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May Revision to the State Budget—Chasing a Rock Downhill

On May 14, 2009, in an unprecedented move, Governor Arnold Schwarzenegger released two scenarios as part of the May Revision—one plan based on voter approval of Propositions 1A, 1B, 1C, 1D, and 1E on the May 19 special election ballot, and the other based on rejection of those measures. Today's release is also unusual because, in most years, the May Revision is an amendment to the Governor's January Budget proposal. The 2009-10 State Budget was enacted in February, which means that any proposal is to an enacted Budget rather than to a previous proposal, requiring further action by the Legislature—like taking an eraser to ink that has dried.

The May 14 announcement provides a framework, but needs to be viewed as a preliminary proposal to be fleshed out later in the month. It also provides updates regarding the state economy, which, as anticipated, continues to be quite grim. According to the Governor, the outlook for the California economy mirrors that of the nation, with negative growth expected to continue in 2009 followed by weak growth in 2010, and with better growth in 2011. The projection is that California's personal income will fall by 1% in 2009, which is the first decline in personal income since 1938. The drop in personal income results from a rising unemployment rate which, as of March 2009, climbed to 11.2%, almost double the rate for the same period in the prior year.

To fill the holes created by the state's deteriorating financial picture, the May Revision relies on program savings for 38% of the solution primarily from reductions to Health and Human Services programs and Proposition 98, 41% from borrowing in the form of Revenue Anticipation Warrants (RAWs), with less than 7% from revenue acceleration and fees. The total two-year reduction under this scenario would be \$14.6 billion.

The second scenario outlined by the Governor, if the ballot measures fail, adds an additional \$6.8 billion of solutions for a total of \$21.3 billion. Under this scenario, nearly 51% of the solution comes from program savings, including an additional cut to education funding, further reductions to health and social service programs, and early release of prisoners. Revenue acceleration and fees would make up 26% of the solution and would include increasing withholding tax by 10% and increasing other fees. Nearly \$2 billion would be borrowed from local government, which would reduce the overall solution percentage to 22%.

The Governor also proposes savings in state government, including selling seven state-owned properties, reducing the state workforce by 5,000 employees, and consolidating or merging various departments.

K-14 Education Cuts

The Governor's May Revision proposes making various cuts to K-14 education. Presuming that all of the proposed initiatives pass, the total proposed cuts amount to an additional \$1.0 billion in 2008-09 and \$2.2 billion in 2009-10. In the event that the initiatives fail, these cuts grow to \$1.6 billion in 2008-09 and \$4.8 billion in 2009-10.

The proposed reductions come first in the form of further cuts to revenue limit funding and additional deferrals, with some added flexibility options. Below is a side-by-side comparison of how the Governor's proposed cuts would apply.

Reductions	Scenario 1 - All Initiatives Pass	Scenario 2 - All Initiatives Fail (includes Option 1, plus additional cuts)
2008-09 Revenue Limit (one-time reduction)	\$694 million	\$1.3 billion
2009-10 Revenue Limit	\$950 million	\$1.4 billion
Deferrals, Apportionments (2009-10 to 2010-11)	\$640 million	\$1.7 billion
Eliminate High Priority Grant funding for 2008-09	\$114 million	\$114 million
Length of the School Year	Option to reduce by up to five days for up to three years	Option to reduce by up to seven days for up to three years
Community College Adjustments	\$242 million in 2008-09 \$517 million in 2009-10	\$242 million in 2008-09 \$698 million in 2009-10
Total Proposition 98 Reductions*	\$1.0 billion in 2008-09 \$2.2 billion in 2009-10	\$1.6 billion in 2008-09 \$4.8 billion in 2009-10
* Details do not add to totals because there are various adjustments made for program growth, decline, and other adjustments.		

In addition to the reductions listed in the table, the Governor also indicated in his May Revision proposal that further deferrals may be required, but, at this point, those remain unspecified. There is also indication that the Governor will release additional proposals for categorical flexibility, but details were not included in the early May Revision information released by the Governor.

The level of cuts proposed by the Governor translates into a potential Proposition 98 K-12 loss of around \$150 to \$240 per ADA in 2008-09 and \$300 to \$715 per ADA in 2009-10. The range reflects the variation between the Governor's two options. Most of the reduction would be applied to revenue limit funding, which, according to School Services of California's estimates, would, for the average district, represent an additional one-time drop of around 1.9% or 3.6% in 2008-09 (Scenario 1 versus Scenario 2) and another 2.7% to 3.9% in 2009-10 (Scenario 1 versus Scenario 2). Given the already significant cuts experienced by education, this

would drop us to levels of spending far below 2005-06, which is the state's guarantee in order to secure American Recovery Reinvestment Act (ARRA) funding.

The Governor does mention the federal ARRA funding, but only to suggest that this funding should help local educational agencies (LEAs) offset the further proposed cuts to state funding.

We will be working closely with the California County Superintendents Educational Services Association's (CCSESA's) Chief Business Official subcommittee group in formulating a common message to all school districts in response to this early release of the May Revision of the enacted 2009-10 State Budget.

The Governor still has details to propose, and the Legislature has to weigh in and must act before any changes to the Budget become law. Our "May Revision in June" workshop will help you navigate the changes and their impact on LEAs.

Now is not the time to panic; however, it is time to start developing back-up plans. We believe now is not the time to give up options and we encourage districts to maintain current plans for savings.

This continues to be the most challenging year in California's history-we are here to help all of us to get through it together.

-SSC Staff

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