

**Meeting Date:** January 25, 2011

**Item Title:** Report on Governor's Budget Proposal for Fiscal Year 2011/2012

**Item Type:** Information

**BACKGROUND:** Governor Jerry Brown unveiled his State Budget Proposal on January 10, 2011. His budget proposal outlines a plan to close a budget deficit of more than \$25 billion.

The proposal to close the most recently projected budget deficit involves both spending cuts and a 5 year extension in taxes. The proposed tax cuts are to go before the public in a special election to be held in June 2011. While the Governor has emphasized that he intends to protect education from any further cuts, much depends on voters approving this increase in taxes.

As always, the Governor's proposed budget is but a starting point for negotiations with the Legislature, and modifications will take place as part of the annual Budget process.

Staff will present information from the January 14<sup>th</sup> School Services Governor's Budget Conference held in Sacramento.

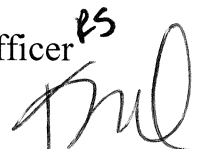
**FISCAL IMPLICATIONS:** None

**RECOMMENDATION:** Hear the Report on the Governor's Budget Proposal for fiscal Year 2011-2012 as submitted.

**AUSD Guiding Principle:** #5-Accountability, transparency and trust are necessary at all levels of the organization. #6-Allocation of funds must support our vision, mission and guiding principles.

**Submitted by:** Robert Shemwell, Chief Business Officer

**Approved for Submission to Board of Education**



Kirsten Vital, Superintendent

# **Report on Governor's Budget Proposal for Fiscal Year 2011/12**

**January 25, 2011**

# The Governor's Proposals for 2011-12

- So, how does the Governor propose to dig the state out of this economic quagmire?
  - Cuts – lots of them
    - But with the acknowledgement that education has already taken more than its fair share of cuts
  - Realignment
    - To restore local control of service delivery and save the state money
  - Continuation of taxes
    - Temporary taxes would be extended by five years
- Basically the Governor has two plans:
  - If the taxes are extended, the cuts are as budgeted in January
    - Education would be flat funded for 2011-12
  - If the taxes are not extended, an estimated additional \$9 billion in cuts would be needed, including large cuts to education

# Proposition 98 and The Education Budget

- Because of suspension, Proposition 98 is not a factor in 2010-11, except for marking the maintenance factor
- For 2011-12, there is no proposal to suspend Proposition 98
  - But if the temporary taxes are not extended, Proposition 98 drops by \$2.3 billion
  - And the Governor indicates he expects education to take that hit
  - Additionally, another \$6 billion in solutions would need to be found
- With extension of taxes education is flat-funded for 2011-12
  - No midyear cuts are proposed, so we keep the funding level in the enacted 2010-11 Budget through 2011-12
- Mandates are funded to the tune of \$89 million
- The maintenance factor, to be collected in some future “good year,” continues to grow

# Risks to the Budget Proposal

- Flat funding for K-12 education is dependent upon voters approving the extension of the current temporary taxes
  - The Legislature must place this proposal on the ballot, requiring two-thirds vote in each house
    - Two Republicans in each house must agree – will be a tough sell!
  - Voters may turn this down even if it gets on the ballot
- Legislature must approve shifting special funds (Proposition 63 for mental health and Proposition 10 for First 5 Program)
  - Two-thirds vote is required
- The Legislature must approve the local government realignment proposal and place the tax extension proposals on the ballot to pay for realignment

# Risks to the Budget Proposal

- Court challenges could thwart full implementation of the program reductions and fund shifts
  - Last November, voters protected local government funding by adopting Proposition 22
    - This measure is at odds with the Governor's Proposal for redevelopment funds and transportation bonds
- The economic recovery could stall and revenues could underperform the forecast
  - Problems in Europe could threaten California's export market
  - Massive federal deficits could rekindle inflation
  - A trade war with China could weaken exports and spur inflation
  - The recovery rate could simply be slower than expected

# Budget Contingency Plan

- The Governor's Budget assumes that the temporary taxes are extended by the voters for five more years
- The Budget also proposes that additional reductions be made in the event that the tax extensions are not approved
- This leaves schools in a position of needing at least two plans
  - Option 1 – flat funding – continues the funding level contained in the enacted Budget for 2010-11 into 2011-12
  - Option 2 – a \$2 billion reduction in funding – results in a loss of about \$330 per ADA for the average district
  - Districts will need to plan for both eventualities until the fate of the tax extensions is determined
- Additionally, economic changes between now and enactment of the 2011-12 Budget could also cause a revision, up or down

# K-12 Education Took Biggest Cuts

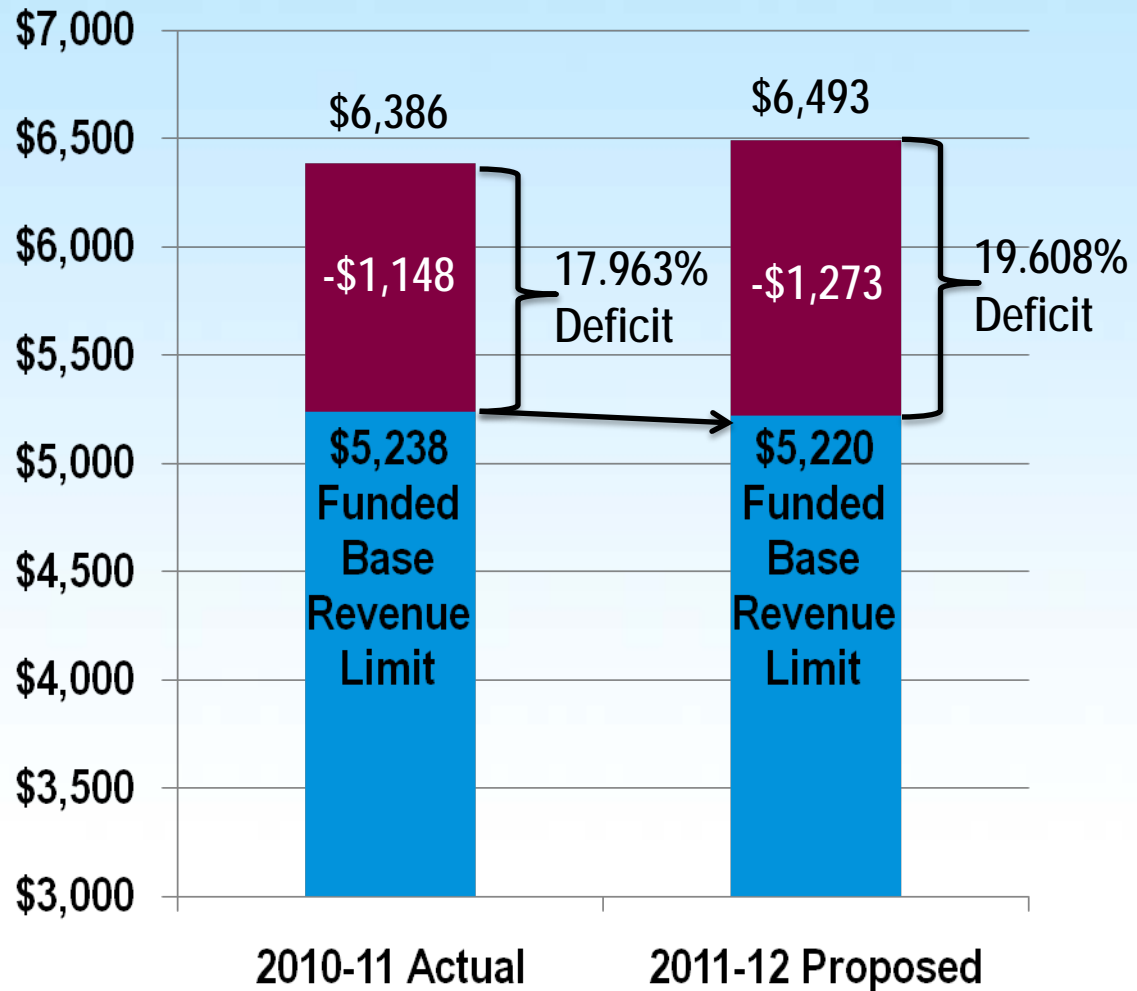
## General Fund Expenditures by Major Program Area

	Dollars in Billions				% Change 2007-08 to 2010-11
	2007-08	2008-09	2009-10	2010-11	
K-12 Education	\$42.5	\$35.5	\$34.6	\$36.3	<14.5%>
Higher Education	\$11.8	\$11.7	\$10.6	\$11.6	<1.4%>
Health and Human Services	\$29.7	\$30.9	\$25.0	\$27.0	<9.3%>
Corrections and Rehabilitation	\$10.2	\$10.3	\$8.2	\$9.3	<9.0%>
Natural Resources	\$1.9	\$2.0	\$1.9	\$2.0	8.3%

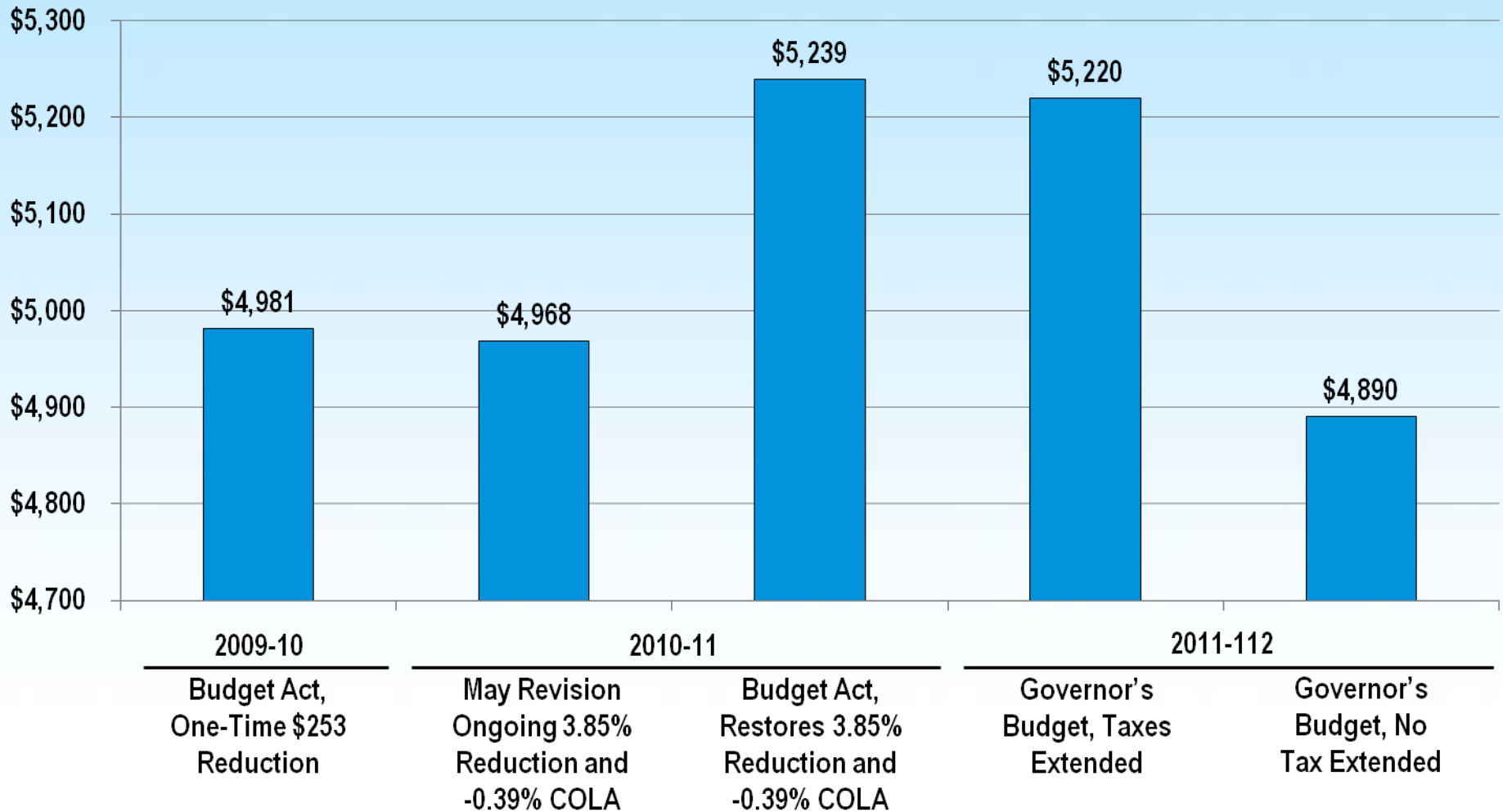


# Proposed 2011-12 Funding vs. 2010-11 Enacted Budget

- The Governor's Budget does not fund the 1.67% estimated COLA (\$107 for unified districts)
- The funded base revenue limit drops approximately \$19 per ADA from the 2010-11 level



# What Does a \$2.2 Billion Cut Look Like For a Typical District?

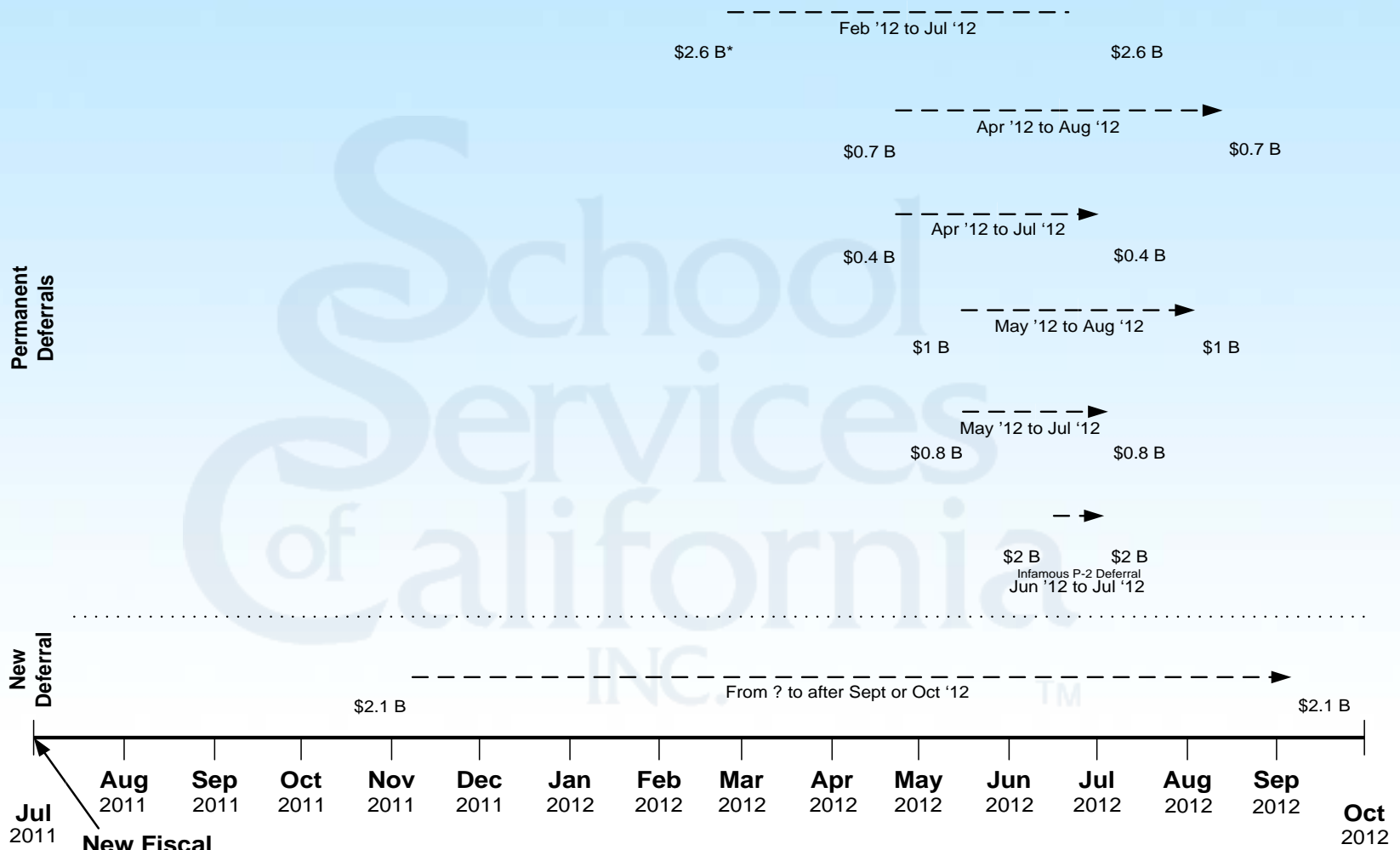
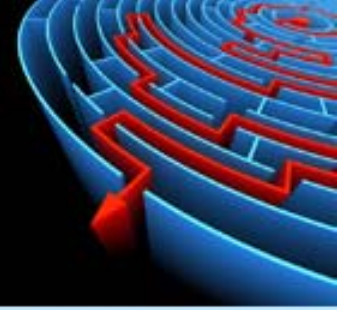


Note: All calculations are based on the average unified funded revenue limit in each of the years referenced

# Deferrals Continue to Grow

- In order to maintain “flat” funding for Proposition 98, the Governor proposes additional deferrals
- The Governor proposes to add \$2.1 billion in year-over-year deferrals, which would bring total K-14 deferrals to nearly \$10 billion
  - This amounts to around 45% of the state’s contribution to education being deferred between school years
- In short, the size and duration of deferrals grow, which exacerbates cash shortages experienced by LEAs

# 2011-12 Apportionment Deferrals



= Timing To Be Determined      = Ongoing

\*Includes K-12 CSR Deferral



# 2011-12 Apportionment Deferrals

- Apportionment deferrals for LEAs have become the solution to the state's cash flow problem

Month From	Month To	Dollar Amount
Existing		
February 2012	July 2012	\$2.6 billion*
April 2012	July 2012	\$420 million
April 2012	August 2012	\$679 million
May 2012	July 2012	\$800 million
May 2012	August 2012	\$1 billion
June 2012	July 2012	\$2 billion
New		
??	??	\$2.1 billion
Total		\$9.6 billion

# Special Education: AB 3632 Update

- Federal law requires mental health services be provided for students with disabilities
  - County mental health agencies in California have been required to provide those services for the past 26 years per state law
- Actions taken as part of the 2010-11 Budget Act have drawn into question whether or not the mandate has been suspended
  - Yet services continue to be required due to their inclusion in individual education plans (IEPs), not to mention student need
- The issue of whether counties, the state, or local schools districts are financially responsible to provide services is working its way through the courts

# Special Education: AB 3632 Update

- In the meantime, the Governor has weighed in with a proposal:
  - In 2010-11 there is no change to the status quo (i.e., a matter that the courts and the Legislature will have to work out)
  - In 2011-12 provide \$98.6 million from Proposition 63 (Mental Health Services Act) to counties to reimburse them for prior-year mandate claims (2004-05 through 2008-09)
    - Such action requires a two-thirds vote of the Legislature
  - From 2012-13 forward, the AB 3632 services are assumed to be handled under county realignment along with funding
- This remains an area of significant uncertainty and expense with many details yet to be worked out

# Flexibility Options Proposed to Continue

- The Governor's Proposal would extend available flexibility options by two years beyond the current expiration dates

Current Law Expiration Date	Governor's Budget New Expiration	Description of Flexibility
June 30, 2012	June 30, 2014	Minimum reserve requirement is one-third of statutory requirement in 2009-10, progress is shown in 2010-11, and full statutory requirement is restored in 2011-12
		Reduced penalties for K-3 Class-Size Reduction (CSR) (for up to the number of classes applied for as of January 31, 2009)



# Flexibility Options Proposed to Continue



Current Law Expiration Date	Governor's Budget New Expiration	Description of Flexibility
June 30, 2013	June 30, 2015	Base year of 2007-08 for ADA-funded flexible programs (adult education, regional occupational programs, etc.)
		Routine restricted maintenance set aside reduced to zero (except as necessary for <u>Williams</u> compliance)
		Deferred maintenance hardship funding suspended
		Suspension of deferred maintenance local match requirement
		Flexibility of Tier III categorical programs; funding level based on 2008-09 (with public hearing requirement)
		Suspension of instructional materials adoption requirement

# Child Care

- The Budget includes significant cuts to child care for 2011-12, including a reduction of approximately \$716 million resulting from:
  - Eliminating services for 11- and 12-year olds
  - Reducing eligibility from 75% of the state median income to 60%
    - A family of four can earn no more than \$45,832 per year
  - Lowering subsidies provided for services
- To soften the impact of cuts, the Governor proposes providing local agencies with greater latitude to manage copayments and other fees

# Child Care

- For 2010-11, the Governor proposes reversing the enacted, but legally challenged, cuts to Stage 3 child care by directing \$42.6 million in one-time federal funding
  - As of April 1, 2011, the Governor expects lower subsidy and eligibility rules to take effect for programs, such as Stage 3 child care
  - Funding for 2011-12 would continue, but based on lower levels and more restrictive eligibility



# SSC Financial Projection Dashboard

Factor	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Statutory COLA (applies to K-12 and county office of education [COE] Revenue Limit)	-0.39%	1.67%	1.80%	2.30%	2.70%	2.80%
K-12 Revenue Limit Deficit %	17.963%	19.608% <sup>1</sup>	19.608%	19.608%	19.608%	19.608%
COE Revenue Limit Deficit %	18.250%	19.892% <sup>1</sup>	19.892%	19.892%	19.892%	19.892%
New Revenue Limit Change: K-12	5.17%	-.369% <sup>1</sup>	1.80%	2.30%	2.70%	2.80%
SSC's Recommended Planning COLA – Governor's Budget	N/A	-.369% <sup>1</sup>	1.80%	2.30%	2.70%	2.80%
SSC's Recommended Planning COLA – If Tax Extension Fails	N/A	-\$330 Per ADA Ongoing	-\$330-18 Per ADA Ongoing	-\$330-18 Per ADA Ongoing	-\$330-18 Per ADA Ongoing	-\$330-18 Per ADA Ongoing

<sup>1</sup>The estimated deficit factor of 19.608% calculated by the DOF is somewhat higher than that calculated by SSC. We estimate the deficit factor necessary to eliminate the COLA to be about 0.3% lower.

# Next Steps

- Balanced budget must be adopted by district prior to June 30, 2011
  - State Budget will most likely not be in place by then
- Once the State Budget is adopted, the district makes adjustments to its budget within 45 days