

# The FISCAL REPORT an informational update

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## **Governor Says Education Funding to Be Protected in State of the State Address**

Governor Arnold Schwarzenegger delivered his final State-of-the-State address before a joint session of the Legislature on Wednesday, January 6, 2010, indicating that the coming year is about priorities. He acknowledged that the state faces a Budget gap of \$19.9 billion for 2008-09 and 2009-10 combined, but that "education funding would be protected." While he offered a specific assertion that he would protect education funding, he made no mention of the K-12 education budget in his address, only higher education.

The Governor stated that we can no longer afford to cut higher education, and that the state's priorities have become out of whack over time. The Governor announced that he will submit a constitutional amendment for legislative approval that would ensure that the state never again spends a greater percentage of its money on prisons than on higher education. According to the Governor, 11% of the General Fund (GF) now goes to prisons, and only 7.5% goes to higher education. He contrasted this with the situation 30 years ago, when only 3% of General Fund spending went to prisons and 10% went to higher education. Though not reflected in the Governor's remarks, the proposal would assure that no less than 10% of federal fund dollars would be allocated to public institutions of higher education, and no more than 7% would be allocated to support state prisons. The limits would begin in fiscal 2014-15. To fund the shift, the Governor suggested that the state could save billions of dollars that could go back to higher education if the prisons were privately run. We have since learned that the constitutional amendment would apply only to the University of California and the California State University, and not to California Community Colleges.

The Governor characterized the Assembly's passage of the Race to the Top legislation as a great accomplishment, and announced that he will sign the legislation as soon as it reaches his desk, which is now in the Senate for approval.

He also mentioned the historical passage of the most comprehensive water package in 50 years, and addressed why we should invest in an \$11 billion water bond now.

Stressing the importance of turning the California economy around, the Governor announced four proposals to spur jobs growth:

- A new \$500 million jobs package that could train up to 140,000 workers, and help create 100,000 jobs; it is unclear whether this envisions a role for California Community Colleges.
- A measure to streamline permitting of construction projects that already have a completed environmental report
- A proposal to expand home-buyers' tax credits for new and existing home purchases
- An exemption of green technology manufacturing equipment from the sales tax

The Governor also indicated we must reform California's tax system and Budget process. The Governor noted California's heavy reliance on upper income taxpayers for its revenues, and indicated that we can't wait for the rich to bounce back. He said that California's tax revenues were down by more than eight times as much as the California economy, and that state revenues won't return until 2013-14. Schwarzenegger said

that the tax reform commission had done its work, and he called on the Legislature to take up the reforms proposed by the commission. The Governor also urged the Legislature to take action on the Best Practices Budget Accountability Act, California Forward's budget proposal, indicating that he is giving the Legislature the opportunity to act before that proposal goes to the voters.

Federal funds must be part of the solution, according to the Governor, because they are part of problem. He said we are not looking for a federal bailout, but are looking for fairness, citing the 78¢ on the dollar that California gets back from the federal government. The Governor said that California is currently owed billions of dollars for federal mandates, and that Congress is ready to push more costs onto states with federal health care reform. He said that California's representatives should vote no on that legislation, or get the same "sweet deal" that Nebraska had gotten.

As expected, the Governor also focused on pension reform, indicating that the cost for state employee pensions is up 2,000% in the last ten years, while revenues have increased only 24%. He said that this can't be changed either legally or morally for current employees, but urged legislators to find the equivalent of the water deal on pensions to reduce the Budget burden going forward.

On a lighter note, the Governor remarked that, while we are facing hard times, if he had not learned to face adversity, he would still "be yodeling in Austria."

In closing, the Governor was upbeat about California's greatness, but also focused on its responsibilities, including those to returning veterans, for which California has the greatest number of any state.

While the Governor articulated a proposal to protect higher education funding, at least relative to prison spending, his address provided no details regarding his K-12 education spending plan. We will have to wait a few more days until we can determine whether his Budget proposal does indeed protect education funding.

**—Deborah Harmon and Robert Miyashiro**

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