

June 4, 2009

Overview of the May Revision: Proposition 98

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



Overview of Proposition 98 Funding

June 4, 2009
Page 1

Proposition 98 Funding Under the May 29 Revision							
<i>(In Millions)</i>							
	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

- ☒ Drop in state General Fund revenues has led to drop in Proposition 98 requirements.
- ☒ Governor's May Revision reduces Proposition 98 spending by \$1.6 billion in the current year and \$4.5 billion in budget year.
- ☒ To help address the state's budget shortfall, we recommend funding at these levels—the minimum guarantee in each year.

State/Local Funding Per Student Down About 10 Percent

June 4, 2009
Page 2

"Programmatic" Funding for K-12 Education and Community Colleges						
<i>(Dollars in Millions)</i>						
	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

June 4, 2009
Page 3

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

Major Components of Governor's Proposition 98 Package

June 4, 2009
Page 4

- ☒ For K-12 education, makes cuts primarily to school districts' general purpose funding (revenue limits).
- ☒ 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

June 4, 2009
Page 5

- ☒ 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

June 4, 2009
Page 6

Governor's May Revision Proposals	
<i>2008-09 (In Millions)</i>	
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

June 4, 2009
Page 7

LAO Alternative		
<i>2008-09 (In Millions)</i>		
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	-7	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

June 4, 2009
Page 8

Governor's May Revision Proposals	
<i>2009-10 (In Millions)</i>	
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

June 4, 2009
Page 9

LAO Alternative		
<i>2009-10 (In Millions)</i>		
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 item ^b
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	<u>(-\$3,991)</u>	
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	<u>(-\$785)</u>	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. ^b Includes additional conforming reductions to HTS Transportation and CSR.		