

June 10, 2010

Comparing Proposition 98 Budget Plans

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Budget Conference Committee



Proposition 98 Basics

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- Several factors affect the Proposition 98 minimum guarantee, including:
 - General Fund tax revenues (per capita).
 - Personal income (per capita).
 - K-12 average daily attendance.
 - Prior-year Proposition 98 funding level.

- Minimum guarantee determined by one of three formulas, or “tests.”

- State can provide more/less than formulas require (via overappropriation or suspension).

Proposition 98 Tests

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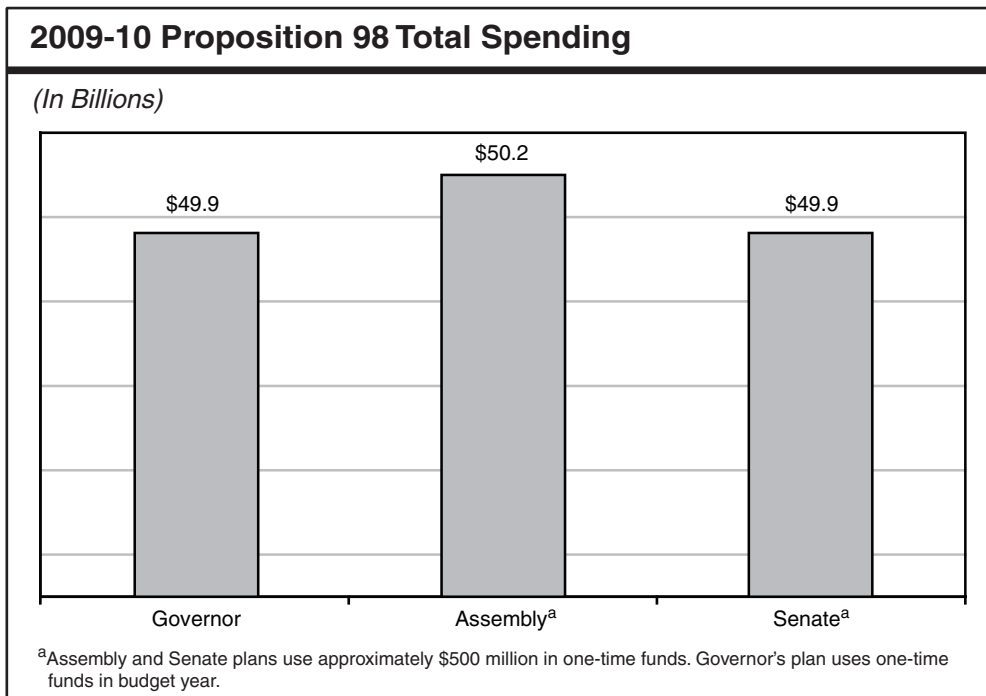
- Three tests:
 - **Test 1:** Roughly 40 percent of General Fund revenues are dedicated to Proposition 98.
 - **Test 2:** Prior-year level adjusted for change in per capita personal income and K-12 attendance.
 - **Test 3:** Prior-year level adjusted for change in per capita General Fund revenues and K-12 attendance.

- Various rules for determining which test “operative.”
 - Over last 20 years (1988-89 through 2007-08), Test 1 operative once, Test 2 operative 12 years, Test 3 operative 6 years, minimum guarantee suspended once (2004-05).

- Various rules for determining when “maintenance factor” created/paid.
 - Historically, created when state General Fund revenues weak (that is, Test 3 or suspension years).
 - Historically, paid when state General Fund revenues strong (that is, Test 2 years).

Comparing Current-Year Plans

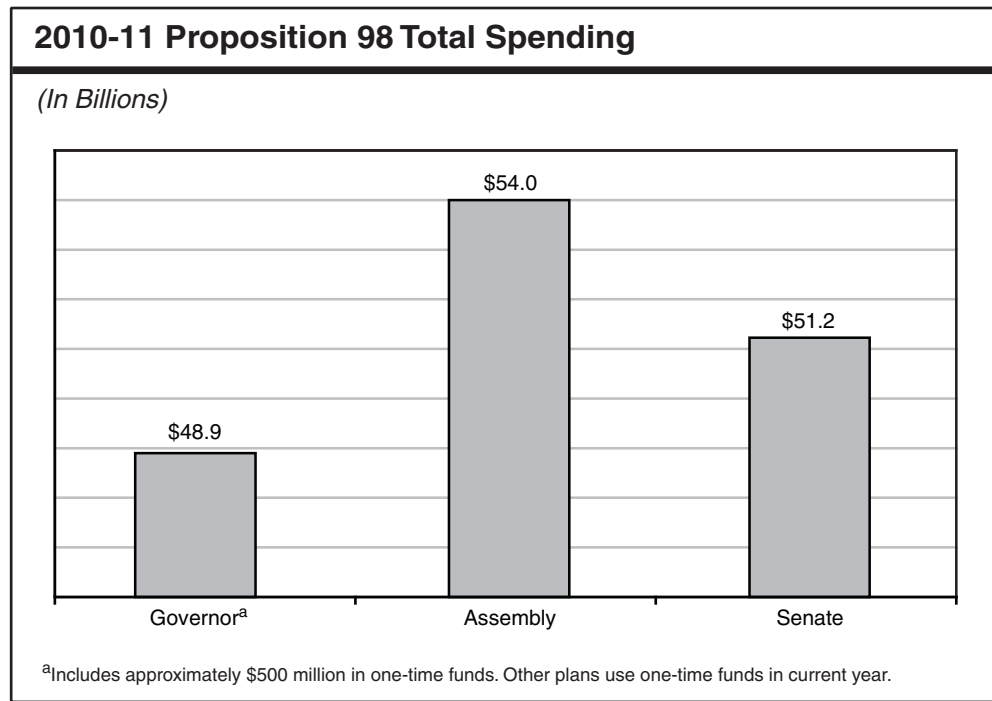
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- All plans spend at approximately the same level in the current year.
- Primary difference between the plans is the amount of one-time funds used.
- Whether to use one-time funds in current or budget year is a strategic decision that can affect the Proposition 98 minimum guarantee.

Comparing Budget-Year Plans

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Perspectives on 2010-11 Spending Levels

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- Substantial differences between plans' *total* spending levels.
 - Assembly is \$2.8 billion higher than Senate, \$5.1 billion higher than Governor.

- Both houses provide more *year-over-year* Proposition 98 funding.
 - Assembly provides \$3.8 billion and Senate provides \$1.3 billion more than current-year level. Governor lowers year-over-year spending by \$1 billion.

- Senate and Governor both cut Proposition 98 *program* spending in 2010-11.
 - Senate reduces Proposition 98 program by about \$900 million. Governor reduces by \$3.3 billion.

Meeting the Minimum Guarantee?

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- Governor's plan.
 - Assumes no constitutional maintenance factor exists, which reduces minimum guarantee by \$1.3 billion in 2009-10 and \$2.7 billion in 2010-11.
 - Assumes rebenching of the minimum guarantee for the elimination of state funding for child care, which reduces minimum guarantee by additional \$1.5 billion in 2010-11.

- Senate plan.
 - Assumes constitutional maintenance factor does exist, but makes no payment in 2009-10 or 2010-11.
 - Appears to require suspension of minimum guarantee in both the current and budget years.

- Assembly plan.
 - Assumes constitutional maintenance factor does exist. Treats maintenance factor in 2009-10 as "settle-up" obligation (to be paid in future years). Makes required maintenance factor payment in 2010-11.
 - Assumes "Jobs Fund" monies can be used for meeting minimum guarantee.

- Ultimately, various components of plans—General Fund revenues, maintenance factor assumptions, and Proposition 98 spending—should be reconciled.

Major Spending Differences

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- Governor's plan.
 - **Cuts.** Makes \$3.3 billion in Proposition 98 program cuts. K-12 cuts (\$1.9 billion) come largely from revenue limits and K-3 Class Size Reduction (CSR). Eliminates all state funding for child care (\$1.4 billion).
 - **Augmentations.** Includes two notable augmentations: \$126 million for 2.21 percent California Community College (CCC) enrollment growth and \$65 million for settlement relating to behavior intervention plans for special education students.

- Assembly plan.
 - **Cuts.** Makes no Proposition 98 cuts.
 - **Augmentations.** Contains \$1.9 billion in program restorations/augmentations. Of this amount, uses \$1.4 billion to retire K-14 mandate backlog. Also provides \$128 million for 2.22 percent CCC enrollment growth and \$100 million to augment the CCC Economic Development program.

- Senate plan.
 - **Cuts.** Makes \$926 million in Proposition 98 program cuts. Cuts largely come from K-12 revenue limits. Uses \$113 million in federal funding to achieve same amount of non-Proposition 98 savings.
 - **Augmentations.** Provides \$126 million for 2.21 percent CCC enrollment growth.

Major Spending Differences

(Continued)

(In Millions)

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	Governor	Assembly	Senate
Current-Year Proposition 98 Proposals:			
Advance cash to local education agencies	\$16	—	\$10
Provide average daily attendance growth to categorical programs	11	—	11
Capture K-3 Class Size Reduction (CSR) savings	-340	—	-340
Replace ongoing with one-time funds (no program effect)	—	-\$500	-464
Budget-Year Proposition 98 Proposals:			
Fund CCC enrollment growth (2.2 percent)	\$126	\$128	\$126
Fund Behavioral Intervention Plans	65	—	—
Fund Emergency Repair Program	51	51	25
Fund select mandates	14	—	34
Retire K-14 mandate backlog	—	1,366	—
School district/county offices revenue limits	-1,513	208	-902
Reduce child care funding	-1,394	—	—
Reduce K-3 CSR funding	-210	—	-24
Replace ongoing with one-time funds (no program effect)	-386	—	—
Apply -0.39 percent K-14 cost of living adjustment	-234	—	—
Augment CCC Economic Development	—	100	—
Augment CCC categorical programs	—	35	—
Augment county court schools	—	20	5
Budget-Year Non-Proposition 98 General Fund Proposals:			
Use federal funds for school improvement	—	—	-\$113
Reduce categorical program administration	—	-\$5	-5

Major Programmatic Differences

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- Flexibility.
 - Governor’s plan eases restrictions on contracting out for noninstructional services and hiring/pay rates for substitute teachers.
 - Assembly plan contains no new flexibility options.
 - Senate plan contains flexibility package that removes or loosens requirements associated with nine K-12 categorical programs.

- Mandates.
 - Governor’s plan suspends all but three education mandates.
 - Assembly plan defers virtually all education mandates (but pays off most of mandate backlog).
 - Senate plan contains comprehensive mandate reform—funding some mandates, eliminating a few, and suspending remainder. Forms work group to decide how to treat suspended mandates moving forward.

- Child care.
 - Governor’s plan eliminates all state funding for subsidized child care.
 - Assembly plan restores all child care funding, without any policy changes.
 - Senate plan indicates interest in revisiting child care cost drivers, including reimbursement rates, income eligibility ceilings, and family fees.

LAO Recommendations

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If Proposition 98 spending reductions are needed to balance the overall state budget, then recommend:

- First making targeted cuts. (We have identified about \$700 million in such reductions.)
- Using federal funds for school improvement to achieve corresponding state savings.
- Providing more flexibility from categorical program requirements.
- Adopting comprehensive education mandate reform.
- Making policy changes now that achieve savings next year. Specifically, repealing automatic funding formula for after school programs and changing kindergarten start date.