

The State Budget and Educational Funding



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The February State Budget Package

Magnitude of the Problem

- **\$40 billion is over 40 percent of General Fund Budget.**
- **Coming on the heels of an exceptionally difficult year.**
- **2009-10 budget passed in February of this year—the earliest ever.**

The Budget Solution

(In Billions)

| | 2008-09 | 2009-10 | Two-Year Totals |
|------------------------|---------------|---------------|--------------------|
| Expenditure Reductions | \$6.7 | \$8.6 | \$15.4 |
| Revenue Increases | 1.5 | 11.0 | 12.5 |
| Federal Fund Offset | 2.8 | 5.7 | 8.5 |
| Borrowing | 0.3 | 5.1 | 5.4 |
| Totals | \$11.3 | \$30.3 | \$41.7 |

Reduces Spending by \$15 Billion

(In Billions)

| | 2008-09 | 2009-10 | Two-Year Totals |
|------------------------|--------------|--------------|--------------------|
| Education | \$5.8 | \$2.6 | \$8.4 |
| Health/Social Services | 0.1 | 1.5 | 1.6 |
| State Employee Costs | 0.3 | 0.8 | 1.2 |
| Higher Education | 0.1 | 0.8 | 0.9 |
| Transportation | 0.3 | 0.4 | 0.7 |
| Other | 0.2 | 2.5 | 2.6 |
| Totals | \$6.8 | \$8.6 | \$15.4 |

Increases Revenues by \$13 Billion

(In Billions)

| | 2008-09 | 2009-10 | Two-Year Totals |
|---|--------------|---------------|-----------------|
| Sales Tax Increase (1 cent per dollar) | \$1.2 | \$4.6 | \$5.8 |
| Personal Income Tax Increase (0.25 percentage rate increase) | — | 3.7 | 3.7 |
| Vehicle License Fee Increase (0.65 percent to 1.15 percent) | 0.3 | 1.7 | 2.0 |
| Reduce Dependent Credit | — | 1.4 | 1.4 |
| Various new tax credits | — | -0.3 | -0.3 |
| Totals | \$1.5 | \$11.0 | \$12.5 |

Relies on \$5 Billion in Borrowing

(In Billions)

| | 2008-09 | 2009-10 | Two-Year Totals |
|------------------------|--------------|--------------|-----------------|
| Lottery securitization | — | \$5.0 | \$5.0 |
| Special fund loans | \$0.3 | 0.1 | 0.4 |
| Totals | \$0.3 | \$5.1 | \$5.4 |

Federal Stimulus Funds

- **Assumes \$8.5 billion in federal stimulus funds.**
 - Mostly in health
 - Includes \$1.1 billion in general purpose funds
- Assumes backfill of \$510 million veto in UC/CSU funding

Final Package Includes Seven Budget-Related Ballot Measures

- **Proposition 1A—State finance**
- **Proposition 1B—Proposition 98**
- **Proposition 1C—Lottery**
- **Proposition 1D—Proposition 10**
- **Proposition 1E—Proposition 63**
- **Proposition 1F—Officials' salaries**
- **Open primaries (June 2010)**

The February Proposition 98 Package

Budget Package First Reduced 2008-09 Proposition 98 Budget

- Revised K-14 funding level of \$50.7 billion.
- Reduction of \$7.4 billion from September *2008-09 Budget Act*
- K-12 schools—not community colleges—absorb bulk of reductions.

2008-09 Proposition 98: Reductions Not as Severe as They Might Seem

- **Only \$2.4 billion in programmatic reductions.**
- **Remaining \$5 billion—deferred payments or backfill with one-time funds.**

2009-10 Proposition 98 Budget

- **K-14 funding level of \$54.9 billion.**
- **All new funding goes to backfill one-time funds used in 2008-09.**
- **Budget-year package includes about \$700 million in additional cuts.**

Major Changes to Categorical Program Funding Rules

- **Budget deal allows districts to use most categorical program funding for any purpose.**

Over 40 programs included in flexibility provisions

Roughly 20 programs “protected” from transfers out

Additional Flexibility Provisions

- **Less severe K-3 class size reduction penalties.**
- **Allows districts to postpone purchase of new instructional materials.**
- **Lowers local spending requirement for routine maintenance.**
- **Allows access to prior-year categorical ending balances.**

Plan Includes Major Deferrals

Intra-Year Deferrals:

- \$2.7 billion from July/August to October 2009

Inter-Year Deferrals:

- \$4.5 billion from February through June to July 2010

LAO March Update

Updated Economic, Revenue and Spending Forecast

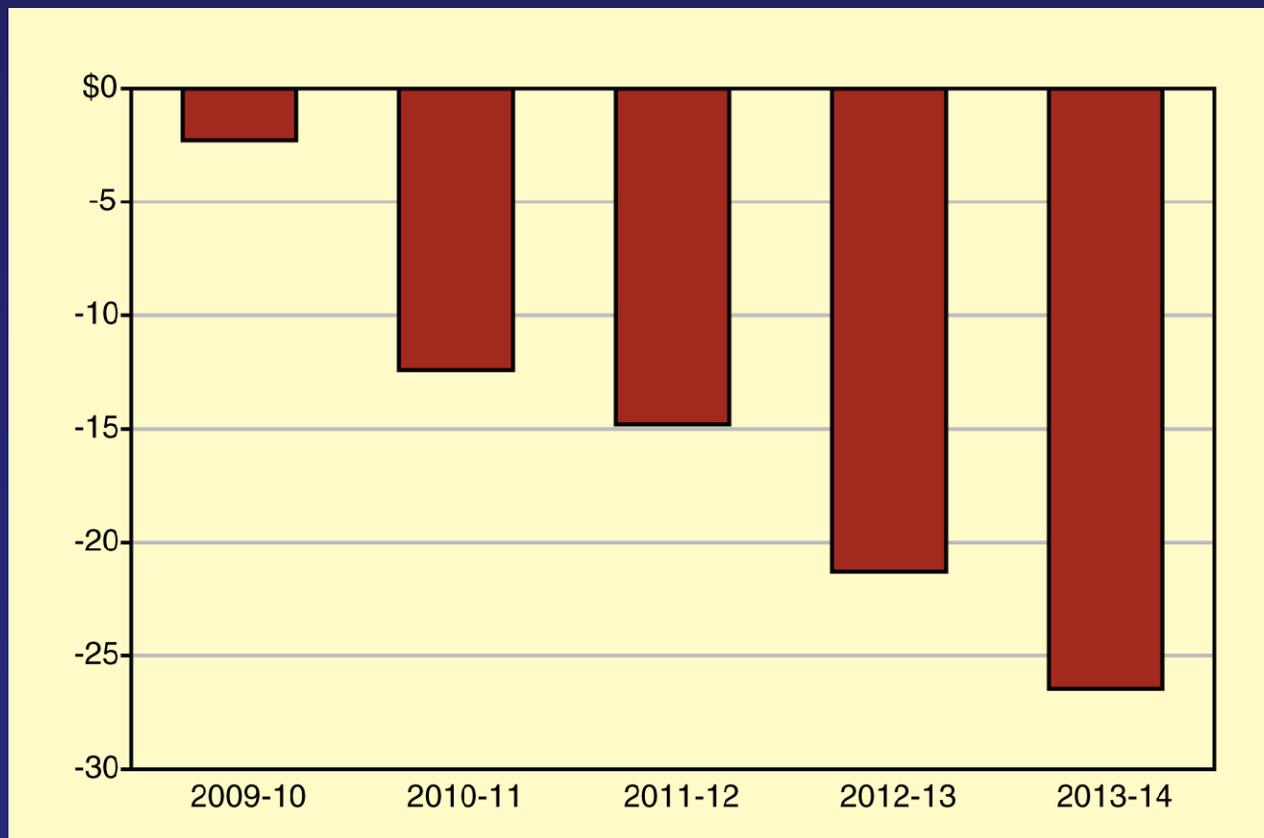
- **February budget package based on economic assumptions from December.**
- **Economic picture has continued to worsen.**

LAO Revenues

- We forecast a 2009-10 revenue decline of roughly \$8 billion.
- Turns a projected June 30, 2010 surplus of \$2 billion into a deficit of \$6 billion.

The Out-Year Forecast

General Fund Operating Shortfalls (In Billions)



Forecast Assumes Passage of All Propositions

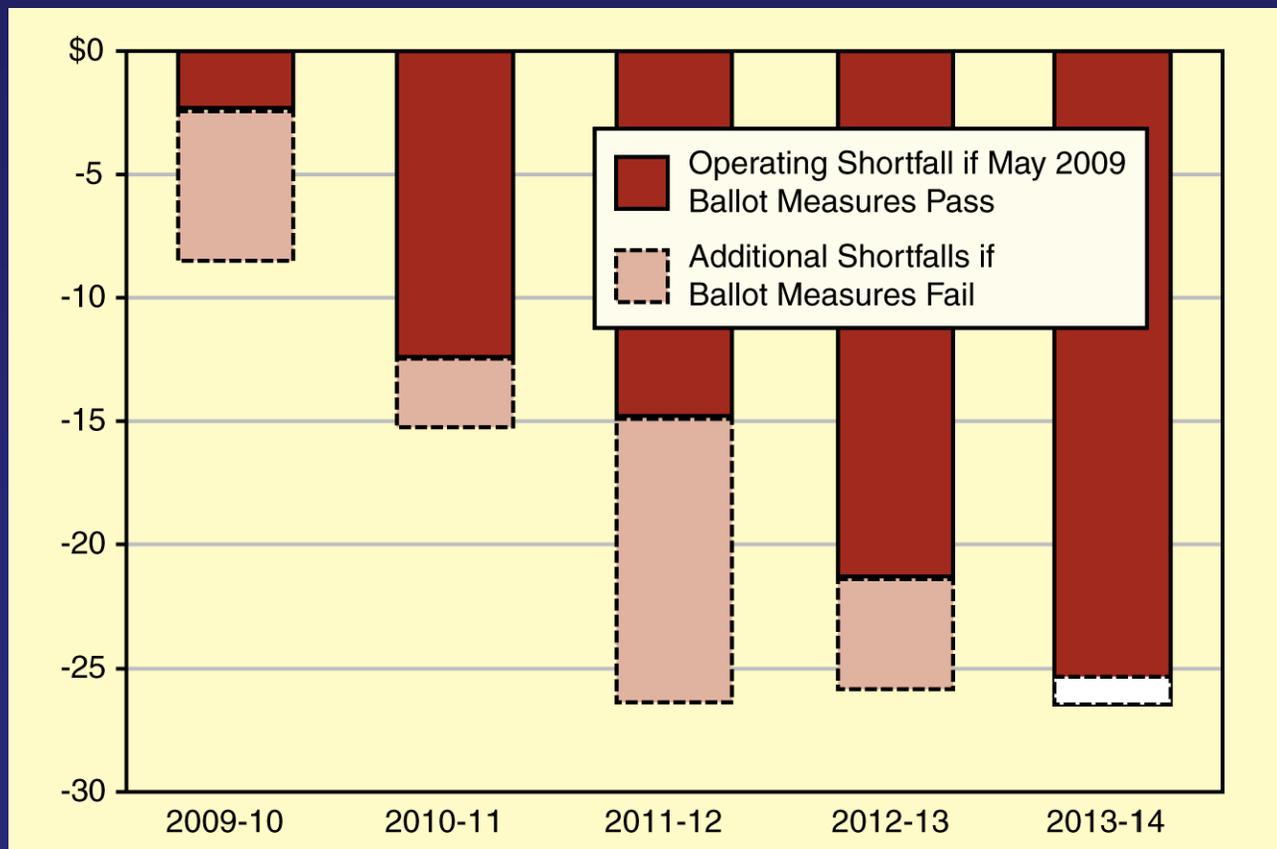
- **Failure of measures would result in lost solutions of:**

**2009-10: Almost \$6 billion
(primarily Proposition 1C)**

**Out-Years: About \$15 billion
(primarily Proposition 1A)**

Failure of the Propositions— Impact in the Out-Years

General Fund (In Billions)



Federal Education Stimulus Funding

California to Receive More Than \$8 Billion in Federal Education Funding

2008-2010 (In Millions)

| | Federal Funding |
|-----------------------------------|-----------------|
| Fiscal Stabilization | \$4,875 |
| Special Education | 1,321 |
| Title I Basic Grants | 1,128 |
| Title I School Improvement Grants | 382 |
| Other | 401 |
| Total | \$8,081 |

Federal State Stabilization Funds

- **\$4.9 billion available to K-12 and Higher Education over three-year period.**
- **Various rules on allocation:**
 - Maintenance of effort (2005-06)
 - “Restoration Target”
 - Proportionality between segments

Federal State Stabilization Funds (Continued)

- Major confusion about these funds.
- Federal funds will be spent on education.
- The monies will provide a higher level of spending than would otherwise be the case.

May Revision

Budget Problem Is Bigger

- **Assuming failure of Propositions, new gap is \$21.3 billion:**

Revenues down \$12.4 billion

Spending up \$3 billion

“Lost” proposition solutions of almost \$6 billion

May Revisions— Proposed Solutions

(In Billions)

| | |
|---|--------------|
| ■ Program savings | \$9.7 |
| ■ Borrowing | 7.5 |
| ■ Revenue accelerations | 2.3 |
| ■ All other (fees, shifts, etc.) | 1.8 |

2008-09 K-12 School Reductions

- Revenue limits \$1,311 million
- High Priority Schools \$114 million

2009-10 K-12 School Reductions

- **Revenue limits** **\$1,425 million**
- **Deferrals** **\$1,679 million**

Proposed New Flexibility

- **Reduce seven instructional days.**
Up to three years
- **“Other options”—such as contracting out.**

Federal Stimulus Dollars

- **Two-year reduction of \$4.5 billion in K-12 Proposition 98 funding.**
- **Federal funds availability:**
 - Stabilization Funds: Over \$3 billion
 - Title 1/IDEA/Other: Roughly \$3 billion

Net Impact on Schools

- **Good News:**

 - Up in total funds over February

- **Bad News:**

 - 2008-09 Budget Act*

 - Used up all federal stimulus dollars

 - Future budget outlook still bleak

Cash Remains a Major Concern

- **State faces huge borrowing demands early in 2009-10.**
- **May Revision raises possibility of additional intra-year school deferrals.**

Bottom Line

- **Was Ugly.**
- **Getting Uglier.**