2011-2012 Budget
May Revise
Planning and Budget
May 19, 2011
In the Beginning
Core Assumption for 2011-2012 State Budget

• In January it was projected that the State would have a deficit of $25.4 billion
Governor’s Budget Highlights (January)

• $400 million cut for “Apportionment Reductions and Reforms”

• State intended to enact reforms to census accounting procedures to improve course completion rates

• $400 million represented approximately 7% cut in funding
Governor’s Budget Highlights (January)

• Fee increase of $10, from $26 per credit unit to $36 per unit (38% increase)
• Would generate $110 million in new revenue to be used to support additional enrollments
• “Additional enrollments” would constitute 1.9% growth, or about 22,700 new FTES or 50,000 headcount.
Governor’s Budget Highlights
(January)

• Additional $129 million in inter-year deferrals ($961,000)
• No change to categorical program funding levels
• Extend categorical flexibility provisions for an additional 2 years to 2014-2015
Legislative Analyst Weighed In

• LAO suggested strategies to prioritize course enrollments in a January 20 report
• Registration priorities could be altered to favor students making the most progress
• Caps on the amount of apportionment-funded credits could be instituted
• Limits on course repetition could help ensure seats for students most likely to complete a degree or certificate program
Legislative Analyst Weighed In

• LAO report on January 27 stated that higher student fees would be offset by federal tax credits and tax deductions, thus ensuring California students receive a larger share of federal education assistance

• Repeated LAO’s ongoing messaging that CCC fees are lowest in the nations and that the lowest income students are not hurt by fee increases due to BOG waivers
LAO “Doomsday Scenario”

• Senator Mark Leno, Chair of the Senate Budget and Fiscal Review Committee, asked LAO for alternative options in case tax extensions did not occur

• LAO presented multiple options on a letter dated February 10

• Possible actions affecting community colleges would total $685 million if all were enacted
LAO “Doomsday Scenario”

- 90-unit cap on subsided credits
- Fee increase to $66 per unit
- Reduce funding for basic skills credit courses to non-credit rate
- Eliminate state subsidy for intercollegiate athletics
- Eliminate state funding for repetition of PE and fine arts (“activity”) classes
- Eliminate state funding for such classes entirely
Governor’s Timeline

• Planned to have budget settled within 60 days and get tax extensions on June ballot

• Early on, the Governor said if the tax extensions were not passed, “just double” the cuts proposed in his budget
What Actually Happened
Legislative Action

• Senate and Assembly Budget committees began meeting February 18

• Both houses rejected proposed census date reforms; recognition of Student Success Task Force addressing the completion issue

• Agreement that $400 million cut will be taken as a workload reduction
Legislative Action

• Both houses also rejected the proposed sue of the $110 million fee increase to fund Growth;
• Instead it is a partial offset to the $400 million cut, for a net cut of $290 million
Legislative Action

• In March, the legislature passed $13.4 billion in budget solutions, which included:
  – Reducing CalWORKs and Medi-Cal
  – Closing up to 70 state parks
  – Eliminating Adult Day Health Care and Williamson Act
  – Reduced state workforce by 5,500 positions and requiring employees to pay at least 3% more for their retirement costs
Governor’s Timeline

- By mid-March, the 60-day deadline to set a June election had passed and no Republicans agreed to consider tax extensions.
- So, the June ballet option evaporated.
Other Events

- Tax revenue forecast was revised upward by $2.8 billion for 2010-11 and $3.5 billion for 2011-12 due to higher than anticipated cash receipts.
- This results in an increase in Proposition 98 funding of $3 billion.
- A proposed shift of $1 billion from children’s health services is in litigation.
- Sale of state buildings was cancelled.
Republican Budget

• On May 12, Assembly Republicans put forth a budget proposal with no tax extensions

• $2.3 billion would be shifted from tobacco tax funded First 5 and Proposition 63 mental health accounts

• Savings of $1.1 billion from contracting out services, including electronic court reporting and UC operating prison health care
Republican Budget

- Another $1.1 billion cut to state employee compensation health care costs
Current Budget Situation

• Deficit now at $9.6 billion with higher revenues and actions taken in March

• With a $1.2 billion reserve proposed, new target amount is $10.8 billion

• This represents approximately 11% of the State’s General Fund revenues
May Revision

• Focuses on paying down debt and reducing state government
• Eliminates 43 boards, commissions, tasks forces, offices and departments
• Realigns responsibilities to local government
• Extends current tax levels for sales tax and vehicle license fees, while personal income tax surcharge is not sought for 2011-12 but would be reinstated for 2012-13 through 2015-16
What the May Revise Means for Community Colleges
• Proposition 98 increases as tax revenues and personal income increases
  – However, for 2010-2011, Prop 98 has been suspended
  – For 2011-2012, the May Revision proposes an increase in Prop 98 by $3 billion to $52.4 billion
• Affirms the $290 million reduction to apportionment resulting from the January budget proposal and subsequent negotiations with the Legislature
• Affirms the enacted enrollment fee increase to $36 per unit
• Refrains from proposing program reforms such as the census date change included in January Budget
• Makes adjustments for changes in local property tax estimates in 2010-11 ($57.8 million) and in 2011-12 ($75.1 million)
• Eliminates funding for selected mandates based upon recommendation of the K-14 mandates workgroup
• Eliminates the California Postsecondary Education Commission (CPEC)
• $3 billion increased Prop 98 funding will be dedicated to reserving deferrals
• For Community Colleges, $350 million will reduce the inter-year deferrals from $961 million to $611 million
• Any new Prop 98 funds will be used to erase deferrals and pay off mandate claims
• For current year, a $57 million increase in property taxes will help mitigate deficit
There is no “Plan B,” but...
“All Cuts” Budget

- Proposition 98 would be suspended, likely for multiple years
  - Eliminating 52,000 community college courses, or
  - Raising enrollment fee to $125 per unit
  - Along with significant changes in the structure of K-12 education
  - Additional $500 million cut each to the UC and SCU systems
Reactions
• “With $6.6 billion in new revenues, Republicans are right—we don’t need, and it’s ridiculous to ask voters for, five new taxes.”
  – Senate Republican Leader Bob Dutton, R-Rancho Cucamonga

• “The numbers don’t lie. The revenue increase over the last several weeks is good news, but it doesn’t change the fundamental nature of the challenge we face. So let’s finish our work.”
  – Senate President pro Tempore Darrell Steinberg, D-Sacramento
• “It’s clear that the Governor shares my belief that we need to protect education and law enforcement and that an all cuts budget was never a reality. It’s time to get to work.”
  — Senator Bill Emmerson, R-Riverside

• “Governor Brown laid out a fiscally responsible, balanced approach to lead the state in the right direction...We hope that Californians can vote on a tax extension that could provide education for thousands of students.”
  — CCC Chancellor Jack Scott
• “The Governor and legislators face a unique opportunity to restore confidence to an economy and an electorate both worn out from this seemingly endless budget crisis.”

  — Allan Zaremberg, President and CEO of the California Chamber of Commerce
The Rest of the Story

• The May Revision is a significant step in the development of the State of Budget—but it is not the final step
  – The economy is finally showing some faint signs of life
  – State revenues have improved at an encouraging pace
  – Permanent spending reductions on the non-Prop 98 side of the budget help reduce the need for more cuts to education
  – The economics are such that education will indeed be protected unless there is another suspension of Proposition 98
  – The politics are such that, taxes or no taxes, the votes suspension are not there at this time.
• More importantly, the culmination of a lot of work by a lot of people has increased the priority that education enjoys at all levels of government
Other State Budget Factors
Spending Cap

• The May Revision does not contain a proposal to cap or control state spending.
  – On May 16, the Governor indicated that he supports a spending cap
    • He indicated that a spending cap proposal would likely be put before state voters along side the extension of temporary taxes
Spending Cap

• Republican legislators have pressed for a spending cap in Budget negotiations
  – A hard cap based on changes in state population and the consumer price index
  – 2012-13 base year
  – Proposition 98 not included under cap
Pension Reform

• A plethora of pension reform proposals have been unveiled since the state of this legislative session
Local Taxing Authority

• SB 653
  – Authorizes cities, counties, and school districts, subject to a vote of the people, to levy local taxes on personal income, transactions and uses. Alcoholic beverages, cigarettes and tobacco, oil extractions, soft drinks, and medical marijuana, and further authorizes them to levy a local vehicle license fee.
  – Majority vote bill
What Happens Next
• The Governor goes after the tax extensions

• The Legislature passes a Budget:
  – SB 69 has passed both houses and is ready to go to the Governor if the hole left by the tax extensions is somehow filled
  – If the Legislature does not pass and send a Budget to the Governor by June 15, sanctions including permanent loss of compensation are imposed on the individual legislators
• The Governor retains responsibility for proposals, but only the Legislature can pass a Budget Bill

• While the May Revision is preferable to January, the education portion of the Budget will not be finalized until enactment of the State Budget
What does this all mean?
• Who knows

• It is now wait and see
Questions?