

The FISCAL REPORT 32 informational update

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Legislative Analyst's Overview of the Governor's May Revision

Today, May 17, 2013, the Legislative Analyst's Office (LAO) released its [Overview of the May Revision](#). In its assessment of the Administration's proposal, the LAO highlights four main observations:

- **The Administration's View of the Economy and Revenues Seems Too Pessimistic.** In a surprising course of events, the LAO's three-year forecast of General Fund revenues is \$3.2 billion higher than the revenues contained in Governor Jerry Brown's May Revision. The difference is largely attributed to capital gains-related tax revenues and assumptions regarding future stock trends.
- **Many Reasons for the Legislature to Adopt a Cautious Approach.** While the LAO acknowledges the improved fiscal condition of the state, the overview also points out the volatility of capital gains revenue, and a need for building reserves and paying off state debts.
- **The Proposition 98 Maintenance Factor Means Most of the Newly Calculated Revenue Goes to Schools.** Since the Proposition 98 Maintenance Factor policy provides that a very large portion of the new revenue be provided to schools and community colleges, all but several hundred million of the new revenue mentioned above would go to schools. The LAO has thus suggested as part of the overview that the Legislature forego additional maintenance factor repayments, and instead prioritize building a reserve and augmentation of targeted, unspecified programs.
- **Time for the Legislature to Take Charge of the State's Future Fiscal Plans.** Should the economy continue to improve, the LAO suggests that the state limit its growth in new or restored spending commitments, and instead plan for how to pay down some of the big impending bills that are looming on the horizon. The overview specifically mentions the future California State Teachers' Retirement System (CalSTRS) liabilities as one of the outstanding obligations.

Beyond suggesting an alternative interpretation of the Proposition 98 General Fund Maintenance Factor, which would reduce the amount of General Fund provided to schools from previous years by about \$2.9 billion in 2013-14, the LAO found the mix of one-time and ongoing education spending in the May Revision reasonable, and supported the overall framework of the Governor's Local Control Funding Formula (LCFF). The LAO found the May Revision adult education proposal generally promising and was supportive of the special education backfill as a result of the federal sequestration.

The overview also points out a number of issues regarding the proposed \$1 billion one-time augmentation for Common Core implementation, including whether or not these funds are being used for the highest priority of the state, given the other programs that have been reduced over the past several years. It also suggests existing federal, state, and local resources be considered in the mix for Common Core implementation.

Finally, the LAO points out that that the May Revision doesn't include the additional General Fund calculations associated with the Education Protection Account, which they estimate at \$68 million per year in 2012-13 and 2013-14. They recommend reducing expenditures to build in these costs and maintain spending at the minimum Proposition 98 guarantee in both years.

Given the pressing demands for restorations of past budget cuts, the next few weeks will show whether the Legislature will act on the LAO's more optimistic revenues forecast.

—**Jeff Bell**

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