

GLENDALE UNIFIED SCHOOL DISTRICT

August 18, 2009

DISCUSSION REPORT NO. 1

TO: Board of Education
FROM: Michael F. Escalante, Superintendent
SUBMITTED BY: Eva Rae Lueck, Chief Business and Financial Officer
SUBJECT: **2009-10 Budget Update**

On July 31st the Governor approved budget revisions for the 2009-10 State Budget. These revisions were comprised of over 50 pieces of legislation. The amendments included significant funding shifts, changes in accounting practices, reductions in funding, additional flexibility options for schools, delaying and deferring payments to school districts and “borrowing” from other governmental branches. It is a budget revision that is based on an economic crisis in the State of California. It is also viewed by many as insufficient to see us through 2009-10 and additional mid-year reductions are anticipated.

The changes are substantial and impact 2008-09 as well as 2009-10. A summary of the budget amendments are provided on the attached publication from CASBO NewsBreak.

The impact on the 2008-09 Ending Fund Balance is significant and gives the allusion that the District has improved financially. This is very misleading. In reality, the net impact over the two year period (2008-09 and 2009-10) is a significant decrease in funding. It is important to note that the ending balance has been inflated by \$5.7 million dollars in Revenue Limit funding which will be offset against a \$7.1 million funding decrease in 2009-10. Additionally, due to an accounting change mandated in the State Budget approximately \$7.2 million of categorical funds have been transferred to the Unrestricted General Fund Ending Balance.

The L.A. County Office of Education is still in the process of evaluating the various impacts of the State amendments and has not yet made adjustments to the financial software. However, we have received preliminary calculations and the estimate has increased significantly as more details have become available. The current projection for our District is a reduction of \$1.4 million in the Revenue Limit and a reduction of \$200,000 in Transportation funding. The previous total estimate was “only” a reduction of \$400,000.

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The most recent information indicates that due to the May Revise not being implemented our 2008-09 Revenue Limit funding increased by approximately \$218 per ADA or \$5.7 million. However, the reduction in 2009-10 which was designed to offset this increase will be \$250 per ADA (one-time) or \$6.44 million. This results in a \$750,000 net decrease in funding over the two year period. Additionally, the State decreased the 2009-10 Revenue by \$25 per ADA (on-going) which equates to an additional reduction of \$637,000. These two adjustments equate to the reduction of approximately \$1.4 million in State Revenue Limit Funding.

When we adopted our 2009-10 Budget in June there was great concern regarding the reductions in on-going funding and our need to rely on special flexibility options, one-time funding sources, and collapsing categorical programs to provide short term revenue to maintain the academic core programs and provide stability to staff. At that meeting, we discussed the need to address the structural deficit of \$22 million that would exist in 2011-12. These latest amendments to the State budget reduce the on-going base funding (\$637,000 in Revenue Limit funding and \$200,000 in Transportation) and this will increase the District's structural deficit. Our challenge is growing.

To address this issue, it is important that everyone understand what a structural deficit is and why the District needs to take action now to avoid a financial collapse when short term resources are depleted.


Structural Deficit – a structural deficit occurs when on-going expenditures exceed on-going revenues. When severe, a structural deficit can cause a “funding cliff” when expenditures continue, reserves and one-time funds have been utilized, and revenues fall sharply.

In the short term, this can be mitigated by utilizing one-time revenues, flexibility options, and reserves. However, when these limited term resources are gone the funding gap still remains and a budget crisis occurs. This is what occurred at the State level and resulted in reductions to on-going State funding for schools. The State's actions have now placed the District in that same situation. The District will face a major budget crisis when short term funds are depleted.

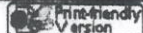
This District has a history of planning for the long-term and that has provided stability for our students and employees. It is essential that we take serious steps to ensure that this stability continues.

At the Board meeting, we will be presenting information on the State Budget amendments, utilization of Federal Stimulus (ARRA) funding, review of structural deficit, budget reduction, and options. It is extremely important that the District move forward with expenditure reductions that are “on-going” to address the structural deficit and also maximize the short term funding to mitigate the immediate impacts.

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CASBO newsbreak

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All-nighter at the Capitol

July 24, 2009

By *Dennis Meyers, CASBO Assistant Executive Director, Advocacy & Policy*

After waiting all night for the Legislature to wade through some 30 budget bills, the Senate finally dealt with the education pieces at 4:00 a.m. this morning (Friday), and then adjourned after passing the final bill of the package at 6:30 a.m. The Assembly dealt with one of the education bills at 6:30 a.m. then went into a Republican caucus. The Assembly Republicans are baulking over the creation of the \$11.2 billion maintenance factor.

Not much has changed since we last reported what was going to be in the budget bills. The bills of concern to education are AB 2 X4 (general provisions, revenue limit deficit factors, flexibility issues, QEIA changes, etc.), AB 3 X4 (maintenance factor certification and 2008-09 categorical sweep), and AB 16 X4 (deferrals). To view the bills, simply go [here](#) and click on "Bill Information" and enter AB 2, AB 3, or AB 16. All of the bills with those numbers from the regular and special sessions will appear. You will have to select those with "X4" in front of the bill number. The amended version of the bill will be July 23 or 24, or even enrolled.

Here is a summary of the changes made to the 2008-09 and 2009-10 budgets as adopted in February.

2008-09

- As reported earlier, a reduction of the Proposition 98 guarantee was accomplished by sweeping up \$1.6 billion in unallocated categorical program funds. This was done instead of the revenue limit hit that was proposed as part of the May Revision. The exact amounts from each program that will be swept from each LEA will take some time to calculate as the estimates are going to be determined by hand.
- Also as reported earlier, the Proposition 98 maintenance factor was certified at \$11.2 billion. This amount is intended for repayment to K-12 and community colleges in the future. However, future legislatures could change this with another statute.

2009-10

- As reported earlier, the unallocated categorical money that is to be taken in 2008-09 will be backfilled dollar-for-dollar in 2009-10. Because it will take time for the exact amounts to be determined by the Department of Education, this could create cash flow pressures for LEAs, and will be especially difficult for stand alone programs like adult education and ROC/Ps.
- As reported earlier, the money to backfill categorical programs will come from an across-the-board reduction in revenue limits of \$1.6 billion, or about \$254 per ADA. We understand that this revenue limit cut will be one-time and will not result in an increase in the revenue limit deficit factor.
- As reported earlier, there is an additional cut to revenue limits of \$2.4 billion, or about \$407 per ADA. We wrote in our last *NewsBreak* that revenue limits would be reduced by \$2.6 billion, or about \$440 per ADA, but the bills voted on had the lower

amount. This reduction to revenue limits will be added to the deficit factor which will push the factor to 18.621 percent for county offices of education and 18.355 percent for school districts.

- Categorical funds to basic aid districts will be reduced by \$80 million as a way for those districts to share in the loss being experienced by reductions to regular district revenue limits.
- For LEAs receiving QEIA money in 2009-10, the \$450 million K-14 payment from the state General Fund was eliminated. School districts that receive QEIA funds will then have their revenue limits reduced by the amount of QEIA money they were expecting. That revenue limit money will be shifted to fund QEIA. We previously reported that the revenue limits of those districts will then be backfilled using \$450 million in federal money; part from Title I money that is available for state initiatives and part from federal School Improvement Grant money that was to be allocated to the lowest performing schools later this year. However, details emerged in the last 24 hours that show a provision allowing LEAs to apply to the federal government for grant money to backfill the money being taken from revenue limits to fund QEIA. Forcing districts to apply to the federal government will create severe problems for QEIA districts as we know of no guarantee that federal grants will be forthcoming nor do we know when successful grant applications will be funded.
- Since the QEIA payment is part of a court settlement, the state still needs to eventually pay out the \$450 million they are not paying in 2009-10. As a result, one year is being added to the QEIA program which will now be funded through 2014-15.
- As reported before, there is a deferral of \$1.7 billion from 2009-10 to 2010-11. We believe that this includes deferring a portion of the April and May apportionments to August 2010.
- There is also a deferral of a portion of the October 2009 apportionment to December 2009 and a portion of the November 2009 apportionment to January 2010.
- Home-to-school transportation funding will be reduced by 20 percent. However, the program was not moved into Tier 3 which would allow these funds to be used for any purpose. We still need to verify this with actual bill language, but as of this writing, we have been assured several times that this program is not being moved to Tier 3.
- The deal authorizes the next round of payments from federal State Fiscal Stabilization Funds to be used to backfill reductions, including reductions to basic aid districts. The next and final round of this money is due to be allocated in the fall.
- For 2009-10, access to additional prior year fund balances is being allowed from TIIG, instructional materials, CAHSEE, adult education, ROC/P facilities, and deferred maintenance.

Other provisions

- The ability to reduce the school year by five days was included and will remain in place through 2012-13.
- Instructional materials flexibility is being addressed by delaying new state board of education adoptions through 2012-13, which is the same timeline for the full flexibility given to LEAs in the use of Tier 3 categorical program money. Local instructional materials purchasing requirements are also being delayed through 2012-13.
- The requirement for special education students to pass the high school exit exam is suspended beginning in 2009-10.
- Reserve requirements are reduced to one-third of the current requirement in 2009-10 with the caveat that they be built back by 2011-12.
- School districts will be allowed to sell surplus property that was not purchased with state funds and use the proceeds for general purposes for a limited time.
- For 2011-12 and 2012-13, county superintendents and the Superintendent of Public Instruction are prohibited from assigning a qualified or negative certification to a school district due to the loss of federal stimulus money.

We wanted to get this *NewsBreak* out to by midday even though the Assembly has yet to adopt AB3 X4. While we cannot predict the outcome of the delay, we are thinking that the maintenance factor provisions will likely be separated out from the categorical sweep.

Once all of the budget bills are passed, the governor is expected to sign them into law quickly. The Senate recessed until August 17 and the Assembly will do the same once it finishes. Thank God! They are scheduled to then finish the first half of the 2009-10 session on September 11.

We really do not enjoy being the continuous bearer of bad news, but there is an expectation growing in Sacramento that the budget fixes just approved are going to work for the state for only 4-6 months. The economy is still sluggish in California and revenues may be close to bottoming out, but they probably have not hit bottom. Whether the Legislature comes back during the fall or waits until January will be the subject of a lot of discussions and rumors here in Sacramento. In the meantime, pay close attention to media reports about the economy and how state revenues are tracking.

We will keep you posted.

All CASBO NewsBreaks are posted on the CASBO website at www.casbo.org. The legislative status indicated for the bills in this report reflect the location of each of these measures as of the day the report was posted. To get up-to-the-minute status of bills including additional information on bills, bill text, analyses, legislative vote records, and veto messages, log on to the state's Official Legislative Information website at www.leginfo.ca.gov. For other questions regarding topics covered, you may contact Dennis Meyers, CASBO Assistant Executive Director, Advocacy and Policy, at dmeyers@casbo.org.