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May Revision: Proposition 98 Proposals

LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Subcommittee
No. 2 on Education Finance





Overall Budget Outlook

ADMINISTRATION:

- ☒ Since January, administration estimates that overall budget outlook has worsened by more than \$2 billion due to lower-than-expected revenues for 2007-08 and increased General Fund costs.
- ☒ Correspondingly, Governor's May Revision proposal includes more than \$2 billion in new budget solutions.
- ☒ Administration estimates the state would end 2007-08 with reserve of \$2.2 billion.

LAO:

- ☒ We believe the administration's estimated reserve is likely overstated by \$1.7 billion. We estimate the state would end 2007-08 with reserve of roughly \$500 million.
- ☒ We estimate a \$3 billion operating shortfall for 2007-08—growing to more than \$5 billion in 2008-09.
- ☒ We recommend: Legislature identify solutions that realistically balance state's finances on an ongoing basis, while also avoiding new ongoing commitments.



Proposition 98 Funding: Year-to-Year Changes

(Dollars in Millions)

	2006-07 Budget Act	2007-08 May Revision	Change	
			Amount	Percent
K-12	\$49,114	\$51,224	\$2,110	4.3%
Community Colleges	5,894	6,223	329	5.6
Other	114	119	5	4.6
Totals	\$55,122	\$57,566	\$2,444	4.4%

- ☒ Relative to current-year ongoing funding, Proposition 98 funding for 2007-08 is proposed to increase by \$2.4 billion, a 4.4 percent increase.
- ☒ Of the \$2.4 billion increase:
 - \$2.1 billion is for K-12 education, reflecting a 4.3 percent increase.
 - \$329 million is for community colleges, reflecting a 5.6 percent increase.



Proposition 98 Funding: May Revision Adjustments

(In Millions)

	2006-07	2007-08
Total Proposition 98^a		
January budget	\$55,022	\$57,462 ^b
May Revision	55,395	57,566
Changes	\$372	\$104
^a Includes Proposition 98 funding spent by other agencies including Department of Corrections and Rehabilitation and state special schools.		
^b To make comparisons more straightforward, does not include Governor's proposal to remove the Home-to-School Transportation program (\$627 million) from Proposition 98.		



Healthier-than-expected General Fund revenues in 2006-07 raise the Proposition 98 minimum guarantee in 2006-07 and 2007-08.



Major Proposition 98 Spending Proposals

ONGOING PROPOSALS:

- ☒ Funds a 4.53 percent cost-of-living adjustment (COLA) for K-14 education (\$2.4 billion).
 - The COLA is applied to K-12 revenue limits, virtually all K-12 categorical programs, community college apportionments, and about half of community college categorical programs.
- ☒ Makes various attendance-related adjustments for K-12 education (projected to experience a 0.48 percent year-to-year decline in average daily attendance) and community colleges (funded for 2 percent growth).
- ☒ Retains January proposal to increase Proposition 98 funding for Stage 2 child care by \$269 million.
- ☒ Initial May Revision package proposed funding more than a dozen special ongoing initiatives but had a \$364 million shortfall.

ONE-TIME PROPOSALS:

- ☒ Includes slightly more than \$800 million in one-time spending proposals.



Options for Addressing Shortfall

ONGOING SOLUTIONS:

- ☒ Reject Governor's May Revision augmentations for K-14 education (\$268 million).
- ☒ Suspend discretionary COLAs for K-12 education (\$86 million) and community colleges (\$15 million).
- ☒ Reject Governor's January budget proposals for K-14 education (\$269 million for child care and \$5 million for Early Mental Health Initiative).
- ☒ Eliminate or reduce funding for base programs.

ONE-TIME SOLUTIONS:

- ☒ Use one-time Proposition 98 monies.
- ☒ Use special fund monies on one-time basis.



Governor's May Revision: Proposition 98 Ongoing Augmentations

(In Millions)

Proposal	Governor's Budget
May Revision Augmentations	
Additional teachers for career technical education	50.0
Additional teachers for a-g courses	50.0
Preschool expansion	50.0
Additional career technical education counselors	25.0
School meals/child nutrition	24.9
Encorps for retired teachers	12.0
Fresh Start	11.1
School safety resource officers	9.0
County office support	8.7
Math and science teacher recruitment	7.5
Personnel management assistance teams	3.0
Principal training	2.5
Alternative compensation planning	2.0
Fiscal transparency work group	0.3
CCC matriculation	10.0
CCC technology support	1.9
CCC foster care/kinship	0.5
Total	\$268.4



Major One-Time Proposition 98 Proposals

(In Millions)

Proposal	Governor's Proposals
January Budget	
Williams Emergency Repair Program	\$100.0
Teacher recruitment and retention	50.0
Charter School Facilities	43.9
Child Care Stage 2	25.7
Subtotals	\$219.6
May Revision	
School safety plans	\$100.0
Williams Emergency Repair Program	96.0
CalPADS pre-implementation plans	65.0
K-12 career technical equipment	50.0
Supplemental instruction deficiencies	48.1
CCC career technical equipment	50.0
CCC nursing programs	50.0
CCC deferred maintenance	48.0
English learner instructional materials	20.0
Subtotals	\$527.1
Other (see next page)	\$56.3
Total	\$803.0
^a Includes "settle-up" funds for 2006-07 as well as Proposition 98 Reversion Account monies.	

- ☒ Funds slightly more than \$800 million in one-time initiatives.
- ☒ Provides no funding for mandates.
 - Estimated \$365 million in unfunded prior-year mandates.
 - Estimated \$185 million in unfunded 2007-08 mandates.
- ☒ Provides no funding for deferrals (\$1.3 billion).
- ☒ Underfunds state's existing declining enrollment adjustment by at least \$50 million.



“Other” One-Time Proposals

(In Millions)

	Governor's Proposals ^a
January Budget	
Teacher credentials block grant	\$8.8
CAHSEE study guides	5.0
Technology set-aside	3.1
Budget Officer Training	2.5
Compact for success	1.5
Cal-Pass augmentation	1.0
Encorps alternative verification ^a	—
Program improvement management	—
CCC nursing programs	9.0
Subtotals	\$30.9
May Revision	
County office support	\$8.4
School breakfast startup/expansion	4.4
CSIS support and equipment	2.0
FCMAT property tax audits	2.0
Summer of Safety	2.0
High speed internet maintenance	1.9
CCC technology	2.7
CCC deferred text book assistance	2.0
Subtotals	\$25.4
Total	\$56.3
^a Includes "settle-up" funds for 2006-07 as well Proposition 98 Reversion Account monies.	