

# 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

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- **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

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## 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
<b>Total</b>	<b>\$16,512</b>

# Governor's Updated Trigger Plan

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## 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
<b>Total</b>	<b>\$6,077</b>

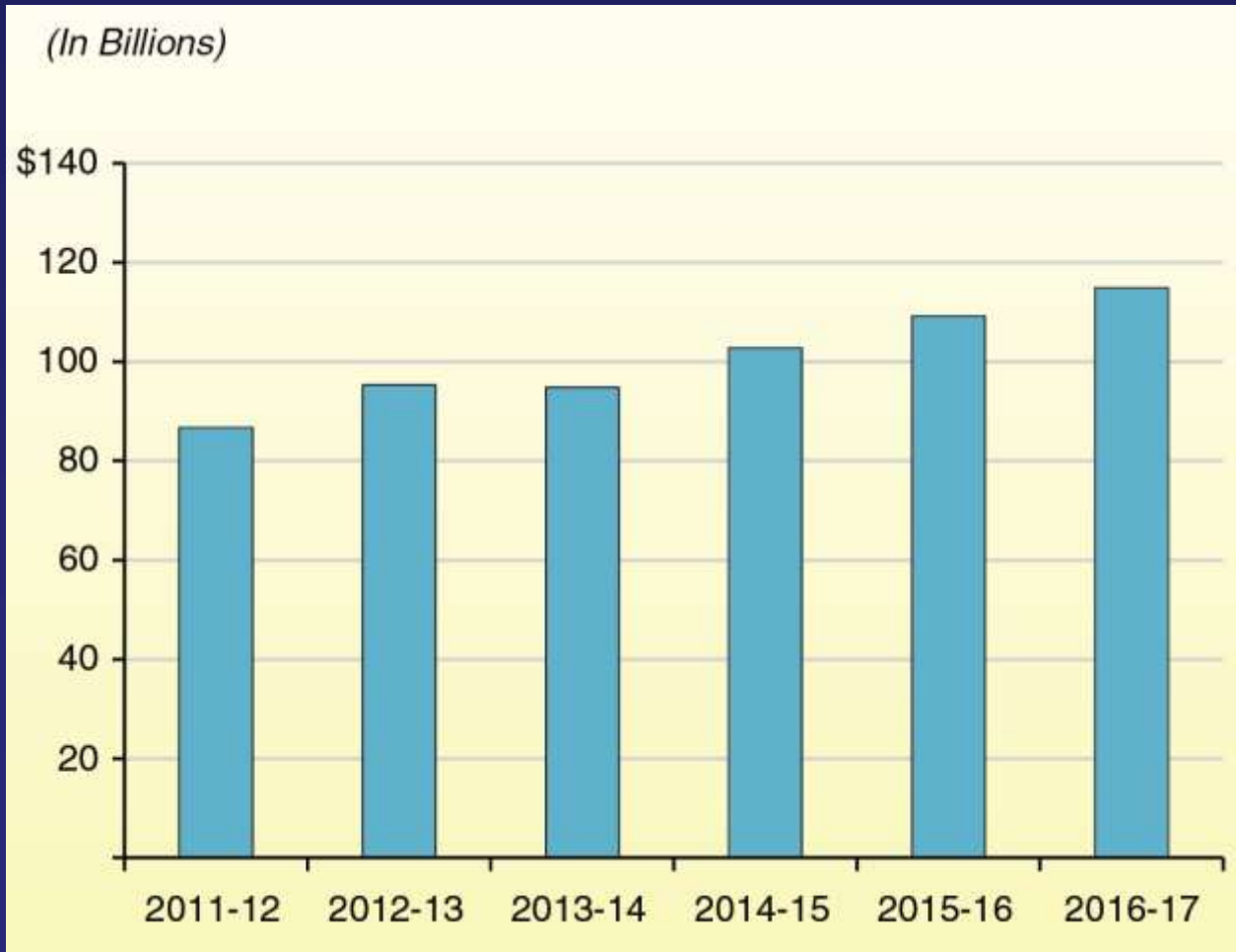
# Assessment of May Revision

# LAO Assessment of Updated Plan

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- **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
<b>Property Tax</b>	<b>\$818</b>	<b>\$991</b>	<b>\$1,809</b>
Proposition 98 offset	(818)	(981)	(1,799)
Not an offset		(10)	(10)
<b>Assets</b>	<b>—</b>	<b>\$1,478</b>	<b>\$1,478</b>
Proposition 98 offset	—	(1,405)	(1,405)
Not an offset	—	(74)	(74)
<b>Totals</b>	<b>\$818</b>	<b>\$2,469</b>	<b>\$3,287</b>
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

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(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
<b>Total Changes</b>	<b>\$4,900</b>	<b>\$6,108</b>	<b>\$1,208</b>

# Changes to Governor's Proposition 98 Trigger Plan

(In Millions)

	January	May
<b>Changes in 2012-13 Minimum Guarantee</b>		
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
<b>Total Changes</b>	<b>-\$2,244</b>	<b>-\$2,815</b>
<b>Changes in 2012-13 Proposition 98 Spending</b>		
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
<b>Total Changes</b>	<b>-\$2,244</b>	<b>-\$2,815</b>

# Assessment of Updated Proposition 98 Package

# LAO Assessment of Updated Plan

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

# Questionable Maintenance Factor Interpretation

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- **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
<b>Shift:</b>			
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

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- **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
<b>Spending Changes</b>			
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	—
<b>Totals</b>	<b>\$6,108</b>	<b>\$4,257</b>	<b>-\$1,851</b>

# Alternative Proposition 98 Trigger Plan

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- **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
<b>2011-12</b>			
Ongoing Proposition 98 funding	\$47,024	\$45,637	-\$1,387
Settle-up payment	335	1,722	1,387
QEIA-related payment	450	450	—
<b>Totals</b>	<b>\$47,810</b>	<b>\$47,810</b>	<b>—</b>
<b>2012-13</b>			
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
<b>Totals</b>	<b>\$50,920</b>	<b>\$52,173</b>	<b>\$1,253</b>