



# **Governor's May Revise Report and Budget Update for 2012-13**

**May 22, 2012**



# The Governor's Major Proposals

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- 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 General Fund costs
- Weighted Student Formula (WSF)
  - Modified details in following sections
- Flexibility proposals
  - Still alive – no changes from January
- Transitional Kindergarten (TK)
  - Governor reduces savings estimate, but still proposes elimination of the mandate



# The May Revision

- 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



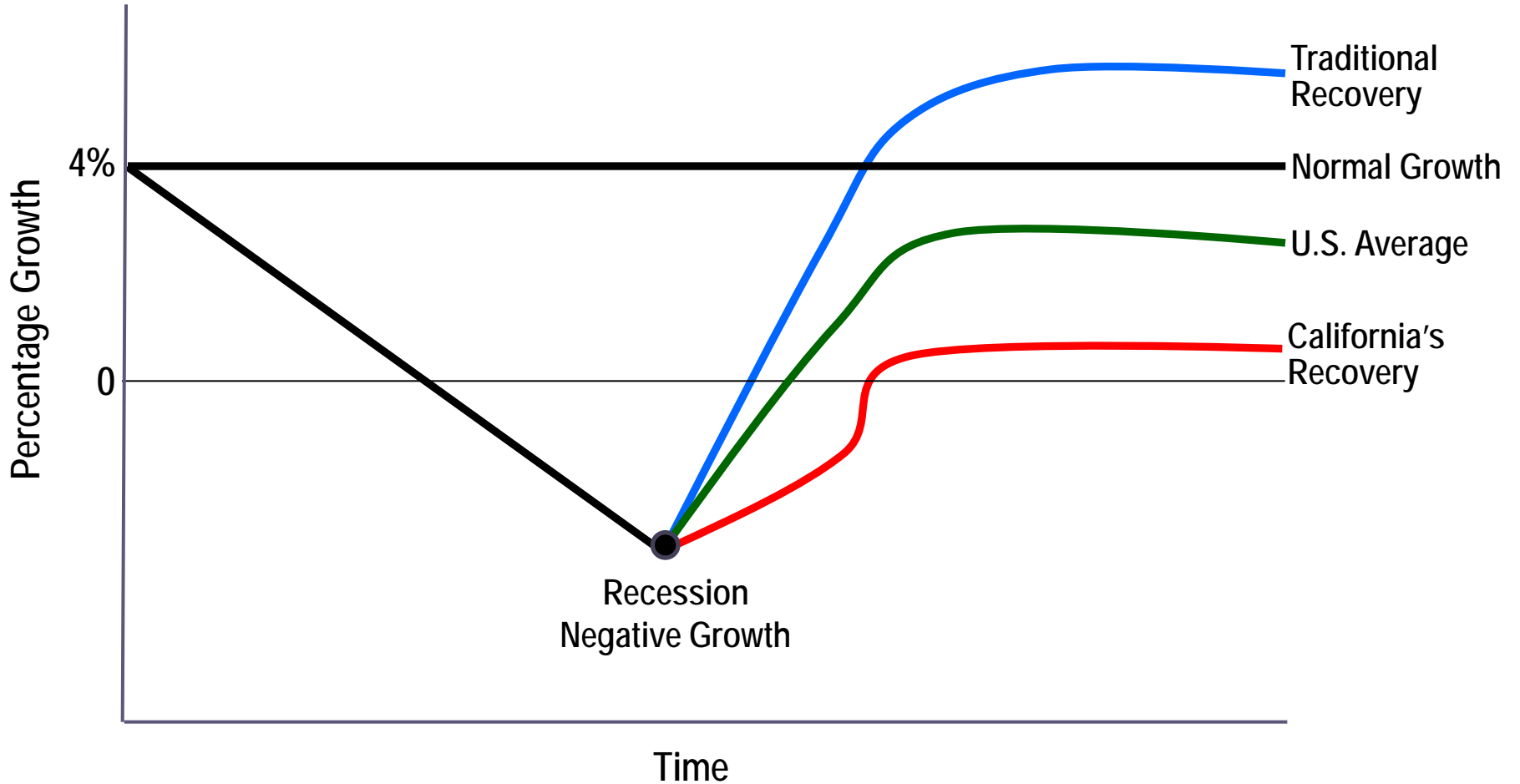
# No New Funding for Schools

- Despite claims of:
  - \$6 billion more for schools!
  - 16% increase for schools!
- Your district, your schools, your classrooms do not get one more dime whether the Governor's taxes pass or not!
- Our 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



# Are We Recovering?

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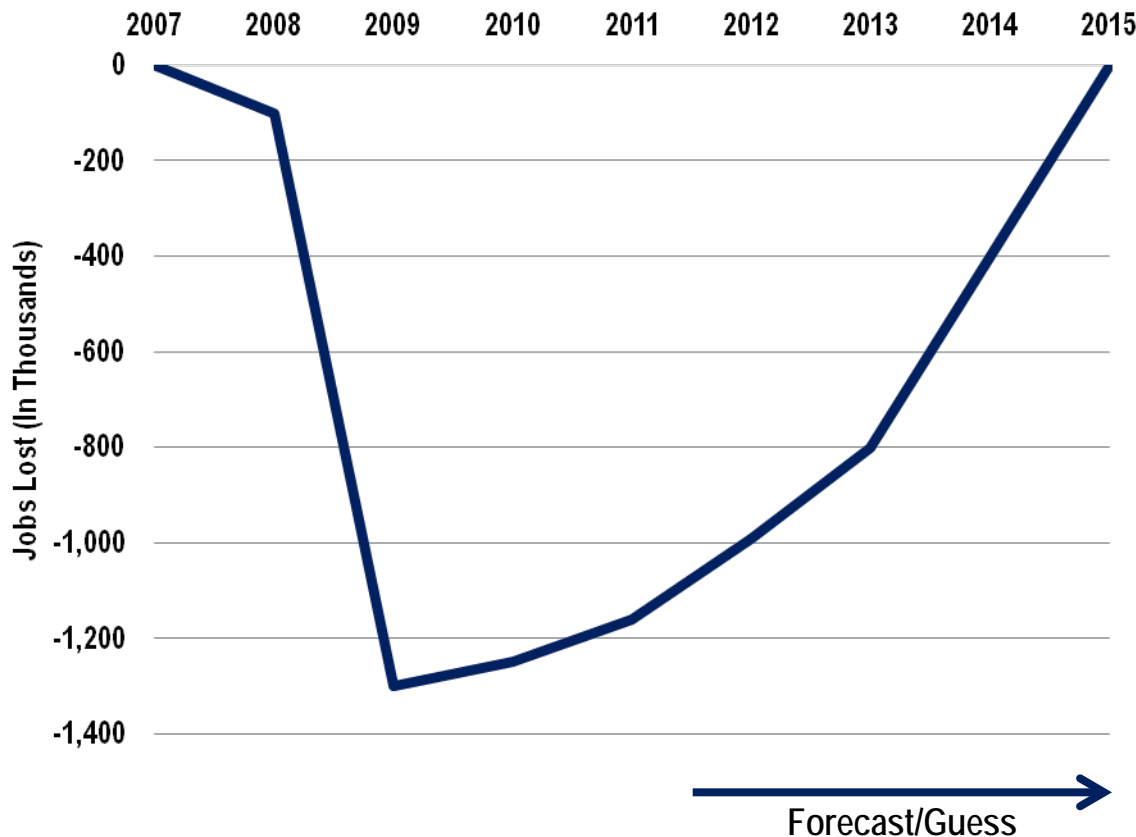




# California's Labor Market

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Jobs Lost During Recession  
Not Recovered Until 2015



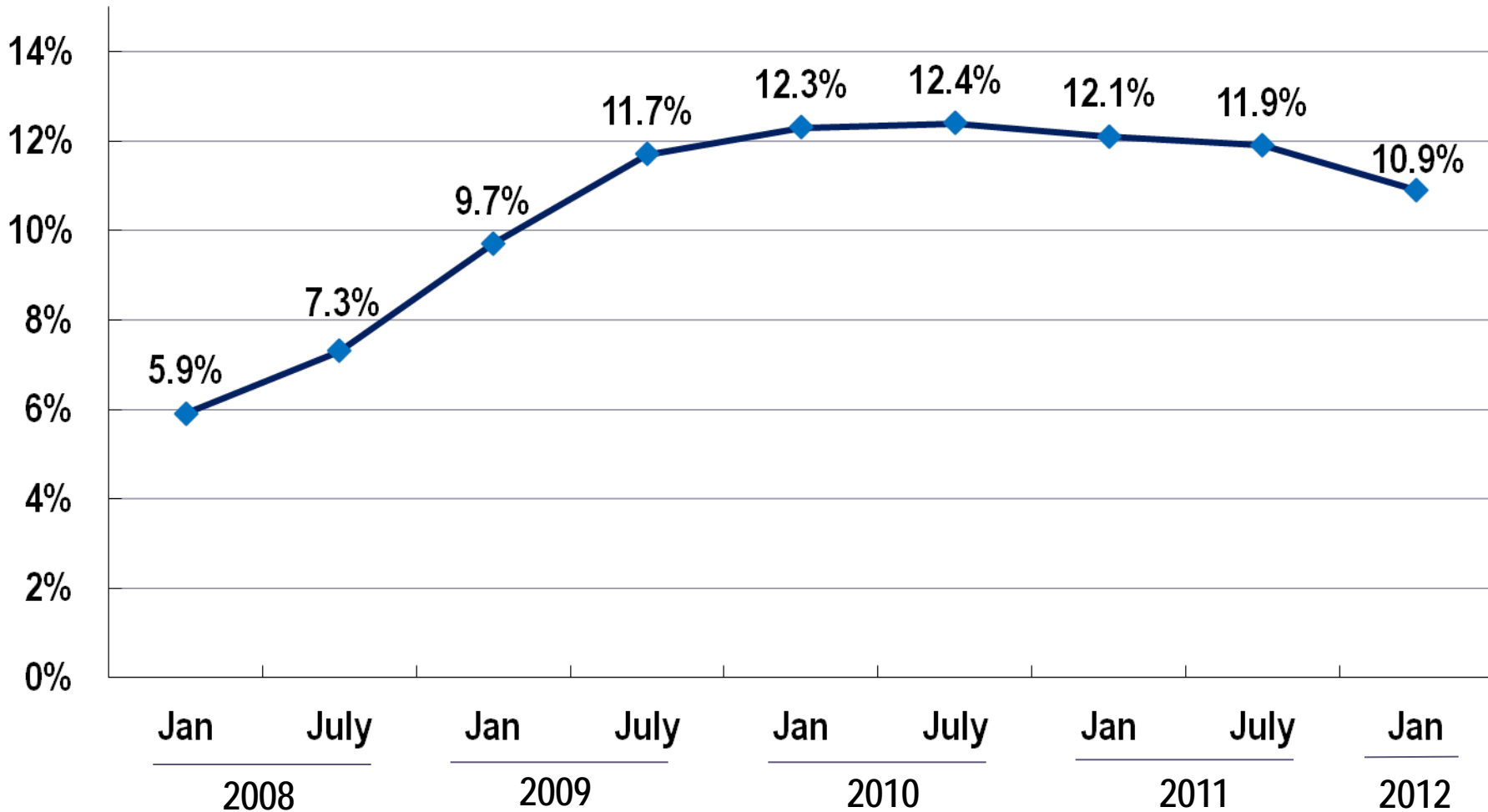
- California lost 1.3 million payroll jobs in the recession
- About one-third of this job loss has been recovered
- It may take three or four more years to reach California's pre-recession employment peak



# California's Unemployment Rate

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## Unemployment Rate



Source: Employment Development Department, 2012



# General Fund Revenues in 2012-13

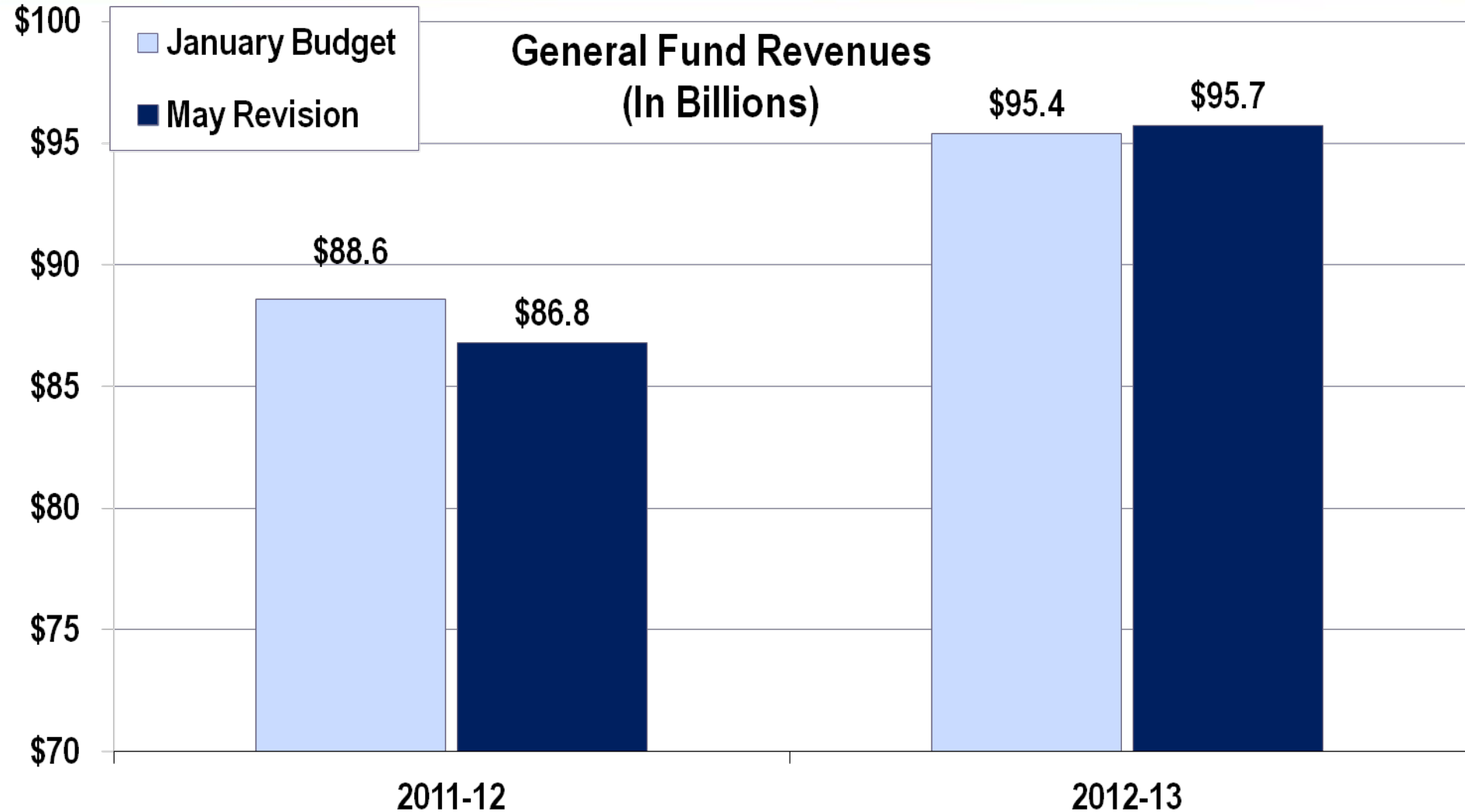
- The January Governor's Budget forecast \$95.4 billion in General Fund revenues for 2012-13
- The May Revision leaves this estimate largely in place, forecasting total revenues at \$95.7 billion
  - This estimate reflects a downward revision of capital gains income from the January Governor's Budget
    - This reduction is offset by \$1.25 billion in estimated tax payments for 2012-13 related to the Facebook IPO, which was not included in the January Budget estimate
  - The May Revision, however, also reflects a slightly stronger outlook for the overall economy





# General Fund Revenues

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Source: Governor's Budget May Revision 2012-13, page 26



# 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
  - The measure has yet to qualify for the November ballot
    - 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 and the Parent Teacher Association (PTA) 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



# Education Funding Initiatives

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Proponent and Title	Total Revenues Generated	Education Revenues Generated	Source of Additional Revenues	Duration
Governor Jerry Brown – “The Schools and Local Public Protection Act of 2012”	\$8.5 billion in 2012-13; \$6.5 billion thereafter	Limited – additional funds offset State General Fund (GF) obligation; \$2.9 billion increase in Proposition 98 first year	Quarter-cent sales tax increase; up to 3% increase in personal income tax rate for high-income earners (\$250,000 and above)	4 years sales tax, 7 years income tax
* Molly Munger (PTA supported) “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act”	\$5 billion in 2012-13; \$10 billion thereafter	First 3 years: 60% K-12 schools 10% Early childhood education (ECE) 30% State GF bond debt  Remaining years: 85% K-12 schools 15% ECE	Increase in personal income tax for all but low-income earners, from 0.4% for lowest income individuals to 2.2% for individuals earning more than \$2.5 million	12 years

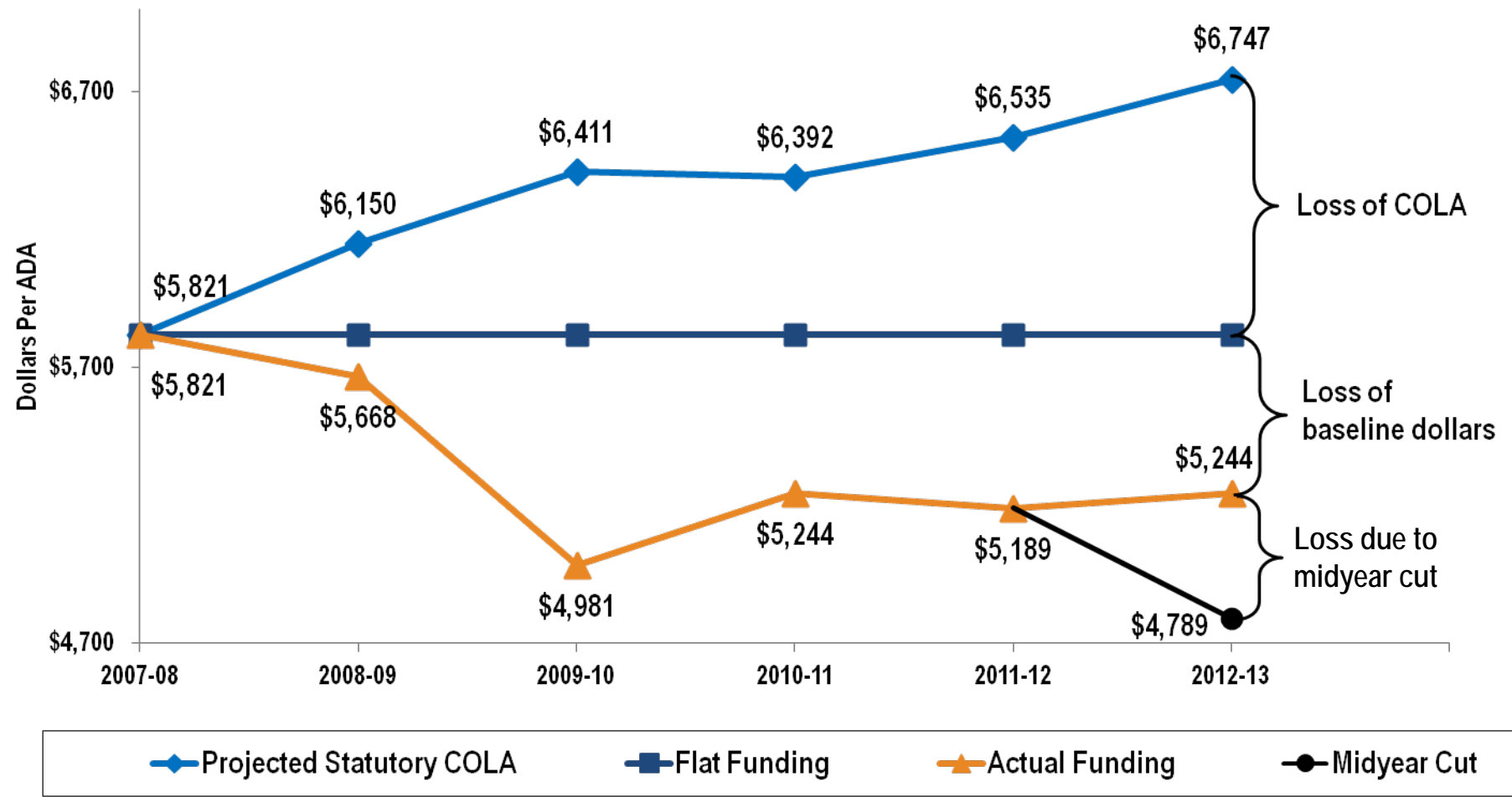
\* The Munger initiative provides K-12 funds on a school specific, per-pupil basis, subject to local control, audits, and public input. It also prohibits the state from directing or using these funds.



# Funding Per ADA – Actual vs. Statutory Level

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## Average Unified District





## Proposition 98

- Proposition 98 and the education budget are managed so that the Proposition 98 minimum guarantee becomes the maximum for K-14 funding . . .
- . . . and so the minimum guarantee provides exactly the funding that the state wants to provide for K-14 programs
  - Ways to “adjust” the minimum guarantee include:
    - Shift state revenues between fiscal years
    - Shift property taxes among local agencies and schools
    - Move state General Fund revenues to special funds
    - Move education programs into and out of Proposition 98
    - Delay paying funds owed to schools from prior-year adjustments
    - Use prior-year funds owed to reduce current-year Proposition 98 spending
  - And the state has used them all



# What Happens if the Governor's Initiative Fails?

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- If the Governor's tax initiative is not approved by voters in November, the May Revision proposes that K-14 education take a \$5.5 billion cut:
  - Proposition 98 revenues fall by \$2.9 billion on the natural
  - As in January, the Governor continues to propose forcing additional programmatic cuts by recasting spending that currently resides outside of Proposition 98 into Proposition 98
    - K-14 debt service on general obligation bonds – \$2.4 billion
    - Other non-Proposition 98 spending added to Proposition 98 – \$200 million



# What Happens if the Governor's Initiative Fails?

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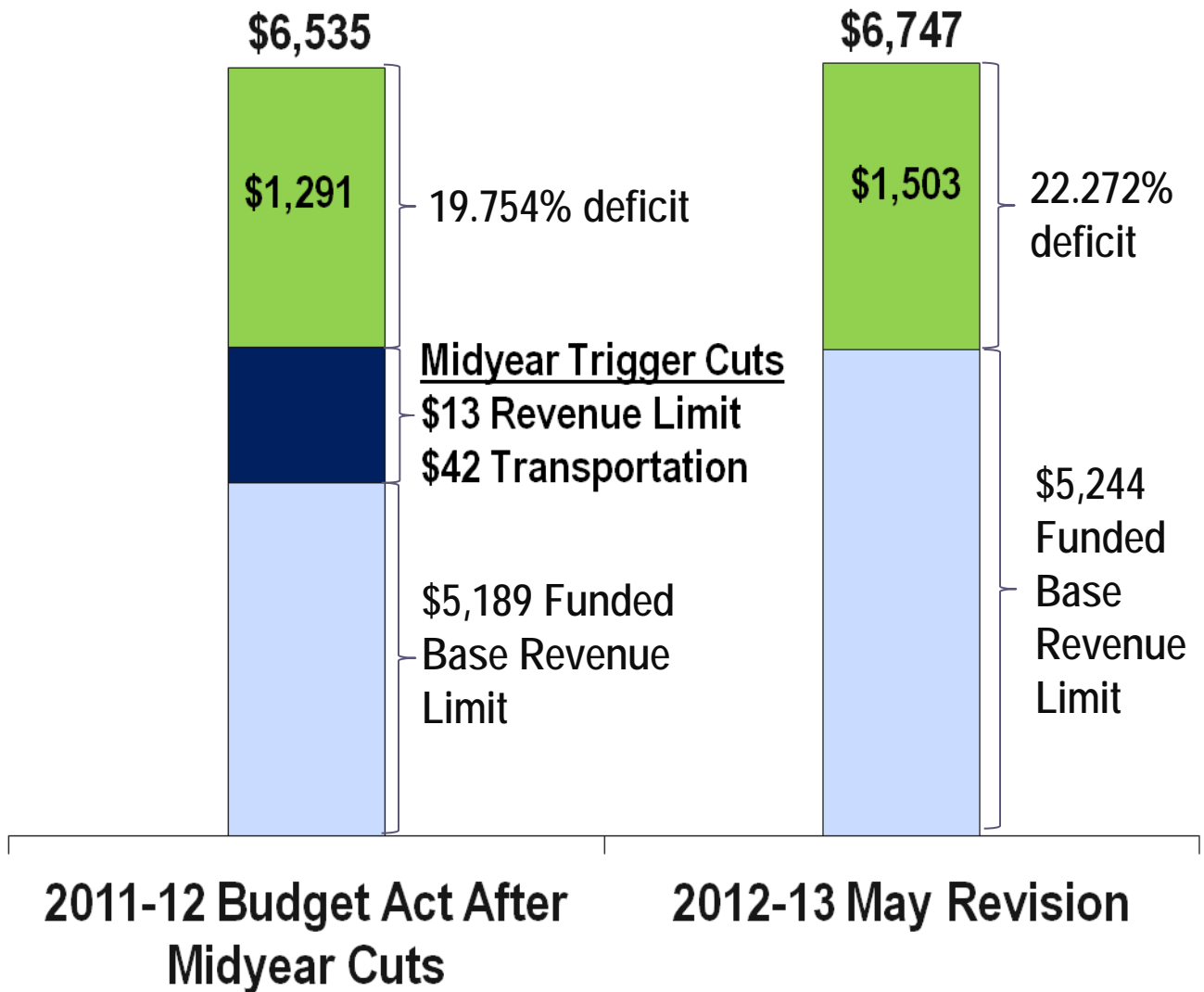
- \$5.5 billion in spending reductions taken by:
  - Reversing the deferral buy back – \$2.5 billion
  - Reducing apportionments for K-14 – \$3.0 billion
- K-12 share is 89% of the \$2.0 billion apportionment cut, or about \$2.65 billion



# 2011-12 Funded Revenue Limit vs. 2012-13 May Revision for the Average Unified District

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- The 2011-12 revenue limit after the deficit, but before the midyear cuts is \$5,244 per ADA
- The amount received after the one-time midyear cuts is \$5,189 per ADA
- The midyear cuts are to be restored in 2012-13, resulting in flat funding







# What Is the Cut If the Taxes Fail?

- SSC has been recommending \$455 per ADA as a planning factor if the taxes fail
  - \$370 as a revenue limit cut from January
  - \$85 for 100% loss of transportation funding
- The DOF announced an estimate of \$398, but then revised its deficit factor
  - We believe the change in deficit factor will increase district exposure to a total of about \$440 to \$445 per ADA
- For now, districts that plan for \$455 should be safe
  - If the DOF revises its estimate, we will revise and report our new estimate
- 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



# Weighted Student Formula Changes

- The May Revision makes several significant changes to the Governor's WSF, including:
  - Increases the base funding level to a statewide average of \$5,421 per ADA, with grade span differentials of:
    - Grades K-3: \$5,466 per ADA
    - Grades 4-6: \$4,934 per ADA
    - Grades 7-8: \$5,081 per ADA
    - Grades 9-12: \$5,887 per ADA
  - Reduces the supplemental grant to 20% of the base grant for English Learners and students eligible for free and reduced-price meals
  - Reduces the concentration grant to 40% of the base grant for disadvantaged students that exceed 50% of the district's enrollment
  - Removes the Targeted Instructional Improvement Grant (TIIG) from the categorical programs list for the WSF
  - Increases the phase-in period to seven years, with 2012-13 held harmless



# Weighted Student Formula and Taxes

- The WSF is now tied to the Governor's November tax initiative and will not take effect if the initiative fails
- Also, note that the base funding grant for the K-3 grade span includes funds that are currently designated for K-3 Class-Size Reduction (CSR)
  - School districts would have full flexibility in the use of these funds
- The May Revision also conditions full implementation of the WSF on:
  - Restoration of funding for revenue limits through the elimination of the deficit factor
    - This condition may be at odds with the seven year phase-in period
  - Adoption of additional indicators of school and district success for the accountability system in 2013-14



# Redevelopment Agencies and Apportionments

- Last year, the Legislature eliminated RDAs through Assembly Bill 26 of the First Extraordinary Session (ABX1 26) (Chapter 5/2011)
  - Though this action was legally challenged, the California Supreme Court sustained the Legislature's actions in ABX1 26
- Locally organized successor agencies are charged with retiring the RDAs' outstanding debts and making pass-through payments
  - School districts are members of the successor agencies
  - State savings will accrue as RDA payments are allocated to local educational agencies (LEAs) as property taxes, thereby offsetting state aid
- The Governor's May Revision assumes that K-14 districts will receive \$818 million in 2011-12 and \$991 million in 2012-13 as property taxes
  - The May Revision proposes to allow LEAs to retain 1%, or \$10 million in 2012-13, of these property taxes annually outside of Proposition 98 as an "incentive" to ensure that schools receive their full share of the tax



# Transportation Funding

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- In January, the Governor's Proposal for 2012-13 eliminated 100% of home-to-school transportation funding, including special education transportation
- Under the May Revision Proposal for the WSF, the home-to-school and special education transportation program will be eliminated, but districts will continue to receive the same amount of funding currently received for the program
  - Contingent on passage of Governor's tax initiative
  - Applied as a permanent add-on to the WSF grant
  - Flexible – funds may be spent for any educational purpose

## January Proposal

- Funding eliminated – \$0

## May Revision

- Program eliminated, but districts will receive same level of funding in WSF as a permanent add-on (flexible) to the grant



# Transitional Kindergarten Update

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- SB 1381 (Chapter 705/2010):
  - Changed the eligible birth dates for enrolling pupils in Kindergarten and grade one
  - Established “Transitional Kindergarten” program
- According to current law, TK is to start in 2012-13
- Requirement to offer TK and funding are proposed for elimination as a State Budget solution
  - TK would be optional and will be a local decision
- Results in state savings of \$91.5 million
  - Funds proposed to be used to restore reductions in preschool and expansion of preschool enrollment
  - Could result in an increase in special education preschool costs



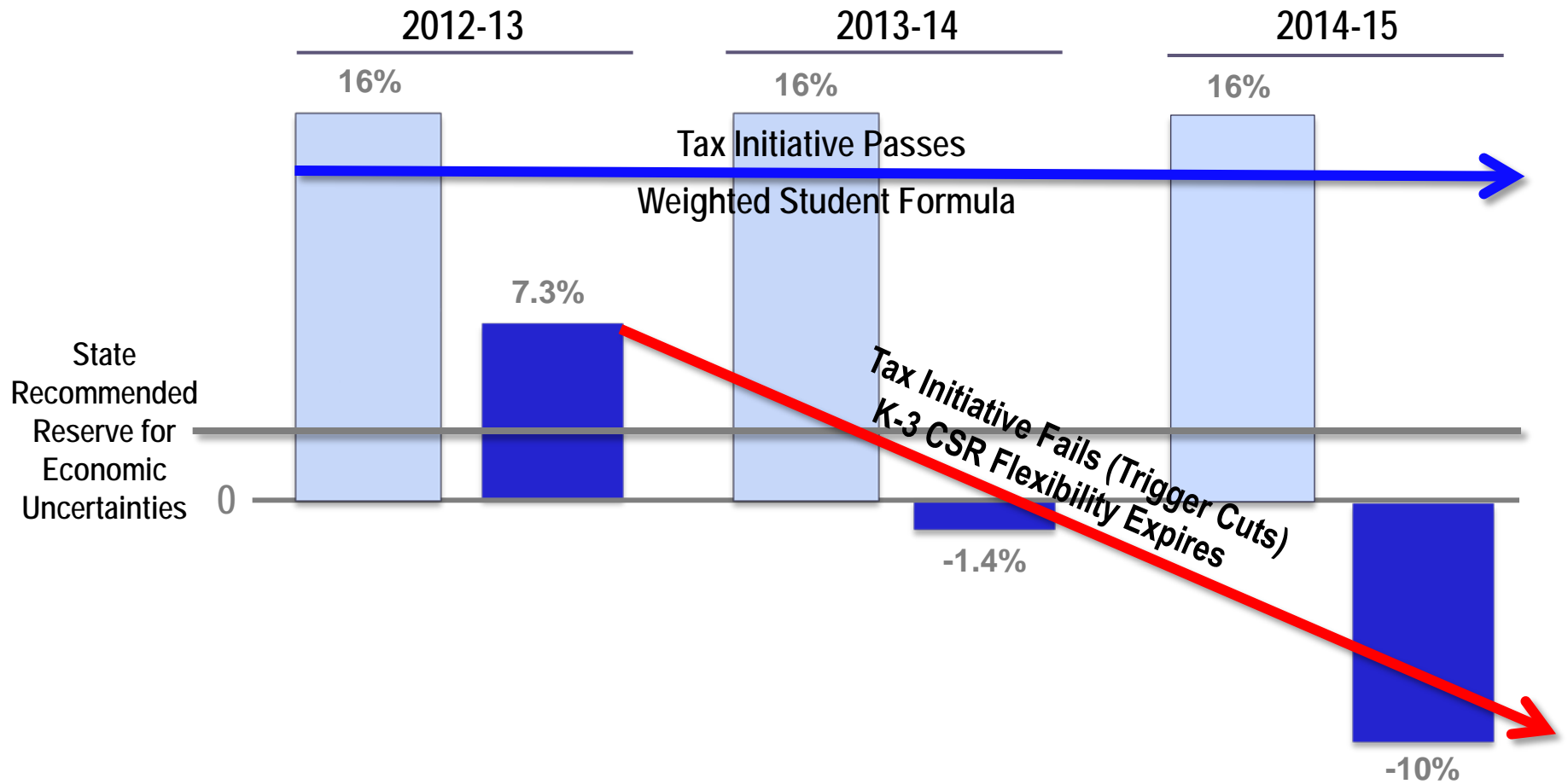
# Transitional Kindergarten Update

- No changes proposed for regular Kindergarten
  - Districts will continue to receive ADA funding for regular Kindergarten
- Regular Kindergarten birthday change based upon SB 1381 continues in 2012-13 on schedule
  - Birthday change: From December 2 to November 1 in 2012-13
  - Results in about 40,000 fewer Kindergarten students
    - Less ADA funding for LEAs = fewer resources
- Both houses of the Legislature have rejected the Governor's TK proposal
- Plan on providing some level of TK program for 2012-13 – but wait on staffing until more certainty at the state level



# Ending Fund Balance Example

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# Collective Bargaining

- The state has created a management credibility problem
  - The state threatens cuts
  - Management prepares for the cuts by:
    - Negotiating concessions
    - Announcing layoffs
  - The state delays the cuts and threatens to make them larger
  - Management prepares for the newly announced cuts
- Meanwhile, the dollars set aside for the cuts show up in the ending balance making it appear as if concessions weren't needed
- But in fact, districts have not had a new state dollar since 2007-08 and prior cuts have not been restored
- Communicating these facts clearly to stakeholders, particularly bargaining units, is critical



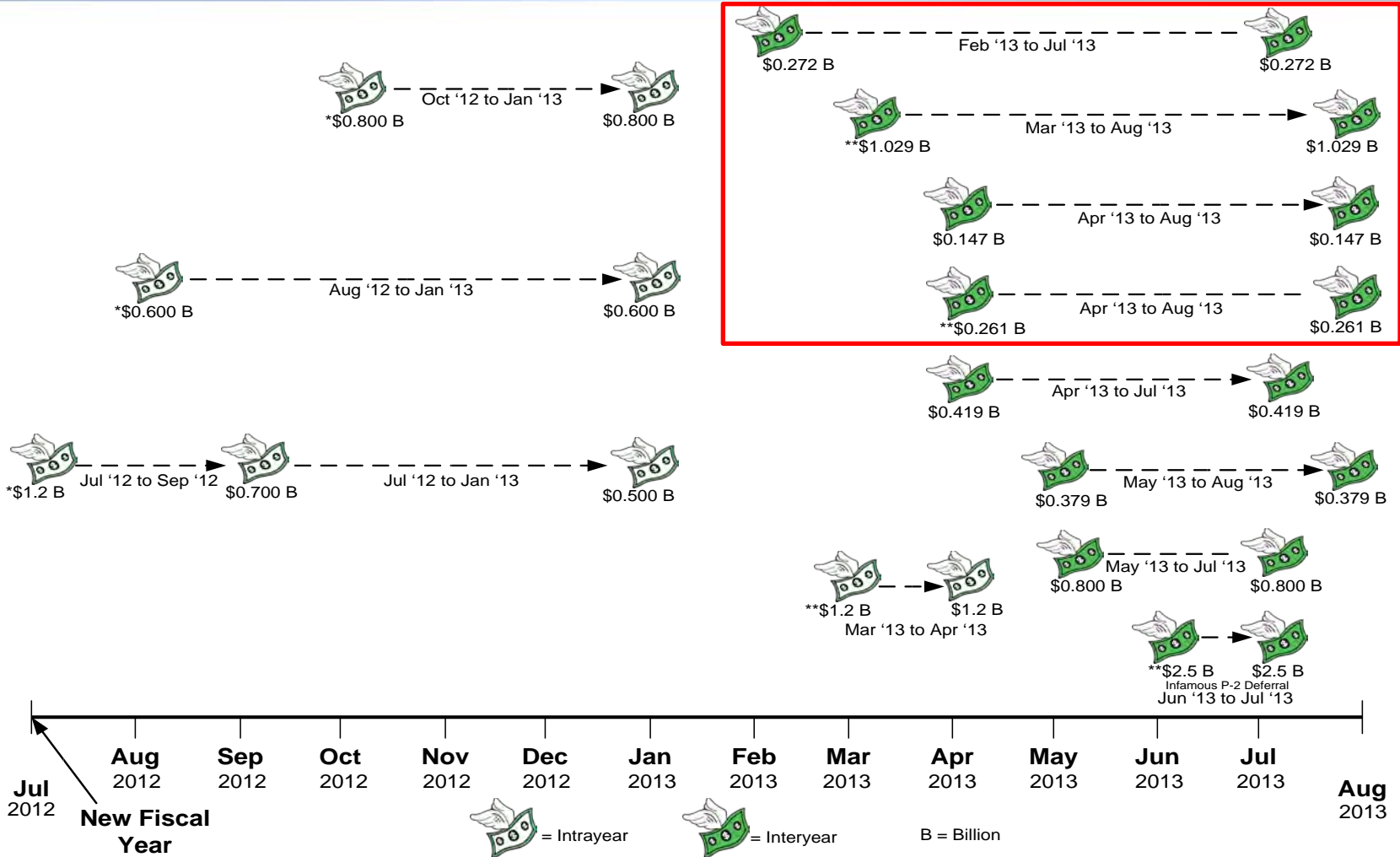
# Collective Bargaining

- The Governor's May Revision assumes passage of his tax initiative and provides additional flexibility should it fail
  - Schools will be able to reduce the school year a combined total of 15 days in 2012-13 and 2013-14 in addition to the five days per year currently allowed
  - This flexibility offers a one-time solution to an ongoing cut that, at best, solves only half of the problem
  - The Administration does not assume that a reduction in the school year, and an equivalent reduction in the employee work year if successfully negotiated, gets the job done
    - The May Revision indicates that "this will allow schools to use a combination of reserves, reductions in the school year and other savings options to absorb this cut"
- Should the Governor's tax initiative fail, additional concessions may be needed



# 2012-13 Apportionment Deferrals – If Taxes Pass

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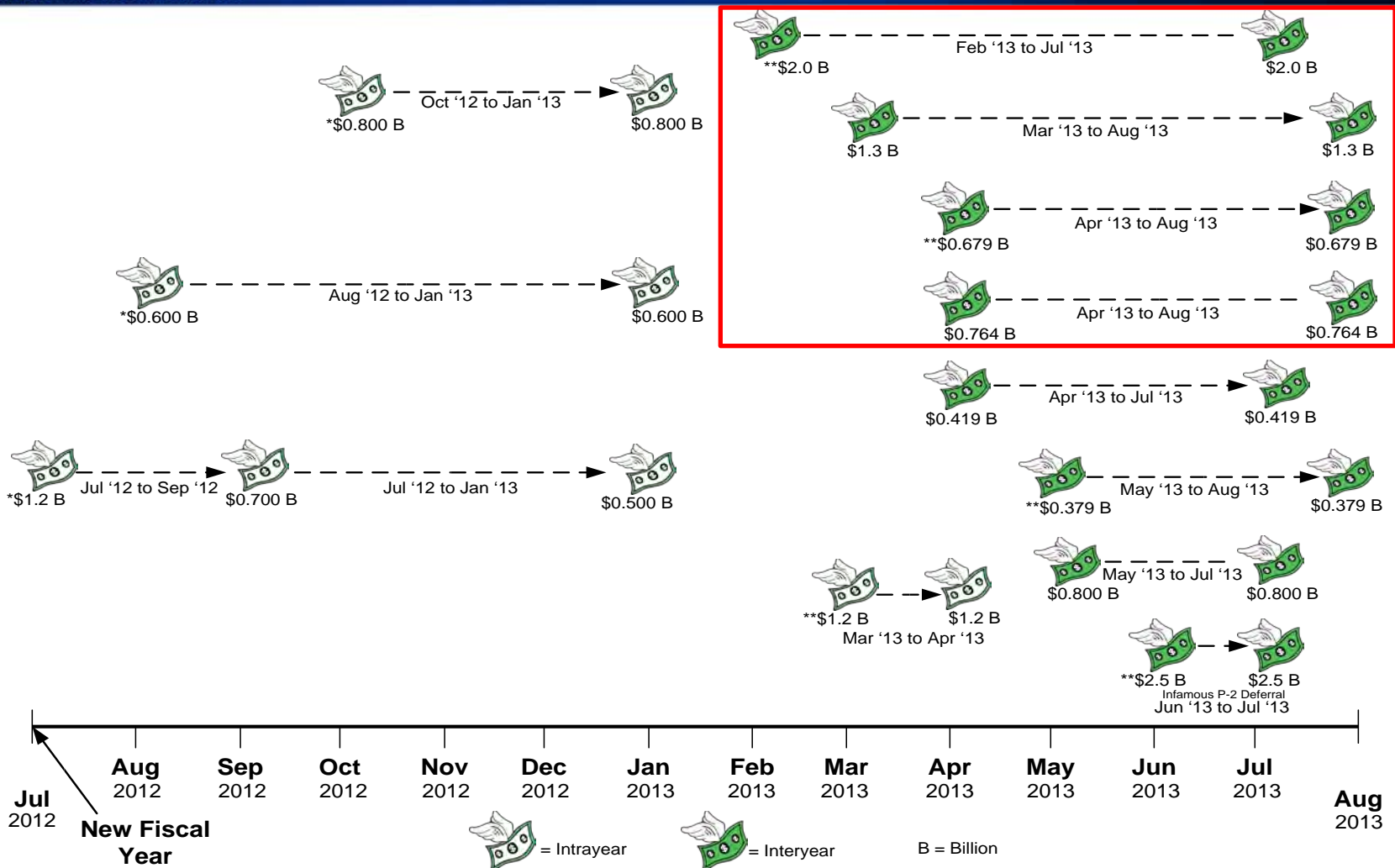
\*The amounts reflect AB 103 (Committee on Budget) statutory language, which is near the end of the legislative process

\*\*Reflects proposed buyout of deferrals – a portion of the funds may need to come from categorical programs



# 2012-13 Apportionment Deferrals – If Taxes Fail

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