

# Governor's 2012-13 January Budget Proposal

Presented to the Board of  
Trustees  
February 7, 2012

School  
Services  
of California  
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# Education Funding Remains At Risk

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- State funding for education was cut by 16% beginning in 2008-09 – five years ago!
  - And education has contributed about \$7 billion per year to help resolve the state's Budget crisis – a total of more than \$35 billion
  - No other segment of the Budget has been cut anywhere close to that much and most other segments of the Budget have actually grown over the same five-year period
- But the Governor's challenge is increasingly difficult
  - Our cyclical economy isn't cycling fast enough
  - The state is running out of solutions
  - We think the Governor is making the most of a bad situation, but it isn't going to be resolved anytime soon

# Another "Crisis" Budget

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- The Governor's Budget Proposals for 2012/13 represent another desperate effort to get through a bad time, not a permanent solution
  - The Budget depends on passage of new temporary taxes midway through the year
  - The structural imbalance continues to dog the State's recovery
- Specific proposals include:
  - Transitional Kindergarten requirement (and funding) eliminated
  - 100% of home-to-school and special education transportation funding is cut under both alternatives
    - Disproportionate effect on districts is a huge problem
    - Current year cut will be eliminated and replaced with increased revenue limit cuts (SB 81) – Impact on the District: a loss of an additional \$80,000

# Another "Crisis" Budget

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- Governor's Budget: Assumes voters approve a \$6.9 billion tax measure
  - Funding the statutory increase in Proposition 98 by manipulating deferrals
  - This alternative provides no additional spending for education, but maintains revenue limits at about 2011/12 pre-trigger-cut levels
- Alternative: Assumes voters reject the tax measure
  - Education is cut \$2.4 billion, about \$370 per average daily attendance (ADA) BECAUSE....the Governor will manipulate the Prop. 98 base by adding \$2.4 billion in G.O. Bond debt service payments previously paid outside of Prop. 98 into Prop. 98 – generating the need to cut education
  - This is self-inflicted, unrelated to lack of revenues to fund Prop. 98

# Economics Still Drive All Policy Decisions

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- In California, recent policy has been set by Budget decisions
  - The debate is not driven by policy, it is driven by economics – Do we have the money?
  - Economic decisions have led to poor policy results for education
    - We need a longer school year – not a shorter one
    - We need lower class sizes – not higher
    - We need more options for students – not fewer
    - We need stability for our professional teachers, administrators, and classified staff – not layoff notices
  - All of these undesirable outcomes are an effort to “do it cheaper,” not “do it better”
- The long-term societal and economic impacts of these short-sighted policies will be profound
  - We will have workforce issues far into the future
  - A sub-optimal workforce leads to more dependence on government, not less

# Governor's Temporary Tax Proposal

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- The Governor's Budget assumes that voters will approve \$6.9 billion in temporary taxes in November 2012
  - Of this total, \$2.2 billion would count in 2011/12 and \$4.7 billion would count in 2012/13
  - The higher taxes would continue through 2016 (What happens after 2016?)
- The Governor's tax proposal includes the following:
  - Income tax increase
    - Single filers tax increase of 1% for income above \$250,000; up to 2% for income over \$500,000
    - Joint filers tax increase of 1% for income above \$500,000; up to 2% for income over \$1 million
    - Head of household increase of 2% for income above \$680,000
  - Sales and use tax increase of 0.5% (this may sink this proposal)

# Contingent Trigger Cuts



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- Like the 2011/12 Budget Act, the Governor's Budget Proposal for 2012/13 contains automatic trigger reductions
  - The trigger reductions total \$5.4 billion
  - The cuts are linked to the failure of the proposed temporary tax increases, not a general revenue shortfall
- The trigger reductions hit education the hardest, especially Proposition 98

Programs Targeted for Trigger Cuts		
Program	Amount	% Share
Proposition 98	\$4,837 million	89.7%
University of California	\$200 million	3.7%
California State University	\$200 million	3.7%
Courts	\$125 million	2.3%
All Other	\$28 million	0.6%
Total	\$5,390 million	100.0%

# Recovery Takes a Long Time



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- Recovery for education funding requires:
  - First, the state must have the money to begin funding current-year cost-of-living adjustments (COLAs) and other program growth
  - Then, the state must fund at least some portion of the deficit factor, now at 21.666% in addition to funding the current-year COLA (\$10 billion)
  - Then, the state must deal with restoration of the deferrals (\$10 billion)
  - Prop. 98 is \$45.4 billion in 2011/12, and should be over \$65.4 billion
- During the recession of the early 1990s, the deficit was smaller and there were no deferrals, but recovery still took six years
  - So, the state has a lot of work to do and it will take time
- And at the point of full restoration, California would perhaps rise to 46<sup>th</sup> in the nation again!
  - Only after that would California be in a position to increase its level of effort to begin to match other states

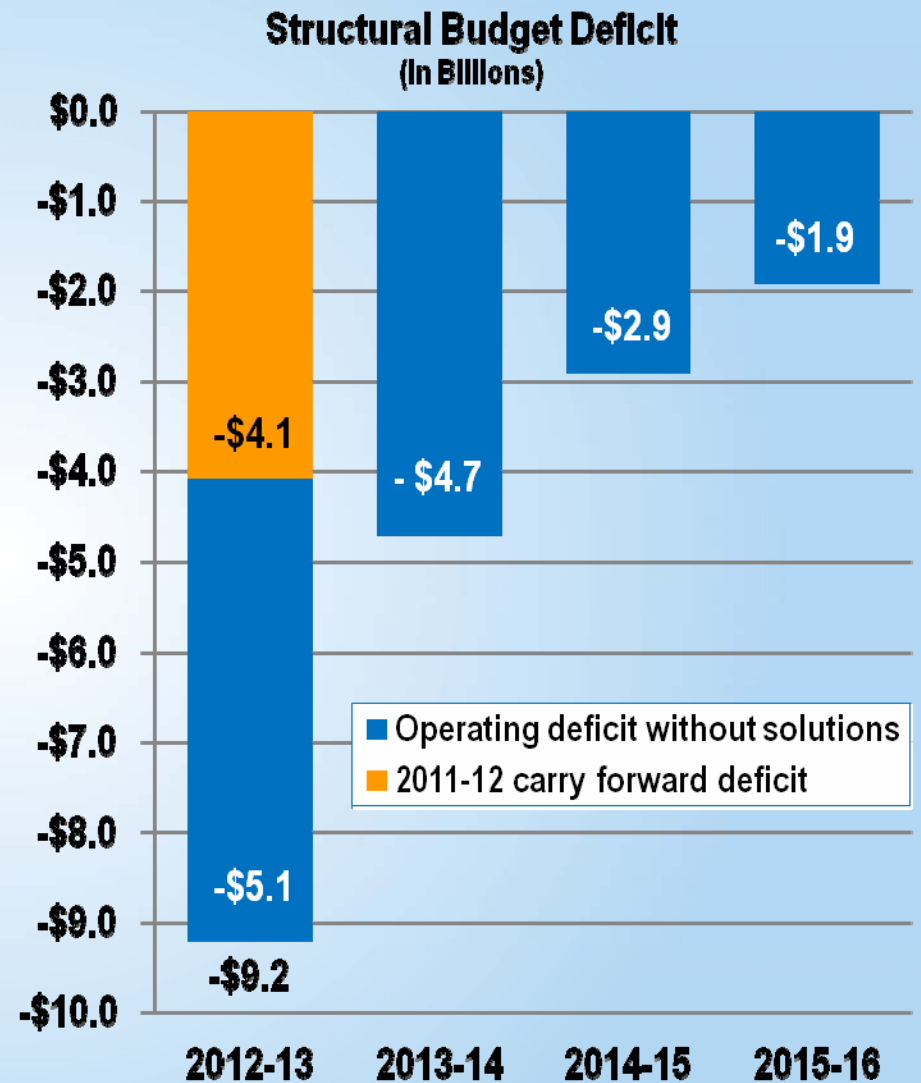


# The Structural Budget Gap

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● The 2012/13 Budget has a \$9.2 billion deficit

- The projected 2011/12 Budget deficit is \$4.1 billion and carries forward into 2012/13
- The 2012/13 deficit is \$1.9 billion worse than anticipated in June 2011
- The ongoing Budget deficit has been reduced, but an ongoing mismatch remains



Source: 2012/13 Governor's Budget, page 5

# Risks to the Budget Proposal

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- Flat funding for K-12 education is dependent upon voters approving Governor Brown's initiative authorizing new temporary taxes
  - The initiative must qualify for the ballot by gaining the required number of voter signatures on a petition
  - Necessary labor support for the initiative has begun – CTA, SEIU support
  - Governor Brown needs to clear the field of other education-funding initiatives – Molly Munger Proposition more appealing to education than the Governor's – \$7-\$10 billion for education for 10 years with no Prop. 98 manipulation – California PTA supports

# Risks to the Budget Proposal



- Voter sentiment may not support more taxes, putting a \$6.9 billion hole in the budget as proposed by Governor Brown
- Competing initiatives on a ballot may confuse or frustrate voters, causing initiatives with any chance of success to, instead, fail (5 Education Funding, and 6 Pension Reform initiatives)
- Court challenges could continue to thwart full implementation of program reduction budget solutions
  - *CSBA v. State of California*
    - Filed in September 2011 by CSBA, ACSA, and several school districts – ruling anticipated in April 2012
    - Challenges 2011/12 budget actions diverting 1 cent of Sales & Use Tax out of General Fund for local government realignment
    - This diversion (manipulation of Prop. 98) reduced General Fund revenues by about \$5 billion, lowering 2011/12 Prop. 98 funding by about \$2 billion

# Budget Contingency Plan

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- The Governor's Budget assumes that new temporary taxes are approved by the voters for five years on the November 2012 ballot
- The Budget also proposes severe additional reductions in funding for schools in the event that the tax extensions are not approved
- This leaves schools in a position of needing at least two plans
  - Governor Brown's Proposal: Flat funding – continues the funding level contained in the enacted Budget for 2011/12, except for transportation
  - Alternative: A \$2.4 billion reduction in K-14 funding – results in a loss of about \$370 per ADA for the average district (\$1.1 million for LJSD)
- Districts will need to plan for both eventualities until the fate of the tax extensions is determined
- Additionally, economic changes between now and the enactment of the 2012/13 Budget could cause a revision, up or down

# Why is Education Flat Funded?

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- How does a nearly \$5 billion increase in Proposition 98 provide no real growth in funding for schools? The answer is deferrals.
  - \$2.4 billion is used to maintain current-year spending levels – the cost of maintaining existing programs after the 2011/12 deferral
  - \$2.5 billion buys down K-14 inter-year deferrals by moving the state expenditures back into the current year
- Buying down deferrals increases cash available in the budget year, and can reduce borrowing costs, but does not increase spending authority
- Expect all or part of these deferrals to be sacrificed in order to provide increased funds to education and/or eliminate transportation cut

# Weighted Student Funding Formula

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- To promote greater local decision-making authority, Governor Brown proposes a weighted student funding formula to replace revenue limits and most categorical program funding formulas
  - All of the categorical programs included in the formula “will immediately be made completely flexible” to support any local education priorities
- Elements of the formula
  - Special education, child nutrition, Quality Education Investment Act (QEIA), After School Education and Safety (ASES), and other federally mandated programs are exempt
  - Additional funding is based on the demographics of the schools, including:
    - English Learner population
    - Pupils eligible for free and reduced-price lunches
- Accountability: Qualitative and test-based measures
- Timeline: Phased in over five years

# Local Budget Impact of Weighted Student Funding Formula



- The Department of Finance (DOF) indicates that for 2012/13, 80% of a District's funding will be based on current law formulas and 20% will be based on the weighted student formula
  - Governor Brown is not proposing a "hold-harmless" provision; therefore, some districts will gain and some will lose under the new formulas
    - In general, districts with high concentrations of English Learners and low income students will gain funding and those with fewer of these students will lose funding
- There are currently no details that would allow a school district to determine its funding gain or loss for 2012/13 or for any year thereafter
- The Legislature must enact this measure as a change to current school finance statutes

# Caution – Deficit Factor Provides Funding Increase

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- The Governor's Budget acknowledges that the projected statutory COLA is 3.17% and that this funding is to be eliminated through the deficit factor
  - The Dept. of Finance has provided a K-12 deficit factor of 21.666% to eliminate this COLA
  - SSC analysis finds that this deficit factor does not fully eliminate the COLA and instead provides a \$37 per-ADA increase for the average unified school district
- The proposed Budget also reflects the \$13 per-ADA "trigger" reduction in 2011/12 and restores this amount in 2012/13
- Therefore, the net increase under the Governor's Budget from 2011/12 to 2012/13 is \$50 per ADA, or just under 1%

*However, SSC recommend's that districts budget flat funding in 2012/13 (i.e., the amount prior to the \$13 per-ADA "trigger" reduction), consistent with the policy stated in the Governor's Budget*

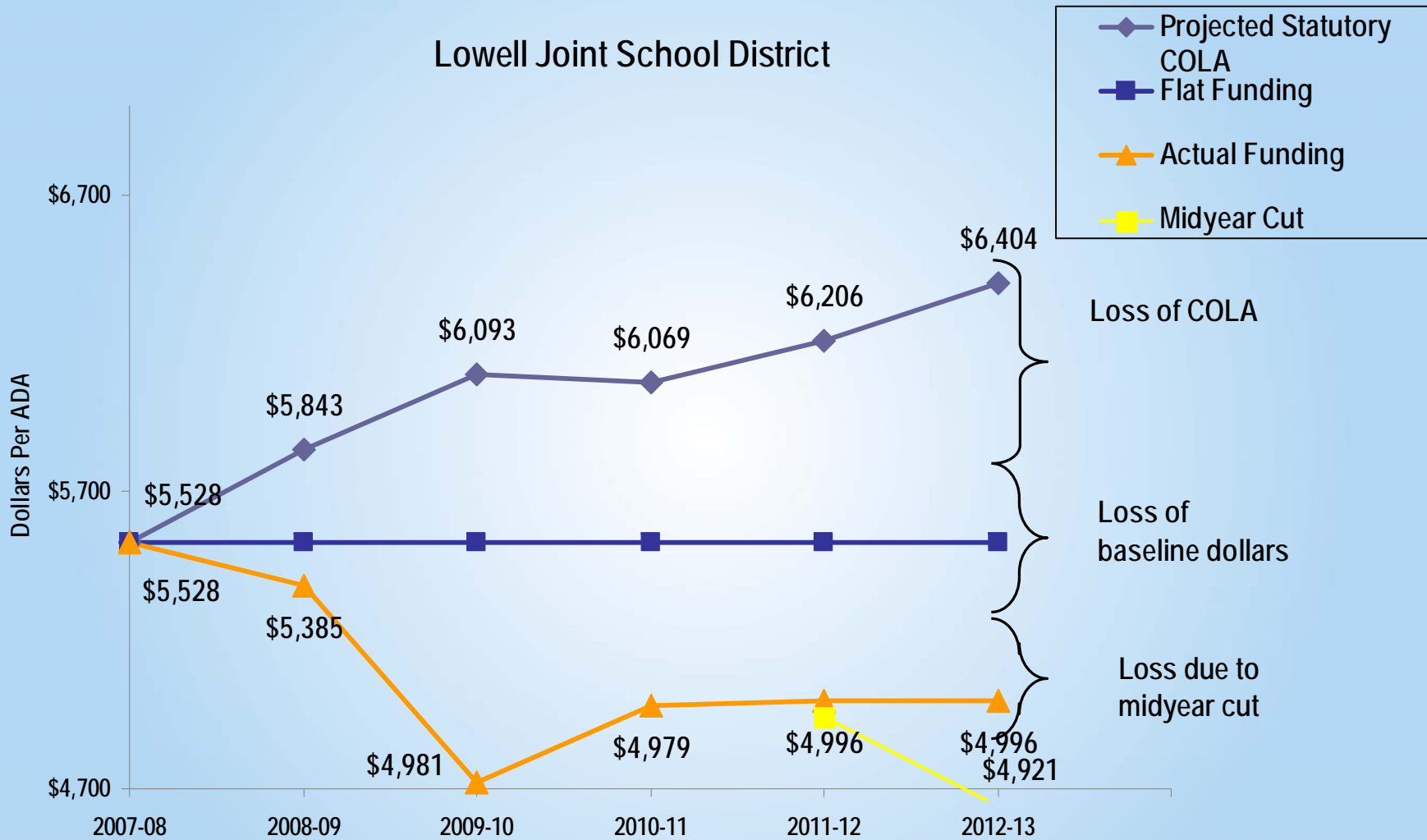


# Funding Per ADA – Actual vs. Statutory Level

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Lowell Joint School District



# Next Steps

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- Budget must be adopted by school districts prior to June 30, 2012
  - State Budget will most likely not be in place by that date
  - Governor's May Revise will likely form the basis for this budget – How much will it change from his January proposal?
- Developing the budget requires:
  - Clarifying assumptions
    - How much revenue?
    - How will expenditures change?
- Once the State Budget is adopted, school districts make adjustments to their budgets within 45 days

Questions?  
Comments?



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