

SCHOOL FACILITIES EMERGENCY REPAIR— Consistent with the settlement of the *Williams* lawsuit, the Budget provides \$100 million for the School Facilities Emergency Repair Account, bringing total transfers to \$438 million. However, because the demand for these funds has been less than anticipated, the Budget transfers \$250 million from the account to instead support ongoing costs of the Home-to-School Transportation program. To mitigate any concern that this transfer will leave this account underfunded, the Budget includes a provision that would restore funding to the account if demand for these funds exceeds the amount available after the transfer.

SPECIAL EDUCATION—The policy that calls for the state to provide a COLA on only the state and local share of special education funds results in the program receiving less than the full 4.53% COLA, although a modest increase in federal aid helps to mitigate this problem.

The state-funded COLA for special education is \$20.17 per ADA. In addition, some \$15 million of the \$19 million in increased federal aid will be allocated to SELPAs on a per ADA basis—equal to \$2.50 per ADA. This means that the new per-ADA funds for SELPAs will be only \$22.67—equal to a 3.58% COLA for the average SELPA.

While fully funding the statutory COLA of 4.53% would provide \$6.05 per ADA more—not a huge amount—the underfunding of the special education COLA has major negative policy implications. Since expenditures for special education usually grow by at least as much as the statutory COLA, whenever funding for special education grows slower than the statutory COLA, the result is that the gap between special education expenditures and revenues gets wider. This gap, which exceeded \$1.88 billion in 2005-06, is expected to jump in 2006-07 (once statewide expenditure data is available) and again in 2007-08. In turn, this growing gap between special education income and expenditures often results in pressure to cut special

education expenditures, to the detriment of the pupils with disabilities served by those programs.

Governor's Vetoes

A key element of the final agreement on the Budget was the Governor's commitment to eliminate \$700 million in General Fund expenditures through his veto authority. The final tally on these cuts was \$703 million, although none of these were K-12 programs. The Governor, however, did veto some federal funding that supports K-12 education and General Fund support for the State Library and Department of Education.

STATE LIBRARY—Vetoed \$15 million for the Direct Loan and Interlibrary Loan Program (\$7 million) and the Public Library Foundation (\$8 million).

FEDERAL FUNDS—Vetoed \$4.7 million for various federally supported education programs, including legislative augmentations for special education individualized education plan auditing (\$1 million), a best-practices advisory committee for students with learning disabilities (\$400,000), and an English learner pilot project (\$300,000).

DEPARTMENT OF EDUCATION—Vetoed \$253,000 for state staff that would have coordinated programs for incarcerated youth and supported the English learner component of the Mathematics and Reading Professional Development Program.

In addition to these vetoes, the Governor cut funding but set aside an equivalent amount for District Assistance and Intervention Teams (\$7.1 million) and for wrap-around child care for children participating in any state preschool program (\$5 million). The Governor is seeking specific policy changes that were at odds with the Legislature's priorities. Because these funds are expected to be appropriated in the current year once the policy differences are resolved and subsequent legislation is adopted, the reductions do not count as part of the total vetoes.

2006-07 P-2 Deficits

Deficits have plagued several K-12 programs in prior years, and this problem continued in 2006-07. However, due to a \$26.7 million budgeting error, the deficits at the 2006-07 Second Principal Apportionment (P-2) for several hourly programs are significantly overstated. Funding that was intended for the hourly programs was erroneously appropriated to another account. A trailer bill to the 2007 Budget Act corrects this error. As a result, two of the deficits will be lower at the 2006-07 Annual Apportionment, while one is projected to be much higher, as indicated in the following table:

Program	2006-07 P-2 Deficit	Est. Deficit at 2006-07 Annual
Core Academic	26.51%	12%
Grades 2-6 Hourly	39.79%	28%
Grades 2-9 Uncapped	No Deficit	16%
Grade 7-12 CAHSEE	No Deficit	No Deficit
Community Day School	3.59%	6%

Dartboard Factors

The Financial Projection Dartboard factors presented below are developed by independent state agencies and private economic consulting firms, based on the latest information available. These factors are provided to assist school agencies prepare their upcoming budgets and multi-year projections.

Factor	'08-09	'09-10	'10-11	'11-12
Statutory COLA	4.30%	2.50%	2.70%	2.90%
10-Year Treasuries	4.70%	4.80%	5.00%	5.20%
California CPI	2.4%	2.7%	2.9%	3.0%

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POCKET BUDGET '07 – '08

A Summary Analysis of the 2007-08 State Budget for California's Schools

Prepared by



September 2007

The State Budget

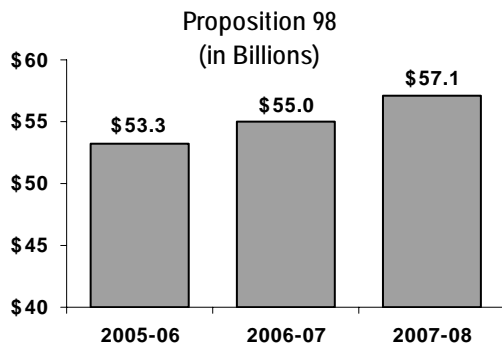
Enactment of the State Budget for 2007-08 proved to be significantly more difficult than just about everyone, including School Services, had predicted at the time the May Revision was released. Ultimately, the Budget was signed 55 days after the beginning of the fiscal year, making it the third latest budget in state history.

While the Assembly passed the Budget in mid-July, the Senate fell one vote short until the impasse was broken on August 21, 2007. Senate Republicans withheld the necessary two votes until two key issues were resolved: (1) \$700 million in spending cuts promised by the Governor, and (2) changes to the California Environmental Quality Act to protect infrastructure projects from climate change-related lawsuits.

The 2007 Budget Act provides for a \$2.6 billion reserve, after accounting for the Governor’s vetoes—an increase of \$1.9 billion from the May Revision. This equates to roughly 2.5% of General Fund revenues in 2007-08.

Proposition 98

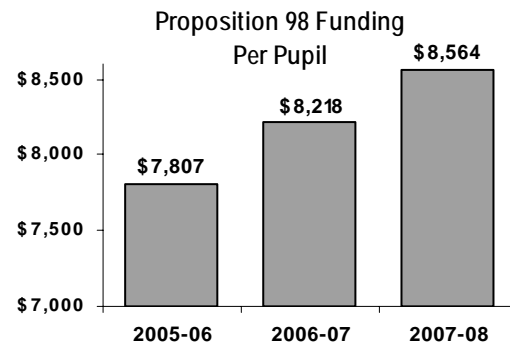
Proposition 98, the constitutional provision that sets the minimum funding level for K-12 education and community colleges, was the subject of much debate and manipulation throughout this year’s Budget process, beginning with the January Governor’s Budget. In January, the Governor proposed to fully fund the guarantee in 2007-08, but also sought the following two controversial policy changes.



FUNDING SHIFTS AFFECTING PROPOSITION 98—The first proposal would fund Home-to-School Transportation (HTST) from a special fund rather than from Proposition 98 proceeds and would in turn require a downward rebenching of the guarantee by \$627 million because of this fund shift. Only a small part of this proposal ultimately adopted in part, with \$99 million in Public Transportation Account funds used to support HTST; however, the downward rebenching of the guarantee was not adopted.

Second, the January Budget proposed to fund CalWORKs Stage II Child Care from within Proposition 98, an expenditure which had previously been funded outside of the guarantee. This proposal was adopted, resulting in a \$269 million reduction in funds available for other K-12 programs.

POST-MAY REVISION GUARANTEE ADJUSTMENT—The Legislature reduced the Proposition 98 minimum funding guarantee from the level proposed in the Governor’s May Revision, based on a downward adjustment to the May Revision revenue forecast. This adjustment was made to reflect the shortfall in tax receipts for the month of May, resulting in a reduction in the minimum guarantee by \$411 million in 2006-07 and \$427 million in 2007-08. The revenue forecast adopted for the State budget, however, did not reflect this downward adjustment. Therefore, for the first time the Budget relies on two different revenue forecasts—one that determined the Proposition 98 guarantee, which lowered the guarantee, and a higher one that ultimately determined the Budget reserve.



ONE-TIME AND SPECIAL FUNDS SUPPORT—Ultimately, the Proposition 98 guarantee in 2007-08 provided an insufficient increase in funding to pay for cost-of-living adjustments (COLAs) and “growth” in all K-12 programs. As a result, the Legislature provided one-time funding from the Proposition 98 Reversion Account (\$217 million), *Williams* School Facilities Emergency Repair Account (\$250 million), and Public Transportation Account (\$99 million) to support the costs of ongoing programs in 2007-08. The table below shows the programs supported by these funds.

Program	Funding Source and Amount (in millions)
HTS Transportation	\$250 one-time <i>Williams</i> , \$99 PTA
Deferred Maintenance	\$116 one-time Prop. 98 Reversion Acct.
High Priority Schools Grant Program	\$102 one-time Prop. 98 Reversion Acct.

Unrestricted Funding

COLA—The Budget provides full funding for the statutory COLA of 4.53% for revenue limits (\$1.6 billion), special education (\$151 million), and almost all other categorical programs (\$431 million). This compares to the 5.92% COLA funded in 2006-07.

ENROLLMENT “GROWTH”—Statewide ADA is projected to decline 0.48% in 2007-08 to 5,932,000, a loss of 28,000 ADA from the prior year. This figure, however, masks the decline in noncharter school ADA. After adjusting for an expected 10% growth in charter ADA, noncharter ADA is projected to decline by 0.89%.

EQUALIZATION—The Budget provides no additional funding for equalization in 2007-08. Following a major infusion of ongoing funds in 2006-07 (\$350 million), we estimate that slightly more than \$130 million in ongoing money would be needed to fully fund equalization in 2008-09.

Senate Bill 80, the education trailer bill, states the Legislature’s intent to give funding priority to

equalization in 2008-09, after funding “growth” and COLA.

MANDATES—The Budget provides only \$1,000 for each of 38 K-12 mandates, clearly insufficient to reimburse districts for their costs. These appropriations, however, continue the requirement that districts provide the mandated services in 2007-08. The Budget provides no timeline specifying when the deferrals will be paid.

Categorical Programs

The 2007 Budget Act funds ongoing categorical programs that were initiated in 2006-07, increasing the appropriations for “growth” and COLA. The table below summarizes funding rates for the major ongoing programs.

Program	Funding Rates
Economic Impact Aid	Varies—COLA and EIA eligibles
Supplemental School Counseling	\$69 per 2007-08 CBEDS grade 7-12
Arts and Music Block Grant	\$16.50 per 2007-08 CBEDS
CAHSEE Support	\$520 per eligible 12th grader
Mentor Teacher	\$6,272 per eligible mentor

While the May Revision had also proposed several new categorical programs for 2007-08, a budgeting error ultimately forced the Legislature to reject almost all of these proposals. After this error was corrected, there was sufficient funding to enact only a few of the Governor’s May Revision proposals.

STAR TESTING—The 2007-08 Budget extends the sunset date for second grade testing under the STAR program, providing \$2.1 million to continue this test.

CHILD NUTRITION PROGRAM—The Budget funds a 4.7¢ increase in the reimbursement rate for school meals (\$24.9 million), contingent upon enactment of separate legislation that would prohibit the sale of foods containing artificial trans fats and foods fried in unhealthy oils.