

Assessment of the 2005-06 Budget



Legislative Analyst's Office

The Legislature's Budget Opportunity

The Building Blocks:

- **Healthy Revenues**

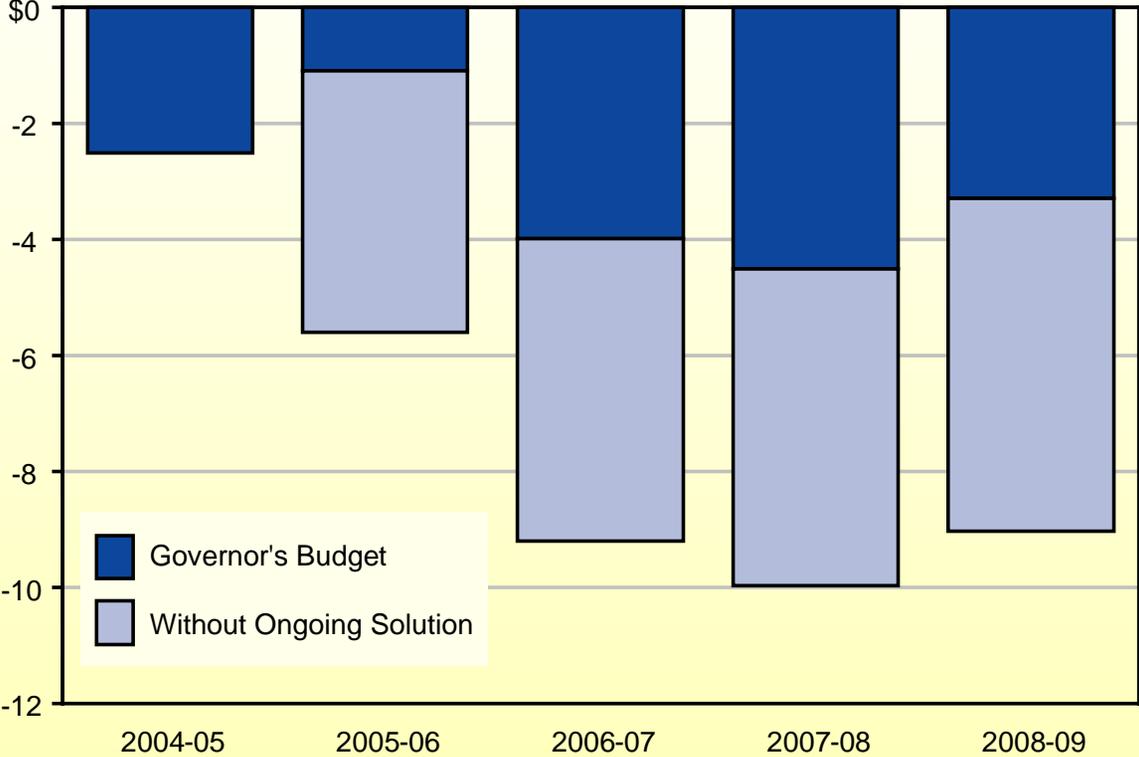
- \$2.2 billion more than Governor.

- **Ongoing 2005-06 Solution**

- \$4 billion to \$5 billion needed (similar in magnitude to budget).

General Fund Operating Shortfalls, Under Alternative Scenarios

(In Billions)

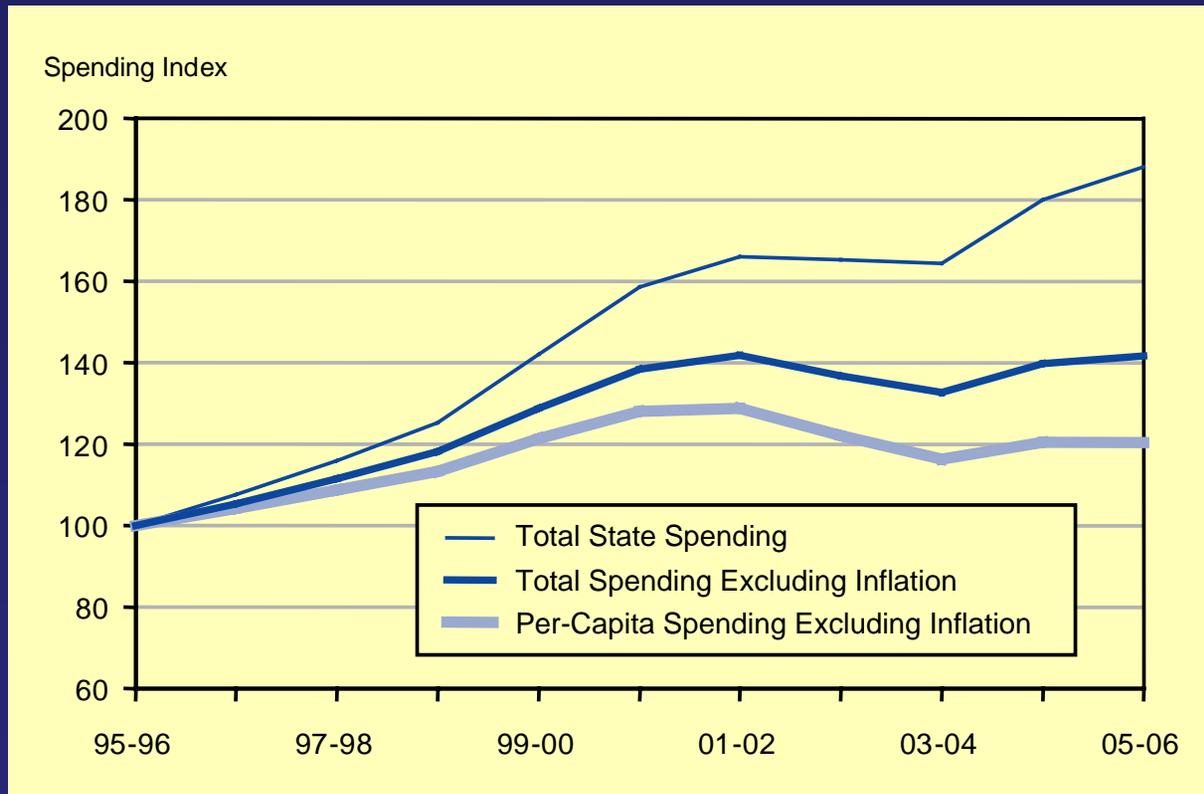


Concerns With Governor's Structural Budget Reform

- **Proposition 98 changes would seriously limit legislative flexibility.**
- **Across-the-board reductions—A blunt tool.**
- **Policy choices—not autopilot spending—drive shortfalls.**
- **Conclusion—Budget reforms should enhance flexibility and greater reserves.**

Spending Adjusted for Inflation and Population

(Index Value = 100 in 1995-96)

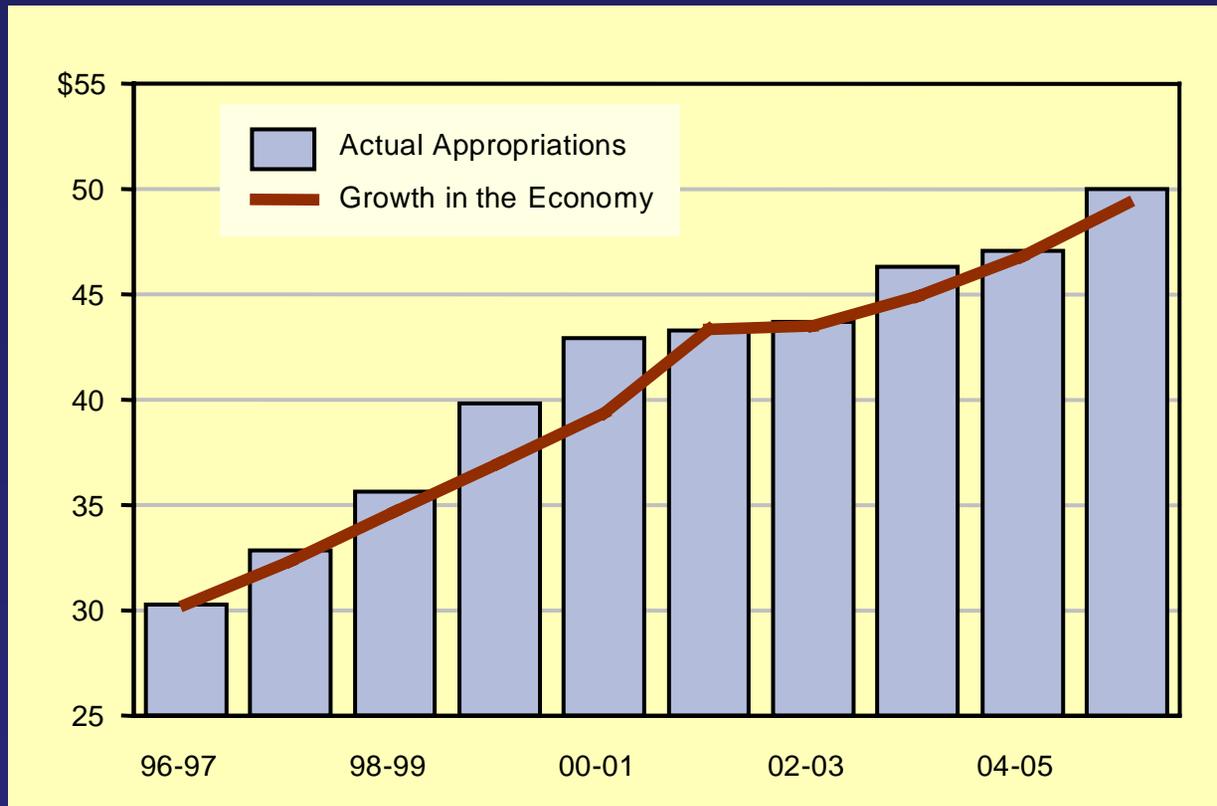


Education Community Estimates of K-12 Reductions Technically Flawed

- **Mixes expenditure reductions and revenue reductions double count cuts (\$3.5 billion).**
- **Does not offset funding reductions with funding augmentations (over \$500 million).**
- **Includes rejection of proposed augmentation (\$250 million).**
- **Continues to count reductions that have been restored (about \$350 million).**

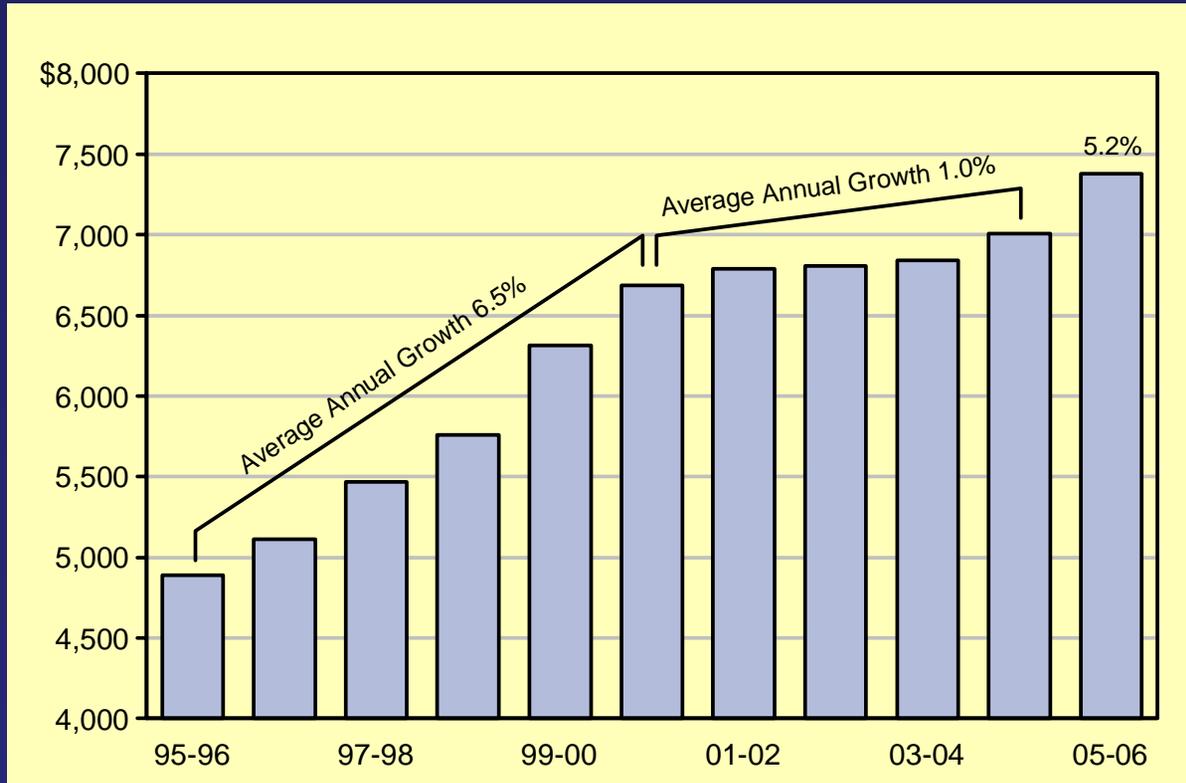
Growth in Proposition 98 Compared to Growth in the Economy

(In Billions)

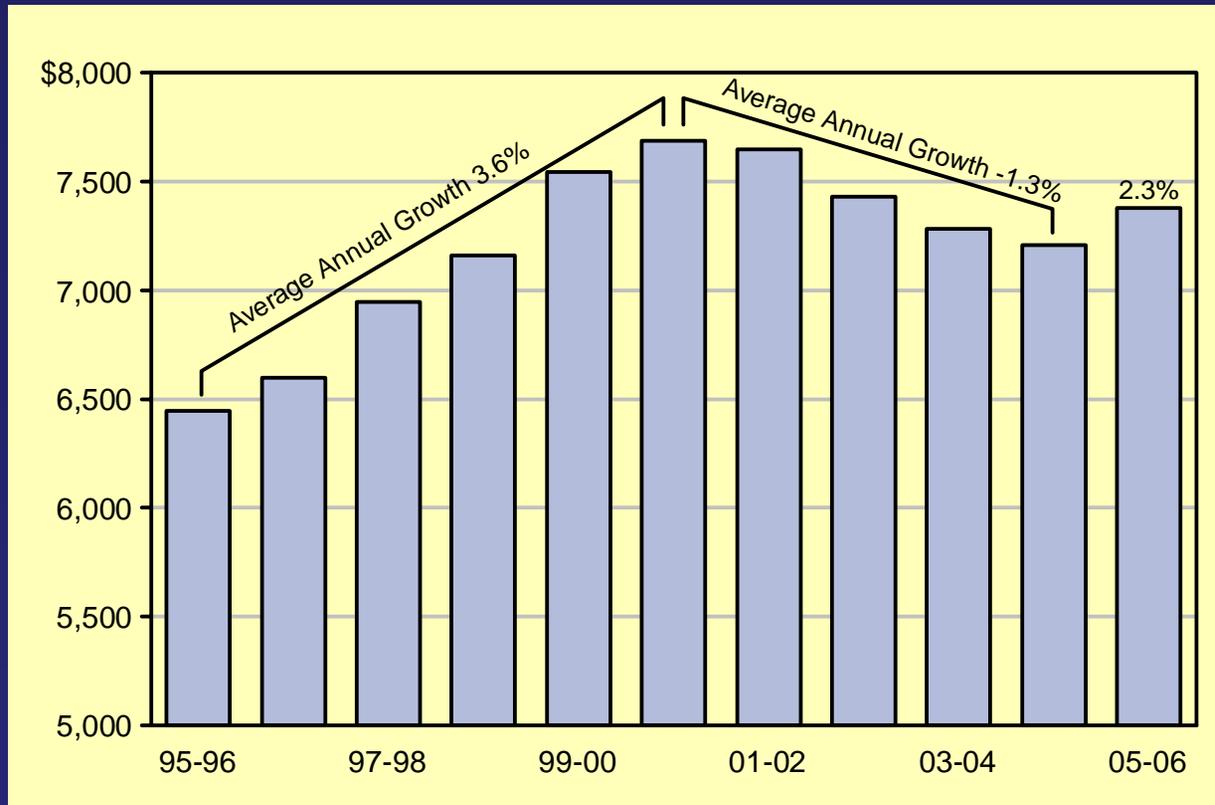


K-12 Per Pupil Spending

(Nominal Dollars)



K-12 Per Pupil Spending Adjusted for Inflation



Proposition 98 Spending Under Different Revenue Scenarios

| Governor's Budget Revenues | | | |
|--|--------------|---------|--------|
| | 2004-05 | 2005-06 | Change |
| Chapter 213 target | \$48.2 | \$51.2 | \$3.0 |
| Revised 2004-05 budget | 47.1 | 50.0 | 2.9 |
| <i>Additional cost to reach Chapter 213 target</i> | \$1.1 | \$1.2 | \$0.1 |
| Two-Year Totals | \$2.3 | | |
| LAO Revenues | | | |
| Chapter 213 target | \$49.0 | \$51.7 | \$2.7 |
| Revised 2004-05 budget | 47.1 | 49.6 | 2.5 |
| <i>Additional cost to reach Chapter 213 target</i> | \$1.9 | \$2.1 | \$0.2 |
| Two-Year Totals | \$4.0 | | |

A Proposition 98 K-14 “Current Services” Budget

2005-06
(In Billions)

| | |
|--------------------------------|---------------|
| 2004-05 base | \$47.1 |
| Growth | 0.5 |
| Cost of living | 1.9 |
| Restore base (one-time funds) | 0.2 |
| Ongoing cost of mandates | 0.3 |
| Total | \$50.0 |
| Amount above Governor’s budget | — |
| Amount above LAO guarantee | \$0.5 |

Status of the Education Credit Card Debt

(In Millions)

| One-time (Through 2004-05) | | Ongoing (2005-06) | |
|---------------------------------|----------------|---|----------------|
| Unpaid K-12 mandate payments | \$1,400 | Ongoing K-14 mandate payments to budget | \$315 |
| CCC and K-12 deferrals | 1,271 | Revenue limit reductions made in 2003-04 | 646 |
| Total | \$2,667 | Total | \$961 |
| Grand Total | | | \$3,628 |

Financial Pressures Facing School Districts

- **Declining enrollment.**
- **Restore state-required funding levels.**
- **Restore operating budget balance.**
- **Absorb higher costs.**

No Benefits of Governor's STRS Proposal

- **Short Term—Transfer of fiscal obligations could require a rebenching of the Proposition 98 guarantee.**
- **Long Term—Does not align benefit decisions with fiscal decisions.**

Recommend Repeal of Proposition 49

- **Reasons for Recommended Repeal**
 - Autopilot augmentation when state continues to face structural budget gap.
 - Lower K-12 priority than protecting districts' base program.
 - Existing state and federal after school funds are going unused.

Fix Technical Problems

- **Special education.**
- **Supplemental instruction.**
- **Professional development.**
- **Charter school funding model.**
- **Federal after school funding.**

Governor's Proposals Lack Detail

- Vocational education.
- English Language Acquisition Program.
- Site-based budgeting.
- School recovery teams.
- Fitness and nutrition initiatives.