

5-21-09

Dear Colleagues:

Just when you thought California's budget outlook could not get any bleaker, things took another turn for the worse today. More specifically, there were two negative developments:

- This morning, the Legislative Analyst's Office (LAO) released its *Overview of the May Revision* and announced a projected budget shortfall of \$24 billion, \$3 billion higher than the Governor's May Revision estimate from last week. LAO's larger shortfall estimate is due primarily to a more pessimistic outlook on the economy. (LAO's report is attached to this email message).

While LAO's weaker revenue estimate is indeed a concerning development, I would point out that just because LAO has shared this estimate does not necessarily mean that the Legislature will accept it. Revenue estimates are often negotiated between the Legislature and Governor as part of budget deliberations. In the coming days, budget staff from the Legislature and Department of Finance will likely sit down to compare estimates and attempt to come to agreement.

The bottom line in LAO's report is that the state is facing a daunting budget crisis and the Legislature needs to act quickly to balance the budget. References to the community colleges are scarce in the report. The most notable point related to the community colleges was a reiteration of their proposal to raise fees for community college students in order to provide additional revenues—which could be used either to reduce proposed community college cuts or to help bail out the state.

- This afternoon, the Governor announced that he intends to amend his May Revision proposal to include approximately \$5.5 billion in additional cuts. The reason for this change was that he has decided not to pursue \$5.5 billion in borrowing through revenue anticipated warrants (RAWs) as originally proposed in the May Revision. In place of this borrowing he will propose further cuts. The Administration will likely provide the additional cut proposals by early next week so that budget deliberations can proceed. The fact that the Governor's May Revision proposal already funds Proposition 98 at the minimum funding level should provide some protection for community colleges and K-12 schools against these additional cuts. The press release from the Governor's Office, below, provides greater insight into the reason for the change of course.

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Governor Schwarzenegger Issues Statement on His Budget Proposal

Governor Arnold Schwarzenegger today issued the following statement on his budget proposal:

"Based upon information I gathered in meetings I held while in Washington D.C., discussions with the legislative leaders, and the will of the people who said loudly and clearly in Tuesday's election that they want Sacramento to live within its means, yesterday I directed my Department of Finance to bring me additional options to cut state spending so that we can eliminate the need to seek borrowing in the form of a revenue anticipation warrant in the revised state budget I have proposed."

One last note on budget hearings. Today, the Legislature convened its Budget Conference Committee—a ten member committee with representation from both the Senate and Assembly whose task is to craft a budget solution capable securing passage in both houses. The committee membership is as follows:

- **Senate:** Denise Ducheny, Alan Lowenthal, and Mark Leno for the Democrats and Bob Dutton and Mimi Walters for the Republicans.
- **Assembly:** Noreen Evans, Kevin De Leon, and Robert Blumenfield for the Democrats, Roger Niello and Jim Nielsen for the Republicans.

At today’s hearing, the Conference Committee listened to overview remarks from the Department of Finance and the Legislative Analyst’s Office. The committee made clear its intention to come to an agreement on a fix for the state budget to be enacted by June 30. However, the ensuing comments and debate by committee members revealed a continuation of the same partisan rifts that has prevented timely and substantive budget solutions in the past.

The Conference Committee had announced plans to take public comment on the May Revision education proposals at a hearing on Tuesday May 26. However, in light of the Governor’s announcement that additional cut proposals are coming, the committee decided to postpone that opportunity for public comment. When the public comment hearing is rescheduled, I will let you know the time and place. It will be important for the California Community Colleges to have a strong showing of students, faculty, classified staff, and administrators at that hearing.

Regards,

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