

March 6, 2007

# Major Budget Issues: K-12 Education

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review

Subcommittee No. 1 on Education





## 2007-08 Governor's Budget Proposal, K-12 Education

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- ☒ Based on administration's estimates, funds at Proposition 98 minimum guarantee in 2006-07.
- ☒ Funds basic "growth and COLA" budget in 2007-08.
- ☒ Proposes two funding swaps to achieve General Fund savings in 2007-08.
  - Child care (\$269 million): increase Proposition 98 share of "Stage 2" child care.
  - Home-to-School Transportation (\$627 million): fund with Public Transportation Account (PTA) and permanently reduce, or "rebench," Proposition 98 downward by like amount.



## LAO Updated Forecast: Overall Budget



Relative to the Governor's budget, we estimate:

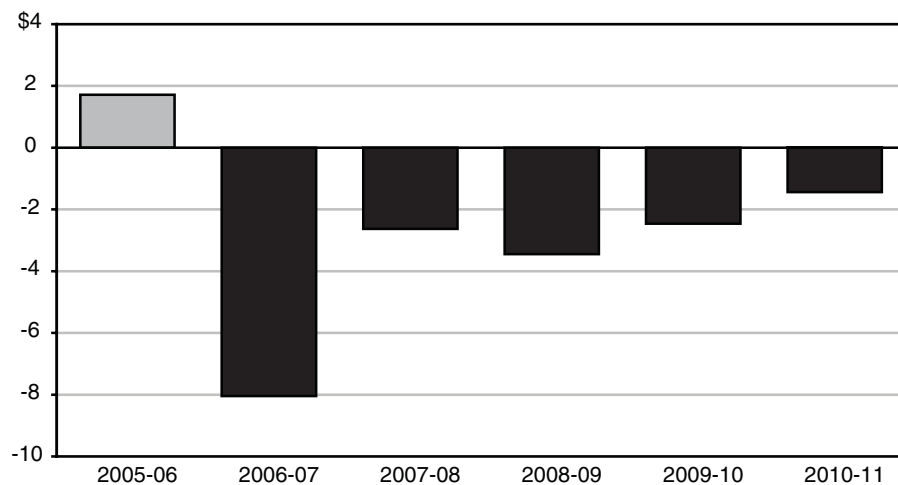
- Revenues: down a total of \$2 billion in 2006-07 and 2007-08.
- Expenditures: \$825 million higher.
- Overall budget situation has worsened by about \$3 billion.



Governor's transportation/rebenching proposal represents an additional \$627 million General Fund risk.

### Significant Operating Shortfalls<sup>a</sup> Would Remain

General Fund (In Billions)



<sup>a</sup>Annual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.



## LAO Updated Forecast: Proposition 98

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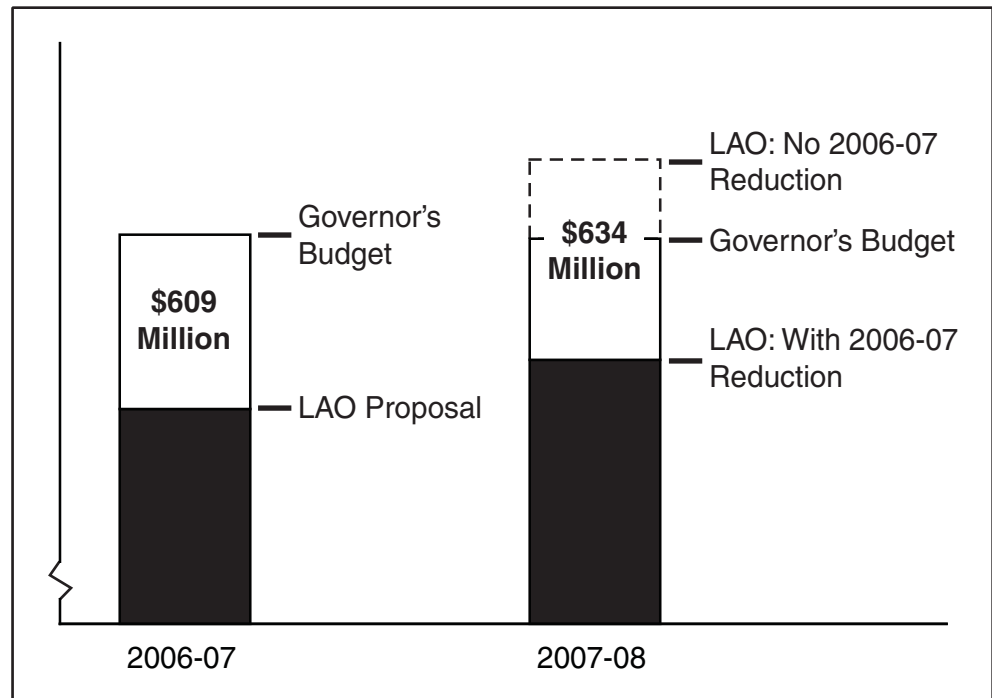
- ☑ 2006-07: Lower revenues result in **lower** minimum guarantee—\$609 million.
  - Legislature would have to take action to reduce spending.
  
- ☑ 2007-08: Greater year-to-year change in revenues results in **higher** minimum guarantee—\$261 million.
  - Assumes no change in current year spending.



## LAO Recommendation 1: Fund at Current-Year Proposition 98 Guarantee



We recommend reducing current-year spending to the Proposition 98 minimum guarantee.





## Achieving Current-Year Proposition 98 Savings



Our recommended reductions would have minimal program impact.

<b>LAO Proposed 2006-07 Reductions</b>	
<i>(In Millions)</i>	
<b>Program</b>	<b>Amount</b>
<b>Recommended Fund Swap</b>	
Transportation (PTA)	\$300.0
<b>Projected Program Savings</b>	
Special education base adjustment	\$41.7
Unused CCC growth <sup>a</sup>	130.0
Preschool expansion	35.2
CCC "overcap" funding <sup>a</sup>	33.1
Subtotal	(\$240.0)
<b>Rejection of Governor's Augmentations</b>	
Low-performing school enrichment	\$50.0
Encorps alternative education	10.0
CCC nursing <sup>a</sup>	9.0
Subtotal	(\$69.0)
<b>Total</b>	<b>\$609.0</b>
<sup>a</sup> CCC=California Community College	



## **LAO Recommendation 2: Fund Baseline 2007-08 Budget**

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- ☒ Even if current- and budget-year spending is reduced as we recommend, year-to-year Proposition 98 funding would increase by more than \$2 billion.
- ☒ Funding would be sufficient to cover “growth and COLA” budget.
- ☒ No “room” within Proposition 98 to accommodate child care proposal.
  - Lowering overall Proposition 98 spending frees up General Fund that can be used for child care. That is, our recommendation would not change the total level of funding proposed for child care.
- ☒ Recommend rejecting transportation/rebenching proposal and funding program within Proposition 98.



## Update on Education Credit Card Debt



If new ongoing or one-time monies were to materialize, we recommend reducing Proposition 98 credit card debt.

Status of the Education Credit Card Debt			
<i>(In Millions)</i>			
	2005-06	2006-07	2007-08
<b>Deferrals</b>			
K-12	\$1,103.4	\$1,103.4	\$1,103.4
Community college	200.0	200.0	200.0
Subtotals	(\$1303.4)	(\$1303.4)	(\$1303.4)
<b>Mandates</b>			
K-12 <sup>a</sup>	\$900.0	\$275.0	\$435.0
Community college	100.0	90.0	115.0
Subtotals	(\$1,000.0)	(365.0)	(550.0)
<b>K-12 Revenue Limits</b>	\$300.0	—	—
<b>Totals</b>	<b>\$2,603.4</b>	<b>\$1,668.4</b>	<b>\$1,853.4</b>

<sup>a</sup> Excludes claims that are unlikely to be paid as the result of court decisions or recent determinations by the Commission on State Mandates.



The state continues to carry about \$1.3 billion in deferral-related debt.



The Governor's budget continues virtually no funding for K-14 mandates, thereby increasing mandate-related debt. We estimate mandate claims for 2007-08 will total about \$185 million (\$160 million for K-12 mandates and \$25 million for CCC mandates).



Combined with unpaid prior-year mandate costs, we estimate the state would end 2007-08 with about \$550 million in mandate debt.

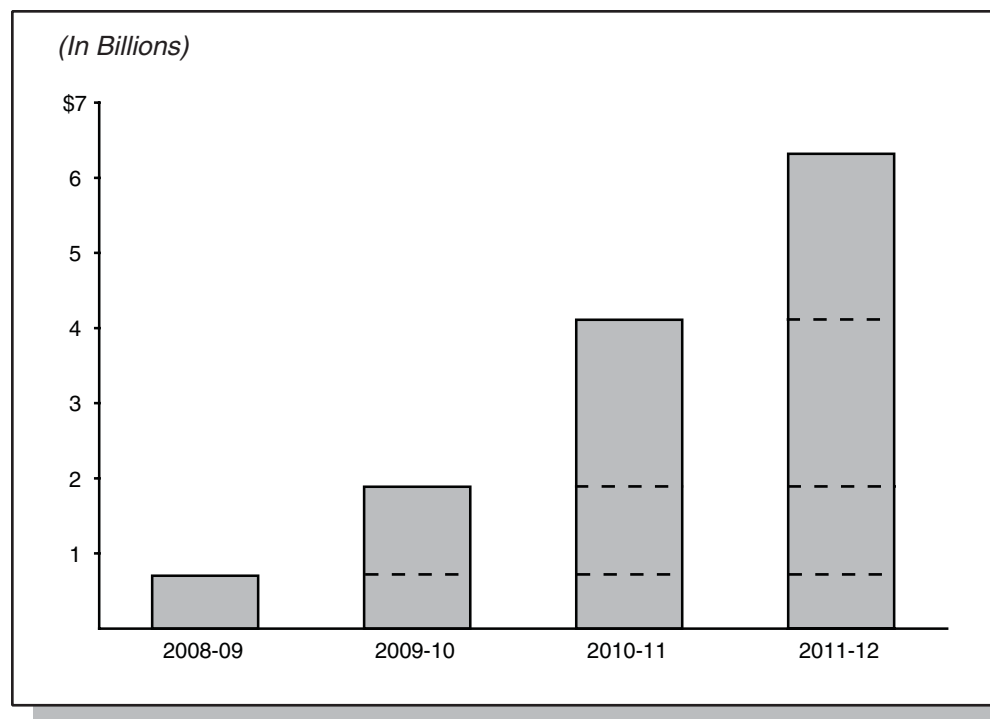


## LAO Recommendation 3: Develop Proposition 98 Roadmap

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Our out-year forecast shows Proposition 98 funding is to increase much more than needed to cover baseline costs.





## Benefits of a Proposition 98 Roadmap

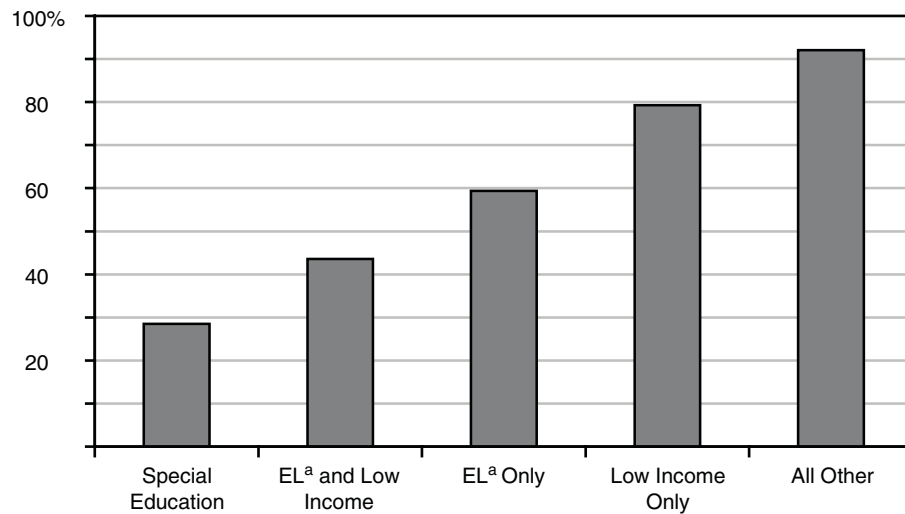
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- ☒ Helps the Legislature identify its long-term priorities.
- ☒ Strengthens the Legislature's role in the budget process.
- ☒ Helps coordinate spending plans with other policy and administrative actions.
- ☒ Facilitates local implementation process.



## Taking Stock of Student Performance

**Percent of Students Scoring Basic and Above,  
Sixth Grade STAR English Test, 2006**



<sup>a</sup>English learner.



Special education and English learner students are much more likely than other students to perform at lower levels.



These results are consistent with data on the California High School Exit Examination.



## LAO Suggested Roadmap

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- ☒ Expand child development and preschool services for low-income children.
- ☒ Invest additional resources in programs for at-risk students.
  - Augment: special education, programs for English learners and economically disadvantaged students, alternative high schools, and vocational education.
- ☒ Create fiscal solvency block grants.