

State Budget Update



Legislative Analyst's Office

Presented to: 4th District PTA

March 26, 2012

Overview of Governor's January Budget

Major Components of Governor's Budget Package

- **Estimates Budget Problem at \$9.2 Billion**
- **Proposes Net \$10.1 Billion in Solutions**
- **Assumes Voters Approve November 2012 Tax Measure**
- **Proposes \$5.4 Billion in Trigger Reductions if Measure Fails**

Budget-Balancing Actions

- **\$7.2 Billion in New Revenues**
- **\$4.0 Billion in Expenditure Reductions**
- **\$1.4 Billion in Other Savings**

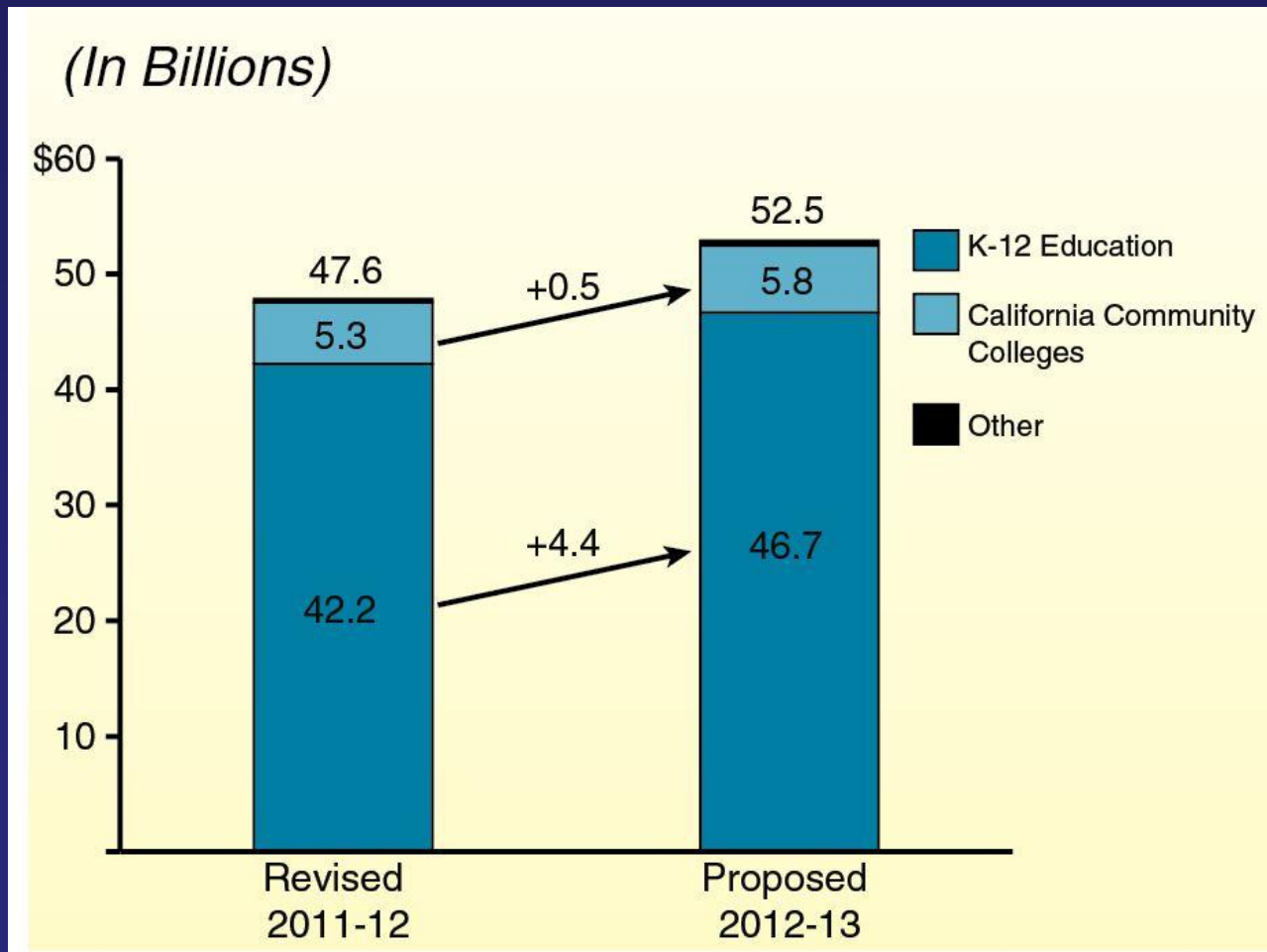
- **\$2.5 Billion Offsetting Increase in Proposition 98 Guarantee**

Governor's Revised Tax Measure

- **\$9.1 Billion in New Revenues**
- **Smaller Sales Tax Increase, Larger Income Tax Increase**
- **Income Tax Increase Lasts Seven Years**

Proposition 98: Governor's Basic Budget Plan

Proposition 98 Funding



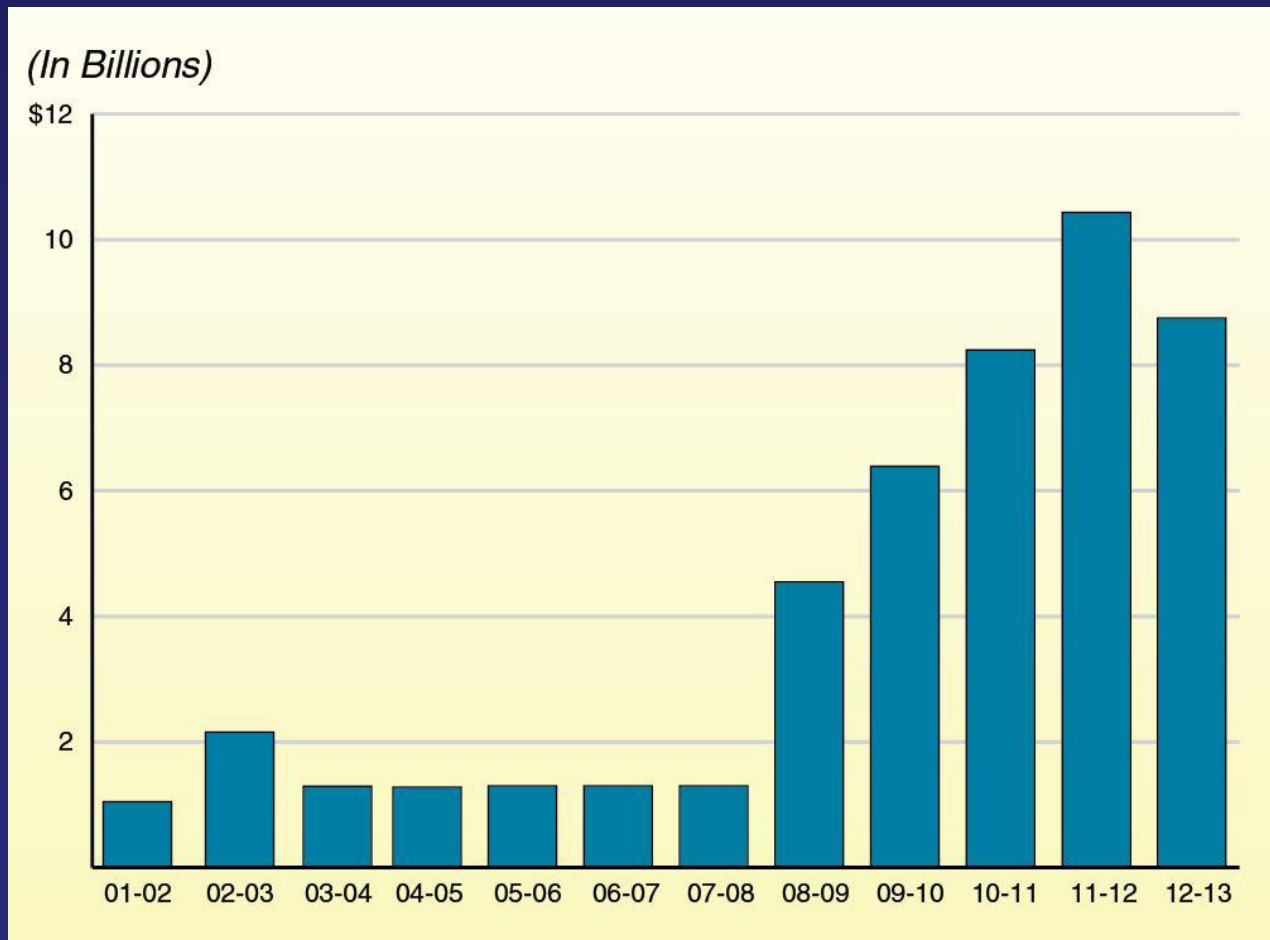
Five Major Proposals

- **Backfill One-Time Actions (\$3.0 Billion)**
- **Pay Down Deferrals (\$1.8 Billion)**
- **Create Mandate Block Grant (\$200 Million)**
- **Hold Harmless: Weighted Student Formula (\$90 Million)**
- **Do Not Initiate Transitional Kindergarten (TK) Program (\$224 Million Savings)**

Programmatic Per-Pupil Funding



Deferrals Over Time



Education Mandates Block Grant

- **Eliminates About Half of K-12 Mandates**
- **Provides \$178 Million in Block Grant Funding for Remaining Activities**
- **Sets District Funding Rate at \$30 Per Pupil**
- **Allows LEAs to Select Between Block Grant and Existing Reimbursement Process**

Weighted Student Formula

- Removes Strings Associated With Seven Currently Standalone Programs
- Creates Weighted Student Formula
- Phases in Formula Over Six Years
- Directs SBE to Develop New Accountability System

Basic Plan Linked With Tax Measure

- **Governor Estimates His Tax Measure Would Raise \$6.9 Billion Initially:**
 - \$2.2 billion accrued to 2011-12.
 - \$4.7 billion attributed to 2012-13.
- **Impact on Proposition 98:**
 - About \$900 million increase in 2011-12.
 - About \$2.4 billion increase in 2012-13.

LAO Recommendations

- **If New Revenues Materialize, Use for Paying Down Deferrals in 2012-13**
- **Create Mandate Block Grant**
- **Adopt Either Weighted Student Formula or a Few Large Block Grants**
- **Do Not Initiate TK Program**

Proposition 98: Governor's Multiyear Payment Plan

Governor's Multiyear Payment Plan

(In Millions)

	Proposed Payments Under Governor’s Plan:				Total Payments Over Period
	2012-13	2013-14	2014-15	2015-16	
Payments to Be Made <i>Within</i> Annual Proposition 98 Appropriation:					
K-14 deferrals	\$1,789	\$2,469	\$4,998	\$1174	\$10,430
K-14 mandates	—	318	318	2,940	3,576
Totals	\$1,789	\$2,787	\$5,316	\$4,114	\$14,006
Payments to Be Made <i>on Top of</i> Annual Proposition 98 Appropriation:					
Proposition 98 “settle-up”	—	\$857	\$856	\$856	\$2,569
Quality Education Investment Act	\$450	450	181	—	1,081
Emergency Repair Program	12	150	150	150	462
Totals	\$462	\$1,457	\$1,187	\$1,006	\$4,112

Use Governor's Plan As Starting Point

- **To Increase Likelihood Plan Is Consistently Implemented:**
 - Extend payment period.
 - Spread payments more evenly over period.
 - Designate settle-up funds for mandates or deferrals.
 - Redirect QEIA program savings to other obligations.

Proposition 98: Governor's Back-Up Budget Plan

Proposed “Trigger” Reductions

2012-13 General Fund Benefit (In Millions)

Proposition 98 funding for schools and community colleges	\$4,837
University of California	200
California State University	200
Judicial branch	125
CalFire	15
Department of Water Resources flood control programs	7
Department of Fish and Game	4
Department of Parks and Recreation	2
Department of Justice law enforcement programs	1
Total	\$5,390

Two Concerns With Back-Up Plan

- **Serious Policy Concerns With Debt Service Proposal**
- **Treatment of Realignment Revenues Risky**

LAO Recommendations

- **Reconsider Debt Service Proposal**
- **Provide More Flex Options, Effective July:**
 - Remove additional categorical and mandate requirements.
 - Allow for shorter school year.
 - Eliminate or suspend penalties for exceeding statutory class size caps.
 - Authorize special post-election layoff window.

Other Major Issues

- **Preschool Funding**
- **Child Care Reductions**
- **Our Children, Our Future Initiative**

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