

May 20, 2013

Proposition 98: May Revision Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Susan Bonilla, Chair





Updated Revenues at May Revision Affect Minimum Guarantee

- Revenues Up \$2.8 Billion in 2012-13, Minimum Guarantee Increases \$2.9 Billion.** Change caused by:
 - Higher *total* 2012-13 General Fund revenues (increases guarantee \$1.1 billion).
 - Higher *year-to-year* growth in revenues (increases guarantee \$1.8 billion).

- 2012-13 Increase Driven by Governor’s Maintenance Factor Application.** Results in all new revenue in 2012-13 going to Proposition 98. Despite an overall increase in state revenues in the May Revision, fewer resources are available for non-Proposition 98 programs.

- Revenues \$1.8 Billion Lower in 2013-14, Minimum Guarantee Drops Almost \$1 Billion.** Change primarily caused by decrease in year-to-year change in revenue (decreases guarantee \$1 billion).

Proposition 98 Funding						
<i>(In Millions)</i>						
	2012-13			2013-14		
	January	May Revision	Change	January	May Revision	Change
Preschool	\$481	\$481	—	\$481	\$482	—
K-12 Education						
General Fund	\$33,406	\$36,196	\$2,790	\$36,084	\$35,028	-\$1,057
Local property tax revenue	13,777	13,773	-5	13,160	13,668	508
Subtotals	(\$47,183)	(\$49,968)	(\$2,786)	(\$49,244)	(\$48,696)	(\$-548)
California Community Colleges						
General Fund	\$3,543	\$3,699	\$157	\$4,226	\$3,761	-\$464
Local property tax revenue	2,256	2,253	-3	2,171	2,242	71
Subtotals	(\$5,799)	(\$5,953)	(\$153)	(\$6,397)	(\$6,003)	(\$-393)
Other Agencies	\$78	\$78	—	\$79	\$78	-\$1
Totals	\$53,541	\$56,480	\$2,939	\$56,200	\$55,259	-\$941
General Fund	\$37,507	\$40,454	\$2,947	\$40,870	\$39,349	-\$1,521
Local property tax revenue	16,034	16,026	-8	15,331	15,910	579



Summary of Proposition 98 Spending Changes

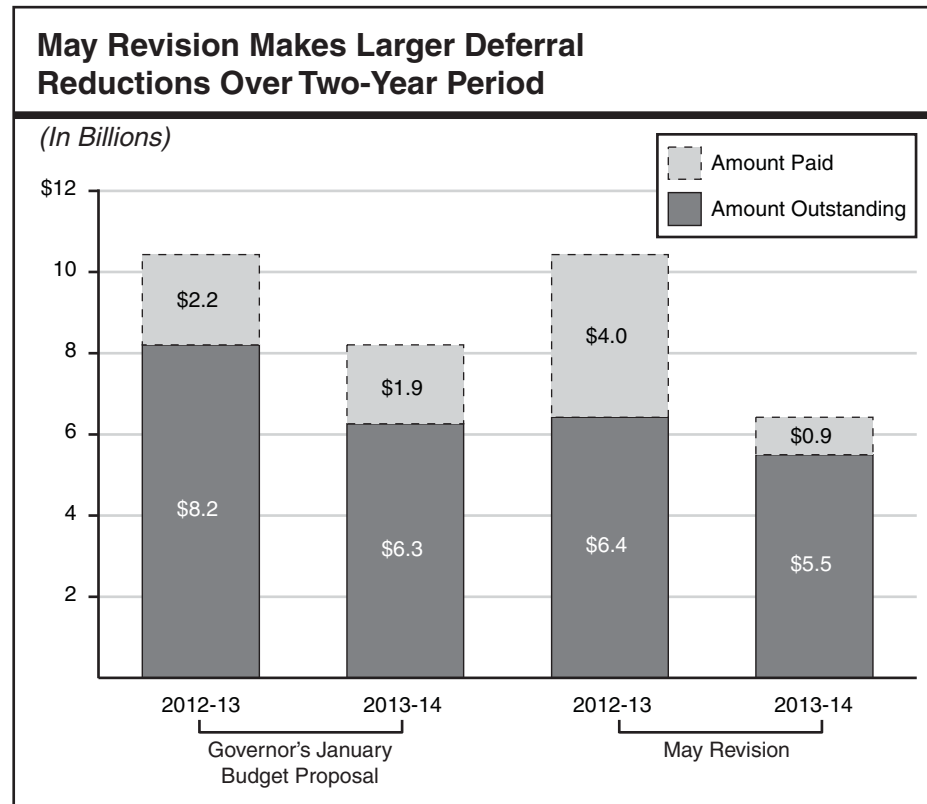
Proposition 98 May Revision Spending Changes	
2012-13 Changes:	
Pay down additional deferrals	\$1,783
Fund one-time Common Core implementation initiative	1,000
Make technical adjustments	156
Total	\$2,939
2013-14 Changes:	
Reduce deferral paydown	-\$1,024
Rescind January adult education proposal	-300
Rescind January CCC unallocated base augmentation	-197
Swap additional one-time funds	-22
Provide additional funds for Local Control Funding Formula	240
Fund CCC enrollment growth	89
Provide cost-of-living adjustment to CCC apportionments	88
Backfill special education sequestration cut	61
Fund CCC student-support program	50
Make technical adjustments	31
Fund adult education planning grants	30
Increase funds for Proposition 39 energy projects	14
Total	-\$941

- ☑
2012-13 Spending Up \$2.9 Billion.
 - Makes an additional \$1.8 billion in deferral paydowns (\$1.6 billion for K-12, \$180 million for the California Community Colleges [CCCs]).
 - Provides \$1 billion for implementation of Common Core State Standards (CCSS).

- ☑
2013-14 Spending Decreases \$941 Million. Governor makes \$1.5 billion in reductions, offset by a \$600 million increase in spending.



Updates to Payment Deferrals



- Increases 2012-13 Deferral Paydown by \$1.8 Billion.** Total of \$4 billion in deferrals would be paid down in 2012-13.
- Reduces 2013-14 Deferral Paydown by \$1 Billion.** Total deferral paydown decreases from \$1.9 billion to \$920 million.
- Additional \$760 Million in Paydowns Across Two Years.** Overall, the May Revision pays down an additional \$760 million in deferrals, leaving \$5.5 billion in deferrals outstanding (\$4.9 billion for K-12, \$558 million for CCC).
- May Revision a Prudent Approach to Using One-Time Resources.** Dedicating one-time, current-year funds for one-time initiatives is good fiscal practice.



Implementation of CCSS

- Governor Provides \$1 Billion One-Time Funding for CCSS Implementation.*** Funding allocated on a per-student basis (about \$170 per student) for professional development, instructional materials, and technology.
- Local Governing Boards Required to Develop Plan for Spending Funds.*** Plan must be discussed at, and adopted in, a public hearing.
- Legislature Faces Tradeoff in Deciding How to Spend One-Time Resources.*** State has existing obligations, including payment deferrals, mandate backlog, and Emergency Repair Program. Also could consider funding other activities—such as facility maintenance—that have been reduced over the past several years.
- Supporting Districts in Implementing CCSS Important, but Funding Required Remains Very Unclear.*** Schools currently spend at least several hundred million dollars on professional development, instructional materials, and equipment—resources that can be used for CCSS implementation. The total cost of implementing CCSS is uncertain. As a result, determining how much state funding should be earmarked specifically for this purpose is difficult.



Special Education Proposals

- Provides \$61 Million State Funds to Backfill Most of Federal Sequestration Cut to Special Education.***
 - Most funds would be distributed via the state's AB 602 formula.
 - \$2.1 million would backfill anticipated cuts to federal funding for infant/toddler and preschool services.

- Proposes to Consolidate Additional Special Education Categorical Programs.*** Incorporates changes recommended by the LAO in January.
 - Combines \$2.1 million for students with low-incidence disabilities to participate in Regional Occupational Centers and Programs into new low-incidence disabilities block grant.
 - Combines two \$3 million extraordinary cost pools.

- Provides \$1.3 Million to Update Statewide Target Rate.*** Updates AB 602 funding rate to reflect the existing statewide average rate.

- Reappropriates Federal Carryover Funds to:***
 - Backfill remainder of sequestration reductions (\$2.2 million).
 - Backfill one-time funds used for State Special Schools in 2012-13 (\$1.8 million).

- LAO Recommends Adopting All Proposals (With Technical Clean-Up).***



Proposition 39

- May Revision Provides \$14 Million Increase in Proposition 39 Funding.** Assumes \$14 million increase in Proposition 39 energy-related funding due to estimated higher corporate tax revenues. Proposes to increase funding for schools by \$12.5 million (for total funding of \$413 million) and for community colleges by \$1.5 million (for total funding of \$51 million).
- Establishes Minimum Grants for Small Schools.** Revises per-student allocation down from \$67 to \$65. Establishes a minimum grant of (1) \$15,000 for schools with less than 200 students and (2) \$50,000 for other schools that would receive less based on the per-student allocation.
- Serious Concerns Remain With Governor's Proposal.** Revised proposal fails to address serious concerns we identified in January. Among other problems, the revised proposal still:

 - Counts all Proposition 39 revenue toward the Proposition 98 minimum guarantee.
 - Excludes other eligible entities from receiving funding.
 - Fails to account for energy consumption differences across schools and colleges.
- LAO Recommends Alternative Approach.** We continue to recommend the Legislature adopt an alternative approach that (1) excludes restricted revenues from the Proposition 98 calculation, and (2) awards funding through a competitive process open to all eligible entities.



Community College Base Increases

- Rescinds the Governor's January Proposal to Provide CCC With \$197 Million in Unallocated Base Increases.***

- Instead, the May Revision Provides a Total of \$227 Million for Three Specific Purposes.***
 - \$89 million to fund 1.63 percent enrollment growth.
 - \$88 million for a 1.57 percent cost-of-living adjustment.
 - \$50 million to augment the Student Success and Support Program (formerly known as Matriculation), of which up to \$7 million may be used to acquire statewide technology tools for students (electronic transcripts and e-planning systems).

- May Revision Proposal Would Fund High Legislative Priorities.***
 - Enrollment monies would fund about 18,000 additional full-time equivalent students.
 - Focus on student support services is consistent with legislative goals expressed in Chapter 624, Statutes of 2012 (SB 1456, Lowenthal).

- LAO Recommends the Legislature Approve the Governor's Proposed Base Increases.***



Major Proposition 98 Issue to Address

- Due to Maintenance Factor Application, Additional Revenues Provide Little Net Benefit to State's Bottom Line.*** Schools and community colleges benefit significantly from improvements in General Fund revenues, but the rest of the budget benefits little. Such a maintenance factor limits Legislature's ability to build reserves or fund non-Proposition 98 programs.

- LAO Alternative Maintenance Factor Approach Would Free Up At Least \$2.9 Billion.*** If the Legislature took our alternative maintenance factor approach, no additional current-year funding to schools would be necessary (saving \$2.9 billion). In 2013-14, the Legislature would have more of this funding available to meet its priorities (including building a reserve, funding non-school programs, or further augmenting school programs).

- Adopting LAO Revenue Estimates Increases Minimum Guarantee, Provides Some Funding for Other Programs.*** Our office forecasts \$3.2 billion in additional General Fund revenues in 2011-12, 2012-13, and 2013-14 combined. Under the LAO revenue forecast, the minimum guarantee would increase \$900 million in 2012-13 and \$1.6 billion in 2013-14. Roughly \$700 million would be available for increasing the reserve or funding other programs.

- If Using Higher Revenues, Many Reasons to Adopt Cautious Approach.*** Given the uncertainty and volatility of revenues, the Legislature may want to build a higher reserve if using higher revenue estimates. The Legislature also may want to be cautious in building up ongoing Proposition 98 programs to avoid having to make midyear programmatic cuts if higher revenues end up not materializing.