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GOVERNOR'S BUDGET FOR 2008-09

On January 10, Governor Arnold Schwarzenegger presented his budget for 2008-09. This letter provides information on proposed changes affecting kindergarten through grade twelve (K-12) education. Copies of this document, as well as other budget-related documents, are available through the California Department of Education (CDE) Web site at <http://www.cde.ca.gov/fg/fr/eb/>. Official state budget documents are available through the Department of Finance (DOF) Web site at <http://www.dof.ca.gov/>.

The Governor's Budget is the first step in the budget process and the proposals are likely to change significantly before the budget's final enactment. This document addresses proposals as of the January 10 Governor's Budget. Actions taken in February, including current-year reductions, are discussed in a separate document available at <http://www.cde.ca.gov/fg/fr/eb/>.

Budget Overview

The state faces a significant budget challenge in 2008-09. The Governor's Budget projects a state deficit of \$14.5 billion for the budget year. and on January 10, 2008, Governor Schwarzenegger declared a "fiscal emergency." Pursuant to Proposition 58 (Article IV, Section 10(f) of the California Constitution), the Legislature is required to hold a special session and must act within 45 days to address the emergency. If the Legislature does not act within 45 days, it may not act on other bills or adjourn until it has done so. (Actions taken in the special session are discussed in a separate document available at <http://www.cde.ca.gov/fg/fr/eb/>.) The Governor's Budget proposes to close the budget gap in the current and budget years through the issuance of additional deficit-financing bonds, higher revenue accruals, and budget reductions across most programs. Accounting for the Governor's proposals, 2008-09 General Fund state spending is proposed to be \$101 billion. This is a reduction of 2.3 percent from the 2007-08 level. General Fund revenues are expected to grow by 2.1 percent from \$100.8 billion to \$102.9 billion.

Proposition 98

The 2007-08 Proposition 98 guarantee is projected to be \$1.4 billion lower than assumed in the 2007 Budget Act, declining from \$57.1 billion to \$56.7 billion (including both the General Fund portion and local property taxes). This reflects a greater deterioration in the economy than was estimated when the budget was enacted in August 2007.

Acknowledging that a mid-year decrease of this magnitude would be devastating to education, the Governor's Budget proposes to decrease the current year Proposition 98 funding level for schools and community colleges (K–14 education) by \$400 million, including \$360 million for K–12 schools and \$40 million for community colleges. (Legislative action on this proposal is discussed in a separate document available at <http://www.cde.ca.gov/fg/fr/eb/>.)

The Governor's Budget proposes to suspend the Proposition 98 guarantee in 2008-09. The Governor's Budget proposes a spending level of \$55.6 billion, which is \$4 billion less than the guarantee.

The changes in Proposition 98 funding, as proposed by the Governor's Budget, are shown in Table 1.

Table 1
Proposition 98 Summary
 (in millions)

	2006-07	2007-08	2008-09	Change from 2007-08	
	Revised	Revised	Proposed	Amount	Percent
Funding					
K–12 education	\$49,017	\$50,423	\$49,311	-\$1,112	-2.2%
State agencies	117	119	106	-13	-10.9%
Community colleges	5,881	6,166	6,222	56	0.9%
Total	\$55,015	\$56,708	\$55,639	-\$1,069	-1.9%
Funding Sources					
General Fund	\$41,411	\$41,707	\$39,593	-\$2,114	-5.1%
Local property taxes	13,604	15,001	16,046	1,045	7.0%
Total	\$55,015	\$56,708	\$55,639	-\$1,069	-1.9%
K–12 average daily attendance (ADA)	5,951,993	5,922,913	5,892,449	-30,464	-0.5%
K–12 funding per ADA	\$8,235	\$8,513	\$8,368	-\$145	-1.7%

K–12 Proposition 98

The Governor's Budget proposes to decrease the current year Proposition 98 funding level for K–12 education by \$360 million. This current year reduction is proposed to be implemented through a cut in revenue limit funding. However, the budget documents state that the Administration intends to work with interested parties to determine savings from existing programs to avoid a cut to revenue limits. (Legislative action on this proposal is discussed in a separate document available at <http://www.cde.ca.gov/fg/fr/eb/>.)

In a departure from past practice, the DOF developed the 2008-09 budget in a two-step process. First, the DOF developed a "workload budget" based on the costs of operating existing programs under current law, including growth, cost-of-living adjustments (COLAs), and various other adjustments. Second, the DOF imposed funding reductions of 10.9 percent on virtually all education programs. The DOF calculated the total workload budget for Proposition 98 K–12 education to be \$53.6 billion. The proposed reductions total \$4.3 billion, resulting in a funding level of \$49.3 billion, which is \$1.1 billion below the adjusted current-year level.

Budget Changes in Detail

Workload Budget

Growth. The average daily attendance (ADA) in K–12 schools is estimated to decrease by 30,464 in the budget year, a reduction of 0.51 percent compared to the revised current-year level. The Governor's Budget includes a negative growth adjustment of \$96.4 million, primarily in revenue limit funding for school districts and county offices of education. The proposed budget provides growth increases in some categorical programs in accordance with specific program or statutory requirements, including \$18.8 million for adult education, \$46.1 million for charter school categorical block grants, \$10.9 million for child development programs, and \$9.1 million for class size reduction programs. (Note: in most cases these increases are proposed to be deleted as part of the budget balancing reductions described below.) Most other programs will receive a downward growth adjustment in accordance with the overall decline in ADA (0.51 percent).

Cost-of-living Adjustments (COLAs). The statutory COLA adjustment for 2008-09 is estimated to be 4.94 percent. The final COLA rate will be determined in April. As part of the "workload budget," the Governor's Budget provides \$2.4 billion to fund statutory COLAs for revenue limits and most categorical programs, including \$1.8 billion for revenue limits. (Note: this COLA is proposed to be deleted as part of the budget balancing reductions described below.)

Funding Ongoing Programs. The 2007-08 budget included \$555.6 million in one-time funding to support ongoing costs of several programs. The 2008-09 Governor's Budget proposes to backfill the one-time funding with ongoing General Fund as follows: \$349.1 million for Home-to-School Transportation, \$115.5 million for Deferred Maintenance, \$73 million for the High Priority Schools Grant program and \$18 million for the Charter School Facilities Grant.

Budget Balancing Reductions

The Governor's Budget includes \$4.3 billion in reductions to the 2008-09 Proposition 98 K-12 workload budget. The individual Items in the Budget Bill do not reflect the proposed reductions. Instead, the reductions are proposed to be implemented through Control Section 4.44 in the Budget Bill. Virtually every program received a reduction of 10.9 percent. The major budget balancing reductions in 2008-09 include:

Revenue Limits. The Governor's budget proposes a \$2.6 billion reduction for school district and county office of education revenue limit apportionments. This would eliminate the 4.94 percent COLA and create a 6.99 percent deficit factor.

Special Education. The Governor's Budget proposes to cut \$357.9 million in General Fund support for special education programs. The proposed funding level is \$231.8 million or 7.3 percent below the 2007-08 funding level. This reduction includes the elimination of \$168.7 million for a 4.94 percent COLA. This proposed reduction to special education funding will jeopardize future federal funds on a one-to-one basis to the extent maintenance-of-effort requirements are not met. The Governor's Budget does not account for changes in federal funds. We anticipate federal special education funding to increase slightly over the current year. Additional federal funding information will be provided in the spring budget amendment letter.

Child Care and Development. As part of the package of budget balancing reductions, the Governor's Budget proposes to reduce Child Care and Development programs administered by the CDE by \$198.9 million. The K-12 statutory COLA of 4.94 percent and growth adjustments will be eliminated. This reduction is equivalent to approximately 16,500 child care slots.

Before and After School Programs. The Governor's Budget proposes a \$59.6 million reduction for Before and After School programs. The Governor's Budget proposes a ballot initiative to amend Proposition 49 to achieve this savings.

Child Nutrition. The Governor's Budget proposes a \$14.2 million reduction to state child nutrition funding. This would cut the free and reduced price meal reimbursement rate by approximately \$0.02 per meal, leaving \$0.19 available to supplement the federal reimbursement rate.

State Operations. The Governor's Budget proposes a \$5.6 million reduction to CDE's General Fund headquarters budget. Further proposed is a \$9.2 million reduction to the State Special Schools.

Other Adjustments

Transfer Flexibility Increase. Under the proposed Budget Bill, transfer flexibility provided in Control Section 12.40 would increase. Currently, Control Section 12.40 provides funding flexibility for selected programs. Local educational agencies (LEAs) may transfer up to 10 percent of the state funds apportioned in a given year for any of the listed programs into any other listed program, provided that the receiving program's state funding does not increase to a level exceeding 115 percent of the given year's state apportionment for that program. Under the proposed Budget Bill, an LEA may transfer 50 percent of the state funds apportioned, provided the funding does not increase to a level exceeding 155 percent of the state funds apportioned for that program.

Recalculated COLA. The Governor's Budget proposes to amend the statute regarding how the cost-of-living adjustment is calculated for revenue limits and most categorical programs. Currently, the COLA is calculated on national economic factors (Implicit Price deflator for State and Local Government Purchases of Goods and Services). The Governor's Budget proposes to calculate the COLA using economic factors specific to California (California Consumer Price Index for Wage Earners and Clerical Workers). To illustrate the effect of the change, the COLA for 2008-09 is projected to be 4.94 percent. Using the new index, the COLA would be 3.65 percent, or a reduction of 1.29 percent.

Deferral Extension. The Governor's Budget proposes to delay the final 2007-08 Principal Apportionment payment from July to September to increase cash reserves during months when cash balances are projected to be deficient. The shift would be permanent. (A modified version of this proposal was adopted on a one-time basis in the special session. This action is discussed in a separate document available at <http://www.cde.ca.gov/fq/fr/eb/>.)

California Longitudinal Pupil Achievement Data System (CALPADS). The Governor's Budget proposes \$8.1 million from the General Fund and federal funds to fund the recently approved contract to develop CALPADS. CALPADS, scheduled for full implementation in 2009-10, will collect and maintain student assessment data and other student- and teacher-level data required to meet federal No Child Left Behind (NCLB) Act reporting requirements through a statewide student identifier. (The General Fund portion of this funding, \$2.2 million, is subject to a 10 percent reduction as part of the Governor's budget balancing reductions.)

Title I Set-Aside. The Governor's Budget proposes to set aside \$29 million in Title I funds for 98 LEAs in NCLB corrective action who are in need of the greatest assistance and intervention.

Federal Budget Changes

The Governor's Budget does not reflect any changes to the federal funding levels for federal fiscal year (FFY) 2008. However, in late December, Congress passed and the President signed an omnibus appropriation bill (H.R. 2764) containing FFY 2008 funding for U.S. Department of Education programs. The changes will be reflected in the Department of Finance's April budget amendment letter.

The omnibus bill includes increases to a few specific programs and an across-the-board cut of 1.74 percent. Programs facing additional decreases include Reading First and Innovative Programs (Title V, Part A). Table 2 shows some of California's education allocations that will be affected. California's 2008-09 education allocations are not finalized and are estimates at this time.

Table 2
U.S. Department of Education
Selected California Programs
(in thousands)

	2007	2008	Change Fiscal	
	Estimate	Estimate	Year 2007 to 2008	
			Amount	Percent
ESEA Title I Grants to Local Educational Agencies	1,643,496	1,696,362	52,866	3.2%
School Improvement Grants	16,620	61,839	45,219	272.1%
Reading First State Grants	136,988	48,953	-88,035	-64.3%
Even Start	9,500	7,214	-2,286	-24.1%
Mathematics and Science Partnerships	23,635	21,906	-1,729	-7.3%
Educational Technology State Grants	32,824	30,544	-2,279	-6.9%
21st Century Community Learning Centers	127,685	132,000	4,314	3.4%
State Grants for Innovative Programs	12,109	-	-12,109	-100.0%
Safe and Drug-Free Schools and Communities State Grants	41,540	35,162	-6,378	-15.4%
Language Acquisition State Grants	169,058	177,086	8,028	4.7%
Special Education—Grants to States	1,150,176	1,165,973	15,797	1.4%
Special Education—Preschool Grants	38,677	37,841	-836	-2.2%

K-12 Education Funding From All Sources

The 2008-09 Governor's Budget proposes \$68.5 billion in funding for K-12 education from all fund sources, as shown in Table 3. This reflects a decrease of \$2.2 billion and 3.1 percent below the 2007-08 revised funding levels, with funding per ADA of \$11,626 in 2008-09, a decrease of \$308 and 2.6 percent below the revised \$11,934 per-ADA rate in 2007-08. These figures are calculated by adding all funds that support the K-12 education system, including some funds that do not go to school districts (such as funds for state operations) and some funds that support services for non-K-12 students (such as funds for adult education and child development, then dividing by K-12 ADA).

Table 3
K-12 Summary, All Funds *
 (in millions)

	2006-07 Revised	2007-08 Revised	2008-09 Proposed	Change from 2007-08	
				Amount	Percent
General Fund	\$37,264	\$37,473	\$35,461	-\$2,012	-5.4%
Local property taxes	11,753	12,949	13,850	901	7.0%
Lottery fund	979	936	936	-	-
Other state funds	17	559	220	-339	-6.1%
Federal funds	6,832	6,698	6,316	-382	-5.7%
Local debt service	1,841	1,841	1,841	-	-
Local miscellaneous	5,047	5,047	5,047	-	-
Total	\$67,134	\$70,687	\$68,507	-\$2,180	-3.1%
Funding per ADA	\$11,279	\$11,934	\$11,626	-\$308	-2.6%

* Includes funds for California Department of Education state operations, state special schools, state school facilities bond repayments, contributions to the State Teachers Retirement System, State Library, and Commission on Teacher Credentialing.

Next Steps in the Process

The state Legislature has acted upon the current-year proposals by passing a number of Extraordinary Session bills. These bills were passed as urgency measures and signed by the Governor on February 16, 2008, and go into effect immediately. These actions are described in a separate document available on the CDE Web site at <http://www.cde.ca.gov/fq/fr/eb/>.

Legislative hearings on the 2008-09 budget proposals are underway. In May, the Governor's Department of Finance will issue its traditional "May Revision" of population, revenue, and expenditure projections. Growth and COLA estimates are subject to change at that time.

The budget bills, Assembly Bill 1770 (Laird) and SB 1067 (Ducheny) will be amended in each house and reconciled by a joint conference committee. Upon receiving the final budget bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2008. The budget has been in place prior to the beginning of the new fiscal year, on July 1, once in the past five years.

If you have any questions regarding this subject, please contact Heather Carlson, Education Fiscal Services Consultant, Fiscal Policy Division, at 916-323-2591 or by e-mail at hcarlson@cde.ca.gov.

NOTICE: The guidance in this letter is not binding on local educational agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this bulletin is exemplary, and compliance with it is not mandatory.
(See *Education Code* Section 33308.5.)