

Dear Colleagues,

Just a brief update following my message from late yesterday afternoon. Last night a little past 10:00 p.m., following a series of meetings between Democratic and Republican Senate leaders, the State Senate returned to the floor and “lifted the call” on SB 64, SB 74, and SB 80. These are the three bills that would achieve \$3.3 billion in current-year savings largely through cuts and funding deferrals to schools, colleges, and universities. For the community colleges, the current-year package includes an \$85 million unallocated cut and \$115 million in funding deferrals. All three measures failed to achieve the required two-thirds vote needed for immediate implementation and thus failed passage. All three bills were “granted reconsideration” so that they may be taken up again.

During the evening’s proceedings, Governor Schwarzenegger weighed in, reiterating his opposition to the bills. The press release from the Governor’s Office stated, “To prevent the state from issuing IOUs, the legislature must come to the table with a package that solves the entire deficit with the necessary cuts and reforms, and without tax increases. The Governor will not sign any piecemeal approach, including the three bills currently being debated which only solve a fraction of the deficit.”

This morning, the Senate is back in session, again taking up the three current-year bills. The initial vote this morning continued to reflect a partisan standoff, with no Republicans voting in support. The bills were once again placed on call and the Senate recessed in order to allow continued negotiations among party leaders.

If the Legislature fails to act prior to midnight tonight, the current-year solutions would no longer be possible. This would push the entire \$24 billion problem into the next fiscal year. Since both the Governor’s and the legislative Democrat’s budget plans rely on the current-year solutions, both camps would be forced to restructure their budget proposals. It is difficult to predict exactly how this restructuring would impact the various sectors of the budget. While Proposition 98 should continue to provide protection to schools and colleges in 2009-10, there could be greater pressure to suspend Proposition 98.

In addition, State Controller John Chiang has announced that the state would be forced to issue over \$3 billion in IOUs during July if a budget deal is not achieved by midnight tonight. Community colleges (along with K-12 schools) would not be subject to the IOUs due to special protection provided in the State Constitution. While Cal Grant awards would normally be subject to the IOUs, fortunately no disbursements were planned for July so there will be no real impact.

Today and tonight are sure to be charged with drama as state leaders appear intent on playing a game of political chicken all the way to the end. More updates to follow.

Regards,

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