

AMENDMENTS TO THE BUDGET ACT OF 2009

The Budget Act of 2009 was enacted in February, four months ahead of the constitutional deadline. As the recession deepened throughout the spring, it eroded revenues and put additional pressure on spending, especially in those areas most sensitive to economic downturns like Health and Human Services. The amendments to the Budget Act of 2009 address the additional budget gap of \$24 billion that resulted from the deepening recession.

Figure SWI-01 displays the solutions incorporated in the amendments to the Budget Act of 2009.

Figure SWI-01
Solutions Adopted in the Budget Amendments
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>	
Expenditure Reductions	\$3,708	\$12,417	\$16,125	67%
Fund Shifts	6	999	1,005	4%
Revenue Increases	-	3,492	3,492	14%
Borrowing	-	2,182	2,182	9%
Other	-	1,355	1,355	6%
Total	<u><u>\$3,714</u></u>	<u><u>\$20,445</u></u>	<u><u>\$24,159</u></u>	100%

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EXPENDITURE SOLUTIONS

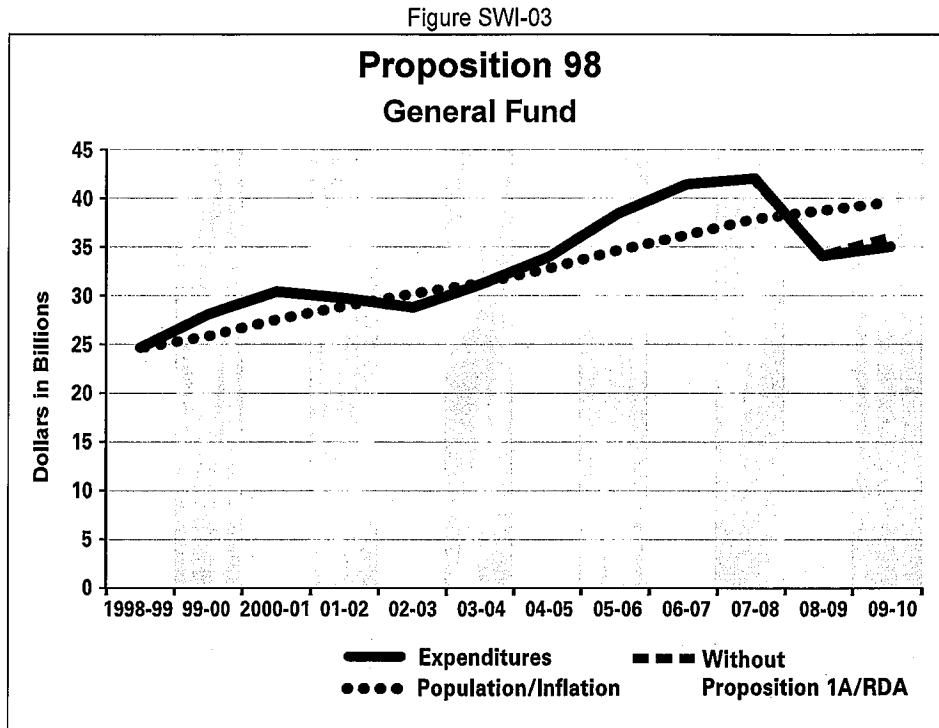
Figure SWI-02 displays the General Fund spending reductions included in the amendments to the Budget Act of 2009.

Figure SWI-02
Amendments to the Budget Act of 2009
Expenditure Solutions
(Dollars in Millions)

Major General Fund Programs	2008-09	2009-10	Total
Proposition 98	\$2,056.0	\$4,463.1	\$6,519.1
Higher Education (excluding Comm Colleges)	1,431.0	568.8	1,999.8
RDA Shift	-	1,700.0	1,700.0
Corrections and Rehabilitation	-	785.5	785.5
Medi-Cal	-	1,381.8	1,381.8
SSI/SSP	-	108.2	108.2
CalWORKs	-	509.6	509.6
IHSS	-	263.5	263.5
Developmental Services	-	284.0	284.0
Mental Health	-	163.9	163.9
Healthy Families	-	178.6	178.6
CWS and Foster Care	-	120.6	120.6
Other HHS	-	361.6	361.6
Courts	-	168.6	168.6
Employee Compensation	62.5	783.6	846.1
Others	158.0	575.7	733.7
Totals	<u>\$3,707.5</u>	<u>\$12,417.1</u>	<u>\$16,124.6</u>

PROPOSITION 98

Figure SWI-03 displays General Fund expenditures in Proposition 98 funding since 1998-99.



The Proposition 98 minimum guarantee is tied to General Fund revenues. There has been a steep and continued decline in General Fund revenues since the Budget Act was adopted. Therefore, total Proposition 98 funding is reduced by \$2.1 billion in 2008-09 and \$4.5 billion in 2009-10 compared to the levels appropriated in the February Budget Act. However, Proposition 98 General Fund savings are \$5.3 billion in 2009-10 because of a property tax shift of \$850 million from redevelopment agencies to schools.

Federal stimulus funding. The reductions are offset significantly by \$6 billion in federal stimulus funds in 2008-09 and 2009-10—\$3.2 billion from the State Fiscal Stabilization Fund (SFSF) and \$2.8 billion from the American Recovery and Reinvestment Act (ARRA). With these reductions described above the state will still maintain the minimum spending level required for receipt of the ARRA State Fiscal Stabilization Fund allocations for K-12 programs.

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Maintenance Factor. The Proposition 98 funding level is certified through legislation at \$49.1 billion for the 2008-09 fiscal year. The legislation also specifies the outstanding maintenance factor, or future funding obligation, at \$11.2 billion. Based on current estimates of General Fund and property tax revenue, the Proposition 98 minimum guarantee for 2008-09 is determined by the "Test 3" calculation, which lowers funding for education programs but also creates the maintenance factor to restore this funding over time as the state's economy and revenues improve. As a result, this maintenance factor would have been created in 2008-09 in the absence of the legislation.

The Proposition 98 minimum guarantee for 2009-10 is estimated at \$50.4 billion. The amount of maintenance factor repaid in 2009-10 is estimated at \$1.17 billion, leaving a remaining balance of \$10.1 billion.

Local flexibility. The \$2.1 billion in 2008-09 savings were achieved by reverting \$1.6 billion in unallocated funds for categorical programs to the General Fund, and by delaying for one year the \$450 million Proposition 98 settle-up payment from prior-year obligations for the Quality Education and Investment Act (QEIA). The Proposition 98 revenue limit funding is redirected in 2009-10 to backfill the reduction in categorical funding and to continue the QEIA program.

The budget continues the Administration's commitment to help school districts better manage their budgets during these tough economic times by providing relief from a variety of requirements attached to 42 categorical programs through fiscal year 2012-13, allowing school districts to transfer funds for any purpose to meet their highest priority needs. In addition, the reduced penalties associated with K-3 Class Size Reduction, allowing districts to retain up to 70 percent of funding if pupil-to-teacher ratios increase more than 25 to 1, continue through 2011-12, providing greater local flexibility.

Classroom funding is protected to the maximum extent possible in 2009-10 by achieving savings through the following actions:

- \$1.8 billion in payments are deferred from the 2009-10 fiscal year to August of the 2010-11 fiscal year from school district revenue limits and community college apportionments.
- \$850 million in General Fund savings are achieved by transferring additional property tax funding to schools. (See Redevelopment Shift.)

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The Budget also contains the following reductions and changes in the way the total Proposition 98 funding is allocated to various programs:

- School district and county office of education revenue limit apportionments are reduced by \$2.1 billion. Schools are provided flexibility to reduce instruction by up to five days, if necessary, to accommodate this reduction without losing any incentive funding they receive to maintain a 180-day school year. Schools are also provided additional flexibility to reduce the amount of money they must set aside for facility maintenance and to use funds from the sale of surplus property for non-facility related purposes.
- Basic aid school district categorical programs are reduced by \$80 million to ensure that these schools take a fair share of the reductions and that no schools receive a disproportionate share of the reductions.
- Ongoing Community College funding is reduced by \$580.2 million. (See the "California Community Colleges" heading below for further information.)
- Funding for the charter school facilities is changed from a reimbursement program to an annual grant program—providing budgetary cash relief to charter schools that currently receive these funds.
- Newly established schools that did not have access to certain categorical programs that were block granted will be allowed to apply for funding for programs such as supplemental instruction and regional occupational programs.

Cash Deferrals. Due to state cash flow shortfalls, approximately \$2 billion in K-12 payments for 2009-10 will be moved from scheduled payment dates in the first few months of the 2009-10 fiscal year to December of 2009 and January of 2010. In addition, the payment schedule for K-12 apportionment funding and categorical funding will be revised to distribute five percent of total payments in each of July and August and nine percent in each of the remaining months. This will allow for an even distribution of funding to schools and more predictable outflows from the state General Fund.

CALIFORNIA COMMUNITY COLLEGES (CCC)

Included as part of the Proposition 98 General Fund solutions, the budget amendments reflect Proposition 98 General Fund savings of \$695.2 million from the February Budget Act for the CCCs in 2009-10, of which \$115 million is one-time in nature.