

Governor's 2017-18 Budget Proposal - Highlights

Below are a few highlights from the Governor's Budget Proposal related to the overall CA budget and new allocations to the CSU. Link to full summary: <http://www.ebudget.ca.gov/FullBudgetSummary.pdf>

The key word Governor Brown kept referencing was “**prudence**”

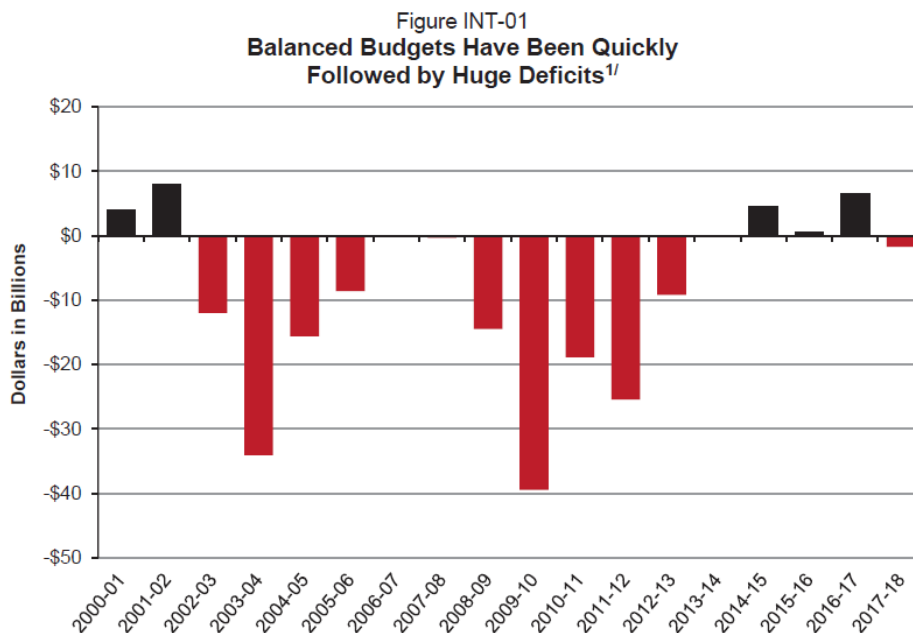
- CA has one of the most unreliable revenue systems in the country – reliance on income taxes
- Current recovery is approaching three years longer than average
- There is a high level of uncertainty with respect to federal funding (\$105 billion)

Funding for the CSU is as expected and includes the following allocations (\$+161.2 million):

- \$157.2 allocation (~4% GF increase, **2% overall budget increase**)
 - \$131.2 million - representing same amount as UC
 - \$26 million - final installment from changes to middle class scholarship program
- Plus \$5 million – final installment from capital outlay changes when debt shifted to CSU
- Governor Brown emphasized that higher education cost structures need to go down
- Assumes flat tuition; however, references tuition increase proposals are in play and notes that “Any tuition increases must be viewed in the context of reducing overall cost structure at UC and improving graduation rates at CSU”

General Fund Budget - \$122.5 billion (about flat from 2016-17 – slight decline of .2%)

- Without corrective action, the 2017-18 budget would be \$1.6 billion in deficit (Figure INT-01)
 - Two main factors: lower revenue growth forecast for 2015-16 through 2017-18 (-\$5.8 billion) and a CY shortfall in Medi-Cal
- Proposing \$3.2 billion in corrective action
 - Reducing Prop 98 commitment to minimum (-\$1.7 bil) – still grows by \$2.1 bil
 - Pulling back on several one-time allocations in 2016-17 budget act (-\$.9 bil)
 - Constraining spending growth (-\$.6 bil)



^{1/} Budget shortfalls or surplus, measured by the annual Governor's Budget.

Legislative Analyst's Office (LAO) Overview of 2017-18 Budget Proposal - Highlights

Below are a few notes about the LAO's analysis of the Governor's Budget Proposal related to projected revenue, reserves, and the potential tuition increase.

Link to the full LAO overview: http://lao.ca.gov/Publications/Report/3528?utm_source=subscription

Revenue Projections

The LAO thinks the revenue projections for 2017-18 are too low and anticipates that additional funding will be available by the May Budget Revision. The LAO also encourages the Legislature to plan for high uncertainty by building reserves and making new allocations for one-time activities, not ongoing commitments.

Reserves

The LAO is recommending the Legislature set target reserve levels at or above the Governor's recommended levels given the high level of uncertainty. To provide a little bit of context on this, the Governor's budget mentioned that a moderate recession would reduce revenue by around \$20 billion a year for several years, which is more than double the proposed reserve level and equivalent to about 16% of the proposed 2017-18 CA expenditure budget.

- Projected CA reserves at the end of 2017-18: \$9.4 billion
 - 2017-18 General Fund Expenditure Budget: \$122.5 billion
 - Reserves as a % of Expenditure Budget: 7.7%
- HSU context - Our current operating reserve balance is \$6.3 million, which is just under 5% of our 2016-17 budget

Tuition

The LAO said the Governor sent an unclear message on tuition increases.

- Prior to this year, the Governor was clear in his expectation that state funding increases were contingent on tuition remaining flat, so the Governor's shift to being unclear on tuition increases reflects a change.
- The LAO also emphasized that the Legislature will play a key role in determining whether to buy out the potential tuition increase by providing additional funding or by not prioritizing additional funding and therefore having the potential tuition increase go through - advocacy will be key throughout the spring to urge the Legislature to provide additional funding and keep tuition flat.