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CDPI INFORMATION BULLETIN

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May Revision Released; Aged, Disabled and Poor Feel Brunt of Cuts

Governor Arnold Schwarzenegger today released his revised FY 2007-08 Budget proposal. Known as the May Revision, the new plan updates his January proposal, using more current income and expenditure data.

The May Revision projects General Fund expenditures of \$103.765 billion. It contains a General Fund reserve of \$2.199 billion for 2007-08, a reduction of \$24 million compared to the January Budget. Growth, the Administration says, would be held to 1.6%. He proposes a "rainy day" reserve of \$2.199 billion.

Schwarzenegger's budget proposal also shows the Administration backing away from his earlier claim that he would end the State's ongoing structural deficit. His revised budget continues to spend more than the State collects in revenue, although aides said it marks major progress in closing the gap. The gap would be \$1.495 billion.

Despite better revenues, the Governor continues to rely on cuts to CalWORKs recipients, social services and public transit that he initially proposed in January. He takes back the COLA for the aged, blind and disabled receiving SSI/SSP for a "savings" of \$184.7 million in 2007-08 and an on-going "savings" of \$369.5 million in future years.

"I'm not happy about doing it," the Governor said. "I wish that we could fund all of those programs. I think a lot of people deserve this money, but I have an obligation, which is a promise to the people of California that I will bring down the structural deficit to zero."

In addition, the Governor proposes revenue from selling the state agency that administers federally backed student loans (EdFund) and reshuffling gas tax and tobacco settlement money.

Democrats signaled tough negotiations ahead by calling today's revisions a "mean-spirited" budget that proposes cuts for some of the state's neediest residents. Assembly Speaker Fabian Núñez (D-LA), said the budget was "out-of-touch" with residents and

"punishes low- and middle-income families that are working hard and playing by the rules."

"The administration wants to pay off Wall Street early even if it means that kids on Main Street do without," Núñez said, adding that the budget revision seemed to be a return to the "pre-post partisanship governor."

While the Administration recognizes that the economy "continues to be very sound," the Revision projects continued softening of State revenues due to a sluggish real estate market. The State, DOF says, will end the year slightly ahead of what the Administration projected in January, but the outlook for the new fiscal year is cloudier than once thought.

Education in the May Revision

Most of the increase in the nearly \$104 billion General Fund budget goes to Education. In January, the Administration had predicted that revenue from higher local property taxes would offset mandated increases in public school spending. That calculation appears to have been off, with the Governor now estimating nearly \$900 million in additional education expenses in the coming year. Under a complex funding formula, higher-than-expected state tax revenue in April also increased the amount owed to schools.

COLA increased. The May Revision proposes a \$226.8 million increase to fund an increase in the statutory COLA, including \$7.5 million for child care programs. The COLA increases to 4.53 percent from the 4.04 percent adjustment included in the January Budget proposal.

Average Daily Attendance. The May Revision proposes a \$293.3 million net reduction in 2007-08 to reflect the decline in ADA from the Governor's Budget projection. The majority of this amount consists of a \$285.6 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to an increase in the attendance estimate for 2006-07, there is a \$41.2 million increase in revenue limit apportionments included in the May Revision for that year.

Proposition 98 Guarantee. Prop 98 funding for 2007-08 is proposed at \$57.6 billion, a four percent increase over the January Budget estimate. The General Fund comprises approximately 72.7 percent, or \$41.9 billion of the total proposed Prop 98 funding.

Governor's initiatives. The May Revision includes substantial ongoing and new support for the expansion of Career Technical Education, nutrition programs - including a new California Fresh Start Program, school breakfast programs, technology, and school safety.

Child Care in the May Revision

COLA increased. The K-12 cost-of-living adjustment was increased to 4.53% from the 4.04% proposed in January, and so was the COLA for child development programs.

Preschool Expansion Proposed. The May Revision provides an additional \$50 million in ongoing Proposition 98 funding for the second phase of a three-year initiative to expand preschool opportunities for 4-year-olds residing in attendance areas of schools ranked in the lowest three deciles of the 2005 Academic Performance Index (API). This funding will expand the provisions of the Pre-Kindergarten Family Literacy (PKFL) program. The PKFL program includes quality reforms designed to promote family literacy. The \$50 million will bring total funding for PKFL to \$100 million and total state funding for preschool programs to \$470.7 million.

Classroom Support Extended. Included in the PKFL program is \$5 million earmarked to provide up to \$2,500 per classroom for support activities, including professional development for preschool teachers. The Administration is proposing to extend the \$2,500 per classroom to all state subsidized preschool programs with priority given to PKFL programs. "This will allow funds to benefit a larger population of children while maintaining the focus on targeted preschools under the PKFL program."

Wrap-around. In addition, the May Revision continues to propose \$5 million in ongoing Proposition 98 funding to provide full-day wrap-around care for children in PKFL programs. "Wrap-around care provides an opportunity for children of parents who work full-time to participate in preschool and still receive quality child care for the remainder of the day." By the way, the \$5 million for wrap-around is part of the \$50 million, not in addition to it.

Social Services in the May Revision

CalWORKs. For 2007-08, the caseload is expected to be 404,300, a decrease of 12.3 percent from the revised 2006-07 caseload reflected in the January Budget. Combined federal TANF and state/county maintenance of effort expenditures in 2006-07 and 2007-08 are anticipated to be \$7 billion. The Governor, as predicted, continues the safety net and other cuts proposed in January. These, and the SSI/SSP pull-back, suggest a late Budget this year as the politicians clash. The Administration believes the proposals help bring the State into compliance with the new federal work participation requirements (up by 6 percent and 11 percent annually thereafter); advocates think such policies are not needed in order for California to come into compliance this year.

CalWORKs child care. Once again, CalWORKs child care in all three stages is fully-funded. The larger-than-projected increases in Stages Two and Three have been covered in the May Revision by using prior-year reversions and \$17 million from the Child Care

Facilities Revolving Fund (CCFRF). The "Child Care Shift" proposed in January - using \$269 million in Proposition 98 funds (freed by the Transportation shift) in lieu of federal TANF Block Grant funds for Child Care to offset non-Proposition 98 General Fund costs in the CalWORKs program - remains in the May Revision.

Community Care Licensing. The May Revision continues the January proposals for Licensing but does not increase inspections nor call for public posting of inspection findings.

There may be more to the May Revision that we will learn when the May Finance letters and Budget detail are released in the coming days. We'll keep you informed.

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