

The FISCAL REPORT an informational update

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Glass Half Empty or Glass Half Full?

With the release at noon today, Tuesday, December 13, 2011, of the Department of Finance's (DOF's) revised revenue estimates for 2011-12, Governor Jerry Brown closed out speculation about the level of midyear cuts that will be implemented as a result of the automatic "trigger" reductions included in the 2011-12 Budget. The good news is the DOF revision improves on the Legislative Analyst's Office (LAO) November estimate by nearly \$1.5 billion, with total 2011-12 State General Fund revenues now estimated at \$86,247,000. Statute requires that trigger cuts be determined based on the higher of the LAO or DOF revised estimate. This means that DOF expects that the state will realize nearly half of the \$4 billion in additional revenues assumed when the current year Budget was adopted.

Despite the improved revenue forecast, it falls short of the level required to avoid midyear cuts, and all of the trigger reductions enacted as part of this year's Budget will occur. Nonetheless, the DOF forecast dramatically reduces the cut to school district revenue limits, which could have been as high as 4% or \$1.5 billion statewide. DOF now estimates that the revenue limit cut will total only \$79.6 million. This equates to an average of \$13 per average daily attendance, or about 0.25% of a local educational agencies (LEAs) deficated revenue limit.

The Director of Finance certified the following midyear cuts in a letter to the Legislative fiscal committees, which can viewed in its entirety here http://www.dof.ca.gov/documents/2012_Rev_Forecast_Determination.pdf:

Program	Amount
K-12 revenue limits	\$79.6 million
Pupil transportation (including special education)	\$248.0 million
Community Colleges	\$102.0 million
University of California	\$100.0 million

California State University	\$100.0 million
Developmental services programs	\$100.0 million
In-home supportive services	\$101.5 million
Child Development programs	\$23.0 million
Other state-funded services	\$126.7 million
Total	\$980.8 million

All cuts are effective beginning January 1, 2012, except the revenue limit reduction, which is slated to take effect on and after February 1. The cut to pupil transportation funding equals about half of the total annual allocation for regular and special education transportation, which means that LEAs receiving state aid for transportation will see funding for the second half of the school year nearly zeroed out. State aid for transportation varies widely across the state, with some LEAs minimally impacted while others lose hundreds of dollars per student. Governor Brown noted that state transportation funding is a categorical program, and districts have the flexibility to use other funds if the program is a priority.

Child development and preschool program contracts can expect about a 2% reduction, which will translate into a 4% programmatic reduction for the second half of the school year.

California community colleges will face a \$102 million reduction, which Community Colleges Chancellor Jack Scott said will lead to a \$10 per unit increase from \$36 to \$46 in the coming year. He expects that the increase will be ongoing, echoing Director of Finance Ana Matosantos' statement that, while the midyear cuts are one-time in nature, they will be carried forward into next year as adjustments to baseline funding for affected programs. This, in effect, makes all of the midyear cuts on-going, contrary to the language in AB 114 (Chapter 43/2011) specifying they are one-time.

When asked how he would respond to those who are facing the brunt of the trigger cuts, Governor Brown invoked a Latin phrase, which he translated to mean, "No man gives what he does not have."

State Still Faces a Budget Problem for 2012-13

Governor Brown also talked about the Budget for the coming year, and made it clear that the midyear cuts are only the beginning. More cuts will be forthcoming in January when his annual Budget proposal is delivered to the Legislature to kick-off Budget adoption for 2012-13. He emphasized that another round of midyear trigger cuts will be a part of his Budget, dependent on the passage of his ballot measure in November, which would raise more than \$7 billion in additional revenues through the imposition of temporary tax increases.

While Governor Brown's message emphasizes lower cuts for 2011-12, prospects for 2012-13 remain negative. Best case, public education faces another year of uncertainty with the actual Budget subject to revision until mid-year and beyond. This is definitely not the path to reestablishment of the "world class" education system that once made California the "land of opportunity" and the envy of the world.

We will provide more information on the impact of midyear cuts for K-14 education funding as additional details are confirmed with the DOF.

—*Michael Ricketts , Jeff Bell, and Ron Bennett*

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