

The FISCAL REPORT an informational update

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In Trigger Country—Legislative Analyst's Revised 2011-12 Revenue Forecast is \$3.7 Billion Short of the Budget Estimate

This morning, Wednesday, November 16, 2011, Legislative Analyst Mac Taylor released his office's *California Fiscal Outlook* report, including a revised revenue forecast for 2011-12 that anticipates the state will accrue only \$300 million of the \$4 billion in added revenues assumed by the 2011-12 State Budget—a \$3.7 billion shortfall.

The 2011-12 Budget included provisions that would trigger midyear reductions if revenues didn't reach the optimistic levels upon which the Budget was based. The higher of the Legislative Analyst's Office (LAO) November forecast or the Department of Finance (DOF) December forecast governs the specific reductions that may occur. The LAO report sets the floor while we now wait for the DOF report and final determination regarding the trigger cuts that will be made by the Director of Finance no later than December 15.

\$2 Billion in Trigger Cuts Possible

If the DOF report does not improve the LAO Forecast, then, according to the LAO, the following reductions will be in play on or after January 1, 2012:

Program	Amount
K-12 revenue limits (on or after February 1, 2012)	\$1.116 billion
Pupil transportation (including special education)	\$248 million
Community Colleges	\$102 million
University of California	\$100 million
California State University	\$100 million

Developmental services programs	\$100 million
In-home Supportive Services	\$100 million
Child Development programs	\$23 million
Other state-funded services	\$155 million
Total	\$2.044 billion

The trigger cut for school district revenue limits is proportional, not to exceed 4%, based on the magnitude of the revenue shortfall, varying from no reduction at \$2 billion up to 4% if the shortfall is \$4 billion or higher. The LAO Forecast is \$3.7 billion below the budget estimate, so the calculated revenue limit reduction could not exceed 3.4%. In addition, funding for K-14 education cannot decline below the Proposition 98 minimum funding guarantee. The LAO estimates that the minimum guarantee will further mitigate K-12 revenue limit trigger reductions, limiting the amount of the cut to about \$1.1 billion. This translates to a 2.9% cut to K-12 revenue limits, or \$189 per pupil for the average unified school district. The effect of Proposition 98 on the trigger cuts may also mitigate community college reductions, but at this time the potential impact is unknown.

State Faces a \$13 Billion Budget Problem for 2012-13

The LAO report also estimates that, even with the trigger reductions, the state will end 2011-12 with a deficit of \$3 billion and will face a nearly \$10 billion operating shortfall in 2012-13. The operating shortfall forecast for the Budget year comes largely from bills that are coming due next year—increases in Proposition 98 and funding owed to schools are projected to rise by \$6 billion, and a \$2 billion local government "loan" to the state comes due next year, as well.

We will provide a more detailed analysis of the LAO's predictions for K-12 education funding and the rest of the State Budget in future editions of our *Fiscal Report*.

—*Michael Ricketts*

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