

Analysis of the 2003-04 Budget Bill

Overview of K-12 Education

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget and Fiscal Review
Subcommittee No. 1

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Proposed Proposition 98 Allocations

2002-03 and 2003-04
(Dollars in Millions)

	2002-03		2003-04 Governor Proposed	Change From Budget Act	
	Budget Act	SB 18x ^a		Amount	Percent
Allocations^b					
K-12	\$41,647.3	\$39,422.5	\$40,029.7	-\$1,617.7	-3.9%
California Community Colleges	4,832.3	4,639.7	4,063.5	-768.8	-15.9
Proposition 98 Totals	\$46,479.6	\$44,062.1	\$44,093.1	-\$2,386.5	-5.1%

^a Assumes amendments made by Assembly Budget Committee on March 4, 2003.
^b General Fund and local property tax revenue.

- Compared to the mid-year revision proposed by the Legislature for 2002-03 in SB 18x (Chesbro), budget-year Proposition 98 funding increases slightly for K-12, but decreases significantly for community colleges.
- Budget-year Proposition 98 funding decreases by \$2.4 billion compared to the *2002-03 Budget Act*.
- The Proposition 98 minimum guarantee is rebenchmarked downward by \$878.8 million to reflect the realignment in 2003-04 of child care responsibilities to counties.



2002-03 Proposition 98 K-12 Programs As Revised by SB 18x

(In Millions)

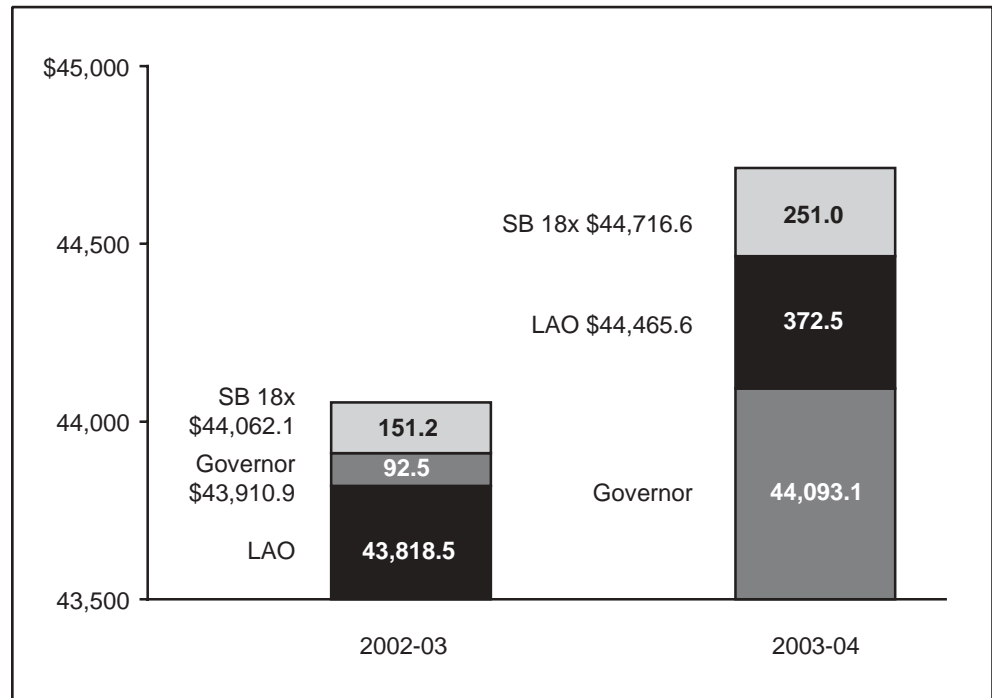
2002-03 Budget Act	\$41,647.3
Deferrals	-1,209.0
Ongoing cuts	-155.1
One-Time cuts	-290.5
Fund shifts	-570.2
2002-03 Revised^a	\$39,422.5
Change From 2002-03 Budget Act	-\$2,224.9
Percent change	-5.3%

^a Assumes SB 18x (Chesbro) as amended March 4, 2003.

- The Governor recommended reducing K-12 Proposition 98 funding in the current year by \$2.24 billion.
- Senate Bill 18x reduces K-12 Proposition 98 by \$2.22 billion, \$17 million less than the Governor proposed.
- Senate Bill 18x reduced community college funding by \$193 million, compared to the \$327 million proposed by the Governor. (Our estimate assumes the Department of Finance forecast of local property taxes.)
- We recommend additional reductions in K-12 and community colleges to bring Proposition 98 funding down to our revised minimum guarantee.



Proposition 98 Funding



Current Year

- In the current year, the LAO estimate of minimum guarantee is \$93 million less than the Governor.
- Senate Bill 18x provided \$151 million more than the Governor, resulting in an overappropriation of \$244 million.

Budget Year

- In the budget year, the LAO estimate of minimum guarantee is \$373 million higher than the Governor's funding level (assuming the state appropriates at the LAO forecasted minimum guarantee in the current year).
- Senate Bill 18x would increase the Proposition 98 base, resulting in a minimum guarantee \$251 million higher than the LAO in the budget year, or \$624 million higher than the Governor.



Governor's K-12 Budget Proposals 2003-04 Proposition 98

(In Millions)

2002-03 Budget Act	\$41,647.3
Cuts Continued From 2002-03 Mid-Year Proposal	
Across-the-board cuts	-\$1,462.0
Other	-181.8
Subtotal	(-\$1,643.8)
Revenue Limit Growth	\$321.5
Cost-of-Living Increases	—
Other Changes	
PERS offset reduction	\$381.7
Net impact of deferrals	364.0
Equalization	250.0
Child care realignment	-878.8
Public Schools Accountability Act	-153.8
Instructional materials	-145.8
Special education federal fund offset	-115.8
Other	3.1
Subtotal	(-\$295.4)
2003-04 (Proposed)	\$40,029.7
Change From 2002-03 Budget Act	
Amount	-\$1,617.7
Percent	-3.9%

- The proposed budget would decrease funding by \$1.6 billion compared to the *2002-03 Budget Act*.
- No new programs except equalization.
- Funding provided for revenue limit and special education growth only and no cost-of-living adjustments.



LAO Spending Alternative

2003-04 (In Millions)

Recognize Additional Costs	
Special education set-aside for 2002-03 deferral	\$214.0
Pay ongoing mandate costs	100.0
PSAA ^a intervention	50.0
Fully fund programs deferred from 2002-03	33.3
Special education set-aside for 2003-04 General Fund offset	28.5
Healthy Start grants	1.0
Total	\$426.8
Recommend Savings	
Equalization	\$250.0
Assessments	18.6
Volunteer mentor	5.0
Angel Gate Academy	0.6
Total	\$274.2
Balancer	
Limited categorical deferral to 2004-05	\$152.6
<small>^a Public Schools Accountability Act.</small>	

- Funding may be needed to address special education deferral.
- Mandate funding should increase and be placed in a Core Services Block Grant.
- Funding should be set aside for integrating accountability sanction and intervention programs.



LAO Proposed Block Grants

Block Grant	Amount	Number of Programs Included	Accountability
Academic Improvement	\$2.8 billion	22	Use of funds and teacher quality.
Compensatory and Alternative Education	\$1.8 billion	19	Academic progress, dropout, and other data on low-income and English learner students.
Core Services	\$1.4 billion	12	Use of funds, subsidized meals, and school safety.
Vocational Education	\$385 million	5	Use of funds, academic progress, wage, and employment data.
Regional Support	\$31 million	6	None.

- The Governor's proposal to combine 58 categorical programs into a single block grant fails to adequately address the negative local incentives that led to the initial creation of many programs.
- The LAO proposal would preserve the core focus of the current programs but provide additional program flexibility by grouping the programs into five block grants.
- The LAO proposal would increase the focus on local outcomes of the block grants by requiring the State Department of Education to report annually on each district's progress on a variety of performance measures.



Child Care Realignment Merits Consideration

- The Governor's proposal to shift responsibility for most child care programs from the state to counties deserves legislative consideration.

- Benefits of Realignment:
 - Gives counties flexibility to use child care fund as part of an integrated county strategy to serve low-income families.
 - Gives counties flexibility to tailor services to meet individual community needs.
 - Reduces administrative complexity by allowing counties to create their own program rules.

- If the Legislature rejects realignment, it will have to provide an additional \$879 million to meet the Proposition 98 minimum guarantee. In order to continue to fund the existing program and the growth in CalWORKs Stage 3 child care, the Legislature would need to provide almost \$1.2 billion (\$280 million more than the increase in the minimum guarantee).



LAO Proposition 98 Funding Projections and Obligations

(In Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08
Proposition 98 minimum guarantee^a	\$44,466	\$46,750	\$49,566	\$52,425	\$55,362
Annual increase in Proposition 98	—	2,285	2,815	2,859	2,937
Minus funding needed for growth and COLA	—	1,500	1,700	1,700	1,700
Minus funding to pay outstanding deferrals ^b	—	785	1,115	299	—
Net available for other costs	—	—	—	\$860	\$1,237

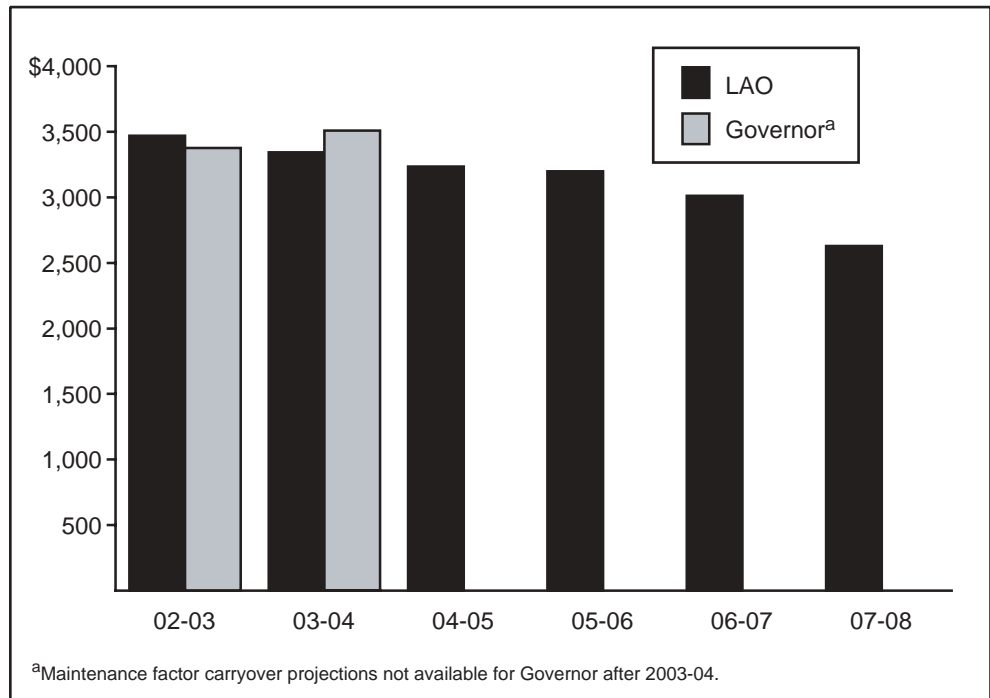
^a 2003-04 minimum guarantee is based on LAO revenue assumptions for 2003-04 and assumes the Legislature reduces 2002-03 spending to the LAO's projection of the minimum guarantee.

^b Assumes the Legislature pays off the \$681 million categorical deferral in 2003-04 as proposed by the Governor but does not pay off any other deferrals in 2003-04.

- Before increasing funding for any program, we recommend that the Legislature fund enrollment growth, cost-of-living adjustments, and outstanding deferrals.
- While we project growth in Proposition 98 each year through 2007-08, at the earliest, funding will not be available until 2006-07 to pay for any additional costs.
- We recommend that revenue limit equalization be the first priority when additional funding is available.



Proposition 98 Maintenance Factor Carryover



- A Proposition 98 maintenance factor was created when Test 3 applied in 2001-02.
- A portion of the maintenance factor is paid each year that growth in per capita general fund revenues exceeds growth in per capita personal income.
- Under our projections, the maintenance factor would be paid gradually over the next five years, with \$2.6 billion remaining to be restored after 2007-08.



Impact of Suspending Proposition 98 in 2003-04

Alternative 1: Governor's Proposition 98 Funding and Realignment Proposal

Assumptions

- \$8.3 billion in new tax revenues do *not* count toward Proposition 98.
- Proposition 98 funding at level proposed by Governor.

Proposition 98 Outcomes

- Proposition 98 funding level is \$44.1 billion.
- Outstanding maintenance factor requiring restoration in future is \$3.5 billion.

Alternative 2: \$8.3 Billion New General Fund Revenues and Proposition 98 Suspension

Assumptions

- \$8.3 billion new tax revenues count toward Proposition 98.
- Suspension of Proposition 98.

Proposition 98 Outcomes

- Suspension would allow Legislature to appropriate Proposition 98 at any level.
- The Legislature could hold Proposition 98 harmless—\$44.1 billion.
- Outstanding maintenance factor requiring restoration in future is \$3.5 billion.