Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of July 17, 2008

UPDATE ON 2008-09 STATE BUDGET

On May 14, 2008, Governor Schwarzenegger released his May Revise to the 2008-09 state budget providing an update of revenue and expenditures assumptions that were included in his state budget submitted to the legislature on January 10th. In January, the Governor proposed a $141 billion budget, including a $2.8 billion reserve, which also identified structural deficit of $14.5 billion. The budget proposed a 10 percent reduction to all state programs that resulted in a net reduction $108.7 million for the University of California 2008-09 budget.

The May Revise identified an increase in the state structural deficit to $15.2 billion; however, the Governor took action to restore $98.5 million to the UC budget. The Senate and Assembly approved the restoration of the $98.5 million as part of the Governor’s May Revise. Nevertheless, UC will still be underfunded by $243.7 million to meet the mandatory costs and Regents funding priorities in the 2008-09 fiscal year.

The Senate and Assembly have also taken an action to delete nearly $300 million in capital facility projects that were included in the Governor’s budget for the 2008-09 fiscal year. The legislature has raised a concern about the debt serve costs to the state General Fund associated with funding these projects through a voter approved General Obligation Bond or through lease revenue bonds that only require legislative approval. The University understands the dilemma of additional debt service costs to the state General Fund at a time when the Legislature is making additional State program cuts and struggling to secure the votes for additional state General Fund revenue. However, UC is advocating that capital construction will assist in “jump starting” the California economy; the construction bid climate is favorable to the universities construction costs; and the University is funding some of these projects with donations (gifts that would be at risk if the projects aren’t funded) and external financing that save the state General Fund dollars.

Vice President Lenz will make a presentation to the Regents on the status of the 2008-09 budget at the July meeting.