

CALIFORNIA BUDGET PROJECT

Education Finance:

How California's Budget Crises Affect Schools

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A PRESENTATION BY JONATHAN KAPLAN
THE CALIFORNIA BUDGET PROJECT
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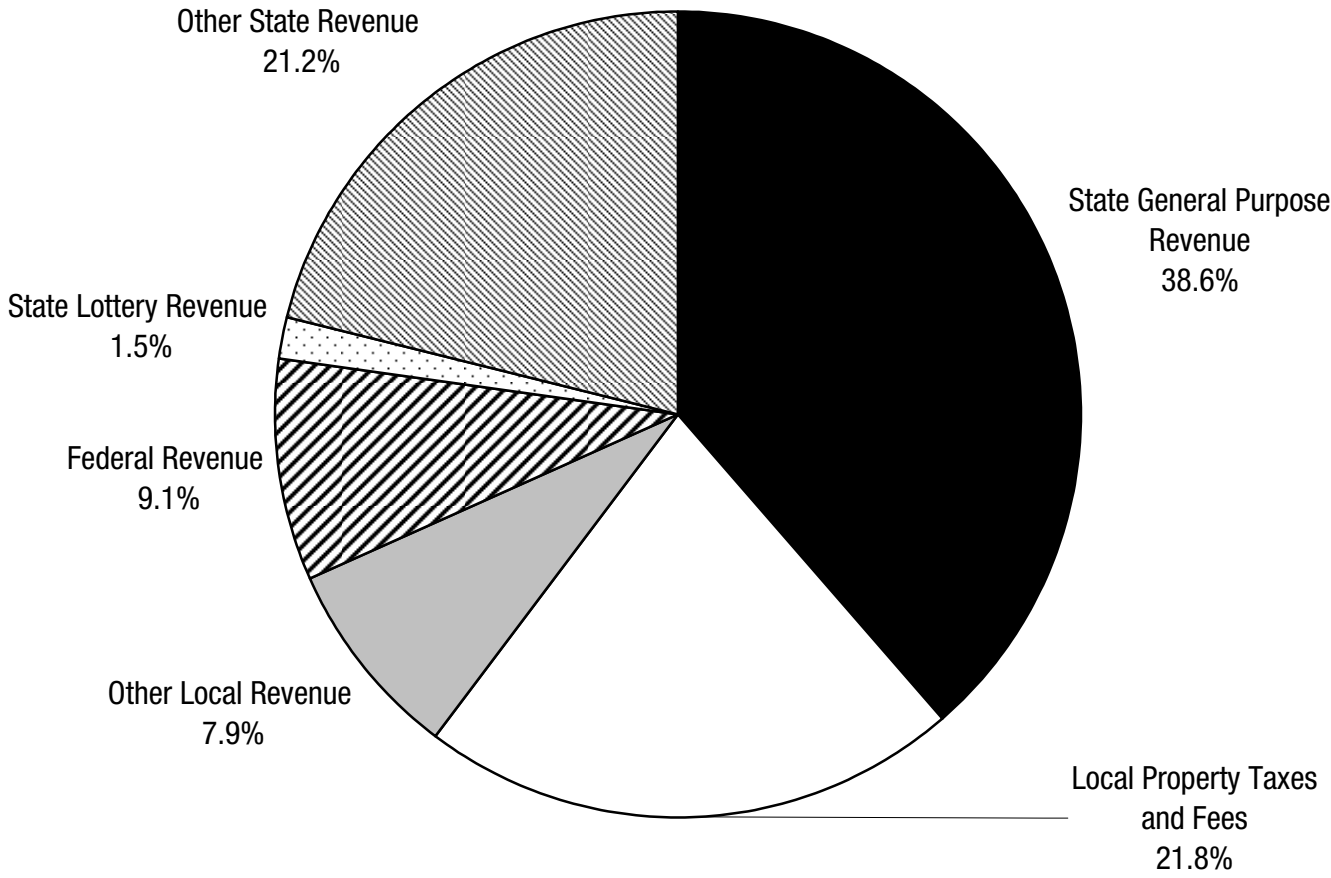
Why Does Education Finance Matter?

- The state spends approximately 40 percent of its General Fund budget on K-12 education.
- There are more than six million K-12 students in the state.
- Education is critical to the future of all Californians.
- The state budget depends on effective management of education finance.

Why Schools Are Feeling the State Budget Crunch

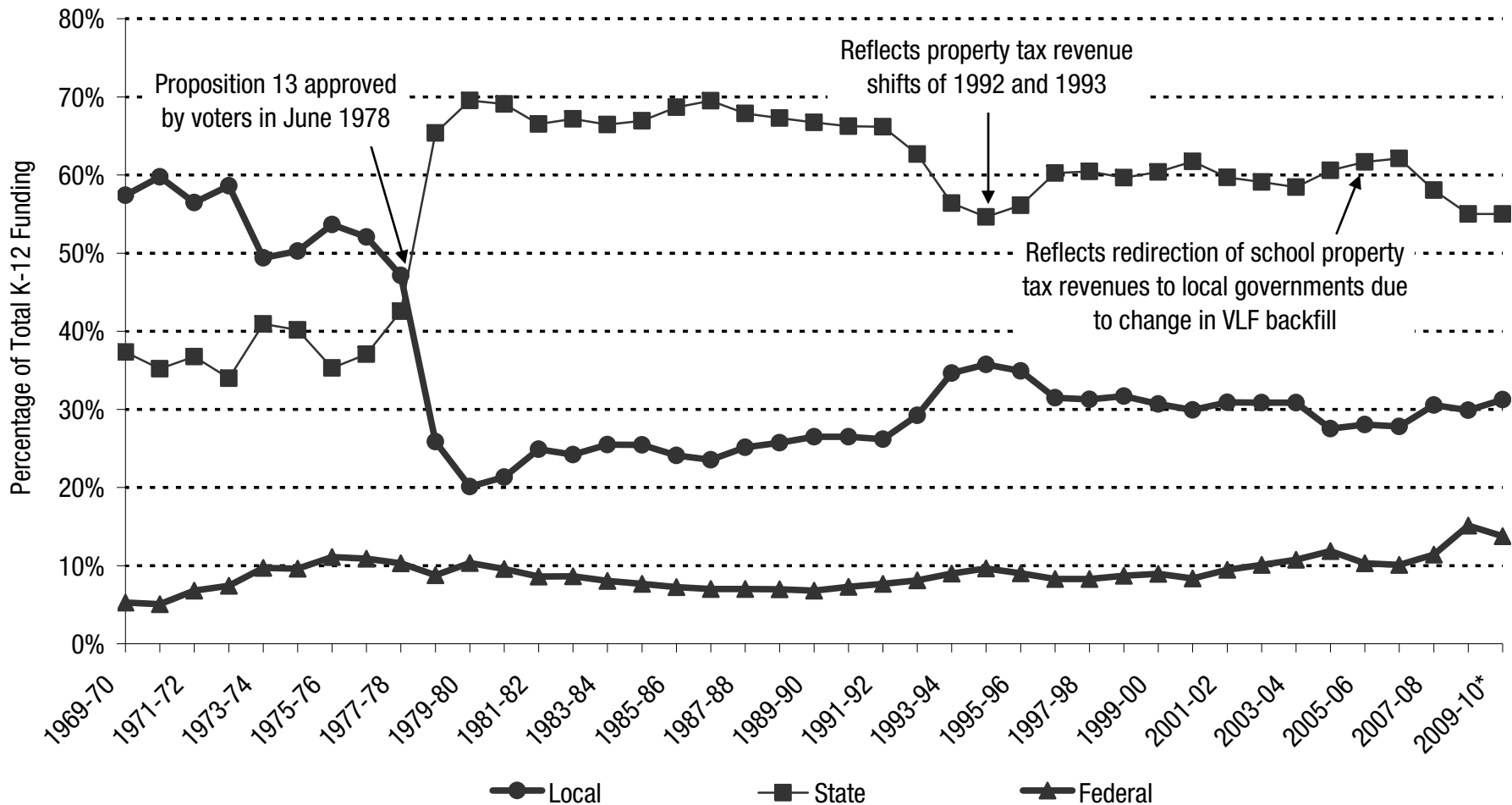
- Well over half of school revenues come from the state.
- The state spends the largest share of its General Fund budget on K-12 education.

School Districts Received More Than Half of Their Revenues From the State in 2007-08



Note: Excludes special revenue funds, capital project funds, debt service funds, proprietary funds, fiduciary funds, and other financing sources. Percentages do not sum to 100 due to rounding.
Source: California Department of Education

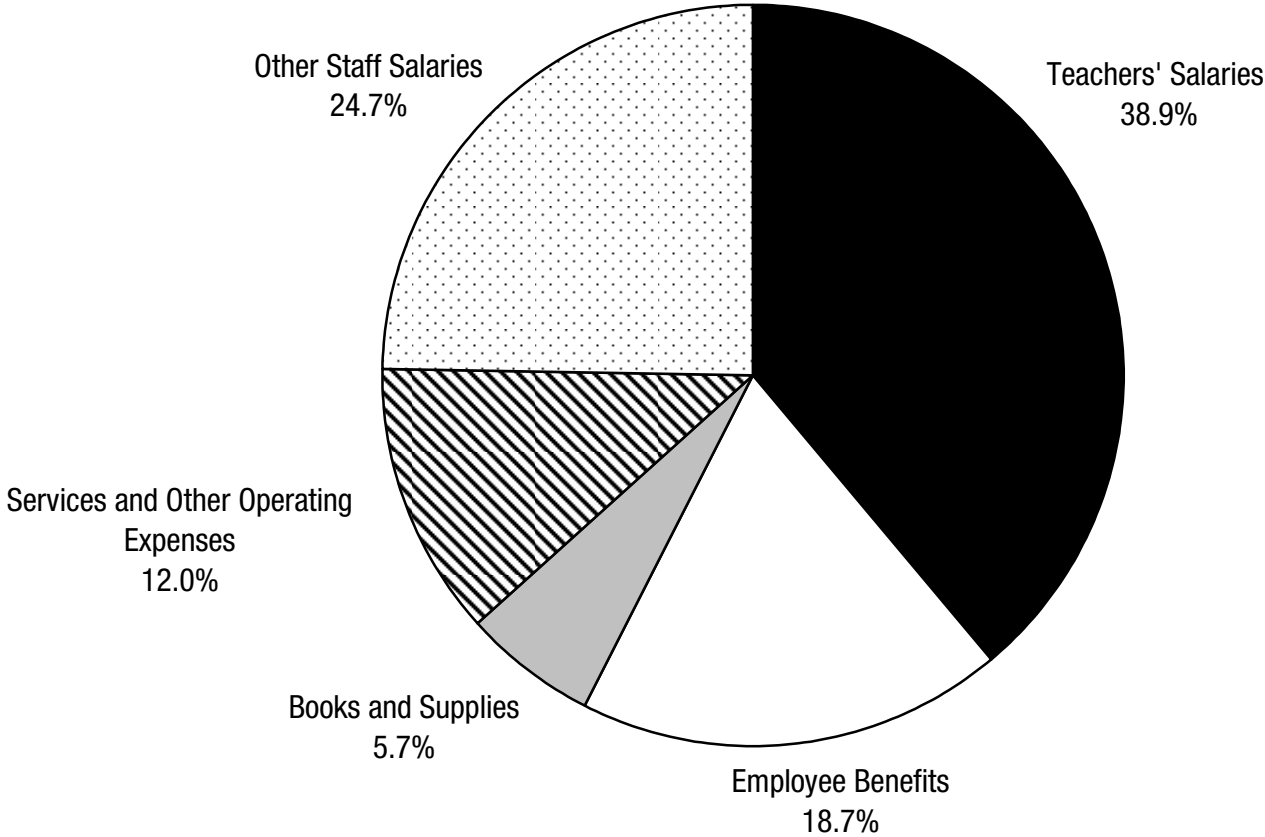
After 1977-78, California's K-12 Schools Received a Larger Share of Funds From the State and a Smaller Share From Local Property Tax Revenues



* 2009-10 estimated.

Source: National Education Association

More Than Four-Fifths of Statewide Spending for Schools Supported Salaries and Benefits in 2007-08



Note: Excludes spending from special revenue funds, capital project funds, debt service funds, proprietary funds, and fiduciary funds.
Other Staff Salaries includes counselors, instructional aides, clerical staff, supervisors, and administrators.

Source: CBP analysis of California Department of Education data

The Governor's Budget Proposals

- The Governor's Proposed 2010-11 Budget addresses a budget gap of \$18.9 billion that consists of:
 - A \$6.6 billion gap for the remainder of 2009-10.
 - A \$12.3 billion gap in 2010-11.

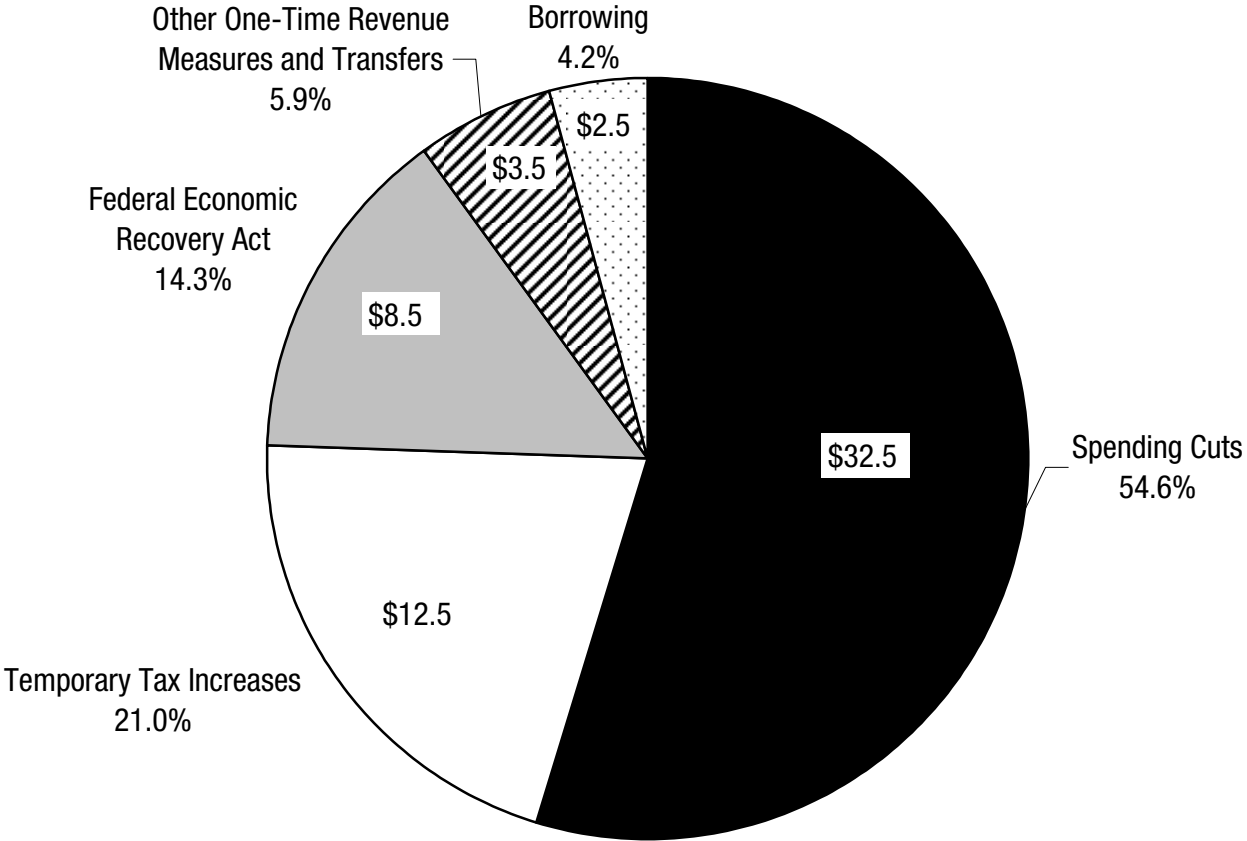
The Big Picture

- California once again faces a budget shortfall of significant magnitude. While smaller in dollar and percentage terms, the \$18.9 billion gap in the 2009-10 and 2010-11 budgets may be even more difficult to close due to “solutions” to prior crises that impose future costs, earmark revenues, and otherwise limit options for balancing the budget.
- The current shortfall is largely due to continued weakness in the economy, as well as the failure to achieve “solutions” contained in recent budget agreements.
- The Governor proposes to close the gap with deep cuts in education, health and human services programs, and state employee compensation, as well as with federal dollars.

Where We've Been

- California faced a \$59.5 billion budget shortfall in the 2008-09 and 2009-10 fiscal years. This gap was closed through a combination of spending cuts, temporary tax increases, federal funds, and other measures.
- Current year General Fund spending is over \$18 billion lower than it was just two years ago and is \$21.5 billion lower than was projected in 2004 based on a continuation of policies and programs in effect as of that year. Spending is below forecast levels in nearly all areas of the budget except corrections and infrastructure.
- Revenues are also down relative to previously forecasted levels due to the “Great Recession,” but have not fallen as steeply as has spending.

How Was the Budget Balanced in 2009? (Dollars in Billions)



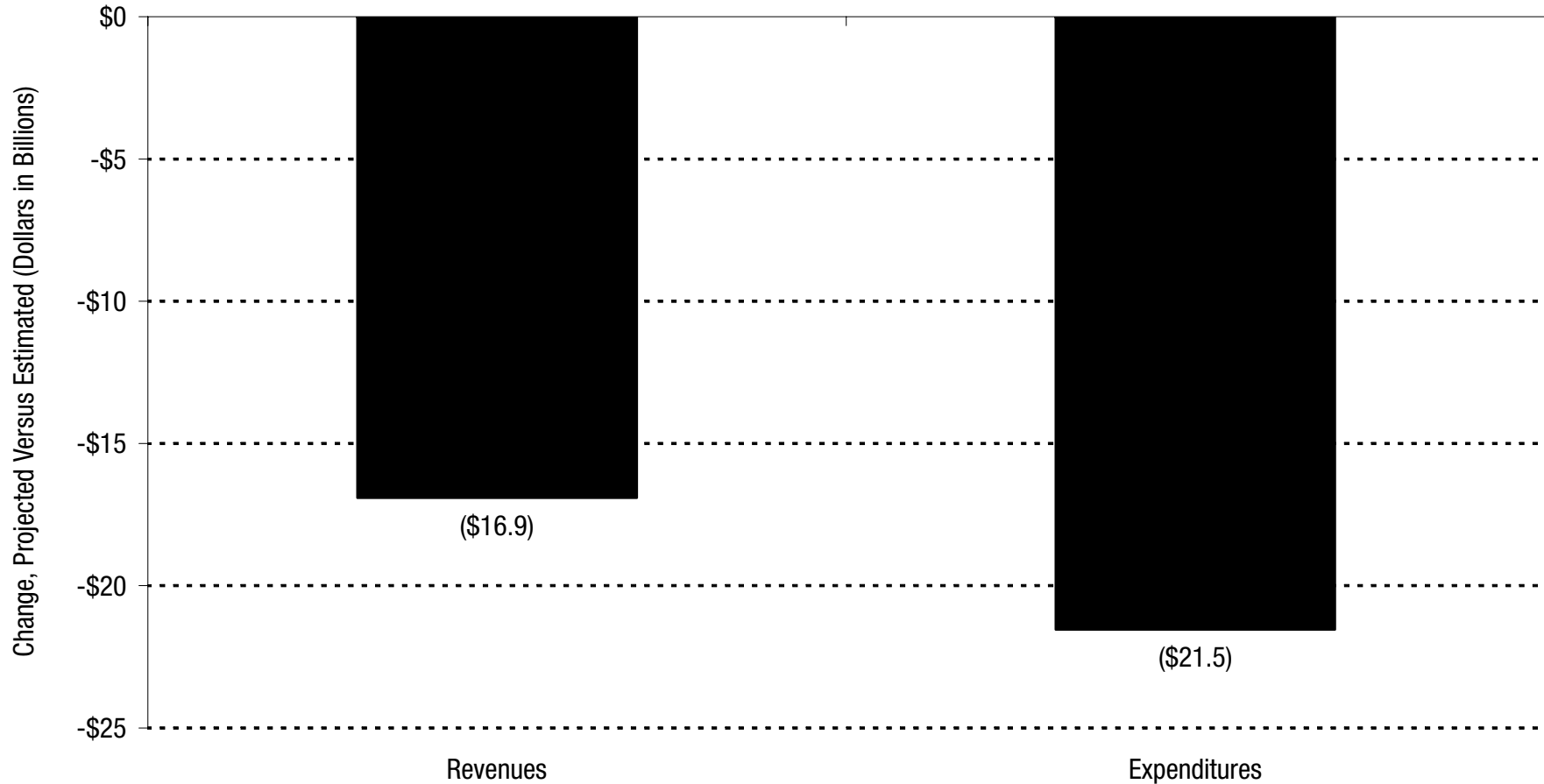
Total Solutions = \$59.5 Billion

Note: Includes February and July 2009 budget agreements.
Source: Legislative Analyst's Office

General Fund Revenues and Spending Both Are Significantly Below Projected Levels

2009-10 General Fund Revenues and Expenditures as Projected in November 2004

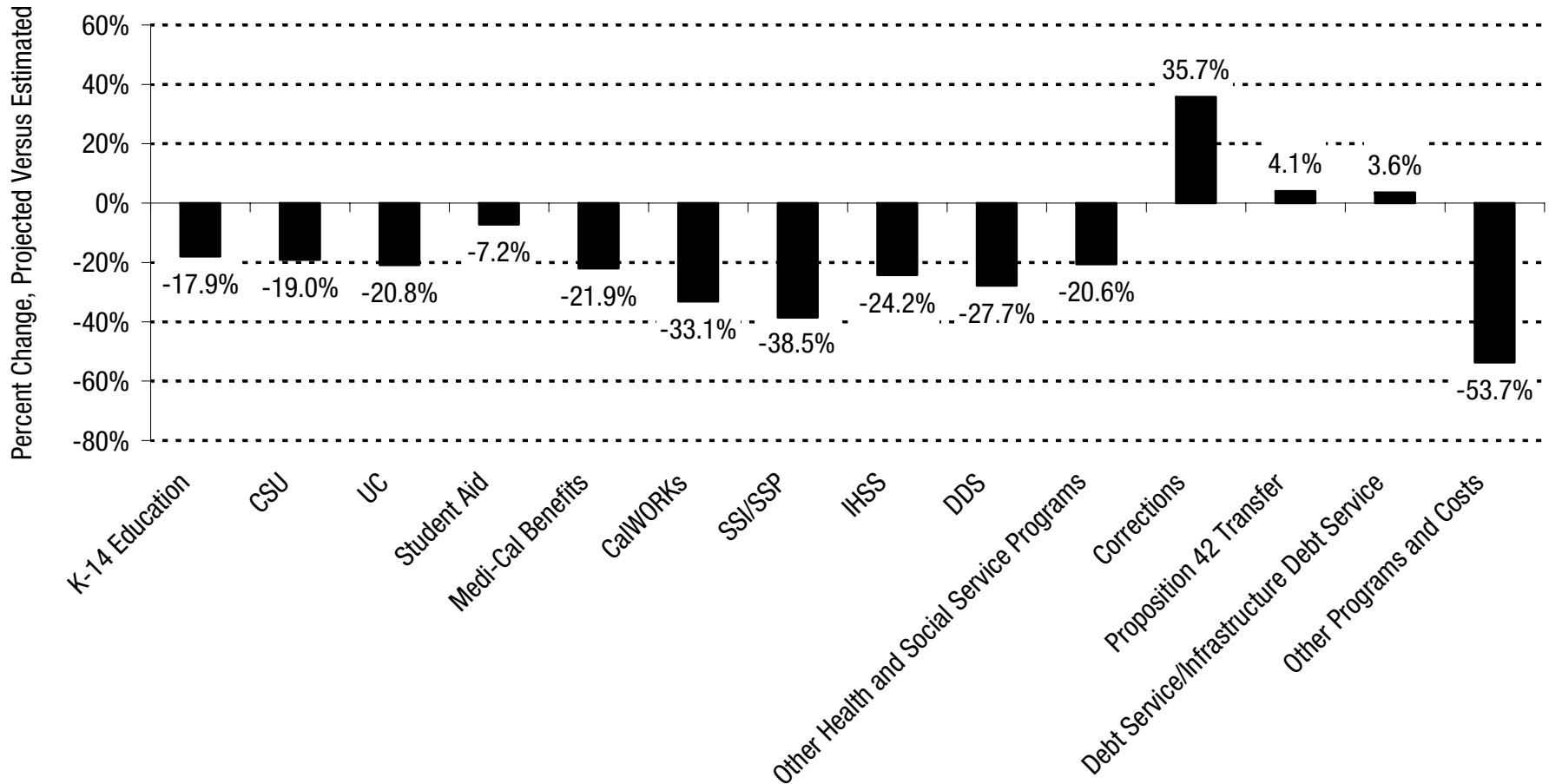
Compared to 2009-10 as Estimated in November 2009



Growth in Corrections and Infrastructure Spending Have Exceeded Projected Levels

2009-10 General Fund Expenditures as Projected in November 2004

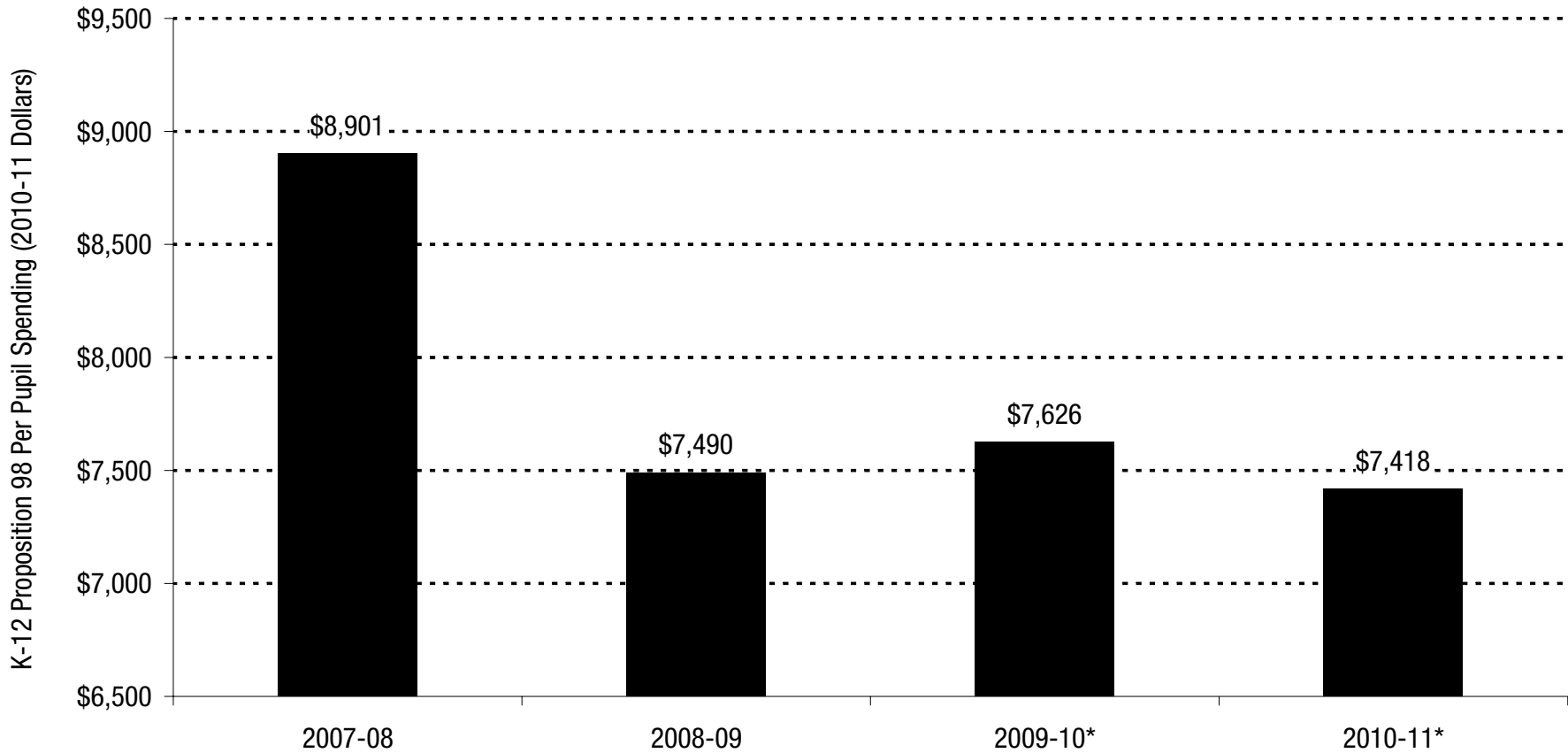
Compared to 2009-10 Expenditures as Estimated in November 2009



The Governor Proposes Deep Cuts to Public Education

- The Governor proposes to:
 - Reduce spending on K-14 education to the minimum level required based on the Governor's assumptions, a reduction of \$2.4 billion in 2009-10 and 2010-11 combined.
 - Reduce 2010-11 general-purpose funding for school districts and county offices of education by \$1.5 billion and reduce 2010-11 general-purpose and categorical funding for school districts and county offices of education by \$229.5 million due to lower average daily attendance, retirement costs, and cost-of-living adjustments.
 - Reduce funding for the K-3 Class Size Reduction Program by \$340 million in 2009-10 and by \$550 million in 2010-11.

Schools Would Receive Nearly \$1,500 Per Student Less in 2010-11 Than in 2007-08 Under the Governor's Proposals, After Adjusting for Inflation

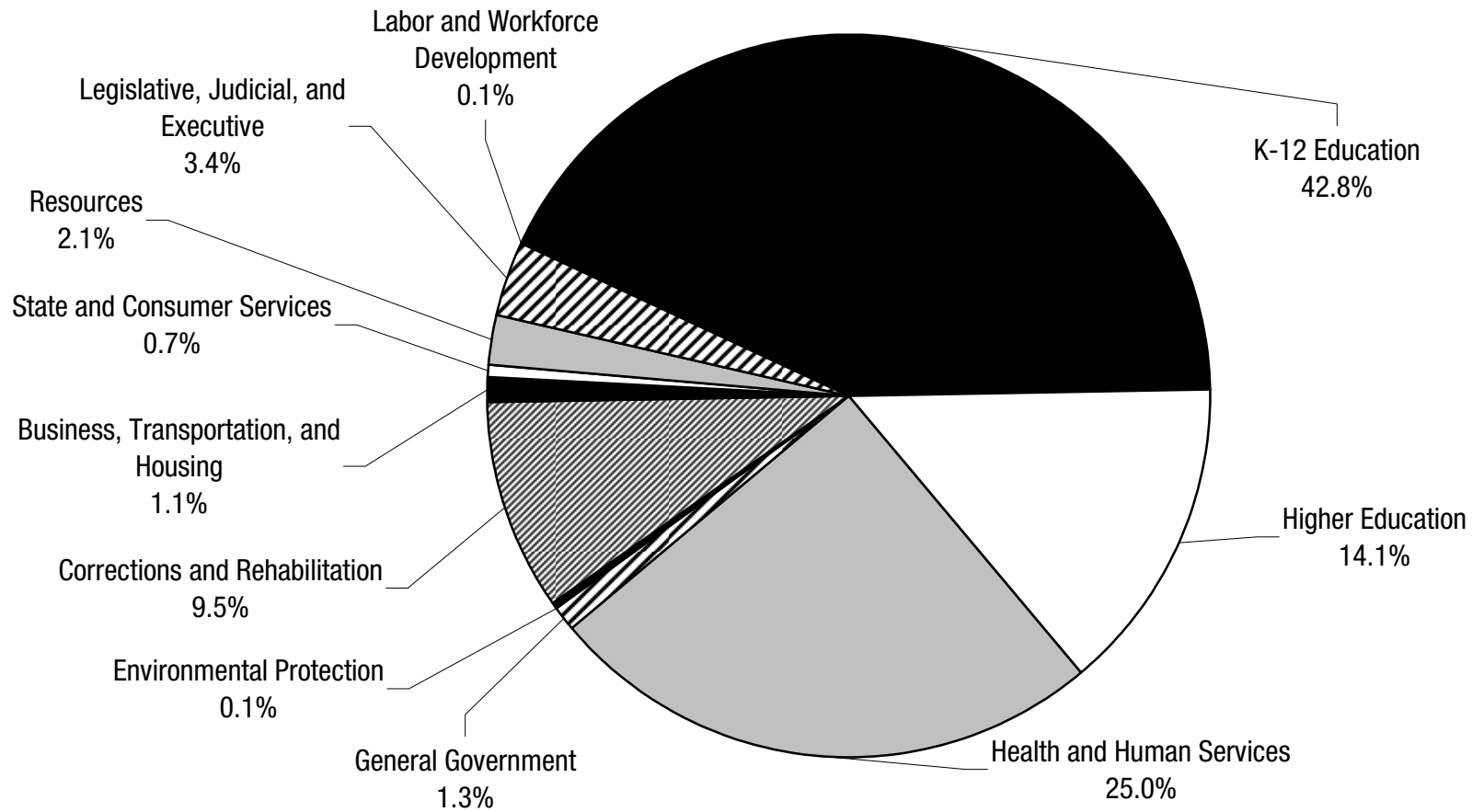


* 2009-10 estimated and 2010-11 proposed.

Source: Legislative Analyst's Office

Education Accounts for the Largest Share of 2010-11 Spending

General Fund Spending by Agency

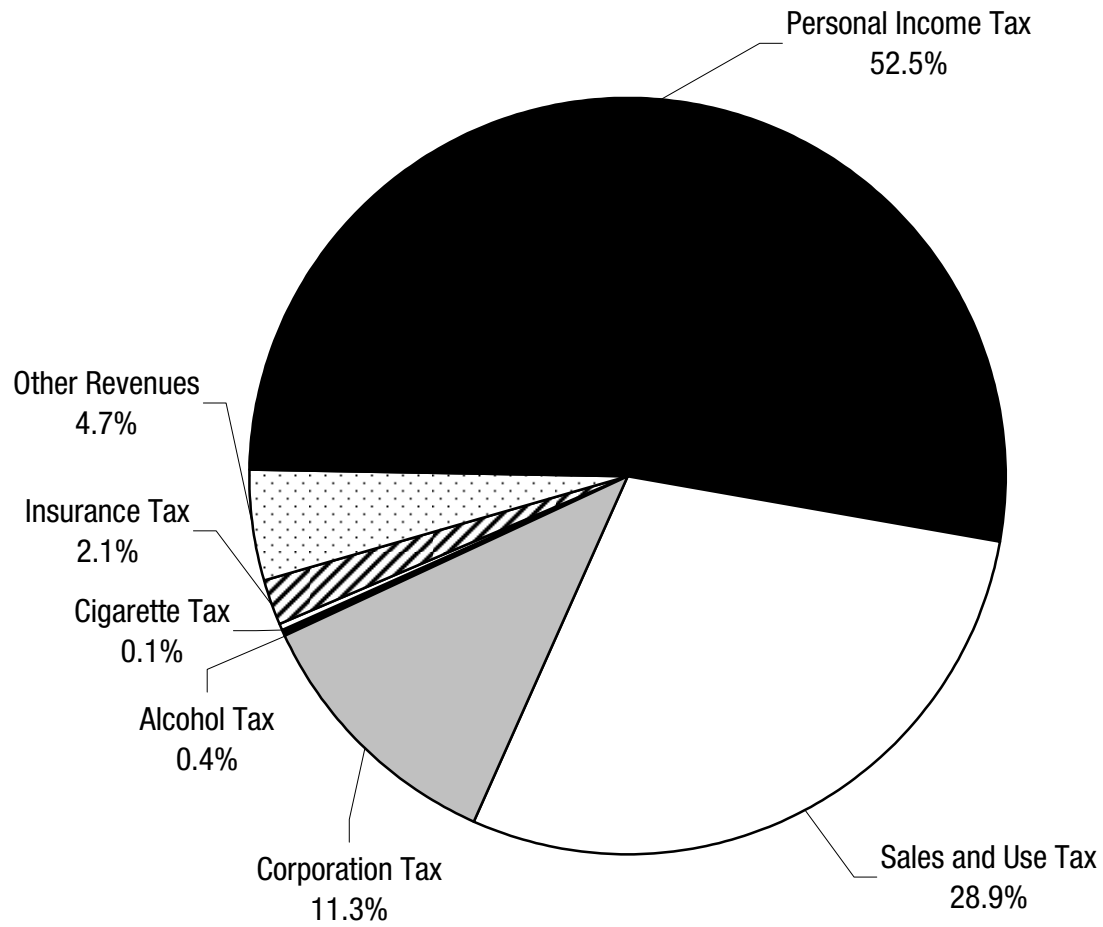


2010-11 Proposed General Fund Expenditures = \$82.9 Billion

Note: General Government expenditures exclude \$1.207 billion in unallocated reductions.

Source: Department of Finance

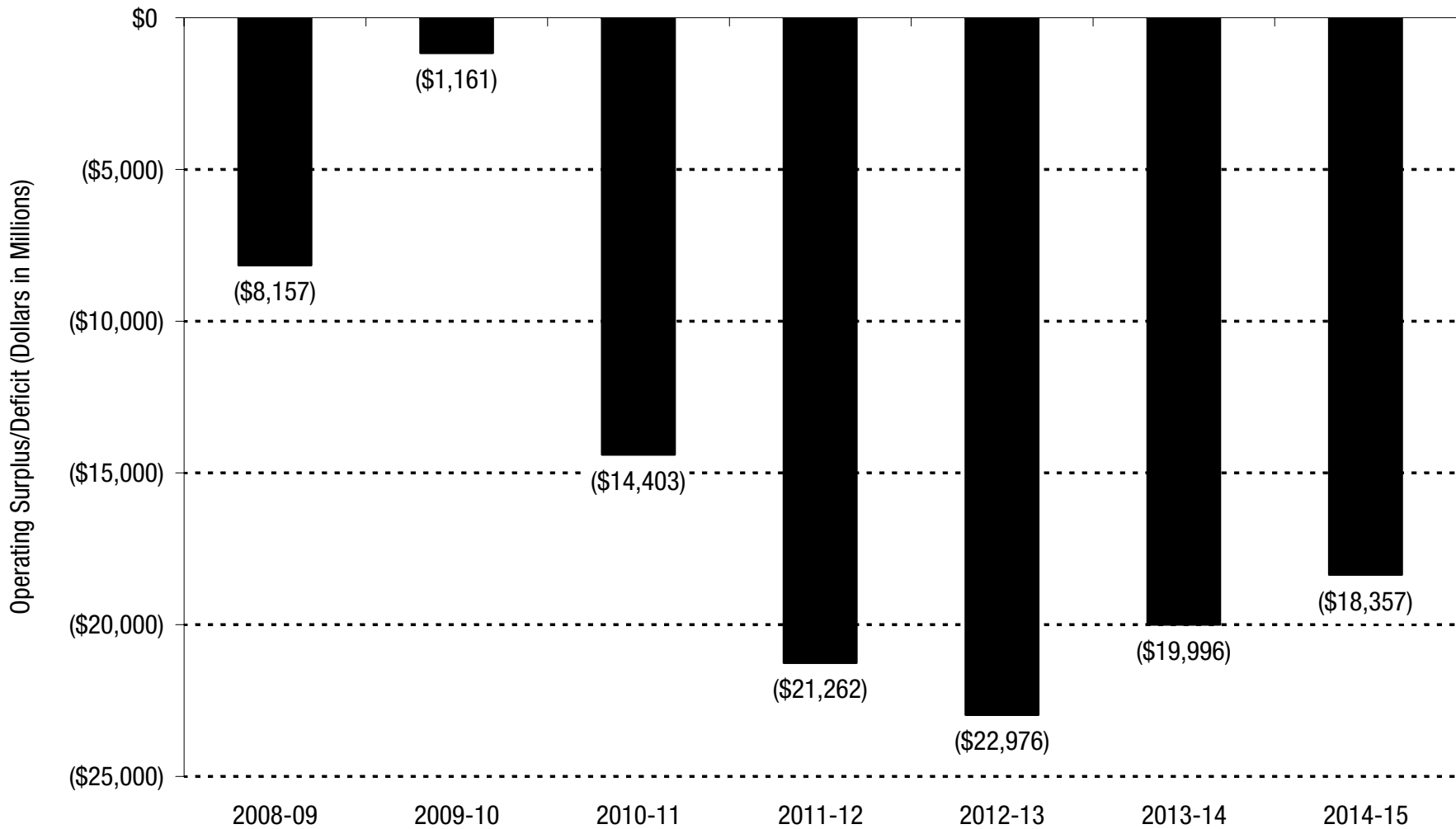
The Personal Income Tax Provides More Than Half of 2010-11 General Fund Revenues



Projected 2010-11 General Fund Revenues = \$89.3 Billion

Note: Includes loans and transfers.
Source: Legislative Analyst's Office

Significant Budget Shortfalls Are Expected To Continue



Note: 2008-09 and 2009-10 are estimated; 2010-11 through 2014-15 are projected.

Source: Legislative Analyst's Office

California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.

Source: National Conference of State Legislatures