

March 11, 2008

Proposition 98 Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 2

On Education Finance

Hon. Julia Brownley, Chair





Update on Current-Year Budget

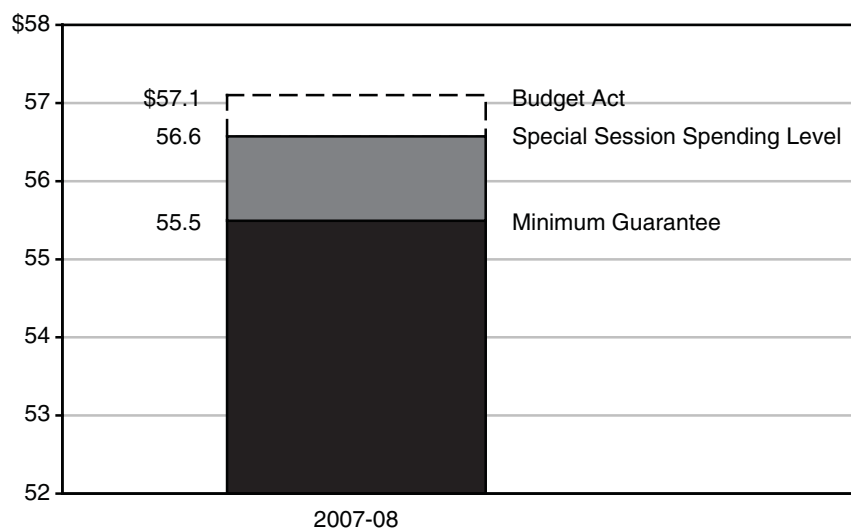


The special session package reduced spending that counts toward the Proposition 98 minimum guarantee by \$507 million.

- The bulk of the adjustment (almost \$300 million) was a “paper shift” that 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

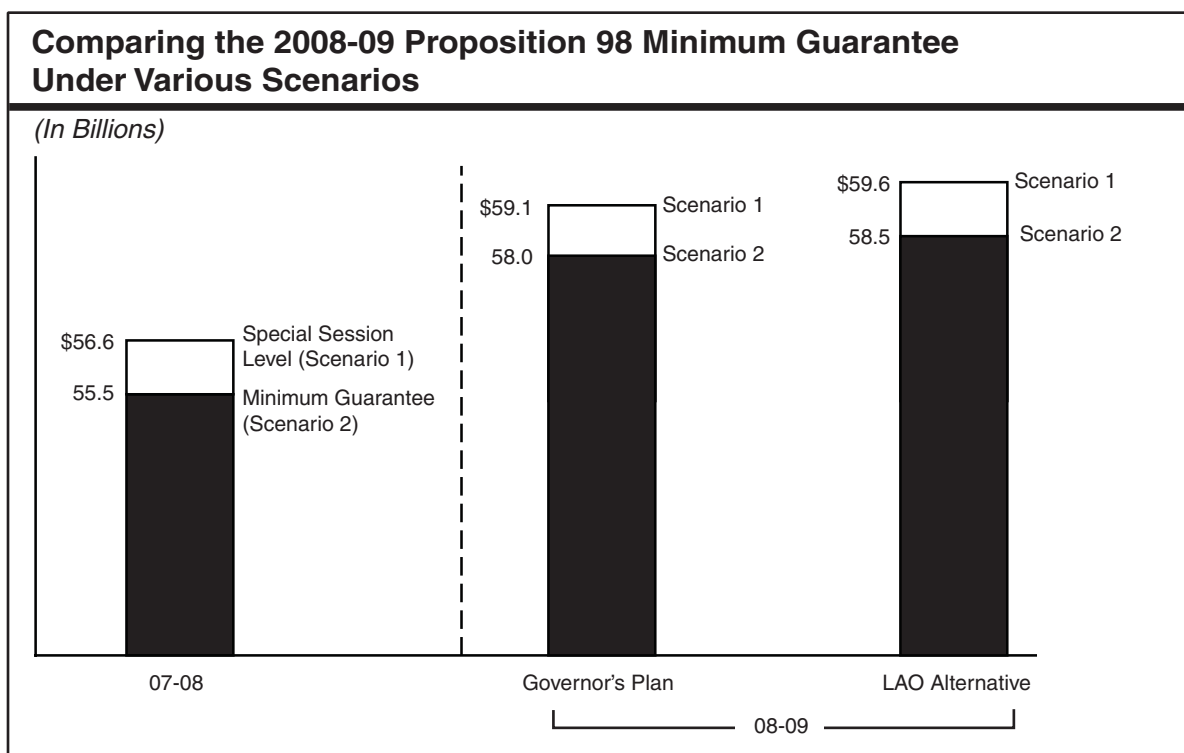
(In Billions)





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 an additional budget solution without affecting schools in 2007-08 and lowers the funding requirement in 2008-09.





Current-Year Adjustments Can be Made Without Affecting Current School Operations



Various options remain available to reduce 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."



Overview of 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 a cost-of-living adjustment.**
- ☒ **Fully funds ongoing costs of mandates.**
- ☒ **Makes targeted reductions to 12 categorical programs.**



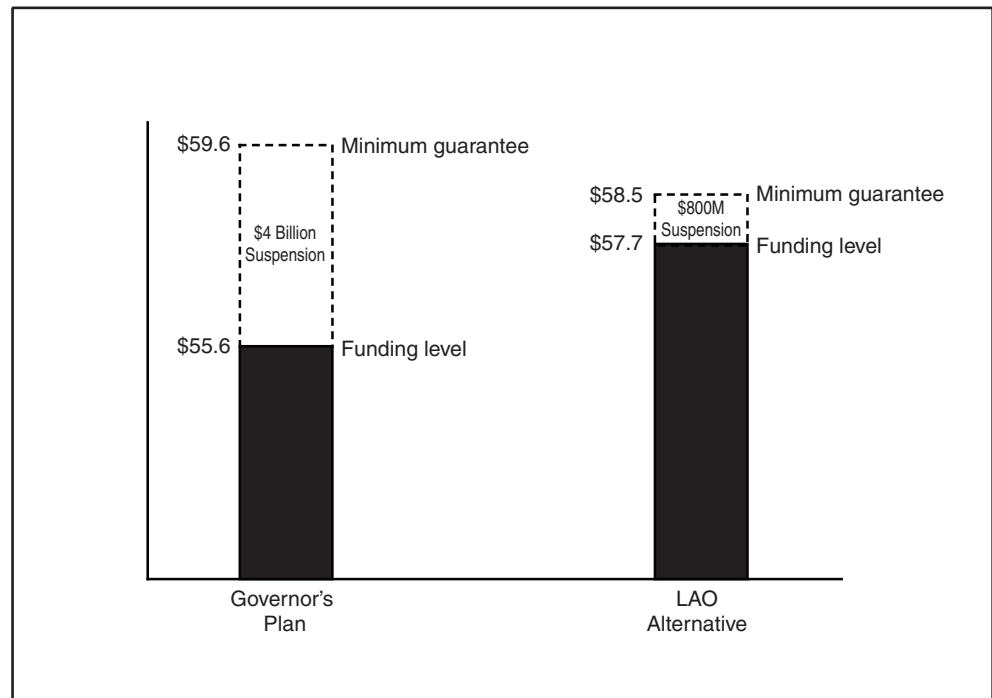
Alternative Achieves Savings Through Targeted Reductions

Recommended Categorical Program Reductions for 2008-09		
<i>(In Millions)</i>		
Program	Amount	Rationale
Physical Education Incentive Grants	\$41.8	Poorly structured
Adult education	30.0	Technical realignment
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	

- ☒ ***Corrects for Technical Overbudgeting.*** Identifies programs that routinely spend less than budgeted and realigns the budgeted funding level with the expected spending level.
- ☒ ***Eliminates programs that are poorly structured, duplicative, noncore, or experiencing significant declines in participation .***
- ☒ **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 counter productive.



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.



Recommend Major Funding Reform



Our recommend reform package consolidates 43 programs into four block grants totaling \$42 billion (which accounts for 80 percent of all Proposition 98 K-12 funds).

K-12 Finance Reform LAO-Recommended New Grants	
<i>(In Billions)</i>	
	2007-08 Amounts
Base grant	\$34.8
Special education block grant	3.2
Opportunity to learn block grant	3.1
Instructional improvement block grant	1.2
Total	\$42.3



Categorical Reform Offers Districts Many Benefits:

- Greater latitude to use available funds to address critical local needs.
- A simplified, streamlined, more transparent funding system.
- Greater ability to focus on student success rather than program compliance.