

Governor's May Revision

Budget Communications Committee

June 1-2011

MAY REVISION

- We still have three major problems in education finance:
 1. Low levels of funding – probably last in the nation now – **California average funding is now \$2,680 below the national average!**
 2. Volatility of funding – year-to-year funding levels are totally unpredictable
 3. Uncertainty of funding – estimates of funding are wildly uncertain from January to May to Budget enactment and beyond
- We will have all three of these problems until:
 - The economic condition of the state improves and expansion begins
 - State revenues and spending reach an equilibrium
 - Education spending rises in priority at the state level
 - There is a stable, predictable source of ongoing funding for education

MAY REVISION

- The May Revision is in keeping with the general theme of the Governor's January Budget Proposal
 - Big cuts, already enacted, for the non-Proposition 98 side of the Budget
 - Elimination of redevelopment agencies and redirection of property tax
 - Realignment of programs from the state to the local level
 - Extension of temporary taxes by vote of the people
 - Relatively level funding for K-12 education
 - Big funding cuts from community colleges and higher education
- Some things have changed
 - Tax revenues have increased, independent of tax extensions
 - The Governor has had no success getting Republican support for taxes
 - Increased pressure for pension, business, and other reforms

MAY REVISION

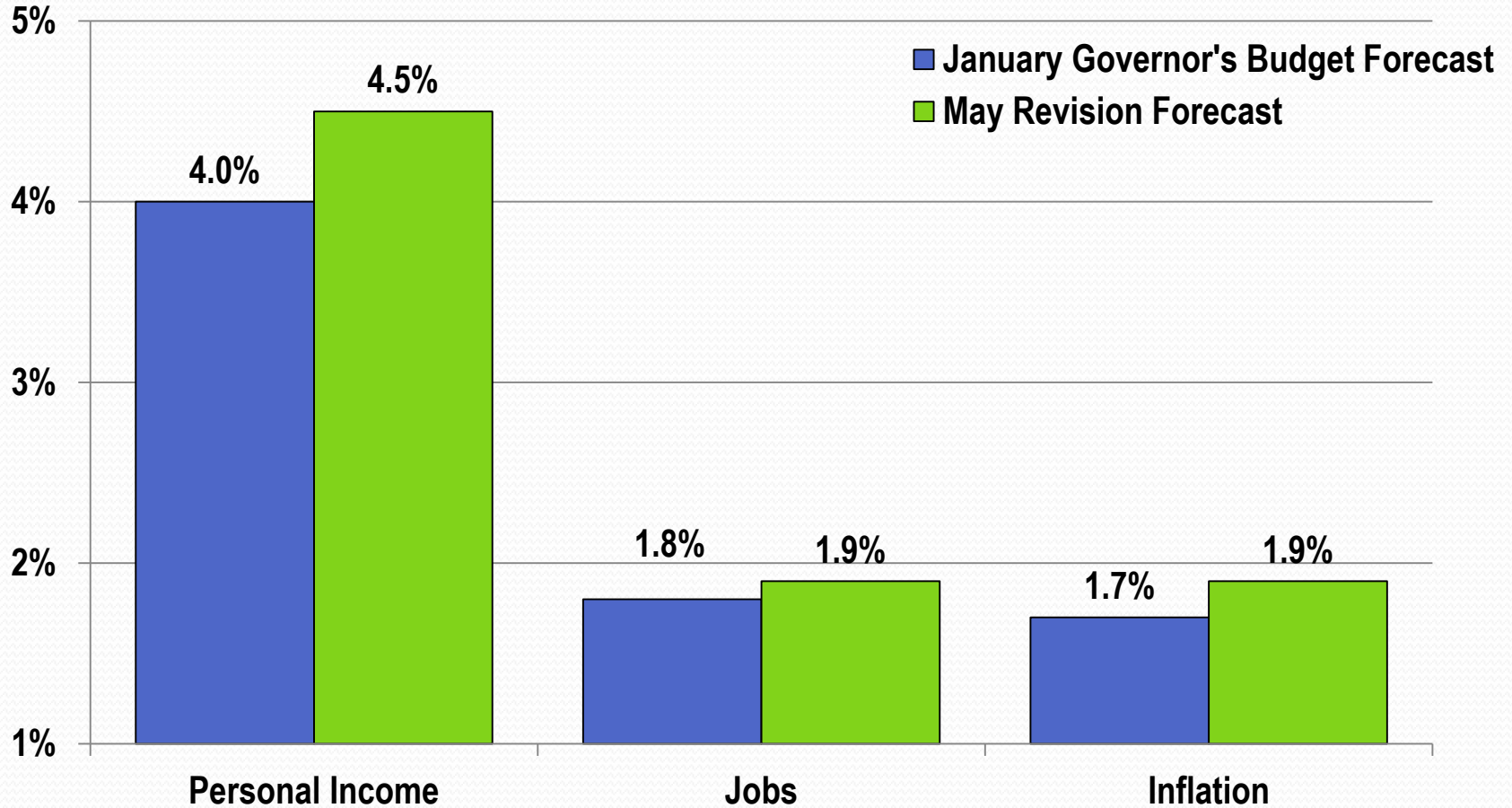
- Some things remain the same
 - The State Budget is still dependent upon future events – extension of taxes
 - The State Budget is balanced only if revenues are increased by some future event
 - “Electioneering” will continue with education funding threatened if new revenues do not materialize
 - Education funding is the “hot button” for voters to approve taxes
 - Voters will not extend taxes to increase welfare payments or to increase funding for prisons – so we can expect education to remain part of the “electioneering”

MAY REVISION

- Since January, the state's budget situation has improved
 - \$6.6 billion in additional revenues (over two years)
 - \$13.4 billion in non-education cuts have been made
 - Though the Governor continues to propose tax extensions that would ultimately need to be approved by voters, the May Revision proposes less reliance on tax extensions - \$4 billion compared to \$12 billion
 - The Proposition 98 guarantee has risen (due to increased revenues) – the Governor has proposed one less deferral for schools – if passed, will help districts' cash positions – but, it could be reinstated if tax extensions don't pass
 - There now appears to be less exposure to a Proposition 98 suspension, and little political will to suspend

NATIONAL AND STATE ECONOMIES ARE IMPROVING

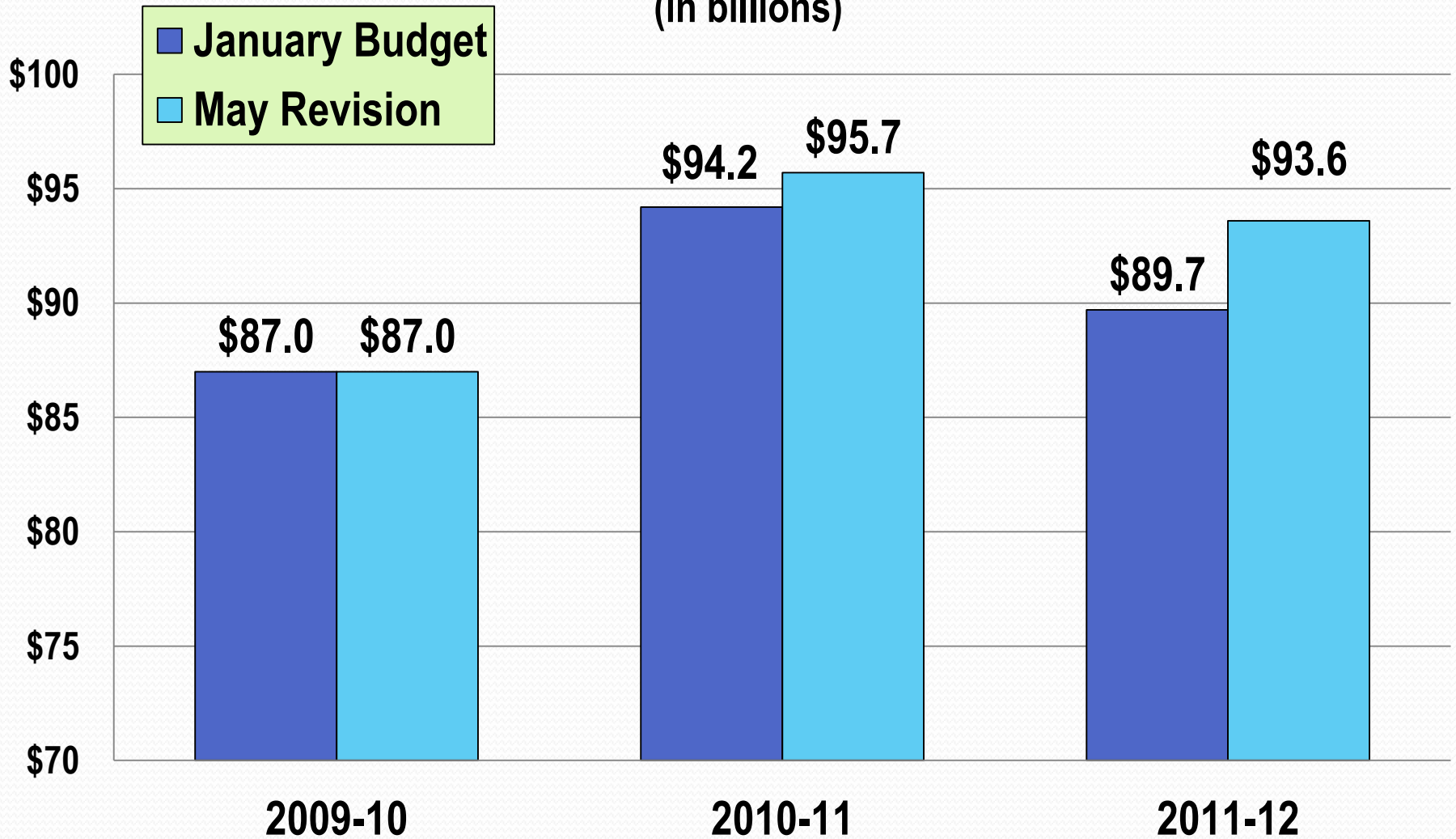
CALIFORNIA ECONOMIC INDICATORS – 2012 PERCENTAGE CHANGE



Sources: 2011-12 Governor's Budget, January 2011, 2011-12 May Revision, May 2011, p. 27

GENERAL FUND REVENUES

General Fund Revenues
(in billions)



RISKS TO THE MAY REVISION

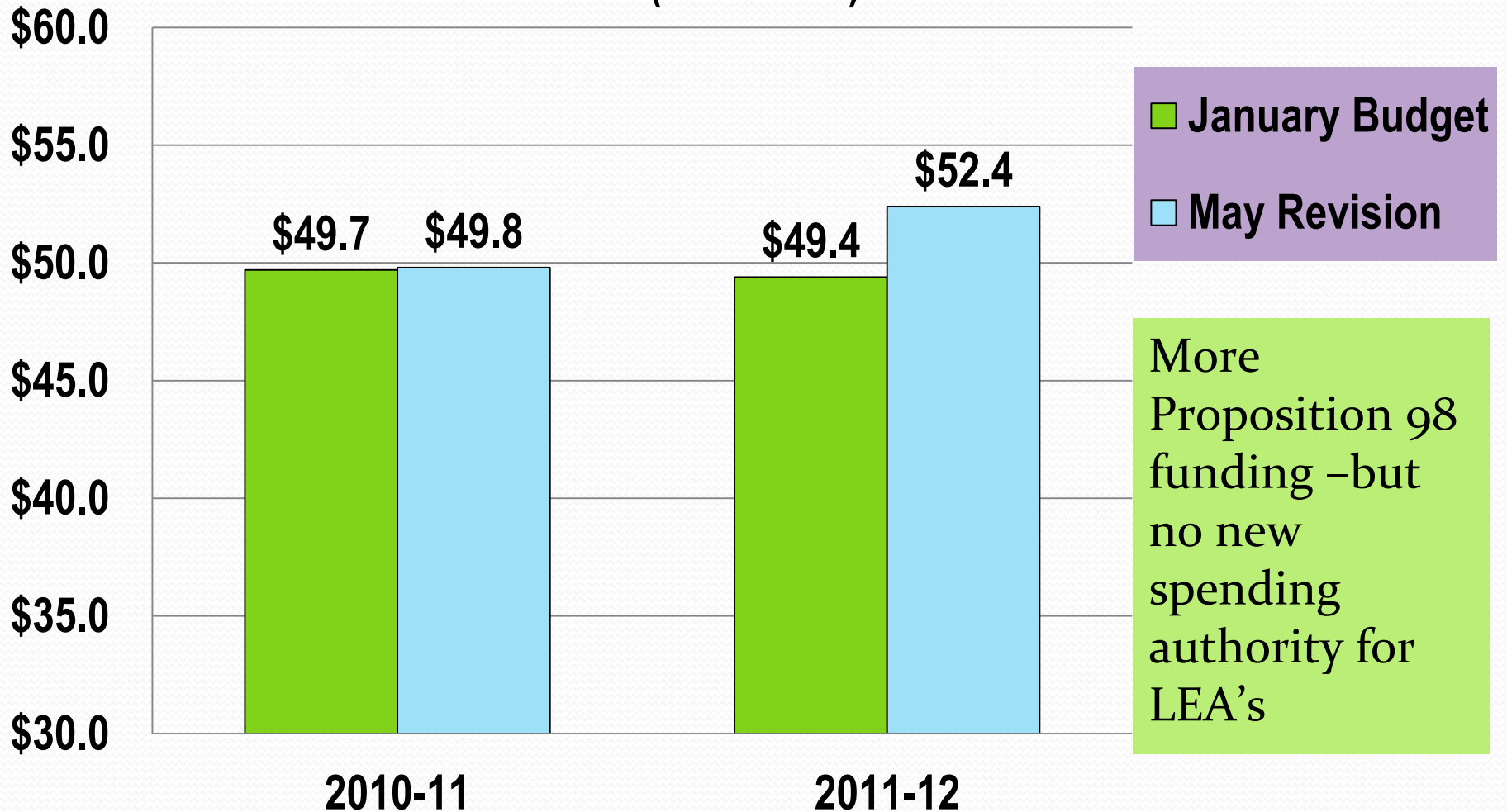
- Just as in January, the May Revision Budget Proposal is not without risks
 - Tax proposals worth \$4 billion could be rejected by the Legislature or state voters
 - Litigation challenging special fund shifts, social services grant cuts, realignment proposal, Supreme Court prison decision
 - Underestimation of caseload demands for the state's safety net programs and corrections
- Economic and revenue risks
 - Turmoil in European financial markets, and the Middle East, and raising oil prices could trigger inflation, stall the recovery, and cause a consumer pull back
- The Governor does not offer a "Plan B", which presumably could be an "all cuts" approach, and likely a suspension of Proposition 98

JANUARY PROPOSAL

- In January, the Governor's "flat funding" proposed for 2011-2012 resulted in a loss of \$19 per average daily attendance (ADA)
- If tax extensions didn't pass, an additional \$2.1 billion would be reduced – another \$330/ADA loss
- There was also talk of a possible suspension of Proposition 98, which could result in still further per student cuts
 - We heard a variety of reduction figures – including as high as \$825/ADA
- As advised by School Services of California (SSC) and the San Diego County Office of Education, we planned for a reduction of \$349/ADA

PROPOSITION 98 FUNDING

Proposition 98 Funding
(in billions)

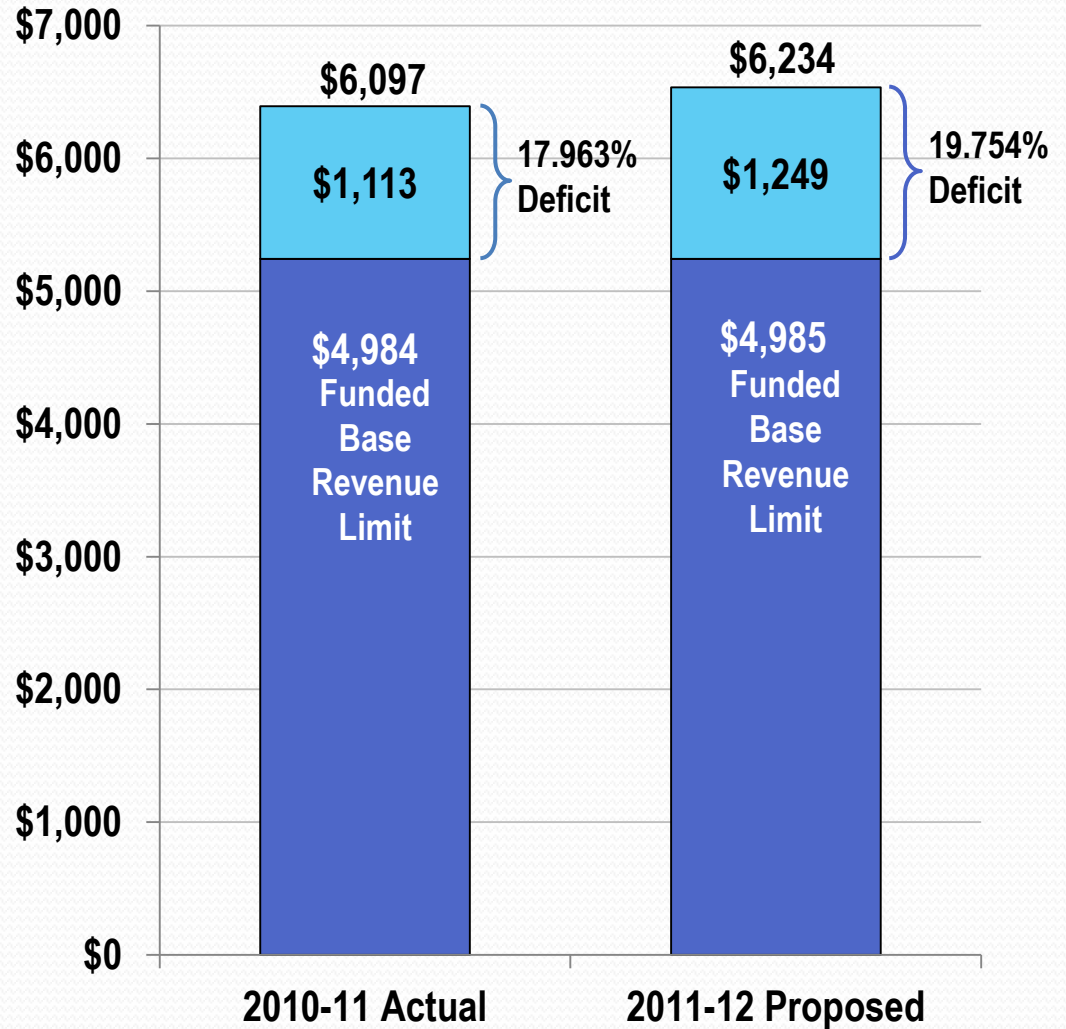


MAY PROPOSAL

- The Governor has again proposed “flat” funding, and a correction to the funding formula now makes clear that “flat” really does mean “flat”
- If tax extensions don’t pass, the guarantee could fall by another \$1.6 billion – which could put the per-ADA loss closer to \$250/ADA, rather than \$330/ADA
- The Administration proposes to eliminate one deferral, which, if passed, will help LEAs maintain a positive cash position as of June 30, 2012 – **would reduce total deferrals from over 9 billion to less than \$7 billion**
- If tax extensions pass, or other solutions are found, districts that budgeted for a reduction of \$330/ADA would see additional funding in 2011-2012

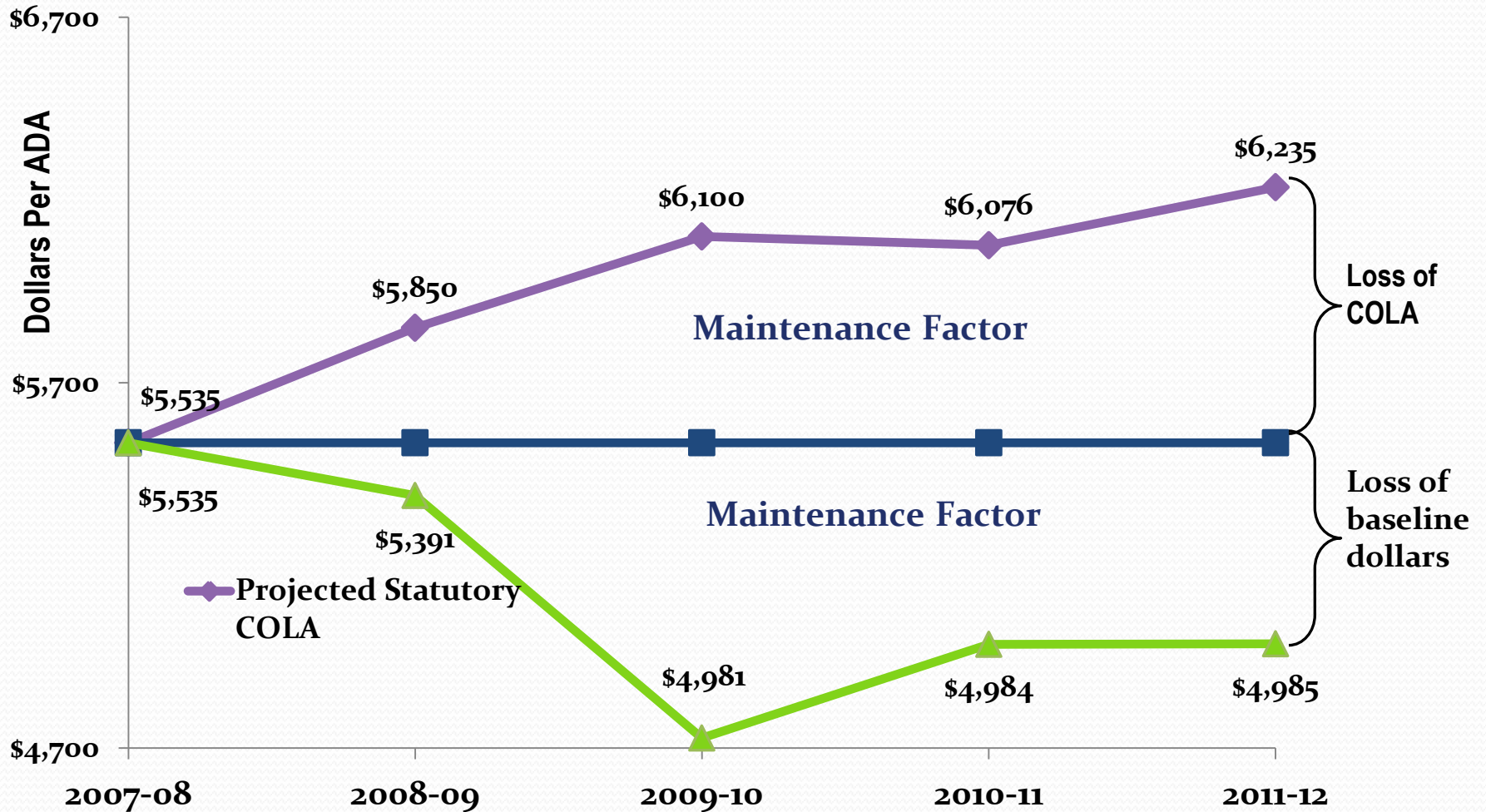
PROPOSED 2011-12 FUNDING vs. 2010-11 ENACTED BUDGET FOR EUSD

- The Governor’s Budget does not fund the 2.24% statutory COLA (\$137 for elementary districts) for 2011-12
- The funded base revenue limit is “flat” between 2010-11 and 2011-12
- Net increase for EUSD is about \$640,000 as a result of \$19/ADA correction – increase also includes \$.9 million in reimbursement for higher unemployment rates (but revenue offsets the increased cost for unemployment insurance)



PROJECTED VS. ACTUAL FUNDING PER ADA – FULL RECOVERY A LONG WAY OFF

Escondido Union School District



| | Estimated Actuals | January Budget | May Revision - No tax extensions | May Revision - approved tax extensions |
|--|----------------------|-------------------|--|--|
| | 2010-2011 | 2011-2012 | 2011-2012 | 2011-2012 |
| Average Daily Attendance | 17,163.78 | 16,828.11 | 16,860.84 | 16,860.84 |
| COLA | -0.39% | 1.67% | 2.24% | 2.24% |
| Deficit Factor | 17.963% | 19.608% | -19.754% | 19.754% |
| Base Revenue Limit (before deficit) | 6,075.60 | 6,199.00 | 6,234.00 | 6,234.00 |
| Base Revenue Limit (after deficit) | 4,984.00 | 4,966.00 | 4,985.00 | 4,985.00 |
| Dollars Lost due to Deficit Factor (millions) | \$18.80 | \$20.40 | \$20.80 | \$20.80 |
| \$330/ADA Reduction (millions) | N/A | (\$5.60) | (\$5.50) | N/A |
| Revenue Limit Dollars (millions) | \$84.20 | \$76.50 | \$78.00 | \$83.60 |

THE EDUCATION BUDGET – SPECIAL EDUCATION

- The May Revision proposes to permanently shift responsibility for AB 3632 mental health services to LEAs from counties
 - Would continue \$69 million of federal funding
 - Would permanently rebench Proposition 98 guarantee by \$221.8 million to cover costs
 - Counties would receive Proposition 63 funding and could contract with LEAs to provide some services
 - Funding would be distributed to Special Education Local Plan Areas (SELPAs) in a manner similar to other special education funding
- Special Disabilities Adjustment funding is gone – but AB 719 (Block, San Diego) proposes a new formula to be phased in over 5 years. Bill is currently stalled in Assembly

THE EDUCATION BUDGET - OTHER

- The May revision reduces mandate reimbursements by \$38.2 million – and proposes to maintain only those mandates related to health, safety, and accountability
 - Would eliminate a dozen mandates
 - Would replace existing system with a block grant approach
- All current flexibility has been extended two years – including reduction of school year, class size reduction flexibility, instructional material adoptions, categorical flexibility, and relaxed rules for routine and deferred maintenance

THE EDUCATION BUDGET – OTHER

- The enactment of Senate Bill 70 (SB 70) made significant reductions to state child care and preschool programs for 2011-2012
 - State Preschool reduced 15% , after being required to use reserve funds for operation in 2010-2011
- Governor proposes to reform state testing and accountability requirements with intent to reduce the amount of time devoted to state testing – few details available
- Federal categorical funding proposal is largely flat
 - But, Title II, Pt. A includes 10% reduction
 - Eliminates Title II, Pt. D (Ed Technology)
 - Title I may be reduced up to 10% due to state's increased state-level reservations for accountability – but may be partially offset by distribution of state Title I ARRA carryover

NEXT STEPS IN BUDGET PROCESS

- The mood at the recent School Services of California, Inc. (SSC) May Revise conference was one of cautious optimism
 - Current advice – “Now is the time to open the planning book – but close the check book”
 - SSC advises not spending any new funds until we have a state budget
- SDCOE advice is similar
 - Districts given the option to exclude the \$330 reduction – but those that do must reserve new amounts in fund balance and in multi-year projections (by third year of MYPs this methodology would require reserving three times the amount received in first year!)
 - SDCOE will continue to project 2011-2012 cash flows taking into account the \$330/ADA reduction, and all current deferrals!
- EUSD Adopted Budget will continue to include the \$330 reduction until a state budget is adopted