Assessment of the 2005-06 Budget

Legislative Analyst’s Office
The Legislature’s Budget Opportunity

The Building Blocks:

- Healthy Revenues
  - $2.2 billion more than Governor.

- Ongoing 2005-06 Solution
  - $4 billion to $5 billion needed (similar in magnitude to budget).
General Fund Operating Shortfalls, Under Alternative Scenarios

(In Billions)

Governor's Budget
Without Ongoing Solution
Concerns With Governor’s Structural Budget Reform

- Proposition 98 changes would seriously limit legislative flexibility.
- Across-the-board reductions—a blunt tool.
- Policy choices—not autopilot spending—drive shortfalls.
- Conclusion—Budget reforms should enhance flexibility and greater reserves.
Spending Adjusted for Inflation and Population

(\textit{Index Value} = 100 in 1995-96)
Education Community Estimates of K-12 Reductions Technically Flawed

- Mixes expenditure reductions and revenue reductions double count cuts ($3.5 billion).
- Does not offset funding reductions with funding augmentations (over $500 million).
- Includes rejection of proposed augmentation ($250 million).
- Continues to count reductions that have been restored (about $350 million).
Growth in Proposition 98 Compared to Growth in the Economy

(In Billions)
K-12 Per Pupil Spending
(Nominal Dollars)
K-12 Per Pupil Spending Adjusted for Inflation

Average Annual Growth:
- 2.3% (95-96 to 97-98)
- 3.6% (97-98 to 99-00)
- -1.3% (99-00 to 01-02)
- 2.3% (01-02 to 03-04)
- 2.3% (03-04 to 05-06)

Spending Levels:
- $5,000 (95-96)
- $5,500 (97-98)
- $6,000 (99-00)
- $6,500 (01-02)
- $7,000 (03-04)
- $8,000 (05-06)
## Proposition 98 Spending Under Different Revenue Scenarios

### Governor’s Budget Revenues

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 213 target</td>
<td>$48.2</td>
<td>$51.2</td>
<td>$3.0</td>
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<tr>
<td>Revised 2004-05 budget</td>
<td>47.1</td>
<td>50.0</td>
<td>2.9</td>
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<tr>
<td>Additional cost to reach Chapter 213 target</td>
<td>$1.1</td>
<td>$1.2</td>
<td>$0.1</td>
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<tr>
<td><strong>Two-Year Totals</strong></td>
<td></td>
<td></td>
<td><strong>$2.3</strong></td>
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</table>

### LAO Revenues

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 213 target</td>
<td>$49.0</td>
<td>$51.7</td>
<td>$2.7</td>
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<tr>
<td>Revised 2004-05 budget</td>
<td>47.1</td>
<td>49.6</td>
<td>2.5</td>
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<tr>
<td>Additional cost to reach Chapter 213 target</td>
<td>$1.9</td>
<td>$2.1</td>
<td>$0.2</td>
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<tr>
<td><strong>Two-Year Totals</strong></td>
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<td></td>
<td><strong>$4.0</strong></td>
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## A Proposition 98 K-14 “Current Services” Budget

### 2005-06
*(In Billions)*

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>2004-05 base</td>
<td>47.1</td>
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<tr>
<td>Growth</td>
<td>0.5</td>
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<tr>
<td>Cost of living</td>
<td>1.9</td>
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<tr>
<td>Restore base (one-time funds)</td>
<td>0.2</td>
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<tr>
<td>Ongoing cost of mandates</td>
<td>0.3</td>
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</tbody>
</table>

**Total** $\text{ }$ $50.0$

- Amount above Governor’s budget: —
- Amount above LAO guarantee: $0.5
## Status of the Education Credit Card Debt

*(In Millions)*

<table>
<thead>
<tr>
<th>Description</th>
<th>One-time (Through 2004-05)</th>
<th>Ongoing (2005-06)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid K-12 mandate payments</td>
<td>$1,400</td>
<td>Ongoing K-14 mandate payments to budget</td>
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<tr>
<td>CCC and K-12 deferrals</td>
<td>1,271</td>
<td>Revenue limit reductions made in 2003-04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,667</strong></td>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Grand Total</strong></td>
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<td><strong>Grand Total</strong></td>
</tr>
</tbody>
</table>
Financial Pressures Facing School Districts

- Declining enrollment.
- Restore state-required funding levels.
- Restore operating budget balance.
- Absorb higher costs.
No Benefits of Governor’s STRS Proposal

- **Short Term**—Transfer of fiscal obligations could require a rebenching of the Proposition 98 guarantee.
- **Long Term**—Does not align benefit decisions with fiscal decisions.
Recommend Repeal of Proposition 49

- Reasons for Recommended Repeal
  - Autopilot augmentation when state continues to face structural budget gap.
  - Lower K-12 priority than protecting districts’ base program.
  - Existing state and federal after school funds are going unused.
Fix Technical Problems

- Special education.
- Supplemental instruction.
- Professional development.
- Charter school funding model.
- Federal after school funding.
Governor’s Proposals Lack Detail

- Vocational education.
- English Language Acquisition Program.
- Site-based budgeting.
- School recovery teams.
- Fitness and nutrition initiatives.