

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of March 19, 2009

UPDATE ON THE SPECIAL SESSION RECOMMENDATIONS FOR THE STATE BUDGET

Vice President Lenz will make an oral presentation on the new State budget arising from the Special Session in February. Highlights of the new budget package are described below.

Statewide Budget Solutions

The Special Session of the Legislature has responded to the Governor's call to deal with the worsening effects of the global economic downturn and its impact on the State's ability to meet basic cash flow needs. On February 20, 2009, the Governor signed an 18-month budget package that addresses estimated shortfalls for both the remainder of 2008-09 and 2009-10.

The budget package responds to an estimated \$41.6 billion deficit through a combination of actions over the 18-month period, including expenditure solutions of \$14.9 billion, revenue increases of \$12.5 billion, federal stimulus funds of \$7.9 billion, a total of \$5.4 billion in borrowing, and other reductions achieved through Governor's vetoes of nearly \$1 billion.

In addition, several components of the budget package that were necessary to achieve the 2/3 vote from the Legislature will require voter approval. A special election is to be held on May 19 to vote on these initiatives. Below are the proposition numbers and descriptions of the seven budget package initiatives. Full text of the ballot measures is available at http://www.sos.ca.gov/elections/elections_j.htm#2009statewidespecial.

Proposition 1A - Creates a special Rainy Day fund and puts new limits on State spending.

Proposition 1B - Alters repayment schedule for schools and community colleges owed Prop. 98 funds by the State, to protect their funding after State revenues rebound.

Proposition 1C - Allows State to borrow money for the general fund based on future profits from the state lottery.

Proposition 1D - Temporarily shifts cigarette taxes away from California Children and Families Program and into the general fund; eliminates the states First 5 Commission and uses money for general fund.

Proposition 1E - [The Mental Health Services Act: Proposition 63 amendments.](#)

Proposition 1F - Forbids California Citizens Compensation Commission from raising legislators' and State officers' salaries when the State is running a deficit.

Proposition 13 - Bars property tax increases on construction for seismic retrofits.

Adoption of the Special Session budget package essentially means that a budget is now in place for 2009-10. However, the Legislature intends to hold budget hearings throughout the spring to deliberate further on issues believed to require continuing review and discussion. They have developed a list of issues that are open for further consideration which will help form the agenda for these hearings. In addition, the Legislative Analyst has issued several papers (in place of its normal voluminous publication) that will also be considered by the Legislature during budget hearings.

Impact of Special Session Actions on UC Budget

In October, when the Regents adopted a revised budget plan for the current year following deliberations on the latest State budget in history, the University's budget for 2008-09 was \$48.7 million less than the State General Fund budget for the previous year (including a post-budget act cut of \$33.1 million to the University's budget). At that time, it was noted that with mandatory cost increases included, the University would need to redirect a total of \$148.7 million from existing resources to address the budgetary shortfall.

For the Special Session, the Governor proposed a new reduction of \$65 million for the current year. The Legislature incorporated that cut into its package and approved an additional \$50 million reduction for 2009-10. The post-budget act cut of \$33.1 million that was included in the final budget approved last fall, however, is considered to be one-time and is scheduled to be restored in 2009-10, making the permanent base budget reduction over the 18-month period \$115 million. Campuses are also contending with unfunded enrollment and other mandatory cost increases such as health benefits, maintenance of space, purchased utilities, faculty merits, among others. In all, given base budget cuts and unfunded mandatory cost increases, the University is contending with a \$450 million shortfall over a two-year period.

The Special Session budget package also removes \$449 million in lease revenue bond funding proposed by the Governor in January for capital outlay projects. With no new GO bond approved, the Governor had proposed lease revenue bond funding for 8 projects on 8 campuses. However, the Legislature did not include this funding in its final bill.

It should be noted that the budget package specifies that the additional \$50 million reduction could be rescinded later this spring if the State receives expected funds from the federal economic recovery package; in this case, the UC reduction is one of several that would be "triggered" for restoration.

The compromise budget also removes funding that had been proposed by the Governor in January for PRIME medical enrollment expansion and nursing student expansion. Funding for these programs and the capital facility projects are on the Legislature's reconsideration list and could be restored during the budget subcommittee deliberations later in the spring or early summer.

The other significant action in the Special Session package is the elimination of the \$20 million the Governor had proposed for re-starting employer contributions to the University's retirement system. This action is a major disappointment and cause for serious concern. University leadership is engaged in discussions over the advocacy effort that will be needed to seek restoration of these funds. While this will be a daunting task, given that this decision is part of a large package of difficult actions that the Legislature and the Governor will be reluctant to change, the fiscal viability of the retirement system is at risk if efforts to restore these funds are not successful.

Other UC issues of note in the Special Session Package

Student Fees - The new budget package assumes an increase in mandatory systemwide student fees for UC of 9.3 percent in the 2009-10 academic year. The 9.3 percent is an average of increases proposed for the Education Fee (10 percent) and the Registration Fee (4.2 percent). These two fees, in addition to professional fees that will increase from 5 to 24 percent, will generate \$106.9 million for the UC in 2009-10, net of financial aid (assuming a set-aside of 33 percent for undergraduate and professional school student financial aid and a 50 percent set-aside for graduate student aid). This action would raise resident undergraduate fees from \$7,126 to \$7,788. Because of the continuing uncertainty surrounding the State's fiscal situation, the potential for further cuts, and the need to resolve the issue of restarting contributions to the retirement system, action on student fee increases is being deferred to the May meeting.

Fund Swaps – The Special Session package includes two fund swaps that add up to a significant amount of money, and rely on certain actions occurring in the near future, but they do not affect the University's bottom line. First, the new package deletes \$255 million in State General Funds and includes in UC's budget an equivalent amount of funding that is expected from the federal economic stimulus package. Second, the Governor's proposal to privatize the lottery is one of the issues on the ballot for the May special election. The budget package assumes approval of that initiative and thus shifts \$29.8 million that we currently receive from lottery funds and replaces them with State General Funds.

Medical Centers – The Budget includes a 10 percent reduction to selected Medi-Cal payments, which would impact the Medical Centers by as much as \$12 million. However, the budget also includes a provision that would rescind this reduction if the State receives at least \$10 billion from the federal economic stimulus package. Additionally, the budget includes significant Medi-Cal program eligibility reductions, which would increase the number of uninsured Californians thereby increasing the cost of unreimbursed care at the UC Medical Centers. A conservative estimate of the additional program impact to the UC Medical Centers is \$11 million. Again, the budget package includes a provision that will rescind this cut if the threshold amount of federal funds is received. Whether the threshold will be met will be determined by the Department of Finance by April 1, 2009.

Cal Grant Funding – The Governor’s January budget had proposed various reductions in the Cal Grant program that included freezing income ceilings, reducing the maximum award at independent institutions, eliminating the Cal Grant Competitive program, and partially decoupling Cal Grants from fee increases at the public institutions. These proposals were not included in the Special Session package, so UC is not anticipating these effects.

(Attachment)