

January 8, 2010

**MEMORANDUM**

TO: Interested Parties

FM: Stephen Rhoads  
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RE: Governor's Budget Proposal for 2010-11

This memo on the Governor's Budget Proposal for 2010-11 covers major points, as well as proposals relating to Proposition 98, K-12, community colleges, child care, and other education-related proposals.

**Major points:**

- Budget gap is \$19.9 billion.
- Budget proposes to close gap by doing the following:
  - \$8.5 billion in spending cuts: mostly health, human services, and corrections
  - \$4.5 billion in fund shifts and alternative revenues
  - \$6.9 billion in federal funds
- No new taxes.
- Governor has called another fiscal emergency and another special session to prevent the \$19.9 billion deficit from increasing another \$2.4 billion. The special session, authorized under voter-approved Proposition 58, requires legislators to act within 45 days on his proposals or pass their own combination of cuts and revenue increases. There is no penalty if the Legislature fails to perform, although lawmakers are barred from adjourning or considering other issues until they act on the governor's plan.
- As a prelude to the governor announcing his January budget, Senate President Pro Tem Darrell Steinberg and outgoing Assembly Speaker Karen Bass have announced plans to make frequent trips to Washington D.C. to seek federal assistance. This is consistent with the Legislative Analyst's Office recent call on state leaders to "aggressively seek new federal assistance" to help close the projected deficit.
- The Governor also put the federal government on notice in his State of the State. He is demanding billions he says the state is owed. In addition to other funding, the governor is calling for permanent changes to the formula that determines the amount of money the federal government contributes to Medi-Cal, California's Medicaid program, noting that the state is among the lowest in the country in reimbursement rates.

## Proposition 98 Proposals:

- Governor proposes “full funding” of Proposition 98 **minimum** guarantee. However, the Governor is proposing **cuts of “\$892.6 million in 2009-10 and \$1.5 billion in 2010-11”** (see page 55 of the Governor’s Budget Summary). These reductions will require legislation. In addition, because of one-time savings that did not carry over into 2010-11, K-12 education must make additional reductions in 2010-11 of another \$900 million. Under the Governor’s proposal, K-12 education will have to make reductions of \$892 million in 2009-10 and \$2.4 billion in 2010-11.
- The Governor’s proposal for 2009-10 does not propose any mid-year cuts. The reductions of \$892 million will come from expected current year savings in programs like Class Size Reduction.
- Under the July budget agreement (ABX4 3), a maintenance factor of \$11.2 billion was created. The Department of Finance likes to call this the “in lieu” maintenance factor because they believe it can be postponed or reduced without a Proposition 98 Suspension. Under the budget agreement, payments from the \$11.2 billion maintenance factor were to begin in 2010-11 and would have resulted in \$110 million for the equalization of school district revenue limits. The governor’s proposed budget would delay the start of these payments until 2012-13.

- The following are the K-12 Proposition 98 Levels of funding:

2007-08	\$50.3 billion
2008-09	\$43.0 billion
2009-10	\$44.1 billion
2010-11	\$44.0 billion

The above levels of funding show that K-12 is continuing to make massive reductions compared to the 2007-08 levels of funding. One of the key reductions for 2010-11 is the school district administration reduction of \$1.2 billion. This reduction will be explained later. This reduction along with the COLA reduction of \$202 million means that school districts will have at least \$1.4 billion less in 2010-11 than in the current year.

- The following are the community college Proposition 98 levels of funding:

2007-08	\$6.1 billion
2008-09	\$5.9 billion
2009-10	\$5.7 billion
2010-11	\$5.9 billion

The above levels of funding show the community colleges will have a 3.9% increase, primarily to support enrollment growth.

## **K-12 Proposals**

Table 1 below shows the major changes for K-12 education:

Table 1: Governor's Budget K-12 Proposals (Amounts in millions of \$)		
	<b>2009-10</b>	<b>2010-11</b>
<i>Policy Changes</i>		
School District Administrative Costs		-1,200.0
County Office Consolidation		-45.0
Contracting Out		-300.0
Class Size Reduction Savings (Sweep)	-340	-550
Child Care Reduction		-250
<i>Workload</i>		
Property Tax	-234.0	-1,500.0
State Backfill of Property Tax	234.0	1,500.0
ADA	-229.3	-27.3
COLA		-202.2
Categorical Workload	-14.3	
Deferral Adjustment		1700.0
Backfill One-Time		34.4
New School Categorical		29.5
State Operated Programs	-17.8	-23.4
<i>Reversion Account</i>		
Emergency Repair	51.0	
Charter School Facilities	18.4	
New School Categorical	20.0	
<i>Other</i>		
AVID		No Change
Fresh Fruit and Vegetable		8.0
CalPADS		2.0
Reading First		-1.4
Home-to-School Transportation		-.38%
QEIA		No Change

## Policy Changes:

The governor proposes the following changes, which will result in reductions to K-12 schools:

- School District Administrative Costs—A \$1.2 billion reduction targeted at school district central administration. This proposal is designed to insulate classroom spending, including teachers and principals, from further reductions.
- County Office of Education Administrative Consolidation—A \$45 million reduction in county office of education administrative costs. It includes consolidation of services and function, which may include forming regional consortia to provide these services.

Contracting Out—A \$300 million reduction for school district and county office of education administrative costs, reflecting the elimination of barriers to contract out.

## K-12 Workload:

2009-10 The following adjustments are proposed for the current year:

- Property Tax—A \$234 million increase in revenue limits to reflect a decrease in property tax revenue.
- ADA—A decrease of \$229.3 million to reflect a decrease in average daily attendance and unemployment insurance and retirement costs.
- CSR—A reduction of \$340 million to reflect savings in the K-3 Class Size Reduction program.
- Categorical Funds—A decrease of \$14.3 million to adjust funding for categorical programs to their 2009-10 workload levels.
- State Operated Programs—A decrease of \$17.8 million to reflect lower costs for Department of Corrections and Rehabilitation Juvenile Justice Division and State Special Schools.

2010-11 The following workload adjustments are proposed for the budget year:

- Property Tax—a \$1.5 billion increase in revenue limits and Special Education program costs to reflect a decrease in property tax revenue.
- ADA—A net decrease of \$27.3 million for revenue limits, nutrition program, and Special Education program costs as a result of lower ADA, unemployment insurance and retirement costs.
- COLA—A decrease of \$202.2 million revenue limit and categorical costs resulting from a -0.38 percent COLA.
- 2009-10 Deferral Adjustment—An increase of \$1.7 billion to fund the ongoing costs of the deferral from 2009-10.

- CSR—A decrease of \$550 million to reflect savings in the K-3 Class Size Reduction program that occurred in the current year.
- Backfill One-Time Funding—An increase of \$34.4 million to backfill one-time monies used to fund 2009-10 revenue limits.
- New School Categorical Funding—An increase of \$29.5 million to provide categorical funding to newly established schools. This is in addition to the \$20 million provided in the Proposition 98 Reversion Account.
- State Operated Programs—A \$23.4 million decrease to reflect lower education program costs for Department of Corrections and Rehabilitation Juvenile Justice Division and State Special Schools.

Proposition 98 Reversion Account:

The items below are funded from the Proposition 98 Reversion Account and are considered outside the guarantee:

- Emergency Repair Program—A \$51 million increase.
- Charter School Facilities Grant Program—An \$18.4 million increase.
- New School Categorical Funding—A \$20 million increase to provide categorical funding to newly established schools for 2008-09 and 2009-10. This is in addition to the \$29.5 million listed above in the 2010-11 Proposition 98 funding proposal.

Other K-12:

- AVID—No reductions to the AVID program.
- Nutrition—An \$8 million federal fund increase for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the day.
- CALPADS—A \$2.5 million federal fund increase in Title VI to CDE for implementation and development of the CA Longitudinal Pupil Achievement Data System, which will establish a longitudinal student level database.
- Reading First—A \$1.4 million decrease in federal Title I Reading First funds and a decrease of 6.0 positions due to elimination of federal funding.
- Home-to-School Transportation. Other than the COLA reduction, no funding changes to Home-to-School Transportation.
- No changes to the QEIA program.

### K-12 Flexibility Proposals:

- **Teacher Seniority**—The budget proposes to change state law to give local school districts the flexibility to lay off, assign, reassign, transfer and rehire teachers based on skill and subject matter needs without regard to seniority.
- **Eliminate current law provision** that requires teachers who have been laid off to receive first priority for substitute assignments and that these substitutes be paid at the rate they received before they were laid off if they work more than 20 days within a 60-day school period.
- **Staffing Notification Process**—The Administration proposes to change the staffing notification window for teachers to 60 days after the state budget is adopted or amended.
- **School Year**—Schools will continue to be provided flexibility through 2012-13 to reduce instruction by up to 5 days.
- **Comprehensive Reforms**—The Administration will consider additional reforms to include later in the budget process. Specifically, they will be in addition to the ones delineated above and include additional proposals to build on President Obama’s Race to the Top initiative.

## Community College Proposals

Table 2 shows the major budget proposals for the California Community Colleges (CCC):

Table 2: Governor's Budget Proposal for Community Colleges (amounts in millions of \$)		
	2009-10	2010-11
No Student Fees Increase	0	0
Enrollment Growth		126.0
COLA		-22.9
Deferral Adjustment		163.0
EOPS		-10.0
Part-Time Faculty		-10.00
Career Technical Education		20.0
Workload:		
General Fund Revenue Adjustments		39.3
QEIA-CTE Shift		-48.0
Lease Purchase Payments		2.1
Non-Proposition 98:		
STRS		1.9
Lottery Revenues		12.1
Competitive Cal Grant suspension		-45.5
CalWORKs Interagency	6.2	
Advanced Transportation Technologies and Energy Program	1.7	1.8

- Student Fees: No student fee increases proposed for 2010-11.
- Growth: \$126 million for 2.2 percent enrollment growth [26,000 full time equivalent students or FTES], which is equal to half of the 52,000 unfunded FTES in the current year.
- COLA: \$22.9 million decrease to reflect -0.38 percent COLA adjustment for apportionments and categorical programs.
- 2009-10 Deferral Adjustment: \$163 million increase to reflect the ongoing costs of the deferral of program funding from 2009-10. The appropriation for this purpose is pursuant to Chapter 23, Statutes of 2009, Fourth Extraordinary Session, and revises the deferral appropriation from \$540 million to \$703 million.
- EOPS/Part-Time Faculty Cut: \$10 million reduction to EOPS Program and \$10 million reduction to Part-Time Faculty Program. These savings will be used to fund Career Technical Education.

- Other Workload Changes:
  - 2009-10 Offsetting General Fund Revenue Adjustments: Apportionment adjustments of \$5.1 million to reflect increases in property taxes and shortfalls in student fees/mineral oil revenues.
  - QEIA-CTE Funding Shift: A decrease of \$48 million to reflect the one-time appropriation to fund the QEIA-CTE program through the 2009-10 Proposition 98 guarantee. QEIA payments from settle-up funding resume in 2010-11, thereby providing the same level of funding in the budget year. However, the shift would mean that these CTE funds would no longer be part of the categorical flexibility provided to districts. (The state provides “settle up funding” to K-12 schools and community colleges when it sees that it did not meet the Proposition 98 minimum in a prior fiscal year.)
  - Lease Purchase Payments: \$2.1 million increase.

#### Community College Non-Proposition 98

- STRS: An increase of \$1.9 million to STRS for CCC employees based on 8.2 percent of applicable payroll.
- Lottery Revenues: A \$12.1 million increase for 2009-10 and \$4.5 million in 2010-11.
- Competitive Cal Grant Program: A reduction of \$45.5 million to suspend the new awards for the competitive Cal Grant program. The Administration indicates that the competitive program “is largely duplicative of the Cal Grant High School Entitlement program and the Community College Transfer Entitlement program, which provide opportunities for California high school students to pursue four-year degrees.” This proposal would eliminate grants for 22,500 students.
- CalWORKs Inter-agency: A \$6.2 million reimbursement increase in 2009-10 as a result of a revised inter-agency agreement with Department of Social Services. This increase allows the state to meet the maintenance of effort requirements to leverage over \$275 million in TANF Emergency Contingency Funds for subsidized employment programs made available through ARRA.
- Advanced Transportation Technologies and Energy Program: A \$1.7 million and \$1.8 million reimbursement increase in 2009-10 and 2010-11 respectively, as a result of an inter-agency agreement with the CA Energy Commission to expand college instructional programs in transportation technology and alternative fuels. Of the amounts, \$1.5 million is for local assistance in each year, and the balance is for state operations.
- Intends to propose funding for higher education facilities in the May Revise (governor’s revised budget provided in mid-May every year). Notes that almost all bond funds that have been approved by voters for higher education are committed to projects.
- Proposes a constitutional amendment to earmark 10 percent of the state General Fund for “higher education,” that consists of only the University of California and California State University, **but not California Community Colleges**, beginning in 2014. These funds would be derived from savings by “privatizing” California prisons and

contracting out for prison-related services, but would forbid the state from releasing prisoners early in order to achieve the intended savings. The calculations required by this proposal would more than double the amount of General Fund support to UC and CSU by 2014, bringing their annual General Fund appropriation amounts from a combined \$4.73 billion annually to over \$10 billion annually within a four-year period.

### Child Care Proposals

Table 3 shows the budget proposals for child care.

	2009-10	2010-11
Child Care Caseload	-12.4	
Reimbursement Rate Reform		-77.1
Reduce Stage 3 Child Care		-122.9
Alternative Funding		-64.3
CalWORKs Child Care		-13.8
Extended Day/Latchkey		-5
Preschool Backfill		65.5
COLA		-5.9

- 2009-10 Child Care Adjustments: A \$12.4 million decrease to reflect revised caseload estimates in Stage 2 and Stage 3 Child Care.
- Child Care Reimbursement Rate Reforms: A decrease of \$77.1 million to reduce reimbursement rate limits in voucher-based programs from the 85<sup>th</sup> percentile to the market 75<sup>th</sup> percentile, based on the 2005 regional market survey, effective July 1, 2010.
- Reduce Funding for CalWORKs State 3 Child Care: A \$122.9 million decrease to achieve additional savings and at the same time, provide services to the state's neediest families. However, there are no proposals delineated at this time on how these savings will be achieved.
- Alternative Funding: A \$64.3 million reduction in General Fund and substitution of available Proposition 98 Reversion Account funds for the Economic Impact Aid Program.
- CalWORKs Child Care: A decrease of \$13.8 million to reflect revisions in caseloads.
- Extended Day/Latchkey Program: A \$5 million decrease in one-time funding for phase-out of the program.
- Backfill One-Time Funds for Preschool: A \$65.5 million increase to backfill one-time funds used in the current year.
- COLA: A \$5.9 million decrease to reflect a -0.38% COLA.

## Other Proposals

- Behavioral Intervention Plans: An increase of \$65 million for ongoing costs of mandated behavioral assessments and intervention plans
- Mandates: An increase of \$14.5 million for K-12 mandates. The Administration proposes to suspend all K-14 mandates with the exception of the following, which will be fully funded:
  - \$7.7 million for interdistrict and intradistrict transfers
  - \$6.8 million related to the High School Exit Exam
- Science Graduation Requirements: No funding is included in the budget nor is it proposed to be suspended. The Administration believes that this is not a reimbursable state mandate.