

GOVERNOR OUTLINES REVISED BUDGET

Proposition 98 Held Reasonably Harmless in May Revise

The Governor has released his May adjustment to the January Budget. Despite many economic indicators “showing signs of improvement that exceeds the January Budget forecast,” the Governor announced that he “had no choice but to eliminate important programs”. Accordingly, the Governor proposed an additional \$3.5 billion in General Fund expenditure reductions on top of the \$8.9 billion in cuts that he proposed in January. The Governor attributed these additional expenditure reductions to:

- Reduced estimates of federal revenue (-\$3.7 billion),
- Delays in the adoption of budget solutions proposed in January (-\$2.8 billion)
- Reduced overall state general fund revenue (-\$600 million), and
- Increases in higher education, public safety and state parks spending (-\$500 million).

To accommodate the above negative budget assumptions, the Governor announced that he “had no choice” but to propose the elimination of important programs. Among the high profile programs included in the Governor’s additional \$3.5 billion in General Fund expenditure reductions (on top of the \$8.9 billion in cuts that were proposed in January), are:

- Elimination of \$1.2 billion in state funding for need-based, subsidized child care for approximately 142,000 children. \$594 million in federal funds remain available for 78,000 slots for needy families.
- Elimination of CalWORKS, effective October 1, 2010, for a savings of \$1.3 billion.
- Reduction of \$637 million in the In-Home Support Services (IHSS) program by reducing eligibility and wages of IHSS workers to the state minimum wage.
- Reductions of \$602 million in county mental health services. \$435 million in mental health funds would be left for counties to provide “federally-required mental health services”.

K-14 (PROPOSITION 98) OVERVIEW

2009-10 Adjustments - Due to a decline in personal income tax receipts in the second quarter of 2010, the Department of Finance reports that the K-14 Proposition 98 guarantee is now “overappropriated” by \$502 million at **\$49.9 billion**. Nevertheless, the Governor is proposing no mid-year reductions in K-14 spending and the May Revision remains unchanged at \$49.9 billion. However, the Governor is proposing that the “\$502 million overpayment in 2009-10” be applied as an early payment of the \$11.2 billion “maintenance factor obligation” that was in the final 2009 budget agreement.

The administration also reports that property tax revenues are now forecast to decline by 4.1 percent in 2009-10 (\$14.006 billion) and that the January proposal to shift \$878 million in Redevelopment Agency property tax pass-throughs to schools in the current year as been withdrawn. Consequently, the May Revision proposes to backfill K-12 revenue limits with an additional \$1.133 billion in General Fund revenue (\$35.836 billion total) to offset the local property tax payments to school districts and county offices.

2010-11 Adjustments - Despite claims to the contrary, the Governor continues to ask the Legislature to make statutory changes in the budget bill for the purpose of manipulating the Proposition 98 constitutional funding guarantee. For 2010-11 the biggest change is the downward re-benching of Proposition 98 by \$1.45 billion (**now \$48.442 billion**) to reflect the elimination of child care programs (see details below).

In addition, the May Revision proposes suspension of the “hold harmless” language (AB x8 6) that was adopted by the Legislature and signed by the Governor as part of the “gas tax swap” this past March. If the “hold harmless” provision is not suspended, and if 2010-11 remains in Test One (as it is now projected) the 2010-11 Proposition 98 minimum guarantee would increase by \$682 million.

The administration reports that property tax revenues to schools are forecast to decline by another 3.1 percent in 2010-11 (\$13.435 billion). Consequently, General Fund revenues to school are now estimated at \$35.0007 billion (an increase of \$447.5 million from January) in 2010-11. Due to the decline in property tax receipts, the administration does not propose to make any cuts to Basic Aid districts in 2010-11.

MAJOR K-12 EDUCATION CHANGES

Revenue Limits - The May Revision for K-12 education mirrors the Governor's January Budget in virtually every detail, with status quo funding levels for categorical programs, a \$1.2 billion reduction to school district revenue limits and an additional \$300 million reduction to school district and county office revenue limits. These reductions remain at about \$250/ADA on average for school districts, as it was in January. Technically, this will take the form of a 3.85% reduction to school district undeficitated revenue limits (i.e., this reduction will not be reflected in an increase in the Revenue Limit deficit factor, which remains at 18.355 %.)

For County Offices, the January Budget reduction has actually been **reduced** from \$45 million to \$28.2 million, to make the county office reductions proportional (3.85%) to those levied on school districts. Like school districts, this reduction will not be reflected in an increase in the county office Revenue Limit deficit factor, which remains at 18.621 %.)

Finally, the May Revision includes a further decrease of \$4.1 million for school district and county office of education revenue limits as a result of a decrease in statutory COLA.

Overall K-14 (Proposition 98) spending is further reduced by \$1.6 billion in 2010-11. This proposed additional reduction would increase the total cut to K-12 spending now proposed by the Governor to \$3.4 billion.

Administrative Cut to Revenue Limits - There is a significant change related to the \$1.2 school district revenue limit cut and the Governor's proposal that the reduction be assigned only to administrative expenditures. "After discussions with district and county superintendants, [the Budget Summary states] the Administration withdraws its January proposal to specifically dictate the level of reductions from district and county office administration. Instead, the Administration proposes providing local district administrators and school boards maximum flexibility to manage the level of funding provided in the May Revision." It is important to note, however, that the \$1.2 billion cut to district revenue limits is still made.

Contracting out proposal dropped, while cut remains: The governor is dropping his January proposal to target an additional \$300 million in district and county office of education revenue limit cuts to assumed savings from proposed removal of state restrictions on contracting out. Again, this \$300 million cut remains on the table, now combined with the above \$1.2 billion revenue limit cut as noted above, for a total \$1.5 billion unallocated reduction to the revenue limit, with local districts determining where/how to absorb the cut.

Administration Drops Effort to Change Prop 98 Certification - For 2008-09, the Proposition 98 funding level is \$49.1 billion, of which \$34.1 billion is General Fund. This Proposition 98 funding level is \$76.4 million higher than the level included in the Governor's January Budget. Because this funding level is only \$6.4 million lower than the level certified in legislation for 2008-09, the Administration no longer proposes to amend the certification level. As a result, the Administration believes that the Proposition 98 guarantee will remain over-appropriated by \$2 billion in 2008-09.

Child Care – The May Revision proposes the following changes/reductions to child care program:

- The Governor proposes elimination of state funding for need-based, subsidized child care totaling almost \$1.2 billion. State Preschool is exempted because “it is a part-day education program that supports school readiness that is more consistent with preserving educational programs”. The Governor’s proposal would eliminate subsidized slots for approximately 142,000 children. Approximately \$594 million in federal funds remain available for approximately 78,000 slots for needy families under a revised program that would be subject to the reimbursement rate and eligibility policy reforms to be proposed by the Governor. These reductions are scheduled to take effect on July 1, 2010.
- The Governor proposes an additional savings of \$200 million through regional market rate limit (RMR) reductions, including deeper reductions for unlicensed care.
- A decrease of \$31.5 million based on revised caseload estimates for CalWORKs Stages 2 and 3.
- Consistent with the proposal in the Department of Social Services budget to eliminate the CalWORKs program, remaining Stage 2 and 3 funding and caseload are shifted to the capped Alternative Payment Program based on income eligibility and to the extent of funds availability.

Testing and Accountability – The Governor proposes the following changes to our testing and accountability system:

- The May Revision proposes to restore the writing component of the fourth grade English/language arts California Standards Test and California Modified Assessment and to commence the development of a longitudinal academic growth model without increasing the Standardized Testing and Reporting (STAR) program appropriation.
- \$3.7 million is set-aside for local educational agencies partnering with the state on reforms to improve student achievement to develop item banks for local student assessments such as summative and formative assessments to help California implement longitudinal academic growth models.
- A reduction of \$775,000 to eliminate the Alternative Schools Accountability Model (ASAM) program.

Data - In an effort to meet federal “Race to the Top” student and teacher data system requirements, the May Revision proposes to direct additional federal funding to both the CalPADS and CalTIDES systems. The Governor’s May Revision summary includes a statement about the administration’s intention to make CalPADS work – or create an alternative process. The May Revision states:

“The Administration remains concerned with the progress of the CALPADS and CALTIDES.....the state’s existing investment in longitudinal data systems since 1997 totals about \$155 million from state and federal sources, including almost \$34 million specifically for CALPADS and \$7.1 million for CALTIDES. The CALPADS system was supposed to be operational in August 2009, yet due to poor vendor performance and inadequate monitoring by CDE, the system has not been implemented. It is therefore incumbent on the CDE to ensure at a minimum that by the end of this calendar year, CALPADS is able to receive and reliably transfer data. In the event this goal is not achieved, the Administration will seek to contract these projects out to a consortium of local school districts that, in collaboration with the segments of higher education, will leverage their statewide data systems to meet the requirements specified for federal Race to the Top (RTTT) funding.”

The Governor also proposes to use Proposition 98 Reversion Account expenditure adjustments to fund \$3.3 million for the California School Information Services (CSIS) program to maintain individual student identifiers.

Special Education - The May Revision includes \$52 million in General Fund savings by suspending AB 3632 mandates which insure mental health services to children with disabilities. While unstated, this action could result in the funding and responsibility for these services being redirected to school districts.

Early Childhood Education – The May Revision proposes an increase of \$118,000 in reimbursements to CDE from the First 5 Commission for the new State Advisory Council on Early Childhood Education and Care (ELAC) pursuant to a Governor’s Executive Order. Funding is sufficient for one additional position to augment the current resources available for the Early Learning Quality Improvement System Advisory Committee (ELQIS) created by SB 1629 (Chapter 207, Statutes of 2008). It is anticipated that these resources will enable the state to develop a successful proposal for \$10.6 million in federal funds authorized for the Council in the recent ARRA.

CalWorks Adult Education Services - A decrease of \$5.2 million in reimbursements from the Department of Social Services to CDE for Adult Education and ROCs to train CalWORKs recipients associated with the new May Revision solution to eliminate the CalWORKs program effective with the second quarter of the 2010-11 year. This would leave \$2.5 million for this purpose.

Child Nutrition - A decrease of \$120,000 to CDE to reflect the revised estimate of meals to be served by private entities to income-eligible children through the Child Nutrition Program. Additionally, there is a decrease of \$31.3 million Federal Funds to CDE to reflect the revised estimate of meals to be served through the Child Nutrition Program.

State Cash Flow Improved - The May Revision references the continued state cash flow concerns and notes that the administration will continue to work closely with the State Controller’s Office to monitor the state’s cash position situation and develop additional strategies to ensure the state has needed cash throughout the coming fiscal year. That statement alone is enough to strike fear in the hearts of local education agencies already saddled with overlapping deferrals that increase local borrowing costs and strain district ability to make payroll. But, in an apparent recognition of the deferral-induced cash crisis at the local level, the May Revision contains a proposal that would essentially redirect excess EIA funds to the Department of Education to “make advance apportionments to schools that will be in a cash-flow deficit in June as a result of the [state’s] payment deferrals and are unable to make essential payments.”

HIGHER EDUCATION

While there are deep cuts in K-12 education and many portions of the health and social services segments of the budget (as compared to the current year), the Governor makes very few changes to the postsecondary education budget when compared to its introduction in January. The Governor has made it clear that there is a need to maintain the state’s investment in higher education and he has threatened to veto any budget sent to him by the Legislature that provides less funding for higher education than proposed in his January budget. The Governor clearly has made postsecondary education a priority for the 2010-11 year. Specifically, postsecondary education will have a \$1.2 billion (11.6%) increase in funding which far outstrips the funding increase for K-12 education and other major agencies such as health/human services and corrections.

University of California - Continues to fund the University of California at the same funding levels proposed in the January 10 Budget proposal:

* Provides \$305 million restoration of one-time reductions from prior year.

California State University - Continues to fund the California State University at the same funding levels proposed in the January 10 Budget proposal:

* Provides \$305 million restoration of one-time reductions from prior year.

* Provides \$60.6 million for 2.5 percent enrollment growth, 8,290 full-time equivalent student slots.

* Assumes a 10 percent fee increase for fall 2010 academic year.

California Community Colleges - Continues to fund the California Community Colleges at the same funding levels proposed in the January 10 Budget proposal:

- * Provides \$126 million for 2.2 percent enrollment growth, 26,000 full-time equivalent student slots.
- * Reduces by \$23 million, or 0.38 percent, to reflect a negative COLA for apportionments and categorical programs.
- * Shifts \$10 million from EOPS and Part-Time Faculty Compensation to fund the Career Technical Education.
- * No student fee increase.

WHAT HAPPENS NOW?

It is better to have something and require others to take it away than to have to fight for something you don't have. In short, while our Prop 98 budget is far from perfect, our goal now is to protect what the Governor has provided in the May Revise. The non-Prop 98 side of the budget, with the exception of higher education, has been decimated. It is very likely that the legislature will look to use deeper Prop 98 cuts to offset some of the proposed cuts to social services, CalWorks, Medi-Cal and child care. Proposition 98 is over-appropriated in the current year. This is an obvious place for the legislature to cut. Assembly Speaker John Perez has also not ruled out a Suspension of Prop 98 as a budget balancing solution. We are a long way from a resolution on this budget. We will need to work hard to convince legislators that the cuts to schools have been deep enough.