



CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON

STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

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Dear County and District Superintendents, Direct-Funded Charter School Administrators, and County Chief Business Officers:

GOVERNOR'S BUDGET FOR 2012–13

On January 5, 2012, Governor Jerry Brown released his proposed budget for the 2012–13 fiscal year. The budget provides a plan to close a \$9.2 billion deficit for the 2011–12 and 2012–13 fiscal years through a combination of program reductions and reforms and revenue increases. The budget proposal assumes voter approval in November 2012 of the Governor's proposed initiative to temporarily increase income and sales taxes.

The proposed initiative would increase tax revenues by \$6.9 billion over a two-year period, with \$2.5 billion going to kindergarten through grade twelve (K–12) education (including preschool) and community colleges (K–14 education) under Proposition 98 in 2012–13. Most of the increased Proposition 98 funding would be used to pay down deferrals. However, if the Governor's initiative fails, there would be trigger reductions of \$4.8 billion to Proposition 98 appropriations.

This letter, prepared by the California Department of Education (CDE) fiscal policy staff, provides information on the Governor's proposals that affect K–12 education and child development programs. Copies of this document, as well as other budget-related documents, are available through the CDE Education Budget Web page at <http://www.cde.ca.gov/fq/fr/eb/>. Official state budget documents are available through the Department of Finance (DOF) Web site at <http://www.dof.ca.gov/> (Outside Source).

Overview

Once again, the state is facing a difficult budget situation. The 2011–12 budget package included triggers for mid-year cuts if the revenues in the 2011–12 budget package did not materialize at the level anticipated. On December 13, 2011, Governor Brown announced that the triggers would go into effect. At the same time, the DOF implemented the triggers by reducing appropriations. The trigger provisions included cuts of \$23 million from child development programs, \$79.6 million from revenue limits, and \$248 million from Home-to-School Transportation. (Since release of the budget, the

Legislature and the Governor have acted to reverse the transportation cut and, instead, imposed an additional cut of \$248 million to revenue limits.)

In his budget proposal for 2012–13, the Governor identified a two-year deficit of \$9.2 billion. This two-year deficit consists of a current-year shortfall of \$5.1 billion and a budget-year shortfall of \$4.1 billion. Although the economic downturn has played a part in the state's fiscal condition, reliance on temporary remedies, savings proposals that did not materialize, and other actions have worsened the problem.

The Governor's Budget proposes to close the deficit primarily by increasing revenues (\$7.2 billion) and reducing expenditures (\$4 billion), leaving the state with a reserve of \$1.1 billion at the end of the 2012–13 fiscal year.

Tax Proposals

The viability of the Governor's Budget primarily hinges on voters passing his proposed initiative in November 2012. The Governor's initiative would make the following tax changes:

- Impose a temporary (five-year) 0.5 percent increase in the state sales tax. The sales tax increase would go into effect on January 1, 2013.
- Impose a temporary (four-year) increase in income tax on individuals earning at least \$250,000 and joint filers earning at least \$500,000. The income tax hike would be retroactive to January 1, 2012.

The tax revenues generated from this initiative would increase the overall state revenues used to calculate the Proposition 98 guarantee, thus increasing the amount of the guarantee in certain situations. Under the initiative, the new tax revenues would be placed in a new fund, the Education Protection Account, dedicated to education, with 11 percent allocated to community colleges and 89 percent allocated to K–12 education. While the revenues from this initiative are entirely dedicated to education, the net additional funding to K–14 education for 2012–13 is proposed to equal the amount required under Proposition 98—\$2.5 billion.

Redevelopment Agencies

The 2011 budget package included two pieces of legislation that made significant changes to redevelopment agencies (RDAs). Assembly Bill 26 of the 2011–12 First Extraordinary Session (ABX1 26, Chapter 5) eliminated RDAs. ABX1 27 (Chapter 6)

allowed cities and counties to elect to participate in an Alternative Voluntary Redevelopment Program (AVRP), provided that they make payments to fund local services including schools. The 2011 budget package assumed that AVRP payments to schools would total \$1.7 billion in 2011–12 and would offset General Fund obligations under Proposition 98. In later years, however, ABX1 27 specified that payments to K–12 education estimated at \$340 million annually would not offset General Fund obligations under Proposition 98.

Since the enactment of the 2011 budget package, the California Supreme Court upheld ABX1 26 but deemed ABX1 27 invalid. As a result of this decision, RDAs were eliminated but there was no mechanism for a city or county to elect to participate in an AVRP. As a consequence, only \$1 billion of the assumed \$1.7 billion in General Fund savings are projected to materialize in 2011–12.

The invalidation of ABX1 27 also means that a portion of the property taxes previously allocated to RDAs will be available to offset Proposition 98 General Fund obligations. The Governor’s Budget proposes to rebench the Proposition 98 guarantee to account for the increase in local property taxes.

2011–12 Proposition 98 Changes

At the time the 2011–12 budget was enacted, the minimum funding level for K–14 education required by Proposition 98 was projected to be \$48.7 billion. The 2012–13 Governor’s Budget projects that the Proposition 98 minimum funding level will be \$48.3 billion in 2011–12.

The difference between the minimum funding guarantee as projected in the 2011–12 enacted budget and the new projected level is due to (1) revenues from the proposed initiative that are attributable to the current year and (2) the following proposed technical changes:

- Rebenching the minimum guarantee to account for the shift in property tax revenues from redevelopment agencies to school districts and community colleges
- Eliminating the policy requiring the state to rebench for the “gas tax swap”
- Recalculating last year’s rebenching using a methodology that is consistent with previous rebenchings

The revised appropriation level for 2011–12 is projected to be \$47.6 billion, or \$1.1 billion less than the enacted level. The reduction in spending is due to the trigger cuts outlined above and reductions in average daily attendance (ADA) below the level anticipated.

The revised appropriation level for 2011–12 is \$661 million less than the revised minimum funding level; this difference is acknowledged as “settle up” and will be funded in a later year.

2012–13 Proposition 98 Changes

The Governor’s Budget proposes a Proposition 98 funding level of \$52.5 billion for 2012–13. This amount is a \$4.9 billion increase over the 2011–12 revised funding level of \$47.6 billion and assumes the Governor’s tax initiative is passed.

Of the proposed \$4.9 billion in new funding for K–14 education, \$4.4 billion is allocated to K–12. Approximately half of this funding replaces one-time solutions in the current year; most of the remaining funding is proposed to be used to pay down inter-year deferrals.

The Governor’s Budget proposes trigger cuts of \$4.8 billion for K–14 education if the Governor’s tax initiative does not pass. If the initiative does not pass, the Proposition 98 minimum guarantee will drop by \$2.4 billion in 2012–13. To accommodate this drop in the minimum funding level, the budget proposes to undo the deferral paydown. In addition, the Governor proposes rebenching the Proposition 98 guarantee to shift K–14 general obligation bond debt service costs into Proposition 98. In order to make room for this new function under Proposition 98 while not exceeding the minimum guarantee, an additional \$2.4 billion in program cuts would be necessary. The details of the reduction have not been developed. The Governor equates the reduction to shortening the school year by more than three weeks.

Cost-of-Living and Growth Adjustments

The Governor’s Budget does not provide a cost-of-living adjustment (COLA) for K–12 education. The statutory COLA is 3.17 percent, which would have resulted in an increase of \$1.6 billion. A deficit factor will be established for school district and county office of education revenue limit apportionments to reflect the lack of a COLA.

The Governor’s Budget projects a 0.35 percent increase in ADA. The Governor’s Budget provides growth funding only for the following programs:

- Charter school categorical block grants
- County office of education revenue limits
- School district revenue limits
- Special education—state portion only

Child Care and Development

The Governor's Budget proposes to shift the child care and development program, excluding part-day state preschool, to a work-based child care system administered by county welfare departments. Beginning in 2013–14, county welfare departments would administer child care and all eligible families would receive a voucher for payment to a provider of their choice.

The Governor's Budget proposes in 2012–13 to align eligibility requirements with California Work Opportunity and Responsibility to Kids (CalWORKs) eligibility so that families, except for those in the part-day state preschool program, would be required to meet federal work participation requirements. In addition, income eligibility for all programs, including state preschool, would be capped at 200 percent of the federal poverty level.

Under the proposed budget, CalWORKs Stage 2 and Stage 3 child care would be combined with the alternative payment program to form one voucher-based program. In addition, Regional Market Rate ceilings would be reduced to the 50th percentile of the 2009 Regional Market Rate survey for licensed providers. On average, this change would result in a reduction in reimbursement rates ranging from 12 percent to 14 percent. Reimbursement for license-exempt providers would remain comparable to current levels. License-exempt providers would be required to meet certain health and safety requirements as a condition of receiving reimbursement. Finally, the Standard Reimbursement Rate would be reduced by 10 percent.

The Administration estimates that these changes would eliminate 62,000 child care slots and generate Proposition 98 General Fund savings of \$69.9 million and non-Proposition 98 General Fund savings of \$446.9 million as compared to the 2011–12 Budget Act appropriation.

Transitional Kindergarten

The Governor's Budget proposes to eliminate the requirement for local educational agencies (LEAs) to provide transitional kindergarten instruction, generating a

Proposition 98 General Fund savings of \$223.7 million. LEAs would be permitted to enroll children not meeting kindergarten age requirements on a case-by-case basis.

Special Education

The Governor's Budget provides an increase of \$190 million in Proposition 98 General Fund for special education. The majority of this increase is the result of the addition of \$98.6 million for mental health services for students with exceptional needs supported with Mental Health Services Act (Proposition 63) funds in the current year. The remaining \$91.4 million increase is the result of backfilling one-time solutions in the current year and growth funding of \$12.3 million.

Charter Schools

The Governor's Budget increases funding for nonclassroom-based charter schools from 70 percent to 100 percent of funds provided to classroom-based charter schools and provides growth funding of \$50.3 million for the charter school categorical block grant. Additionally, the budget (1) provides additional borrowing opportunities to charter schools by specifying that LEAs may include charter schools in their issues of Treasury Revenue Anticipation Notes and (2) stabilizes the Charter School Revolving Loan Fund by providing access to the Charter School Security Fund. The budget also proposes to allow nonclassroom-based charter schools to participate in the Charter School Facility Grant Program.

School Facilities

The Governor's Budget proposes to shift existing School Facilities Program bond authority from the Overcrowding Relief Grant Program to the New Construction Program to extend the life of the current fund. This action will prevent the triggering of local authority to impose third-level fees on new construction. Nonclassroom-based charter schools would be eligible to receive funds.

Mandates

The Governor's Budget proposes several changes to the K–14 mandate reimbursement system. Among the changes are the suspensions of more than half of the existing education mandates, as listed in Figure 1. The suspended mandates would be eliminated (or made permissive) beginning in 2013–14. The remaining mandates would

be rolled up in a block grant. LEAs could choose to receive block grant funding for all mandates in the block grant or could claim reimbursement separately for each individual program. The budget provides ongoing funding of \$178 million to fund this block grant.

Figure 1
Governor’s Budget Proposal for K–12 Mandates

Mandates Suspended	Mandates Funded in the Mandates Block Grant
Agency Fee Arrangements	California State Teachers Retirement System Services Credit
Behavioral Intervention Plans	California High School Exit Exam
Consolidation of Law Enforcement Agency Notifications and Missing Children Reports	Collective Bargaining
Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II and Pupil Discipline Records	Comprehensive School Safety Plans
County Treasury Withdrawals	Consolidation of Annual Parent Notification/School Site Discipline Rules/Alternative Schools
Financial and Compliance Audits	County Office of Education Fiscal Accountability Reporting
Graduation Requirements	Criminal Background Checks
Grand Jury Proceedings	Criminal Background Checks II
Habitual Truants	Differential Pay and Reemployment
Health Benefits for Survivors of Peace Officers and Firefighters	Immunization Records
Mandate Reimbursement Process	Intradistrict Attendance
Notification of Truancy	Juvenile Court Notices II
Physical Education Reports	Open Meetings/Brown Act
Physical Performance Tests	Prevailing Wage
Pupil Residency Verification	Pupil Health Screenings
Pupil Suspensions, Expulsions, and Expulsion Appeals	Pupil Promotion and Retention
Removal of Chemicals	Pupil Safety Notices
School Bus Safety I and II	School Accountability Report Cards II and III
Scoliosis Screening	School District Fiscal Accountability Reporting
Student Records	School District Reorganization
Threats Against Peace Officers	The Stull Act

Weighted Student Formula

The Governor's Budget proposes to consolidate funding for most categorical programs with revenue limit apportionments and distribute the funds based on a weighted formula to be phased in over six years, with implementation beginning in 2012–13. Under the formula, pupils that are economically disadvantaged or English learners would receive greater funding than other pupils. The programs that are excluded from the proposal are special education, child care, child nutrition, the After School Education and Safety Program, and several smaller programs. During the phase-in period, funding associated with all affected categorical programs would be flexible.

What's Next?

The Governor's Budget proposal will be the subject of debate and discussions throughout the spring. The deadline for final legislative action on the budget is June 15. The budget takes effect on July 1, 2012.

If you have any questions regarding the 2012–13 budget, please contact the Government Affairs Division by phone at 916-324-4728. You may also contact Carol Bingham, Senior Fiscal Policy Advisor, Fiscal Policy Office, by e-mail at cbingham@cde.ca.gov.

Sincerely,



Tom Torlakson

TT:atp

NOTICE: The guidance in this letter is not binding on local educational agencies or other entities. Except for the statutes, regulations, and court decisions that are referenced herein, this letter is exemplary, and compliance with it is not mandatory. (See *Education Code* Section 33308.5.)