On January 10, 2008, Governor Arnold Schwarzenegger presented his budget proposal for the coming 2008-09 fiscal year. As expected, the budget presents some serious challenges for the entire public sector. The Governor’s $141 billion expenditure budget for 2008-09 is designed to eliminate a growing deficit that is expected to rise to $14.5 billion by the end of next fiscal year, as the state is now spending over $400 million per month more than it is receiving in revenue. The Governor described this as a problem created by not having expenditure limits aligned with revenue. While expenditures continue to increase due to entitlements and formulas, revenue has been unstable due in large measure to the impact of the housing crisis on California’s economy. The Governor indicated that we want to create a budget system that is stable, “fiscally responsible and avoids future budget deficits”.

The Governor is calling for mid-year cuts to community colleges of $40 million in the current year (2007-08) and eliminates the funding the Governor set aside for a possible increase in funding for noncredit Career Development and College Preparation (CDCP) FTES. His January budget proposal for 2008-09 includes a major reduction of $483.5 million to community colleges, proposes a suspension of Proposition 98 (the funding guarantee for K-14 education), and calls for a Constitutional Amendment for a balanced budget and “revenue stabilization funds”.

Although Butte College provides for a sound budgeting system and maintains strong reserves, the reductions proposed in the Governor’s budget could have a serious impact on our budget. We will continue to pursue cost containment measures through negotiations and the budgeting process in order to avoid layoffs of permanent staff or significant reductions to already tight operating budgets. Our reserves will act as a “revenue stabilization fund” similar to what the Governor is proposing for the state of California. We will do our best to keep instructional offerings at the level needed by our students.

The District’s leadership teams and the Planning and Budget Committee will spend considerable time and care as we plan to meet the challenges ahead. The following are some of the highlights in the January budget proposal and the impacts that we will be addressing:

**Mid-year Reductions 2007-08.** The Governor’s Administration has identified a $1.4 billion drop in the minimum amount owed to K-14 education under Proposition 98; however, the Administration is proposing to reduce Prop 98 funding in the current year by only $400 million ($360 million for K-12 and $40 million for community colleges). The $40 million amount identified for community colleges is not accompanied by specific programs cuts and the Administration has committed to working with stakeholders to identify one-time savings.

**Governor’s “Budget Stabilization” Proposal.** To eliminate the structural budget deficit caused by automatic expenditure increases in excess of revenue, the Governor is
proposing a change to the State Constitution, which he refers to as the Budget Stabilization Act. If approved by voters, budget reductions will automatically be triggered if revenue projections indicate a shortfall. In addition, it mandates that unanticipated revenue be set aside in a reserve, only to be used when revenue growth slows below a long-term average, but can not be used just to balance the budget. This is only an initial proposal and has a long way to go before it could become law. Mid-year cut requirements are not likely to be known until approximately the middle of the Spring semester, which is too late to make any significant reductions for the year. This is going to put a lot of pressure on community colleges to set money aside to be able to deal with mid-year budget reductions during such down cycles.

**COLA, Growth, Stability and Restoration Funding.** The Community Colleges System Office has asked all districts to provide them with their estimated FTES figures for 2007-08 and 2008-09 to determine the real costs of growth, stability, and restoration funding. When a serious shortage occurs such as this, reductions typically occur in the following order: (1) eliminate or reduce state COLA funding; (2) eliminate or reduce growth funding; (3) eliminate or reduce restoration funding (which goes to districts that declined in FTES in previous years and have grown in the current year); (4) eliminate or reduce stability funding (which goes to districts that experience a decline in current year FTES); and (5) apply a deficit factor to the state revenue promised to districts at the beginning of the year. It is not a surprise to see that the Governor’s budget proposal included the following reductions:

**COLA** – There is a zero percent (0%) COLA in the proposed budget for 2008-09. The Department of Finance indicated that the calculated COLA for 2008-09 should have been 4.94%, but this has been totally eliminated as part of the cuts. This not only eliminates funding for salary and benefit improvements, but does not provide the necessary resources to cover inflationary costs of utilities, maintenance agreements, and other operating costs.

**Growth** – The budget proposal provides funding for only 1 percent growth. This represents a $112 million reduction to enrollment growth compared to the Department of Finance’s estimates for enrollment demand in community colleges of 3 percent. As we have not been in a growth mode for some time, the 1% growth cap in the Governor’s budget does not have a significant impact on our district.

**Stability and Restoration.** The Governor’s budget does not address these issues, but as some funds are provided for growth, it can be reasonably assumed that if a district qualifies for stability or restoration funding, the money should be available. We are currently receiving stability funding in 2007-08 as a result of our declining enrollment. We expect to “restore” some enrollment in 2008-09.

**Reductions to Categorical Funds.** The Governor’s proposal includes an across-the-board cut of approximately 7.33% to all categoricals, ranging from 3.7% to 12.7%. This would impact numerous programs in our district such as Matriculation, EOPS, CARE, DSP&S, Basic Skills, Instructional Equipment, Library Materials and Scheduled Maintenance, to name a few.
**Impact of Proposition 92.** If the Community College Initiative (Proposition 92) is passed in February, and the funds were appropriated, it would definitely improve the fiscal situation for community colleges. However, with the current critical budget situation, what is more likely to happen if it passes, is that the funds may not materialize in the first couple of years.

I hope this message puts the Governor’s budget proposal and its impact upon our District in perspective. We anticipate the state budget process will be long and arduous, confusing and contentious. We will need to continue to set aside funds to address various contingencies and we will need to explore a wide range of cost containment measures. We will also continue to protect our employees and mission as best we can. We encourage your continuing input, suggestions, patience, and support as we enter the rough waters ahead.

Planning and Budget Committee:
- David Payne, Committee Chair
- Jo Anne Cripe
- Ruth Hansen
- Kim Hutchison
- Lester Jauron
- Kenneth Meier
- Devin Potter
- Al Renville
- Clinton Slaughter
- Magian Smith
- Trevor Stewart
- Andy Suleski