

Pain...And More Pain

Today Governor Arnold Schwarzenegger released his May Revision for 2009-10. The following is a summary of the education portion for your reference. The first part assumes propositions 1A, 1B, 1C, 1D, and 1E are approved by the voters next Tuesday. The second part, "Recognizing that the propositions may fail...proposes a set of contingency solutions to offset the additional budgetary gap that would result." Please note that the "contingency" reductions and deferrals are on top of the reductions and deferrals contained in the first part. More information to follow.

Reduce Proposition 98 Funding (\$1.0 billion in 2008-09 and \$2.0 billion in 2009-10)

The 2009-10 Budget Act adopted in February reduced Proposition 98 by \$7.3 billion, to \$50.7 billion, in 2008-09 and by \$2.9 billion, to \$56 billion, in 2009-10. Of these reduction amounts, \$5 billion and \$404 million respectively, consisted of deferrals and fund shifts. In addition, to help school districts minimize impacts to essential classroom instruction, the budget package provided relief from a variety of strings attached to 42 categorical programs, thereby, allowing them to shift funds to meet their highest priority needs. The package also significantly reduced the penalties associated with K-3 Class Size Reduction by allowing districts to retain up to 70 percent of funding even if pupil-to-teacher ratios increase more than 25 to 1, which provides greater budget flexibility. However, due to the continued precipitous decline in revenue, the Proposition 98 guarantee drops substantially, necessitating further reductions. As a result, the May Revision will include a variety of additional flexibility proposals to minimize the impact of the revenue shortfall on schools.

Proposition 98 funding would be reduced to \$49.7 billion from \$50.7 billion in 2008-09 and to \$53.7 billion from \$55.9 billion in 2009-10. However, we note that these reductions would be largely offset by the \$3.3 billion in federal State Fiscal Stabilization Fund and the \$2.8 billion in other federal funding increases which are being provided to schools through the federal American Recovery and Reinvestment Act in 2008-09 and 2009-10.

Specific proposals include:

- A reduction of \$114 million in 2008-09 for eliminating the High Priority Schools Program.
- A reduction of \$694.3 million in 2008-09 for a one-time school district apportionment (revenue limit) reduction.
- A reduction of \$85 million in 2008-09 from Community College categorical funding.
- A deferral of \$115 million in Community College apportionments from the 2008-09 fiscal year to the 2009-10 fiscal year.
- An increase of \$8.3 million in 2008-09 to reflect a base adjustment to Charter School Economic Impact Aid funding.
- A reduction of \$950 million in 2009-10 to school district apportionments (revenue limits).

- Other adjustments in 2009-10 including \$36 million in child care savings associated with reducing the high incidence of overpayments to providers in voucher-based programs.
- Flexibility that provides school districts the option to reduce up to one week of instructional time at local discretion, limited to no more than three years. We note that this proposal was included in the Governor's Budget proposal in January, but not adopted by the Legislature. However, school district superintendents and others have requested that the Administration reintroduce this option to minimize the impact of budget reductions. Additionally, the Administration will propose several other broad statutory and regulatory flexibility options, such as contracting out, to assist districts in making ends meet while maintaining quality instruction to the extent possible.
- A deferral of \$640.3 million in school district apportionment payments from the 2009-10 fiscal year to the 2010-11 fiscal year.

Reduce Proposition 98 Funding (\$617 million in 2008-09 and \$2.660 billion in 2009-10)

Proposition 98 funding would be reduced further to \$49.1 billion in 2008-09 and \$51.1 billion in 2009-10. However, we note that these reductions would increase the federal State Fiscal Stabilization Fund provided to schools by \$184 million.

Specific proposals include:

- An additional one-time reduction of \$617.3 million in 2008-09 to school district apportionments (revenue limits).
- An additional reduction of \$475 million in 2009-10 to school district apportionments (revenue limits).
- Flexibility to reduce up to an additional two days beyond the initial five days of reduction of instructional time at local discretion, for a period of no more than three years.
- An additional deferral of \$1.038 billion in revenue limit payments from the 2009-10 fiscal year to the 2010-11 fiscal year.
- An additional reduction of \$112.4 million in 2009-10 to Community College categorical programs.
- An additional reduction of \$68.7 million in 2009-10 to enrollment growth for Community College apportionments and categorical programs.
- If Proposition 1C is not enacted, the \$965.6 million General Fund appropriation included in the measure would not be added to the Proposition 98 Guarantee in 2009-10 and education would continue receiving a share of lottery proceeds.

The entire May Revision may be found at: http://www.dof.ca.gov/budget/historical/2009-10/may_revision/documents/May_Revision_2009-10_General_Fund_Proposals.pdf.