2010-2011 and 2011-2012
May Revise Budget Update

Board of Trustees Meeting
May 23, 2011
May Revise

- Governor presented May Revise on May 16th
  - Revision to his January proposal
  - It’s not an all cuts budget, as threatened
  - Does not suspend Prop 98
  - Foresees a “modest drawn out recovery” for the California economy

- Budget shortfall now $10.8 billion

- Increased state revenues are helping
  - $2.5 billion more for 2010-2011
  - $6.6 billion more for 2011-2012
  - Or are they?

- Still needs $9.4 billion in tax extensions
May Revise

- $26.6 billion gap identified in January budget proposal
- $14 billion in cuts and other solutions approved in March
- $0.6 billion in erosions of March package (due to implementation delays)
- $1.0 billion due to Proposition 10 litigation
- $6.6 billion in new GF revenues identified in May Revision
- $2 billion in higher spending
- $1.2 billion for a budget reserve
- $10.8 billion shortfall
New tax extension proposal includes VLF, CIT, Sales taxes as of July 1, 2011

Tax extensions proposal does not include personal income tax (PIT) extensions in current calendar year
- Retroactive to January 1, 2011, a problem
- Although final budget deal may include PIT, tax extension may take affect on January 1, 2012

Tax extensions still require voter approval (referendum) per Governor
May Revise

“Wall of Debt”
- State horribly in debt - $34.7 billion
- Must buy down debt with increased revenues to relieve state general fund burden
- Buying down debt does not provide more funds for K-14 education
  - No new money
- Only helps the state buy back its IOUs

Priority for buying down debt will mean three years or more until funds are available to begin to reinstate class offerings and program reductions

LAO calls debt reduction “laudable”
“Wall of Debt”

- Not all state debt is proposed to be repaid
- Budgetary borrowing - $34.7 billion
  - K-14 deferred payments, Economic Recovery Bonds, repayment of internal loans from special funds, underfunding of Prop 98 and more
- Governor’s “wall of debt” proposal doesn’t include
  - Authorized unsold bonds debt - $48.2 billion
  - Bonds sold and owed - $81.1 billion
  - State employee unfunded liabilities - priceless
Proposition 98 funding

No suspension proposed

With $6.6 billion more in state revenues
Prop 98 minimum funding guarantee increases proportionately
  – K-14 Prop 98 minimum funding guarantee increased by approximately $3 billion
  – Community colleges share of increased revenues = $350 million

  11% share of Prop 98
  RSCCD = approximately $8.7 million
Governor proposes to use all of the $3 billion in additional Prop 98 revenue to partially pay off state deferrals to K-14 education and to partially buy down “wall of debt”
  – Cash flow issue only
  – No additional funds available to help districts

Debt buy back may be a “placeholder” strategy for additional reductions if tax extensions not approved
May Revise
Community Colleges

- Affirms $290 million workload measures reduction to apportionments (SB70)
  - 6% reduction in funded FTES workload
    - Negative growth
  - RSCCD = $7.2 million loss

- Affirms student fee increase from $26 to $36 per credit unit
May Revise
Community Colleges

- Reduces community colleges’ $961 million year-end deferrals by $350 million to $611 million
  - RSCCD = from approximately $25 million in deferrals to approximately $16.2 million in deferrals

- Good news!
  - No additional cuts proposed
  - No policy reforms proposed
What’s next?

- Estimates are that the final state budget will be somewhere between Plan A and Plan B
  - Plan A - $7.2 million reduction for RSCCD
  - Plan B - $12 million reduction for RSCCD
- Plan C (all cuts budget) is no longer considered in play
- If tax extensions are approved, then Plan A remains in operation
- If tax extensions don’t occur, then “wall of debt” buy down is off the table
What’s next?

- Estimate a new Plan B with new tax revenues ($6.6 billion) and higher Prop 98 minimum funding guarantee and no tax extensions
  - State would use the $350 million debt repayment ‘placeholder” to possibly offset additional cuts

- New Plan B = net loss of $490 million to community colleges
  - Same funding level as old Plan B
    - RSCCD = approximately $12 million
What’s next?

- June state budget?
  - Unlikely unless 2/3 majority for tax extensions
  - Or is there a deal?
- September/October state budget?
  - Without tax extensions - more likely scenario because state may run out of cash in that time period
- 2011-2012 Tentative Budget approval at June 20th Board of Trustees meeting