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Budget Conference Committee Begins Work—Pressure Is On to Suspend Proposition 98

The Legislature is moving quickly in an effort to craft a compromise on a 2010-11 Budget Bill before the June 30 constitutional deadline to enact a State Budget. The vehicle for its work will be AB 190. Earlier the week of May 31, 2010, the Senate and Assembly announced the legislators who will sit on the ten-member Committee. Senator Denise Ducheny (D-San Diego) will serve as Chair, and Assembly Member Bob Blumenfield (D-Los Angeles) will serve as vice chair. Members include: Senators Bob Dutton (R-Inland Empire), Bob Huff (R-Diamond Bar), Mark Leno (D-San Francisco), and Alan Lowenthal (D-Long Beach), and Assembly Members Connie Conway (R-Visalia), Felipe Fuentes (D-Los Angeles), Jim Nielsen (R-Biggs), and Nancy Skinner (D-Berkeley). The Committee membership is up from the six members that normally comprise the Conference Committee.

The Conference Committee began meeting Friday, June 4, with an overview of the economy, revenues, and expenditures. The nonpartisan Legislative Analyst's Office (LAO) painted a bleak picture. Although personal income and employment are beginning to rebound from the recession, the LAO expects unemployment to remain in the double-digits for the next few years, and projects low income growth by historical standards. According to the LAO, the Legislature will not be able to "grow its way out of the problem," and will need to make actual reductions or revenue increases. The Department of Finance (DOF) representative also did not see a rapid economic rebound; he said that the Legislature must reset to a lower level of revenues as a baseline and adjust its Budget plan accordingly. State spending was quantified by the LAO; under the May Revision, 2010-11 inflation-adjusted per capita spending would be similar to that in 1993-94; state spending as a percentage of personal income, which has been between 7.0% and 8.3% since 1998-99, would further drop below 7.0% under the Governor's May Revision.

The Conference Committee also heard an overview of the Governor's proposed Budget, and the Senate and Assembly's alternative solutions. Both the Assembly and Senate rejected most of what the Governor proposed in spending reductions. The Governor did not propose increasing tax revenues, while the Senate proposes some tax increases and the Assembly proposes a comprehensive jobs plan that would increase borrowing and an oil severance tax.

The state's Legislative Analyst Mac Taylor said the state is facing the biggest "Budget problem" he's seen in his 32 years, and told Committee members that he does not know how the Legislature will get around suspending Proposition 98. He said that if taxes are in the mix, it will be even more important to suspend, because 55% to 57% of any new tax revenues would need to go to K-14 education.

The LAO said that all three Budget solutions—the Governor's, Assembly's, and Senate's—would leave multi-billion dollar Budget problems in the "out" years and suggested that the Legislature should look at some issues that would help, including changing the kindergarten start date and reforming retiree health care and pensions.

The Committee spent some time on the Assembly's proposed jobs plan, which would reduce cuts to K-14

education and other areas by securitizing—that is, borrowing against—the stream of revenue that will go into the beverage recycling fund over time, and using a new oil severance tax to pay back the loan. The proposal, which is not yet detailed, would generate about \$9 billion in revenue on a one-time basis, which would be paid back over 20 years. The LAO described the Assembly plan as involving too much one-time spending that would be used to backfill the Governor's proposed cuts and as raising legal issues. The legal questions include whether the Assembly proposal can be done under Proposition 58 without a vote of the people, and whether the taxes can be passed on a majority vote. If the issue were tied up in court, there would not be money to fund the programs for which the proposal would provide funding, including Proposition 98, and it would force the Legislature back into a Proposition 58 Special Session to make midyear cuts or midyear revenue increases. The Legislative Counsel's Office said it is unable to opine on the legality of the proposal in the absence of more detail; there is no language yet available.

Committee members hope to do a first round of discussion and voting by the end of the week. Many items will be addressed thematically, rather than through individual Budget line items. Below is a synopsis of some of the key K-12 education differences between the two houses that the Conference Committee will need to work out.

Revenue Limits

The Governor proposed a permanent reduction of \$1.5 billion in base revenue limits for school districts and county offices of education in 2010-11. The Assembly rejected this proposal and instead restored \$1.7 billion, with \$228 million going toward partially restoring prior-year base reductions. The Senate restored \$621 million and established a deficit factor for the remaining revenue limit base reductions.

Cost-of-Living Adjustment (COLA)

The Governor proposed to reduce school district and county office revenue limit and categorical funding by \$210.8 million by applying a negative COLA of 0.39% in 2010-11. The Assembly rejected this proposal as did the Senate, but the Senate also approved language to apply the negative COLA to revenue limit deficit factors in 2010-11.

Class-Size Reduction (CSR) Funding and Flexibility

The Governor proposes to capture \$550 million in savings from K-3 CSR penalties in 2011. The Assembly rejected this proposal and restored the funding back into the program. The Senate restored \$186 million back into 2010-11 and added K-3 CSR to the Tier III flexibility through 2012-13.

Home-to-School Transportation Flexibility

The Senate proposed to add Home-to-School Transportation to Tier III flexibility. The Assembly proposed no change.

Juvenile Court School Funding

The Governor provided no additional funding for county court schools in 2010-11. The Assembly augmented the program by \$19.8 million, using unexpended Division of Juvenile Justice Proposition 98 funding. The Senate approved a \$4.9 million appropriation, along with potential access to Economic Impact Aid (EIA) funding.

School Facilities Emergency Repair Program

The Governor proposed \$52 million in one-time funds for the School Facilities Emergency Repair Program

to make up a shortfall in 2008-09. The Assembly provided \$51 million in ongoing funds. The Senate approved \$25 million in one-time funds.

Career-Technical Education (CTE)

The Governor proposed to consolidate five CTE programs in 2010-11. They include adding Apprenticeship programs, Partnership Academies, and Agricultural Education into Tier III as part of Regional Occupational Centers/Programs and Specialized Programs. The Senate approved an LAO recommendation to consolidate these five programs into a single block grant with loosened restrictions and the Assembly proposed no changes.

English Learner Assistance Program (ELAP) Flexibility

The Senate approved a LAO recommendation to move the ELAP program into the EIA program in 2010-11. The Assembly proposes no changes.

Special Education Disability Adjustment

Both houses continued the authority to provide the adjustment in 2009-10 and 2010-11. The Senate called for a new study using federal funds.

Prior-Year Mandate Claims

The Governor proposed no funding for prior-year mandate claims and funded the California High School Exit Exam Administration and inter/intra district transfer mandates in 2010-11. The Senate plan provided funding for 13 mandates and eliminated five mandates. The Senate also adopted mandated reform language developed by the Commission on State Mandates. The Assembly continued to defer all mandates, but provides \$1.4 billion in ongoing funding for prior-year mandates in 2010-11.

Federal School Improvement Grant (SIG) Funds

The Governor proposed \$551 million in federal funding for school- and district-level school improvement activities. Both houses instead approved the LAO proposal to allocate SIG funds to Tier I & II schools.

Federal Technology Funds

The Governor proposed the expenditure of \$72 million in one-time federal technology funds last fall, but the Legislature did not concur with the plan regarding the use of the funds. The Assembly instead approved \$34 million in one-time funds to go out via a formula and the remaining funds to be distributed on a competitive basis using California Department of Education (CDE)-developed criteria. The Senate also approved \$34 million for formula grants and \$48 million for competitive grants in 2010-11, using language developed by the LAO.

Mental Health Service Shift

The Governor proposed to suspend AB 3632 mental health services to students with disabilities, which would essentially shift the costs to schools. Although both houses rejected the proposal, it was sent to the Conference Committee for further consideration.

Childcare

The Governor proposed various cuts to child care programs. The Assembly rejected the proposals and restored child care out of its recently proposed Job Package revenues. The Senate took action to place the

issue in conference for further discussion.

The various education groups are now gearing up to take positions on each of these issues and all but the big fiscal issues will get resolved at Conference. The remaining issues will likely go to the legislative leaders and the Governor for final action.

In the June 4 Conference Committee hearing, the LAO said that the Legislature will need to reconsider many of the actions it took, and will need to consider taking other actions not suggested by the Governor. There will clearly be pressure on Proposition 98; the Governor proposed to rebench Proposition 98 downward to reflect childcare cuts, and the LAO recommended suspension. Either way, funding for schools continues to be in jeopardy.

—Deborah Harmon, Nancy LaCasse, and Terry Anderson

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