

Department of Finance Announces Trigger Being Pulled

Governor Cuts Schools Less Than Had Been Feared

The Department of Finance announced today that its revenue forecast was calling for the 2011-12 budget trigger to be pulled but that the effect of this reduction would hit K-12 schools far less than had previously been thought. The total shortfall is \$2.204 billion. The trigger will result in Tier I cuts to higher education and social service programs. The Tier I cuts are outlined below:

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

As for the K-12 school related cuts, \$248 million in home to school transportation funding will be cut and there is a reduction of \$79.6 million (\$13 per student) in school district revenue limits. The transportation cut will go into effect on January 1st and the revenue limit cut will go into effect on February 1.

In his press conference, the Governor indicated that there will also be additional (undisclosed) reductions as a part of the 2012-13 budget in January. As more information becomes available we will pass it on.

Governor to Include November Tax Revenues in 2012-12 Budget

Since announcing his tax proposal recently, the Brown has also said he'll include projected revenue from the tax increase in the budget he proposes next month, even though voters won't have a say on the higher levies until November. If his plan is rejected, it would blow a hole in what Brown said would be a balanced budget for fiscal 2012-13. Automatic cuts would be needed to eliminate that shortfall, Brown said. "We're going to balance the budget," Brown said in an interview in Los Angeles December 6. "We'll propose cuts and the taxes, and if the taxes don't materialize, I will propose we have trigger cuts that go into effect immediately."

What does this mean for school budgets for next year? Remember that for the combined 2011-12 and 2012-13 fiscal years the state faces a multi-billion dollar shortfall that the Governor says he is determined to close either via cuts and/or tax increases. School districts cannot budget on a guess or a promise – although it seems we have tried. This is the most troubling aspect of what the Governor is likely to propose in January. If he proposes a series of cuts for December of 2012 that would be triggered by the failure of a tax package, schools will have no choice but to budget for these cuts because you will be unable to make them in the middle of the year. As a result, the

tax package, in some ways, will be a referendum on restoring programs in 2013-14, rather than on maintaining funding in 2012-13.

What Are Chances the Tax Package Will Be Passed?

Yesterday, the Public Policy Institute of California (PPIC) released the results of the first public opinion poll measuring support among adults and likely voters for Governor Brown's new tax initiative.

Governor Brown's tax proposal will temporarily increase the state sales tax and impose higher income taxes on California's highest-earners, raising \$7 billion annually for five years. Specifically, "The Schools and Local Public Safety Protection Act of 2012" will ask voters, in November 2012, to approve:

- 1) The shift of local public safety programs (mainly inmate housing) from state to local control and a corresponding shift of \$5 billion in sales tax revenues from the state General Fund to local government.
- 2) Increases to personal income and sales tax rates effective January 1, 2013 that will generate approximately \$7 billion annually in new revenue for K-12 school districts, county offices of education, charter schools and community colleges.

Some of the key findings in the PPIC survey includes:

- 93% of all Californians say the state's budget situation is a problem. 62% say their local government services — those provided by cities, counties, and public schools—have been affected a lot by recent budget cuts.
- 65% of all adults and 60% of likely voters favor the Governor's tax proposal, while 28% of adults and 36% of likely voters oppose it.
- When read a description of possible mid-year budget cuts, 41% of Californians prefer to close the budget gap with a mix of spending cuts and tax increases; 30% prefer to close the gap mainly with spending cuts ; 11% prefer tax increases and 9% say it is okay to run a deficit.
- When advised that K-12 education makes up a large share of the expected mid-year "trigger cuts," a strong majority (85%) of Californians are concerned (53% very, 32% somewhat) about the potential effects on public schools.

Significant Competition on November Ballot Possible

As I have reported in recent weeks, there is no shortage of tax measures aimed at the November of 2012 ballot. Along with the Governor's plan there are 3 other measures that have the chance to qualify and be well funded. These include:

The Think Long proposal which would change the state's tax code and impose a sales tax on services. Of the new funding, \$5 billion would go to K-14 education but would also change Proposition 98 by eliminating the multi-billion dollar maintenance factor.

The “*Our children, Our Future; Local Schools and Early Education Investment Act*” measure sponsored by Molly Munger of the Advancement Project, would raise approximately \$10 billion a year in new revenue through a sliding scale income tax increase that varies with taxpayers' ability to pay, with the highest income earners contributing the most. The money would not be part of the state budget and can only be spent on local schools and early childhood education and childcare as authorized by the provisions of the Act. The Governor and Legislators are prohibited from using the money or directing how it may be spent. The measure will end after 12 years unless it is again approved by voters.

The California Federation of Teachers [CFT] proposal calls for \$6 billion in funds for K-12 and higher education. It would be funded through a personal income tax increase on those earning \$1 million or more per year. The tax rates would be 3% on taxable income between \$1 million and \$2 million and 5% on taxable income in excess of \$2 million.

Funds would be distributed as follows:

- 60% to K-12 education
- 13.33% to community colleges
- 13.33% to the University of California
- 13.33% to the CA State University
- 25% to counties to restore funding for programs for seniors, children and the disabled, and for preventive health care services
- 10% to restore funding to law enforcement, fire safety, emergency services and youth violence prevention
- 4.9% to restore funding for maintaining and repairing roads and bridges
- 0.10% to the State Controller and Franchise Tax Board for actual administrative costs of administering this act.

For education, there is specific language prohibiting the use of funds to administrative costs or capital outlay.

The Governor has the major challenge of bringing some clarity and focus to the November election by bringing all the parties together in support of one tax measure. The more measures crowding the ballot, with significant money being spent on campaign ads, the more difficult it will be for any of them to pass – in an already uphill battle.