ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Wilmer Amina Carter, Chair

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OVERVIEW OF THE GOVERNOR'S SPECIAL SESSION BUDGET PROPOSALS FOR K-12 AND HIGHER EDUCATION

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6110 DEPARTMENT OF EDUCATION/6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 1: PROPOSITION 98 OVERVIEW

The Governor declared a fiscal emergency on January 8, 2010 and called the Legislature into the 8th Extraordinary Session to address an estimated $6.6 billion General Fund deficit for the current year 2009-10. The issues for the Subcommittee to consider are the Governor's Special Session solutions relative to Proposition 98 funding.

PANELISTS

- Edgar Cabral - Legislative Analyst's Office
- Jeannie Oropeza - Department of Finance

SPECIAL SESSION PROPOSALS

Recertification of the 2008-09 Proposition 98 Guarantee. As part of the 2009-10 Budget Act, AB 3X4 Evans (Chapter 3, Statutes of 2009) certified the 2008-09 Proposition 98 minimum guarantee at $49.1 billion. Since the passage of the budget in July, the Governor estimates that the 2008-09 minimum guarantee has fallen to $46.8 billion. Although the minimum guarantee has dropped by $2.2 billion under the Governor's calculations, he does not propose to reduce funding down to that level. He instead proposes to provide $49 billion in 2008-09. This equates to $82.9 million less than was provided for 2008-09. According to the Governor, this level of funding is aligned with actual expenditures.

Reduction of 2009-10 Proposition 98 Funding. The Governor's budget proposes to fund Proposition 98 at $49.9 billion for 2009-10. This equates to $568 million less than what was provided in the 2009-10 Budget Act. One factor that affects this revised "minimum guarantee" for 2009-10 is the Administration's interpretation of when a maintenance factor is created. This interpretation is a source of debate among education advocates.

"Maintenance factor" is a long-term, constitutional funding obligation created under the provisions of Proposition 98. The maintenance factor is meant to keep track of what the state owes education when funding does not keep pace with growth in the economy. In years with relatively strong growth in General Fund revenues, the state is required to make maintenance factor payments to restore funding to where it otherwise would have been if it had grown with the economy.

The July Budget Act provided a maintenance factor payment in 2009-10. Under the Administration's interpretation of the Constitution, no new maintenance factor is owed in 2009-10. Instead, the Governor assumes that $1.3 billion in maintenance factor obligations owed at the end of 2007-08, are paid off in 2008-09. The Administration "pays" this balance with existing 2008-09 allocations. The Governor's budget also delays payments towards retiring an $11.2 billion maintenance factor obligation recognized in the July Budget Act. The Governor's budget proposes to begin those payments in 2011-12 rather than in 2010-11. The Administration estimates these changes result in $1.9 billion in combined savings across 2009-10 and 2010-11.

Conforming Special Session Actions. In order to achieve the $568 million reduction in 2009-10, the Governor proposes to reduce funding through program savings as follows:

- Reduce the K-3 Class Size Reduction program by $340 million. The 2009-10 Budget Act provided substantial program flexibility that allowed districts to increase class sizes, for example, from 20:1 up to 25:1 while still receiving 70 percent of program funds. The administration projects the program will see natural savings as a result of schools increasing class sizes and forgoing a portion of their program funding. The administration's estimates of $340 million in savings however have not been confirmed by the Department of Education. While there is general agreement that some program savings will materialize, it is not clear to what extent.

- Reduce revenue limit and make other adjustments totaling $228 million. The primary source of this reduction is revenue limit savings as a result of a decrease in average daily attendance, unemployment insurance and retirement costs. The savings from other programs reflect workload adjustments.

Other K-12 Special Session actions:

Prepayment of the Quality Education and Investment Act (QEIA) for purposes of meeting federal maintenance-of-effort (MOE) for 2009-10. Current statute appropriates $450 million General Fund (non-Proposition 98) annually for the QEIA program for a specified period. The Governor proposes to prepay $280 million of the 2010-11 payment in 2009-10. This amount includes $250 million for K-12 education and $30 million for community colleges. This funding would be provided on top of other funds appropriated for QEIA in 2009-10, pursuant to the 2009 budget package. Per the Administration, this prepayment is required to increase state education appropriations in 2009-10 in order to ensure compliance with federal MOE requirements for the ARRA State Fiscal Stabilization Fund program.

Reappropriations for K-12 programs. The Governor proposes to reappropriate $38.4 million in one-time Proposition 98 savings in 2009-10, for the following programs:

- Charter Schools Facilities Grant Program: The Governor proposes an increase of $18.4 million to convert the Charter Schools Facilities Grant Program from a reimbursement-based to a grant program, consistent with statute enacted as a part of the 2009 budget package. This program offsets 75 percent of the facility rental or lease costs of charter schools operating in low-income areas. Funding is restricted to charter schools that are unable to secure public or other facilities.

- Categorical Flexibility Funding – New Schools: The Governor proposes a $20 million increase to provide categorical funding to newly-established schools in 2008-09 and

2009-10. These funds are intended to allow new schools to receive categorical funds from more than 40 programs that were subject to categorical flexibility beginning in 2008-09. Under categorical flexibility statutes, statewide programs are adjusted annually for growth, but allocations are limited to existing schools.

The Subcommittee should consider whether these funds should be used for these policy proposals or if there are other Legislative priorities that should be funded.

QUESTIONS

1. Can the Administration explain the urgency of taking action on Proposition 98 funding during Special Session? Are there consequences to delaying action? What factors could contribute to a change in these funding levels over the next few months?

2. The Governor proposes program reductions of $82.9 million in 2008-09 and $568 million in 2009-10 be achieved through "natural savings" to mitigate the impact of cuts at the local level. Will there be any impact at the local level? How likely are these savings to materialize, specifically with regard to the K-3 Class Size Reduction program?

3. The Governor proposes to reappropriate $38.4 million in one-time Proposition 98 savings in 2009-10 to increase funding for charter school facilities and provide more funding for new schools. What is the urgency for providing these funds to these specific programs?

ISSUE 2: PROPOSITION 98 – CHILD CARE & DEVELOPMENT PROGRAMS

The issue for the Subcommittee to consider is the Governor's Special Session proposals related to child care and development programs funding.

PANELISTS

- Rachel Ehlers – Legislative Analyst's Office
- Jeannie Oropeza – Department of Finance

BACKGROUND

CalWORKs Child Care System. State law requires that adequate child care must be available to California Work Opportunity and Responsibility to Kids (CalWORKs) recipients receiving cash aid in order to meet their program participation requirements (a combination of work and/or training activities). If child care is not available, then the recipient does not have to participate in CalWORKs activities for the required number of hours until child care becomes available. The CalWORKs child care is delivered in three stages:

- *CalWORKs Stage 1*. Stage 1 is administered by the Department of Social Services through county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. In this stage, CWDs refer families to resource and referral agencies to assist them with finding child care providers. The CWDs then pay providers directly for child care services. It is funded completely with TANF monies.

- *CalWORKs Stage 2*. The CWDs transfer families to Stage 2 when the county determines that participants' situations become "stable." In some counties, this means that a recipient has a welfare-to-work plan, or employment, and has a child care arrangement that allows them to fulfill their CalWORKs obligations. In other counties, stable means that the recipient is off aid altogether. Stage 2 is administered by the Department of Education through a voucher-based program. Participants can stay in Stage 2 while they are in CalWORKs and for two years after the family stops receiving a CalWORKs grant. It is funded primarily with Proposition 98 dollars.

- CalWORKs Stage 3. In order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year time limit, the Legislature created Stage 3 in 1997. Recipients timing out of Stage 2 are eligible for Stage 3 if they have been unable to find other subsidized child care. Assuming funding is available, former CalWORKs recipients may receive Stage 3 child care as long as their income remains below 75 percent of the state median income (SMI) level and their children are below age 13. The Legislature has traditionally provided sufficient funding to serve all eligible Stage 3 families. Stage 3 also is administered by CDE. It has traditionally been funded with a combination of Proposition 98 and Child Care Development Fund grant monies.

SPECIAL SESSION PROPOSALS

Caseload Updates to CalWORKs Stage 2 and Stage 3. The Department of Education (CDE) and Department of Social Services (DSS) provide the Department of Finance (DOF) with monthly caseload update reports for the CalWORKs programs. The Governor proposes to decrease Stage 2 by $9 million and Stage 3 by $3.4 million in order to reflect revised estimates for the current year. The Administration believes these are technical adjustments that would not affect program services.

Savings Not Materializing as Expected for Stage 2. Staff requested information from the Department of Education to provide updated caseload projections to ensure that adequate funds were allocated to these programs. The CDE reports showed that Stage 2 has projected an excess of $2 million—significantly less than the Governor's estimates—and Stage 3 shows savings of about $5 million.

Since CalWORKs Stage 2 is demonstrating expenditures close to its current year Budget Act appropriation, the Subcommittee has to consider potential programmatic disruptions that might result from making the Governor's proposed $9 million reduction. As for the projected excess in CalWORKs Stage 3, the Subcommittee will need information and agreement from CDE and DOF that this program's appropriation can be reduced without causing programmatic impacts.

Reimbursement Rate Reductions Proposal. The Governor proposes, effective July 1, 2010, to lower the maximum reimbursement rate the state pays to providers of subsidized child care. This proposal is estimated to generate Proposition 98 savings of $77.1 million from CalWORKs Stage 2 ($37 million) and Stage 3 ($28.1 million), and Alternative Payment Program ($12 million). (The proposal would save an additional $55 million non-Proposition 98 General Fund from CalWORKs Stage 1. Because Stage 1 is administered by the DSS, this issue will be heard by Assembly Budget Subcommittee #1.)

The Regional Market Rate (RMR) is the standard used to reimburse providers who receive subsidies on behalf of families eligible for child care vouchers through the Alternative Payment program or through any of the CalWORKs stage of child care. These programs operate under Title 22 licensing regulations or are license-exempt. The state conducts an RMR survey every two years to assess updated child care rates for each county in the state. Licensed providers currently are reimbursed for services up to a maximum rate equivalent to the 85th percentile of the rates charged by private providers in the same region.

The Governor's proposal would reduce the reimbursement ceiling—the maximum amount the state will pay—for licensed providers from the 85th percentile of the rates in that region to the 75th percentile. He also proposes to lower reimbursements for license-exempt providers—typically relatives who provide care without a license—from 90 percent of the licensed rate to 70 percent. The Governor proposes to continue to base these rates on RMR data from a survey conducted in 2005.

Impact of Reducing Reimbursement Rates. Specific rate reductions would vary by provider and region. As an example, the maximum rates in Los Angeles County would drop from $744 to $660, or 11 percent, monthly per child for child care centers and from $615 to $445 for license-exempt preschools. The Subcommittee should note that this may lead to CalWORKs families paying co-payments or increasing their co-payments for the difference between what centers charge and the reimbursement rate. Permanently changing rates without proper consideration could result in a situation where the highest quality family child care providers and centers will have little incentive to care for subsidized children and those serving low-income neighborhoods will have trouble surviving.

6870 CALIFORNIA COMMUNITY COLLEGES

ISSUE 3: CAREER TECHNICAL EDUCATION

The issue for the Subcommittee to consider is the Governor's proposal to remove the Career Technical Education from categorical flexibility.

PANELISTS

- Steve Boilard – Legislative Analyst's Office
- Jeannie Oropeza – Department of Finance

BACKGROUND

The Governor's Special Session proposal affects the California Community Colleges categorical flexibility agreement, adopted in the July Budget package. The Governor proposes in trailer bill language to remove the Career Technical Education (CTE) funding from the categorical flexibility in the current year.

The Career Technical Education pathways and workforce development initiative, known as SB 70, involves a partnership between the community colleges and K-12 to improve education pathways and CTE awareness for students enrolled in both systems. The community college system is assisting K-12 in building and aligning coordinated CTE pathways that lead to postsecondary programs of study to prepare students for high-skill jobs.

Impact of removing CTE from Flex. The July budget package reduced funding support for categorical programs and moved 12 out of 21 programs into a "flex item," permitting districts to transfer funds from categorical programs in the flex item to any other categorical spending purpose through 2012-13. Removing CTE from the categorical flexibility and protecting its full funding will impact college districts' ability to respond to local needs and other programs of greater priority.

7980 CALIFORNIA STUDENT AID COMMISSION

ISSUE 4: SUSPENSION OF NEW COMPETITIVE CAL GRANT AWARDS

The issue for the Subcommittee to consider is the Governor's proposals to make the Competitive Cal Grant awards contingent upon appropriation in the Budget Act and suspend new awards in the Budget year.

PANELISTS

- Steve Boilard – Legislative Analyst's Office
- Jeannie Oropeza – Department of Finance

BACKGROUND

The Governor proposes trailer bill language to make new Competitive Cal Grants subject to the Budget Act and suspends new Competitive Cal Grant Awards in the Budget year for a savings of $45 million.

<u>Impact of Suspending Cal Grant Competitive Program.</u> The Administration has not offered a rationale for suspending this program that recognizes that not all needy students are eligible for the Entitlement award. 22,500 new grants are authorized annually and the students served under this program are older and more likely to attend community college. Many have experienced challenges that make it more difficult for them to pursue higher education, but meet the same criteria as entitlement recipients, and in fact, Competitive program recipients have higher average grades than those in the entitlement program.

The California Student Aid Commission, who administers the Cal Grant Programs, already states on their award letters to students that the Competitive Cal Grant Program award is "*tentative because this award offer may be withdrawn or reduced pending approval of the final state budget.*"