

The State Budget and Education Funding: 2014-15 and Beyond



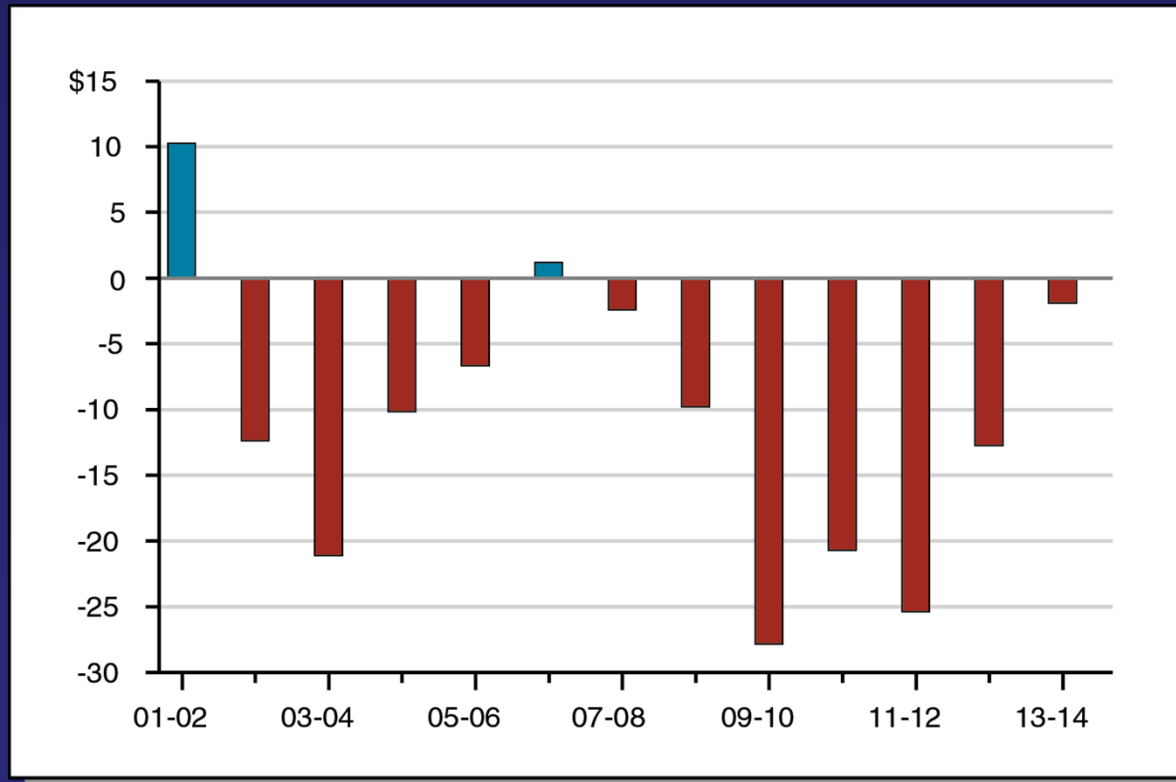
Legislative Analyst's Office

Presented to EdSource and
Policy Analysis for California Education
May 22, 2014

State's Fiscal Challenges

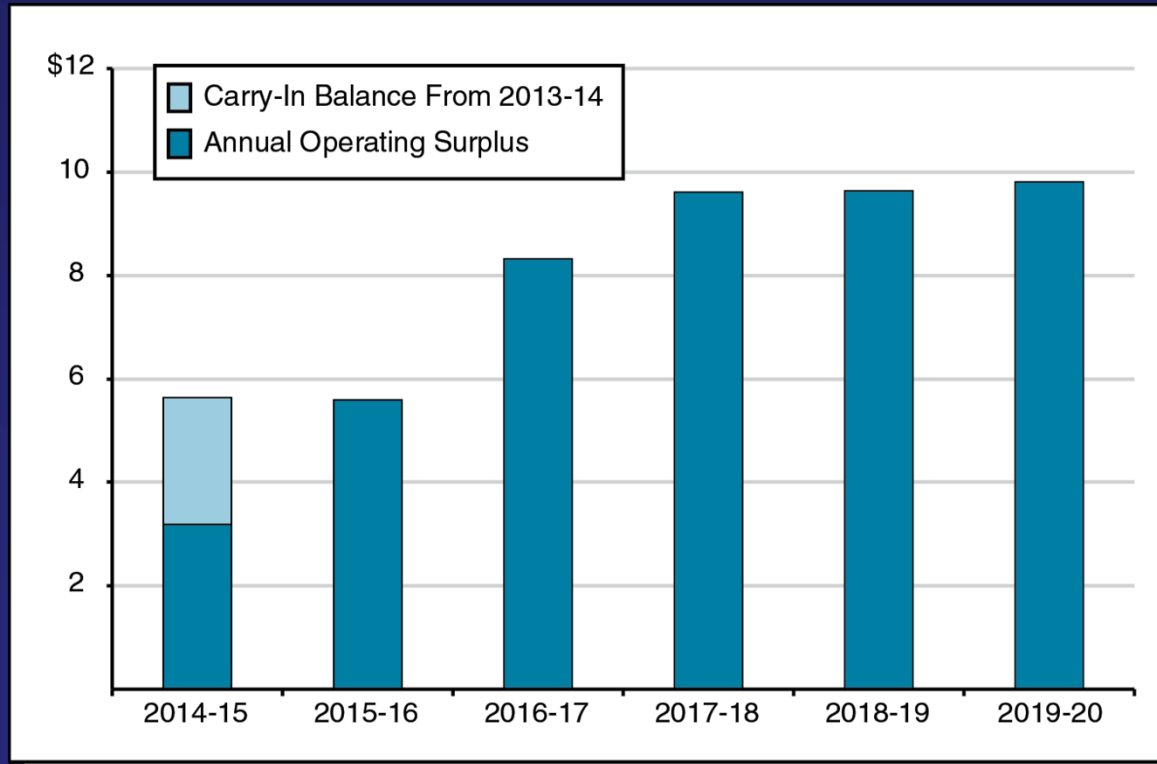
Significant Budget Shortfalls Since 2001

Projected General Fund Condition at Beginning of Each Budget Cycle (In Billions)



Operating Surpluses Projected Throughout Forecast Period

General Fund and Education Protection Account Combined
(In Billions)

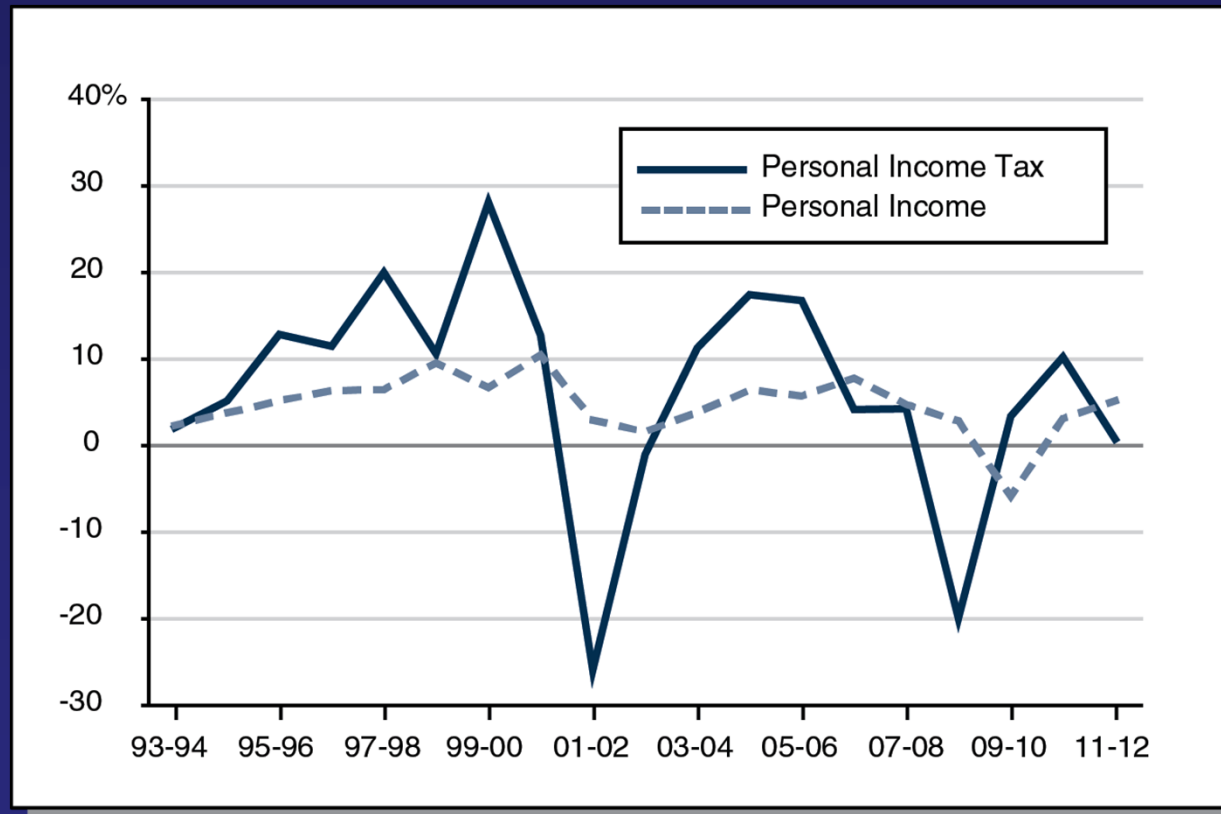


Reasons for Improvement

- **Economic Recovery**
 - Strong financial markets.
- **Past Decisions to Constrain Spending**
- **Proposition 30**

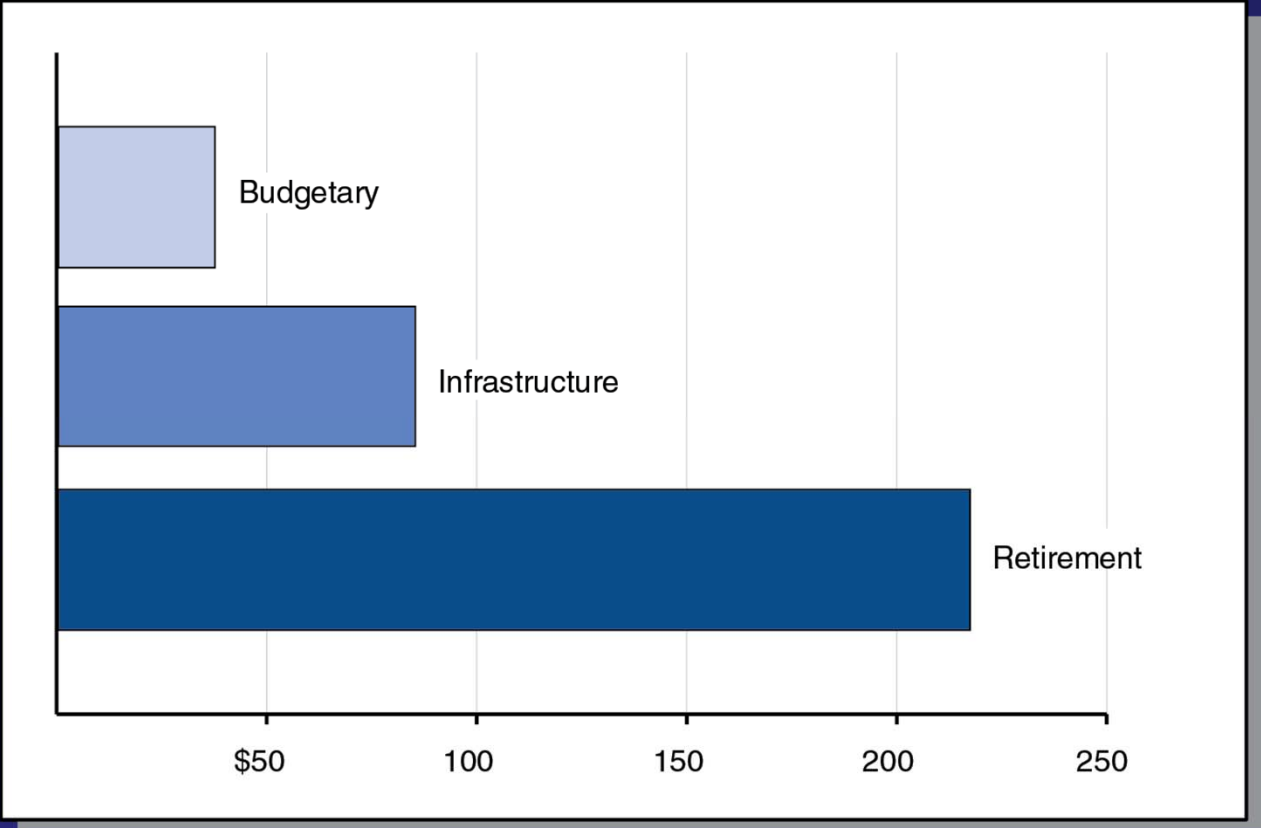
Challenges Remaining: Revenue Volatility

Percent Change From Prior Year



Challenges Remaining: State Debts

(In Billions)



Challenges Remaining: How Much Time Before the Next Downturn?

- **Average Length of Economic Expansion Periods—About Five Years**
- **Length of Current Expansion—Starting Sixth Year Next Month**

2014-15 Budget Picture

2014-15 Budget: January Economy and Revenues

- **Economy: Continued Moderate Growth**
 - 2014 California personal income: 5.4 percent.
 - 2014 California employment: 2.2 percent.
- **Revenues: Increased General Fund Revenues of \$6 Billion**
 - Strong personal income tax (PIT) growth.

2014-15 Budget: January

Where Is the Money Going?

- **Proposition 98: \$4.1 Billion**
- **Additional Deficit-Financing Bonds
Pay Off: \$1.6 Billion**
- **Increased University Funding: \$0.4 Billion**

2014-15 Budget: May Revision Economy and Revenues

- **Economics: Little Change From January**
 - Slightly stronger job growth.
 - Slightly weaker housing permits.
- **Revenues: Up \$2.4 Billion**
 - Virtually all in personal income taxes.

2014-15 Budget: May Revision Where Is the Money Going?

(In Millions)

Health and Human Services	\$1,368
Proposition 98	659
New Proposals	335

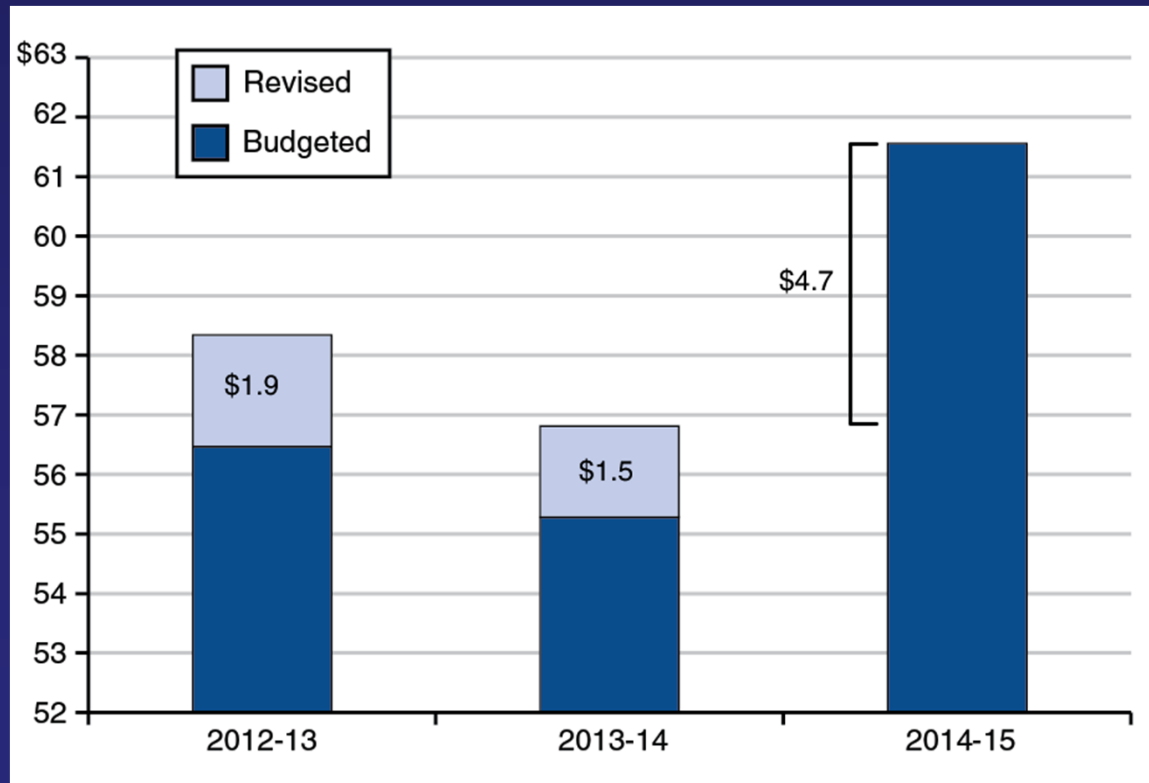
2014-15 Budget: Other Major Proposals

- **Budget Reserve**
- **CaISTRS**

2014-15 Education Budget

January Budget: Large Increases in Proposition 98

(In Billions)



January Budget: Most of the New Funds to LCFF

- **\$45.5 Billion**
- **80 Percent Funded**
- **11 Percent Increase From 2013-14 Level**
- **Closes 28 Percent of Gap to Target Level**

January Budget: One-Time Funds for Deferral Payments

- **Governor Proposed to Eliminate All Deferrals**
 - 2012-13: \$2 billion.
 - 2013-14: \$1.7 billion.
 - 2014-15: \$2.5 billion.

May Revision: Changes to Proposition 98 Minimum Guarantee

(In Millions)

	2012-13	2013-14	2014-15
January	\$58,342	\$56,813	\$61,559
May	57,795	58,302	60,859
Change	-\$547	\$1,489	-\$700
	\$242		

May Revision: Change in Deferral Pay Down Plan

(In Millions)

	2012-13	2013-14	2014-15	Total
January	\$2,007	\$1,683	\$2,474	\$6,164
May	1,433	3,077	1,653	6,164
Change	-\$574	\$1,394	-\$820	—

May Revision: Major New CalSTRS Proposal

	Current Rate	Additional Rate	Total
Districts	8.25%	10.85%	19.10%
Teachers:			
Pre-2013	8.00	2.25	10.25
Post 2012	8.00	1.21	9.21
State	3.52	2.81	6.33

May Revision: Major New CalSTRS Proposal

(In Millions)

	2020-21
Districts	\$3,751
Teachers	692
State	906
Total	\$5,349

LAO Assessment

Overall View of Administration's Budget Proposal

- **Pays Down Debts**
- **Limits New Commitments
(Outside of Proposition 98)**
- **Addresses CalSTRS' Funding Problem**

LAO Estimates of Revenues and Spending

- **LAO Higher General Fund and Property Tax Revenues of \$3.2 Billion**
- **Higher Required School Funding of \$2.7 Billion**
- **Leaves Roughly \$500 Million**
- **We Also Have Somewhat Lower Expenditure Estimates**

LAO Changes to Minimum Guarantee

(In Billions)

	2012-13	2013-14	2014-15
May Revision	\$57.8	\$58.3	\$60.9
LAO	57.9	58.6	63.1
Differences	\$0.1	\$0.3	\$2.2

LAO Out-Year Forecast of Minimum Guarantee

(Dollars in Billions)

	2015-16	2016-17	2017-18	2018-19	2019-20
Amount	\$66.3	\$68.8	\$71.1	\$71.9	\$73.7
Change	5.1%	3.8%	3.4%	1.1%	2.4%

Budget Reserve's Proposition 98 Provisions

- **Makes Deposits When Capital Gains Revenues Strong**
- **Makes Withdrawals When Guarantee Insufficient to Fund Growth and COLA**
- **Intent to Stabilize Funding Laudable**
- **Formula Unlikely to Have Significant Effect in Near Term**

Overall View of Education Budget

- **Focuses Ongoing Spending on LCFF**
- **Appropriate Mix of One-Time and Ongoing Spending**
- **Bold Approach on CalSTRS**

**Visit the LAO website at:
www.lao.ca.gov**