

May, 2010 Governor's May Budget Revision

~ Highlights for Higher Education ~

Higher Education-Non Proposition 98 Programs

General Fund expenditures are proposed to increase by \$10.2 million, or 0.2 percent, in 2009-10 and decrease by \$35.6 million, or 0.5 percent, in 2010-11 as compared to the Governor's Budget.

Higher Education includes the University of California (UC), the California State University (CSU), the Community Colleges (CCC), the Student Aid Commission (CSAC) and several other entities. Proposition 98-related expenditures for the CCC are reflected in the separate Proposition 98 section.

The significant General Fund workload adjustments to the Governor's Budget are as follows:

An increase of \$10.6 million for CSAC to reflect updated estimates for CalGrants and loan assumption programs such as the Assumption Program of Loans for Education (APLE).

An additional increase of \$11.1 million for CSAC is also recognized for 2009-10 CalGrant and loan assumption program costs. Coupled with the \$38.8 million shortfall recognized in the Governor's Budget, total recognized deficiency costs are approximately \$50 million.

The significant General Fund policy adjustments to the Governor's Budget are as follows:

An increase of \$676,000 and 8.7 personnel years to CSAC to replace shared services currently performed by EdFund in anticipation of a sale of the state's assets associated with the Federal Family Education Loan program. Combined with current reappropriation authority for this purpose included in the Governor's Budget, a total of \$1.2 million is available, contingent upon a successful sale transaction, to re-establish mail room, printing, information technology, and other shared services.

A decrease of \$7.2 million to reflect savings that will occur in CSAC's local assistance financial aid costs due to an increase from the Federal College Access Challenge Grant. The federal estimate of funds available has increased by over \$7.3 million since January and most of the increase is proposed to be utilized in ways that will offset General Fund costs.

The significant adjustments to General Fund budget solutions since Governor's Budget are as follows:

In keeping with the Governor's commitment to protect higher education funding, an increase of \$45.5 million to CSAC to rescind the Governor's Budget solution proposal to suspend awards for the CalGrant Competitive program.

Also consistent with the Governor's commitment to protect higher education funding, the contingent federal funds trigger related proposals discussed in the Governor's Budget that would have eliminated \$111.8 million for UC and CSU enrollment growth and reduced CalGrants by \$79 million by freezing income eligibility and award levels will no longer be considered as budget solution options under any circumstances.

A decrease of \$75 million to CSAC associated with a May Revision proposal to shift a portion of CalGrant costs on a one-time basis to the Student Loan Operating Fund.

A net decrease of \$10.3 million to CSAC associated with CalWORKs-related solutions in the Department of Social Services budget. In the Governor's Budget, \$18.3 million of excess Temporary Assistance for Needy Families (TANF) funds were proposed to offset the General Fund costs of CalGrants as a result of the Special Session proposal to reduce cash assistance grants by 15.7 percent for CalWORKs recipients. Since that time, \$4.6 million of the General Fund savings have eroded due to delays in adoption of the proposals. Workload adjustments in the CalWORKs budget have increased the amount available for offset in this solution by \$100.9 million. Finally, the May Revision proposal to eliminate the CalWORKs program, effective the second quarter of the 2010-11 year, will reduce the TANF offset by \$86 million. Thus, the total offsetting

TANF reimbursements proposed in the CalGrant local assistance budget in 2010-11 will increase from \$18.3 million to \$28.6 million.

The significant Non-General Fund workload adjustments to the Governor's Budget are as follows:

An increase of \$727,000 in 2010-11 and \$249,000 in 2009-10 from Federal Funds for • Community Colleges (CCC) associated with a new federal grant for the Solar Training Collaborative to develop standardized curriculum for industry certificated job-training programs in the photovoltaic and solar heating and cooling industry. Of the amounts, \$880,000 is for local assistance and the remainder will fund the Chancellor's administrative support costs.

An increase of \$266,000 reimbursements to CCC for the Energy Sustainability • program funded by a grant from the California Energy Commission that will be used to develop campus strategies for energy efficiency, renewable energy opportunities, waste reduction and recycling, transportation alternatives, and water pollution prevention.

An increase of \$4.4 million reimbursements to CCC in 2009-10 from Workforce • Investment Act (WIA) funding from the Employment Development Department to further incentives for sustaining recent enrollment increases in nursing courses and increasing enrollments in allied health-related training programs. Of this amount, \$3 million is the initial increment of a five-year funding commitment for the second phase of WIA funding for the Nursing Initiative. It is noted that the second phase of \$3 million for 2010-11 was proposed in an April Finance Letter.

An increase of almost \$2.7 million reimbursements to UC from WIA funding to • continue that segment's participation in the second phase of WIA funding for the Nursing Initiative. This is the second increment of the five-year commitment from this source designed to produce over 340 Baccalaureate, Masters, and Doctoral nursing graduates through 2013-14.

An increase of \$4.4 million in Lottery funding is anticipated for higher education • entities, including \$3 million for CCC, \$855,000 for CSU, and \$525,000 for UC. Additionally, increases of almost \$3.3 million are recognized in 2009-10 including \$2.2 million for CCC, \$639,000 for CSU and \$391,000 for UC.

A decrease of \$431,000 to UC for the Tobacco Research program due to revised • estimates of available funding.

The significant Non-General Fund policy adjustments to the Governor's Budget are as follows:

A decrease of \$6 million TANF reimbursements to CCC for the Special Services • for CalWORKs local assistance program from the Department of Social Services associated with the new May Revision proposal to eliminate the CalWORKs program effective with the second quarter of the 2010-11 year. \$2 million remains budgeted.

Proposition 98

The May Revision maintains the Governor's commitment to avoid additional cuts to K-14 education despite the need to close a deficit of \$ 19.1 billion. The Governor's January Budget proposed maintaining state funding for schools at approximately the same level for 2010-11 as schools received in 2009-10.

For 2010-11, the Proposition 98 funding level is \$48.4 billion, of which \$35 billion is General Fund. This level reflects elimination of state funding for child care only and does not reduce funding for K-14 education. As a result of the elimination of the child care program, the Proposition 98 guarantee is rebenchmarked downward by \$1.4 billion. Additionally, the Administration proposes a fund shift of \$386 million from on-going Proposition 98 funding to one-time reappropriations. Aside from rebenchmarking the Proposition 98 guarantee to reflect the elimination of child care, K-14 funding in the May Revision remains largely unchanged from the Governor's January Budget level.

For 2009-10, the Proposition 98 funding level is \$49.9 billion, of which \$35.8 billion is General Fund. This Proposition 98 funding level is \$52.4 million higher than the level included in the Governor's January Budget. The significant decline in tax receipts in the second quarter of 2010 results in lowering the Proposition 98 guarantee in 2009-10. The Administration does not propose reductions in the Current Year to the minimum guarantee level, therefore the funding level proposed by the Governor in 2009-10 is \$502 million higher than the level required by

Proposition 98. The Administration proposes to apply this overappropriation toward an early payment of the \$11.2 billion statutory obligation to schools agreed to in Chapter 3, Statutes of 2009, Fourth Extraordinary Session.

For 2008-09, the Proposition 98 funding level is \$49.1 billion, of which \$34.1 billion is General Fund. This Proposition 98 funding level is \$76.4 million higher than the level included in the Governor's January Budget. Because this funding level is only \$6.4 million lower than the level certified in legislation for 2008-09, the Administration no longer proposes to amend the certification level. Thus, the Proposition 98 guarantee will remain overappropriated by \$2 billion in 2008-09. The May Revision continues to use a portion of this overappropriation toward satisfying the outstanding maintenance factor, which was \$1.3 billion as of 2007-08. The Administration maintains its support of Chapter 3, Statutes of 2009, Fourth Extraordinary Session, which required that the state makes \$11.2 billion in payments to K-14 education over time to restore the guarantee to its prior level. However, due to the continued strain on General Fund revenues as a result of the economic crisis, the Administration continues to propose a temporary delay in the repayment schedule from 2010-11 to 2011-12. In 2008-09 the Proposition 98 calculation remains in a Test 1, thus the supplemental payments agreed to in statute as part of the 2009 Budget agreement are in lieu of a maintenance factor.

Flexibility

After discussions with district and county superintendents, the Administration withdraws its January proposal to specifically dictate the level of reductions from district and county office administration. Instead, the Administration proposes providing local district administrators and school boards maximum flexibility to manage the level of funding provided in the May Revision. The Governor continues to support providing more local autonomy in managing school funding and efforts to retain high-quality teachers and principals, especially during these difficult budget times.

While we have described our preferred approach in dealing with revisions to Proposition 98 spending, the Administration is open to working with the Legislature to consider other possible alternatives that achieve the same level of savings.

General Fund expenditures are proposed to increase by \$1.4 billion or 4.1 percent, in 2009-10 and decrease by \$829 million, or 2.3 percent in 2010-11 as compared to the Governor's Budget.

2009-10

The significant General Fund workload adjustments to the Governor's Budget for Community Colleges are as follows:

Property Tax• — An increase of \$8.4 million in local revenue for apportionments that will help mitigate base reductions included in the 2009 Budget Act. Combined with the January estimate, property taxes are \$14 million higher compared to the Budget Act.

Oil and Mineral Revenue• — An increase of \$3.1 million in local revenue which will decrease apportionment resources by this amount.

2010-11

The significant General Fund workload adjustments to the Governor's Budget for Community Colleges are as follows:

Property Tax• — An increase of \$6.4 million General Fund for apportionments to offset an estimated reduction in local Property tax revenues for the budget year.

Oil and Mineral Revenue• — An increase of \$3.1 million General Fund in apportionments to offset an estimated reduction in local Oil and Mineral revenues.