

Education Budget Overview

LEGISLATIVE ANALYST'S OFFICE

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Proposed Higher Education Funding

	Revised 2003-04	Proposed 2004-05	Change	
			Amount	Percent
University of California (UC)				
General Fund	\$2,868.2	\$2,670.5	-\$197.7	-6.9%
Student fee revenue	1,084.1	1,271.0	186.9	17.2
Federal and other funds	14,068.2	14,498.8	430.6	3.1
Totals	\$18,020.5	\$18,440.4	\$419.9	2.3%
California State University (CSU)				
General Fund	\$2,630.1	\$2,409.6	-\$220.5	-8.4%
Student fee revenue	1,016.5	1,165.6	149.1	14.7
Federal and other funds	2,191.1	2,180.1	-11.0	-0.5
Totals	\$5,837.6	\$5,755.2	-\$82.4	-1.4%
California Community Colleges (CCC)				
General Fund	\$2,252.8	\$2,423.0	\$170.2	7.6%
Local property tax revenue	2,114.8	2,264.4	149.7	7.1
Student fee revenue	265.1	356.1	91.0	34.3
Federal and other funds	1,579.3	1,579.2	-0.1	—
Totals	\$6,212.0	\$6,622.8	\$410.8	6.6%
Student Aid Commission				
General Fund	\$630.2	\$684.0	\$53.8	8.5%
Federal and other funds	665.2	664.6	-0.5	-0.1
Totals	\$1,295.3	\$1,348.6	\$53.3	4.1%
Other^b				
General Fund	\$13.1	\$10.1	-\$3.0	-22.6%
Student fee revenue	18.5	24.6	6.1	32.9
Federal and other funds	17.2	15.6	-1.6	-9.6
Totals	\$48.9	\$50.3	\$1.5	3.1%
Grand Totals				
General Fund	\$8,394.4	\$8,197.2	-\$197.1	-2.3%
Property tax revenue	2,114.8	2,264.4	149.7	7.1
Student fee revenue	2,384.3	2,817.3	433.1	18.2
Federal and other funds	18,520.9	18,938.4	417.4	2.3
^a General Fund amounts exclude capital outlay and payments on general obligation bonds. ^b Includes Hastings College of the Law and the California Postsecondary Education Commission.				



Major Policy Features of Governor's Higher Education Budget Proposal



All Enrollment Growth Directed to CCC

- No new funding for enrollment growth at UC and CSU, per 2003-04 budget package.
- 10 percent of new freshman enrollment at UC and CSU redirected to CCC.
- 3 percent enrollment growth funding for CCC.



All General Fund Support Eliminated for UC and CSU Outreach Programs

- Reduction of about \$60 million from revised 2003-04 level.
- Budget includes \$37 million for financial aid outreach at CCC.



Significant Fee Increases at All Segments

- 10 percent increase for UC and CSU undergraduates.
- 40 percent increase for UC and CSU graduates.
- \$8 per unit increase for CCC students.
- 20 percent increase for UC and CSU nonresident students.
- Other increases for baccalaureate holders at CCC; UC and CSU students enrolled in excess course units; and professional school students.



New Restrictions and Reductions for Financial Aid

- Reduces Cal Grant income ceilings.
- Does not increase Cal Grant awards to offset proposed fee increases at UC and CSU.
- Reduces Cal Grant awards for financially needy students at private colleges.



LAO Higher Education Recommendations Would Better Preserve Access and Achieve Same General Fund Savings

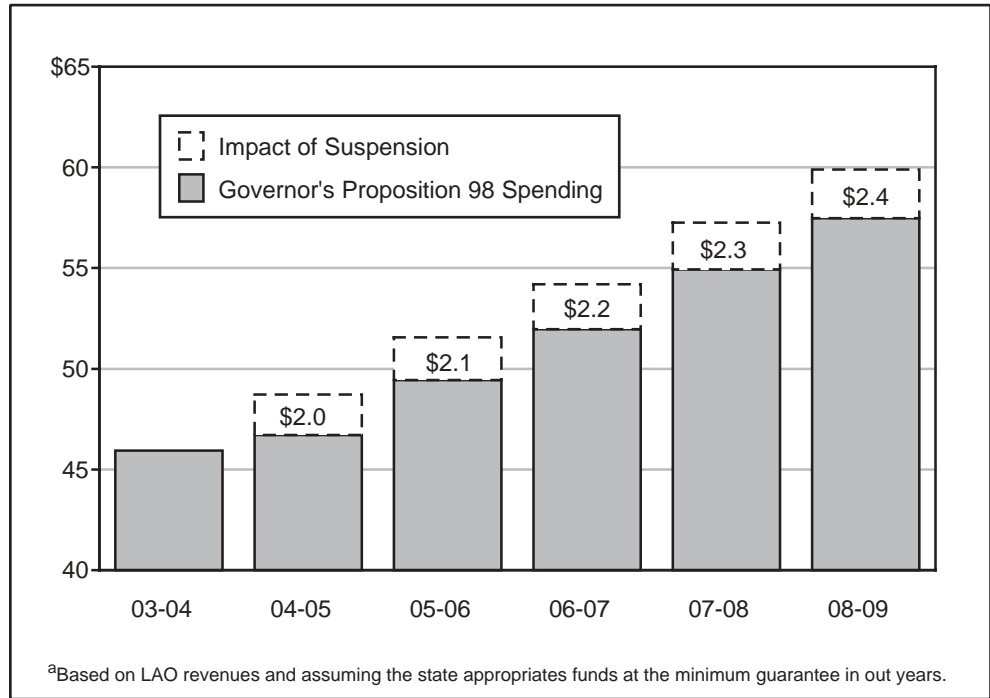
- Maintain outreach services .
 - Preserve selected UC and CSU outreach services.
 - Establish College Preparation Block Grant for targeted K-12 schools.

- Stabilize and provide meaningful basis for fees through long-term fee policy.
 - Base fees on fixed share of total per-student cost.
 - Include CCC fees under policy.

- Ensure continued integrity of financial aid programs.
 - Reject new Cal Grant restrictions.
 - Recouple Cal Grants with fee increases.
 - Restore private college Cal Grants.



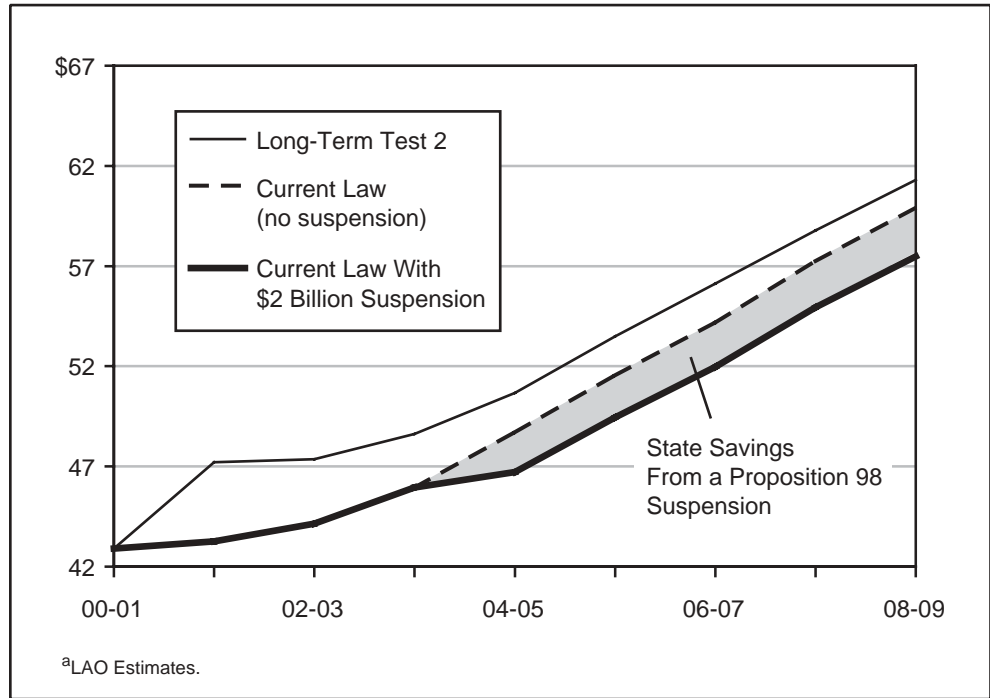
Impact of Governor's Suspension Proposal On Future Proposition 98 Spending^a



- The budget proposal suspends the Proposition 98 minimum guarantee by \$2 billion in 2004-05. It also spends below the minimum guarantee in 2002-03 and 2003-04 by a combined \$966 million, but does not suspend for these years, thereby creating a “settle-up” obligation.
- We recommend the Legislature (1) suspend the minimum guarantee for 2002-03 through 2004-05 and (2) balance funding for K-14 education with other General Fund priorities without regard to the exact suspension level proposed by the Governor.
- We recommend suspending because it would be difficult to reduce other General Fund programs an additional \$2 billion. Additional General Fund taxes would increase the minimum guarantee further requiring roughly all of a \$4 billion tax increase to go to Proposition 98 absent suspension.



Impact of Suspension on Proposition 98 Funding Over Time^a



- The difference between long-term Test 2 and current law funding level is the outstanding maintenance factor. Over time, the state must provide accelerated growth to restore the maintenance factor (bring current law funding level back to long-term Test 2 level).

- The state in effect must restore current maintenance factor first. The suspension would widen the gap (increase the maintenance factor from \$2 billion to \$4 billion). Since existing maintenance factor is not restored,

- The savings from the proposed suspension would continue until the entire maintenance factor was restored.



Update on the Education Credit Card

Year-End Balances (In Millions)

	2001-02	2002-03	2003-04	2004-05
One-Time Costs				
Revenue limit and categorical deferrals	\$931.3	\$2,158.1	\$1,096.6	\$1,071.3
Community college deferrals	115.6	—	200.0	200.0
Cumulative mandate deferrals	655.6	958.1	1,266.2	1,583.1
Ongoing Costs				
Revenue limit deficit factor	—	—	\$883.3	\$912.5
Totals	\$1,702.5	\$3,116.2	\$3,446.1	\$3,766.9

- We estimate that the state would end 2004-05 with a \$3.8 billion debt to K-14 education under the Governor's proposal.

- The outstanding balance increases by over \$300 million because the Governor defers the 2004-05 costs of state reimbursable mandates, and does not reduce other deferrals or deficit factors.

- We recommend paying down the credit card before providing funding for program expansions beyond growth and cost-of-living adjustments.



LAO Proposition 98 Savings Recommendations

(In Millions)

Program	Amount
Instructional materials	\$113
K-12 equalization	110
CCC equalization	80
Current-year K-3 class size reduction	50
Internet access	21
Special education federal fund offset	33
Basic aid categorical reduction	10
Title VI federal fund offset	8
School safety reversion	2
Fully fund school safety mandates	-30
Total	\$396

- We provide \$396 million in savings recommendations, and recommend redirecting these savings to General Fund solution.

- If the Legislature decides to appropriate at the Governor's level, we recommend providing the funding to reduce the Education credit card.



K-12 and CCC Spending Per Student Adjusted for Inter-Year Funding Deferrals

	Actual 2002-03	Revised 2003-04	Proposed 2004-05
K-12			
Budgeted Funding			
Dollar per average daily attendance (ADA)	\$6,588	\$6,943	\$6,945
Percent growth	—	5.4%	—
Programmatic Funding^a			
Dollar per ADA	\$6,796	\$6,766	\$6,941
Percent growth	—	-0.4%	2.6%
Community Colleges			
Budgeted Funding			
Dollar per full-time equivalent student (FTES)	\$4,376	\$4,188	\$4,428
Percent growth	—	-4.3%	5.7%
Programmatic Funding^{a, b}			
Dollar per FTES	\$4,271	\$4,370	\$4,428
Percent growth	—	2.3%	1.3%
^a To adjust for the deferrals, we count funds toward the fiscal year in which school districts programmatically commit the resources. The deferrals mean, however, that the districts technically do not receive the funds until the beginning of the next fiscal year.			
^b Community college funding includes Proposition 98 funds and fee revenues.			



Summary of LAO Recommendations to Consolidate Categorical Programs Into Revenue Limits

Programs Included:	
<ul style="list-style-type: none"> • Class-Size Reduction (both K-3 and High School)^a • Home-to-School Transportation • Dropout Prevention • School Improvement • Deferred Maintenance^a • Instructional Materials • Supplemental Grants • Year Round Schools 	<ul style="list-style-type: none"> • Targeted Instructional Improvement Grants (partial) • Tenth Grade Counseling • Specialized Secondary Programs • School Library Materials • At-Risk Youth • Center for Civic Education • Pupil Residency Verification • Teacher Dismissal
Programs Excluded:	
<ul style="list-style-type: none"> • Staff Development Day Buyout • Beginning Teacher Support and Assessment • English Learner Assistance • Intersegmental Staff Development 	<ul style="list-style-type: none"> • Peer Assistance Review • Mathematics and Reading Professional Development • Bilingual Teacher Training
<p>^a Programs LAO recommends adding to the Governor's grant consolidation proposal.</p>	

Instead of the Governor's proposed \$2 billion (22 existing categorical program) transfer into revenue limits, we recommend the Legislature transfer 17 programs into revenue limits including 14 proposed by the Governor plus two class size reduction programs and deferred maintenance.

We propose redirecting some programs in the Governor's proposal into a professional development block grant, or a restructured Economic Impact Aid program. We also propose a separate block grant for school safety programs.