



# CPEC

## Summary of the Governor's Proposed 2010–11 Budget

www.cpec.ca.gov • Report 10-02 • March 2010

by Kevin Woolfork

The proposed 2010–11 state budget closes an anticipated \$20 billion funding gap as total State General Fund spending is expected to decline for the fourth consecutive year. The budget essentially maintains higher education and K-12 funding at 2009–10 levels, but proposes some policy changes to K-12 that will result in the loss of significant anticipated revenues in this and future years. The budget proposes using available resources to cover most basic services and contains major reductions and policy changes. Additional reductions are proposed if the federal government does not provide California with \$7 billion in requested funding.

This budget highlights the state's dilemma of trying to stabilize funding, amid growing resource commitments, with unstable tax revenues. Aligning resources with expenses at local and state levels would allow agencies to develop the long-term operations plans they need in order to provide public services efficiently. This stability is particularly important in education, where short-term budget balancing actions may have negative long-term consequences.

### Commission Recommendations

The Commission acknowledges the high priority given to higher education in the proposed budget including increases in enrollment growth funding and restoring cuts from prior years. The Commission also strongly urges the state to recommit resources to higher education, and the systems to continue their efforts to improve the cost-effectiveness of their operations. CPEC encourages policymakers to consider the following recommendations:

#### *Make base budgets whole before providing expansion funding*

The Commission recommends that policymakers and the systems assess the impact of cuts on campus operations and provide appropriate funding for current operations as a first priority.

The Commission appreciates the commitments to funding increased enrollments and to providing funding to make up for the one-time cuts in current-year budgets. Reductions in funding and swapping funding sources in the past few years have resulted in dramatic changes to some campus operations. Campuses have adopted efficiencies and worked diligently to accommodate increasing enrollment while absorbing budget reductions.

Despite their best efforts, state funding cuts have resulted in actions that hinder students' ability to complete their education, such as fewer and more crowded class sections, and lower levels of student services. Restoring these services and programs is particularly important. Students have faced dramatic increases in fees and other costs of education. The highest priority for limited state resources should be funding that promotes student completion. This funding should come from either the \$12 billion currently proposed for higher education, or from new resources.

## 2 • California Postsecondary Education Commission

### *Fund new Cal Grant Competitive awards*

The Commission recommends identifying funds for a new cohort of 22,500 Cal Grant Competitive awards.

Three-quarters of Cal Grant Competitive award recipients attend community colleges. The California Student Aid Commission reports that there are six eligible applicants for each competitive award funded: about 135,000 applicants for 22,500 awards. Many of these students are older and are among the neediest applicants for any Cal Grant award program. Without these grants, many of them could not afford to attend college. Given the state's budget deficit, the \$45 million needed to fund the competitive awards can either come from the \$12 billion proposed for higher education, or from new resources.

### *Stabilize student fees*

The Commission recommends that systemwide and mandatory campus fees be stabilized at levels in the 2010–11 budget, and that future fee increases recognize the entire cost of education.

Out of fiscal necessity, fees have increased substantially over the past two years, as they have in past economic recessions. The Commission acknowledges the important role that state and institutional financial aid (along with federal aid) plays in keeping college affordable for needy Californians. The combined cost of fees and other costs of education (books and materials, housing, transportation, food, etc.) have made college less affordable to middle class and even some higher-income families.

As state support has declined, family debt and student loans now play larger roles in financing a postsecondary education. The effects of this transition are not fully understood. The Commission recommends that future fee increases be moderated to acknowledge recent increases, the amounts of mandatory campus fees, and the full cost of education.

### *Develop long-term funding strategies for segmental building programs*

The Commission recommends that policymakers, the systems, and other stakeholders convene to develop long-term strategies for funding capital outlay programs.

The Commission applauds the budget's proposal to work with the Legislature to develop a capital outlay funding proposal in time for the May revise. In its current and future financial situation, California likely can no longer rely as heavily on general obligation bonds to fund education construction programs. The Commission encourages policymakers to think broadly in developing strategies to assure that future Californians will have access to the educational facilities they will need to prepare for the 21st century.

### *Begin aligning state resources with expenses*

The Commission recommends that policymakers begin the process of transitioning state and local public revenue collections and expenditure commitments into a more connected structure.

Past economic recessions have highlighted the need to reassess how the state generates resources and how it determines the levels of public services. Policymakers have charged many special committees, commissions, and research entities with addressing these problems, most recently the Tax Reform Commission. The current economic downturn in state and local government finances compels the state to act on this critical problem.

These discussions are never easy, and achieving consensus among the many stakeholders may be impossible. However, California's ability to plan for and provide for future educational and economic development is at stake. Our continued economic and social growth, even our viability as a state, depends on addressing the ever-increasing disconnect between revenues and expenditures. Of all the actions the Governor and Legislature can take to improve the postsecondary education enterprise, modernizing and improving the state's revenue and expenditure structures will have the greatest positive long-term impact.

## The Governor's Proposed Budget

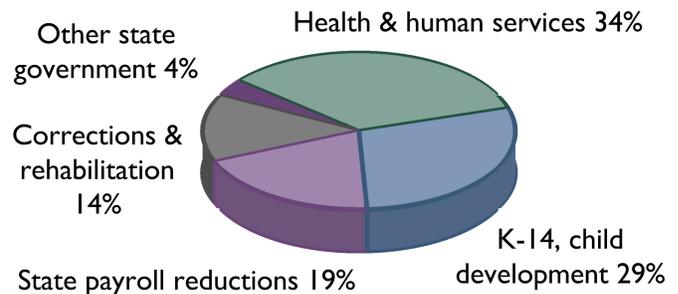
The Governor's proposed 2010–11 budget, released in January, includes revisions to current-year (2009–10) spending, now estimated at about \$86 billion. The budget anticipates \$83 billion in General Fund spending for 2010–11, lower than any year since 2004–05. The budget includes \$29 billion in special funds and \$7 billion in bond funds. For all general-purpose fund sources combined, state spending in 2010–11 is proposed to be \$119 billion.

The Governor called the Legislature into extraordinary session solely to deal with an 18-month projected \$19 billion deficit — \$6.6 billion in 2009–10 and \$12.3 billion in 2010–11, plus a \$1 billion reserve. The budget proposal reduces spending in both years and increases available revenues for 2010–11. To bridge this deficit, the budget proposes cuts of \$8.5 billion and \$7 billion in new federal funds, with the remainder covered through new revenues, fund shifts, and other maneuvers.

The proposed budget assumes California will receive \$7 billion in federal funds related to federally mandated activities. A small amount of these funds applies to the current year, but most funding is for 2010–11.

The budget proposal contains a contingency plan if the federal funds are not forthcoming. This trigger would increase General Fund reductions by another \$4.6 billion, with most cuts coming from social service programs. \$846 million would be backfilled by redirecting special funds currently used for other programs. The trigger proposal would suspend or delay \$2.4 billion in tax breaks for businesses that were adopted in recent years.

### Proposed Reductions — \$8.5 billion



### \$7 billion in Increased Federal Funds

Extend the period for states to receive additional ARRA funds. \$7.5 million in 2009–10, \$2.1 billion in 2010–11.

Permanently increase the federal government's share of the Medi-Cal Program. \$1.8 billion.

Reimburse costs related to federally mandated special education services. \$1 billion.

Fully fund California's cost of incarcerating unauthorized immigrants in state prisons. \$880 million.

Reimburse disability services provided through Medi-Cal rather than the federal Medicare Program. \$700 million.

Permit California to pay less toward the Medicare Part D prescription drug benefit by changing funding formulas and federal cost-sharing ratios \$325 million.

Increase federal payments for foster care services \$7.5 million in 2009–10, \$87 million in 2010–11.

### *Higher Education*

The budget proposes \$11.8 billion in State General funds for higher education in 2010–11, an increase of more than \$1.1 billion over 2009–10. Nearly all of this increase is from backfilling \$610 million in one-time cuts for UC and CSU and providing enrollment growth funds in all three systems. UC and CSU receive significant increases, with a more modest increase for the community colleges. Community college funding is also complicated by Proposition 98 funding decisions.

The budget proposes no new funding for education facilities, but the Governor commits to working with the Legislature to develop a capital outlay proposal for the May revise, with an emphasis on reducing General Fund costs for facilities. The budget fully funds Cal Grant Entitlement awards; but proposes to suspend new Cal Grant Competitive awards for savings of \$45 million. The competitive awards go to students who, on average, have lower income levels and higher grade point averages than Cal Grant Entitlement award recipients.

The budget assumes nearly \$5 billion in combined UC and CSU fee revenues, based on fee increases already adopted by the UC Regents and CSU Board of Trustees. The budget assumes a fee increase of 10% at CSU for 2010–11, which has not yet been considered by the Trustees. Annual systemwide fees are estimated to be \$10,302 at UC and \$4,429 at CSU. The budget maintains \$5 million in start-up funding for UC Merced that was set to end with the current fiscal year, in recognition of a longer period for enrollment growth due to the recession.

The budget also calls for a constitutional amendment requiring that no less than 10% of the State General Fund is allocated to UC and CSU combined each year and that spending on corrections be capped at no more than 7% of the State General Fund. At this time, no legislative language to put this on the ballot has been introduced.

### *K–12 Education*

While the budget proposes to fully fund the Proposition 98 guarantee for K-12 education and the community colleges, other actions would lower the amount necessary to fully fund Prop 98. The budget proposes to eliminate the sales tax on vehicle fuels and raise the excise tax on gasoline and diesel. This tax swap would lower the Prop 98 minimum funding guarantee by an estimated \$836 million. The sales tax on vehicle fuels is included in calculations for the funding guarantee but the gas tax is a special fund outside the Prop 98 funding formula.

Other proposed changes for K-12 education include:

- Allow school districts the flexibility to lay off, assign, reassign, transfer and rehire teachers without regard to seniority.
- Eliminate provisions in state law that require school districts to give first priority for substitute teacher assignments to laid-off teachers, and laws that prescribe their pay rate.
- Change the deadline for school districts to issue teacher layoff notices, from March 15 to 60 days after adoption of the state budget.

Many of the K-14 proposals involve reinterpretations of the Proposition 98 funding guarantee. These actions may result in billions of dollars of budget-year and future reductions for K-12 and community college. These proposals are complex and not all parties agree on their purpose and impact. See the end of this report for website resources, including budget analyses from the Legislative Analyst, Department of Finance, and others.

## Major Budget Proposals

### *Reductions and reforms*

- \$4.5 billion — Health and Human Services, partially offset with \$2.1 billion in mandatory caseload increases.
- \$1.5 billion — State General Fund employee costs through a 5% reduction in salaries. Increasing state employees' pension contributions by an amount roughly equal to 5% of employee salaries, lowering workers' health care costs, increasing to 5% the salary savings mandate for all state agencies in order to lower payroll costs.
- \$1.2 billion reduction in spending on corrections, and developing less costly ways to operate the prison system, including allowing private prisons to compete with public prisons.
- Budgetary reforms, including performance-based budgeting and requiring temporary, one-time state revenues increases to be spent on short-term items or saved into a "rainy day" fund.

### *Revenue proposals*

- \$7 billion — Federal funds as reimbursements for Medicaid and Medicare, special education mandates, costs of incarcerating unauthorized immigrants, and other programs.
- \$1.4 billion — Funding shift from the State General Fund for transportation projects (see K-12 Education on page 4).
- \$935 million (2009–10 and 2010–11 combined) — Surcharge on property insurance and from leasing oil drilling rights at Tranquillon Ridge near Santa Barbara. Monies would be used to fund state parks and the Department of Forestry.
- Enacting reforms proposed by the Tax Reform Commission. These include extending the sales tax, which now covers purchases of goods, to include purchases of services; and lessening the number of income tax brackets.
- \$338 million — Increased local use of automated enforcement systems that identify drivers who speed through intersections.

### *Economic initiatives*

- \$11 billion — Voter passage of water bonds in November 2010.
- \$500 million — Workforce training intended to train up to 140,000 people.
- Streamlining the permit process for construction jobs with a completed environmental report.
- Extending and expanding homebuyer tax credits, which currently provide up to \$10,000 for the purchase of new homes. The Governor proposes to include existing homes.
- Sales tax exemptions for purchases of green technology manufacturing equipment.
- Legal reforms intended to reduce lawsuits against small businesses.

### *Health and Human Services*

The budget proposes substantial reductions in social services and to transfer financial responsibility for some children’s programs to local government. Voters would have to approve redirecting nearly \$1 billion in funds from early childhood programs (Proposition 10 of 1998) and mental health services (Proposition 63 of 2004) to the General Fund. Voters rejected similar actions in a May 2009 special election.

The number of support service programs proposed for reductions during the current legislative special session on the budget is substantial. Some of these proposals would take effect in the current year and carry forward into the budget year. Federal waivers will be required for some proposed reductions to social service programs and K-12 education.

### **Constitutional Amendment to Reform the Budget Process**

The budget proposal requests the Legislature to place a constitutional amendment on the ballot that would make major changes to the budget process. The initiative, developed by the group California Forward, includes the following provisions:

- Allow budget bills and accompanying trailer bills to be approved with a majority vote, down from the two-thirds requirement.
- Require a two-thirds vote of the Legislature to approve fee increases in limited circumstances.
- Increase the Governor’s authority to make mid-year expenditure reductions.
- Restrict the use of one-time or short-term revenue gains (as specified) to one-time expenditures.
- Adopt a pay-as-you-go approach, where fund sources must be identified in advance for specified new programs and expansions of existing programs.
- Establish a performance-based budgeting system that would require the Legislature to review the effectiveness of every state program at least once every 10 years.

### **Ongoing Budget Challenges**

State lawmakers have been in deficit-cutting mode every year since 2006–07. With this budget plan, the Governor and Legislature will have faced a gap in excess of \$80 billion between revenues and spending over the last three fiscal years. Some of the major budget-balancing proposals and other actions over the past few fiscal years:

- Adopt substantive short-term and long-term spending reductions.
- Adopt temporary tax increases and permanent user fee increases.
- Defer scheduled payments for state expenses from one fiscal year to the next.

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### **Proposed Special Session Reductions to Social Services**

Limit in-home supportive services to only the most severely impaired. \$57 million in 2009–10, \$651 million in 2010–11.

Reduce state wage and benefit support for IHSS workers to \$8.60/hour. \$21 million in 2009–10, \$272 million in 2010–11.

Reduce SSI/SSP grants to the federal minimum. \$14 million in 2009–10, \$178 million in 2010–11.

Reduce CalWORKs grants by 15.7%. \$9 million in 2009–10, \$121 million in 2010–11.

Eliminate cash assistance for legal immigrants. \$8 million in 2009–10, \$107 million in 2010–11.

California Food Assistance. \$4 million in 2009–10, \$56 million in 2010–11.

CalWORKs grants and services. \$1 million in 2009–10, \$22 million in 2010–11.

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- Substitute federal stimulus monies for General Funds.
- Issue temporary IOUs to state vendors, taxpayers, and other creditors.
- Delay construction projects.
- Furloughs for most state workers, layoffs, and other reductions in personnel costs.
- Shift some local funds and state specials funds to pay for state programs.

Recent analyses give mixed signals on the health and recovery of the state's economy. The state controller reported that tax revenues for December 2009 were \$481 million above estimates. This revenue estimate bodes well for the remainder of the fiscal year, assuming the economy does not slip back into recession. The University of the Pacific's economic forecasting service reported in January that the state's recession may have bottomed out, but notes that in many parts of the state, unemployment and reduced tax revenues from the downturn will continue for some time to come.

In January, the Obama administration released its proposed 2011 federal budget, which has several initiatives that would increase federal funding to the states. The proposal includes increased reimbursements to states for incarceration costs for unauthorized immigrants and additional Medicaid (Medi-Cal) funds. In addition, there is discussion in Washington of adopting a second economic stimulus package similar to the 2009 ARRA program. However, with the large federal budget deficit such a program may not be large enough to provide significant help to California and other states with large budget gaps.

These positive steps come as Californians continue to struggle through the worst economic conditions the state has experienced since the Great Depression. In December 2009, the state's unemployment rate was 12.4% with more than 2.2 million Californians seeking work. The California

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### General Fund expenditures (\$ in millions)

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	Actual			Revised 2009–10	Proposed 2010–11	Change 2009–10 to 2010–11		Change 2006–07 to 2010–11	
	2006–07	2007–08	2008–09						
State & consumer services	\$595	\$581	\$567	\$510	\$587	\$77	15.1%	-\$8	-1.3%
Business, transp., housing	3,014	1,485	1,547	2,674	902	-1,772	-66.3	-2,112	-70.1
Resources, environment	2,055	1,960	2,104	1,934	1,800	-134	-6.9	-255	-12.4
Health & human services	29,012	29,339	28,803	25,045	21,000	-4,045	-16.2	-8,012	-27.6
Corrections & rehabilitation	9,118	10,114	10,008	8,161	7,983	-178	-2.2	-1,135	-12.4
K–12 education	40,086	42,469	33,890	34,554	36,004	1,450	4.2	-4,082	-10.2
Higher education	11,210	11,862	10,181	10,566	11,836	1,270	12.0	626	5.6
Labor & workforce	108	103	102	57	59	2	3.5	-49	-45.2
General government	2,730	1,217	580	765	-95	-860	-	-2,825	-
<b>Total</b>	<b>\$101,413</b>	<b>\$102,986</b>	<b>\$91,547</b>	<b>\$86,092</b>	<b>\$82,901</b>	<b>-\$3,191</b>	<b>-3.7%</b>	<b>-\$18,512</b>	<b>-18.3%</b>

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Sources: CPEC analysis, California Department of Finance.

Budget Project reported that California has about as many jobs now as it did in 2000 — but with 3.6 million more working-age people. Also, the Employment Development Department reported that more than 1.5 million Californians were underemployed in December 2009. This includes people who could not find full-time jobs and those who worked part-time because of reduced work hours.

## Looking Forward

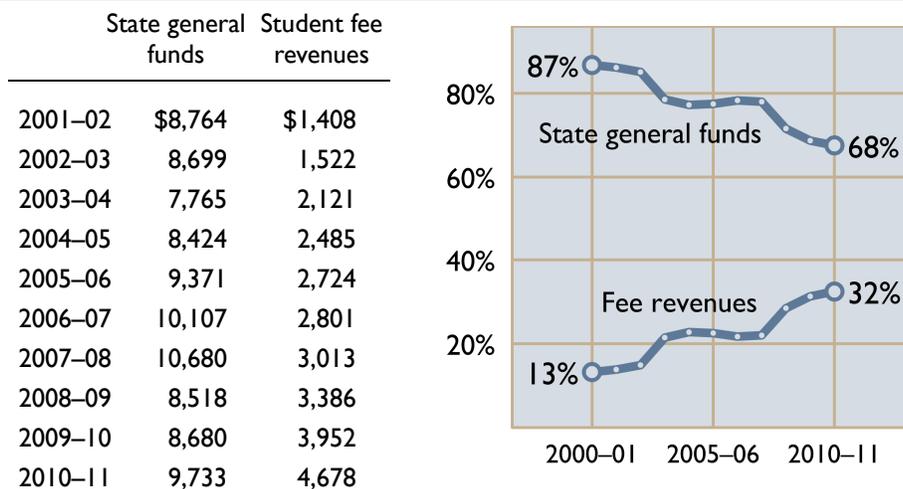
The proposed state budget generally protects higher education from the major reductions proposed for human services programs and other areas. However, the same issues of resource levels and service levels do affect higher education. The immediate effects of continued budget shortfalls and corresponding actions taken by the systems are easily identified, but the long-term effects are less discernable. The state’s budgetary problems could have short-term and long-term effects on higher education. Three issues are the proportion of state funding compared with student fee revenue, enrollment growth funding, and campus and system operations.

### *Funding*

Over the past 10 fiscal years, state funding for higher education has declined while the proportion of funding from student fee revenues has increased (see the table below). Broken down by system, this trend becomes even more apparent. For UC, the proportion of public funding from fee revenue was 17% in 2001–02 and 46% in the proposed 2010–11 budget. For CSU, the proportion of funding from fee revenue increased from 16% to 40%. The share of revenues generated by student fees will increase as state budget shortfalls are projected to continue for years to come.

In addition to systemwide student fees, mandatory campus-based fees are charged as a condition of enrollment. These average \$938 for UC campuses and \$867 for CSU campuses. As students pay an increasing share of the cost of instruction, they must also finance other costs — housing, food, books, transportation, etc. The most recent estimates of the total cost of college is about \$27,000 at UC and \$20,100 at CSU and these costs have increased every year.

**Proportions of Combined State General Funds and Student Fee Revenues**



To help students pay these costs, the state, education systems, and postsecondary institutions operate a large array of financial aid programs for qualified needy students. These programs include grant aid, work-study programs, and student loans. Many higher-income families do not qualify for financial aid other than student loans. But now many families with upper-middle class incomes struggle to generate the \$20,000 or more needed annually to send students to college. Wages, investment income, and home equity often used to finance college have declined in recent years. As the cost of attending college continues to increase, students and families are even more challenged to plan and pay for college.

By default more than design, a greater share of the cost of a college education in California has shifted from direct public financing (state subsidies to institutions and grant aid to students) to students and their families. This shift from the low direct costs of decades past may be an appropriate policy change, but it has been budget-driven and incrementally adopted. Very little planning has accompanied this shift and experts and policymakers are challenged to determine the effects of this cost shift on broader public goals for higher education.

### *Enrollments*

With two economic downturns of the last decade, funding for enrollment growth has been inconsistent. Enrollments have increased in eight of the past 10 years, but the state has not provided adequate enrollment growth funding over the past several years. Funding reductions have necessitated cuts in enrollment slots and the services students need to enter, persist, and graduate.

The state has invested hundreds of millions of dollars over the past decade to give more students the opportunity to enter postsecondary education after completing high school. CPEC enrollment projections show that by 2019, undergraduate demand across the three public systems is expected to increase by 387,000 students, or 16%. While about half of this increase is due to population growth, the rest is due to expected improvements in college-going rates.

Recent policies and programs for academic preparation and educational improvement are expected to increase participation in postsecondary education by students from groups that have historically attended college in lower rates than others. The effectiveness of some of these efforts has been documented; should these successes occur, enrollment funding pressures will increase, as will the need for student support services.

### *Operations*

The higher education systems are facing increasing operating costs with varying levels of state funding. Year-to-year state funding for UC and CSU has increased in six of the last 10 years. Combined state and local funding for the community colleges has increased in seven of the last 10 years. The systems' budget declines have tracked closely with the state's economic troubles, when fewer tax revenues are available. Due to the timing of adopting a state budget, often the UC, CSU and community colleges have a very short timeline to implement budget reductions.

The systems have tried to maintain the programs and services that students depend upon to complete their education and have forced efficiencies in nearly every area of operations. Still, the lack of planning time for periodic downsizing has forced quick decisions for which the long-term effect is difficult to quantify.

The commitment to quality has been of the highest priority to educators even as they have had to implement challenging budget reductions. Gauging the impact on the quality of programs and services at the same time they are being reduced and transitioned into more cost-effective operations is difficult. In the years ahead, the state and systems — and Californians in general — will be determining the long-term effects on student progression, performance, and preparation for the workforce.

## Conclusion

The Governor's 2010–11 budget proposes many actions to bridge the 18-month budget gap. Spending reductions account for 42% from balancing actions, 35% from assumed federal funds, 20% from user fee increases and other additional funding, and 3% from fund shifts and other revenues. The budget also must deal with the loss of billions of dollars in temporary funds from past years, most significantly federal ARRA funds.

Resolving California's ongoing mismatch between levels of public programs and services and the revenues needed to finance them has been a near decade-long struggle. Some proposals in the 2010–11 budget were presented in prior years' budgets and were not adopted, and many budget reduction initiatives that were adopted have not generated the savings they were envisioned to. This year's \$20 billion deficit may be even more challenging for lawmakers to resolve than was last year's \$40 billion gap.

Most significantly, many fiscal experts predict that, absent major structural changes, state finances will be in deficit for many years to come. The reductions proposed for many state programs in 2010–11 point to the need for significant reform to the way California reconciles tax revenue inflow with spending. Finding ways to align and stabilize public resources and resource commitments is the major challenge facing policymakers in the years ahead.

## Additional Information

California Budget Project — Proposed 2010–11 Budget Analyses  
[www.cbp.org/index.html](http://www.cbp.org/index.html)

California Forward — 2010 Reform Principles  
[www.caforward.org/index.cfm/projects/the-california-forward-2010-reform-plan/](http://www.caforward.org/index.cfm/projects/the-california-forward-2010-reform-plan/)

Department of Finance — Budget Summary (3 MB, 192 pages)  
[www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf](http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf)

Department of Finance — Education Budget (1.1 MB, 136 pages)  
[www.ebudget.ca.gov/pdf/GovernorsBudget/6000.pdf](http://www.ebudget.ca.gov/pdf/GovernorsBudget/6000.pdf)

Legislative Analyst — Overview of the Governor's Budget (488 KB, 28 pages)  
[www.lao.ca.gov/reports/2010/bud/budget\\_overview/bud\\_overview\\_011210.pdf](http://www.lao.ca.gov/reports/2010/bud/budget_overview/bud_overview_011210.pdf)

Public Policy Institute of California — About PPIC  
[www.ppic.org/main/about.asp](http://www.ppic.org/main/about.asp)

State Controller — Summary Analyses of General Fund Cash Receipts (289 KB, 5 pages)  
[www.sco.ca.gov/Press-Releases/2010/01-10summary.pdf](http://www.sco.ca.gov/Press-Releases/2010/01-10summary.pdf)

## LAO Budget Recommendations

In their analysis of the 2010–11 proposed Governor's budget released on February 25, 2010, the Legislative Analyst's Office made the following recommendations:

### *California Student Aid Commission*

The Governor's budget proposes to suspend Cal Grant competitive awards. Although current law authorizes 22,500 new competitive awards annually, the budget includes no funding for new awards in 2010–11. Trailer bill language proposed by the administration would authorize new awards only to the extent funding is provided in the annual budget act.

We recommend that the Legislature consider alternatives to Governor's proposed suspension of competitive Cal Grant awards. Alternatives for achieving General Fund savings include: (1) increase minimum GPA for Cal Grant B eligibility from 2.0 to 2.5; (2) eliminate non-need-based fee waivers; (3) limit new competitive awards to fixed stipends. These measures could provide comparable savings while preserving the structure of the state's financial aid system.

### *UC and CSU*

The Governor seeks no budget solutions from the universities in 2010–11. The proposed budget includes augmentations that would return UC and CSU to pre-recession funding levels.

We recommend that the Legislature restore total funding per student to the amounts provided in 2007–08. The restoration of funding should take into account all funding — including student fee revenue — that is available to support education programs. Our suggested enrollment levels at this funding rate would augment universities' budgets considerably but still save \$298 million compared to the Governor's budget.

The budget proposes a constitutional amendment to (1) require at least 10% of annual state General Fund appropriations to be spent on the public universities, (2) limit state spending on corrections to no more than 7% of General Fund appropriations. The Governor later modified this proposal to include Cal Grants in the higher education funding subject to the 7% floor.

We urge the Legislature to reject this proposal because it (1) would unwisely constrain the state's ability to allocate funding where it is most needed each year; and (2) is unnecessary, as the state already has the ability to shift funding among programs without this constitutional amendment.

### *Community Colleges*

Most funding for the community colleges comes from Proposition 98 funds (General Fund and local property taxes). The Governor's proposal for 2010–11 would increase total Proposition 98 funding for CCC by \$219 million, or 3.9%, over the revised current-year level. This augmentation is the net of several proposed changes. The Governor's budget provides an augmentation for CCC enrollment and a reduction for a negative cost-of-living adjustment.

We recommend the Legislature reject this reduction. We also recommend that this funding restoration, as well as the enrollment augmentation, be funded from an increase in student fees from \$26 per unit to \$40 per unit. Such an approach would take better advantage of federal dollars available for students.