

“30”

Fact, Fiction and the Great Unknown

November 2012

Our worst fears did not materialize. Proposition 30, with the threat of a \$338.6 million mid-year budget cut for the California Community Colleges (CCC) and its defunding of nearly 76,000 full-time equivalent California students hanging in the balance, won the support of the State’s voters. With that, we can all breathe a collective sigh of relief. But now what? It would seem nobody knows (except perhaps the Shadow, but he’s nowhere to be found). It’s as though all of Sacramento, assuming “30” would inevitably fail, went to sleep. Scant attention was paid to just how things would play out if “30” actually passed. So, for the moment, we are left to our own divinations. Given that, let’s look at what we know.

First of all, it must be recognized that Prop 30 is neither a windfall nor a panacea. Rather, it is merely a stabilizer, at least for the CCC. And that’s not a small thing at this point in the fiscal hurricane sweeping the globe. After all, dodging a bullet is always a good thing.

Another known factor about Prop 30 is that it is of limited duration. Prop 30 actually deals with two different taxes, Sales/Use Taxes (SUT) and Personal Income Taxes (PIT). The latter pertains to just those earning \$250k or more per year. The former will be in place for four years (calendar years 2013 through 2016), while the PIT will run for seven years (2012 through 2018). Yes, that is not a typo. The PIT is one of those retroactive measures, becoming effective 1/1/12, some ten months ago.

So far, it doesn’t sound terribly complex, does it? Here, however, the landscape gets a bit Murky.

It seems that the CCC Prop 30 money will go into one big pot called the EPA. Yes, now there’s another EPA, but this one is known as the “Education Protection Account.” Feeling safer, are you? Well, don’t get too comfortable. It seems we really won’t know how much money is in this big pot until June of each year, when the Department of Finance (DOF) makes a final estimate for the then ending fiscal year. Two years after the close of that year (yes, that’s two years later), DOF will take another look at the estimate, compare it to actual results, and then cometh the reckoning. If the estimate was low, hallelujah, the State will add some money to the EPA kettle, assuming, of course, that the State has the available funds to do so. But what happens if the estimate was too high? Uh-oh, then it’s payback time to the State.

Now let’s put a little more flesh on the proverbial bone. There’s a lot more to the EPA, but most of what we want...and need... to know remains unknown.

Some \$855.5 million is estimated in the current year for the EPA. Presumably, that reflects a half year from SUT and one and a half years from PIT. How good is that estimate? That’s one of those “who knows” questions. How much would be from SUT and how much comes from PIT? Another “who knows?”

We do know something about the use of these funds. \$210 million...and this apparently is the last \$210 million of the \$855.5 million...will go to the CCC. BUT, only \$50 million will go to the operating budget (as growth), with \$160 million going to buying down some of the now infamous deferrals. Here we have yet another unknown, and that is, what happens if there is less than \$210 million? Would growth be reduced? Who knows? Plus, we won't know until June 20th just how much is in the EPA pot. And of course that will be just an estimate subject to change two years hence.

Oh yes, and what about the other \$645.5 million estimated for the EPA. Well, assuming it materializes, one could speculate that \$338.6 million is used to spare the CCC from the trigger cuts. As for the rest, who knows?

(Note: In all honesty, I'm not just making this stuff up.)

Going forward, what's going to happen? Well, the EPA pot should grow (or contract?) in line with general State revenues. Of course, one of the knocks on Prop 30 is that it could make the general State revenue picture more volatile. Oh goody. Get out those E-tickets, as it may be a ride akin to that of Mr. Toad.

It's a fair bet that we'll see funds targeted towards deferral buy downs and student success. Beyond that, who knows? Also, will it be a categorical program? After all, it has as yet unspecified reporting requirements. Again, who knows? (Where is the Shadow when we really need him?)

Then there is the rather unpleasant reality that Prop 30 funding is really one-time funding on an annual basis. Given that, how can one budget funds coming from "30?" Who knows? That question is already out there relative to the current year allocation of \$50 million from "30" for growth. There is simply no guidance on that. Again, at least for the moment, we are left to our own divinations. However, that's a subject for another time.

Lastly, and back to the notion that the basic character of "30" dollars being one-time monies, as Bugs Bunny would say, "Now it's time for the coup de grace." What will happen when "30" has run its course?

This is not a trivial question. Prop 30 revenues will begin eroding in the 2016-17 fiscal year, and that's not very far down the road. And "30" revenue will continue to drop on an annual basis until there is nothing left in the pot in 2019-20.

That's a big deal, as that's a mighty big hole that develops over a four-year period. How deep is that hole? One can argue that it's \$855.5 million plus (or minus) any increases (or decreases) as Prop 30 runs its fullest course through 2015-16. But one can't at present get a straight answer here either, so we're left with a rather big unknown. And on top of that "how will the hole be filled," you might ask. Who knows?

So there you have it, Sacramento at its finest. There are a number of other questions we are asking where the answer is likewise "who knows." We will keep you abreast of developments, as "30" is, as noted earlier, a really big deal for the CCC. It's just hard to play the game when no one seems to have yet written the rules.

