

CSBA Budget Proposal Summary:
Governor Proposes Unprecedented Cuts to K-12 Funding

The Governor's budget proposal, released January 10, addresses a current year shortfall of \$3.3 billion, and a budget year shortfall of \$14.5 billion. The Governor proposes to address these shortfalls with major spending reductions and a few fee increases, but no tax increases.

For K-12, the Governor notes that the Proposition 98 guarantee in the current year has dropped \$1.4 billion from budget projections, due to lower than expected General Fund revenues. He proposes to reduce Proposition 98 funding by \$400 million in the current year. Of this, \$360 million would be applied to K-12 schools and county offices of education, and \$40 million would be applied to community colleges.

Budget documents show that the \$360 million mid-year reduction to K-12 funding would be applied to revenue limits. It is more likely, however, that the final legislation to make the cuts would apply them to specific programs. The California Department of Education (CDE) is currently reviewing all programs and appropriations to identify as much unspent and unencumbered money as it can to reduce the local impact of the cuts. CSBA will be working with the CDE, and Administration, and the Legislature to ensure the least disruption to current year programs.

For the budget year (2008-09), the Governor proposes a \$4.4 billion, or 9.2 percent reduction from the Proposition 98 "workload" budget. The workload budget is defined as the prior year (in this case, 2007-08) budget as adjusted for changes in enrollment and a cost-of-living adjustment. In other words, the \$4 billion reduction is applied to the amount we would receive if Proposition 98 were fully funded.

Since the Proposition 98 guarantee will grow by less than \$4.4 billion next year, there will be an actual year to year reduction of \$865 million. Accordingly, the budget documents show a reduction of total per pupil spending of \$309 (2.6 percent), from \$11,935 to \$11,626. (Remember, "total" includes spending from all sources, not just Proposition 98.)

Major reductions include:

- \$2.6 billion from K-12 revenue limits
- \$1.1 billion from categorical programs
- \$357.9 million from special education
- \$198.9 million from Child Development
- \$59.6 million from the Proposition 49 Before and After School Programs (this would require a ballot initiative that the Administration will propose)
- \$14.2 million from Child Nutrition Programs (by reducing the reimbursement rate from 21 cents to 19 cents)

The reduction to revenue limit funding (in addition to a zero COLA) would create a revenue limit deficit factor of 6.99 percent.

In the current year, \$555.6 million in one-time funding was used to support several ongoing programs, such as home-to-school transportation and deferred maintenance. The budget proposes to backfill these one-time funds with Proposition 98 funds in 2008-09.

To ease the state's cash flow, the Governor also proposes to postpone the July K-12 apportionment of about \$1.3 billion to September. (Readers may recall that this is the apportionment that is deferred from the prior year.) The Governor estimates that this will save the state millions of dollars in interest costs, because the state will not have to use short term borrowing to make the apportionment.

However, this proposal simply shifts the cash flow problem—and resulting short term borrowing costs—to school districts and county offices of education. Laws governing short term debt may make it difficult, if not impossible, for districts to borrow the necessary funds to meet current expenses. CSBA is currently investigating options.

The Governor also proposes to fully vest the 80 percent purchasing power protection for CalSTRS annuitants. Because the Governor estimates that CalSTRS already had sufficient funds to maintain this protection, he proposes to reduce the state payment for this purpose from 2.5 percent to 2.2 percent of payroll. This will save an estimated \$80 million in 2008-09.

Finally, the Governor proposes to change the index that is used to calculate the statutory COLA from the Deflator for State and Local Government Purchases of Goods and Services to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). The Governor argues that the CPI-W is a better index for schools, since salaries comprise over half of their budgets. However, the proposed index is based on the wages of hourly employees such as clerical workers, laborers, service workers, etc. It explicitly excludes the salaries of professional employees, such as teachers, counselors, librarians, and administrators.

For 2008-09, the COLA based on CPI-W would be 3.65 percent, instead of the currently-required 4.94 percent (these percentages are current estimates and are subject to change in May.) However, this change would not have an effect on the Governor's proposed funding for schools next year, since he is not proposing to fund the COLA anyway. Instead, it would result in a smaller revenue limit deficit factor, which would reduce funding in future years.

Need we say there are no new programs proposed?

In an on-line article about the Governor's budget proposal, the Sacramento Bee included the following quote from CSBA President Paul Chatman:

"By suspending Proposition 98 and making crucial cuts to education, the governor's budget will drive us even lower and reveals a shocking lack of recognition of the real needs of kids and schools," California School Boards Association President Paul H. Chatman said in a statement. "The education community will not agree to anything until and unless the governor and the Legislature put all of their cards on the table, including a debate about revenues as well as expenses."