



# Governor's Proposals for the 2012-13 State Budget and K-12 Education

Presented by

School Services of California, Inc.

# Governor's Temporary Tax Proposal

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- **The Governor's Budget assumes that voters will approve \$6.9 billion in temporary taxes in November 2012**
  - **Of this total, \$2.2 billion would count in 2011-12 and \$4.7 billion would count in 2012-13**
  - **The higher taxes would continue through 2016**
- **The Governor's tax proposal includes the following:**
  - **Income tax increase**
    - **Single filers tax increase of 1% for income above \$250,000; up to 2% for income over \$500,000**
    - **Joint filers tax increase of 1% for income above \$500,000; up to 2% for income over \$1 million**
    - **Head of household increase of 2% for income above \$680,000**
  - **Sales and use tax increase of 0.5%**

# Contingent Trigger Cuts

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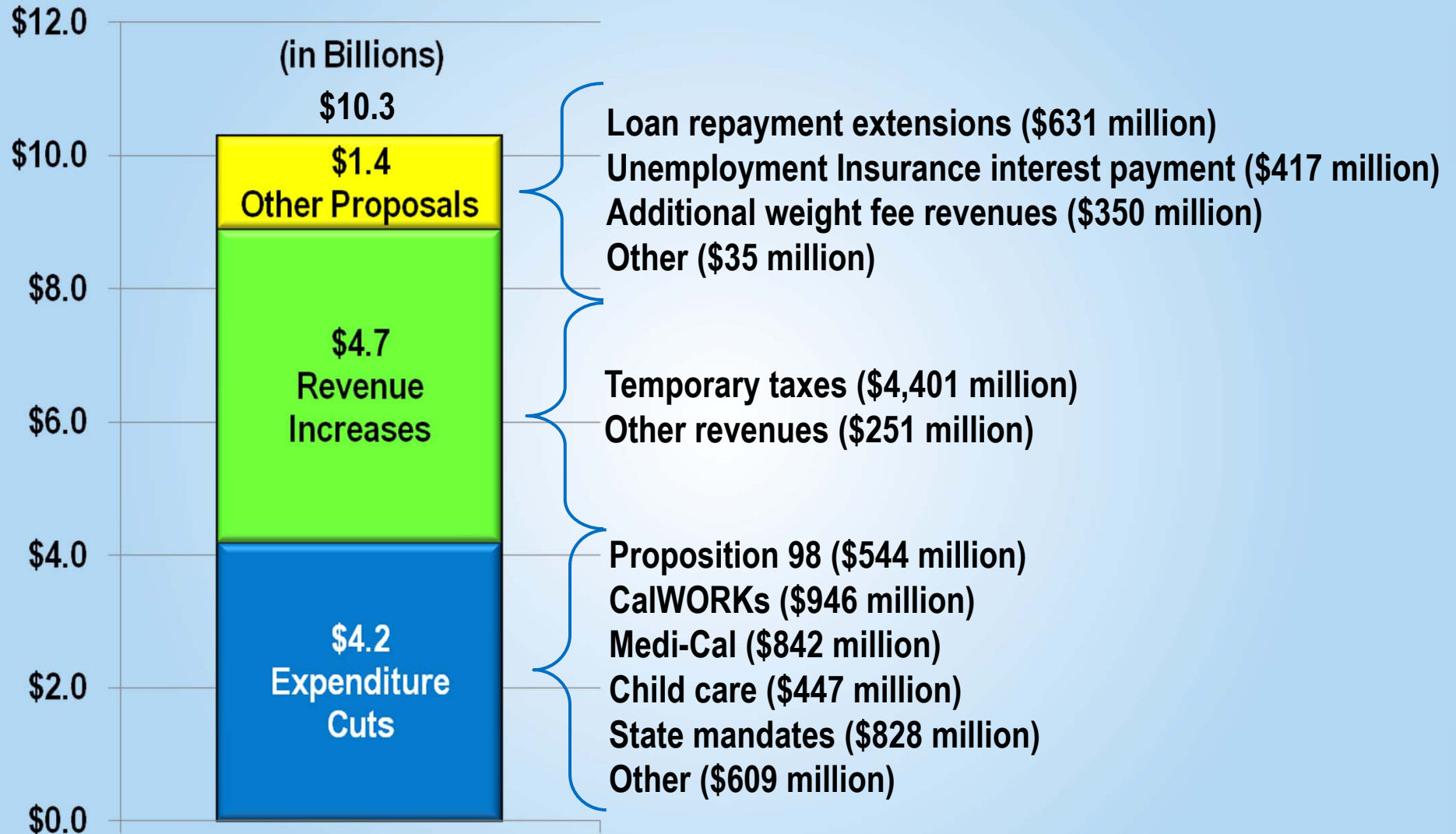
- Like the 2011-12 Budget Act, the Governor's Budget Proposal for 2012-13 contains automatic trigger reductions
  - The trigger reductions total \$5.4 billion
  - The cuts are linked to the failure of the proposed temporary tax increases, not a general revenue shortfall
- The trigger reductions hit education the hardest, especially Proposition 98

Programs Targeted for Trigger Cuts		
Program	Amount	% Share
Proposition 98	\$4,837 million	89.7%
University of California	\$200 million	3.7%
California State University	\$200 million	3.7%
Courts	\$125 million	2.3%
All Other	\$28 million	0.6%
<b>Total</b>	<b>\$5,390 million</b>	<b>100.0%</b>

# Governor's Budget Solutions

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# Risks to the Budget Proposal

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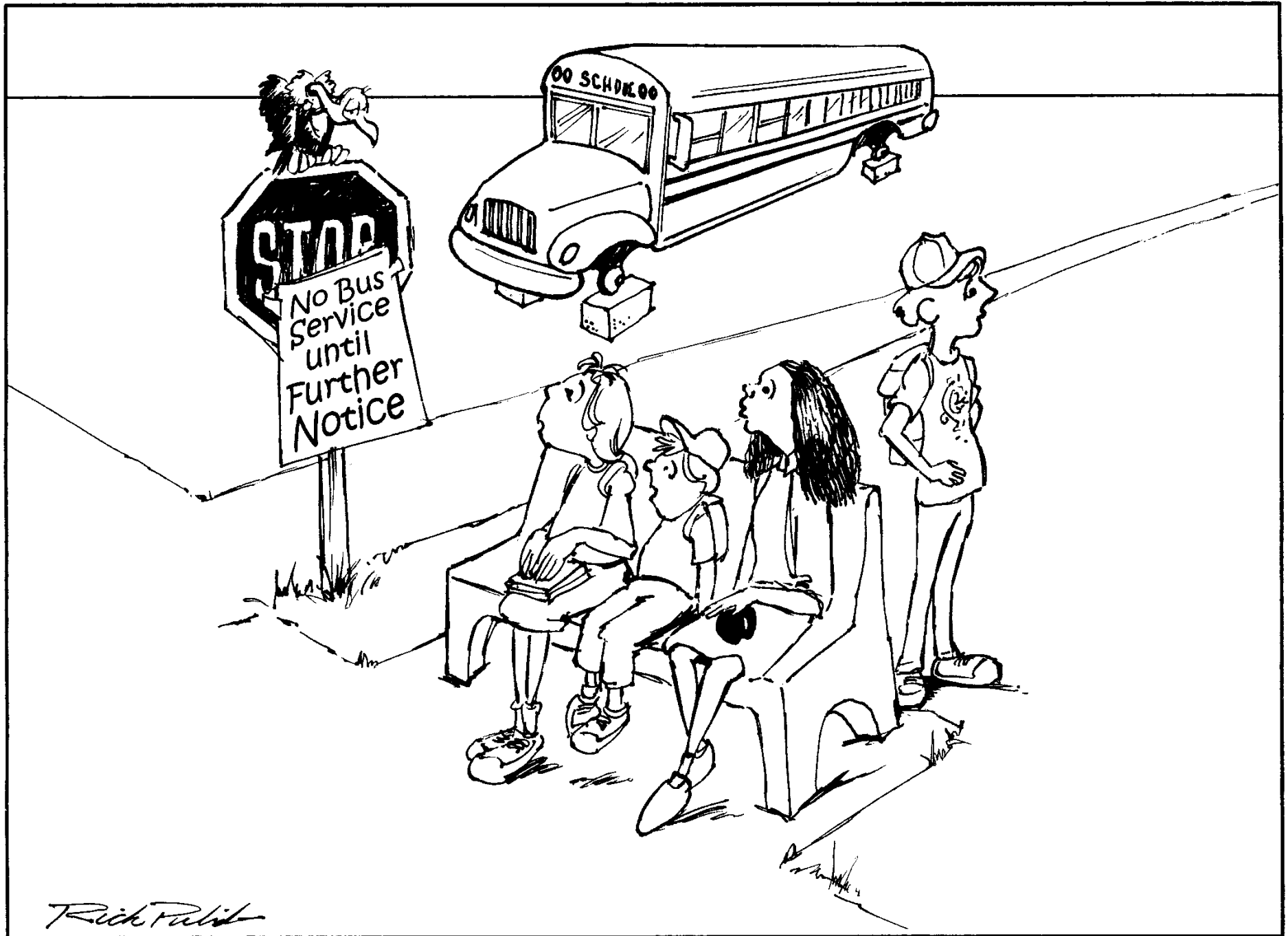
- **The economic recovery, still slow but gaining some momentum, could stall with state revenues underperforming the forecast**
  - **Continuing economic problems in Europe and growing problems in China could threaten California's export market**
  - **Massive federal deficits could rekindle inflation**
  - **A spike in energy costs may dampen consumer spending**
  - **The recovery could simply be slower than expected**
- **Court challenges could continue to thwart full implementation of program reduction budget solutions**

# Budget Contingency Plan

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- The Governor's Budget assumes that new temporary taxes are approved by the voters for five years at the November 2012 ballot
- The Budget also proposes severe additional reductions in funding for schools in the event that the tax initiative is not approved
- This leaves schools in a position of needing at least two plans
  - Governor Brown's Proposal: Flat funding – continues the funding level contained in the enacted Budget for 2011-12, except for transportation
  - Alternative: A \$2.4 billion reduction in K-14 funding – results in a loss of about \$370 per ADA for the average district
- Districts will need to plan for both eventualities until the fate of the tax initiative is determined
- Additionally, economic changes between now and enactment of the 2012-13 Budget could cause a revision, up or down



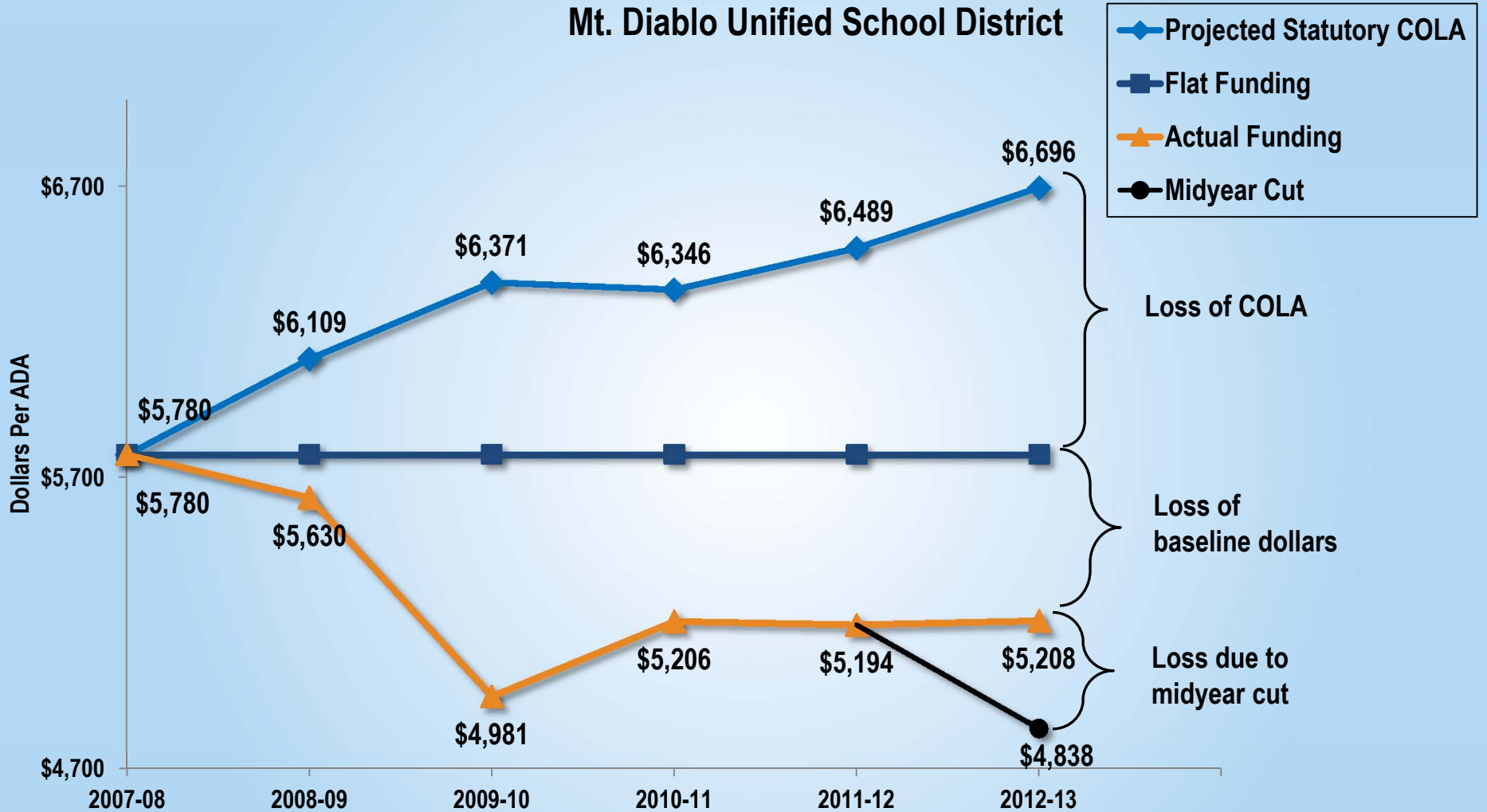
*Rick Pelt*

# Funding Per ADA – Actual vs. Statutory Level

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## Mt. Diablo Unified School District



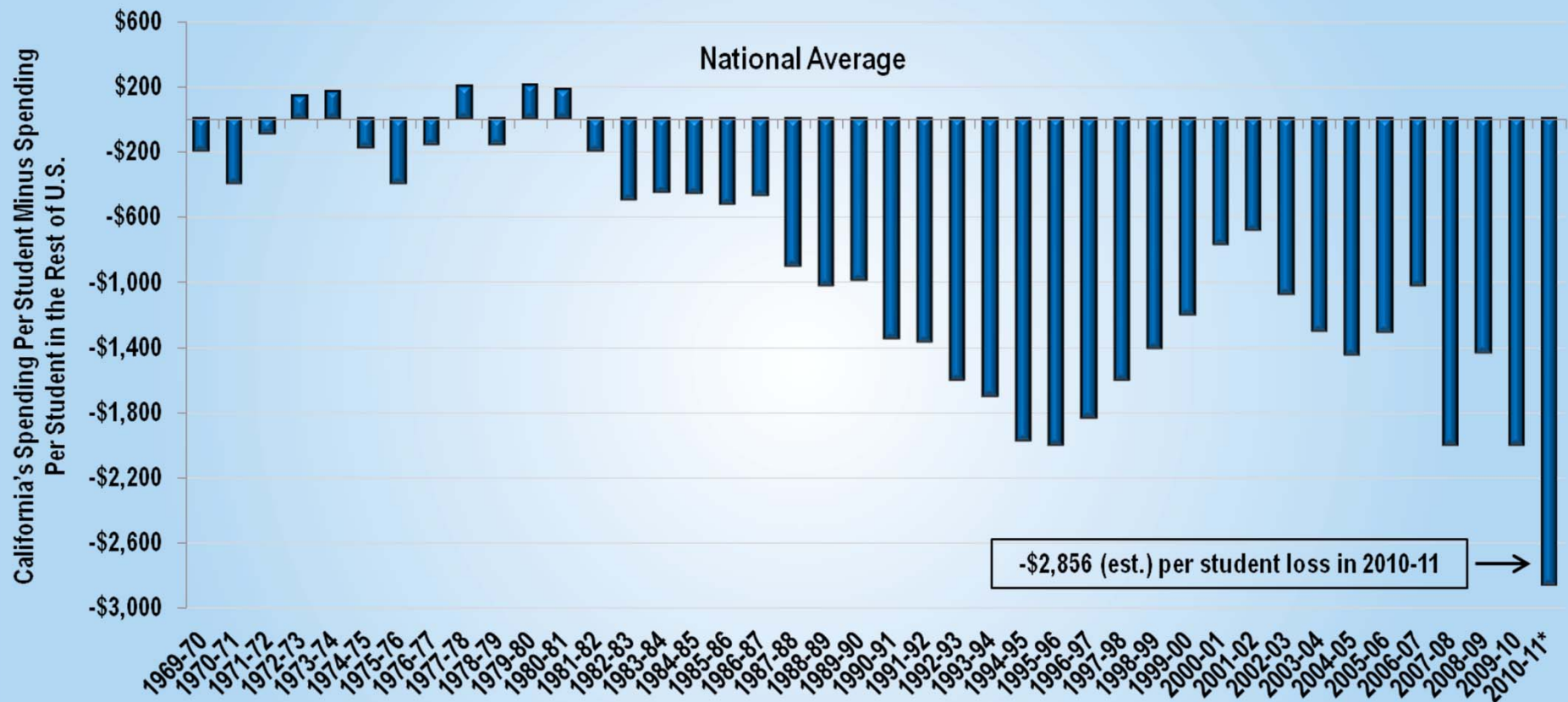


# California's Education Spending Continues to Lag

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California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



\* 2010-11 data estimated

Note: Rest of U.S. excludes the District of Columbia

Source: National Education Association

# Choices and Priorities Matter

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- California demands and deserves a “world-class” education system
- The top five states, in terms of student performance, are Vermont, Rhode Island, Wyoming, New Jersey, and Maine
- The bottom five are California, Idaho, Mississippi, Nevada, and Arizona
- What’s different?

	Top Five	Bottom Five
Per-student spending	\$16,000 – \$22,000	\$6,700 – \$8,700
Percent of state resources	4.2% – 6.0%	3.2% – 3.9%
4 <sup>th</sup> Grade NAEP*	32% – 44%	22% – 33%
8 <sup>th</sup> Grade NAEP*	34% – 47%	19% – 37%

\*National Assessments of Educational Progress

- California has fallen from number one to number 46 in per-ADA funding; and the results bear that out

# Why is Education Flat Funded?

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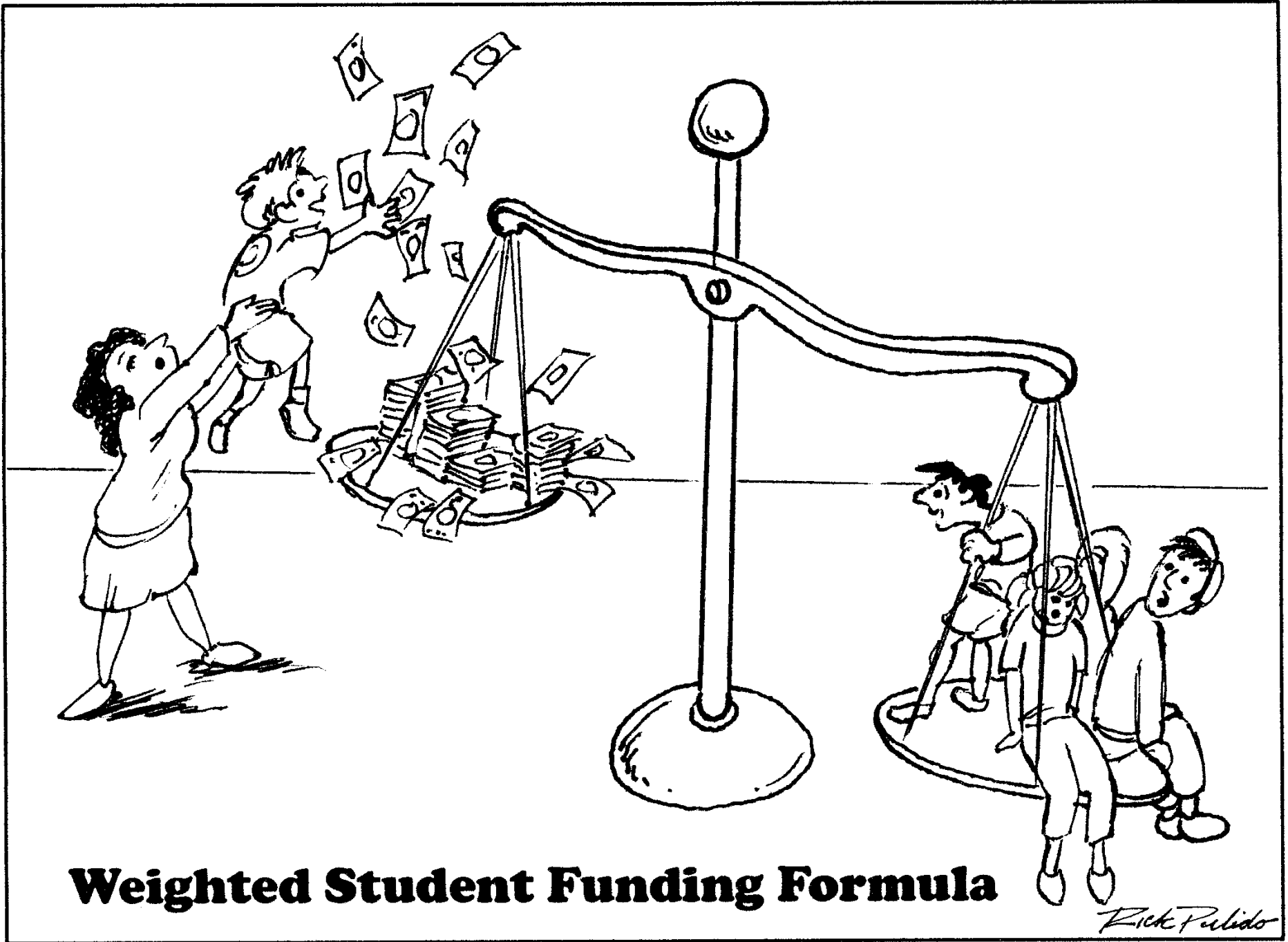
- How does a nearly \$5 billion increase in Proposition 98 provide no real growth in funding for schools? The answer is deferrals.
  - \$2.4 billion is used to maintain current-year spending levels – the cost of maintaining existing programs after the 2011-12 deferral
  - \$2.5 billion buys down K-14 interyear deferrals by moving the state expenditures back into the current year
- Buying down deferrals increases cash available in the budget year, and can reduce borrowing costs, but does not increase spending authority

# What Happens if Taxes Aren't Approved?

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- **If the tax initiative fails, Governor Brown proposes to cut K-14 education by \$4.8 billion**
  - **Proposition 98 drops by \$2.4 billion because of the loss of new tax revenues**
  - **The interyear deferral buyout is rescinded, and existing deferrals are maintained, saving \$2.4 billion**
- **State payments for debt service on school bonds are re-categorized as Proposition 98 expenditures**
  - **Historically, debt service has been funded outside of Proposition 98**
  - **By moving debt service into Proposition 98, K-14 costs are increased by \$2.4 billion**
  - **Requires corresponding cuts to other K-14 spending of an equal amount – divided between K-12 (89%) and community colleges (11%)**
  - **Governor Brown equates this reduction to eliminating three weeks of instruction from the school year**



**Weighted Student Funding Formula**

*Rick Pulido*

# Weighted Student Funding Formula

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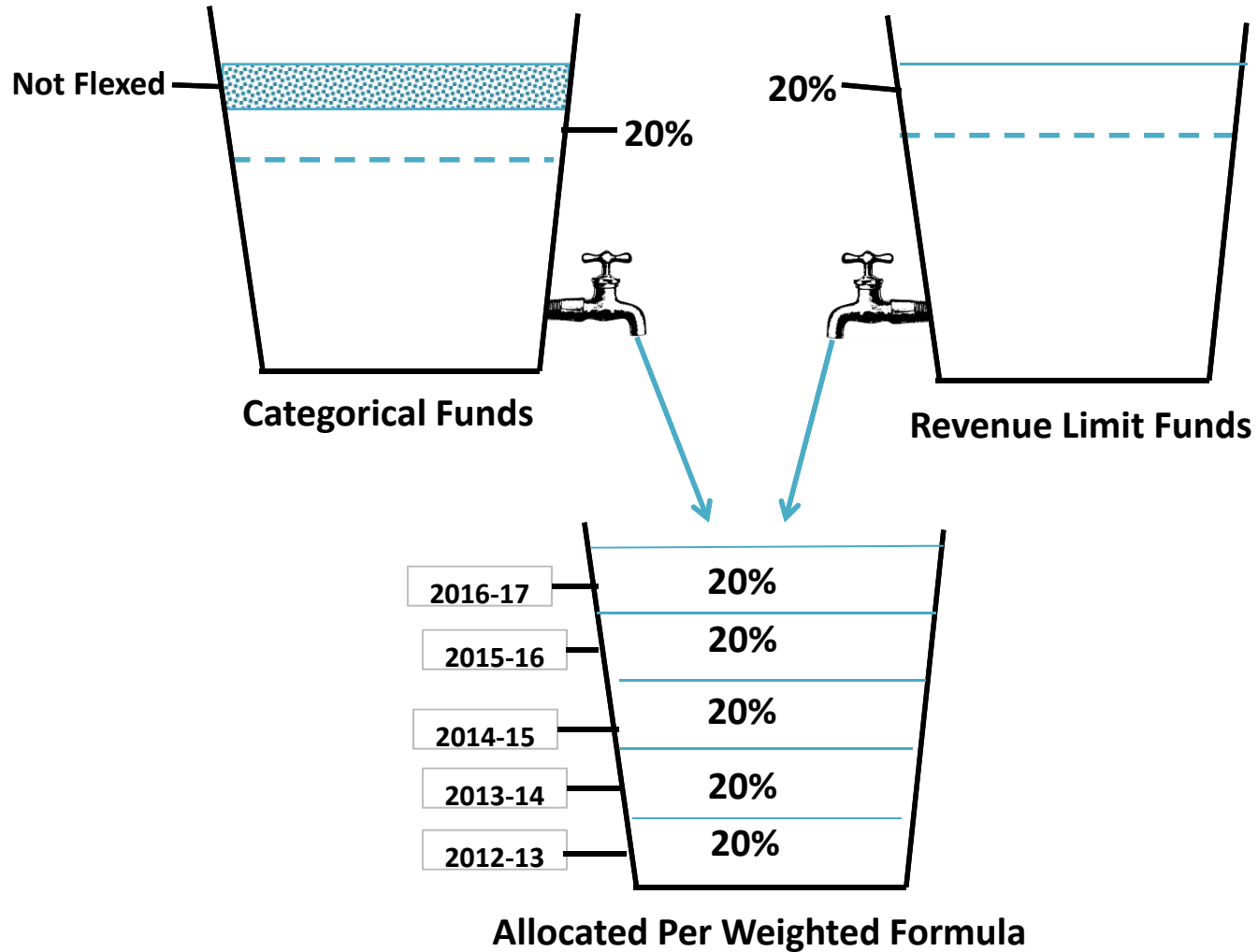
- To promote greater local decision-making authority, Governor Brown proposes a weighted student funding formula to replace revenue limits and most categorical program funding formulas
  - All of the categorical programs included in the formula “will immediately be made completely flexible” to support any local education priorities
- Elements of the formula
  - Special education, child nutrition, Quality Education Investment Act (QEIA), After School Education and Safety (ASES), and other federally mandated programs are exempt
  - Additional funding is based on the demographics of the schools, including:
    - English Learner population
    - Pupils eligible for free and reduced-price lunches
- Accountability: Qualitative and test-based measures
- Timeline: Phased in over five years

# Local Budget Impact of Weighted Student Funding Formula



- The Department of Finance (DOF) indicates that for 2012-13, 80% of a district's funding will be based on current law formulas and 20% will be based on the weighted student formula
  - Governor Brown is not proposing a “hold-harmless” provision; therefore, some districts will gain and some will lose under the new formulas
    - In general, districts with high concentrations of English Learners and low income students will gain funding and those with few of these students will lose funding
- There are currently no details that would allow a school district to determine its funding gain or loss for 2012-13, or for any year thereafter
- The Legislature must enact this measure as a change to current school finance statutes
- We will provide more information as the details of this proposal are released

# How it Might Work





## Caution – Deficit Factor Provides Funding Increase

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- The Governor's Budget acknowledges that the projected statutory COLA is 3.17% and that this funding is to be eliminated through the deficit factor
  - The DOF has provided a K-12 deficit factor of 21.666% to eliminate this COLA
  - SSC analysis finds that this deficit factor does not fully eliminate the COLA and instead provides a \$37 per-ADA increase for the average unified school district
- The proposed Budget also reflects the \$13 per-ADA "trigger" reduction in 2011-12 and restores this amount in 2012-13
- Therefore, the net increase under the Governor's Budget from 2011-12 to 2012-13 is \$50 per ADA, or just under 1%

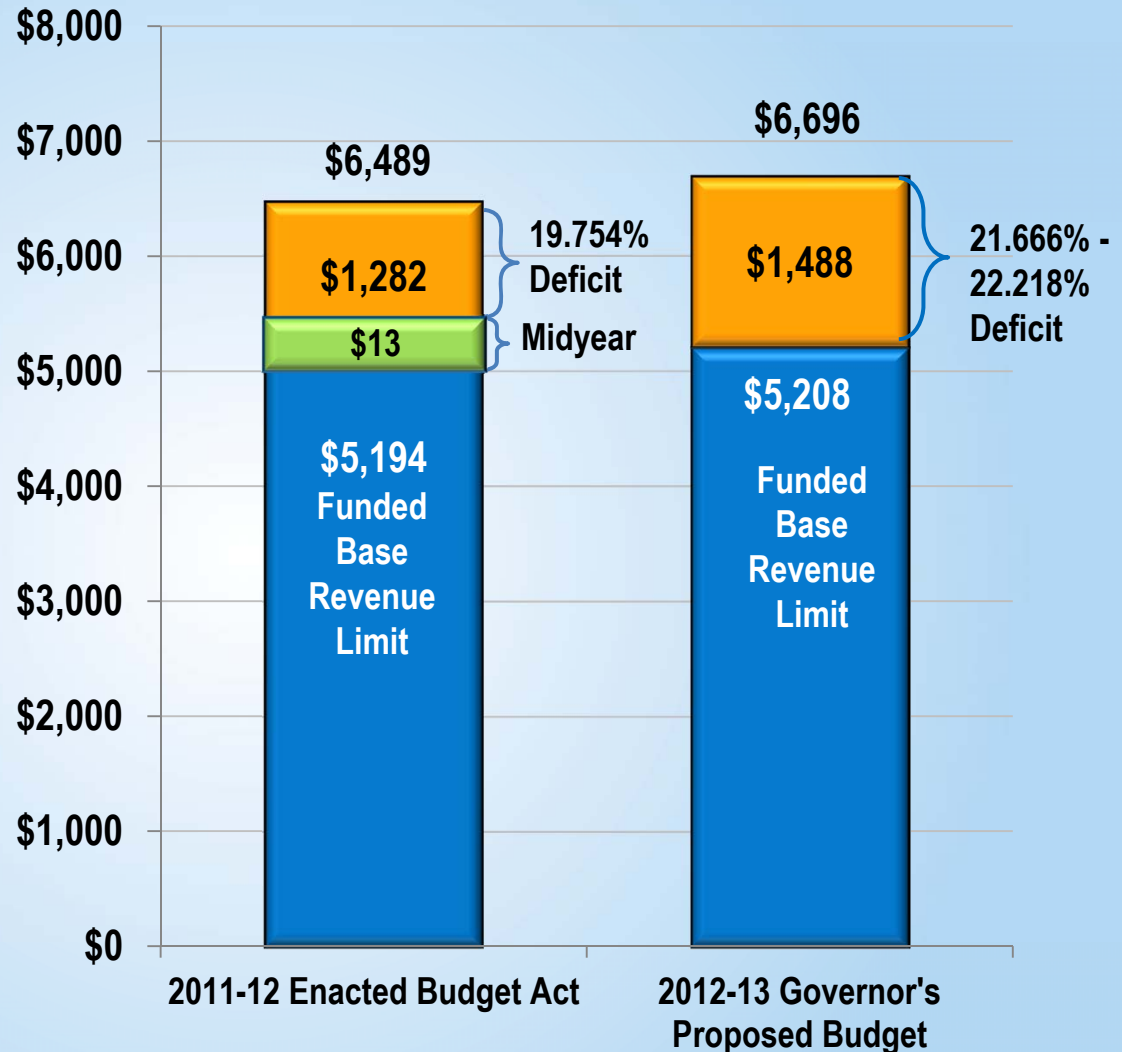
*However*, we recommend that districts budget flat funding in 2012-13 (i.e., the amount prior to the \$13 per-ADA "trigger" reduction), consistent with the policy stated in the Governor's Budget

# 2012-13 Governor's Budget vs. 2011-12 Budget Act for Mt. Diablo Unified School District

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- The 2011-12 “trigger” cut of \$13 per ADA is restored in 2012-13
- The 2012-13 Governor's Budget provides for a slight increase in funding
- This funding level is contingent upon the enactment of new taxes



# 2012-13 K-12 Revenue Limits – MDUSD

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	Average Unified School District for 2012-13	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2011-12 Base Revenue Limit	\$6,489.02	0.80246*	\$5,207.18
2.	2012-13 COLA per ADA	\$207	–	–
3.	2012-13 Base Revenue Limit	\$6,696.02	0.78334**	\$5,245.26
3a	2012-13 BRL corr proration	\$6,696.02	0.77782***	\$5,208.30
4.	2011-12 “Trigger” Cut			\$13.02
5.	Net 2011-12 Funded Revenue Limit (Line 1, Col C, Minus Line 4, Col C)			\$5,194.16
6.	Dollar Change (Line 3, Column C, Minus Line 5, Column C)			\$51.10
6a	Dollar change after proration correction			\$14.14
7.	Percentage Change (Line 6, Column C, Divided by Line 5, Column C)			0.96%
7a	Percentage Change after proration correction			0.27%

\* 0.80246 = 1 - 0.19754 (2011-12 deficit factor)

\*\* 0.78334 = 1 - 0.21666 (2012-13 deficit factor) \*\*\*0.77782 = 1-0.22218 (2012-13 swa flat deficit factor)

# Contingency Planning for a 2012-13 Midyear Cut

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- **The Governor's Budget assumes that in November 2012 voters will approve a \$6.9 billion tax increase**
- **There is no assurance that the temporary taxes will be approved and the Governor proposes automatic trigger reductions if the tax proposal fails**
  - **The DOF estimates that the amount of the trigger reduction for K-12 education programs would be \$370 per ADA**
- **Districts should therefore prepare their budgets assuming a loss of \$370 per ADA**
  - **The starting point for this adjustment is the district's 2011-12 per ADA revenue limit, prior to the implementation of the \$13 per ADA on average midyear cut**
  - **For the average unified district, the starting point would be \$5,244 per ADA, and after the \$370 per ADA reduction, the funding level will be \$4,874 per ADA**

# 2012-13 K-12 Revenue Limits – MDUSD taxes fail

C-20

	Average Unified School District for 2012-13	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
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4.	2011-12 “Trigger” Cut			\$13.02
5.	Net 2011-12 Funded Revenue Limit (Line 1, Col C, Minus Line 4, Col C)			\$5,194.16
5a	Net 2012-13 Funded Revenue Limit after trigger cuts of \$370			\$4,838.30
6a	Dollar change after proration correction			-\$355.86
7a	Percentage Change after proration correction			-6.85%

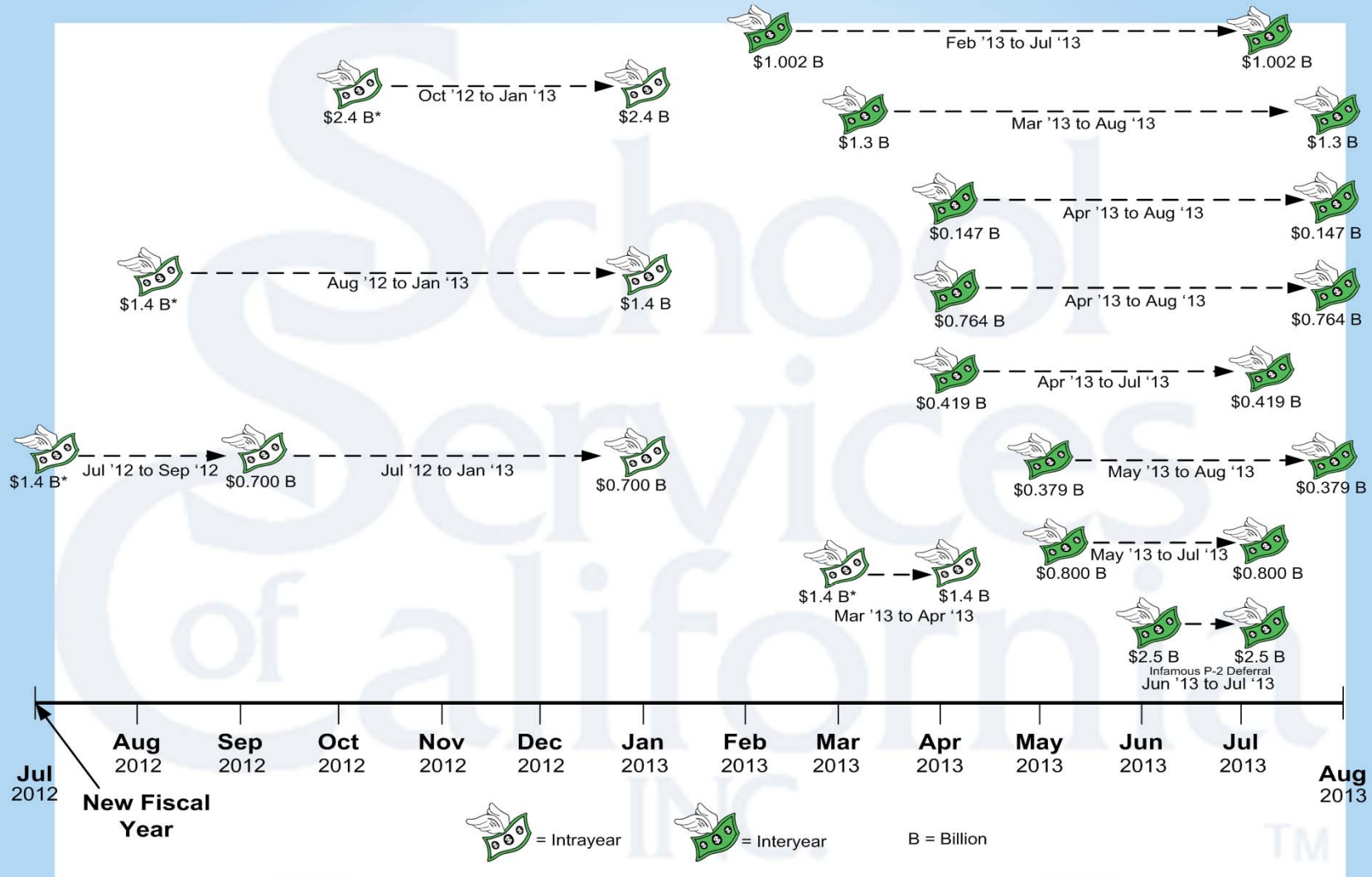
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# 2012-13 Apportionment Deferrals

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\*The amounts reflect Senate Bill 82 (Chapter 12/2011) statutory language

# School Services of California, Inc.'s Financial Dartboard

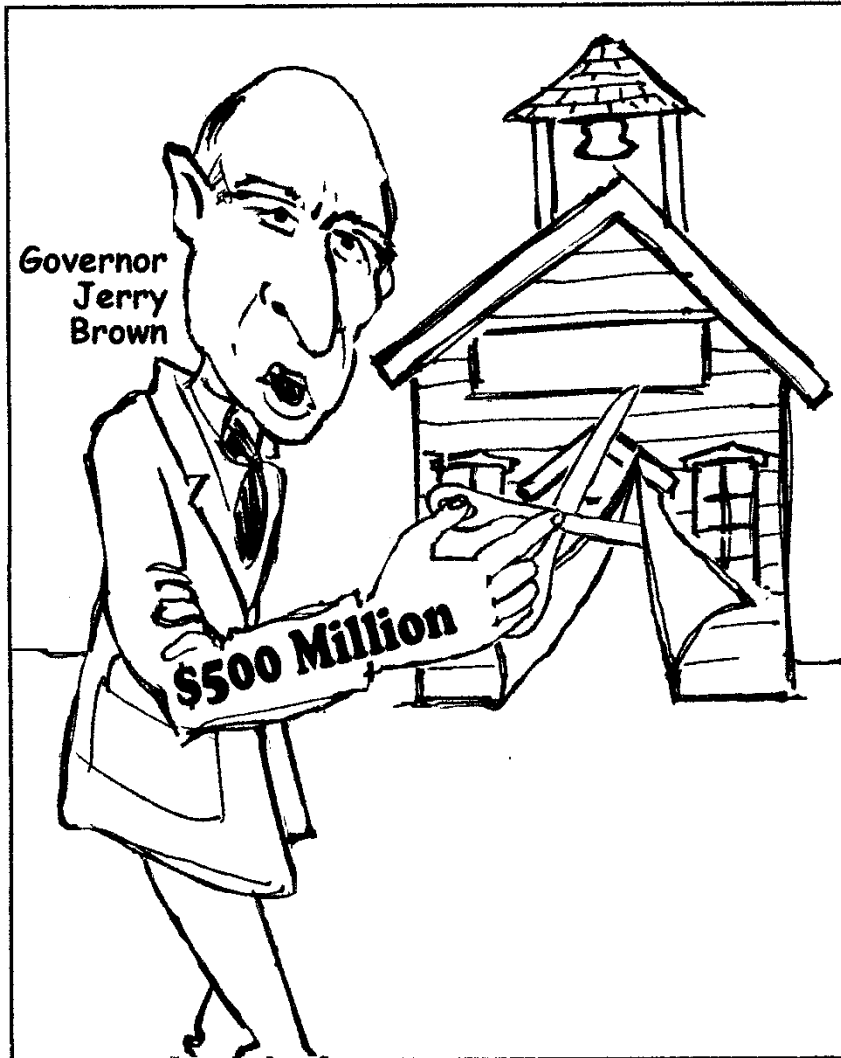


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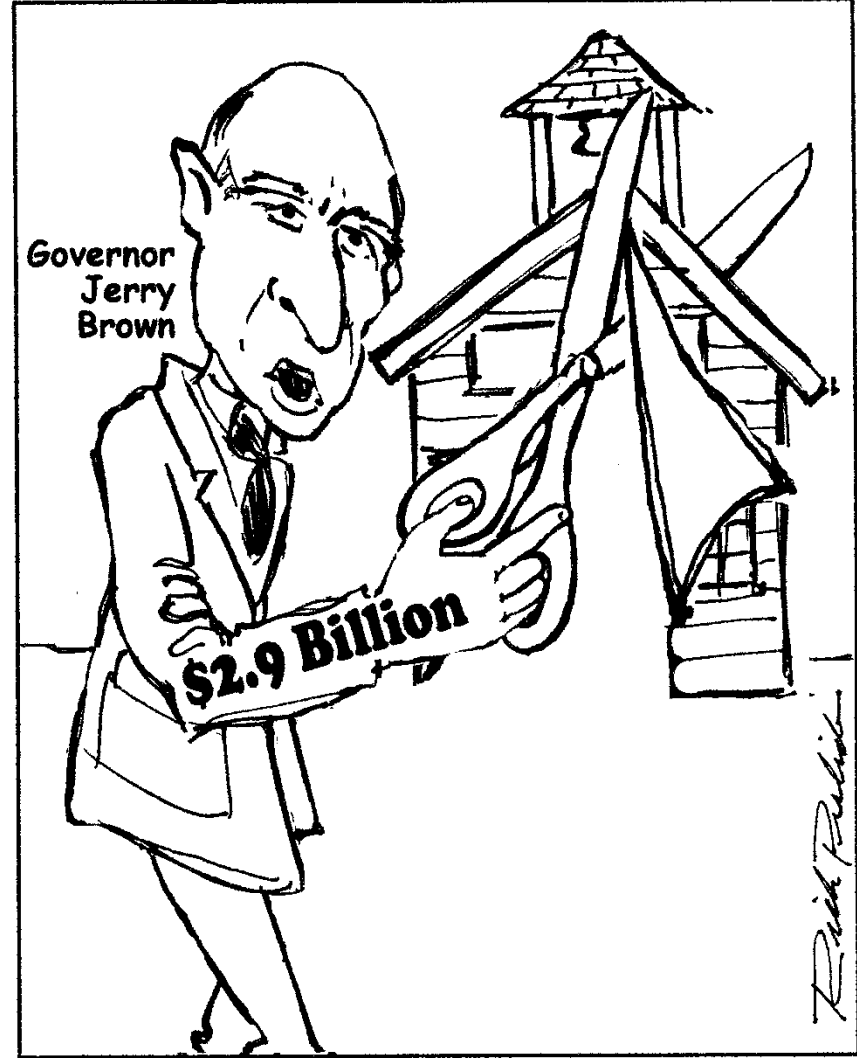
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Factor	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Statutory COLA (applies to K-12 and COE Revenue Limit)	2.24%	3.17%	2.40%	2.70%	2.90%	3.10%
K-12 Revenue Limit Deficit %	19.754%	21.666%	21.666%	21.666%	21.666%	21.666%
COE Revenue Limit Deficit %	20.041%	22.497%	22.497%	22.497%	22.497%	22.497%
SSC Planning COLA if Tax Initiative Passes	—	0.00%	2.40%	2.70%	2.90%	3.10%
Trigger Cuts if Tax Initiative Fails	—	-\$370 per ADA (ongoing)	2.40%	2.70%	2.90%	3.10%
Home-to-school and special education transportation funding	-50%	-100% (ongoing)	—	—	—	—
State categorical funding (including adult education and ROC/P)						
Tier I	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%
Tier II	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%
Tier III	0.00%	0.00%	2.40%	2.70%	2.90%	3.10%

# The Governor's Tax Initiative



**if it passes...**



**if it fails...**