

State Budget Update



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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.

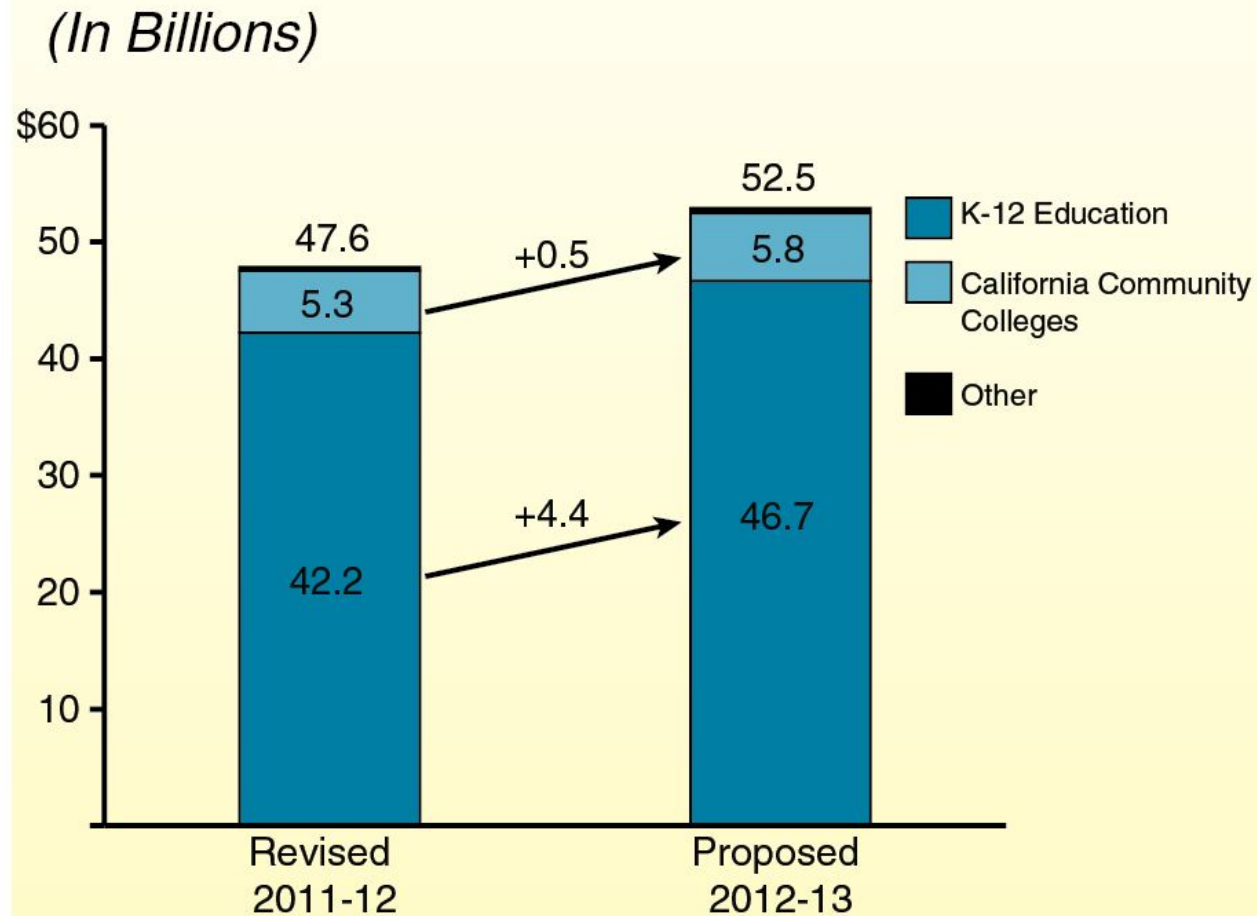
Budget-Balancing Actions

- **\$7.2 billion in new revenues.**
- **\$4.0 billion in expenditures cuts.**
- **\$1.4 billion in other savings.**

- **\$2.5 billion offsetting increase in Proposition 98 guarantee.**

Proposition 98: Governor's Basic Budget Plan

Proposition 98 Funding

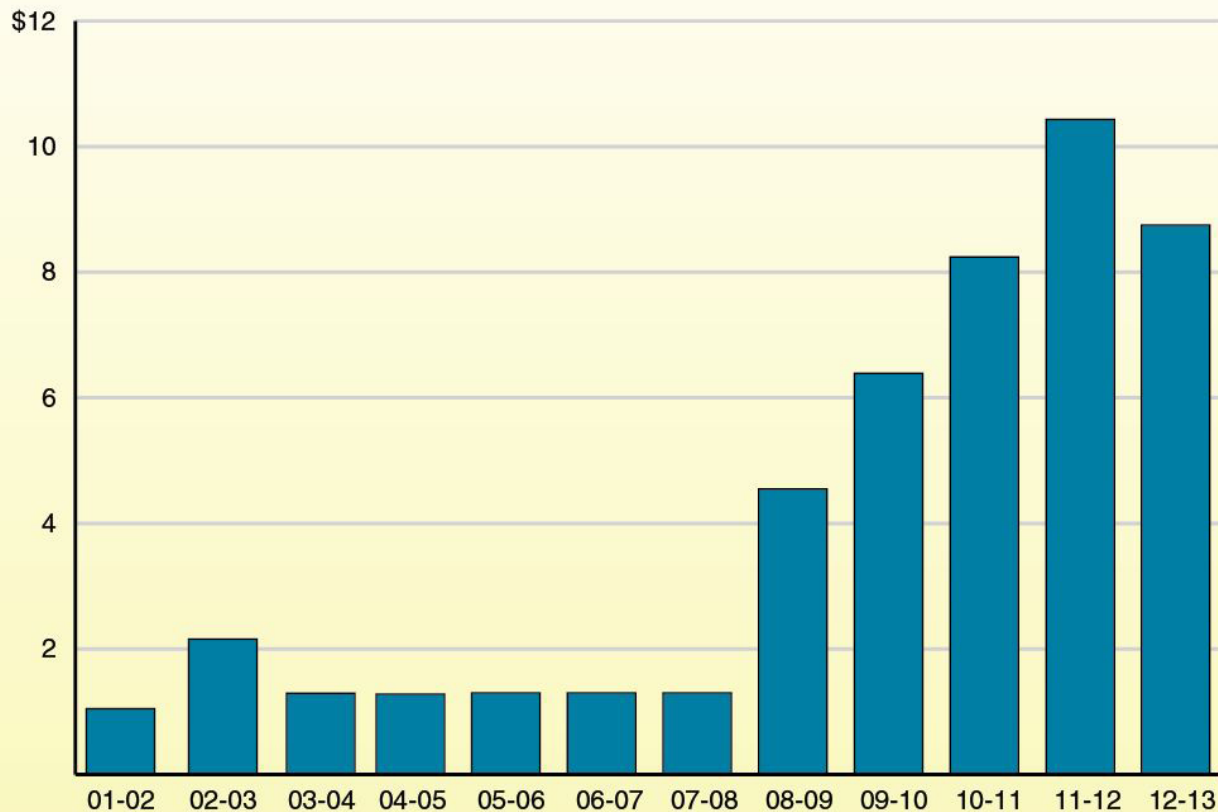


Five Major Proposals

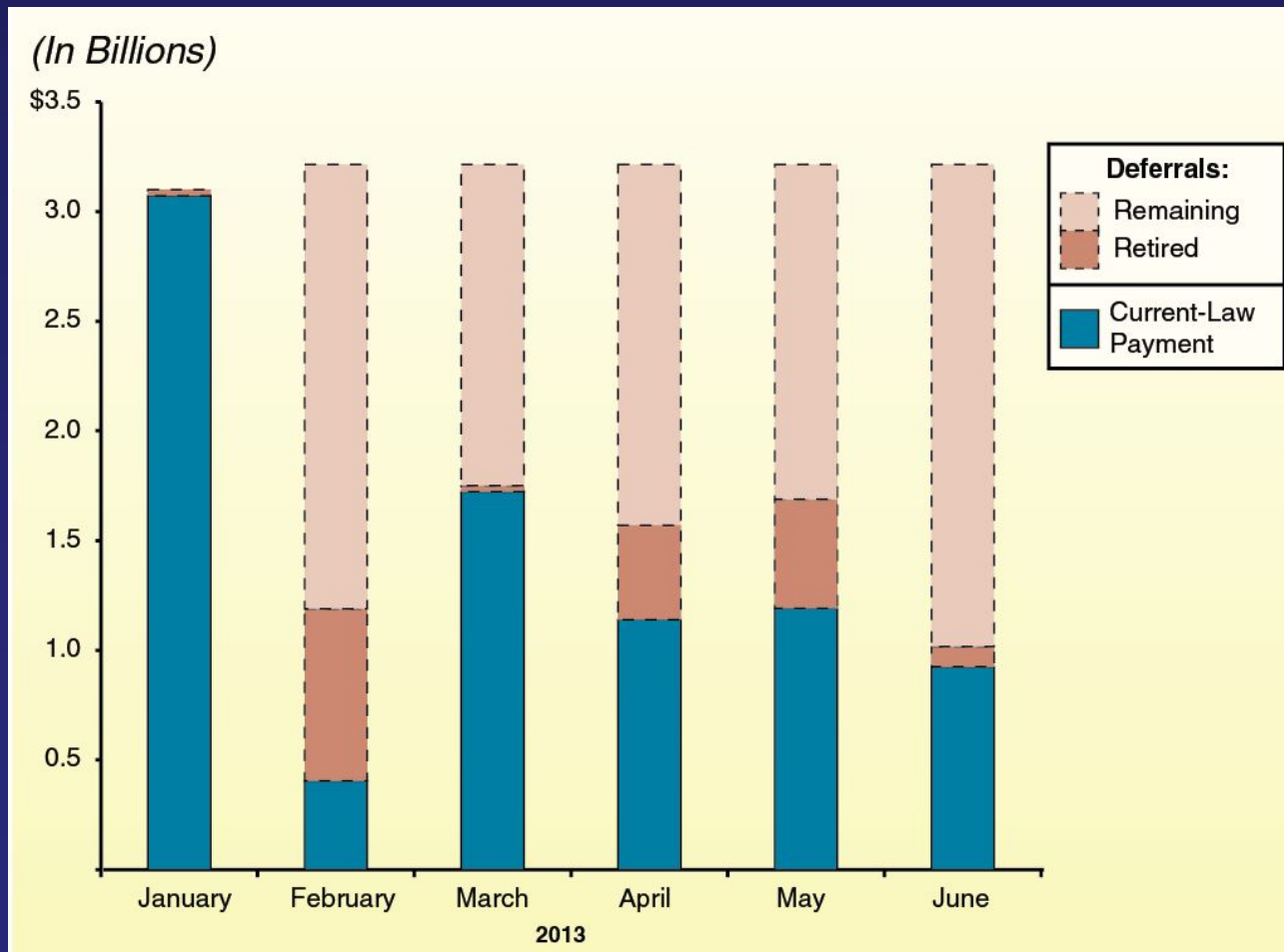
- **Backfill one-time actions (\$3.0 billion).**
- **Pay down deferrals (\$1.8 billion).**
- **Create mandate block grant (\$200 million).**
- **Hold harmless: weighted student formula (\$90 million).**
- **Do not initiate Transitional Kindergarten program (\$224 million savings).**

Deferrals Over Time

(In Billions)



Proposes to Retire \$1.8 Billion in Deferrals



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 7 currently standalone programs.
- Creates weighted student formula.
- Phases in formula over 6 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 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

Back-Up Plan: Major Components

(In Millions)

Changes in Minimum Guarantee

Revenue drop due to measure failing	-\$2,444
Rebench for debt service payments	200
Total Changes	-\$2,244

Changes in Spending

Accommodate K-12 debt service payments	\$2,331
Accommodate CCC debt service payments	262
Rescind K-12 deferral pay downs	-1,571
Rescind CCC deferral pay downs	-218
Reduce K-12 general purpose funding	-2,755
Reduce CCC general purpose funding	-292
Total Changes	-\$2,244

Two Concerns With Back-Up Plan

- **Serious policy concerns with debt service proposal.**
- **Treatment of realignment revenues risky.**

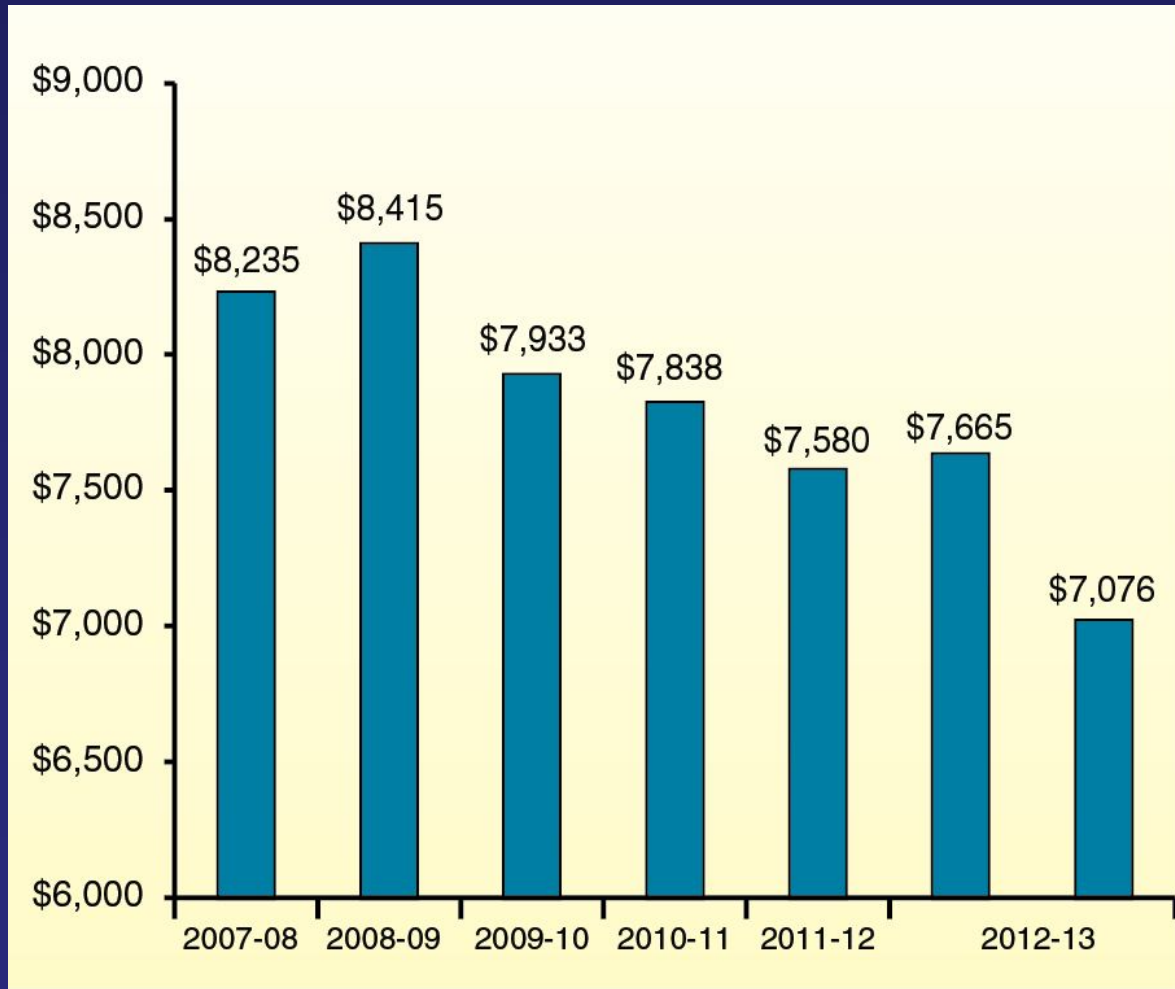
Two Approaches to Building Back-Up Plan

- Assume midyear cuts if measure fails.
- Assume midyear augmentations if measure passes.

LAO Recommendations

- **Reconsider debt service proposal.**
- **Provide more flex options, effective July 1:**
 - 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.

Programmatic Per-Pupil Funding



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.

Other Major Issues

- **Preschool funding**
- **Child care reductions**
- **Ballot measures**