Budget Update: 2012-13 Enacted Budget

For the second year in a row, the state enacted an on-time budget. For the second year in a row, the approved budget relies on midyear trigger cuts to make the plan financeable if revenues fail to meet estimates. While the 2011-12 budget approved trigger cuts as a check against overly optimistic revenue assumptions, the 2012-13 budget relies on voter approval of a November ballot initiative to fund essentially a stay-the-course budget for public education. If the ballot initiative fails, the axe will primarily fall on education to keep expenditures aligned with revenues.

The approved budget (AB 1464) solves what was identified by the Administration as a $15.7 billion problem, as scored at the May Revision. To close the gap, the Budget Act enacts spending reductions totaling $8.1 billion, assumes approximately $6 billion in new revenues through voter approval of the ballot initiative, and $2.5 billion in other solutions (e.g., fund transfers, loan repayment delays, etc.). These solutions close the identified gap and provide for a reserve of $948 million. Assuming successful passage of the ballot initiative, state General Fund expenditures are estimated at $91.3 billion, which is about $4 billion more than the 11-12 fiscal year but $11 billion lower than the 2007-08 fiscal year.

Taxes and Trigger Cuts

Once again, the Legislature and the Administration have returned to the trigger cut well. In order to avoid nearly $6 billion in painful midyear reductions (the vast majority in education), voters will have to approve the Governor’s proposed tax increases at the November ballot. If approved, the Schools and Local Public Safety Protection Act would raise income taxes on high-income taxpayers for seven years and would raise the state sales tax by one-quarter percent for four years. It’s estimated that the measure would raise about $8.5 billion in revenues for the 12-13 fiscal year.

If voters reject the initiative, the following reductions will be implemented as of January 1, 2013:

- $5.4 billion from Proposition 98 (more detail below).
- $250 million from UC.
- $250 million from CSU.
- $50 million from Developmental Services.
- $20 million from grants to Local Police Departments.
- $10 million from the Department of Forestry and Fire Protection.
- $17.6 million from various other programs, including flood protection, state parks, and the Department of Justice.

Education Highlights

Proposition 98 – For the 2012-13 fiscal year, K-14 Proposition 98 is funded at a total of $53.6 billion ($36.8 billion in General Fund). Successful passage of the November ballot initiative leads to an overall Prop 98 increase of $2.9 billion. This provides sufficient finding to keep levels of school funding relatively flat, pay down approximately $2.2 billion in deferrals, and fund the Quality Education
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Investment Act (QEIA) program within the minimum guarantee. The Department of Finance notes that successful passage of the ballot initiative would lead to a projected total growth of $17.2 billion over the next four years. While this would not represent dramatic growth, at least the K-14 would slowly begin to reverse years of harmful reductions.

**K-12** – By and large, this is a stay the course budget for K-12. The new funding provided if the ballot initiative passes will primarily go toward paying down deferrals (approximately $2.1 billion). The budget also augments categorical funding for charter schools ($53.7 million) to reflect the growth in that population. The budget also assumes the K-12 General Fund obligations will be offset by $1.3 billion in assets previously held by Redevelopment Agencies. A new mandates block grant would provide districts with $28 per unit of average daily attendance (ADA) in lieu of submitting reimbursement claims to the State Controller. If the ballot initiative fails, K-12 would experience programmatic reductions totaling approximately $4.8 billion. This would involve loss of the deferral buy down funding and an additional cut to general purpose funding. Districts would be authorized to negotiate a reduction of up to 15 days from the calendar in the 2012-13 and 2013-14 fiscal years to achieve savings.

**UC/CSU** – The Budget provides some new flexibility for both UC and CSU by eliminating some traditional set-asides and restrictions and by not identifying enrollment targets. A trailer bill agreement would also provide $125 million to each segment in the 2013-14 fiscal year if student fees are not raised in 2012-13. This deal is contingent upon successful passage of the ballot initiative. If the initiative fails, the UC and CSU would experience midyear reductions of $250 million each, and would not receive the $125 million payments in 2013-14 even if fees were held steady.

**Cal Grants** – The budget achieves savings in the Cal Grants program by restricting eligibility to institutions that 1) have a graduation rate of at least 30 percent and 2) have a cohort default rate no worse than 15.5 percent (these requirements will not apply to institutions – such as community colleges – in which fewer than 40 percent of students avail themselves of federal loans). Through a line-item veto, the Governor also imposed a 5 percent across-the-board reduction on maximum awards, so, for example, Cal Grant B access awards have been reduced from $1,551 to $1,473. Various additional restrictions and award reductions for students attending private, for-profit schools were approved that will begin to phase in the 2013-14 fiscal year.

**California Community Colleges**

The major components of the 12-13 CCC budget are:

- No new reductions unless the November ballot fails.
- $50 million in growth funding to help restore some of the FTES lost in recent years.
- $159.9 million to buy down system deferrals.
- No change to categorical programs, as the Governor’s consolidation proposal was rejected.
- No repeal of SB 361, as the Legislature also rejected the Governor’s proposal to revise our general apportionment system.
• Trailer bill language increases the fees for “good neighbor” nonresident students to 200% of the resident rate ($92 per unit) in 2012-13 and three times the resident rate ($138 per unit) thereafter.

• Approval of a new mandates block grant. Districts opting in to the block grant will receive $28 per FTES to cover compliance costs incurred during the 2012-13 fiscal year. Otherwise, districts may go through the normal claiming process for reimbursement at a later date. Districts must make their selection known to the Chancellor’s Office by September 30.

• Full hold harmless protection from any shortages in RDA-related revenues, both in the current year and budget year. This alleviates a major risk to CCC budgets, as shortages in these funds ($116M in 11-12 and $341M in 12-13) could otherwise have resulted in massive deficits.

As noted above, if the November initiative fails, K-14 education is slated for a trigger cut of nearly $5.4 billion. The CCCs would lose the $209.9 million in new funding approved in the budget ($50 million for growth/restoration and $159.9 million for deferral repayments) and would take an additional base cut of $338.6M (nearly 7.5%). Similar to language included for base cuts made in the 2009 and 2011 Budget Acts, this base cut will be allocated as a workload reduction with legislative intent that community college districts will prioritize courses relating to transfer, career technical education, and basic skills.

Clearly, this trigger cut would be a devastating hit to our colleges, and districts need to budget carefully to account for this potential midyear reduction.

Conclusion: A Year of Risk

The state’s economic recovery is slow and that fact is reflected in the 2012 Budget Act. All hope for avoiding funding reductions is reliant upon the will of the voters in November. The risk of midyear trigger cuts is certainly the system’s most dire risk, but it is by no means the only one.

While we have statutory protection from RDA-related property tax shortages, any significant shortage would create a budget problem for the state that could result in additional CCC reductions. Troublingly, the state is pushing a major cash crunch onto the CCCs. CCCs will receive only about 40 percent of the General Fund cash through the first 5 months of the 12-13 fiscal year as was received during the first 5 months of the 11-12 fiscal year. Even if the ballot initiative passes, districts will receive about 40 percent of their annual General Fund money in June. This makes managing cash flow a difficult juggling act even under the best of circumstances. Of course, districts should be prepared for midyear trigger cuts, but they will also need to have sufficient reserves available to ride out the slow flow of state General Fund allocations and handle other risks and emergencies that may arise at either the state or local level.