

# THEMES FOR THE 2012 SCHOOL FINANCE AND MANAGEMENT CONFERENCE

- 2012-13 represents the fifth year of the deepest sustained cuts ever made to public education in California
  - Yet, the cuts to education roughly mirror the loss of General Fund revenues to the state
  - And the state's plan to avoid deeper immediate cuts to education depends on a continuation of the policy of replacing an immediate cut with the threat of a larger one later
- We have lost more than 10% of our teachers, and a greater percentage of classified employees and administrators
- We have higher class sizes, fewer school days, and prospects for even further losses
- Relief offered by the state is partial and temporary
- Managing school agencies has never been more difficult

# EFFECTS OF THE RECESSION ARE STILL WITH US

- Compared with 2007-08, beginning in 2008-09, ongoing state General Fund revenues have been consistently down by about 15%
- Beginning in 2008-09, the state immediately cut education funding by about 15% and has maintained that cut through 2012-13
  - Cuts to other segments of the State Budget came later and were not as deep
- Unemployment remains near record levels
  - Former taxpayers remain as “tax receivers”
  - There is likely to be little improvement at the state or national level in the near term – job creation continues to lag
  - Over the past five years, California’s biggest export has been jobs!
- The state deficit continues to grow, and it is unlikely that the situation will improve much in 2012-13 or 2013-14

# CUTS TO EDUCATION ARE LIKELY TO CONTINUE

- The state has balanced its Budget based upon a continuation of its policy of projecting higher revenues and proposing cuts to education if those revenues are not received
  - But even if the temporary taxes proposed by Governor Jerry Brown pass, education funding will not increase in 2012-13
  - The public is confused; declarations of increases to Proposition 98 are contradicted by budget cuts at the local level
- The state simply does not have the money to provide additional funds to education
  - Claims that education funding is going up are simply untrue
  - Local educational agencies (LEAs) have not received a single new ongoing dollar since 2007-08
- We understand that funding can't be restored; we don't understand why state politicians continue to claim that more money is going to schools

# LOSSES TO EDUCATION CONTINUE TO BE DEEP

- In 2007-08, California employed more than 300,000 teachers – and had the highest class sizes in the nation
- In 2012-13, California is likely to employ fewer than 250,000 teachers and will have more students than in 2007-08
- A large percentage of districts have already increased class sizes and reduced the instructional year
  - Student achievement in California is linked to the state's commitment to fund education – both are in the bottom 10% of the national standings
  - Community college, adult education, and regional occupational center/program (ROC/P) opportunities are all down
- An educated work force helped to make California one of the most vibrant economies in the world – over the long term, we will pay a high price for our failure to invest at the same level as high-performing states

# MANAGING EDUCATIONAL AGENCIES WILL CONTINUE TO BE DIFFICULT

- Relief offered by the state if the taxes fail – further temporary reductions in the school year – while necessary, is temporary and will not cover the entire loss of revenues
  - Any reduction in the work year is subject to collective bargaining
- Costs continue to rise, even as state revenues fall
  - Step and column movement and health benefit contribution increases represent raises to employees and costs to districts
- Classes, particularly at the secondary level, are nearing “fire marshal full”
  - And retirees will not be able to work as many days as in the past to fill the gaps
- We have added extensive planning guidance on a wide variety of topics later in our materials
  - It is very clear what the Budget Act did
  - We want it to be equally clear what you should do in response

# CALIFORNIA'S EDUCATION SPENDING

## K-12 Education Expenditures per ADA 2010-11



\*Average of the five states with the highest expenditures per ADA

Source: National Education Association

# CALIFORNIA'S EDUCATION SPENDING

- Per unit of average daily attendance (ADA), California spends only 84.2% of the national average for K-12 education
  - California spends \$9,136 less per ADA than the average of the top five states
- California has the largest class sizes in the nation
  - In 2011-12, its ratio of students to teachers was 22.2:1
  - For the same year, nationally, the ratio of students to teachers was 14.7:1, a difference of more than seven students
- In 2011-12, average K-12 teacher salaries in California were estimated to be \$69,496, compared to the national average of \$56,643
  - Note: California's high cost of living and extremely high class sizes do contribute to higher salaries

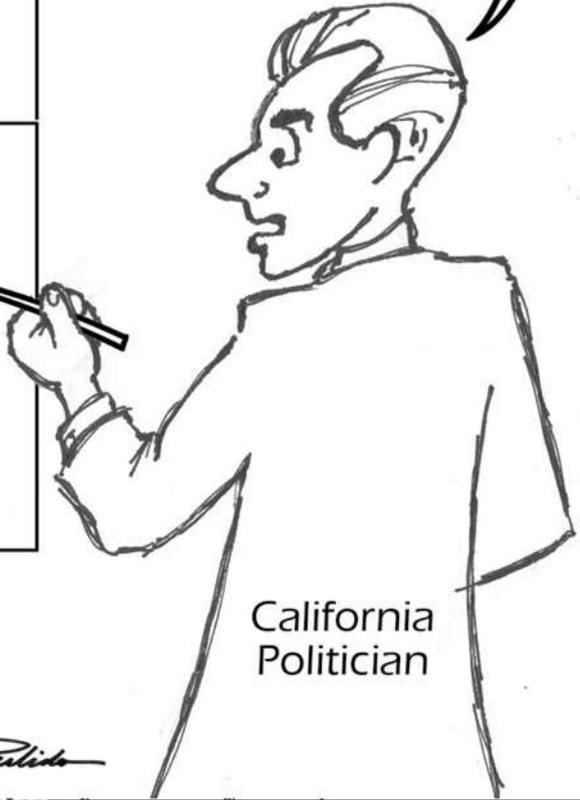
STATE OF CALIFORNIA BUDGET  
ENDING FUND BALANCE

PROJECTED

ACTUAL

- \$Billions

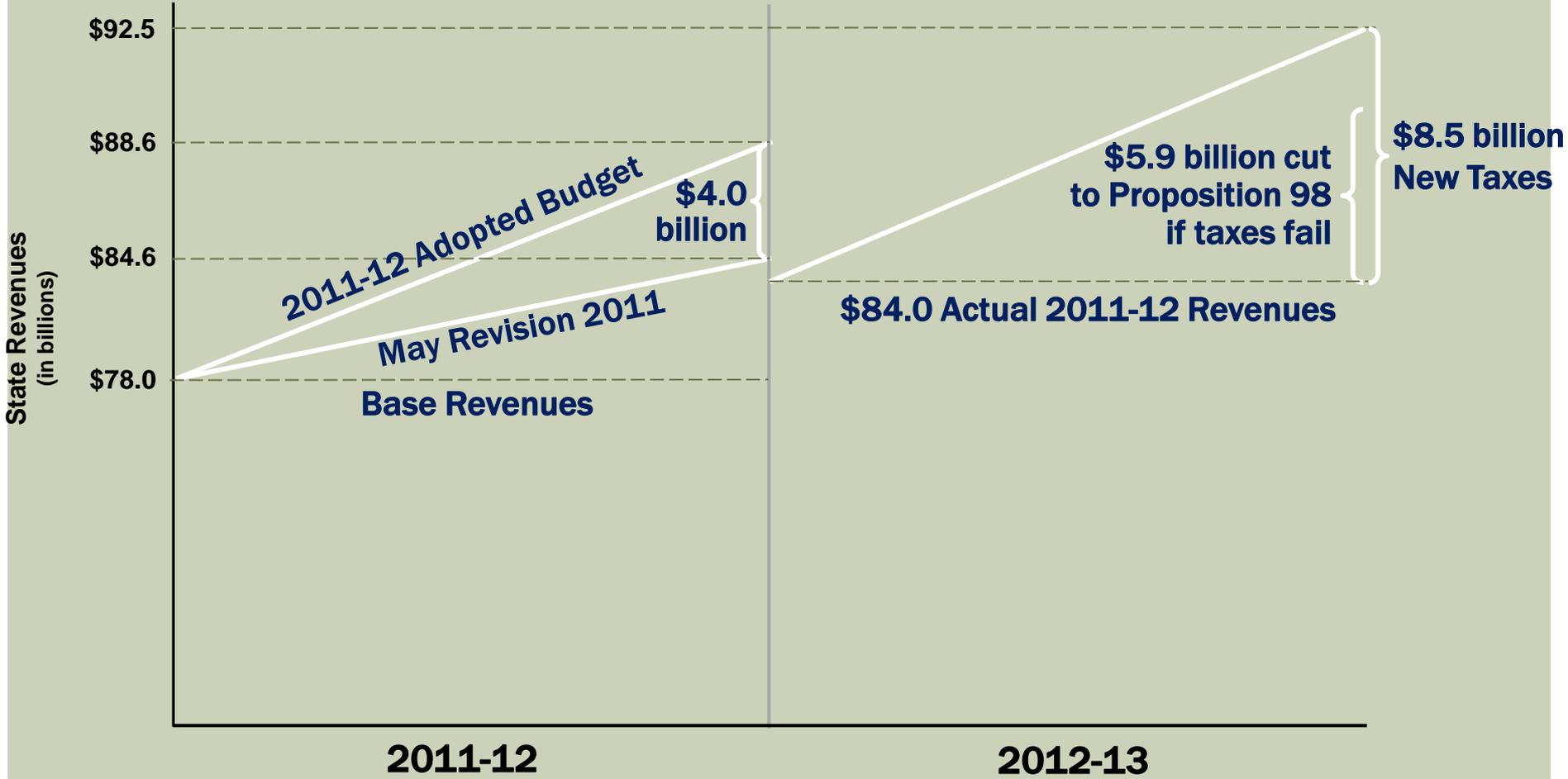
"We didn't actually over spend our budget. The allocation simply fell short of our expenditure."



*Rock Pulido*

# GENERAL FUND REVENUES

## The Governor's Plan



# RISKS TO THE STATE BUDGET

- The Governor's tax initiative is the biggest risk to the State Budget, with \$8.5 billion at stake for the current year
  - The latest *Field Poll* puts the initiative at 54% in support and 38% opposed
    - The Legislature's approval of the high speed rail project could threaten the tax initiative, with nearly one in three voters polled saying they would be less inclined to support raising taxes if the Legislature funds the project
- The already anemic economic recovery could stall, as consumer confidence wanes and spending slows
  - The sovereign debt crisis in the European Union could drag down U.S. exports
  - Disruptions in the supply of oil could spike energy prices

# MAJOR CHANGES FROM THE MAY REVISION TO THE FINAL STATE BUDGET

Trigger Cuts	May Revision	Governor proposed <b>\$441 per-ADA trigger cuts</b> if the November tax measure fails
	Final State Budget	Trigger cuts increase to an average of <b>\$457 per ADA</b>
Deferrals	May Revision	Governor provided <b>\$2.3 billion</b> to buy back apportionment deferrals if November tax measure succeeds
	Final State Budget	<b>\$2.1 billion</b> is appropriated if tax measure succeeds, and appropriation is zero if tax measure fails
Instructional Year	May Revision	Governor proposed allowing schools, subject to collective bargaining, to reduce the length of the school year by an additional 15 days beyond the five days currently authorized, in 2012-13 and 2013-14, if tax measure fails
	Final State Budget	<b>No change to the May Revision Proposal</b>

# MAJOR CHANGES FROM THE MAY REVISION TO THE FINAL STATE BUDGET

Transitional Kindergarten	May Revision	Governor proposed elimination of the requirement that schools provide Transitional Kindergarten (TK) beginning in 2012-13
	Final State Budget	The TK program and statutes are maintained
Mandate Reform	May Revision	Governor proposed elimination of nearly half of existing K-14 mandates, provided \$200 million to establish a new mandate block grant, and eliminated the current state mandate claiming process
	Final State Budget	Establishes the mandate block grant but keeps current mandate claiming process intact and gives school agencies the choice to participate in either program

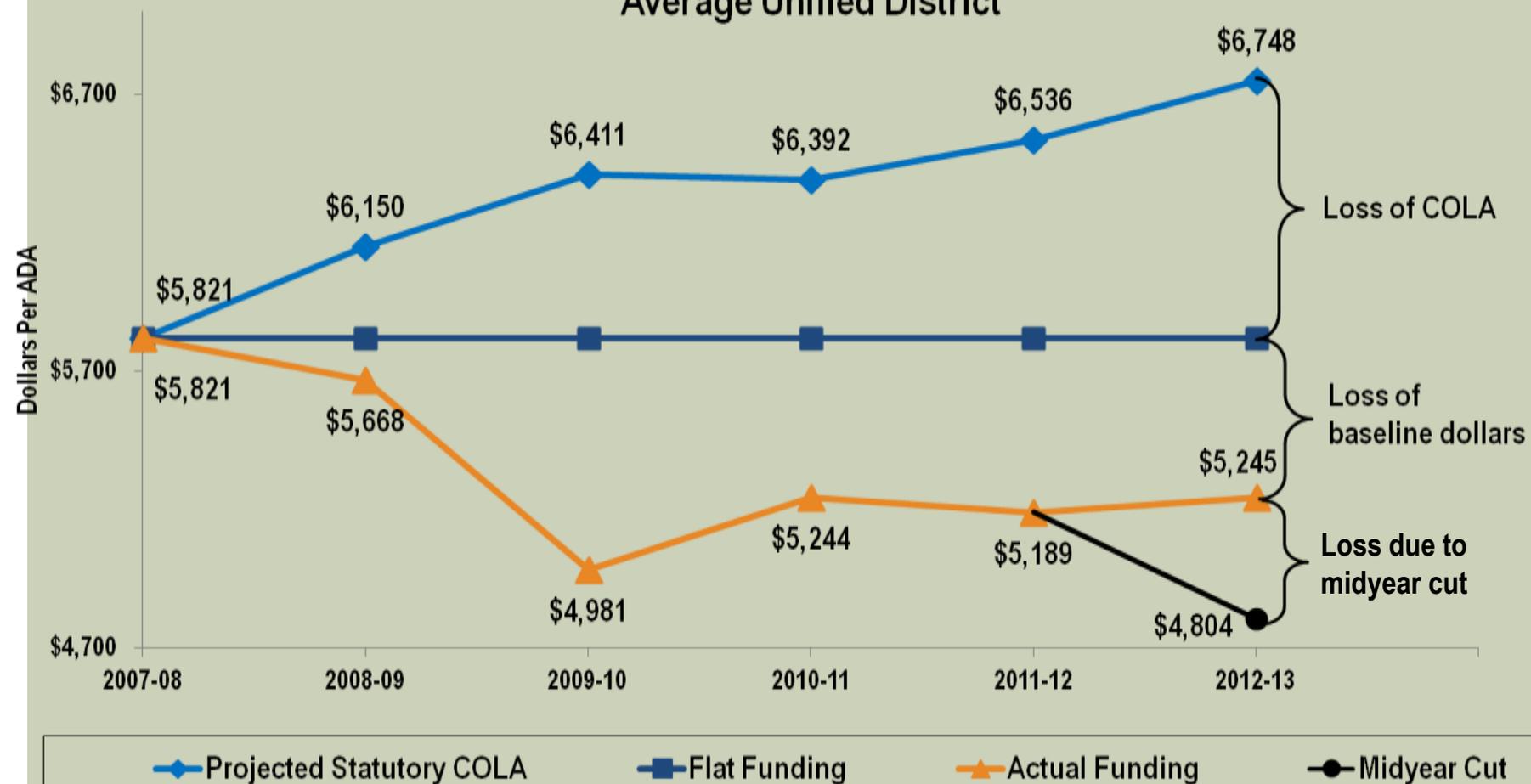
# MAJOR CHANGES FROM THE MAY REVISION TO THE FINAL STATE BUDGET

<b>Weighted Student Funding Formula</b>	<b>May Revision</b>	<b>Governor proposed providing full flexibility for most categorical programs and establishing a new Weighted Student Funding (WSF) formula</b>
	<b>Final State Budget</b>	<b>Does not implement the WSF formula and provides no new categorical flexibility options</b>

<b>Transportation</b>	<b>May Revision</b>	<b>Governor funded home-to-school and special education transportation and provided flexibility on the use of the funds</b>
	<b>Final State Budget</b>	<b>Funds transportation programs using existing statutes but provides no flexibility</b>

# FUNDING PER ADA – ACTUAL VS. STATUTORY LEVEL

Average Unified District



# PROPOSITION 30 – THE SCHOOLS AND LOCAL PUBLIC PROTECTION ACT OF 2012

- Proposition 30, the Schools and Local Public Protection Act is sponsored by Governor Brown
- Education organizations supporting the measure include: California Teacher's Association, California Federation of Teachers, California School Boards Association (CSBA), and Association of California School Administrators
- Temporarily increases the state sales tax and personal income tax for high income earners
  - Sales tax increase of 0.25% would expire in 2016
  - Personal income tax increase would expire in 2018
- Generates \$6.8 billion to \$8.5 billion in 2012-13 and \$5.4 billion to \$7.6 billion each year thereafter
- Revenues from tax increases would fund the Education Protection Account (EPA), which would offset state aid toward school district revenue limits
- Would also make permanent the sales tax shift to fund county government realignment

# PROPOSITION 38 – OUR CHILDREN, OUR FUTURE

- Proposition 38 – Our Children, Our Future is primarily funded by Molly Munger, a civil rights attorney
- Education organizations supporting it include: Parent Teacher Association (PTA), the Advancement Project, and CSBA
- Temporarily increases personal income taxes on all but the lowest income earners
  - Increase would range from 0.4% for the lowest earners to 2.2% for those earning more than \$2.5 million
  - Tax increase would expire in 2024
- Generates roughly \$5 billion in 2012-13 and \$10 billion each year thereafter
- Tax revenues would be outside Proposition 98 and go to school sites
- 30% of tax revenues go towards bond debt payments for the first four years

**See CD-ROM for a comparison of Proposition 30 and Proposition 38**

# WHAT HAPPENS IF THEY BOTH PASS?

- If provisions of two or more measures that are approved at the same election are in conflict with each other, the provisions of the ballot measure receiving the most affirmative votes goes into effect\*
  - However, both initiatives contain language deeming them to be in conflict with the other
- If both initiatives pass and Governor Brown's initiative receives more votes:
  - Brown's sales tax realignment and the personal income and sales tax increases go into effect
  - Munger's initiative is null and void

# WHAT HAPPENS IF THEY BOTH PASS?

- If both initiatives pass and Munger's initiative receives more votes:
  - The Munger initiative's personal income tax increases would go into effect
  - The sales and income tax increase provisions of Governor Brown's initiative would be null and void
- It is unknown whether the sales tax realignment would go into effect due to the "deeming to be in conflict" language in both measures, and the issue would likely have to be resolved by the courts

# PROPOSITION 98 – THE PROMISE



Painting: Leonardo da Vinci, “Mona Lisa”

- Proposition 98, enacted by voters in 1988, was intended to:
  - Provide a source of stable and adequate resources for K-14 public schools
  - Reduce class sizes to no more than 20:1 in all grades K-12
  - Establish a minimum base of funding from which resources could grow to match the top ten states in the nation
- Simply put, it was the picture of hope, and the promise of a bright future for schools

# PROPOSITION 98 – THE PICTURE TODAY



Painting: Edvard Munch, “The Scream of Nature”

- Extensive manipulation of Proposition 98 has distorted the initiative’s original vision
- Proposition 98 is routinely adjusted, both legislatively and administratively, so that it achieves the K-14 funding targets desired by the Legislature and the Governor
- Zero year-over-year change in K-12 funding for 2012-13 is the state’s budgetary goal, *if* new taxes are approved by voters . . . .  
... even though Proposition 98 is touted to increase by more than 14%

# GOVERNOR'S TAX INITIATIVE

- The Governor's tax measure will be on the November 2012 ballot as Proposition 30, currently in first position among 11 qualifying initiatives
  - Estimates \$8.5 billion in new revenues through 2012-13 from temporary increases in the sales and personal income taxes
  - \$2.9 billion scored to schools as a result of a revenue-driven increase in Proposition 98 – results in no increase to per-student funding
- What happens if the Governor's initiative fails?
  - State Budget cuts of \$6 billion are already in statute and will be automatically triggered
  - A \$5.354 billion cut to Proposition 98
    - Increases the deficit factor by 6.542%; about \$440 to \$460 per ADA for the average school district
    - The deferral buy back is eliminated

# GOVERNOR'S TAX INITIATIVE

- School districts have the authority to reduce instructional time by up to 15 more days in each of the 2012-13 and 2013-14 school years
  - This is in addition to the five-day reduction that is already authorized
  - Any reduction in the school year must be collectively bargained with employee groups
- Trigger cuts are only contingent on the outcome of the Governor's tax initiative . . .

# THE FUTURE OF PROPOSITION 98

- To support his tax initiative, the Governor's May Revision asserts that K-14 funding under Proposition 98 will increase by more than \$17 billion over the next four years
  - Funding would grow from \$47 billion in 2011-12 to \$64.3 billion in 2015-16, an 8.2% average annual gain
    - The Proposition 98 baseline forecast is for annual growth of 6.6%
    - The average annual amount generated by the tax initiative would be almost \$3.2 billion, or about \$530 per ADA
- However, in order for schools to see this gain, the Legislature must first appropriate these funds to education
  - There are numerous examples of the Legislature manipulating the guarantee to redirect funds to other budget priorities
- Proposition 98 is no longer a guarantee, but rather a target for education funding

# SPECIAL EDUCATION

- The enacted Budget provides flat funding for mandated special education programs, as proposed by the Governor at the May Revision
- Special education growth funding was not approved
  - However, funding recaptured from declining Special Education Local Plan Areas (SELPA) will be used to fund increased SELPA ADA
  - Growth rate remains at 2011-12 level – \$465.44 per ADA
- A total of \$420 million is provided to pay for educationally necessary mental health services for students with disabilities
  - This is the same funding level as proposed by the Governor in January 2012

# SPECIAL EDUCATION – PENDING ISSUES

- In 2013-14, federal special education funding is in jeopardy
  - An across-the-board cut as high as 9% is possible if Congress and the Administration do not reach agreement on an alternative plan by year's end – December 31, 2012
  - This would affect most federal education programs effective January 2013

# MANDATE REFORM

- The 2012-13 Budget Act takes a significant step towards mandate reform
- The Budget appropriates \$200 million to fund a mandate block grant: \$166 million for K-12 education and \$33 million for community colleges
  - Districts can receive mandate reimbursements on the basis of a flat dollar amount per ADA
    - K-12 districts \$28 per ADA
    - Charter schools \$14 per ADA
    - County offices of education \$29 per ADA
  - Districts can elect to file mandate claims under the traditional process based on actual costs
    - Election is on a year-by-year basis

# SCHOOL FACILITIES ISSUES – SURPLUS PROPERTY AND CHARTER SCHOOLS

- The Education Trailer Bill, SB 1016, requires school districts to offer surplus property for sale or lease to charter schools before selling or leasing it to other parties
  - This affects real property designed to provide direct instruction or instructional support



# SCHOOL FACILITIES ISSUES – SURPLUS PROPERTY AND CHARTER SCHOOLS

- The Governing Board must first provide a written offer for the sale or lease of the surplus property to any charter school that has submitted a written request for notification about the sale or lease of surplus property
  - Charter schools must use the property to provide direct instruction or instructional support for no less than five years from the date the real property is available to the charter
  - The price of the property cannot exceed the school district's cost of acquisition, and the lease amount cannot exceed 5% of the maximum sale price
- This applies to surplus property identified after July 1, 2012
- The law is in effect through June 30, 2013

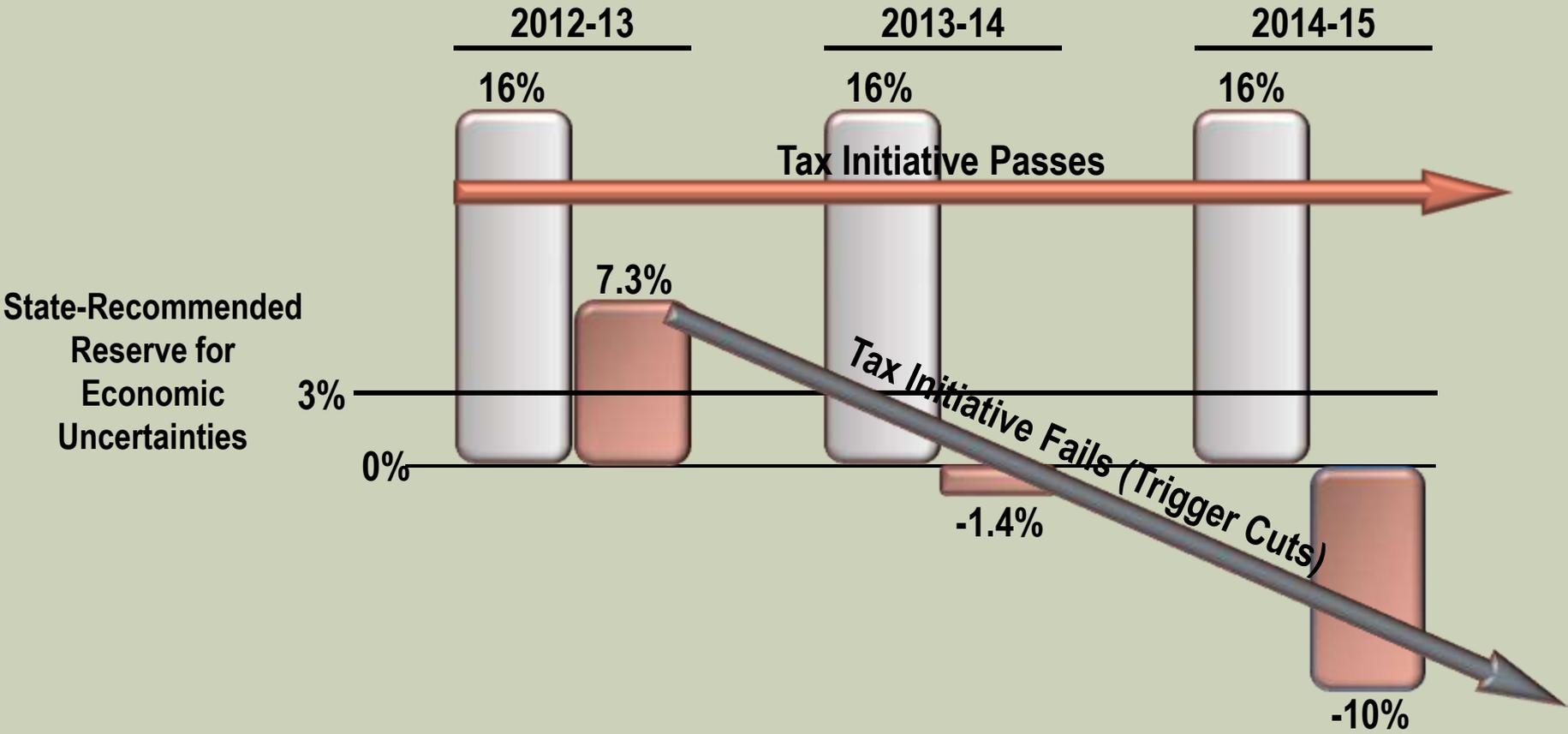
# BASIC AID

- Basic aid school districts are subject to the same cuts in state funding as other districts, only taken from state categorical program funding instead of revenue limits:
  - For 2011-12, the “fair share” rate is 9.57%, which will be applied against 2012-13 categorical program funding
  - In 2012-13, the rate is 8.92%, which will be applied in 2013-14
    - Basic aid school districts will take the same midyear reduction as other school districts if the Governor’s initiative is not approved by the voters in November
  - Three categorical programs are exempt from the reduction:
    - After School Education and Safety (ASES) Program
    - Quality Education Investment Act (QEIA)
    - Child Care and Development

# BASIC AID – OUR ADVICE

- Continue to plan for “fair share” reductions – whatever happens to one school district will happen to all
- Understand how “fair share” works – plan ahead
- Basic aid school districts face different fiscal challenges than other school districts and need to have sufficient reserves to account for:
  - “Unfunded” changes in attendance
  - Uncertainty of local revenue forecasts

# ENDING FUND BALANCE EXAMPLE



# MULTIYEAR PROJECTIONS – OUR ADVICE

- Plan your 2012-13 district budget using the factors in the SSC Dartboard and the formal guidance of your COE
- Prepare the three-year multiyear projection (MYP) using the following factors:
  - Plan to receive statutory COLAs for 2014-15 and beyond, unless and until the state takes action to eliminate the COLAs
  - Plan for an ongoing revenue limit cut beginning midyear 2012-13
  - Be prepared for an increase in the deficit factor to account for the cut
    - The cut will be a unique dollar amount for your district based upon your own unique revenue limit
    - The district-specific amount can be estimated using a deficit factor of 28.814%
- Prepare a second MYP assuming there are no additional midyear cuts
  - If this MYP indicates the need for budget solutions, make them now – this is best case and is likely to get worse

# MULTIYEAR PROJECTIONS – OUR ADVICE

- Maintain prudent reserves, no matter what
  - What is prudent?
    - At a minimum, at least the normal state-specified reserve level (3% for most districts) in all three years
      - Ignore the flexibility to reduce reserves to one-third of normal
    - Increase reserves for:
      - Declining enrollment
      - State funding uncertainties
      - The state's cash deferrals
      - Reliance on property taxes instead of state aid
      - Unstable relationships with unions
      - Other local risk factors your district faces
  - We are not out of the woods yet
    - Especially when facing possible midyear cuts

# NOVEMBER 2012 ELECTION

- A lot is riding on voter sentiment in November
  - Two major tax measures
    - Governor's initiative – flat funding for schools
    - Munger initiative – \$3.0 billion to schools in 2012-13; more in future
- Governor's initiative is a State Budget solution that also helps schools
  - “Launders” \$4 billion for state programs through schools
- Schools lose big if the initiative fails
  - Gain on paper of \$2.9 billion scored to Proposition 98 if it passes, but \$5.5 billion cut if it fails – we need the initiative to pass!
- We have to find a better way to support our public schools
  - Stable funding
  - Adequate funding
  - Equitable funding

# AND FINALLY . . .

- We have our second in a row on-time Budget
- Revenues for schools are still uncertain
  - Uncertainty will continue
- Considering what the state has done to you, you have done the best job possible to provide the children of California with a high value, low cost education
  - Keep up the great work!
- We will see you in January at our Governor's Budget Workshop