



INTRO-1

Themes for the 2012 School Finance and Management Conference

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- 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



INTRO-2

Effects of the Recession Are Still With Us

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- 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



INTRO-3

Cuts to Education Are Likely to Continue

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- 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



A-14

Is the Budget Credible?

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Budgeted Reserve vs. Final Reserve
(in millions)

	Budgeted Reserve at Enactment	Final Reserve One Year Later	Difference
2012-13	\$948	???	???
2011-12	\$543	-\$3,601	-\$4,144
2010-11	\$1,205	-\$1,976	-\$3,181
2009-10	\$500	-\$6,842	-\$7,342
2008-09	\$971	-\$4,458	-\$5,429

- The 2012-13 Budget Act contains a \$948 million reserve
- Is this credible?
 - You decide!



- 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



A-19

Major Changes from the May Revision to the Final State Budget

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Trigger Cuts

May Revision

Governor proposed \$441 per-ADA trigger cuts if the November tax measure fails

Final State Budget

Trigger cuts increase to an average of \$457 per ADA

Deferrals

May Revision

Governor provided \$2.3 billion to buy back apportionment deferrals if November tax measure succeeds

Final State Budget

\$2.1 billion 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

No change to the May Revision Proposal



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Major Changes from the May Revision to the Final State Budget

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Weighted Student Funding Formula

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

Transportation

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

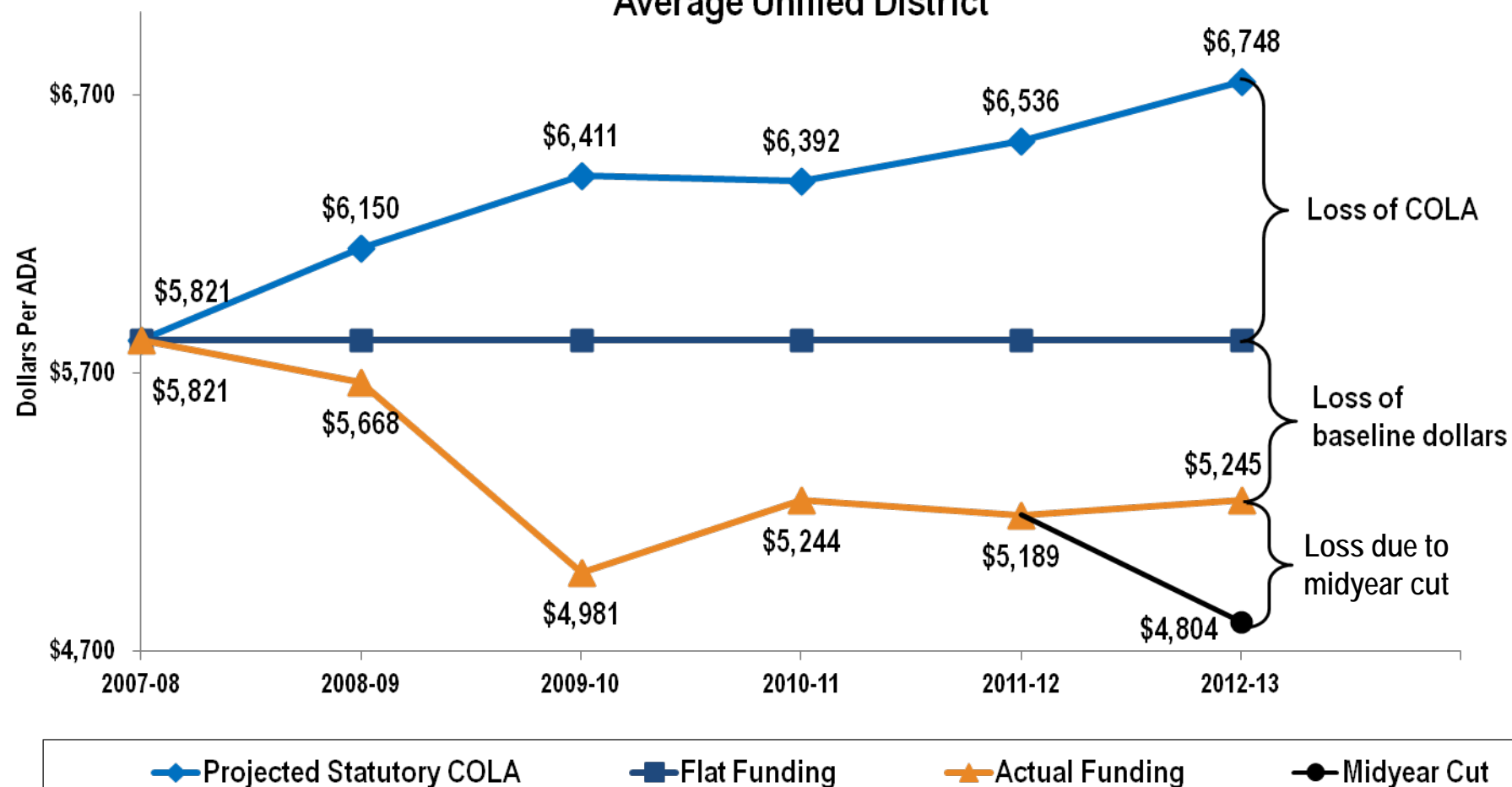


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Funding Per ADA – Actual vs. Statutory Level

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Average Unified District



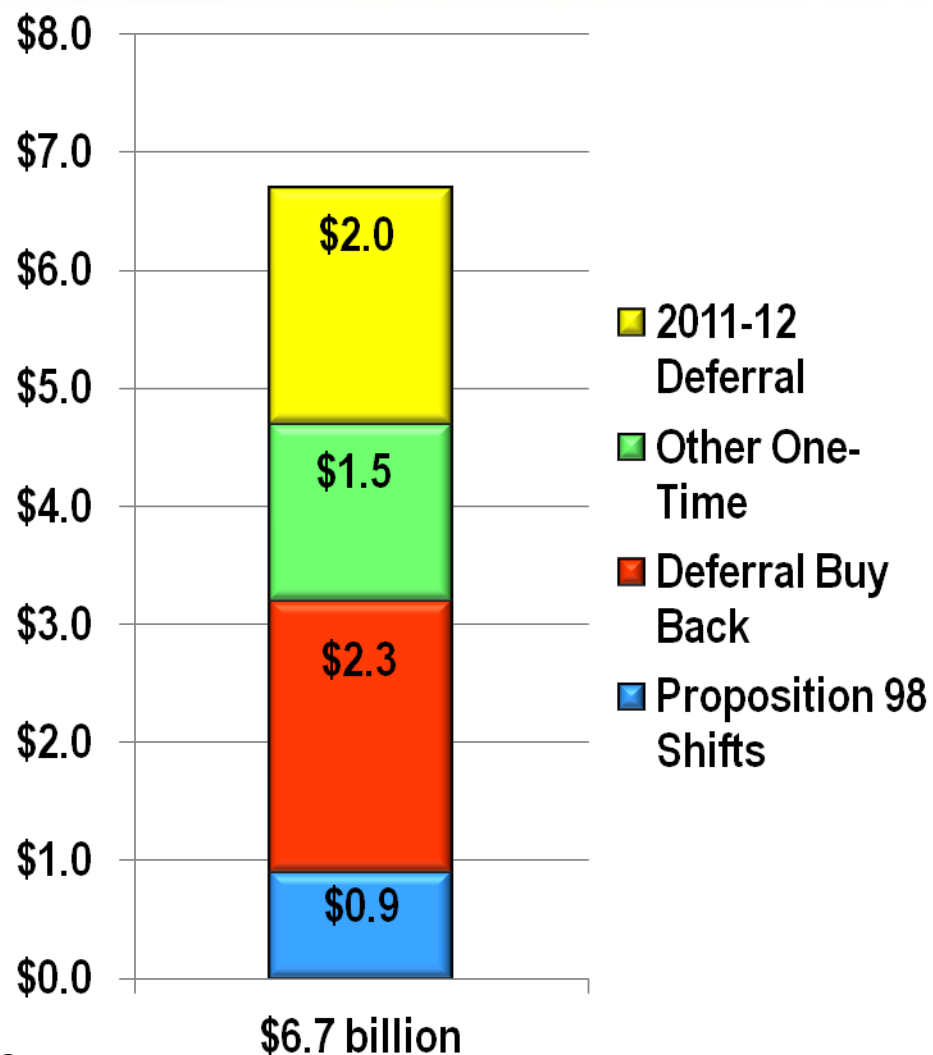


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Proposition 98

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- 2012-13 Proposition 98 funding increases by \$6.7 billion (14%), yet program funding for K-12 schools is virtually flat
- Where does the money go?
 - Pay for the cost of the 2011-12 deferral
 - Restore one-time resources with ongoing revenues
 - “Buy back” a share of \$9.4 billion in cross-year deferrals
 - Shift “noneducation” spending into Proposition 98



Note: Budget adds \$86.3 million in new funds for Mandate Block Grant



B-5

Governor's Tax Initiative

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- 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



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Governor's Tax Initiative

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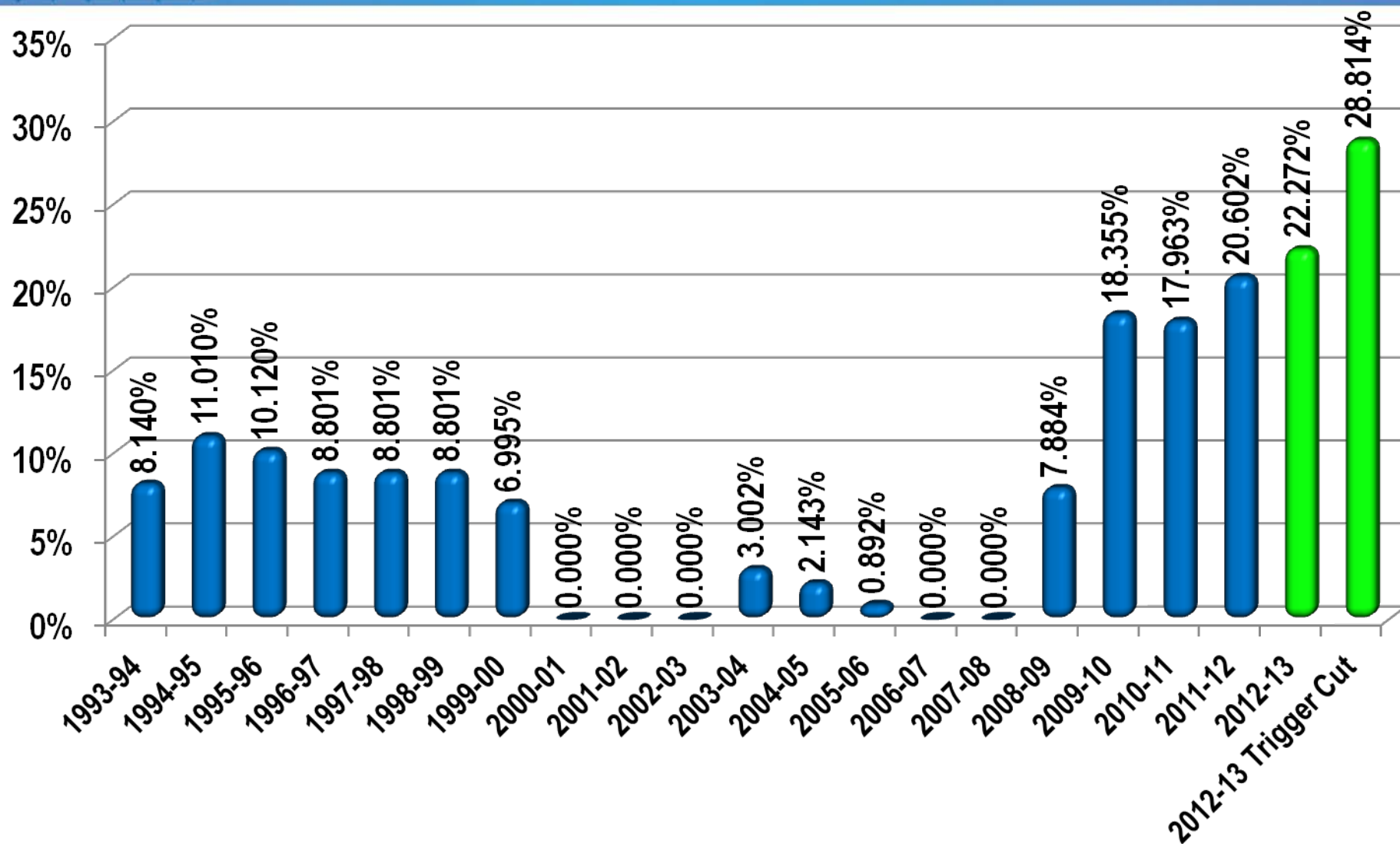
- School districts have the authority to reduce instructional time by up to 15 more days in each of the 2012-13 and 2013-14 school years
 - This is in addition to the five-day reduction that is already authorized
 - Any reduction in the school year must be collectively bargained with employee groups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



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Revenue Limit Deficit Factors

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2012-13 K-12 Revenue Limits – Example

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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	\$6,536	0.80246*	\$5,244.88
2.	2012-13 COLA per ADA	\$212	–	–
3.	2012-13 Base Revenue Limit	\$6,748	0.77728**	\$5,245.09
4.	2011-12 “Trigger” Cut (0.85% times Line 1, Column A)			\$55.55
5.	Net 2011-12 Funded Revenue Limit (Line 1, Column C, Minus Line 4, Column C)			\$5,189.33
6.	Dollar Change (Line 3, Column C, Minus Line 5, Column C)			\$55.76
7.	Percentage Change (Line 6, Column C, Divided by Line 5, Column C)			1.07%
8.	Restoration of 2011-12 Trigger Cuts (Line 1, Column C)			\$5,244.88
9.	2012-13 Funding Compared to 2011-12 with Restorations (Line 3, Column C, Minus Line 8, Column C)			\$0.21

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

** 0.77728 = 1 – 0.22272 (2012-13 deficit factor)



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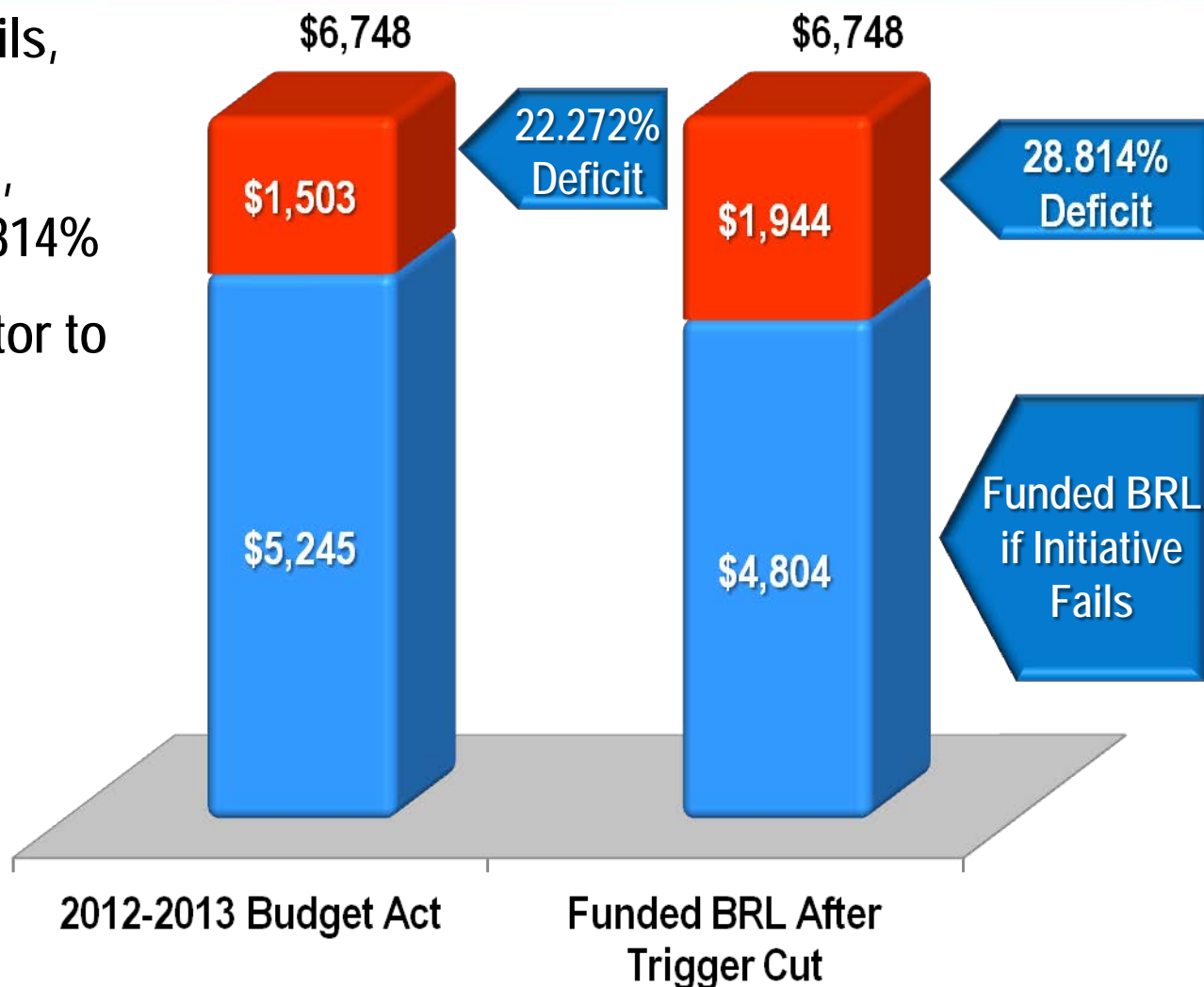
If the Tax Initiative Fails

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- If the tax initiative fails, the deficit factor increases by 6.542%, from 22.272% to 28.814%
- Apply the deficit factor to the undeficit base revenue limit

Example for Average Unified District:

Funded Revenue Limit
= $\$6,748 \times (1 - 0.28814)$
= $\$6,748 \times 0.71186$
= $\$4,804$





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2012-13 K-12 Revenue Limits with Trigger Cuts – Example

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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	\$6,536	0.80246*	\$5,244.88
2.	2012-13 COLA per ADA	\$212	–	–
3.	2012-13 Base Revenue Limit	\$6,748	0.71186**	\$4,803.63
4.	2011-12 “Trigger” Cut (0.85% times Line 1, Column A)			\$55.55
5.	Net 2011-12 Funded Revenue Limit (Line 1, Column C, Minus Line 4, Column C)			\$5,189.33
6.	Dollar Change (Line 3, Column C, Minus Line 5, Column C)			-\$385.70
7.	Percentage Change (Line 6, Column C, Divided by Line 5, Column C)			-7.43%
8.	Restoration of 2011-12 Trigger Cuts (Line 1, Column C)			\$5,244.88
9.	2012-13 Trigger Cut Funding Compared to 2011-12 with Restorations (Line 3, Column C, Minus Line 8, Column C)			-\$441.25

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

** 0.71186 = 1 – 0.28814 (2012-13 deficit factor of 0.22272 plus 0.06542 trigger cut)



E-1

November 2012 Election

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- 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



E-4

What Follows Proposition 98?

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- Proposition 98 no longer provides a minimum guarantee of funding for K-12 education and community colleges
 - The state was supposed to provide funding to accommodate changes in workload and inflation
 - There have been very few years when the Legislature provided more than the bare minimum
- Over the years, the Legislature and Governor have chipped away at this constitutional requirement so that now it provides only what they are willing to spend
 - Education must compete for funding against safety net programs, prisons, environmental protection, higher education and other priorities
- The Solution: A local revenue option that addresses equity issues raised in the Serrano lawsuit



E-5

And Finally . . .

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- 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