SCHOOLS
An investment we can't afford to cut

2010-11 State Budget Update
October 8, 2010

At 8:25 am, Friday, October 8, the final Senate vote was cast on the budget. This concluded a 21-hour floor session, which saw the passage of the budget bill itself plus some 20 budget trailer bills (bills that make statutory changes needed to implement budget provisions). Two of the trailer bills deal with K-12 education, including the bill to suspend Proposition 98 for the 2010-11 fiscal year.

As reported earlier by CSBA, the budget appropriates $49.7 billion for Proposition 98. This is $4.3 billion below the minimum guarantee for 2010-11, thus the vote to suspend. (The minimum guarantee is substantially higher than assumed in the May Revision budget because of higher General Fund revenue estimates.) As a result of this suspension, and pursuant to constitutional provisions, $4.3 billion will be added to the existing maintenance factor of $9.5 billion, for a total maintenance factor of $13.8 billion. Restoration of this amount will occur when General Fund revenues grow at a sufficient rate.

The level of funding contained in the budget is sufficient to reject the $1.5 billion ($250 per ADA) revenue limit reduction proposed by the Governor plus provide an additional $300 million ($50 per ADA) for mandate reimbursement--$100 million for current year mandates and $200 million for the backlog of prior year unpaid mandates, starting with the oldest ones first. The reimbursements for prior year mandates will be apportioned on an equal amount per ADA.

The money provided by the federal Jobs Act is in addition to these increases. For California, that amounts to $1.2 billion, or about $200 per ADA. These funds can be spent in the 2010-11 and/or 2011-12 fiscal year.

The total increase in funding for all of these purposes is $3 billion, or $500 per ADA, over the amount proposed by the Governor in the May Revision. But this increase comes at a price.

First, the budget adds new K-12 apportionment deferrals. Specifically, it increases the June to July deferral from $1.1 billion to $1.6 billion. In addition, it defers $380 million from the April apportionment and $800 million from the May apportionment to July. These changes add nearly $1.7 billion to existing inter-year deferrals, for a total deferral of about $7 billion.

Second, the suspension of Proposition 98 increases the risk of mid-year budget cuts. Once the guarantee is suspended, there is no minimum, and the Legislature can approve further cuts with a simple majority vote (because the two-thirds vote to suspend has already occurred). As long as the budget remains in balance, there will be no need for mid-year cuts. However, if revenues come in lower than budgeted, and/or if budgeted savings do not occur, then there could be pressure to make additional cuts.

Third, even though suspension adds an additional $4.3 billion to the maintenance factor, it is highly unlikely that restoration will occur in the foreseeable future. This is because restoration will not occur unless General Fund revenue grows at a sufficient rate, and the budget is partly based on temporary revenues that will expire in two years. When that happens, revenues will drop or remain flat, meaning that the conditions necessary for restoration will not be in place. This, of course, could change if the voters approve Proposition 24 (which would repeal recently-enacted corporation tax breaks) or if the Legislature takes other actions to increase revenue.

The budget package also makes changes related to mandates, including:

- Suspending provisions of the pupil promotion and retention mandate until July 1, 2013, for an estimated statewide savings of $3.1 million
- Limiting state costs for the High School Science Graduation mandate claims (about $2 billion in past costs and $200 million annually) by directing local education agencies to use state apportionment and flexible categorical funding to cover the costs and requiring districts to first fund teacher salary costs for mandated courses when determining the proportion of their budgets statutorily required to be expended for the salaries of classroom teachers
- Amending the truancy mandate by requiring schools to use the most cost-effective method of parent notification of truancy, for an estimated savings of $15.9 million
- Limiting or repealing the behavioral intervention plan mandate by conforming California's statutory requirements with federal law
- Suspending, through 2012-13, the following mandates:
    - Removal of chemicals
    - Scoliosis screening
    - Pupil residency verification and appeals
    - Integrated waste management
    - Law enforcement jurisdiction agreements
    - Physical education reports
    - Health benefits for survivors of peace officers and firefighters

The Legislature and Governor have already been put on notice by CSBA's Education Legal Alliance that two of these provisions—requiring LEAs to use existing funding to pay for mandates (as in the high school graduation requirement) and declaring that state mandates are simply restatements of federal law (as in the behavioral intervention plan mandate)—violate the California constitution and will be subject to court challenges.

The bottom line on this budget? Short term gain, long term pain. It provides about $500 per ADA above the Governor's May Revision proposal, which keeps school funding—on a programmatic basis—about equal to last year's level of funding. This at least stops the bleeding, and may permit districts that have budgeted on the basis of the May Revision numbers to restore some programs and staff.

On the other hand, much of the current year support is from one-time sources, and the budget expands the practice of using future year funding to pay for current year programs—to the tune of $7 billion. Furthermore, the suspension of Proposition 98 exposes schools to mid-year budget cuts, if needed, and the resulting maintenance factor is unlikely to be restored in the foreseeable future because of the expiration of one-time revenues. In general, this is yet another budget cobbled together with one-time solutions that fails to come to grips with the ongoing structural imbalance between revenues and expenditures. Districts need to carefully balance the need to restore programs and staffing to at least last year's level with the need to be prepared for more bleak budgets for the next few years.

For more information, please contact CSBA's Governmental Relations department at (800) 266-3382.