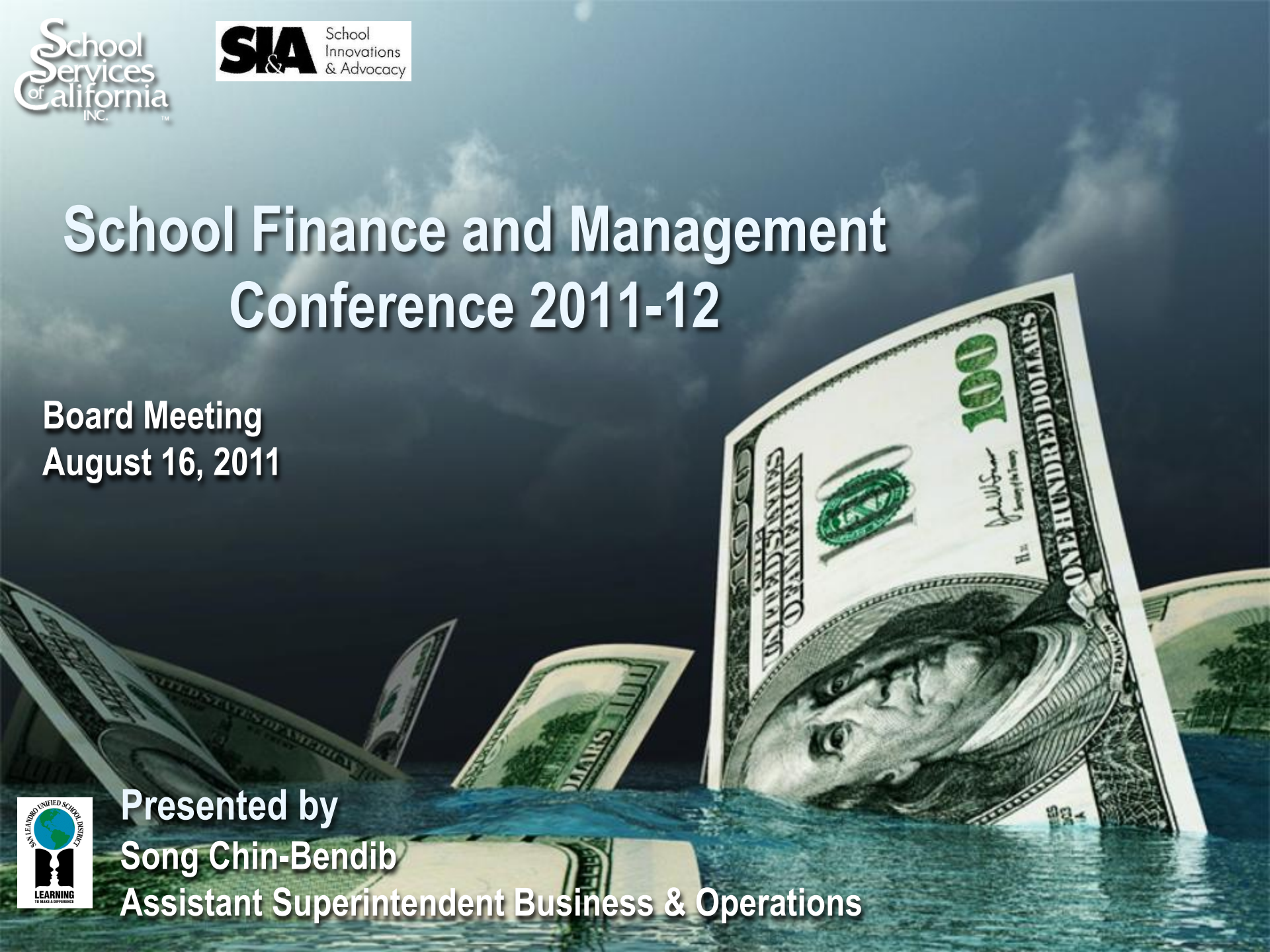
School Finance and Management Conference 2011-12

Board Meeting
August 16, 2011



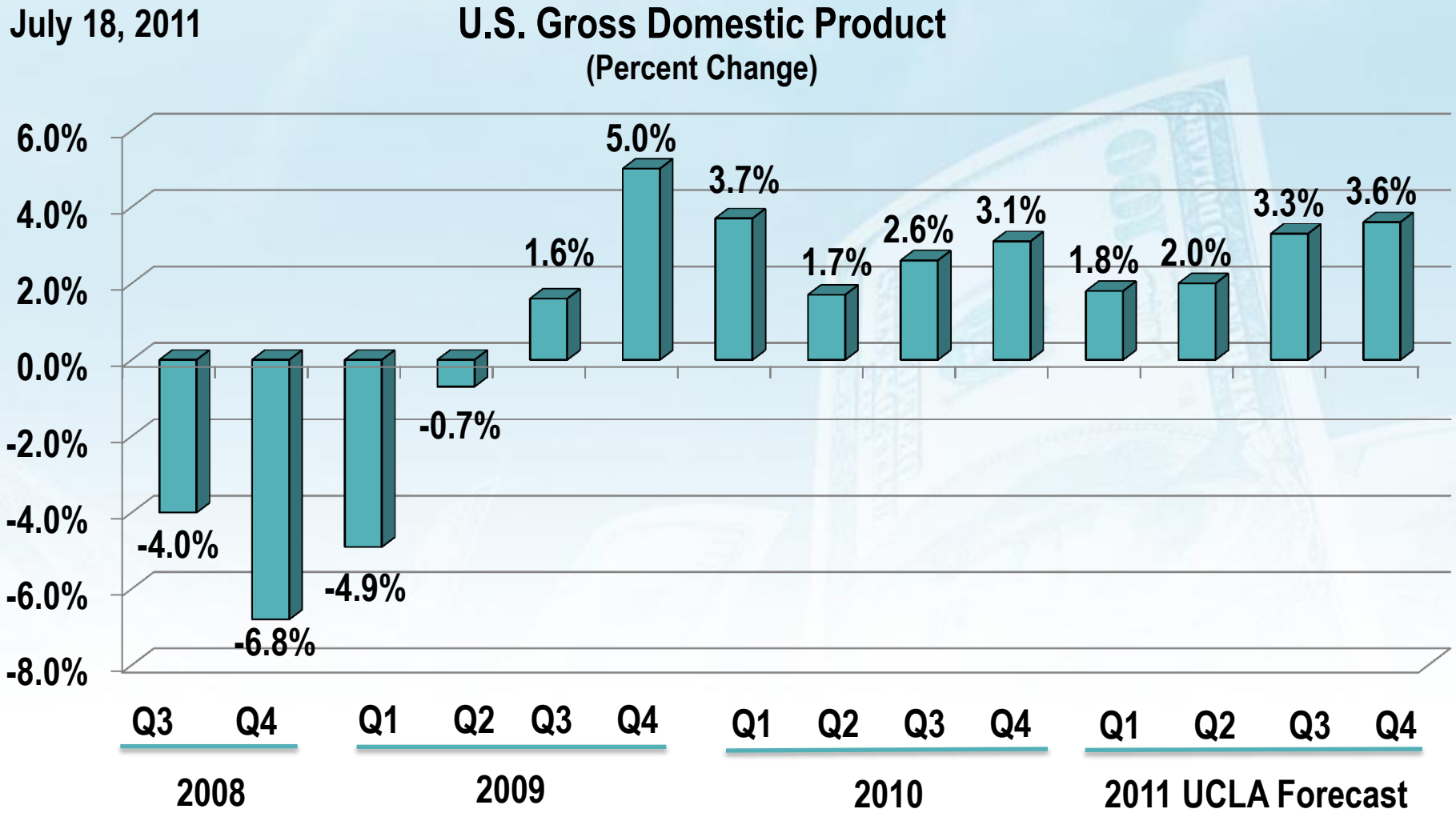
Presented by
Song Chin-Bendib
Assistant Superintendent Business & Operations

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U.S. Economic Outlook

July 18, 2011



Source: U.S. Bureau of Economic Analysis, April 2011; UCLA Anderson Forecast, June 2011

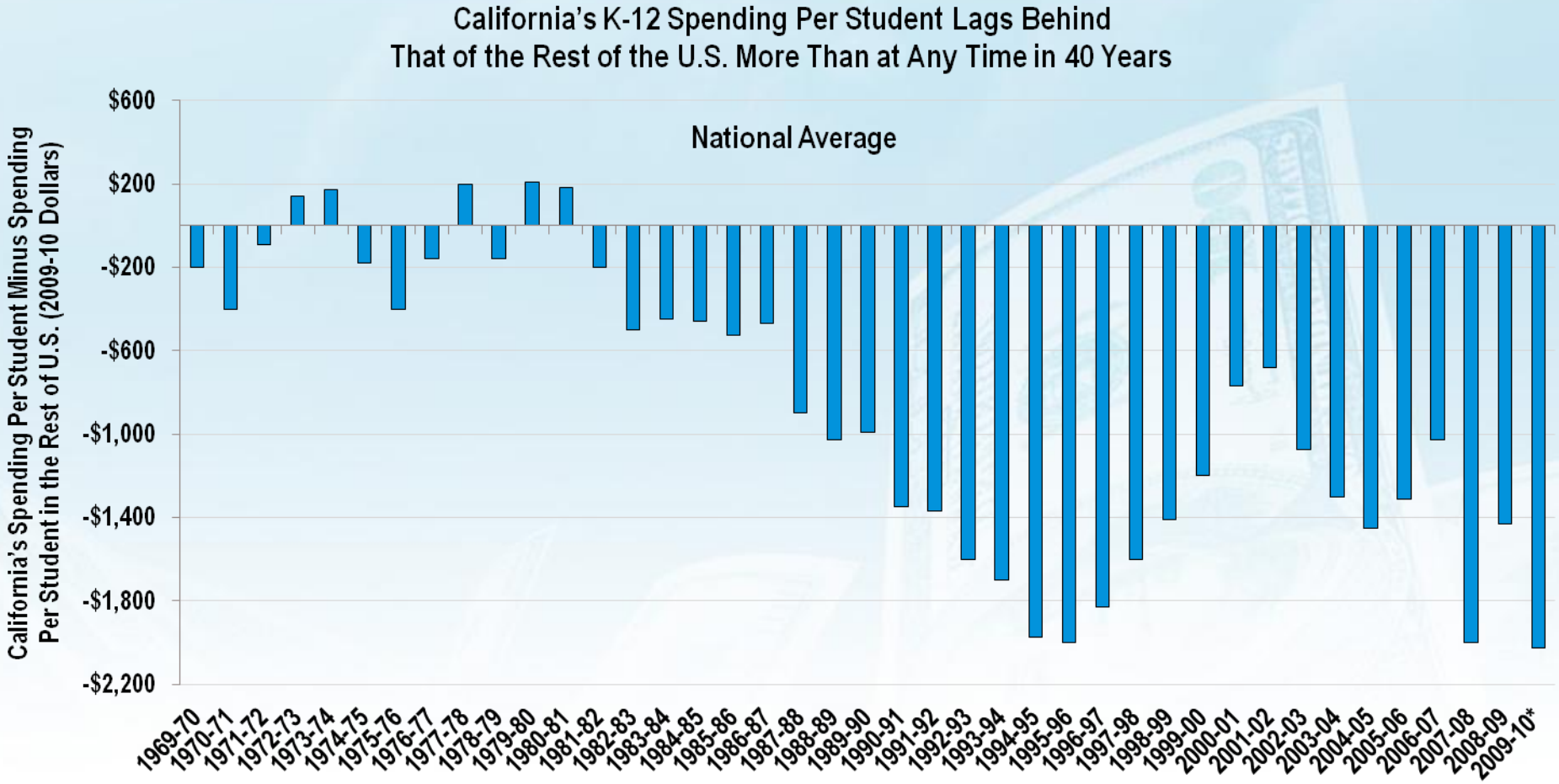
National Economy is Sputtering

- July 29, 2011 Press Release
  - Per U.S. Bureau of Economic Analysis (BEA)
    - U.S. Gross Domestic Product increased by an anemic 1.3% in 2nd quarter of 2011
    - 1st Quarter increased by 0.4%
    - Therefore, for the first half of the year = 1%
    - UCLA Anderson Forecast projects GDP growth of about 3.5% for the 2nd half of the year, may be too optimistic
    - California makes up about 13% of the U.S. economy ; weakness at the national level will likely dampen CA's growth as well

California's Economy

- The performance of the economy and state tax revenues have always shaped the State Budget
  - However, for 2011-12 there is a direct link between revenues and midyear trigger cuts
- The state economy continues to improve
  - State's employment
    - 12.4% one year ago
    - 11.7% in May, the highest in the nation
  - Sales of the existing, single-family homes
    - Up 5% from one year ago
  - Home building permits
    - Up 12% for March and April 2011 from a year ago
- UCLA forecasts personal income growth of 4.1% in 2011 and 5.3% in 2012, while Beacon Economics is more optimistic at 5.2% and 6.9%, respectively

California's Education Spending Continues to Lag



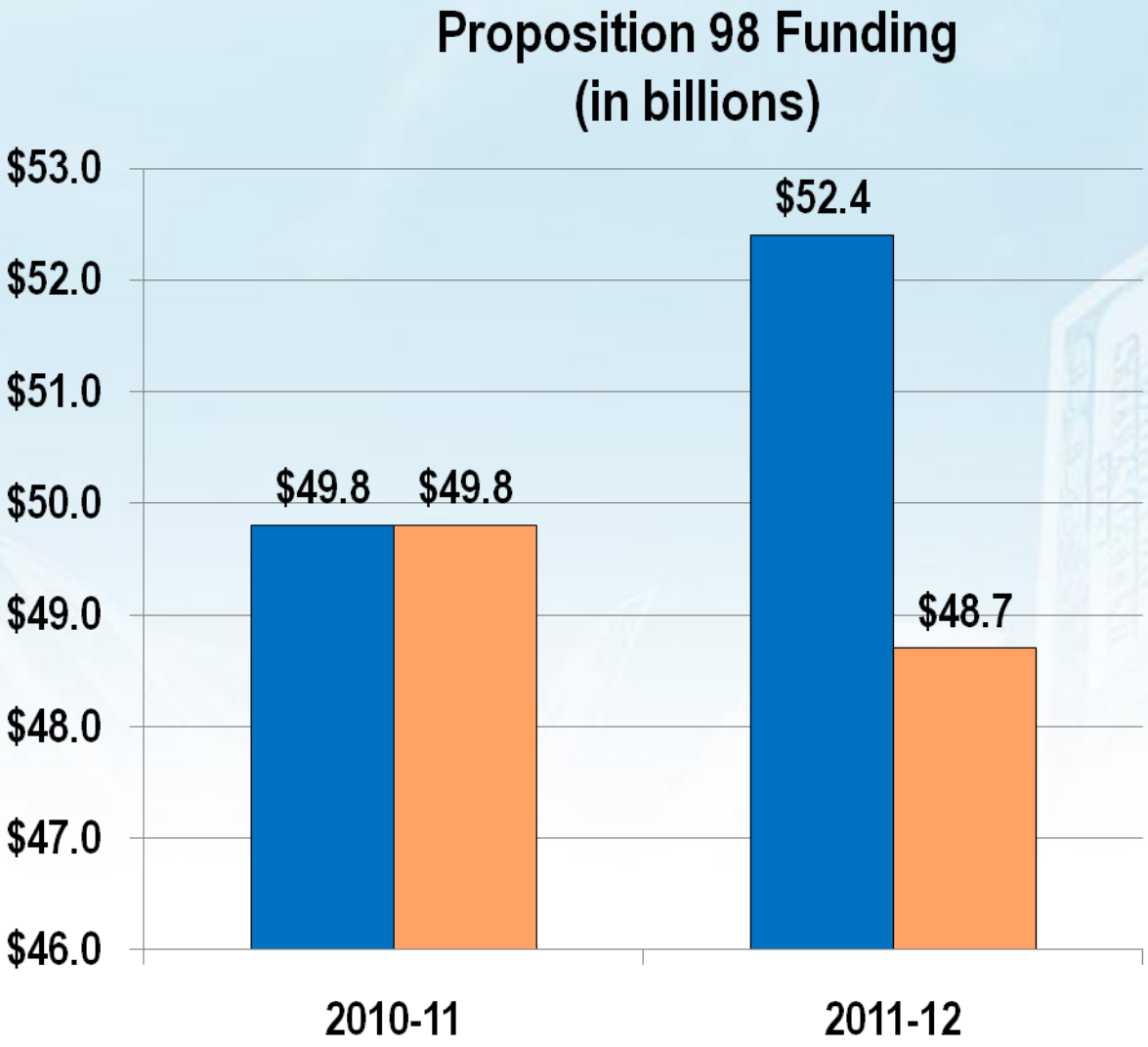
* 2009-10 estimated
Note: Rest of U.S. excludes the District of Columbia
Source: National Education Association

-$2,026 (est.) per student loss in 2009-10

Proposition 98

- Proposition 98 was intended to establish a constitutional minimum funding guarantee for K-14 education, based on changes in workload (ADA) and inflation (either the change in per-capita General Fund revenues or per-capita personal income)
  - The Legislature is authorized to appropriate less than the minimum guarantee, provided that two-thirds of the members of each house vote for suspension
  - Proposition 98 has been rarely suspended since its adoption in 1988
- In enacting the 2011-12 State Budget, the Legislature for the first time funded K-14 education below the minimum guarantee without voting to suspend Proposition 98
  - This action sets a terrible precedent for the future of Proposition 98 as a meaningful measure of the state's commitment to public education

Proposition 98 – May Revision vs. Budget Act



Proposition 98 Adjustments:

+ $581 million Motor Vehicle Fuel Tax
+ $222 million Assembly bill (AB) 3632 Shift
- $1.1 billion Child Development transfer
- $1.7 billion Redevelopment Agency Property Tax
- $2.1 billion Realignment Sales Tax

Trigger Reductions

- By December 15, 2011, the Director of Finance is required to determine whether revenues are coming in as forecast or are falling short
  - Uses the higher of either the LAO's November 2011 forecast or the Department of Finance's December forecast
    - DOF – Largely income tax forecast
    - LAO – Sales and use taxes and capital gains
- If the revenues are not as strong as expected, automatic spending reductions are triggered in the following order as of January 1, 2012:
  - Less than $1 billion below forecast – no changes are required
    - State will deplete reserves & carry deficit into 2012-13 – No mid year cuts
  - Tier I Cuts: Between $1 billion and $2 billion below forecast
    - $23 million across-the-board cut to child care
    - $30 million reduction to community colleges, accompanied by a $10 increase to student enrollment fees
  - Reductions to other state-funded programs, including higher education, totaling $548 million

Trigger Reductions Continued

- Tier II Cuts:
  - More than $2 Billion below forecast
    - All Tier I cuts are implemented
    - Up to 4% reduction to reserve limits - $1.5 billion
  - Authorize reduction in the 2011-12 school year of up to 7 days, in addition to the 5 days authorized by current law
    - Effective February 1, 2012
    - Shorter school year is subject to collective bargaining and must be implemented by the end of the school year in order to capture the savings
  - Estimated at $260 / ADA for Unified School District
  - SLUSD approximately $2.2 million

The Education "Wall of Debt"

- The education "wall of debt" will challenge the state to make things right before the next economic downturn hits California
  - Ongoing restorations
    - Almost 20% deficit factor: $7.7 billion
    - Sales tax shift obligation: $2.1 billion
  - One-time costs
    - Deferral reduction: more than $9.0 billion
    - Proposition 98 "settle up" funding: $1.2 billion
- Proposition 98 Maintenance Factor is at least $9.9 billion today; phased in when:
  - Robust state revenue growth returns
  - Proposition 98 manipulation stops
- These will be needed to bring school funding back in line with statutory obligations

Principal Apportionment Schedule – 2011-12

Month	Education Code (E.C) 14041(a)(2)	2010-11 Deferrals Received in 2011-12	Share of 2011-12 Statutory Apportionment
July 2011	5.00%	9.10%	0.00%
August 2011	5.00%	12.10%	0.00%
September 2011	9.00%	7.10%	11.70%
October 2011	9.00%	0.00%	0.00%
November 2011	9.00%	0.00%	9.00%
December 2011	9.00%	0.00%	9.00%
January 2012	9.00%	0.00%	25.30%
February 2012	9.00%	0.00%	0.50%
March 2012	9.00%	0.00%	0.00%
April 2012	9.00%	0.00%	4.60%
May 2012	9.00%	0.00%	1.50%
June 2012	9.00%	0.00%	0.00%
July 2012			22.60%
August 2012			15.80%
Total Principal Apportionment	100.00%	28.30%	100.00%

Note: This schedule reflects the percentage of funding to be received for the Principal Apportionment only and does not include the deferrals impacting categorical funds

History of AB 1200

- AB 1200 was enacted in the early 1990s in response to a number of near bankruptcies, requests for state loans, or defaults on school district obligations
- Just as AB 1200 was in response to emergency loans and school districts in financial crisis, so was AB 2756
- AB 1200 and AB 2756 resulted in:
  - Additional financial reporting required by school districts
  - Minimum reserve requirements for economic uncertainties
  - Multiyear projections (MYP) for the current year and the subsequent two years
  - Chief Financial Officer and Superintendent must sign off on collective bargaining settlements certifying they are affordable
  - Additional oversight required by COEs and the Superintendent of Public Instruction (SPI)
  - Created the Fiscal Crisis and Management Assistance Team (FCMAT)

How Well Has AB 1200 Worked?

- During the pre-AB 1200 years between 1979 and 1991, the state made emergency apportionments to 28 school districts
  - The loans ranged from $5,300 to $4.7 million
- Since the passage of AB 1200 in 1991, only seven school districts have required a loan from the state
  - The loan amounts range from $2 million to $100 million
- Clearly, AB 1200 has ensured that LEAs are fiscally prudent and responsible, especially during many years of state cuts and growing cash deferrals

Source: FCMAT

The Gutting of AB 1200

- AB 114 suspends majority of fiscal oversight for 2011-12
  - For the 2011-12 fiscal year, the County Superintendent ***shall not***:
    - Require a school district to project a lower level of revenue per unit of ADA than it received in 2010-11 as a condition of budget approval
    - Require the school district to demonstrate that it is able to meet its financial obligations for the two subsequent years
- AB 114 directs school districts how to budget for 2011-12
  - For the 2011-12 fiscal year, the school district shall:
    - Project the same level of revenue per ADA as it received in 2010-11 and shall maintain staffing and program levels commensurate with that level
    - School districts are not required to demonstrate the ability to meet financial obligations for the two subsequent fiscal years

Interference with Local Control

- The provisions in AB 114 appear to override local decision making authority by directing LEAs to use particular assumptions in preparing for their revenue and expenditure budgets
  - However, the Governor clarified in his signing letter for AB 114 that "school boards should take all reasonable steps to balance their budgets and to maintain positive cash balances"
- Although in AB 114 the state directs school districts and COEs to base their budget estimate of 2011-12 revenues on the amount of per pupil revenues received in 2010-11, the Governor's signing message clarifies that:
  - "Revenues" means only "state" per pupil revenues
- We appreciate that clarification!

Expenditures – Staffing and Program Levels

- AB 114 requires districts to develop a staffing and program budget that is commensurate with the state's level of per ADA funding (i.e., flat funding)
- However, if flat funding requires you to make cuts to balance the budget, this bill does not require you to spend more
  - For example, a district may have made budget cuts due to:
    - Health and welfare premium increases
    - Step and column increases
    - Other operating costs going up
- It also does not dictate that you reduce reserves to the minimum, or to any other level judged unwise by the local Board of Education

SSC's Advice . . .

- Maintain prudent reserves, no matter what
  - What is prudent?
    - At a minimum, at least the normal state-specified reserve level (3% for most districts) in all three years
      - Ignore the flexibility to reduce reserves to one-third of normal
    - Increase reserves for:
      - Declining enrollment
      - State funding uncertainties
      - The state's cash deferrals
      - Reliance on property taxes instead of state aid
      - Unstable relationships with unions
      - Other local risk factors your district faces
  - We are not out of the woods yet
    - Especially when facing possible midyear cuts

Redevelopment Agencies

- More than 350 redevelopment agencies (RDAs) statewide
- Governor Jerry Brown proposed eliminating RDAs in his January Budget plan
  - Legislative counsel opined that the proposal was illegal
- A new approach was pursued with the enacted Budget
  - Assembly Bill of the First Extraordinary Session (ABX1) 26 (Chapter 5/2011) – Eliminates RDAs
  - ABX1 27 (Chapter 6/2011) – Allows RDAs to continue in existence if the county or city where the RDA resides makes "voluntary" payment to local schools and special districts
    - Funds would be deposited into the county Educational Revenue Augmentation Fund and distributed on a per-average daily attendance (ADA) basis
      - In 2011-12, the initial payment would be approximately $1.7 billion
        - These funds would offset the state's Proposition 98 obligation
      - Beginning in 2012-13 and continuing thereafter, local schools would receive $340 million from cities and counties with an RDA
        - This funding would be outside Proposition 98

How RDA Elimination Works

- ABX1 27 requires all cities and counties with an RDA to make ongoing payments to local schools and special districts
  - Money can come from any city or county source, including RDA funds
    - RDA funds specifically earmarked for housing cannot be used
- ABX1 26 eliminates the RDAs of any city or county that fails to make the "voluntary" payment
  - In the event an RDA is dissolved, pass-through payments from the dissolved RDA would continue, with payments administered by the county's auditor controller

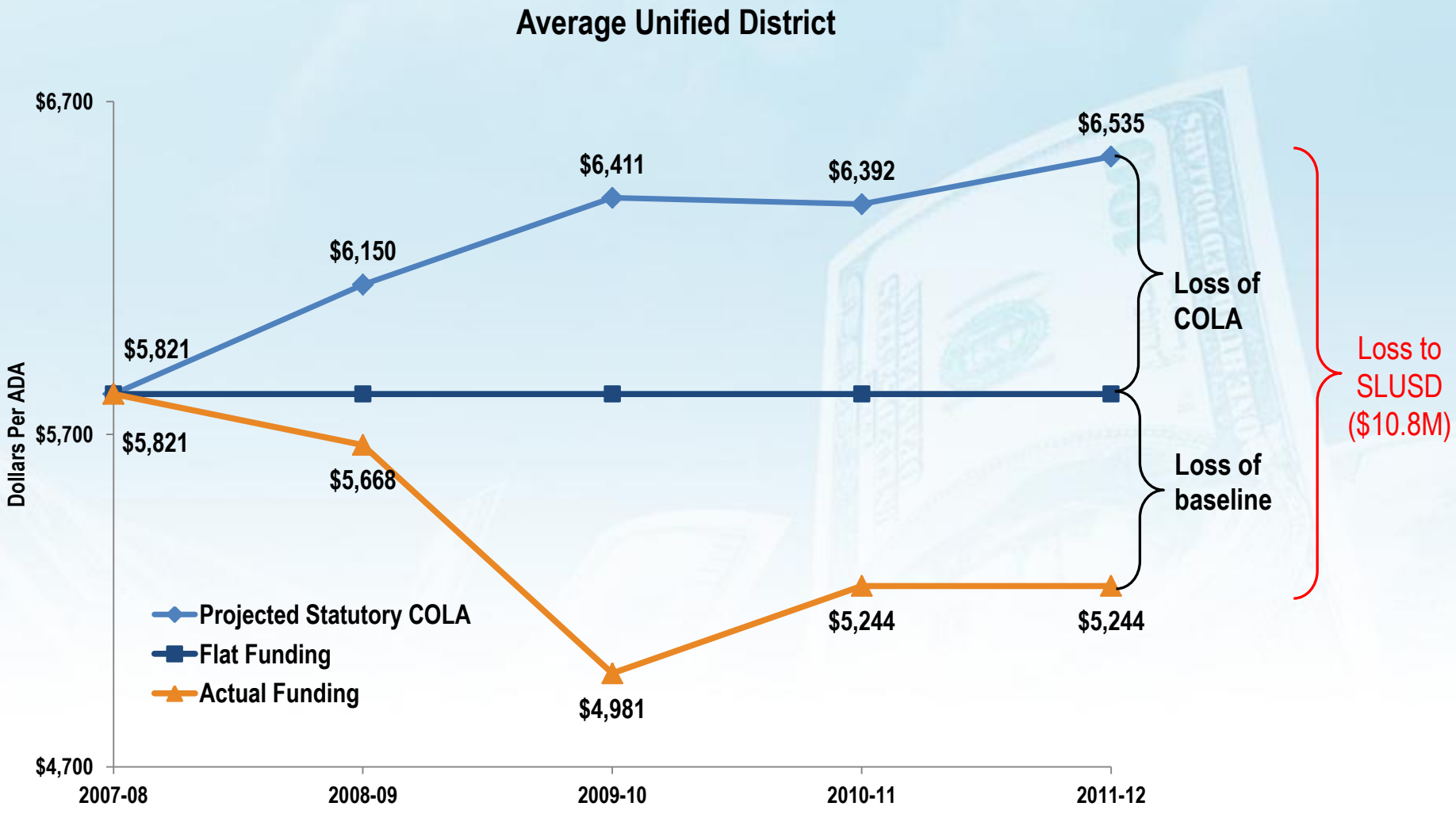
Source: Health and Safety Code 34183(a)(1); (AB1X 26/Chapter 5)

2011-2012 Adoption Budget – 06/28/2011
Unrestricted General Fund Bottom Line

		Column D	Column E	Column F	Column G
			2011-12 Adoption Budget		
	Governor Brown's May Revise - 05/16/2011	2010-2011	2011-2012	2012-2013	2013-2014
	Cost of Living Adjustment (COLA)	-0.39%	2.24%	3.20%	2.70%
1	**2011-2012 Adoption Budget - 6/28/2011 - Tax Extensions Passed (Flat Funding)**				
	2011-12 only				
	a. Extend Secondary school class size				
	b. Stay K-3 CSR at 28:1				
	c. Restore Middle School Counselors - 4.6 FTEs				
	d. Restore Instrumental music	$ 3,833,790	$ 684,579	$ 1,215,268	$ 166,585
	e. Restore Lighthouse - 1.0 FTE				
	Ongoing:				
	a. Assume AB 3632 will be funded				
	b. Restore 2 Days Staff Development in 2011-12 & 3 days in 2012-13 and 2013-14				
	c. Restore Elementary Specialist i.e. collaboration - on-going				
	d. For 2013-14 IMF & SLIP not swept				
2	**2011-2012 Adoption Budget - 6/28/2011 - Tax Extensions NOT Passed**				
	2012-2013				
	a. Assume AB 3632 will be funded				
	b. Secondary School Class size 30:1				
	c. K-3 CSR 32:1				
	d. All other cuts resume including:	$ 3,833,790	$ 684,579	$ (1,008,243)	$ (2,056,926)
	- No Middle School Counselors				
	- No Instrumental Music				
	- Cut Lighthouse 1.0 FTE				
	- Cut VP 1.0 FTE equivalent				
	- Cut 1.0 FTE Campus Supervisor				
3	**Information Only - Additional One-Time Funding**				
	a. New mandated cost reimbursement: $421,255 **(applied to offset 2013-14 projected deficit)**	$ 421,255	$ 421,255	$ 421,255	$0
	b. State Fiscal Stabilization Funds (SFSF) $391,963 **(applied to offset 2013-14 projected deficit)**	$ 391,963	$ 391,963	$ 391,963	$0
	c. Old mandated cost reimbursement in Fund 17: $762,177	$ 762,177	$ 762,177	$ 762,177	$ 762,177
	d. Assume set aside of $2,223,511 for 2011-12= $1.6B Prop 98 * $165/ADA * 8422 ADA or $264/ADA (SLUSD) **(applied to offset 2012-13 projected deficit)**		$ 2,223,511		

Appendix

Funding Per ADA – Actual vs. Statutory Level



Federal Funding Update

- The President signed the 2011 Budget in April 2011
  - Provides flat funding to major programs – IDEA and Title I
    - Title I entitlements are expected to decrease by approximately 10% due to increases in the required state-level set aside reservations
  - Eliminates Title IID (Technology) grants
  - Reduces Title IIA (Professional Development and CSR) by approximately 18%
- Elementary and Secondary Education Act Reauthorization remains in flux
  - House Democrats looking at piecemeal proposals
  - U.S. Secretary Duncan may consider state waivers from the requirement that all students are "proficient" in reading and math by 2014, in exchange for reforms if reauthorization efforts fail this year