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# California's Fiscal Outlook: Proposition 98 Briefing

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LEGISLATIVE ANALYST'S OFFICE





## Update on 2009-10 State Budget

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- We project a \$6.3 billion shortfall in 2009-10.
- Shortfall primarily due to failed budget solutions, including:
  - Inability of programs to achieve savings assumed in budget (particularly in corrections and Medi-Cal).
  - Inability of the state to sell the State Compensation Insurance Fund.
  - Loss of a court case that prohibits the use of transportation funds to achieve General Fund savings.
- Also due to higher-than-expected K-14 costs:
  - \$1 billion increase in Proposition 98 minimum guarantee.
- We project 2009-10 revenues to be \$500 million lower than budget act estimates.



## A Look at the 2010-11 State Budget

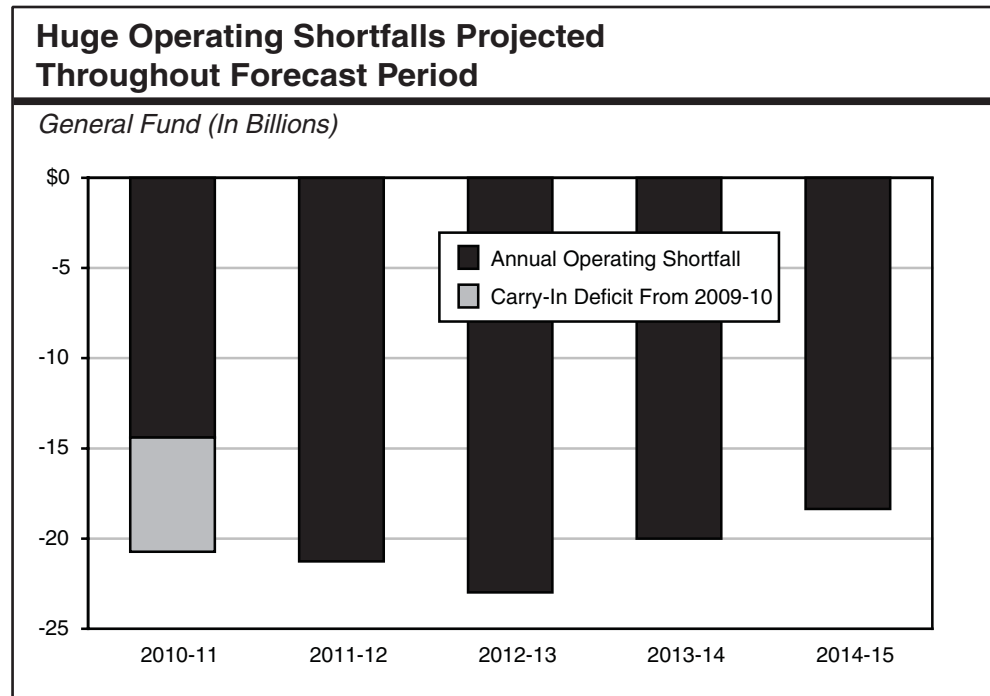
<b>LAO Projection of General Fund Condition If No Corrective Actions Are Taken</b>			
<i>(In Millions)</i>			
	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Prior-year fund balance	\$4,071	-\$4,086	-\$5,246
Revenues and transfers	83,601	88,090	87,793
Total resources available	\$87,672	\$84,004	\$82,547
Expenditures	91,758	89,251	102,196
Ending fund balance	-\$4,086	-\$5,246	-\$19,649
Encumbrances	1,079	1,079	1,079
<b>Reserve<sup>a</sup></b>	<b>-\$5,165</b>	<b>-\$6,325</b>	<b>-\$20,728</b>

<sup>a</sup> Special Fund for Economic Uncertainties. Assumes no transfers to the state's Budget Stabilization Account.

- We project a \$14.4 billion shortfall in 2010-11.
- Together with carry-in deficit from 2009-10, the state needs to adopt \$21 billion in solutions to balance its budget.



## Operating Shortfalls Persist Throughout Period



- We project \$22 billion shortfall in 2011-12.
  - Shortfall increases due to the expiration of temporary tax increases approved in February 2009.
- In 2012-13, shortfall projected to increase to \$23 billion.
  - Shortfall further increases because state must begin repayment of its loans from local governments pursuant to Proposition 1A.
- Shortfalls projected to decrease slightly at end of forecast period.



## Keys to Balancing the Budget

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- Early action.
- Long-term solutions.
- Make difficult decisions on the state's priorities.
- Reexamine state's revenue structure.
- Aggressively seek new federal assistance.



## Proposition 98 Forecast

<b>Proposition 98 Forecast</b>						
<i>(Dollars in Millions)</i>						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Minimum Guarantee</b>						
General Fund	\$35,977	\$36,706	\$34,907	\$38,725	\$41,801	\$44,410
Local property tax	15,406	14,343	14,150	14,335	14,702	15,260
<b>Totals</b>	<b>\$51,383<sup>a</sup></b>	<b>\$51,049</b>	<b>\$49,057</b>	<b>\$53,060</b>	<b>\$56,502</b>	<b>\$59,670</b>
Percent change	—	-0.7%	-3.9%	8.2%	6.5%	5.6%
<b>Proposition 98 "Test"</b>	2	2	3	2	2	2
Maintenance factor created/paid (+/-)	-\$2,108	-\$823	\$2,622	-\$2,467	-\$1,135	-\$679
<b>Underlying Forecast Factors (Percent Growth)</b>						
K-12 average daily attendance	-0.27%	0.05%	0.24%	0.41%	0.48%	0.38%
CCC full-time equivalent students	1.40	0.90	0.80	0.60	0.60	0.50
Per capita personal income (Test 2)	0.62	-2.30	0.99	2.71	3.85	4.01
Per capita General Fund (Test 3)	6.03	0.10	-4.47	8.63	6.56	5.62
K-14 COLA	—	-0.35%	1.62%	1.67%	1.92%	2.28%

<sup>a</sup> Reflects revised estimate of Proposition 98 minimum guarantee.

- ☑ We project two years of decline in the Proposition 98 minimum guarantee, followed by three years of increases.
- ☑ Local property tax forecast parallels Proposition 98 forecast—two years of decreases with three years of increases at end of forecast period.
- ☑ Attendance growing at very low rates throughout the forecast period.
- ☑ Low K-14 cost-of-living adjustment rates throughout forecast period.



## 2009-10: Minimum Guarantee Projected to Increase

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- We estimate a roughly \$1 billion increase in the Proposition 98 minimum guarantee from the budget act spending level.
  - July budget used May estimates of 2008-09 revenues for calculating Proposition 98 (which were \$2 billion higher than actual revenues).
  - Using lower 2008-09 numbers result in a larger year-to-year growth rate, which increases the 2009-10 Proposition 98 minimum guarantee.
  
- Three options for addressing increase:
  - Make additional payment in fiscal year.
  - Create a “settle-up” obligation and schedule payment out over future years.
  - Suspend Proposition 98 to avoid payment but accelerate K-14 funding increases when times are better.
  
- Hold off on decision until May, when updated revenue estimates are available.



## 2010-11: Slight Decrease in Proposition 98 Minimum Guarantee

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- We project the minimum guarantee will decrease by \$400 million in 2010-11. This funding level, however, is \$600 million higher than the currently budgeted 2009-10 level.
- Despite only modest reductions in Proposition 98 funding, schools districts and community colleges will face increased financial pressure in 2010-11 due to the loss of federal funds from the American Recovery and Reinvestment Act.
- Options to minimize impact on school districts:
  - Adopt additional flexibility proposals to allow districts to spend state dollars in the manner they find most effective.
  - Reduce state and local mandate costs by making various changes to state law.
  - Explore ways to increase efficiencies in the K-14 system.