



Governor Releases May Revision

Governor Schwarzenegger released the May Revision to his January budget on May 14, opening his press conference by announcing that the General Fund gap had reached a staggering \$24.3 billion. However, as a result of mid-year actions already taken by the Legislature and governor during the special legislative session, this gap has been reduced to \$17.2 billion.

K-12 Funding: Governor still proposes a year-to-year reduction

For K-12 education, the governor now calculates that, due to changes in General Fund revenue, the Proposition 98 guarantee next year will be lower than originally projected. Specifically, it is now projected to be \$56.8 billion in 2008-09, which is down from the \$59.6 billion originally projected. Accordingly, the governor now proposes to fully fund the new, lower guarantee next year, which would be a spending increase of \$1.2 billion over his January proposal.

This would translate into a year-over-year increase of \$198 million, about 39 cents per student. This is very misleading, however, because these numbers refer *only to Proposition 98* and not to dollars actually received by schools. In the current year, Proposition 98 fell short of providing the revenues needed to sustain current school programs. So, about \$1 billion of one-time dollars were used to support ongoing Proposition 98 programs. In other words, this year schools received Proposition 98 funding plus additional one-time funding (which was not added to the Proposition 98 base) to support current programs.

Next year, those one-time dollars will not be available, and schools will receive only Proposition 98 dollars. Thus, Proposition 98 funding would need to increase by \$1 billion just to backfill for the absence of the one-time dollars and stay even with this year's actual level of funding received by schools. Therefore, the Proposition 98 increase of \$198 million actually represents a *reduction* of nearly \$800 million in funding received by schools.

In addition, according to the Department of Finance, after factoring in a higher COLA (5.66 percent) and a slightly higher enrollment projection, next year's K-12 budget would still fall short of the workload budget (the amount needed just to maintain current programs) by \$4 billion (it was \$4.3 billion short in January). This amounts to nearly \$700 per ADA.

The governor proposes to maintain current year funding for revenue limits and special education. That is, there would be neither an increase (for the COLA) nor a decrease. Instead, all of the K-12 funding cuts would be applied to the other categorical programs, subjecting some districts to bigger cuts than others. Specifically, districts that serve relatively large proportions of English language learners and economically disadvantaged students would get a larger percentage cut than other districts. That's because those districts receive more categorical funding on behalf of those students, which exposes them to deeper overall cuts when only categorical funding is cut.

The special education cut that was proposed in January would be restored by transferring \$222.6 million from deferred maintenance funding to special education. This would leave only \$39.6 million for deferred maintenance, which the governor proposes to reserve for hardship projects and suspend the local match requirement.

The May Revision also proposes to provide districts with additional flexibility in the following areas:

- Reduce AB 1200 reserve requirements for purposes of determining “negative” and “qualified” budget status
- Reduce the required 3 percent set aside for routine maintenance to 2 percent
- Increase categorical block grant flexibility from 15/20 percent to 20/25 percent
- Allow districts to move state categorical program carryover or reserve funds from any prior year and from most other programs to the district’s unrestricted general fund, except where otherwise prohibited by state or federal law.

The additional mega-item flexibility proposed in January remains in the May Revision.

Other Program Areas

Many schoolchildren would also be affected by additional cuts proposed for other program areas. For example, the May Revision calls for an additional \$672 million cut to the Health and Human Services budget, which includes programs such as Healthy Families, foster care, Medi-Cal, and CalWorks. These proposed cuts would be in addition to the cuts already proposed in the January budget.

Budget Stabilization Act/Lottery Securitization

These proposals are interlinked and very, very complex. Basically, the Budget Stabilization Act (BSA) would establish a cap on state spending. Under the cap, the year-to-year percentage increase in state spending could be no greater than the average year-to-year percentage increase in revenues for the prior ten years. Revenues above the cap would flow into two rainy day funds – one for K-14 (40 percent) and one for all other programs (60 percent).

In years when revenues fall short of the allowable spending cap, funds could be transferred from the rainy day funds into the General Fund for expenditure. The transfer could not exceed the amount needed to come up to the cap. Transfers would require a majority vote for the K-14 fund, a two-thirds vote for the other fund, and the governor’s signature.

The BSA also provides for automatic mid-year budget cuts, which could occur up to three times a year under certain conditions. School funding would be subject to the mid-year cuts.

The securitization of the lottery is related to the BSA, because it would provide revenue for the rainy day fund to ensure enough is available if needed. The governor expects the securitization to produce \$15 billion of revenue over the next three years. Lottery revenue to schools would be

locked in at the current level, and future increases would be paid to investors who buy lottery bonds.

The securitization and BSA proposal would both require voter approval. Legislation would provide that, if the voters reject the securitization proposal, then the Director of Finance would be authorized to impose a temporary 1 cent sales tax increase, if needed, to fund needed transfers from the rainy day fund.

Details are not yet available on the revised BSA proposal, but our understanding is that the base year for determining the permanent spending cap would be 2008-09. This would effectively cap school spending at a level that is \$4 billion below the amount needed just to maintain current programs and far below schools' real needs. In other words, there would be no hope to increase school funding to a level that even approaches adequate.

In short, the budget would still be an overall year-to-year decrease in school funding, resulting in massive layoffs and program cuts. And, if the BSA is adopted, those cuts would become permanent. The May Revision just confirms CSBA's position that a cuts-only budget is bad for schools and bad for California.

Sample Legislative Reaction

Senate President pro Tem Don Perata, D-Oakland:

"This is a budget beneath a governor of this great state. It's telling our citizens: This is it. Our best years are behind us."

"Under this plan, schools will lay off teachers and increase class sizes, and we will abandon children and the elderly. It's shameful."

Senate Republican leader Dave Cogdill:

"I'm pleased that the governor's May budget revision prioritizes state spending and has moved away from across the board cuts. Despite a slowing economy, our state's revenues are holding steady which shows we still need to address the spending addiction in Sacramento. Budget reform will ensure the state spends no more than it takes in."

Assembly Republican leader Mike Villines, R-Clovis:

"I applaud the governor for fully funding education at the minimum guarantee. I am also pleased that the May Revise includes some positive improvements over the January budget proposal, including eliminating a previous early release plan, keeping our state parks open and reducing spending in one of the fastest growing areas of government."

Assemblyman John Laird, D-Santa Cruz, chair of the Assembly Budget Committee:

"The governor's May Revise proposals are not the right answer for California and are not a real fix. They're bad for our economy, lay off teachers and are based on risky assumptions."

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