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May Revision Shows No Gain But No New Pain for Education

Introduction

The Governor's May Revision of his January Budget Proposals has just been released. The news is both good and bad for public education. First, the overall tenor of the revision reflects the continued negative economic trends facing California and the nation. The hoped-for improvement in state revenues has not yet materialized. As a result, our assertion that a good May Revision would be one that contained no more cuts to public education has unfortunately turned out to be correct.

The May Revision includes cuts to Proposition 98 for child care and backfills some of these cuts using one-time dollars. Additionally, as we have advised districts, the \$1.5 billion cut to education that was proposed in January remains; however, it is no longer targeted to administration. So those districts that have followed our advice (i.e., plan to take the cut wherever it works for you) will be in good stead. Along similar lines, the Governor proposes to modify the reduction to county offices of education to be comparable to the cuts proposed for school districts and also to provide local authority to apply reductions.

Returning to the revenue situation for a moment, there is a subtlety in the revenue receipts that we think is very important. In forecasting state revenues, in most months, collections primarily comprise of current-year revenues, reflecting the current state of the economy. But April is different; April reflects the tax returns filed for the prior year and therefore the April collections are more reflective of prior-year conditions than of current-year economic conditions. The months prior to April were slightly ahead of the state's very low forecasts, April was much lower and wiped out the gains. We think it is likely that the revenues for May and beyond will be more positive than the pitiful April results might signal.

The May Revision

Proposition 98

The May Revision proposes funding K-14 education at the minimum funding guarantee, which follows the January Governor's Budget in concept, but not in actual funding level for 2010-11. Based on revisions of revenue for 2008-09, 2009-10, and 2010-11, the minimum Proposition 98 funding guarantee is anticipated to be lower in each year, but the Governor does not propose current-year reductions, maintaining K-14 funding under Proposition 98 at \$49.9 billion in 2009-10. However, the May Revision proposal is to cut funding from the \$50 billion proposed in January to \$48.4 billion for 2010-11. The \$1.6 billion in reductions made without increasing the January level of proposed cuts, is achieved through a combination of cuts to child care and accounting swaps.

Another factor worth noting is that the level of property tax revenue attributable to Proposition 98 is projected to drop significantly in the current and budget year, which the May Revision estimates will require the state General Fund to backfill by \$225 million in 2009-10 and \$447.5 million in 2010-11. In addition, the May Revision includes \$878 million to replace shifts from Redevelopment Agencies property tax pass throughs, which brings the total state General Fund impact for 2009-10 to \$1.1 billion.

Child care is proposed to bear the brunt of the burden with a proposed \$1.2 billion cut in support for state funding for need-based, subsidized child care. This would result in a loss of funding that subsidizes approximately 142,000 children. The Governor expects that more than half of these children could be served through federally funded programs.

A small part of the reduced Proposition 98 spending comes from recapturing the difference between the January projected -0.38% cost-of-living adjustment (COLA) and the final statutory -0.39% COLA. This results in approximately \$4.1 million in savings to the state. Most of the remaining reduction is accounted for by a shift from ongoing Proposition 98 funding to reappropriation of prior year funding to pay for \$321.7 million for Economic Impact Aid (EIA). Since there are no proposals to adjust EIA funding levels on an ongoing basis, this creates an equivalent funding gap for 2011-12 to backfill the one-time funding provided in 2010-11.

Other K-12 Education Details

The May Revision also includes a few changes that have both policy and funding implications. These include proposing that the writing component of the fourth grade English/Language Arts California Standards Test and California Modified Assessments be restored and moving forward with the development of a longitudinal academic growth model. Both changes are expected to be made without additional cost. There is \$3.7 million proposed for local educational agencies (LEAs) to partner with the state to develop item banks for local student assessments to help with the state's implementation of a longitudinal growth model. The May Revision also proposes to eliminate the Alternative Schools Accountability Model, for a projected savings of \$775,000.

California Community Colleges

The May Revision does not propose any Proposition 98 funding changes that would affect community colleges, but it does include several funding adjustments for non-Proposition 98 funding. These include:

- An increase of \$727,000 in 2010-11 and \$249,000 in 2009-10 from federal funds for the Solar Training Collaborative
- An increase of \$226,000 in reimbursements for the Energy Sustainability program funded by the California Energy Commission
- An increase of \$4.4 million in 2009-10 for reimbursements from the Workforces Investment Act to further incentives for sustaining recent enrollment increases in nursing courses and increasing enrollment in allied health-related training programs
- An increase of \$3 million projected from Lottery revenue in 2010-11 and \$2.2 million in 2009-10
- A decrease of \$6 million in Temporary Assistance for Needy Families (TANF) reimbursement to community colleges for the Special Services for the California Work Opportunities and Responsibility to Kids (CalWORKs) local assistance program due to the proposed elimination of CalWORKs

The Rest of the Budget

Holding K-14 education to nearly the January Budget level comes at a price to other parts of the State Budget-particularly to health and social service programs. To make up for lower-than-proposed state and federal revenues and savings that did not materialize, the Governor proposes an additional \$800 million in cuts from the January Budget, plus various shifts in funding and replacement proposals. Among the major new proposed cuts is a reduction of \$750 million from Medi-Cal. In addition, the Governor makes good on his threat to eliminate the CalWORKs program.

There are also several replacement proposals, including \$637 million from In-Home Supportive Services, and \$602 million from the Food Stamp and Child Welfare Services programs by shifting county mental

health realignment funding to county social services programs. The effect of the switch is to reduce county mental health services to only those that are mandated. Among the health and human service reductions of interest to LEAs is a proposed reduction of \$52 million to fund necessary mental health services to children with disabilities.

The Governor also proposes a \$446 million decrease for state employee compensation from a one-day-per-month personal leave program. Expenditures for Corrections and Rehabilitation increase by \$112 million in 2010-11 and Higher Education Non-Proposition 98 programs increase by \$35.6 million in the budget year.

There are no tax increases included in the proposal.

Closing Thoughts

In summary, this May Revision is less positive than we hoped, but about what we have projected for public education based upon the Governor's January Budget Proposal and the subsequent events. But while the Governor's May Revision is a very significant event, the Budget crisis is far from over.

The Legislature is likely to be singularly unenthusiastic about the level of Budget reductions the Governor recommends in noneducation areas. And in the short term, it is unlikely that a huge positive surprise will serve as a "silver bullet" and rescue the Legislature from the need to accept dramatic program reductions. Alternatively, the potential for a negative surprise, in our opinion, still looms large.

The recent volatility in both the U.S. and international financial markets, increased threats of terrorism, the nuclear issues regarding Iran and North Korea, and recent natural disasters all offer the potential for negative impacts. Unemployment is high and shows no signs of abating any time soon. At the same time, we do not see anything of similar magnitude on the positive side that could arise as quickly as any of these negative events might develop.

California is still in the unenviable position of having a tax structure that relies heavily on the top 1% of taxpayers for half the state's revenues. That isn't going to change anytime soon. As a result, we find we have a paradox: the best way to help our poorest citizens is to help our richest citizens—the ones who pay the bills. Not so popular, but true. We need to stimulate business and create jobs by using tax incentives and other "business friendly" incentives.

We hope California will use the challenges provided by today's problems to set a roadmap for a better future—a future that includes job growth, expansion of business and economic opportunities, and an education system that is once again world class. A well-educated workforce has always been one of our national treasures, and the sooner we can renew our commitment to public education as a top state and national priority, the sooner we will see the economic activity needed to grow our way out of the problem.

We will have details on all of the topics discussed here and much, much more in our [May Revision](#) workshops beginning on May 20th. We hope to see you all there.

—SSC Staff

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