



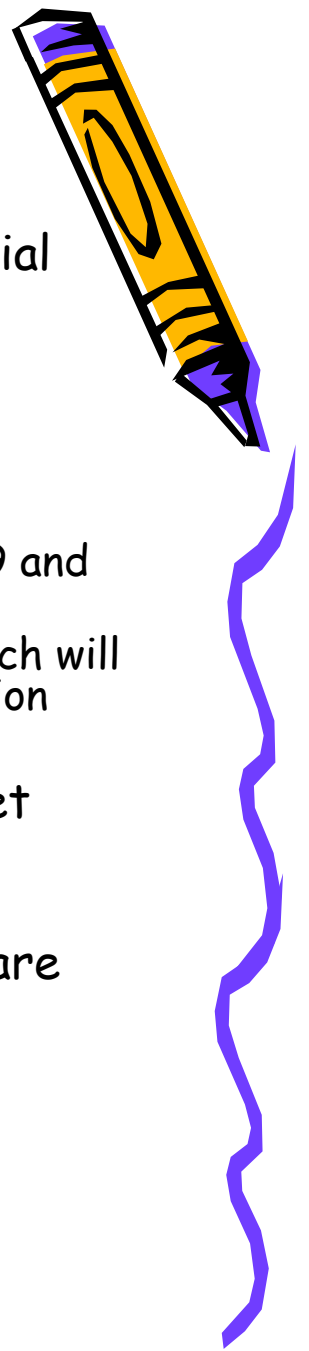
# 2008-09 and 2009-10 State and District Budget Analysis

Rob Ball

Associate Superintendent Business Support Services



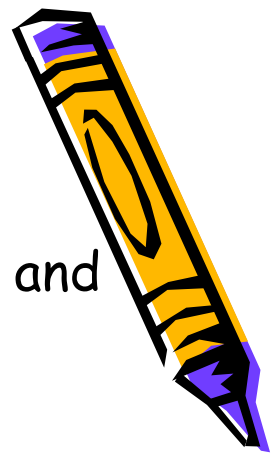
# The State of Things



- Even with a budget package finally in place, the state's financial condition remains critical
- Some factors to keep in mind:
  - The state's credit rating is at junk bond status - below that of Louisiana - and last among the 50 states
  - State revenues are projected to continue dropping through 2009 and into 2010, but could easily extend into 2011 and beyond
  - The state will continue to experience cash flow difficulties - which will likely become our difficulties - LAO says budget is short \$8 million
- K-adult education is experiencing historic mid-year and budget year reductions
- If revenues continue to drop, additional 2009-10 reductions are possible
  - February State General Fund revenues were down \$898 million



# Why This Budget Crisis is Different

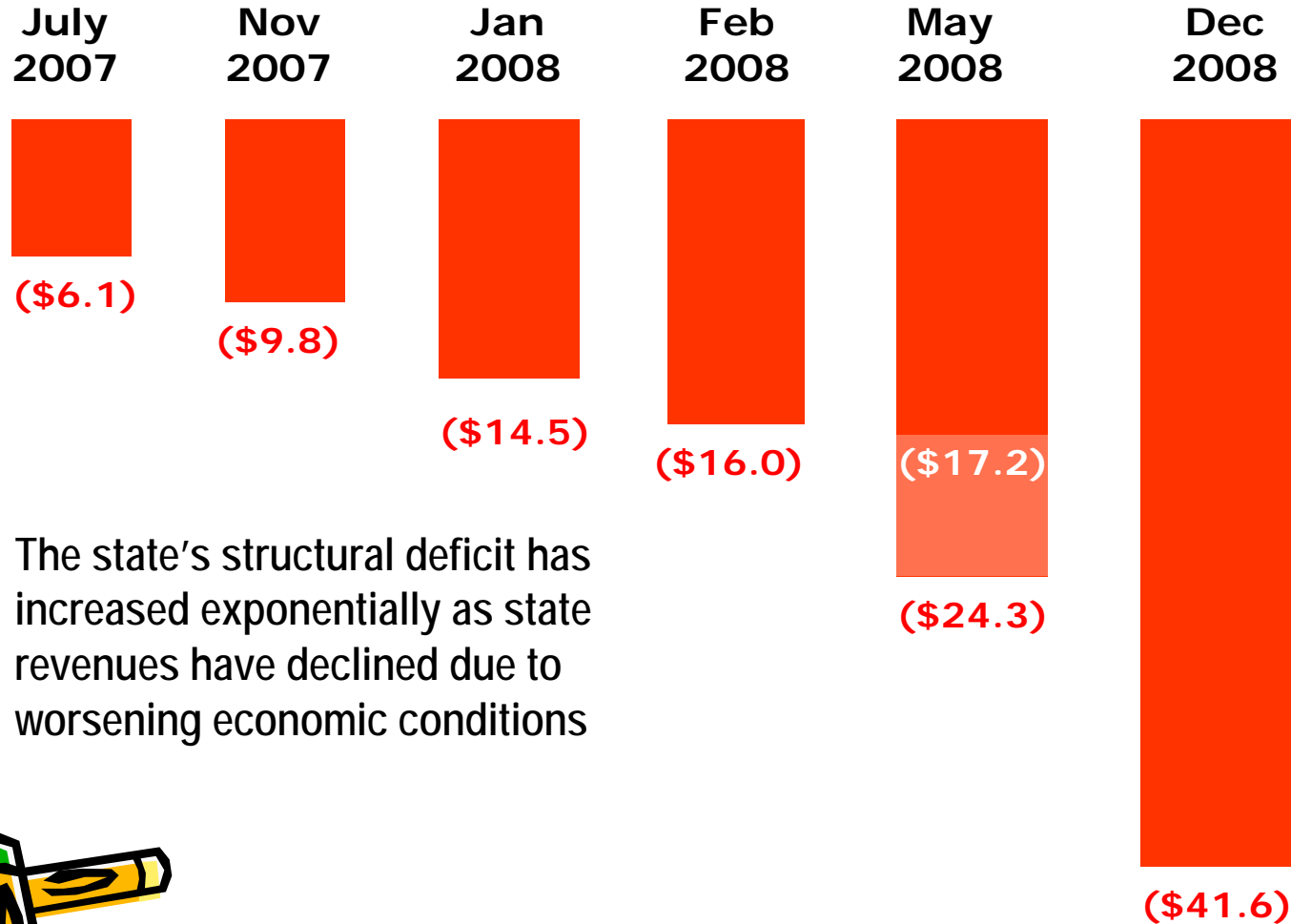


- Six elements make this budget crisis unlike any other - and more challenging:
  1. A chronic structural budget gap has existed most of this decade
  2. The economics are different - this economic downturn is widespread and the worst we have seen since the *Great Depression*
  3. There are more budget "lock-ins" than before
  4. Our politics are deadlocked - gerrymandered legislative districts, political polarization among Democrats and Republicans, term limits, etc.
  5. The state's revenue system is highly volatile
  6. Enormous social and demographic changes - our governance system has not kept pace with the rapid changes occurring in California

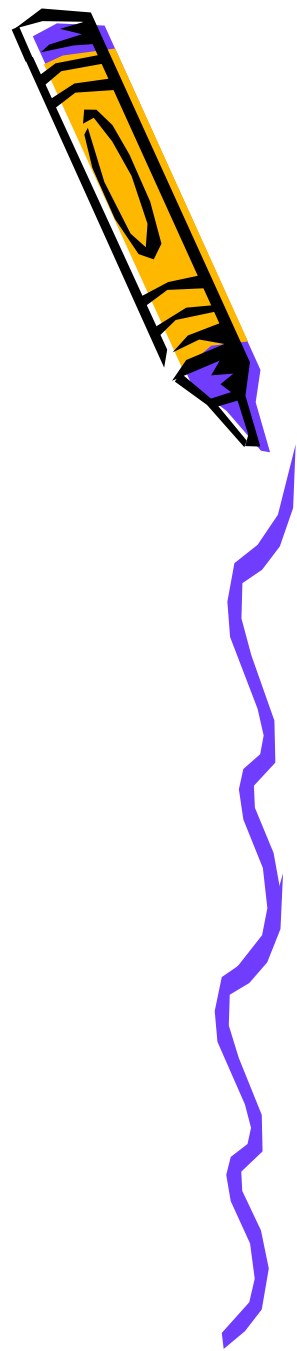
All of these remain in place going into 2009-10



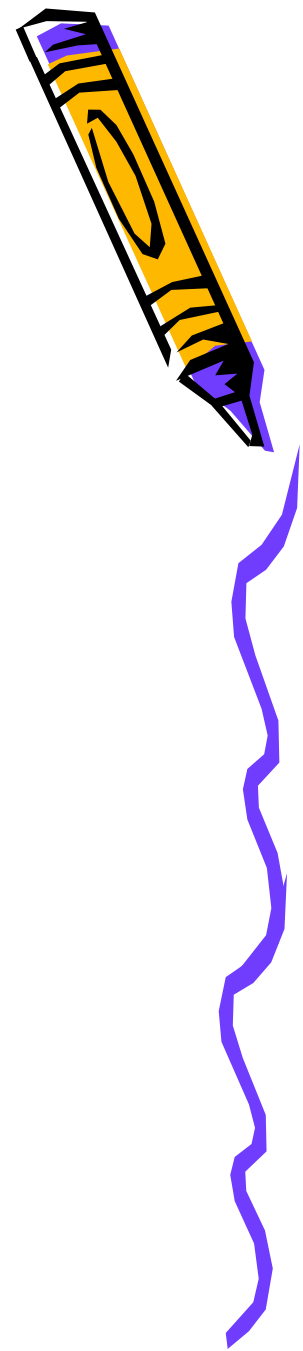
# A Growing State Deficit (in Billions)



The state's structural deficit has increased exponentially as state revenues have declined due to worsening economic conditions



# A Tumultuous Decade: \$13.4 Billion in Lower Proposition 98 Spending

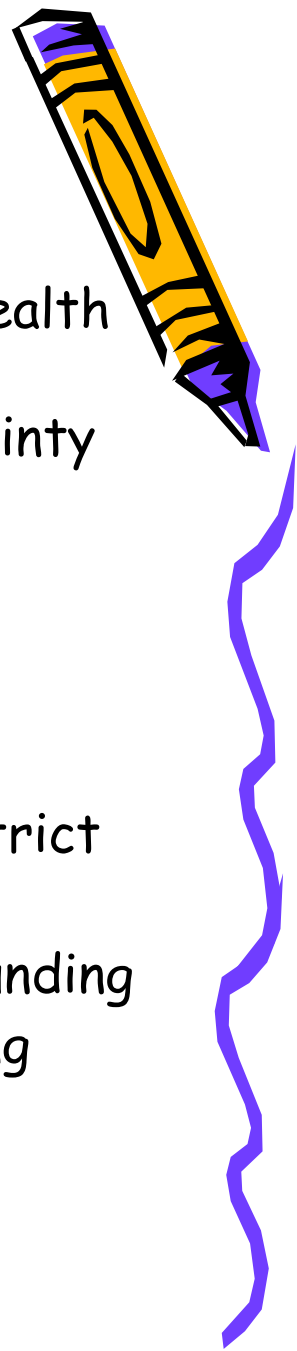


- **2001-02 \$2.2 Billion Total**
  - \$583 Million (Mid-Year Reductions) February 2002
    - (High Priority School Grants, Teaching as A Priority
    - Block Grants, Certificated Staff Performance Awards,
    - Energy Grants, 9th Grade CSR, Cal-Safe)
  - \$503 Million (Prior-Year Reversions) June 2002
    - Backfill of Adult Education Reductions
  - \$1.124 Billion (Categorical Deferrals) June 2002
  
- **2002-03 \$2.61 Billion Total**
  - \$1.3 Billion (June Apportionment Deferral) March 2003
  - \$460 Million (K-12 Funding Reductions) May 2003
  - \$734 Million (K-12 Prior-Year Reversions to Backfill Cuts) June 2003
  
- **2003-04 \$1.468 Billion**
  - \$1.048 Billion (Prior-Year Reversions to fund Deferral) June 2004
  - \$341 Million (Prior-Year Reversions to Fund TIG Grants and Child Care) June 2004
  - \$127 Million (New Federal IDEA Funds to backfill reduced State Special Education contribution) June 2004
  
- **2007-08 \$507 Million**
  - \$211 Million in Current-Year Reversions February 2008
  - \$295.4 Million in Prior-Year Reversions February 2008
  
- **2008-09 \$6.572 Billion**
  - \$2 Billion (RL and categorical reduction, no COLA) February 2009
  - \$2.8 Billion (February RL/CSR/CC Apportionment Deferral) February 2009
  - \$1.1 Billion (Use of Prior-Year Prop. 98 "Settle-Up") February 2009
  - \$619 million (Home-to-School Funding Swap) February 2009
  - \$153 million Prop. 98 Reversions February 2009



# Implications to K-Adult Funding

- Proposition 98 funding is directly linked to the overall health of state revenues
- All districts will face a prolonged state of fiscal uncertainty through 2010-11 and beyond
- The following threats remain a possibility during this timeframe:
  - Additional revenue limit reductions
  - Zero COLAs thru 2010-11
  - Apportionment deferrals and subsequent district cash flow difficulties
  - Further reductions to categorical program funding
  - Proposals to manipulate Proposition 98 funding
  - Limited state school construction funding



# The Budget "Correction" Package



- This proposal is a two-year package:
  - 2008-09 mid-year K-adult reductions and funding deferrals
  - 2009-10 budget proposal (with additional reductions and deferrals)
- Lowers the Proposition 98 funding level in the current and budget years
- Requires voter approval of five special election ballot proposals
  - All of them have to pass in order for the plan to hold together
  - One of them includes future restoration of the Proposition 98 maintenance factor - Prop. 1C
  - Special election scheduled for May 19, 2009



# Proposition 98 Funding



## 2008-09

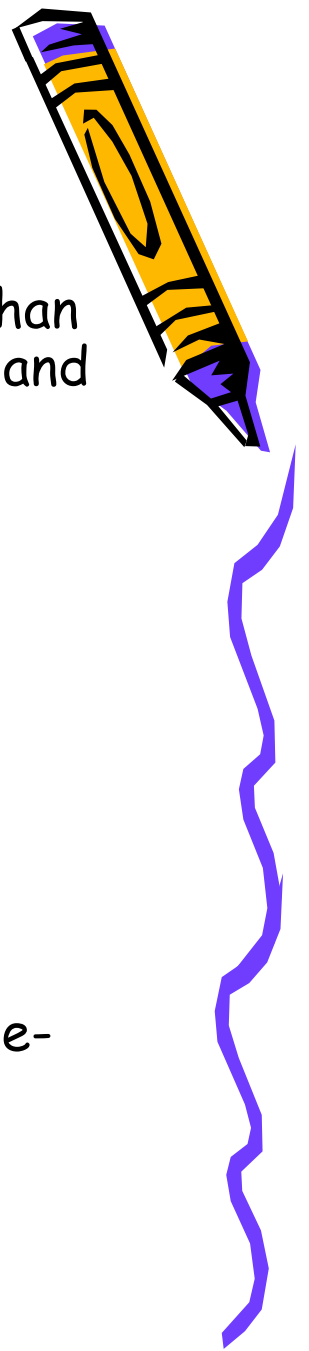
- Due to significant General Fund revenue reductions, the Proposition 98 minimum guarantee has dropped precipitously in the current year
- The new budget proposal funds Proposition 98 at = \$50.7 billion (K-14)
- A reduction of \$7.4 billion below the 2008-09 enacted spending level of \$58.1 in the September Budget Act

## 2009-10

- The 2009-10 Budget Act provides \$54.9 billion for Proposition 98 programs
- This is a decrease of \$3.2 billion compared to the 2008-09 Budget enacted in September 2008
- This figure includes deferrals and excludes funds to backfill for lottery monies



# K-Adult Funding: 2008-09



- Reduces current year Proposition 98 funding by more than \$7.4 billion - via mix of program reductions, deferrals, and re-designation of funds
- 2008-09 program reductions total \$1.9 billion
  - Eliminates the 0.68% COLA - \$247.1 million overall, approx. \$45 per ADA
  - Remaining reduction is split:
    - 50% from revenue limits - \$944 million overall, approx. \$160 per ADA
    - 50% from a 15% (\$944 million overall) across-the-board cut to specified categorical programs



# 2008-09: Categorical Cuts and Flexibility

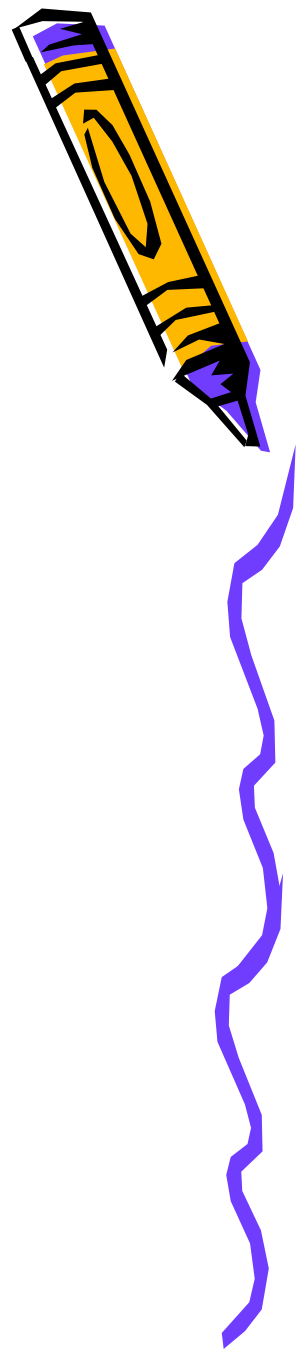


- Categorical programs are divided into three tiers for purposes of protecting some and providing flexibility to others
  - Tier I:
    - No funding reduction, no program flexibility, no statutory requirements waived (with exception of CSR penalty provisions)
  - Tier II:
    - Funding reduction of approximately 15.38% from 2008-09 previously enacted levels, but no flexibility, and programs are to be operated according to the current requirements
  - Tier III:
    - Funding reduction of approximately 15.38% from 2008-09 levels, but with maximum flexibility to move funding for any educational purpose
- Changes are in effect for this fiscal year and until 2012-13



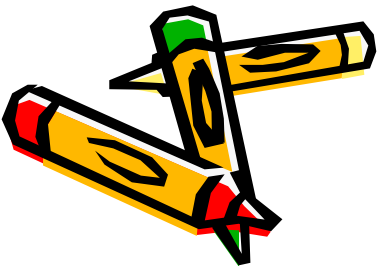
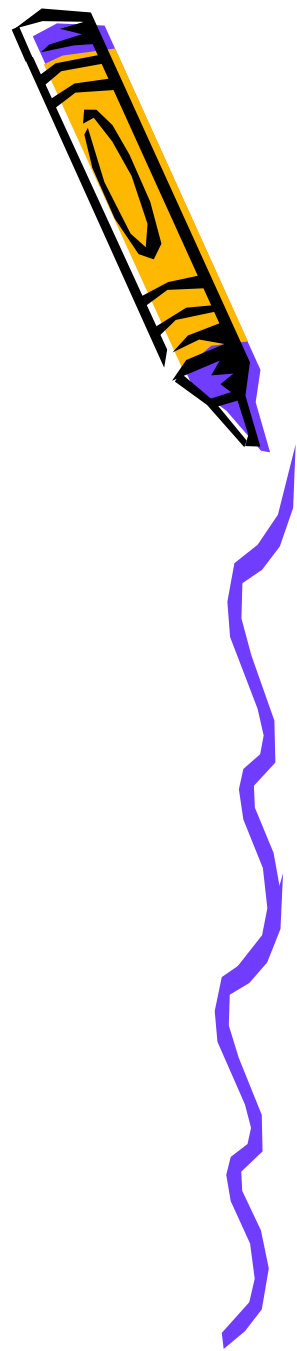
# Tier One Categorical Programs

- No reduction and no flexibility:
  1. After School Education and Safety
  2. Child Development
  3. Child Nutrition
  4. Economic Impact Aid
  5. Home-to-School Transportation
  6. K-3 Class Size Reduction
  7. Proposition 49 After School Programs
  8. Quality Education Investment Act
  9. Special Education
  10. State Lottery (including Proposition 20)

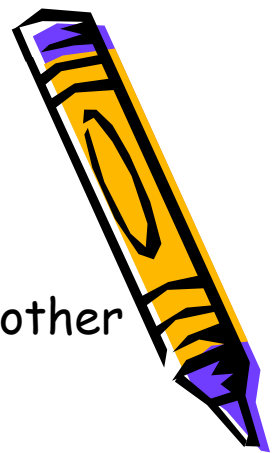


# Tier Two Categorical Programs

- 15.38% reduction and no flexibility:
  1. Adults in correctional facilities
  2. Agriculture-Vocational Education
  3. Apprenticeship Programs
  4. Charter School Facilities Grants
  5. Foster Youth
  6. English Language Acquisition Program
  7. Partnership Academies
  8. State Testing



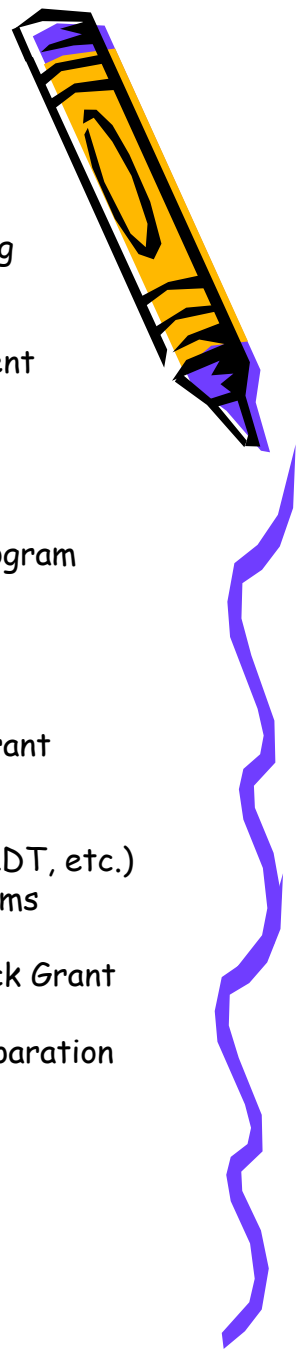
# Tier Three Categorical Programs



- 15.38% reduction but total flexibility to shift funding to any other educational purpose (including to unrestricted GF):
- All remaining K-adult Proposition 98 categorical programs
- Tiers and associated flexibility apply to state categorical programs only - not Federal
- Funding for affected programs will be based on 2008-09 funding levels rather than the factors used in existing program formulas
- As a condition of exercising this transfer authority, district governing boards must hold an open, public hearing on the proposed use of funding, approve each transfer and the proposed use of funding



# Tier Three List



Adult Education  
Advanced Placement Programs  
Arts and Music Block Grant  
Bilingual Teacher Training  
CAHSEE-Instructional Support and Services  
CA School Age Families Education (CalSAFE)  
Certificated Staff Mentoring Program  
Charter School Categorical Block Grant  
Chief Business Officers Training Program  
Child Oral Health Assessments  
Civic Education  
Class Size Reduction - 9th Grade  
Community - Based English Tutoring (CBET) Program  
Community Day Schools (CDS)  
County Offices of Education - Fiscal Oversight  
County Office of Education - Williams Audits  
Counselors 7-12  
Deferred Maintenance  
Education Technology  
Gifted and Talented Education (GATE)  
High Priority Schools Grant Program

Immediate Intervention/Underperforming Schools Program (II/USP)  
Instructional Materials  
Math and Reading Professional Development  
National Board Certification Incentives  
PE Teacher Incentive Program  
Peer Assistance and Review  
Principal Training Program  
Professional Development Block Grant Program  
Pupil Retention Block Grant Program  
Readers Services for the Blind  
Regional Occupational Program  
School Safety Competitive Grants  
School and Library Improvement Block Grant  
School Safety Block Grant (8-12)  
Specialized Secondary Program Grants  
State Assessments (STAR, CAHSEE, CELDT, etc.)  
Supplemental Hourly Instructional Programs  
Supplemental School Counseling Program  
Targeted Instructional Improvement Block Grant  
Teacher Credentialing Block Grant  
Teacher Credentialing Standards for Preparation and Licensing  
Teacher Dismissal Apportionments



# K-3 Class Size Reduction



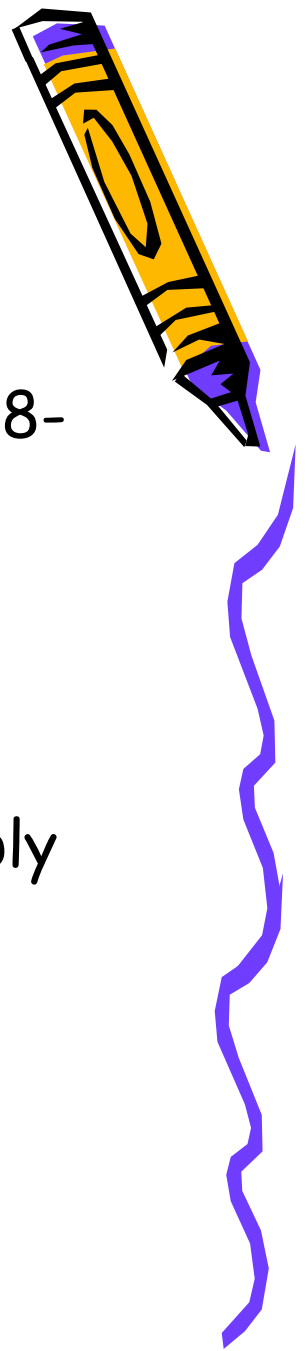
- Changes to the penalty provisions of K-3 CSR should a class exceed the current ratio of 20.44 to 1
- All other statutory requirements remain - Max. class size remains - Funding only for the first 20 students

<u>Student to teacher ratio</u>	<u>New penalty</u>
Up to 20.44	0%
20.45 - 21.44	5%
21.45 - 22.44	10%
22.45 - 22.94	15%
22.95 - 24.94	20%
24.95 +	30%

- Specifies that districts are only eligible to receive funding under these relaxed requirements if participating in K-3 CSR as of December 10, 2008



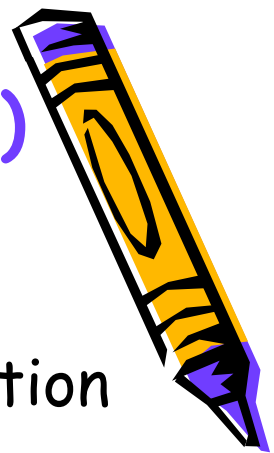
# Instructional Materials Flexibility



- The proposal provides for the suspension of statutory requirements for LEAs to purchase newly-adopted instructional materials for 2008-09 and 2009-10
- COEs are relieved from the responsibility of confirming such purchases during site visits
- LEAs that exercise this option must still comply with *Williams Settlement* requirements
  - Materials must be standards-aligned
  - One set of materials per student
  - Materials in good condition



# Instructional Materials Flexibility (cont.)



- Districts in the final stages of piloting math materials are recommended to analyze this option per their own circumstances
- Be considerate of your District's academic and materials needs - What effect would delaying adoption have on academic performance?
- Districts that do purchase materials in these years remain subject to current statutory requirements



# Prior Year Categorical Balances (Sweeps)

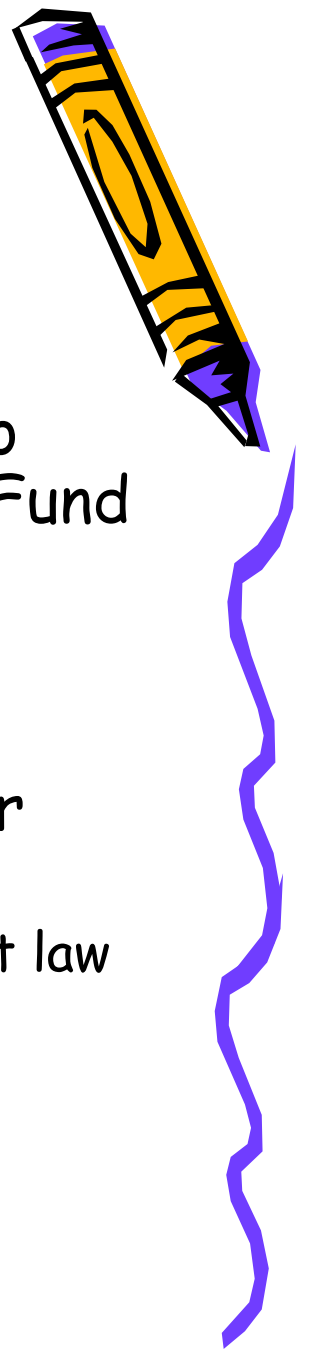


- Districts are authorized to access ending fund balances as of June 30, 2008 (and from the 2007-08 FY only) from the restricted categorical program accounts for any educational purpose
- Following programs are excluded:
  - Economic Impact Aid
  - Targeted Instructional Improvement Block Grant (TIIBG)
  - Instructional Materials
  - Special Education
  - Quality Education Investment Act (QEIA)
  - California High School Exit Exam (CAHSEE)
  - Supplemental Instructional Programs
  - Home-to-School Transportation

**NOTE:** Reserves committed for capital outlay, bond funds, sinking funds, and federal funds are not available for this flexibility



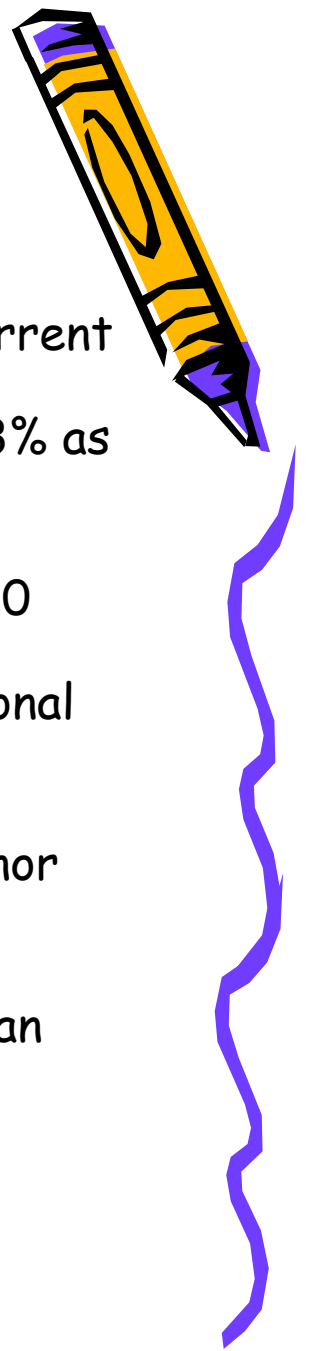
# Other Flexibility



- Routine Restricted Maintenance Transfer - Districts are authorized to reduce transfer to RRM account from 3% to 1% of total General Fund budgets for current year and until 2012-13
- Deferred Maintenance - Eliminates local 0.5% statutory match for deferred maintenance for current year to 2012-13
  - The state will continue making its match per current law



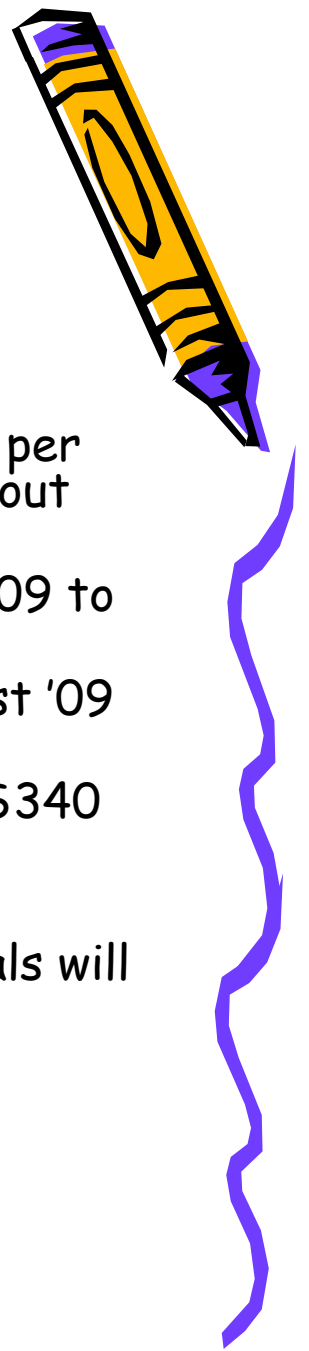
# No Changes to the Following:



- AB 1200 Reserve for Economic Uncertainty - no change to current law
  - District required to meet minimum statutory reserve of 3% as of July 1, 2009
- Minimum number of instructional days and minutes remain (180 days)
  - Governor's proposal to allow Districts to reduce instructional days is not in the final package
- No suspension of K-adult mandates as proposed by the governor
  - Districts recommended to continue processing claims and maintain records
  - NOTE - The Special Education Behavioral Intervention Plan lawsuit is not funded (\$65 million) in 2009-10



# State Apportionment Deferrals



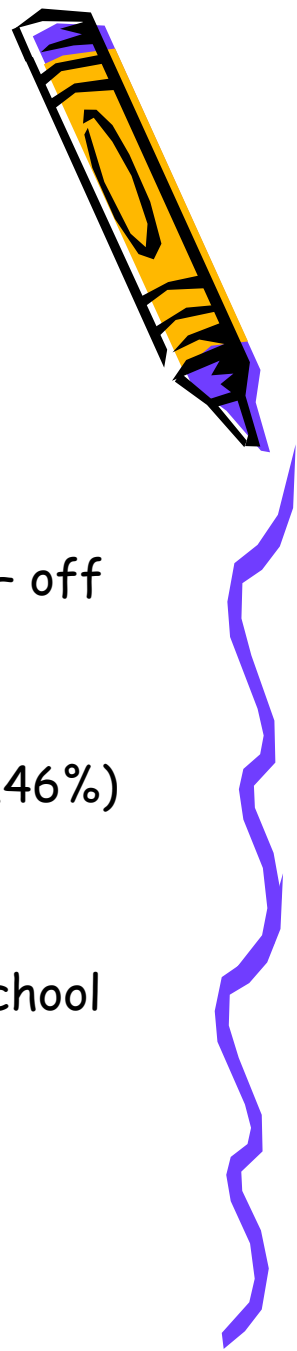
The budget proposal creates new deferrals as follows:

- Defers \$2 billion in RL apportionments (approx. \$339 per ADA) and \$570 million in K-3 CSR apportionments (about half) from February '09 to July '09
- Defers \$1.2 billion in K-14 apportionments from July '09 to October '09
- Defers \$1.5 billion in K-12 apportionments from August '09 to October '09
- Increases the current "P2" June to July deferral by \$340 million

Further details and the effects on the District of these proposals will be provided when more details are known



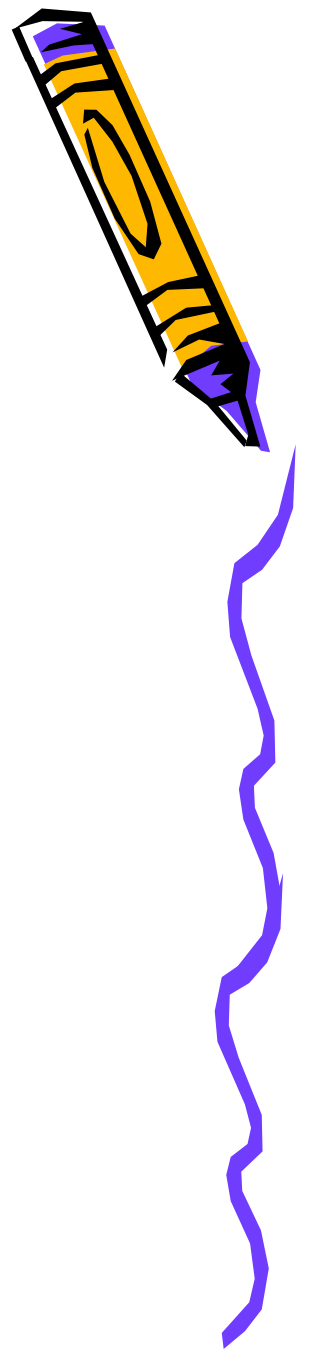
# 2009-10 Budget Reductions



- Eliminates \$2.5 billion in Proposition 98 funding from 5.02% statutory COLA for school districts and COEs
  - Increases the Proposition 98 deficit factor by 4.529%
  - Total Revenue Limit deficit in 09-10 = 13.094%
- Additional \$530 million reduction to the Proposition 98 base - off of 2008-09 revised base
  - \$265 million reduction to revenue limit funding (school districts and COEs) - approx. \$45 per ADA
  - \$265 million in additional across-the-board reductions (4.46%) to Tier 2 and 3 categorical programs reduced in 2008-09 (Total State categorical program cut over 19.8%)
- \$114.2 million savings from elimination of the High Priority School Grant Program



# District Revenue Limits



**Year:            Reductions:            Deficit Factors:**

2008-09:            2.63%            7.844%

2009-10:            0.969%            13.094%



# May 19 Special Election

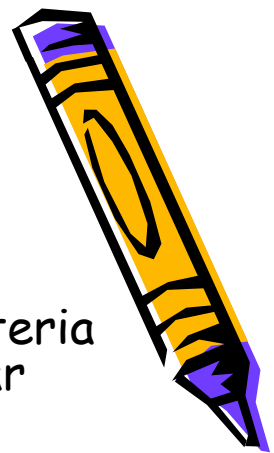


- The budget proposal includes several ballot provisions that will impact future Proposition 98 funding:
  - Proposition 1A - State Finance\*
  - Proposition 1B - Education Finance\*
  - Proposition 1C - California State Lottery
  - Proposition 1D - CA Children and Families Act: Use of Funds
  - Proposition 1E - Proposition 63 Amendments
  - Proposition 1F - State Officer Salary Increases

\* These two measures are linked



# District Budget Planning



## Assumptions for budget planning:

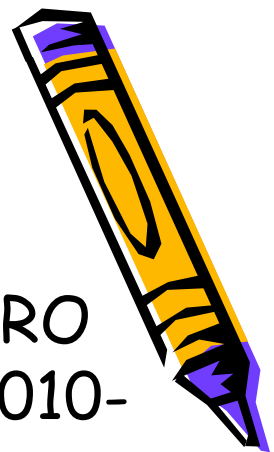
- Work with our COE fiscal advisor to determine the fiscal criteria necessary for AB 1200 Second Interim reports and multi-year assumptions
- 2008-09 Mid-year reductions and apportionment deferral are likely to remain unchanged
- 2009-10 K-adult reductions will be subject to possible changes depending on budget year revenue projections
- Further 2009-10 reductions are possible after the May Revise if revenues are below forecast
  - NOTE: May Revision release postponed to about May 25 or 26 due to May 19 special election
- LEAs will continue to face threats of additional apportionment deferrals in 2009-10 and beyond

**Fiscal conditions will remain uncertain through 2010-11 and beyond**



## Multi-year Projections

- Districts should project and budget for ZERO revenue limit COLA for 2008-09 through 2010-11
- The State will likely not be in a position to fund RL COLA during these years
- Work closely with our COE for upcoming third interim report and 2009-10 budget development / adoption



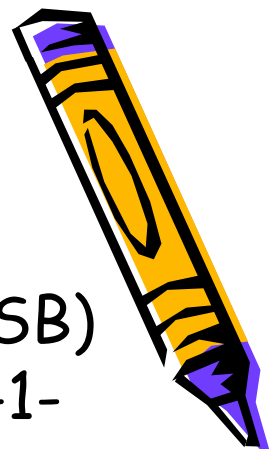
# Preparing for Negotiations



- Freezing step and column movement
  - Temporary, short-term savings - think of it as a loan
  - Cost can be substantial in future years
  - Employee groups will also expect a COLA
- Containing health and welfare benefit costs
  - Hard caps will make it difficult for employees to bear the burden
  - Use our Health Benefit Committee
  - Use comparability and maintenance-of-effort factors
- Collect data as if we are going to factfinding
- Communicate our duty to provide educational programs to students



## Other Postemployment Benefits (OPEB)



- Government Accounting Standards Board (GASB) 45 standards mandatory for all districts on 7-1-09
- Contract for actuarial evaluation before June 15, 2009
- Apply for \$15,000 State grant by June 15, 2009
- Submit management plan for financing OPEB to COE
- Start a long-term funding plan as soon as possible



# STRS and PERS



- PERS

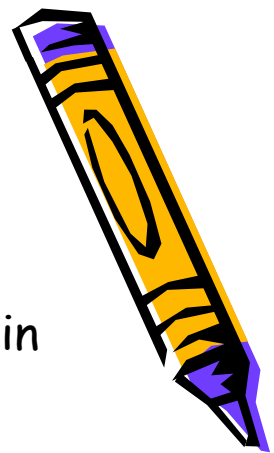
- Employer contribution rate will be set in May
- Estimated at 9.4%
- Likely rate increase for 2010-11
- PERS losses currently over 30%
- A 20% loss for the year could result in a rate increase of 2 - 3%

- STRS

- Also experiencing investment losses
- Employer contribution rate set by statute at 8.25%
- Investment losses could pressure legislation to raise rates



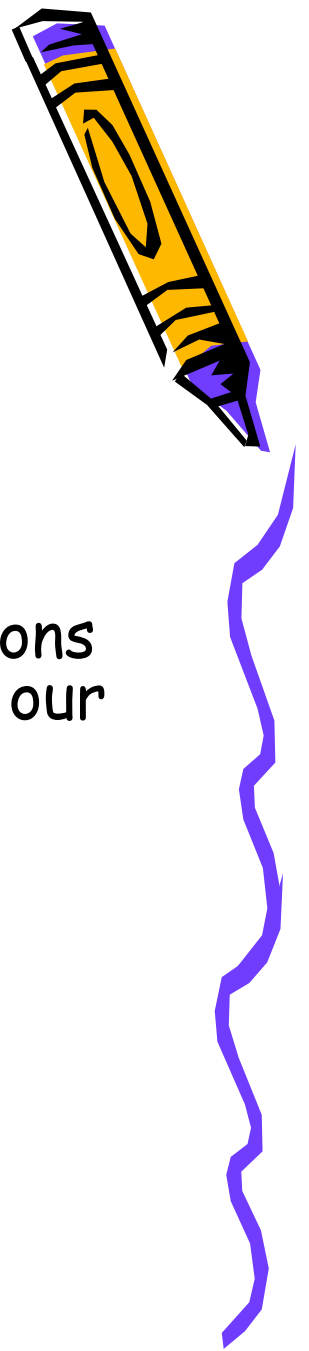
# Federal Stimulus Package: What to Keep in Mind



- It's a silver lining in an otherwise dark cloud, but keep things in perspective:
  - It is one-time money - treat it that way
    - There is a chance that the special education and Title I dollars will become permanent, but it is too early to tell
  - Districts won't see the money until after July 1, 2009 - first installment (approximately 25%) will come in September
  - It doesn't solve the State's long term structural budget gap
    - Roughly \$8 billion of the package has already been spent to put the State budget together
  - But it will help to offset budget year reductions and give the District additional programmatic and fiscal options

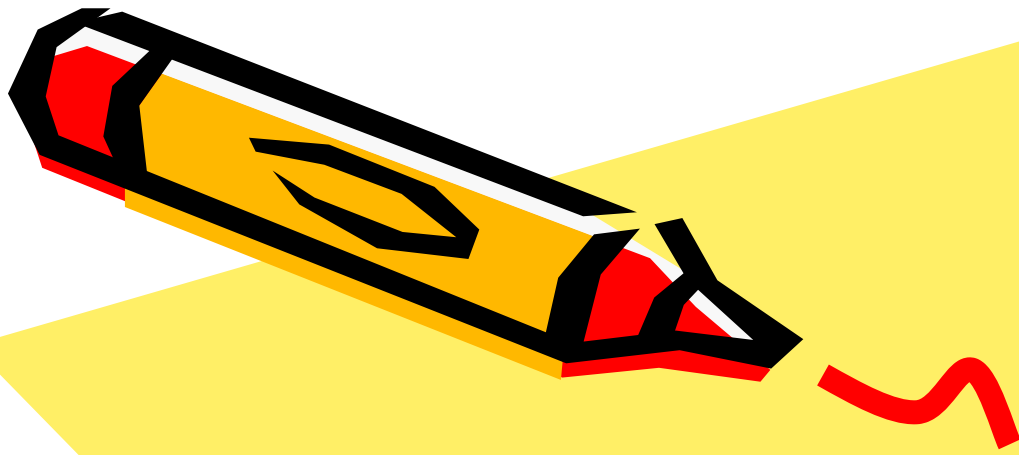


# Federal Stimulus Package: The Bottom Line



- We won't factor this funding into our revised 2008-09 and 2009-10 budget proposals
- It is not factored into our multi-year projections - continue to work the criteria established by our COE fiscal advisor
- Treat it as one-time funding
- Wait for instructions from the Feds and CDE





Questions?

