

# Education Funding Remains At Risk

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- State funding for education was cut by 16% beginning in 2008-09 – five years ago!
  - And education has contributed about \$7 billion per year to help resolve the state’s Budget crisis – a total of more than \$35 billion
  - No other segment of the Budget has been cut anywhere close to that much and most other segments of the Budget have actually grown over the same five-year period
- But the Governor’s challenge is increasingly difficult
  - Our cyclical economy isn’t cycling fast enough
  - The state is running out of solutions
  - We think the Governor is making the most of a bad situation, but it isn’t going to be resolved anytime soon

# Another “Crisis” Budget

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- The Governor’s Budget Proposals for 2012-13 represent another desperate effort to get through a bad time, not a permanent solution
  - The Budget depends on passage of new temporary taxes midway through the year
  - The structural imbalance continues to dog the state’s recovery
- Specific proposals include:
  - 100% of home-to-school and special education transportation funding is cut under both alternatives
    - Disproportionate effect on districts is a huge problem

# Another “Crisis” Budget

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- Governor’s Budget: Assumes voters approve a \$6.9 billion tax measure
  - Funding the statutory increase in Proposition 98 by manipulating deferrals
  - This alternative provides no additional spending for education, but maintains revenue limits at about 2011-12 pre-trigger-cut levels
- Alternative: Assumes voters reject the tax measure
  - Education is cut \$2.4 billion, about \$370 per average daily attendance (ADA)
- The mechanics of the Budget are complex, but this outcome is the bottom line



# Economics Still Drive All Policy Decisions

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- In California, recent policy has been set by Budget decisions
  - The debate is not driven by policy, it is driven by economics – do we have the money?
  - Economic decisions have led to poor policy results for education
    - We need a longer school year – not a shorter one
    - We need lower class sizes – not higher
    - We need more options for students – not fewer
    - We need stability for our professional teachers, administrators, and classified staff – not layoff notices
  - All of these undesirable outcomes are an effort to “do it cheaper,” not “do it better”
- The long-term societal and economic impacts of these short-sighted policies will be profound
  - We will have workforce issues far into the future
  - A sub-optimal workforce leads to more dependence on government, not less

# 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

- 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>

# Recovery Takes a Long Time



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- Recovery for education funding requires:
  - First, the threat of more current or future cuts must end
  - Then, the state must have the money to begin funding current-year cost-of-living adjustments (COLAs) and other program growth
  - Then, the state must fund at least some portion of the deficit factor, now at 21.666% in addition to funding the current-year COLA
  - Then, the state must deal with restoration of the deferrals
- During the recession of the early 1990s, the deficit was smaller and there were no deferrals, but recovery still took six years
  - So, the state has a lot of work to do and it will take time
- And at the point of full restoration, we would perhaps rise to 46<sup>th</sup> in the nation again!
  - Only after that would California be in a position to increase its level of effort to begin to match other states

# Risks to the Budget Proposal



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- Flat funding for K-12 education is dependent upon voters approving Governor Brown's initiative authorizing new temporary taxes
  - The initiative must qualify for the ballot by gaining the required number of voter signatures on a petition
  - Necessary labor support for the initiative has not been secured
  - Governor Brown needs to clear the field of other education-funding initiatives
- Voter sentiment may not support more taxes, putting a \$6.9 billion hole in the budget as proposed by Governor Brown
- Competing initiatives on a ballot may confuse or frustrate voters, causing initiatives with any chance of success to, instead, fail

# 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



- 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

# Choices and Priorities Matter

- 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

# The Governor's Initiative – "The Schools and Local Public Safety Protection Act of 2012"

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- The centerpiece of Governor Brown's 2012-13 Budget is a \$6.9 billion tax increase
- "The chief purpose of this measure is to protect schools and local public safety by asking the wealthy to pay their fair share of taxes." (Excerpt from Section 3 of the Governor's Initiative)
- Public safety protection – amends the Constitution to affirm the state/local realignment enacted in the 2011-12 State Budget
- Schools – establishes the "Education Protection Account" for revenues derived from temporary, five-year tax increases:
  - Half-cent sales tax increase; effective January 1, 2013, until January 1, 2017
  - Increase income tax rates on annual earnings more than \$250,000; effective for the 2012 tax year through the 2016 tax year

# The Governor's Initiative – "The Schools and Local Public Safety Protection Act of 2012"

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- All-new revenue is deposited in the Education Protection Account (EPA), available for K-12 schools (89%) and community colleges (11%)
- Like local property tax revenues, EPA funds can be used for any educational purpose and count toward the Proposition 98 minimum guarantee
- Reduces state General Fund contributions toward Proposition 98 dollar for dollar
- Distributed the same as existing general purpose per-pupil funding
- EPA allocations may not be used for salary or benefits of administrators or any other administrative costs
- Local educational agencies (LEAs) must annually post on their websites an accounting of funding received and how it was spent

# 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



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- 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

# 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

# Next Steps

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- **Balanced budget must be adopted by district prior to June 30, 2013**
  - State Budget will most likely not be in place by then
- **Developing the budget requires:**
  - **Clarifying assumptions**
    - How much revenue?
    - How will expenditures change?
- **Once the State Budget is adopted, the district makes adjustments to its budget within 45 days**

Questions?



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