

CTA Quick Study

20 February 2009

Deepest Slashes to Schools Ever – More Than \$11.6B

CTA Blocked Assault on Prop. 98, but Budget Cuts Will Still Hurt

The newly approved 17-month state budget reduces public education funding by a devastating \$11.6 billion. Cuts of that magnitude, the largest in the state's history, will boost class sizes, force the layoffs of thousands of educators, eliminate vital student programs, and turn thousands of qualified students away from higher education institutions.

"These cuts will impact an entire generation of children and escalate California's race to the bottom in education funding," warned CTA President David A. Sanchez in his statement to reporters statewide. "These cuts send the wrong message to our students, their parents, our communities, and our country. An investment in our children's future now will make sure they prosper in the future."

The CTA leader pointed out the compromise budget corrects "the attempted unlawful manipulation of the minimum school funding law -- Proposition 98 -- by placing an initiative on the special election ballot to repay the \$9.3 billion owed to education over several years. The restoration of this money will be critical to the future of our public schools."

Schools will regain the \$9.3 billion through a mechanism created by the Budget Stabilization Fund (BSF) initiative that will be on the May 19 special election ballot. Without passage of that measure, the state will still owe public education these funds, part of Proposition 98's "maintenance factor," but the state will not have a mechanism through which to raise the funds and make the repayment.

The CTA president also emphasized that the "plan also protects the state's successful Class Size Reduction program from complete elimination, allowing local school districts to continue smaller class sizes in kindergarten through third grade." Under terms of the new budget proposal, if districts seek to exceed the class size, they will suffer financial penalties tied to the number of students above the K-3 classroom cap.

Pres. Sanchez emphasized the disappointing and frustrating nature of the prolonged budget battle and the clear recognition that the process needs reform.

At the same time, he commended the governor, Assembly Speaker Karen Bass (D-Los Angeles), Senate President pro Tem Darrell Steinberg (D-Sacramento), and Senator Abel Maldonado (R-Santa Maria) "for having the courage to support revenue increases."

The new revenues include a total of about \$12.5 billion, although that amount will drop to \$10.7 billion depending on the amount of federal funding California receives under the recently enacted economic recovery act. The bulks of the new revenues will come from the imposition of a new one percent sales tax and a doubling of the Vehicle License Fees (VLF). Also part of the revenue package is a 0.25% surcharge on the state Personal Income Tax. The increase could be halved depending on the amount of forthcoming federal funding. The revenue package also creates a 0.15% tax to pay for law enforcement services. This tax will free up about \$600 million in state general fund money for other purposes. Also part of the revenue package is the reduction in the amount taxpayers can credit against their state income tax for dependent-related expenditures.

Some of the additional general fund revenues will head directly to a new “rainy day fund.” In an important victory for public education, these rainy day fund revenues will be considered part of the calculation of moneys owed to schools under Proposition 98. A portion of these funds will go to pay schools the “maintenance factor” appropriations.

Despite these victories, schools will still be hit hard by cuts that are in the budget agreement that the governor and legislative leaders crafted to close a \$42 billion revenue gap.

CTA Mobilization Helped Stop Cuts-only Solution

By mobilizing its members throughout the state, CTA was able to build momentum that pushed back Republican proposals to close the looming budget gap by cuts and cuts alone. Instead, the final spending combines new revenues, cuts, fund transfers, and borrowing to balance the 2008-2009 and 2009-2010 budgets.

Fully three-fifths of the \$42 billion budget solution came in the form of new revenues and borrowing, but two fifths -- \$15.8 billion -- took the form of budget cuts. About 50% of those 2008-2009 and 2009-2010 cuts are coming at public education’s expense.

Another element that helped stop a cuts-only “solution” is the proposal to borrow against or “securitize” future lottery revenues. The proposal assures schools an annual amount equivalent to past years’ lottery revenues. For the first time ever, an amount equal to those lottery revenues will be added to and become a permanent increase in the minimum funding due to public education under Proposition 98.

Budget Close-Up

Some Key Elements of the Enacted Budget Package

The final budget reduces school funding by an estimated \$11 billion, not counting the \$3.0 billion reduction in the Cost-of-Living Adjustment schools already suffered earlier in the 2008-9 budget year.

Here are some key provisions of the package:

New Revenues

- \$12.5 billion (reduced to \$10.7 billion, if the federal funds “trigger” is pulled).
- Length of time for new taxes depends on voters’ passage of a spending cap. If the cap ballot measure fails, the new taxes remain in place in 2008-09, 2009-10, and 2010-11.
- The sales tax is increased by 1 cent, through 2011-12.
- The Vehicle License Fee (VLF): The VLF is increased to 1%, through 2013-14, if the spending cap passes. If the cap fails, the VLF increase expires in 2011-12.
- A separate 0.15% increase to pay for local law enforcement programs. (The measure saves the state General Fund \$600 million.)
- A Personal Income Tax Surcharge of 0.25%
- “Triggered” down to .125%, if federal funds become available.
- Dependent Credit Exemption (Personal Income Tax) reduces size of credit to the level of personal credit, for up to 5 years, if cap passes (2011-12, if the cap fails).

(Source: Assembly Speaker’s Office)

K-12 Reductions
(in millions of dollars)

<u>Reduction</u>	<u>2008-09</u>	<u>2009-10</u>	<u>Total</u>
0.68 Cola	\$244		\$244
Revenue Limit (RL) COLA*		\$2,800	\$2,800
Additional RL	\$944	\$944	\$1,888
Categorical (15%)	\$944	\$944	\$1,888
2009-10 RL		\$265	\$268
2009-10 Categorical (4.9%)		\$265	\$268
Deferral	\$3,200		\$3,200
Settle up	\$1,100		\$1,100
TOTAL			<u>\$11,650</u>

*2008-09 Revenue Limit Cola was eliminated in the September Budget
Note: total does not include the \$3.0 billion statutory COLA reduction for 2008-2009

Revenue Limit Reductions

- The 2008-09 revenue limits shall be reduced by a 7.844 deficit factor. This eliminates the .68% COLA (\$244 million) and results in an additional statewide cut of \$944 million.
- The 2009-10 revenue limits shall be reduced by a 13.094 deficit factor. This is an additional \$268 million reduction to the 2009-10 revenue limits.
- The deficit factors are listed in the display below:

Year	District	County Office of Education
2008-09	7.844%	7.839%
2009-10	13.094%	13.360%

K-3 Class-Size Reduction Program – the following are the new flexibility options:

<u>Class Size</u>	<u>Financial Penalty</u>
20.5 to 21.5 (less than)	5%
21.5 to 22.5 (less than)	10%
22.5 to 23.0 (less than)	15%
23.0 to 25.0 (less than)	20%
25 or over	30%

Three Tiers of Categorical Reductions and Categorical Flexibility

There are now three new tiers of categorical programs. With the exception of tier 1, there is an across-the-board reduction of approximately 15% to all categorical programs.

In 2008-09, the tier 2 and 3 categorical programs are cut by 15% or \$944 million, and in 2009-10, they are cut by an additional 4.9% or \$268 million. The Department of Finance will be releasing a more detailed list for all the programs, and we will send you that list as soon as it is available.

Tier 1 – No reductions and no flexibility options (there are flexibility options for the CSR program, which will be described later). Following are the protected programs in this tier:

Item	Description	2008-09 As Introduced	2008-09 After 15% Cut	2009-10 After 4.9% Cut
Tier 1				
6110-161-0001	Special Education	\$ 3,116,298	\$ 3,116,298	\$ 3,116,298
6110-196-0001	Child Development	\$ 1,675,364	\$ 1,675,364	\$ 1,675,364
6110-234-0001	K-3 Class Size Reduction	\$ 1,245,453	\$ 1,245,453	\$ 1,245,453
6110-128-0001	Economic Impact Aid	\$ 945,779	\$ 945,779	\$ 945,779
6110-649-0001	After School Programs	\$ 546,941	\$ 546,941	\$ 546,941
6110-601-3116	Home-to-School Transportation	\$ 420,268	\$ 420,268	\$ 420,268
N/A	QEIA	\$ 328,000	\$ 328,000	\$ 328,000
6110-203-0001	Child Nutrition	\$ 125,685	\$ 125,685	\$ 125,685
6110-130-0001	Advancement Via Individual Determination (AVID)	\$ 8,131	\$ 8,131	\$ 8,131

Tier 2 – 15% reduction in 2008-09 and an additional 4.9% reduction in 2009-10. There are no flexibility options with these programs. **Tier 3** – 15% reduction in 2008-09 and an additional 4.9% reduction in 2009-10. There is complete flexibility for the district to use these funds as the district wishes. Items in the third tier include Ninth Grade Class Size Reduction and Adult Education.

Community College Provisions

Current Year (2008-09):

- \$39.8 million cut to eliminate the 0.68 COLA.
- \$3.6 million reduction to capture unspent prior-year funds.
- \$3 million cut to mandate payments.

- **Cash Management:** There are two deferrals of community college apportionments. These deferrals will delay the payments the state makes to local community college districts for their apportionments.
 - \$340 million in apportionment funding deferred from January, February, March, and April to be repaid in July. Currently, there is a \$245 million deferral that was added to the community college budget in 2008-09. This new deferral is likely to be a permanent feature of the community college budget.
 - Delay repayment of existing \$200 million June-to-July deferral, now to be repaid in October. This change is also assumed to be permanent.

Budget Year (2009-10):

- No student fee increase.
- No COLA.
- \$185.4 million augmentation to fund 3 percent enrollment growth.
- The budget does not include categorical flexibility provisions for the colleges as does the K-12 budget.
- The budget maintains funding for the Cal Grant program. The proposal to eliminate new Competitive Cal Grants was rejected.

CSU/UC

The final budget adopts the Governor's UC and CSU proposals:

- No funding for the "compact."
- A 10% across-the-board cut.
- Reduced costs for retirement contributions.
- **Not cut:** Governor's proposed cuts to CalGrants (including competitive grants and "de-linking" with fee increases).

"Triggered" cuts (if the federal economic recovery funds don't come): An additional cut of \$75 to \$150 million each to UC and CSU (offset by increase in CalGrants, if segments increase student fees).

(Source: Assembly Speaker's Office.)

Set for May 19 Voting

A Number of Ballot Measures are Slated to Go to the Voters

As part of the budget package, the legislature approved five measures that are expected to go before the voters as part of a special election to be called for May 19. Two additional ballot measures were approved by the legislature as part of a last-minute compromise. One – which would restrict legislative pay increases in deficit years is set for a May 19 vote. The second – which would create an "open primary" – is expected to go on the June 2010 ballot.

On the Ballot

All initiatives on May 19, 2009 Special Election, except for Open Primary.

- **Prop 1A – Budget Stabilization Fund (BSF):** Imposes a limit on the amount the state can spend each year based on state revenue over the previous 10-year period. Money above that amount would be saved in a rainy day fund. It is intended to smooth out peaks and valleys in state revenues. Money from the rainy day fund is used to repay the \$9.3 billion owed to schools.

The BSF does not change Proposition 98, downsize government, or give the governor the authority to make midyear budget cuts.

- **Prop 1B – Education Repayment/Proposition 98 Maintenance Factor:** Asks voters to approve repayment of \$9.3 billion owed to local school districts and community colleges to restore recent budget cuts. (*Payment is contingent upon passage of the BSF. If the BSF fails, the state will have no mechanism in place to expedite the repayment.*)
- **Prop 1C – California State Lottery Modernization:** Asks voters to approve a \$10 billion plan to borrow against the lottery's future revenues over the next two fiscal years.
- **Prop 1D – Children's Services Funding (Prop 10):** Allows state to divert use of First 5 money to other children's programs.
- **Prop 1E – Mental Health Funding (Prop 63):** Allows state divert use of some mental health moneys to pay for low-income child development programs.
- **Prop 1F – Elected Official Salaries/Restricting Legislative Pay:** Prevents legislators from getting pay raises in years when the state ran a budget deficit.
- **Open Primary:** Asks voters to create open primary system in CA. Top 2 vote-getters - regardless of party - would advance to the general election. (*June 2010 ballot*)

For more information about the budget, see the comprehensive budget memo from GR Budget Advocate Estelle Lemieux or consult your Negotiations and Organizational Development specialist.

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