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To: SO2CBO@LISTSERV.CCCNEXT.NET
Subject: Budget Update--December 13, 2010

Dear Colleagues,

California's budget problems are once again taking center stage here in Sacramento. With newly elected legislators settling into their roles and a new Governor preparing to take the helm, we are seeing the early messaging and positioning that will shape the budget process in the coming months.

Governor Schwarzenegger's Special Session Appears Stalled

On December 6, Governor Schwarzenegger used his authority, established by Proposition 58, to declare a fiscal emergency and call for a Special Session of the Legislature. In making the declaration, the Governor put forward \$9.9 billion in budget solutions to chip away at the estimated \$25.4 billion imbalance.

These solutions were predominantly comprised of expenditure reductions, largely in health and human services programs, that had been previously proposed by the Governor and rejected by the Legislature. The Governor's Special Session proposal did not contain any cuts to K-12 schools or higher education. The proposal did, however, include \$200.2 million in reductions to subsidized child care, which if adopted would eliminate all remaining State General Fund support for these services.

On December 9, Budget Committees in both houses of the Legislature took up the Governor's Special Session package. Democrats in both committees criticized the Governor's proposals as "recycled" and it was clear that no serious consideration would be granted. Only one proposal, a new option related to transportation funding, seemed to gain significant traction. That proposal would swap revenues from the fuel excise tax and vehicle weight fees, in the process generating \$1.57 billion in savings over 18 months. At the conclusion of the hearing, it appeared likely that the Legislature will wait to take that issue up in the new year as part of budget deliberations.

Barring some unexpected turn, it is likely that the Legislature will not take up the Special Session proposals again. Under the terms of Proposition 58, the Legislature is required to pass legislation to address the fiscal crisis within 45 days of the Governor's declaration; however, because Governor Schwarzenegger's term will end before the 45 day deadline, the Legislature has the option to simply "run out the clock" on the Governor's proposal.

Governor-Elect Brown's Budget Forum

On December 8, Governor-elect Jerry Brown hosted a Budget Forum at Sacramento's Memorial Auditorium. In attendance were elected state and local officials, invited to hear an overview of California's budget challenges. The incoming Governor announced that the goal of the gathering was to help leaders from both parties come to a common understanding of the facts and the magnitude of the budget shortfall. Participants in the event were asked to refrain from proposing solutions, but rather to stay focused on defining the problem.

Governor-elect Brown facilitated the two-hour dialogue. Presenters included: Ana Matosantos, Director of the Department of Finance; Mac Taylor, Legislative Analyst; State Controller John Chiang; and State Treasurer Bill Lockyer. Also on the stage were legislative leaders: Senate President Pro Temp Darrell Steinberg; Assembly Speaker John Perez; and Assembly Republican Leader Connie Conway. Senator Republican Leader Bob Dutton was invited to sit on stage but chose to sit in the audience instead.

While little new information was shared, the comprehensive nature of the presentation underscored the massive challenges ahead. Highlights from the forum include:

- Governor-elect Brown revealed that, in addition to the \$25.4 billion problem identified by LAO, California may be facing an additional \$2.7 billion in shortfall as a result of pending tax changes at the federal level. Taken together, that would mean the total shortfall would be approximately \$28.1 billion for 2010-11 and 2011-12 combined.
- A recurring theme in the event was that one-time fixes (borrowing, one-time gimmicks, temporary revenues) are largely exhausted and it is now time to develop permanent budget solutions.
- Governor-elect Brown stated that the problem is "much worse than it has ever been before. There are very few options to fix it."
- Legislative Analyst Mac Taylor indicated that, due to expiring one-time solutions, the state's budget problems will be "worse next year than this year."
- Governor-elect Brown said that the problem is so large that it cannot be solved in one year and that some form of a multi-year approach will be required.
- If there was one reassuring statement it was a comment from Governor-elect Brown that, with the 8th largest economy in the world and a gross domestic product of over \$1 trillion, California's budget problems are surmountable. It will just take hard choices, careful planning, and discipline.

Next Steps

Governor-elect Brown will host another budget forum for state and local education leaders tomorrow at the University of California, Los Angeles. Chancellor Jack Scott and 50 other community college representatives will be on hand. The content of the forum will likely resemble the Sacramento event from last week, but with a greater focus on public K-12 schools, colleges, and universities.

On January 10, Governor Brown will present his budget proposal for 2011-12. It is safe to assume that the package will also include proposals for 2010-11 to address some or all of the roughly \$6 billion current-year shortfall.

More updates will follow as the process continues to unfold.

Regards,

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