January 12, 2010

MEMORANDUM

TO: CSU Board of Trustees
    CSU Presidents

FROM: Charles B. Reed
    Chancellor

SUBJECT: Governor’s 2010-11 Budget Proposal

On Friday, Governor Schwarzenegger released a proposed state budget for the 2010-11 fiscal year that represents a positive starting point for the CSU, given the state’s challenging fiscal circumstances.

The 2010-11 Governor’s Budget identifies a $19.9 billion budget shortfall over the next 18 months. The Governor proposes solving this gap with a heavy emphasis on expenditure reductions and assumed new federal funds. Expenditure reductions are concentrated in health, welfare and transportation programs, as well as state employee compensation and, to some extent in adult and youth corrections programs. It is clear that many of the Governor’s proposals will face a difficult reception in the Legislature. It is also clear that there are no easy alternatives. Easy options for addressing the state’s fiscal problems were exhausted two years ago.

Overall, state General Fund revenues are estimated to total $89 billion, a year-to-year increase of only 1.4 percent. More revealing of the extent of the state’s fiscal bind is the Department of Finance’s estimate that baseline revenues are about 30 percent below projections that were made two years ago (when the fiscal outlook was relatively “normal”). The department expects this depressed revenue picture to last for several more years.

2010-11 CSU Support Budget

Despite the State’s fiscal condition, the Governor has made higher education a central priority of his 2010-11 Budget. The Governor’s Budget provides similar treatment to the CSU and the University of California (UC). For each system, the budget (1) restores $305 million of one-time cuts made in 2009-10 and (2) provides 2.5 percent enrollment growth. For each system, the enrollment growth funds are made contingent on the receipt of specified new federal funds for programs outside higher education.
The $305 million restoration is related to the following two cuts made in 2009-10:

- $255 million line-item veto. The Governor’s veto message described this as a one-time cut, to be replaced with state General Fund in 2010-11.
- $50 million cut by the Legislature as part of the original 2009-10 budget act adopted last February. The Legislature included language in the budget act that indicated its intent to restore these funds when possible.

Restoring these two cuts was the initial foundation of the budget request for 2010-11 that the board approved last November. The other items in the board-approved CSU support budget request, a total of $579 million of General Fund request, are not included in the Governor’s Budget. The Governor, however, has proposed an augmentation for 2.5 percent enrollment growth ($60.6 million), linked on a contingent basis to an optimistic assumption of $6.9 billion of federal funds for various programs outside higher education.

The Governor did not make restoration of the $305 million contingent on federal funds or any other assumptions. This distinction between the contingent nature of the enrollment growth funds and the non-contingent nature of the $305 million should be seen as significant.

The Governor’s Budget did not identify federal stabilization funds for the CSU in 2010-11. At the time this report was prepared, our discussions with the Department of Finance indicated that the amount that the CSU might receive in 2010-11 from this source—authorized by the American Recovery and Reinvestment Act (ARRA)—probably would not be significant, (California already has received 90 percent of its eligible funding from this one-time source). It may sound counter-intuitive, but the lack of one-time stabilization funds does not create a “hole” in CSU’s 2010-11 budget. The CSU’s 2009-10 support budget was far less dependent on this one-time resource than meets the eye. The one-time positive inflow of $716.5 million that the CSU received was almost entirely cancelled out by the one-time “retroactive” reversion of $715.5 million from the CSU’s state appropriation. These actions of almost equal amount, one positive, the other negative, were one-time actions that will not be repeated in 2010-11. As a consequence, the Governor’s Budget proposal, including restoration of $305 million and provision of $60.6 million for enrollment growth, represents a true year-to-year increase in overall CSU resources.

**Capital Outlay**

The Governor’s Budget does not propose new funds for higher education capital outlay. The Governor’s budget summary includes a statement that the Administration intends to propose funding for higher education capital outlay needs as part of the May Revision. As part of its review, the Administration will seek to develop alternative funding sources for higher education facilities with the object of reducing future state General Fund costs.

**Proposed Constitutional Amendment**

The Governor reinforced his commitment to restoring funding to the CSU and the UC by proposing a state constitutional amendment that would redress the imbalance in state
priorities that has arisen over the last couple decades between the universities and the state’s prisons. The amendment proposes to reduce prison funding, starting in 2011-12, with the objective of bringing the combined UC/CSU share of General Fund spending from its current 7.5 percent (approximate) to a guaranteed minimum of 10 percent by the 2014-15 fiscal year and each fiscal year thereafter. Constitutional amendments require majority vote of the state electorate. The presentation of constitutional amendments to the voters first requires either (1) passage of the amendment by two-thirds vote of the Legislature or (2) securing enough valid signatures to be placed on the ballot as an initiative.

Special Session Called for January and February

When the Governor unveiled his 2010-11 Budget proposal on January 8, he also declared a fiscal emergency and called the Legislature into another special session, with the intent of addressing $8.9 billion of the $19.9 billion budget gap by late February. (The Governor’s special session proposals call for no change in the current CSU support budget.) The budget projects that cash flow problems will again become acute in July, and indicates that the Department of Finance will be working with the State Controller and State Treasurer to identify additional cash flow solutions for legislative consideration in the special session.

Conclusion

The Governor’s 2010-11 Budget makes higher education a central priority, notwithstanding the state’s extremely challenging fiscal circumstances. This budget proposal, if approved by the Legislature, would allow the CSU to substantially restore student access and program quality. We will keep you apprised of developments as we continue to study the details of the budget, legislative reaction to the budget, and implications of the Governor’s Budget for CSU planning.

CBR/rt

c:   CSU Vice Presidents, Academic Affairs
     CSU Vice Presidents, Finance and Administration