



2010 LEGISLATIVE ACTION CONFERENCE

State Budget: A Retrospective

TIMELINE FOR ADOPTING BUDGET

January

February

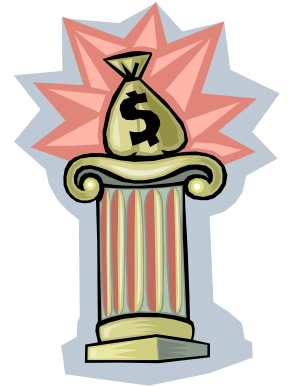
March

April

May

June

July 1



BUDGET PROCESS IN THEORY

January	February	March
April	May	June
July	August	September
October	November	December

...AND IN REALITY



WHO'S WHO: KEY DECISION-MAKERS

- Governor
- Legislative Leaders

Senate

President pro Tem.: Darrell Steinberg (D-Sacramento)

Republican Leader: Dennis Hollingsworth (R-Murrieta)

Incoming Rep. Leader: Bob Dutton (R-Inland Empire)

Assembly

Speaker: John Perez (D-Los Angeles)

Republican Leader: Martin Garrick (R-Carlsbad)

WHO'S WHO: KEY DECISION-MAKERS

- Budget Chairs

Senate Budget Committee

Chair: Denise Moreno Ducheny (D-San Diego)

Vice Chair: Bob Dutton (R-Inland Empire)

Senate Budget Subcommittee #1 on Education Finance

Chair: Carol Liu (D-Pasadena)

Bob Huff (R-Diamond Bar)

Roderick Wright (D-Los Angeles)

WHO'S WHO: KEY DECISION-MAKERS

- Budget Chairs

Assembly Budget Committee

Chair: Bob Blumenfield (D-Van Nuys)

Vice Chair: Jim Nielsen (R-Biggs)

Assembly Budget Subcommittee #2 on Education Finance

Chair: Wilmer Amina Carter (D-Rialto)

Bill Berryhill (R-Stockton)

Julia Brownley (D-Santa Monica)

Wesley Chesbro (D-Eureka)

Jean Fuller (R-Bakersfield)

Sandre Swanson (D-Oakland)

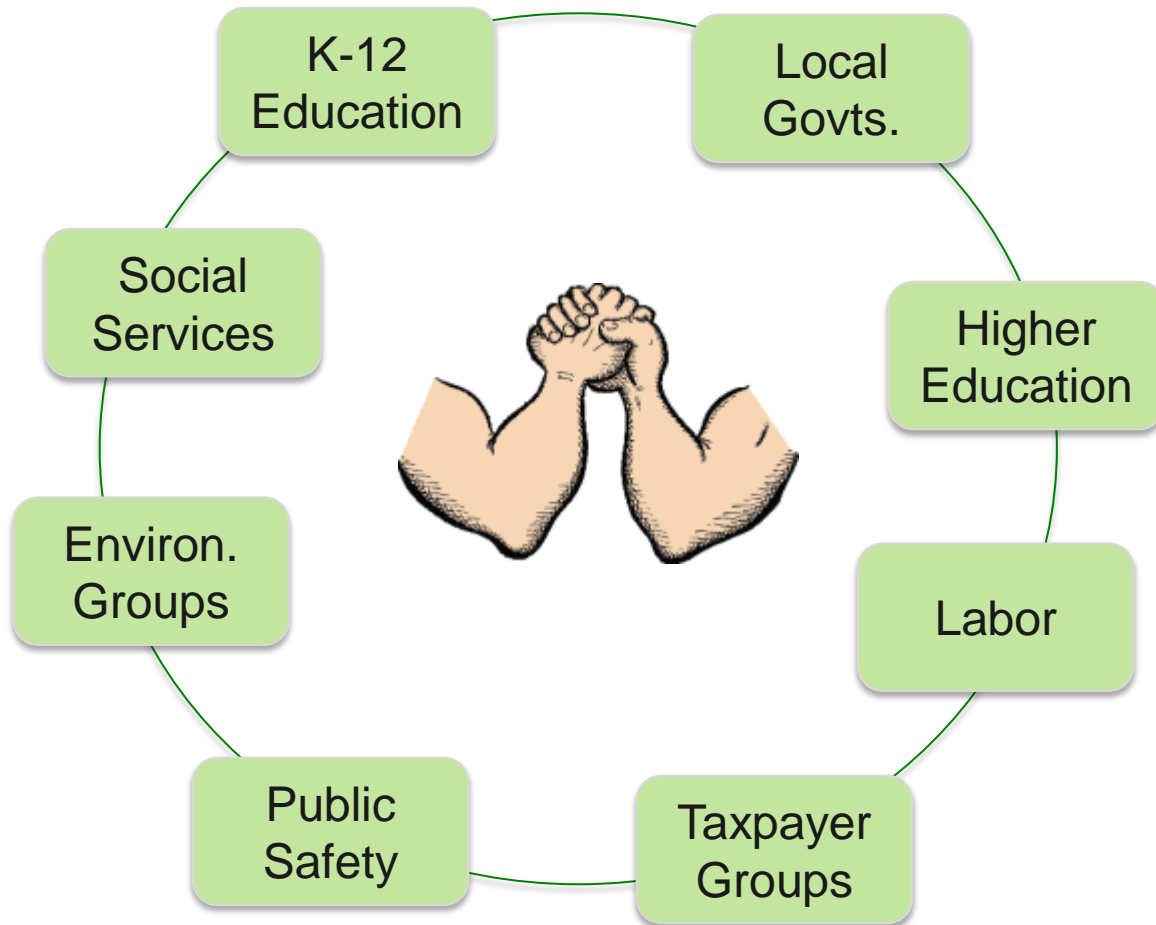
WHO'S WHO: KEY DECISION-MAKERS

- Department of Finance

Director: Ana Matosantos

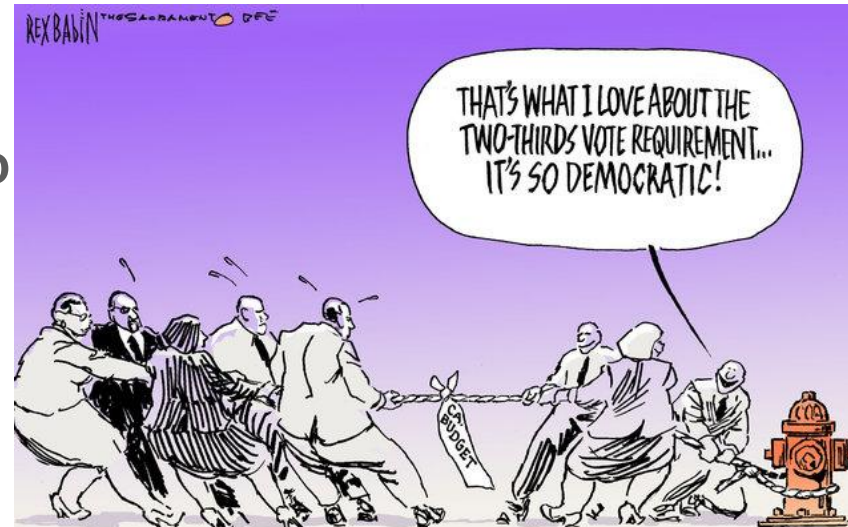
Education: Jeannie Oropeza

KEY BUDGET INTEREST GROUPS



2/3 VOTE REQUIREMENT IN CA

- 2/3 of members of both houses must approve budget and tax increases
- Rhode Island and Arkansas have 2/3 vote budget requirement
- PPIC polls, shows 51% want majority vote for state budgets.



LEGISLATURE

Senate



- 40 Members
 - 25 Democrats
 - 13 Republicans
 - 2 Vacancies
 - John Benoit (R) appointed to the San Bernardino County Board of Supervisors
 - Abel Maldonado (R) confirmed as Lt. Governor
- Need 27 votes

Assembly



- 80 Members
 - 49 Democrats
 - 29 Republicans
 - 1 Independent
 - 1 Vacancy
 - Paul Krekorian (D) elected to the Los Angeles City Council
- Need 54 votes

“BIG FIVE”



Governor



Senate President Pro Tempore



Senate Republican Leader



Assembly Speaker



Assembly Republican Leader

IT'S AN ELECTION YEAR

Governor

- Jerry Brown (D- Attorney General)
- Steve Poizner (R-Businessman)
- Meg Whitman (R-Businesswoman)

Lt. Governor

- *Sam Aanestad (R-Doctor/California Senator)*
- Janice Hahn (D-Los Angeles City Councilwoman)
- Abel Maldonado (R-Lt. Gov./Businessman/Farmer)
- Gavin Newsom (D-San Francisco Mayor)

Superintendent of Public Instruction

- Larry Aceves (Retired School Superintendent)
- *Gloria Romero (Educator/Senator)*
- *Tom Torlakson (Teacher/California Legislator)*

Italics indicate a current legislator.

IT'S AN ELECTION YEAR

U.S Senate

- Barbara Boxer (D-United States Senator)
- Tom Campbell (R-Economist/Business Educator)
- *Chuck DeVore (R-Assemblyman/Military Reservist)*
- Carly Fiorina (R-Business Executive)

Controller

- John Chiang (D-Controller)
- *Tony Strickland (R-State Senator/Businessman)*

Treasurer

- Bill Lockyer (D-California State Treasurer)
- *Mimi Walters (R-Businesswoman/Senator)*

Italics indicate a current legislator.

IT'S AN ELECTION YEAR

Attorney General

- Steve Cooley (R-District Attorney)
- Rocky Delgadillo (D-Attorney at law)
- John Eastman (R-Constitutional Law Attorney)
- *Tom Harman (R-Attorney/Senator)*
- Kamala Harris (D-SF District Attorney)
- Chris Kelly (D-Attorney/Businessman)
- *Ted Lieu (D-Military Prosecutor/Lawmaker)*
- *Pedro Nava (D-Attorney/Assemblymember)*
- *Alberto Torrico (D-Worker's Rights Attorney)*

Controller

- John Chiang (D-Controller)
- *Tony Strickland (R-State Senator/Businessman)*

Italics indicate a current legislator.

IT'S AN ELECTION YEAR

Secretary of State

- Debra Bowen (D-Secretary of State)
- Damon Dunn (R-Small Business Owner)
- Orly Taitz (R-Attorney/Dentist/Businesswoman)

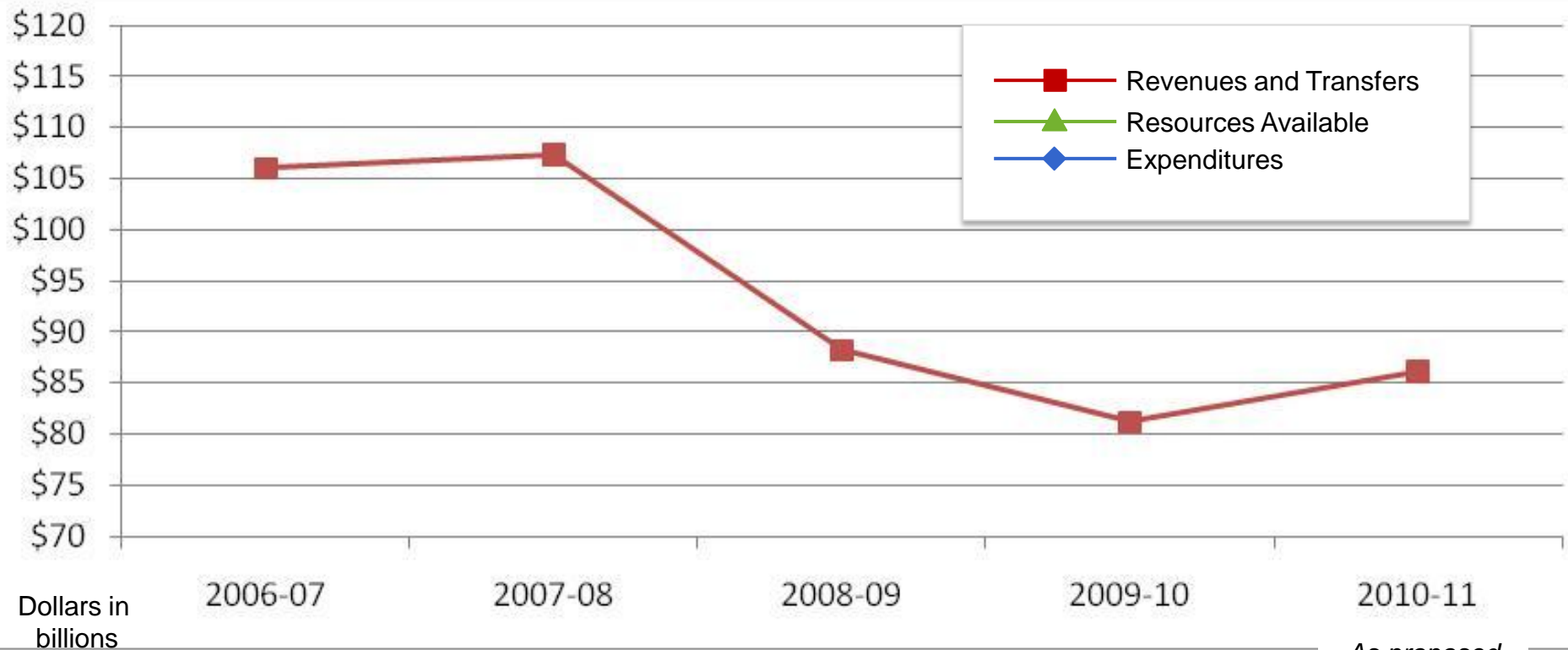
Insurance Commissioner

- *Hector De La Torre (D-California Legislator)*
- *Dave Jones (D-Member, California State Assembly)*
- *Mike Villines (R-Businessman/State Assemblyman)*

Italics indicate a current legislator.

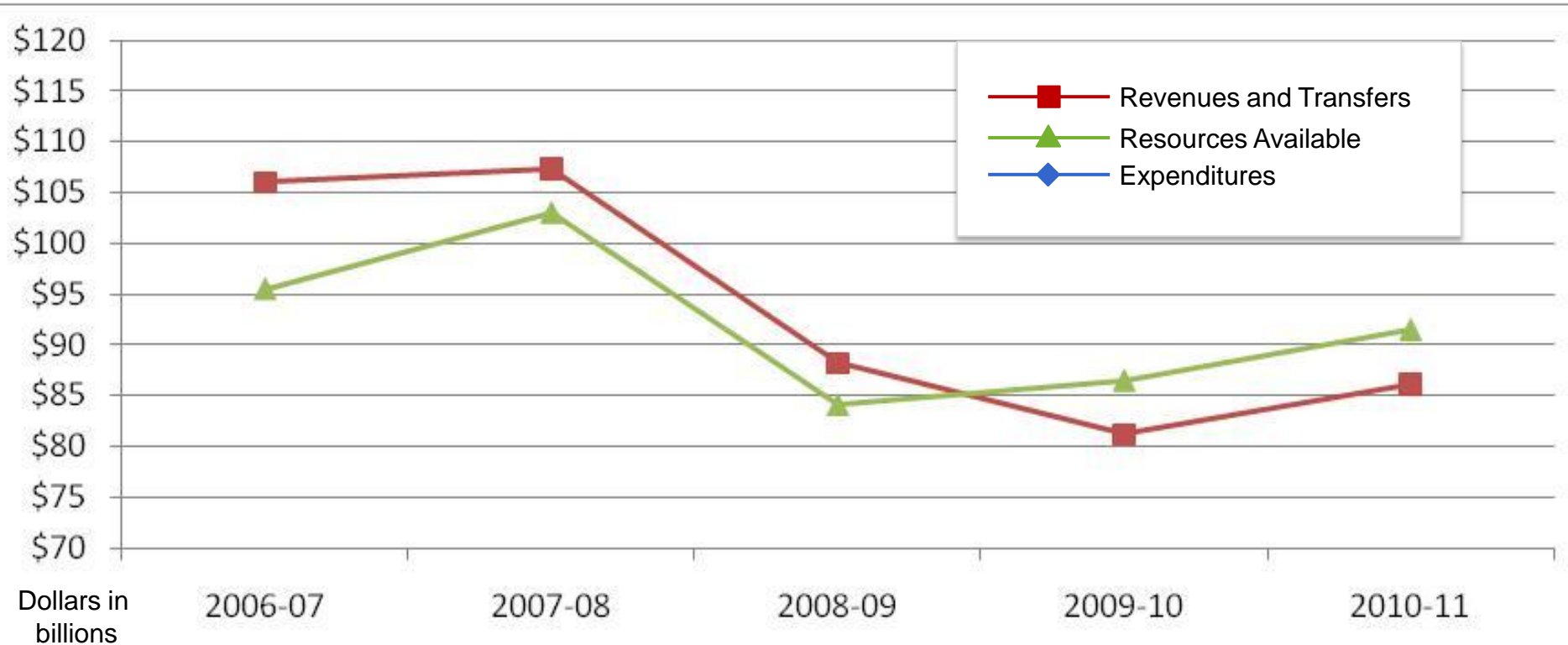
What's happened since 2008?

STATE GF: 2006-07 TO 2010-11



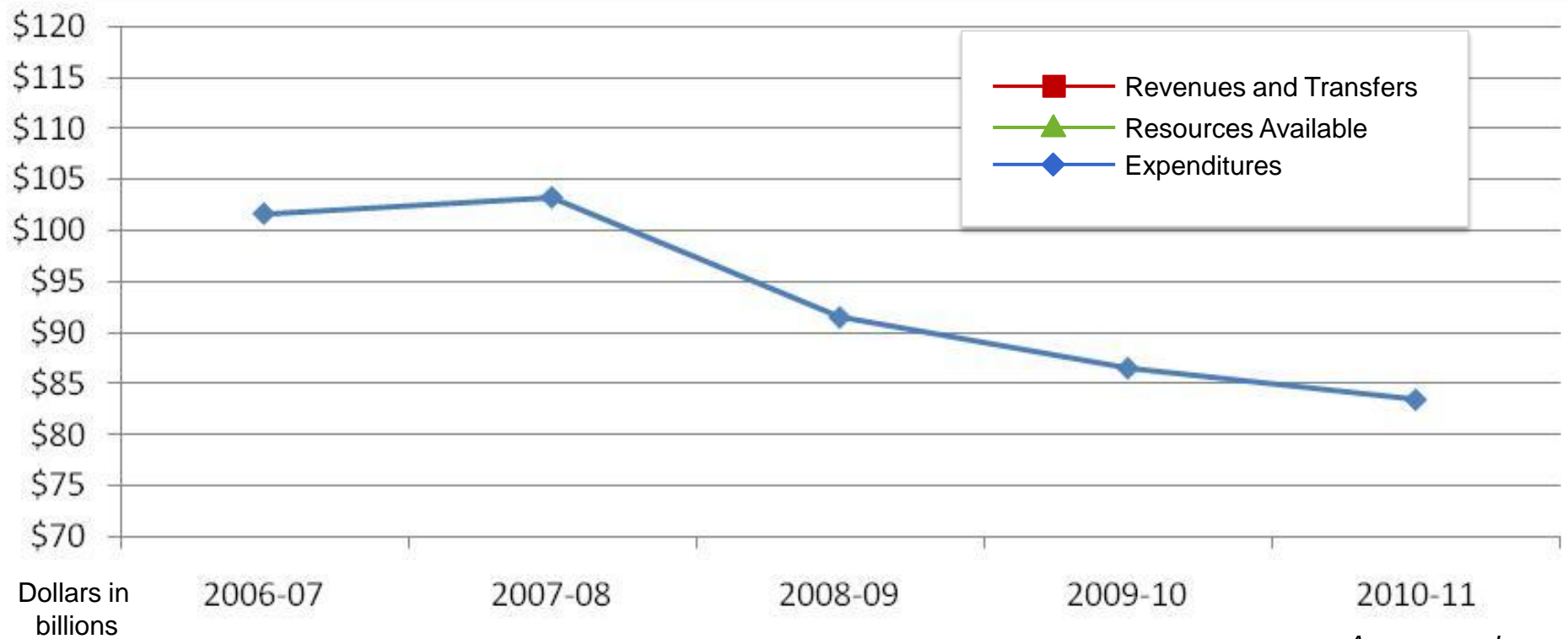
*As proposed
in May Revise*

STATE GF: 2006-07 TO 2010-11



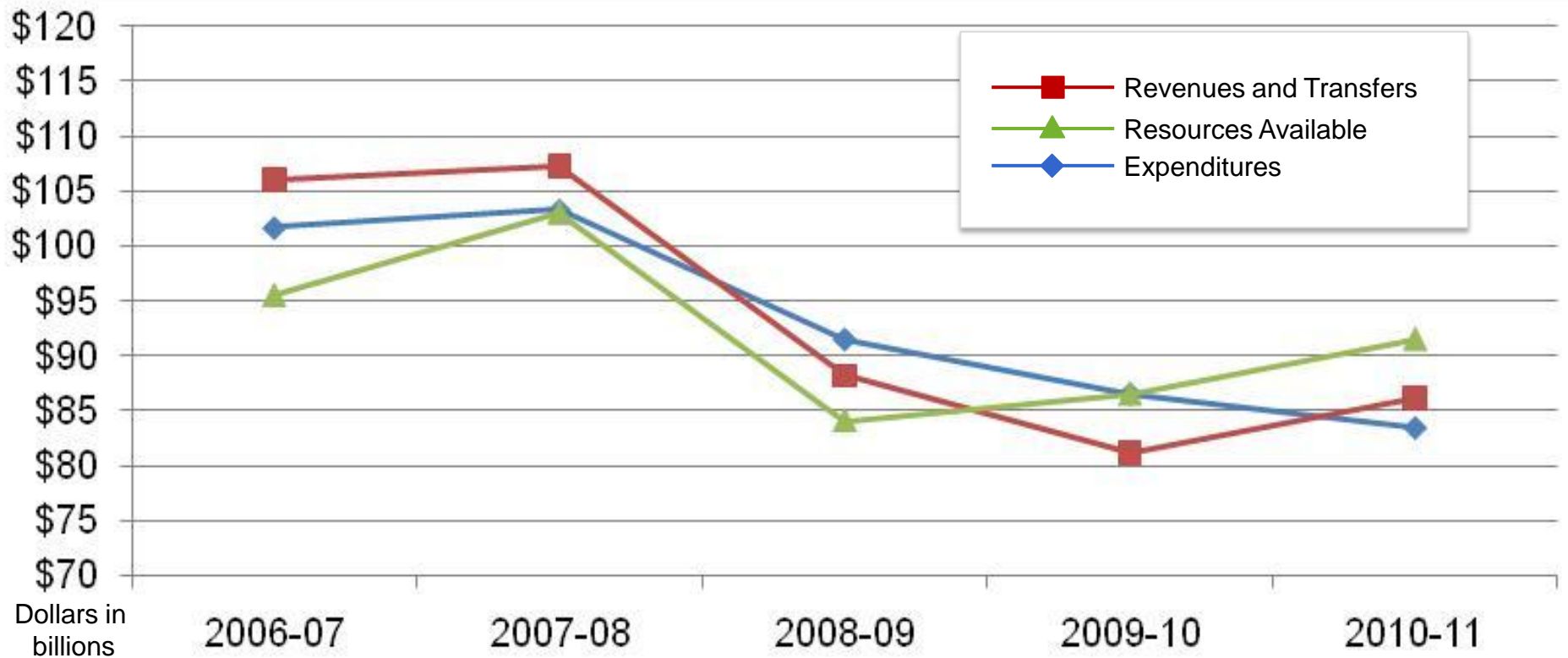
*As proposed
in May Revise*

STATE GF: 2006-07 TO 2010-11



*As proposed
in May Revise*

STATE GF: 2006-07 TO 2010-11



*As proposed
in May Revise*

2 YEARS OF CUTS

February 2008

•Revisions made to 2007-08 budget

September 2008

•Budget for 2008-09 adopted

February 2009

•Revisions made to 2008-09 budget
•Budget for 2009-10 adopted

July 2009

•Further revisions to 2008-09 budget
•Revisions to 2009-10 budget approved

March 2010

•Mid-year adjustments made to 2009-10 budget
•Gas tax swap and payment deferrals approved

Summer 2010?

•2010-11 Budget adopted

TOTAL K-12 CUTS SINCE 2008

- \$17 billion in programmatic cuts
 - \$7.5 billion in cuts to revenue limits and categoricals
 - \$5 billion due to foregone COLA
- Additional \$4.5 billion in deferrals to drive down Prop. 98

DEFERRALS: INTER VS. INTRA

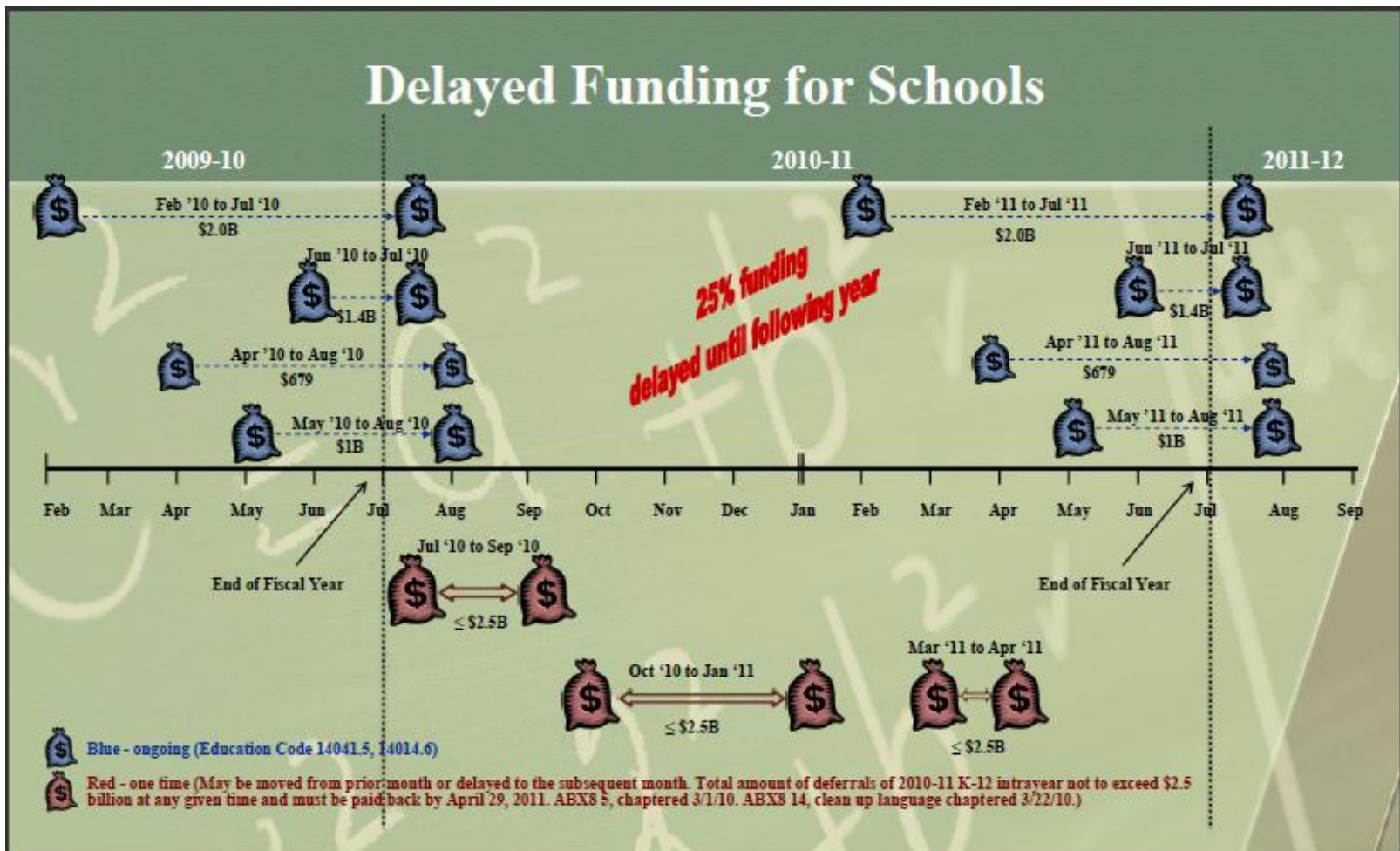
Inter-Year Deferrals

- Crosses fiscal years
- Reduces Prop. 98
- Districts spend money in year, but receive payment from the state the next year
- \$5.1 billion in payments deferred
 - February to July - \$2.0 billion
 - April to August - \$679 million
 - May to August - \$1 billion
 - June to July - \$1.4 billion

Intra-Year Deferrals

- Within the fiscal year
- Doesn't reduce Prop. 98
- Addresses states cash crunch
- \$5.1 billion in payments deferred
 - \$2.5 billion in July for 60 days
 - \$2.5 billion in October for 90 days
 - \$2.5 billion in March for 30 days
 - Amounts to a rolling deferral of \$2.5 billion from July to April

DEFERRALS



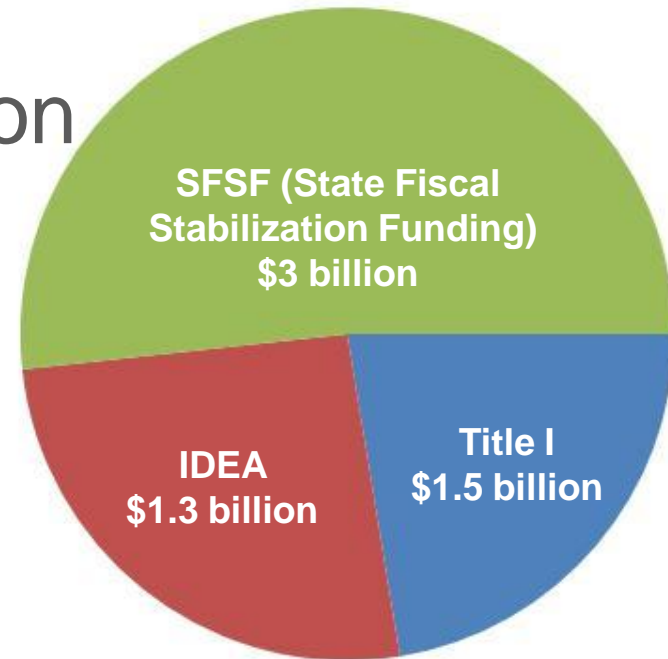
FLEXIBILITY

- February 2009 Legislature approves total flexibility for 40 categorical programs through 2012-13
- CSR Flexibility
- LAO May 2010 survey on use of flexibility
 - Provides facts about programs districts are taking dollars from
 - Fails to note that these are programs that have helped students that are struggling.



FEDS TO THE RESCUE?

- ARRA provide \$100 billion for education nationally
- California received \$8.6 billion
- \$6 billion for K-12
 - One-time for use in 2009-10 and 2010-11
 - Minimize lay offs and stimulate the economy



What's next?

WHAT'S ON THE HORIZON

- Worst likely over, but still making deep cuts
- Districts have spent down most if not all reserves above the minimum
- Districts have already utilized most/all ending balances on categorical
- Flexibility has limited ending balances
- ARRA funds mostly spent



IF THE MANTRA IS JOBS...

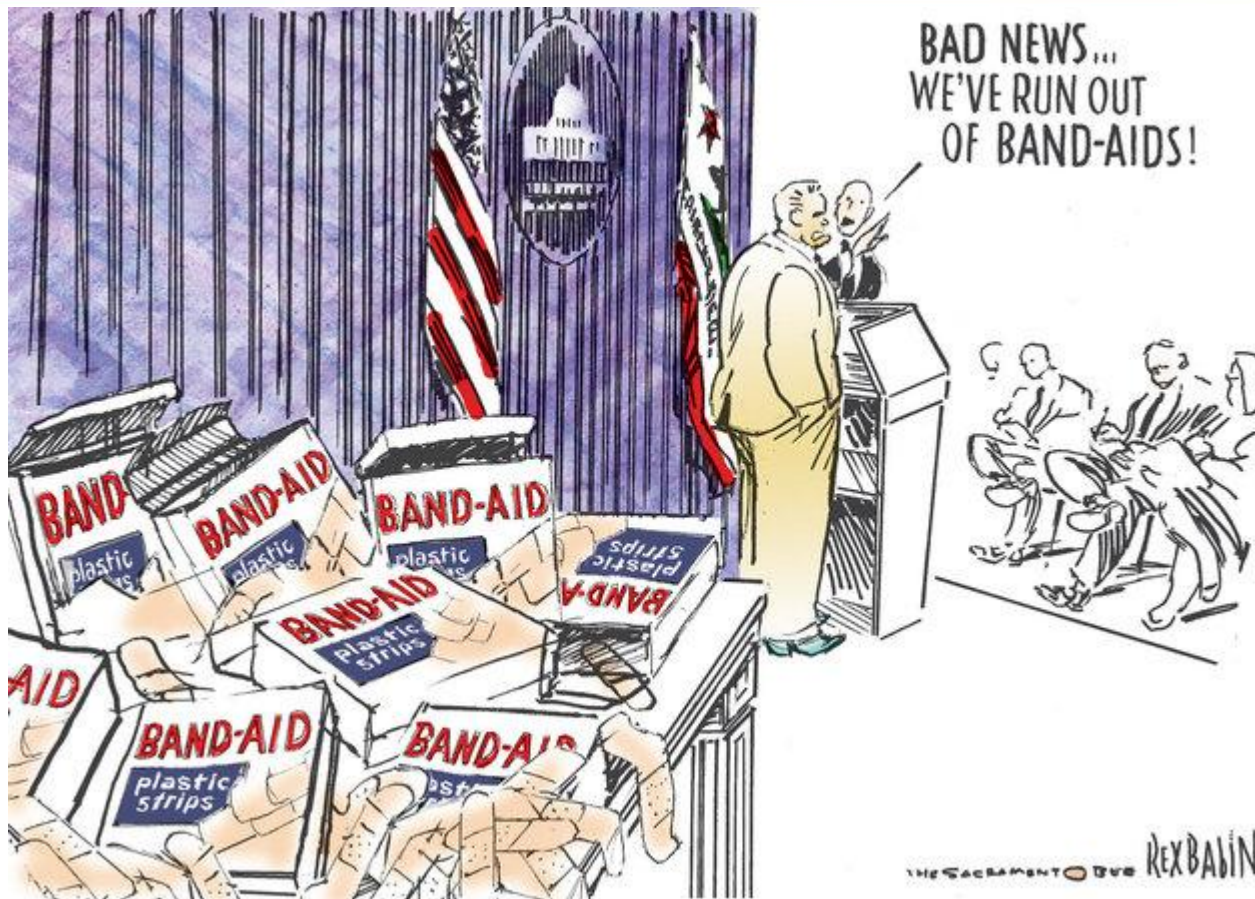
- Tens of thousands of school employees at all levels have lost their jobs, had their hours reduced, been furloughed and seen positions not filled
- 26,000 teachers received pink slips for 2010-11
- More cuts to schools = more lost jobs

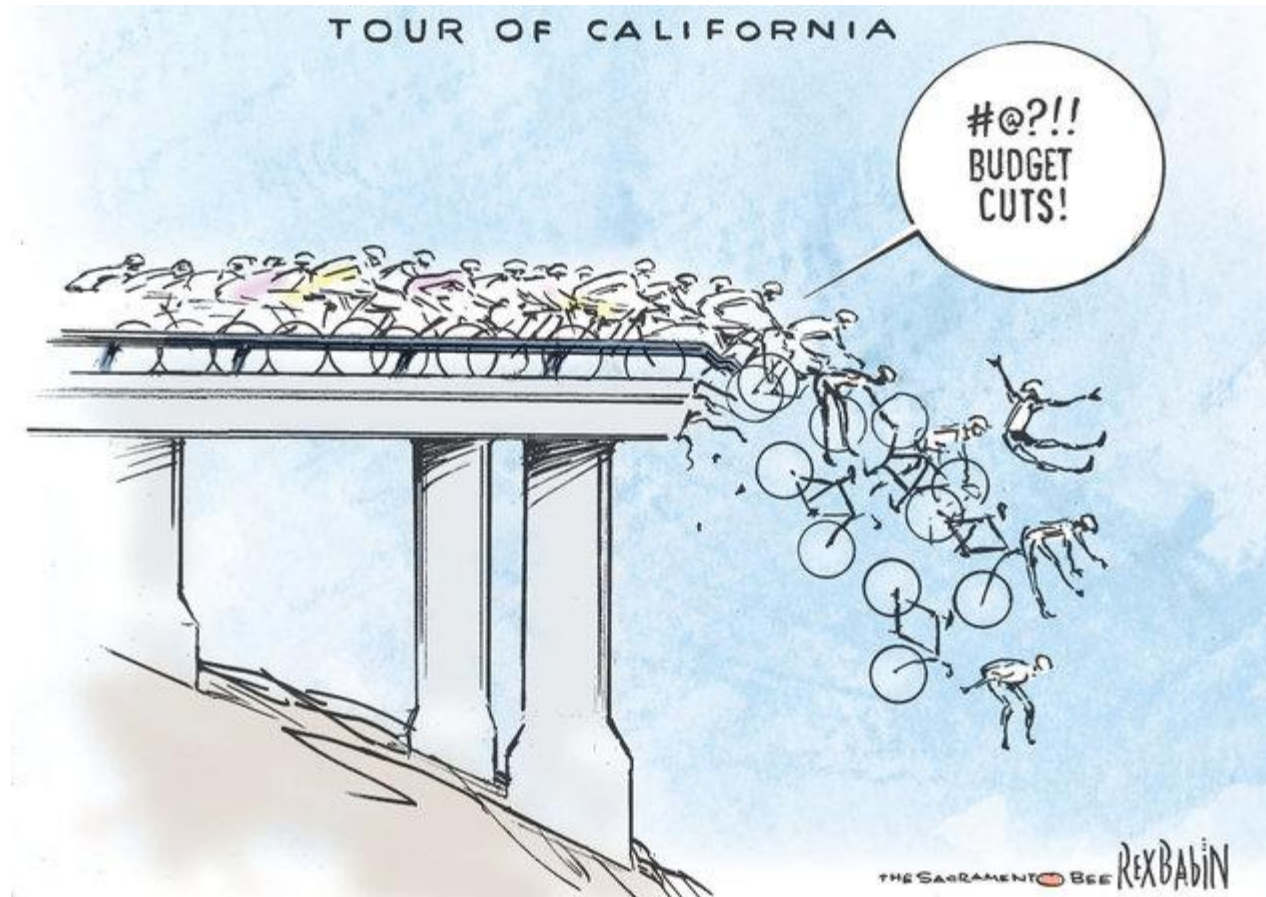
RISK FACTORS

- Health and human services cuts are life threatening
- Many still believe that schools haven't been effected by cuts
- Prop. 98 is 40% of the budget so hard to close budget gap without cuts to schools

ADVANTAGES

- Many legislators cite education as a priority
- Prior PPIC poll shows 86% oppose cutting education to close deficit
- Most recent PPIC poll shows 69% would pay higher taxes for education







MAY REVISION

CSBA Legislative Action Conference
May 2010

JANUARY VS. MAY

	<u>January</u>	<u>May</u>
Shortfall	\$18.9 billion	\$17.9 billion
Solutions	\$19.9 billion	\$19.1 billion
Reserve	\$1.0 billion	\$1.2 billion

PROPOSED SOLUTIONS

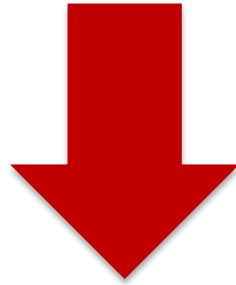
Spending cuts	\$12.2 billion
Federal	\$3.4 billion
Loans, transfers, shifts	\$2.6 billion
<u>Revenues</u>	<u>\$0.9 billion</u>
TOTAL	\$19.1 billion

MAY REVISION MAJOR CHANGES

- \$6.5 billion in new cuts
- Eliminates child care programs (except pre- and after-school care)
- Eliminates CalWORKS
- Reduces local mental health services by 60%
- 5/5/5 state worker proposal

IMPACT ON FEDERAL FUNDING

-\$5,000,000,000



GENERAL FUND SPENDING TRENDS

Total GF spending would fall \$3.1 billion
(3.5%)

It's down about one-third from 2000-01

Real per capita GF spending would be at its
lowest level since 1995-96.

FEW K-12 CHANGES FROM JANUARY

Still proposed:

- No suspension of Proposition 98
 - But the guarantee is reduced \$4.1 billion
- \$2.4 billion “programmatic” K-12 reduction
 - \$400 per Average Daily Attendance
 - Includes \$1.5 billion from revenue limit

MANIPULATIONS REDUCE PROP 98

Guarantee before proposed manipulations:
\$52.5 billion

Guarantee after proposed manipulations:
\$48.4

Difference = \$4.1 billion

PROGRAMMATIC VS. PROP 98

About \$1.9 billion of Prop 98 revenue in 2010-11 will be used to pay 2009-10 LEA expenses.

(Cross-year deferrals)

ACTUAL PER STUDENT FUNDING

<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	Change from <u>2008-09</u>
\$8,423	\$7,957	\$7,417	-11.9%

Source: Legislative Analyst

LEGAL CONCERNS

- Rebenching due to CalWORKS elimination
- Assumes no maintenance factor obligation and suspends payments
- Does not make required adjustment for **gas** tax swap

“The Governor’s January Budget proposed maintaining state funding for schools at approximately the same level for 2010-11 as schools received in 2009-10.”

--May Revision 2010-11, page 36

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LAO REVENUE PROPOSALS

- Delay scheduled tax reductions and expirations
- Eliminate low priority tax expenditures
- Fee increases
- Targeted tax increases

STATE SPENDING = ECONOMIC STIMULUS

Mark McMullen

Director, Moody's Economy.com

Former advisor to Senator John McCain

Testimony before Senate Human Services
Committee

March 9, 2010

STATE SPENDING = ECONOMIC STIMULUS

“In general, most types of human services and public assistance spending make for effective near-term fiscal stimulus and are bad candidates for program cuts. [They] are often directed to needy individuals who will spend most of the funds quickly and locally.”

--Mark McMullen

STATE SPENDING = ECONOMIC STIMULUS

“To provide the largest bang for the buck, a well-designed stimulus plan should include some temporary increases in public aid and human-services spending. [It] benefits the economy as soon as the money is disbursed, and the economic benefit is less likely to be diluted by purchases of goods and services from outside the state.

--Mark McMullen

STATE SPENDING – ECONOMIC STIMULUS

“In 2006, part-year residents and nonresidents accounted for 26% of California’s taxable income....[V]isitors from out of state [accounted for 19% of overall retail sales.”

--Mark McMullen

STATE SPENDING = ECONOMIC STIMULUS

“In particular, more consumer and business services must be made subject to tax...”

#

“...further gains could be made in exporting tax burdens to out-of-state shareholders who profit from doing business in California...”

--Mark McMullen

STATE SPENDING = ECONOMIC STIMULUS

GSP increase from \$1 increase in spending:

•General state spending	\$1.36
•Unemployment insurance	\$1.56
•Food stamps	\$1.70
•TANF	\$1.47
•In-home services	\$1.47
•Infrastructure	\$1.50

BUSINESS TAX BURDEN VS. GOVERNMENT BENEFITS

Ernst & Young analysis
for
Council on State Taxation (COST)

TAX PAID PER \$1 OF BENEFIT

<u>% of Education Spending Benefiting Businesses</u>	<u>California (rank)</u>	<u>National Average</u>
0%	\$2.70 (6 th)	\$3.50
25%	\$1.40 (4 th)	\$1.70
50%	\$0.98 (9 th)	\$1.10

LEGISLATIVE MEETINGS CHECKLIST

✓ The budget proposal still cuts schools

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- ✓ The budget proposal still cuts schools
- ✓ Proposition 98 vs. programmatic funding
- ✓ Obey the law
- ✓ Revenues must be part of the solution

MEALS FOR NEEDY PUPILS FIX

- AB 851 (Brownley) – enacted in 2009 to streamline funding in a revenue-neutral way.
 - Included Meals for Needy Pupils add-on
- Will have unintended consequences for about 380 districts that receive Meals for Needy Pupils funding
- AB 2366 (Brownley) – fixes the problem by delaying the implementation.

Questions?