

Association of Chief Business Officials – 2011 Spring Conference Legislative, Political, and State Update

Association of Chief Business Officials


Legislative, Political, and State Update
2011 Spring Conference



Presented by:
Michelle McKay Underwood

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General Fund Revenues



- The May Revision anticipates General Fund revenues of \$95.7 billion for the current year (up \$1.5 billion from the January Governor's Budget) and \$93.6 billion in 2011-12, a gain of \$3.9 billion for a two-year upward adjustment of \$5.5 billion
- Proposition 98 increases as tax revenues and personal income rise
 - However, for the current year, Proposition 98 has been suspended; therefore, the \$1.5 billion gain will not increase the minimum guarantee
 - For 2011-12, the May Revision proposes an increase in Proposition 98 of \$3 billion to \$52.4 billion

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Community Colleges



- Affirms the \$290 million reduction to apportionments resulting from the January Budget and subsequent negotiations in the Legislature
- Affirms the enacted enrollment fee increase to \$36 per unit
- Reduces the community colleges' \$961 million year-end deferral by \$350 million, to \$611 million
- Refrains from proposing program reforms such as the census date change included in the Governor's January Budget
- Makes adjustments for changes in local property tax estimates in the current year (\$57.8 million) and the budget year (\$75.1 million)
- Eliminates funding for selected mandates based upon the recommendations of the K-14 mandates workgroup
- Eliminates the California Postsecondary Education Commission (CPEC)

There is No "Plan B", but . . .



- While the Governor does not make a specific proposal in the May Revision if the taxes are not extended, he does include a discussion about the possibility of an "all-cuts" Budget
- He acknowledges that a \$5 billion reduction in Proposition 98 funding would be education's share of the solution
 - To cut that deeply would require a suspension of Proposition 98, which the Governor has stated that he is not willing to do
- He equates a \$5 billion reduction in Proposition 98 funding to:
 - Eliminating 52,000 community college courses or
 - Raising the enrollment fee to \$125 per unit
 - Along with significant changes in the structure of K-12 education
 - And an additional \$500 million cut each to the University of California and California State University systems

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May Revision Reactions



“With \$6.6 billion in new revenues, Republicans are right – we don’t need, and it’s ridiculous to ask voters for, five years of new taxes.”

– Senate Republican Leader Bob Dutton, R-Rancho Cucamonga

“The numbers don’t lie. The revenue increase over the last several weeks is good news, but it doesn’t change the fundamental nature of the challenge we face. So let’s finish our work.”

– Senate President pro Tempore Darrell Steinberg, D-Sacramento

“It’s clear that the Governor shares my belief that we need to protect education and law enforcement and that an all cuts budget was never a reality. It’s time to get to work.”

– Senator Bill Emerson, R-Riverside

May Revision Reactions



“Governor Brown laid out a fiscally responsible, balanced approach to lead the state in the right direction . . . We hope that Californians can vote on a tax extension that could provide education for thousands of students.”

– California Community College Chancellor Jack Scott

“The Governor and legislators face a unique opportunity to restore confidence to an economy and an electorate both worn out from this seemingly endless budget crisis.”

– Allan Zaremberg, President and CEO of the California Chamber of Commerce

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The Rest of the Story



- The May Revision is a significant step in the development of the State Budget – but it is not the final step
 - The economy is finally showing some faint signs of life
 - State revenues have improved at an encouraging pace
 - Permanent spending reductions on the non-Proposition 98 side of the Budget help reduce the need for more cuts to education
 - The economics are such that education will indeed be protected unless there is another suspension of Proposition 98
 - The politics are such that, taxes or no taxes, the votes for suspension are not there at this time
- More importantly, the culmination of a lot of work by a lot of people has increased the priority that education enjoys at all levels of government

Other State Budget Factors – Spending Cap



- The May Revision does not contain a proposal to cap or control state spending
 - In his May 16 press conference, the Governor indicated that he supports a spending cap
 - He indicated that a spending cap proposal would likely be put before state voters along side the extension of current temporary taxes
 - Republican legislators have pressed for a spending cap in Budget negotiations
 - A hard cap based on changes in state population and the consumer price index
 - 2012-13 base year
 - Proposition 98 not included under cap

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Other State Budget Factors – Pension Reform



- A plethora of pension reform proposals have been unveiled since the start of this legislative session
- 12 of the 18 most-significant proposals we've been following have become two-year bills
 - The bills can be acted on in the next year of the two-year session
- One to watch: SB 27 (Simitian, D-Palo Alto) is on the Senate Appropriations Committee's suspense file
 - For STRS members:
 - Prevents pension spiking
 - Shifts compensation paid in addition to salary or wages, directly to the credit of the Defined Benefit Supplement Program
 - Prohibits one employee from being a class of employees
 - For STRS and PERS members:
 - Prohibits a retiring member from returning to work for 180 days

Other State Budget Factors – Pension Reform



- Former Assembly Member Roger Niello (R) filed a public pension benefit reforms initiative, which would apply to all public agency retirement programs
 - Provide that public agencies have exclusive authority to modify the terms of pension, retiree health, or other retirement benefits, and that authority cannot be relinquished through an employee or collective bargaining contract
 - Eliminate the ability to provide retroactive increases in pension benefits
 - Require public agencies to provide for full retirement at no less than age 62
 - These provisions would become effective upon approval by the voters and would apply to employees hired after enactment
 - Except the minimum age requirement of 62, which would also apply to members employed as of the date of enactment

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Other State Budget Factors – Local Taxing Authority



- The inability of the state to raise significant revenue to adequately fund education and local programs has led Senate President pro Tempore Darrell Steinberg (D-Sacramento) to introduce SB 653
 - Authorizes cities, counties, and school districts, subject to a vote of the people, to levy local taxes on personal income, transactions and uses, alcoholic beverages, cigarettes and tobacco, oil extractions, soft drinks, and medical marijuana, and further authorizes them to levy a local vehicle license fee
- Is this a ploy to get Republicans to vote for putting tax extensions on the ballot or a legitimate bid to give locals the ability to raise taxes to pay for community services, including schools?
- SB 653 passed its policy committee on a party-line vote, with Republicans voting against it

Budget Timeline



Official Budget Timeline

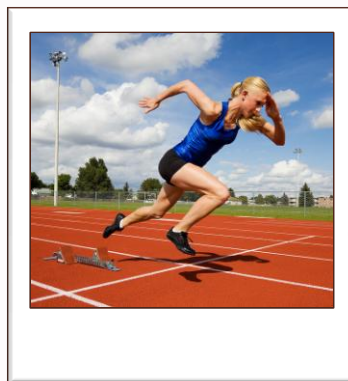
The Governor delivers a State-of-the-State address and proposes his/her Budget. The Budget Committee Chairs in each house introduce the Governor's Budget Proposal in bill form.

Bills are broken down by subject and assigned to appropriate subcommittees. After completion of hearings, each subcommittee votes and then sends its report to the full Budget Committee.


January 10


March


Reality




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Budget Timeline 

Official Budget Timeline		Reality
<p>Budget subcommittees in each house complete hearings on the Governor's Proposed Budget, including changes in the May Revision, vote their recommendations, and send a report to the full Budget Committee.</p> <p>The Budget Committee considers these reports and sends the revised Budget Bill to the full body. Each house votes on its version of the Budget Bill.</p>	<p>May</p> <p>Late May</p>	<p></p>

Budget Timeline 

Official Budget Timeline		Reality
<p>The differences between the two houses are worked out by a two-house Conference Committee. After the differences are worked out, a single version is sent to both houses. Each house must pass the Budget Bill and any necessary trailer bills.</p> <p>The Bill is sent to the Governor for signature and any line-item vetoes.</p> <p>The Budget Bill becomes law.</p>	<p>June</p> <p>June 15 – June 30</p> <p>July</p>	<p></p>

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Budget Timeline



Official Budget Timeline	Reality
	

July
August
Who knows?

What Happens Next?



- The Governor goes after the tax extensions – we wish him luck!
- The Legislature passes a Budget:
 - SB 69 has passed both houses and is ready to go to the Governor if the hole left by the tax extensions is somehow filled
 - If the Legislature does not pass and send a Budget to the Governor by June 15, sanctions including permanent loss of compensation are imposed on the individual legislators
- The Governor retains responsibility for proposals, but only the Legislature can pass a Budget Bill
- While we prefer today's situation to that of January, the education portion of the Budget will not be finalized until enactment of the State Budget

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Legislation



- While most of the focus in Sacramento has been on the State Budget, the Legislature continues to work
 - AB 131 (Cedillo) – establishes procedures and forms that enable persons who are exempt from paying nonresident tuition to apply for, and participate in, all student financial aid programs
 - AB 515 (Brownley): Postsecondary Education: Community Colleges – authorizes a community college district, without approval of the Board of Governors, to establish and maintain an extension program offering credit courses
 - SCA 5 (Simitian) Taxation: Educational Entities: Parcel Tax – authorizes school districts, community college districts, or county offices of education to impose a parcel tax on real property by a 55% vote of the voters in the district

Oil Severance Tax To Support Education



- Two current proposals to apply an oil severance tax that would benefit education, and higher education in particular
 - AB 1326 (Furutani, D-Long Beach) would enact the “Fair Share for Fair Tuition Act” to fund direct classroom instruction and student support services at CCC, CSU, and UC
 - Does not provide a breakdown of the distribution
 - Rate of 12.5% of the gross value of the product
 - “Oil Extraction Fee to Rescue Education” Initiative
 - Proceeds from the fees would be split among education sectors
 - CCC: 48%
 - K-12: 30%
 - CSU: 11%
 - UC: 11%
 - 15% fee on the value of each barrel of oil extracted in the state

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STRS Penalty and Interest Regulations



- AB 654 (Chapter 249/2009) changed the law to require, rather than authorize, STRS to impose penalties and interest on late contributions
- Draft regulations completed in June 2010 would have imposed significant costs on local agencies and were met with considerable criticism
- STRS held meetings with employer representatives throughout the state
- The draft regulations were revised in October 2010 and again in December 2010
- The third and final version of the proposed regulations were approved in February 2011 and submitted to the Office of Administrative Law in March

STRS Penalty and Interest Regulations



- Major revisions include:
 - Retroactive salary adjustments based upon a negotiated agreement would not be subject to interest assessments so long as the district notifies STRS within 60 days of ratification of the agreement
 - Submission of transcripts that results in a retroactive salary adjustment for a column change and that requires modifying previously reported contributions will not result in the assessment of interest if reported within 60 days of discovery
- Implementation is still more than a year away:
 - June 3, 2011 – Public hearing
 - August 2011 through June 2012 – Employer testing and pilot period
 - July 1, 2012 – Regulations become effective