

March 13, 2007

Major Budget Issues: K-12 Education

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Committee

Subcommittee No. 2 on Education Finance

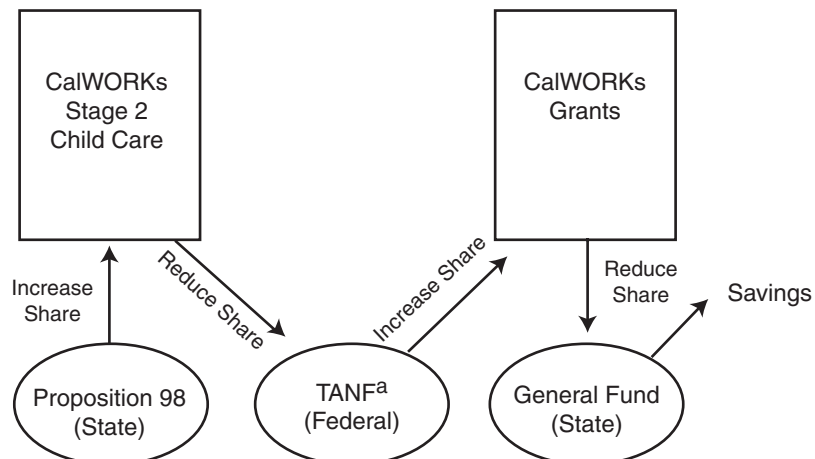




2007-08 Governor's Budget Proposal, K-12 Education

- ✓ 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.

Governor's CalWORKs Stage 2 Funding Swap Proposal



^a Temporary Assistance for Needy Families.

- 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:

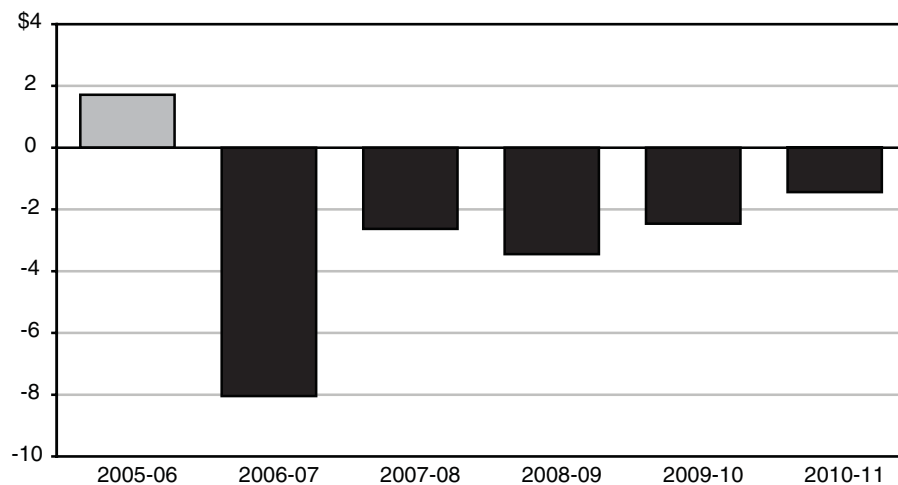
- Revenues: down a total of \$2 billion in 2006-07 and 2007-08.
- Expenditures: \$825 million higher.
- Overall budget situation has worsened by about \$3 billion.



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

Significant Operating Shortfalls^a Would Remain

General Fund (In Billions)



^aAnnual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.



Proposition 98 Basics



Three Formulas (“Tests”) Used to Determine K-14 Funding.

- **Test 1—Share of General Fund.** Provides roughly 40 percent of General Fund revenues to K-14 education. This test has not been used since 1988-89.
- **Test 2—Growth in Per Capita Personal Income.** Increases prior-year funding by growth in attendance and per capita personal income. This test has been operative 12 of the last 19 years.
- **Test 3—Growth in General Fund Revenues.** Increases prior-year funding by growth in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues fall or grow slowly.



Operative Test Is the Higher of Test 1 and Test 2 and the Lower of Test 2 and Test 3.



Legislature Can Provide More Than Guarantee. As part of the annual budget process, Legislature can provide more than the guarantee. It did this from 1997-98 through 2001-02.



Legislature Can Suspend Proposition 98. With a two-thirds vote, the Legislature can suspend the guarantee for one year and provide any level of K-14 funding. It did this in 2004-05.



LAO Updated Forecast: Proposition 98

- ☑ 2006-07: Lower revenues result in **lower** minimum guarantee—\$609 million.
 - Legislature would have to take action to reduce spending.

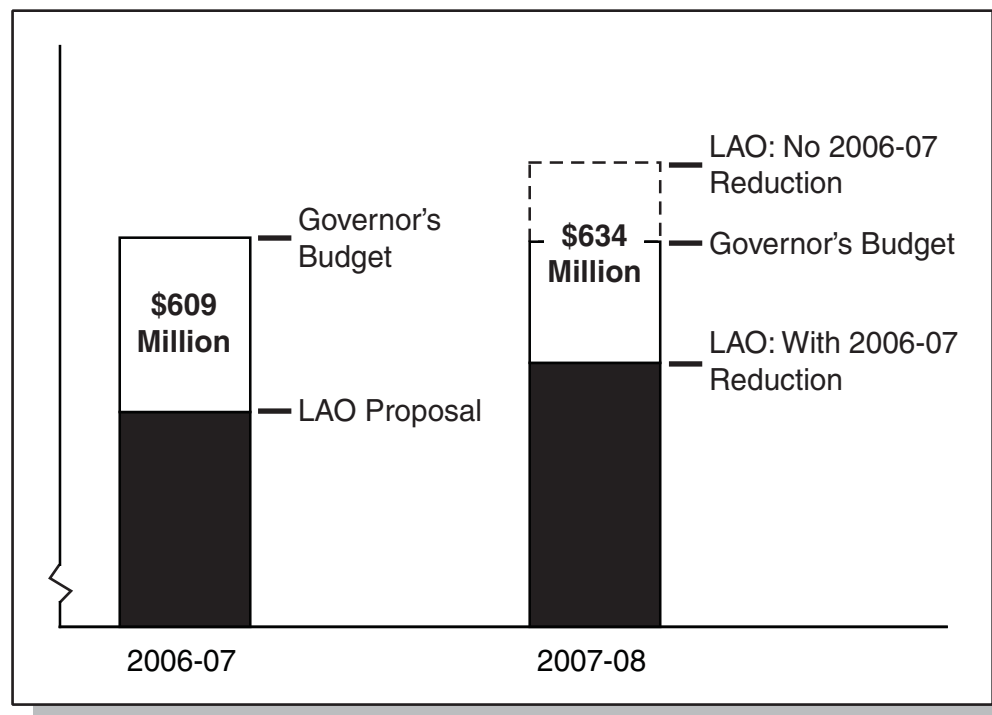
- ☑ 2007-08: Greater year-to-year change in revenues results in **higher** minimum guarantee—\$261 million.
 - Assumes no change in current year spending.



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.

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



LAO Recommendation 2: Fund Baseline 2007-08 Budget

- ☒ 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
Deferrals			
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)
Mandates			
K-12 ^a	\$900.0	\$275.0	\$435.0
Community college	100.0	90.0	115.0
Subtotals	(\$1,000.0)	(365.0)	(550.0)
K-12 Revenue Limits	\$300.0	—	—
Totals	\$2,603.4	\$1,668.4	\$1,853.4

^a 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).



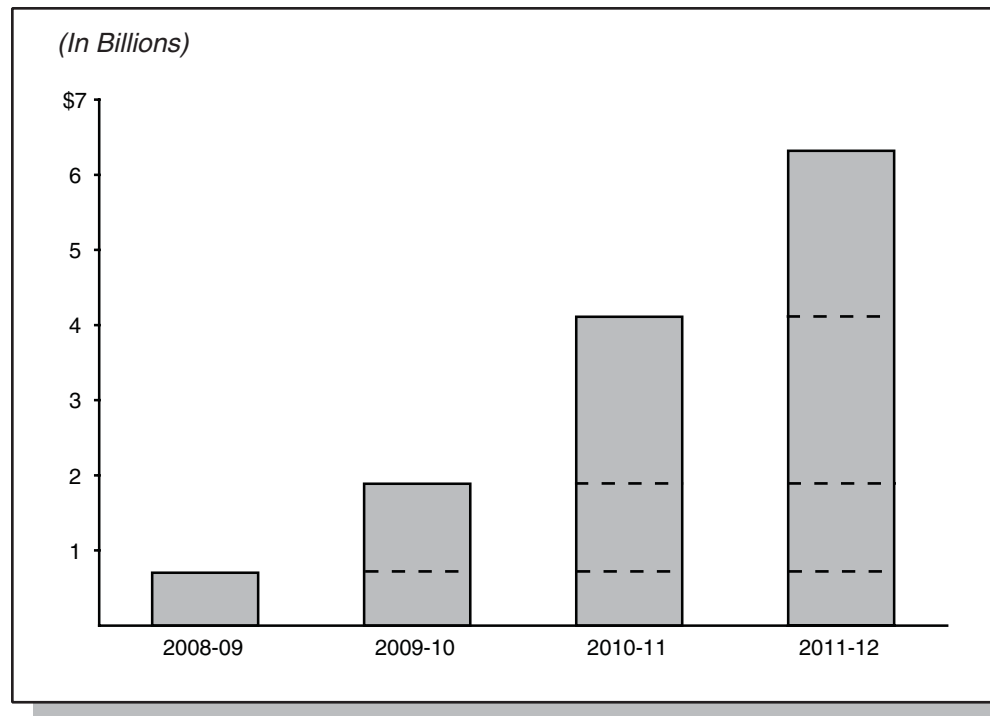
Combined with unpaid prior-year mandate costs, we estimate the state would end 2007-08 with about \$550 million in mandate debt.



LAO Recommendation 3: Develop Proposition 98 Roadmap



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



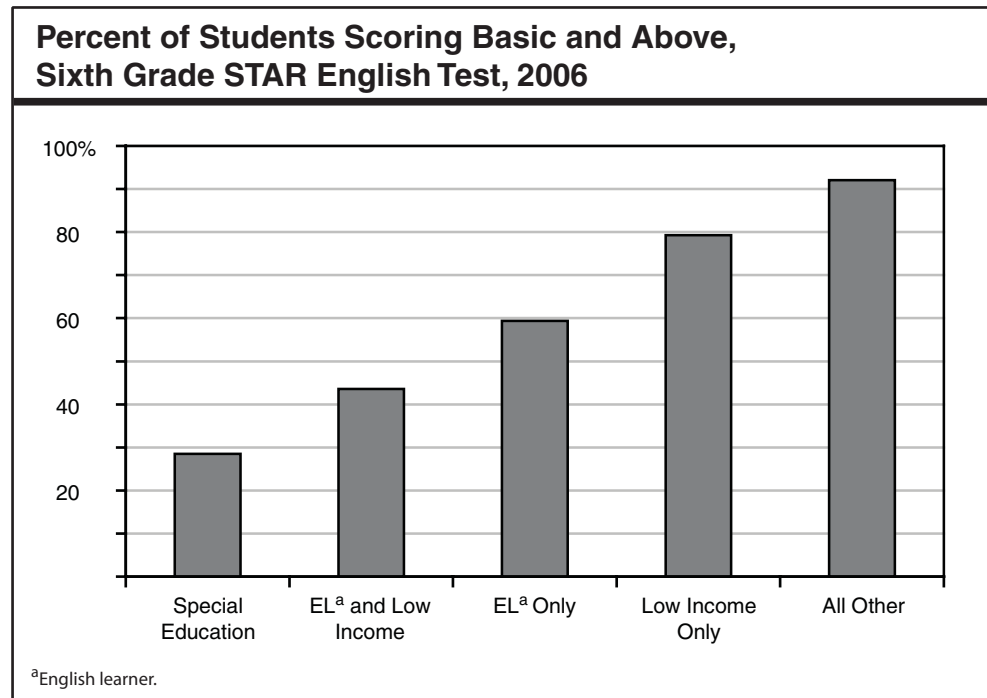


Benefits of a Proposition 98 Roadmap

- ☒ 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



- ☑ 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

- ☒ 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.