



*Learning through
Books, Media and Technology*

[Who we are](#)
[Join CSLA](#)
[Event Calendar](#)
[Organization](#)
[Job Hotline](#)
[Home](#)

Proposed Cuts Spare Education

Governor Schwarzenegger unveils budget options

Budget Update / Governor's Proposed Spending Cap

On November 24th, Governor Schwarzenegger released his proposal for mid-year cuts, seeking to shave \$3.8 billion from the state's budget over the next 19 months. Following through on his promise not to cut K-12 education, the Governor instead suggests hefty reductions in services to the poor and disabled, as well as higher education programs.

The \$3.8 billion in proposed General Fund reductions are distributed as follows:

- \$933 million in Transportation (24.6 percent of the total proposed reductions)
- \$720 million in Health (19.0 percent of the total proposed reductions)
- \$632 million in Social Services, Child Support, and other human service programs (16.7 percent of the total proposed reductions)
- \$250 million in Developmental Services (6.6 percent of the total proposed reductions)
- \$493 million in reductions to counties and cities (13.0 percent of the total proposed reductions)
- \$319 million in higher education (8.4 percent of the total proposed reductions)

Good News for K-12 Education

The most immediate "good news" for K-12 education is that it is not on the Governor's list for mid-year cuts. In addition, the Legislative Analyst's Office (LAO) released their budget projection for 2003-04 through 2008-09. As expected, the report highlighted the fact that California's overall fiscal condition is critical. At the same time, the report shows that the Proposition 98 guarantee will be funded at the minimum amount required by the State Constitution, and that such an assumption yields funding increases for K-12 education and community colleges.

The LAO's examination of Proposition 98 is done in three parts: current year, budget year and out year's forecasts. For the current year (2003-04), the LAO projects that Proposition 98 will be revised to reflect an underappropriation over \$875 million. In other words, Proposition 98 is owed \$875 million. This figure is based

upon increases in sales, property and income tax revenue, along with unanticipated changes in school attendance and population increases. Neither the Governor nor the legislature has indicated what programs might be altered. Nor has there been any indication that the underappropriation would be filled by non-Proposition 98 programs such as childcare or mental health.

For the budget year (2004-05), the LAO estimates Proposition 98 will be \$2.4 billion (5.1 percent) higher in 2004-05 than in 2003-04. Out-year forecasts show that Proposition 98 will continue to grow by an average \$2.9 billion annually. The full text of the LAO Report, "Fiscal Outlook: 2003-04 through 2008-09," may be obtained online at: www.lao.ca.gov.

One Potential Challenge: Spending Cap Proposal

The "bad news" is that long-term Proposition 98 funding appears vulnerable. The Governor and Legislature grappled over the last week on the concept of a new spending cap. The Governor has asked that the legislature approve a spending cap that would be placed on the March 2004 statewide ballot. So far, no agreement has been reached and the deadline is very close. If no agreement is reached, it is very possible that the Governor will seek to place a spending cap measure on the November 2004 statewide ballot through the initiative process.

The Governor's Administration has proposed a new spending cap that would effectively limit future growth in K-14 education funding as prescribed under Proposition 98. The Governor had tied this proposed spending limit to his \$15 billion deficit bond proposal. However, neither the spending cap nor the bond was approved by the legislature last week. The Secretary of State had indicated that Friday December 5, 2003, was the deadline.

Summary of Spending Cap Proposal

The Administration's spending limit proposal (ACA5X 4) would establish a base year for all future state funding based upon revenues for 2004-05, as determined by the Director of Finance at the May Revision of the budget. Essentially, the 2004-05 May revenue estimate would become the basis for all future state spending, with no provision to allow for a subsequent correction should the 2004-05 May Revise estimation be too low.

Beginning in the 2005-06 budget year and every year thereafter, state expenditures could not exceed that 2004-05 base revenue level as adjusted by an annual inflator tied to the change in "per capita personal income" and population.

All revenue that comes in above this annually calculated

“spending limit” would be placed in the “Revenue Stabilization Fund” (RSF), established solely to hold excess revenue. Revenue placed in the RSF would not count as revenue to the General Fund (thus not available for Proposition 98 calculation purposes) and could be used for only four purposes by a 2/3 vote of the Legislature:

- To provide a rebate to taxpayers.
- To make additional debt service payments on the deficit reduction bond.
- To address emergencies, as determined by the Governor and agreed to by the Legislature.
- To increase General Fund revenues in any year when revenues do not reach the spending limit.

The spending cap proposal also gives the Governor significant new budget powers. For example, any time the Director of Finance estimates that current year expenditures would exceed revenues, the Governor could declare a “fiscal emergency,” call the Legislature into Special Session, and submit a recovery plan. The recovery plan would become law 30 days later unless, by a 2/3 vote, the Legislature makes changes eliminating the shortfall.

During the legislative debate on the spending cap, the Administration has argued that the spending limit is necessary to address Wall Street concerns about California’s financial situation. They also argue that the cap is needed to make California bonds more attractive and to stabilize California’s budget picture by limiting the runaway spending that created the current crisis.

Democratic members of the legislature proposed a series of compromises to this spending plan that included a requirement for a balanced budget, a reserve account and shared decision making between the legislature and the Governor over how those funds would be spent, but no agreement has been reached.

Effect of the Administration’s Spending Cap on Proposition 98 Guarantee

The Administration argues that the proposed spending limit would not affect Proposition 98 because it does not change the Proposition 98 funding formula. It is an accurate statement that Proposition 98 formula is not changed. However, the numbers used in the calculation of the formula would change – because state revenues beyond the cap would not be used in the calculation of the guarantee.

As we previously mentioned, revenue placed in the “Revenue Stabilization Fund” (RSF) would not count as revenue to the General Fund. As you know, Proposition 98 is calculated based on increases in general fund revenue.

Under the new spending cap, most of the state's new revenues would not be placed in the state's General Fund.

In addition, the proposed spending cap appears to undo the Proposition 98 "maintenance factor" calculation. Currently, under the Proposition 98 maintenance factor, the state owes education about \$3.5 billion to make up for years when the economy was doing poorly and schools were funded below the minimum guarantee. While the Administration's proposal does not directly address the maintenance factor, it would virtually eliminate any possibility of the state paying its debt to schools, because to do so would require providing funding beyond the new Proposition 98 guarantee – that is, by taking money from non-Proposition 98 programs to fund education. During the Senate Budget hearing yesterday, the Legislative Analyst Office indicated that the minimum guarantee calculation would no longer restore any outstanding "maintenance factor" after 2004-05.

In short, if the Administration's spending cap proposal goes forward as drafted, it appears that any future education program expansions would essentially come at the expense of other education programs because the new cap would provide far fewer Proposition 98 dollars than would be provided under the current calculation.

The education community is asking the Governor to reconsider his current proposal because of its effect on Proposition 98 and his campaign promise to protect Proposition 98 and education from any spending cuts. We expect significant modifications will be made before a spending cap is approved by the Legislature.

Effect On School Library Funding

If a spending cap that restricts Proposition 98 funding to a base year of 2004-05, the School Library Protection Act, currently funded at \$3 million, would be unable to return to its previous funding level of \$158 million per year. In fact, if a strict spending cap were to be approved, there would be a strong effort to create a block grant for instructional materials, supplemental materials and school libraries in order to give districts the needed flexibility to manage its limited funds.

[Governor's Proposed Budget](#) as a PDF file.

December 7, 2003
Jeff Frost
Legislative Advocate
Frost, Davis & Donnally
Posted 1/12/2004

[Back](#)

California School Library Association 717 K Street, Suite 515 Sacramento, CA 95814-3477
916-447-2684 FAX: 916-447-2695 csla@pacbell.net

Website comments or questions:

Tom Kaun, CSLA Vice President, Educational Technology, tomkaun@yahoo.com

www.schoollibrary.org