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## *California State Senate*

COMMITTEE  
ON  
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL  
SACRAMENTO, CA 95814

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April 14, 2011  
9:30 a.m. or Upon adjournment of Session  
State Capitol, Room 4203

## **Budget and Fiscal Review Hearing**

- I. Review of Budget Reductions to K-12 Education
- II. Review of Budget Reductions Higher Education
- III. Public Comment

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**Senate Budget and Fiscal Review Committee Hearing  
April 14, 2011  
9:30 a.m. or  
Upon Adjournment of Session  
State Capitol, Room 4203**

## **Impact of Further Budget Reductions on Education in California**

### **PART I – K-12 EDUCATION**

- A. Legislative Analyst's Office - Alternative Budget Actions for K-12 Schools to Balance the 2011-12 Budget**
- B. Impact of Further Budget Reductions on K-12 Schools**
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  - 2. Local Superintendents Panel:**
    - Steven Ladd, Elk Grove Unified School District**
    - Mike Hanson, Fresno Unified School District**
    - Holly Hermansen, Nevada County Office of Education**
    - Kent Bechler, Corona-Norco Unified School District**
- C. Public Testimony**

## **PART II – HIGHER EDUCATION**

### **A. Legislative Analyst's Office - Alternative Budget Actions for Higher Education Segments to Balance the 2011-12 Budget**

### **B. Impact of Further Budget Reductions on Higher Education**

**1. Dan Troy, California Community Colleges**

**2. Patrick Lenz, University of California**

**3. Robert Turnage, California State University**

**4. Business Leaders Panel:**

- Stuart Sunshine, Parsons Brinckerhoff, Principal Consultant**
- Anette Smith, Sutter Health, Director of Workforce Development**
- Julia Brown, UC San Diego Foundation Chair**

### **C. Public Testimony**

February 10, 2011

Hon. Mark Leno  
Senator, 3<sup>rd</sup> District  
Room 5100, State Capitol  
Sacramento, California 95814

Dear Senator Leno:

This letter responds to your request that our office develop a list of alternative actions to balance the 2011-12 state budget assuming that the Legislature or the voters reject the Governor's major tax increase and tax extension proposals. Consistent with your staff's directions to us, the alternatives described in this letter include only the following:

- Expenditure reductions.
- Shifts, or transfers, of existing state or local funds to benefit the General Fund.
- Increases of non-tax revenues.

We were informed that we were to include neither additional proposals that needed voter approval to achieve savings nor additional borrowing from special funds.

## BACKGROUND

***Our Overall Approach.*** We were asked to assume that *all* of the Governor's non-tax-related budget proposals—which principally consist of spending reductions—are adopted and achieve their full intended savings in 2011-12. These proposals already involve significant reductions in virtually all state program areas. In coming up with additional solutions of roughly the same magnitude, we have had to identify alternatives involving major reductions in service and benefit levels and dramatic changes in the way that many programs would be delivered by the state and local governments. While we have recommended in recent years some variation of many of the alternatives provided in this letter, we have had to go far beyond our normal comfort level in order to meet the requested solutions target. Some of the listed actions would have serious impacts on individuals, programs, and local governments. As such, our alternatives described below should be viewed as an illustration of the types of solutions that would be needed under your given scenario.

***Amount of Alternative Actions Required.*** The Governor's budget includes \$14 billion of proposed revenue increases. Consistent with your staff's instructions, we assume that only four of these revenue proposals are approved: the tax amnesty, the Financial Institutions Records Match system, the extension of the existing Medi-Cal hospital fee, and the continued collection of charges assessed on managed care plans. The administration estimated that the net revenue

increase from these proposals in 2010-11 and 2011-12 would equal \$515 million. We also assume the accuracy of the administration's 2010-11 and 2011-12 forecasts for revenues, the economy, caseloads, and other "baseline" program costs. Finally, we assume that the Legislature's final budget package includes a state budget reserve of around \$955 million at the end of 2011-12 (consistent with the Governor's budget proposal). We would also note that the Governor's recent decision not to proceed with the sale/lease-back of state buildings and to offer alternative actions may lead to some diminution of our suggested solutions.

Given these assumptions, alternative actions needed to balance the 2011-12 budget must produce General Fund savings of \$13.5 billion. Accordingly, this letter identifies \$13.5 billion of alternate budget-balancing options for the Legislature. The General Fund benefits listed for some of the options represent our initial estimates. Should the Legislature wish to pursue any of these options, refinement of these savings estimates would be required.

***Full-Year 2011-12 Savings Still Require Early Legislative Action.*** We attempted to identify alternate budget actions with a realistic chance of achieving budgeted savings for 2011-12. While cuts of this magnitude inherently carry significant legal and implementation risks, we have tried to minimize these risks and incorporate our best understanding of current case law and other limitations on spending reductions. In general, our alternatives assume a full year of savings in 2011-12. Given federal notice requirements regarding many programs, implementation planning time needed for both the state and local governments, and the need for voter approval for a few of our alternatives, the Legislature would need to adopt many proposals by early March 2011.

## **ALTERNATIVE BUDGET ACTIONS**

Figure 1 (next page) provides a summary of the alternative budget actions we have identified and their estimated General Fund benefit in 2011-12. (A more detailed list is included in this letter's appendix.) The \$13.5 billion of budget-balancing alternatives are displayed by major policy area: K-14 education (\$5.2 billion), higher education (\$1.1 billion), health and social services (\$1.2 billion), criminal justice and the judiciary (\$2.6 billion), general government and local government (\$1.8 billion), and resources and transportation (\$1.6 billion).

***Alternatives for Education.*** The K-14 and higher education budgets present some unique issues in arriving at our alternative budget actions. We discuss these issues in more detail below.

### **K-14 Education**

The result of removing the Governor's tax proposals is an approximately \$2 billion decline in the Proposition 98 minimum guarantee for 2011-12. Balancing the budget with the constraints you have given us, however, would require even larger reductions in K-14 funding. As such, our list of alternatives includes a total of \$4.8 billion in Proposition 98 reductions—\$2 billion due to the assumed rejection of the Governor's tax proposals, plus an additional \$2.8 billion to help bring the budget into balance. In this scenario, a suspension of Proposition 98 in 2011-12 would be required. (When Proposition 98 is suspended, a "maintenance factor" obligation is created that requires funding eventually to be returned to the higher long-term level that would have resulted absent the suspension.)

<b>Figure 1</b>	
<b>Additional Actions to Balance the 2011-12 Budget<sup>a</sup></b>	
<i>General Fund Benefit (In Millions)</i>	
<b>K-14 Education (see Figure 2)</b>	
Suspend Proposition 98	
Reduce K-12 funding	\$4,103
Reduce community college funding	685
Suspend or eliminate Quality Education Investment Act and other K-14 actions	451
Subtotal	(\$5,239)
<b>Higher Education (see Figure 3)</b>	
Reduce UC and CSU appropriations further	\$847
Reduce financial aid	209
Subtotal	(\$1,056)
<b>Health and Social Services</b>	
Reduce state participation in IHSS provider wages to minimum wage	\$300
Eliminate California Food Assistance Program and Cash Assistance Program for Immigrants for legal noncitizens	190
Reduce CalWORKs earned income disregard	180
Eliminate full-scope Medi-Cal benefits for certain immigrants	120
Other health and social services actions	360
Subtotal	(\$1,150)
<b>Criminal Justice and Judiciary</b>	
End support for various public safety grant programs (such as Citizens' Option for Public Safety and booking fees)	\$506
Reject various proposed prison system augmentations	425
Delay court construction projects for one year and transfer funds from Immediate and Critical Needs Account	250
Shift funding and responsibility for adult parole and parole violators to local governments	240
Achieve additional judicial branch savings (in addition to Governor's proposed \$200 million unallocated reduction)	156
Implement automated speed enforcement (LAO version)	150
Other criminal justice and judiciary actions	887
Subtotal	(\$2,612)
<b>General Government and Local Government</b>	
Reduce state employee pay an additional 9.24 percent (equivalent to two furlough days) through legislation	\$700
Reduce state contributions to employee health care by 30 percent through legislation	330
Count all redevelopment revenues to K-14 agencies as local property taxes	275
Halt all bond sales and pay-as-you-go infrastructure projects	227
Other actions, such as eliminating state agencies and scaling back some IT projects	264
Subtotal	(\$1,796)
<b>Transportation and Resources</b>	
Reduce tax-funded special fund programs and redirect funding to General Fund	\$752
Eliminate sales tax on diesel, increase vehicle weight fees, and redirect funding for local transit and intercity rail to provide General Fund relief	400
Reduce General Fund costs for wildland firefighting	300
Allow drilling at Tranquillon Ridge	100
Other transportation and resources actions	98
Subtotal	(\$1,650)
<b>Total, All Actions</b>	<b>\$13,505</b>

<sup>a</sup> The appendix to this letter includes a more detailed listing of these actions.

**Many Options Could Be Coupled With Policy Changes to Reduce Costs.** Figure 2 illustrates the manner in which Proposition 98 reductions could be allocated. In several cases, we identify policy changes intended to help school districts cope with the loss of funding. For example, the state could eliminate the K-3 Class Size Reduction (CSR) program and allow classes in the early grades to exceed 20 students. The state also could modify recent statute to require children to be five years of age prior to enrolling in kindergarten beginning in 2011-12. As a result of this policy change, we estimate approximately 135,000 students (as measured by average daily attendance) would no longer enroll. This, in turn, would allow many districts to reduce the number of kindergarten classes they offer and kindergarten teachers they hire—potentially

<b>Figure 2</b>	
<b>Additional K-14 Education Budget Actions</b>	
<i>General Fund Benefit (In Millions)</i>	
	<b>2011-12</b>
<b>Proposition 98</b>	
<b>K-12 Education</b>	
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	25
Subtotal—K-12 Education	(\$4,103)
<b>California Community Colleges (CCC)</b>	
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 repetition of credit physical education (PE) and fine-arts ("activity") classes	55
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	30
Subtotal—CCC	(\$685)
<b>Total Proposition 98</b>	<b>\$4,788</b>
<b>Non-Proposition 98</b>	
Suspend or eliminate Quality Education Investment Act	\$450
Eliminate General Fund support for the Summer School for the Arts	1
<b>Total Non-Proposition 98</b>	<b>\$451</b>
<b>Total, K-14 Education</b>	<b>\$5,239</b>



reducing costs statewide by roughly \$700 million. Similarly, the state could stop requiring home-to-school transportation services (though schools would not be prohibited from offering such services) as well as eliminate certain mandated education activities. For community colleges, the state could allow individuals possessing a bachelor's degree or higher (and perhaps a high-school teaching credential or other coursework) to teach credit basic-skills courses (rather than requiring a master's degree). Colleges also could be permitted to contract out basic-skills instruction to a third party, such as a community-based organization or local library.

We have included in our Proposition 98 alternative a 2.2 percent reduction in K-12 general purpose funding. While not shown in Figure 2, we would recommend that the state take various actions to help districts deal with this reduction. For example, the state could amend statute to allow school districts to shorten the school year. For every one-day reduction in instruction, we estimate costs are reduced statewide by roughly \$200 million (with a reduction of one week yielding roughly \$1 billion in savings). To further reduce school district costs, the state could remove restrictions on contracting out for noninstructional services and eliminate priority and pay rules for substitute teaching positions. We think these are better alternatives than making large unallocated reductions that are not linked to cost-reduction measures.

***A Few Reductions Offset by Other Revenue Streams.*** In a few cases, options exist to mitigate the impact of K-14 reductions by relying on other revenue streams. For example, the state could give school districts access to existing restricted reserves and allow them to offset the reductions (to the extent possible). For example, the state could give districts access to about \$300 million in reserves associated with certain restricted programs. We also think the state could reduce the amount of categorical funding it provides to basic aid districts. Specifically, if a basic aid district has "excess" local property tax revenue to cover categorical program costs, then the state could stop providing the categorical payments in excess of the constitutionally required \$120 per student. It is unclear why the state traditionally has offered these state payments to districts that have sufficient local funds to cover associated costs. For community colleges, the state could authorize higher fee increases to offset reductions to apportionments.

## Higher Education

Unlike most other areas of the budget, the Governor's proposal would eliminate a sizable percentage of the universities' General Fund support without specifying how those reductions would be accommodated. Specifically, the Governor has proposed unallocated reductions totaling \$1 billion for the two universities. Rather than build upon these unallocated reductions, we have identified a total of \$2.1 billion in allocated reductions for higher education (excluding community colleges), as summarized in Figure 3 (next page). In other words, we identify ways that the Governor's \$1 billion in savings could be achieved, plus an additional \$1.1 billion to help balance the budget under your scenario.

Reductions of this magnitude would negatively affect the availability and cost of educational opportunities for students. However, we believe that effects on higher educational access, affordability, and quality could be mitigated by targeting noninstructional areas of the higher education budget. As we outline in Figure 3, our identified savings could be achieved with no reduction to the University of California's (UC's) budgeted enrollment levels, and a 5 percent

reduction to the California State University’s (CSU’s) budgeted level. (The effect on actual CSU enrollment would be somewhat less, because CSU’s current-year enrollment is already below this budgeted level.) Under our scenario, tuition at the universities would increase by about \$400 to \$450 per university student (beyond already-approved fee increases). However, the state’s financial aid entitlement programs would be preserved, although qualifying income thresholds would be reduced somewhat to match federal eligibility criteria.

A significant percentage of the programmatic savings we identify comes from reductions to spending on personnel (\$408 million). The effect of such reductions on core instructional activities could be minimized by focusing on noninstructional activities. For example, the Legislature could direct a modest shift in the allocation of UC faculty time from research to teaching. By increasing the average UC faculty teaching load by one additional course every three years, the university could realize savings of almost \$100 million annually. If desired, reductions in research could be targeted at certain campuses in order to retain a strong research focus at UC’s flagship campuses. Given that CSU faculty do not spend a large share of their time on research, savings in CSU personnel costs could instead be achieved by reducing faculty release time for sabbaticals and other noninstructional activities.

<b>Figure 3</b>	
<b>Higher Education Budget Actions<sup>a</sup></b>	
<i>General Fund Benefit (In Millions)</i>	
	<b>2011-12</b>
<b>UC and CSU Reductions</b>	
Reduce personnel costs by 10 percent at UC and 5 percent at CSU	\$408
Reduce UC and CSU current-year augmentations by one-half (one-time savings)	361
Increase tuition another 7 percent for UC and 10 percent for CSU <sup>b</sup>	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 for UC Merced	5
Subtotal	(\$1,847)
<b>Financial Aid Reductions</b>	
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	20
Subtotal	(\$209)
<b>Total</b>	<b>\$2,056</b>

<sup>a</sup> Amounts 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.

<sup>b</sup> General Fund savings are net of increased Cal Grant costs and institutional aid set-aside.

## IMPLICATIONS FOR 2011-12 AND BEYOND

***General Fund Surplus at End of 2011-12, if All Assumptions Hold.*** If the Legislature were to adopt these additional alternatives in combination with the non-tax proposals in the Governor's budget, the 2011-12 budget would be balanced with an approximately \$1 billion reserve—based on all of the various assumptions described above. In reality, of course, many of the Governor's proposals and the alternatives described in this letter carry significant implementation risk. Accordingly, the chances are very high that some of the assumptions incorporated in this analysis would not hold. In other words, even if the state adopted *all* of the Governor's non-tax budget proposals and *all* of this letter's alternatives, there is a chance that 2011-12 would end in deficit.

***Many Permanent Solutions Help the Out-Year Problem.*** The majority of the budget-balancing options described in this letter could be enacted as permanent solutions, thereby helping the state to address its stubborn out-year budget problem. (In fact, as ongoing solutions, these alternatives provide solutions lasting beyond the tax extensions' five-year time period.) Nevertheless, both the Governor's proposals and this list of alternatives include some one-time budget options, such as borrowing from other state funds in the Governor's budget. To fully address the out-year budget problem, the Legislature likely would need to take additional actions beyond those addressed in this letter.

***Other Non-Tax Revenue Budget Actions Available.*** In identifying the budget actions that would be required to balance the 2011-12 budget, we worked within the parameters specified by your staff described at the start of this letter. There are a number of other, non-tax revenue budget actions that the Legislature could consider as alternatives to some of the program reductions included—such as additional borrowing from special funds and returning to the voters to change provisions of existing voter-approved programs. We estimate that these alternatives would generate on the order of several billions of dollars. (Additional borrowing from special funds alone could create \$1.2 billion in benefit to the General Fund in 2011-12.) Such actions could be used in place of some of the more difficult actions included on our list.

For more information, please contact Jason Sisney (916-319-8361, [jason.sisney@lao.ca.gov](mailto:jason.sisney@lao.ca.gov)) or Caroline Godkin (916-319-8326, [caroline.godkin@lao.ca.gov](mailto:caroline.godkin@lao.ca.gov)) of my staff. They can direct you to the LAO analysts who are able to answer questions about specific items in our alternatives list.

Sincerely,

Mac Taylor  
Legislative Analyst

## APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

<b>Additional Actions to Balance the 2011-12 Budget<sup>a</sup></b>	
<i>General Fund Benefit (In Millions)</i>	
<b>K-14 Education</b>	
<b>Proposition 98</b>	
<i>K-12 Education</i>	
Eliminate K-3 Class Size Reduction	\$1,275.0
Reduce K-12 general purpose funding by 2.2 percent	813.0
Change kindergarten start date beginning in 2011-12	700.0
Eliminate state support for Home-to-School Transportation	500.0
Require use of Economic Impact Aid (EIA) reserves before providing districts with more EIA funds	350.0
Reduce state categorical funding for basic aid districts and counties	200.0
Reduce EIA by 20 percent	190.0
Adopt Legislative Analyst's Office (LAO) K-14 mandate package	50.0
Eliminate 2011-12 overbudgeting for Charter School Facility Program	25.0
<i>California Community Colleges</i>	
Establish a 90-unit cap on each student's taxpayer-subsidized credits	250.0
Increase fees to \$66 per unit	170.0
Reduce funding for credit basic skills instruction to the rate provided for non-credit basic skills	125.0
Eliminate state subsidy for intercollegiate athletics	55.0
Eliminate state funding for repetition of credit physical education (PE) and fine-arts ("activity") classes	55.0
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	30.0
<b>Non-Proposition 98</b>	
Suspend or eliminate Quality Education Investment Act	450.0
Eliminate General Fund support for Summer School for the Arts	1.4
Subtotal, K-14 Education	(\$5,239.4)
<b>Higher Education</b>	
<b>Universities</b>	
Account for Governor's unallocated university reductions (see footnote <sup>a</sup> of Figure 3)	-\$1,000.0
Reduce personnel costs by 10 percent at UC and 5 percent at CSU	408.3
Reduce UC and CSU current-year augmentations by one-half (one-time savings)	361.2
Increase tuition another 7 percent for UC and 10 percent for CSU	270.3
Score approved tuition increases: 8 percent for UC and 10 percent for CSU	263.0
Reduce UC and CSU operating expense and equipment funding by 5 percent	214.6
Reduce General Fund support for UC and CSU organized research by one-half	134.1
Reduce CSU enrollment by 5 percent	124.1
Reduce non-federal support for UC and CSU public service by one-half	57.7
Eliminate UC General Fund support for Drew University	8.7
Eliminate supplemental funding for UC Merced	5.0
<b>Financial Aid</b>	
Reduce UC and CSU institutional financial aid by 5 percent	73.6
Limit Cal Grant income eligibility	60.0
Limit competitive awards to stipends only	30.0
Eliminate non-need-based fee waivers	25.0
Raise minimum Cal Grant grade point average	20.0
Subtotal, Higher Education	(\$1,055.7)
(Continued)	

## APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

<b>Health and Social Services</b>	
Reduce state participation of In-Home Supportive Services provider wages to minimum wage	\$300.0
Eliminate California Food Assistance Program and Cash Assistance Program for Immigrants for legal noncitizens	190.0
Reduce the California Work Opportunity and Responsibility to Kids (CalWORKs) earned income disregard <sup>b</sup>	180.0
Eliminate full-scope Medi-Cal benefits for newly qualified aliens and persons permanently residing under color of law	120.0
Phase in a one-third reduction in Adoption Assistance Program basic grants	20.0
Eliminate Adult Protective Services program	55.0
Eliminate Cal-Learn Program for CalWORKs teen parents <sup>b</sup>	50.0
Impose quality assurance fee on pharmacies and certain other providers	50.0
Eliminate CalWORKs grants for recent legal noncitizens <sup>b</sup>	40.0
Roll back salary increases related to the <i>Coleman</i> and <i>Perez</i> court decisions (contingent on CDCR action)	36.2
Eliminate drug court programs	26.8
Eliminate funding for perinatal and other alcohol and drug treatment programs	25.7
Roll back eligibility for the Every Woman Counts program	20.0
Eliminate balance of Transitional Housing Program Plus funds for emancipating foster youth	16.0
Rescind rate increase for Family Planning Access Care Treatment	16.0
Eliminate funding for Caregiver Resources Centers administered by the Department of Mental Health	2.9
Suspend Child Welfare Services Web Automation Project pending federal clarification	1.1
Eliminate Department of Aging and transfer some responsibilities to Department of Social Services	0.4
Subtotal, Health and Social Services	(\$1,150.1)
<b>Criminal Justice and Judiciary</b>	
End support for various public safety grant programs (such as Citizens' Option for Public Safety and booking fees)	\$506.0
Reject various proposed prison system augmentations	425.2
Delay court construction projects for one year and transfer funds from Immediate and Critical Needs Account to General Fund	250.0
Shift funding and responsibility for adult parole and parole violators to local governments	240.0
Achieve additional judicial branch savings (in addition to Governor's proposed \$200 million unallocated reduction)	156.0
Implement automated speed enforcement (LAO version)	150.0
Implement a two-day-per-month furlough for court employees	130.0
Use Proposition 172 funds to pay debt service for local correctional facilities, reimburse counties for public safety mandates, and make SB 678 incentive payments	127.0
Reduce parole term for existing parolees from 3 years to 18 months	125.0
Eliminate various Department of Justice (DOJ) state law enforcement programs	76.0
Revert some of the remaining balance of the AB 900 General Fund appropriation	75.0
Eliminate state support for training provided by Commission on Peace Officer Standards and Training to local law enforcement	52.0
Shift funding and responsibility for remaining juvenile offenders to counties	50.0
Require second and third "strikes" to be serious or violent for an offender to get full "Three Strikes" sentence enhancement	50.0
Reduce additional court funding to account for trial court reserves	50.0
Expand medical parole	30.0
Eliminate Restitution Fund support for mental health treatment for crime victims	28.0
Reduce funding for discretionary DOJ legal work	20.0

(Continued)

## APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

<b>Criminal Justice and Judiciary</b>	
Redirect state and local asset forfeiture proceeds	\$12.0
Develop a non-peace officer "custody assistant" classification that could perform some correctional officer duties	10.0
Scale back funding for Office of Inspector General due to reduced inmate population resulting from shift to local governments	10.0
Implement uniform disciplinary confinement policies	10.0
Delay implementation of Civil Representation Pilot Program—AB 590 (Feuer)	8.0
Eliminate state support for Corrections Standards Authority inspections conducted for counties	7.0
Eliminate Board of Parole Hearings—juvenile parole	6.0
Eliminate state support from the Restitution Fund for witness relocation and protection program	5.0
Improve collection of inmate medical copayments	4.0
Replace custody positions in headquarters with non-peace officers	1.0
Require counties to reimburse state for legal work by DOJ on behalf of district attorneys who are disqualified from handling local cases	1.0
Subtotal, Criminal Justice and Judiciary	(\$2,614.2)
<b>General Government</b>	
Reduce state employee pay an additional 9.24 percent (equivalent to two furlough days) through legislation	\$700.0
Reduce state contributions to employee health care by 30 percent through legislation	330.0
Halt all bond sales and pay-as-you-go infrastructure projects	227.0
Scale back various information technology projects	75.0
Recognize lower-than-anticipated Unemployment Insurance loan repayment costs	60.0
End General Fund support for the Small Business Loan Guarantee Program (Business, Transportation, and Housing Agency)	24.0
Eliminate various victim services programs	23.0
Eliminate Department of Fair Employment and Housing and Fair Employment and Housing Commission and switch to civil and federal enforcement	17.2
Eliminate General Fund support of the California Science Center	14.6
Eliminate California Gang Reduction Intervention and Prevention program and Internet Crimes Against Children Task Force; transfer program funds from the Restitution Fund to the General Fund	10.0
Eliminate General Fund support for cadet corps and military school programs	7.0
Eliminate General Fund support for the Office of Migrant Services (Housing and Community Development)	6.0
Merge Agricultural Labor Relations Board and Public Employee Relations Board	4.9
Eliminate Business, Transportation, and Housing Agency, including General Fund support for the Small Business Loan Guarantee Program	4.2
Eliminate California National Guard Benefit Program	4.0
Eliminate Health and Human Services Agency	3.6
Eliminate the Office of Planning and Research, including CaliforniaVolunteers and the Office of the Secretary of Service and Volunteering	2.3
Eliminate California Environmental Protection Agency	1.9
End General Fund support for the Office of Administrative Law and convert to fee-for-service funding model	1.6
Shift Commission on State Mandates funding to reimbursements	1.5
Eliminate the Arts Council	1.1
Eliminate State and Consumer Services Agency	1.0
Eliminate the Commission on the Status of Women	0.5
Reduce staffing and funding for the American Recovery and Reinvestment Act task force	0.2
Reduce General Fund support for the Lieutenant's Governor's office to 2010-11 level	0.1
	(Continued)

## APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

<b>General Government</b>	
Eliminate Natural Resources Agency	—
Eliminate Labor and Workforce Development Agency	—
Subtotal, General Government	(\$1,520.7)
<b>Local Government</b>	
Count all redevelopment revenues to K-14 agencies as local property taxes	\$275.5
Subtotal, Local Government	(\$275.5)
<b>Transportation</b>	
Eliminate sales tax on diesel, increase vehicle weight fees commensurately, and redirect transportation funding, including monies for local transit and intercity rail, to provide General Fund relief	\$400.0
Scale back Department of Motor Vehicles capital outlay and other programs to reduce General Fund repayment of past loan from the Motor Vehicle Account	12.0
Subtotal, Transportation	(\$412.0)
<b>Resources and Environmental Protection</b>	
Reduce programs supported by Gas Consumption Surcharge Fund and transfer funds to General Fund	\$500.0
Reduce General Fund costs for wildland firefighting by (1) enacting a fee on residential property owners in state responsibility areas (SRAs), (2) clarifying that the state is not fiscally responsible for life and structure protection in SRAs, or (3) modifying SRA boundaries	300.0
Allow drilling at Tranquillon Ridge	100.0
Reduce programs supported by Off-Highway Vehicle Trust Fund and transfer funds and balance to the General Fund	88.0
Transfer balance of Renewable Resources Trust Fund to General Fund	60.0
Reduce programs supported by Public Interest Research, Development, and Demonstration Fund and transfer funds and balance to General Fund	52.0
Eliminate General Fund support for the California Conservation Corps	35.1
Reduce programs supported by Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund and transfer balance to General Fund	24.0
Reduce General Fund support (partially backfilled with fees) for Department of Fish and Game's Biodiversity Conservation Program	23.0
Shift funding for timber harvest plan review in multiple state agencies from General Fund to new regulatory fees	18.0
Reduce programs supported by Harbors and Watercraft Revolving Fund and transfer balance to General Fund	18.0
Reduce programs supported by Alternative and Renewable Fuel and Vehicle Technology Fund and transfer funds to the General Fund	10.0
Increase California Coastal Commission permitting fees to fully fund coastal development regulatory activities	5.0
Suspend Air Resources Board's diesel regulations for public fleets, creating General Fund savings in Department of Parks and Recreation	2.0
Provide the California Coastal Commission with the authority to levy administrative civil penalties	1.0
Eliminate Department of Conservation and shift functions to other state departments	1.0
Eliminate Native American Heritage Commission	0.7
Subtotal, Resources and Environmental Protection	(\$1,237.8)
<b>Total, All Actions</b>	<b>\$13,505.2</b>
<p><sup>a</sup> Based on methodology described in main text of this letter.</p> <p><sup>b</sup> Contingent on identifying additional programs for which Temporary Assistance for Needy Families, or TANF, federal funds can be expended in place of General Fund monies or which may be counted as maintenance-of-effort.</p>	

April 14, 2011

# Overview of K-12 Education Alternative Budget Scenario

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Mark Leno, Chair







## Recap of March Budget Actions

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- Adopted \$13.7 billion in solutions, primarily from expenditure reductions.
- Funded Proposition 98 minimum guarantee assuming Governor's tax package adopted.
- Held Proposition 98 funding virtually flat from 2010-11 to 2011-12.
  - Approved Governor's proposal to defer \$2.2 billion in Proposition 98 payments to next year (2012-13).
  - Made no programmatic reductions to K-12 education.
  - Reduced child care programs by \$483 million.
  - Made net reduction of \$290 million to community colleges.
- Need \$15.8 billion in remaining solutions.



## Alternative Budget Scenario

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- Assumes \$14 billion in new tax revenue not raised.
- Absence of revenue translates into \$2 billion drop in Proposition 98 minimum guarantee.
- Deeper cuts to education likely required due to inability to achieve \$12 billion in cuts to rest of the state budget.
- Making deeper education cuts would require suspending Proposition 98.
- Given the parameters of the alternative budget scenario, we estimate state might need to get roughly \$5 billion in Proposition 98 budget solutions.



## Potential Education Cuts Under Alternative Budget Scenario

<b>Additional K-14 Education Budget Actions</b>	
<i>General Fund Benefit (In Millions)</i>	
	<b>2011-12</b>
<b>Proposition 98</b>	
<b>K-12 Education</b>	
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	25
Subtotal—K-12 Education	(\$4,103)
<b>California Community Colleges (CCC)</b>	
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 repetition of credit physical education (PE) and fine-arts ("activity") classes	55
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	30
Subtotal—CCC	(\$685)
<b>Total Proposition 98</b>	<b>\$4,788</b>
<b>Non-Proposition 98</b>	
Suspend or eliminate Quality Education Investment Act	\$450
Eliminate General Fund support for the Summer School for the Arts	1
<b>Total Non-Proposition 98</b>	<b>\$451</b>
<b>Total, K-14 Education</b>	<b>\$5,239</b>



## Two Categories of Reductions

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### Targeted reductions:

- Require children to turn five years of age prior to enrolling in Kindergarten. Would require postponing or eliminating Transitional Kindergarten program and changing cut-off from December to September beginning in 2011-12.
- Eliminate Home-to-School Transportation program.
- Eliminate or suspend Quality Education Investment Act.
- Eliminate certain education mandates.
- Reduce state categorical funding for basic aid districts and counties. (Legislature adopted a similar proposal in March that would achieve slightly less savings.)
- Reduce Economic Impact Aid by 20 percent.
- Reduce Charter School Facility Grant Program to align funding with estimated cost.
- Require school districts to use Economic Impact Aid reserves before receiving any new state funding.



### General purpose reductions:

- Eliminate K-3 Class Size Reduction.
- Reduce revenue limits and “flex item” by 2.2 percent.



## State Could Take Certain Actions to Help Districts Weather Some of the Reductions

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Find ways for districts to reduce costs.

- **Reduce Instructional Day Requirements.** A five-day reduction in the school year could reduce district costs statewide by about \$1 billion. State would have among shortest school year in the country.
- **Relax Requirements for Contracting Out for Non-Instructional Services.** Could provide savings of \$50 million to \$300 million.
- **Eliminate Substitute Teacher Priority and Pay Provisions.** Allow districts to pay substitute teacher rates to laid-off teachers who work as substitutes for 21 days in a 60-day period. Could provide savings of \$10 million to \$50 million.



Find alternative fund sources.

- **Allow Access to Restricted Reserves.** Statewide, districts have roughly \$250 million in restricted accounts.



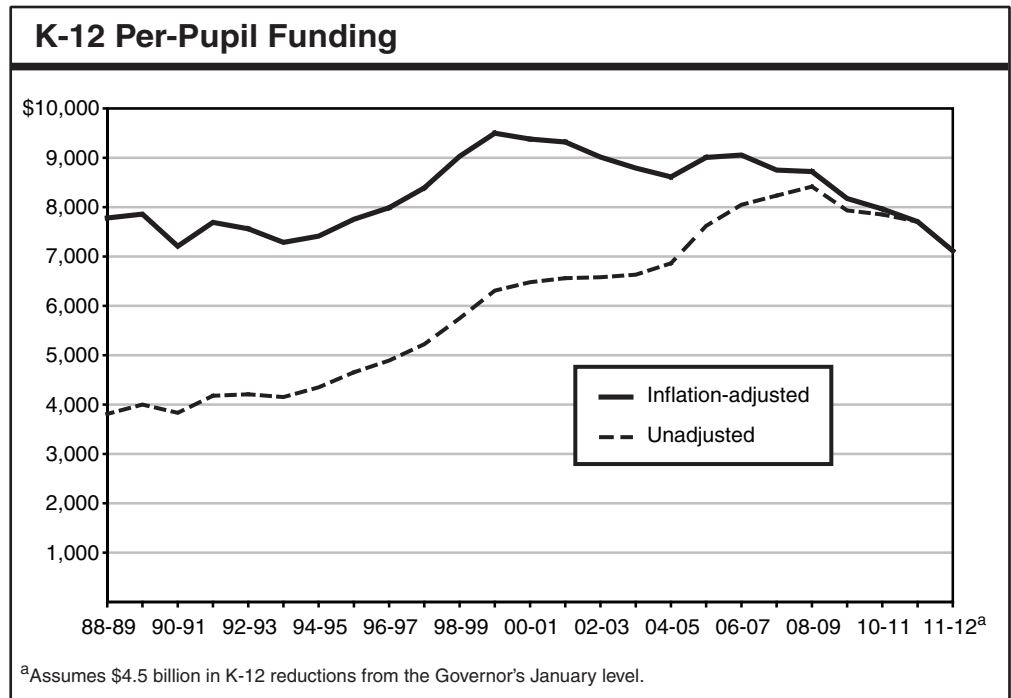
## Other Options to Consider

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- Make Further Reductions to Child Care and Development. Savings would vary depending upon combination of changes made (up to \$400 million in savings). Options include:
  - Shorten the time period that former CalWORKs participants are guaranteed subsidized child care in the CalWORKs Stages 2 and 3 programs.
  - Reduce reimbursement rates for child care providers in voucher programs.
  - Reduce administrative allotment for Alternative Payment agencies.
  - Increase family fees.
  
- Repeal Proposition 49. Would allow the state to make reductions to After School Education and Safety program (up to \$550 million in savings). Requires voter approval.



## K-12 Per-Pupil Funding Over Time



- Under the alternative budget scenario, per-pupil funding in 2011-12 would be:
  - Roughly \$7,100, or \$600 less than the 2010-11 level.
  - At about the same level as in 1990-91.

## California's State School Rankings Are a Mixed Bag

	California	United States	State Ranking
Average teacher salary	\$66,064	\$53,168	1
Spending per student <sup>a</sup>	\$9,015	\$9,509	31
Student/teacher ratio	20.8	15.3	49
Math achievement <sup>b</sup>	59%	71%	48
Reading achievement <sup>b</sup>	64%	74%	49

Note: Reflects most recent data available from the National Center for Education Statistics. Teacher salary and ratio data from 2008–09, expenditure data from 2007–08, and achievement data from 2009.

<sup>a</sup> Excludes expenditures on capital outlay and interest on long-term debt.

<sup>b</sup> Reflects percent of eighth grade students scoring basic or above on the National Assessment of Educational Progress.

- **California has the highest average teacher salary of any state in the country but also has among the highest numbers of students per teacher.**
- **California ranks 31st in per pupil spending.**
- **California ranks almost last in student achievement.**

Source: *2011 Cal Facts -- California's Economy and Budget in Perspective*, Legislative Analyst's Office, January 5, 2011 (pg. 36).



April 14, 2011

# Review of Budget Reduction Options for Higher Education

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

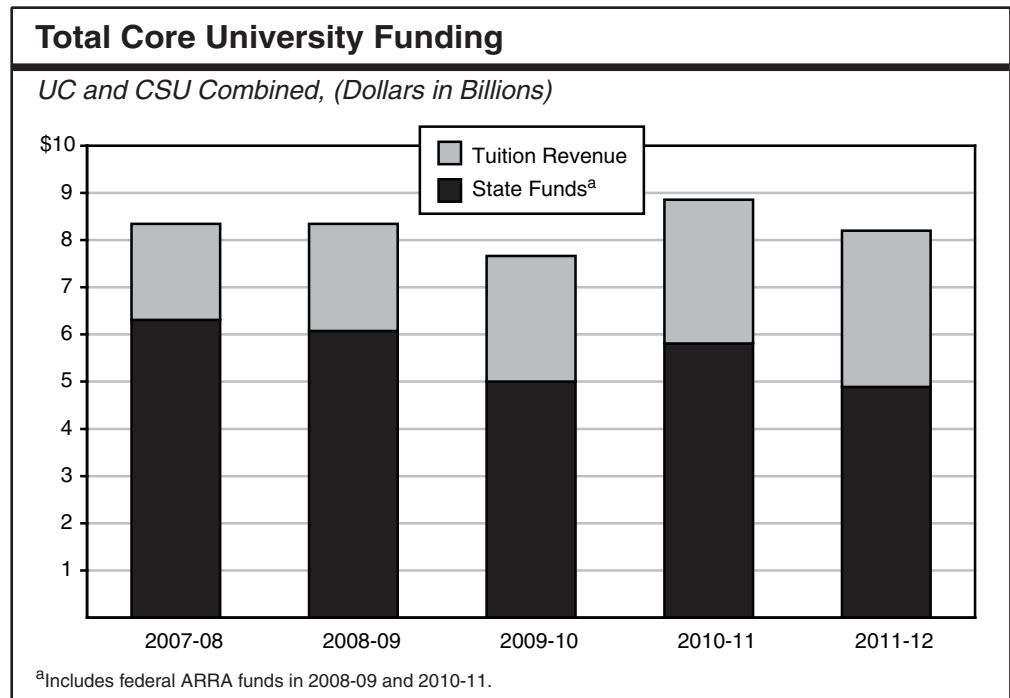
Senate Budget and Fiscal Review Committee

Hon. Mark Leno, Chair





## Public University Funding in Context



- State General Fund support has declined about \$1.4 billion from 2007-08 to 2011-12.
- Net tuition revenue has increased about \$1.3 billion over the same period.
- Total core funding has declined about \$143 million, or 1.7 percent.
  - If approved 2011-12 cuts were doubled, total core funding would be about 14 percent less than in 2007-08.



## University Tuition in Context

<b>2010-11 Tuition and Fees for Full-Time Resident Undergraduates</b>	
<i>(Subtitle)</i>	
<b>California State University and Public Comparison Institutions</b>	
Rutgers University (Newark, NJ)	\$12,560
Illinois State University (Normal, IL)	11,399
University of Connecticut (Storrs, CT)	10,416
Wayne State University (Detroit, MI)	9,733
University of Maryland, Baltimore County	9,171
University of Wisconsin at Milwaukee	9,032
George Mason University (Fairfax, VA)	8,684
University of Texas at Arlington	8,500
Cleveland State University	8,466
Arizona State University at Tempe	8,134
Georgia State University at Atlanta	7,884
University of Colorado at Denver	7,327
State University of New York at Albany	6,830
North Carolina State University	6,529
University of Nevada at Reno	5,561
<b>California State University</b>	<b>5,180</b>
<b>University of California and Public Comparison Institutions</b>	
University of Illinois	13,508
University of Michigan	13,590
<b>University of California</b>	<b>11,279</b>
University of Virginia	10,628
SUNY at Buffalo	7,136

- Approved University of California (UC) tuition for 2011-12 is \$11,124, putting UC in the middle of its comparison group for tuition and mandatory fees.
  
- Approved California State University (CSU) tuition for 2011-12 is \$4,884, which is the lowest among its comparison institutions (CSU tuition is currently about 61 percent of the group average).



## Financial Aid in Context

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- ☑ Cal Grant costs have increased with tuition increases.
  - Total funding for Cal Grants has increased from \$880 million in 2007-08 to \$1.5 billion in 2011-12.
  - The 2011-12 budget passed by the Legislature includes \$124 million in Cal Grant reductions, achieved primarily by extending certain eligibility requirements so they now apply to renewals.
  
- ☑ California's funding for financial aid is generally comparable to other states.
  - California ranks around the middle for most measures of aid per capita or per undergraduate.
  - In general, California's programs are more targeted than in other states—for example, all of California's state aid is need-based, whereas a number of states employ a combination of need-based and merit aid.
  - The measures on which California does stand out involve general state subsidies per student (for example, General Fund appropriations to the institutions), which are above average compared with other states.



## Higher Education Budget Options

<b>Potential University Budget Reductions</b>	
<i>General Fund Benefit (In Millions)</i>	
<b>Reduce personnel costs by 10 percent at UC and 5 percent at CSU</b>	\$408
<ul style="list-style-type: none"> <li>• Could require UC faculty to teach more and research less</li> <li>• Could reduce sabbaticals and release time</li> <li>• Could increase employee benefit contributions at CSU</li> </ul>	
<b>Reduce UC and CSU current-year augmentations by one-half (one-time savings)</b>	361
<ul style="list-style-type: none"> <li>• Current-year budget includes substantial augmentations</li> <li>• Legislature has already scored \$75 million in current-year savings for CSU</li> </ul>	
<b>Score approved tuition increases: 8 percent for UC and 10 percent for CSU<sup>a</sup></b>	263
<ul style="list-style-type: none"> <li>• Regents and Trustees have already adopted these increases, which can backfill a like amount of General Fund reductions</li> </ul>	
<b>Increase tuition another 7 percent for UC and 10 percent for CSU<sup>b</sup></b>	270
<ul style="list-style-type: none"> <li>• UC tuition would rise to \$11,902</li> <li>• CSU tuition would rise to \$5,372</li> </ul>	
<b>Reduce UC and CSU operating expenses and equipment funding by 5 percent</b>	215
<b>Reduce General Fund support for UC and CSU organized research by one-half</b>	134
<ul style="list-style-type: none"> <li>• Represents about 20 percent of total UC organized research funding</li> </ul>	
<b>Reduce CSU enrollment by 5 percent from level proposed in Governor's budget</b>	124
<ul style="list-style-type: none"> <li>• Budget passed by Legislature assumes 2.5 percent reduction</li> <li>• Resulting enrollment level would reflect 1.6 percent reduction for current-year actual level</li> </ul>	
<b>Reduce nonfederal support for UC and CSU public service by one-half</b>	58
<ul style="list-style-type: none"> <li>• Could include programs such as K-12 partnerships, capital fellowships, and cooperative extension</li> </ul>	
<b>Eliminate UC General Fund support for Drew University</b>	9
<b>Eliminate supplemental funding for UC Merced</b>	5
<b>Total</b>	<b>\$1,847</b>

<sup>a</sup> General Fund savings are net of increased Cal Grant costs and institutional aid set-aside.  
<sup>b</sup> General Fund savings are net of increased Cal Grant costs only.



## Higher Education Budget Options *(Continued)*

<b>Potential Community College Budget Reductions</b>	
<i>(In Millions)</i>	
<b>Establish 90-unit cap on each student's taxpayer-subsidized CCC credits</b>	\$250
<ul style="list-style-type: none"> <li>• About 120,000 students were above this threshold in 2009-10</li> <li>• A slightly higher cap of 100 units would affect about 80,000 students, for \$175 million in savings</li> </ul>	
<b>Adopt additional fee increase (taking fees to \$66/unit)</b>	170
<ul style="list-style-type: none"> <li>• Represents highest fee level that could be fully reimbursed through federal tax credits for eligible students</li> <li>• Savings estimate assumes enrollment would decline by 10 percent and over half of students would receive a BOG waiver</li> </ul>	
<b>Reduce funding for credit basic skills instruction to the rate provided for noncredit basic skills</b>	125
<ul style="list-style-type: none"> <li>• Reduces funding for such courses from \$4,565 to \$3,232 per FTE student</li> <li>• To accommodate lower funding rate for credit basic skills courses, districts could be allowed greater flexibility—such as using faculty with bachelor's (rather than master's) degrees. This is the standard currently in place for noncredit basic skills courses, which focus at a similar level</li> </ul>	
<b>Eliminate state funding for intercollegiate athletics</b>	55
<ul style="list-style-type: none"> <li>• Prohibit districts from claiming apportionments for team practices</li> </ul>	
<b>Eliminate state funding for repetition of credit physical education and fine-arts ("activity") classes</b>	55
<ul style="list-style-type: none"> <li>• Estimate assumes no new restrictions on students majoring in PE or fine arts, as well as students with disabilities in adaptive PE courses</li> </ul>	
<b>Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes</b>	30
<ul style="list-style-type: none"> <li>• These courses do not apply toward transfer or associate's degrees</li> </ul>	
<b>Total</b>	<b>\$685</b>



## Higher Education Budget Options *(Continued)*

<b>Potential Financial Aid Budget Reductions</b>	
<i>General Fund Benefit (In Millions)</i>	
<b>Reduce UC and CSU institutional financial aid by 5 percent</b>	\$74
<ul style="list-style-type: none"> <li>• Would reduce number or size of awards</li> <li>• Admitted students are already being notified of awards</li> </ul>	
<b>Limit Cal Grant income eligibility</b>	60
<ul style="list-style-type: none"> <li>• Budget passed by Legislature achieves \$105 million in savings through similar actions</li> </ul>	
<b>Limit competitive awards to stipends only</b>	30
<ul style="list-style-type: none"> <li>• Budget passed by Legislature achieves \$19 million in Cal Grant savings through alternative actions</li> </ul>	
<b>Eliminate non-need-based fee waivers</b>	25
<ul style="list-style-type: none"> <li>• Assumes half of affected students would qualify for need-based financial aid</li> </ul>	
<b>Raise minimum Cal Grant grade point average</b>	20
<ul style="list-style-type: none"> <li>• Student Aid Commission has already notified students of award offers</li> </ul>	
<b>Total</b>	<b>\$209</b>