



State Budget Update July 2010

By David Walrath

- “It Ain’t Over Til It’s Over” – Yogi Berra



K-14 Education Spending and the Budget Shortfall

Comparison of State General Fund Revenue and Expenditure Increases to
Increases in K-14 Proposition 98 Guarantee Under Governor's May Revision
Budget Proposal (all solutions)
2004-05 Through 2010-11

(Dollars in Billions)

	2004-05¹	2010-11²	% Increase
General Fund Revenues	\$77.3	\$91.45	18.3%
K-14 (Prop. 98) Expenditures ⁴	\$47.0	\$48.4	3.0%
Non K-14 (General Fund) Expenditures	\$50.2 ³	\$55.4 ³	10.4%

¹Legislative Analyst's Office. *State Spending Plan: 2004-05, September 2004*

²Governor's 2010-11 May Revision Summary, May 2010 (includes all proposed budget solutions)

³Adjusted for Local Property Tax Transfers per VLF Transfer and Triple Flip (DOF, May 2010 est.)

⁴Includes Local Property Taxes and General Fund Spending

K-14 Education Spending and the Budget Shortfall

Comparison of State General Fund Revenue and Expenditure Increases to
Increases in K-14 Proposition 98 Guarantee Under Governor's May Revision
Budget Proposal (all solutions)
1998-99 Through 2010-11

	(Dollars in Billions)		
	1998-99¹	2010-11²	% Increase
General Fund Revenues	\$57	\$91.45	60%
K-14 (Prop. 98) Expenditures ⁴	\$35.2	\$48.4	37.5%
Non K-14 (General Fund) Expenditures	\$32.8	\$55.4 ³	70%

¹Legislative Analyst's Office. *State Spending Plan: 1998-99*. October 1998, Page 4, Revenues & Expenditures; p. 26 Proposition 98

²Governor's 2010-11 May Revision Summary, May 2010 (includes all proposed budget solutions)

³ Adjusted for \$7.005 billion in Local Property Tax Transfers per VLF Transfer and Triple Flip (DOF, May, 2010.)

⁴ Includes Local Property Taxes and General Fund Spending



Comparison of Major General Fund Expenditure Areas - 1998-99 through 2010-11

(Dollars in Billions)			
	<u>1998-99¹</u>	<u>2010-11²</u>	<u>% Increase</u>
K-14 (Prop. 98) Expenditures ³	\$35.2	\$48.4	37.5%
Health & Human Services	\$15.3	\$22.9	50%
Business, Transportation & Housing	\$0.4	\$.9	93%
Corrections	\$4.4	\$9.0	105%
Resources	\$1.0	\$2.0	100%
General Fund Revenues	\$57	\$91.45	60%

¹Legislative Analyst's Office. *State Spending Plan: 1998-99. October 1998, Page 4, Revenues & Expenditures; p. 26 Proposition 98*

²Department of Finance. *Governor's May Revision Summary, May, 2010 (includes all proposed budget solutions)*

³Includes Local Property Taxes and General Fund Spending



May Revision
**School District Revenue Limit Cost-of-Living and
Deficit Percentages**

	2008-09	2009-10	2010-11
Cost-of-Living	5.66%	4.25%	-0.39%
Deficit Factor	7.84%	18.36%	18.42%



May Revision

Revenue Limit Reduction- 2010-11

- Cost-of-Living Decrease (-0.39%) per ADA
 - Elementary: -\$24
 - Unified -\$25
 - High School -\$28



May Revision

Categorical Aid Programs

(in general)

- No change in Tier 1, Tier 2 or Tier 3
- Take a 0.39 percent reduction for the negative COLA
- No change in flexibility



State Mandates

- The budget proposed no funding and suspending all K-12 mandates EXCEPT:
 - An increase of \$7.7 million for mandated costs related to interdistrict and intradistrict transfers
 - An increase of \$6.8 million for mandated costs related to the California High School Exit Exam
 - \$65 million for Behavioral Intervention



Assembly Budget Version

- No cuts
- Restorations
- \$1.7 Billion Settle-up 2009-10
- Full Proposition 98



Assembly Budget Version

- Based on Borrowing or Taxing for \$8.9 Billion
- Proposes Majority Vote Taxes
- Legality in Question
- Creates at Least \$15 Billion 2011-12 Budget Hole



Senate Budget Version

- No Additional Cuts from May Revision
- Some Restorations
- Assumes \$4 Billion - \$5 Billion in New Revenue
- Creates \$8 Billion - \$10 Billion 2011-12 Budget Hole
- Not Full Proposition 98



Proposition 98

- Suspend
- Underappropriate
- Let CTA go to Court



Fund at What Level?

- \$49 billion
- \$50 billion
- \$52 billion
- \$54 billion



Wait for Feds?

- Education Jobs Bill?
- Medicaid Payments?
- No U.S. Senate Republican Votes



What I Predict

- Funding for revenue limit
 - Restore 50% of Governor's Cuts
 - Increase Deficit Factor
 - No negative COLA
 - No targeting



What I Predict

- Flex Item
 - Class Size Reduction & Home-to-School Transportation not added
 - Current block amount not adjusted for gain or loss of ADA



What I Predict

- Deferrals – 2010-11
 - Limited relief for small school districts and charter schools
- New School Categorical Funding
 - Definitely for new charter schools
 - Maybe new Community Day Schools



What I Predict

- Enhancing Education Through Technology
 - Using CDE Award Process
- Mandates
 - Partial relief, but unclear how much
 - Do not expect the \$1,366 million proposed by Assembly for PY claims



What I Predict

- Child Care
 - Restoration with reductions in eligibility



Funding Cliffs

- State Funding Cliffs
- Federal Funding Cliffs



State Law Cliffs to Avoid

- Deferred Maintenance Match
- Routine Restricted Maintenance Contribution (small district exemption)
- Reserve Requirements



State Law Cliffs to Avoid

- CSR Flexibility (11-12)
- Tier 3 Flexibility (12-13)
- Textbook Purchase Suspension



Federal Fund Cliffs

- One-time Federal Funds
- ESEA / President's Budget Shift From Formula Grants to Competitive Grants
- Forest Reserve



CalSTRS Benefit Changes

- 180-Day Rule
- Contributions to Defined Benefit Supplement
- Longevity Factor
- 10% Lump Sum Distribution



Bargaining Changes

- Class of 1
- 180-Day Rule Effect



Unfunded Obligation

- \$43 Billion to \$58 Billion – Depending On Assumptions
- 15 Percentage Point Increase (from 8.25% to 23.25%)
- Expect Some Increase – 4 to 6 Percentage Points
- Collective Bargaining Effect



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