

## State Budget

The 2007-08 State Budget was enacted 55 days after the start of the fiscal year, after considerable wrangling between the Senate Republicans and the Governor. Ultimately, the Legislature reduced expenditures in the final Budget by just over \$800 million from the Governor's May Revision and the Governor vetoed an additional \$703 million to address the Senate Republicans' concerns, yielding a \$2.6 billion reserve, about 2.5% of General Fund revenues in 2007-08.

By November 2007 evidence of an economic slowdown was mounting, and the Legislative Analyst's Office (LAO) predicted that weak revenues would wipe out the current year reserve and the state would instead end the year with a \$1.9 billion deficit. The LAO went on to forecast a deficit of \$9.8 billion by the end of 2008-09 if no corrective actions are taken.

The Governor's Budget for 2008-09 acknowledges the growing Budget crisis, identifying a June 2009 deficit of \$14.5 billion, without corrective actions. General Fund revenue growth is projected at 1.7% for next year, adding \$1.7 billion. The Governor's Budget proposes spending cuts that reduce total expenditures to \$101 billion. Absent these reductions, General Fund spending would have been \$111 billion, or 7.4% over the current year. Factoring in the new revenues and the corrective actions for the current year under Proposition 58 (discussed later), the state will have a reserve of \$2.8 billion, or 2.7% of General Fund revenues in 2008-09.

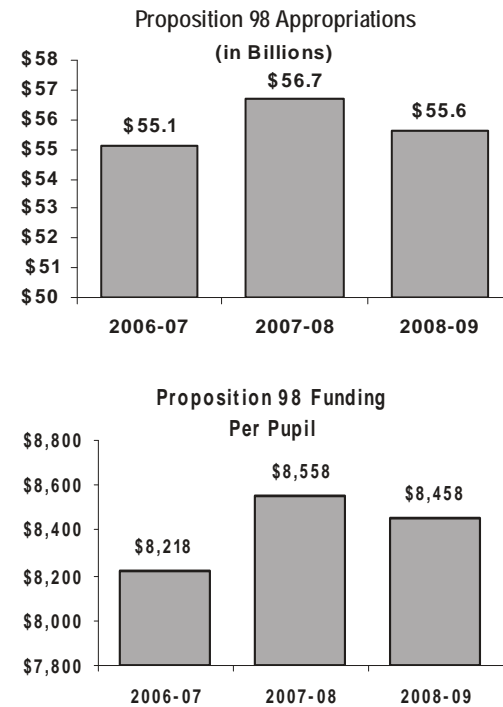
## Proposition 98

The Governor's Budget indicates that, because of the deterioration in 2007-08 revenues, the Proposition 98 minimum guarantee has fallen \$1.4 billion to \$55.7 billion. The Governor proposes to reduce current year appropriations by \$400 million (\$360 million for K-12 and \$40 million for community colleges) to capture a portion of the drop. The Budget, however, does not specify the

programs that would be targeted for cuts, but instead indicates that the Governor will work with the Legislature and other parties to "identify savings in categorical programs" to mitigate reductions to apportionments.

For the Budget year, the Governor's Budget indicates that Proposition 98 will increase based on Test 2 (the change in ADA and per capita personal income), reaching \$59.7 billion. However, the Governor seeks to suspend Proposition 98 and reduce funding by \$4 billion, which would bring the guarantee to \$55.6 billion. The suspension will require a two-thirds vote of the Legislature to be enacted, as does the Budget itself.

In addition, the Budget makes a maintenance factor payment of \$893 million, leaving \$4.1 billion to be paid in future years.



## Unrestricted Funding

**COLA** – The Budget provides no funding for the statutory COLA estimated to be 4.94%, resulting in state savings of \$1.8 billion for revenue limits,

\$169 million for special education, and \$465 million for the other categorical programs. This compares to the 4.53% COLA funded in 2007-08.

**ENROLLMENT GROWTH** – Statewide ADA is projected to decline 0.51% in 2008-09 to 5,892,000, a loss of 31,000 ADA from the prior year. This figure, however, masks the decline in noncharter school ADA. After adjusting for an expected 14.1% growth in charter ADA, noncharter ADA is projected to decline by 1.2% in 2008-09.

**DEFICIT FACTOR** – In addition to no funding for a 2008-09 COLA, the Budget proposes to cut revenue limits by an additional 2.4%. Since the 4.94% COLA is first applied to revenue limits and then a deficit factor of 6.99% is imposed, the COLA is fully eliminated, resulting in a revenue limit cut of 2.4%. Revenue limits were free of the deficit factor in 2006-07 and 2007-08.

**APPORTIONMENT DEFERRALS** – Another proposal to remedy the structural deficit in the State Budget is to push out from July to September \$1.3 billion in K-14 apportionment deferrals. Such a change would reduce the amount of short-term interest paid by the state to meet cash flow obligations, but it would also create even greater cash flow problems for education agencies.

**MANDATES** – The Budget provides only \$1,000 for each of 38 K-12 mandates, clearly insufficient to reimburse districts for their costs. These appropriations, however, trigger the requirement that districts continue to provide the mandated services in 2008-09. The Budget also provides \$150 million in both 2007-08 and 2008-09 for paying mandates from prior years, in accordance with a Budget agreement for the 2004-05 Budget.

## Special Education

The Governor proposes a 6.5% cut to special education funding in 2008-09, reflecting the net change from increasing funding by 4.94% for the COLA, and then reducing this amount by 10.9%. This proposed cut of \$189 million averages just over \$30 per ADA and has two major negative

consequences. First, school agencies will ultimately backfill this reduction in state aid because special education expenditures simply cannot be cut when revenues decline. Second, the proposed cut will place the state in violation of the federal maintenance-of-effort requirement, thereby jeopardizing future federal aid for special education.

## Categorical Programs

More than \$1.4 billion in reductions to categorical programs are proposed in the Governor's 2008-09 Budget. These reductions are related to no funding for program growth and reductions to the base funding for programs. Following is a summary of major funding reductions:

- \$198.9 million to child development programs – no COLA or growth
- \$59.6 million to Proposition 49 Before and After School programs
- \$14.2 million to child nutrition programs, which results from a 2¢ reduction per meal reimbursement rate
- \$1.1 billion across-the-board reductions to all other categorical programs – after taking into account elimination of the 4.94% COLA, this amounts to approximately a 6.5% roll-back from 2007-08 funded levels

**FUNDING FLEXIBILITY** - The Governor proposes to allow broader flexibility within the Mega-Item, but the exact nature of the change was not detailed in the proposed Budget.

## School Facilities

The Office of Public School Construction (OPSC) reports that about \$8.2 billion from Propositions 1D, 55, and 47 remain available for apportionment.

Type of Project	Funding Available (in millions)
<b>New Construction</b>	<b>\$2,702</b>
<b>Modernization</b>	<b>\$2,737</b>
<b>Career-Technical Education</b>	<b>\$500</b>
<b>High Performance Schools</b>	<b>\$100</b>
<b>Overcrowding Relief</b>	<b>\$1,558</b>
<b>Charter Schools</b>	<b>\$561</b>
<b>Joint Use Facilities</b>	<b>\$7</b>

**BOND PROPOSAL FOR 2008** – Assembly Bill 100 would authorize \$9.1 billion in state general obligation bonds for K-12 and higher education facilities. If approved by the Legislature, the measure is scheduled to appear on the November 4, 2008, ballot.

**DEFERRED MAINTENANCE** – The Governor’s Budget proposes \$294.3 million for deferred maintenance, which fully funds the program. This would fund the basic apportionment at 92% to 95%, after reserving 10% for extreme hardship projects.

## Federal Funds

**PROGRAM IMPROVEMENT CORRECTIVE ACTION** – The Budget proposes \$29 million from federal funds to support interventions and sanctions for 98 LEAs that are in Program Improvement Year 3. The State Board of Education has yet to announce specific sanctions that will be applied.

Most federal programs continue to face reductions. Preliminary estimates are for overall increases to Title I, Part A (7.6%), but required set-asides under No Child Left Behind may limit how much of the additional funds will result in increases to local grants. All federal programs received a 1.74% across-the-board cut in FY 2008. Programs facing additional decreases include Reading First and Innovative Programs (Title V, Part A). It is also a possibility that reimbursements for Medi-Cal

Administrative Activities (MAA) may be eliminated, resulting in a statewide loss of \$130 million annually.

## Proposition 58 – Mid-Year Adjustments

In unveiling his proposed Budget for next year, the Governor also declared a “fiscal emergency” under Proposition 58 and called the Legislature into special session to deal with the growing current year Budget crisis. Proposition 58, adopted by state voters in March 2004 in conjunction with Proposition 57, the \$15 billion deficit funding bond, authorizes the Governor to declare a “fiscal emergency” when the state faces substantial revenue shortfalls or spending deficiencies during the course of the fiscal year. Once a fiscal emergency is declared, the Governor is then required to issue a proclamation that identifies the nature of the emergency and to propose a plan to address the problem, which must be enacted in legislation.

With the declaration of a fiscal emergency, the Legislature is called into special session. The Legislature is then required to enact a plan to address the fiscal emergency within 45 days of issuance of the Governor’s proclamation. If the Legislature fails to enact a Budget correction plan within this period, it would be prohibited from acting on any other legislation or from adjourning until such a plan is passed.

## Governor’s Committee on Education Excellence

The long-awaited release of the work of the Governor’s Committee on Education Excellence is at hand. This report, prepared in response to last year’s Adequacy Studies, details major reforms for K-12 education, including performance-based compensation for teachers and universal preschool.

The official release of the 40-page report is anticipated for late January, but a preliminary version presents bold proposals that will certainly be vigorously debated. Chief among the concerns is

the financing of these proposals, in light of the projected \$14 billion State Budget 2008-09 deficit.

Some of the major recommendations include targeted assistance for English learners and low-income students costing \$5 billion annually; subsidized preschool tuition for low income families and full-day kindergarten costing \$1.1 billion annually; teacher pay based on evaluations, student achievement, and leadership; making the Governor responsible for the administration of the Department of Education; and inspecting schools on a regular basis, with reports issued to the public. Clearly, the Governor’s proposal to cut Proposition 98 by \$4 billion is contrary to these reform proposals that cost upwards of \$6 billion per year.

## Dartboard Factors

The Financial Projection Dartboard factors presented below are developed by independent state agencies and private economic consulting firms, based on the latest information available. These factors are provided to assist school agencies prepare their upcoming budgets and multi-year projections.

Factor	'08-09	'09-10	'10-11	'11-12
<b>Statutory COLA</b>	<b>4.94%</b>	<b>3.00%</b>	<b>2.60%</b>	<b>2.90%</b>
<b>Net Funded Revenue Limit</b>	<b>-2.40%</b>	<b>3.00%</b>	<b>2.60%</b>	<b>2.90%</b>
<b>10-Year Treasuries</b>	<b>4.10%</b>	<b>4.80%</b>	<b>5.00%</b>	<b>5.10%</b>
<b>California CPI</b>	<b>2.70%</b>	<b>2.50%</b>	<b>2.70%</b>	<b>2.90%</b>

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# POCKET BUDGET '08-'09

## A Summary Analysis of the Governor’s Proposed 2008-09 State Budget for California’s Schools

Prepared by



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