

State Budget

Governor Arnold Schwarzenegger unveiled the last State Budget Proposal of his term on January 8, 2010, which includes revisions to the 2009-10 State Budget and new proposals for 2010-11 intended to close an estimated \$19.9 billion 18-month Budget gap. At the same time, he has called for a Special Session of the Legislature, per the provisions of Proposition 58 of 2004 (the California Balanced Budget Act) to address his midyear spending proposal. Under the rules of the Special Session, the Legislature must act within 45 days and if it fails to act within this period of time, it will be prohibited from taking up any other non-Budget matters.

The Governor's proposal to close the most recently projected Budget deficit involves spending cuts to virtually every segment of state government. While the Governor has emphasized that education is a top priority and that he is protecting K-12 and higher education from cuts, his Budget plan includes ongoing targeted cuts to school districts and county offices of education (COEs).

As always, the Governor's proposed Budget is but a starting point for negotiations with the Legislature and modifications will take place as part of the annual Budget process.

Proposition 98

The Governor's Budget projects that the Proposition 98 guarantee for 2009-10 will be \$49.9 billion, a drop of \$568 million from the \$50.4 billion assumed in the 2009-10 Budget Revision. For the budget year, the minimum guarantee is projected at \$50 billion, essentially unchanged from 2009-10. In both years, the guarantee is determined by Test 1—a fixed share of General Fund revenues—which is set at 41.2%.

The current-year drop in the guarantee will not result in midyear cuts to funding received by local educational agencies (LEAs). Instead, the state will capture overbudgeted amounts in the K-3 Class-Size Reduction program and other

programs for which local entitlements and claims are lower than initially assumed.

Two significant issues emerge with regard to Proposition 98 in the Governor's Budget. First, the proposal to eliminate the state tax on gasoline has the effect of reducing General Fund revenues by \$1.6 billion, which drives the calculation of the minimum guarantee. The proposal to substitute this loss with an increase in the excise tax on gasoline, however, cannot be counted as an offsetting adjustment because these revenues do not flow through the General Fund. As a result, the minimum guarantee will be lower than what it would have been absent this proposal.

Second, in prior years when state tax revenues were weak and funding was determined by Test 3 per capita General Fund revenue growth plus ½%, the state tracked an amount owed to K-14 education known as the Maintenance Factor. Last year a dispute arose between the Administration's DOF and the education community regarding whether a Maintenance Factor amount is generated in a Test 1 year, with the DOF asserting that it is not. Ultimately, this issue was resolved legislatively, with the 2009-10 Budget Revision including a provision to pay K-14 education \$11.2 billion over a number of years, commencing in 2010-11.

For 2010-11, the Governor's Budget indicates that funding will again be determined by Test 1. However, there is no recognition in the Budget that any additional amount is owed under the negotiated Maintenance Factor. In fact, the Governor's Budget proposes to postpone payment of \$110 million owed in 2010-11. Thus, it appears that K-14 education is no longer automatically entitled to a Maintenance Factor amount when funding is determined by either Test 1 or Test 3. Instead, public education must rely upon annual negotiations to establish the amount owed and the repayment schedule.

Revenue Limits

COLA – Unlike last year, the Governor proposes

to “fund” the statutory cost-of-living adjustment (COLA). Unfortunately the projected COLA is -0.38%. The Governor's Budget assumes that revenue limits are reduced by this percent.

DEFICIT FACTOR – The current deficit factor of 18.355% for school districts and 18.621% for COEs continues in 2010-11.

REVENUE LIMIT REDUCTION – In addition to the deficit factor, the Governor proposes ongoing targeted cuts of \$1.5 billion, which include \$1.2 billion from “school district administrative costs” and recaptured savings of \$300 million from “elimination of barriers to contracting out.” COEs are also proposed to be reduced by \$45 million targeted to administrative costs.

Categorical Programs

There are no new changes proposed to categorical program flexibility. The Governor's proposed Budget presumes that the categorical flexibility introduced in 2008-09 will continue, including the changes to K-3 Class-Size Reduction (CSR), school-year length, ending balance sweeps, and ongoing flexibility for 42 state categorical programs. The statutory -0.38% COLA affects the programs included in the Tier II and Tier III flexibility category. The rates for K-3 CSR remain unchanged (\$1,071/student for full-day/Option 1, \$535/student for half-day/Option 2).

The Governor's Budget includes \$29.5 million to provide categorical funding for newly established schools. This would provide funding to schools that were created in 2008-09 or thereafter that are impacted by the base year established for Tier III categorical programs and/or the limits placed on K-3 CSR incentive funding.

Special Education

The Governor's Budget Proposal includes \$3.2 billion for special education in 2010-11, which provides funding for growth—\$3.5 million—and an adjustment for the -0.38% COLA.

The proposed Budget includes \$65 million, or \$10.92 per ADA, for the AB 602 base in ongoing funding as of 2010-11 to fund the settlement agreement related to the Positive Behavioral Intervention Plan (BIP) settlement. Attempts were made in 2008-09 and 2009-10 to add funding for BIP, but it has yet to be funded.

The Governor also includes special education among the programs for which additional federal funding will be pursued. He has identified \$1 billion for special education support for the federal government to meet the 40% level of contribution required by the federal Individuals with Disabilities Education Act provisions. Presumably, if this funding were to be received, it would result in an increase based on the AB 602 funding model.

Future State Bond Proposals

In the current legislative session, Assembly Bill (AB) 220 Brownley (D-Santa Monica) would authorize the sale of state General Obligation Bonds to provide funds for the construction and modernization of K-University facilities. At this time, AB 220 is a placeholder for public education facilities bonds and, as it currently exists, does not include a specific dollar amount for the bonds.

California has passed some of the largest state bonds in the nation's history and yet there still is a need for additional funding for capital facilities projects to construct and renovate our schools. It will be critical for a school facilities legislative bill and subsequent proposition to make its way to the voters in 2010.

Lottery Funds

Over the past ten years, the Lottery has provided LEAs more than a \$1 billion annually. The 2008-09 fiscal year saw a 5% drop in funding followed by a 1.2% increase for the 2009-10 fiscal year. No adjustments have been made to the original budget adopted by the Lottery Commission in June 2009.

In the first quarter of 2009-10, the per-ADA amount distributed by the State Controller's Office was approximately 10% higher than the first quarter apportionment of 2008-09. The 2009-10 first quarter Lottery payment was \$33.74 per ADA (unrestricted), which was a \$3.22-per-ADA increase. The Lottery Commission is not expected to make any adjustments for 2009-10, unless there are indications of material changes in Lottery ticket sales.

Projections for the 2010-11 fiscal year continue at \$110 per Annual ADA (unrestricted) and \$13 per Annual ADA (restricted), unchanged from the 2009-10 level.

Child Care

The Governor's Budget proposes several measures that would reduce funding for early child care and education programs. One of the proposals seeks approval from voters to redirect \$550 million of Proposition 10 funding for the California Children and Families Commission to existing state programs serving children. In addition, the Governor proposes decreasing CalWORKS child care funding by \$13.8 million, applying the -0.38% COLA adjustment to child care programs (a reduction of \$5.9 million), and phasing out \$5 million in one-time funding added in 2009-10 to minimize a cut to extended day/latchkey programs.

Federal Funds

Funding for most federal programs is expected to remain relatively unchanged from 2009-10 funded levels. There are two categories of potential new federal funding. The Governor's Budget includes proposals to pursue approximately \$6.9 billion in additional federal funding that, as the Governor stated, represents "fairness" for California. Of this amount, \$1 billion would provide additional funding to special education. The Governor does not presume in his proposed Budget additional federal stimulus funding, instead placing his attention on ongoing federal support.

The other resource is remaining American Recovery and Reinvestment Act (ARRA) competitive funding opportunities, such as Race to the Top (RTTT). On January 8, 2010, the Governor signed two bills aimed at positioning California to be competitive in the federal RTTT funding competition in hopes of receiving between \$350 million to \$700 million for K-12 education reform.

Staffing Flexibility Option

The Governor has proposed a number of measures to provide schools with additional flexibility in the area of staffing:

TEACHER SENIORITY – Changes state law to allow LEAs flexibility to make certificated staff layoff and assignment decisions without regard to seniority.

SUBSTITUTE COSTS – Eliminates provisions in state law that require that teachers that have been laid off have first priority for substitute assignments and that such teachers be paid per-diem rates if they work more than 20 days in a 60 school day period.

STAFFING NOTIFICATION PROCESS – Changes staffing notification window for teachers to 60 days after the State Budget is adopted or amended as opposed to the current March 15 deadline.

Charter Schools

The Governor's Budget anticipates charter school ADA in 2010-11 to be 355,488, which is an increase of 15%.

The general purpose rates are based on statewide average revenue limits. Therefore, the rates reflect the -0.38% COLA, deficit factor, adjustments for unemployment insurance, the Public Employees' Retirement System (PERS) Reduction, and the Governor's proposal to rebench revenue limits tied to reductions in administration and contracting out (*see chart below).

2010-11 Estimated Charter School Rates

	K-3	4-6	7-8	9-12
General Purpose Block Grant	\$4,983	\$5,058	\$5,203	\$6,040
	-191*	-191*	-191*	-231*
Categorical Block Grant	\$399	\$399	\$399	\$399
Total	\$5,191	\$5,266	\$5,411	\$6,208

Dartboard Factors

The Financial Projection Dartboard factors presented below are developed by SSC with input from independent state agencies and private economic consulting firms, based on the latest information available. These factors are provided to assist school agencies with preparing their upcoming budgets and multiyear projections.

Factor	'09-10	'10-11	'11-12	'12-13
Statutory COLA	4.25%	-0.38%	1.80%	2.40%
Total Deficit Factor	-18.355%	18.355%	18.355%	18.355%
Other Revenue Limit Adjustments	-\$252.83 per ADA	-\$191 E	-\$191 E	-\$191 E
		-\$231 H	-\$231 H	-\$231 H
		-\$201 U	-\$201 U	-\$201 U
California CPI	0.80%	2.00%	2.60%	2.90%

E=Elementary
H=High
U=Unified

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POCKET BUDGET 2010-11

A Summary Analysis of the Governor's Proposed 2010-11 State Budget for California's Schools

Prepared by



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