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Overview of the Proposition 98 Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair





Overview of Governor's Proposition 98 Funding Levels

Governor's Proposition 98 Funding Proposal						
<i>(In Millions)</i>						
	2009-10			2010-11		
	January Budget	May Revision	Change	January Budget	May Revision	Change
K-12 Education						
General Fund	\$30,844	\$32,022	\$1,178	\$32,023	\$30,927	-\$1,096
Local property tax revenue	13,237	12,105	-1,133	11,950	11,529	-422
Subtotals	(\$44,082)	(\$44,127)	(\$45)	(\$43,974)	(\$42,456)	(-\$1,518)
California Community Colleges						
General Fund	\$3,722	\$3,722	—	\$3,981	\$3,991	\$9
Local property tax revenue	1,953	1,962	\$8	1,913	1,907	-6
Subtotals	(\$5,675)	(\$5,683)	(\$8)	(\$5,895)	(\$5,898)	(\$3)
Other Agencies	\$94	\$93	-\$1	\$85	\$89	\$3
Totals	\$49,851	\$49,903	\$52	\$49,954	\$48,442	-\$1,512
General Fund	\$34,660	\$35,837	\$1,177	\$36,090	\$35,007	-\$1,083
Local property tax revenue	15,191	14,066	-1,124	13,864	13,435	-428



2009-10. Minor changes to January proposal.

- \$52 million increase in total Proposition 98 spending, due primarily to increase in Public Employees' Retirement System costs.
- \$1.2 billion in increased General Fund cost, primarily due to Governor's decision to use \$877 million in one-time property tax revenues to support other parts of the budget.



2010-11. \$1.5 billion in additional reductions.

- \$1.2 billion savings from elimination of child care services (excluding state preschool programs).
- \$321 million savings by replacing ongoing Proposition 98 funding for Economic Impact Aid with one-time funds.



Meeting the Minimum Guarantee?

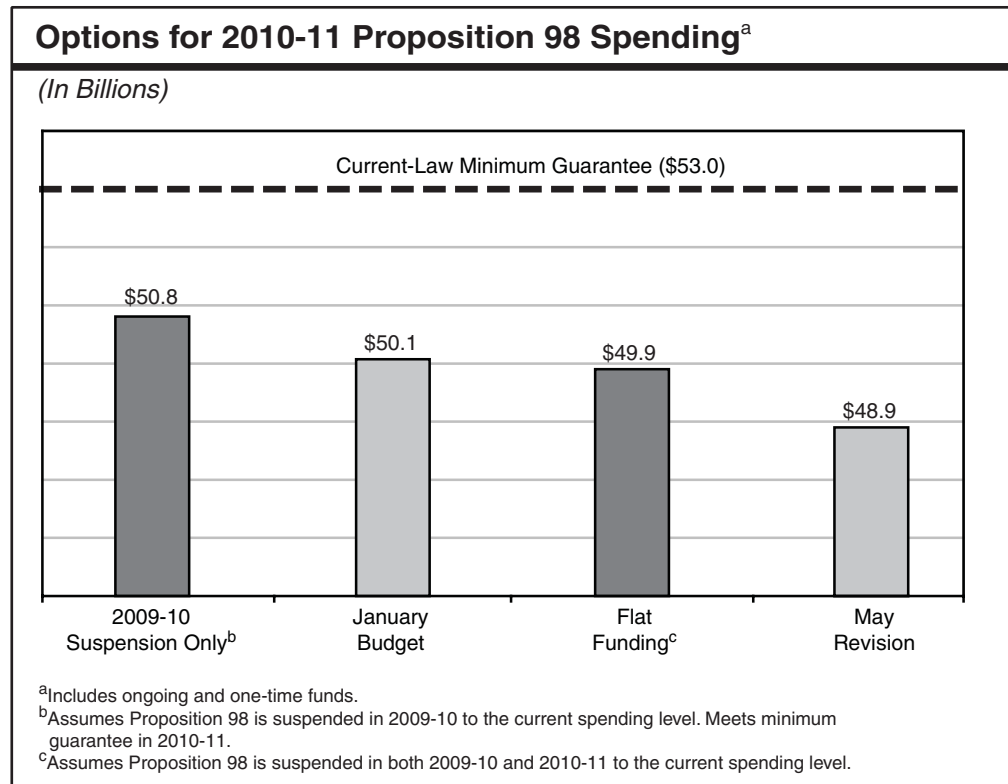


Governor asserts he is meeting the minimum guarantee in both 2009-10 and 2010-11, but his plan is based on two big assumptions.

- Assumes no *constitutional* “maintenance factor” obligation exists. Instead assumes *statutory* obligation to make \$11.2 billion of “in-lieu” payments.
 - This assumption reduces the minimum guarantee by \$1.3 billion in 2009-10 and \$2.7 billion in 2010-11.
- Assumes the minimum guarantee is “rebenched” due to the elimination of state funding for child care.
 - Rebenching reduces the minimum guarantee by an additional \$1.5 billion in 2010-11.



Recommend Taking Different Approach



- ☒ Two Proposition 98 options for Legislature's consideration.
- ☒ Both options:
 - Assume an \$11 billion maintenance factor obligation exists entering 2009-10.
 - Assume Proposition 98 is suspended in 2009-10 to the current spending level.
- ☒ After suspending in 2009-10, the state in 2010-11 could:
 - Fund the minimum guarantee (\$50.8 billion).
 - Suspend to current spending level (\$49.9 billion).



Rationale for Suspension

- ☒ Resolves maintenance factor issue in a straightforward manner moving forward by formally recognizing it exists.
- ☒ Acknowledges that state cannot afford to make maintenance factor payment in 2009-10.
- ☒ Lowers minimum guarantee in 2010-11 but provides more funding than under the Governor's plan.
- ☒ Key issue for Legislature is how much state can afford to provide K-14 education given other budget pressures.



Develop Strategy for Building 2010-11 K-14 Budget

- ☒ Make targeted reductions first.
- ☒ If additional savings needed, consider revenue limit and flex item reductions.
- ☒ Couple reductions with more flexibility.
- ☒ Take opportunities to achieve non-Proposition 98 savings.
- ☒ Act now to save money later.



Recommend First Making Targeted Reductions

Targeted Proposition 98 Reduction Options		
<i>(In Millions)</i>		
Program	Recommendation	Amount ^a
Economic Impact Aid (EIA)	Require districts to use unspent EIA funds before receiving new EIA funds.	\$300
CCC physical education	Reduce base funding, and associated full-time equivalent students, for credit physical education classes by half (exemption for adaptive physical education, which is designed for persons with disabilities).	150
CCC fees ^b	Fund "overcap" enrollment using additional revenue generated by fee increase (from \$26/unit to \$40/unit).	125
Child care eligibility ceilings ^b	Reduce from 75 percent to 60 percent of state median income for both CalWORKs and non-CalWORKs programs. Of non-CalWORKs savings, redirect \$55 million to expand access to lowest income families. Results in net loss of about 4,200 CalWORKs slots and 9,000 non-CalWORKs slots.	80
Child care reimbursement rates ^b	Reduce license-exempt rates from 90 percent to 70 percent of licensed rates. Affects CalWORKs Stage 2 and 3 as well as non-CalWORKs Alternative Payment programs.	45
Year Round Schools	Eliminate program that already is being phased out. Only used by four districts.	34
Mandates ^b	Reject Governor's proposal to fund Behavioral Intervention Plans but fund 12 education mandates serving compelling statewide interests. ^c	31
Child Nutrition	Reduce per-meal reimbursement rates to 2006-07 level.	30
County offices of education (COE) ^b	Reduce general purpose revenue limit allocation by 10 percent. Redirect additional 10 percent into new regional revenue limit.	27
Charter School Facility Grants ^b	Align funding with program cost.	19
COE excess property tax	Estimate COE excess property taxes for the coming year and make a commensurate reduction to the General Fund apportionment.	15
Child care quality activities	Reduce spending on quality activities to minimum federal requirement.	7
Assessments	Reduce number of times high school exit exam is administered from seven to four.	7
Migrant child care ^b	Align funding with program need.	4
K-3 Class Size Reduction ^b	Reduce program by less than Governor (\$382 million rather than \$550 million). Specifically, reduce 2007-08 level by 20 percent (consistent with other flexed programs), then fold into K-12 flex item.	-168
Total Targeted Reductions		\$706
^a Reflects reductions from 2010-11 Governor's Budget.		
^b Reflects reduction options identified in February.		
^c Funding provided in arrears, such that 2010-11 funding covers 2008-09 costs.		



If Additional Savings Needed, Consider Revenue Limits and Flex Item Reductions

Untargeted Proposition 98 Reductions		
<i>(In Millions)</i>		
Area	Option	Amount^a
K-12 revenue limits	Reduce by some designated percentage. Amount reflects savings achieved for every 1 percent reduction.	\$310
K-12 flexed categorical programs	Reduce by some designated percentage. Amount reflects savings achieved for every 1 percent reduction. ^b	69
CCC apportionments	Reduce by some designated percentage. Amount reflects savings achieved for every 1 percent reduction.	56
Savings From Every 1 Percent Untargeted Reduction		\$435
^a Reflects reductions from the 2010-11 Governor's Budget.		
^b Assumes K-3 Class Size Reduction and Home-to-School Transportation already have been made flexible/placed in flex item.		



Couple Reductions With More Flexibility

LAO Recommendations for Providing Additional Flexibility

Recommendations	Affected Programs
Add three programs to flex item	<ul style="list-style-type: none"> • K-3 Class Size Reduction • Home-to-School Transportation • After School Safety and Education
Consolidate one program into Economic Impact Aid	<ul style="list-style-type: none"> • English Language Acquisition Program
Consolidate five Career Technical Education programs	<ul style="list-style-type: none"> • Regional Occupational Centers and Programs • Specialized secondary programs • Partnership Academies • Apprenticeship programs • Agricultural vocational education
Ease or remove state restrictions in four areas	<ul style="list-style-type: none"> • Contracting out for noninstructional services • Hiring/pay rates for substitute teachers • Quality Education Investment Act requirements^a • Certain mandated activities
Align CDE staffing levels with flex decisions	<ul style="list-style-type: none"> • Cut \$5.2 million and eliminate 70 positions

^a Would apply only to schools also subject to federal school improvement requirements.

CDE = California Department of Education



Also Opportunities to Achieve Non-Proposition 98 Savings

Non-Proposition 98 Reduction Options

(In Millions)

Program	Option	Amount ^a
Quality Education Investment Act (QEIA) ^b	Remove state requirements on schools subject to both state QEIA and federal Program Improvement requirements. Fund federal activities with federal funds. (Same level of General Fund savings would be achieved in 2011-12 and 2012-13.)	\$165.0
Child care reimbursement rates	Reduce license-exempt rates from 90 percent to 70 percent of licensed rates. Reflects CalWORKs Stage 1 savings.	35.0
California Department of Education state operations ^b	Reduce by 70 positions to align staffing with categorical program responsibilities.	5.2
Child care licensing	Fund with federal child care quality dollars. Achieves General Fund savings for licensing activities conducted by the Department of Social Services.	4.3
Total Reductions		\$210.0

^a Reflects reductions from the 2010-11 Governor's Budget.

^b Reflects reduction options identified in February.



Thinking Ahead Could Provide Significant Help in Balancing Next Year's Budget

Acting Now Can Save Money Later		
<i>(In Millions)</i>		
Program	Option	2011-12 Savings
Kindergarten	Require children to have turned five-years old prior to enrolling in kindergarten.	\$500 ^a
After School Safety and Education	Repeal Proposition 49 funding formula. Roll back to 2005-06 level.	429
Adults in Correctional Facilities	Limit the course offerings for adults in county correctional facilities to adult basic education and English as a Second Language. Payments made in arrears, so estimated savings would not materialize until 2011-12.	5
Estimated Potential 2011-12 Savings		\$934
^a Assumes \$200 million in savings is redirected to preschool for low-income students. Reflects almost a doubling of the size of the state-subsidized preschool program. (A federally subsidized preschool program, Head Start, also provides early education for low-income students.)		