

# Overview of Current-Year Proposition 98 Reductions

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LEGISLATIVE ANALYST'S OFFICE

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## Overview of Proposition 98 Funding

### Dollars in Millions

	2002-03			Change From Mid-Year	
	Budget Act	Mid-Year Revision	Proposed 2003-04	Amount	Percent
<b>K-12 Proposition 98</b>					
State General Fund	\$28,735.4	\$26,372.7	\$26,319.8	-\$52.9	-0.2%
Local property tax revenue	12,911.9	13,033.1	13,709.8	676.8	5.2
Subtotals <sup>a</sup>	\$41,647.3	\$39,405.8	\$40,029.7	\$623.9	1.6%
<b>CCC Proposition 98</b>					
State General Fund	\$2,824.7	\$2,524.9	\$1,905.7	-\$619.3	-24.5%
Local property tax revenue	2,007.6	1,980.2	2,157.8	177.6	9.0
Subtotals <sup>a</sup>	\$4,832.3	\$4,505.2	\$4,063.5	-\$441.7	-9.8%
<b>Total Proposition 98</b>					
State General Fund	\$31,560.2	\$28,897.6	\$28,225.5 <sup>b</sup>	-\$672.2 <sup>b</sup>	-2.3%
Local property tax revenue	14,919.5	15,013.3	15,867.7	854.4	5.7
<b>Totals<sup>a</sup></b>	<b>\$46,479.6</b>	<b>\$43,910.9</b>	<b>\$44,093.1<sup>b</sup></b>	<b>\$182.2<sup>b</sup></b>	<b>0.4%</b>
<p>a Totals may not add due to rounding.</p> <p>b The Governor rebenchs the Proposition 98 minimum guarantee downward by \$879 million to reflect the realignment of CalWORKs child care programs and funding to counties.</p>					



The Governor proposes to reduce 2002-03 Proposition 98 by \$2.6 billion—including \$2.2 billion for K-12 education and \$327 million for community colleges.



K-12 education has \$1.5 billion in new resources in 2003-04. K-12 Proposition 98 increases by \$623 million. In addition, around \$900 million in child care costs are shifted to counties through realignment, freeing-up room for other K-12 expenditures.



## Governor's K-12 Mid-Year Budget Proposals 2002-03 Proposition 98

### Dollars in Millions

<b>2002-03 Budget Act</b>	<b>\$41,647.3</b>
<b>Across the Board Reductions</b>	
3.66 percent in December revision	-\$980.3
7.46 percent in January revision	-481.7
Basic Aid district funding reduction	-15.3
Subtotal	-\$1,477.2
<b>Reversion Account Swaps</b>	
Regional Occupation Centers and Programs (ROC/P)	-\$356.8
Adult education	-81.1
Subtotal	-\$438.0
<b>Other Changes</b>	
Eliminate Proposition 98 Reserve	-\$132.2
Eliminate childcare stage 3	-98.8
Shift federal child care funds to stage 3	-78.3
Special education restoration	78.3
High Priority Schools Grant Program	-22.6
Adult education audits	-13.5
Property tax offset for ROC/Ps	-11.4
Savings from various programs	-47.7
Subtotal	-\$326.3
<b>2002-03 Mid-Year Proposed</b>	<b>\$39,405.8</b>
<b>Change From Adopted 2002-03</b>	
Amount	-\$2,241.5
Percent	-5.4%



The Governor's proposal includes the following key components:

- Almost \$1.5 billion in across-the-board cuts to K-12 programs, including \$612 million in reductions to revenue limits.
- One-time savings of \$438 million by using funds from the reversion account to pay budgeted program costs.
- Other major expenditure reductions include eliminating child care Stage 3 effective April 1, 2003 and not funding a new cohort of the High Priority Schools Grant Program.



## Proposition 98 Reversion Account Governor's Proposals

**(2002-03)**  
**Dollars in Millions**

<b>Savings</b>	<b>Amount</b>
Initial reversion balance	\$124.4
Child care	79.0
Supplemental instruction (1998-99)	69.9
Math and Reading Professional Development (2001-02)	31.7
Child care facilities revolving fund	22.0
Mandates (2001-02)	20.0
CaWORKs carryover (2001-02)	17.7
High risk youth (2000-01 and 2001-02)	16.4
Pre-intern/intern programs (2000-01 and 2001-02)	16.4
Community day schools (2001-02)	14.0
College prep partnership (2000-01 and 2001-02)	10.3
Other	67.1
<b>Total</b>	<b>\$488.9</b>
<b>Reversion Account Swaps</b>	
<b>K-12 Education</b>	
Regional Occupation Centers and Programs	\$356.8
Adult education	81.1
Subtotal	\$438.0
<b>Community Colleges</b>	
Community College Extended Opportunity Programs and Services	\$50.9
<b>Total</b>	<b>\$488.9</b>

The Governor proposes using \$489 million in one-time re-sources from the reversion account to fund existing program costs to generate Proposition 98 savings.

In 2003-04, the Governor does not use any reversion account funds to offset program costs.



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

### Dollars in Millions

Program	Amount
<b>Available Resources</b>	
Increase in K-12 spending	\$623.9
Funding "freed up" by realigning child care	878.8
<b>Total</b>	<b>\$1,502.7</b>
<b>Program Allocations</b>	
Backfill programs funded from Proposition 98 reversion account	438.0
PERS offset	381.7
Net impact of funding deferrals	360.5
Revenue limit growth	321.5
Equalization	250.0
Cost-of-living increases	—
Public School Accountability Act reduction <sup>a</sup>	-153.8
Instructional materials reduction <sup>a</sup>	-145.8
Special education federal fund offset <sup>a</sup>	-115.8
Net Other	166.5
<b>Total</b>	<b>\$1,502.7</b>

<sup>a</sup> Proposals which free up funds for other K-12 purposes.

- The Legislature should consider the 2003-04 impact of actions taken in 2002-03. For example, additional deferrals as one-time reductions in the current year will require additional resources in 2003-04 or deferrals from 2003-04 to 2004-05.
- The Governor continues the \$1.5 billion across-the-board reductions into 2003-04.



## Overview of LAO Alternative to Current-Year Reductions

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### Dollars in Millions

LAO Alternative	Amount
Governor's targeted reductions	\$764.3
LAO targeted reductions (see Attachment 1)	949.8
LAO reversion account reductions (see Attachment 1)	81.7
Additional deferrals	200.0
Across-the-board categorical cut (3.6 percent)	245.7
<b>Total</b>	<b>\$2,241.5</b>

- While we support the Governor's targeted reductions, we believe the \$1.5 billion across-the-board reductions would directly impact student services.
  
- Our alternative provides \$950 million in additional targeted reductions including (1) delaying newly created programs and one-time expenditures, (2) aligning the timing of state appropriations to when funds are distributed to school districts, (3) reducing the 2002-03 cost-of-living adjustment to the statutory rate, and (4) other reductions.



## Provide Greater Flexibility to School Districts in 2002-03

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The *2003-04 Governor's Budget* proposes to increase district financial flexibility by adding five programs to Control Section 12.4, which allows districts to transfer limited amount of funds between specified categorical programs. These five programs are:

- Special Education
- K-3 Class Size Reduction
- Child Nutrition
- Two Supplemental Instruction programs

We suggest the Legislature create greater flexibility than afforded by the Department of Finance proposal by adding the following programs to Control Section 12.4:

- Staff Development Buyout
- English Language Learner Implementation
- Economic Impact Aid
- Education Teacher Recruitment Block Grant
- School Library Instructional Materials
- Special Education
- Partnership Academies
- State School Deferred Maintenance
- Instructional Materials
- Beginning Teacher Support and Assessment
- Staff Development
- California School Age Families Education Program
- School Safety Block Grants
- Class size reduction program 9th grade
- Class size reduction K-3

# ATTACHMENT 1

## LAO Alternative to Governor's Across-the-Board Reduction Additional Detail on Program Reductions

2002-03  
(Dollars in Millions)

Program	Description of Option	2002-03 Amount	Reversion Account
Deferred maintenance	Align timing of funding with expenditures.	\$205.7	—
Instructional materials	Delay requirement that all school districts purchase instructional materials aligned to standards.	145.8	\$4.4
Mandates	Defer payment of all education mandates to 2003-04	125.5	—
School improvement program	Reduce current-year funding because school districts use mainly for one-time purposes.	100.0	—
Reduce revenue limit cost-of-living adjustment (COLA) to statutory 1.66 percent	Reducing COLA would be an across-the-board reduction, but would reduce the increases in district funding to underlying inflation.	95.5	—
Immediate Intervention / Underperforming Schools Program (II/USP)	Delay final payment of 20 percent of grants (made in September 2003), and fund it with 2003-04 funds.	38.6	—
High Priority (HP) Schools Grant Program	Delay final payment of 20 percent of grants (made in September 2003), and fund it with 2003-04 funds.	37.4	—
HP Schools Grant Program	Eliminate planned HP Cohort 2. Make technical change to SB1xxx language to: (a) allow \$8 million HP carryover to be used for any II/USP need; and (b) fund decile 1 schools that would have exited II/USP only if they are in HP Cohort 1.	7.7	—
Peer assistance and review (PAR)	Reduce \$27.6 million but retain \$50 million to allow districts to use PAR monies to cover local Beginning Teacher Support and Assessment match. Many districts are carrying over large PAR balances.	37.0	—
Math and Reading Professional Development	Delay initiation of program until future years.	31.7	31.7
Reduce Categorical COLA to 1.66 percent	Reduce COLA from 2 percent to 1.66 percent (the statutory rate).	25.4	—
School library materials	Temporarily suspend program.	23.2	9.5
Extended day care program	Reduce funding by 50 percent.	15.0	—
Alternative certification programs	Revert uncommitted funds for 2002-03 due to unanticipated carry forward funds and less than anticipated participation.	12.7	4.2
Golden State Exam	Suspend exam for remainder of year.	9.7	—
Resource and referral program	Reduce funding by 50 percent.	8.2	—
National board certification program	Reduce eligibility to only teachers serving in low performing schools.	4.7	—
Before and after school programs	Capture anticipated program savings due to lower-than-expected participation.	4.4	—

**Continued**



# ATTACHMENT 1

Program	Description of Option	2002-03 Amount	Reversion Account
State preschool	Capture anticipated program savings due to lower-than-expected participation.	\$4.0	—
Spanish Assessment of Basic Education	Suspend exam for remainder of year.	3.9	—
Pupil transportation	Capture anticipated reversion.	3.2	—
High Risk Youth Program	Additional savings reflects historic level of funds that go unused.	3.0	—
Golden State Exam	Savings realized from new contract.	1.6	—
California Technology Assistance Program—10 percent reduction	Reduce funding to the 11 regional support centers by 10 percent.	1.3	—
Specialized secondary schools	Eliminate planning grants for a new cohort of schools. Would have significant savings over next 4 years.	1.3	—
Partnership academies	Historical savings because all participants are not eligible for funding.	1.0	—
Assessments in career education	Suspend exam for remainder of year.	0.8	—
Angel Gate Academy	Eliminate state funding for this program (\$4 million remains in federal funds).	0.6	—
Institute for Computer Technology	Funding has not yet gone out and program could be eliminated. Program receives foundation and other grant funds.	0.6	—
Tenth grade counseling	Program has funds that will not be used in 2002-03 (similar to unused amount for 2001-02).	0.4	—
Principal training (2001-02)	Delay funding for the program.	—	\$14.1
Principal training (2002-03)	Delay funding for the program.	—	2.5
Revert non-CalWORKs child care carryover from 2001-02	Current law permits the State Department of Education (SDE) to carry over General Fund appropriations for child care programs for two years.	—	6.0
Regional projects in 2001-02 Budget Act	Remaining balances for a set of regional projects funded in 2001-02.	—	2.1
English Language and Intensive Literacy Program (prior year)	Revert unneeded grant funds now.	—	1.6
Home Instruction Program for Preschool Youngsters	Eliminate funding for program.	—	1.0
Paraprofessional staff development	No funds have been allocated. Revert unused funds.	—	1.0
Partnership academies (2001-02)	Historical savings because all participants are not eligible for funding.	—	1.0
Dropout prevention and recovery (2001-02)	Additional savings above the \$210,000 identified by the Department of Finance.	—	0.6
High Tech High School	Revert the last allocation of current-year funding. Currently, funds would not go to schools until 2003-04.	—	0.4
Other minor SDE reversions	Funds would revert in future for 38 programs.	—	1.6
<b>Totals</b>		<b>\$949.8</b>	<b>\$81.7</b>

# ATTACHMENT 1