

State Budget Update



Legislative Analyst's Office

Presented to:
California School Boards Association
May 19, 2012

Overview of May Revision

May Revision Identifies \$15.7 Billion Budget Problem

- **State Budget Problem \$6.5 Billion Higher Than Estimated in January**
 - Lower revenue estimates (\$4.3 billion).
 - Higher Proposition 98 General Fund costs (\$2.4 billion).
 - Lower anticipated net costs in other areas (-\$0.2 billion).

Governor Proposes Package of Budget-Balancing Solutions

2011-12 and 2012-13 General Fund Benefit (In Millions)

Revenue Actions	\$8,837
Increased Proposition 98 Costs Due to Proposed Tax Increases	-2,908
Expenditure Actions	5,230
Other Actions	5,353
Total	\$16,512

Governor's Updated Trigger Plan

2012-13 General Fund Benefit (In Millions)

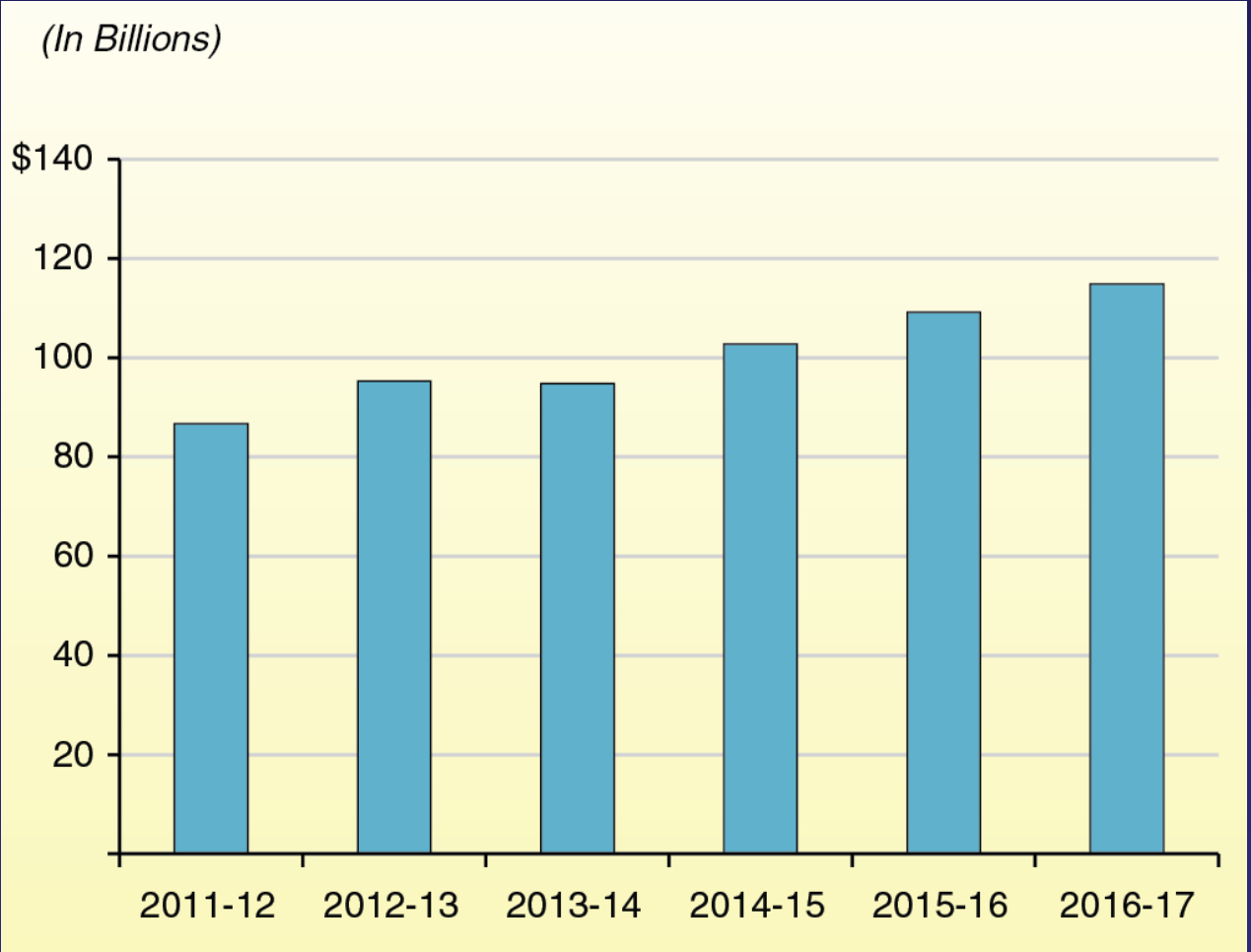
Proposition 98 funding for schools and community colleges	\$5,494
University of California	250
California State University	250
Department of Developmental Services	50
Local water safety patrol grants	11
CalFire	10
Department of Water Resources flood control programs	7
Department of Fish and Game	4
Department of Parks and Recreation	2
Department of Justice law enforcement programs	1
Total	\$6,077

Assessment of May Revision

LAO Assessment of Updated Plan

- **General Fund Revenue Estimates Reasonable**
- **RDA-Related Revenue Estimates Likely Too High**
 - Using our estimates, budget problem would be about \$900 million higher.
- **RDA Cash Asset Shift Highly Uncertain**

LAO May 2012 General Fund Revenue Forecast



Administration's Estimates of K-14 Redevelopment-Related Funds

(In Millions)

	2011-12	2012-13	Totals
Property Tax	\$818	\$991	\$1,809
Proposition 98 offset	(818)	(981)	(1,799)
Not an offset		(10)	(10)
Assets	—	\$1,478	\$1,478
Proposition 98 offset	—	(1,405)	(1,405)
Not an offset	—	(74)	(74)
Totals	\$818	\$2,469	\$3,287
Proposition 98 offset	(818)	(2,386)	(3,204)
Not an offset	—	(84)	(84)

Overview of Updated Proposition 98 Package

Changes in Proposition 98 Minimum Guarantee

(In Millions)

	January	May	Change
2011-12 minimum guarantee	\$48,288	\$47,024	-\$1,264
2012-13 minimum guarantee	52,527	53,735	1,208

Changes in 2012-13 Proposition 98 Spending

(In Millions)

	January	May	Change
Baseline adjustments	\$2,775	\$2,333	-\$442
Pay down K-14 deferrals	2,369	2,815	446
Create K-14 mandate block grants	110	110	—
Do not initiate Transitional Kindergarten	-224	-92	132
Modify preschool funding	-58	33	92
Swap with one-time funds	-57	-112	-55
Eliminate Early Mental Health Initiative	-15	-15	—
Restore Home-to-School Transportation	—	496	496
Fund QEIA program	—	450	450
Hold harmless for weighted student formula	—	90	90
Total Changes	\$4,900	\$6,108	\$1,208

Changes to Governor's Proposition 98 Trigger Plan

(In Millions)

	January	May
Changes in 2012-13 Minimum Guarantee		
Revenue drop due to measure failing	-\$2,444	-\$2,907
Rebench for debt-service payments	200	194
Eliminate rebenching for student mental health services	—	-103
Total Changes	-\$2,244	-\$2,815
Changes in 2012-13 Proposition 98 Spending		
Accommodate debt-service payments	\$2,593	\$2,551
Accommodate Early Start program	—	238
Rescind deferral pay downs	-2,369	-2,815
Reduce general purpose funding	-2,468	-2,789
Total Changes	-\$2,244	-\$2,815

Assessment of Updated Proposition 98 Package

LAO Assessment of Updated Plan

- **Serious Concerns With Maintenance Factor Application**
- **Serious Concerns With Rebenching Adjustments**

Questionable Maintenance Factor Interpretation

- **Eliminates Underlying Rationale for Having Maintenance Factor**
- **Produces Irrational Outcomes**

Inconsistency in Rebenching Adjustments

	Rebenching Method Used:		
	<i>2011-12 Budget Act</i>	January	May
Shift:			
ERAF and triple flip	1986-87	1986-87	1986-87
Ongoing redevelopment-related revenues	Current-year	1986-87	1986-87
One-time redevelopment-related revenues	Not applicable	Not applicable	Current-year
Gas tax swap	Current-year	None	None
Child care	Current-year	1986-87	Current-year
Student mental health services	Current-year	1986-87	Current-year
Debt-service payments	Not applicable	1986-87	1986-87
Early Start	Not applicable	Not applicable	None

Alternative Proposition 98 Package

Alternative Proposition 98 Basic Plan

- **Based on Reasonable Maintenance Factor Application, Consistent Rebenchings**
- **Little to No Effect on Programmatic Funding for Schools**
- **Funds the Guarantee**
- **Frees Up \$1.9 Billion for Rest of Budget**

Side-by-Side Comparison: Basic Plans

(In Millions)

	Governor	Alternative	Difference
Spending Changes			
Baseline adjustments	\$2,333	\$2,333	—
Pay down K-14 deferrals	2,815	1,525	-\$1,290
Restore Home-to-School Transportation	496	496	—
Fund QEIA program within Proposition 98	450	328	-122
Create K-14 mandate block grants	110	110	—
Hold harmless for weighted student formula	90	90	—
Modify preschool funding	33	—	-33
Use unspent prior-year EIA monies	—	-350	-350
Swap with one-time funds	-112	-186	-73
Do not initiate Transitional Kindergarten	-92	-75	17
Eliminate Early Mental Health Initiative	-15	-15	—
Totals	\$6,108	\$4,257	-\$1,851

Alternative Proposition 98 Trigger Plan

- **Contains No New Rebenchings**
 - Does not shift debt service payments and Early Start into the guarantee.
- **Funds the Guarantee**
- **Reduces Programmatic Funding for Schools Notably Less Than Governor**
- **Spreads Pain of Trigger Cuts**

Side-by-Side Comparison: Trigger Plans

(In Millions)

	Governor	Alternative	Difference
2011-12			
Ongoing Proposition 98 funding	\$47,024	\$45,637	-\$1,387
Settle-up payment	335	1,722	1,387
QEIA-related payment	450	450	—
Totals	\$47,810	\$47,810	—
2012-13			
Ongoing Proposition 98 funding excluding new shifts	\$48,131	\$49,384	\$1,253
New shifts proposed in May revision	2,789	—	-2,789
Fund debt service and Early Start as under current law	—	2,789	2,789
Totals	\$50,920	\$52,173	\$1,253