

REMARKS TO THE CONFERENCE COMMITTEE ON SB 813

JUNE 13, 1983

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

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REMARKS TO THE CONFERENCE  
COMMITTEE ON SB 813

My purpose in appearing before you this afternoon is to provide a fiscal perspective on the issues facing your conference committee as it begins its work on SB 813.

As you know, the situation confronting the Legislature this month is a series of what mathematicians might call simultaneous linear equations with a large number of unknowns. Each "equation" must be solved while taking account of the solutions that are being developed to the other "equations"--the budget, loophole closures, community college finances, local government finances, and the subject of this conference committee: school finances. We have attempted to reflect these interrelationships in the materials that I have distributed to you.

Exhibit A shows the condition of the General Fund, based on the actions taken to date by the budget conference committee. (For comparative purposes, Exhibit A also shows the revised budget proposed by the Governor.) The exhibit indicates that, assuming no further changes to the Budget Bill, the General Fund would end the fiscal year with a deficit of about \$465 million. Were it not for the sales tax trigger built into AB 28x, the General Fund deficit would be even larger.

Needless to say, the projected deficit could be larger or smaller than \$465 million if some of the major assumptions on which the budget is premised fail to hold. On the optimistic side, the Legislative Analyst's office sees a good possibility that General Fund revenues will exceed the Department of Finance's latest estimate by \$200 million. Were this to

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happen, the General Fund would be out of balance on June 30, 1984 by only \$265 million.

On the pessimistic side, there are the usual threats to the budget that could throw it even further out of balance. Some (though certainly not all) of these threats are listed on the third page of Exhibit A. The most important of these threats is yet another revenue shortfall along the lines that the Commission on State Finance is forecasting. One or more adverse court decisions could also increase the size of the problem facing the Legislature in trying to achieve a balanced budget.

Exhibit B shows how identifiable expenditures and revenues called for by the Senate and Assembly versions of SB 813 would affect the General Fund condition on June 30, 1984. In preparing this table, we have had to take into account the fact that:

1. Some of the expenditures provided for in SB 813 have also been approved by the budget conference committee and are reflected in Exhibit A.
2. Some of the revenues provided by SB 813 are also contained in AB 1428--the so-called loophole closer--and are also reflected in Exhibit A.

Here is where the simultaneous nature of these equations becomes extremely tricky. For the sake of simplicity, we have assumed that SB 813 will be chaptered before AB 1428, and have netted out from the totals any revenues that are either included or forestalled by AB 1428. We have also used the version of AB 1428 that was approved by the Senate as the basis for measuring the revenue effect of SB 813.

Remarks to the Conference  
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As Exhibit B shows, the Senate version of SB 813 would add a minimum of \$685 million in expenditures to the total approved to date by the budget conference committee. When the additional \$636 million in revenues called for by the Senate version is taken into account, the net impact of the bill on the General Fund is to increase the June 30, 1984 deficit by at least \$49 million.

In contrast, the Assembly version of SB 813 would add \$795 million in expenditures and \$760 million in revenues to the totals shown in Exhibit A. Thus, the net effect of the Assembly version on the General Fund is to increase the General Fund deficit by \$35 million.

Exhibit C lists what we believe are the major fiscal issues facing this conference committee as it attempts to reconcile the two versions of SB 813. I won't take the time to discuss this exhibit, unless you want me to.

That completes my presentation. Your staff in the Legislative Analyst's office is, of course, ready to assist you in any way we can.

Attachments

Condition of the General Fund  
 1983-84  
 (in millions)

	<u>Governor's Proposal</u>	<u>Senate Action</u>
<u>Starting Balance (July 1, 1983):</u>		
Department of Finance estimate (June 7)	-\$911	-\$911
<u>Revenues and Transfers:</u>		
Revenues <u>not</u> dependent on legislative action	\$21,859	\$21,859
Revenues dependent on legislative action:		
Repeal of solar and energy tax credits	120	--
Sales tax speed-up	25	--
Revenues from use of "old" CPI (AB 710)	100	100
Transfer of tidelands oil revenues	297	202 <sup>a</sup>
Vehicle license fee transfer	384 <sup>b</sup>	300
Transportation, Planning and Development Account transfers	42	--
Driver training transfer	22	--
Governor's efficiency team (GET) proposals	367	371
Interest income (GET)	15	15
Conference committee changes	--	3
(Subtotal, revenues dependent on legislative action)	(\$1,372)	(\$991)
Total, Revenues and Transfers	\$23,231	\$22,850

	<u>Governor's Proposal</u>	<u>Senate Action</u>
<u>Expenditures and Reserves:</u>		
Expenditures:		
Budget as Submitted	\$21,677	\$21,677
Department of Finance Requests (net)	227	227
Local mandate claims bills	72	-- <sup>c</sup>
Financial legislation	2	2
Legislative changes:		
Senate action	--	1,260
Conference committee changes	--	-128
AB 1428 K-12 reduction	--	-86
(Subtotal, Expenditures)	(\$21,977)	(\$22,952)
Reserves:		
Los Angeles County set aside	100	100
Carry-over appropriations	<u>3</u>	<u>3</u>
(Subtotal, Reserves)	(\$103)	(\$103)
Total, Expenditures and Reserves	\$22,080	\$23,055
<u>Ending Balance</u> (June 30, 1984)	\$240	-\$1,116
Revenues from second AB 28x sales tax trigger <sup>d</sup>	<u>--</u>	<u>650</u>
Revised Ending Balance	\$240	-\$466

	<u>Governor's Proposal</u>	<u>Senate Action</u>
<u>Threats to the General Fund</u>		
Revenue shortfalls (Commission on State Finance)	-\$285	-\$285
Medi-Cal adjustments (1982-83)	-11	-11
Local mandate claims	-39	-102
Increase federal Title IV-E Funds--special social service programs	17	17
Increase apportionments resulting from use of "old" CPI (AB 710)	<u>-30</u>	<u>-30</u>
(Subtotal, Threats to the General Fund)	<u>(-\$348)</u>	<u>(-\$411)</u>
Revised Ending Balance	-\$108 <sup>e</sup>	-\$877

Note: Details may not add to total due to rounding.

- a. Includes Conference Committee actions to date.
- b. Legislative Analyst Office estimate of transfer is \$371 million.
- c. The Senate has thus far taken no action on local mandate claims.
- d. Assumes 1-cent sales tax increase remains in effect through June 30, 1984. Under AB 28x, the sales tax rate would revert to previous level on or after April 1, 1984 if projected June 30, 1984 General Fund balance exceeds \$100 million.
- e. Does not include revenues from increase in sales tax.

EXHIBIT B  
Comparison of Assembly and Senate Versions of SB 813 Versus  
Budget Adopted by Conference Committee Action to Date  
As Measured Over Governor's Proposed 1983-84 Budget  
(in millions)

	Conference Committee	Assembly Version		Senate Version	
		SB 813	SB 813 Over Conference Committee	SB 813	SB 813 Over Conference Committee
EXPENDITURES (Over Governor's Budget)					
Apportionments	-\$29.6 <sup>a</sup>	\$554.7	\$584.3	\$477.6	\$507.2
Special Education	33.5	99.3	65.8	116.7	83.2
Special Education 1982-83 Deficit	58.0	--	--	--	--
Categorical Programs COLA	39.5	39.5	--	--	--
Instructional Materials	2.4	34.9	32.5	40.9	38.5
Minimum Teacher Salaries	--	25.0	25.0	Major	Major
Mult Education	7.9	17.0	9.1	17.0	9.1
School Improvement Program	--	10.0	10.0	--	--
Urban Impact Aid	--	9.0	9.0	--	--
Summer School	--	3.8	3.8	4.3	4.3
Small Schools	--	--	--	5.0	5.0
School Desegregation	16.7 <sup>b</sup>	--	--	--	--
State Library	13.7	--	--	--	--
Other	<u>43.4</u>	<u>55.4</u>	<u>55.4</u>	<u>37.6</u>	<u>37.6</u>
Total Identifiable Cost	\$185.5	\$848.6	\$794.9	\$699.1	\$684.9
Additional Revenues			\$760.0		\$636.0
Net Effect on General Fund			-\$34.9		-\$48.9

Does not include \$34.0 million for accelerating Serrano equalization, which is still open.

Does not include \$20.4 million to fund 1983-84 deficit, which is still open.

NOTE: Senate version of SB 813 also contains major state-mandated costs, beginning in 1984-85, by requiring school districts to increase the length of the school day and year. We estimate these costs, which are potentially state-reimbursable, to be up to \$453 million in 1984-85, \$949 million in 1985-86, and \$1.3 billion in 1986-87 and thereafter.

EXHIBIT C

Major Difference Between Assembly and Senate Versions of SB 813  
(As Measured Over Budget Conference Committee Action to Date)

1. School Apportionment COLAs

- |                             |       |
|-----------------------------|-------|
| o Assembly version provides | \$246 |
| o Senate version provides   | 294   |

Comment:

Assembly version provides a 9 percent COLA on revenue limits; Senate version provides 10 percent.

2. Increase Length of School Day/Year

- |                             |       |
|-----------------------------|-------|
| o Assembly version provides | \$283 |
| o Senate version provides   | --    |

Comment:

Assembly version increases length of school year to 180 days and length of school day to 360 minutes in grades 9-12 in 1983-84 and appropriates \$283 million for this purpose. (We estimate cost to be \$288 million.) Senate version increases length of school year by five days or 1,200 minutes, to 180 days and appropriates \$96 million (included in the 10 percent COLA for revenue limits) for this purpose.

3. Serrano Equalization

- |                             |      |
|-----------------------------|------|
| o Assembly version provides | \$24 |
| o Senate version provides   | 87   |

Comment:

Assembly version proposes to accelerate equalization by guaranteeing that no district's revenue limit in 1983-84 will be less than its 1982-83 revenue limit plus one-half the difference between (a) the calculated 1984-85 statewide average base revenue limit and (b) the district's 1982-83 base revenue limit. Senate version proposes to accelerate equalization by bringing all districts' revenue limits up to what would otherwise have been the statewide average in 1983-84.

(Governor's Budget included \$34 million to bring districts' revenue limits within \$20 of the statewide average in 1983-84. The budget conference committee has not acted on this issue.)

4. Minimum Revenue Guarantee

- o Assembly version provides \$31
- o Senate version provides 34

Comment:

Assembly version provides a minimum revenue guarantee of between 90 percent and 100 percent, depending on the district; Senate version provides 102 percent guarantee in 1983-84 only, which is subsequently "folded into" base revenue limits.

5. One-Time Funds (SB 1326)

- o Assembly version provides --
- o Senate version provides \$50

Comment:

Assembly has no provision. Senate provides \$50 million to continue a one-time appropriation, contained in 1982 Budget Act, to enhance local programs.

6. Federal Impact Aid

- o Assembly version provides --
- o Senate version provides \$46

Comment:

Assembly has no provision. Senate version provides \$46 million to compensate districts for loss of federal impact aid under the PL 81-874 program.

7. Special Education--Five Year Buy-Out of Local General Fund Contribution (LGFC)

- o Assembly version provides \$32
- o Senate version provides 32

Comment:

Both Assembly and Senate version provide for a five-year buy-out of school districts' LGFC. (The LGFC is the amount the district's General Fund contributed to its special education program in 1979-80.)

8. Instructional Materials

- o Assembly version provides \$33
- o Senate version provides 39

Comment:

Assembly version provides a new instructional materials allowance of \$15 per pupil in grades 9-12. Senate version provides \$10 per pupil in grades 9-12, and raises the allocation in grades K-8 to \$25 per ADA.

9. Minimum Teacher Salaries

- o Assembly version provides \$25
- o Senate version provides Major

Comment:

Both Assembly and Senate propose to increase minimum teacher salaries by 10 percent per year, up to level of \$18,000. Assembly appropriates \$25 million for this purpose; Senate contains no appropriation.

10. Local Revenue Provisions

- o Both Assembly and Senate versions permit school districts to raise additional revenues, equal to 5 percent of revenue limits, by levying a local tax.

Comment:

If all districts exercised this option, up to \$400 million per year in additional revenue would be provided.

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Summer School	--	3.8	3.8	4.3	4.3
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School Desegregation	16.7 <sup>b</sup>	--	--	--	--
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