
The FISCAL REPORT 32 informational update

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No June Election—When Will We Know What to Plan For?

One week ago, we warned that as March 2011 came to a close, prospects for a June election to extend the temporary taxes grew increasingly dim. As if on cue, the Governor announced that he was done negotiating with the Republicans and would address the voters directly. But the most important message may be the one that was not delivered: what will the Governor propose instead of the June tax extensions?

We know that there is an information void and that most of our readers would like it to be closed as soon as possible, but it is likely to be a while before the Governor provides details of a new plan. The Governor has done a good job of holding his cards close to the vest so as not to remove any options; however, keeping options open means that the level of uncertainty will be high.

Is \$349-per ADA Still a Valid Planning Number?

Although it has been passed by both houses of the Legislature, the main 2011-12 Budget bill, Senate Bill (SB) 69, has not reached the Governor's desk for his signature, and it is now more than \$12 billion out of balance given that the tax revenues from a June election are no longer a viable option. In January, we advised districts to develop two budget options, one with a \$19 cut and one with a \$349 cut per unit of average daily attendance (ADA). The \$19 loss was the Governor's proposal with the tax extensions; we now consider this option to be off the table. The \$349 cut was based on the loss to Proposition 98 of \$2.1 billion from the expiration of the temporary taxes. We now continue to see this level of cuts as possible, but we see that any change is much more likely to be down than up.

Both the \$19 cut and the \$349 cut have the attraction of being tied directly to either the Governor's January Budget or to the operation of current law. While there is considerable speculation about a higher cut to education, there is, at present, no new number proposed by the Governor.

After considerable consultation with the Fiscal Crisis Management and Assistance Team (FCMAT) and with representatives of the county office of education (COE) chief business officials, we do not believe we should attempt to guess at a new number until the Governor announces a new plan.

The question now becomes, "When will we get a new number, and when do we need a new number?"

The May Revision

In the absence of a tax election in June, the May Revision takes on increased significance. It is the next statutory step in the Budget development process and affords the Governor an opportunity to consider not only the plan for possible new taxes, but also to evaluate the performance of current-year revenues, the Budget cuts that have already been made, and a variety of other factors. We think that by the May Revision, at the latest, the Governor will articulate his next plan.

While there has been speculation that an all-cuts Budget is still in the cards, we are encouraged that the Governor has not yet gone there. We have calculated the gross amount that could be lost by education if the Governor embraced a \$4 billion to \$5 billion cut to education. The results are not pretty; the \$349 cut could be increased to as much as \$825, a number that could trigger the need for 150 to 300 requests for emergency

appropriations, commonly called state loans. Many of those loans would be needed for 2011-12, and many more in 2012-13.

Would the State Really Let That Many Districts Go Under?

There are a lot of reasons why the state should not want to trigger that many school district failures. This gives rise to a discussion of what relief would be offered if the Governor were to increase the K-12 cut above \$349. For example, shortening the school year by a month would offer significant savings; however, negotiation of the reduction in work year and commensurate salary reduction needed to achieve those savings would be extraordinarily difficult and time consuming. Alternatively, if only 20 large districts received loans in the \$60 million to \$100 million range experienced in Oakland USD and Vallejo USD, a large percentage of the purported savings from the cut to education would be nullified.

But, absent relief, most districts would have no option but to turn to the state and ask for loans. Class sizes have risen to the point that many classrooms are already "fire-marshall full." Even an early Budget and second layoff window would not help districts that cannot lay off additional staff because of physical, statutory, or collective bargaining constraints.

After four years of cuts that hit public education disproportionately, most districts have nowhere to turn but to declare themselves either "qualified" or "negative" and to turn to the state for help.

So, What Should Districts be Doing Now?

Even in the absence of a specific number from the Governor, districts know that certain actions need to be taken to conserve funding during this period of uncertainty. We could see the uncertainty extending not only until the May Revision, but to the Budget enactment and beyond.

We recommend consideration of actions including:

- Delay restoration of previously negotiated salary concessions
- Maintain reserve balances at the highest possible level
- Do not rescind layoff notices given in March
- Be sure any collective bargaining settlement includes a reopener in case things get better or worse
- Maintain a seniority list in case there is a second layoff window
- Establish priorities for layoff of administrators and classified staff
- Prepare to reduce the number of nurses, librarians, counselors, and other instructional support personnel where possible
- Initiate a hiring freeze for all positions
- Consider early retirement plans to "prune from the top" for higher savings
- Provide bargaining units with all of the financial information to avoid surprises in case further negotiations are required
- Establish a budget calendar that includes time for Board study sessions and community involvement
- Establish a cash management plan to deal with current deferrals and the potential for additional deferrals
- Prepare to request class-size waivers from the State Board of Education where needed
- Use the two-year extension of Class-Size Reduction (CSR), Tier III, and other flexibility to maintain balanced programs across the district
- Keep your COE informed and involved in your financial planning
- Defer one-time expenditures where possible to build reserves
- Develop a plan to close schools if necessary
- Develop a community involvement plan to keep the community informed of potential program reductions such as a shorter school year and larger class sizes
- Use federal jobs bill funds judiciously

These actions and others that may fit local needs are designed to put the brakes on spending, though, after four

years of preparing for cuts, many districts have done all these things and more. We expect that many districts simply don't have any cuts left; any significant cut above \$349 will simply put them under. We don't think anyone benefits from that option.

Where Should We Focus Our Attention Now?

The key event necessary for us to revise our planning factors is announcement of a new plan by the Governor. The plan needs to include both the gross cut to education, as well as any specific relief proposed.

Given that public education has given early and often, we again request that the Governor guarantee funding at the level enacted in the 2010-11 State Budget. Failing that, we argue that another suspension of Proposition 98 to further reduce education funding is totally inappropriate. The natural drop in the minimum guarantee, \$2.1 billion, on top of past cuts that continue to be ongoing, represents yet another huge loss to education and is totally unwarranted.

Having said that, after a decade of Budget crises, public education funding has suffered more than any other segment of the Budget, and could be cut even further again. Both Republican and Democratic legislators and Governors have proclaimed education as their highest priority, and they have all joined in cutting education more than any other segment of the Budget. It still takes a two-thirds majority to suspend Proposition 98, and legislators from both parties have joined with Governors of both parties to enact suspension.

Given that we no longer need to devote our energies to passage of tax measures in June, we think our next campaign is against suspension of Proposition 98. If legislators can be induced to sign "no-tax" pledges, is it unreasonable for us to ask each legislator and the Governor to sign a "no suspension of Proposition 98" pledge?

We urge each district to petition each of your legislators to take the "no-suspension" pledge. That will almost guarantee that our contribution will be about \$2.1 billion; that should be enough of a transfer from California's children to California's adults. If you agree with us, now is the time to get those cards and letters in the mail.

—Ron Bennett, Robert Miyashiro, Maureen Evans, Sheila Vickers, and John Gray

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