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# Overview of February 2009 Proposition 98 Budget Package

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LEGISLATIVE ANALYST'S OFFICE

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Education Finance

Hon. Wilmer Amina Carter, Chair





## Overall Budget Package

<b>How the February 2009 Budget Package Closes the \$40 Billion Shortfall</b>			
<i>(In Millions)</i>			
	<b>2008-09</b>	<b>2009-10</b>	<b>Two-Year Total</b>
Spending-related savings	\$6,765	\$8,594	\$15,360
Tax increases	1,534	10,980	12,514
Federal stimulus funds	2,825	5,701	8,527
Borrowing	234	5,095	5,329
<b>Total Solutions</b>	<b>\$11,358</b>	<b>\$30,371</b>	<b>\$41,730<sup>a</sup></b>

<sup>a</sup> Provides for \$2.1 billion reserve.

- February package provides about \$40 billion in budget solutions across two fiscal years, 2008-09 and 2009-10.
- Solutions made up of four strategies: spending-related savings, tax increases, federal stimulus funds, and borrowing.
- Also builds a budget reserve of about \$2 billion.



## Proposition 98 Budget Package

<b>Proposition 98 Funding</b>					
<i>(In Millions)</i>					
	2008-09			2009-10	
	September Budget Act	Revised	Change	Enacted <sup>a</sup>	Change From 2008-09 Revised
K-12 education	\$51,620	\$44,660	-\$6,960	\$48,315	\$3,654
California Community Colleges	6,359	5,972	-387	6,482	510
Other agencies	106	106	—	107	1
<b>Totals</b>	<b>\$58,086</b>	<b>\$50,738</b>	<b>-\$7,347</b>	<b>\$54,904</b>	<b>\$4,165</b>
General Fund	\$41,943	\$35,036	-\$6,907	\$39,461	\$4,426
Local property tax revenue	16,143	15,703	-440	15,442	-260
<b>K-12 funding per average daily attendance</b>	<b>\$8,719</b>	<b>\$7,543<sup>b</sup></b>	<b>-\$1,176</b>	<b>\$8,185</b>	<b>\$642</b>

<sup>a</sup> Amounts do not include Proposition 98 backfill of lottery funds.  
<sup>b</sup> Reflects amount of per-pupil Proposition 98 funding. Adjusting for fund-source swaps and deferrals, programmatic per-pupil funding is \$8,332.

- 2008-09:** Lower-than-anticipated revenues result in lower Proposition 98 funding requirement, allowing state to reduce Proposition 98 spending by \$7.3 billion.
  - Bulk of spending reductions borne by K-12 education.
  
- 2009-10:** Overall year-to-year spending increases by \$4.2 billion, however more than this is needed to backfill one-time reductions in current year.



## 2008-09 Reductions Rely Less on Budget Cuts, More on Swaps and Deferrals

<b>Revised 2008-09 Proposition 98 Package</b>	
<i>(In Millions)</i>	
<b>September Budget Act Spending</b>	<b>\$58,086</b>
<b>Programmatic Reductions</b>	
Reduce base K-12 revenue limits	-\$944
Reduce most categorical programs across-the-board	-944
Rescind K-14 cost-of-living adjustment	-287
Other	-210 <sup>a</sup>
Subtotal	<u>(-\$2,384)</u>
<b>Revised Programmatic Spending Level</b>	<b>\$55,701</b>
<b>Other Adjustments in Proposition 98 Spending</b>	
Defer certain K-14 payments	-\$3,244 <sup>b</sup>
Retire settle-up obligation	-1,101
Use special funds for Home-to-School Transportation	-619
Subtotal	<u>(-\$4,963)</u>
<b>Revised Proposition 98 Spending Level</b>	<b>\$50,738</b>
<sup>a</sup> Includes \$160 million technical reduction to current-year funds expected to go unused. <sup>b</sup> Of these deferrals, \$2.3 billion is from K-12 principal apportionment programs, \$570 million is from K-3 class size reduction, and \$340 million is from community college apportionments.	

- Of current-year changes, \$2.4 billion cut from K-14 programs.
- Reductions taken primarily from K-12 programs—\$944 million each from revenue limits and categorical programs.
  - Across-the-board cut of 15 percent to about 50 categorical programs.
  - Base reduction of 2.5 percent to school district revenue limits.
- Remaining \$5 billion reduction consists of swaps and deferrals. These changes do not affect the amount of funding school districts and community colleges ultimately receive to run their programs.
  - Swaps mean schools receive funding from a different (nonProposition 98) source, deferrals mean school payments are delayed.



## 2009-10 Budget Continues, Deepens K-12 Program Cuts

<b>Adopted 2009-10 Proposition 98 Package</b>	
<i>(In Millions)</i>	
<b>2008-09 Revised Proposition 98 Spending Level</b>	<b>\$50,738</b>
Growth and baseline adjustments	\$253 <sup>a</sup>
<b>Backfill 2008-09 One-Time Solutions</b>	
2008-09 Deferrals	\$3,244
Settle-up	1,101
Home-to-School Transportation	214
Other	56
Subtotal	(\$4,614)
<b>Other Budget Reductions</b>	
Further reduce most categorical programs	-\$268
Further reduce K-12 revenue limits	-268
Eliminate High Priority Schools program	-114
Modify child care fee and rate policies	-53
Subtotal	(-\$702)
<b>2009-10 Proposition 98 Spending Level</b>	<b>\$54,904<sup>b</sup></b>
Special Funds for Home-to-School Transportation	\$408
<b>2009-10 Programmatic Spending Level</b>	<b>\$55,312</b>
<sup>a</sup> Adjustments include \$185 million for 3 percent growth at California Community Colleges, \$19 million for 1.2 percent growth in child care programs, and savings of \$111 million from an expected decline of 0.3 percent in K-12 average daily attendance. Total also includes \$162 million in other baseline adjustments.	
<sup>b</sup> Excludes lottery backfill. With lottery backfill (\$1.062 billion), Proposition 98 spending would be \$55.966 billion.	

- Package covers new baseline/growth costs, backfills one-time solutions, and makes further program reductions.
- Additional revenue limit and across-the-board categorical reductions (\$268 million each).
  - Additional cut of 5 percent to targeted categorical programs.
  - Additional base reduction of 0.5 percent to school district revenue limits.



## Major Changes to Categorical Flexibility

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- From 2008-09 through 2012-13, allows school districts to use funds from roughly 40 categorical programs for any purpose.
- Excludes about 20 programs, including: Special Education, K-3 Class Size Reduction (CSR), Economic Impact Aid, After School Education and Safety, and the Quality Education Investment Act.
- Moving forward, funds will be distributed based on share of program funding that districts received in 2008-09.
- School boards must hold public hearings to discuss using categorical funds for other purposes.



## Other Flexibility Provisions

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- Allows unrestricted access to most prior-year categorical ending balances remaining as of June 30, 2008 (2008-09 and 2009-10).
- Postpones required purchase of instructional materials (2008-09 and 2009-10).
- Lowers required set-aside for routine maintenance from 3 percent to 1 percent (2008-09 through 2012-13).
- Lessens penalties for exceeding K-3 CSR guidelines (2008-09 through 2011-12).



## Lesser Penalties for Exceeding K-3 CSR Guidelines

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- K-3 CSR program provides additional funding for K-3 classes with 20 or fewer students.
- Previously, K-3 classes that exceeded 20 students faced significant reductions to their CSR funding. Classes could not receive any funding if they exceeded 21.9 students.
- New language allows participating K-3 classrooms to exceed 20 students and still receive the majority of their CSR funding.

<b>Revised K-3 Class Size Reduction Penalties</b>	
<b>Average Class Size</b>	<b>Penalty (2008-09 to 2011-12)</b>
Up to 20.44	None
20.45 to 21.44	5 percent
21.45 to 22.44	10 percent
22.45 to 22.94	15 percent
22.95 to 24.94	20 percent
24.95 or more	30 percent



## Several Budget-Related Ballot Initiatives Have Proposition 98 Interactions

Measure	Major Provisions	Interaction With Proposition 98
<b>Proposition 1A (State Finance)</b>	Would make major changes to the way in which the state sets aside money in its “rainy day” reserve and how this money is spent.	Would establish mechanism for making \$9.3 billion in supplemental payments from the rainy day reserve to K-12 schools and community colleges (if Proposition 1B also passes).
	Would also extend several tax increases passed as part of the February 2009 budget package by one to two years, resulting in about \$16 billion in additional state revenue from 2010-11 through 2012-13.	Because of Proposition 98 formulas, a share of additional tax revenues (roughly 40 percent) would have to be spent on K-14 education.
<b>Proposition 1B (Education Finance)</b>	Would require the state to make a total of \$9.3 billion in supplemental payments to K-14 education, beginning in 2011-12 (if Proposition 1A also passes).	Under most situations, Proposition 98 spending likely would be higher than under current law—potentially by billions of dollars each year.
<b>Proposition 1C (State Lottery)</b>	Would allow state to borrow from future lottery profits. (February budget package assumes borrowing of \$5 billion in 2009-10.)	Would shift lottery funding away from education and backfill loss by increasing Proposition 98 General Fund support. As a result, the ongoing Proposition 98 funding base would increase by roughly \$1 billion in 2009-10.



## Issues for Further Consideration

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- Addressing issues regarding implementation of categorical flexibility.
- Reviewing education mandates and their associated costs.
- Identifying best use of federal stimulus funds.
- Balancing budget based on updated revenue forecasts.