

Education and California's Budget



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Recap of the 2009-10 Budget

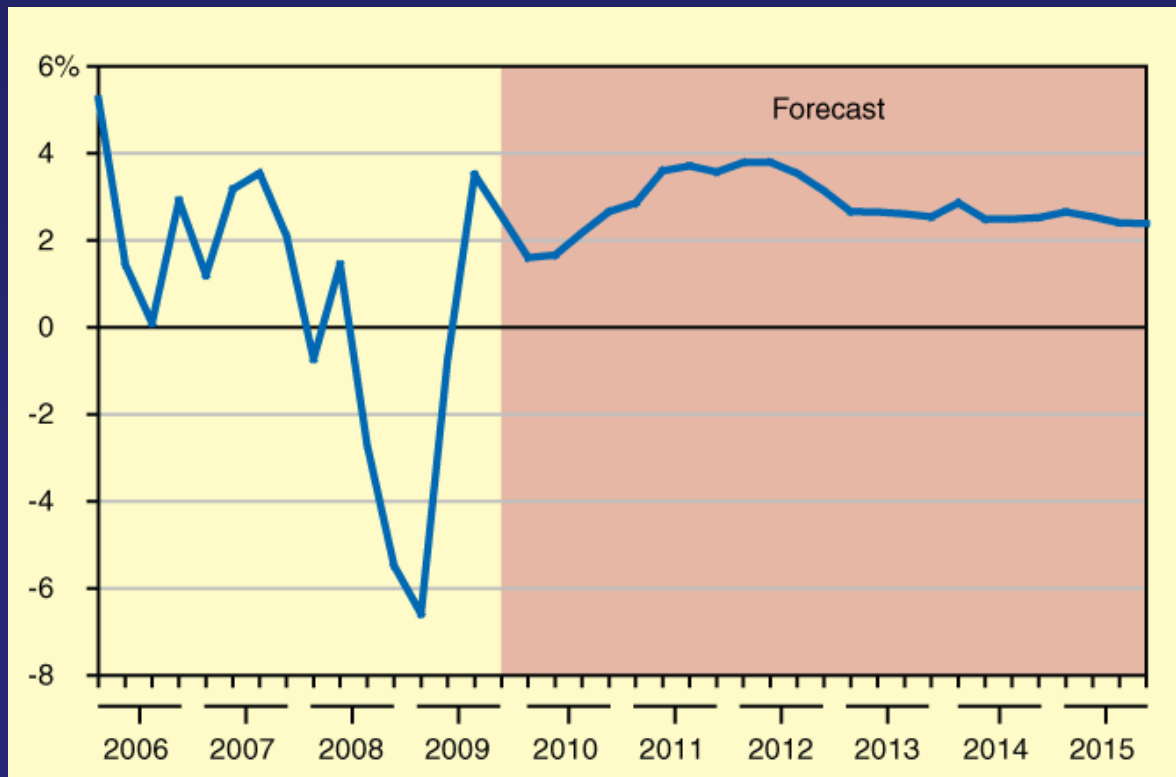
- **Addressed \$60 billion problem over February and July packages**
 - Revenue estimates reflected slow recovery
- **Most solutions were short term**
 - Temporary taxes and budget reductions
 - Heavy reliance on federal stimulus funds and deferrals
- **Some solutions had optimistic savings estimates**

Large Budget Problem Returns

- **LAO, November 2009: \$20.7 billion**
- **Department of Finance, January 2010: \$18.9 billion**
- **Similar assessments:**
 - **Economy showing some improvement and revenue forecast was in the right ballpark**
 - **Inability to achieve budgeted solutions is the key problem**

Modest Growth Expected During Recovery

(Percent Change From Prior Quarter [Annual Rate]
U.S. Real Gross Domestic Product)



Challenges in Addressing 2010-11 Budget Problem

- **Solutions are on top of actions already taken**
- **Numerous legal risks**
- **Federal funds came with strings attached**

Governor's Budget

- **Spending-Related Solutions: \$7.6 billion**
 - Proposition 98, state employees, health, social services, and corrections
- **Fund Shifts and Other: \$4.5 billion**
 - Gas tax swap, ballot measures
- **Federal Funds and Flexibility: \$7.9 billion**
 - “Trigger” reductions and revenues if federal funds not received

Legislative Action

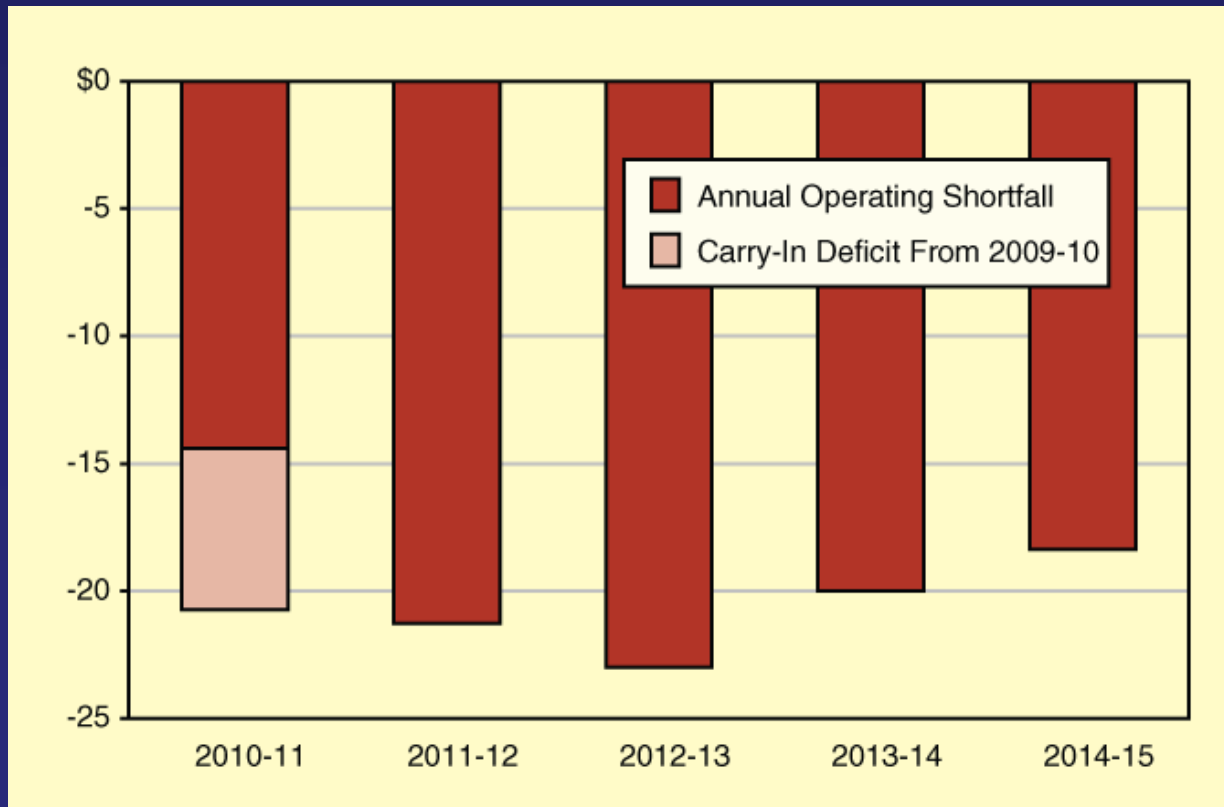
- **Package of Special Session bills**
 - Scored at \$5 billion in solutions
 - Gas tax swap is key component (\$1.8 billion)
 - No Proposition 98 actions, other than cash deferrals
- **Remaining issues expected to be covered through normal budget process**

State's Cash Situation Better Than A Year Ago

- **March/April 2010 period manageable**
 - December and January revenues stronger than Governor's budget assumes
- **Treasurer expected to issue bonds in the spring**
- **Return of deferrals expected to help state get through the summer**

Huge Operating Shortfalls Projected Throughout Forecast Period

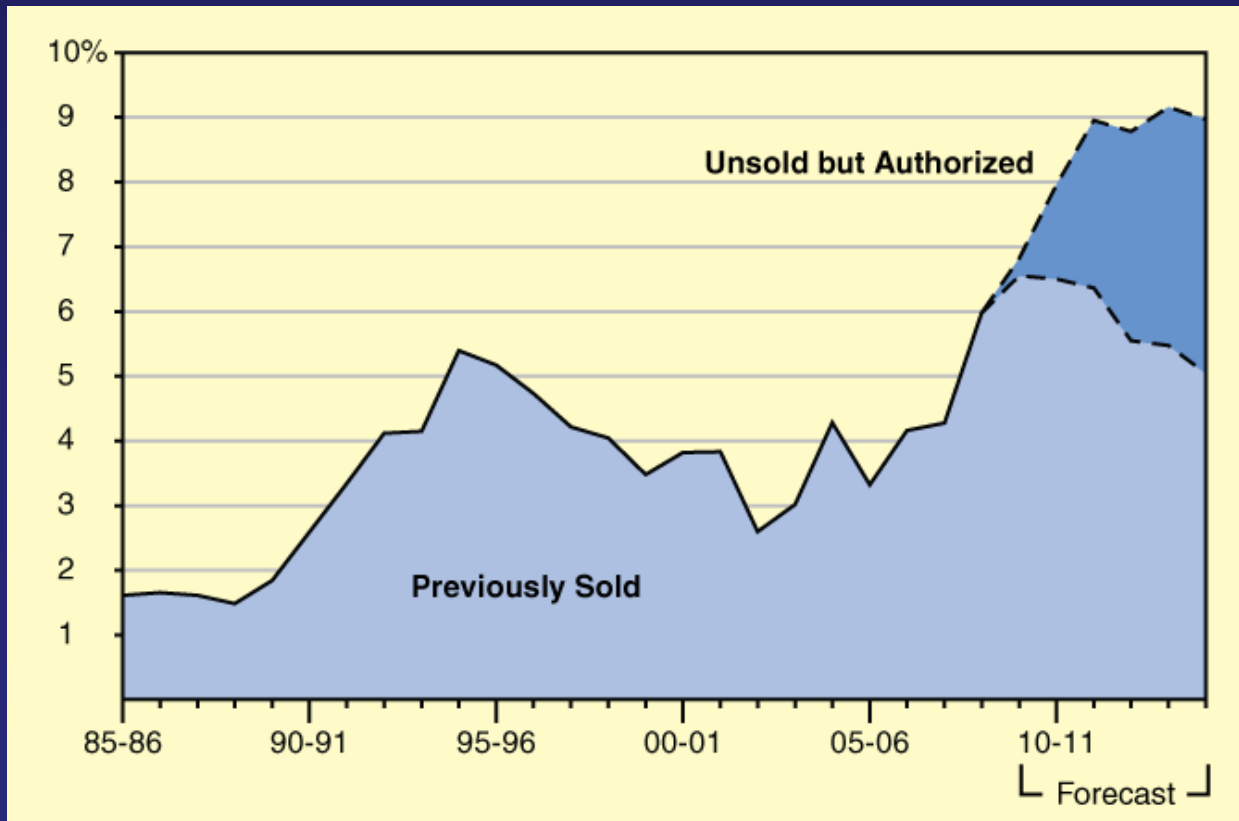
General Fund (In Billions)



Longer-Term Budgeting: Fiscal Liabilities Will Constrain State

- **Budget-Related: About \$35 Billion**
- **Retirement-Related: \$100 Billion to \$135 Billion**
- **Infrastructure-Related: About \$70 Billion**

Projected Debt-Service Ratio



Update on School Finance Statewide

- **For fiscal relief last year, districts relied heavily on:**
 - Federal stimulus funding.
 - Ending categorical balances.
 - Categorical program flexibility.

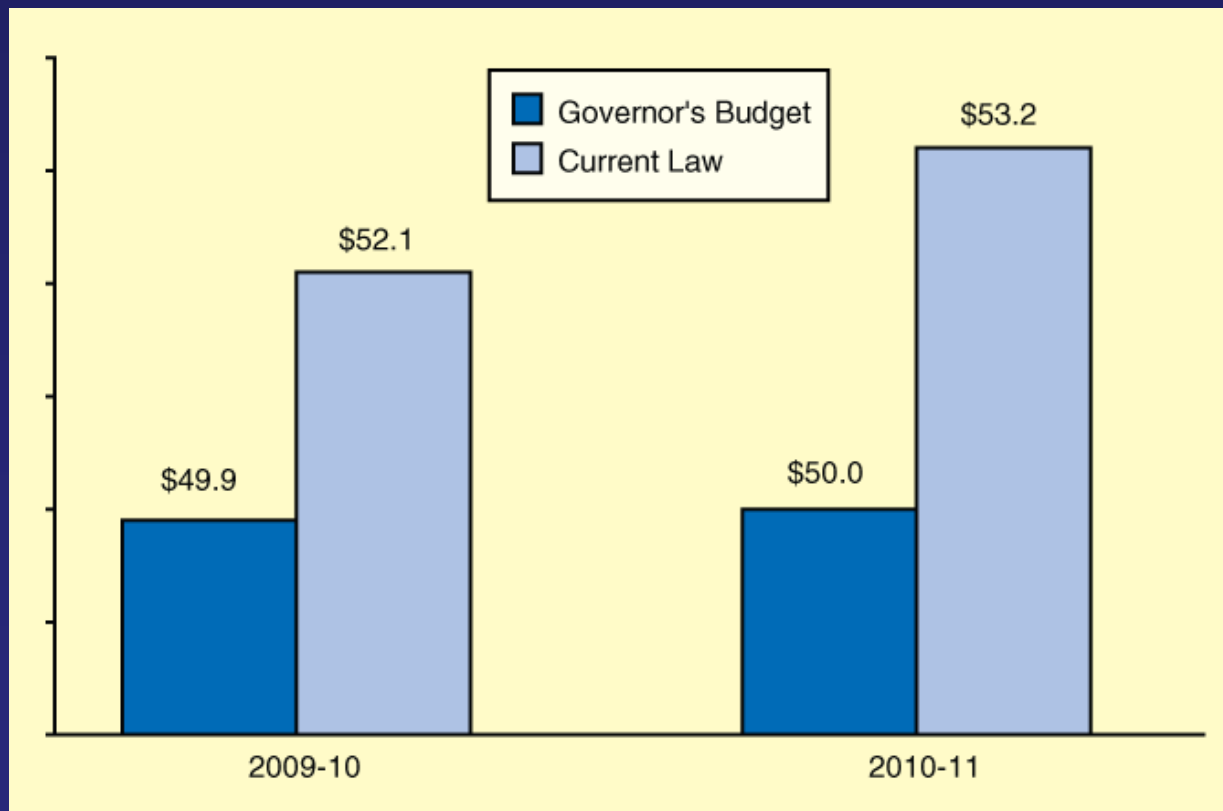
Proposition 98 K-12 Spending Stays Virtually Flat Under Governor's Plan

(Dollars in Millions)

| | 2007-08 Final | 2008-09 Final | 2009-10 Revised | 2010-11 Proposed | Change From 2009-10 | |
|----------------------------|------------------|------------------|---------------------|---------------------|---------------------|---------|
| | | | | | Amount | Percent |
| K-12 Education | | | | | | |
| General Fund | \$37,752 | \$30,260 | \$30,844 | \$32,023 | \$1,179 | 3.8% |
| Local property tax revenue | 12,592 | 12,726 | 13,237 ^a | 11,950 | -1,287 | -9.7 |
| Subtotals | (\$50,344) | (\$42,986) | (\$44,082) | (\$43,974) | (-\$108) | (-0.2%) |

Comparing Proposition 98 Funding: Governor vs. Current-Law Level

(Dollars in Billions)



Comparing K-12 Funding to Federally Required Maintenance-of-Effort (MOE) Level

(Dollars in Millions)

| | MOE Level: | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2005-06 | 2008-09 | 2009-10 | 2010-11 |
| K-12 Education | | | | |
| Proposition 98 General Fund | \$32,961 | \$30,260 | \$30,844 | \$32,023 |
| Settle-up | 7 | 1,101 | — | — |
| Quality Education Investment (QEIA) | — | 402 | 250 | 152 |
| Deferrals | — | 2,904 | 1,679 | — |
| K-12 Totals | \$32,968 | \$34,667 | \$32,773 | \$32,175 |
| Average Daily Attendance (ADA) | 5,965,268 | 5,957,111 | 5,921,510 | 5,927,728 |
| Total Per ADA (In Dollars) | \$5,527 | \$5,819 | \$5,535 | \$5,428 |
| Amount Above/Below MOE | — | \$1,744 | \$47 | -\$585 |

Waiver from Federal Maintenance-of-Effort Requirement

(Dollars in Millions)

| | 2009-10 | 2010-11 |
|---|--------------|--------------|
| State support for education | \$41,634 | \$41,917 |
| Total General Fund expenditures | \$88,214 | \$83,071 |
| Education as Share of Expenditures | 47.2% | 50.5% |

K-12 “Programmatic” Funding

(Dollars in Millions)

| | 2007-08 Final | 2008-09 Revised | 2009-10 Revised | 2010-11 Proposed |
|--|------------------|--------------------|--------------------|---------------------|
| Programmatic Funding | | | | |
| K-12 ongoing funding | \$48,883 | \$43,215 | \$40,765 | \$42,708 |
| Payment deferrals | — | 2,904 | 1,679 | — |
| One-time fund swaps | 862 | 1,766 | — | 64 |
| Freed-up restricted reserves | — | 1,100 | 1,100 | — |
| American Recovery and Reinvestment Act (ARRA) funds | — | 1,192 | 3,575 | 1,192 |
| Totals | \$49,745 | \$50,176 | \$47,118 | \$43,964 |
| Per-Pupil Programmatic Funding | | | | |
| K-12 attendance | 5,947,758 | 5,957,111 | 5,921,510 | 5,927,728 |
| K-12 per-pupil funding | \$8,364 | \$8,423 | \$7,957 | \$7,417 |
| Percent Changes From 2007-08 | — | 0.7% | -4.9% | -11.3% |

Building 2010-11 Education Budget: Use Multiple Budget Strategies

- Reduce some state and local costs
- Provide additional flexibility
- Undertake comprehensive mandate reform
- Align certain existing program efforts
- Seek opportunities to increase federal aid

Provide Additional Flexibility

- **Add some programs to flex item**
- **Consolidate some programs now outside of flex item**
- **Ease certain existing state restrictions**
- **Remove certain existing state restrictions**
- **Align CDE staffing levels with flexibility decisions**

Undertake Comprehensive Mandate Reform

- **Fund mandates serving compelling statewide purpose**
 - Use standardized reimbursement methodology
- **Take hybrid approach for some mandates**
 - Fund certain associated activities but eliminate remaining requirements
- **Eliminate remaining mandates**

Regionalizing Additional Education Services

- **Governor cuts county offices of education (COE) by \$45 million. Commits to exploring ways to regionalize additional services.**
- **Our office is exploring a “regional revenue limit,” whereby some existing COE funding is pooled at regional level.**