Overview of the May Revision: Proposition 98

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Budget Conference Committee



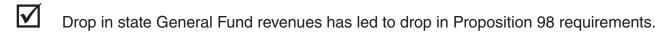


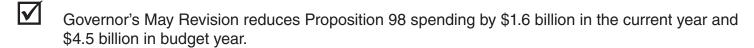


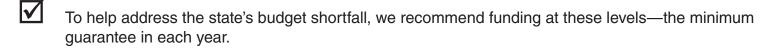
Overview of Proposition 98 Funding

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| (In Millions) | | | | | | | |
|-------------------------------|----------|---------------------|-----------------|----------------------------|---------------------|-----------------|----------------------------|
| | 2007-08 | 2008-09 | | | 2009-10 | | |
| | Actual | February Enacted | May Revision | Change From February | February Enacted | May Revision | Change From February |
| K-12 education | \$50,304 | \$44,660 | \$43,250 | -\$1,410 | \$48,315 | \$44,515 | -\$3,800 |
| California Community Colleges | 6,112 | 5,972 | 5,734 | -237 | 6,482 | 5,784 | -698 |
| Other agencies | 121 | 106 | 106 | | 107 | 108 | 1 |
| Totals | \$56,538 | \$50,738 | \$49,091 | -\$1,648 | \$54,904 | \$50,407 | -\$4,496 |
| General Fund | \$41,978 | \$35,036 | \$33,691 | -\$1,345 | \$39,461 | \$35,971 | -\$3,490 |
| Local property tax revenue | \$14,560 | \$15,703 | \$15,400 | -\$303 | \$15,442 | \$14,436 | -\$1,006 |









State/Local Funding Per Student Down About 10 Percent

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| "Programmatic" Funding | for K-12 | Education | and Com | munity C | olleges | | |
|-------------------------------------|----------|-------------------------|---------------------|-----------------|---------------------|-----------------|--|
| (Dollars in Millions) | | | | | | | |
| | 2007-08 | 2008-09 | | | 2009-10 | | |
| | Actual | September Budget Act | February Enacted | May Revision | February Enacted | May Revision | |
| K-12 Education | | | | | | | |
| Proposition 98 funding | \$50,304 | \$51,620 | \$44,660 | \$43,250 | \$48,315 | \$44,515 | |
| Interyear deferrals | _ | _ | 2,904 | 2,904 | _ | 1,679 | |
| Settle-up funds | | | 1,101 | 1,101 | _ | _ | |
| Public transportation special funds | _ | _ | 619 | 619 | 408 | _ | |
| Other one-time fund swaps | 862 | | 46 | 46 | | 66 | |
| Totals | \$51,166 | \$51,620 | \$49,330 | \$47,919 | \$48,723 | \$46,260 | |
| K-12 per-student funding | \$8,603 | \$8,726 | \$8,332 | \$8,060 | \$8,254 | \$7,806 | |
| Percent change from 2007-08 | _ | 1.4% | -3.1% | -6.3% | -4.1% | -9.3% | |
| California Community Colleges | | | | | | | |
| Proposition 98 funding | \$6,112 | \$6,359 | \$5,972 | \$5,734 | \$6,482 | \$5,784 | |
| Interyear deferrals | | | 340 | 455 | | | |
| Totals | \$6,112 | \$6,359 | \$6,312 | \$6,189 | \$6,482 | \$5,784 | |
| CCC per-student funding | \$5,226 | \$5,364 | \$5,258 | \$5,086 | \$5,242 | \$4,614 | |
| Percent change from 2007-08 | _ | 2.6% | 0.6% | -2.7% | 0.3% | -11.7% | |



Federal Stimulus Funding Available to Mitigate K-12 Reductions

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| About \$6 Billion in Stimulus Funding For K-12 Education | |
|--|---|
| (In Millions) | |
| | Amount |
| Federal stabilization funding Title I Title I set aside School Improvement Grants Individuals with Disabilities Education Act Child care and development block grant Other | \$3,062 ^a 1,080 45 346 1,268 110 ^b 98 |
| Total a LAO estimates based on Governor's May Revision package. b An additional \$110 million will be available in 2010-11. | \$6,009 |



Major Components of Governor's Proposition 98 Package

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For community colleges, makes cuts to general purpose funding (apportionments) as well as categorical funding.

Relies heavily on deferrals.

Provides districts with some additional flexibility.



Major Components of LAO Proposition 98 Alternative

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Reduces funding for programs that are duplicative, inefficient, ineffective, or overbudgeted.

Captures some unspent prior- and current-year funds.

Avoids additional interyear deferrals.

Provides districts with additional flexibility.

Remains consistent with February approach and splits remaining reductions between revenue limits/apportionments and the categorical flex items.



Governor's Current-Year Proposition 98 Package

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| Governor's May Revision Proposals | | | |
|---|----------|--|--|
| 2008-09 (In Millions) | | | |
| | | | |
| K-12 Education | | | |
| Reduce base revenue limits | -\$1,335 | | |
| Eliminate High Priority Schools program | -\$90 | | |
| Other adjustments | \$15 | | |
| California Community Colleges | | | |
| Payment deferrals | -\$115 | | |
| Categorical reductions | -\$85 | | |
| Loss of property tax revenues | -\$37 | | |
| Total | -\$1,648 | | |



LAO Current-Year Proposition 98 Package

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LAO Alternative

2008-09 (In Millions)

| Program | Amount | Comment |
|-------------------------------|----------|---|
| Baseline adjustments | \$15 | Make various technical adjustments |
| K-12 Education | | |
| Revenue limits | -642 | Use February approach to make further reductions ^a |
| Categorical "flex item" | -642 | Use February approach to make further reductions ^b |
| High Priority Schools program | -90 | Eliminate remaining current-year funds |
| Child care and development | -70 | Unappropriate/swap various unspent funds ^c |
| Excess tax school districts | -60 | Conform to revenue limit reductions ^d |
| Division of Juvenile Justice | -29 | Unappropriate/swap various unspent funds |
| California Community Colleges | | |
| Categorical reductions | -\$85 | Adopt Governor's proposal |
| Apportionments | -37 | No backfill for drop in local property taxes |
| Other | | Unappropriate/swap various unspent funds |
| Total | -\$1,648 | |

a Represents additional 2 percent cut to revenue limits, for total cut of 4 percent from 2007-08 level.

b Brings flex item cut from 15 percent to 27 percent.

^C Governor instead proposes \$66 million funding swap in 2009-10.

d Encompasses both February act and new revenue limit cuts. Reduction to be taken from categorical funding.



Governor's Budget-Year Proposition 98 Package

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| Governor's May Revision Proposals | | | |
|--|----------|--|--|
| 2009-10 (In Millions) | | | |
| | | | |
| K-12 Education | | | |
| Revenue limit reduction | -\$2,168 | | |
| Revenue limit deferral | -1,679 | | |
| Child care CalWORKs reduction | -212 | | |
| Child care funding swap ^a | -66 | | |
| Child care advanced placement reduction | -36 | | |
| Other K-12 adjustments | -18 | | |
| Revenue limit/categorical baseline adjustments | 300 | | |
| Behavioral Intervention Plans settlement | 65 | | |
| Inter/intra-district mandate claims | 6 | | |
| California High School Exit Examination mandate claims | 7 | | |
| County Office of Education oversight | 1 | | |
| California Community Colleges | | | |
| Categorical reductions | -\$333 | | |
| Enrollment growth (from 3 percent to 0 percent) | -185 | | |
| Recreational courses reduction | -120 | | |
| Apportionment reduction | -58 | | |
| Total | -\$4,496 | | |
| a Uses carryover funding for preschool. | | | |



LAO Budget-Year Proposition 98 Package

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LAO Alternative

2009-10 (In Millions)

| Program | Amount | Comment |
|--|------------|--|
| Baseline/other | \$280 | Make various technical adjustments |
| K-12 Education | | · |
| Revenue limits | -\$1,424 | Reflects new cut of 4 percent (total cut of 7 percent) ^a |
| Categorical flex item | -1.424 | Reflects cut of 42 percent to each program in flex itemb |
| K-3 Class Size Reduction (CSR) | -442 | Add to flex item, reduce proportional to other programs |
| Home-to-School (HTS) Transportation | 404 | Add to categorical flex item |
| Categorical flex item | -404 | Reduce all programs to accommodate HTS Transportation |
| Economic Impact Aid | -400 | Reduce proportional to categorical flex item (roughly 42 percent) |
| Excess tax districts | -100 | Conforms to revenue limit cut |
| Year Round Schools grant | -47 | Eliminate, program already being phased out |
| Child care Alternative Payments | -36 | Adopt Governor's proposal |
| Child care extended day program | -32 | Eliminate, duplicative of other child care and after school programs |
| Child care quality funding | -30 | Reduce to minimum level required under federal law |
| Charter school facility grants | -18 | Eliminate funds likely to go unused |
| Early Mental Health Initiative | -15 | Eliminate, locals can choose to fund activities with federal special education funds |
| California Technology Assistance Project | -14 | Eliminate, shift responsibilities to High Speed Network |
| Special education | -10 | Reduce to minimum level required under federal law |
| Subtotal | (-\$3,991) | |
| California Community Colleges | | |
| Categorical flex item | -\$333 | Adopt Governor's proposal (reduction of about 55 percent) |
| Enrollment growth | -185 | Eliminate growth (funded at 3 percent in February) |
| Credit recreational courses | -120 | Adopt Governor's proposal |
| Apportionments | -117 | No backfill for drop in local property tax revenue |
| Career technical education (SB 70) | -20 | Eliminate, other source available for same activities |
| High school exit exam remediation | -10 | Eliminate, inefficient and ineffective program |
| Subtotal | (-\$785) | Could be partially offset by increasing student fees |
| Total | -\$4,496 | |

a A portion of this amount (roughly \$400 million) might need to be deferred in order to meet federal maintenance-of-effort rules

 $[\]ensuremath{\text{b}}$ Includes additional conforming reductions to HTS Transportation and CSR.