# California's Budget Situation

## Legislative Analyst's Office

**Presented to:**

**California School Boards Association**

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# The 2009-10 Budget

# General Fund Condition

(In Billions)

| | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|
| Revenues and transfers | $103.8 | $84.1 | $89.5 |
| Expenditures | 103.0 | 91.5 | 84.6 |

# Budget Solutions

(In Billions)

| | 2009 | | |
|---|---|---|---|
| | February | July | Totals |
| Reduced Spending | $14.5 | $18.0 | $32.5 |
| Revenues | 12.5 | 3.5 | 16.0 |
| Federal Stimulus | 8.5 | — | 8.5 |
| Borrowing | 0.3 | 2.2 | 2.5 |
| **Totals** | **$35.8** | **$23.7** | **$59.5** |

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# Concerns With the Budget Package

- Most Solutions One-Time/Short-Term
- Use of Deferrals
- Certain Solutions Problematic
- Legal Risks

# The Impact on Proposition 98

(In Billions)

| 2007-08 | 2008-09 | 2009-10 |
|---|---|---|
| $56.6 | $49.1 | $50.4 |

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# Mitigating the Loss of $14 Billion

- Federal ARRA K-12 Funds (Roughly $6 Billion)
- Allowing Access to Reserve Funds (Up to $3 Billion)
- Deferrals ($5 Billion)
- Funding Swaps ($1.7 Billion)

# Another Proposition 98 Quirk: We May Owe $1 Billion

- **2009-10 Minimum Guarantee $1 Billion Higher**
  - Amount appropriated did not take into account lower revenues.
  - Issue should wait for further information on revenues.
- **State Does Not Have the Money to Provide This Amount at This Time**

# So—
# Where Are We in the Current Year?

- **Instead of Planned June 30, 2010 Reserve of $500 Million:**
  - Projected deficit of $6.3 billion.
- **Deterioration Due to:**
  - Unrealized savings (corrections, Medi-Cal, SCIF).
  - Court suits.
  - Some reduction in revenues.

# Is There Any Good News?

- **Yes!**
  - **Economic forecast is similar to—or even slightly better than—May's.**
  - **Revenue forecast is also similar to May's—although with some softness.**

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# The 2010-11 Budget

# 2010-11 Shortfall: $14.4 Billion

- **Had a Large Problem to Begin With**
  - **Over $10 billion.**
- **Got Bigger Due to Lost Solutions (Noted Earlier)**

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# Total Problem to Be Addressed—$20.7 Billion

- State Is Much More Constrained in 2010-11 Due to Federal Stimulus Requirements

- Problem Could Be Even More Difficult Than Last Year's

# 2010-11 Proposition 98 Budget: "Cliff" Impact for Many Districts

- Districts Will Really Feel Impact of Reductions in the Budget Year
- No Longer Cushioned by Federal Funds and Other Short-Term Actions

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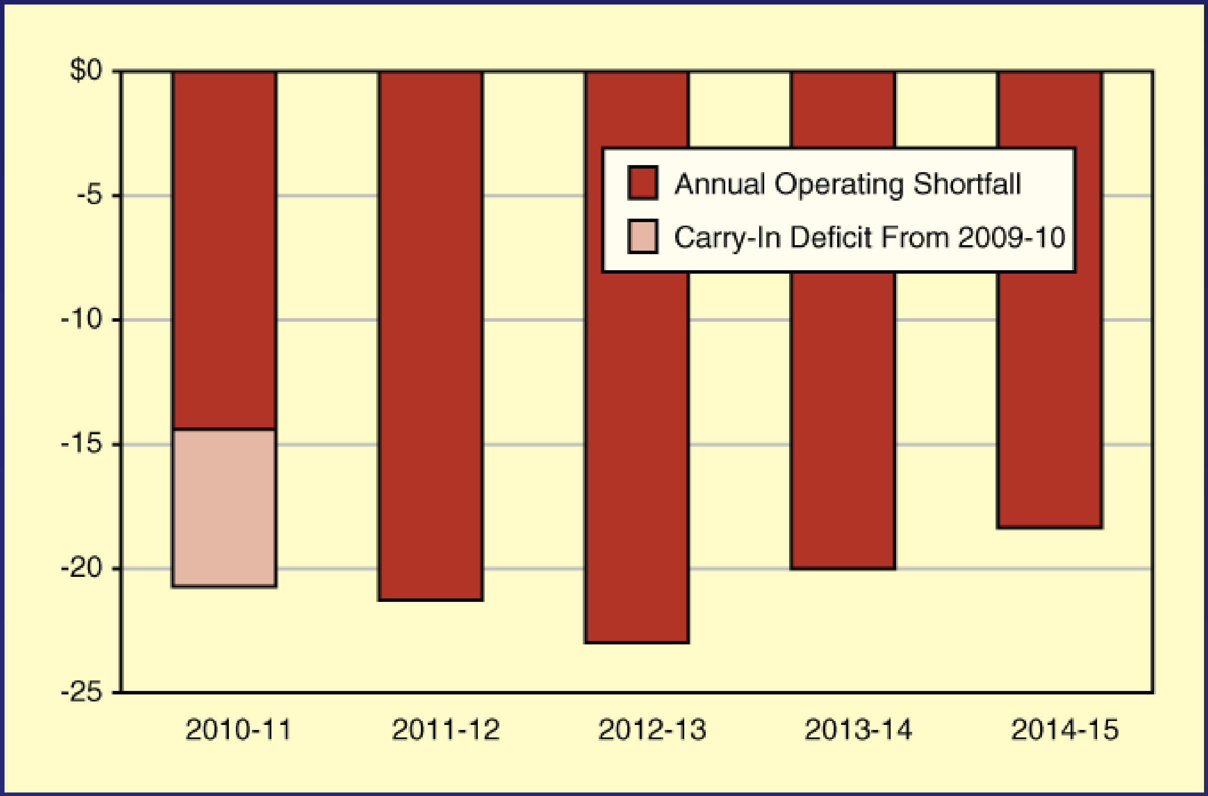
# The Outlook Beyond

# Huge Operating Shortfalls Projected Throughout Forecast Period

General Fund (In Billions)



# Longer-Term Budgeting: Fiscal Liabilities

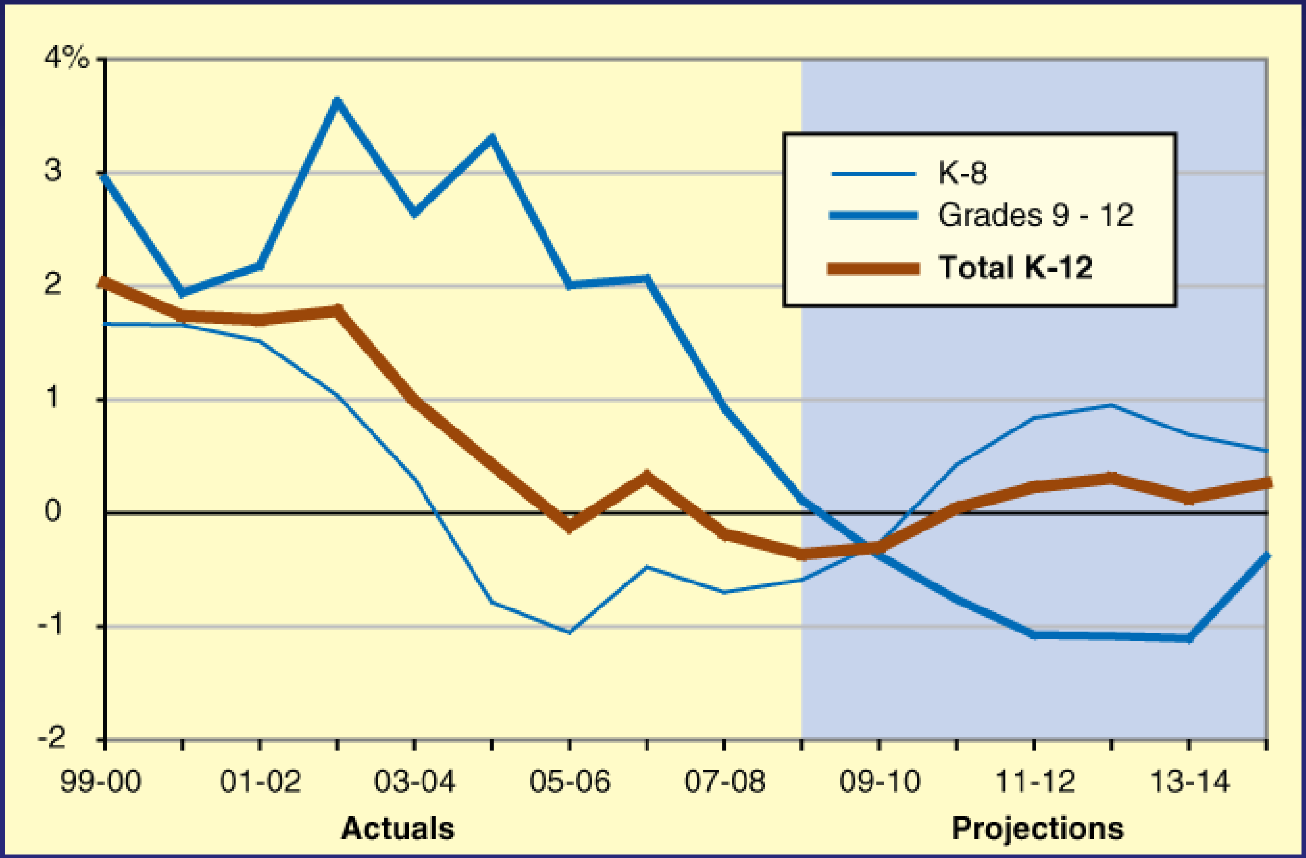
- Budget-Related: About $35 Billion
- Infrastructure-Related: About $70 Billion
- Retirement-Related: $100 Billion to $135 Billion

# The Proposition 98 Outlook

(In Billions)

| Minimum Guarantee | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|
| Totals | $49.1 | $53.1 | $56.5 | $59.7 |
| Percent change | -3.9% | 8.2% | 6.5% | 5.6% |

# K-12 Enrollment Growth



# What Do We Do?

# Budget Problem Requires Multiyear Approach

- **Problem Is Too Big to Address by Finding $20 Billion of Permanent Solutions in One Year**

- **Will Take at Least Two to Three Years to Get Our Spending and Revenue Lines More in Sync**

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# Keys to Addressing the Budget

- Take Early Action
- Focus on Long-Lasting Solutions
- Make Hard Decisions on Priorities
- Include Revenue Options
- Aggressively Seek New Federal Assistance
- Consider the Ballot Again

# How Can the State Help With the Cliff Impact?

- Mandate Relief
- Add Items to Flex Pot
- Provide a List of Regulations/Restrictions to Repeal

# The Next Two Years Will Be Brutal

- We Do Expect Relief After That

- Our Task—at the State and Local Level—Is to Hang On Until Then