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Governor's May Revision—Flat Funding

Introduction

The Governor's 2011 May Revision of his January Budget proposal has just been released and includes the recognition of \$2.8 billion in additional revenue for 2010-11, \$3.5 billion for 2011-12, and additional minor adjustments, for a total of \$6.6 billion. The Governor cautions against expectations that this revenue erases the Budget problem by pointing out that the ongoing structural deficits continue. The structural deficit includes K-12 deferrals and other past borrowing measures. To balance the Budget, the Governor assumes extension of the higher tax levels. Yet unlike his January Budget proposal, there is no specific alternative proposal if the tax extensions fail.

The May Revision includes some good news for schools, including the elimination of the most recently enacted \$2.1 billion K-12 deferral, which generates no new spending capacity but alleviates pressure on cash. The Governor underscored that schools have borne a disproportionate share of cuts during the past few years, and an all-cuts Budget would require a suspension of Proposition 98, which he is not willing to do.

The May Revision

Proposition 98

For the current year, the May Revision acknowledges that Proposition 98 has been suspended at \$49.7 billion but proposes a slight increase above the suspended level of approximately \$0.1 billion to reflect a current-year increase in ADA-driven revenue limit funding.

For 2011-12, the May Revision increases Proposition 98 from \$49.4 billion proposed in January to \$52.4 billion, a \$3 billion increase, based on the Administration's higher General Fund revenue estimate for 2011-12 and the

addition of Assembly Bill (AB) 3632 funding and other items. The May Revision notes that this is the "highest the guarantee has been since 2007-08".

However, this rise in Proposition 98 will not translate into additional expenditures at the local level. Instead, the Governor proposes to use the increase to (1) reverse \$2.5 billion in K-12 apportionment deferrals, (2) reverse \$350 million in community college apportionment deferrals, and (3) provide \$222 million to fund mental health and out-of-home care for special education students, an expense that was previously borne by counties. With these proposed expenditures, state expenditures under Proposition 98 will increase compared to the January Budget proposal, but school districts will not experience a net increase in expenditure authority. Therefore, overall expenditures for schools will be roughly flat under the May Revision, rather than what was initially perceived to be a significant boost.

Other K-12 Education Details

The Governor proposes suspending funding for the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2011-12 and embarking on a process to reform California's assessment system, with the goal of (1) reducing the amount of time devoted to state testing; (2) eliminating data collections that do not provide useful information to school administrators, teachers, and parents; and, (3) restoring power to school administrators, teachers, and parents. Such changes would result in more than \$4.5 million in federal funding being unused for CALPADS and CALTIDES at this time.

Charter Schools

The May Revision includes \$19.5 million to provide categorical block grant and Economic Impact Aid (EIA) money for charter school growth. In addition, the Governor increases by \$8 million the amount for supplemental categorical block grants that charter schools that started since 2008-09 receive in lieu of Tier III categorical funding.

The Governor's May Revision proposal eliminates selected K-14 mandates with a reduction of \$38.2 million to reflect the adoption of specific recommendations of the K-14 workgroup on mandate reform created by Chapter 724, Statutes of 2010. Additional long-term reform options are being pursued by the Administration which seek to streamline future funding of K-14 mandates through a block grant approach.

Community Colleges

The Governor proposes to leave community colleges with the \$290 million reduction in apportionments and the increased enrollment fee (now at \$36 per unit) as in the January Budget. He proposes to reduce the total year-end cash deferrals for community colleges by \$350 million in his May Revision.

The Rest of the Budget

The Governor identifies \$10.8 billion needed in Budget solutions, including a \$1.2 billion reserve. While the revised spending proposal includes a total of \$655 million in new proposals to lower state spending, the majority of the solutions detailed are taxes, assuming a net gain of \$8.3 billion in 2011-12 when revenue-driven increases in Proposition 98 expenditures are taken into account. The tax solutions include reforming, instead of eliminating, enterprise zones and extending expiring sales taxes, vehicle license fees, and personal income taxes (although the personal income tax extension is budgeted for 2012 through 2016).

Leading up to the May Revision, the Governor has made a point of highlighting the efficiencies his office has made since taking office, most recently the proposed elimination of the Unemployment Insurance Appeals Board. The Governor proposes eliminating 42 additional boards, commissions, task forces, offices, and departments, which would save \$82.7 million. The May Revision also reduces state personnel by approximately 5,500 from 2010-11 to 2011-12.

Compared to the January Budget Proposal, the Governor's May Revision adds funding to the Department of Corrections and Rehabilitation (\$415 million) and the Department of Mental Health (\$50 million) budgets, which he states were previously underfunded. The Governor no longer assumes the savings from shifting \$1 billion in Proposition 10 dollars to fund health services for children, although this proposal was adopted by the Legislature, due to litigation pending against this shift.

Closing Thoughts

As we have become accustomed, the evolution of the State Budget from January to May to ultimate enactment continues to be enigmatic. On the one hand, planned continuation of temporary taxes and unexpected increases in other tax revenues push the K-12 portion of Proposition 98 upward by about \$3 billion for 2011-12. At the same time, the Governor plans to reverse his previously announced new deferral of \$2.1 billion for 2011-12, reverse an additional \$434 million in existing deferrals, for a total of \$2.5 billion, and recognize shifts of more than \$222 million in AB 3632 mental health and other costs into Proposition 98.

The net result is that the projected growth in Proposition 98 revenues for 2011-12 does not result in an increase in per-student allocations for 2011-12. The projected growth in Proposition 98 is used to maintain current levels of funding in the short term and to improve the longer-term stability of school funding by reducing dependence on deferrals.

As a result of the cancellation of the \$2.5 billion dollar deferral, which could be reinstated if the temporary taxes were to either not get on a ballot or fail at the polls, and the lower amount of temporary taxes included in the Budget, roughly \$1.6 billion, we at School Services of California, Inc., (SSC) believe Proposition 98 is more secure than in January. If the temporary taxes pass, Proposition 98 is at \$52.4 billion. If they fail, Proposition 98 drops to approximately \$50.8 billion. Both of these numbers are above the \$49.7 billion funding level provided for education in 2010-11. Any increase above \$49.7 billion is absorbed by deferrals and would be available for reinstatement if the Governor chooses to do so. Therefore, absent a suspension of Proposition 98, it appears that the Governor will reach his goal of keeping K-12 funding relatively flat for 2011-12.

During his press conference, both the Governor and the Director of the Department of Finance were repeatedly asked what schools should plan for; their answers were consistently "plan for \$52.4 billion." Under the current circumstances, we advise following the Governor's stridently delivered advice; if he is unable to deliver on his plan, the consequences will be laid at the Governor's door.

California's public education system is on life support. If we must dismantle even more of the fragile remains of our once great system, we choose to do it later rather than sooner. While we will continue to hear the voices of the prophets of doom, we choose not to have our education system die by our own hand this month. We will provide greater detail at our May Revision workshops beginning May 19; see you there.

—*SSC Staff*

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