

POCKET BUDGET 2011-12

A Summary Analysis of the Governor's Proposed 2011-12 State Budget for California's Schools

Prepared by



January 2011

Dartboard Factors

The SSC Financial Projection Dartboard factors presented below are developed by SSC with input from independent state agencies and private economic consulting firms, based on the latest information available. These factors are provided to assist school agencies with preparing their upcoming budgets and multiyear projections.

Factor	'10-'11	1 - 1 2	'12-'13	'13-'14
Statutory COLA	-0.39%	1.67%	1.80%	2.30%
Total Deficit Factor	17.963%	19.608%	19.608%	19.608%
10-Year Treasuries	3.20%	3.80%	4.10%	4.40%
California CPI	1.20%	1.70%	2.20%	2.60%

SSC's Recommended Planning COLA — Governor's Budget				
SSC's Recommended Planning COLA — if Tax Extensions Fail	N/A	0.00%*	1.80%	2.30%
		-\$330 per ADA ongoing	1.80%	2.30%

* As explained above, the DOF deficit factor will not produce a net change of 0.0%; it would produce a net change of about 4.3%. We will revise the Dartboard when this issue is resolved.

School Facilities

As reported at the December 15, 2010, State Allocation Board (SAB) meeting, the following fund balances are available (including unfunded approvals):

	Ending Balance (As of December 15, 2010)
Proposition 1D	\$1.766 billion
Proposition 55	\$405 million
Proposition 47	\$151.2 million

DEFERRED MAINTENANCE - The Governor's Budget proposal extends Deferred Maintenance flexibility for two additional years with the state funding its contribution with \$250.8 million in the 2011-12 State Budget. Local educational agencies (LEAs) would not be required to make the match to receive the funds through 2014-15.

ROUTINE RESTRICTED MAINTENANCE ACCOUNT - LEAs continue to have the ability to reduce the amount they must deposit into a routine restricted maintenance account for two additional years. The flexibility was allowed beginning with the 2008-09 fiscal year through 2012-13. The Governor's January Budget proposal extends the flexibility through 2014-15.

The exemption allows a district to reduce its contribution from 3% of General Fund expenditures to 1%; however, if the school district maintains its facilities in good repair, as defined in Education Code Section 17002, it shall be exempt from this 1% requirement.

Lottery Funds

The Lottery continues to transfer more than a \$1 billion to LEAs annually. The 2009-10 fiscal year saw a 2% increase in funding over the projected revenues to schools with a 1% increase projected for the 2010-11 fiscal year.

Although the 2010-11 fiscal year is currently tracking at about 95% of the projected sales, the

Lottery Commission expects to meet its projection by the end of the 2010-11 fiscal year. Keeping in mind that the current economic environment continues to be uncertain, we are maintaining a flat revenue projection and an increase in ADA for the 2011-12 fiscal year. The static revenue and the increase in ADA reduces the projection for the unrestricted portion to \$111 per Annual ADA and the restricted remains at \$17.50 per Annual ADA.

Realignment

One of the highlights of the Governor's Budget, is his plan to realign services and revenues between the state and the local governments. The Budget calls for a shift of several state programs, including the custody and care of juvenile offenders and low-level adult felons, to county governments. The plan would redirect revenues from the extension of the higher vehicle license fee and sales tax to local governments to pay for these added responsibilities, provided the tax extension is approved by the voters.

Charter Schools

The Governor's proposal anticipates growth in charter school ADA in 2011-12 and includes an additional \$16.1 million in funding. The general purpose rates are based on statewide average revenue limits. Therefore, the rates reflect the 1.67% COLA, deficit factor, adjustments for unemployment insurance, and the Public Employees' Retirement System (PERS) Reduction.

2011-12 Estimated Charter School Rates				
	K-3	4-6	7-8	9-12
General Purpose Block Grant	\$5,030	\$5,106	\$5,252	\$6,097
Categorical Block Grant	\$410	\$410	\$410	\$410
Total	\$5,440	\$5,516	\$5,662	\$6,507

Source: Department of Finance

State Budget

Newly elected Governor Jerry Brown's proposed State Budget for 2011-12 focuses on closing a \$25 billion Budget gap and, at the same time, sparing K-12 education funding from further Budget cuts, acknowledging that school funding has been "disproportionately" reduced since 2008. However, the Governor's proposed spending plan hinges on a continuation of the temporary sales tax and vehicle license fees, which will require voter approval. The Governor proposes to call a special election in June 2011.

Overall, the plan includes \$12.5 billion in cuts—primarily to Higher Education and Health and Human Services, as well as an ambitious local government realignment plan designed to shift how and by whom more than \$10 billion in a wide range of services are delivered. For K-12 school agencies, the Governor proposes the same level of funding as was provided in 2010-11, and does not fund the 1.67% cost-of-living adjustment (COLA) or acknowledge the loss of one-time federal education funds and the increased costs facing school agencies, which will cause a continued need for difficult local budget decisions.

Proposition 98

The Governor's Budget proposes fully funding the minimum Proposition 98 guarantee, which is estimated to be \$49.3 billion in 2011-12. There are no changes to the 2010-11 Proposition 98 funding level, which, due to suspension of the minimum guarantee, was funded at \$49.7 billion. The Governor's Budget proposal is dependent on voters taking action to extend, for five additional years, approximately \$8.8 billion in temporary taxes due to expire at the end of 2010-11. Of this amount, around \$5 billion would be counted as General Fund revenue towards the Proposition 98 calculation. As a result, absent an extension in these taxes, the Governor's Budget estimates that the Proposition 98 guarantee and level of funding the Governor proposes to provide, would drop by \$2.3 billion

For the Budget year, the minimum guarantee is determined by Test 1—a fixed share of General Fund revenues—which is set at 41.2%. As a result, if the Governor is committed to maintaining funding at the minimum guarantee level there are two possible avenues for improvement of the guarantee: (1) continuation of the temporary taxes or (2) improved economic growth. We need at least one, if not both, of these factors to come to pass to avoid funding cuts in 2011-12.

Although it is expected to be a Test 1 year, it appears that the Proposition 98 Maintenance Factor may grow, adding several hundred million dollars to the \$9.7 billion anticipated for 2010-11. Based on the Proposition 98 formula, repayment of the Maintenance Factor would begin when state revenues recover.

Funding Deferrals

In order to maintain Proposition 98 funding near 2010-11 levels, the Governor proposes to expand prior-year funding deferrals by an additional \$2.1 billion in 2011-12. This is in addition to the \$7.8 billion in deferrals that currently exist in statute, and brings the deferrals to more than \$10 billion for K-14 education. This equates to around 45% of the state's share of revenue limit apportionments. The detail regarding the timing of receipt of cash from the additional deferral has yet to be determined.

Revenue Limits

Revenue limits provide about two-thirds of school districts' revenues and the vast majority of general purpose funding. For the current year, the Governor's Budget proposes no change in revenue limit funding. Many educators have worried that the state's Budget problems would result in midyear cuts for 2010-11. The Governor has proposed no midyear reductions for K-12 education revenue limits.

GROWTH AND COLA - The Governor's Budget estimates that K-12 education average daily

attendance (ADA) will grow by a modest 0.22% in 2011-12 and that the statutory COLA is 1.67%. The proposed Budget includes \$357.5 million for 2011-12 growth, but does not provide funding for the COLA, which results in a change to the revenue limit deficit factor.

DEFICIT FACTORS - We estimate the deficit factor necessary to eliminate the COLA to be about 0.3% lower than the 19.608% used by the Department of Finance (DOF). We continue to work with the DOF to reconcile the factors used in the calculation.

Categorical Programs

There is no funding for categorical program growth or COLA in the Governor's Budget for 2011-12. However, the Governor proposes extending flexibility measures introduced in 2008-09 by an additional two years. This includes Tier III programs, reduction to the required routine maintenance contributions (3% to 1%), eliminating Deferred Maintenance program matching requirements, delaying instructional materials adoption timelines, and continuing the more relaxed K-3 Class-Size Reduction (CSR) program penalty structure, among others. Based upon subsequent conversations, we believe flexibility to reduce the school year to 175 days is also included. In addition, the Governor proposes to continue to authorize districts to reduce their minimum budget reserves. Extension of categorical flexibility provides welcome relief; the multiyear projections to be provided with 2011-12 district budgets in June 2011 will show large gaps if flexibility is not extended.

The Governor's Budget also includes \$3 million to provide categorical funding for newly established schools. This would provide funding to schools that were created in 2008-09 or thereafter that are impacted by the base year established for Tier III categorical programs and/or the limits placed on K-3 CSR incentive funding.

Child Care

The Governor's Budget proposes significant reductions to health and human services programs, including California Work Opportunity and Responsibility to Kids (CalWORKs) and related child care programs. Specifically, the Governor's Budget proposes to decrease Proposition 98 funding for child care by \$716 million in 2011-12. This reduction would result in more stringent eligibility restrictions, including eliminating services to children ages 11 and 12, along with any families that are above 60%, rather than the current 75%, of the State Median Income, putting the income threshold for a family of four at approximately \$45,832. Offsetting the reduction in funding is additional local flexibility that would allow copayments made to providers to be retained by local agencies. That would in part increase the latitude local agencies have to determine how to structure the fees and delivery of services to meet local needs.

Special Education

Special education funding remains relatively flat in 2011-12. The Budget proposes \$7.4 million to fund special education enrollment growth, roughly \$465 per ADA, and, similar to revenue limits, does not fund the statutory 1.67% COLA. The Governor also proposes that Assembly Bill (AB) 3632 services provided to county mental health agencies be paid out of Proposition 63 funds in 2011-12 and commencing in 2012-13 out of the dedicated revenue source he proposes is created as part of his proposed realignment plan. The proposal includes funding for residential placements for youth accessing services through the AB 3632 program beginning 2011-12. The proposal also includes \$98.6 million for prior-year approved AB 3632 costs. The proposal does not resolve last year's veto of funding for AB 3632, which is currently facing several lawsuits that are beginning to wind their way through the courts and will hopefully result in a resolution in the near future.