

Overview of the 2011-12 May Revision



The 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 to community colleges and higher education

The May Revision

- Some things have changed
 - Tax revenues have increased, independent of tax extensions
 - Current year : up \$1.5 billion
 - 2011-12 : a projected gain of \$3.9 billion
 - A two-year upward adjustment of \$5.4 billion
 - The Governor has had no success getting Republican support for taxes
 - Increased pressure for pension, business, and other reforms

The 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”

Proposition 98 and the Education Budget



Proposition 98: K-14 Education's Minimum Guarantee

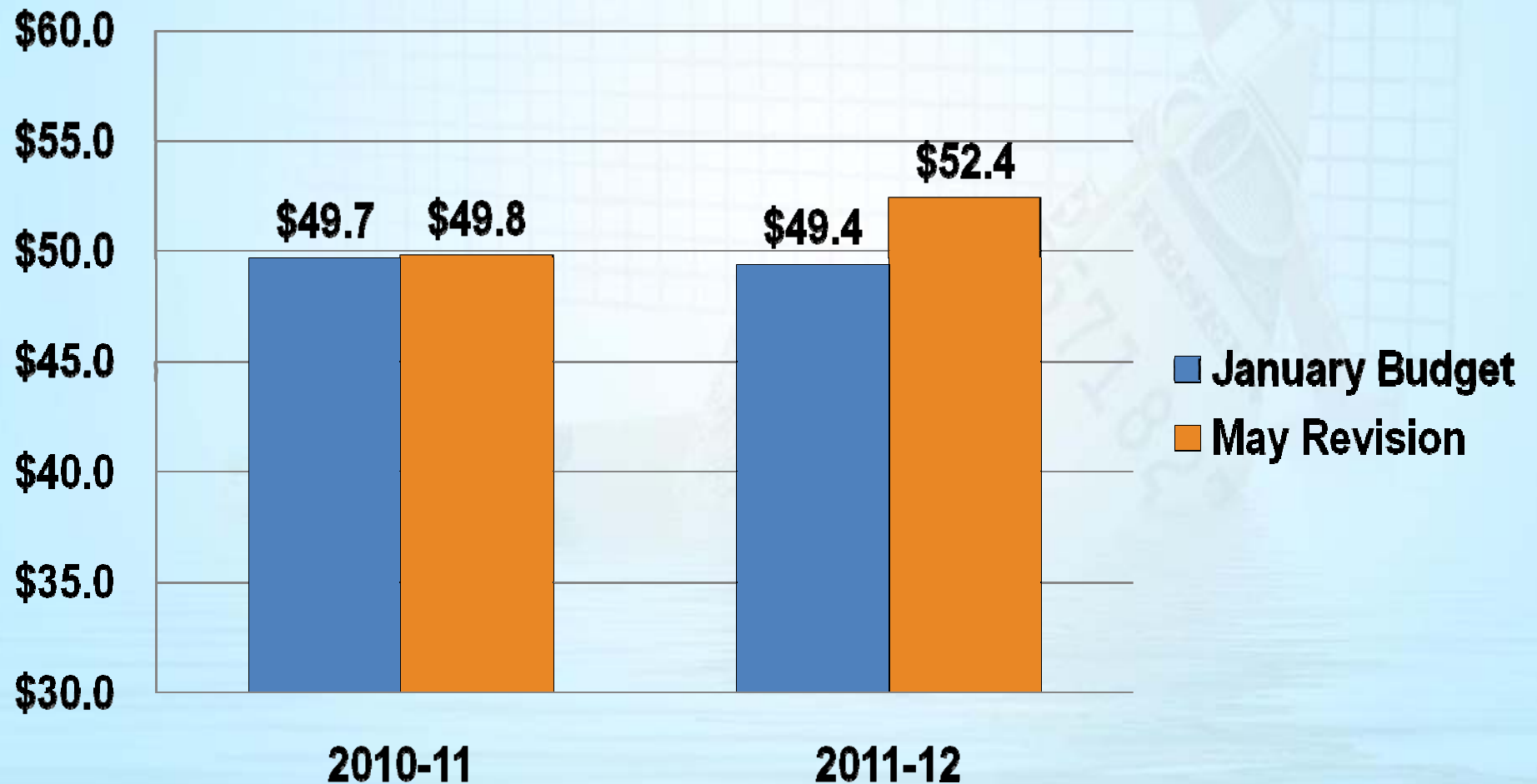
- Based on the prior year's funding level, adjusted for workload changes and inflation
- For 2010-11, Proposition 98 was suspended by \$4.3 billion to \$49.7 billion
 - Any increase in current-year General Fund revenues does not automatically increase the minimum guarantee because of the suspension
 - The May Revision proposed a small increase in Proposition 98 spending of about \$100 million related largely to growth in ADA

Proposition 98

- For 2011-12, the increase in General Fund revenues results in an increase to Proposition 98 above the January Governor's Budget Proposal of \$3 billion
- The increase to Proposition 98, however, will not result in an increase in per-pupil funding at the district level
 - Governor's May Revision proposes to allocate the funding increase to:
 - Reverse \$2.5 billion in K-12 apportionment deferrals
 - Reverse \$350 million in community college deferrals
 - Fund mental health and out-of-home care for special education students, which was previously funded by counties

Proposition 98 Funding

Proposition 98 Funding (in billions)



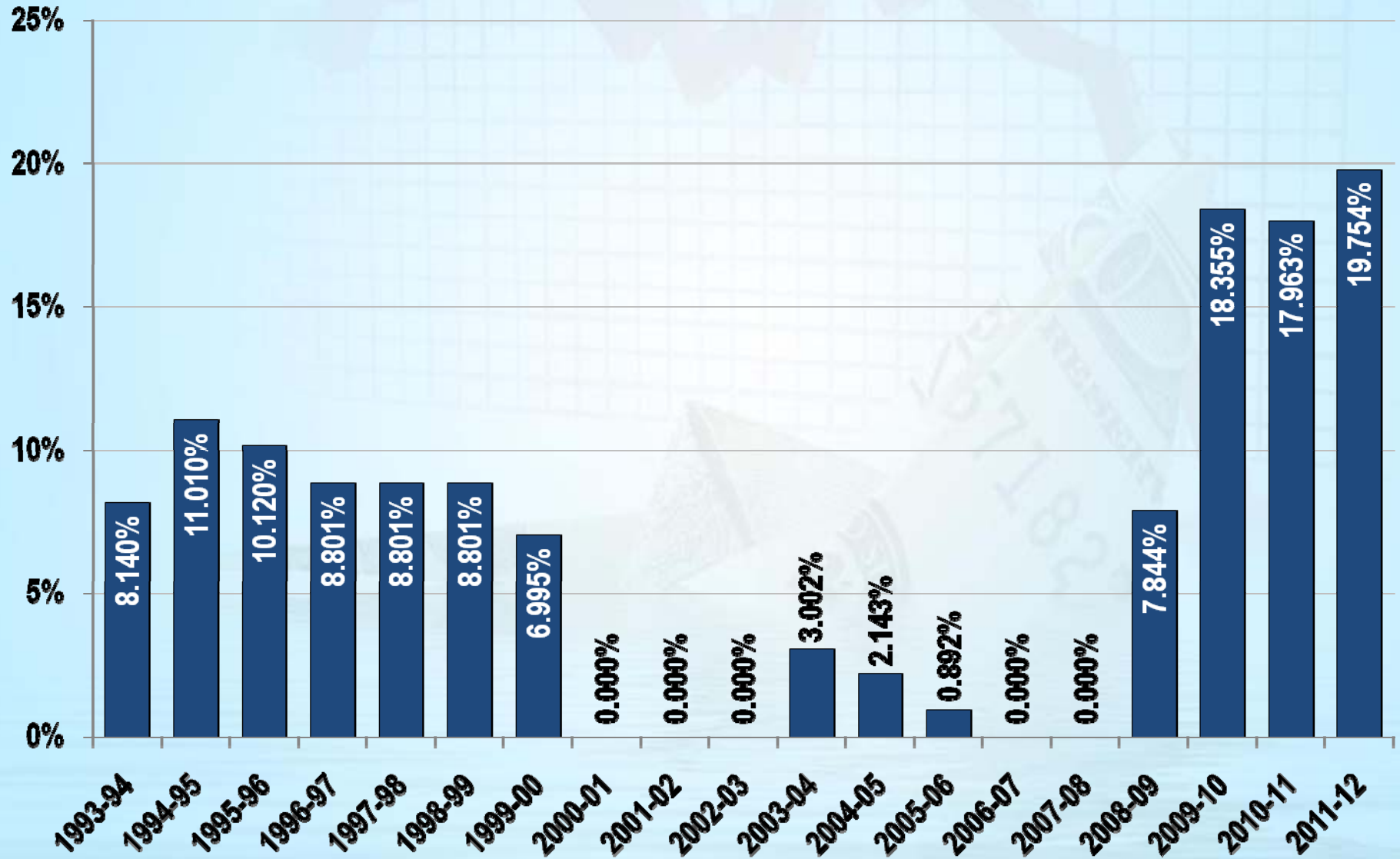
Proposition 98 Concerns

- The May Revision acknowledges an increase in Proposition 98, but uses the increase to reverse apportionment deferrals
 - This budgeting approach can be used to ultimately reverse all of the apportionment deferrals, thus absorbing a \$9 billion increase in Proposition 98, but providing no additional local funds

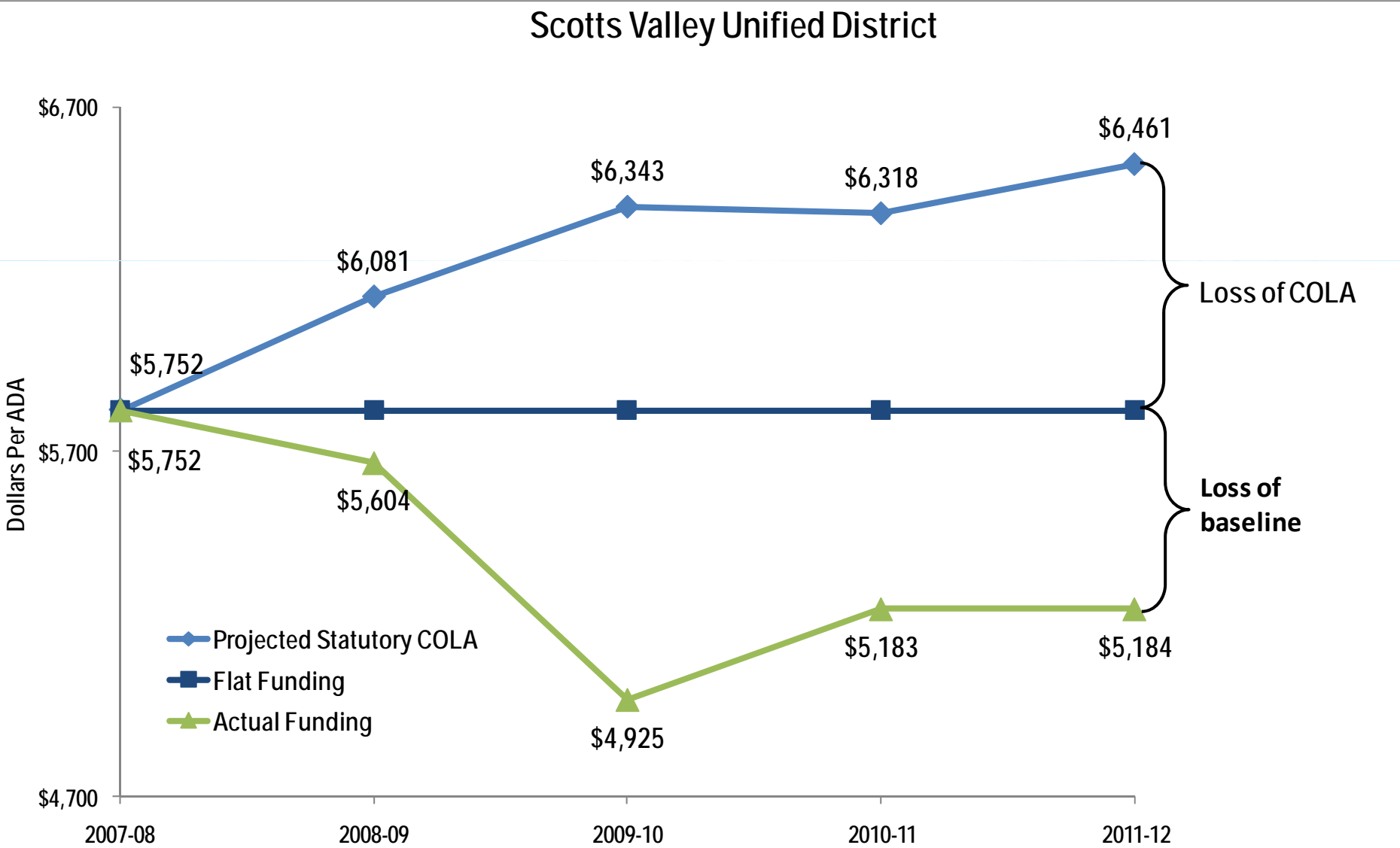
Revenue Limits

- The May Revision acknowledges a statutory cost-of-living adjustment (COLA) for revenue limits of 2.24%, up from the estimated 1.67% COLA in January
- The Deficit Factor for school districts and charter schools is 19.754%, up from 19.608% in January
 - The Deficit Factor in the Governor's January Budget was too high, resulting in an average cut of \$19 per ADA in 2011-12
 - The May Revision corrects this error and the per-pupil revenue limit funding will indeed be flat

Revenue Limit Deficit Factors



Statutory vs. Actual Funding Per ADA



Mandate Reimbursements

- Governor 's Proposal
 - Recognizes that state mandated programs must be fully funded
 - Is not budgeting “placeholders” to defer reimbursements
 - Departure from the practice for many years
- May Revision reduces funding for mandates by \$38.2 million
 - Reflects the adoption of specific recommendations of the K-14 workgroup on mandate reform
 - The workgroup could not come to a consensus on recommendations

Mandate Reimbursements

- Based on work of mandate reform committee, the LAO supports the following reform option and funding mechanism for mandates:
 - Preserve only mandates related to accountability, health, and safety
 - Eliminates all but roughly a dozen mandates
 - Replace the existing reimbursement system with a block grant
 - The block grant would provide each school district with a standard per-pupil rate for the cost of performing all mandates or a certain subset of mandates

Categorical and Federal Funding Updates



Something Old, New, and Borrowed

- In March, the Legislature passed, and the Governor signed, 15 trailer bills
- The changes made in the trailer bills have been signed into law and go into effect July 1, 2011
- Areas affected include:
 - Flexibility options
 - Child care and preschool
 - Special education
 - Deferrals
- May Revision proposals would amend such changes

Flexibility Options extended two additional years

- The following options extend through 2014-15:
 - Tier III categorical flexibility
 - Delaying compliance with instructional material adoptions
 - Eliminating required routine restricted maintenance and deferred maintenance contributions
 - Allowing for shortening the instructional year by up to five days
 - Allowing the deposit of surplus property sale revenue into the General Fund

Flexibility Options extended two additional years

- Other flexibility options:
 - K-3 Class-Size Reduction relaxed penalties – extended through 2013-14
 - Reduction to Reserves for Economic Uncertainty
 - Minimum is one-third of required levels for 2010-11 and 2011-12
 - As of 2012-13, must make progress towards compliance
 - By 2013-14, must meet compliance

A Glimpse Into the Future?

- Although flexibility has been extended by two years, legislators are thinking about what happens when it goes away
 - Some are pushing to protect and preserve specific programs
 - AB 18 (takes a comprehensive approach by restructuring how education funding is distributed beginning in 2015-16
 - Consolidates 25 categorical programs and revenue limit add ons into the revenue limit
 - Allocated based on district ADA
 - Consolidates eight categorical programs into a Targeted Pupil Equity Grant
 - Allocated based on weighted formula linked to economically disadvantaged students and English learners
 - Consolidates nine categorical programs into a Quality Instruction Grant
 - Allocated based on district ADA

Special Education

- AB 602 funding is proposed to remain unchanged from January Proposal
 - Growth is funded, but no COLA
- However mental health services remain an issue of concern in special education
 - Federal law requires services be provided to students with disabilities
 - County mental health agencies in California have been responsible for providing such services for more than 26 years as provided by AB 3632
 - For 2010-11, Governor vetoed \$133 million for this purpose, which led to questions regarding who was financially responsible to address the federal mandate
 - Both county mental health agencies and school districts are concerned about the financial liability that exists for such services

Special Education – Mental Health Services

May Revise: Transition Year FY 11-12

- Major change proposed in May Revision
 - The Governor proposes to permanently shift AB 3632 services from counties to schools and provides SELPAs with the following funds:
 - Continuation of federal IDEA funding
 - Additional Proposition 98 funding for mental health and out-of-home residential services (rebenches Prop 98)
 - Per AB 100, Proposition 63 funds continue to be provided to county mental health agencies for 11-12 only
 - LEAs can contract with county mental health for these services
 - Funding will be distributed to SELPAs in a manner similar to AB 602 formulas
 - \$3 million would be set aside for extraordinary costs targeted to Necessary Small SELPAs

Special Education – Mental Health Services

- The Legislature and Governor must still adopt this proposal, but it is not too early for LEAs to start planning
- What should LEAs do?
 - Work with your SELPA to devise a plan for how services will be provided
 - Explore options to contract with other providers and/or create in-house capacity
 - Individualized education programs (IEPs) determine what services are received
 - Check IEPs and compare against services provided
 - If appropriate, modify IEPs to address required need with appropriate providers

Federal Funding Update

- The federal government passed a tardy Budget
- Relatively flat funding for most K-12 education programs, but with a few notable exceptions:
 - Approximate reduction of 10% to Title IIA Professional Development
 - Elimination of Title IID Enhancing Education Through Technology
 - Approximate reduction of 10% to Title I local assistance entitlements due to increases to required state-level reservations

Local Agency Operations and Budget



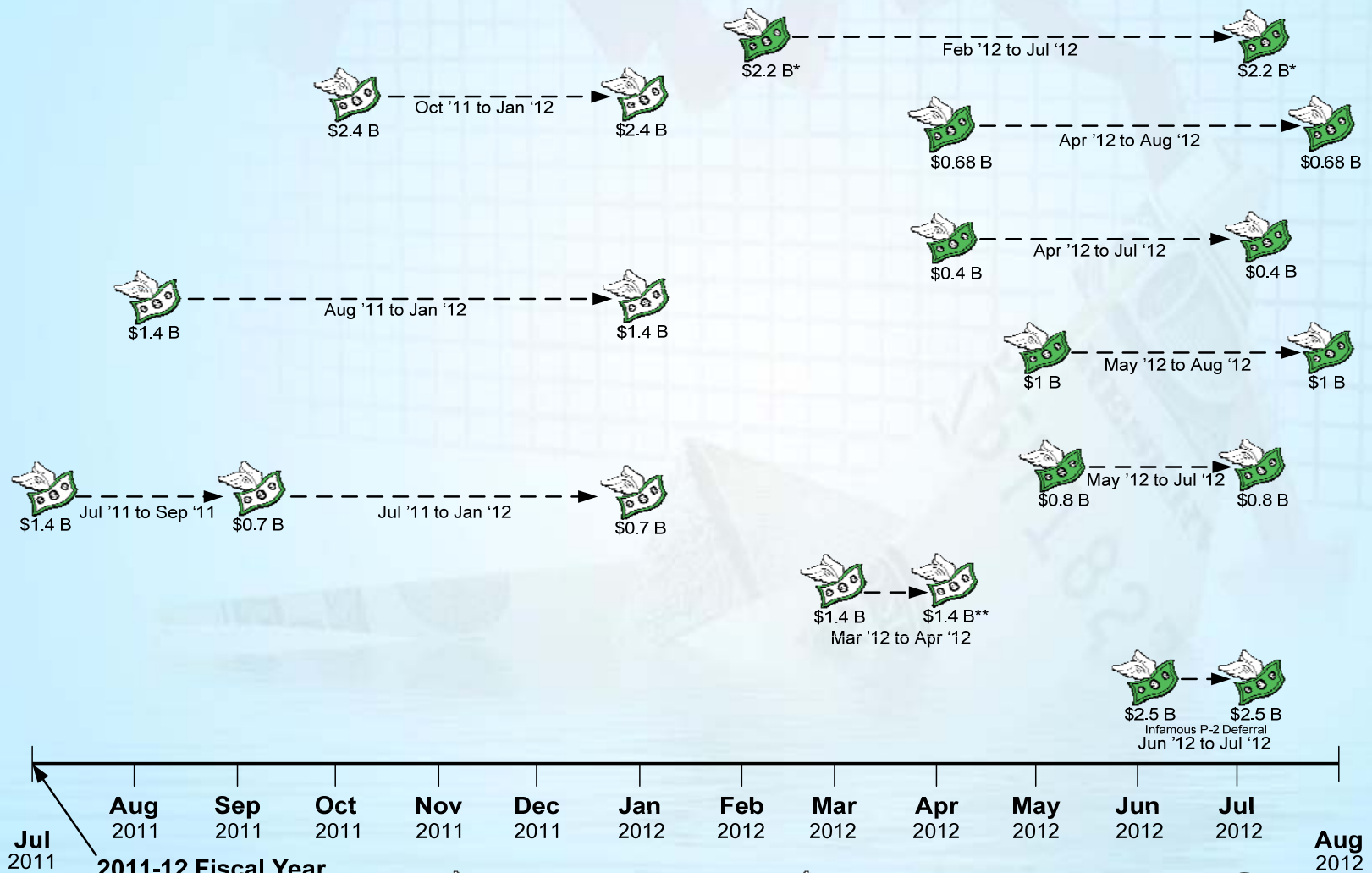
Class-Size Penalties and Waivers

- The penalties for exceeding the K-8 class sizes in E.C. 41376-41378 are still in place
 - Kindergarten: Average of 31:1, with no class exceeding 33
 - Grades 1-3: Average of 30:1, with no class exceeding 32
 - Grades 4-8: Average of 29.9:1 or the district's average number of pupils per teacher in 1964, whichever is greater (see SSC website for grade 4-8 averages by district)
- Exceeding these class sizes results in loss of revenue limit funding for every student over the limit

Apportionment Deferrals – How It All Began

- In the beginning, it was just one deferral for a few days
- But how times have changed
 - Regardless of size, location, or type, all districts are now affected by deferrals at varying degrees
 - Inter-year deferrals (crossing fiscal years) have nearly doubled since 2008-09 and now span months, not days
 - The projected amount of cash that will cross year-end in 2011-12 will account for nearly 25% of all K-12 funding for the principal and categorical apportionment
 - This equates to approximately \$1,400 per ADA on average
 - One-time or intra-year deferrals will be more than \$6 billion within 2011-12

Apportionment Deferrals



*Includes K-12 CSR Deferral

= Intra-year

= Inter-year

Governor Calls Deferrals Debt

- The increase in the number and amount of deferrals are eliciting further questions among professional practitioners related to revenue recognition
- Deferrals have been used as a tool in favor of the state, not schools
- The deferrals have reached an unprecedented level – almost \$10 billion
 - The ability of the state to repay the obligation will be difficult at best
 - The Governor, has taken the first step – acknowledging the liability owed, and proposing to eliminate \$2.5 billion in deferrals in 2011-12
 - Cash flow problems are commonplace under a sea of economic woes in the midst of a struggle to maintain fiscal solvency

Summary and Perspectives



The Rest of the Story

- State revenues have improved at an encouraging pace
- The economics are such that education will indeed be protected unless there is another suspension of Proposition 98
- The politics are such that, taxes or no taxes, the votes for suspension are not there at this time
- More importantly, the culmination of a lot of work by a lot of people has increased the priority that education enjoys at all levels of government

Stability for Education

- Is this a more stable Budget for education? “Yes”
 - Less reliance on tax extensions
 - More reliance on ongoing revenues
 - Cuts to non-Proposition 98 side proposed in January have been made
 - Proposition 98 has risen, deferrals have lowered, but could be reinstated if needed
 - Less exposure to suspension of Proposition 98
- Overall, we are much safer in May than in January

What Happens Next?

- The May Revision is a significant step in the development of the State Budget – but it is not the final step
 - The Governor goes after the tax extensions – we wish him luck!
 - The Legislature passes a Budget:
 - SB 69 has passed both houses and is ready to go to the Governor if the hole left by the tax extensions is somehow filled
 - If the Legislature does not pass and send a Budget to the Governor by June 15, sanctions are imposed on the individual legislators
 - The Governor retains responsibility for proposals, but only the Legislature can pass a Budget Bill
 - While we prefer today's situation to that of January, the education portion of the Budget will not be finalized until enactment of the State Budget



Thanks to School Services of California



State Spending Cap

- The May Revision does not contain a proposal to cap or control state spending
 - In his May 16 press conference, the Governor indicated that he supports a spending cap
 - He indicated that a spending cap proposal would likely be put before state voters along side the extension of current temporary taxes
 - Republican legislators have pressed for a spending cap in Budget negotiations
 - A hard cap based on changes in state population and the consumer price index
 - 2012-13 base year
 - Proposition 98 not included under cap