

June 1, 2009

Overview of the May Revision: K-12 Education

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:
Budget Conference Committee



Overview of Proposition 98 Funding

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Overview of Proposition 98 Funding Under the May 29 Revision							
<i>(In Millions)</i>							
	2007-08	2008-09			2009-10		
	Actual	February Enacted	May Revision	Change From February	February Enacted	May Revision	Change From February
K-12 education	\$50,304	\$44,660	\$43,250	-\$1,410	\$48,315	\$44,515	-\$3,800
California Community Colleges	6,112	5,972	5,734	-237	6,482	5,784	-698
Other agencies	121	106	106	—	107	108	1
Totals	\$56,538	\$50,738	\$49,091	-\$1,648	\$54,904	\$50,407	-\$4,496
General Fund	\$41,978	\$35,036	\$33,691	-\$1,345	\$39,461	\$35,971	-\$3,490
Local property tax revenue	\$14,560	\$15,703	\$15,400	-\$303	\$15,442	\$14,436	-\$1,006

- ☑ Drop in state General Fund revenues has led to drop in Proposition 98 requirements.
- ☑ Governor's May Revision funds at Proposition 98 minimum guarantee in 2008-09 and 2009-10 (under the administration's revenue proposals and assumptions).
- ☑ Federal stimulus funding can help mitigate cuts. Approximately \$6.3 billion in stimulus funding is available for K-12 education.

Governor's Major K-12 Proposals

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- ☒ Defers school payments to subsequent year.
 - **2009-10:** \$1.7 billion in K-12 payments deferred to 2010-11.

- ☒ Makes additional reductions to K-12 general-purpose funds (revenue limits).
 - **2008-09:** \$1.3 billion (4 percent), cumulative reduction of 6 percent including February reductions.
 - **2009-10:** \$2.2 billion (6 percent), cumulative reduction of 9 percent including February reductions.

- ☒ Uses transportation special funds for debt service rather than school transportation.
 - **2009-10:** \$404 million (65 percent) reduction to Home-to-School Transportation.

Governor's Plan Increases the Education "Credit Card"

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Outstanding Proposition 98 Obligations Under May 29 Revision			
<i>(In Millions)</i>			
	2007-08	2008-09	2009-10
Deferrals			
K-12 education	\$1,103	\$4,007	\$5,686
Community colleges	200	655	655
Subtotals	(\$1,303)	(\$4,662)	(\$6,341)
Mandates			
K-12 education ^a	\$583	\$742	\$900
Community colleges	300	355	405
Subtotals	(\$883)	(\$1,097)	(\$1,305)
K-12 Revenue Limits	—	\$4,290	\$7,080
Totals	\$2,186	\$10,048	\$14,258

^a Does not include potential new costs associated with the high school science graduation requirement. Annual costs for this mandate could be as much as \$200 million, with a potentially significant cumulative backlog. Also does not include costs for three other recently disputed mandates. Annual costs for these three mandates combined is roughly \$22 million, with a backlog of roughly \$65 million.

Guiding Principles for LAO Alternative

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- ☒ **Maximize General Fund Savings.** Like the Governor, we recommend funding K-14 education at the Proposition 98 minimum guarantee.
- ☒ **Evaluate Programs Based on Their Merits.** First step should be to eliminate existing programs that are duplicative, inefficient, ineffective, or over-budgeted. LAO alternative identifies about ten programs that fall into these categories.
- ☒ **Avoid Additional Deferrals.** Another sizeable deferral could put districts at risk of fiscal insolvency. Bad precedent to plan for new deferrals even before a fiscal year has begun.
- ☒ **Seek Ways to Provide Additional Flexibility.** Explore ways to help schools and colleges respond to tough fiscal times. For example, could include additional K-12 programs in the categorical “flex item,” reduce instructional time requirements, and/or increase maximum-allowable class sizes.
- ☒ **Remain Consistent With Legislature’s February Approach for K-12 Education.** After making targeted reductions, our alternative extends the Legislature’s February approach of “splitting” reductions between revenue limits and the categorical flex item.