

LAO proposes alternative budget for K-12 education

The nonpartisan Legislative Analyst's Office released its detailed analysis of Gov. Arnold Schwarzenegger's January budget proposal Wednesday, following up on a preliminary overview of the budget the LAO had issued in January.

The "Analysis of the 2008-09 Budget Bill" includes an updated revenue picture for the state, and provides an alternative budget for the Legislature to consider in addressing the state's growing deficit. It is important to note that the LAO analysis went to print before the Legislature enacted cuts to current-year programs last week, so it does not reflect those actions.

Legislative Analyst Elizabeth Hill projects more grim news about the state's overall revenue picture. Specifically, general fund revenues are expected to be down by an additional \$1.5 billion for the current and budget year combined, which increases the projected deficit to \$16 billion. However, the corrective actions taken by the Legislature last week have cut this deficit roughly in half.

Hill's analysis rejects the notion that the budget shortfall should be resolved through cuts alone and instead provides a list of tax exemptions, credits and loopholes that can be reduced or eliminated to generate \$2.7 billion in additional revenues. The LAO also opposes the governor's proposed across-the-board cut of 10 percent, since it would result in programs being operated in a less than optimal manner and treats all programs the same without regard to the state's priorities.

Proposition 98

Despite the \$507 million in midyear reductions that the Legislature and governor approved last week, Proposition 98 is still funded above the minimum guarantee for the current year. In her recommendations, Hill reiterates the recommendation made in January that the Legislature further reduce Proposition 98 funding to the minimum guarantee this year.

The Legislature has already recaptured \$507 million from unspent funds. Hill believes almost \$1 billion is available, but she does not identify what programs the higher amount would come from. The remaining amount of the over-appropriation—about \$400 million—would be found by unappropriating those dollars in the current year and replacing them with one-time settle-up funds (which are owed to schools as a result of prior-year under-appropriations). This would reduce the minimum guarantee for next year, but the funding level recommended by the LAO would still require suspension of Proposition 98, just as the governor's budget proposal would. It would also result in a permanent loss of some \$400 million in one-time settle-up funds that are currently used for prior year mandate reimbursement claims.

The LAO's proposal for 2008-09 would provide more K-14 Proposition 98 funding than the Schwarzenegger administration proposed. Under the governor's proposal, schools would actually see a year-to-year reduction in funding—\$56.7 billion in the current year reduced to \$55.6 billion next year—while the LAO proposal would provide \$57.7 billion next year. The LAO recommends that the additional \$1 billion in year-to-year revenues be used to restore ongoing funding for programs that were funded with one-time dollars this year and for enrollment increases in community colleges and child care programs. Accordingly, it would not result in an increase in allocations to school districts and county offices of education. Instead, funding would remain flat.

Within the K-12 budget, the most significant recommendations are to (1) reduce funding for selected categorical programs by \$178.7 million; and (2) provide \$180 million for reimbursement of K-12 mandates (the governor's proposal provides no funding for mandate reimbursement).

(more)



The targeted categorical programs are:

Program	Dollars (In millions)
Physical Education Incentive Grants	\$41.8
Adult education	30.0
Economic Impact Aid	25.0
Year Round Schools	19.0
School safety competitive grants	18.1
Home-to-School Transportation	11.0
Targeted Instructional Improvement	10.0
High Priority Schools (corrective action)	6.0
Alternative certification/intern	3.0
National Board certification	2.0
Paraprofessional teacher training	1.8
CCC economic development	11.0
TOTAL	\$178.7

In most cases, the LAO argues that these programs have been historically overfunded, resulting in unspent dollars at the state level. The Physical Education Incentive Grant programs are labeled “poorly structured,” while the school safety competitive grants and the High Priority Schools programs are referred to as “duplicative.”

It is important to note that Hill’s recommended level of funding for K-12 is dependent on the Legislature and governor adopting the LAO proposal for \$2.7 billion increase in revenues. If those revenue increases aren’t adopted, then the level of funding the LAO proposes for schools would be at risk.

Changes to the COLA

The LAO agrees with the governor’s concerns about the index used to calculate the cost-of-living adjustment. Both contend that the index used—the gross domestic product price deflator for purchases of goods and services by state and local governments—is not a good measure of the cost increases typically faced by schools. While the governor believes the state should switch to the California Consumer Price Index for Wage Earners and Clerical Workers, the LAO believes a better approach would be to use a modified version of the current index. Employee compensation is by far the largest expenditure for school districts and, in the LAO’s view, a COLA based on this factor alone would more accurately reflect the cost pressures faced by districts. Both the LAO and the governor’s proposals would provide a lower statutory COLA in 2008-09—4.27 percent and 4.4 percent respectively, versus the 5.43 percent that would result from the current methodology. However, neither the governor nor the LAO is proposing that schools be provided a COLA in 2008-09.

CSBA believes the COLA should reflect all the cost increases incurred by school districts and not be based on one factor alone.



Categorical Block Grants

The LAO has long been an advocate for consolidating categorical programs into block grants and this year has proposed four new grants with a total of 43 different funding streams, as follows:

- **Base Grant:** Would include revenue limit funding, five revenue limit additions and funding for K-3 and 9th-grade class size reduction.
- **Special Education Grant:** Would merge seven existing programs into the existing per pupil formula.
- **Opportunity to Learn Grant:** Would have two components—Academic Support and Student Support—and would consolidate 11 programs.
- **School Improvement Grant:** Would also have two components—Instructional Improvement and Staff Development—and would merge 16 programs.

The goal behind the grants is to simplify the current finance system and increase flexibility for school districts.

Other Recommendations

QEIA: The LAO recommends delaying the implementation of the Quality Education Investment Act, arguing that it is counterproductive when a COLA is not being provided for base programs. Since QEIA resulted from the settlement of a lawsuit, it is doubtful that this can legally be done.

Mandates: Hill believes that funding for mandate claims by school districts and county offices of education should not be deferred, since they are part of the state's base program and therefore should be part of the base funding. She recommends providing \$180 million for mandate claims in the budget—or \$165 million if the governor's proposal to change the timing of mandate payments is adopted.

Special education: The LAO believes that the governor's proposal to decrease general fund support for special education by \$231 million would violate federal maintenance of effort requirements and therefore result in a dollar-for-dollar reduction in federal funding for special education. The LAO recommends that the Legislature reject this proposal.

Charter schools: Hill also addresses issues charter schools face in acquiring and building facilities. The LAO believes that charter schools should be provided with ongoing per-pupil grants for facilities instead of additional bond funding; and that more charter schools should be allowed to participate in the state Charter School Facilities Grant Program. It is also recommended that school districts be required to set aside a share of their bond funds for charter school facilities.

Key Budget Numbers [1]

\$60.4 billion	The 2008-09 Proposition 98 Workload Budget developed by the governor. The workload budget is this year's budget adjusted for changes in enrollment, the statutory cost of living adjustment, and the restoration of ongoing funds to pay for programs for which one-time funds were used in the current year.
\$59.6 billion	The 2008-09 minimum Proposition 98 guarantee as calculated by the governor. The calculation assumes midyear cuts of \$400 million. In fact, the midyear cuts totaled \$507 million, which would reduce this calculation of the minimum to about \$59.6 billion.
\$58.5 billion	The 2008-09 minimum Proposition 98 guarantee as calculated by the LAO. Assumes adoption of the LAO's proposal to reduce the current-year appropriation down to the minimum level, which results in a corresponding reduction next year.
\$56.7 billion	The governor's proposed level of Proposition 98 funding in the current year. Actual cuts brought this level down to \$56.7 billion.
\$57.7 billion	The level of Proposition 98 funding in 2008-09 proposed by the LAO. This is \$1.1 billion above the level proposed by the governor and \$3.7 billion below the workload budget. It is also \$1.9 billion below the guarantee as calculated by the governor and \$800 million below the guarantee as calculated by the LAO. Therefore, the LAO recommendation would not avoid the need to suspend Proposition 98.
\$55.6 billion	The level of Proposition 98 funding proposed by the governor for 2008-09. This is \$4 billion below his calculation of the minimum guarantee and \$4.8 billion below the workload budget.

[1] This table attempts to reconcile the different numbers that have been used as reference points in budget discussions so far. Numbers calculated by the Legislative Analyst Office are in italics, the others are from the governor. All numbers are total Proposition 98, which includes community colleges.

