

The State Budget and Educational Funding



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Prologue: The 2008-09 Budget

Current-Year Budget Passed in Late September

- Latest state budget.
- Passed with many one-time solutions.
- Underlying budget shortfall in the \$6 billion to \$8 billion range.

Economic Downturn Began Shortly After Budget Passage

- **Estimates of revenue shortfalls over 2008-09 and 2009-10:**
 - November 2008: \$25 billion to \$30 billion
 - January 2009: \$40 billion

Magnitude of the Problem

- **\$40 billion is over 40 percent of General Fund Budget.**
- **Coming on the heels of an exceptionally difficult year.**
- **2009-10 budget passed in February of this year—the earliest ever.**

The February State Budget Package

The Budget Solution

(In Billions)

	2008-09	2009-10	Two-Year Totals
Expenditure Reductions	\$6.7	\$8.6	\$15.4
Revenue Increases	1.5	11.0	12.5
Federal Fund Offset	2.8	5.7	8.5
Borrowing	0.3	5.1	5.4
Totals	\$11.3	\$30.3	\$41.7

Reduces Spending by \$15 Billion

(In Billions)

	2008-09	2009-10	Two-Year Totals
Education	\$5.8	\$2.6	\$8.4
Health/Social Services	0.1	1.5	1.6
State Employee Costs	0.3	0.8	1.2
Higher Education	0.1	0.8	0.9
Transportation	0.3	0.4	0.7
Other	0.2	2.5	2.6
Totals	\$6.8	\$8.6	\$15.4

Increases Revenues by \$13 Billion

(In Billions)

	2008-09	2009-10	Two-Year Totals
Sales Tax Increase (1 cent per dollar)	\$1.2	\$4.6	\$5.8
Personal Income Tax Increase (0.25 percentage rate increase)	—	3.7	3.7
Vehicle License Fee Increase (0.65 percent to 1.15 percent)	0.3	1.7	2.0
Reduce Dependent Credit	—	1.4	1.4
Various new tax credits	—	-0.3	-0.3
Totals	\$1.5	\$11.0	\$12.5

Relies on \$5 Billion in Borrowing

(In Billions)

	2008-09	2009-10	Two-Year Totals
Lottery securitization	—	\$5.0	\$5.0
Special fund loans	\$0.3	0.1	0.4
Totals	\$0.3	\$5.1	\$5.4

Federal Stimulus Funds

- **Assumes \$8.5 billion in federal stimulus funds.**
 - Mostly in health
 - Includes \$1.1 billion in general purpose funds
 - Assumes backfill of \$510 million veto in UC/CSU funding

Final Package Includes Seven Budget-Related Ballot Measures

- **Proposition 1A—State finance**
- **Proposition 1B—Proposition 98**
- **Proposition 1C—Lottery**
- **Proposition 1D—Proposition 10**
- **Proposition 1E—Proposition 63**
- **Proposition 1F—Officials' salaries**
- **Open primaries (June 2010)**

The February Proposition 98 Package

Budget Package First Reduced 2008-09 Proposition 98 Budget

- Revised K-14 funding level of \$50.7 billion.
- Reduction of \$7.4 billion from September *2008-09 Budget Act*.
- K-12 schools—not community colleges—absorb bulk of reductions.

2008-09 Proposition 98: Reductions Not as Severe as They Might Seem

- **Only \$2.4 billion in programmatic reductions.**
 - \$944 million from categorical programs
 - \$944 million from revenue limits
 - \$287 million retraction of 0.68 percent COLA
- **Remaining \$5 billion—deferred payments or backfill with one-time funds.**

2009-10 Proposition 98 Budget

- **K-14 funding level of \$54.9 billion.**
- **All new funding goes to backfill one-time funds used in 2008-09.**
- **Budget-year package includes about \$700 million in additional cuts.**
 - \$268 million from categorical programs
 - \$268 million from revenue limits

Major Changes to Categorical Program Funding Rules

- **Budget deal allows districts to use most categorical program funding for any purpose.**
 - Roughly 40 programs included in flexibility provisions
 - Roughly 20 programs “protected” from transfers out

Additional Flexibility Provisions

- **Less severe K-3 class size reduction penalties.**
- **Allows districts to postpone purchase of new instructional materials.**
- **Lowers local spending requirement for routine maintenance.**
- **Allows access to prior-year categorical ending balances.**

Plan Includes Major Deferrals

Intra-Year Deferrals:

- \$2.7 from July/August to October 2009

Inter-Year Deferrals:

- \$4.5 billion from February through June to July

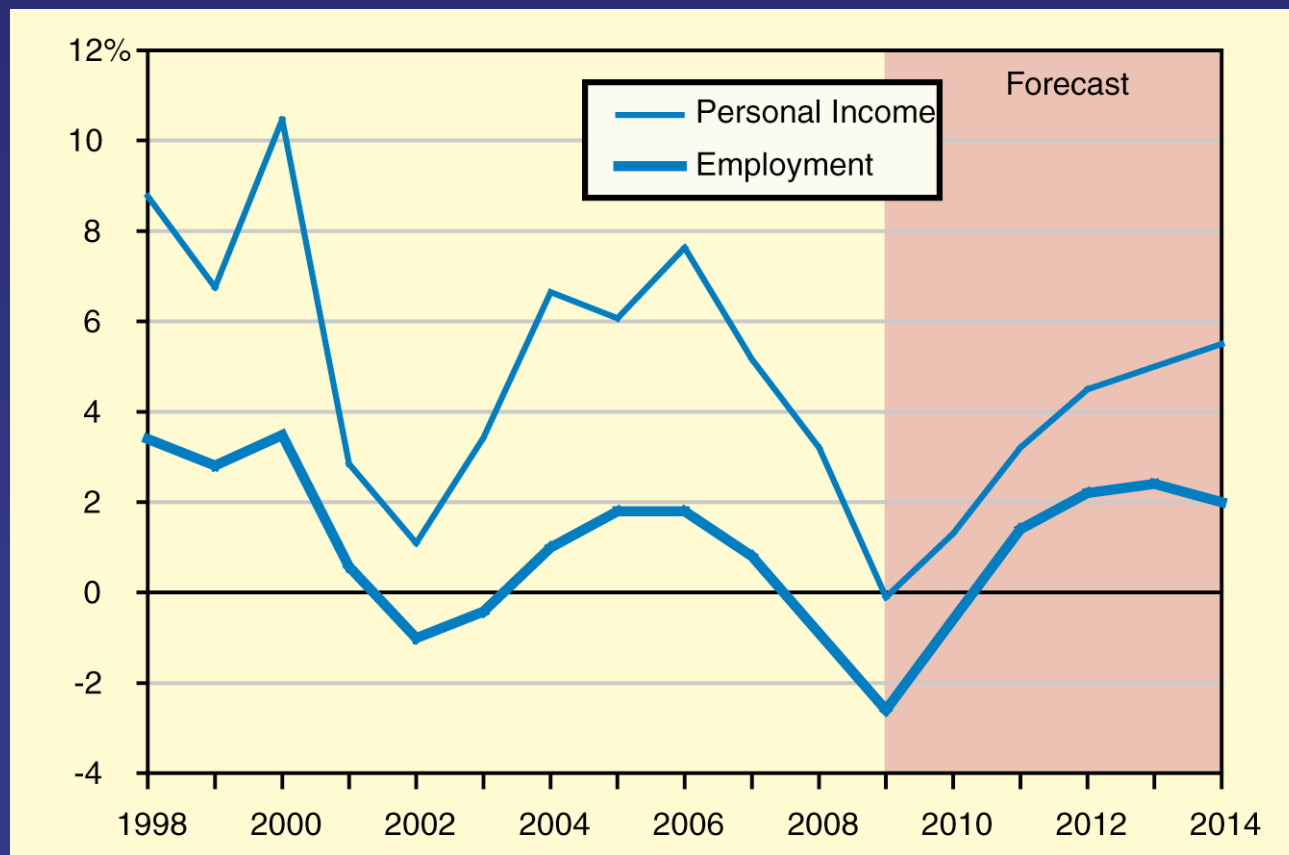
LAO March Update

Updated Economic, Revenue and Spending Forecast

- **February budget package based on economic assumptions from December.**
- **Economic picture has continued to worsen.**

Weak Recovery Anticipated for California

Annual Percentage Change

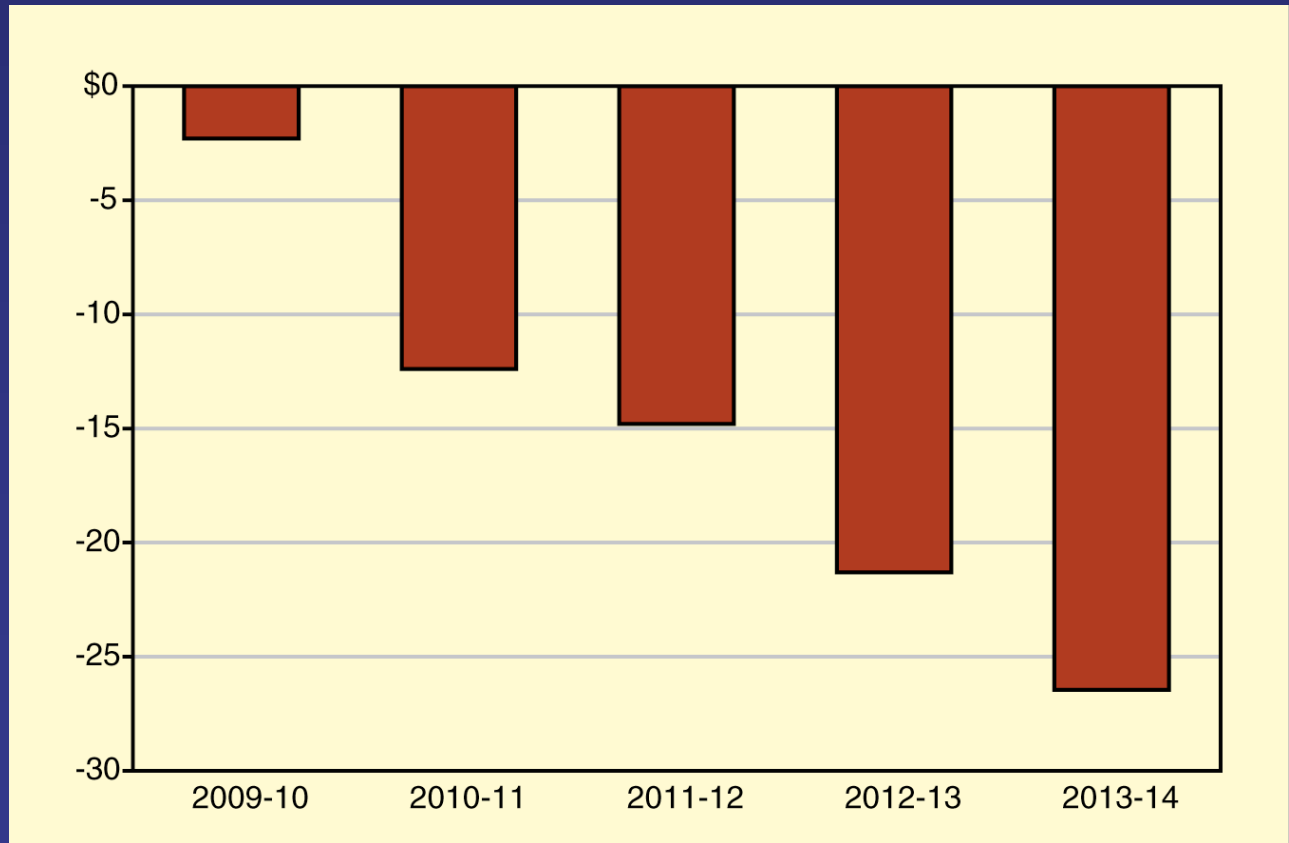


LAO Revenues

- We forecast a 2009-10 revenue decline of roughly \$8 billion.
- Turns a projected June 30, 2010 surplus of \$2 billion into a deficit of \$6 billion.

The Out-Year Forecast

General Fund Operating Shortfalls (In Billions)

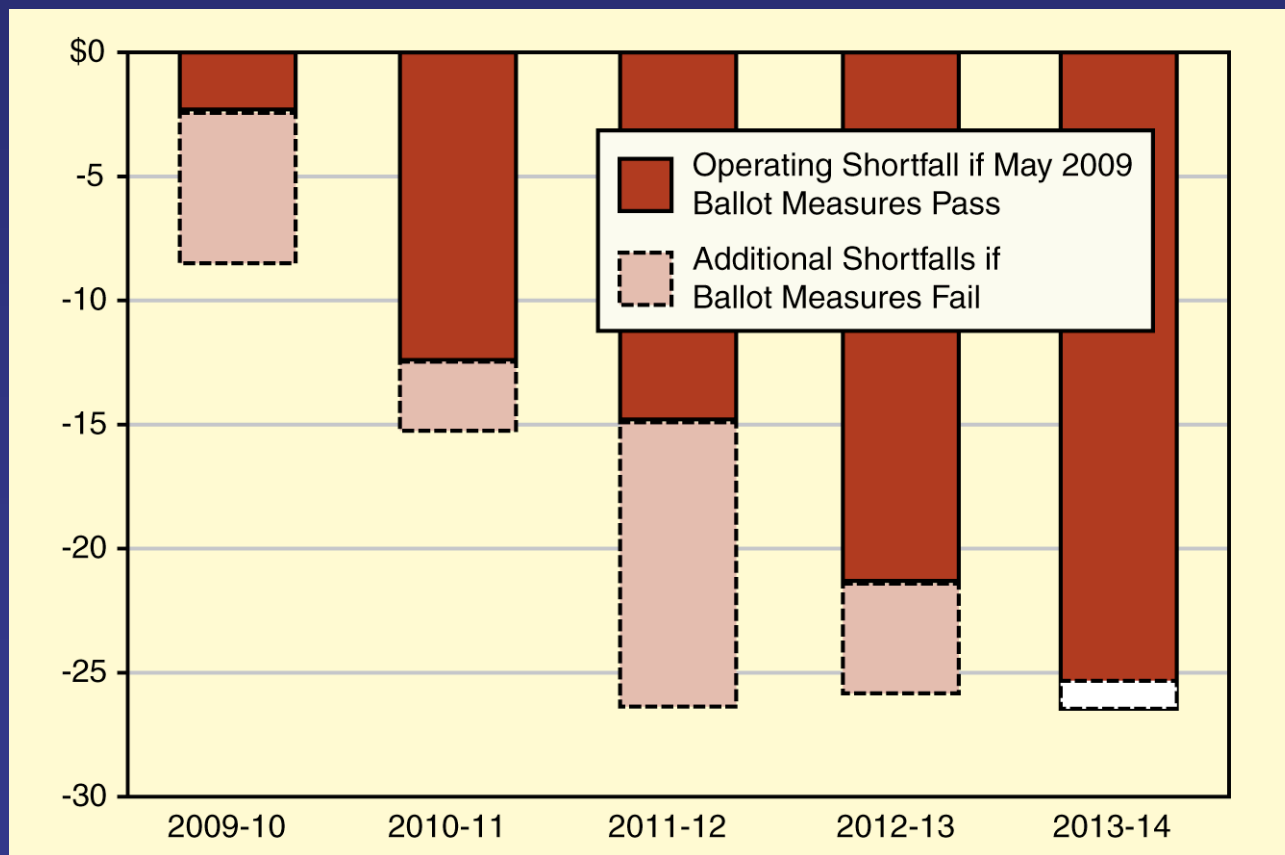


Forecast Assumes Passage of All Propositions

- **Failure of measures would result in lost solutions of:**
 - **2009-10: Almost \$6 billion (primarily Proposition 1C)**
 - **Out-Years: About \$15 billion (primarily Proposition 1A)**

Failure of the Propositions— Impact in the Out-Years

General Fund (In Billions)



Federal Education Stimulus Funding

California to Receive More Than \$8 Billion in Federal Education Funding

2008-2010 (In Millions)

	Federal Funding
Fiscal Stabilization	\$4,875
Special Education	1,321
Title I Basic Grants	1,128
Title I School Improvement Grants	382
Other	401
Total	\$8,081

Federal State Stabilization Funds

- **\$4.9 billion available to K-12 and Higher Education over three-year period.**
- **Various rules on allocation:**
 - Maintenance of effort (2005-06)
 - “Restoration Target” (2007-08)
 - Proportionality between segments

Federal State Stabilization Funds (Continued)

- Major confusion about these funds.
- They may be needed to cushion further reductions in spending.
- LAO: Legislature should wait to commit these funds, pending final action on budget.

Federal State Stabilization Funds (Continued)

- Federal funds will be spent on education.
- The monies will provide a higher level of spending than would otherwise be the case.

Other Federal Stimulus Funds

- **State Incentive Grants**
- **Title 1**
- **Special Education**

Community College Fees

- **Federal government significantly increased its college tax credits.**
- **LAO: State should raise CCC fees, which would be covered by credits.**

Epilogue

Prospects for the Near Term

- **Results of the May 19 Special Election.**
 - Propositions 1C, 1D, and 1E
- **Revenues coming into the Franchise Tax Board in April.**
 - Implications for 2009-10

Prospects for the Longer Term

- **Results of the May 19 Special Election.**
 - Propositions 1A and 1B
- **Recovery paths of the national and state economies.**
- **State actions to bring long-term spending and revenue trends into line.**