

February 24, 2011

# Proposition 98: Overview of Conference Issues

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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  
Hon. Bob Blumenfield, Chair



## Both Houses Spend at Governor's Proposed Proposition 98 Levels

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<b>Overall Proposition 98 Spending Levels</b>			
<i>2011-12 (In Millions)</i>			
	<b>Governor</b>	<b>Assembly</b>	<b>Senate</b>
<b>Ongoing Proposition 98 Spending</b>			
K-12 education (excluding child care)	\$42,807	\$42,730	\$42,739
California community colleges	5,415	5,415	5,415
Child care and development	1,078	1,154	1,145
<b>Totals</b>	<b>\$49,300</b>	<b>\$49,300</b>	<b>\$49,300</b>
<b>One-Time Proposition 98 Funds</b>			
Child care	—	\$217	\$123
Emergency repair program	\$11	—	—
<b>Totals</b>	<b>\$11</b>	<b>\$217</b>	<b>\$123</b>



**Current-Year Spending.** Both the Assembly and Senate adopt the Governor's proposed Proposition 98 spending level of \$49.7 billion. No spending differences.



**Budget-Year Spending.** Both the Assembly and Senate adopt the Governor's proposed Proposition 98 spending level of \$49.3 billion. Compared to the Assembly, the Senate spends \$9 million less on child care programs, \$9 million more on K-12 education, and the same amount on community colleges.

## Each House Adopts Small Amount of New Revenues That Affect Proposition 98 Minimum Guarantee

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<b>Proposition 98 Effect of New Revenues Adopted by Houses</b>			
<i>2011-12 (In Millions)</i>			
	<b>Governor</b>	<b>Assembly</b>	<b>Senate</b>
<b>General Fund Revenue Proposals</b>			
Gas Consumption Surcharge Fund transfer	—	—	\$162
Personal income tax increase	—	—	100
Off-Highway Vehicle Trust Fund transfer	—	\$27	—
Sales tax increase	—	7	7
Childhood Lead Poisoning Prevention Fund transfer	—	6	6
<b>Totals</b>	<b>—</b>	<b>\$40</b>	<b>\$275</b>
<b>Proposition 98 Effect</b>	<b>—</b>	<b>\$16</b>	<b>\$113</b>
Note: Both houses approve the Governor's tax package, which yields \$4.9 billion in additional General Fund revenue in 2011-12. This, in turn, raises the Proposition 98 minimum guarantee in 2011-12 by \$2 billion.			

- ☒ **Governor.** The Governor's Proposition 98 spending level in 2011-12 is at the minimum guarantee assuming his tax package is adopted.
- ☒ **Assembly.** The Assembly's spending level in 2011-12 is \$16 million below the minimum guarantee assuming both the Governor's tax package and the three Assembly tax proposals are adopted.
- ☒ **Senate.** The Senate's spending level is \$113 million below the minimum guarantee assuming the Governor's tax package and the four Senate tax proposals are adopted.

## Houses Have Few Proposition 98 Differences

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<b>Major Proposition 98 Actions</b>				
<i>2011-12 (In Millions)</i>				
	Governor	Assembly	Senate	Difference Between Houses
<b>K-12 Education</b>				
Fund ongoing mandates	\$80	—	\$80	-\$80
Fund Emergency Repair Program	43	—	—	—
Fund categorical programs for new charters	3	\$3	3	—
Defer K-12 revenue limit payments	-2,064	-2,064	-2,064	—
Make Economic Impact Aid workload adjustments	-54	2	-54	56
Reduce Charter School Facility Grant Program	—	—	-25	25
Phase out Department of Juvenile Justice funding	-9	-9	-9	—
Subtotals	<u>(-\$1,981)</u>	<u>(-\$2,057)</u>	<u>(-\$2,049)</u>	<u>(-\$9)</u>
<b>Child Care</b>	-\$716	-\$639	-\$648	\$9
<b>California Community Colleges (CCC)</b>				
Reduce CCC apportionments	-\$400	-\$403	-\$400	-\$3
Defer CCC apportionments	-129	-129	-129	—
Increase CCC categoricals	—	3	—	3
Subtotals	<u>(-\$529)</u>	<u>(-\$529)</u>	<u>(-\$529)</u>	<u>(—)</u>
<b>Totals</b>	<b>-\$3,226</b>	<b>-\$3,226</b>	<b>-\$3,226</b>	<b>—</b>



### Two Major Language Issues.

- **Inter-Year Deferral.** Both houses adopt modified placeholder language, indicating an intention to shorten the Governor's proposed deferral period (July 2011 to July 2012). No particular dates were specified by either house.
- **K-3 Class Size Reduction.** Assembly adopts language authorizing a continuous appropriation for the program (meaning the state would be required to provide whatever amount was determined by the Superintendent to be needed for the program).

## Major Proposition 98 Conference Issues to Resolve

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***Significant Child Care Issues.*** Whereas Governor reduces ongoing child care funding by \$716 million, Assembly reduces by \$272 million and Senate reduces by \$525 million.



***Shortfall in Child Care Packages.*** Both houses rely on one-time funds that have not yet been identified/materialized—essentially creating a shortfall in each package (\$134 million in Assembly plan, \$40 million in Senate plan).



***Significant Mandate Issues.*** Houses take very different approaches on education mandates, with Assembly deferring K-12 mandate payments indefinitely and the Senate intending to fund the annual cost (\$80 million).

## LAO Recommendations on Outstanding Issues

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<b>Major Proposition 98 Policy Actions</b>					
<i>2011-12 (In Millions)</i>					
	Governor	Assembly	Senate	LAO	Recommendation
<b>K-12 Education</b>					
Fund ongoing mandates	\$80	—	\$80	\$80	Senate with LAO modification.
Fund Emergency Repair Program	43	—	—	—	Not in Conference.
Fund categorical programs for new charters	3	\$3	3	3	Not in Conference.
Defer K-12 revenue limit payments	-2,064	-2,064	-2,064	-2,064	Not in Conference.
Eliminate state categorical funding for basic aid districts if local funding available	—	—	—	-200	LAO option.
Make Economic Impact Aid workload adjustments	-54	2	-54	-54	Senate. Reflects reduction of \$20 per pupil.
Reduce Charter School Facility Grant Program	—	—	-25	-25	Senate. Aligns funding with projected costs.
Phase out Department of Juvenile Justice funding	-9	-9	-9	-9	Not in Conference.
Subtotals	<u>(-\$1,981)</u>	<u>(-\$2,057)</u>	<u>(-\$2,049)</u>	<u>(-\$2,249)</u>	
<b>Child Care</b>	-716	-639	-648	-449	LAO alternative.
<b>California Community Colleges (CCC)</b>					
Reduce CCC apportionments	-400	-403	-400	-403	Assembly.
Defer CCC apportionments	-129	-129	-129	-129	Not in Conference.
Increase CCC categoricals	—	3	—	3	Assembly.
Subtotals	<u>(-\$529)</u>	<u>(-\$529)</u>	<u>(-\$529)</u>	<u>(-\$529)</u>	
<b>Totals</b>	<b><u>-\$3,226</u></b>	<b><u>-\$3,226</u></b>	<b><u>-\$3,226</u></b>	<b><u>-\$3,226</u></b>	

- ☒ **Builds Compromise Child Care Package.**
- ☒ **Cuts More Deeply in K-12 Education to Address Shortfall in Child Care Packages.**
- ☒ **Aligns Funding and Policy to Ensure Senate's Mandate Package Does Not Have a Shortfall.**

## LAO-Recommended Mandate Package

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### **Significant Problems With Assembly Proposal:**

- Recent court case found school districts can be relieved from performing mandated activities if only nominal funding provided.
- If districts seek relief, proposal could constitute a *de facto* suspension of all K-12 mandates and result in no mandated activities performed in the budget year.
- Deferring adds to K-12 mandate backlog that already totals over \$3 billion.



***Senate Plan Has Relatively Small Shortfall.*** Provides \$80 million but estimated costs are roughly \$100 million.



***LAO-Recommended Mandate Package.*** Provides \$80 million and suspends several mandates to align available funding with projected costs.

- Replaces *de facto* suspension of all mandates that could occur under Assembly plan with a few targeted suspensions.
- Sends a clear message to districts regarding what will be expected of them in 2011-12.
- Avoids adding to the state's mandate backlog.
- Makes no permanent changes, which leaves all options on the table for the K-12 mandates work group.