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California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
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Agenda
January 19, 2010
11:30 a.m.
Room 112
(Overflow rooms in Rooms 113 and 2040)

Overview of the Governor's Special Session Budget Proposals for K-12 and Higher Education

I. Proposition 98 Budget & Higher Education Overview:

Jennifer Kuhn, Director of K-12 Education, Legislative Analyst's Office
Steve Boilard, Director of Higher Education, Legislative Analyst's Office

II. Governor's Special Session Education Budget Proposals:

Jeannie Oropeza, Program Budget Manager, Department of Finance

III. Agenda Issues, Legislative Analyst's Office & Department of Finance:

Page 1 – Proposition 98 – Recertification of the 2008-09 Guarantee

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Page 5 – Proposition 98 – Reappropriations for K-12 Programs in 2009-10

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IV. Public Comment

6110 California Department of Education

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges

Proposition 98 – Recertification of the 2008-09 Guarantee.

-\$83 million -\$81 million

The Governor proposes to reduce the Proposition 98 minimum funding guarantee – as statutorily certified – by \$82.9 million in 2008-09, in order to align the guarantee with more current estimates of expenditures.

Chapter 3 (4th Extraordinary Session of 2009) certified the Proposition 98 minimum guarantee at \$49.1 billion in 2009-10. The Governor proposes to reduce this amount to \$49.0 billion, a reduction of \$82.9 million.

The Governor proposes this change to align the Proposition 98 guarantee with expenditures, which have declined as a result of revenue limit savings in 2008-09.

The Administration proposes to amend provisions of Chapter 3, to recertify Proposition 98 funding in 2008-09, in order to reflect this change.

6110 California Department of Education

Governor’s Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges

Proposition 98 – Reduction of 2009-10 Funding.

-\$568 million \$103 million

The Governor proposes \$49.9 billion in Proposition 98 funding in 2009-10. This equates to a reduction of \$568 million compared to the 2009-10 Budget Act, and provides funding at the minimum guarantee level, as calculated by the Governor.

[The Administration proposes to reduce Proposition 98 funding in 2009-10 through program savings for K-12 programs, as described in the following agenda item.]

The Governor’s estimates of the minimum guarantee in 2009-10 and 2010-11 are based upon his interpretation of the constitutional provisions of Proposition 98. These interpretations are at odds with the July budget agreements -- pursuant to Chapter 3 (4th Extraordinary Session of 2009) – and have the effect of lowering the guarantee in both years. Per the LAO, these interpretations may not meet constitutional obligations.

In addition to recertifying the 2008-09 minimum guarantee discussed in the previous section, Chapter 3 certifies \$11.2 billion in maintenance factor obligations owed in 2008-09. (This amount includes \$1.3 billion in obligations owed at the end of 2007-08.) Payment for these maintenance factor obligations would commence in 2010-11, per Chapter 3.

In calculating the minimum guarantee for 2009-10 and 2010-11, the Governor now assumes that \$1.3 billion in maintenance factor--owed through 2007-08--is paid off in 2008-09. The Governor also proposes postponing commencement of the payments required by Chapter 3 from 2010-11 to 2012-13.

Per the LAO, in addition to constitutional issues, the minimum guarantee for 2009-10 and 2010-11 could also increase due to changes in the Governor’s revenue estimates for 2008-09.

6110 California Department of Education

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-001-0001 Department of Education

Proposition 98 – K-12 Program Savings to Achieve 2009-10 Reductions.

-\$340 million (CSR Savings) -\$210 million (CSR Savings)

The Governor proposes to achieve \$568 million in Proposition 98 through K-12 program savings, primarily from the Class Size Reduction program and from revenue limit apportionments.

Class Size Reduction (CSR) Savings: The Governor's Budget proposes to reduce funding for the CSR program by \$340 million in 2009-10 to reflect anticipated savings for the program. Penalties for increasing class size were reduced beginning in 2008-09 in order to give school districts greater flexibility in meeting budget shortfalls. However, due to increasing class sizes, school districts are losing some funding from remaining penalties, which results in program savings for the state.

-\$228 million (Revenue Limit & Other Adjustments) -\$27 million (Revenue Limit & Other Adjustments)

Revenue Limit Adjustments: The Governor's Budget reflects a net reduction of \$228 million in 2009-10 resulting primarily from revenue limit savings for school districts and county offices of education, offset by small adjustments for a few other programs. Revenue limit savings result from a decrease in average daily attendance, as well as, unemployment insurance and retirement costs. The savings from other programs reflect workload adjustments.

6110 California Department of Education

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-001-0001 & 6870-001-0001 Department of Education & California Community Colleges

Prepayment for the Quality Education Investment Act (QEIA) program in 2009-10

\$280 million -\$280 million

The Governor proposes to prepay \$280 million in future QEIA payments for K-12 schools and community colleges in 2009-10. The Governor proposes this prepayment in order to ensure our state meets maintenance-of-effort requirements pursuant to the federal American Recovery and Reinvestment Act (ARRA).

Current statute appropriates \$450 million in General Funds annually for the QEIA program for a specified period. The Governor proposes to prepay \$280 million of the 2010-11 payment in 2009-10. This amount includes \$250 million for K-12 education and \$30 million for community colleges.

This funding would be provided on top of other funds appropriated for QEIA in 2009-10, pursuant to the 2009 budget package.

Per the Administration, this prepayment is required to increase state education appropriations in 2009-10 in order to ensure compliance with federal maintenance-of-effort requirements for the ARRA State Fiscal Stabilization Fund program.

6110 California Department of Education

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-001-0001 Department of Education

Proposition 98 – Reappropriations for K-12 Programs in 2009-10.

The Governor proposes to reappropriate \$38.4 million in one-time Proposition 98 savings in 2009-10 to provide increased funding for two programs.

\$18.4 million

\$20 million

The Governor proposes to reappropriate \$38.4 million in one-time Proposition 98 savings in 2009-10, for the following programs:

Charter Schools Facilities Grant Program:

The Governor proposes an increase of \$18.4 million to convert the Charter Schools Facilities Grant Program from a reimbursement-based to a grant program, consistent with statute enacted as a part of the 2009 budget package. This program offsets 75 percent of the facility rental or lease costs of charter schools operating in low-income areas. Funding is restricted to charter schools that are unable to secure public or other facilities.

Categorical Flexibility Funding – New Schools: The Governor proposes a \$20 million increase to provide categorical funding to newly-established schools in 2008-09 and 2009-10. These funds are intended to allow new schools to receive categorical funds from more than 40 programs that were subject to categorical flexibility beginning in 2008-09. Under categorical flexibility statutes, statewide programs are adjusted annually for growth, but allocations are limited to existing schools.

6110 California Department of Education

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6110-196-0001 California Department of Education

Child Care Reimbursement Rate.

The trailer bill would reduce the regional market rate ceiling from 85 percent to 75 percent of the 2005 survey for voucher-based programs.

The trailer bill would also reduce the reimbursement rate for license-exempt providers from 90 percent of the ceilings for licensed providers to 70 percent.

[Please see the February 2 Human Services hearing agenda for discussion of CalWORKS Stage 1 child care reductions.]

TBL

-\$77.1 million GF
(Proposition
98 funds)

Reduce the provider reimbursement rates to achieve savings in the 2010-11 Budget.

The \$77.1 million General Fund savings is comprised of: \$12 million from alternative payment programs, \$37 million from CalWORKS Stage 2, and \$28.1 million from CalWORKS Stage 3.

The provider contracts are signed in the Spring. Including the new rates in the contracts prior to the start of the 2010-11 fiscal year would allow the capture of a full year of savings.

Most providers would receive a lower reimbursement for providing child care services. Some providers are contractually already under the 85 percent ceiling, and those providers would not see as dramatic a drop in their reimbursement rate.

6870 California Community Colleges

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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6870-101-0001 California Community Colleges

Categorical Flexibility – Career Technical Education (CTE)

The Governor proposes trailer bill language to remove the CTE funding from the categorical flexibility.

TBL

\$68 million

2009-10 Budget Act appropriation for CTE is \$48 million from Prop 98 funds and no changes are proposed to that amount. The enacted budget places the CTE categorical program in CCC's "flex item". The proposal is to remove the program from this flex item and make the funding restricted to CTE.

Proposed for 2010-11: \$20 million from Prop 98 funds and \$48 million from QEIA (issue not in special session).

If CTE is removed from categorical flexibility, then all of the program funding is protected but the CCC districts' ability to respond to local needs by shifting funds between CTE and another categorical program are diminished.

The CTE program was established in 2005. The purpose of the program is to develop and strengthen CTE partnerships and linkages among K-12, community colleges, industry, and other organizations.

7980 Student Aid Commission

Governor's Proposal	2009-10 (\$ in thousands)	2010-11 (\$ in thousands)	Comments
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7980-101-0001 Student Aid Commission

Suspend New Competitive CalGrant Awards

TBL \$45.5 million
GF

The Competitive CalGrant serves continuing and non-traditional students.

The Governor proposes to suspend any new Competitive CalGrant awards. Those students who already have a Competitive CalGrant award would continue to receive funding.

Approximately 22,500 students annually are offered a Competitive CalGrant.

The proposed trailer bill would make the Competitive CalGrant contingent upon appropriation in the Budget Act.

If the grants are to be suspended, a decision to do so needs to be made before the grants are awarded on March 2, since Competitive CalGrants are awarded in the Spring for the following Fall Semester.