



Governor's Proposals for the 2012-13 State Budget and K-12 Education

Presented by

School Services of California, Inc.

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:
 - 100% of home-to-school and special education transportation funding is cut under both alternatives
 - Disproportionate effect on districts is a huge problem

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)

- The mechanics of the Budget are complex, but this outcome is the bottom line



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
- 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%

Contingent Trigger Cuts



- 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%

What's Proposed for the Rest of the Budget?

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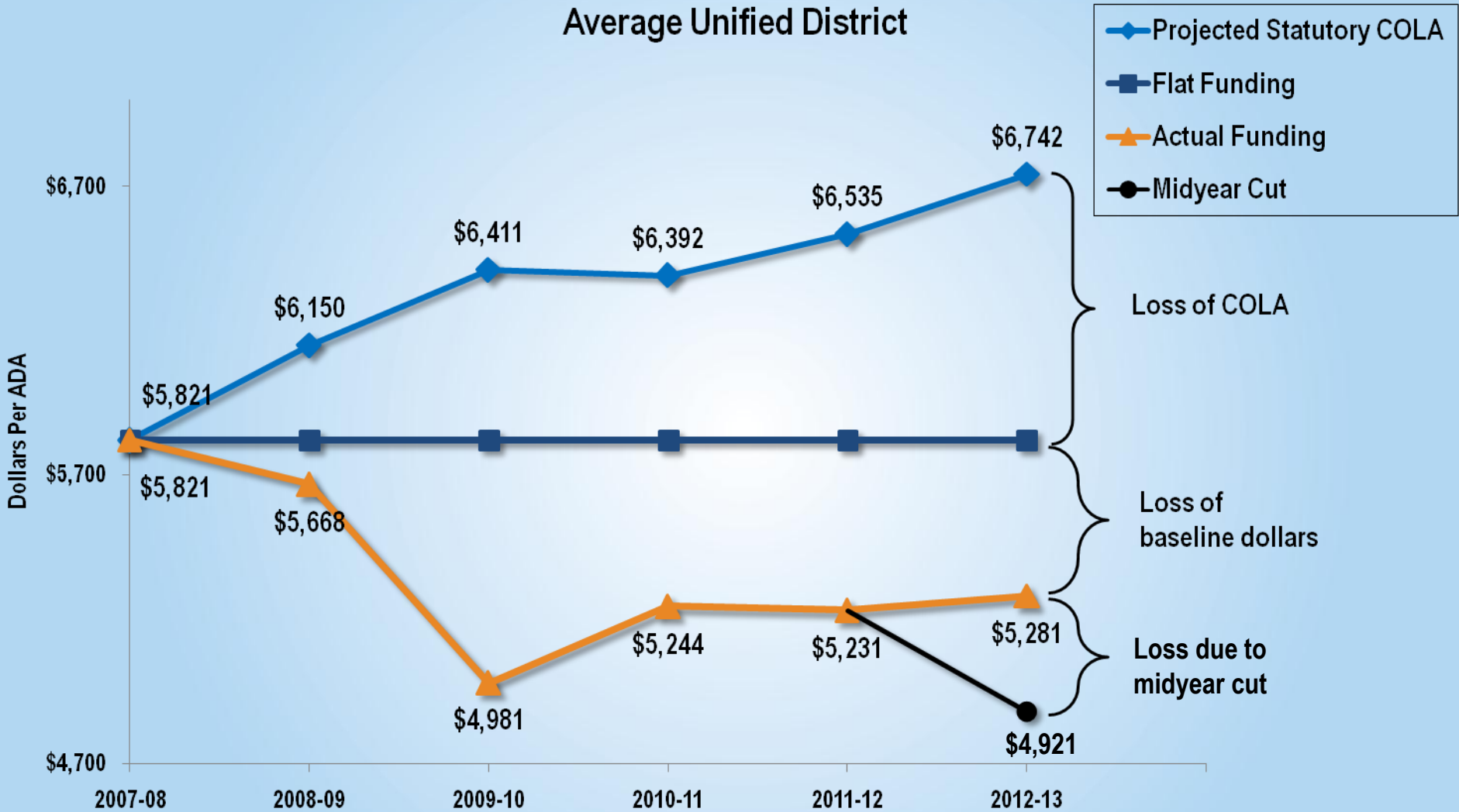


- **Governor Brown proposes more than \$4 billion in cuts and Budget solutions, which come primarily from the non-Proposition 98 areas of the State Budget**
- **Major reductions include:**
 - **\$1.4 billion in reductions by restructuring and reducing the CalWORKs program**
 - **\$828 million by repealing, making permissive, or suspending many state mandates on local governments**
 - **\$682 million by deferring Medi-Cal provider payments**
 - **\$544 million in Proposition 98 adjustments (rebenching gas tax)**
 - **\$302 million by changing Cal Grant awards and eligibility requirements**

Funding Per ADA – Actual vs. Statutory Level



Average Unified District

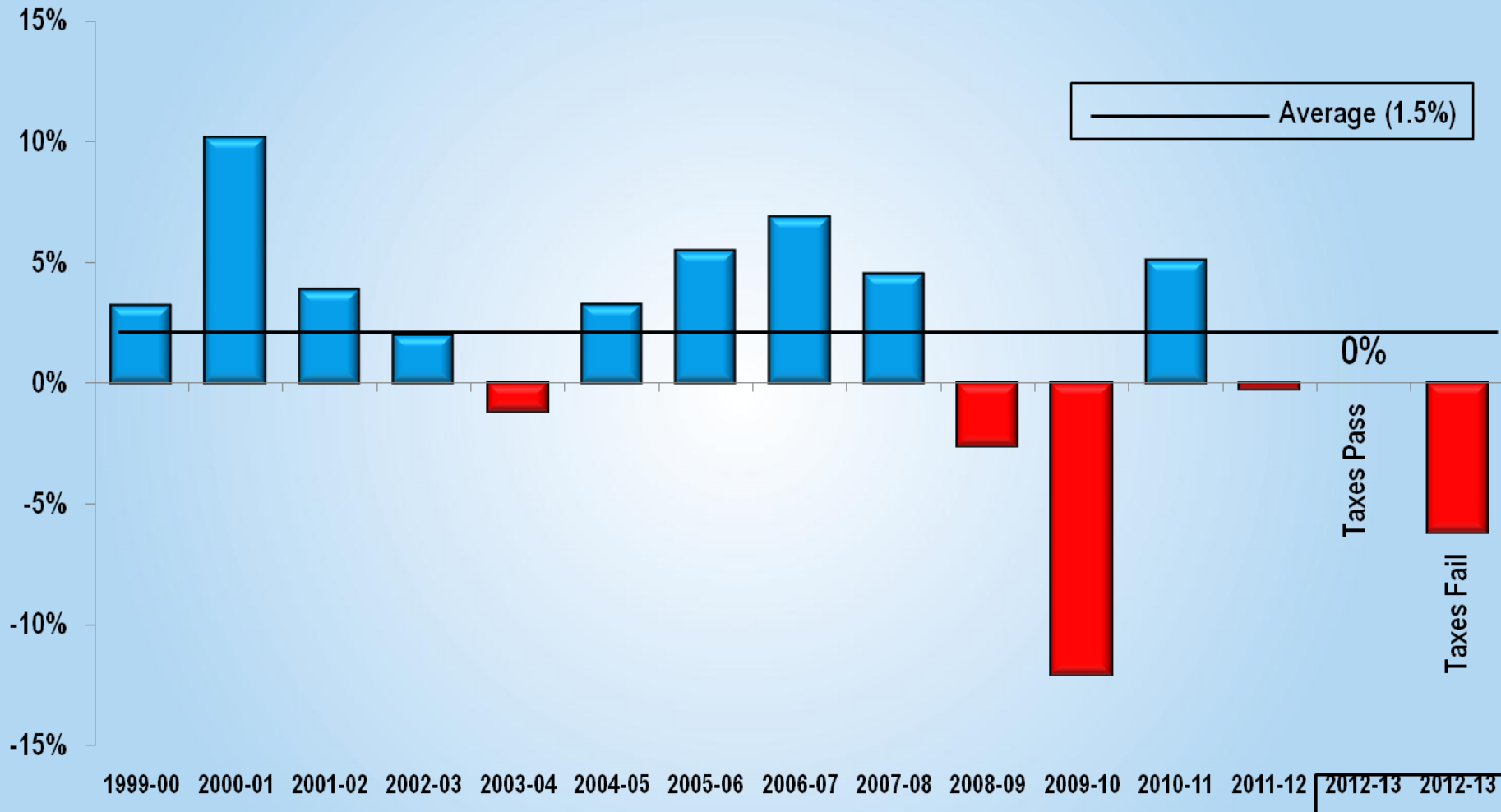


Per-ADA Revenue Volatility

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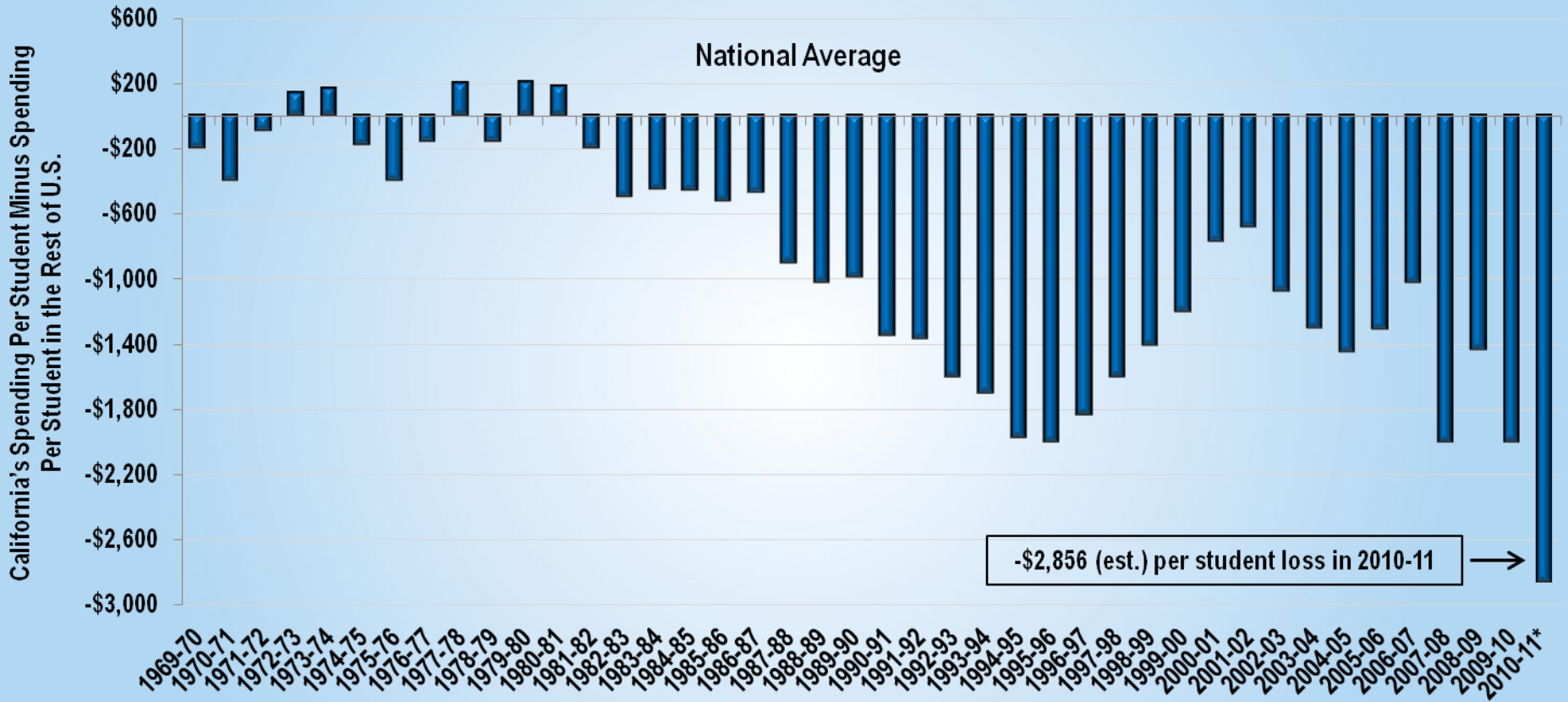
Per-ADA Revenue Change



California's Education Spending Continues to Lag



California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



* 2010-11 data estimated

Note: Rest of U.S. excludes the District of Columbia

Source: National Education Association

Choices and Priorities Matter



- California demands and deserves a “world-class” education system
- The top five states, in terms of student performance, are Vermont, Rhode Island, Wyoming, New Jersey, and Maine
- The bottom five are California, Idaho, Mississippi, Nevada, and Arizona
- What’s different?

	Top Five	Bottom Five
Per-student spending	\$16,000 – \$22,000	\$6,700 – \$8,700
Percent of state resources	4.2% – 6.0%	3.2% – 3.9%
4 th Grade NAEP*	32% – 44%	22% – 33%
8 th Grade NAEP*	34% – 47%	19% – 37%

*National Assessments of Educational Progress

- California has fallen from number one to number 46 in per-ADA funding; and the results bear that out

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 interyear 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

Local Budget Impact of Weighted Student Funding Formula



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- 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 few 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
- We will provide more information as the details of this proposal are released

Governor's Deferral Proposal

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- Assuming the temporary tax proposal is enacted, the Governor's Budget proposes:
 - To hold the line on current deferrals, which requires roughly \$2 billion in 2012-13 because deferrals were increased in 2011-12
 - Buy down current deferrals totaling \$2.4 billion (\$2.2 billion for K-12 education and \$200 million for community colleges)
- If the temporary tax proposal is not enacted, the Governor's Budget would drop the proposal to reverse \$2.4 billion in deferrals
- If buying down deferrals is Governor Brown's top priority for new revenues, K-12 education may see no restoration of prior cuts or support for new programs for many years to come
 - Because almost \$8 billion in deferrals will remain even if Governor Brown's deferral buy back is enacted as proposed

Transportation Program



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- The school transportation program in California is structured in a manner that reimburses school agencies a year in arrears for the costs of the program for home-to-school and special education transportation
 - Funding for this program has historically not covered the actual costs of the program – a local contribution is required
 - School transportation is not mandatory, with the exception of special education
- In the current year, the automatic “triggers” included in the Budget cut funding for transportation by 50%
 - The funding as of January 2011 has been eliminated in the current year
 - The impact to school agencies is a 100% loss of funding in the second half of the fiscal year
 - School districts, however, will still be required to offer special education transportation

Transportation Funding Eliminated



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- **For the current year, there are efforts underway to apply this reduction to all school agencies on a per-ADA basis through the revenue limit**
 - **This would soften the impact on the small, rural school agencies hardest hit by the cut**
 - **School agencies that never received transportation funding will receive a funding reduction**
- **In the 2012-13 Budget Proposal, the home-to-school and special education transportation program have been eliminated, including small school bus replacement funds**

Special Education

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- The 2012-13 Governor's Proposal for special education provides \$12.3 million for ADA growth, but no COLA
 - Special education local plan areas (SELPAs) with growth will receive an estimated \$465.44 per ADA – unchanged since 2008-09
 - A \$17.4 million increase in federal funding will be allocated to SELPAs, estimated at \$2.94 per ADA



- **Educationally necessary mental health services to students with disabilities continue to be the responsibility of schools in 2012-13**
 - **A total of \$417 million is provided to support mental health services**
 - **Funding sources include:**
 - **Governor Brown rebenching Proposition 98 by \$98.6 million to backfill the loss of one-time Proposition 63 (Mental Health Services Act) funding**
 - **This is in addition to the \$248 million provided in 2011-12 and will be allocated on a per-ADA basis, estimated to be \$58.72 per ADA**
 - **Additionally, \$69 million in federal special education funding continues to be earmarked for mental health and will be allocated on a per-ADA basis, estimated to be \$11.61 per ADA**
 - **\$3 million extraordinary cost pool continues to be available for necessary small SELPAs**

Transitional Kindergarten Postponed for 2012-13

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- **SB 1381 (Chapter 705/2010):**
 - **Changed the eligible birth dates enrolling in kindergarten and 1st grade**
 - **Established “Transitional Kindergarten”**
- **According to current law, Transitional Kindergarten is to start in 2012-13**
 - **Requirement and funding are proposed to be eliminated as a Budget solution**
 - **Future start date now unclear**
 - **Transitional Kindergarten is optional and will be a local decision**
- **Results in state cost avoidance of \$223.7 million**
 - **Funds will be used to support other unspecified existing education programs**
 - **Could increase special education preschool costs**

Transitional Kindergarten Postponed for 2012-13

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- No changes proposed for regular kindergarten in the Governor's Budget
 - Districts will receive funding for regular kindergarten ADA
- Regular kindergarten birthday change based upon SB 1381 continues in 2012-13 on schedule
 - Birthday change: from December 2 to November 1
 - Results in about 40,000 fewer kindergarten students in 2012
 - Less ADA funding for LEAs = fewer resources
 - Each district needs to review its staffing circumstances, based upon estimated ADA

School Services of California, Inc.'s Financial Dartboard



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Factor	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Statutory COLA (applies to K-12 and COE Revenue Limit)	2.24%	3.17%	2.40%	2.70%	2.90%	3.10%
K-12 Revenue Limit Deficit %	19.754%	21.666%	21.666%	21.666%	21.666%	21.666%
COE Revenue Limit Deficit %	20.041%	22.497%	22.497%	22.497%	22.497%	22.497%
SSC Planning COLA if Tax Initiative Passes	—	0.00%	2.40%	2.70%	2.90%	3.10%
Trigger Cuts if Tax Initiative Fails	—	-\$370 per ADA (ongoing)	2.40%	2.70%	2.90%	3.10%
Home-to-school and special education transportation funding	-50%	-100% (ongoing)	—	—	—	—
State categorical funding (including adult education and ROC/P)						
Tier I	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%
Tier II	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%
Tier III	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%

The Road to Adoption



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- This Budget has a long way to go before it becomes law
 - There will be resistance to the tax initiative
 - The weighted student formula is a “work in progress”
 - The home-to-school and special education transportation cut is a political “hot potato”
 - There is resistance by the Legislature to make further cuts
- The Budget relies on improved economic projections
 - But cash continues to come in low
 - And unemployment remains high
- There is plenty of room for negotiations before final adoption

