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2011-12 State Budget Adopted by the Legislature and Sent to the Governor

On Tuesday, June 28, the Legislature enacted and sent to the Governor the 2011-12 Budget Bill and associated trailer bills by majority votes in both houses, virtually guaranteeing that the 2011-12 State Budget will be signed by the Governor prior to the start of the new fiscal year. The ability of the Legislature to adopt a Budget with a simple majority vote—authorized this year through the passage of Proposition 25 last November—made for Budget deliberations that included limited debate and fast votes on most bills.

The Assembly took the lead on the Budget Bill (Senate Bill 87), but the most impassioned debate of the evening came from the Senate. Senator Mark Leno (D-San Francisco), sensing that the Senate Republicans would use the new estimate of another \$4 billion in state revenues to argue that the proposed extension of temporary taxes was never necessary, said the Budget Bill just "squeaks by" being balanced, and schools are still at risk. He said schools are owed \$20 billion in deficit restoration and deferral reductions, and a "wall of debt" exceeding \$30 billion is still facing the state going forward.

In response, Senator Bob Huff (R-Diamond Bar) said Republicans were shut out of the Budget process, and asked why go out to voters to ask for new taxes at a time when businesses are still struggling. It won't help with job creation, and he asserted Democrats were unwilling to address meaningful proposals for pension reform, a state spending cap, and regulatory relief that Republicans brought forward. Senator Leno closed on the Bill by saying that California is now funding public schools at \$7,900 per student compared with New York at \$15,000 per student, demonstrating why the majority party needs to have revenue raising authority, too.

Assembly Bill (AB) 114 is the Education Trailer Bill, and following are major provisions included in the Budget package that affect K-12 education:

Revenue and Fund Shifts

- Assumes \$4 billion more in General Fund revenues above the May Revision forecast.
- Redesignates 1.06 cents of the sales tax increment as local rather than state revenue to fund the state/local realignment of services, transferring an estimated \$5.1 billion in state revenues to county government. The Proposition 98 calculation is not adjusted to balance this loss of General Fund revenue, resulting in a drop of \$2.1 billion in the minimum guarantee.
- Moves funding for child development programs out of Proposition 98, leaving only preschool programs, and reduces the minimum guarantee by \$1.5 billion to account for the shift.

Revenue Shortfall "Trigger"

- Requires the Director of Finance to assess tax receipts in December 2011 and determine if the forecast revenue level for the Budget is on target or is falling short. If the revenues are not as strong as expected, then automatic spending reductions are triggered.
 - If revenues for the year are estimated to be less than \$1 billion below the forecast, then no changes are required.
 - If revenues fall between \$1 billion and \$2 billion lower, then a series of additional cuts are triggered, including a \$23 million across-the-board cut to child care and a \$30 million reduction

to community colleges, accompanied by a \$10 increase to student enrollment fees (this is on top of the \$10 increase included in the first Budget bill).

- If revenues fall more than \$2 billion, then the state will impose additional cuts to public education of up to \$1.9 billion: a 4% reduction to revenue limits; a \$248 million cut to school transportation; and a \$73 million reduction to community colleges.

In addition, the revenue limit reductions would be proportional to the amount of the revenue shortfall—for example, if the shortfall is \$3 billion, then the revenue limit reduction would be 2% rather than the 4% that would apply if revenues fall \$4 billion or more below estimates.

Shorter School Year

- If the automatic reductions to school revenues that are described above occur, then AB 114 provides authority for local educational agencies (LEAs) to shorten the school year by up to seven days, in addition to the five days authorized by current law. A shorter school year is still subject to collective bargaining, which must be accomplished and then implemented prior to the end of the 2011-12 school year. AB 114 does not appear to change the minimum standard for certificated staff to earn a full year of service credit in the retirement system, which is currently set at 175 days for teachers.

"Make Whole" Provision

- Specifies that sales tax revenues used to fund realignment may only be excluded from the calculation of the Proposition 98 minimum guarantee if it is authorized by voters prior to November 17, 2012, and only if a ballot measure approves additional funding for K-12 schools and community colleges in an amount equal to the loss Proposition 98 experiences because of the shift.
- If additional revenues are not approved prior to November 17, 2012, AB 114 does not reduce Proposition 98 for the loss of sales tax revenues, and requires the state to repay schools and community colleges the amount of the 2011-12 reduction (currently estimated at \$2.1 billion) in five equal installments from 2012-13 through 2016-17. K-12 education would receive 89% and community colleges would receive 11% of the repayment amount each year.
- Sets priorities for using the annual payments required if new revenues are not approved: (1) deferral reduction; (2) state-mandated programs cost reimbursement; and (3) other one-time purposes as may be established by statute in the future.

Deferrals

- Reinstates the \$2.1 billion in new deferrals that were proposed in the Governor's January Budget, but rescinded in the May Revision. Restores existing deferrals that were proposed for reduction at the May Revision, for a total of \$3 billion in inter-year deferrals for K-12 and community colleges.

Budgeting and Fiscal Oversight

- Requires, for the 2011-12 fiscal year, each school district and county office of education (COE) budget to project the same level of revenue per unit of average daily attendance (ADA) as it received in the 2010-11 fiscal year, and requires each school district and county office of education to maintain staffing and program levels commensurate with that level of funding.
- Specifies that, for the 2011-12 fiscal year, a school district or COE shall not be required to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years.
- Prohibits, for the 2011-12 fiscal year only, a county superintendent—or in the case of a county the State Superintendent—from requiring as a condition of approval of a LEA's budget the use of a lower revenue per ADA amount than was received in the 2010-11 fiscal year, and from requiring a demonstration that the LEA is able to meet its financial obligations for the two subsequent fiscal years.
- Suspends existing statutory provisions that authorize an additional window for staffing reductions after the State Budget adoption through August 2011.

Redirection of COE Restricted Tax Revenues

- Requires that local property tax revenues received by COEs that are restricted from use in 2011-12 ("surplus" taxes) be allocated to reimburse the state for the costs of providing trial court services.

Child Care and Development Programs

- The Budget restores approximately \$200 million to child development programs that was previously eliminated in March, and does this through: a restoration of the 10% reduction to the standard reimbursement rate; a reduction in contracts or slots (including preschool) by 11% instead of 15%; continued funding of childcare services for 11- and 12-year olds; and, rejection of an earlier proposal to increase family fees paid by low income individuals for childcare services. Even with this partial restoration, child care programs are funded at a total of \$1.2 billion, or \$300 million less than the amount cut out of Proposition 98 to reflect the transfer.

Mental Health Services for Special Education Students

- The Budget agreement also includes the Governor's May Revision proposal to shift to schools the responsibility to provide mental health services to students with disabilities and rebench the Proposition 98 guarantee by \$222 million to fund those services that were previously provided by counties per the AB 3632 mandate. The Budget Trailer Bill includes \$98.6 million in one-time Proposition 63 (Mental Health Services Act) funding to pay for mental health service agreements between schools and local county mental health agencies—with the formula to be determined by the state and mental health directors, and includes \$80 million to partially backfill 2010-11 costs incurred by schools for these services.

Categorical Flexibility

- On the categorical front, the agreement includes the Governor's proposal to extend the various flexibility options for two additional years and provides a one year extension of the continuous appropriation for the class size reduction categorical program.

For our commentary on the Budget, "[SSC Commentary—Once Again, the State Budget Puts Education at Risk](#)," please see the School Services of California, Inc., *Fiscal Report* article posted today, June 29, 2011.

—*Michael Ricketts*

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