

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Carol Liu
Member, Ted Gaines
Member, Roderick Wright

Tuesday, May 22, 2012
9:00 a.m.
Room 3191, State Capitol

Overview Hearing

Governor's May Revise Proposals -- Proposition 98 Funding for K-14 Education

I. Governor's Major K-14 Proposition 98 Proposals

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges
- California Department of Education
- Public Comment

Attachment: *Proposition 98: May Revision Overview*, Legislative Analyst's Office, May 23, 2012.

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May 22, 2012

Proposition 98: May Revision Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Subcommittee No. 1 on Education

Hon. Carol Liu, Chair





Governor's Proposed Changes to Proposition 98 Funding Levels

Changes in Proposition 98 Minimum Guarantee			
<i>(In Millions)</i>			
	January	May	Change
2011-12 minimum guarantee	\$48,288	\$47,024	-\$1,264
2012-13 minimum guarantee	52,527	53,735	1,208

- In 2011-12, minimum guarantee decreases by \$1.3 billion, primarily due to drop in baseline revenues.
- In 2012-13, minimum guarantee *increases* by \$1.2 billion.
- Despite estimated *drop* in revenues in both current and budget years, the year-to-year growth in General Fund revenues increases—resulting in a *higher* Proposition 98 minimum guarantee.
- Higher minimum guarantee driven by maintenance factor provisions.
- Problem magnified by Governor's interpretation of maintenance factor payments (increases minimum guarantee by \$1.7 billion in 2012-13).



Governor Uses Questionable Maintenance Factor Assumption

- Governor's application fundamentally delinks maintenance factor creation from maintenance factor payment.

- Governor's application produces irrational outcomes.
 - Does not always create maintenance factor in years when funding grows slower than the economy (such as 2011-12).
 - Virtually all revenue growth can go to schools with the rest of the budget not benefitting at all from economic recoveries or tax increases.
 - Proposition 98 funding restored to a long-term spending level higher than if no maintenance factor had been created.

- Legislature could apply reasonable maintenance factor approach.
 - Retains the link between the creation and payment of maintenance factor.
 - Creates maintenance factor whenever state revenues grow slower than the economy.
 - Makes maintenance factor payment to increase funding corresponding with earlier shortfalls.



Concerns With Governor's Rebenchings

	Rebenching Method Used:		
	<i>2011-12 Budget Act</i>	January	May
Shift:			
ERAF and triple flip	1986-87	1986-87	1986-87
Ongoing redevelopment-related revenues	Current-year	1986-87	1986-87
One-time redevelopment-related revenues	Not applicable	Not applicable	Current-year
Gas tax swap	Current-year	None	None
Child care	Current-year	1986-87	Current-year
Student mental health services	Current-year	1986-87	Current-year
Debt-service payments ^a	Not applicable	1986-87	1986-87
Early Start ^a	Not applicable	Not applicable	None

^a Applicable only under Governor's trigger plan.
ERAF = Educational Revenue Augmentation Fund.

- Using different rebenching methods across years and among program calls into question the meaningfulness of the Proposition 98 minimum guarantee.
- Recommend using "current-year" approach for all adjustments.
- Current-year approach ensures that shifts result in dollar-for-dollar effect.



2011-12 Major Spending Changes

2011-12 Proposition 98 Spending Changes	
<i>(In Millions)</i>	
Baseline Adjustments:	
Restore HTST reduction	\$248
Make revenue limit technical adjustments	188
Make other technical adjustments	22
Reduce revenue limits to conform to HTST restoration	-275
Subtotal	(\$183)
Accounting Changes:^a	
Designate as Quality Education Investment Act payment	-450
Designate as settle-up payment	-335
Subtotal	(-\$785)
Total May Revision Adjustments	-\$603

^a Rather than counting as Proposition 98 spending, designates spending toward related prior-year obligations. Does not reflect programmatic reductions.
HTST = Home-to-School Transportation.

- Increased spending of \$183 million, primarily due to revenue limit cost increases.

- Makes \$785 million in accounting adjustments to reduce spending that counts toward Proposition 98 minimum guarantee.
 - Designates \$450 million in spending as a payment relating to Quality Education Investment Act (QEIA). This generates comparable budget-year savings.
 - Designates \$335 million in spending as a “settle-up” payment (associated with unmet prior-year Proposition 98 obligations).



2012-13 Major Spending Changes

Changes in 2012-13 Proposition 98 Spending			
<i>(In Millions)</i>			
	January	May	Change
Baseline adjustments	\$2,775	\$2,333	-\$442
Pay down K-14 deferrals	2,369	2,815	446
Create K-14 mandate block grants ^a	110	110	—
Do not initiate Transitional Kindergarten	-224	-92	132
Modify preschool funding	-58	33	92
Swap with one-time funds	-57	-112	-55
Eliminate Early Mental Health Initiative	-15	-15	—
Restore Home-to-School Transportation ^b	—	496	496
Fund QEIA program	—	450	450
Hold harmless for weighted student formula ^b	—	90	90
Total Changes	\$4,900	\$6,108	\$1,208

^a Proposes no change in overall spending but shifts \$11 million from schools to community colleges.
^b Reflects proposals the administration made shortly after releasing the January budget.
 QEIA = Quality Education Investment Act.

- Increases K-14 deferral pay-downs by \$446 million.
- Reduces estimated savings from not initiating Transitional Kindergarten program.
- Increases preschool funding for an additional 7,900 slots (and rescinds earlier proposed reductions).
- Recognizes restoration of Home-to-School Transportation funding and provides \$90 million to hold districts harmless from proposed shift to weighted student formula.
- Funds QEIA program within Proposition 98.



K-14 District Redevelopment Funds

Administration Estimates: K-14 District Redevelopment Funds			
<i>(In Millions)</i>			
	2011-12	2012-13	Totals
Property Tax	\$818	\$991	\$1,809
Proposition 98 offset	(818)	(981)	(1,799)
Not an offset		(10)	(10)
Assets	—	\$1,478	\$1,478
Proposition 98 offset	—	(1,405)	(1,405)
Not an offset	—	(74)	(74)
Totals	\$818	\$2,469	\$3,287
Proposition 98 offset	(818)	(2,386)	(3,204)
Not an offset	—	(84)	(84)

Detail does not add due to rounding.

- Governor assumes \$1.8 billion ongoing and \$1.5 billion in one-time redevelopment-related property tax revenues are available for school districts and community colleges across the two-year period.
- Redevelopment revenues overstated.

 - We estimate only \$200 million in ongoing redevelopment-related property tax revenues will materialize in 2011-12 and \$700 million will materialize in 2012-13—\$900 million lower than Governor’s estimate over the two-year period.
 - Significant risk to cash asset revenue assumption. Revenues may materialize but may take several years to be available for distribution to local agencies.



Governor’s Trigger Plan

Changes to Governor’s Proposition 98 Trigger Plan		
<i>(In Millions)</i>		
	January	May
Changes in 2012-13 Minimum Guarantee		
Revenue drop due to measure failing	-\$2,444	-\$2,907
Rebench for debt-service payments	200	194
Eliminate rebenching for student mental health services	—	-103
Total Changes	-\$2,244	-\$2,815^a
Changes in 2012-13 Proposition 98 Spending		
Accommodate debt-service payments	\$2,593	\$2,551 ^b
Accommodate Early Start program	—	238
Rescind deferral pay downs	-2,369	-2,815
Reduce general purpose funding	-2,468	-2,789 ^c
Total Changes	-\$2,244	-\$2,815

^a As estimated in the May Revision, the Proposition 98 minimum guarantee would drop from \$53.7 billion to \$50.9 billion.

^b Reflects updated amounts. The May Revision had relied on earlier point-in-time estimates.

^c Reflects updated general purpose reduction assuming administration wants to fund at minimum guarantee.

- Minimum guarantee decreases by \$2.8 billion.
 - If ballot measure fails, minimum guarantee drops by \$2.9 billion. Governor also proposes to rebench for K-14 debt service (\$194 million) but not rebench for additional mental health services shift (-\$103 million).

- Spending decreases by \$2.8 billion.
 - Would no longer pay down outstanding deferrals and would make programmatic reduction.
 - Would pay for K-14 debt service and Early Start within guarantee.



Alternative Proposition 98 Package

- Package contains alternatives to Governor's basic plan and trigger plan. Both assume reasonable maintenance factor approach and current-year rebenchmarking methodology.

- Alternative to Governor's basic plan:
 - Has little to no programmatic effect on schools (has a smaller deferral pay-down).
 - Funds the guarantee.
 - Frees up \$1.9 billion for rest of budget.

- Alternative trigger plan:
 - Contains smaller programmatic reduction than Governor.
 - Funds the guarantee without any new rebenchings.
 - Spreads pain of trigger cuts (\$1.3 billion more in nonschool cuts).



Side-by-Side: Governor and Alternative Packages

Comparing Governor and Alternative Proposition 98 Spending Plans

(In Millions)

	Governor	Alternative	Difference
Basic Plans			
Baseline adjustments	\$2,333	\$2,333	—
Pay down K-14 deferrals	2,815	1,525	-\$1,290
Restore Home-to-School Transportation funding	496	496	—
Fund Quality Education Investment Act program	450	328	-122
Create K-14 mandate block grants	110	110	—
Hold harmless for weighted student formula	90	90	—
Modify preschool funding	33	—	-33
Use unspent prior-year Economic Impact Aid monies	—	-350	-350
Swap one-time funds	-112	-186	-73
Do not initiate Transitional Kindergarten program	-92	-75	17
Eliminate Early Mental Health Initiative	-15	-15	—
Total Augmentation	\$6,108	\$4,257	-\$1,851
Proposition 98 Spending	\$53,736	\$51,885	-\$1,851
K-14 debt service ^a	\$2,551	\$2,551	—
Early Start Program ^a	238	238	—
Total Related Spending	\$56,525	\$54,674	-\$1,851
Trigger Plans^a			
Rescind deferral pay downs	-\$2,815	-\$1,525	\$1,290
Reduce general purpose programmatic funding	-2,789	-975	1,814
Total Reductions	-\$5,604	-\$2,500	\$3,104
Total Related Spending	\$50,921	\$52,174	\$1,253

^a Both the Governor and the alternative fund both of these activities under both the basic and trigger plans. Under the Governor's trigger plan, activities are funding within the Proposition 98 guarantee.