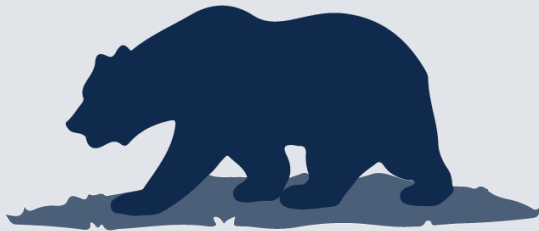


Introduction to the Legislative Analyst's Office (LAO) and Fiscal Overview



Presented to:

CSMFO

February 1, 2023

Legislative Analyst's Office

Presentation Outline

- **Introduction to the LAO**
- **Historical Fiscal Trends**
- **LAO Fiscal Outlook**
- **Economic Outlook**
- **Governor's Budget**

Introduction to the LAO

History of LAO



LEGISLATURE IN DEADLOCK ON SPENDING

Four Important Measures
Disposed of Yesterday
Assembly Session

LABOR BILL DEBATED

No Progress Is Made on
Committee's Budget
Controversy

1937

Modern Tribune, Number 135, 15 April 1937—
LEGISLATURE IN DEADLOCK ON SPENDING



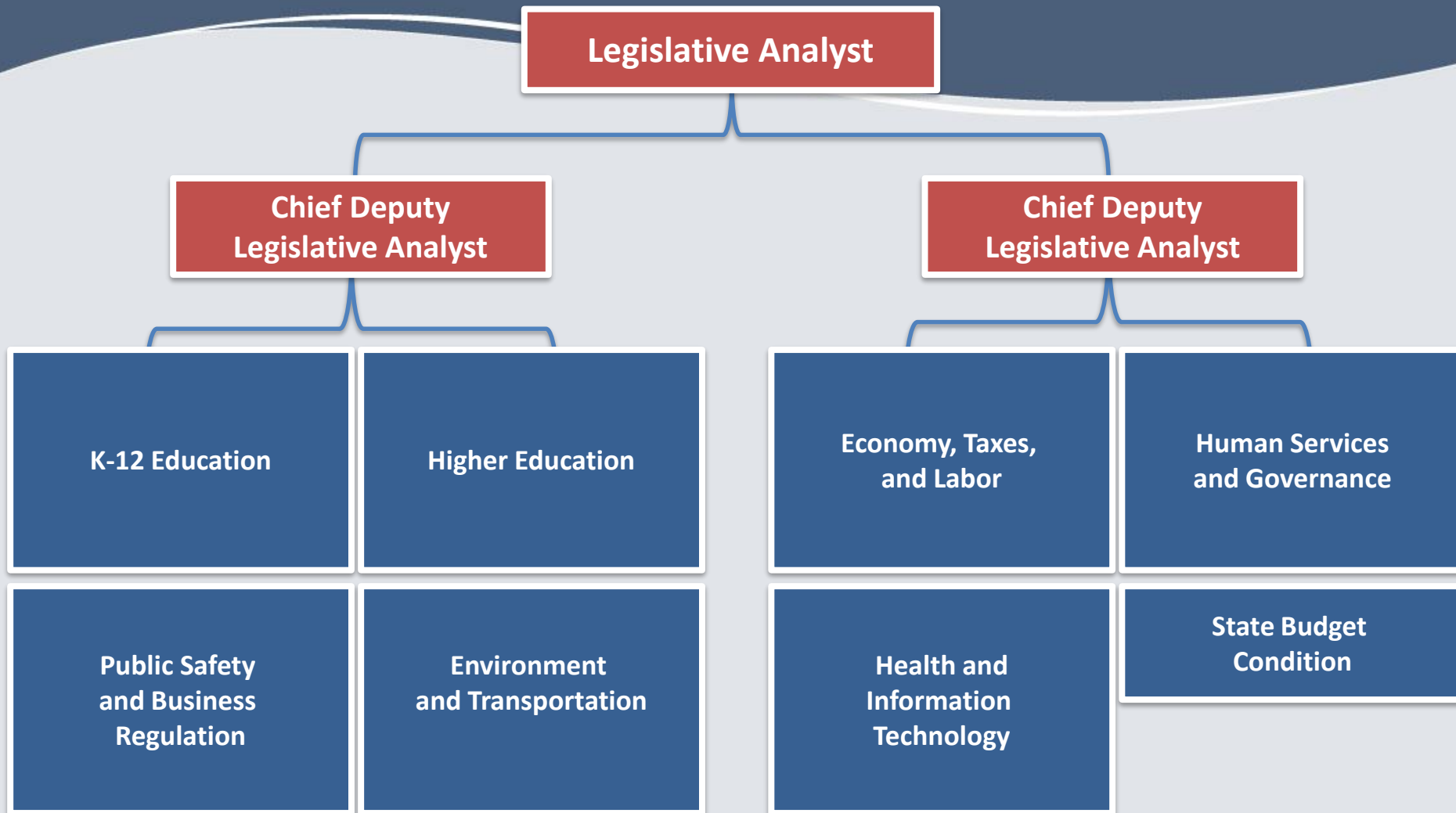
Mission



to ascertain facts and
make recommendations to the Legislature
concerning the State Budget

with a
view of reducing the cost of the State Government, and secur-
ing greater efficiency and economy.

Organization



Responsibilities



Budget-Related Work



Initiative and Ballot Measure Work



Program Evaluations and Policy Studies



Member Requests



Self-Generated Projects

Work Year

January-March

Budget Analyses
(Governor's Budget)

Budget Hearings

Budget Drills &
Member Requests

April-June

Budget Analyses
(May Revision)

Budget Hearings

Budget Closeout

Ballot Analyses

July-September

State Spending Plan

Evaluations, Studies,
and Research

October-December

Budget Outlook

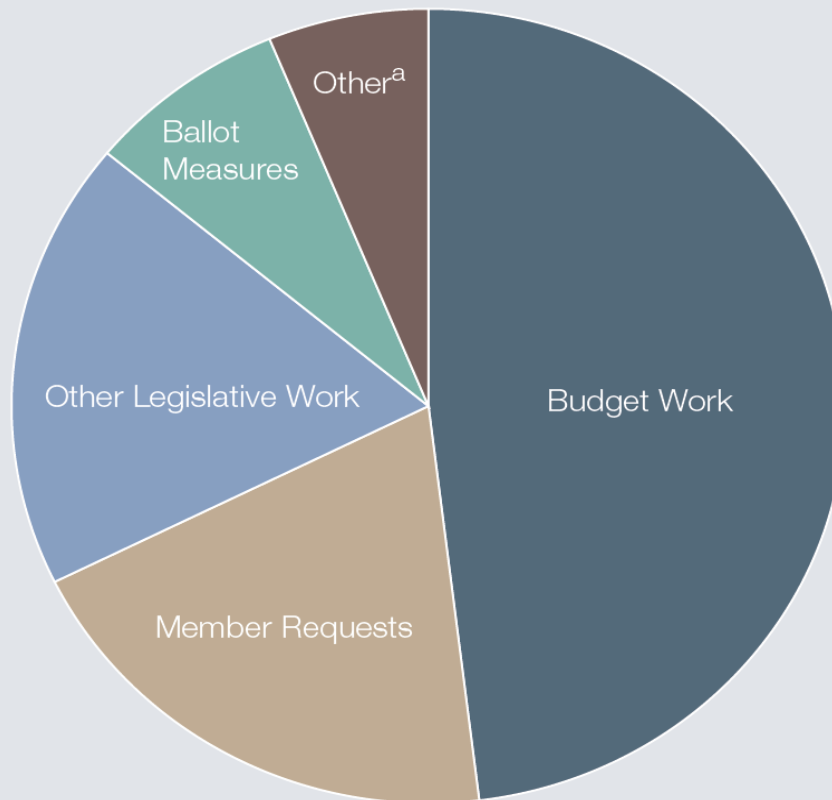
Informational
Hearings

Budget Drills &
Member Requests

Evaluations, Studies,
and Research

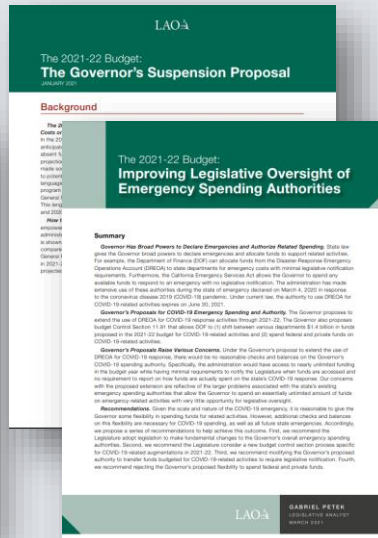
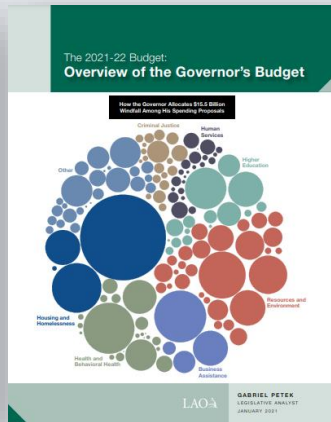
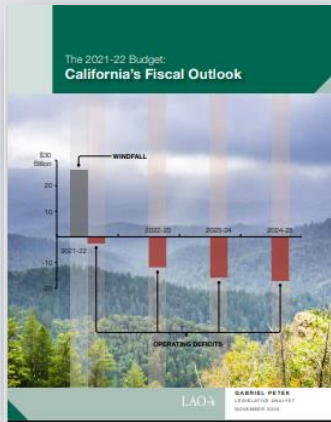
Workload

Share of Products by Area, 2021



^a Consists of self-generated reports.

Budget Report Series



November

January

February,
March,
April

May & June

July-
October

Other Products

Strengthening the CalSTRS Funding Plan

Reducing the Destructiveness of Wildfires: Promoting Defensible Space in California

What Can We Learn From How the State Responded to the Last Major Drought?

Follow-Up Evaluation of the District of Choice Program

Overview of Special Education Funding Models

Summary

For the second consecutive year, the state is experiencing extremely low rates of precipitation. As we prepare for what may be a third consecutive year of low precipitation, we look back at how the state responded to the last major drought, the 2012-13 drought, and what we can learn from that experience. This report provides an overview of the state's response to the drought, including the state's emergency response, the state's long-term response, and the state's response to the drought's impact on the economy.

Summary

Since the 1970s, federal law has required public schools to provide special education services to students with disabilities that interfere with their ability to learn. Schools in California cover special education costs through a combination of local unrestricted, state categorical, and federal categorical funding. The 2021-22 budget package specifies that state special education funds will only be allocated in the 2022-23 budget if statutory changes designed to improve the academic outcomes of students with disabilities are included in the budget. These changes may include modifications to the existing funding allocations, clarification of different roles and responsibilities within the special education system, and expansion of inclusive practices.

To help inform future discussions, this brief provides an overview of special education models used by California and other states and provides the Legislature with a framework for evaluating these models. The brief begins by providing background on the state's current funding allocation formula for special education. California provides most special education funding based on overall student attendance, with roughly 16 percent of state special education funding provided through other programs based on alternative formulas and/or for specific types of special education services, including those for students with higher-cost disabilities. The brief also describes the four primary models used by states to distribute special education funding to schools—cost-based, weighted, reimbursement, and resource-based.

Next, the brief sets forth a simplified framework that describes three key criteria for evaluating special education funding models: (1) appropriate fiscal incentives, (2) alignment of funding and costs, and (3) transparency and ease of implementation. These criteria were developed based on our review of the academic literature. The brief concludes by offering some issues for the Legislature to consider. Specifically, we note that (1) all funding models have specific strengths and weaknesses, (2) legislative policy priorities and state context should drive changes to the funding formula, (3) the state can also make changes within its existing funding system, and (4) other changes are likely required to address key policy priorities.

LAO

GABRIEL PETEK | LEGISLATIVE ANALYST
DECEMBER 2021

Example of Budget Work: Analyzing Higher Education Compacts

Governor Has Long List of Higher Education Expectations

Expectations Specified in Governor's 2022-23 Budget Summary

	CCC	CSU	UC
Access			
Increase resident undergraduate enrollment annually		X	X
Maintain minimum proportion of new transfer students		X	X
Increase graduate enrollment			X
Student Success and Equity			
Increase student completions rates by specified amounts	X	X	X
Decrease average units to completion and time to completion	X		
Increase number of students transferring to CSU and UC	X		
Annually publish specified student completion rates	X		
Advance re-enrollment campaigns and establish retention goals		X	
Expand credit opportunities in interessions and summer sessions		X	
Increase the number of students completing a degree in four years		X	
Establish a goal to increase the number of students completing a degree in four years		X	
Establish a goal to increase the number of students completing a degree in four years		X	
Affordability			
Create debt-free pathway for every undergraduate student			X
Reduce textbook and instructional material costs		X	X
Increase proportion of new revenue set aside for financial aid			X
Include student learning benefits in financial aid calculations			X
Intersegmental Cooperation			
Fully participate in the California Community College System	X	X	X
Support campuses in adopting a common learning management system	X	X	X
Develop common tool to identify trends to address equity gaps	X	X	X
Support efforts to establish common integrated admissions platform	X	X	X
Workforce Alignment			
Increase percentage of high school students completing a semester of college credit through dual admission	X		
Establish baseline for prior-learning credit and launch new direct-assessment competency-based education programs	X		
Increase percentage of completing students earning a living wage	X		
Establish/expand programs in early education, education, health care, and climate action fields	X		
Establish coordinated educational pathways for high school students in education, health care, technology, and climate action fields	X	X	X
Develop new transfer pathways in education, health care, technology, and climate action fields		X	X
Increase number of early education degree pathways available to students		X	
Increase number of students enrolling in early education, education, STEM, and social work fields		X	
Increase number of students graduating with early education, education, STEM, and academic doctoral degrees			X
Establish goal to enable all students to participate in at least one semester of undergraduate research, internships, or service learning		X	X
Double opportunities for students who want research assistantships or internships		X	
Online Education			
Increase online course offerings above pre-pandemic levels		X	X
Increase concurrent online enrollment		X	
Expand digital tools for students to access online learning materials		X	

STEM = science, technology, engineering, and mathematics.

Governor's Budgetary Approach
Sidesteps Legislature

Example of Ballot Measure Work: Analyzing Death Penalty Measures

PROP 62 DEATH PENALTY. INITIATIVE STATUTE.

SUMMARY

Repeals death penalty and replaces it with life imprisonment without possibility of parole. Applies retroactively to existing death sentences. Increases the portion of life inmates' wages that may be applied to victim restitution. Fiscal Impact: Net ongoing reduction in state and county criminal justice costs of around \$150 million annually within a few years, although the impact could vary by tens of millions of dollars depending on various factors.

**California
General
Election
Tuesday
November 8, 2016**

Polls Are Open From 7:00 a.m. to 8:00 p.m. on Election Day

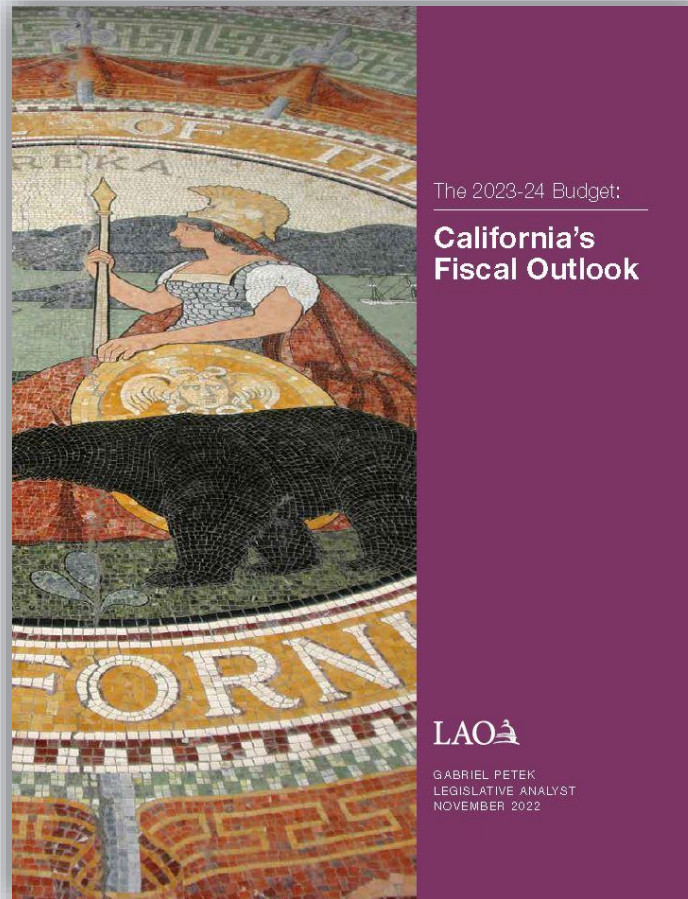
PROP 66 DEATH PENALTY. PROCEDURES. INITIATIVE STATUTE.

SUMMARY

Changes procedures governing state court challenges to death sentences. Designates superior court for initial petitions and limits successive petitions. Requires appointed attorneys who take noncapital appeals to accept death penalty appeals. Exempts prison officials from existing regulation process for developing execution methods. Fiscal Impact: Unknown ongoing impact on state court costs for processing legal challenges to death sentences. Potential prison savings in the tens of millions of dollars annually.

***** OFFICIAL VOTER INFORMATION GUIDE *****

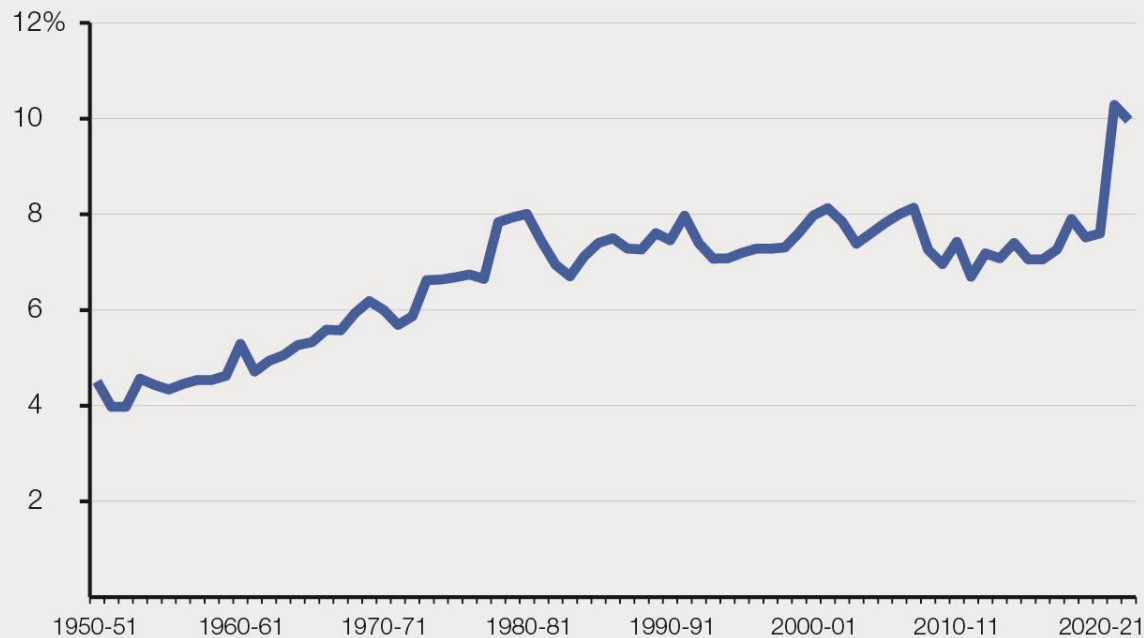
Budget Report Series Initiation



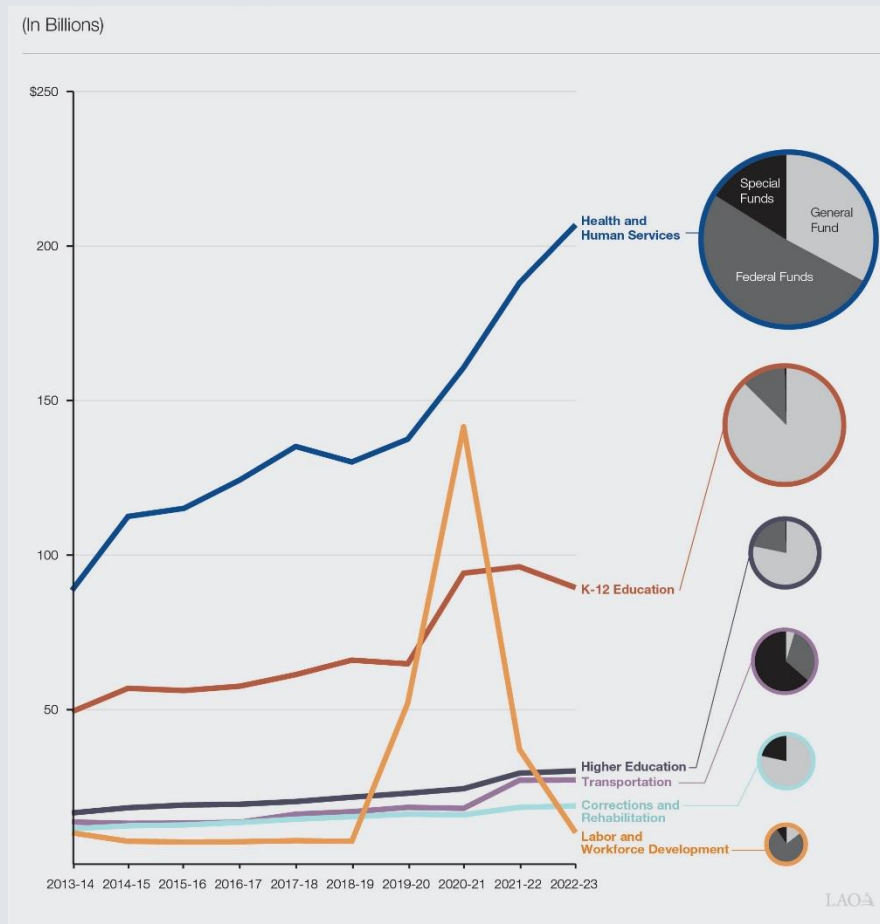
Historical Fiscal Trends

Before 2020, State Spending as a Share of the Economy Was Flat Since Late 1970s

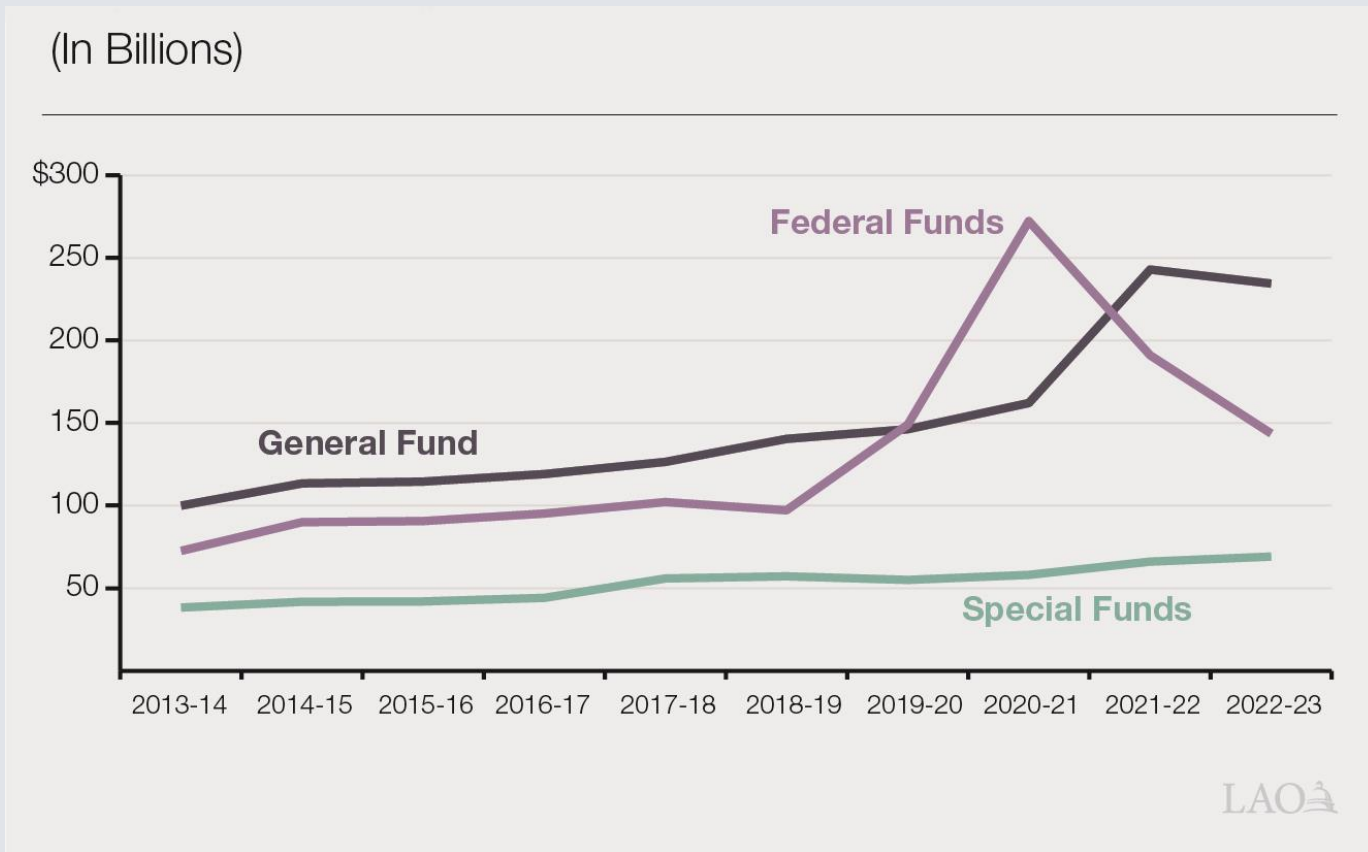
General Fund and Special Funds as Percent of Personal Income



Changes in Spending by Area Since 2013-14

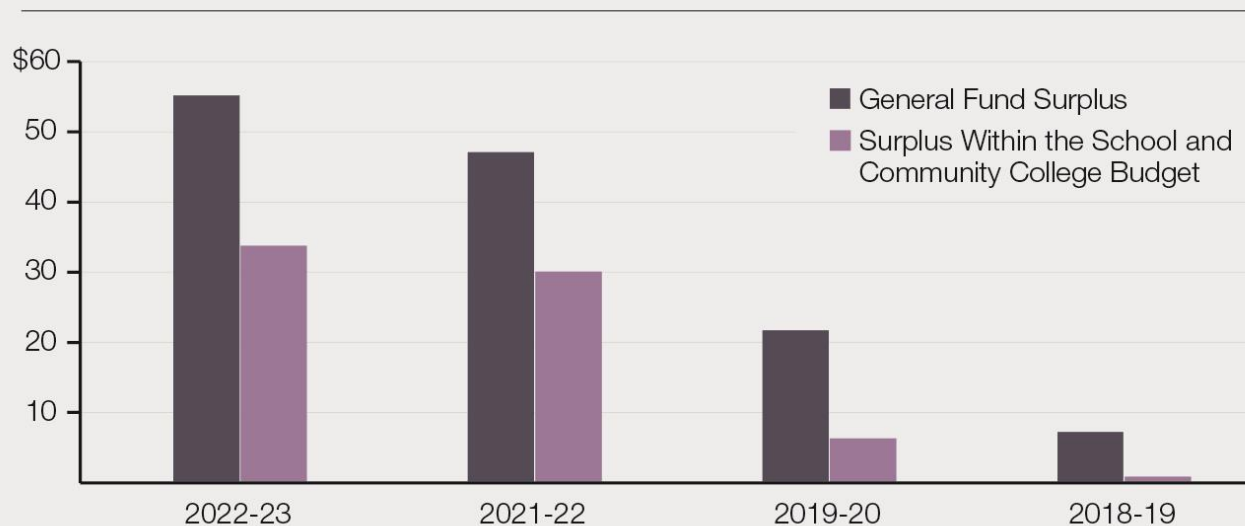


Expenditures by Fund Source



Recent Budgets Have Allocated \$202 Billion in Surpluses

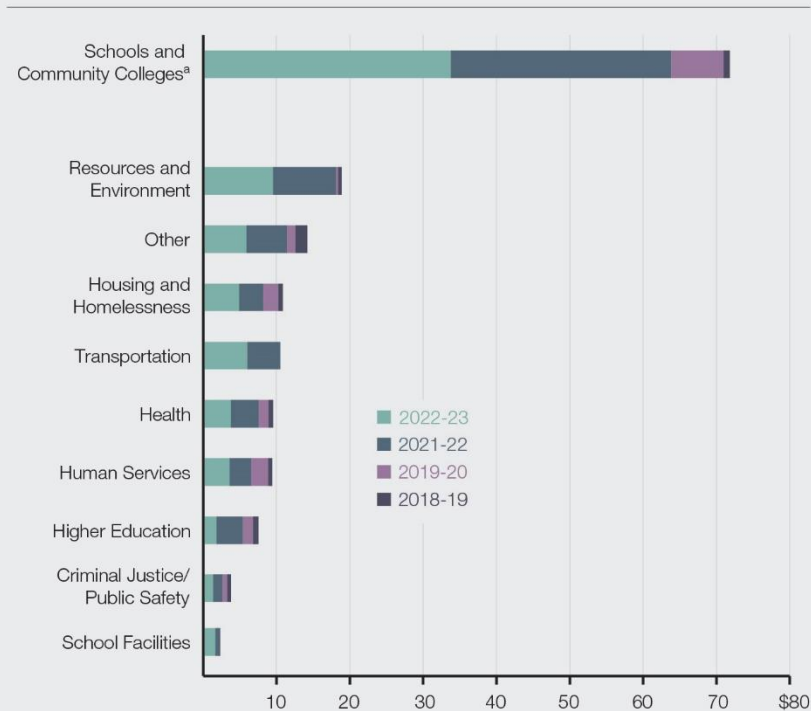
General Fund Surpluses (\$131 Billion) and
Surpluses Within the Schools and Community Colleges Budget (\$71 Billion)
(In Billions)



LAO

How Recent Surpluses Have Been Spent

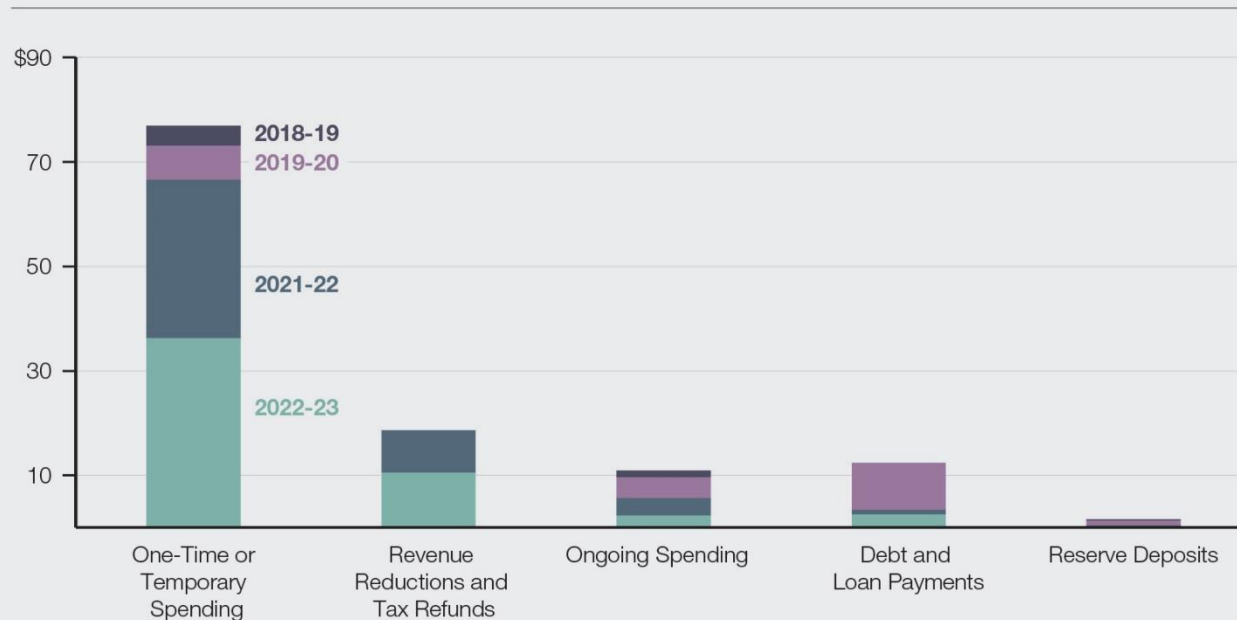
General Fund Surpluses (\$131 Billion) and
Surpluses Within the Schools and Community Colleges Budget (\$71 Billion)
(In Billions)



^a Includes General Fund and local property tax revenue.

Legislature Has Mostly Dedicated General Fund Surpluses to One-Time and Temporary Spending

(In Billions)



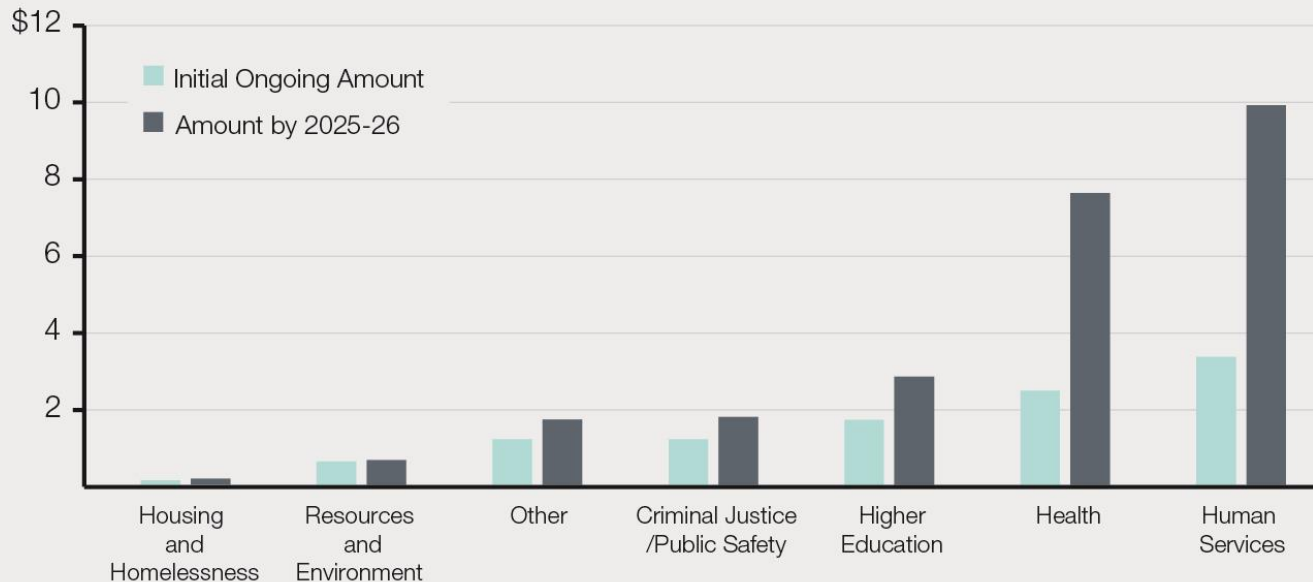
SFEU = Special Fund for Economic Uncertainties.

Note: Includes General Fund surplus only. Figure excludes annual allocation of surplus to SFEU balances, which are not additive.

LAO

Ongoing Augmentations Expected to Grow Considerably, Especially in Health and Human Services

(In Billions)



Note: Includes General Fund surplus only.

LAO

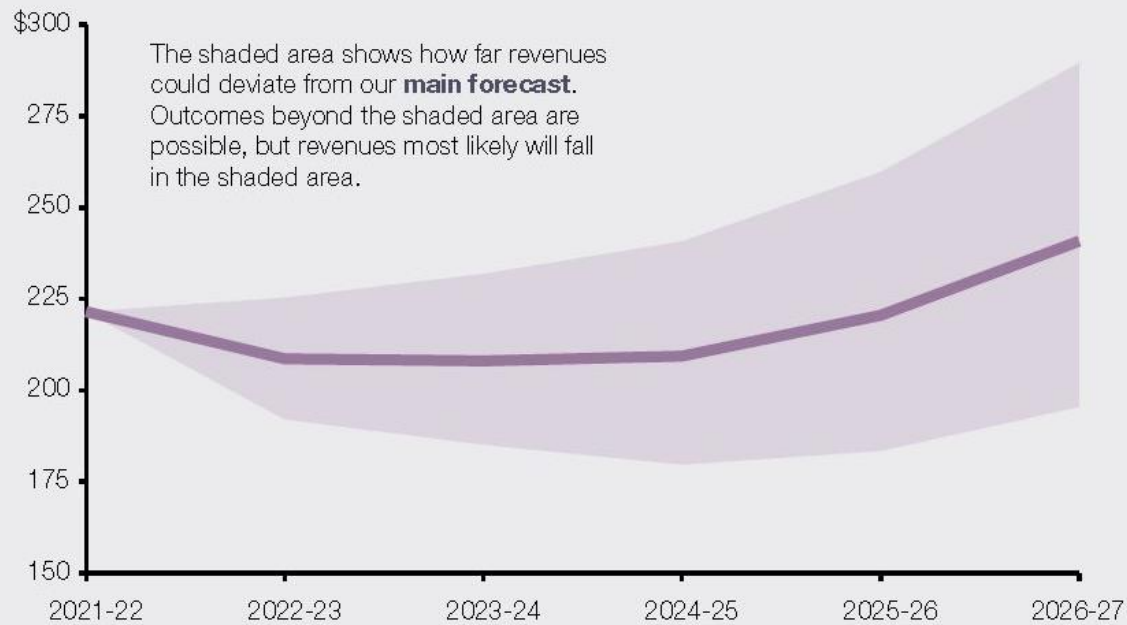
Recent Ongoing Appropriations Will Continue to Grow



LAO Fiscal Outlook

Economic and Revenue Outlook

General Fund Revenue, Excluding BSA Transfers (In Billions)



BSA = Budget Stabilization Account.

LAO

General Fund Condition Across Budget Window

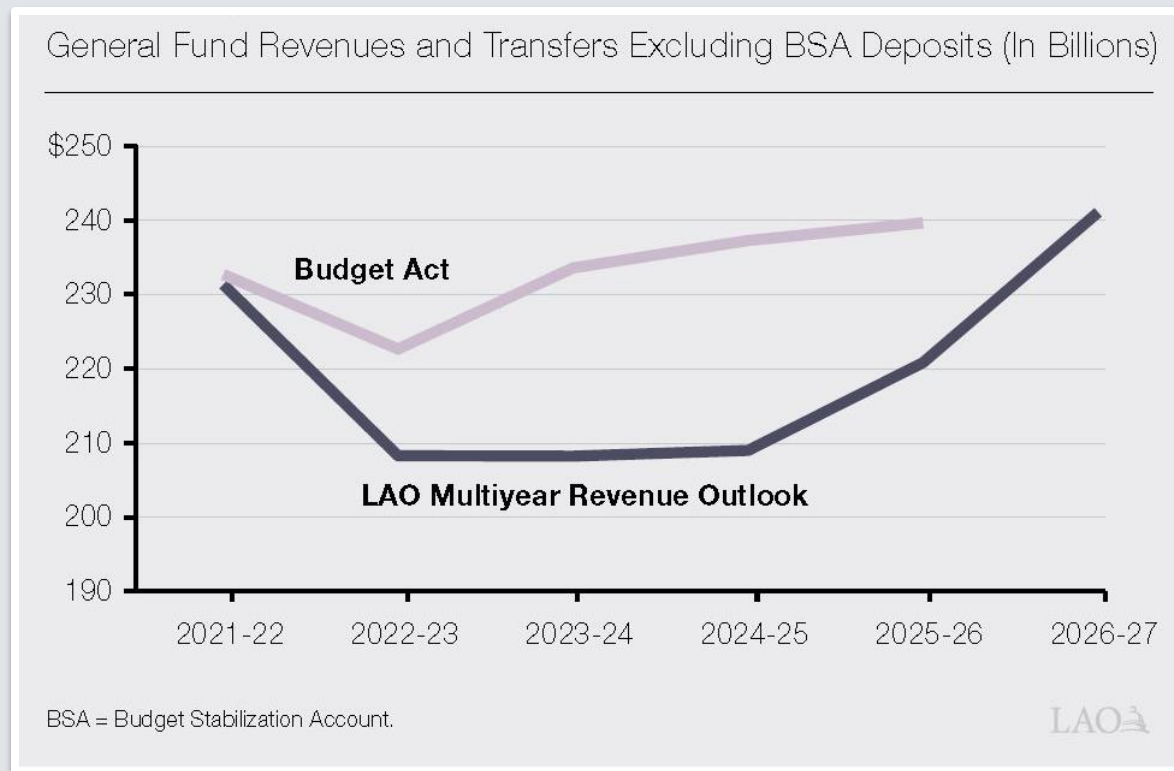
General Fund Condition Under Fiscal Outlook

(In Millions)

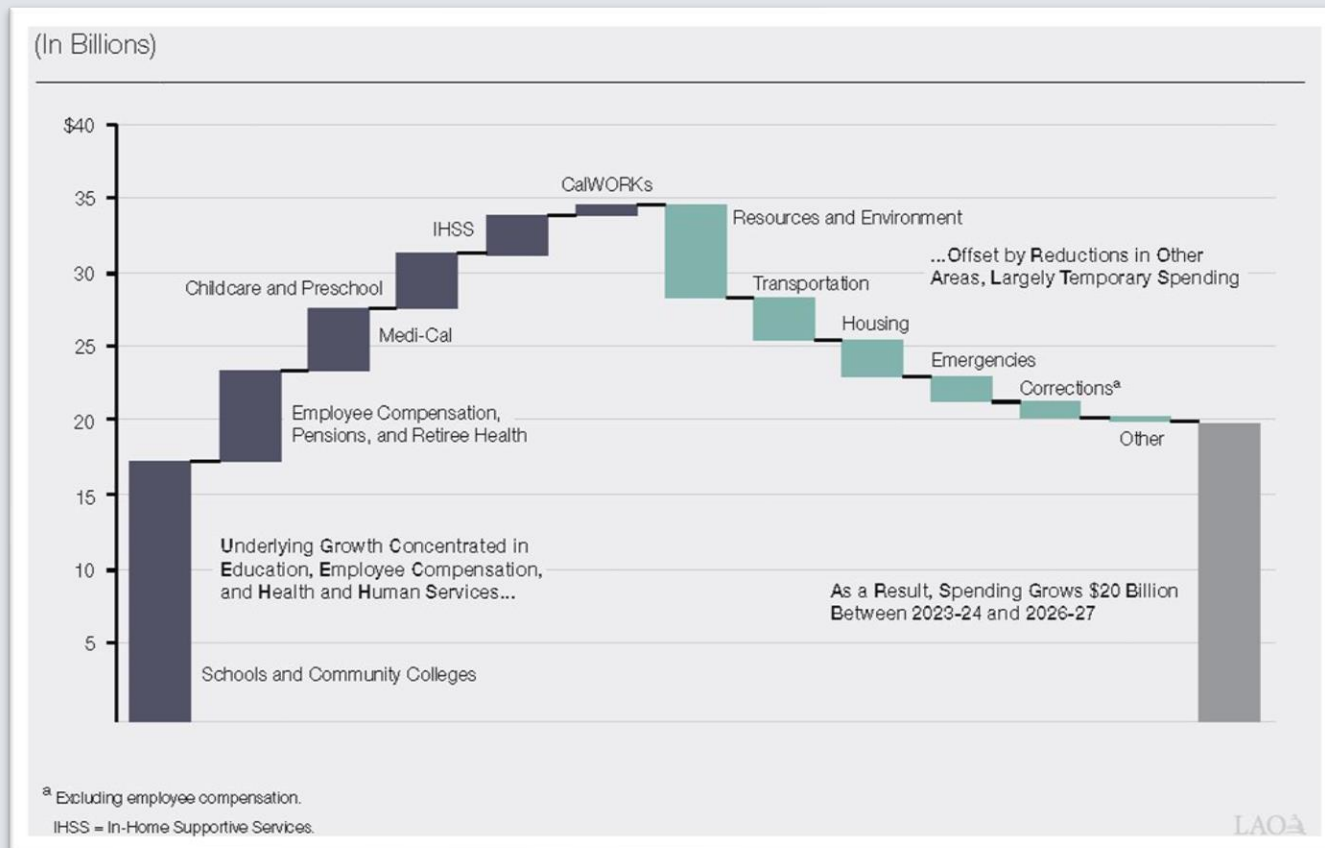
	2021-22	2022-23	2023-24
Prior-year fund balance	\$38,334	\$19,885	-\$1,166
Revenues and transfers	224,089	208,280	208,252
Expenditures	242,539	229,331	226,486
Ending Fund Balance	\$19,885	-\$1,166	-\$19,400
Encumbrances	\$4,276	\$4,276	\$4,276
SFEU Balance	\$15,609	-\$5,442	-\$23,676
Reserves			
BSA balance	\$21,925	\$21,925	\$21,925
Safety Net Reserve	900	900	900

SFEU = Special Fund for Economic Uncertainties.

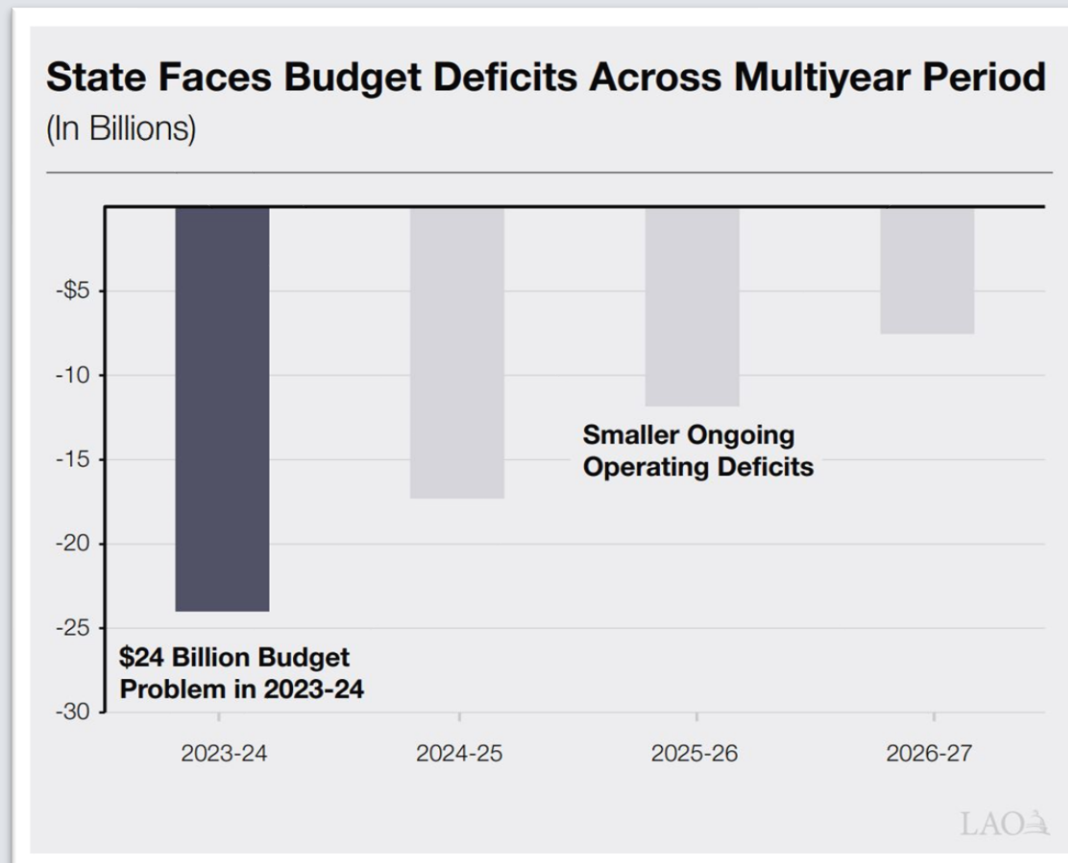
Revenue Outlook Underpins Fiscal Outlook



Ongoing Spending Drives Overall Growth

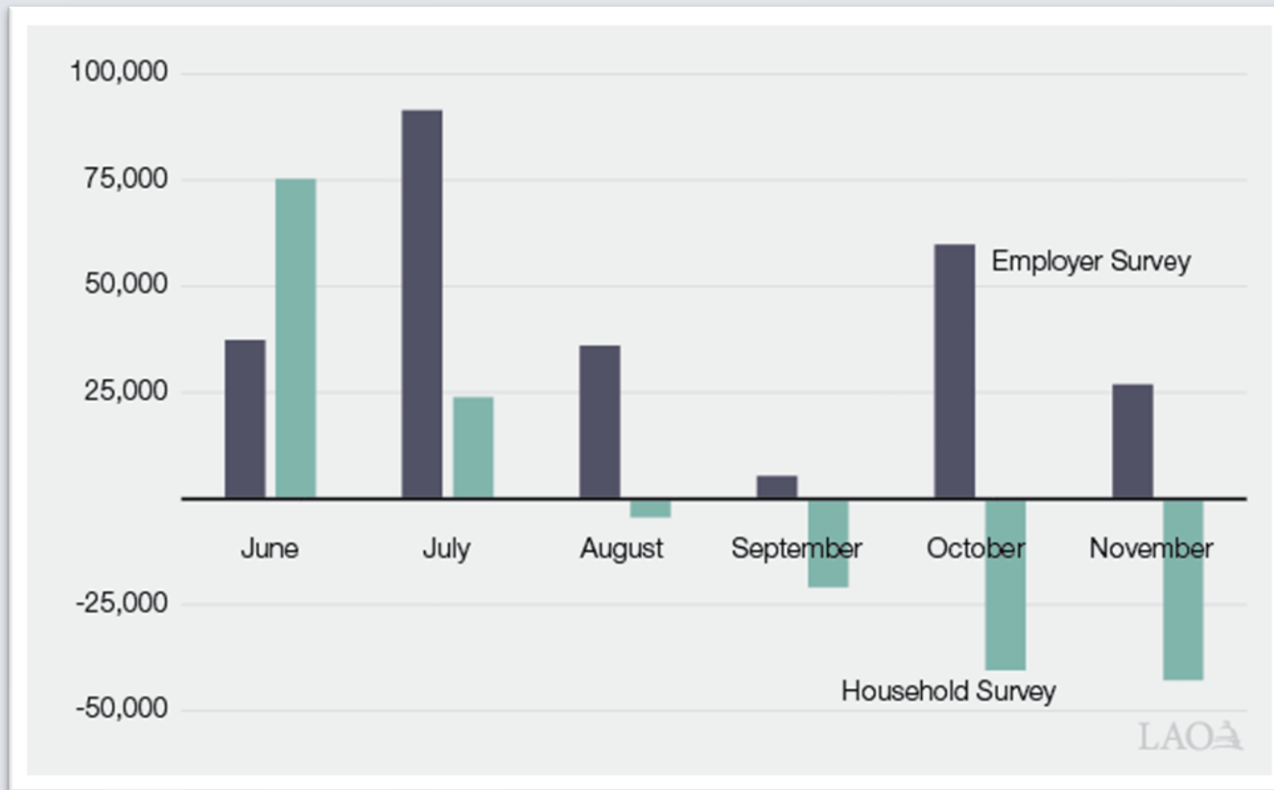


Projected Budget Deficits

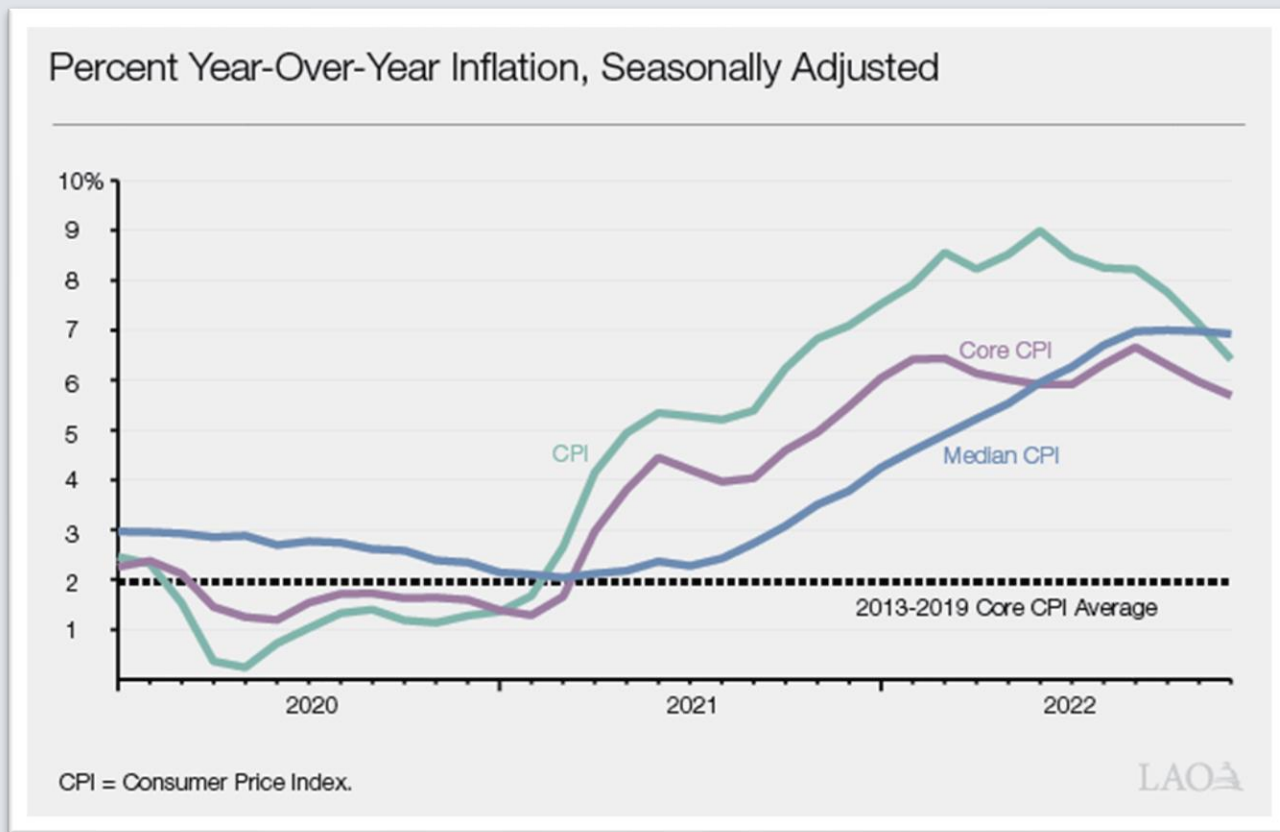


Economic Outlook

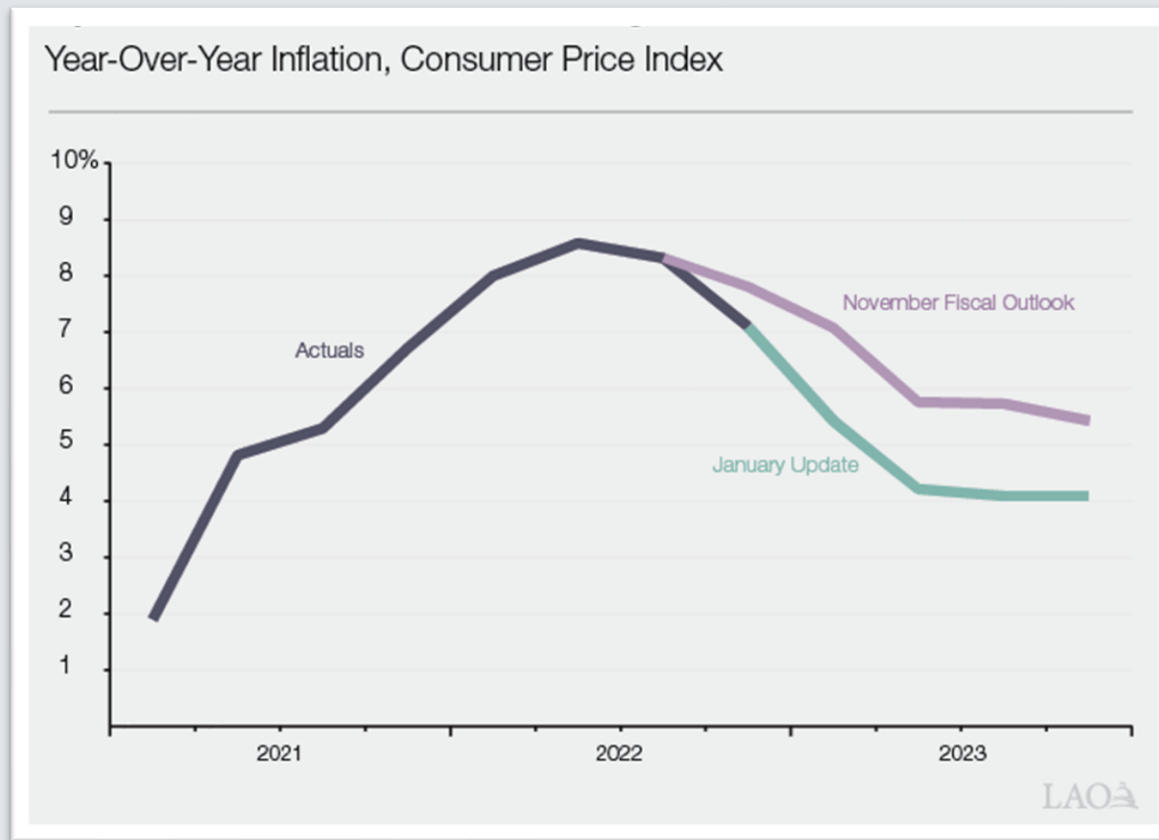
Main Jobs Report Has Shown Gains, But Household Survey Has Shown Recent Job Losses Here



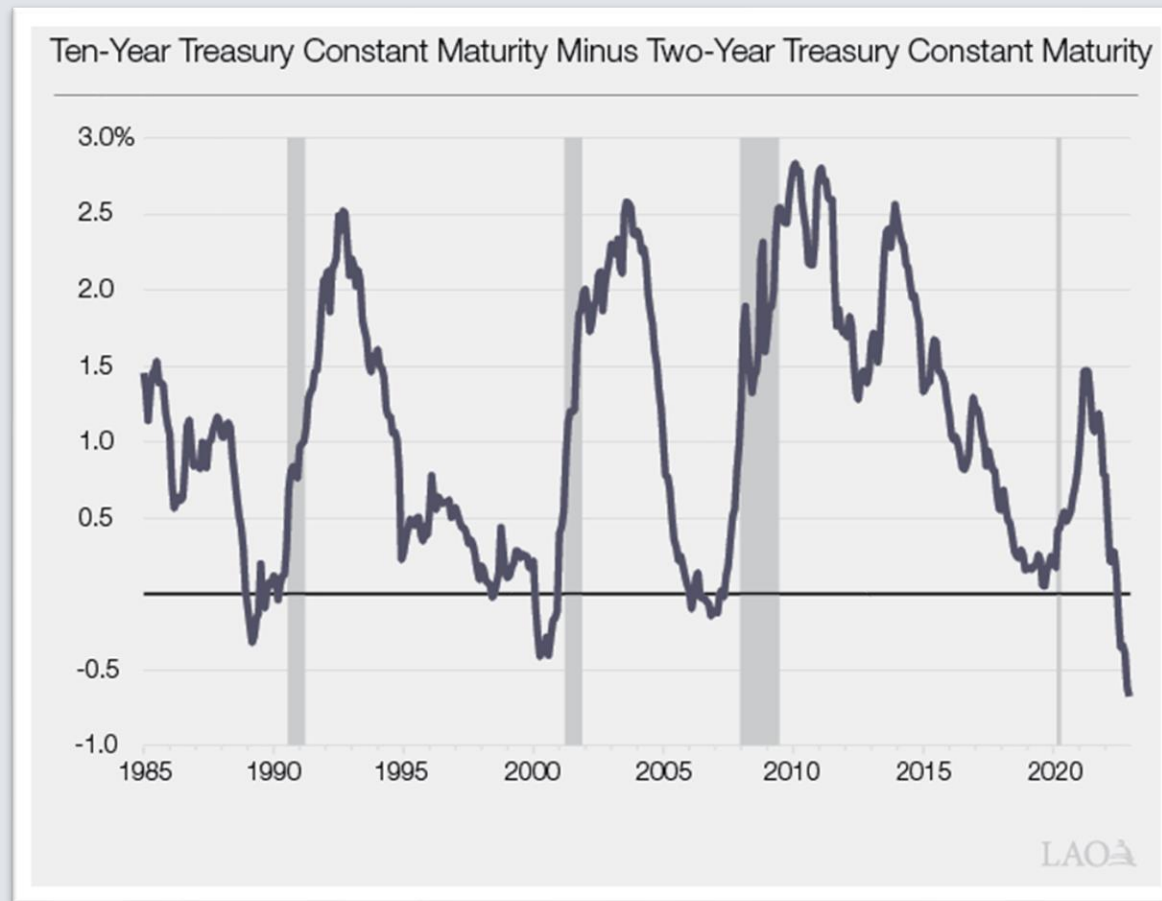
Annual Inflation Has Increased Substantially, But Declined in Recent Months



Updated LAO Forecast Shows Significant Decline in Inflation

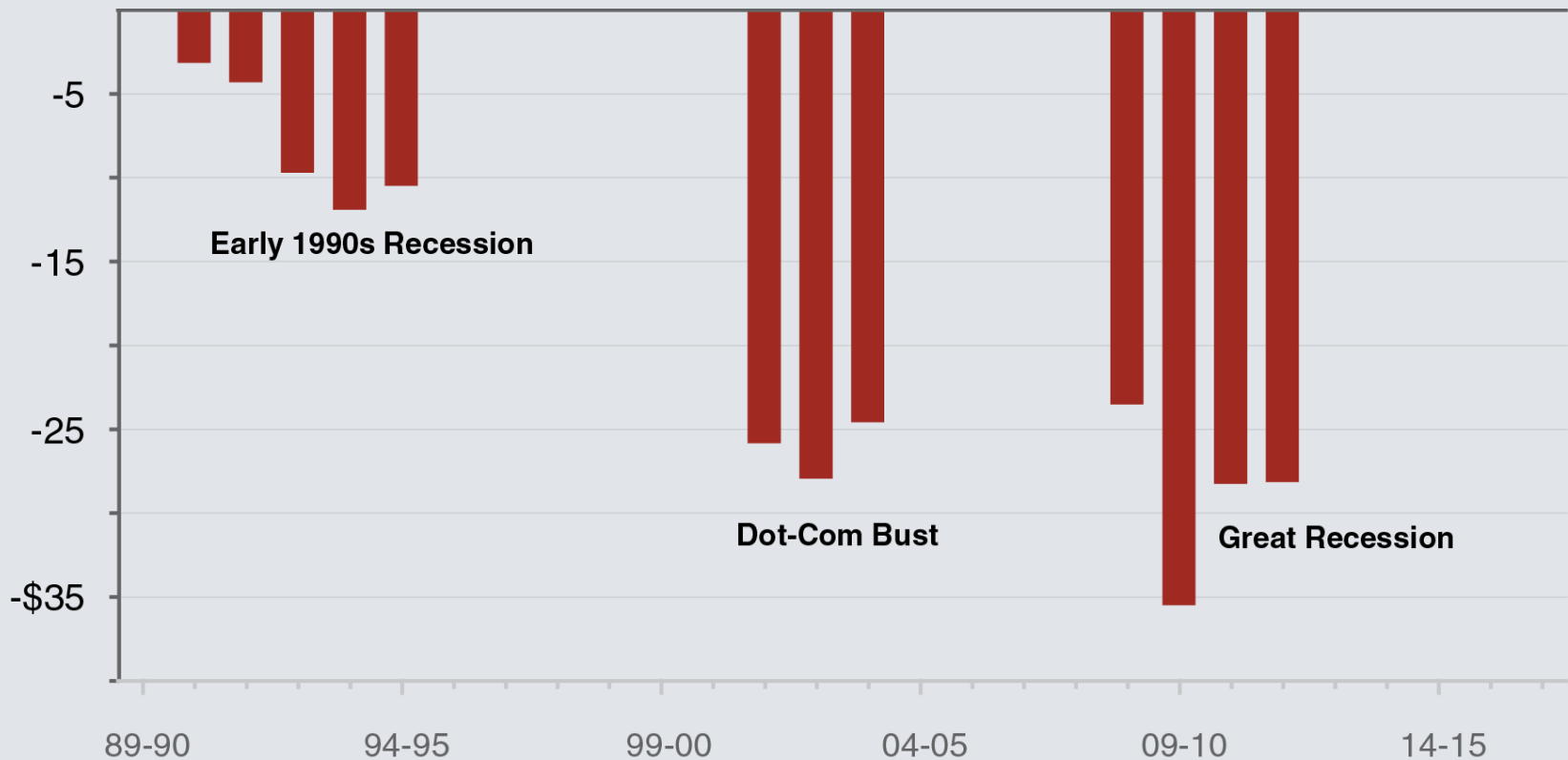


Inverted Yield Curve Tends to Precede Recessions

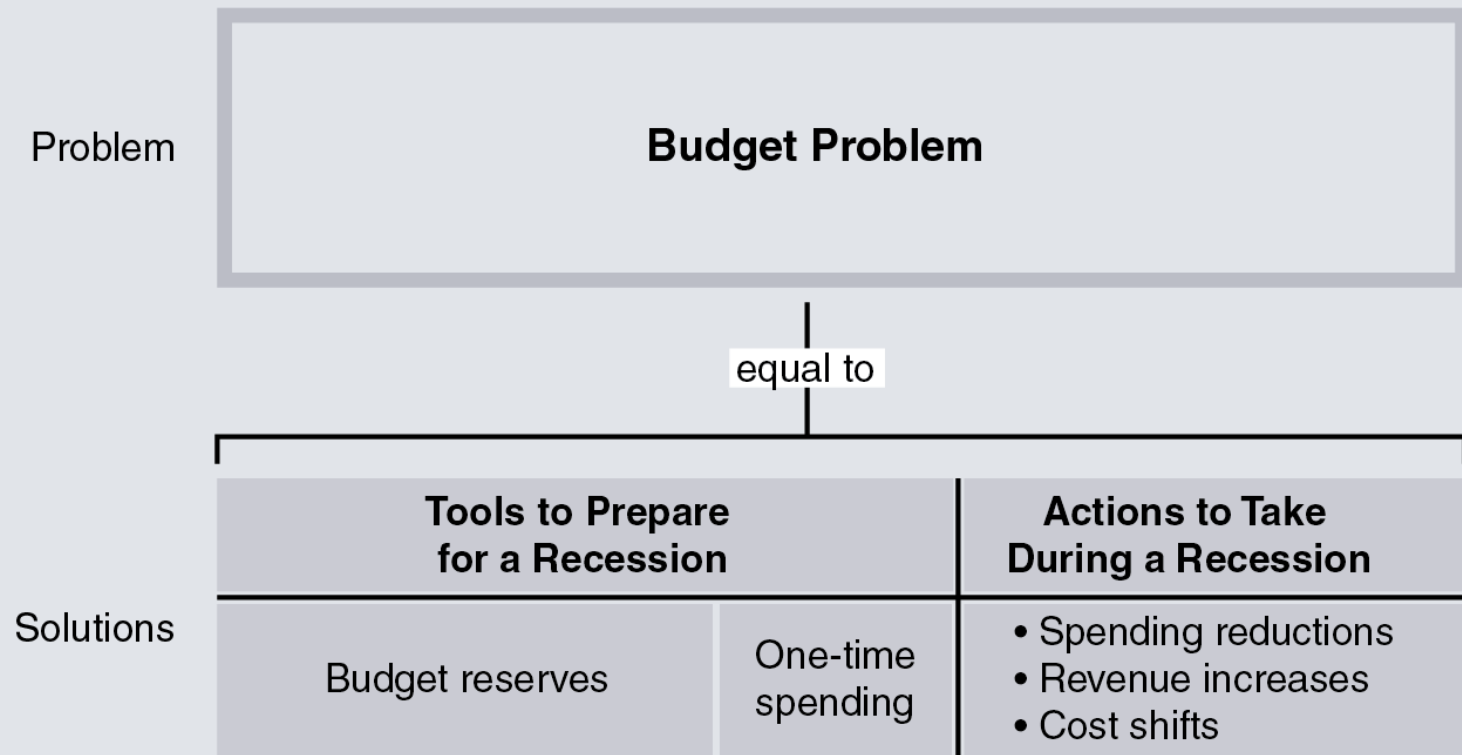


Annual Estimated Tax Revenue Losses by Recession

Inflation Adjusted, in 2017-18 Dollars (In Billions)

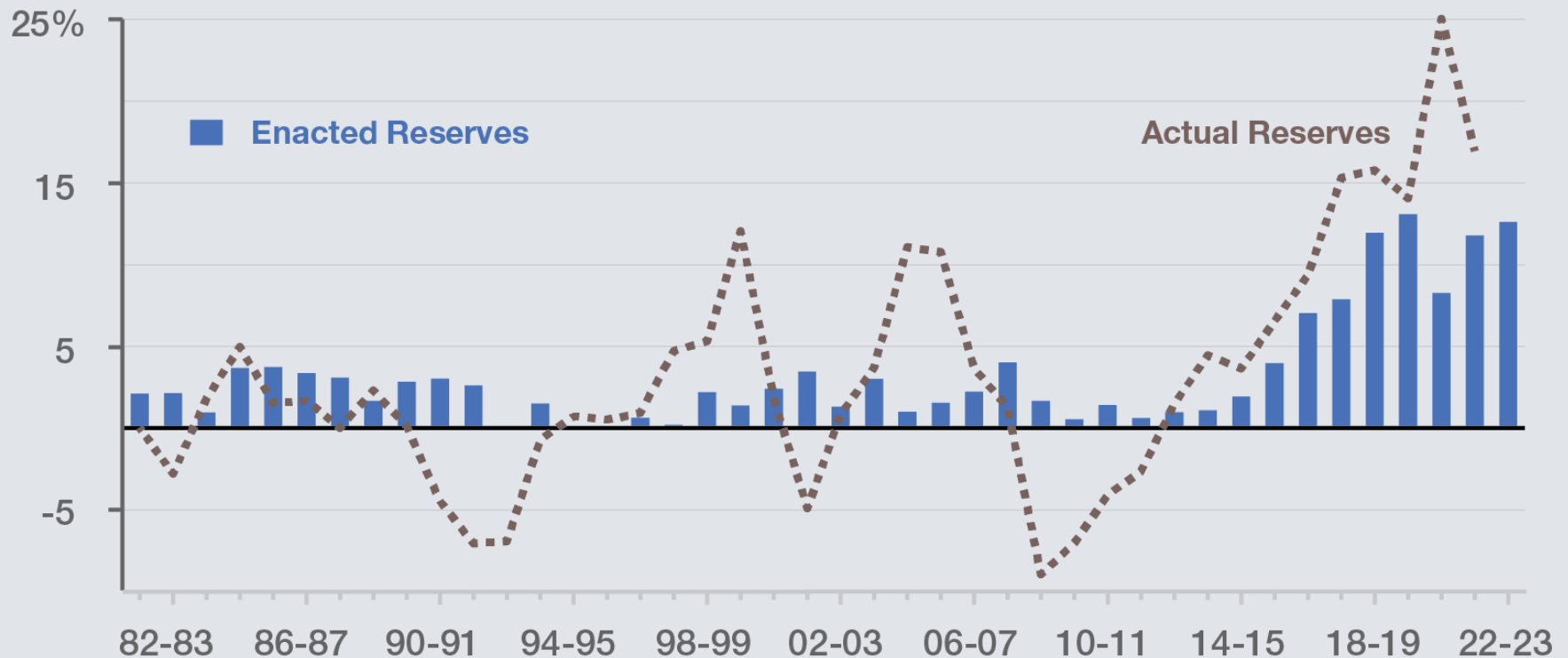


How the State Addresses a Budget Problem



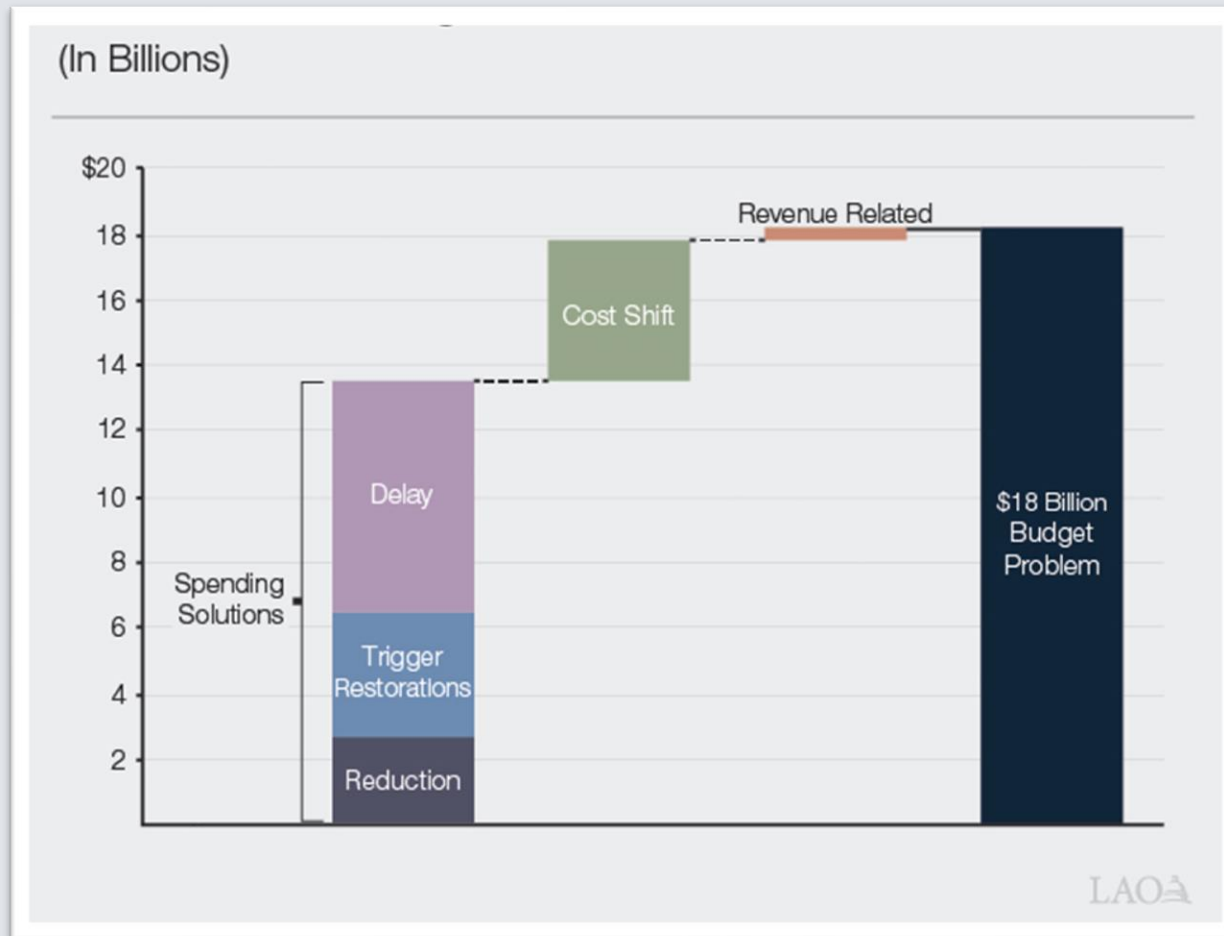
Reserves Today at Historically High Levels

Reserves as a Share of Revenues and Transfers



Governor's Budget

Governor's Budget Includes \$18 Billion in Budget Solutions



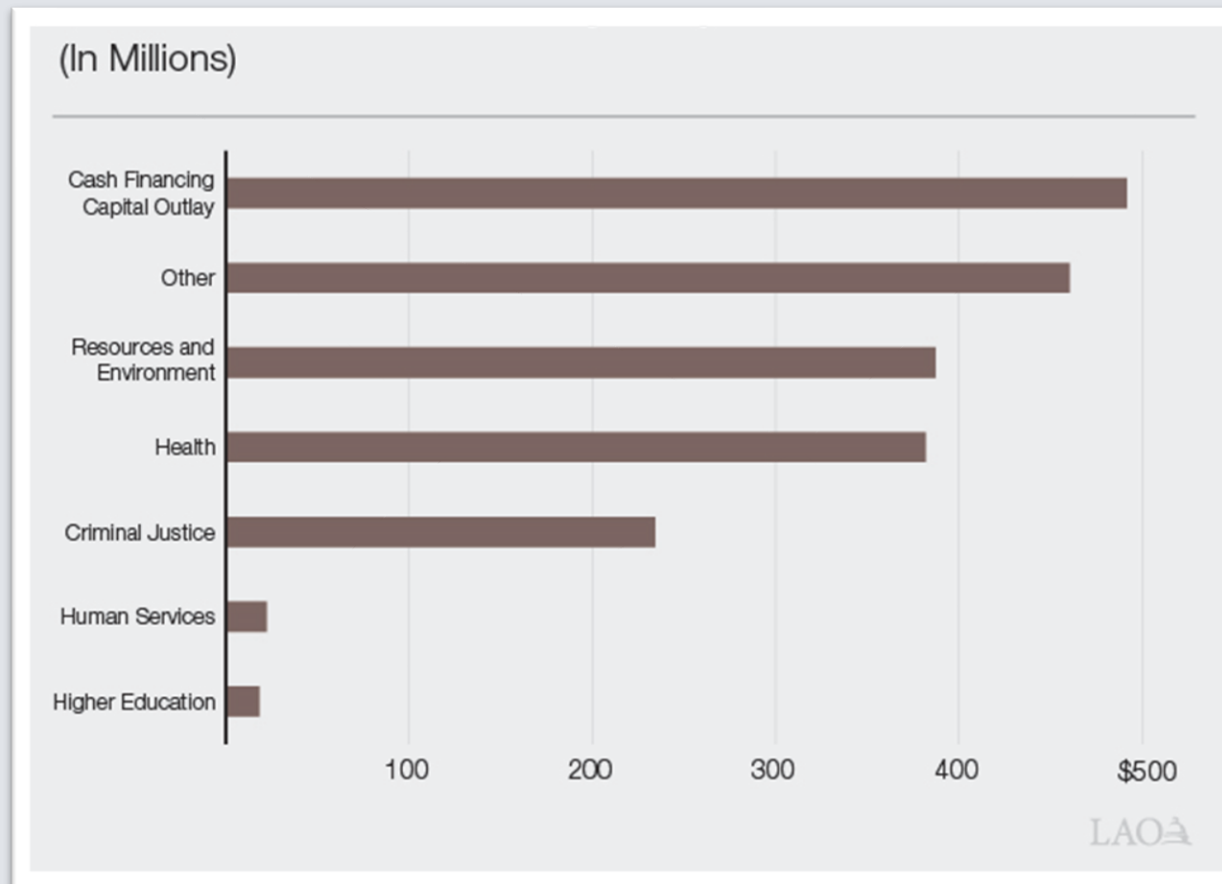
General Fund Condition Summary

(In Millions)

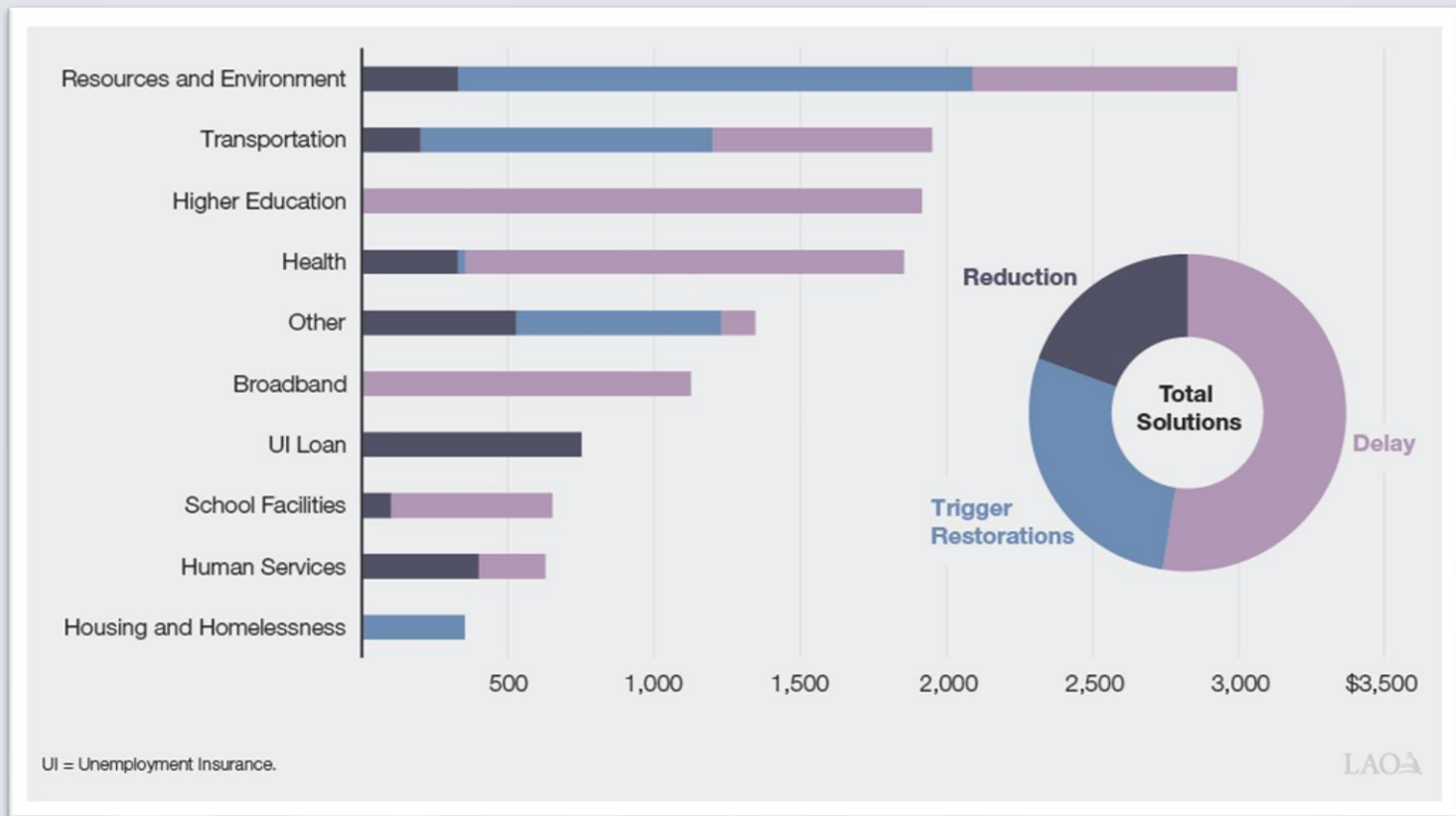
	2021-22 Revised	2022-23 Revised	2023-24 Proposed
Prior-year fund balance	\$41,102	\$52,713	\$21,521
Revenues and transfers	233,891	208,883	210,174
Expenditures	222,280	240,076	223,614
Ending fund balance	\$52,713	\$21,521	\$8,081
Encumbrances	4,276	4,276	4,276
SFEU balance	48,437	17,245	3,805
Reserves			
BSA	\$19,867	\$21,487	\$22,398
SFEU	48,437	17,245	3,805
Safety net	900	900	900
Total Reserves	\$69,204	\$39,632	\$27,103

BSA = Budget Stabilization Account and SFEU = Special Fund for Economic Uncertainties.

Governor's Budget Includes \$2 Billion in Discretionary Proposals



Most Spending Solutions Are Trigger Restorations or Delays



Questions?



lao.ca.gov

