

CSBA LAO Report Summary:
Legislative Analyst Recommends Huge Cuts to Proposition 98

Elizabeth Hill, the state's non-partisan Legislative Analyst, released her preliminary overview of the Governor's budget proposal on Monday, January 14. She notes that, while the budget numbers are "generally reasonable," there is some downside risk on the revenue side resulting from "recent cash trends and continued negative economic reports."

She also recommends that the Legislature attempt to identify targeted spending cuts based on policy priorities, rather than the across-the-board cuts proposed by the Governor: "The risk with the administration's approach is that—by attempting to preserve most funding for most programs—many programs end up operating in a less than optimal manner and provide lower quality services to the public."

With respect to school funding, Ms. Hill says that "the administration loses a critical opportunity to achieve additional budgetary flexibility by not reducing education spending to the Proposition 98 minimum guarantee [in the current year]." Specifically, she is referencing the Governor's proposal to reduce current year Proposition 98 spending by \$400 million, even though the guarantee has dropped by nearly \$1.5 billion, according to her estimates. Her recommendation is that the Legislature reduce school funding in the current year by the full \$1.5 billion.

According her analysis, this can be done "without affecting current school operations" by:

- Identifying unspent prior year (2006-07) monies and swap them with ongoing monies
- Unappropriating unspent current-year monies (this is how the Governor intends to achieve his proposed \$400 million reduction)
- Designating the balance of the over appropriation (what's left after the first the first two steps) as "settle up" funding (these are one-time dollars that are owed to schools as a result of past underfunding of the guarantee)

According to the Analyst, this recommendation would reduce next year's minimum guarantee *without* reducing the long term Proposition 98 Test 2 trend line. (The key to understanding why this is so requires a technical understanding of Proposition 98, which is beyond the scope of this report.) Although her recommendation would result in a minimum funding level next year that is below the level that would otherwise be computed, it would be above the level of funding proposed by the Governor. This could, in her estimation, reduce the need or political will of the Legislature to suspend Proposition 98 next year, which would result in a higher level of school funding than that proposed by the Governor.