

CFA Research Brief #5

2003-04 Budget Update

Summary

- The May Revise is a significant departure from the Governor's January Budget proposal. It adopts a multi-year approach to the state's fiscal crisis, using deficit reduction bonds to finance a significant portion of the anticipated 2003-04 budget shortfall. The Legislative Analyst's Office has raised concerns over increased borrowing, arguing that it will result in an ongoing multi-billion dollar structural deficit that must be addressed in 2004-05 and beyond.
- The May Revise proposes only technical changes to the CSU's budget. However, budget sub-committees in both the Senate and Assembly approved additional reductions to the CSU's budget. Further reductions are possible via budget conference committee actions.
- According to the CSU administration, the system is facing a total budget shortfall of between \$260.7 and \$315 million in 2003/04. **However, the total budget shortfall may not ultimately be as large as the CSU administration currently argues.** Most campuses could use a portion of their enrollment dollars to help partially offset the budget shortfalls they face.

The May Revise

With the release of his revised budget proposal last week, Governor Gray Davis signaled a significant change in the state's approach to an anticipated budget shortfall that now stands at \$38.2 billion (up from \$34.6 billion in January). While the Governor's January budget proposal relied heavily on spending reductions, the May Revision adopts a multi-year approach to the state's budget crisis through increased borrowing. Specifically, the May Revision proposes the state issue \$10.7 billion in "deficit reduction bonds", the proceeds from which would help to fill the budget gap. The bonds would be repaid over a five-year period using revenue derived from a new half-cent increase in the sales tax.

In addition to the debt financing, the May Revision also includes a significant reduction in the scope of the Governor's "realignment" plan, which would have shifted responsibility for several health & human service programs to local governments. The various solutions to the budget shortfall are summarized in Table 1.

Table 1. Solutions to the Budget Shortfall (in millions)

Solution	January 10	May Revision
Cuts/Savings	\$ 20,728	\$ 18,875
Realignments	8,154	1,732
Fund Shifts	1,903	2,076
Transfers	2,114	1,913
Loans/Borrowing	1,683	2,902
Debt Financing		10,700
Total	\$ 34,583	\$ 38,198

Source: Governor's May Revision

The new approach taken in the May Revision allows the Governor to partially restore funding to some of the programs hardest hit by the January budget, including the California Community Colleges (CCCs). The Governor restored \$300 million in funding for the CCCs, which suffered significant general fund reductions in the January proposal. The May Revision also reduces the proposed fee increase for CCC students. In addition to the CCCs, the May Revision restores funding for K-12 education. See Table 2 for a comparison between the Governor's January proposal and the May Revision.

Table 2: Governor's January Budget and May Revision

	2002-03	Governor's January	Governor's May Revision
Legislative, Judicial and Executive	\$ 2,477	\$ 2,167	\$ 2,428
State and Consumer Service	480	438	439
Business, Transportation and Housing	206	216	426
Technology, Trade and Commerce	46	21	25
Resources	1,115	959	922
Environmental Protection	175	100	100
Health and Human Services	23,029	15,146	21,124
Youth and Adult Corrections	5,674	5,639	5,729
K-12 Education	29,067	27,390	29,080
Higher Education	9,447	8,509	8,837
Labor and Workforce Development	153	90	90
General Government	3,592	2,094	1,233
Total	\$ 75,461	\$ 62,769	\$ 70,433

Note: Much of the increases from January to May are due to the scaling back of the realignment proposal that would have shifted responsibility for many Health & Human Service programs to local governments.

Source: Governor's January Budget and Governor's May Revision

Although the proposals contained in the May Revision result in a balanced budget in 2003-04, the increased emphasis on borrowing results in a significant ongoing structural budget deficit. In other words, May Revision does not resolve the imbalance between revenues and expenditures. According to the Legislative Analyst's Office (LAO), a deficit of \$7 billion would exist in 2004-05. This imbalance would persist and grow absent corrective actions (e.g. permanent spending reductions or revenue increases).

The May Revision, if adopted unchanged, would therefore require additional budget reductions or revenue enhancements in 2004-05 and possibly beyond. The magnitude of these "out-year" fixes would depend largely on the health of the U.S and California economies and the timing of an economic recovery.

CSU Budget Update

The May Revision essentially makes no changes to the funding levels proposed for the CSU in the Governor's January budget. In addition to the reductions proposed in January, the May Revision cuts funding for the CSU by an additional \$6 million. However, the reductions are technical in nature and will have no additional net effect on the total resources available to CSU campuses in 2003-04. In total, the Governor's May

Revise proposes reducing the CSU's 2003-04 General Fund allocation by \$103.4 million (or 3.9 percent) from 2002/03 levels (see Attachment A).

Unfortunately, the CSU is facing the strong possibility of further budget reductions. Budget subcommittees in both the Senate and Assembly have already approved \$69.5 million in additional cuts to the CSU. The Assembly plan includes language protecting instructional programs, student services and student outreach from the additional reduction. The Senate budget committee approved a \$66 million reduction to the enrollment growth allocation proposed by the Governor and a \$3.5 million unallocated cut.

CSU administrators have stated that an additional reduction of \$69.5 million could result in a loss of 1,079 employees or an additional fee increases of 12.5 percent (on top of the 25 percent fee increase already proposed by the Governor). Obviously, the additional reductions already approved (and any further cuts) will have a major impact on instructional quality and student access.

The Senate and Assembly restored funding in other CSU budget areas. The Assembly budget subcommittee put \$12.6 million into K-12 student outreach, \$2 million into bilingual teacher recruitment and \$1.2 million into the state government Fellows Program. The Assembly also agreed to provide \$1.5 million to backfill for a loss of student fee revenue from the passage of a National Guard fee waiver. The Senate budget subcommittee added \$2.5 million to student outreach and \$1.2 million to the Fellows Program.

In total, the Assembly budget subcommittee has proposed reducing the CSU's total 2003-04 General Fund allocation by \$157.1 million (or 5.9 percent) from 2002-03 levels. The Senate budget subcommittee's reduction is a bit deeper - \$170.7 million (or 6.4 percent).

Ultimately, the size of the CSU's overall budget reduction will be negotiated in the Budget Conference Committee, a body made up of three legislators from each house that is charged with reconciling differences between the Senate and Assembly budget bills. The Conference Committee is expected to begin their work in early June.

It is extremely important to remember that the total budget reductions faced by the CSU may ultimately be more significant than simply the difference between the 2002-03 allocation and the 2003-04 allocation. This is because campuses are facing unfunded cost increases that must be accommodated in 2003-04. In other words, campuses will be able to do less with the resources they are given because of increasing health care cost premiums, growing utility expenses and other increasing costs. CSU campuses will need to make additional cuts in service in order to free up dollars to cover these cost increases.

The CSU administration believes the total 2003-04 budget shortfall is now upwards of \$315 million (see Attachment B). ***However, the total budget shortfall may not ultimately be as large as the CSU administration currently argues.*** CSU campuses could use a portion of their new enrollment growth money (which the administration does not account for when calculating the \$330 million figure) to offset the total 2003/04

budget shortfall. The administration's figures should therefore be viewed as a worst-case scenario given a certain set of funding assumptions.

CFA Negotiates Budget Language

In late May, CFA reached a significant agreement with the CSU administration on budget language for 2003-04 that was subsequently adopted without dissent by the Assembly and Senate education budget subcommittees (see Appendix C). The budget language directs the CSU to "give priority to funding core classroom instructional needs, student services and libraries," and to mitigate the impact of budget cuts "on the quality and availability of CSU class offerings." The CSU is also directed to mitigate the impact of budget cuts by using alternative funding sources, reducing administrative costs and deferring a portion of next year's CMS expenditures. The CSU would provide a comprehensive report to the Legislature by November 1, 2004, outlining steps taken to comply with the budget language, as well as reporting data related to class size, available course sections and total number of faculty, lecturers, staff and MPP personnel positions.

The budget accord represents a significant step forward in CFA's efforts to ensure there are minimal cuts to class offerings next year. The accord should be seen as a first step in what will certainly be an ongoing effort by CFA at both the statewide and campus levels to prevent cuts to instruction as the primary response to the budget crisis.

**For additional information, or for copies of previous CFA Research Briefs please contact:
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Appendix A: 2003/04 Proposed CSU Budget Reductions

	Governor's Budget	LAO	May Revise	Assembly Budget Subcom.	Senate Budget Subcom.
2002/03 CSU General Fund Base Budget	\$ 2,680,280,000	\$ 2,680,280,000	\$ 2,680,280,000	\$ 2,680,280,000	\$ 2,680,280,000
Administrative Budget Adjustments					
Employer Retirement Costs	\$ 68,075,000	\$ 68,075,000	\$ 68,075,000	\$ 68,075,000	\$ 68,075,000
Misc. Administrative Adjustments	\$ 9,688,000	\$ 9,688,000	\$ 2,207,000	\$ 2,207,000	\$ 2,207,000
Total 2003/04 Proposed Administrative Adjustments	\$ 77,763,000	\$ 77,763,000	\$ 70,282,000	\$ 70,282,000	\$ 70,282,000
General Fund Reductions					
Unallocated base budget reduction	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)
Reduction in student service funding	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)
Reduction in academic and institutional support	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)
Reduction in outreach funding	\$ (12,596,000)	\$ (12,596,000)	\$ (12,596,000)	\$ -	\$ (10,096,000)
Reduction in CalTeach funding	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ -	\$ (2,000,000)
Reduction in Bilingual Teacher Recruitment	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)
Increase student-to faculty ratio from 18.9:1 to 19.9:1	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)
Reduction in Public Service funding	\$ (450,000)	\$ (450,000)	\$ (450,000)	\$ (450,000)	\$ (450,000)
Reduction in Student Fellow Program	\$ (1,444,000)	\$ (1,444,000)	\$ (1,444,000)	\$ (244,000)	\$ (244,000)
Backfill Revenue Loss from Nat. Guard Fee Waiver	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -
Republican Caucus Reduction (7%)	\$ -	\$ -	\$ -	\$ -	\$ -
Additional Base Reduction (note 1)	\$ -	\$ -	\$ -	\$ (69,500,000)	\$ (3,500,000)
Total 2003/04 Proposed Reductions	\$ (326,072,000)	\$ (326,072,000)	\$ (324,572,000)	\$ (378,276,000)	\$ (325,872,000)
General Fund Revenues					
2003/04 Enrollment Growth (note 2)	\$ 105,880,000	\$ 84,700,000	\$ 105,880,000	\$ 105,880,000	\$ 84,880,000
2002/03 Over-enrollments (note 3)	\$ 45,000,000	\$ -	\$ 45,000,000	\$ 45,000,000	\$ -
Total 2003/04 General Fund Revenue	\$ 150,880,000	\$ 84,700,000	\$ 150,880,000	\$ 150,880,000	\$ 84,880,000
Proposed 2003/04 General Fund Base Budget	\$ 2,582,851,000	\$ 2,516,671,000	\$ 2,576,870,000	\$ 2,523,166,000	\$ 2,509,570,000
Total 2003/04 General Fund Reduction from 2002/03	\$ (97,429,000)	\$ (163,609,000)	\$ (103,410,000)	\$ (157,114,000)	\$ (170,710,000)
2003/04 Percent General Fund Reduction	-3.6%	-6.1%	-3.9%	-5.9%	-6.4%

- (1) The Assembly Budget Subcommittee includes language protecting instruction, students services and outreach programs from the additional base reduction.
- (2) The Governor's Budget proposes new enrollment growth of 5 percent or 16,057 FTES. The LAO and Senate Budget Subcommittee believe growth will be less robust.
- (3) The Governor's Budget proposes backfilling for over-enrollments accepted by the CSU in 2002-03. Backfilling provides funds for 6,744 FTES (2 percent). The LAO and Senate Budget Subcommittee exclude funding for over-enrollments

Appendix B: CSU Administration's Calculation of Total 2003/04 Budget Shortfall (note 1)

	Governor's Budget	LAO	May Revise	Assembly Budget Subcom.	Senate Budget Subcom.
General Fund Reductions					
Unallocated base budget reduction	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)	\$ (142,752,000)
Reduction in student service funding	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)	\$ (53,197,000)
Reduction in academic and institutional support	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)	\$ (58,091,000)
Reduction in outreach funding	\$ (12,596,000)	\$ (12,596,000)	\$ (12,596,000)	\$ -	\$ (10,096,000)
Reduction in CalTeach funding	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ -	\$ (2,000,000)
Reduction in Bilingual Teacher Recruitment	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)	\$ (2,000,000)
Increase student-to faculty ratio from 18.9:1 to 19.9:1	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)	\$ (53,542,000)
Center for California Studies	\$ (450,000)	\$ (450,000)	\$ (450,000)	\$ (450,000)	\$ (450,000)
Reduction in Student Fellow Program	\$ (1,444,000)	\$ (1,444,000)	\$ (1,444,000)	\$ (244,000)	\$ (244,000)
Additional Base Reduction (note 2)				\$ (69,500,000)	\$ (3,500,000)
Total 2003/04 Proposed Reductions	\$ (326,072,000)	\$ (326,072,000)	\$ (326,072,000)	\$ (379,776,000)	\$ (325,872,000)
Allocation for 2002/03 Over-enrollments (note 3)	\$ 45,000,000	\$ -	\$ 45,000,000	\$ 45,000,000	\$ -
Net Student Fee Revenues (note 4)	\$ 142,000,000	\$ 146,000,000	\$ 142,000,000	\$ 142,000,000	\$ 142,000,000
Additional Cost Pressures					
Mandatory Cost Increases	\$ (78,600,000)	\$ (78,600,000)	\$ (78,600,000)	\$ (78,600,000)	\$ (78,600,000)
Permanent Reduction in Long Term Needs	\$ (43,000,000)	\$ (43,000,000)	\$ (43,000,000)	\$ (43,000,000)	\$ (43,000,000)
2003/04 Total Fiscal Impact	\$ (260,672,000)	\$ (301,672,000)	\$ (260,672,000)	\$ (314,376,000)	\$ (305,472,000)

- (1) CSU Campuses could help offset these reductions by using a portion of the new enrollment growth money allocated in 2003-04. The CSU could receive up to \$105 million for new enrollment growth (16,057 FTES or 5 percent). This money is not accounted for in the above spreadsheet.
- (2) The Assembly Budget Subcommittee includes language protecting instruction, students services and outreach programs from the additional base reduction.
- (3) The Governor's Budget proposes backfilling for over-enrollments accepted by the CSU in 2002-03. Backfilling provides funds for 6,744 FTES (2 percent). The LAO and Senate Budget Subcommittee exclude funding for over-enrollments
- (4) The Governor's Budget proposes fee increases of 25 percent (undergraduate) and 20 percent (graduate). One third of the total revenue from the fee increase is set aside for the CSU's institutional financial aid program. The remaining "net student fee revenue" is available to offset the proposed budget reductions. The LAO proposes a smaller student fee increase and devotes fewer of the total revenue to the institutional financial aid program.

Appendix C: Joint CSU/CFA 2003-04 Supplemental Report Language Proposal

It is the intent of the Legislature that reductions to the California State University (CSU) budget in 2003-04 be implemented to protect, to the greatest extent possible, the CSU's primary educational mission of undergraduate and graduate instruction, as defined in Education Code Section 66010.4. To this end, the CSU will give priority to funding core classroom instructional needs, student services, and libraries. It is recognized that other functions of the CSU, such as academic support and maintenance and operations, help to maintain the system's educational quality.

In addition, the CSU shall:

1. Ensure that budget reductions are apportioned to mitigate their impact on the quality and availability of CSU class offerings, student services and libraries.
2. Use alternative funding sources, to the extent permissible under law, to help mitigate the impact of budget reductions on students, faculty and staff.
3. Reduce administrative costs, while at the same time maintaining sufficient resources necessary for the campuses and system to operate efficiently, serve students effectively, manage the CSU system and remain accountable to the state.
4. Defer expenses in 2003-04 for implementation of the Common Management System (CMS) on campuses proposing new start-up projects, where feasible.

The CSU shall report the following to the Department of Finance, Legislative Analyst's Office and appropriate legislative committees by March 30, 2004:

- The total number (both headcount and full-time equivalents) of tenured and tenure-track faculty; lecturers; represented staff; and MPP personnel employed by the CSU in October 2002 and October 2003.
- Total student enrollment (both headcount and full-time equivalents) in the Fall terms of 2002 and 2003.

The CSU shall report the following to the Department of Finance, Legislative Analyst's Office and appropriate legislative committees by November 1, 2004:

- The total number (both headcount and full-time equivalents) of tenured and tenure-track faculty; lecturers; represented staff; and MPP personnel employed by the CSU in March 2003 and March 2004.
- Total student enrollment (both headcount and full-time equivalents) in the Spring terms of 2003 and 2004.
- Average class size in both 2002-03 and 2003-04.
- The total number of course sections taught in 2002-03 and 2003-04.
- Total actual expenditures by program and subprogram area in both 2002-03 and 2003-04.

The CSU shall also report by November 1, 2004 on the deferral, if any, of CMS implementation costs during fiscal year 2003-04; and the use, if any, of alternative funding sources used to help mitigate the impact of the 2003-04 budget reductions.