

# 2012 Governor's May Revise Budget

Presented to the  
Board of Trustees  
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## Themes for the May Revision

- It's all about the economics
  - Revenues are improving at a much slower rate than expected in January
  - Immense pressure on the State Budget and competition for limited resources
  - The revised Budget has a lot of moving parts again this year
  - Bottom line: Best case is flat funding for education – and maybe a lot worse
- In January, the Governor's tax initiative was expected to fill the revenue gap
  - In May, revenues have fallen, and, if the initiative passes, it fills only half the gap
- Education policy, expectations for student performance, and funding for schools are not aligned
- Today's funding level may be our new reality for the foreseeable future



## The May Revision

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- The May Revision first recognizes that January's projected \$9.2 billion State Budget shortfall has grown to \$15.7 billion in May
  - Even if the Governor's tax measure passes in November, there will still be a significant State Budget problem
- As a result, the Governor proposes:
  - More cuts to the non-Proposition 98 side of the Budget
  - More manipulations to reduce Proposition 98 actual funding
  - But, in the end, planned K-12 funding is much like the January proposal
    - Flat funding if the taxes pass
    - Big cuts if they don't
  - 2012/13 will not be a good year for education funding
    - And failure of the taxes would make it a disaster



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# The Governor's Major Proposals

- Temporary taxes
  - More reliance on temporary taxes than ever
- Cash deferrals
  - Deferrals are the balancer; Proposition 98 gains disappear by reducing deferrals
- Redevelopment agencies (RDA)
  - State counts RDA money as property taxes, offsetting State Prop 98 costs
- Weighted Student Formula (WSF)
  - Grade span adjustments and additional revised add-ons
- Flexibility proposals
  - Still alive – no changes from January
- Transitional Kindergarten (TK)
  - Still proposes elimination of the mandate (Governor reduces savings estimate)



## No New Funding for Schools

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- Despite claims of:
  - \$6 billion more for schools!
  - 16% increase for schools!
- District, schools, classrooms do not get one more dime whether the Governor's taxes pass or not!
- The only "gain" is the absence of yet another cut
- The public is confused
  - The state says Proposition 98 is growing
  - But local schools are making massive cuts and affirming layoffs
- The state has not provided a single new dollar to local schools since 2007-08



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# The California Economy

- The California economy is recovering slowly as well
  - The state leads the nation in exports, especially to the “Pacific Rim” countries, with total exports increasing 11% in 2011
  - The high-tech sector is also a strong advantage for California
    - The Facebook initial public offering (IPO) alone could add \$1.5 billion in tax revenues in 2011/12 and 2012/13
  - The state’s housing market, however, continues to be a drag on growth
- Like the nation, California’s employment growth has sputtered this spring
  - In March, the state added 18,200 jobs and the unemployment rate increased slightly to 11%, up from 10.9% one month earlier
  - The state has added about 385,900 jobs since the recovery began almost three years ago
    - Remember: the recession wiped out about 1.3 million jobs



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## Risks to the Revised Budget Proposal

- Even if the Legislature adopts the Governor's May Revision as proposed, the State Budget would face huge risks in 2012/13
- Voter approval of the Governor's tax initiative is uncertain at best
  - While more than one million signatures have been submitted, more than 800,000 must be found valid in order for the initiative to be placed on the ballot
  - The latest poll found that about 54% of those surveyed supported the measure, a slim margin at this stage of the campaign
  - A competing measure sponsored by Molly Munger could confuse voters and draw support away from the Governor's initiative
- The Facebook IPO could fall short of expectations, resulting in a loss of General Fund tax revenue



## Current-Year Revenue Limits

- For 2011/12, revenue limits were reduced as a result of the midyear “trigger” reductions
  - 0.198% reduction to districts’ undeficit revenue limit, or about \$13 per ADA on average
  - 0.65% reduction to districts’ undeficit revenue limit, or about \$42 per ADA for all school districts, related to the \$248 million cut to home-to-school and special education transportation
    - The 2011 Budget Act originally would have eliminated one-half of districts’ transportation funding for 2011/12
- The midyear “trigger” reductions were one-time and these funds are restored for 2012/13

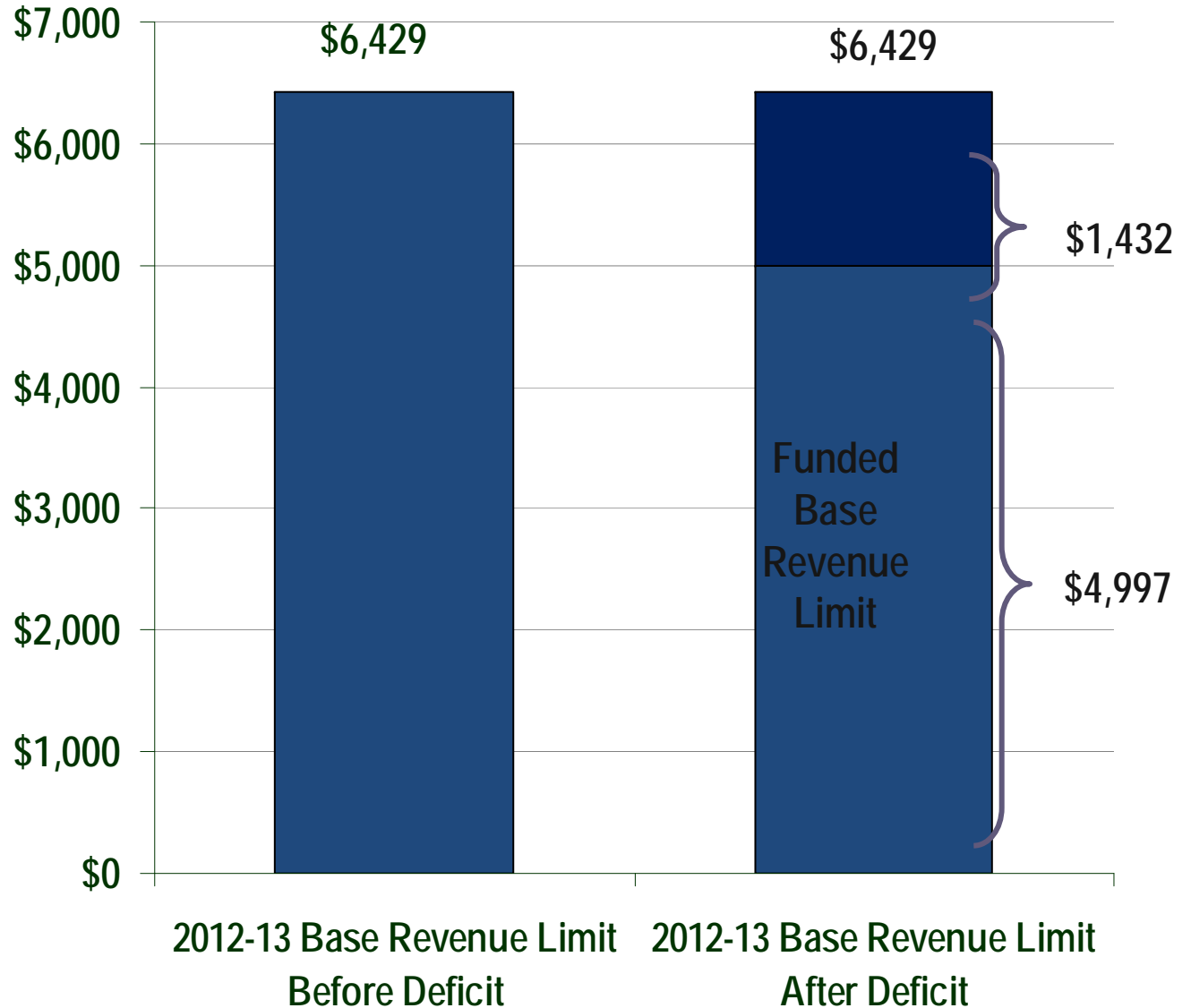




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# Base Revenue Limit And Deficit Factor Lowell Joint School District

- A deficit of 22.272% is applied to the 2012/13 undeficit base revenue limit (\$4.4 million for LJSD)

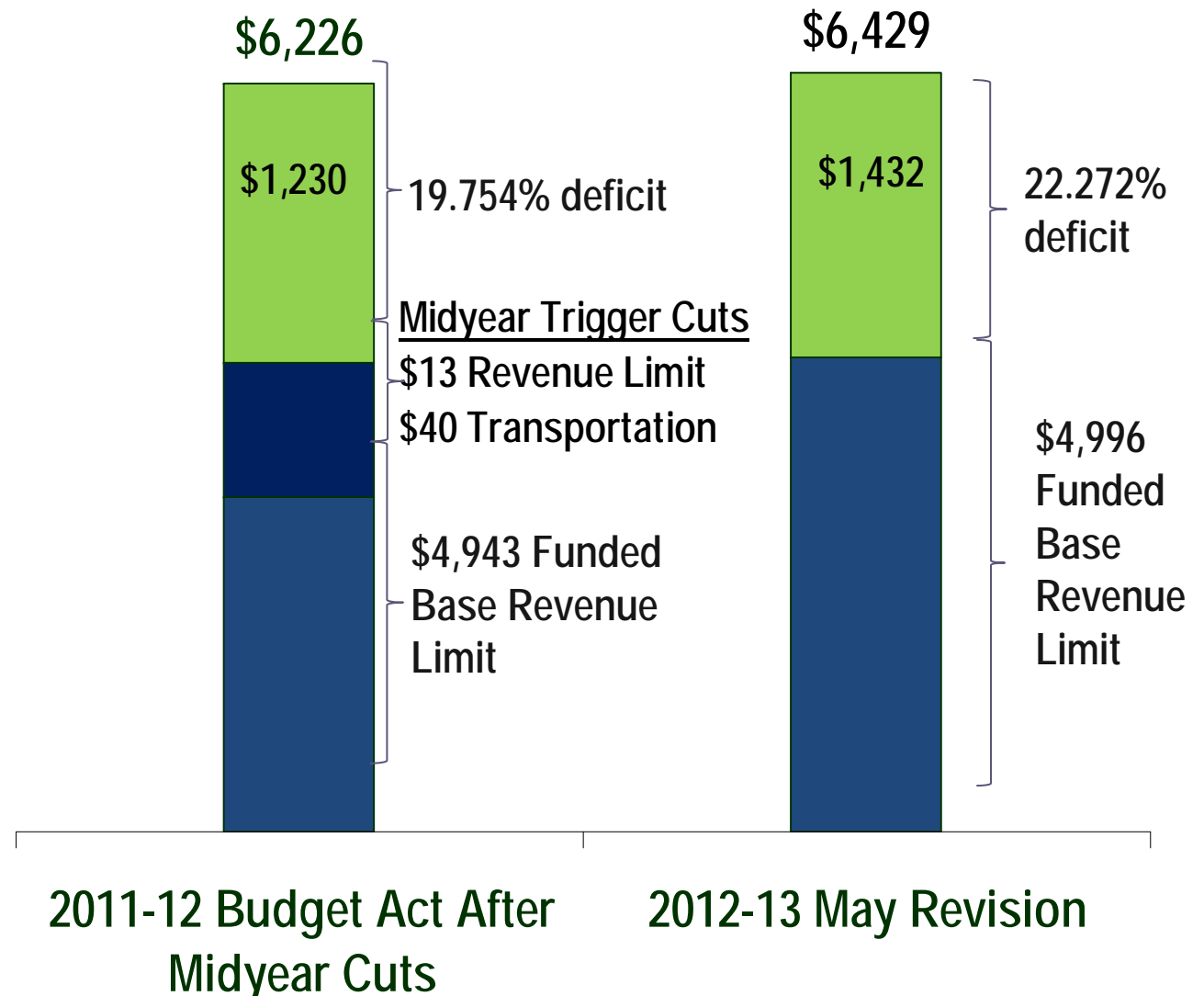




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## 2011-12 Funded Revenue Limit vs. 2012-13 May Revision Lowell Joint School District

- The 2011-12 revenue limit after the deficit, but before the midyear cuts is \$4,996 per ADA
- The amount received after the one-time midyear cuts is \$4,943 per ADA
- The midyear cuts are to be restored in 2012-13, resulting in flat funding

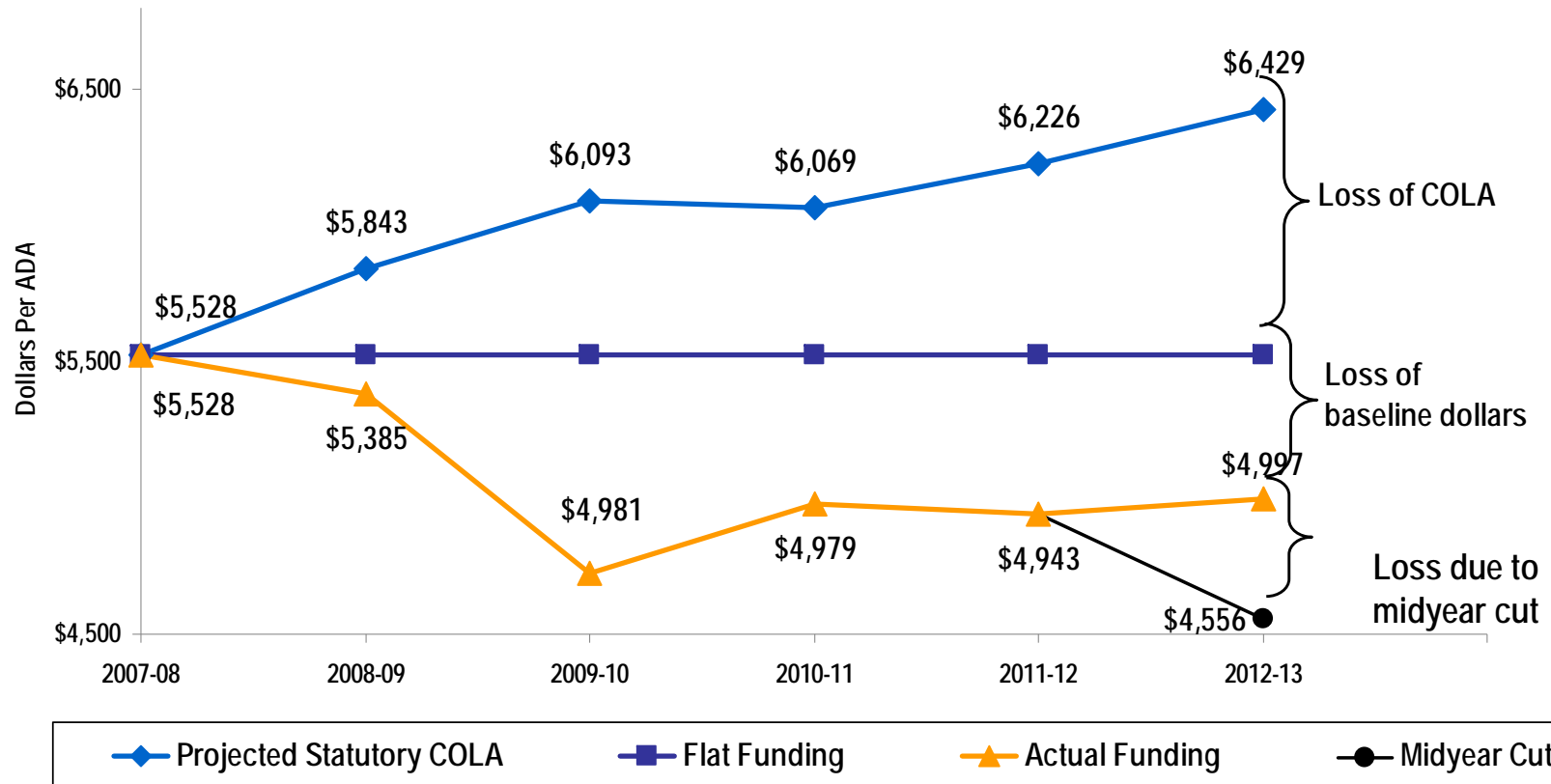




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# Funding Per ADA – Actual vs. Statutory Level

Lowell Joint





## What Is the Cut If the Taxes Fail?

- Districts that plan for a \$441 cut per ADA should be safe
- May Revision proposes school district authorization to reduce school year by up to a total of 15 days over the 2012-13 and 2013-14 school years
  - The District calendar for 2012-13 is for 175 school days utilizing current law
  - With the existing collectively bargained contingency language, and new authority for reduction of 15 additional school days, 2 additional school days could be automatically reduced in 2012-13 (Any additional days or salary decreases would be subject to bargaining.)
  - With current law (5 student days) and new authority if the initiative fails, this raises to 18 student days the total possible reduced student days in 2013-14 (Furlough days and/or salary decreases would be subject to bargaining.)
- \* 15 additional Furlough days is approximately \$150,000 short of one year's loss in Base Revenue Limit – However, the \$441 per ADA cut is ongoing each year, so additional cuts may be necessary.



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## What Is the Cut for the District If the Taxes Fail?

\$441 cut per ADA

\$ 1,360,000	for 12/13
\$ 1,360,000	for 13/14
<u>\$ 2,720,000</u>	Total Loss

Savings from reduced school  
days over two years

\$1,200,000	15 school days
\$ 400,000	5 school days
<u>\$ 1,600,000</u>	20 school days



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## What Should We Plan For?

- Planning will again be difficult because of the potential for major changes at midyear
  - Until the results of the November tax initiatives are known, plan for an ongoing loss of about \$441 per ADA
  - Begin negotiations about if and how the school year will be shortened if the taxes fail (January 2013)
- Forecasting cash continues to be a major concern
  - Estimate needs at the high end and borrow accordingly
  - Avoid the need for a second borrowing to save on issuance costs
- Plan to offer Transitional Kindergarten
  - Move ahead with planning to accommodate all students affected by the shift in the entry age for Kindergarten
  - Delay staffing for TK until there is an approved State Budget



## What Should We Plan For?

- If the Governor's tax initiative passes:
  - Plan for the Weighted Student Formula (WSF) to move forward with phase-in beginning in 2012-13
  - Remember, under this plan school districts receive no new dollars (improved cashflow), but do not take another cut
- If the Governor's tax initiative fails:
  - Plan to make a \$441 per-ADA cut on an ongoing basis (worse cashflow)
  - The WSF will not move ahead
  - Hold on to reserves – without the taxes, the Governor is expected to propose another cut in January 2013 to address the structural deficit
- If the PTA/Munger initiative passes, be prepared to implement at schools
- Clearly articulate the problems that face the district and the solutions needed to address them – keep options open