

March 16, 2010

LAO Recommendations for 2010-11 K-12 Education Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

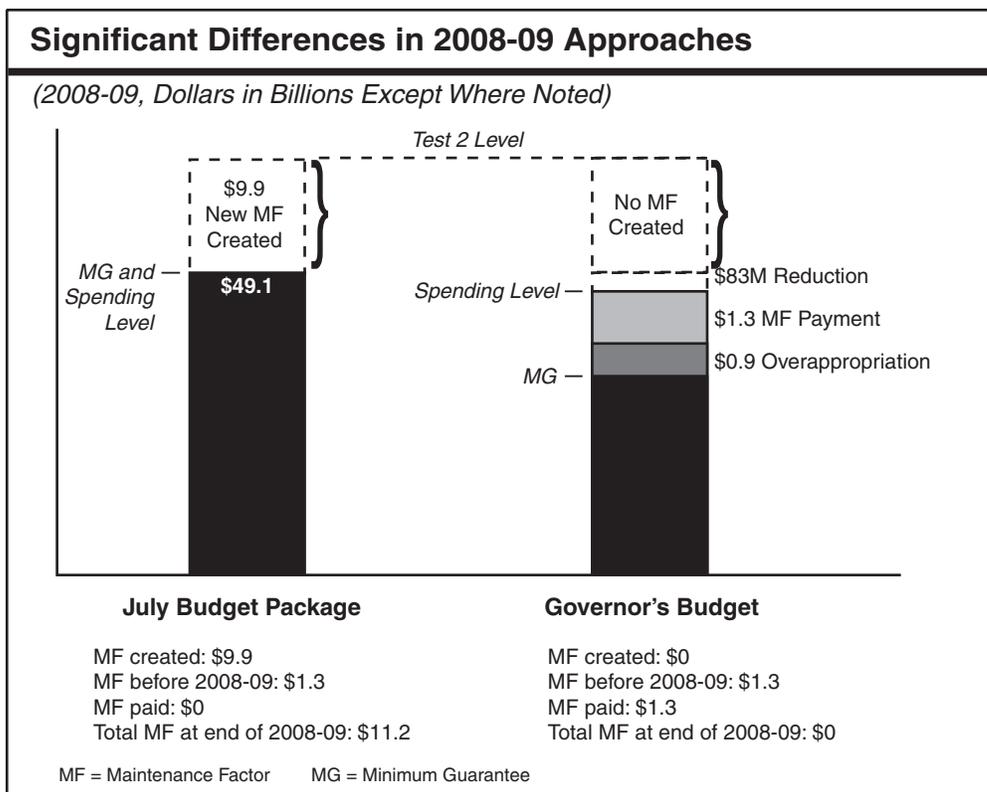
Assembly Budget Subcommittee No. 2 on
Education Finance

Hon. Wilmer Amina Carter, Chair





Governor's Revisions to 2008-09 Affect Future Proposition 98 Funding Levels

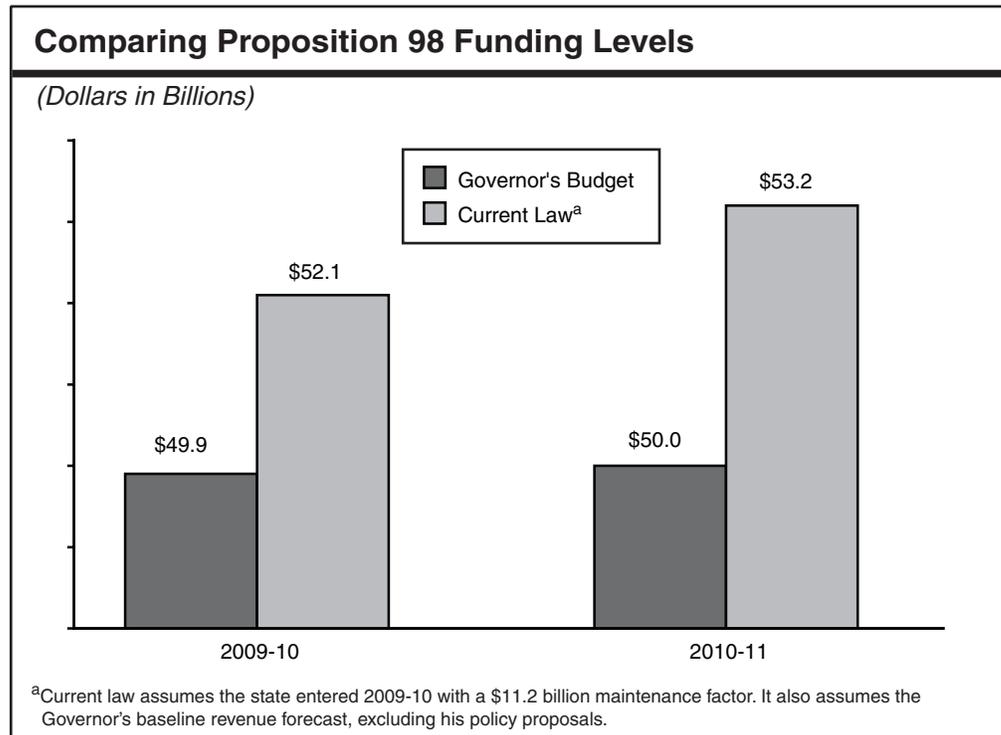


- July budget agreement:
 - Assumes state creates \$9.9 billion in new maintenance factor obligation in 2008-09 (for a total obligation of \$11.2 billion).

- Governor's budget:
 - Administration updates 2008-09 data, finds that state provided more than needed to meet the Proposition 98 minimum guarantee in 2008-09.
 - Of the spending in excess of the minimum guarantee, designates \$1.3 billion as retiring "old" maintenance factor obligation (created prior to 2008-09).
 - Assumes state does not create new maintenance factor in 2008-09.



Governor's Plan Provides Less Funding in Current and Budget Years



- The Governor's plan provides less funding in 2009-10 and 2010-11 compared to current law.
- This is largely because the administration assumes the state has no outstanding constitutional maintenance factor obligation.
- Governor proposes making \$11.2 billion of statutory "in lieu" payments beginning in 2011-12.



LAO Assessment of Governor's Proposition 98 Funding Plan

- Plan tenuously held together:
 - Based on specific constitutional interpretation counter to July agreement.
 - Minimum guarantee could go up if other revenue increases are adopted and/or finalized 2008-09 inputs change slightly.

- Two alternative funding approaches:
 - **Fund Current-Law Approach.** Requires either \$3 billion in cuts to other areas of the budget or \$6 billion in new revenues exclusively for Proposition 98 (or some combination of cuts/revenue increases).
 - **Suspend Proposition 98.** Provides maximum flexibility for the Legislature. Can fund at whatever level it chooses.



Governor's Spending Plan for K-12 Education: Reductions Primarily to Revenue Limits

- ☑ Reduces school district revenue limits by \$1.7 billion:
 - \$1.2 billion linked to proposal to reduce school district noninstructional spending.
 - \$300 million linked to proposal to ease restrictions on school districts' ability to contract for noninstructional services.
 - \$201 million linked to proposal to apply a -0.38 percent cost-of-living adjustment to most K-12 programs.

- ☑ Also reduces county office of education revenue limits:
 - \$45 million reduction linked to proposal for more consolidation of services.

- ☑ Reduces K-3 Class Size Reduction program by \$340 million in 2009-10 and an additional \$210 million in 2010-11 (for a total budget year reduction of \$550 million).



LAO Assessment of Governor's Spending Plan

- Governor's plan generally headed in right direction: makes reductions, provides additional flexibility, seeks federal funding, avoids borrowing.
- Plan misses opportunities to increase flexibility, undertake meaningful mandate reform, align existing program efforts, and leverage additional federal funding.
- LAO-recommended Proposition 98 spending plan:
 - Make targeted reductions.
 - Make additional reductions as needed to revenue limits and/or categorical programs.
 - Maximize flexibility.
 - Undertake comprehensive mandate reform.
 - Align program efforts.
 - Leverage additional federal funding.



LAO-Recommended Reductions

LAO-Recommended Reductions		
<i>2010-11 (In Millions)</i>		
Program	Recommendation	Amount
Proposition 98-Funded Programs:		
K-3 Class Size Reduction	Reduce 2007-08 level by 20 percent (consistent with other flex programs), then fold into K-12 flex item.	\$382
CCC fees	Use increase in fee (from \$26 to \$40 per unit) to fund "overcap" enrollments and reverse the Governor's proposed negative cost-of-living adjustment.	125
Economic Impact Aid	Align funding with eligible student counts.	101 ^a
Child care eligibility ceilings: Non-CalWORKs programs	Reduce from 75 percent to 60 percent of state median income for \$115 million savings. Redirect \$55 million to expand access to lowest income families. Results in net loss of about 8,000 slots.	60
Child care reimbursement rates: CalWORKs Stage 2 and 3, Alternative Payment programs	Reduce license-exempt rates from 90 to 70 percent of licensed rates.	45
County offices of education (COE)	Reduce general purpose revenue limit allocation by 10 percent. Redirect additional 10 percent into new COE regional revenue limit.	33
Charter School Facility Grant program	Align funding with program cost.	34 ^b
Child care eligibility ceilings: CalWORKs Stage 3	Reduce from 75 percent to 60 percent of state median income. Results in loss of about 4,000 slots.	15
Migrant child care	Align funding with program need.	7
Subtotal		(\$802)
Non-Proposition 98-Funded Programs:		
Quality Education Investment Act	Fund eligible schools using federal school improvement monies.	\$231
Child care reimbursement rates: CalWORKs Stage 1	Reduce license-exempt rates from 90 to 70 percent of licensed rates.	35
California Department of Education: State operations	Reduce by roughly 150 positions to align staffing with program needs.	10
Subtotal		(\$276)
Total General Fund Savings		\$1,078
^a Includes \$63 million in one-time 2009-10 savings and \$38 million in ongoing 2010-11 savings.		
^b Includes \$15 million in one-time 2009-10 savings and \$19 million in one-time 2010-11 savings. Assumes that payments are still provided on a reimbursement basis.		



LAO Flexibility Package

LAO Flexibility Package	
Program/Provision	Recommendation
After School Education and Safety (ASES)	Repeal certain provisions of Proposition 49 and include ASES in K-12 flex item. (Requires voter approval.)
Career Technical Education (CTE)	Combine funding from two CTE programs in K-12 flex item and three CTE programs outside K-12 flex item.
English Learner Acquisition Program	Shift funding into Economic Impact Aid.
Home-to-School Transportation	Include in K-12 flex item.
K-3 Class Size Reduction	Include in K-12 flex item.
Priority for substitute teaching positions	Remove requirement that districts give laid-off teachers priority for these positions and pay them at pre-layoff rates.
Quality Education Investment Act (QEIA)	Allow QEIA schools qualifying for federal school improvement funding to be subject only to federal requirements (that is, free from state QEIA requirements).
Contracting out for K-12 and CCC noninstructional services	Ease restrictions on contracting out for noninstructional services.
K-12 and CCC mandates	Eliminate many K-14 education mandates.
CCC categorical flexibility	Add to the "flex item" the Basic Skills Initiative, Extended Opportunity Programs and Services, Fund for Student Success, and Financial Aid Administration.
CCC full-time faculty	Suspend requirements on the number of full-time faculty that districts must employ.
CCC "50 Percent" law	Give districts more ability to hire faculty that provide direct support services to students by including expenditures on counselors and librarians as part of instructional costs. Alternatively, suspend the law until 2012-13.



LAO-Recommended Program Alignments

- Align local, state, and federal education data efforts.
- Align state career technical education initiatives.
- Align state and federal interventions for low-performing schools. Our recommended alignment would:
 - Save the state over \$200 million annually from 2010-11 to 2012-13.
 - Maximize effective use of over \$550 million in federal funds.
 - Make low-performing schools subject to only one set of interventions, rules.