



BUDGET COMMITTEE MEETING

Wednesday, February 21, 2024
Location (Room 2150)
2:30-3:30 p.m.

APPROVED MINUTES

ROLL CALL:

X	Jill Ault	X	Elsa Gomez	X	Scott Gordon		Darren Gurney
X	Tim Johnston		Rokia Kone (Student Rep.)	X	Teri Lewallen		Katie Littlepage
	Heidi Loftus	X	Rob McCandless		Jessica Nieves (Substitute)	X	Tawny Youngblood

Guests: Adrian Vergara, Yanna Iatridis, Crystal Mair, Taryn Roberts, Becky McCall, Destinee Ecklin

- 1. CALL TO ORDER:** The meeting was called to order at 2:36 p.m. by Committee Chair, Jill Ault. All present except: Heidi Loftus, Darren Gurney, Rokia Kone
- 2. REVIEW OF MINUTES:** January 31, 2024. Motion to approve minutes by Tim Johnston, 2nd Tawny Youngblood. All approved no abstentions or objections, motion passed.
- 3. PUBLIC COMMENTS:** Yanna Iatridis said she attended a policy meeting in Sacramento recently and found several of the other District reps which consisted of deans and vice presidents did not understand the budget and how the forecasted shortfall affects Community College Districts. She thanked Jill for leading this committee and how she has effectively communicated budget issues to the District.
- 4. REPORTS & DISCUSSION ITEMS:**

A) Budget Development Criteria

Considering the forecasted State budget shortfall, Jill encouraged managers to budget conservatively for the 2024-2025 fiscal year.

B) Legislative Analyst’s Office (LAO) Update

Jill said when the budget was adopted by the State last summer there was some confusion on how it would actually be funded. A technique the State has used in the past is to take funds from the previous year to fund current fiscal year. Structurally this approach is not healthy and stable. Every year in the annual fiscal report, the ACCJC asks Districts if one-time funds are used for ongoing expenses. Districts can get in trouble if they do. In January, there was an \$8 billion dollar gap to fully fund last fiscal year. They still don’t have an answer for that gap today.

Jill discussed the Sacramento Bee article (Attachment A). Historically, the LAO tends to fall closer to the mark when providing their projections. The LAO offers a non-partisan approach to forecasting the State budget. They are saying the \$38 billion dollar gap is inaccurate but are looking to be closer to a \$73 billion dollar gap – this is a multi-year gap

projection. This is new territory for the state so they'll have to take a new approach in the resolution. Jill said Districts were afraid they would pull back funds from the previous year, but it's looking like they'll be moving that deficit to a future year instead.

Jill provided a copy of the School Services of California Community College Update – State Cash Receipts Below Forecast (Attachment B) for the committee to read.

Jill presented a video from School Services of California. The video was an interview of Ken Kapphahn, a Principal Fiscal and Policy Analyst from the LAO office, focused on Prop 98 which establishes a minimum funding level for K-12 and community colleges. Community college districts tend to get about 11% of the Prop 98 guarantee. There is a \$17 billion gap for the 2023-2024 and 2024-2025 years. During the video, the following options were discussed for covering the budget gaps:

- Revisit program expansion – focused mainly on K-12
- Reduce unallocated grants – the grants mentioned were K-12, but the District would likely see some impact here
- A reduction of new money going into K-12 – this wouldn't affect community college districts
- Use a portion of the Prop 98 reserve – this won't necessarily resolve the problem
- Payment deferrals, which are still options for the 2023-2024 and/or 2024-2025 years – this option would have an impact on community college districts

Jill said when the District closed the 2022-2023 year, we made an assumption that they would pull back 1% of funding for that year. We were told to plan on a .97% deficit for 2022-2023. A 2.5% deficit assumption was built into the 2023-2024 budget.

Scott asked if this forecasted deficit and tighter budget outlook was like the mid-2000s recession. The dollar amounts this time are much higher. Jill said we're positioned differently now than we were at that time. Over the past 15+ years, the District has approximately \$25 million in the OPEB Trust, and the PARS Trust was established and funded with \$10 million in 2021-2022. The District also has higher reserves.

Tawny asked about deferrals and how they affect the District. Jill said the District would receive less general apportionment than what we had earned. To account for this, the District uses reserves and records receivable from the state each month. However, it could take a year or more to receive the funds from the state.

We've been able to increase reserves over the last few years with the large COLAs. The State expects districts to be prepared for these difficult years due to the excess funds the past few years.

5. OTHER:

6. ANNOUNCEMENTS:

7. ADJOURNMENT: Motion to adjourn the meeting Tawny Youngblood, seconded Rob McCandless. Adjourn at 3:25 pm

8. NEXT MEETING: March 06, 2024

Minutes Recorded By:
Keri Mathews
 Administrative Services

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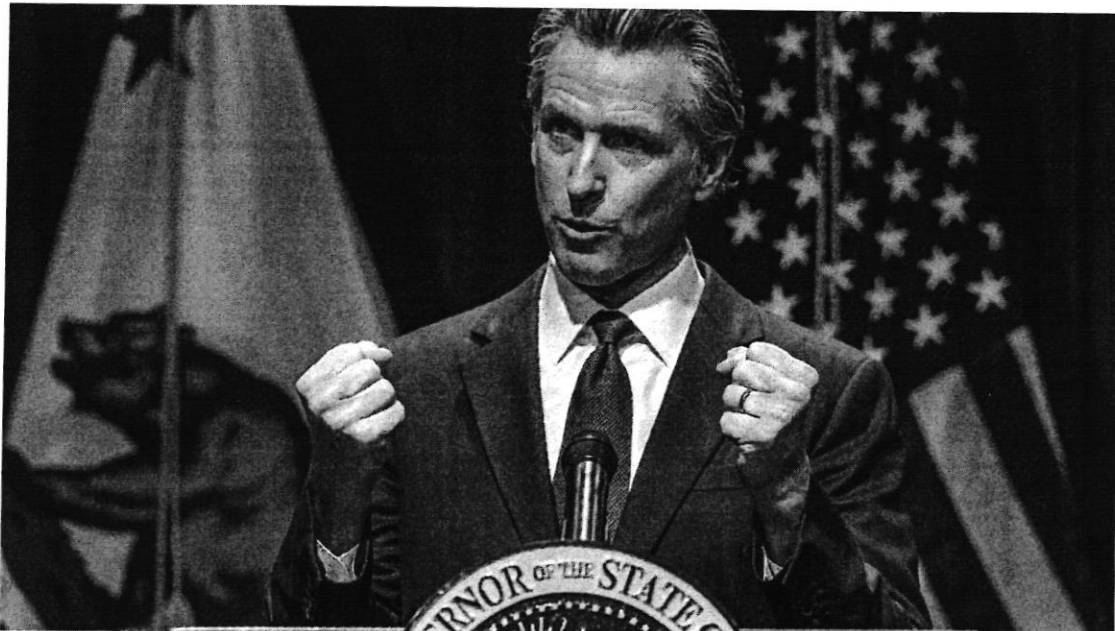
CAPITOL ALERT

Capitol Alert

California's budget deficit is worse than anticipated — and much worse than Newsom projected

BY ANDREW SHEELER AND LINDSEY HOLDEN

UPDATED FEBRUARY 20, 2024 11:33 PM



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The California Legislative Analyst's Office, a nonpartisan agency, projects a \$73 billion deficit — significantly more than the \$38 billion projected by Gov. Gavin Newsom on Jan. 10, 2024.
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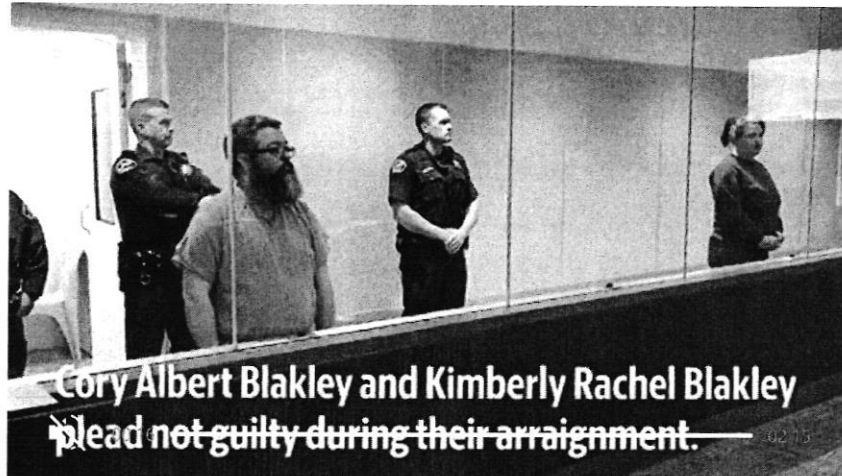
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The tug-of-war between California Gov. Gavin Newsom and the nonpartisan Legislative Analyst's Office over the state's projected budget deficit took a new turn Tuesday, when the LAO announced a revised shortfall of \$73 billion — \$15 billion more than previously forecast, and significantly more than the \$38 billion gap that Newsom has estimated.

The LAO reported that recent revenue collection data “reflect even further weakness” for the state's financial outcome.

“All else equal, this means the budget problem is likely to be higher” when the governor gives his revised projection of the state's finances in May, the LAO said in a Tuesday update.

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The LAO said that the actual budget shortfall will depend on a variety of factors, such as mandatory Proposition 98 spending on schools and community colleges.

“Roughly, a \$24 billion erosion in revenues corresponds to a \$15 billion increase in the budget problem. This would expand the \$58 billion estimated deficit to \$73 billion under our updated revenue forecast,” the LAO report read.

That means lawmakers are going to have to find “new budget solutions” to ensure a balanced budget for the 2024-25 fiscal year. The LAO said solutions could include increasing revenue, reducing either — or both — one-time and ongoing spending, and exploring the possibility of cost shifts or dipping into reserves.

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The LAO listed several areas of one-time and temporary spending where cuts can be made, totaling nearly \$16 billion. Categories of cuts include business and labor, criminal justice, education, health and human services, housing and homelessness, resources and environment and transportation.

H.D. Palmer, a spokesman for Newsom’s Department of Finance, emphasized the state is still forecast to see more than \$51 billion in income and corporate tax receipts.

“No one can say today with certainty how those numbers may change the budget estimate of a \$38 billion shortfall,” Palmer said in a statement. “A responsible step would be for the Legislature to act now on the early action budget measures needed for \$8 billion in solutions to help close this gap.”

Newsom during his January budget presentation suggested this move, which would mean opening up last year's budget to make changes to the existing funding plan.

Department of Finance director Joe Stephenshaw said in January one early action item would involve increasing the managed care organization tax by \$1.5 billion to help fund a Medi-Cal expansion for undocumented immigrants. Health insurers pay the MCO tax, and the federal government must approve any increases.

Senate Republicans on Tuesday afternoon released a statement expressing concern about how Newsom and the Democratic-controlled Legislature are handling the budget.

“Democratic legislators and the governor’s continued fiscal irresponsibility is troubling, as evidenced by their unchecked spending and the alarming growth of the state’s budget problem,” said Sen. Roger Niello, R-Fair Oaks, in a statement.

Niello vice-chairs the Senate Budget and Fiscal Review Committee. He called for “a course correction” and a “renewed commitment” to a responsible budget.

Senate Minority Leader Brian Jones, R-Santee, blasted Newsom for “trying to fool the public that the deficit is \$38 billion.”

“How are we supposed to balance the budget when our governor can’t even admit the true size of the deficit his administration racked up?” Jones said in a statement.

Assembly Speaker Robert Rivas, D-Hollister, said during a Tuesday press conference the budget gap is his “biggest concern.”

The Assembly Democratic Caucus has been meeting to develop strategies to deal with the spending shortfall, and Rivas emphasized budget negotiations are still in their early stages. Cynthia Moreno, Rivas’s press secretary, later said conversations about early legislative budget action are already underway.

“The governor’s budget has been more optimistic than the LAO,” Rivas said. “And I sure hope that the governor is right. We would all like to be wrong when it comes to the deficit. And that’s why I firmly believe that it’s always better to plan for the worst.”

This story was originally published February 20, 2024, 2:21 PM.

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COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

January 2024 State Cash Receipts Below Forecast

✉ BY JOHN GRAY

✉ BY PATTI F. HERRERA, EDD

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posted February 21, 2024

State General Fund cash receipts for the month January 2024 were almost 20% below the most recent updated Governor's Budget forecast. The California Department of Finance's (DOF) February 2024 *Finance Bulletin* highlighted that fiscal year-to-date cash receipts are down 4.8% below forecast, as noted in Figure 1 below. As the Governor's Budget forecast was recently updated at the end of November 2023, the year-to-date shortfall to forecast is almost all related to the January 2024 cash receipts.

The bulk of the month's shortfall was due largely to lower-than-expected personal income tax receipts. Withholdings were down by \$1 billion (10.8%) while estimated payments were down by almost \$4 billion (36.1%) for January. Monthly withholdings represent a more real-time indicator of economic activity while estimated payments are often more volatile and tied to stock market compensation as noted in the *Finance Bulletin*.

Both corporation and sales and use tax revenues were down slightly on both a monthly and year-to-date basis by 4.6% and 1.1%, respectively.

Figure 1: 2023-24 Comparison of Actual and Forecast Agency General Fund Revenues (Dollars in Millions) Year-to-Date through January 2024

Revenue Source	Forecast	Actual	Difference	Percent Difference
Personal Income	\$76,176	\$71,491	-\$4,685	-6.2%
Corporation	\$21,506	\$20,527	-\$980	-4.6%
Sales and Use	\$18,756	\$18,557	-\$199	-1.1%
Total*	\$121,467	\$115,586	-\$5,882	-4.8%

*Includes other agency cash receipts

Regarding labor market conditions, the DOF noted that California's unemployment rate rose by 0.2% in December 2023 to 5.1%. Also, 3,600 Californians dropped out of the labor force causing the labor participation rate to fall to 62.0%, a decrease of 0.2% from November 2023. The U.S. unemployment rate remained at 3.7%.

In California, construction is an important economic driver and leading economic indicator. Building activity is slowing down with the number of building permits down 2.0% from November 2023 and down 2.9% from a year ago. December 2023 year-to-date permits of 56,000 single-family homes and 54,000 multi-family units were down 6.0% and up 0.6%, respectively.

With the Governor's Budget forecast barely a month old, January's revenues are not encouraging when compared to the recently revised forecast. While it is too early to tell, we will be monitoring and reporting as we head towards the Governor's May Revision.