

Governor Signs Budget Agreement

Today the Governor signed several of the budget bill and several trailer bills, including the controversial AB 114 education trailer bill. In his press release, it was stated that “the mix of cuts and revenue allow Governor Brown to maintain key budgetary priorities, protecting K-12 education and funding the historic realignment initiative.” The Governor is quoted as saying that “this is an honest but painful budget that returns California’s General Fund spending to levels unseen since the 1097s. We’ve cut our deficit by \$15 billion and achieved financial balance this year. This is a huge step forward.”

The Governor signed the budget but also made \$23.8 million in blue pencil vetoes. These reductions included a \$2 million cut to CalTIDES, \$323,000 in staff cuts to the CDE and \$84,000 in reductions to the CTC. There were no other K-14 reductions.

The key components of the 2011-12 State Budget include:

Higher Revenue Assumptions & a Trigger for Mid-Year Cuts

Unlike the budget that the Governor vetoed on June 16, this budget package relies on the assumption of \$4 billion in additional state revenues above the \$6.6 billion increase assumed in the governor’s May Revision budget. This significant increase in assumed state revenues beyond earlier estimates is based on early numbers that indicate May and June state general fund revenues are up substantially, about \$1.3 billion above estimates, and that this revenue trend will continue. However, in order to guard against these assumptions not materializing, the budget establishes a set of triggers that would impose specific program cuts based on projections in December 2011 on the amount of new revenue that is projected to come to the state in 2011-12.

Overall Program Cuts in Budget Agreement

This budget maintains many of the cuts in the budget bill vetoed by the Governor two weeks ago. This includes \$150 million to the UC and CSU systems and \$1.7 billion from redevelopment agencies. However, the agreement rejects several items that were in the last version including \$1.2 billion in the sale of state buildings, \$1 billion in transfers from First Five commissions and \$540 million deferral to UC.

Education funding includes \$2.1 billion new deferral & further Prop 98 manipulations

For K-12 schools, this budget deal is basically the same education budget proposed by the governor in January (though without the \$19/ADA revenue limit cut). While K-12 schools will receive authorization in 2011-12 to spend at the same level as the current year, this includes a new \$2.1 billion K-12 deferral.

And in addition to another deferral, the Proposition 98 budget deal contains other manipulations to make it work. Because the State Controller called the initial majority-vote budget “unbalanced” primarily because it underfunded K-14 education (Proposition 98) by \$1.3 billion. The budget deal-makers took some interesting steps in order to avoid that outcome again while still “flat funding” schools and avoiding deeper cuts to the non-98 side of the budget.

Most significantly, child care has been permanently removed from Proposition 98, thus allowing them to re-bench the Proposition 98 funding guarantee downward by the roughly \$1.4 billion that the Controller said was the amount the June 15 budget under-funded Proposition 98. With that

action the guarantee is lowered, and that means Proposition 98 is no longer “underfunded.” Based on the 2011-12 Budget, the Proposition 98 guarantee is \$48.7 billion. The current year Prop 98 guarantee is \$49.8 billion.

Child Care Out – Preschool Programs Stay in Prop 98

Child care is funded at the same level as the recently vetoed June 15 budget – by using part of the "new revenues" outside of Proposition 98 to fund child care programs. Preschool program funding will remain in Prop 98.

For many K-12 educators, if this permanent removal of child care from Prop 98 remains permanent, it would be a long-term win for K-12 education, given longstanding concerns that the growth in child care program costs were competing with K-12 spending needs within the Proposition 98 guarantee. However, the fact that Prop 98 was rebenchmarked downward is yet another manipulation.

Budget triggers key part of the budget

The triggers are in three tiers, based on how much of the extra \$4 billion comes into the state’s coffers. The tiers would be as follows:

Tier 0: If the state gets \$3 billion to \$4 billion of the money, the state will not impose additional cuts and roll over any balance problems into the 2012-13 fiscal year.

Tier 1: If the state gets \$2 billion to \$3 billion of the money, the state will impose additional cuts and roll over the remainder into the 2012-13 budget. The \$600 million in cuts would include:

- \$100 million to UC (unallocated cut)
- \$100 million to CSU (unallocated cut)
- \$100 million to In Home Support Services
- \$80 million to public safety
- \$30 million to community colleges triggering a \$10 per unit fee hike
- \$23 million across-the-board cut to childcare funding (unallocated cut)
- \$20 million to Department of Corrections
- \$16 million cut to State Library in library grants
- \$15 million cut to Emergency Management
- \$15 million cut to Medi-Cal Managed Care
- \$10 million cut to Social Services anti-fraud grants

Tier 2: If the state gets \$0 billion to \$2 billion of the money, the state will also impose as much as \$1.9 billion in additional cuts, proportionate to revenues. The details of this reduction are outlined below.

Mid-Year Budget Reduction Trigger Revised

The education budget trailer bill (AB 114) provides that in January, if state revenues are not up at least \$2 billion in the budget year over the governor’s May Revision budget estimates, mid-year cuts will be imposed on schools. AB 114 also states that the Legislature will use the highest revenue estimate from either the Legislative Analyst Office's (LAO) November Budget Forecast or the Department of Finance's December Cash Report when making a determination to implement the mid-year reduction trigger.

In addition, final “trigger” language provides for “a proportionate revenue limit cut to schools if state revenue estimates fall below the needed \$2 billion increase”. While it is the Legislature and Governor’s intent that the full \$248 million elimination of home-to-school transportation funding will be triggered if state revenue increases do not reach the required \$2 billion figure, the \$1.5 billion (4%) mid-year revenue limit cut will be adjusted proportionally depending upon the actual level of state revenue that is projected. This means, for example, if state revenues are estimated to increase by \$1 billion in January the revenue limit cut to schools would be \$750 million (2%).

However, it is the intent of the agreement that all mid-year cuts be determined locally. If there is a need to make cuts, a district could determine that it wants to make a reduction of one or two school days and keep its home-to-school transportation program in place. It is the aggregate cut level made by the district that is important and not the specific cuts that are made.

Mid-Year Cuts Would Need to be Bargained

The budget trailer bill, AB 114, clearly requires that any reductions to the school year authorized by the implementation of mid-year revenue limit cuts would have to be bargained with employee groups as per current law and that an agreement to create budget savings must be agreed to no later than June 30, 2012. There are no provisions in any of the budget trailer bills that change collective bargaining requirements in the law in order to make it easier for school leaders to achieve budget savings by reducing the number of employee work days.

This requirement to negotiate any mid-year cuts makes it incumbent on districts to immediately commence negotiations with their employees on the potential for the mid-year revenue limit reduction and the possible reduction of instructional days as a means of achieving needed savings in district budgets.

AB 1200 Budget Adoption & the Need to Restore Programs

Language added to AB 114 provides for a significant change to the AB 1200 budget adoption process. With regard to budget adoption, the trailer bill now includes a provision prohibiting county superintendents from requiring school districts to adopt budgets based on the assumption that mid-year cuts might occur. Specifically, AB 114 amends Education Code section 42127 and directs county superintendents, for the 2011-12 budget adoption only, to NOT require a school district to project a per ADA revenue limit lower than it received in 2010-11 and that they “shall maintain staffing and program levels commensurate with that level.” This same code section is also amended, for the 2011-12 budget year only, to prohibit county superintendents from requiring school districts to demonstrate that their adopted budgets meet financial obligations for two subsequent years.

However, representatives from the administration acknowledged that the first responsibility of school districts is to protect their fiscal solvency. To that end, final decisions to restore programs and staffing levels will ultimately remain with school superintendents and their local boards regardless of the language in AB 114.

August Layoff Window Closed

In an effort to ensure that school districts not plan for a possible mid-year cut in advance, AB 114 stipulates that the Education Code section allowing for an August layoff option is not applicable for the 2011-12 fiscal year.

Local realignment included and tied to 2012 ballot initiative

The budget deal also includes Governor Brown's local realignment proposal. The shift of state responsibilities and funds to local government requires yet another downward re-benching of the Proposition 98 guarantee, that is – further below the lowered guarantee associated with the aforementioned removal of child care from Proposition 98.

More specifically, the local realignment proposal would transfer billions in state sales tax revenue from schools to local government for public safety. This will save the state billions in prison operations, but it will decrease the Proposition 98 guarantee to less than \$49 billion.

In recognition of this “hit” to schools, the local realignment proposal comes with language requiring a public vote on new revenues to be placed on the ballot through a voter initiative no later than November 2012. Should that ballot measure fail, the budget deal specifies that schools would be held harmless by providing an automatic continuous appropriation to Proposition 98. Should the ballot measure fail it would create a new hole in the state’s budget and it is likely that the realignment plan would be altered or eliminated.

Redevelopment Proposal Included

A series of budget trailer bills eliminate redevelopment agencies, but by slight of hand, allow them to remain operating as long as they make designated payments to other local agencies in the amount of \$1.7 billion. These funds will be used to fund various components of the Governor’s local government realignment program. School districts are designated to receive funding from this pot beginning in 2012-13.

Other Education Programs - AB 3632, Mandates, Deferrals, CalPADS

Most major education programs are maintained as they were funded and proposed in the June 15 budget. This includes:

AB 3632 - AB 3632 mental health services will shift to schools in 2011-12. There is a commitment to clean up the legislation and address school concerns about Medi-Cal eligibility and funding adequacy.

Mandates - Mandate funding remains at the June 15 funding level of \$89 million, with the dollars still targeted to pay prior year claims.

Deferrals - The schedule for the new \$2.1 billion inter-year deferral remains the same as approved by the Legislature in March, that is, a March-April 2012 inter-year deferral to August 2012.

CalPADS - CalPADS and CalTIDE were both funded the same as in the June budget (current year funding levels). However, the Governor vetoed the CalTIDES funding of \$2,124,000 and 3 staff positions. In his veto message, the Governor stated that “these reductions are necessary to avoid the development of a costly technology program that is not critical.” It is a positive sign, however, that the Governor did continue funding for CalPADS while a review of potential reforms is continued.

Impacts on Basic Aid Districts

There are no additional cuts proposed for Basic Aid districts should mid-year cuts be imposed to district revenue limits. There are no additional formula changes for cuts to Basic Aid districts beyond those proposed in the March budget. The proposal to sweep of property tax funding from Basic Aid county offices that was in the June 15 budget is also in this budget.