

March 17, 2009

Overview of February 2009 Proposition 98 Budget Package

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 2 on
Education Finance

Hon. Wilmer Amina Carter, Chair





Overall Budget Package

How the February 2009 Budget Package Closes the \$40 Billion Shortfall

(In Millions)

	2008-09	2009-10	Two-Year Total
Spending-related savings	\$6,765	\$8,594	\$15,360
Tax increases	1,534	10,980	12,514
Federal stimulus funds	2,825	5,701	8,527
Borrowing	234	5,095	5,329
Total Solutions	\$11,358	\$30,371	\$41,730^a

^a Provides for \$2.1 billion reserve.

- ☑ February package provides about \$40 billion in budget solutions across two fiscal years, 2008-09 and 2009-10.
- ☑ Solutions made up of four strategies: spending-related savings, tax increases, federal stimulus funds, and borrowing.
- ☑ Also builds a budget reserve of about \$2 billion.



Proposition 98 Budget Package

Proposition 98 Funding					
(In Millions)					
	2008-09			2009-10	
	September Budget Act	Revised	Change	Enacted ^a	Change From 2008-09 Revised
K-12 education	\$51,620	\$44,660	-\$6,960	\$48,315	\$3,654
California Community Colleges	6,359	5,972	-387	6,482	510
Other agencies	106	106	—	107	1
Totals	\$58,086	\$50,738	-\$7,347	\$54,904	\$4,165
General Fund	\$41,943	\$35,036	-\$6,907	\$39,461	\$4,426
Local property tax revenue	16,143	15,703	-440	15,442	-260
K-12 funding per average daily attendance	\$8,719	\$7,543^b	-\$1,176	\$8,185	\$642

^a Amounts do not include Proposition 98 backfill of lottery funds.

^b Reflects amount of per-pupil Proposition 98 funding. Adjusting for fund-source swaps and deferrals, programmatic per-pupil funding is \$8,332.



2008-09: Lower-than-anticipated revenues result in lower Proposition 98 funding requirement, allowing state to reduce Proposition 98 spending by \$7.3 billion.

- Bulk of spending reductions borne by K-12 education.



2009-10: Overall year-to-year spending increases by \$4.2 billion, however more than this is needed to backfill one-time reductions in current year.



2008-09 Reductions Rely Less on Budget Cuts, More on Swaps and Deferrals

Revised 2008-09 Proposition 98 Package	
<i>(In Millions)</i>	
September Budget Act Spending	\$58,086
Programmatic Reductions	
Reduce base K-12 revenue limits	-\$944
Reduce most categorical programs across-the-board	-944
Rescind K-14 cost-of-living adjustment	-287
Other	-210 ^a
Subtotal	(-\$2,384)
Revised Programmatic Spending Level	\$55,701
Other Adjustments in Proposition 98 Spending	
Defer certain K-14 payments	-\$3,244 ^b
Retire settle-up obligation	-1,101
Use special funds for Home-to-School Transportation	-619
Subtotal	(-\$4,963)
Revised Proposition 98 Spending Level	\$50,738
^a Includes \$160 million technical reduction to current-year funds expected to go unused.	
^b Of these deferrals, \$2.3 billion is from K-12 principal apportionment programs, \$570 million is from K-3 class size reduction, and \$340 million is from community college apportionments.	

- ☑ Of current-year changes, \$2.4 billion cut from K-14 programs.
- ☑ Reductions taken primarily from K-12 programs—\$944 million each from revenue limits and categorical programs.
 - Across-the-board cut of 15 percent to about 50 categorical programs.
 - Base reduction of 2.5 percent to school district revenue limits.
- ☑ Remaining \$5 billion reduction consists of swaps and deferrals. These changes do not affect the amount of funding school districts and community colleges ultimately receive to run their programs.
 - Swaps mean schools receive funding from a different (nonProposition 98) source, deferrals mean school payments are delayed.



2009-10 Budget Continues, Deepens K-12 Program Cuts

Adopted 2009-10 Proposition 98 Package	
<i>(In Millions)</i>	
2008-09 Revised Proposition 98 Spending Level	\$50,738
Growth and baseline adjustments	\$253 ^a
Backfill 2008-09 One-Time Solutions	
2008-09 Deferrals	\$3,244
Settle-up	1,101
Home-to-School Transportation	214
Other	56
Subtotal	(\$4,614)
Other Budget Reductions	
Further reduce most categorical programs	-\$268
Further reduce K-12 revenue limits	-268
Eliminate High Priority Schools program	-114
Modify child care fee and rate policies	-53
Subtotal	(-\$702)
2009-10 Proposition 98 Spending Level	\$54,904^b
Special Funds for Home-to-School Transportation	\$408
2009-10 Programmatic Spending Level	\$55,312
^a Adjustments include \$185 million for 3 percent growth at California Community Colleges, \$19 million for 1.2 percent growth in child care programs, and savings of \$111 million from an expected decline of 0.3 percent in K-12 average daily attendance. Total also includes \$162 million in other baseline adjustments.	
^b Excludes lottery backfill. With lottery backfill (\$1.062 billion), Proposition 98 spending would be \$55.966 billion.	



Package covers new baseline/growth costs, backfills one-time solutions, and makes further program reductions.



Additional revenue limit and across-the-board categorical reductions (\$268 million each).

- Additional cut of 5 percent to targeted categorical programs.
- Additional base reduction of 0.5 percent to school district revenue limits.



Major Changes to Categorical Flexibility

- ☒ From 2008-09 through 2012-13, allows school districts to use funds from roughly 40 categorical programs for any purpose.
- ☒ Excludes about 20 programs, including: Special Education, K-3 Class Size Reduction (CSR), Economic Impact Aid, After School Education and Safety, and the Quality Education Investment Act.
- ☒ Moving forward, funds will be distributed based on share of program funding that districts received in 2008-09.
- ☒ School boards must hold public hearings to discuss using categorical funds for other purposes.



Other Flexibility Provisions

- ☒ Allows unrestricted access to most prior-year categorical ending balances remaining as of June 30, 2008 (2008-09 and 2009-10).
- ☒ Postpones required purchase of instructional materials (2008-09 and 2009-10).
- ☒ Lowers required set-aside for routine maintenance from 3 percent to 1 percent (2008-09 through 2012-13).
- ☒ Lessens penalties for exceeding K-3 CSR guidelines (2008-09 through 2011-12).



Lesser Penalties for Exceeding K-3 CSR Guidelines

- ☑ K-3 CSR program provides additional funding for K-3 classes with 20 or fewer students.
- ☑ Previously, K-3 classes that exceeded 20 students faced significant reductions to their CSR funding. Classes could not receive any funding if they exceeded 21.9 students.
- ☑ New language allows participating K-3 classrooms to exceed 20 students and still receive the majority of their CSR funding.

Revised K-3 Class Size Reduction Penalties

Average Class Size	Penalty (2008-09 to 2011-12)
Up to 20.44	None
20.45 to 21.44	5 percent
21.45 to 22.44	10 percent
22.45 to 22.94	15 percent
22.95 to 24.94	20 percent
24.95 or more	30 percent



Several Budget-Related Ballot Initiatives Have Proposition 98 Interactions

Measure	Major Provisions	Interaction With Proposition 98
Proposition 1A (State Finance)	<p>Would make major changes to the way in which the state sets aside money in its “rainy day” reserve and how this money is spent.</p> <p>Would also extend several tax increases passed as part of the February 2009 budget package by one to two years, resulting in about \$16 billion in additional state revenue from 2010-11 through 2012-13.</p>	<p>Would establish mechanism for making \$9.3 billion in supplemental payments from the rainy day reserve to K-12 schools and community colleges (if Proposition 1B also passes).</p> <p>Because of Proposition 98 formulas, a share of additional tax revenues (roughly 40 percent) would have to be spent on K-14 education.</p>
Proposition 1B (Education Finance)	<p>Would require the state to make a total of \$9.3 billion in supplemental payments to K-14 education, beginning in 2011-12 (if Proposition 1A also passes).</p>	<p>Under most situations, Proposition 98 spending likely would be higher than under current law—potentially by billions of dollars each year.</p>
Proposition 1C (State Lottery)	<p>Would allow state to borrow from future lottery profits. (February budget package assumes borrowing of \$5 billion in 2009-10.)</p>	<p>Would shift lottery funding away from education and backfill loss by increasing Proposition 98 General Fund support. As a result, the ongoing Proposition 98 funding base would increase by roughly \$1 billion in 2009-10.</p>



Issues for Further Consideration

- ☒ Addressing issues regarding implementation of categorical flexibility.
- ☒ Reviewing education mandates and their associated costs.
- ☒ Identifying best use of federal stimulus funds.
- ☒ Balancing budget based on updated revenue forecasts.