To the Senate and the Assembly of the California Legislature:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor’s Budget for 2010-11.

Last year, we confronted what history will record as “The Great Recession.” Working together, we made profoundly difficult decisions necessary to close a $60 billion budget gap, the largest in our state’s history. Because of your efforts and the diligent work of the Treasurer and Controller, we averted both a budget crisis and a cash crisis.

With our national economy still struggling to recover, California, like most other states, must confront an additional budget gap of nearly $20 billion. In many ways, the decisions that will be necessary to close this gap will be even more challenging – and far more difficult. However, failure is not an option and we must do what is necessary to keep our state solvent and maintain critical services.

My budget calls for even greater reductions in nearly every aspect of state government than were necessary in 2009. With these reductions, we make every effort to maintain essential services for Californians who need them the most in the midst of this fiscal crisis. In particular, my budget proposal protects education, including higher education, from additional deep cuts. I believe strongly that additional reductions below current year funding levels would leave a permanent scar on our children and on the greatest university system in the world.

In fact, I intend to propose a re-prioritization of funds away from administration and into the classroom, and away from prisons and into our universities. I ask you to join me in setting these new priorities for the future of our great state.

My budget proposal also calls for a far greater engagement than ever before with our counterparts in Washington — to give California both the flexibility and fairness that is needed to better manage critical state programs, achieve substantial savings, and avoid even deeper and more painful budget reductions. Working with the Obama Administration, with our congressional delegation, and with other states, I believe we can build on the progress we have made in 2009.

We must begin our work immediately. If we fail to take swift action in the Special Session that I have called, our problem will only grow, and the decisions that will be required to make up for lost savings will grow even more difficult than those now before us.

The work that lies ahead will be some the most difficult that you and I will ever be asked to undertake as public servants. Let us prove once again that we can meet this new and unprecedented challenge.

Sincerely,

Arnold Schwarzenegger
January 8, 2010

Dear Governor:

As Director of Finance, I submit to you the 2010-11 Governor's Budget.

Since the time the Amended 2009 Budget Act was signed last July, the estimated budget gap has grown from $6.9 billion to $19.9 billion, due to the following principal reasons:

- Decreased revenues from the ongoing effects of the historic economic recession;
- Court decisions that have blocked implementation of some solutions approved by the Legislature in 2009;
- The erosion in the value of some of the savings adopted in 2009; and
- Additional costs associated with population-driven and caseload-driven entitlement programs.

Closing this gap requires incredibly difficult decisions by both you and the Legislature. Minimizing the potential additional impact on state programs will require a new level of cooperation by California’s counterparts in Washington, D.C. It is the most difficult budget environment you have had to confront in your tenure as Governor. But with timely action, federal cooperation, and a recognition that the decisions ahead are unprecedented but necessary, it is a budget that is achievable.

While the state does not face as serious a cash shortfall as it did 12 months ago, action will be necessary this spring to ensure that the state has adequate cash resources to meet its critical obligations in a timely manner. At your direction, we will work with the State Controller and the State Treasurer to develop a cash management plan that will achieve that goal.

Finally, I want to publicly express my appreciation for the women and men of the Department of Finance. In the most challenging fiscal environment imaginable, they have once again provided a tremendous service to you and your administration, to the Legislature, and to the people of California.

Sincerely,

Ana Matosantos
Director of Finance
Higher Education — Non-Proposition 98 Programs

General Fund expenditures are proposed to increase by $224.5 million, or 3.5 percent, not including $610 million in one-time General Fund offsets used in 2009-10.

Actual General Fund expenditures for Higher Education agencies, including the University of California (UC), California State University (CSU), Hastings College of Law (HCL), California Postsecondary Education Commission (CPEC), the Student Aid Commission (CSAC), and the California Community Colleges (CCC) are $5.9 billion in 2009-10 and are proposed at $6.7 billion in 2010-11.
All Proposition 98-related program expenditures for the Community Colleges are reflected in a separate Proposition 98 section below. General Obligation Bond and lease-revenue debt service adjustments associated with Higher Education construction are addressed in a separate section.

**General Fund**

The significant General Fund workload adjustments are as follows:

- **UC and CSU: Backfill One-Time Reductions**—An increase of $610 million to backfill one-time reductions ($305 million each for CSU and UC), which included $255 million in reductions for each segment that were backfilled in 2009-10 by federal ARRA funds and an additional $50 million reduction for each segment, consistent with Government Code Section 99030 which contained specific reductions and revenue increases that were not to occur if the state received $10 billion in additional federal funding to offset General Fund costs.

- **UC and CSU: Enrollment Growth**—An increase of $111.9 million for 2.5-percent enrollment growth for UC ($51.3 million) and CSU ($60.6 million). Growth adjustments would fund approximately 5,121 Full-Time Equivalent Students (FTES) for UC and 8,290 FTES for CSU.

- **CSAC: Budget Year CalGrant Growth**—A net increase of $197.4 million in 2010-11 local assistance cost for CSAC, including $32 million to backfill the use of one-time Student Loan Operating Fund resources, continuation of unanticipated current-year fee increases for UC and CSU ($97.1 million), additional budget year fee increases of 15 percent for UC ($59 million) and an assumed 10-percent budget year fee increase for CSU ($19.5 million), that are partially offset by a $4.6 million reduction in estimated Assumption Program of Loans for Education (APLE) payments and other adjustments.

- **CSAC: Current Year CalGrant Growth**—A net increase of $32.9 million in 2009-10 local assistance cost for CSAC reflecting increased costs in the CalGrant program ($37 million) resulting primarily from unanticipated undergraduate fee increases for CSU and UC that are partially offset by a reduction in estimated APLE payments ($4 million).

- **UC, CSU and HCL: Annuitant Benefits Adjustments**—An increase of $14.8 million for annuitant benefits primarily for UC ($14.1 million). 
Summary of Significant Changes by Major Program Areas

- **CSAC: State Operations Restoration**—$4.3 million restoration for CSAC state operations in 2009-10 and 2010-11 pursuant to Chapter 644, Statutes of 2009.

- **CCC: STRS Cost Adjustment**—An increase of $1.9 million to the State Teachers' Retirement System for additional costs for CCC employees based on 8.2 percent of applicable payroll.

- **UC Merced Start-Up Funding**—A reduction of $5 million for UC to reflect the original UC Merced phase-out plan for startup funding.

- **UC and CSU: Expiring Loan Repayments**—A reduction of $4.6 million for expiring UC ($2.7 million) and CSU ($1.9 million) deferred maintenance loan repayments.

The significant General Fund policy adjustments are as follows:

- **UC Merced Start-Up Funding**—An increase of $5 million for UC Merced start-up funding that reflects a longer transition period resulting from lagging enrollments and higher-than-anticipated costs.

The significant General Fund budget solutions are as follows:

- **CSAC: CalGrant Reform**—A reduction of $45.5 million to reflect suspension of new awards for the Competitive CalGrant program. The Competitive program is largely duplicative of the CalGrant High School Entitlement program and the Community College Transfer Entitlement program, which provide opportunities for California high school students to pursue four-year degrees.

- **CSAC: TANF Reimbursements**—$18.3 million shift of local assistance CalGrant costs from General Fund to TANF reimbursements in the budget year. The TANF funds are available as a result of the 15.7-percent CalWORKS Grant reduction discussed in the Health and Human Services section.

### Other Funds

The significant non-General Fund workload adjustments are as follows:

- **UC and CSU Current-Year Fee Increases**—An increase of $335.1 million in 2009-10 to reflect a mid-year 15-percent fee increase for UC ($97.9 million) that was approved by the UC Regents in November and a 20-percent fee increase for CSU ($237.2 million) that was approved by the Trustees in July. Including the initially approved fee increases of 9.3 percent for UC and 10 percent for CSU, systemwide
undergraduate fees increased from $7,126 in 2008-09 to $8,373 in 2009-10 for UC and from $3,048 in 2008-09 to $4,026 in 2009-10 for CSU. These increases also apply to professional and graduate students at UC and CSU. Consistent with current policy, at least one-third of additional fee revenue will be set aside for institutional financial aid to preserve equitable access for low-income students.

- UC and CSU Budget-Year Fee Increases—An increase of $1.1 billion in 2010-11 to reflect annualization of the mid-year fee increase plus an additional 15-percent increase approved by the UC Regents ($662.7 million) and continuation of the current-year fee increases for CSU ($390.7 million), based upon the estimated funded level of FTES. In addition, the budget reflects a 22.5-percent increase for HCL ($8.1 million) which has been approved by the HCL governing board. Systemwide undergraduate fees will increase from $8,373 to $10,302 for UC and from $4,026 to $4,429 for CSU. These increases would apply to professional and graduate students at UC and CSU. Consistent with current policy, at least one-third of additional fee revenue will be set aside for institutional financial aid to preserve equitable access for low-income students. For HCL, enrollment fees will increase from $29,383 to $36,000. Fee increases for professional schools at UC will range from 0 percent to 30 percent, and reflect establishment of a professional fee for seven additional disciplines.

- UC, CSU and CCC: One-Time ARRA State Fiscal Stabilization Fund (SFSF) Adjustments—A decrease of $1.3 billion in 2010-11 to reflect the one-time nature of reimbursements estimated for the three eligible higher education segments in the revised 2009 Budget Act ($600 million each for UC and CSU and $130 million for CCC). Further, 2009-10 decreases totaling $399 million are reflected to conform the amounts budgeted for the three segments to actual allocations received ($95 million for CCC and $152 million each for UC and CSU).

- CCC: Lottery Increases—An increase of $12.1 million and $4.5 million in estimated Lottery revenues for 2009-10 and 2010-11, respectively.

- CCC: Math and Science Program—An increase of $64,000 in federal funds to complete grant-funded activities that improve coordination of math and science related professional development improvements. Of this amount, $6,000 is for state operations and $58,000 is for local assistance.

- CSAC: California National Guard Education Assistance Award Program—$1.7 million and $3.3 million reimbursement increases in 2009-10 and 2010-11, respectively, as a result of an interagency agreement with the Military Department to promote
the pursuit of higher education and to provide education benefits to members of the California National Guard, pursuant to Chapter 12, Statutes of 2009, Fourth Extraordinary Session.

The significant non-General Fund policy adjustments are as follows:

- CCC: Special Services for CalWORKS Recipients Program — $6.2 million reimbursement increase in 2009-10 as a result of a revised interagency agreement with the Department of Social Services. This increase allows the state to meet maintenance-of-effort requirements to leverage over $275 million in TANF Emergency Contingency Funds for subsidized employment programs made available through ARRA.
- CCC: Advanced Transportation Technologies and Energy Program — $1.7 million and $1.8 million reimbursement increases in 2009-10 and 2010-11, respectively, as a result of an interagency agreement with the California Energy Commission to expand college instructional programs in transportation technology and alternative fuels. Of these amounts, $150,000 and $250,000 are for state operations in 2009-10 and 2010-11, respectively, and $1.5 million is for local assistance in each year.

Higher Education Infrastructure

Almost all bond funds that have been approved by the voters for Higher Education have been committed to projects. While the Governor’s Budget does not include additional infrastructure funds at this time, the Administration intends to propose funding for Higher Education facilities in the May Revision. The Administration will seek to develop proposals for alternative funding sources for Higher Education facilities to reduce future General Fund costs.