Revenue Assumptions for the Second Interim

The most frequent question we are receiving is regarding what revenue assumptions to use when preparing the Second Interim report. The concern dates back to the state’s Enacted Budget in June of 2016. At the time of the Enacted Budget, districts were provided with estimates of cost-of-living allowance increases, gap closure rates, and other financial factors. Most districts based their planning upon these factors, as well as their collective bargaining positions. Then things changed.

Over the past four years, we have become accustomed to the state estimating its revenues conservatively and then owing more to schools later when revenues come in higher. This year the opposite happened; even the addition of future revenues from Proposition 55 and extension of the temporary taxes, were not sufficient to keep overall revenues from falling below earlier estimates.

Districts that stretched to maintain minimum reserves at the First Interim are having great difficulty self-certifying that they are “positive” at the Second Interim. The drop in out-year revenues is driving everything from financial certifications, to collective bargaining positions, to the determination as to whether layoffs or other budget cuts will be needed. Both the Second Interim and the March 15 deadline for layoffs are rapidly approaching, so the concerns are very real.

Governor Jerry Brown’s lower revenue projections are supported by the fact that revenues have come in lower in most recent months. However, as we have previously reported, the Legislative Analyst’s Office (LAO), an agency we hold in high regard has put forth a much higher revenue estimate. Many boards, unions, and other stakeholders would, of course, want the district to use the higher projections provided by the LAO.

Districts are unable to use the LAO projections at this time for two good reasons; first, the county superintendent would not be able to accept a certification based upon revenues that are higher than the Governor’s projections. Second, we have previously provided detailed analyses of the options open to the Governor. Bottom line, even if 2016-17 revenues begin to rise, there is no guarantee that the Governor will use higher estimates for education funding.

Our advice continues to be very direct. We advise you to maintain a higher reserve, use the planning factors from the School Services of California, Inc., Dartboard in preparing the Second Interim, and make conservative decisions regarding spending. As to the decision to do layoff notices or not, we urge districts to look carefully at their financial projections and if layoffs would be needed even if the LAO projections come true, you need to give the notices and plan to do the layoffs. If you do not need to do layoffs using the higher LAO revenue projections, unfortunately you will still need to issue the layoff notices, though you may be able to pull some back in May. To keep all options open, you may need to issue layoff notices in any case.

We do not expect to know much more until we see the projections at the May Revision and also the Governor’s response to whatever the numbers are at that time. In the meantime, we have all seen the
devastation that can be caused by a downturn when we are not prepared for it. The Governor is giving us ample warning that it is time to get prepared.

—Ron Bennett, John Gray, and Robert Miyashiro

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