

# The State Budget and Educational Funding



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**April 17, 2009**

# Prologue: The 2008-09 Budget

# Current-Year Budget Passed in Late September

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- Latest state budget.
- Passed with many one-time solutions.
- Underlying budget shortfall in the \$6 billion to \$8 billion range.

# Economic Downturn Began Shortly After Budget Passage

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- **Estimates of revenue shortfalls over 2008-09 and 2009-10:**
  - November 2008: \$25 billion to \$30 billion
  - January 2009: \$40 billion

# Magnitude of the Problem

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- **\$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 February State Budget Package

# 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
<b>Totals</b>	<b>\$11.3</b>	<b>\$30.3</b>	<b>\$41.7</b>

# 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
<b>Totals</b>	<b>\$6.8</b>	<b>\$8.6</b>	<b>\$15.4</b>

# 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
<b>Totals</b>	<b>\$1.5</b>	<b>\$11.0</b>	<b>\$12.5</b>

# 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
<b>Totals</b>	<b>\$0.3</b>	<b>\$5.1</b>	<b>\$5.4</b>

# Federal Stimulus Funds

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- **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

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- **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

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- 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

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- **Only \$2.4 billion in programmatic reductions.**
  - \$944 million from categorical programs
  - \$944 million from revenue limits
  - \$287 million retraction of 0.68 percent COLA
- **Remaining \$5 billion—deferred payments or backfill with one-time funds.**

# 2009-10 Proposition 98 Budget

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- **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.**
  - \$268 million from categorical programs
  - \$268 million from revenue limits

# Major Changes to Categorical Program Funding Rules

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- **Budget deal allows districts to use most categorical program funding for any purpose.**
  - Roughly 40 programs included in flexibility provisions
  - Roughly 20 programs “protected” from transfers out

# Additional Flexibility Provisions

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- **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

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## Intra-Year Deferrals:

- \$2.7 from July/August to October 2009

## Inter-Year Deferrals:

- \$4.5 billion from February through June to July

# LAO March Update

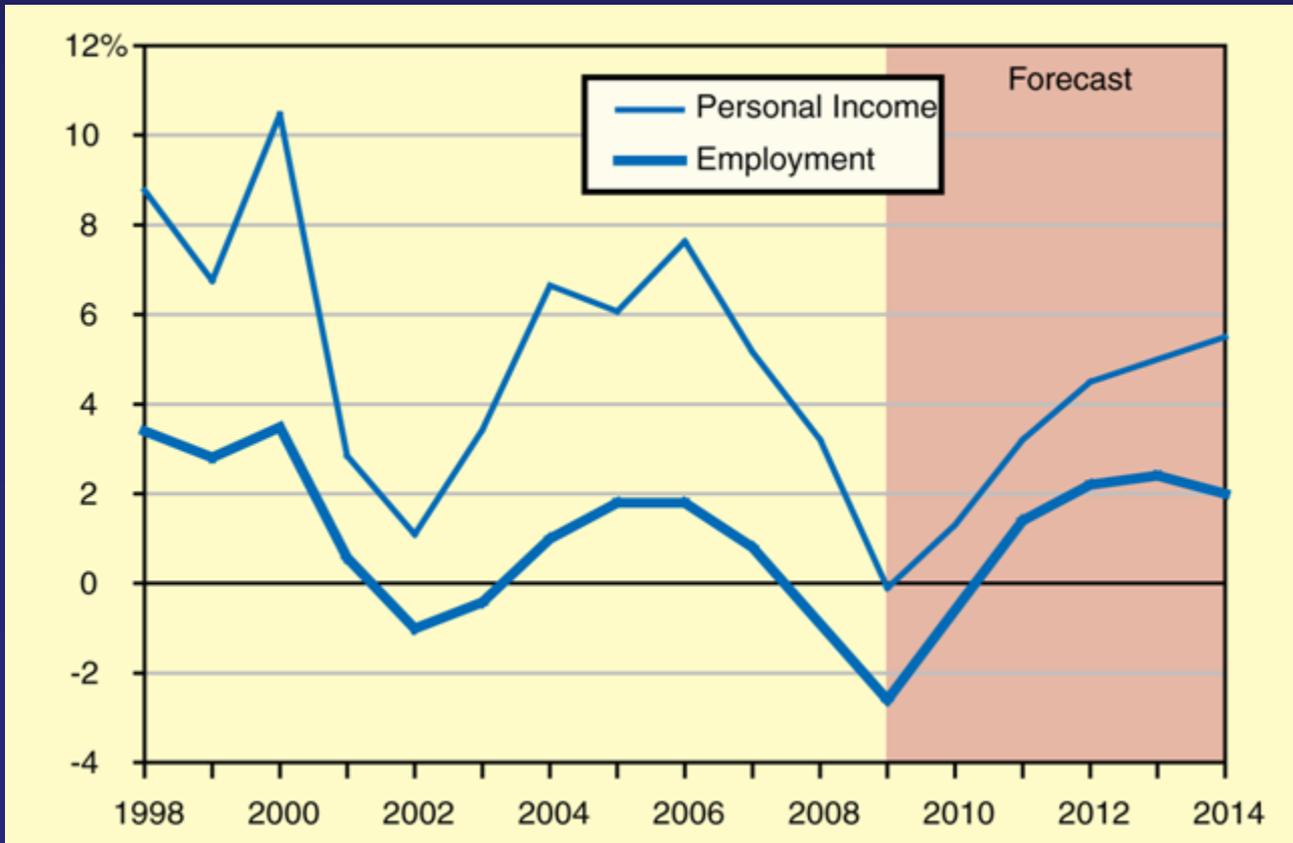
# Updated Economic, Revenue and Spending Forecast

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

# Weak Recovery Anticipated for California

Annual Percentage Change



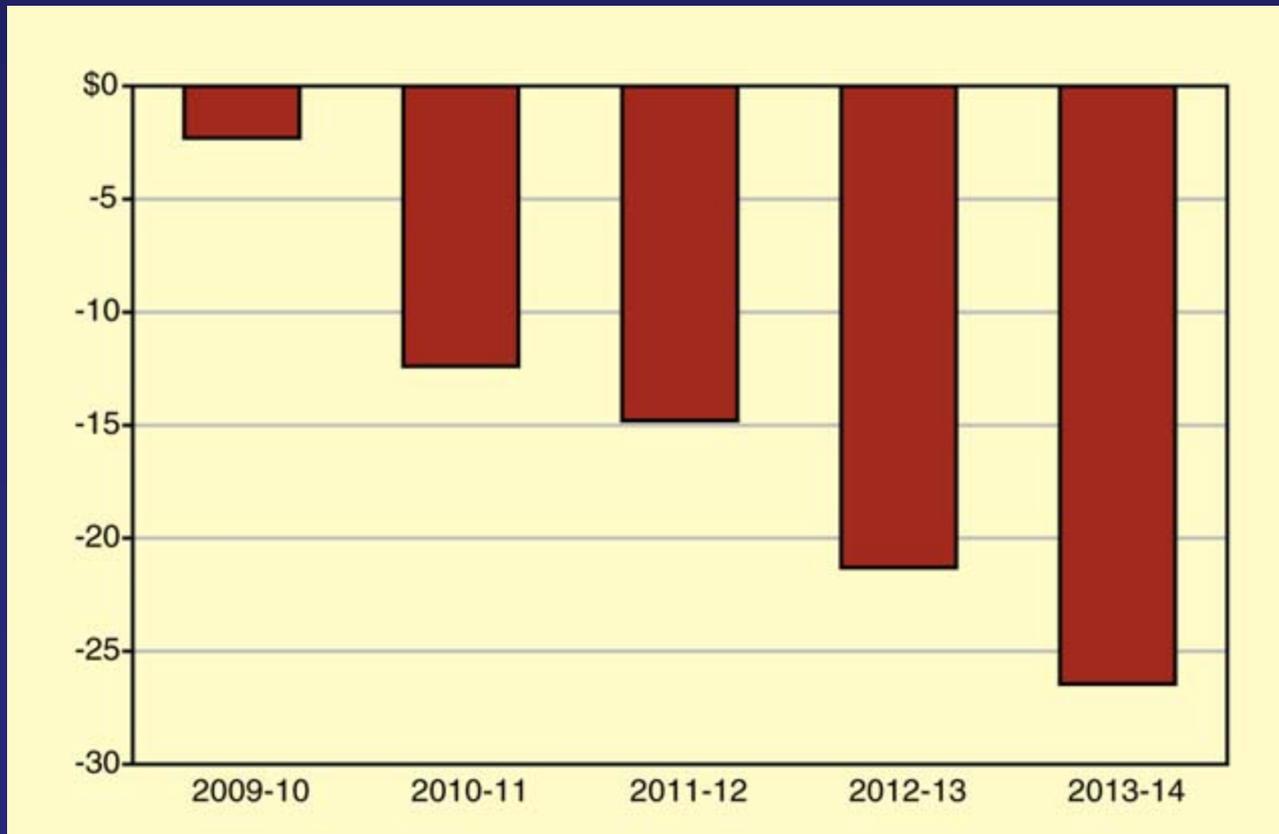
# LAO Revenues

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- 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)



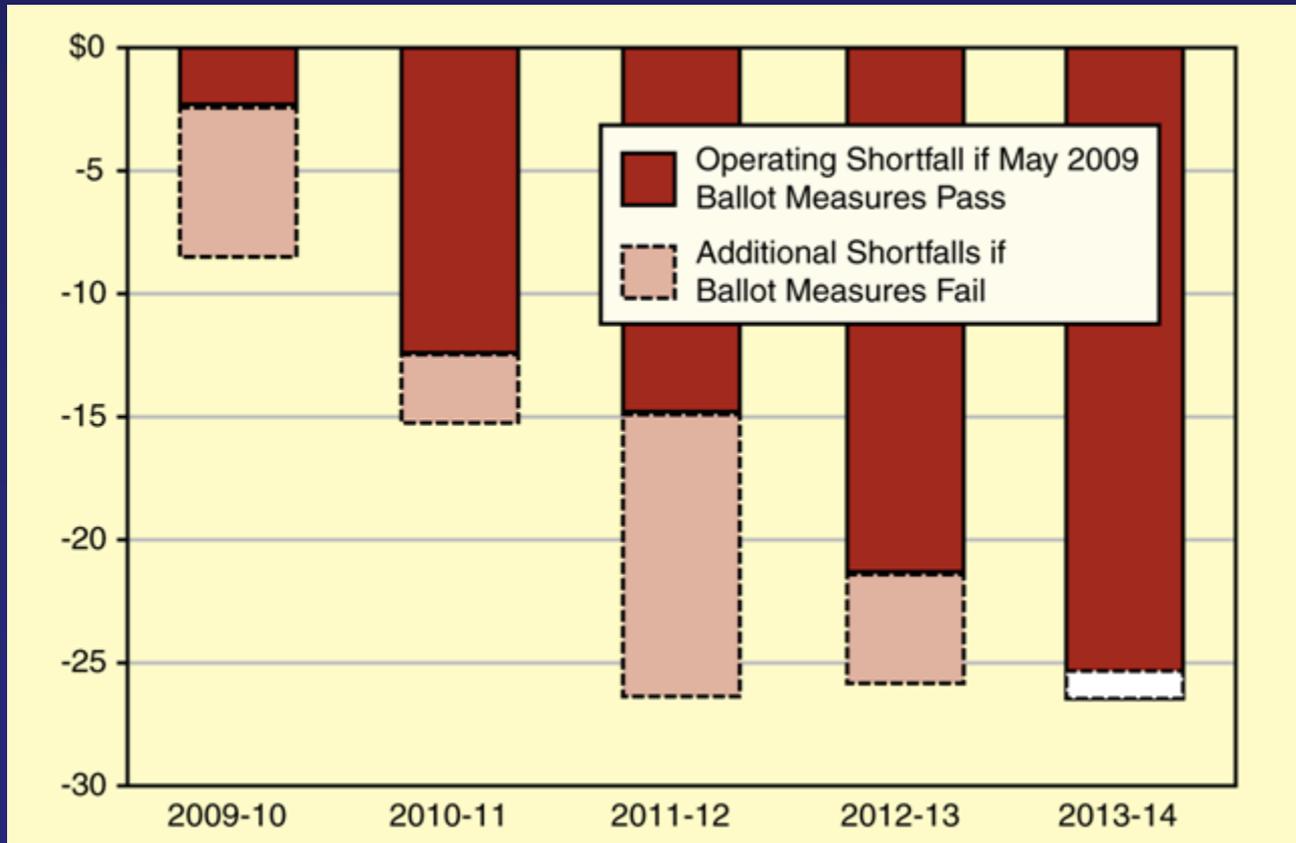
# Forecast Assumes Passage of All Propositions

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- **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
<b>Total</b>	<b>\$8,081</b>

# Federal State Stabilization Funds

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- **\$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” (2007-08)
  - Proportionality between segments

# Federal State Stabilization Funds (Continued)

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- Major confusion about these funds.
- They may be needed to cushion further reductions in spending.
- LAO: Legislature should wait to commit these funds, pending final action on budget.

# Federal State Stabilization Funds (Continued)

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

# Other Federal Stimulus Funds

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- **State Incentive Grants**
- **Title 1**
- **Special Education**

# Community College Fees

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- **Federal government significantly increased its college tax credits.**
- **LAO: State should raise CCC fees, which would be covered by credits.**

# Epilogue

# Prospects for the Near Term

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- **Results of the May 19 Special Election.**
  - Propositions 1C, 1D, and 1E
- **Revenues coming into the Franchise Tax Board in April.**
  - Implications for 2009-10

# Prospects for the Longer Term

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- **Results of the May 19 Special Election.**
  - Propositions 1A and 1B
- **Recovery paths of the national and state economies.**
- **State actions to bring long-term spending and revenue trends into line.**