

January 16, 2008

# Overview of Governor's Proposition 98 Budget Proposal

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LEGISLATIVE ANALYST'S OFFICE





## Governor's Current-Year Proposal

<b>Governor Proposes Midyear Proposition 98 Reduction</b>				
<i>(Dollars in Millions)</i>				
	2007-08		Change	
	Budget Act	Revised	Amount	Percent
K-12 education	\$50,797	\$50,423	-\$374	-0.7%
California Community Colleges	6,209	6,167	-41	-0.7
Other agencies	119	119	-1	-0.6
<b>Totals</b>	<b>\$57,125</b>	<b>\$56,709</b>	<b>-\$416<sup>a</sup></b>	<b>-0.7%</b>
General Fund	\$41,479	\$41,707	\$229	0.6%
Local property tax revenue	15,646	15,001	-645	-4.1
<sup>a</sup> Of this amount, \$400 million reflects the Governor's proposed reduction to K-12 revenue limits (\$360 million) and California Community Colleges apportionments (\$40 million). The remaining \$16 million is due to technical adjustments that would have occurred automatically. Detail may not add due to rounding.				

- ☒ Because of lower-than-expected state tax revenues, the administration's estimate of the Proposition 98 minimum guarantee has dropped almost \$1.5 billion below the Proposition 98 budget act funding level.
- ☒ The administration proposes reducing current-year Proposition 98 spending by \$400 million—leaving spending more than \$1 billion over the required funding level.



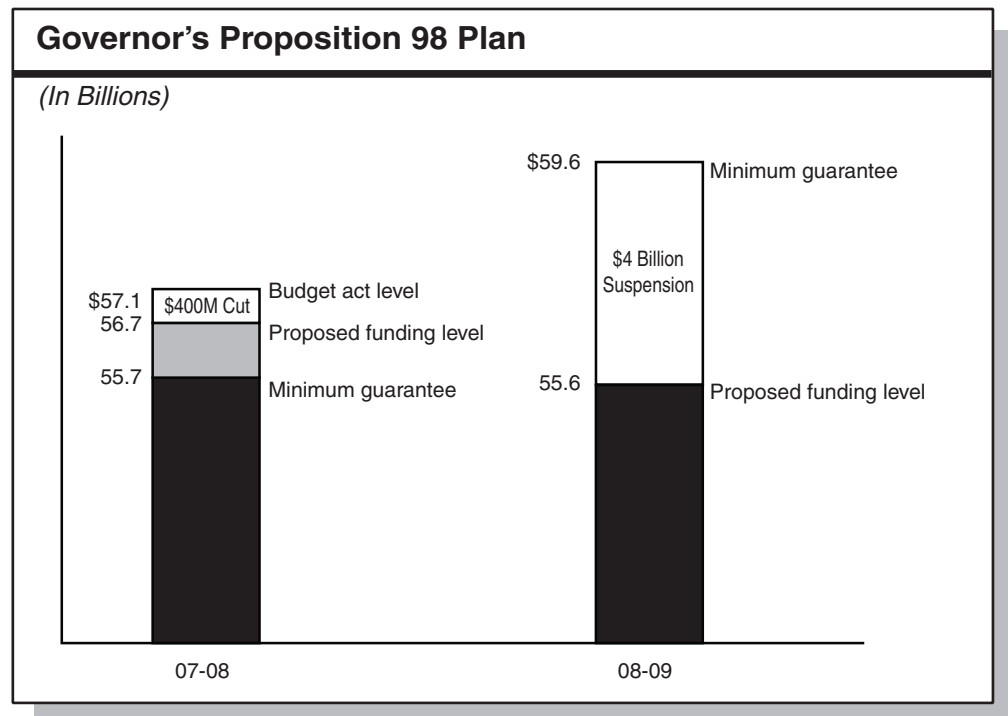
## Governor's Budget-Year Proposal

<b>Proposition 98 Budget Proposal for 2008-09</b> <b>\$1.1 Billion Less Than 2007-08</b>				
<i>(Dollars in Millions)</i>				
	2007-08 Revised	2008-09 Proposed	Change	
			Amount	Percent
K-12 Education	\$50,423	\$49,310	-\$1,112	-2.2%
California Community Colleges	6,167	6,223	55	0.9
Other agencies	119	106	-12	-10.2
<b>Totals</b>	<b>\$56,709</b>	<b>\$55,640</b>	<b>-\$1,069</b>	<b>-1.9%</b>
General Fund	\$41,707	\$39,593	-\$2,114	-5.1%
Local property tax revenue	15,001	16,046	1,045	7.0

- ☒ Administration proposes suspending the Proposition 98 minimum guarantee by \$4 billion.
- ☒ Year over year, Proposition 98 spending would decline by \$1.1 billion, or roughly 2 percent.
- ☒ Administration would not provide a cost-of-living adjustment (COLA) to K-14 education. Also proposes new COLA index for K-14 education.
- ☒ Administration proposes a 10.9 percent reduction in the General Fund share of the K-14 "workload" budget. Reductions would result in reduced funding rates and/or participation.



## LAO Assessment of Governor's Proposition 98 Plan



Governor's current-year proposal has several shortcomings. It would:

- Result in actual midyear cuts to schools (by cutting revenue limits).
- Create a new out-year obligation (a \$400 million revenue limit deficit factor).
- Increase the minimum guarantee for 2008-09, thereby increasing pressure to suspend Proposition 98 to balance the overall budget.



In addition, Governor's Budget-year proposal would make reductions to virtually all programs regardless of merit. Effective, high priority programs would be cut to the same extent as ineffective, low priority programs.



## LAO's Current-Year Recommendation

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- ☑ We recommend the Legislature adjust Proposition 98 spending all the way down to the minimum guarantee.
- ☑ We recommend making adjustments that minimize the impact on current school operations.
- ☑ Specifically, we recommend the Legislature take three actions. All three actions reduce the amount of ongoing Proposition 98 spending that counts toward the minimum guarantee.
  - Replace ongoing monies with as much unspent monies as possible from prior years. Action would not affect amount of funding going to schools.
  - Unappropriate any current-year funding that likely would not be spent by the end of the fiscal year. As funds are expected to go unused, current school operations would not be unaffected.
  - Attribute any remaining spending above the minimum guarantee as "settle-up" funding. Would not affect amount of funding going to schools.
    - The state currently owes \$1.1 billion in outstanding settle-up obligations, for Proposition 98 in 2002-03 and 2003-04.
    - A settle-up obligation is created when the minimum guarantee goes up after the budget has been enacted (the difference is deemed settle up).



## Benefits of LAO Current-Year Recommendation

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- ☒ ***Could Achieve Additional Budget Solution.*** Any savings beyond \$400 million represents a budget solution to the state. Under our recommendation, the state achieves the solution without affecting current school operations.
- ☒ ***Partly Retires Out-Year Obligations.*** Scoring any funding provided above the current-year minimum guarantee as settle up helps the state retire a portion of its outstanding out-year obligations. It does this without affecting current school operations.
- ☒ ***Preserves Options for Budget Year.*** Without lowering the minimum guarantee in the current year, the Legislature likely would find a large suspension of the Proposition 98 requirement in the budget year the only realistic budget-balancing option. By lowering the spending to the guarantee in the current year, the Legislature positions itself to have better budget-year options. That is, it might be able to avoid suspension or suspend by a lesser amount. In either case, it likely would be able to provide more for K-14 education than under the administration's proposal.