

The 2011-12 State Education Budget



Legislative Analyst's Office

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State Budget Problem & Governor's Budget Plan

\$25.4 Billion Problem

- **2010-11 Deficit : \$8.2 billion**
- **2011-12 Operating Shortfall: \$17.2 billion**
 - Revenues of \$83.5 billion
 - Expenditures of \$100.7 billion

Mix of Budget Solutions Proposed by the Governor

General Fund Benefit (In Billions)

	2010-11	2011-12	Totals
Expenditure-Related	\$0.4	\$12.1	\$12.5
Revenue	3.2	10.9	14.0
Increased Proposition 98	—	-2.0	-2.0
Borrowing and Transfers	0.5	1.4	1.9
Totals	\$4.1	\$22.3	\$26.4

Governor's Major Expenditure-Related Solutions

(In Billions)

	Solutions
Propositions 10 and 63	\$1.9
Redevelopment funds	1.7
Medi-Cal changes	1.7
CalWORKs changes	1.5
UC/CSU unallocated reductions	1.0
Developmental services	0.8

Governor's Major Revenue Proposals

(In Billions)

	2010-11	2011-12	Two-Year Totals
Tax Extensions (Five Years):			
PIT surcharge (.25 percentage point)	\$1.2	\$2.1	\$3.3
PIT dependent exemption credit	0.7	1.2	2.0
Sales taxes (1 percentage point)	—	4.5	4.5
Vehicle license fee (.5 percentage point)	—	1.4	1.4
Totals	\$1.9	\$9.2	\$11.2

Progress Toward Addressing State Budget Problem

Legislature Approved Major Components of Governor's Plan

- On March 16, both houses passed 15 (of 18) budget trailer bills.
- Bills contained few changes from Governor's plan.
- Have not yet enacted bills for:
 - Redevelopment
 - Taxes
 - Special election

Governor Signed Most of the Budget Trailer Bills

- **On March 24, Governor signed 13 bills.**
- **March Plan contains \$11.2 billion in solutions:**
 - \$8.2 billion in expenditure reductions
 - \$2.6 billion in loans and transfers
 - \$337 million in revenues
- **Remaining budget problem: \$15.4 billion**

Major Unresolved Issues

- **On March 29, Governor indicated budget discussions had stalemated.**
- **Unresolved issues:**
 - Tax extensions
 - Redevelopment
 - Realignment
 - Pension reform
 - Regulatory reform
 - Spending cap

2011-12 Education Budget Under Conference Plan

Proposition 98 Funding Flat Under Conference Plan

(Dollars in Millions)

	2009-10 Final	2010-11 Conference	2011-12 Conference	Change From 2010-11	
				Amount	Percent
K-12 education	\$44,060	\$43,796	\$43,900	\$104	0.2%
California Community Colleges	5,721	5,777	5,415	-361	-6.3
Other agencies	93	85	87	1	1.5
Totals, Proposition 98	\$49,874	\$49,658	\$49,402	-\$256	-0.5%

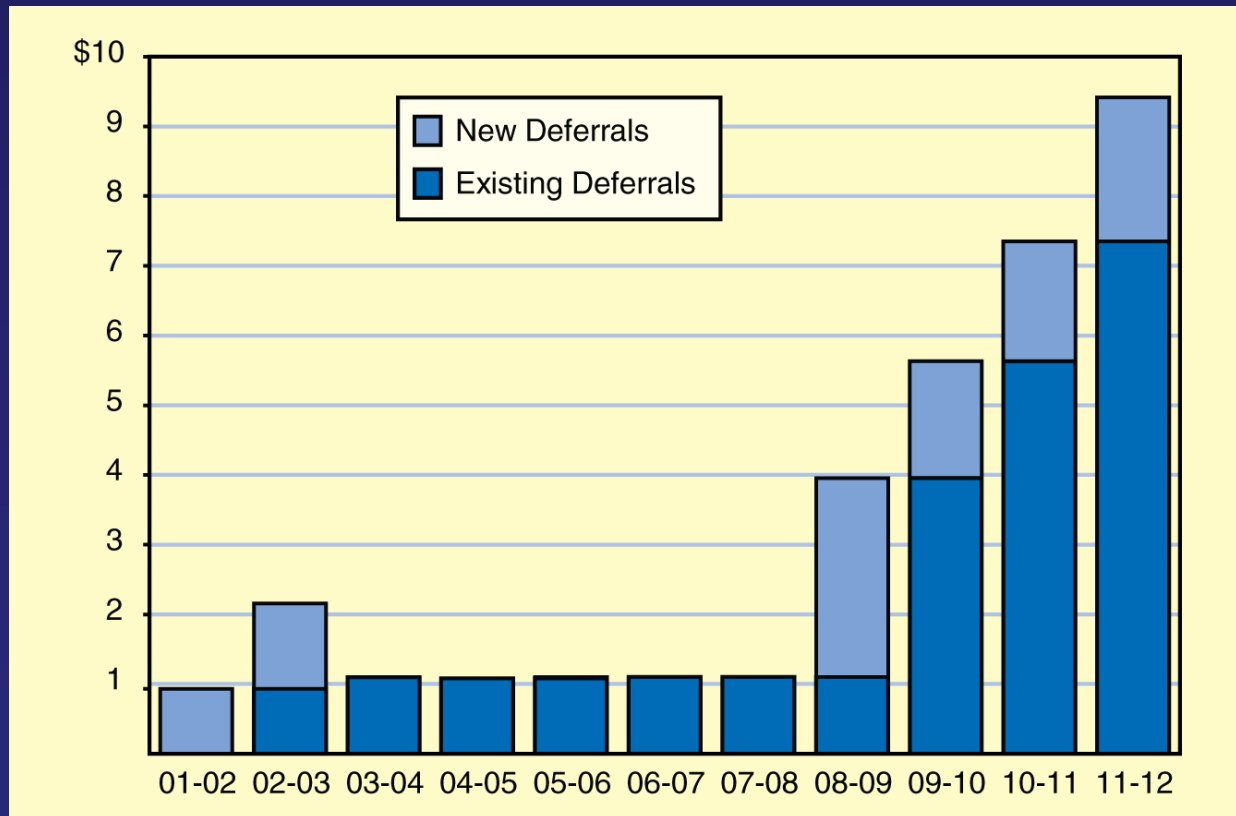
Major Spending Changes Under Conference Plan

2011-12 (In Millions)

	Spending Change
Backfill prior-year one-time actions	\$2,423
Fund revenue limit cost increases	470
Defer K-14 revenue limit payments	-2,193
Reduce child care funding	-536
Reduce community college apportionments	-400
Make various other K-14 adjustments	-21
Total Changes	-\$256

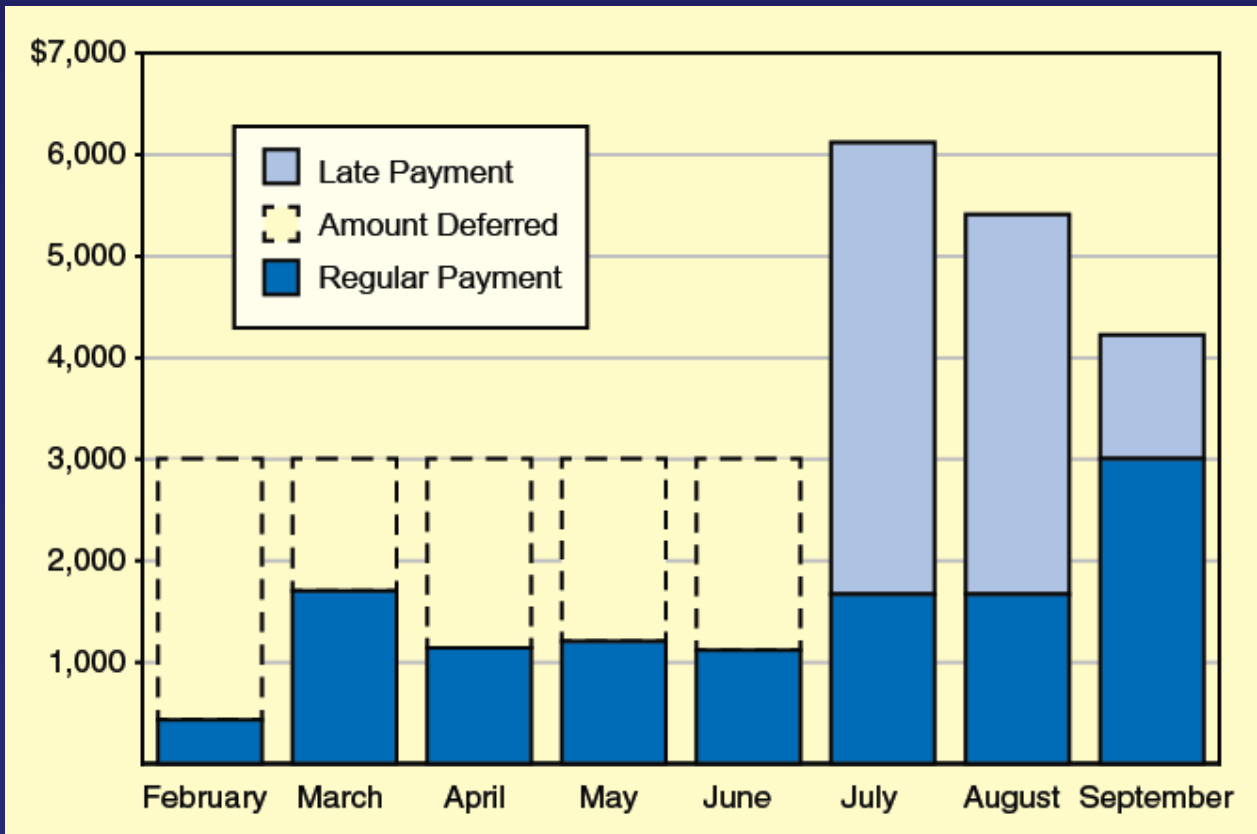
K-12 Deferrals Now \$9.4 Billion

(In Billions)



Almost Two-Thirds of February–June Payments Made Late

(In Billions)



K-12 Programmatic Funding Down Due to Loss of Federal Funds

(Dollars in Millions, Unless Otherwise Specified)

	2007-08 Final	2008-09 Final	2009-10 Final	2010-11 Conference	2011-12 Conference
Programmatic Funding					
K-12 ongoing funding	\$48,883	\$43,215	\$40,717	\$42,945	\$43,044
New payment deferrals	—	2,904	1,679	1,719	2,063
Settle-up payments	—	1,101	—	267	—
Public Transportation Account	99	619	—	—	—
Freed-up restricted reserves	—	1,100	1,100	—	—
ARRA funding	—	1,192	3,575	1,192	—
Federal education jobs funding	—	—	—	421	781
Totals	\$48,982	\$50,130	\$47,070	\$46,544	\$45,888
Per-Pupil Programmatic Funding					
K-12 attendance	5,947,758	5,957,111	5,933,761	5,951,826	5,964,800
K-12 per-pupil funding (in dollars)	\$8,235	\$8,415	\$7,933	\$7,820	\$7,693
Percent Change From 2007-08	—	2.2%	-3.7%	-5.0%	-6.6%

Flexibility Extended Two Years

Provision

More lenient K-3 Class Size Reduction requirements
Shorter school year
Proceeds of surplus property available for operations
Categorical program flexibility
Lower routine maintenance set-aside
No deferred maintenance requirement
Postpone instructional material purchases

Other Major K-12 Components of Conference Plan

- Education mandates funded.
- AB 3632 funding model changed.
- CALPADS current-year funding restored.

Near-Term Prospects for Education

Key Questions

- **Does Governor get votes in the Legislature to put his constitutional amendment on the ballot? When?**
- **Does Governor get voter approval of tax extensions?**
- **What happens without tax extensions?**

Three Proposition 98 Scenarios

- **Conference funding level sustained.**
 - No K-12 cuts.
- **Tax extensions fail—best case:**
 - \$2 billion of K-12 cuts.
- **Tax extensions fail—worse case:**
 - \$4.5 billion of K-12 cuts.

K-12 Cuts That Could Be Considered

- **Changing kindergarten start date.**
- **Eliminating:**
 - Home-to-school transportation
 - After-school programs
 - Certain education mandates
 - K-3 Class Size Reduction
 - Quality Education Investment Act

Accompanying Changes That Could Be Considered

- Freeing up restricted reserves.
- Drawing down certain categorical reserves prior to receiving additional program funding.
- Further shortening length of school year.
- Removing certain state requirements.

Other K-12 Issues That Might Be Considered This Spring

- **Categorical/school finance reform.**
- **AB 3632 realignment.**
- **District fiscal solvency, exemptions from deferrals.**
- **Categorical “flex” funding for new schools.**
- **CALPADS and CalTIDES.**

K-12 Issues Linked to Spring Reports and Work Groups

- **School district consolidation.**
- **County court school/alternative education funding and accountability.**
- **Education mandates.**

Longer Term Prospects for Education

Reasons to Be Cautiously Optimistic

- **Economy and revenues are growing again—although at a moderate pace.**
- **Out-year forecast of Proposition 98 shows funding available for:**
 - Growth and cost-of-living adjustments.
 - After 2012-13, about \$1.4 billion in “new” spending annually.

Reasons to Be Enthusiastically Optimistic

- **Above-average growth in revenues in any year likely to trigger significant increases in ongoing Proposition 98 spending.**
- **Entering 2011-12, Proposition 98 has \$9.5 billion maintenance factor.**

Reasons to Be Pragmatically Pessimistic

- **Uncertain how 2011-12 budget situation will be addressed.**
- **Budget will likely remain highly constrained in near term.**
- **Spending cap could restrict future growth in education funding.**
- **If taxes trigger off in 2016-17, potential “cliff effect.”**