

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Julia Brownley, Chair

TUESDAY, MARCH 11, 2008
STATE CAPITOL, ROOM 444
10:00 AM

2008-09 K-12 EDUCATION BUDGET PRIORITIES

Jack O'Connell, State Superintendent of Public Instruction

Scott Hill, Undersecretary of Education, Office of the Secretary for Education

ITEMS TO BE HEARD

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ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION

ISSUE 1: PROPOSITION 98 UPDATE AFTER SPECIAL SESSION ACTIONS

The issue for the Subcommittee to consider is:

- The current year actions taken by the Legislature during the Special Session and how those actions effect Proposition 98 for the 2008-09 budget year.

BACKGROUND:

Special Session Actions. On January 10, 2008, the Governor declared a fiscal emergency and called the Legislature into Special Session in accordance with the terms of Proposition 58.

The Governor projected a \$3.3 billion General Fund shortfall for the current year and a \$14.5 billion General Fund shortfall in the budget year. In addition, the Governor identified a severe cash crisis for the state that if left unaddressed would see the state nearly being out of cash in March and unable to pay its bills in July and August.

While the Governor took an "across the board" approach to addressing this fiscal emergency, the Legislature took a more fine-tuned approach. The Legislature rejected the Governor's proposal to cut \$400 million from school district apportionments and instead reduced Proposition 98 funding by \$507 million by reverting and capturing unspent prior and current year funds. These reductions resulted in a total of \$56.6 billion in funding to schools under Proposition 98 – roughly \$1 billion above the minimum guarantee for 2007-08.

	2007- 08 Proposition 98 totals after Special Session actions
K-12	50,294,272
CCC	6,189,068
Other agencies	118,508
Total Prop 98	56,601,848

Additional Current Year Savings Options. Although the Legislature took action to further reduce the current year Proposition 98 funding level by \$507 million, the LAO identifies additional current year savings options for the Legislature to consider.

- The LAO has identified almost \$1 billion in existing Proposition 98 funding that is not expected to be needed before the close of the fiscal year (\$507 of which has already been accounted for through the Legislature's actions during the Special Session). These funds can be used to reduce spending that counts toward the Proposition 98 minimum guarantee without affecting schools' current operations.
- Another piece of the LAO current-year alternative involves "settle-up" funding. A settle-up obligation is incurred when the minimum guarantee exceeds the funding level of the enacted budget. When this happens, the state is required to provide more funding to meet the higher funding requirement (to settle up). In contrast, when the reverse happens (as in the current year), and the minimum guarantee falls after the budget is enacted, the state has no automatic tool for reducing spending (to settle down). In the current year, the LAO recommends designating some funding already going to schools as payment toward an existing settle-up obligation. Such action would avoid midyear cuts to schools. It also would ensure the state meets the requirements of Proposition 98 for prior years before exceeding the requirement for the current year. Using settle-up in this way has the added benefit of allowing the state to prepay the settle-up payment scheduled for 2008-09 (\$150 million), thereby yielding additional budget-year solution.

ISSUE 2: OVERVIEW OF THE GOVERNOR'S BUDGET

The issue for the Subcommittee to consider is the Governor's estimate of the minimum Proposition 98 guarantee and his proposal to reduce program funding through an across-the-board approach.

While this issue was heard by the Subcommittee during the Special Session hearings, the information provided in this item will help put the LAO alternative into perspective.

BACKGROUND:

Governor's Budget. The Governor's proposed Proposition 98 spending level for K-12 education in 2008-09 is \$49.3 billion. This represents a reduction of approximately \$1 billion from the current year level of funding. The figure below shows all significant funding sources for K-12 education for 2006-07 through 2008-09. The chart also shows Proposition 98 funding per average daily attendance (ADA) would decline year over year by \$145. Under the Governor's proposal for 2008-09, Proposition 98 per pupil funding would be \$8,368.

K-12 Education Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2006-07	Revised 2007-08 ^a	Proposed 2008-09	Changes From 2007-08	
				Amount	Percent
K-12 Proposition 98					
State General Fund	\$37,264	\$37,473	\$35,460	(\$2,013)	-5.40%
Local property tax revenue	11,753	12,949	13,850	901	7
Subtotals	(\$49,017)	(\$50,423)	(\$49,310)	(\$-1,112)	(-2.2%)
Other Funds					
General Fund					
Teacher retirement	\$876	\$1,535	\$1,111	(\$424)	-27.60%
Bond payments	1,764	2,084	2,381	297	14.3
Other programs	440	1,221	985	-236	-19.3
State lottery funds	979	936	936	—	—
Federal funds	6,832	6,698	6,316	-382	-5.7
Other	7,226	7,791	7,467	-324	-4.2
Subtotals	(\$18,117)	(\$20,264)	(\$19,197)	(\$-1,068)	(-5.3%)
Totals	\$67,134	\$70,687	\$68,507	(\$2,180)	-3.10%
K-12 Proposition 98					
Average daily attendance (ADA)	5,951,933	5,922,913	5,892,449	-30,464	-0.50%
Budget amount per ADA	\$8,235	\$8,513	\$8,368	(\$145)	-1.70%
^a Reflects Governor's proposal for 2007-08. Totals may not add due to rounding.					

Workload Budget Approach. In constructing his 2008-09 budget for K-12 education, the Governor first built a hypothetical workload budget, providing adjustments to existing

K-12 programs totaling \$3.2 billion. From his workload budget level of \$53.6 billion, the Governor makes a 10.9 percent across-the-board reduction to General Fund spending for each K-12 program. These reductions, also referred to as "Budget Balancing Reductions (BBRs)" lower the workload budget by \$4.3 billion—\$2.6 billion from school district and County Office of Education (COE) revenue limits and \$1.7 billion from categorical programs—resulting in the Governor’s final K-12 Proposition 98 spending proposal of \$49.3 billion. The figure below summarizes the approach the administration used to build the K-12 budget for 2008-09.

K-12 Proposition 98 Budget Proposal	
<i>(In Millions)</i>	
2007-08 Budget Act	\$50,796.7
Reduction to revenue limits	(\$360.0)
Technical adjustments	(\$14.0)
2007-08 Revised	\$50,422.6
"Workload Budget" Adjustments	
Cost-of-living adjustment (4.94 percent)	\$2,428.1
Restore funding for ongoing programs	566.6 ^a
Restore 2007-08 reduction to revenue limit base	\$360.0
Make charter school facilities grant ongoing	\$18.0
Decline in average daily attendance	(\$121.0)
High Priority Schools program adjustment	-29.0 ^b
Other	\$0.9
Subtotal	(\$3,223.6)
Governor's "Workload" Estimate for 2008-09	\$53,646.2
Governor's "Budget Balancing Reductions"	
Revenue limits	(\$2,607.9)
Categorical programs	(\$1,727.9)
Subtotal	(-\$4,335.8)
2008-09 Proposal	\$49,310.4
^a Portions of the deferred maintenance, Home-to-School Transportation, and High Priority Schools Grant programs were funded using one-time funds in 2007-08. ^b Funding for the program is reduced due to schools exiting the program.	

COMMENTS:

Effects of the Governor's Proposed Reductions. The details and the effects of the Governor's across-the-board reductions or "Budget Balancing Reduction" proposals were heard by the Subcommittee during the Special Session hearings however, the Subcommittee did not take action on any of these proposals. While it is hard to characterize how the across-the-board cuts will affect each and every program, it can be said that all programs would feel the result of not being provided a Cost of Living Adjustment (COLA), which was estimated to be 4.9%, and most would be reduced to lower funding levels than were provided in the current year.

Proposition 98 Formula and Suspension. Proposition 98 funding refers to state funds and local property taxes that together meet the state's minimum funding requirement for K-12 education and community colleges (under the constitution). Proposition 98 funds account for about 70% of all K-12 funding.

There are three formulas (or tests) under which the funding level for education is determined. In most years, the formula allows funding for K-14 education to grow enough each year to keep pace with a) K-12 enrollment growth and b) the growth in the economy (as measured by per capita personal income) (this is Test 2). However, the formula also takes into consideration the state's finances and its ability to pay, and in years when the state's revenues don't grow enough or decline, the state can provide a lower level of funding than the Test 2 funding level (Test 3 years). Historically, the Proposition 98 formula has required the state to provide education funding at the Test 2 level in most years. Test 1 (provides roughly 40% of General Fund revenues to K-14 education) has only been triggered once, in 1988-89, the year after Proposition 98 was passed. Test 3 has been triggered in five years since the passage of Proposition 98, generally in years when the state's revenues were faltering.

The Proposition 98 formula also allows the state to suspend its obligation to provide education funding at the level dictated by the Proposition 98 formula. The state has only suspended the Proposition 98 minimum requirement once, in 2004-05. Suspending Proposition 98 gives the Legislature full discretion over what the K-14 funding level will be for that year.

While suspending the minimum guarantee allows the Legislature to fund K-14 education at whatever level it chooses, in subsequent years the state is required to accelerate growth in Proposition 98 funding. When General Fund revenues strengthen, the Constitution requires a relatively large share of new funding to go to Proposition 98—until overall K-14 funding is back to where it otherwise would have been absent the suspension. In this way, a Proposition 98 suspension can provide several years of savings for the state, but it only represents a limited-term funding reduction for schools and community colleges.

Both the Governor's budget proposal and the LAO alternative proposal call for a suspension of Proposition 98 in 2008-09.

ISSUE 3: OVERVIEW OF THE LAO ALTERNATIVE BUDGET

The issue for the Subcommittee to consider is the LAO alternative to the Governor's across-the-board reductions.

BACKGROUND:

LAO Alternative. While the Governor's budget proposal does not differentiate between programs and applies an across-the-board cut to virtually all programs, the LAO has chosen to take a more selective approach—weighing the merits of various programs and funding certain core costs while obtaining savings from programs that are duplicative, poorly structured, or technically over budgeted.

The LAO alternative also proposes to restore ongoing funding for programs that were funded with one-time monies in the current year. For example, in 2007-08, the state funded portions of the Home-to-School Transportation, High Priority Schools, and Deferred Maintenance programs with one-time funds. Maintaining these programs in 2008-09 requires backfilling with a like amount of funding.

In addition, the LAO alternative makes various growth-related adjustments. As under the Governor's plan, it recognizes \$121 million in savings from a projected decline of 0.5 percent in K-12 Average Daily Attendance (ADA). It also provides .69 percent growth for non-CalWORKs child care slots and 1.7 percent growth for community college enrollment (by comparison, the Governor's plan does not expressly fund growth in child care slots and funds 1.0 percent growth in community college enrollment).

The LAO alternative would not fund a COLA. The Governor's budget also does not provide for a COLA.

The LAO alternative would also fund the estimated full-year cost of already approved K-12 mandates which is approximately \$180 million.

Programs Recommended for Reduction, Phase-out or Elimination. As part of the LAO alternative, the LAO recommends the Legislature “technically realign” spending for several programs. The programs identified routinely end the fiscal year with unspent monies. The LAO would recommend the Legislature make a one-time correction to realign the budgeted funding level with the anticipated spending level. The programs for which realignment is recommended are listed in the next figure.

Recommended Categorical Program Reductions for 2008-09		
<i>(In Millions)</i>		
Program	Amount^a	Rationale^b
Physical Education Incentive Grants	\$41.80	Poorly structured
Adult education	30	Technical realignment
Economic Impact Aid	25	Technical realignment
Year Round Schools	19	Reduced participation
School safety competitive grants	18.1	Duplicative
Home-to-School Transportation	11	Technical realignment
Targeted Instructional Improvement	10	Technical realignment
High Priority Schools (corrective action)	6	Duplicative
Alternative certification/intern	3	Technical realignment
National Board certification	2	Technical realignment
Paraprofessional teacher training	1.8	Technical realignment
CCC economic development	11	Noncore program
Total K-14 Reductions	\$178.70	
^a Reflects reduction from 2007-08 Budget Act level.		
^b See text for description of various rationales.		

The LAO also recommends the Legislature phase-out or eliminate the following programs:

- Physical Education Incentive Grant Program.** The 2006-07 Budget Act established the Physical Education Teacher Incentive grant program, which provides \$35,000 to 1,142 K-8 schools to hire a teacher specifically to provide physical education instruction to students. Schools were selected randomly but were to be representative of schools statewide, based on the size, type, and geographic location of the school. In 2007-08, the program was continued for the same schools and recipients were provided a 4.5 percent cost-of-living adjustment. For the budget year the Governor proposes to reduce program funding by 6.9 percent, which would result in schools' grants amounts being reduced by the same percentage.

The LAO recommends elimination of this program because it does not distribute funds based on need, has no built-in accountability measures, and prioritizes physical education above other subject areas. Elimination of the program would yield a savings of \$42 million (Proposition 98 GF).

- Year Round Schools.** The Year Round Schools (YRS) grant program provides funding for schools that operate on a multitrack year round calendar and enroll more students than the state's facility capacity standards. Under a multitrack calendar, students are split into "tracks." Schedules are staggered so one track is on vacation at a time, allowing schools that are over capacity to still adequately provide classroom space for all students. The YRS program provides a dollar amount per pupil that is adjusted depending on the degree to which a school site is above its

capacity. The 2007-08 Budget Act provided \$97 million for the YRS program. The Governor proposes to reduce funding to \$91 million in the budget year.

According to the LAO, over the last several years, the YRS program has experienced a decline in the number of participating school districts. In 2004-05, 16 school districts received funds through the program. Only four districts have requested funds in 2007-08. Due to statewide enrollment declines, some schools no longer qualify for the program. In addition, a majority of the schools that currently receive YRS funding are not expected to be on a multitrack calendar by 2012-13. The settlement of the *Williams* lawsuit in 2004 also requires the state to eliminate by 2012 the "Concept 6" calendar, a type of multitrack calendar that reduces the number of days of instruction but increases the length of the school day.

Because of the expected decline in the program and fiscal challenges facing the state, the LAO recommends reducing the program to \$78 million in the budget year, a reduction of \$13 million from the proposed level. They further recommend the state reduce the program by \$19 million each subsequent year until 2012-13, at which time the LAO recommends sun setting the program.

- **School Safety Competitive Grants.** The School Safety Consolidated Competitive Grant program (SSCCG) awards grants of up to \$500,000 for a five-year period for local educational agencies (LEAs) to address school safety and violence prevention issues. This competitive grant is open to LEAs serving grades K-12 for school safety activities involving community collaboration. No accountability, reporting, or evaluation requirements exist for SSCCG. In 2007-08, the state provided \$18 million for this program. This funding level resulted in 31 grants to serve 46 schools. For 2008-09, the Governor has proposed a funding level of \$17 million.

In addition to SSCCG, the state funds the School Safety Block Grant program. This program serves the same purpose as SSCCG—providing grants to LEAs to address school safety and violence prevention issues. Funds may be used for personnel, materials, strategies, programs, or any other purpose that would materially contribute to reducing violence among students and providing safe schools. The Superintendent of Public Instruction is required to report annually to the Legislature regarding this program and grantees are required to provide information, as requested. In 2007-08, the state provided \$101 million for this program and over 950 LEAs received apportionments—including all 31 of the LEAs receiving SSCCG grants. For 2008-09, the Governor has proposed a funding level of \$94 million.

The LAO recommends that the Legislature eliminate this program due to lack of accountability and the duplicity of the program. For example, in 2007-08, 100 percent of competitive grant recipients also received school safety block grant funding. Eliminating this program would save \$18 million in Proposition 98 General Fund monies.

- **High Priority Schools Corrective Action.** In 2007-08, \$6 million in state funding is budgeted for corrective action and \$71 million in federal funding is budgeted for

Program Improvement, which has a corrective action component. About \$4.5 million in state funding and at least \$29 million in federal funding is expected not to be spent in the current year. Moreover, the state has \$78 million in new federal funding available for corrective action in 2008-09.

The LAO recommends the Legislature eliminate state funding for corrective action as little of the budgeted amount is being spent and considerable federal funds are available for the same types of activities.

The LAO recommends suspension of the Quality Education Investment Act (QEIA). QEIA was established pursuant to SB 1133 (Torlakson), Chapter 751, Statutes of 2006. The Legislation appropriates \$450 million in 2008-09 (\$402million for a class size reduction program for K-12 schools and \$48 million for community colleges), most of which is designated for Career Technical Education (CTE). Although little information is available on how much the 488 K-12 schools participating in QEIA are spending in 2007-08, virtually none of the community college CTE funding has been awarded to date. The LAO argues that ramping up such a program in the budget year while at the same time not providing a COLA to existing core programs (such as revenue limits, special education, Economic Impact Aid, and existing CTE programs—programs that also serve QEIA schools) would be counterproductive. The LAO therefore recommends the Legislature suspend the program until more ample resources are available. (Suspending by a year also would allow the Legislature to consider possible program improvements, such as better integrating QEIA with other state and federal programs that focus on low-performing schools and districts.)