

School
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2012-13

May Revision Workshop





Preface

2

- This presentation is a modified and shortened version from what was presented by School Services of California on May 21, 2012.

- The following items will be discussed in this presentation:
 - Current year (2011-12) overview
 - Governor's Major proposals in the May Revise (for 2012-13)
 - Overview of Education Funding Initiatives for November 2012
 - Overview of California's Education Spending
 - Update on Flexibilities
 - Update on Weighted Student Formula Proposal
 - Overview of Mandate Reform
 - Update on Transportation, Transitional K, Federal Funding
 - Update on Planning Dartboard
 - What Should School Agencies Plan For?



General Fund Revenues – Current Year

3

- Before enacting the 2011-12 State Budget, the Legislature added \$4 billion to the revenue forecast along with automatic trigger reductions if revenues were projected to fall short
 - In December 2011, the DOF forecast that current-year revenues would be short by \$2.2 billion; trigger cuts followed
- Personal income tax revenues fell short of the April forecast almost \$2 billion, or 21%
 - Total revenues were running almost \$1 billion behind coming into April
 - The sales tax was generally tracking, but the corporations tax was about 6% short
- The May Revision anticipates baseline General Fund revenues to be lower than the January estimate by \$3.1 billion in 2011-12 and \$1.2 billion in 2012-13



Current-Year Revenue Limits

4

- For 2011-12, revenue limits were reduced as a result of the midyear “trigger” reductions
 - 0.198% reduction to districts’ undeficated revenue limit, or about \$13 per ADA on average
 - 0.65% reduction to districts’ undeficated revenue limit, or about \$42 per ADA for all school districts, related to the \$248 million cut to home-to-school and special education transportation
 - This change was enacted by Senate Bill 81 (Chapter 2/2012)
 - The 2011 Budget Act originally would have eliminated one-half of districts’ transportation funding for 2011-12
- The midyear “trigger” reductions were one-time and these funds are restored for 2012-13



The Governor's Major Proposals

5

- Temporary taxes
 - More reliance on temporary taxes than ever
- Cash deferrals
 - Deferrals are the balancer; Proposition 98 gains disappear by reducing deferrals
- Redevelopment agencies (RDA)
 - State counts RDA money as property taxes, offsetting General Fund costs
- Weighted Student Formula (WSF)
 - Modified details in following sections
- Flexibility proposals
 - Still alive – no changes from January
- Transitional Kindergarten (TK)
 - Governor reduces savings estimate, but still proposes elimination of the mandate



The May Revision

6

- The May Revision first recognizes that January's projected \$9.2 billion State Budget shortfall has grown to \$15.7 billion in May
 - Even if the Governor's tax measure passes in November, there will still be a significant State Budget problem
- As a result, the Governor proposes:
 - More cuts to the non-Proposition 98 side of the Budget
 - More manipulations to reduce Proposition 98 actual funding
 - But, in the end, planned K-12 funding is much like the January proposal
 - Flat funding if the taxes pass
 - Big cuts if they don't
 - 2012-13 will not be a good year for education funding
 - And failure of the taxes would make it a disaster



General Fund Revenues in 2012-13

7

- The January Governor's Budget forecast \$95.4 billion in General Fund revenues for 2012-13
- The May Revision leaves this estimate largely in place, forecasting total revenues at \$95.7 billion
 - This estimate reflects a downward revision of capital gains income from the January Governor's Budget
 - This reduction is offset by \$1.25 billion in estimated tax payments for 2012-13 related to the Facebook IPO, which was not included in the January Budget estimate
 - The May Revision, however, also reflects a slightly stronger outlook for the overall economy



Risks to the Revised Budget Proposal

8

- Even if the Legislature adopts the Governor's May Revision as proposed, the State Budget would face huge risks in 2012-13
- Voter approval of the Governor's tax initiative is uncertain at best
 - The measure has yet to qualify for the November ballot
 - While more than one million signatures have been submitted, more than 800,000 must be found valid in order for the initiative to be placed on the ballot
 - The latest poll found that about 54% of those surveyed supported the measure, a slim margin at this stage of the campaign
 - A competing measure sponsored by Molly Munger and the Parent Teacher Association (PTA) could confuse voters and draw support away from the Governor's initiative
- The Facebook IPO could fall short of expectations, resulting in a loss of General Fund tax revenue



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Education Funding Initiatives

Proponent and Title	Total Revenues Generated	Education Revenues Generated	Source of Additional Revenues	Duration
Governor Jerry Brown – “The Schools and Local Public Protection Act of 2012”	\$8.5 billion in 2012-13; \$6.5 billion thereafter	Limited – additional funds offset State General Fund (GF) obligation; \$2.9 billion increase in Proposition 98 first year	Quarter-cent sales tax increase; up to 3% increase in personal income tax rate for high-income earners (\$250,000 and above)	4 years sales tax, 7 years income tax
* Molly Munger (PTA supported) “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act”	\$5 billion in 2012-13; \$10 billion thereafter	First 3 years: 60% K-12 schools 10% Early childhood education (ECE) 30% State GF bond debt Remaining years: 85% K-12 schools 15% ECE	Increase in personal income tax for all but low-income earners, from 0.4% for lowest income individuals to 2.2% for individuals earning more than \$2.5 million	12 years

- The Munger initiative provides K-12 funds on a school specific, per-pupil basis, subject to local control, audits, and public input. It also prohibits the state from directing or using these funds.

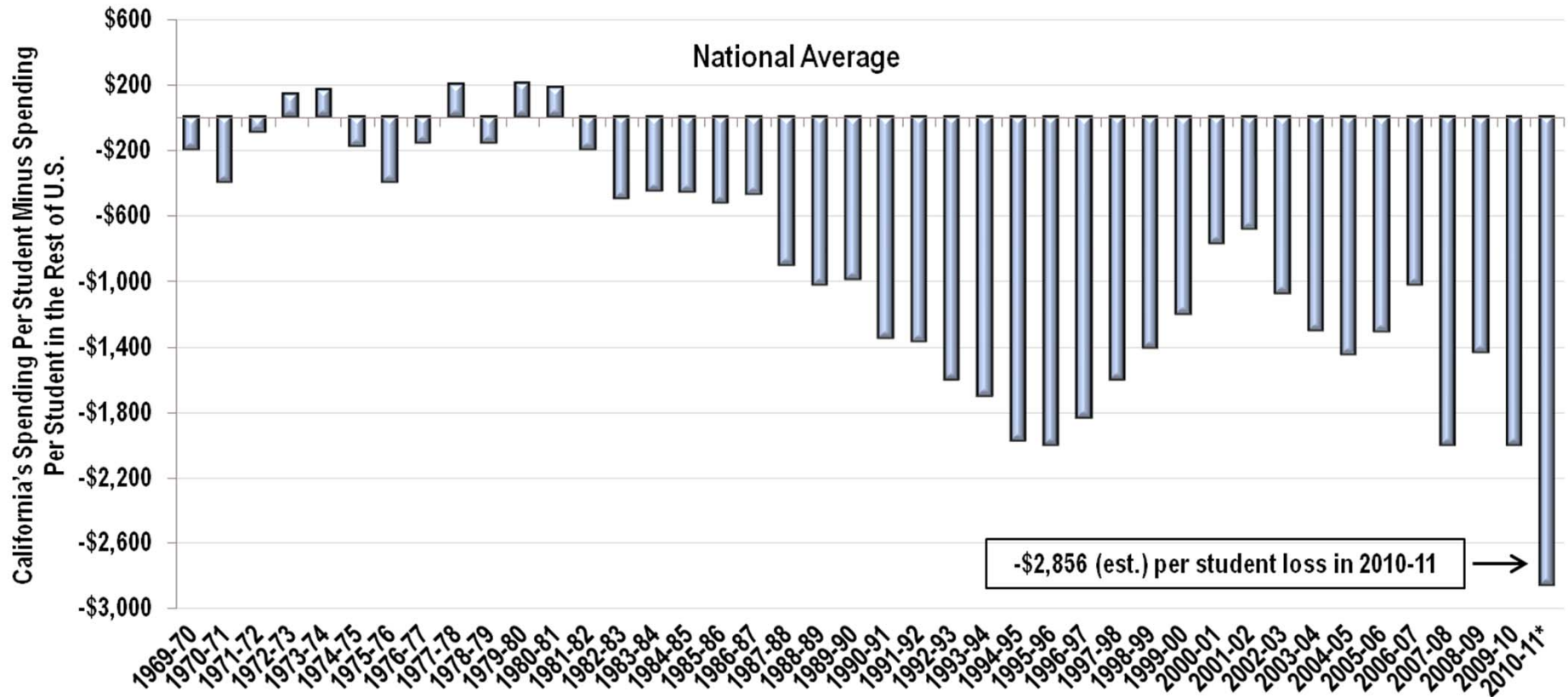


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California's Education Spending Continues to Lag

10

California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



* 2010-11 data estimated

Note: Rest of U.S. excludes the District of Columbia

Source: National Education Association



California's Spending Lags the Nation

11

California's Schools Lag Behind Other States on a Number of Measures			
	California Rank	California	Rest of U.S.
K-12 Spending Per Student (2009-10)*	44	\$8,826	\$11,372
K-12 Spending as a Percentage of Personal Income (2008-09)*	46	3.28%	4.25%
Number of K-12 Students Per Teacher (2009-10)*	50	21.3	13.8
Number of K-12 Students Per Administrator (2007-08)	46	358	216
Number of K-12 Students Per Guidance Counselor (2007-08)	49	809	440
Number of K-12 Students Per Librarian (2007-08)	50	5,038	809

*Estimated

Note: "California Rank" and "Rest of U.S." exclude the District of Columbia. Spending per student and number of students per teacher are based on average daily attendance (ADA). Number of students per administrator, guidance counselor, and librarian are based on statewide enrollment.

Source: National Education Association, National Center for Education Statistics, and U.S. Bureau of Economic Analysis



What Is the Cut If the Taxes Fail?

12

- SSC has been recommending **\$441** per ADA as a planning factor if the taxes fail
 - **\$370 as a revenue limit cut from January**
 - **\$85 for 100% loss of transportation funding**
- The DOF announced an estimate of \$398, but then revised its deficit factor
 - We believe the change in deficit factor will increase district exposure to a total of about \$440 to \$445 per ADA
- For now, districts that plan for **\$441** should be safe
 - If the DOF revises its estimate, we will revise and report our new estimate
- May Revision proposes school district authorization to reduce school year by up to a total of 15 days over the 2012-13 and 2013-14 school years



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Temporary Flexibility – Current Law

13

Expires	E.C.	Description of Flexibility
June 30, 2014	33128.3	Minimum reserve requirement is one-third of statutory requirement in 2011-12, progress is shown in 2012-13, and full statutory requirement is restored in 2013-14
January 1, 2014	17463.7	Sale of surplus property to benefit General Fund (with significant requirements)
June 30, 2014	52124.3	Reduced penalties for K-3 CSR (for up to the number of classes applied for as of January 31, 2009)



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Temporary Flexibility – Current Law

Expires	E.C.	Description of Flexibility
June 30, 2015	1240.3	Standards-aligned instructional materials sufficiency (<u>Williams</u> compliance) – suspends required textbook adoptions
	2550	Base year of 2007-08 for ADA-funded flexible programs (adult education, regional occupational programs, etc.)
	17070.766	Routine restricted maintenance set aside reduced to zero (except as necessary for <u>Williams</u> compliance)
	17587	Deferred maintenance hardship funding suspended
	N/A	Suspension of deferred maintenance local-match requirement
	42605	Flexibility of Tier III categorical programs; funding level based on 2008-09 (with public hearing requirement)
	46201(2)	Reduction of school year by up to five days and/or equivalent in instructional minutes (effective starting 2009-10)
	60200.7, 60422.1	Suspension of instructional materials adoption requirement



Weighted Student Formula – January Proposal

15

- In January, the Governor proposed to fix the state’s current school finance system, which he found “too complex, administratively costly and inequitable”
 - The Governor sought an overhaul of the system that would provide greater decision making authority for local education leaders
 - The January WSF included the following features:
 - A base funding level of \$4,920 per ADA
 - Supplemental and concentration grants providing a minimum of 37% more for each unduplicated count of English Learners and pupils eligible for free and reduced-price meals
 - A five-year implementation schedule beginning in 2012-13 with no hold harmless protection
 - Qualitative and test-based accountability measures
- During legislative hearings and meetings with the education community about this proposal, the Administration received considerable critical feedback



Weighted Student Formula Changes

16

- The May Revision makes several significant changes to the Governor's WSF, including:
 - Increases the base funding level to a statewide average of \$5,421 per ADA, with grade span differentials of:
 - Grades K-3: \$5,466 per ADA
 - Grades 4-6: \$4,934 per ADA
 - Grades 7-8: \$5,081 per ADA
 - Grades 9-12: \$5,887 per ADA
 - Reduces the supplemental grant to 20% of the base grant for English Learners and students eligible for free and reduced-price meals
 - Reduces the concentration grant to 40% of the base grant for disadvantaged students that exceed 50% of the district's enrollment
 - Removes the Targeted Instructional Improvement Grant (TIIG) from the categorical programs list for the WSF
 - Increases the phase-in period to seven years, with 2012-13 held harmless



Categorical Programs Included in the Weighted Student Formula

Adult Education	Civic Education
Adults in Correctional Facilities	Community-Based English Tutoring
Advanced Placement Grant Programs	Deferred Maintenance
Agricultural Vocational Education	District and county office of education revenue limits
Alternative Credentialing	Economic Impact Aid
Apprentice Programs	Educational Technology
Arts and Music Block Grant	Gifted and Talented Education
California High School Exit Exam	Grade 7-12 Counseling
California School Age Families Education Program	High School Class-Size Reduction
Certificated Staff Mentoring	Instructional Materials Block Grant
Charter Schools Block Grant	K-3 Class-Size Reduction



Categorical Programs Included in the Weighted Student Formula

National Board Certification	School and Library Improvement Block Grant
Oral Health Assessments	School Safety Block Grant
Partnership Academies	School Safety Competitive Grant
Physical Education Block Grant	Specialized Secondary Program Grants
Principal Training	Staff Development
Professional Development Block Grant	Student Leadership/California Association of Student Councils
Professional Development Institutes for Math and English	Summer school programs
Pupil Retention Block Grant	Teacher Credentialing Block Grant
Regional Occupational Centers and Programs	Teacher Dismissal Apportionments



Weighted Student Formula Exclusions

19

- The only major programs excluded from the weighted student funding formula in addition to transportation and TIIG, are:

Program	Rationale
After-School Programs	Proposition 49 requires a ballot initiative approved by the voters to make any changes to after-school funding
Necessary Small Schools	Funding needed to maintain schools in sparsely populated areas
Preschool Program	Program/funding is not a K-12 program
QEIA	Part of a legal settlement
School Nutrition	Federal accounting and maintenance-of-effort requirements
Special Education	Federal program requirements and maintenance-of-effort issues

All programs listed above must use funding for intended purpose – they are not flexible.



- The WSF is now tied to the Governor's November tax initiative and will not take effect if the initiative fails
- Also, note that the base funding grant for the K-3 grade span includes funds that are currently designated for K-3 Class-Size Reduction (CSR)
 - School districts would have full flexibility in the use of these funds
- The May Revision also conditions full implementation of the WSF on:
 - Restoration of funding for revenue limits through the elimination of the deficit factor
 - This condition may be at odds with the seven year phase-in period
 - Adoption of additional indicators of school and district success for the accountability system in 2013-14



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Mandate Reform

21

- The Governor's May Revision includes several modifications to his January mandate cost reimbursement proposal
- Changes in the Governor's proposal from January to May include:

<u>January</u>	<u>May</u>
<ul style="list-style-type: none">• \$200 million<ul style="list-style-type: none">▪ \$177.6 million to K-12▪ \$22.4 million to community colleges	<ul style="list-style-type: none">• \$200 million – \$28/ADA<ul style="list-style-type: none">▪ \$166.6 million to K-12▪ \$33.4 million to community colleges
<ul style="list-style-type: none">• Current claiming process an option in lieu of block grant	<ul style="list-style-type: none">• Eliminates existing claims process making the block grant the only reimbursement vehicle
<ul style="list-style-type: none">• Eliminates nearly half of the existing K-14 mandates• Mandates that are not repealed are made optional	<ul style="list-style-type: none">• Permanently repeals the six highest cost mandates and suspends the remaining mandates• Withdraws the proposal to make the remaining mandates optional



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Mandate Reform

22

- The six highest cost mandates proposed for elimination:

Graduation Requirements (second science course)

Behavioral Intervention Plans

Habitual Truants

Notification of Truancy

Notification of Teachers and Pupil Discipline Records

Pupil Suspensions, Expulsions, and Expulsion Appeals



- The Governor continues to propose elimination of the special education Behavioral Intervention Plan (BIP) mandate
 - The Commission on State Mandates anticipates hearing the BIP proposal for a Reasonable Reimbursement Methodology on September 28, 2012, with a draft decision expected by August 3



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Mandated Programs

24

- The Governor's May Revision proposal maintains the same level of funding for K-14 mandate reimbursements using a block grant formula of approximately \$28 per ADA
- Districts should continue to collect data and claim for 2011-12 mandated costs
- The theme of reform is not going away, so be prepared to make adjustments
 - Calculate what your reimbursements are on average under the current program and what \$28 per ADA means to future revenue



Transportation Funding

25

- In January, the Governor's Proposal for 2012-13 eliminated 100% of home-to-school transportation funding, including special education transportation
- Under the May Revision Proposal for the WSF, the home-to-school and special education transportation program will be eliminated, but districts will continue to receive the same amount of funding currently received for the program
 - Contingent on passage of Governor's tax initiative
 - Applied as a permanent add-on to the WSF grant
 - Flexible – funds may be spent for any educational purpose

<u>January Proposal</u>	<u>May Revision</u>
<ul style="list-style-type: none">● Funding eliminated – \$0	<ul style="list-style-type: none">● Program eliminated, but districts will receive same level of funding in WSF as a permanent add-on (flexible) to the grant



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Transportation and TIIG

26

- Transportation and TIIG programs are included in Governor's May Revision proposal
- The funding is "flexible" and may be used for "any educational purpose"
- LEAs should plan for and consider the following:
 - Budget for the amount received in the current year
 - Review transportation routes to determine if services can be streamlined
 - Analyze special education transportation policies and ensure individualized education program (IEP) teams are aware of the policies
 - Do not provide transportation if it is not necessary
 - Discuss consequences if transportation is not provided or if fees are assessed/increased
 - Consider other uses for transportation and TIIG funding, as appropriate



Transitional Kindergarten Update

27

- No changes proposed for regular Kindergarten
 - Districts will continue to receive ADA funding for regular Kindergarten
- Regular Kindergarten birthday change based upon SB 1381 continues in 2012-13 on schedule
 - Birthday change: From December 2 to November 1 in 2012-13
 - Results in about 40,000 fewer Kindergarten students
 - Less ADA funding for LEAs = fewer resources
- Both houses of the Legislature have rejected the Governor's TK proposal
- Plan on providing some level of TK program for 2012-13 – but wait on staffing until more certainty at the state level



Federal Update

28

- For fiscal year 2012-13, most federal programs are flat funded, reduced, or eliminated
 - School Turnaround Grants: -\$3.2 million (-5%)
 - Math and Science Partnerships: **Eliminated**
 - 21st Century Learning Centers: **Eliminated**
 - Career and Technical Education: -\$11.7 million (-9.8%)
 - Special Education: Flat funded
 - Migrant Education: Flat funded
- Increases in:
 - Title I grants to LEAs statewide: \$13.3 million (0.8%)
 - Rural and Low Income Schools Program: \$2.5 million (186%)
 - Federal Work Study: \$15.4 million (15.4%)



- Fiscal situation in Washington, D.C., is as dismal as in California
 - Slow national economic recovery
 - Election year politics
 - Failure of the Joint Committee on Deficit Reduction to reach agreement on cuts
- Absent Bipartisan agreement this fall to do otherwise:
 - Across-the-board cuts of approximately \$109 billion will be made in January 2013
 - Could result in 9.1% reduction to federal education programs



Federal Education Jobs Funds

30

- The Ed Jobs funds must be accounted for appropriately and tracked correctly in Resource Code 3205
 - Grants are deferred at the end of each fiscal year
 - Deferred Revenue – Object Code 9650
- Ed Jobs funding is a federal grant, and the project year in Standardized Account Code Structure (SACS) may be helpful as the funds are expended by the LEA into the next fiscal year through September 30, 2012
- Also, remember that the Ed Jobs program is subject to the cost principles contained in Office of Management and Budget (OMB) Circular A-87
 - Therefore, districts should ensure employees funded through Ed Jobs funds meet the compliance requirements under OMB Circular A-87
 - Maintain supporting documentation
- Salaries paid with the Ed Jobs funds are subject to the [California Public Employees' Retirement System](#) (CalPERS) reduction



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SSC Financial Planning Dartboard

31

Factor	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Statutory COLA (applies to K-12 and COE Revenue Limit)	2.24%	3.24%	2.50%	2.70%	2.80%	3.00%
K-12 Revenue Limit Deficit %	20.602%	22.272%	22.272%	22.272%	22.272%	22.272%
COE Revenue Limit Deficit %	20.889%	22.549%	22.549%	22.549%	22.549%	22.549%
SSC Planning COLA if Governor's Tax Initiative Passes	—	0.00%	2.50%	2.70%	2.80%	3.00%
Trigger Cuts if Governor's Tax Initiative Fails	Included in Deficit Factor	-\$441 per ADA (ongoing)	2.50%	2.70%	2.80%	3.00%
Net Revenue Limit Change: K-12	-1.06%	1.08%	2.50%	2.70%	2.80%	3.00%
COEs	-1.06%	1.08%	2.50%	2.70%	2.80%	3.00%



What Should School Agencies Plan For?

32

- Planning will again be difficult because of the potential for major changes at midyear
 - Collective bargaining will need to start early
 - Until we know the results of the November tax initiatives, plan for an ongoing loss of about **\$441** per ADA
 - Begin negotiations about if and how the school year will be shortened if the taxes fail
 - Forecasting cash continues to be a major concern
 - Estimate needs at the high end and borrow accordingly
 - Avoid the need for a second borrowing to save on issuance costs
 - Plan to offer TK
 - Move ahead with planning to accommodate all students affected by the shift in the entry age for Kindergarten
 - Delay restoring positions specifically for TK unless you are already committed to offering it



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What Should School Agencies Plan For?

33

- If the Governor's tax initiative passes:
 - Plan for the WSF to move forward with phase-in beginning in 2012-13
 - Have a plan to reverse planned budget cuts and restore flat funding in your district
 - Remember, under this plan you get no new dollars, but you do not take another cut
- If the Governor's tax initiative fails:
 - Plan to make a \$441 per-ADA cut on an ongoing basis
 - The WSF will not move ahead
 - Hold on to reserves – without the taxes, we expect the Governor to propose another cut in January 2013 to address the structural deficit



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Attachments

34

- Deferrals
- Thoughts regarding collective bargaining and summer layoffs



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Deferrals from 2011-12 to 2012-13

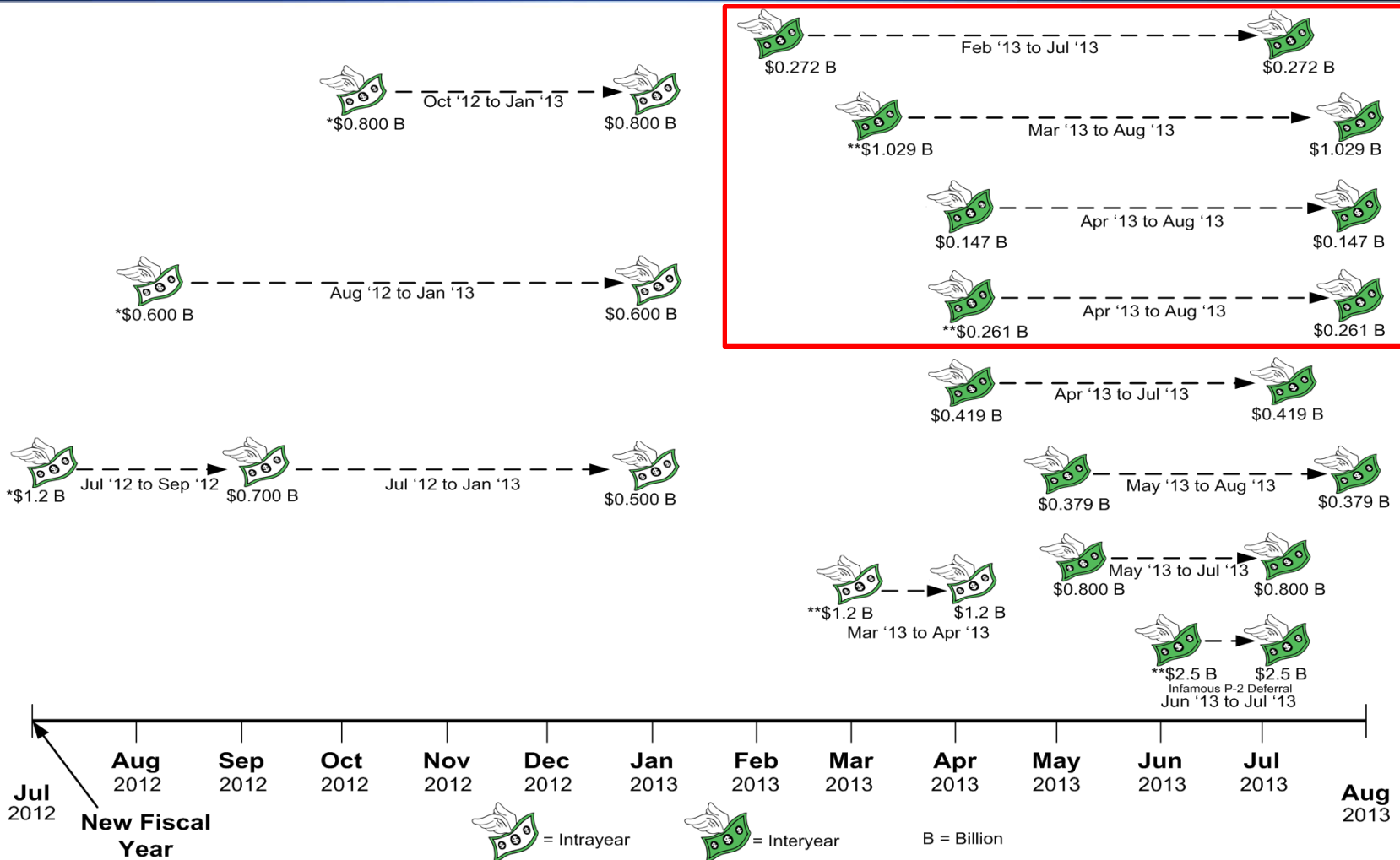
From		To	
Amount	Month	Amount	Month
\$2.0 billion	February 2012	\$2.0 billion	July 2012
\$1.3 billion	March 2012	\$1.3 billion	August 2012*
\$419.0 million	April 2012	\$419.0 million	July 2012
\$679.0 million	April 2012	\$679.0 million	August 2012
\$763.8 million	April 2012	\$763.8 million	August 2012*
\$800.0 million	May 2012	\$800.0 million	July 2012
\$1.0 billion	May 2012	\$1.0 billion	August 2012
\$2.5 billion	June 2012	\$2.5 billion	July 2012

* New 2011-12 interyear deferrals



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2012-13 Apportionment Deferrals – If Taxes Pass



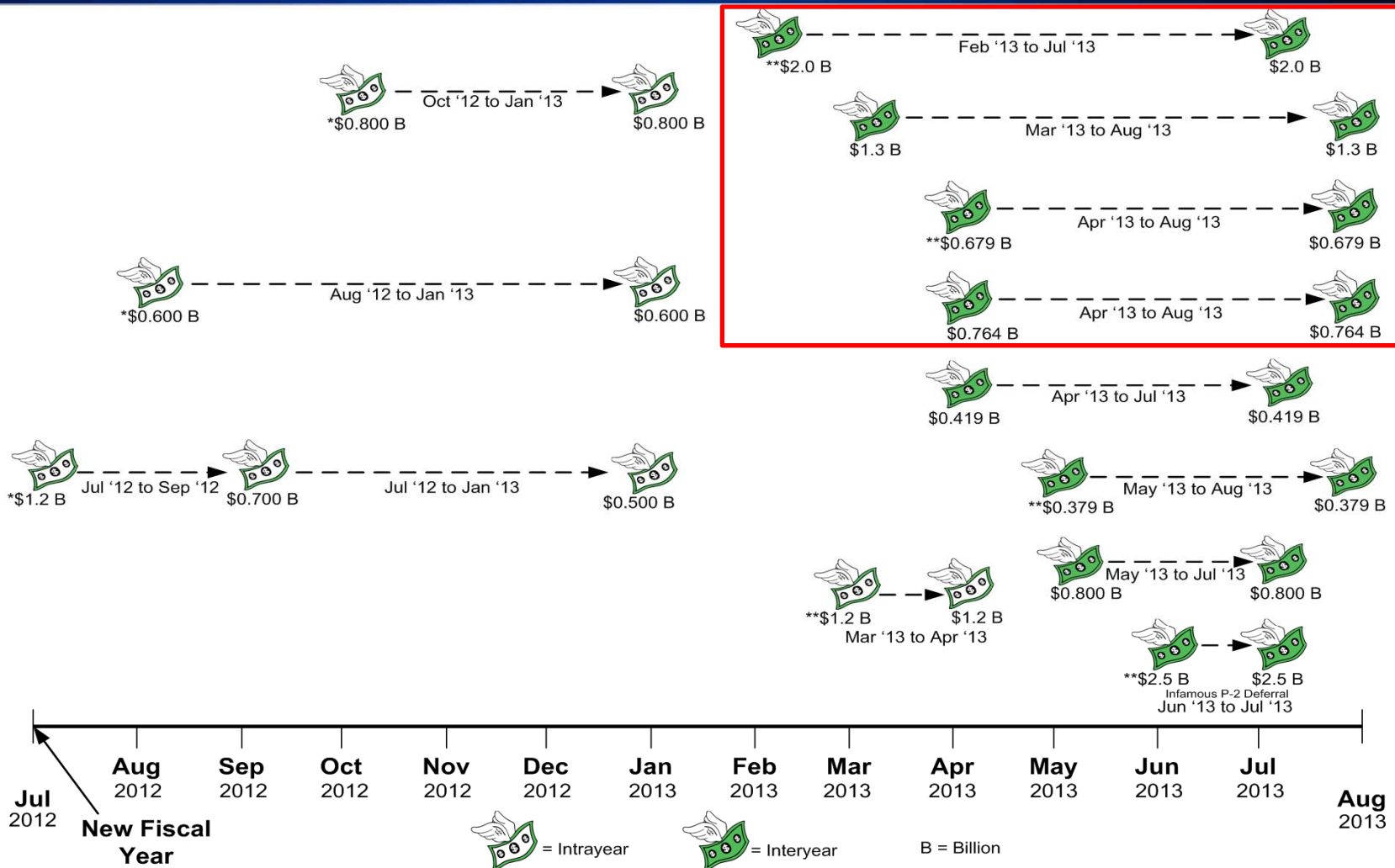
*The amounts reflect AB 103 (Committee on Budget) statutory language, which is near the end of the legislative process

**Reflects proposed buyout of deferrals – a portion of the funds may need to come from categorical programs



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2012-13 Apportionment Deferrals – If Taxes Fail



*The amounts reflect AB 103 (Committee on Budget) statutory language, which is near the end of the legislative process
 **Reflects proposed buyout of deferrals – a portion of the funds may need to come from categorical programs



Collective Bargaining

38

- The Governor's May Revision assumes passage of his tax initiative and provides additional flexibility should it fail
 - Schools will be able to reduce the school year a combined total of 15 days in 2012-13 and 2013-14 in addition to the five days per year currently allowed
 - This flexibility offers a one-time solution to an ongoing cut that, at best, solves only half of the problem
 - The Administration does not assume that a reduction in the school year, and an equivalent reduction in the employee work year if successfully negotiated, gets the job done
 - The May Revision indicates that “this will allow schools to use a combination of reserves, reductions in the school year and other savings options to absorb this cut”
- Should the Governor's tax initiative fail, additional concessions may be needed



Summer Layoffs

39

- In years when total revenue limit per ADA has not increased by at least 2% above the prior year and the Board has determined that there is a need to reduce certificated service
 - E.C. 44955.5 provides for a second layoff period between five days after the enactment of the Budget Act and August 15
- In the past 12 years, there have been just three years in which there was an on-time Budget and the revenue limit threshold in E.C. 44955.5 was met
 - In two of those three years, the Legislature amended E.C. 44955.5 to make it inoperative
- Should the Enacted Budget be on time, the summer layoff would only be needed if:
 - You fully staffed your TK program, the program requirement was eliminated, and the district decides to abandon the program
 - You did not issue sufficient notices in March