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**Subject:** Budget Update--January 10, 2011

Dear Colleagues:

Late this morning, Governor Jerry Brown presented what he called a “tough budget for tough times.” His budget plan pegs the two-year budget shortfall at \$25.4 billion (\$8.2 billion 2010-11 and \$17.2 billion 2011-12). In addition, the Governor indicates that the shortfall could grow by another \$1.2 billion if a controversial sale of state-owned real estate is abandoned. To address the shortfall, Governor Brown’s budget proposes \$12.5 billion in spending reductions, \$12 billion in revenue extensions and modifications, \$1.9 billion in other solutions to close the gap and provide for a \$1 billion reserve.

As expected, the budget proposal is heavy on cuts to virtually every sector of the budget. The one notable exception is K-12 schools, for which no cuts are proposed. Governor Brown explained that “schools have borne the brunt of spending reductions in recent years, so this budget maintains funding at the same level as the current year.” While it is true that K-12 schools have taken deep cuts, so have many other groups, including the community colleges. It is likely that singling out K-12 schools for preferential treatment may signal a political strategy for passing revenue proposals in June. (It should be noted the proposed budget does include additional funding deferrals of \$2.1 billion for K-12 schools.)

Major proposed reductions include:

- \$1.7 billion to Medi-Cal
- \$1.5 billion to California’s welfare-to-work program (CalWORKs)
- \$750 million to the Department of Developmental Services
- \$500 million to the University of California
- \$500 million to California State University
- \$308 million for a 10 percent reduction in take-home pay for state employees not currently covered under collective bargaining agreements
- \$200 million through a variety of actions, including reorganizations, consolidations and other efficiencies.

The budget proposes the following revenues which would go before the voters in June:

- Continue current personal income and sales taxes, and the Vehicle License Fee rate, for five years.
- Sales tax and the vehicle license fee revenues would be transferred directly to local governments to finance realigned responsibilities.

For the California Community Colleges, the budget proposes the following:

- No mid-year cuts

- \$400 million cut for “Apportionment Reductions and Reforms.” While few details are provided, the budget proposal states an intent to enact “reforms to census accounting practices to provide better incentives for maximizing academic course sections available for students seeking vocational certificates and transfer to four-year colleges within the diminished level of funding.” The budget proposal goes on to state that the Administration intends to work with the Board of Governors, Chancellor, and other stakeholders to “develop specific census date reforms and other changes to apportionment funding that result in equitably spreading reductions while rewarding colleges for ensuring necessary prerequisites to enrollment are met, assisting students in completing courses they enroll in, and prioritizing course offerings needed for transfer and vocational skills. This can be accomplished in a variety of ways, including adjusting funding rates for the priority courses, developing base apportionment adjustment factors related to course completion rates, and other strategies. Under this policy, colleges will have a greater incentive to offer the courses necessary for transfer, vocational certificates, and other priority academic programs necessary for students to acquire the skills needed for the 21<sup>st</sup> century economy.” While it is unclear exactly what the Administration has in mind, a \$400 million cut would represent a funding reduction of roughly 7 percent.
- Student fee increase of \$10 per credit unit. This increase, which would bring the credit rate to \$36 per unit, would generate \$110 million in new revenue that would be used to support additional enrollments (see below).
- 1.9 percent enrollment growth funded by \$110 million in revenues generated by the increase in student fees. This translates to 22,700 full-time equivalent students or roughly 50,000 headcount students.
- Additional \$129 million inter-year funding deferral. This change would bring community college inter-year funding deferrals to a total of \$961 million. The deferral would be taken from payments in January through May and paid to districts in October of the following year. If adopted, this additional deferral would likely be a permanent addition to community college deferrals.
- No further cuts to student support categorical programs.
- Categorical flexibility provisions adopted as part of the *2009-10 State Budget* would be extended for two additional years, through 2014-15.
- Modest downward adjustments in estimated local property taxes (\$33.4 million) and student fee revenues (\$18.7 million) for 2011-12. Proposed State General Fund allocations are adjusted upward to offset these revised estimates.

The budget appears to maintain full funding for the Cal Grant program.

It is important to note that today’s budget proposal is built on the assumption that voters will approve roughly \$12 billion in additional revenues during a June election. The initial step to gaining voter approval is for the State Legislature to pass a measure placing the revenues on the ballot. During a press conference, Governor Brown declined to answer whether he believed doing so requires a simple majority or a two-thirds supermajority of the Legislature. (Democrats have the votes necessary to pass

a simple majority measure on their own but require Republican votes to reach the two-thirds threshold.) The Governor indicated that his plan is to seek support of at least two-thirds of the State Legislature. His response left open the door for an interpretation that the measure could be passed on a simple majority vote.

No specifics were provided about how the proposal would be modified in the event that the additional revenues were not adopted. During his press conference, Governor Brown simply said that the choices get far more draconian if the revenues were not approved.

Based on our initial review, we have several deep concerns with the proposed budget. To begin with, a cut of \$400 million will further impair the ability of community colleges to serve the students who are coming to our doors for education and workforce training. This proposed cut comes on top of the \$520 million in cuts taken in the *2009-10 State Budget* as well as three years without cost-of-living adjustments. Community college districts are already wrestling with brutal budget choices—cuts to courses and support services, hiring freezes, faculty and staff layoffs, furloughs, and salary take-backs. The additional cuts would make matters far worse. In addition, the proposed increase in student fees is drastic (38 percent) and the proceeds would effectively be used to shield K-12 schools from cuts, rather than assisting community college students. We must mount a strong advocacy response in order to mitigate these negative impacts.

Despite these concerns, we should keep in mind that virtually every sector of the budget would take severe cuts under Governor Brown's budget proposal. Negative impacts would be felt by all Californians. Still, we should not lose sight of the potential benefit contained in the Governor's proposal, namely that it offers to bring about some lasting resolution and stability to the state's fiscal crisis. If it succeeds in that, it may be worth the pain included in the budget plan. Perhaps most importantly we should keep in mind that an all-cuts budget would make the negative impacts, described above, pale in comparison.

We are still pouring over the details of this budget proposal and will provide additional information as soon as possible.

Regards,

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