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**C.A.S.H. WORKSHOP:
State Budget and Federal Funding
Update for K-12 School Facilities**

Tuesday, January 26, 2010

1:00 p.m. to 3:30 p.m.

Doubletree Hotel

2001 Point West Way

Sacramento, California

**State Budget Update:
Another Year, Another Crisis**

DAVID WALRATH

Murdoch, Walrath & Holmes

CALIFORNIA'S COALITION *for* ADEQUATE SCHOOL HOUSING

1130 K Street, Suite 210 • Sacramento, CA 95814 • Phone (916) 448-8577 • Fax (916) 448-7495 • www.cashnet.org

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State Budget Update Another Year, Another Crisis

By David L. Walrath

How Did We Get Here?

Actions Taken to “Lower” Proposition 98 Base by \$20.858 Billion 2002-2010

<u>2001-02</u>	\$2.2 Billion Total		
	➤ \$583 Million (Mid-Year Reductions) (High Priority School Grants, Teaching as A Priority Block Grants, Certificated Staff Performance Awards, Energy Grants, 9 th Grade CSR, Cal-Safe)		February 2002
	➤ \$503 Million (Prior-Year Reversions) Backfill of Adult Education Reductions		June 2002
	➤ \$1.124 Billion (Categorical Deferrals)		June 2002
<u>2002-03</u>	\$2.61 Billion Total		
	➤ \$1.3 Billion (June Apportionment Deferral)		March 2003
	➤ \$460 Million (K-12 Funding Reductions)		May 2003
	➤ \$734 Million (K-12 Prior-Year Reversions to Backfill Cuts)		June 2003
<u>2003-04</u>	\$1.468 Billion		
	➤ \$1.048 Billion (Prior-Year Reversions to fund Deferral)		June 2004
	➤ \$341 Million (Prior-Year Reversions to Fund TIG Grants and Child Care)		June 2004
	➤ \$127 Million (New Federal IDEA Funds to backfill reduced State Special Education contribution)		June 2004



Source: State Spending Plans (2002-03, 2003-04, 2004-05, 2007-08 and 2008-09), Legislative Analyst's Office

Actions Taken to “Lower” Proposition 98 Base by \$20.858 Billion 2002-2010

<u>2007-08</u>	\$507 Million		
	➢ \$211 Million in Current-Year Reversions		February 2008
	➢ \$295.4 Million in Prior-Year Reversions		February 2008
<u>2008-09</u>	\$ 9.513 Billion		
	➢ \$2.3 Billion (RL/Categorical Reduction and COLA rescission)		February 2009
	➢ \$3.244 Billion (February RL/CSR/CC and June Apportionment Deferrals)		February 2009
	➢ \$1.1 Billion (Use of Prior-Year Prop. 98 “Settle-Up”)		February 2009
	➢ \$619 million (Home-to-School Funding Swap)		February 2009
	➢ \$150 million (prior-year reversions and child care cuts)		February 2009
	➢ \$2.1 billion (Revenue Limits: unallocated categoricals and QEIA)		
<u>2009-10</u>	\$4.56 Billion		
	➢ \$2.1 billion (K-12 Revenue Limits)		July 2009
	➢ \$.580 million (Community Colleges)		July 2009
	➢ \$80 million (Basic Aid District “Fair Share” Cut to Categoricals)		July 2009
	➢ \$1.8 billion (April and May RL/CC Apportionment Deferrals)		July 2009



Source: State Spending Plans (2002-03, 2003-04, 2004-05, 2007-08 and 2008-09), Legislative Analyst's Office

K-12 Revenue Deferrals

- Revises the K-12 School Payment Schedule
 - Changes the scheduled flow of all state payments to K-12 Local Education Agencies (LEAs) to 5% in July, 5% in August, and 9% each month thereafter (September through June).

K-12 Revenue Deferrals

- Enacts K-12 Inter-Year Payment Deferrals
 - Authorizes a \$1.7 billion deferral of K-12 principal apportionment payments to LEAs from 2009-10 to 2010-11.
 - Commencing in 2009-10, this includes \$678.6 million in April payments and \$1.0 billion in May payments that will be shifted to August of the next fiscal year.

Overview – 2010-11 Governor's Budget Proposal in Context

Economic Indicators

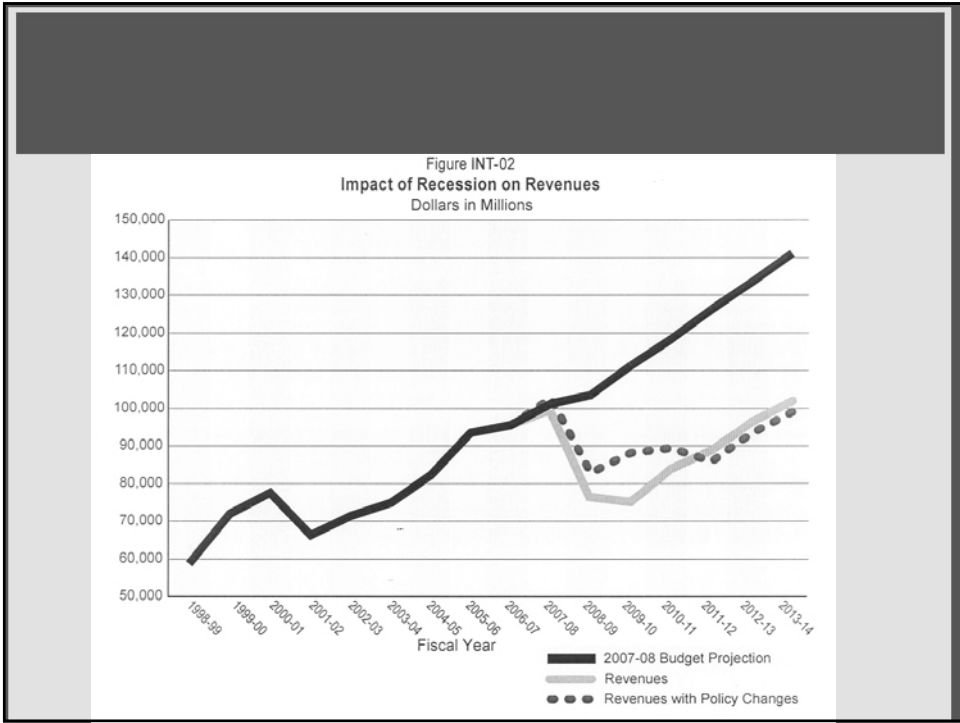
- The outlook for the California economy is modest growth in 2010 followed by moderate growth in 2011 and good growth in 2012:
 - Personal income is projected to grow 2.4 percent in 2010, 3.6 percent in 2011, and 4.8 percent in 2012, as compared to falling by 2.8 percent in 2009 and the 5.6-percent average growth rate from 1988 to 2008.
 - Nonfarm payroll employment is forecast to fall by 0.7 percent in 2010 and grow by 1.3 percent in 2011 and 1.9 percent in 2012, as compared to falling by 5.6 in 2009 and the 1.3-percent average growth rate from 1988 to 2008.

Selected Economic Data for 2009, 2010 and 2011

California			
Civilian labor force (thousands)	18,531.2	18,638.0	18,886.0
(percent change)	0.8	0.6	1.3
Civilian employment (thousands)	16,382.2	16,396.8	16,764.7
(percent change)	(4.0)	0.1	2.2
Unemployment (thousands)	2,149.1	2,241.2	2,121.3
(percent change)	61.3	4.3	(5.3)
Unemployment rate (percent)	11.6	12.0	11.2
Nonfarm wage and salary employment (thousands)	14,158.2	14,063.1	14,239.5
(percent change)	(5.6)	(0.7)	1.3
Personal income (billions)	1,559.0	1,597.2	1,654.8
(percent change)	(2.8)	2.4	3.6
Housing units authorized (thousands)	36.3	60.8	101.0
(percent change)	(43.8)	67.3	66.1
Corporate profits before taxes (billions)	145.2	163.8	177.2
(percent change)	(12.8)	12.8	8.2
New auto registrations (thousands)	1,116.9	1,292.8	1,357.0
(percent change)	5.3	15.7	5.0
Total taxable sales (billions)	447.4	456.0	496.2
(percent change)	(15.6)	1.9	8.8
Consumer price index (1982-84=100)	224.4	229.9	235.7
(percent change)	(0.2)	2.5	2.6

* CW: Chain Weighted

Note: Percentage changes calculated from unrounded data



State Budget with a \$19.9 Billion Hole for Jan. 1, 2009 to June 30, 2011

Summary of Problem from Department of Finance (Dollars in billions)

Category	Amount
Projected 2010-11 Beginning Shortfall	\$6.9
Revenue Decline	\$3.4
Federal and State Court Litigation	\$4.9
Erosions of Other Previously Enacted Solutions	\$2.3
Other Population and Caseload Growth	\$1.4
Subtotal, Projected Shortfall	\$18.9
Rebuild \$1 Billion Reserve	\$1.0
Total Projected Problem	\$19.9

Figure SUM-01
2010-11 Governor's Budget
General Fund Budget Summary
Budget Before Solutions
(Dollars in Millions)

	2009-10	2010-11
Prior Year Balance	-\$5,855	-\$5,054
Revenues and Transfers	\$88,005	\$90,323
Total Resources Available	\$82,150	\$85,269
Non-Proposition 98 Expenditures	\$51,651	\$64,961
Proposition 98 Expenditures	\$35,553	\$37,630
Total Expenditures	\$87,204	\$102,591
Fund Balance	-5,054	-17,322
Reserve for Liquidation of Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$6,591	-\$18,859
Budget Stabilization Account	-	-
Total Available Reserve	-\$6,591	-\$18,859

State General Fund Revenues (In Millions)

	2008-09 Actual	2009-10 Estimate	2010-11 Forecast
Legislative Analyst November 2009	\$83,601	\$88,090	\$87,793
Budget Act July 2009	\$84,097	\$89,541	\$91,277
Governor's Budget	\$82,772	\$88,083	\$89,322

Figure SUM-02
2010-11 Governor's Budget
General Fund Budget Summary
With All Proposed Budget Solutions
(Dollars in Millions)

	<u>2009-10</u>	<u>2010-11</u>
Prior Year Balance	-\$5,855	-\$3,863
Revenues and Transfers	<u>\$88,084</u>	<u>\$89,322</u>
Total Resources Available	\$82,229	\$85,459
Non-Proposition 98 Expenditures	\$51,432	\$46,811
Proposition 98 Expenditures	<u>\$34,660</u>	<u>\$36,090</u>
Total Expenditures	\$86,092	\$82,901
Fund Balance	-3,863	2,558
Reserve for Liquidation of Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$5,400	\$1,021
Budget Stabilization Account	-	-
Total Available Reserve	-\$5,400	\$1,021

Governor's Proposed Solutions

Summary Chart of Governor's Budget Proposal
(Dollars in millions)

Category	2009-10	2010-11	Total
Expenditure Reductions	\$1,034	\$7,475	\$8,509
Federal Funds	\$8	\$6,905	\$6,913
Alternative Funding	\$150	\$3,736	\$3,886
Fund Shifts and Other Revenues	\$0	\$572	\$572
Total Solutions	\$1,192	\$18,688	\$19,880

Proposition 98

- Proposition 98 Budget Solution:
 - Contributes \$2.4 billion in state budget solution
- Proposition 98 Funding:
 - Stays virtually flat year over year (from 2009-10 to 2010-11)
- Proposition 98 Program:
 - K-12 program is reduced by \$340 million in 2009-10 and \$1.9 billion in 2010-11. Special session action proposed to achieve current year savings

Proposition 98

- The Governor's plan has three major proposals that together achieve \$2.4 billion in Proposition 98 General Fund budget solutions across 2009-10 and 2010-11:
 - Modifies 2008-09 Proposition 98 budget (roughly \$1.9 billion *savings*)
 - No longer attributes Proposition 42 gas tax revenues toward Proposition 98 (roughly \$800 million *savings*)
 - Does not shift redevelopment agency revenues to schools in 2010-11 (roughly \$300 million *cost*)

Proposition 98 (K-14) (In Billions)
(State and Local Funding)

	2008-09 Actual	2009-10 Estimate	2010-11 Forecast
Legislative Analyst	\$49.1	\$51.4	\$51.0
Governor's Budget	\$49.0	\$49.9	\$50.0
	Δ \$1.1	Δ \$1.5	Δ \$1.0

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

	2008-09	2009-10	2010-11
Cost-of-Living	5.66%	4.25%	-0.38%
Deficit Factor	7.84%	18.36%	18.41%

2009-10 Per ADA Revenue Limit

(Average)

	Statutory After Inflation	Funded	Difference
Elementary	\$6,133	\$5,008	-\$1,125
Unified	\$6,411	\$5,234	-\$1,177
High School	\$7,369	\$6,017	-\$1,352

School District Revenue Limit Per ADA 2010-11

	Statutory	Funded* (est)	Difference
Elementary	\$6,110	\$4,985	-\$1,125
Unified	\$6,387	\$5,210	-\$1,177
High School	\$7,341	\$5,989	-\$1,352

**Prior to proposed Administration reduction of \$1.2 billion for school operations savings and \$300 million for contracting out savings.*

Capital Outlay Budget (in billions)

	2008-09	2009-10	2010-11
K-12	\$3.97	\$1.63	\$0.68
C.C.	0.27	0.59	0.34
U.C.	0.07	0.35	0
CSU	0.06	0.15	0.08

Capital Outlay Provisions

- No proposed school bond
- May Revision will propose post-secondary funding change
- LAO will make recommendations in February

Maintenance Provisions

- No Relief for Maintenance
 - 3% Contribution
 - Consolidated Deferred Maintenance
 - *Williams* (\$51 million in 2010-11 for 2008-09)
 - Contracting Out
 - Cut Administration Including Maintenance
 - \$275 Per ADA Cut

2010 Budget Themes

- Let the Feds pay
- Take the \$ now and get out before litigation
- Kick can down the road to the next Governor
- Ask the Legislature to give what the voters rejected
- No new general taxes, but special taxes, fees, ticket revenues, etc. are OK

2010 Budget Themes

- Kick the can down the road to the next Governor
- Embarrass the Democrats by increasing UC and CSU funding
- Make sure savings from state employees compensation keeps at \$1.4 billion or more
- Count savings from law changes that are very unlikely to occur
- Kick the can down the road to the next Governor

Possible Relief?

- Parcel Taxes – June and November
- Proposition 39 Bonds
- Federal Funds

Contact Information

David L. Walrath

Murdoch, Walrath & Holmes

1130 K Street, Suite 210

Sacramento, CA 95814

Phone: 916.441.3300

Fax: 916.441.3893

dwalrath@m-w-h.com

www.m-w-h.com