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# Preparing for the Next Round of Budget Adjustments: How Education Might Fare

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LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Orange County School Boards Association and  
Association of California School Administrators,  
Region XVII





## Overall State Expenditure Summary

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Total State and Federal Funds Expenditures					
<i>(Dollars in Millions)</i>					
Fund Type	Actual 2007-08	Estimated 2008-09	Enacted 2009-10	Change From 2008-09	
				Amount	Percent
General Fund	\$103,000	\$91,547	\$84,583	-\$6,964	-7.6%
Special funds	26,674	26,530	25,123	-1,407	-5.3
<b>Budget Totals</b>	<b>\$129,659</b>	<b>\$118,077</b>	<b>\$109,706</b>	<b>-\$8,371</b>	<b>-7.1%</b>
Selected bond funds	\$8,405	\$14,158	\$9,539	-\$4,619	-32.6%
Federal funds	\$56,211	\$76,629	\$93,636	\$17,007	22.2%



## How \$60 Billion Budget Problem Was Addressed

<b>General Fund Solutions Enacted During 2009-10 Budget Process</b>	
<i>(In Billions, 2008-09 and 2009-10 Combined)</i>	
	<b>Totals</b>
<b>Spending-Related Solutions</b>	
Reduce Proposition 98 spending to the minimum guaranteed funding level	\$14.5
Reduce health and social services spending	5.0
Furlough state workers, delay June 2010 payroll by one day, and reduce other employee costs	3.0
Reduce higher education spending	2.9
Redirect local redevelopment funds to offset state spending	1.7
Redirect transportation funds	1.6
Reduce corrections and rehabilitation spending	1.4
Reduce other spending and other spending-related measures	2.6
Subtotals	(\$32.5)
<b>Temporary Tax Increases</b>	
Increase sales tax by 1 cent through end of 2010-11	\$5.8
Increase personal income tax (PIT) rates by 0.25 percentage point through tax year 2010	3.7
Increase vehicle license fee by 0.5 percent through end of 2010-11	2.0
Reduce PIT dependent credit through tax year 2010	1.4
Create new tax credits	-0.4
Subtotals	(\$12.5)
<b>One-Time Revenue Measures and Transfers to the General Fund</b>	
Increase schedules for payroll withholding by 10 percent	\$1.7
Assume that parts of State Compensation Insurance Fund can be sold	1.0
Accelerate receipts of PIT and corporation tax estimated payments	0.6
Increase other revenue receipts or transfers in 2009-10	0.2
Subtotals	(\$3.5)
<b>Federal Stimulus Funds</b>	
	\$8.5
<b>Borrowing</b>	
Suspend Proposition 1A to borrow local government property taxes	\$1.9
Borrow from various special fund accounts	0.5
Subtotals	(\$2.5)
<b>Total Solutions</b>	<b>\$59.5</b>



## Spending Reductions Across All Areas of State Budget

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<b>General Fund Spending by Major Program Area</b>			
<i>(In Millions)</i>			
	<b>Actual 2007-08</b>	<b>Estimated 2008-09</b>	<b>Enacted 2009-10</b>
K-12 Education	\$39,825	\$32,356	\$33,745
Higher Education	11,823	10,138	10,495
Health	19,906	18,794	16,077
Social Services	9,432	10,009	8,876
Criminal Justice	13,059	12,778	9,032
All other	8,954	7,472	6,358
<b>Totals</b>	<b>\$103,000</b>	<b>\$91,547</b>	<b>\$84,583</b>



## Proposition 98 Budget

<b>Proposition 98 Funding</b>			
<i>(In Millions)</i>			
	<b>2007-08 Final</b>	<b>2008-09 Revised</b>	<b>2009-10 Revised</b>
<b>K-12 Education</b>			
General Fund	\$37,752	\$30,028	\$31,194
Local property tax revenue	12,592	13,033	13,439
Subtotals	(\$50,344)	(\$43,062)	(\$44,634)
<b>California Community Colleges</b>			
General Fund	\$4,142	\$3,918	\$3,722
Local property tax revenue	1,971	2,016	1,947
Subtotals	(\$6,112)	(\$5,934)	(\$5,669)
<b>Other Agencies</b>	\$121	\$106	\$112
<b>Totals, Proposition 98</b>	<b>\$56,577</b>	<b>\$49,102</b>	<b>\$50,415</b>



## Major Proposition 98 Adjustments

<b>Proposition 98 Package</b>	
<i>(In Millions)</i>	
<b>2008-09</b>	
<b>September Spending Level</b>	<b>\$58,086</b>
<b>February Package</b>	
Reduce base K-12 revenue limits	-\$944
Reduce most categorical programs across the board	-944
Rescind K-14 cost-of-living adjustment	-287
Other	-210
Defer certain K-14 payments	-3,244
Retire settle-up obligation	-1,101
Use special funds for Home-to-School Transportation	-619
<b>February Spending Level</b>	<b>\$50,738</b>
<b>July Package</b>	
Revert unallocated categorical funds	-\$1,606
Baseline adjustments	-30
<b>Final Spending Level</b>	<b>\$49,102</b>
<b>2009-10</b>	
<b>February Package</b>	
Backfill February 2008-09 one-time solutions	\$4,614
February baseline adjustments	253
February reductions	-702
<b>July Package</b>	
Backfill additional 2008-09 one-time solutions	\$1,888
Reduce K-12 revenue limits	-3,953
Defer K-12 revenue limit payments	-1,679
Provide 2008-09 unallocated categorical funds	1,516
Other K-12 adjustments	290
Make various child care reductions	-102
Make various community college reductions	-813
<b>July Spending Level</b>	<b>\$50,415</b>



## Education "Credit Card"

<b>Proposition 98-Funded Obligations Grow to \$15 Billion<sup>a</sup></b>			
<i>(In Millions)</i>			
	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Deferrals</b>			
K-12 education	\$1,103	\$4,007	\$5,685
Community colleges	200	540	703
Subtotals	(\$1,303)	(\$4,547)	(\$6,388)
<b>Mandates<sup>b</sup></b>			
K-12 education	\$621	\$808	\$1,003
Community colleges	300	355	405
Subtotals	(\$921)	(\$1,163)	(\$1,408)
<b>K-12 Revenue Limits</b>	—	\$2,978	\$7,270
<b>Totals</b>	<b>\$2,224</b>	<b>\$8,687</b>	<b>\$15,066</b>

<sup>a</sup> Reflects cumulative obligations at year end. These obligations are paid from within the Proposition 98 appropriation.

<sup>b</sup> Estimates based on existing mandate claims as well as actions taken by the Commission on State Mandates.



## Budget Package Has Small Reserve

<b>General Fund Condition As of the July 2009 Budget Revisions</b>				
<i>(Dollars in Millions)</i>				
	2007-08	2008-09	2009-10	
			Amount	Percent Change
Prior-year fund balance	\$4,549	\$4,071	-\$3,379	
Revenues and transfers	102,522	84,097	89,541	6.5%
Total resources available	\$107,071	\$88,168	\$86,162	
Expenditures	\$103,000	\$91,547	\$84,583	-7.6%
Ending fund balance	\$4,071	-\$3,379	\$1,579	
Encumbrances	1,079	1,079	1,079	
<b>Reserve</b>	<b>\$2,992</b>	<b>-\$4,458</b>	<b>\$500</b>	
Budget Stabilization Account	—	—	—	
Special Fund for Economic Uncertainties	\$2,992	-\$4,458	\$500	





## Concerns With Budget Package

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- Most Solutions Are Short Term
  - Revenues.
  - Deferrals.
  
- Some Solutions Might Not Materialize
  - Sale of State Compensation Insurance Fund (\$1 billion).
  - Savings in corrections (\$1.2 billion).
  - Savings in Medi-Cal (\$1.3 billion).
  
- Some Legal Risks
  - Recent transit ruling (\$3.5 billion).
  - Veto suit filed (\$500 million).
  - Redevelopment suit might be filed (\$2 billion).



## Current Fiscal Performance

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- National economy doing better than expected.
- State economy doing about the same or a little worse than projected in May.
- State revenues coming in a little lower than projected in budget package.
- State cash situation somewhat stabilized.



## Fiscal Outlook for 2010-11

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- Overall state deficit of \$7.5 billion projected for 2010-11, with projected deficits of more than \$15 billion in each of the following two years.
- Proposition 98 minimum guarantee projected to drop in 2010-11, with further drop in 2011-12.
- No maintenance factor projected to be paid in 2010-11 or 2011-12.



## Major Factors Affecting How Education Might Fare in 2010-11

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- Will state seek a waiver from federal maintenance-of-effort rules?
- If state decides to “overappropriate” the Proposition 98 minimum guarantee, how will the cost be covered?
- How are school districts using federal stimulus funding?
- How are school districts using flexibility provisions?