

The FISCAL REPORT an informational update

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LAO Weighs In on All-Cuts Budget

Although the Governor has been careful not to lay out a specific plan for what happens to his Budget proposals if the tax extensions are not approved by the Legislature or the voters, Senator Mark Leno (D-San Francisco), Chair of the Senate Budget Committee, requested that the Legislative Analyst's Office (LAO) prepare a list of possible additional cuts that could be made if the tax extensions fail. The LAO responded to Senator Leno with a list totaling \$13.5 billion in additional cuts over and above the \$12.5 billion already proposed by the Governor. Senators Leno and Steinberg, the Senate President pro Tem, decided that the voters should be informed as to the possible ramifications of an all-cuts Budget and have released the LAO's response.

We caution readers that the LAO list is in response to specific carefully crafted questions and has not been proposed by the Governor or by the Legislature. At present, it is an "information piece" that spells out what is possible without relying upon voter approval. There are a lot of assumptions built into the list, not the least of which is that the Legislature, which to date has made only minor cuts to the noneducation side of the Budget, would adopt \$12.5 billion in cuts proposed by the Governor and then consider an additional \$13.5 billion if the tax revenues are not extended.

Nonetheless, we want to report the cuts suggested by the LAO. If enacted, education would again take heavy cuts, but the K-14 cuts would be taken in very specific ways. Many of the revenues losses would be at least partially offset by cost savings.

Recall that the Governor's proposal is to flat fund K-12 education if the taxes are extended. If the taxes are not extended, and Proposition 98 is suspended by a two-thirds vote of the Legislature, the LAO included the following cuts in its list of reductions to education that the Legislature could make without relying on voter approval:

Additional K-14 Education Budget Actions	
<i>General Fund Benefit (In Millions)</i>	
	2011-12
Proposition 98	
K-12 Education	
Eliminate K-3 Class-Size Reduction	\$1,275

Reduce K-12 general purpose funding by 2.2 percent	813
Change kindergarten start date beginning in 2011-12	700
Eliminate state support for Home-to-School Transportation	500
Require use of Economic Impact Aid (EIA) reserves	350
Reduce state categorical funding for basic aid districts and counties	200
Reduce EIA by 20 percent	190
Adopt LAO K-14 mandate package	50
Eliminate 2011-12 overbudgeting for Charter School Facility Program	<u>25</u>
Subtotal-K-12 Education	(\$4,103)
Community College Colleges (CCC)	
Establish a 90-unit cap on each student's taxpayer-subsidized credits	\$250
Adopt additional fee increase (taking fees to \$66 per unit)	170
Reduce funding for credit basic skills instruction to the rate provided for noncredit basic skills	125
Eliminate state subsidy for intercollegiate athletics	55
Eliminate state funding for repletion of credit physical education (PE) and Fine-arts ("activity") classes	55
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	<u>30</u>
Subtotal-CCC	<u>(\$685)</u>
Total Proposition 98	\$4,788

Non-Proposition 98	
Suspend or eliminate Quality Education Investment Act	\$450
Eliminate General Fund support for the Summer School for the Arts	<u>1</u>
Total Non-Proposition 98	<u>\$451</u>
Total, K-14 Education	\$5,239
Source: California Legislative Analyst's Office	

Higher Education Budget Actions^a	
<i>General Fund Benefit (In Millions)</i>	
	2011-12
UC and CSU Reductions	
Reduce personnel costs by 10 percent at UC and 5 percent at CSU	\$408
Reduce UC and CSU current-year augmentation by one-half (one-time savings)	361
Increase tuition another 7 percent of UC and 10 percent for CSU ^b	270
Score approved tuition increases: 8 percent for UC and 10 percent for CSU	263
Reduce UC and CSU operating expense and equipment funding by 5 percent	215
Reduce General Fund support for UC and CSU organized research by one-half	134
Reduce CSU enrollment: by 5 percent	124

Reduce nonfederal support for UC and CSU public service by one-half	58
Eliminate UC General Fund support for Drew University	9
Eliminate supplemental funding of UC Merced	<u>5</u>
Subtotal	(\$1,847)
Financial Aid Reductions	
Reduce UC and CSU institutional financial aid by 5 percent	\$74
Limit Cal Grant income eligibility (using federal formula)	60
Limit competitive awards to stipends only	30
Eliminate non-need-based fee waivers	25
Raise minimum Cal Grant grade point average	<u>20</u>
Subtotal	<u>\$209</u>
Total	\$2,056
<p>^a Amount listed include an allocation of the Governor's \$1 billion reduction for the universities, as well as \$1.1 billion of additional reductions (as listed under the "Higher Education" section of Figure 1) to balance the budget under the parameters of this Member request.</p> <p>^b General Fund savings are net of increased Cal Grant costs and institutional aid set-aside. Source: California Legislative Analyst's Office</p>	

The list of possible cuts to K-14 education totals \$5.2 billion below the Governor's January proposals. Higher education cuts total another \$1 billion beyond the cuts proposed in January. The items outlined above represent substantial cuts to education, already the hardest hit area of the Budget. But the cuts to the noneducation side of the Budget, taken in addition to the \$12.5 billion already proposed by the Governor would, for the first time since the recession began, be equally hard hitting.

This is not the first time the LAO has proposed suspension of Proposition 98 and deeper cuts to education. In fact, an earlier LAO report issued last month suggested that since education had not planned on the increase provided in the 2010-11 State Budget enacted in October, the Legislature could cut that funding without harm to public education. The LAO's response to Senator Leno cites the extreme difficulty the Legislature would have in enacting these cuts and points out that the list is far beyond the normal comfort

level of the LAO. The LAO suggests that cuts of this magnitude should be viewed, not as recommendations, but as examples of the kinds of cuts that would need to be made if the Legislature felt compelled to adopt an all-cuts Budget.

We might agree with Senators Leno and Steinberg that the voters need to know the alternatives to extending the taxes in order to stimulate support for extension of the taxes. But we would agree more with the Governor's choice not to make the voters feel as if there is a "gun to their heads." In 2009, a former Governor in the same situation offered two very specific plans, one set of cuts if the new taxes passed, the other if the taxes failed. The taxes failed and the former-Governor chose to pursue neither plan. We think the current Administration has been careful not to limit its options, whichever way the election goes.

So, while the LAO's list provides an interesting basis for discussion, we do not regard it as a proposal or even a speculative prediction of things to come. What we do know is that the Governor has made a strong commitment to his version of flat funding for K12 education if the taxes are extended. We believe our energies are better spent doing all that we can to get the taxes extended.

The next 30 days are critical to resolution of the State Budget problem. The state has many options, all of them painful. This will not be the last opinion we hear during that period. We will continue to report developments as they occur.

We do not believe the LAO's list of options rises to a level that requires modification of the planning factors we have recommended for preparation of the Second Interim. We will continue to monitor and assess legislative actions and, if warranted, we stand ready to modify our recommendations, but we are not yet ready to do so.

We encourage all readers to use the list provided and read the entire [LAO response](#). We think the tone of the letter is as important as the content.

As the late Paul Harvey was fond of saying, "Stand by for News!"

—Ron Bennett, Terry Anderson, Robert Miyashiro, and Dave Heckler

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