

February 9, 2010

Overview of Special Session Proposals: Proposition 98 Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 2

On Education Finance

Hon. Wilmer Amina Carter, Chair





Three Views of Governor's Proposition 98 Plan

- Proposition 98 Budget Solution:**
 - Contributes \$2.4 billion in state budget solution.

- Proposition 98 Funding:**
 - Stays virtually flat year over year (from 2009-10 to 2010-11).

- Proposition 98 Program:**
 - K-12 program is reduced by \$340 million in 2009-10 and \$1.9 billion in 2010-11. Special session action proposed to achieve current-year savings.
 - Child care and development program is reduced by \$200 million in 2010-11. Special session action to reduce reimbursement rates is proposed to achieve full-year 2010-11 savings.



Proposition 98 Budget Solution

- ☑ The Governor's plan has three major proposals that together achieve \$2.4 billion in Proposition 98 General Fund budget solution across 2009-10 and 2010-11:
 - Modifies 2008-09 Proposition 98 budget (roughly \$1.9 billion *savings*).
 - No longer attributes Proposition 42 gas-tax revenues toward Proposition 98 (roughly \$800 million *savings*).
 - Does not shift redevelopment agency revenues to schools in 2010-11 (roughly \$300 million *cost*).



Proposition 98 Funding

Proposition 98 Spending Stays Virtually Flat Under Governor's Plan						
<i>(Dollars in Millions)</i>						
	2007-08 Final	2008-09 Final	2009-10 Revised	2010-11 Proposed	Change From 2009-10	
					Amount	Percent
K-12 Education						
General Fund	\$37,752	\$30,260	\$30,844	\$32,023	\$1,179	3.8%
Local property tax revenue	12,592	12,726	13,237 ^a	11,950	-1,287	-9.7
Subtotals	(\$50,344)	(\$42,986)	(\$44,082)	(\$43,974)	(-\$108)	(-0.2%)
California Community Colleges						
General Fund	\$4,142	\$3,918	\$3,722	\$3,981	\$259	7.0%
Local property tax revenue	1,971	2,011	1,953	1,913	-40	-2.0
Subtotals	(\$6,112)	(\$5,929)	(\$5,675)	(\$5,895)	(\$219)	(3.9%)
Other Agencies	\$121	\$105	\$94	\$85	-\$9	-9.1%
Totals, Proposition 98	\$56,577	\$49,019	\$49,851	\$49,954	\$103	0.2%
General Fund	\$42,015	\$34,282	\$34,660	\$36,090	\$1,430	4.1%
Local property tax revenue	14,563	14,737	15,191 ^a	13,864	-1,327	-8.7

^a Includes \$850 million in one-time shift of local government revenues.



Plan provides:

- \$49.0 billion for Proposition 98 in 2008-09, a reduction of \$83 million compared to the July 2009 budget agreement.
- \$49.9 billion for Proposition 98 in 2009-10, a reduction of \$568 million compared to the July 2009 budget.
- \$50.0 billion in 2010-11 Proposition 98 funding, an increase of \$103 million from 2009-10.



K-12 Programmatic Funding

School Districts Face Funding “Cliff” in 2010-11^a				
<i>(Dollars in Millions)</i>				
Programmatic Funding	2007-08 Final	2008-09 Revised	2009-10 Revised	2010-11 Proposed
Proposition 98 funding	\$50,304	\$42,986	\$44,082	\$43,974
Deferrals	—	2,904	1,679	—
Categorical 2008-09 cuts	—	1,502	-1,502	—
Settle-up funds	—	1,101	—	—
Public transportation funds	—	619	—	—
Quality Education Investment Act	300	402	— ^c	402
Other one-time fund swaps	862	46	66	64
Freed-up restricted reserves	—	1,500	1,500	—
American Recovery and Reinvestment Act (ARRA) funds ^b	—	1,214	3,641	1,214
Totals	\$51,466	\$52,273	\$49,465	\$45,654
Per-Pupil Programmatic Funding				
K-12 attendance	5,947,758	5,957,111	5,921,510	5,927,728
K-12 per-pupil funding (In Dollars)	\$8,653	\$8,775	\$8,354	\$7,702
Percent Change From 2007-08	—	1.4%	-3.5%	-11.0%

^a Excludes non-ARRA federal funds, lottery, and various other local funding sources.

^b LAO estimates of ARRA and restricted reserve funds spent in each year.

^c Reflected in Proposition 98 funding amount.

- Under the Governor’s proposal, K-12 per-pupil programmatic funding in 2010-11 would be more than 10 percent lower than the 2007-08 level.
- The large drop in 2010-11 is mostly due to the heavy reliance on one-time solutions in 2008-09 and 2009-10.
- The 2008-09 and 2009-10 per-pupil funding rates reflected in the table vary notably depending on assumptions relating to the use of freed-up restricted reserves and federal stimulus funding (particularly with regard to the year in which the funds are attributed). Rates intended only to reflect general statewide trends.

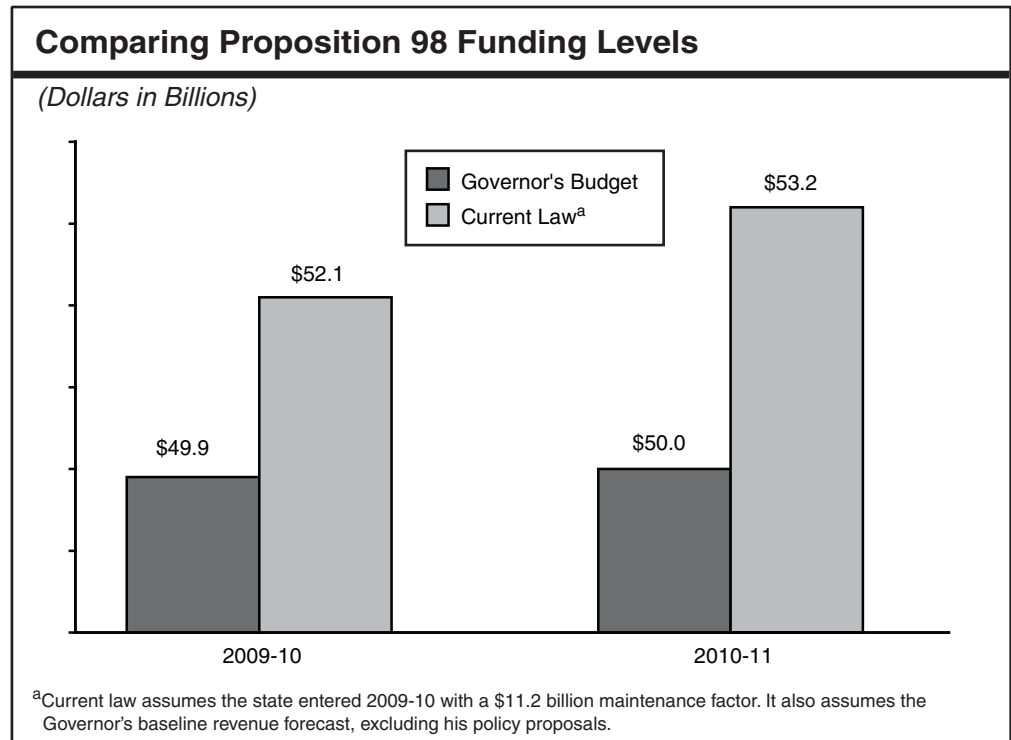


Governor's Plan Takes New Approach in Addressing Proposition 98 Problem

- State Constitution unclear as to when state creates a funding obligation known as "maintenance factor."
- July budget agreement:
 - Addressed issue by *statutorily* declaring \$11.2 billion in maintenance factor to be owed at the end of 2008-09.
 - Designated payments to be made as specified in Constitution.
- Governor's January plan:
 - Acknowledges an obligation but does not begin making payments until 2011-12.



Governor's Plan Provides Less Funding in Current and Budget Years



- The Governor's plan provides less funding in 2009-10 and 2010-11 compared to current law.
- The difference in funding is primarily because the Governor does not make maintenance factor payments in these years (delaying the start of payments until 2011-12).



Governor's Plan Falls Below Federal K-12 MOE Level in 2010-11

Comparing Funding to Federally Required Maintenance-of-Effort (MOE) Level				
<i>(Dollars in Millions)</i>				
	MOE Level: 2005-06	2008-09	2009-10	2010-11
K-12 Education				
Proposition 98 General Fund	\$32,961	\$30,260	\$30,844	\$32,023
Settle-up	7	1,101	—	—
Quality Education Investment (QEIA)	—	402	250	152
Deferrals	—	2,904	1,679	—
K-12 Totals	\$32,968	\$34,667	\$32,773	\$32,175
Average Daily Attendance (ADA)	5,965,268	5,957,111	5,921,510	5,927,728
Total Per ADA (In Dollars)	\$5,527	\$5,819	\$5,535	\$5,428
Amount Above/Below MOE	—	\$1,744	\$47	-\$585
Institutions of Higher Education (IHEs)				
UC General Fund	\$2,839	\$2,451	\$2,596	\$3,019
CSU General Fund	2,596	2,186	2,350	2,723
Subtotals—UC/CSU	(\$5,435)	(\$4,636)	(\$4,946)	(\$5,742)
CCC	\$3,422	\$4,306	\$3,915	\$3,999
Proposition 98 General Fund	3,422	3,918	3,721	3,981
QEIA	—	48	30	18
Deferrals	—	340	163	—
Subtotals—CCC	(\$3,422)	(\$4,306)	(\$3,915)	(\$3,999)
IHE Totals	\$8,857	\$8,942	\$8,861	\$9,741
Amount Above MOE	—	\$85	\$4	\$885



Governor's plan:

- Meets K-12 Maintenance-of-Effort (MOE) requirement in 2009-10.
 - To avoid violating MOE requirement in 2009-10, pays \$250 million of 2010-11 Quality Education Investment Act (QEIA) obligations in June 2010.
- Falls below K-12 MOE level in 2010-11 by almost \$600 million.
- Meets higher education MOE requirement in both 2009-10 and 2010-11.



Governor Seeks Waiver From 2010-11 MOE Requirement

Calculation of Waiver From Federal Maintenance-of-Effort Requirements

(Dollars in Millions)

	2009-10	2010-11
State support for education	\$41,634	\$41,917
Total General Fund expenditures	\$88,214	\$83,071
Education as Share of Expenditures	47.2%	50.5%

- Governor has indicated to United State Department of Education (USDE) that California might need a waiver from the MOE requirement.
 - To qualify for a waiver under the American Recovery and Reinvestment Act (ARRA), state support for education as a share of total state support must be kept the same or higher than the prior year.

- Whether California ultimately qualifies for a waiver depends on various factors that will be in flux until a new budget package is adopted.

- The USDE does not provide final approval of waiver request until all input factors has been finalized.



LAO Initial Assessment of Governor's Proposition 98 Plan

- Plan contains several major risks:
 - Unclear if constitutional obligation would be met.
 - Minimum guarantee could go up if: (1) finalized inputs for 2008-09 change slightly, (2) the Governor's Proposition 42 proposal is rejected (or substantially modified), (3) certain revenue increases are triggered, (4) the Legislature adopts other revenue increases, and/or (5) a different constitutional interpretation prevails.
 - Uncertain if: (1) state will qualify for federal waiver and/or (2) federal government will approve waiver request.

- Given these risks, the Legislature may want to wait until it has better information before making Proposition 98 decisions.



Governor's Special Session K-12 Proposals

- Adjusts 2008-09 Proposition 98 spending by recognizing \$83 million in K-12 revenue limit savings.
- Retires \$1.3 billion in maintenance factor in 2008-09, thereby lowering the Proposition 98 minimum guarantee in 2009-10 and 2010-11.
- Reduces 2009-10 Proposition 98 spending by \$568 million. Consists of \$340 million in savings from the K-3 Class Size Reduction (CSR) program and \$228 million in various other savings (largely revenue limit savings resulting from lower-than-projected attendance).
- Prepays some 2010-11 K-12 QEIA costs by allocating \$250 million in June 2009. Intended to ensure 2009-10 Proposition 98 spending meets federal MOE requirement.
- Reappropriates \$38.4 million for K-12 programs in 2009-10.
 - Provides additional \$18.4 million for Charter School Facility Grant program (for total funding of \$64 million). Used to help convert program's funding structure from prior-year reimbursements to current-year grants.
 - Provides \$20 million in categorical funding for new schools that began operations in 2008-09 and 2009-10.



LAO Initial Assessment of Governor's Special Session K-12 Proposals

- Revenue limit savings in 2008-09 will materialize. Not time-sensitive.
- Retiring \$1.3 billion in maintenance factor in 2008-09 connected to unresolved constitutional issues.
- Savings identified in 2009-10 will materialize. Not time-sensitive.
- The need to make QEIA June payments depends on other Proposition 98 decisions. Should make decisions as a package. Not time-sensitive.
- Reappropriations reflect policy decisions.
 - Additional funding for Charter School Facility Grant program consistent with recently enacted legislation. Is time-sensitive given funding to be allocated in 2009-10.
 - Providing some categorical funding for new schools is reasonable. Is time-sensitive given funding to be allocated in 2009-10.



Governor's Special Session Proposals: Child Care and Development

Current-Year Technical Adjustment (-\$12 million Proposition 98)

- Governor's Proposal:** To account for lower-than-expected case-load, would reduce CalWORKs Stage 2 by \$9 million and CalWORKs Stage 3 by \$3 million from *2009-10 Budget Act* levels.
 - California Department of Education disputes Stage 2 adjustment, believes budget act funding level is needed to serve enrolled children.

- LAO Recommendation:** Wait to act until further data are available.

Provider Reimbursement Rates (-\$77 million Proposition 98)

- Governor's Proposal:** Would lower rate ceilings for child care providers beginning in 2010-11. Proposes to act now to achieve full-year savings, with changes reflected in contracts beginning July 1, 2010.
 - **Licensed Providers:** Would lower maximum reimbursement rate from 85th percentile of regional market rate (RMR) to 75th percentile.
 - **License-Exempt Providers:** Would lower maximum reimbursement rate from 90 percent of licensed rate to 70 percent.
 - **Continues to Use 2005 RMR Survey Data.** Though updated survey data are available, proposes to use old survey data. (New survey data show higher rates.)

- LAO Recommendation:** Use 2009 RMR survey data, reflect actual conditions in child care market, set rates at level state can afford.