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California Budget Update

Governor Releases May Revision to the Budget

The Governor has released his revisions to the budget that reflect the new revenue estimates. The revised revenues will enable the Governor to completely honor the agreement that he made with the Education Coalition and fully fund growth and COLA. The highlights are outlined below:

General Fund Revenues and Proposition 98 Guarantee

The Governor's Budget identifies \$3.156 billion in current year and prior year revenue increases/adjustments. These increases are offset by reductions in various general fund transfers and other revenues used to balance the Governor's January Budget Proposal.

The May Revision estimates that the Proposition 98 guarantee will increase by \$266.78 million in the current year (2003-04) and \$275.245 million in the budget year (2004-05) for an overall increase of \$542.055 million. This increase allows the Governor to maintain the original budget agreement announced with CTA/Ed Coalition in January, fund the increased COLA obligations and provides for additional augmentations.

COLA & Growth

As expected, the revised budget includes a 2.41% COLA for Revenue Limits and all categorical programs. The cost to fund the higher revenue limit and categorical COLA is approximately \$250 million. The budget reflects a \$118.2 reduction in current year and budget year revenue limit funding obligations due to a decline in enrollment projections.

The May Revision does not provide any funding for prior year deficit reduction. However, it does provide additional funding for several programs beyond the level of the January budget. These program increases include:

Equalization: The May Revision proposal provides \$27.8 million to restore funding for school district equalization to the \$110 million level.

Instructional Materials: The revision provides an additional \$100 million in funding above the revised agreement.

Deferred Maintenance: The May Revision provides an additional \$107 million above the earlier agreement.

Special Education: The May Revision proposes to fully fund special education enrollment growth and a 2.41% cost-of-living adjustment. Additionally, the budget proposes a \$38.4 million augmentation for the funding of pupils in non-public schools (NPSs) and licensed children's institutions (LCIs). This funding is intended to be a part of an overall reform of how these placements are made.

Mental Health Reforms: The budget proposes to redirect \$31 million in federal funds (on top of the current \$69 million already allocated for this purpose) to be allocated to school districts to schools as a permanent increase for mental health related services provided under the AB 3632 program. These funds are to be accompanied by specific reforms to do the following: 1) encourage cost containment, 2) outline clear roles among local agencies and other service providers related to IEP-related mental health services, 3) provides clarification on what distinguishes "educationally necessary" treatment from "medically necessary" treatment, 4) address quality control issues through the formation of a special entity to hear appeals, and 5) allow for reasonable flexibility from IEP specifications to meet the specific responses of the pupil.

School Libraries: The May Revision provides \$95.1 million in one-time Prop 98 Reversion Account funds for school libraries. This would bring the total funding for school libraries in the budget year to \$99.4 million.

Charter Schools: The May Revision provides \$7.7 million in one-time Reversion Account funding to fully fund the Charter School Facilities Grant Program for three years. Additionally, \$1.1 million would be added to the Charter School Block Grant.

Summary:

The May Revision provides significant good news. However, this proposal will now be considered by the legislature in light of the large spending cuts that are being proposed for the non-Prop 98 programs in the budget. It would be wise to plan for full growth and COLA in 2004-05, but it is premature to count on any additional funding. The hard work is only now beginning.

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Posted 6/2/2004

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