

March 25, 2008

Proposition 98 Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review

Subcommittee No. 1 on Education

Hon. Jack Scott, Chair





Update on Current-Year Budget

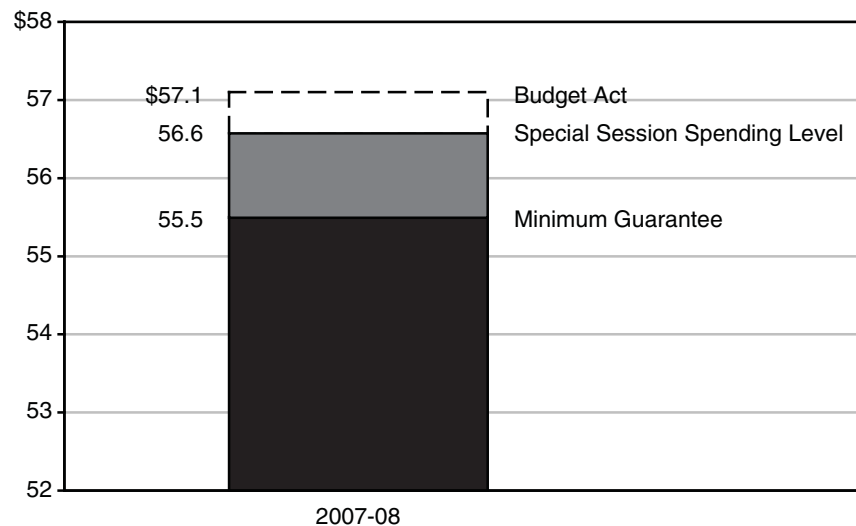


The special session package reduced spending that counts toward the Proposition 98 minimum guarantee by \$507 million.

- The bulk of the adjustment (almost \$300 million) used unspent funds from prior years to support current-year operations.
- The remainder of the adjustment (slightly more than \$200 million) reduced current-year funds not needed to support current-year operations.

Current-Year Spending \$1.1 Billion Higher Than Funding Requirement

(In Billions)



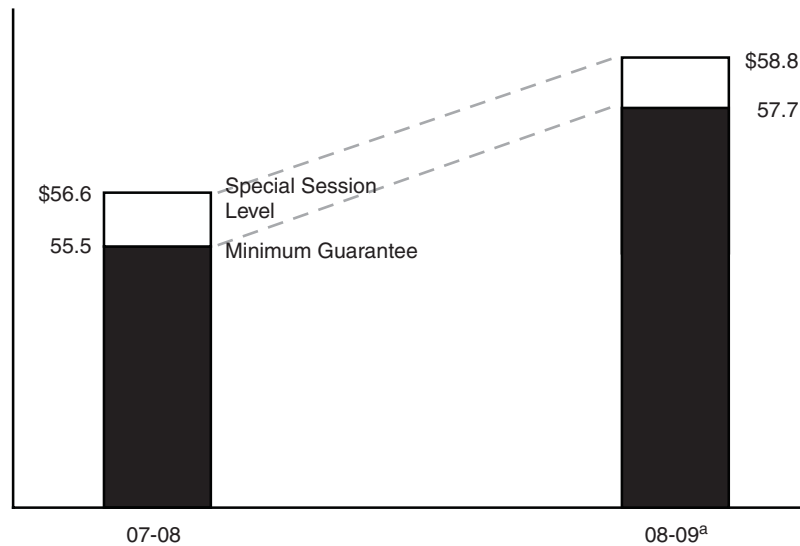


Additional Action in Current Year Would Yield Several Benefits

- ☒ We continue to recommend reducing current-year Proposition 98 spending all the way down to the minimum guarantee.
- ☒ This approach:
 - Offers additional budget solution in 2007-08 and 2008-09.
 - Improves out-year budget situation.
 - Does not affect current school operations.

Additional Current-Year Action Can Provide Additional \$1.1 Billion in Budget-Year Solution

(In Billions)



^a Based on LAO February revenue forecast. Assumes no new revenue proposals.



Several Current-Year Options Remain Viable

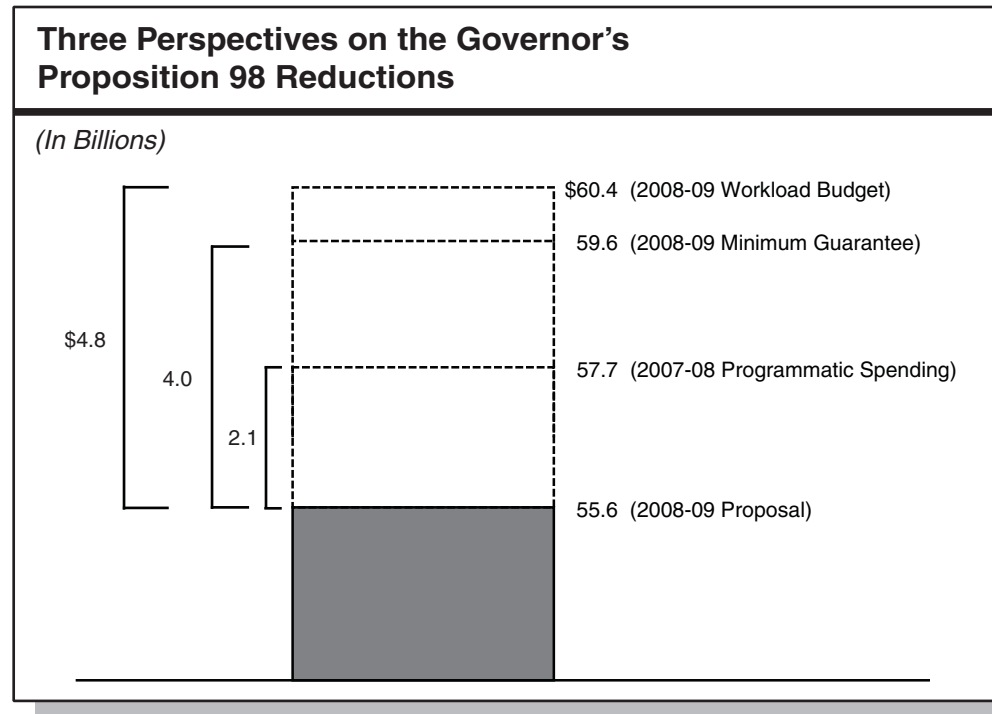


Several current-year options remain viable for reducing ongoing Proposition 98 spending without affecting the amount of funding going to schools:

- Identify additional unspent funds from prior years/current year.
- Use Public Transportation Account monies to fund Home-to-School transportation.
- Attribute any remaining funding above the minimum guarantee as “settle-up.”



Governor's Budget Reduces Funding for K-14 Education



- ☒ **Compared to Current-Year Programmatic Spending:** \$2.1 billion less than what schools are currently spending on programs.
- ☒ **Compared to Minimum Guarantee:** \$4 billion less than what schools would receive if minimum guarantee were met.
- ☒ **Compared to Workload Budget:** \$4.8 billion less than full funding for current programs plus a 4.9 percent cost-of-living adjustment (COLA).



LAO's Alternative Proposition 98 Budget

- ☒ **Provides \$57.7 billion for K-14 education in 2008-09.**
Roughly the same amount of ongoing programmatic support as in the current year.
- ☒ **Restores ongoing funding for ongoing programs supported with one-time funds.**
- ☒ **Makes growth-related adjustments.**
- ☒ **Does not provide COLA.**
- ☒ **Fully funds ongoing costs of mandates.**
- ☒ **Makes targeted reductions to 13 categorical programs.**



Alternative Achieves Savings Through Targeted Reductions



Suspends Quality Education Investment Act (savings of \$450 million). To ramp up the program while at the same time cutting existing core programs would be counterproductive.



Reduces or eliminates funding for 12 other K-14 programs (savings of \$179 million).

- Eliminates programs that are poorly structured, duplicative, noncore, or experiencing significant declines in participation.
- Identifies programs that routinely spend less than budgeted and realigns the budgeted funding level with the expected spending level.

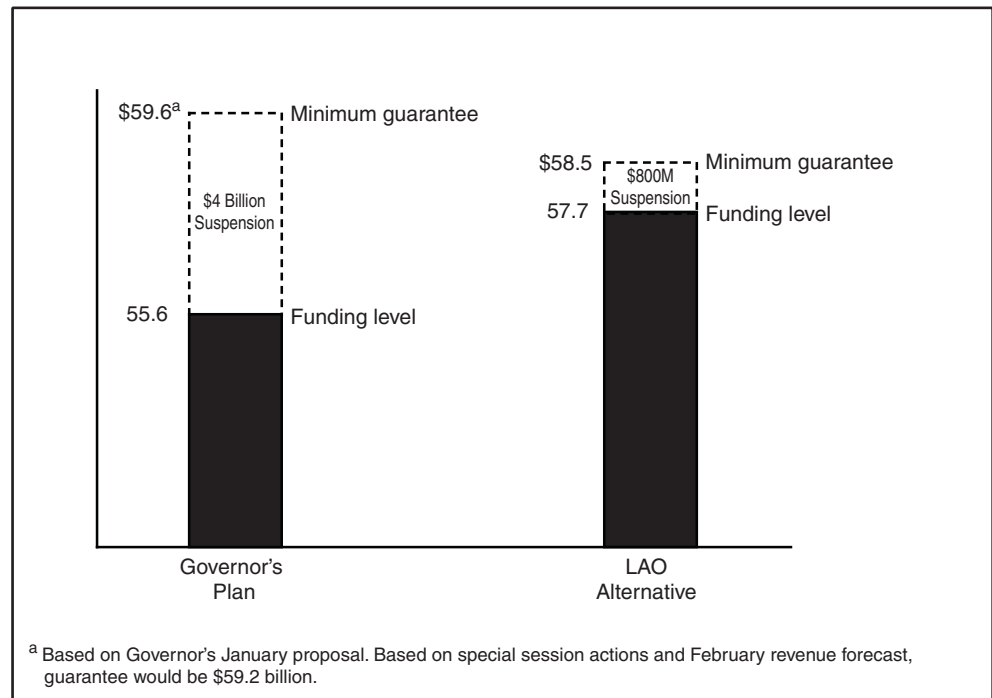
Recommended Categorical Program Reductions for 2008-09

(In Millions)

Program	Amount	Rationale
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
Targeted Instructional Improvement	10.0	Technical realignment
High Priority Schools (corrective action)	6.0	Duplicative
Alternative certification/intern	3.0	Technical realignment
National Board certification	2.0	Technical realignment
Paraprofessional teacher training	1.8	Technical realignment
CCC economic development	11.0	Noncore program
Total K-14 Reductions	\$178.7	



Alternative's Funding Level Substantially Higher Than Governor's Level



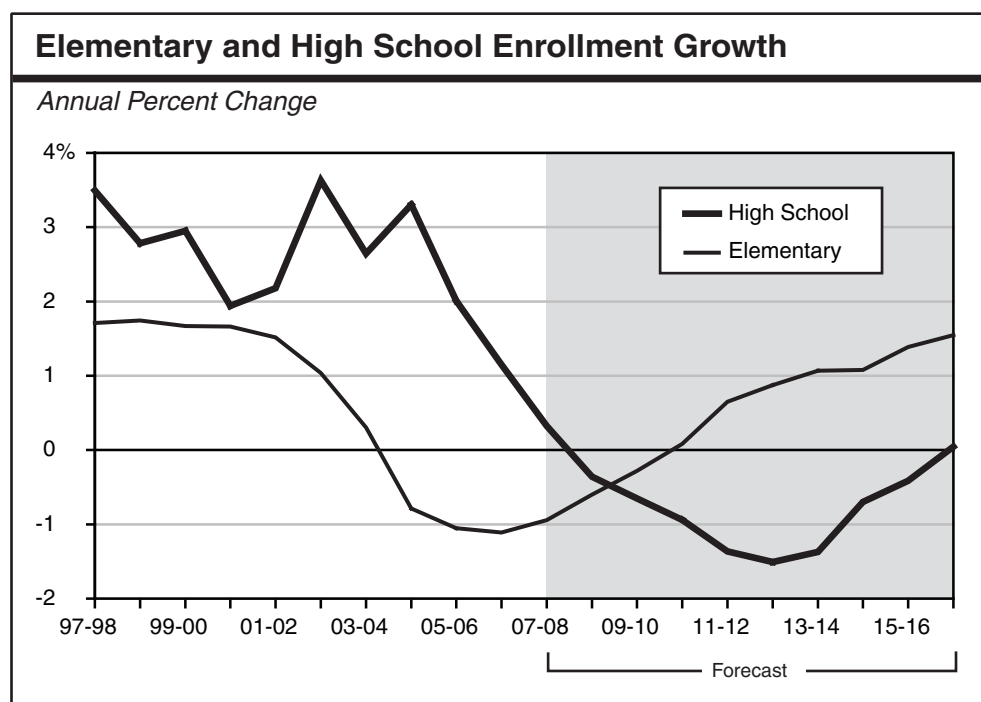
Our Alternative Proposition 98 Budget:

- Provides \$2.1 billion more than the Governor's plan.
- Requires a smaller suspension amount (\$800 million compared to \$4 billion).
- Does not affect state's long-term funding commitment to K-14 education.



Trends in K-12 Enrollment

- ☒ ***K-12 Enrollment on the Decline.*** K-12 enrollment projected to decline in 2008-09 for fourth consecutive year—dropping by 0.5 percent.
- ☒ ***Declines in Elementary Enrollment Precede Declines in High School.*** Elementary enrollment began declining in 2003-04 whereas high school enrollment is projected to decline beginning in 2008-09.
- ☒ ***Statewide Trends Mask Regional Differences.*** Significant variation expected to occur across counties.





Trends in Per-Pupil Funding

- ☒ Governor's Proposition 98 proposal provides \$8,368 per average daily attendance (ADA) in 2008-09, a decrease of \$123 from revised current-year spending.
- ☒ Including funding from all sources, the Governor's proposal would provide \$11,626 per ADA in 2008-09, a decrease of \$336 from revised 2007-08 levels.
- ☒ Adjusting for inflation, per-pupil funding has been relatively flat over the past several years.

