



# Governor's Budget Proposal for 2012-13

## Summary and CSBA's Position

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In his budget proposal for 2012-13, Governor Jerry Brown incorporates a variety of approaches to close an anticipated \$9.2 billion shortfall, proposing \$4.2 billion in cuts primarily to education and health and human services, increasing revenues and making other funding shifts.

The proposed increase in revenues would be realized only if voters approve a \$6.9 billion revenue plan the Governor hopes will qualify for the November 2012 ballot. The Governor's plan calls for increasing the personal income tax on the State's wealthiest taxpayers and boosting sales taxes by one-half percent for five years.

For K-14 schools, the approval of such a revenue package would mean an increase of \$2.5 billion. Combined with the natural increase in the Proposition 98 (Prop. 98) guarantee, funding would jump to \$52.5 billion in 2012-13, up from \$47.6 in the current year. The natural increase in the guarantee would be consumed primarily to pay for the \$2.1 billion inter-year deferral approved with the 2011-12 budget; these are expenses districts incurred in 2011-12, but the State is paying for in 2012-13. The increase in funding from the new revenues would be used to reduce inter-year deferrals by \$2.3 billion. Recently the Governor has revised this proposal to utilize approximately \$500 million of the deferral payback to restore funding for home-to-school transportation. This would reduce the total deferrals to \$8.5 billion.

The Governor once again proposes a trigger mechanism in the spending plan that would be pulled if voters reject his initiative providing for new revenues. Pulling the trigger would result in the Prop. 98 guarantee dropping by \$2.4 billion, and an additional savings would be achieved by shifting debt service on school bonds into the guarantee. This action would result in a \$4.8 billion mid-year reduction to Prop. 98 programmatic funding, which would include the elimination of the \$2.3 billion repayment for deferrals noted above and an additional reduction of \$2.2 billion that, according to the Governor, would equate to shortening the school year by three weeks. If such a cut is made to revenue limits, it would result in a mid-year reduction on average of \$377 per unit of average daily attendance.

### **Revenues**

In the last four years, funding for our schools has been reduced by more than \$20 billion in cuts and deferrals. The state continues to face a substantial budget problem estimated at \$9.2 billion for 2012-13. Under the Governor's proposal voters must decide whether to continue the devastating cuts to our education system and other vital state programs, or to rebuild the infrastructure that once made California become one of the largest economies in the world.

### *CSBA's Position*

- While the decision regarding new revenues will almost assuredly be made by voters, legislators must know how important revenues are to ensuring that school districts don't face further significant cuts.

## **Integrity of Proposition 98**

Unfortunately, the budget proposal includes manipulations of the Prop. 98 minimum guarantee. Namely, it includes a \$2.4 billion manipulation by including debt service payments on facilities bonds in the Prop. 98 guarantee as part of the trigger cuts should new revenues not be approved. This is both inappropriate and unconstitutional. Debt service payments are made by the state and do not flow through to local districts as required by Prop. 98.

### *CSBA's Position*

- Should the Legislature approve automatic trigger cuts based on the failure of a funding initiative in November, then it should not include the manipulation in Prop. 98. The Legislature must reject the inclusion of debt service payments in the guarantee under this contingency scenario.

## **Trigger Reductions**

Should voters not approve new revenues in November 2012 automatic trigger cuts would be instituted, under the Governor's spending plan. For schools this would be a disproportionate reduction of \$4.8 billion. Prop. 98 bears the lion's share of these cuts – 90 percent!

Further, this is the second year the state budget contains essentially two budgets for school districts, opening the door for mid-year cuts well into the middle of the school year. This makes it difficult for districts to effectively plan their resource mix for the year. Specifically, it is forcing district to plan their budgets based on the lower funding levels as if the triggers were instituted, rather than on the assumption the Governor's tax initiative passes.

### *CSBA's Position*

- Schools should not bear the brunt of the cuts if a trigger is pulled. The reductions should be spread across the budget in a way that doesn't disproportionately affect students.
- Trigger cuts are detrimental to districts' ability to effectively budget and should not continue as a standard budgeting practice.

## **POLICY PROPOSALS**

### **New Funding Model – Weighted Student Formula**

The Governor's budget contains some significant proposals for school finance that restructure how schools are funded, specifically he proposes to implement a "weighted student formula" funding model that, in concept, is based on the 2008 "Getting Beyond the Facts" report from Alan Bersin, former California Secretary of Education, Michael Kirst, the current president of the State Board of Education, and Goodwin Liu, appointed by Governor Schwarzenegger to the Supreme Court in 2008.

Under the proposed funding model, each student would generate a base grant amount and weights of 37 percent that come with additional funding would be added for English Learners and students who qualify for free and reduced-price meals. There would be an additional graduated weight – and funding – when there are high concentrations of at-risk students. In exchange for this greater discretion, districts would be required to improve or sustain high academic achievement.

The funding for the weighted formula would be provided by consolidating all but a few categorical programs into a single funding source. Excluded from this consolidation would be federally mandated programs such as special education as well as funding for school nutrition, afterschool programs established by Proposition 49 and the Quality Education Improvement Act. This weighted formula funding model would be phased in over five years. County offices of education are currently not included in the proposal.

Unlike in previous budget cycles, the Administration released draft bill language and a sample data run, that show some important revisions to the original proposal. Specifically, they attempted to respond to two concerns raised by the education community: (1) the change to a new funding formula should hold school districts harmless; and (2) funding for home-to-school transportation must be restored. Unfortunately, the revised proposal only fixes these two issues during the first year of implementation.

### *CSBA's Position*

CSBA supports a comprehensive reform of the school finance system and has specifically supported proposals to move a weighted student formula model and thus conceptually supports the Governor's move to such a model. However, we do have some very specific issues and concerns that must be addressed to ensure that the goals of such an approach can be achieved.

- Policy review: There must be a deliberative and thorough policy review of the proposal that allows for full input into the design of the proposal.
- Use of new revenues to hold districts harmless: It is imperative that such a significant funding allocation shift not include districts that lose funding, rather the change should be implemented with new revenues for schools.
- Not start from a lower base: By implementing the proposal in 2012-13, the new funding model would be based on a substantially deflated base. Districts have incurred over \$20 billion in cuts and deferrals since 2008 and starting from there is not the right starting point. Funding cuts must be restored before making such a change.
- Appropriate weights: While targeting funding to English learners and students who qualify for free and reduced price meals are both desirable, are there other weights that should be considered such as regional cost differences or grade spans?
- Programs excluded: Discussions need to occur to determine if there are programs that should be excluded from the block grant.

### **Mandates**

In his proposed spending plan, the Governor also makes an earnest effort to resolve the challenges that have long plagued mandates. The proposal includes the elimination of 14 active mandates and nine suspended mandates. It also calls for the elimination of two mandates that are under litigation:

the second science course required for high school graduation and behavioral intervention plans. The remaining 22 mandates would be funded with two approaches for seeking reimbursement.

As with the weighted student formula proposal, the Administration has responded to some concerns raised by the education community. In a release of the language associated with their plan, they provide two paths for districts to seek reimbursement for mandate claims. District could utilize the existing process or an alternative one that utilizes a block grant approach to reimbursement.

Specifically, the second path creates a block grant with the 22 mandates that have been spared from elimination. The governor provides \$178 million for K-12 schools that opt to participate in the block grant that would receive a per student allocation in exchange for agreeing to undertake all the associated activities. The reimbursement rate would be \$30 per student for districts, \$89 for county offices of education and \$26 for charters.

One significant concern with the proposal is the provision that says the block grant funding is subject to school districts' annual financial compliance audit. The issue with this requirement is the unknown increase in costs for districts to have their annual audits completed as it is uncertain the degree to which auditors will be required to examine the documentation supporting the district activities. It begs the question regarding how much review is needed. The auditing of mandates through the normal audits by the State Controller's Office is performed to justify the reimbursement being claimed, but receiving funding through the block is based on a per student amount determined by the state. Therefore, is an extensive audit necessary?

The proposal addresses mandates moving forward but doesn't provide details — at least in the summary — regarding paying for the significant backlog of unpaid mandate claims. The Legislative Analyst's Office (LAO) estimates that schools are owed nearly \$3.4 billion for unpaid mandate claims, which includes the disputed amounts for the high school science mandate and Behavior Intervention Plans.

### *CSBA's Position*

CSBA supports providing full funding for the costs school districts incur performing tasks and functions associated with mandated activities. Some key issues need to be addressed to ensure the Governor's proposal is beneficial to districts and counties.

- All changes to requirements or eliminations should be done through the policy process.
- Seek assurance that the \$178 million budget is sufficient to fund the mandates in the block grant and that funding will be available for districts that opt to go through the traditional claiming process.
- Assure that the audit process is not overly burdensome, but rather reviews district activities to ensure that districts met the underlying statute.
- Reject the elimination of the second science course required for high school graduation and the Behavioral Intervention Plans mandates. These are two mandates approved by the Commission on State Mandates. These decisions have been challenged but have been upheld.