

May Revision Released

Governor Proposes More Money For Schools, Local Government

May 14, 1997

Revenues Up Due To Strong Personal Income Growth

- Projected General Fund revenues are up by \$2.26 billion over January estimates, \$960 million in 1996-97 and \$1.303 billion in 1997-98.
- However, due to various factors, \$2.21 billion (98 percent) of the new money must go toward purposes covered by the Proposition 98 guarantee. The Governor's proposal is at the high end of the estimate of 80 to 100 percent released by the Legislative Analyst last week.
- The Governor continues to assume elimination of the renters' tax credit for savings of \$525 million, implementation of a 10% corporate tax cut over two years, and conforming to federal increases in the small business expensing allowance and changes in the taxation of Subchapter S corporations. The Governor's proposed tax cuts reduce 1997-98 revenues by \$125 million.

Why Does Most Of The New Money Go To Schools?

Three factors combine to increase the Proposition 98 school funding guarantee:

1. Higher revenues push required school funding higher under the current formula (Test 3) used to calculate the guarantee;
2. State population estimates have been revised downward. Since the Proposition 98 guarantee is dependent on per capita personal income, lower population results in higher per capita income and a higher school funding guarantee;
3. School attendance is up significantly over January estimates.
 - Proposed school funding includes \$110 million owed to schools due to a recalculation of the 1995-96 guarantee.
 - Despite the influx of new money, proposed K - 12 per pupil spending of \$5,151 is still only 84 percent of the 1995-96 national average.

Assumptions Of Federal Action Reduced, But Still Extremely Optimistic

- The May Revision eliminates an assumption that Congress will allocate \$216 million for Medi-Cal services to undocumented immigrants and reduces the assumed reimbursement for incarceration of undocumented immigrants by \$46.7 million. Both actions more accurately reflect the status of current federal budget actions.
- The revised budget continues to assume enactment of a federal law change allowing the state to reduce SSI/SSP grant levels. \$289 million in budgeted savings hinge on this assumption. The budget also assumes \$85 million in revenues from a change in federal

law requiring the IRS to deduct tax payments owed to states from federal tax refunds. Congress has not yet acted on this matter.

How Are The New Education Dollars Spent?

- To continue class size reduction with \$229.6 million more than was proposed in January, bringing average funding up to \$800 per child. The proposal provides some flexibility for districts with special circumstances, such as a large Limited English Proficiency (LEP) or migrant population, so that these districts are not penalized for fluctuations in class size. The Governor continues to propose expansion of the program to cover an additional grade. To address the issue of inadequate facilities, the Governor proposes to allow districts to borrow a portion of available class size reduction funds to purchase portable classrooms. If class sizes are reduced, loans will be forgiven and the district does not have to repay the state. This is intended as an interim measure until a statewide bond for facilities funding is passed. Districts can claim a full year of funding as long as class sizes are reduced by February.
- To increase funding for revenue limit equalization and deficit reduction: \$383.7 million in 1996-97, for a total funding level of \$688 million; and \$410.1 million, for a total funding level of \$722 million for 1997-98.
- The Governor proposes to purchase a standardized test for individual pupil assessments, beginning in the spring of 1998 at an additional cost of \$59.4 million plus \$23.2 million in funds redirected from the current locally-directed program.
- The Governor does not fund a COLA for categorical programs.
- The Governor earmarks \$50 million in Proposition 98 adult education funds for TANF recipients.

Local Government Receives Some Relief

Governor Wilson provides \$225 million in local government relief in an effort to offset some of the \$3.5 billion in property tax revenues shifted to schools during 1992 and 1993. Most of the proposed assistance is earmarked for specific purposes. Specific proposals include:

- A \$75 million reduction in the \$229 million Disproportionate Share Hospital (DSH) administration fee the state charges counties. Since 1993 the state has charged counties a fee to cover the cost of distributing DSH payments to qualified hospitals. Los Angeles County will receive nearly \$39 million, with the remainder shared by 22 other counties.
- Returning \$100 million in property tax revenues to counties and cities. These funds would be distributed based on local jurisdictions' share of the property tax shift adjusted to reflect amounts received from the sales tax for public safety enacted by Proposition 172 revenues.
- Allocating \$50 million for the California Infrastructure Bank, which was created in 1994 but never funded. This amount is in addition to the \$200 million provided in the January budget. The bank allows local governments to sell construction bonds using the state's lower interest rate. The bonds would be used to build roads, sewers, and make other needed improvements.

Funding For Welfare Reallocated

- The May Revise transfers \$213.1 million of the \$3.7 billion federal Temporary Assistance for Needy Families (TANF) block grant to child care. This is in addition to the \$107 million that the governor proposed spending on child care in his original budget. These funds would be distributed to counties by the Department of Social Services.
- The Governor proposes spending \$64 million for child care out of Proposition 98 funds during 1997-98. This money will go toward general child care (\$45 million), State Preschool programs (\$15 million), and the School Age Parenting and Infant Development Program (\$4 million).
- The May Revise restores \$153 million in funds for the SSP portion of SSI/SSP based upon the assumption that the Federal government will restore Supplemental Security Income (SSI) to legal immigrants who were in the country prior to August 22, 1996. In addition, legal immigrants who retain SSI/SSP eligibility will continue to receive In-Home Supportive Services (IHSS). Therefore, the \$24 million in savings assumed in January is restored.