
The FISCAL REPORT 32 informational update

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SSC's Advice Regarding the 2011 May Revision

During our first couple of 2011 May Revision Workshops, several people requested that we provide a summary of our recommendations and some of our thoughts on those. We address the most important recommendations here.

Revenue Recommendation: Budget Flat Funding between 2010-11 and 2011-12

In most years, we have recommended that districts initially base their budget projections on the Governor's January Proposals and then amend these projections based upon the May Revision before finalizing the district budget for adoption. In a small minority of years, our analysis of the Governor's proposals causes us to conclude that alternate plans are required. This was such a year.

The Governor's January Budget identified a \$25 billion shortfall for 2010-11 and 2011-12 combined. The Governor's plan—a combination of budget cuts and tax extensions—was sure to face opposition, and its outcome was uncertain. For K-12 education, the Governor proposed "flat funding" from 2010-11 to 2011-12. This funding gap, and the explanation in the Governor's Budget that the natural fall in Proposition 98 would be \$2.1 billion if the taxes were not extended, caused us to recommend that districts develop two plans: (1) "flat funding" (the deficit factor actually caused funding to drop \$19 per average daily attendance [ADA]) and (2) an additional cut of approximately \$330 per ADA, in case the tax extensions fail and there were further reductions, which together with the loss of \$19 per ADA resulted in a total projected loss averaging about \$349 per ADA.

As in each year, we use the Governor's January Proposals for preparation of the Second Interim and his May Revision for preparation of the June school district budget. We suggested that districts use the loss of \$349 per ADA in preparing for both the Second Interim report and the March layoff window. With the release of the May Revision, the Administration has acknowledged that things have changed in significant and positive ways since January.

The unresolved \$25 billion gap in the January Budget has been reduced by \$13.4 billion from cuts to the non-Proposition 98 side of the Budget. With the improvement in the

economy, state revenues have increased by \$6.6 billion, even though the temporary taxes have not yet been extended. The higher revenues have increased Proposition 98 by \$3.0 billion for 2011-12. The Governor has reduced the size of his tax extension package, and as a result, the amount of temporary taxes to which Proposition 98 is sensitive has been reduced to \$4 billion. This means that if the tax extensions fail, the General Fund impact will be \$4 billion, and the corresponding reduction to Proposition 98 will be \$1.6 billion (i.e., roughly 40% of the General Fund loss). Most importantly, both the national and the California economies are showing signs of life, bolstering the Governor's plan for improved revenues in the future.

In his press conference on the May Revision, the Governor was clear that he intended to fund Proposition 98 at \$52.4 billion. With the \$3 billion increase in the minimum funding guarantee since January, the Governor proposes to use \$2.5 billion of this growth to cancel previously planned deferrals; that decision keeps education spending at the 2010-11 level rather than allowing the growth in Proposition 98 to result in a higher spending level for 2011-12. The remainder of the increase in Proposition 98 is related to "rebenching" of the minimum guarantee for Assembly Bill AB 3632-related costs for mental health and out-of-home services.

It is important to note that if the tax extension fails, the Governor could keep education funding level by simply reversing his decision on the deferrals and reinstating \$1.6 billion of the \$2.5 billion he cancelled. That would mean the Governor could maintain this year's spending level for education of \$49.7 billion by absorbing the \$1.6 billion loss to Proposition 98 if the tax extension fails. Even with this action, there would remain \$900 million in deferrals that could be reinstated (in other words, the level the Governor had proposed in January) before any cuts to revenue limit or categorical funding would occur.

As a result of these positive developments, we recommend that districts budget per-ADA revenues for 2011-12 at the 2010-11 level.

Expenditure Recommendation: Do not increase expenditures until the State Budget is enacted

Though we recommend budgeting flat revenues, there is certainly room for slips between the cup and the lip before the Budget is signed. We, therefore, recommend that districts not increase expenditures, reinstate laid-off positions, or restore collective bargaining concessions until the State Budget is enacted. In other words, we recommend opening the planning books, but keeping the checkbook closed until the Budget is signed.

Following this recommendation will mean that the amounts set aside for a potential cut of up to \$349 per-ADA will still be held in reserve until the State Budget is enacted. If the Governor and the Legislature ultimately agree that education will be flat funded, these dollars could be used to bring back positions and restore educational programs. If the Governor is not able to maintain flat funding, these dollars remain available to compensate for a loss.

Recommendation for Multiyear Projections: Use the SSC Dartboard

By budgeting revenues flat, districts will avoid the problem of having to make additional cuts now for 2013-14, even as the Governor promises flat funding. By not increasing expenditures until the Budget is actually enacted, the level of reserves will appear to be higher. Remember that even if we do not sustain an additional cut, education continues to suffer a deficit factor of 19.754%. That deficit factor remains the same until the state is able to fund the cost-of-living adjustment (COLA) and then fund a portion of past deficits.

It will take a long time to get back to full funding of the revenue limit, and even sustained flat funding means districts will be making cuts every year in order to pay increases in step and column, health and welfare benefits, fuel costs, declining enrollment, and to correct past patterns of deficit spending. Each year, a new third year is added to the multiyear projection, and because it reflects all these factors, it normally generates the need for additional cuts unless there is a hefty funded COLA on the horizon.

The SSC Dartboard has been updated to reflect the factors discussed above; we recommend that it, and any additional guidance provided by your County Office of Education, be used for planning the 2011-12 district budgets.

Recommendation for Collective Bargaining: Set the foundation now, but don't spend until Budget enactment

During these difficult years, we have cut programs for students, shortened the instructional year, negatively impacted communities, weakened district financial positions, and fallen in national comparisons of spending levels for education.

Additionally, we have reduced staffing significantly and asked our remaining employees to accept higher class sizes, heavier workloads, and, in many cases, lower compensation. We have stressed the need to provide employee groups information that is accurate and transparent, even as these volatile times have caused the information to shift rapidly. We think that advice is still valid.

Now is the time to share accurate financial information, including the Second Interim projections, how those projections would be affected by the Governor's plans as stated in his May Revision, and the resultant planning for adoption of the 2011-12 district budget in June. Not all districts will be able to bring back positions and restore concessions. Because of the factors listed in the section on multiyear projections, many districts will still need concessions even in a flat-funding environment.

At the state level, the entire education community is acutely aware of the need to support extension of the temporary taxes, fully fund Proposition 98, and get the funding spiral moving up, not down. They have all supported the Governor's strategy with their

considerable lobbying power, and they definitely know what is at stake. We hope that local bargaining units will see that our fight is with the state, not with each other.

Now is the time to use the information we suggest above to map out a plan that works in your unique circumstances, and that can be executed upon State Budget enactment. We all want our people back as soon as we know we can afford to pay them.

Final Recommendation: We need to lobby legislators to take the "No Suspension Pledge"

In the absence of a suspension of Proposition 98, our exposure to any failure of the tax extensions is limited to \$1.6 billion, which we have explained above, and can be handled by the Governor by simply reinstating \$1.6 billion in deferrals. How much could we lose in a suspension? Theoretically, they could take it all!

The Governor has urged us to plan for flat funding and \$52.4 billion for education for 2011-12; he has tacitly assumed responsibility for delivering that number. The Speaker of the Assembly has declared that there are no votes for a suspension. Republican leaders have also said they would not support a suspension. A large number of individual legislators have also declared publicly that they would not support a suspension. We need to support the legislators who show the commitment and courage to refuse to vote for suspension.

The political message is simple: support the extension of the taxes and take the "No Suspension Pledge." If either of those two efforts is successful, education is protected, at least for another year.

We hope this explanation helps you understand our recommendations and our rationale. As we have for the past 35 years, all of us at SSC remain ready to assist you in any way we can.

—*SSC Staff*

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