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Please Take Action!

From: Tim Fitzharris, Ph.D.
Legislative Advocate

Information Bulletin

General Background

Governor Declares Fiscal Emergency; Proposes FY 2008-09 Budget

Today, Governor Arnold Schwarzenegger, following the traditional press briefing, released his fifth State Budget proposal. What a difference a year makes: Last year, he proposed a \$143.4 billion plan that increased government spending by one percent; this year, \$101 billion, which includes his 10% across-the-board Budget cuts.

What is different, of course, is that current projections have California awash in red ink to the tune of \$14.5 billion over the next 18 months.

In response to the State's fiscal crisis, the Governor has declared a state of fiscal emergency, calling for an immediate, special legislative session to deal with it. The purpose is to make mid-year cuts under powers granted by Proposition 58. Invoking such a special session requires the Legislature to put aside other work and make decisions within 45 days (by March 15th).

In his State of the State speech on Tuesday, Schwarzenegger opined that "California doesn't have a revenue problem; we have a spending problem." "We're spending \$400-600 million per month more than we're taking in," he said. The Chief Executive laid much of the problem to automatic funding formulas.

"We need to Budget more evenly," he said, declaring that the binging on "sugar highs" and purging on deficits must stop. "This year," he said, "we must face the Budget Demon."

Nonetheless, true to Tuesday's State of the State speech, the Governor proposed to continue his Strategic Growth Plan, including new infrastructure improvements - with additional reservoirs and Sacramento Delta enhancement - as well as environmental clean-up and green technology, and increased public-private partnerships. The Governor also continues to support a Universal Health Coverage plan to be taken to the voters that has passed the Assembly but awaits an uncertain fate in the Senate. He argues that the

plan would be self-financing (It also anticipates \$5.5 billion in federal funding) and therefore can be considered even with the Budget deficit.

Schwarzenegger did propose one new revenue generator: a new Wildland Firefighting Initiative that would assess a surcharge of 1.25 percent on all residential and commercial property insurance. The average additional cost to homeowners would be \$11.25 per year.

As part of the expenditure reduction, the Governor proposed to save approximately \$526 million over the next 18 months by releasing 22,159 non-violent prisoners. This proposal is likely Dead On Arrival in the Legislature in an election year.

Another "savings" would come from delayed payments. The Governor proposed some "cash management solutions" for an over-all Budget savings of \$8.7 billion. Included would be a two-month delay in disbursement of deferred apportionments for K-12 schools and community colleges, a two-month delay in disbursements for programs in the Department of Social Services, and a delay of \$400 million in the advance to regional centers.

Overall, he says his plan would save \$217 million for the remainder to this fiscal year and approximately \$9 billion in FY 2008-09.

In sum, the Governor is seeking (1) mid-year spending reductions (see Special session), (2) across-the-board cuts, and (3) money put aside for bad years.

Democrat Leaders Respond to Governor's Budget Proposal

The battle is joined. It's going to be ugly, even if this weren't an election year!

Following the Governor's State-of-the-State speech, Assembly Speaker Fabian Nunez (D-LA) said the discussion needs to be re-shaped. "The conversation can't be just about price but about values and principles as well." He said that the citizens of California do not want vital services dismantled. "There are challenges and choices," he said.

Reacting to the proposal for 10% across-the-board cuts, Senate President pro Tem Don Perata (D-Oakland) was even more direct: "The Governor's vision is to make yesterday our tomorrow." "The Governor is willing to sell us short (by advocating cuts without prioritization)."

The legislative leaders were setting the stage for new revenue sources - "a more balanced approach to solving the deficit problem." Already, the Governor and Republican legislators have drawn a line in the sand against any new taxes.

Both the Democrats and the Governor, however, agree that structural reforms which would minimize the peaks and troughs of State financing are needed. What those are, of course, will require some serious arm-wrestling.

Education

Total Spending. Total funding for K-12 education is projected to be \$68.5 billion in 2008-09. Of this amount, \$65.1 billion is state, federal and local property tax funding accounted for in the State Budget. The FY 2008-09 Budget reflects an \$865.1 million decrease from the revised 2007-08 total of \$66 billion.

Total per-pupil expenditures from all sources are projected to be \$11,935 in 2007-08 and \$11,626 in 2008-09, including funds provided for prior year settle-up obligations.

As a result of a steady decline in birth rates throughout the 1990s, attendance growth in public school is declining. For FY2007-08, K-12 average daily attendance is estimated to be 5,923,000, a decrease of 29,000 from the prior year. For FY 2008-09, the estimate is that ADA will decrease by an additional 31,000 to 5,892,000.

Suspension of Prop. 98. The Governor's biggest Budget proposal in Education is to suspend the Constitutional set-aside for schools, the Proposition 98 guarantee, for FY 2008-09. If approved by the Legislature - which is far from certain - it could mean a reduction of \$4 billion for schools in the fiscal year. Approximately \$41 billion of the State's \$100 billion in General Fund revenues goes to K-14 Education.

Such a suspension requires a two-thirds vote of the Legislature and has been done only once (in 2004, during that year's fiscal crisis). Education advocates have already voiced concern about another suspension, both because of the program reductions it portends and because of the precedent it may create as a Budget solution when revenues are down.

A new Prop 98 suspension brings to recall the political aftermath in 2004 and the high profile battle between the Governor and Education advocates, particularly the California Teachers Association. Then, it was a battle over \$2 billion in Prop. 98 suspension.

According to the *Sacramento Bee*, CFT President Marty Hittelman has said, "We would enlist all of labor to resist the cuts and to resist the suspension of Prop. 98." "We would consider it an assault on working families." Similarly, the *Bee* quoted CTA President David Sanchez as saying, "Our students are not the ones that created this budget crisis." "Their education shouldn't be ransomed to solve it. If there has to be any kind of budget cut, it should be kept as far away from the classroom as possible."

Relative to the suspension, Education advocates say that \$4.1 billion is still owed (affectionately called the "Maintenance Factor"). If no COLA is provided in the Budget Year, it is nonetheless built into the MF going forward (affectionately called "The Deficit Factor"). For you Budget wonks, the 2008-09 DF would be 5,835 (6.99 if the new

COLA formula is not approved). Bet you're glad that you aren't the Prop 98 Test 1/Test 2/Test 3 expert!

In a briefing, the Administration said that it expects the MF to be restored in 2009-10. "A one year hit with two years to restore it," said one advocate in the audience cynically.

Current Year is over-appropriated. The Administration calculates that Prop 98 in the current budget is over-appropriated by approximately \$1.4 billion. The Governor proposed reducing that number to \$400 million, and he will probably work with Education advocates to find ways to drop that figure some more.

Reform of Low-Performing Schools. True to his Tuesday speech, the Governor proposed to "reform" 98 of California's under-performing school districts. In accordance with the federal No Child Left Behind (NCLB) law, the State must intervene when schools have failed student achievement baselines in multiple years.

The Governor proposed to have CDE craft a "repair plan" for each district. It may include help from private consultants or a county-level education team, or even a State take-over and re-structuring. A pot of \$29 million in federal funds has been set aside for this purpose, as required by the NCLB.

"No more waiting," said the Governor. "We must act on behalf of the children."

No COLA, No Growth. The COLA for FY 2008-09 is projected to be 4.94 percent. The Administration wants to reduce it to 3.65 percent by applying a new adjustment factor "which is more relevant to schools" (The Deflator factor). Either way, you're not going to get it. The Governor's FY 2008-09 Budget proposal provides neither COLA nor Growth for Education in the Budget Year.

School bonds. He plans legislation to place an \$11.6 billion bond measure before the voters to continue funding of the State's K-12 schools beyond the two years of financing provided by the current bonds to prepare for enrollment growth, reduce overcrowding, and repair dilapidated classrooms.

Social Services

CalWORKs. A total CalWORKs expenditure of \$7 billion is proposed, including a \$133 million CalWORKs reserve. It includes \$131 million to provide a statutory COLA for assistance payments.

The Administration scores a \$73.7 million reduction in the Current Year and \$389.1 million in the Budget Year for CalWORKs "as part of a reform proposal intended to improve the state's work participation rate, a combination of work incentives and sanctions." The Budget would limit the Safety Net elimination for non-working parents (a similar plan that the Legislature rejected last session) to 60 months. The proposal scores savings by halting welfare payments to children if their "timed out" parents do not maintain new work participation levels. The limitation will also apply to undocumented

alien cases and drug felons (Counties are apparently expected to pick up the slack for these cases.).

Funding for counties (\$230 million for local efforts to engage families and \$40 million pay-for-performance incentives (deferred to the Budget Year) to achieve critical outcomes) remain at last year's funding levels.

In the CDSS budget, Stage 1 child care is funded at the projected caseload level, \$554 million.

SSI/SSP. The Governor also recycles the proposal to cut Supplemental Security Income/State Supplementary Payment cost-of-living adjustment. Federal COLAs would be passed through.

Community Care Licensing. The Budget proposes a \$1.7 million (\$1.3 million General Fund) increase from the revised FY 2007-08 budget, but a reduction of \$2.3 million for random licensing visits is proposed. "Under this proposal, 14 percent of facilities would receive random inspections annually, equating to a visit for each facility approximately once every seven years. To mitigate health and safety impacts, no reduction will be made to follow-up inspection schedules for facilities that have previously been found to be out of compliance with licensing standards. Even with this reduction, the frequency of visits will surpass the level occurring when the Administration took office in 2003." OUCH!

Child Care and Development, After School Cuts Proposed

COLA and Growth. Child development programs will receive no COLA or Growth in the Budget Year. The Administration said that a COLA would have cost \$80 million; Growth, \$10.9 million..

Reductions. The Budget proposed a cut of \$198.9 million, reducing approximately 8,000 existing, child care slots. The Budget Summary says, "Normal attrition rates in these programs should reduce the likelihood of a currently enrolled child losing their slot."

Apparently, CalWORKs child care is untouched. Here are the reductions in General Child Care:

| PROGRAM | 2007-08 (in thousands) | CUT (in thousands) |
|-----------------------------------|-----------------------------------|-------------------------------|
| State Preschool | \$441,854 | (\$28,452) |
| General Child Care Centers/FCCHEN | \$719,386 | (\$51,814) |
| Migrant Centers | \$35,159 | (\$2,612) |
| AP (General Child Care) | \$112,258 | (\$16,551) |
| R&R | \$19,438 | (\$1,252) |
| Latchkey (Extended Day) | \$35,890 | (\$2,311) |
| Handicapped | \$1,997 | (\$129) |
| Child Care Initiatives | \$250 | (\$16) |
| Quality Services | \$67,572 | (\$3,885) |
| CELS | \$7,900 | (\$509) |
| LPC | \$6,637 | (\$427) |

Proposed reductions in maximum enrollments are as follows:

- State Preschool - (-7,661)
- General Child Care - Centers & Networks - (-5,600)
- Child Care AP - (-2,466)
- Other General Child Care (Migrant, Latchkey & Handicap) - (-869)
- CalSAFE - (-176)
- ASES & 21st Century - (-90,510)
- Community College Stage 2 - (-327)
- CalWORKs Stage 1 - (+3,455)
- CalWORKs Stage 2 - (-1,794)
- CalWORKs Stage 3 (+869)
- CalWORKs Child Care Reserve - (-816)

Total Enrollment Reduction = 105,895 (Estimated)

I assume that the Administration's claim that 8,000 slots will be lost is only adding losses in General Child Care Centers/Networks and APP. It appears to me that the General Child Care reduction is much greater and that low-income families are taking much more than a 10% hit. Watch those waiting lists go up!

CalWORKs Child Care. CDE CalWORKs child care (Stages 2 and 3) is funded based on caseload projections, subject to May Revision. Stage 2 is funded at \$380,971,000; Stage 3, at \$270,944,000.

Before and After School. The Budget provides for a \$59.6 million reduction in this program. The Administration will propose a ballot measure to amend Proposition 49 (which the Governor initiated) to achieve its 10% savings. "The impact of this reduction

would be minimal because a number of the recent grant recipients have not implemented the program or have not achieved the enrollment levels initially anticipated."

I will report more of the FY 2008-09 Budget details as they become known. You can peruse the Governor's FY2008-09 Budget proposal on the Department of Finance's web site at <http://govbud.dof.ca.gov>.

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