COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

November 18, 2009

Dear Martha,

The Legislative Analyst's Office (LAO), which is the nonpartisan fiscal and policy analyst for the Legislature, this morning released its five-year fiscal forecast for California. As expected, the news isn't good, even though the LAO projects that state tax revenues have likely bottomed out.

This is my quick take, and we'll provide more information after some time for digestion (or indigestion, as the case may be).

The LAO projects that the governor faces a $21 billion eighteen-month budget problem as he crafts his January budget. The huge shortfall is mostly attributable to:

- overly optimistic revenue projections in the budget adopted in July
- failed budget solutions, such as selling the State Comp Insurance Fund
- higher than expected prison costs
- expiration of temporary tax increases and implementation of new tax cuts
- an increase in the Proposition 98 funding guarantee by $1 billion in 2009-10
- sunsetting state fiscal stabilization funds from the federal government

The LAO projects that 2010-11 will essentially be a "flat" revenue year, although $5 billion in temporary taxes will sunset. While 2011-12 will see an organic increase in revenues of $5.5 billion, $9 billion in temporary taxes will expire, causing a net reduction in state revenues.

The reduction in revenues, combined with required repayments to local governments and workload increases, creates a sustained budget problem for California that dashes any hopes that state government will recover without devastating cuts or increased taxes. Perhaps the worst paragraph in the report is:
Consistent with legislative action in 2009 to eliminate most automatic cost–of–living adjustments (COLAs) for state programs, our forecast assumes no COLAs and no salary increases for state employees through 2014–15. Furthermore, under our forecast that assumes school funding at the minimum guarantee level for Proposition 98, districts will be affected by the loss of billions of dollars of temporary federal stimulus funding over the next two years. ***Even in this stringent scenario, we forecast that operating deficits after 2010–11 will be around $20 billion each year. The forecasted gap between revenues and expenditures is the greatest—$23 billion—in 2012–13 (the year when the state must pay back its loan from local governments pursuant to Proposition 1A of 2004).***

Proposition 98

The LAO projects that Proposition 98 is underfunded by $1 billion in 2009-10, but will decrease in 2010-11 and 2011-12. With the state's significant budget problem, the LAO suggests that the Legislature could either pay the money to K-12 and community colleges now or hold it and "settle-up" as the guarantee drops over the next couple of years. Alternatively, the Legislature could, on a two-thirds vote, suspend Proposition 98. While it would be unlikely that this would lead to actual cuts as it could risk billions in federal funds, it would relieve the state of paying the money back in the future.

Mid-Year Cuts?

The most frequent question I get is whether community colleges will experience mid-year cuts this year. While every district should have significant contingency plans given the magnitude of the state's budget problems, it is unlikely that mid-year cuts could be enacted. For one reason, as discussed above, Proposition 98 is actually underfunded by $1 billion in the current year.

Further, the state is at the minimum amount of funding for higher education collectively to continue to be eligible for billions in federal dollars. The state might be able to get a waiver, although under federal law, it's a formula-driven waiver, and it is unclear whether California would be eligible. Given the magnitude of California's budget problems, it is possible that Congress would give additional flexibility for waivers, but action would be unlikely before next summer.

Summary

California's deep budget problems will far outlast the current recession, and much more difficult decisions must be made by the Legislature and governor. Given the interplay between the federal maintenance of effort requirement, Proposition 98, and the overall fiscal problems of the state, under existing law, state funding for community colleges will likely be flat through 2011-12, before seeing modest growth beginning in 2012-13.

Despite these troubling projections, I hope you will join us as we continue to argue for the funds needed to meet California's expectation for accessible and high-quality community colleges.

Scott

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