

May 21, 2008

Overview of Proposition 98 Budget

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:

Senate Budget Subcommittee No. 1 on Education
Hon. Denise Moreno Ducheny, Chair





Overview of State Budget Situation



Budget Problem Has Worsened: Major drop in revenue projections (\$6 billion) and rising state expenditures (\$1.7 billion) lead to larger operating shortfall than assumed a few months ago.



May Revision Adds More Than \$8 Billion in New Solutions.
Largest solutions include:

- Sell lottery bonds (\$5.1 billion in 2008-09).
- Redirect public transportation funds to benefit General Fund (\$828 million).
- Loans from state special funds (\$564 million).

The State's Remaining Budget Shortfall Is \$15 Billion	
<i>(In Billions)</i>	
Governor's Estimate	
Problem as of January	-\$14.5
+	
May Forecast	
Lower revenues	-\$6.0
Higher spending	-1.7
=	
Revised Problem	-\$22.2
-	
Special Session Solutions	\$7.0
=	
Remaining Problem	-\$15.2
+	
Proposed Solutions	\$17.2
=	
May Revision Reserve	\$2.0



Revised 2008-09 K-14 Proposal Contains \$1.1 Billion in Additional Spending

Proposition 98 Spending: Comparing January Budget and May Revision

2008-2009
(In Millions)

	January Budget	May Revision	Change
K-12	\$49,311	\$50,408	\$1,097
California Community Colleges	6,223	6,251	28
Other ^a	106	111	5
Total Proposition 98	\$55,640	\$56,769	\$1,130

^a Includes Department of Developmental Services, California Department of Corrections and Rehabilitation, and state special schools.



Provides Roughly \$1.1 Billion More Relative to January.

Maintains roughly the same amount of ongoing spending as in current-year proposal.



Fully Funds Revised Estimate of Minimum Guarantee. Sharp decline in revenues lowers Proposition 98 requirement by \$3 billion. Combined with Governor's \$1.1 billion increase in spending, this eliminates need for January's \$4 billion proposed suspension.



Restores Base Funding Cuts for Some Programs. Reversing a part of his January proposal, the Governor restores funding for:

- K-12 revenue limit base (\$841 million).
- Special education base (\$238 million).
- Portion of state special schools (\$5 million).
- Community college foster care program (\$600,000).



Augments Funding for Community College Enrollment Growth (\$35 Million, Increasing From 1 Percent to 1.67 Percent).



May Revision Maintains Most of January's Proposed Program Reductions

- ☒ ***Does Not Provide Budget-Year COLA.*** The COLA rate has increased from the Governor's January estimate of 4.94 percent to 5.66 percent. The cost of providing a full COLA to all K-14 programs that typically get them would be roughly \$3.1 billion.
- ☒ ***Still a \$900 Million Cut From Current-Budget Year Ongoing Programmatic Spending.*** Current-year includes significant amount of one-time funding supporting ongoing programs.
- ☒ ***Maintains Most Across-the-Board Reductions.*** The May Revision continues to fund most programs at the levels proposed in January. For most K-12 categorical programs this would result in a year-to-year reduction of 6 percent to 7 percent (about 11 percent for most community college categorical programs).
- ☒ ***Reduces Funding for Deferred Maintenance.*** Reduces funding by \$223 million, leaving roughly \$40 million for the program to be used for districts qualifying for hardship. Associated proposal would waive deferred maintenance local match requirement.



2008-09 K-14 Proposition 98 Budget Changes

Proposition 98 Budget Changes	
<i>(In Millions)</i>	
2007-08 Revised	\$56,576
January Budget	
Restore funding for ongoing programs	\$567
Restore 2007-08 special session reductions	507
Community college enrollment growth	60
K-12 decline in average daily attendance (ADA)	-121
Budget balancing reductions	-1,965
Other	-10
Subtotal, January	<u>(-\$962)</u>
May Revision	
Restore revenue limit base reduction	\$841
Restore special education base reduction	238
Revenue limit ADA growth (higher 07-08 base)	142
Revenue limit UI/PERS ^a	119
Child care	42
Community college growth	35
Deferred maintenance	-223
COE ^b revenue limit adjustment	-38
Subtotal May	<u>(\$1,156)</u>
Total Year-to-Year Change	\$194
2008-09 Proposal	\$56,769
^a Unemployment Insurance/California Public Employees' Retirement System. ^b County Office of Education.	

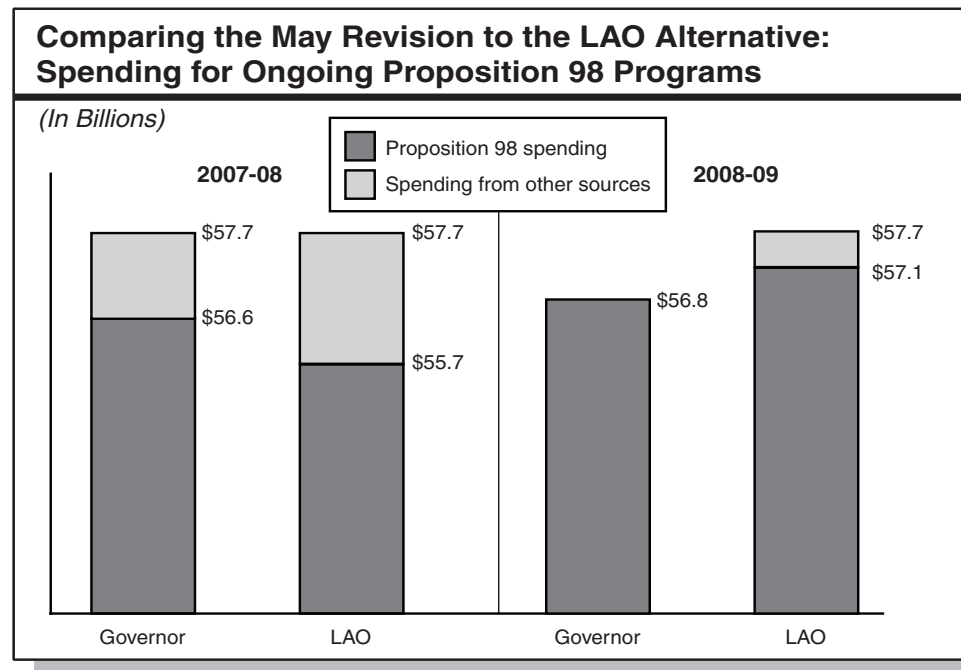


LAO Proposition 98 Alternative

- ☒ ***Maintains Same Level of Ongoing Programmatic Support in 2008-09 as Proposed in February (\$57.7 billion).***
- ☒ ***Maintains Targeted Approach.*** As in February, alternative makes targeted reductions based on merits of programs rather than cutting virtually all programs regardless of merit.
- ☒ ***Funds Minimum Guarantee in Both Current and Budget Years.*** Would require additional action to reduce spending in 2007-08.



Comparing Funding for Proposition 98 Programs Under the Two Plans



2007-08: Overall Current-Year Funding Levels Equivalent; LAO Captures Additional Savings by Using One-Time Funds. We continue to recommend the Legislature reduce on-going funding to the minimum guarantee—by \$864 million.

- Offers twin benefits of additional General Fund savings and lower funding base moving into budget year.



2008-09: LAO Alternative Provides Roughly \$900 Million More Ongoing Programmatic Funding (\$300 Million in Proposition 98 and \$600 Million in PTA Monies).



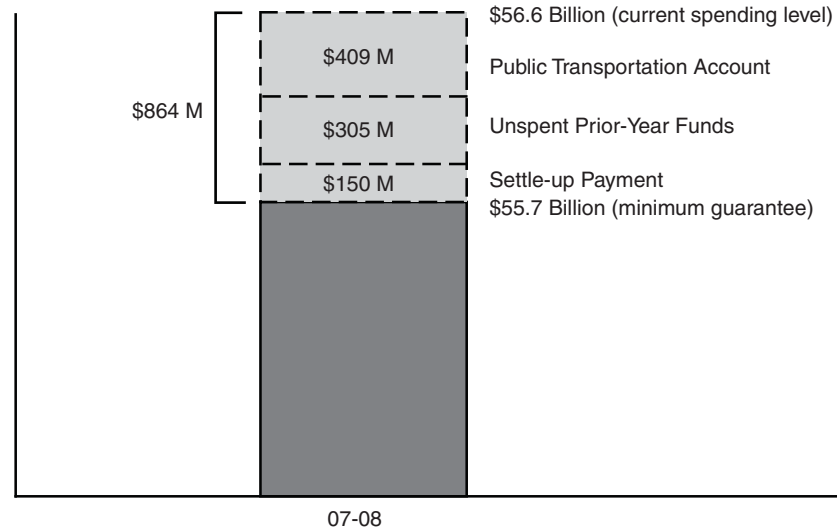
LAO Alternative Reduces Spending to Minimum Guarantee in 2007-08



2007-08 Ongoing Proposition 98 Spending Reduced by \$864 Million. By drawing upon other funding sources, schools do not experience real reductions in the current year.

Current-Year Component of LAO Alternative: Ongoing Proposition 98 Spending

2007-08





LAO Alternative Contains Fewer Cuts in Budget Year Compared to May Revision

Comparing 2008-09 Proposition 98 Ongoing Program Spending Proposals		
<i>2008-09 (In Millions)</i>		
	Governor	LAO
2007-08 Revised	\$56,576	\$56,576
Restore funding for ongoing programs	\$1,073	\$1,073 ^a
Revenue limit technical changes	223	223
Community college enrollment growth	96	20 ^b
Ongoing funding for child care	42	152
Mandates	—	205
Program reductions	-882	-179
Deferred maintenance	-223	—
K-12 decline in average daily attendance	-128	-128
Use Public Transportation Account (PTA) monies for Home-to-School Transportation	—	-589
Eliminate remainder of High Priority Schools Grant Program	—	-114
Reduce instructional materials block grant for one year	—	-87
Use federal funds for state special schools	—	-5 ^c
Other/Technical adjustments	-7	-37
Total Year-to-Year Change	\$194	\$534
2008-09 Revised Spending Levels	\$56,769.1	\$57,110.0
PTA	—	\$593
Federal funds for state special schools	—	\$5
Funding Under LAO Alternative	—	\$57,708
^a About \$1 billion in funding for ongoing K-12 programs was funded with one-time funds in 2007-08. ^b Assumes \$80 million in enrollment growth is covered by additional fee revenue. ^c Equates to about 5 percent of total funding.		



LAO Alternative Includes \$205 Million to Fully Fund Ongoing Costs of K-14 Mandates.



Protects State's Facility Investments, Funds Deferred Maintenance Program.



LAO Alternative Achieves Savings Through Targeted Reductions

Recommended Categorical Program Reductions for 2008-09

(In Millions)

Program	Amount	Rationale
February Alternative (Updated)		
Physical Education Incentive Grants	\$41.8	Poorly structured
Adult education	30.0	Growth Adjustment
Economic Impact Aid	25.0	Technical realignment
Year Round Schools	19.0	Reduced participation
School safety competitive grants	18.1	Duplicative
Home-to-School Transportation	11.0	Technical realignment
High Priority Schools (corrective action)	6.0	Duplicative
Alternative certification/intern	5.2	Technical realignment
National Board certification	2.0	Technical realignment
Paraprofessional teacher training	.7	Technical realignment
CCC economic development	11.0	Noncore program
Subtotal	\$169.8	
May Alternative		
High priority schools (remainder)	114.2	Ineffective
Instructional materials	87.0	One-year reprieve ^a
Block grants	—	
Subtotal	\$201.2	
Total	\$371.0	

^a Provides districts with one-year reprieve from purchasing new instructional material programs. Retains roughly \$300 million in instructional material funding to help districts replace lost or worn materials.



One-Time Spending Plans

Comparing One-time Spending Plans for Budget Year			
<i>2008-09 (In Millions)</i>			
	May Revision	LAO Alternative	
One-Time Spending	Amount	Amount	Comment
Child care (CalWORKs Stages 2 and 3)	\$323.6	\$63.1	Provides roughly same total level of funding as Governor's May Revision but uses less one-time funding.
Emergency Repair Program	100.0	100.0	Meets statutory obligation.
CCC property tax backfill	74.9	83.2	Relies on \$47 million in one-time Proposition 98, \$6 million in excess student fee revenue, and \$30 million from the Public School Planning, Design, and Construction Review Revolving Fund to cover community colleges' current-year local property tax shortfall.
CSIS-Lite	7.9	—	Supports project with federal funds.
Personnel Management Assistance Teams	3.0	—	Does not fund.
Total	\$509.3	\$246.3	Uses remaining one-time funds in current year (to adjust Proposition 98 spending down to the minimum guarantee without reducing support for schools).



In Addition to its Other Education Proposals, Governor's May Revision Spends \$509 Million in One-Time Monies for Education.



LAO's and Governor's Proposals Have Similar One-Time Spending Priorities.



LAO Alternative Contains Less One-Time Spending in Budget Year. This is primarily because LAO plan spends more one-time monies in current-year to help hold schools harmless for reduction in ongoing Proposition 98 spending.



Comparing Complete Budget-Year Plans

Comparing Bottom Line Under Governor's and LAO's Budget-Year Plans			
<i>2008-09 (In Millions)</i>			
	Governor	LAO	Difference
Ongoing Activities			
Ongoing Proposition 98	\$56,796	\$57,110	\$314
Public Transportation Account	—	593	593
Subtotal	(\$56,796)	(\$57,703)	(\$907)
One-time Activities			
Quality Education Investment Act	\$450	— ^a	-\$450
One-time Proposition 98	503	210 ^b	-293
Settle-up payment	150	—	-150
Other	6	36 ^c	30
Subtotal	(\$1,109)	(\$246)	(\$863)
Totals	\$57,905	\$57,949	\$44
^a Reflects deferral rather than elimination of payment. ^b Provides \$100 million for Emergency Repair Program, \$63 million for child care, and \$47 million for community colleges (to backfill part of the current-year local property tax shortfall). ^c Provides \$30 million from the Public School Facility Review Revolving Fund and \$6 million in excess student fee revenue to backfill the remainder of community colleges' current-year local property tax shortfall.			



Plans Provide About the Same Amount of Total Support for K-14 Education in 2008-09. When comparing all funding for ongoing and one-time activities, LAO and Governor have similar spending totals.



The LAO Plan Contains Substantially More Ongoing Support—\$900 Million—and Substantially Less One-Time Support.



LAO Plan Also Would Result in About \$300 Million More Ongoing Funding in 2009-10. Higher ongoing Proposition 98 funding in the budget year carries forward into higher base in subsequent year.



Opportunities for Using Available Federal Funds to Support Existing Programs



State Special Schools. Recommend using \$9.2 million in federal special education funds to support the State Special Schools.

- Relative to May Revision, achieves \$5.1 million in Proposition 98 General Fund Savings.
- Also backfills the Governor's proposed reduction in non-Proposition 98 support for State Special Schools (providing \$4.1 in federal funds to offset General Fund reductions).



Data Reporting. Recommend using \$7.8 million in Title I set-aside funds for CSIS to provide technical assistance to school districts in transitioning to CALPADS.

- Achieves same amount of General Fund savings relative to May Revision.



Professional Development. Recommend using \$5.3 million in federal Title II funds to support existing programs.

- Recommend using \$5 million to support Subject Matter Projects in 2008-09, thereby achieving same amount of General Fund savings.
- Recommend using \$308,000 to support teacher assignment monitoring (conducted by county offices of education) on an ongoing basis, achieving the same amount of Proposition 98 savings.



Governor's Flexibility Package Should be Rethought

Flexibility Provisions	Governor's Proposal	LAO Recommendation
Reserve for economic uncertainty	Reduce requirements by half in 2008-09 and 2009-10.	Reject Proposal.
Routine maintenance reserve	Reduce from 3 percent to 2 percent of general purpose expenditures.	Reject Proposal.
Deferred maintenance match	Suspend local match.	Reject Proposal. ^a
Ending categorical balances	Allow transfer of unspent current year funds into unrestricted general fund. Excludes certain programs.	Allow transfers but limit to 50 percent of categorical account balances.
Flexibility for AB 825 block grants	Increase amount allowed to be transferred out of 4 block grant programs from 15 percent to 20 percent. Increase amount allowed to be transferred into a program from 20 percent to 25 percent.	Approve Proposal. ^b
Control section 12.40	Increase percentage allowed to be transferred out of 10 specified programs from 10 percent to 50 percent. Increase percentage allowed to be transferred into a program from 15 to 55 percent.	Allow 20 percent to be transferred out of a program and 25 percent to be transferred into a program. ^b
Instructional materials	No Proposal.	Give districts one-year reprieve from having to purchase instructional materials.
<p>^a In contrast to the May Revision, the LAO alternative budget plan does not reduce state funding for deferred maintenance.</p> <p>^b Although we think these proposals would provide districts slightly greater flexibility, we continue to recommend the Legislature adopt more meaningful categorical reform by combining like programs, clarifying objectives, and strengthening accountability.</p>		



Other Budget Proposals Have Impact on K-14 Education



Governor's Overly Optimistic Lottery Proposal Puts Education's Share of Lottery Funding at Risk. A portion of education's share of funding could go to pay debt service if lottery does not perform as expected. Education's share of profits is also capped at \$1.2 billion (its 2006-07 level).

- ***LAO Alternative is More Modest, Less Risky.*** Less borrowing (which translates into smaller debt service payments) helps protect education's share of lottery funds. Also allows Legislature the ability to direct excess profits to education.



Governor's Budget Reform Proposal Would Eliminate State's Ability to Suspend Proposition 98. Proposal also provides K-14 education some protections from Governor's proposed ability to make midyear cuts.



LAO Proposes to Achieve General Fund Savings by Increasing Amount of Property Tax Revenue Flowing From Redevelopment Agencies to Schools (Around \$200 Million Annually).

- LAO also proposes to recapture funds from schools and redevelopment agencies that have not properly transferred or reported funds in recent years (\$70 million).
- Also assumes more accurate reporting leads to higher revenue in budget year (\$28 million).



Governor Proposes Shift of \$2.5 billion in K-12 Education Payments. Schools would have certain categorical program payments that currently are received from August through March delayed to April.