reports. While we will follow up with more complete information, I want to provide you with an early heads up to assist you in your planning. Here are the highlights:

- As of P-2, total FTES for 2008-09 has increased by 6.4 percent, or roughly 75,000 FTES, compared to 2007-08 levels
- This increase exceeds growth funding provided in the 2008-09 state budget and results in unfunded enrollments of approximately 50,800 FTES. The associated deficit in growth funding is \$225 million.
- Local property taxes are \$55.3 million below budget act estimates. That shortfall has worsened from the P-1 estimate of \$33 million.
- Student fees are \$8 million above budget act estimates.
- There is a \$45 million shortfall in apportionment revenues resulting from base reductions taken in 2007-08.
- Taken together the shortfalls in local revenues (local property taxes and student fees) and base apportionments create a deficit of \$92.1 million and a deficit coefficient of .98389986.

Today we reported this data to the Department of Finance to assist them in building the May Revision. In the coming days and weeks, we will be meeting with Administration representatives to discuss the significant funding shortfalls in local property taxes, growth funds, and base funding. We will be seeking whatever relief we can get in the current year and advocating for adjustments in the 2009-10 budget to prevent these shortfalls from repeating next year. These advocacy conversations will also take place with the Legislature as the budget process unfolds.

Budget Advocacy

While the state's fiscal circumstances will certainly make our advocacy more difficult, the community colleges have a compelling case to make. Across the state, community colleges are rising to the challenge in these hard times and helping record numbers of Californians in need of education and training. Unemployed Californians are turning to the community colleges to access the training they need to secure new jobs. Students displaced from UC and CSU due to restricted admissions are coming to the community colleges to begin their higher education. Veterans are making the community colleges their first choice for pursuing a higher education. Businesses in growing sectors, such as green energy and health care, are relying on the community colleges to meet their need for highly-skilled workers.

The attached press release from Chancellor Scott uses the new P-2 enrollment data to underscore how the colleges are meeting these critical needs and also how enrollment demand is far outpacing available resources. The press release translates the unfunded enrollment growth, property tax shortfall, and base shortfall into the number of students that the colleges are serving without funding. The resulting

figure, 140,000 students on a headcount basis, is a dramatic statement of the severe fiscal strains colleges are under as they attempt to meet surging demand. At the local level this translates into overflowing classrooms, closed course sections, and long waiting lists.

Fortunately, the Governor and the Legislature are keenly aware of the important work the community colleges are performing to help Californians in this time of need. This was evident in the budget package enacted in February. However, with additional budget threats on the horizon, this is the time to renew advocacy efforts at the state and local level. More to follow on this topic shortly.

Regards,

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