

On October 8, 2010, Governor Schwarzenegger signed into law the 2010-11 State Budget. One hundred days late, it was the most overdue state budget in California history (beating the earlier record of 85 days set by the 2008-09 State Budget). The budget package, comprised of 26 separate pieces of legislation, was also one of the most complex California has ever seen. Having exhausted all the easy and straightforward solutions in recent years, state leaders used a combination of cuts, rosy assumptions, borrowing, and temporary revenues to bridge an estimated \$19.3 billion budget gap.

On October 19, the Governor finalized action on the last of the budget trailer bills, including the education trailer bill (Assembly Bill 1610). In doing so, he vetoed \$60 million from the community college budget package. It appears that his primary rationale for the vetoes was not related to the specific programs, but rather a general concern with the way in which the funds would have been provided. Specifically, the \$60 million would have been disbursed to community college districts in July 2011, in effect borrowing from next year's budget in order to support programs in the current year.

The Governor's vetoes were as follows:

- **\$35 million to partially restore categorical programs.** These funds were proposed as an across-the-board partial restoration of the cuts taken in 2009-10. These resources would have been provided to districts in July 2011 as part of a new inter-year funding deferral.
- **An additional \$25 million for the Economic and Workforce Development program.** The resources would have been allocated on a competitive basis to districts to maintain and expand workforce training course offerings. These resources would have been provided to districts in July 2011 as part of a new inter-year funding deferral.

Budget Overview

Major elements of the enacted budget package include:

- \$7.8 billion in budget cuts (ongoing and one-time)
- \$5.4 billion in federal funds (this represents an increase from Governor's May Revision estimates)
- \$2.7 billion in solutions from borrowing and funding shifts
- \$1.4 billion in increased revenues due to improved economic data
- \$1.2 billion in temporary revenues due to delayed tax breaks (Net Operating Loss suspended for 2010-11; this revenue increase is offset by \$132 million in new tax breaks negotiated as part of the budget agreement)
- \$900 million in one-time revenues from the sale and lease back of state office buildings

The budget also included major reforms that had been championed by the Governor and legislative Republicans. These include:

- Pension reforms, including raising PERS retirement age for new state employees. These changes do not affect community college and school districts employees covered by PERS.
- State Budget reforms creating a stronger "rainy day fund."

Education Funding

The 2010-11 State Budget provides a total of \$49.7 billion for K-12 schools and community colleges within Proposition 98. This funding level, which is essentially flat from 2009-10 levels, is \$4.1 billion less than called for by the Proposition 98 funding formula. Rather than fund at the higher level, state leaders suspended Proposition 98 and, as a result, there is no minimum funding level in place for 2010-11. However the amount of the funding shortfall compared to the calculated minimum (\$4.1 billion) will be counted as “maintenance factor” under the provisions of Proposition 98 and will cause the funding guarantee to ratchet up further in coming years in order to make up for this funding shortfall.

The 2010-11 State Budget relies heavily on expanded inter-year funding deferrals under Proposition 98 in order to generate one-time budget savings. The budget includes almost \$2 billion in additional funding deferrals to K-12 schools and community colleges, beyond the pre-existing deferrals (see community college section for more details on deferrals). By deferring 2010-11 payments until the beginning of the next fiscal year, the state experiences one-time savings. This funding deferral will then be repeated in future years, however no additional savings will be generated.

California Community Colleges

For the California Community Colleges, the highlights are as follows:

- **Inter-Year Funding Deferrals.** The 2010-11 incorporates \$129 million in new inter-year funding deferrals. While, unfortunately, funding deferrals have become a regular feature in our budget, these new deferrals raise considerable concerns. Unlike past deferrals that were used to avert cuts, the proposed new deferral is being provided to support a current-year augmentation for enrollment funding. It is unclear whether cash-strapped community colleges have the capacity to front the investment while waiting for the state to make payments in the next fiscal year. In addition, we should be concerned that by pre-committing funding in the 2011-12 fiscal year, the state may be left in a position of being unable to fund base apportionments, enrollment growth, and COLA in the next fiscal year. Please see attachment for a more complete description of the new deferrals, as well as an overview of the deferrals previously built into the community college budget.
- **Intra-Year Funding Deferrals.** The state budget package includes a six-day delay in the October 2010 payment. Rather than being disbursed on or around October 28, the payment will be made on November 4. This intra-year funding deferral is added to the already significant intra-year deferrals already in place. The attachment, noted above, describes these intra-year deferrals.
- **\$126 million for community college enrollments.** These resources will support approximately 26,000 FTES (an increase of 2.21 percent). Funds will be allocated evenly to all districts to partially restore the 3.3 percent workload reduction that was part of the 2009-10 State Budget. If a district fails to generate sufficient FTES to earn its share of these funds, the remaining funds will be made available for other districts to earn. In using these funds, the Chancellor’s Office strongly urges districts to continue to prioritize transfer, basic skills, and career technical

education course sections. As a system, we must fully leverage available resources to provide access in these core areas if we are to maintain the confidence of the public and state leaders.

- **Zero COLA.** While the Administration had previously proposed a negative COLA (and a related funding cut), the final budget package adopted a zero COLA and thus provided no funds for this purpose.
- **\$68 million for SB 70 Career Technical Education Programs.** This represents an increase of \$20 million over 2009-10 levels.
- **Lowered estimates of local property taxes.** The local property tax estimates included in the 2010-11 State Budget are \$41 million lower than 2009-10 receipts. The budget includes a commensurate increase in State General Fund payments in order to leave the colleges whole.
- **Categorical Flexibility.** In general, the categorical flexibility provisions established as part of the 2009-10 State Budget remain in place. Notable exceptions include:
 - Language clarifying that SB 70 funding for both 2009-10 and 2010-11 are not subject to flexibility.
 - Language clarifying that the Chancellor may restrict the use of funds provided for statewide and regional projects under the Economic and Workforce Development program, Academic Senate, and Transfer Education and Articulation.
- **Mandates**
 - \$9.5 million for current-year mandate claims.
 - \$22.3 million for mandate claims from prior-years. These funds will be distributed to community college districts on an equal per-FTE basis. Funding provided to each district will be counted against outstanding mandate reimbursement claims, with a district's oldest claims retired first. To the extent funding provided to a district exceeds a district's outstanding mandate claims, the funds are available for any purpose.
 - Suspension of five community college mandates for the 2010-11 fiscal year. When a mandate is suspended, districts are relieved of the requirement to carry out the specific activity and the state is not required to provide funding. Suspended mandates include: Law Enforcement Jurisdiction Agreements; Health Benefits for Survivors of Peace Officers and Firefighters; Integrated Waste Management; Law Enforcement Sexual Harassment Training; and Grand Jury Proceedings. We are still researching the implications of these suspensions on community college districts and will provide additional guidance on this topic.
 - Mandate working group. The budget package establishes a working group comprised of representatives from the Legislative Analyst's Office, Department of Finance, Chancellor's Office, Department of Education, and legislative committees that is charged

with considering changes to education mandates, including preservation, modification, and elimination of particular mandates.

- Rejection of an earlier proposal to allow community colleges and K-12 schools to receive full repayment for prior-year mandate claims through a financing authority. We have been told by parties involved in the budget negotiations that the plan was rejected due to concerns over its legality.
- **No increase in student fees.** Student fee increases were never seriously in play during this year's budget negotiations.
- **No cuts to Cal Grants.**

Underlying Risks

While, on the surface, the 2010-11 State Budget appears to provide the community colleges with a somewhat improved budget compared to 2009-10, districts should employ caution in their local budget planning. The adopted budget presents a number of risks to the colleges that should be taken into account:

- **Possibility of mid-year cuts.** As noted above, the adopted state budget relies heavily upon optimistic assumptions in order to close the budget gap. While the economy is in recovery and those optimistic assumptions may prove accurate, there is considerable down-side risk. If the state's economic recovery lags, state revenues may not increase at the assumed rate. Federal funds may not materialize at the estimated levels. If such events occur, the state budget could easily fall out of balance, thus requiring some form of mid-year corrections, most likely cuts.
- **Funding deferrals.** If mid-year cuts were to occur, there is no way to predict what form they would take. However, it is possible that the \$129 million that is newly deferred to the next fiscal year may be considered as an "easier" cut because the funds have not yet been disbursed.
- **Local property taxes.** While we have no reason to think that the local property tax estimates in the adopted state budget are unreasonable, considerable uncertainty remains in the housing market in general and in tax receipts in particular. Most centrally, the timing and speed of a recovery in California property values is yet to be seen. Further, it is unclear to what extent the drop in property values has already been reflected in local property tax receipts and to what extent there are further negative impacts that are yet to work their way through the process. A shortfall in local property tax revenues relative to the state budget estimates would result in a cut to community colleges unless state leaders step in to provide a funding backfill.