May 14, 2010

MEMORANDUM

TO: CSU Trustees
CSU Presidents

FROM: Charles B. Reed
Chancellor

SUBJECT: Governor’s May Revision Proposals

This afternoon the Governor announced his revised budget proposal for 2010-11, based on updated estimates of state revenues and expenditure. The $19.9 billion budget gap through June 30, 2011, identified in his January proposal has been revised slightly to $19.1 billion. This number, however, masks other developments that have worsened the overall fiscal picture. The state revenue estimate is down by $600 million, less than some had feared and a factor that is already built in to the revised gap number of $19.1 billion. Far greater significance—and not part of the calculated gap number—are the following factors that the May Revision describes as “losses in available budget solutions”:

- A downward revision of $3.5 billion in expected federal funds.
- A loss of $2.8 billion due to delays in adoption of various January proposals that were time-sensitive. The failure of the Legislature to adopt these proposals in the January/February special session now means the loss of several months of intended savings.
- Decisions by the Governor to drop certain January proposals, including a proposal for revenues from off-shore oil drilling off Point Conception and a proposal to reduce spending on competitive Cal Grants. Altogether, these policy changes add an estimated $500 million to the overall problem.

In the face of an overall fiscal picture that has become even more challenging than envisioned in January, Governor Schwarzenegger not only maintained his commitment to restoring higher education funding, he strengthened it. This reflects his understanding of how crucial state support of higher education is to
the state’s near-term economic recovery and long-term economic prosperity. For the CSU
the Governor maintained his proposal to restore $305 million of one-time cuts taken in
the prior fiscal year, a restoration that would allow the university to serve about 21,000
more students than it can serve if funding stays at the prior year level. In his January
proposal the Governor had identified $60.6 million that would preserve access for over
8,000 additional students, but had made this funding contingent on additional federal aid
for other state programs. The May Revision removes this contingency.

In the area of Cal Grants, the May Revision proposes two specific changes that will
benefit CSU students. First, the Governor has dropped a January proposal to suspend new
grant awards under the competitive Cal Grant program. This would benefit an estimated
1,600 CSU students and thousands of community college students who will ultimately
transfer to the CSU. Second, the May Revision eliminates a contingent proposal that
might have capped the amount of each Cal Grant awarded to CSU and UC students to
levels below the systemwide fees.

We have every reason to be heartened by the Governor’s commitment to the CSU and
higher education. But we have every reason to understand that there is extreme
uncertainty surrounding the level of state support for the CSU that will ultimately emerge
from the Legislature. Sharp reductions proposed in January in virtually all other areas of
the state budget have become even sharper. For example, the May Revision proposes the
elimination of the Cal-WORKS program. This would leave California as the only state in
the nation without a welfare program for poor children and adults. This and many other
proposed reductions will simply not be accepted by the Legislature. What is clear is that
it will take a long time to reach the necessary two-thirds vote in the Assembly and Senate
and achieve a signed budget act.

All of the above means that our obligation to advocate for the university is high and that
our need to proceed with continued caution in our enrollment management and budget
planning efforts also remains high.