

Governor's 2011-12 Budget Proposal

Glendale Unified School District Board Meeting – January 18, 2011

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Chief Business and Financial Officer



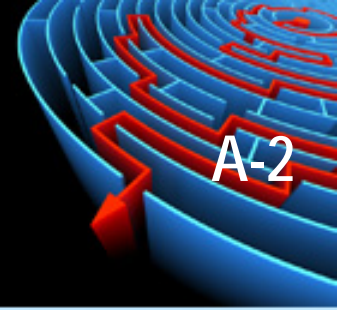


Governor's Proposals for the 2011-12 State Budget and K-12 Education

Presented by:

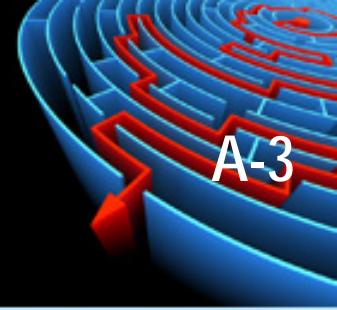
Ron Bennett, Maureen Evans, John Gray, Michele Huntoon,
Jannelle Kubinec, Robert Miyashiro, Sheila Vickers

State and National Economics



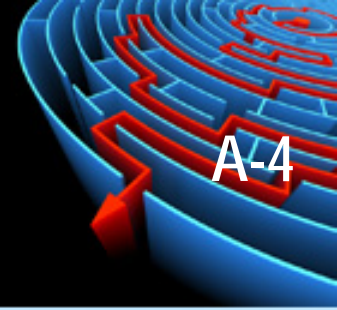
- The economy is the key to everything
 - Business generates jobs, personal and corporate income, and capital gains
 - Government taxes those sources and funds education and other government services
 - Businesses are generating cash and profits, but they are not yet confident enough for expansion and hiring
- The Feds plan to do less for states in terms of stimulus – no new funding is planned
- But the state still hasn't recovered, and won't for a long time to come
- Good news: Things have stopped getting worse and there is some improvement
- Bad news: Full recovery may take until 2016, a year longer than was estimated last year

The Governor's Challenges



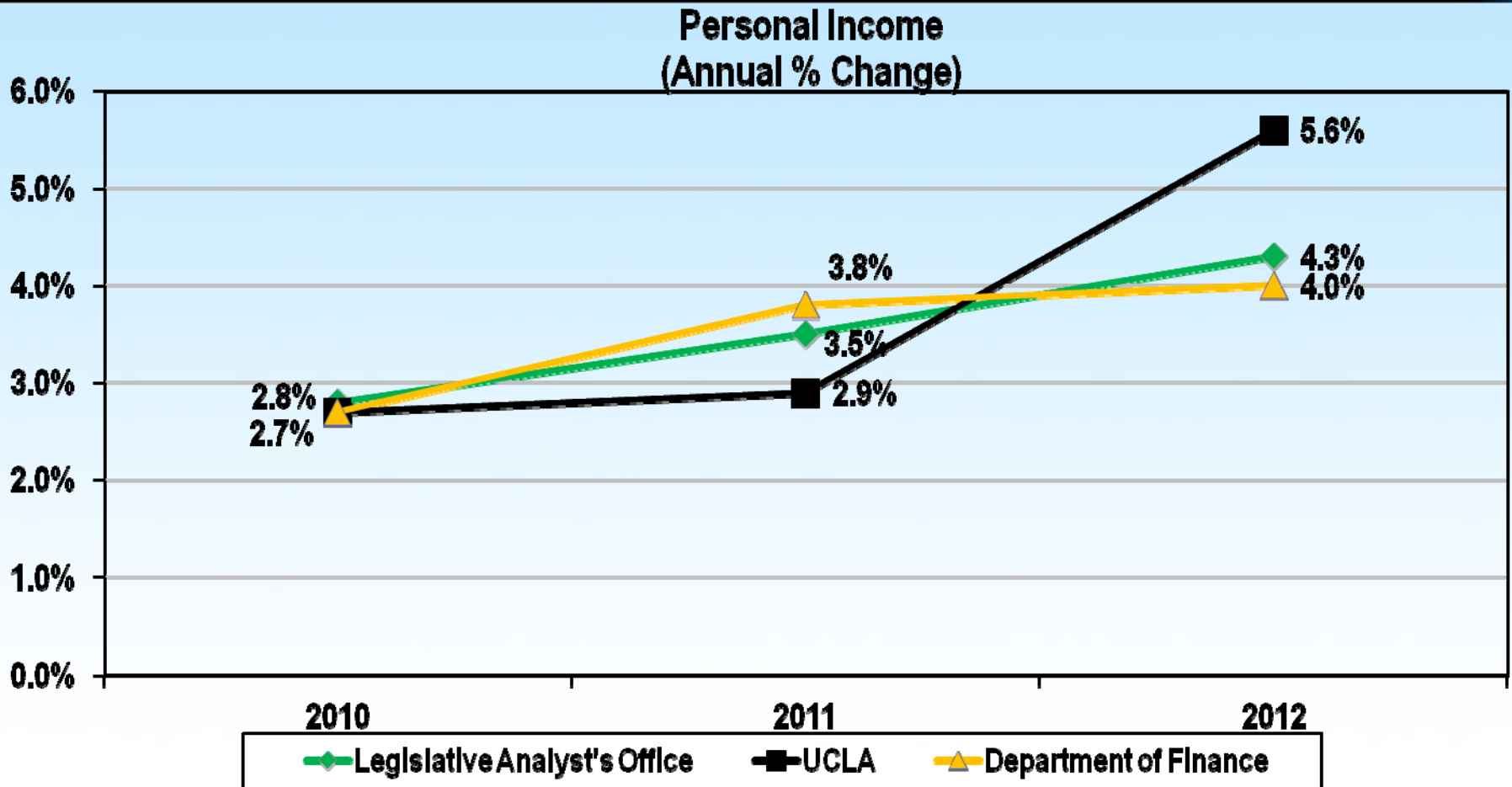
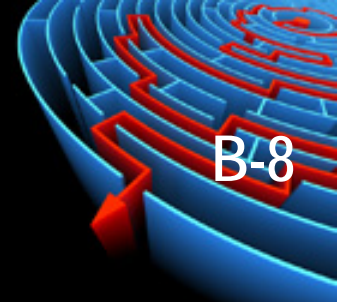
- New Governor, new approach, same lousy environment
 - The Governor faces the biggest deficit ever faced by any governor in U.S. history
 - And he inherits huge economic problems and a divided Legislature
 - All of his proposals are opposed by someone:
 - Republicans oppose new taxes
 - Democrats oppose spending cuts
 - Taxpayers oppose more debt
 - You cannot balance this Budget without taxes, spending cuts, and maybe some debt
- There are no new rabbits and no new hats, but this Governor will need to be a master magician to lead this state

The Governor's Proposals for 2011-12



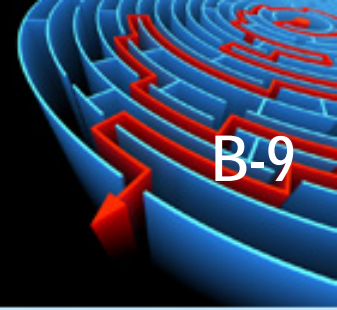
- So, how does the Governor propose to dig the state out of this economic quagmire?
 - Cuts – lots of them
 - But with the acknowledgement that education has already taken more than its fair share of cuts
 - Realignment
 - To restore local control of service delivery and save the state money
 - Continuation of taxes
 - Temporary taxes would be extended by five years
- Basically the Governor has two plans:
 - If the taxes are extended, the cuts are as budgeted in January
 - Education would be flat funded for 2011-12
 - If the taxes are not extended, an estimated additional \$9 billion in cuts would be needed, including large cuts to education

Comparing the Forecasts – Income

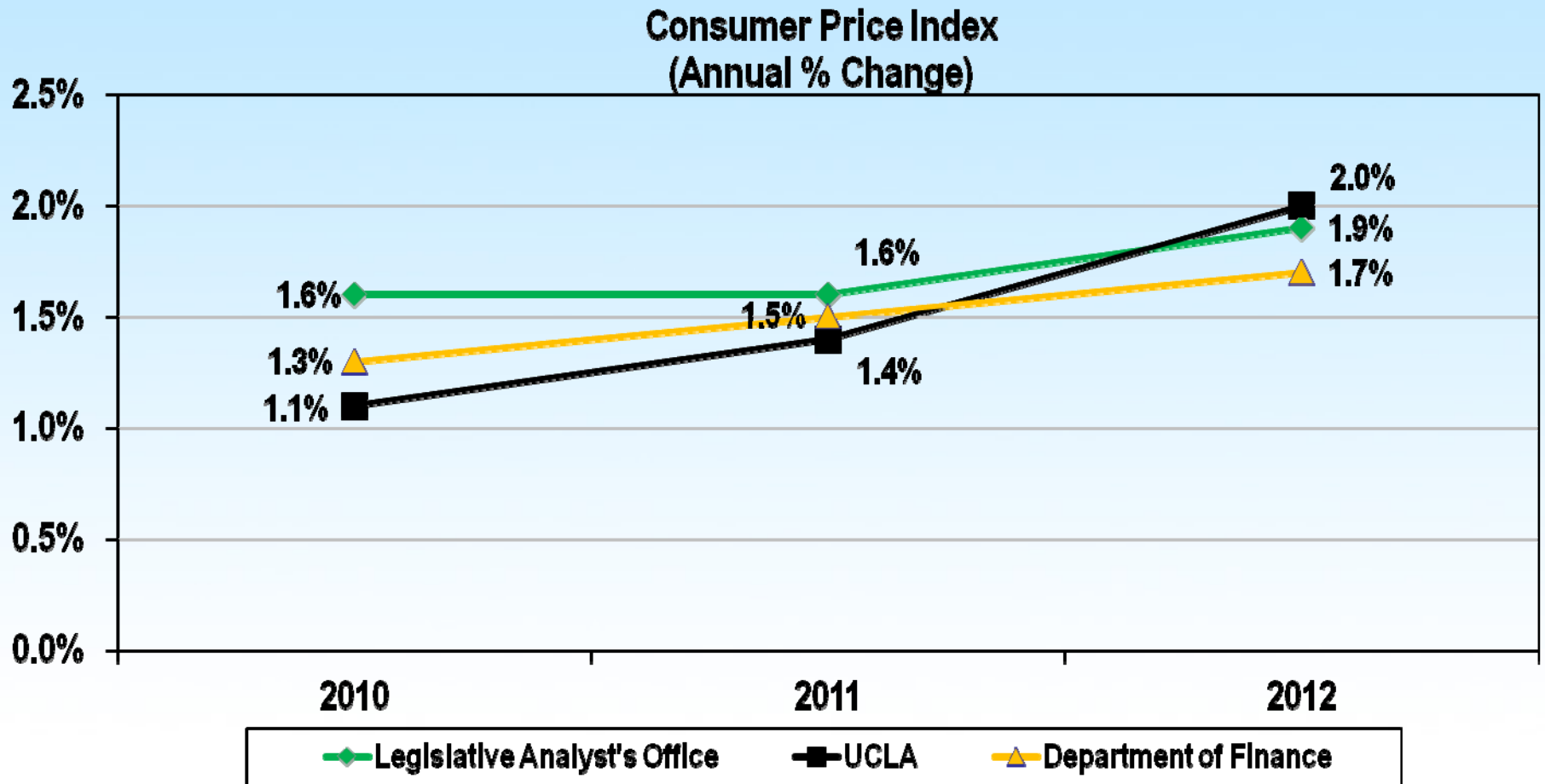


Sources: LAO, *California's Fiscal Outlook*, November 2010; *UCLA Anderson Forecast for the Nation and California*, December 2010; 2011-12 Governor's Budget, January 2011

Comparing the Forecasts – Inflation

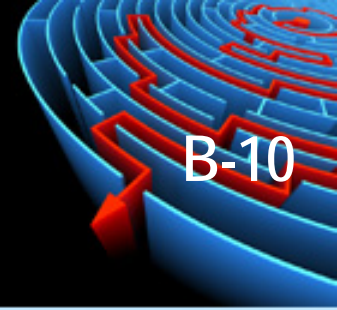


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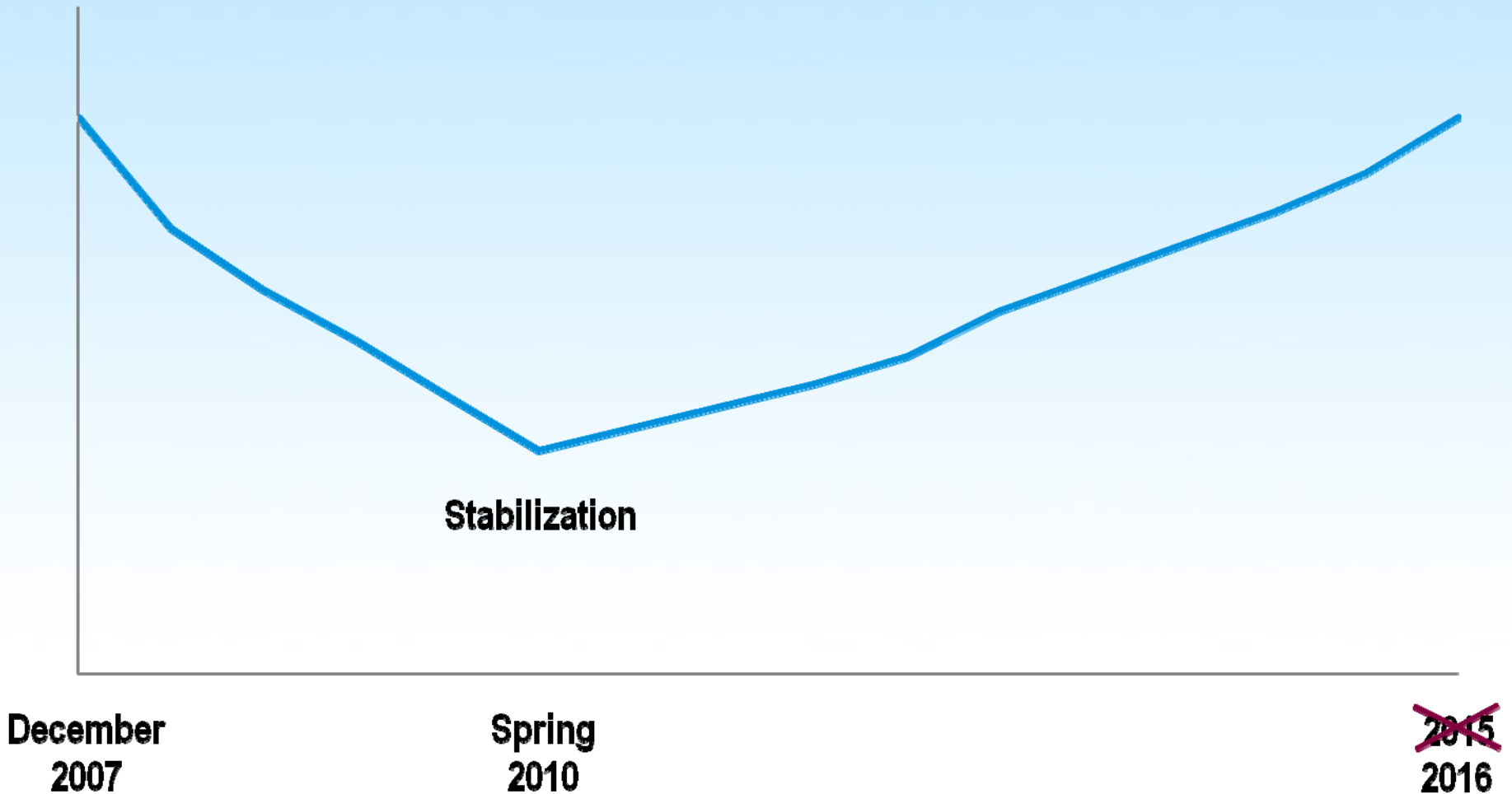


Sources: LAO, *California's Fiscal Outlook*, November 2010; *UCLA Anderson Forecast for the Nation and California*, December 2010; 2011-12 Governor's Budget, January 2011

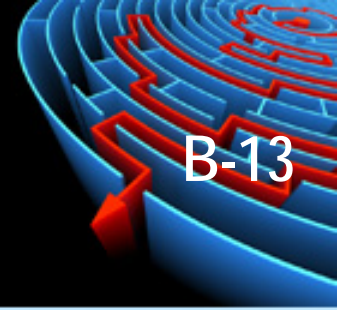
Recovery Takes a Long Time



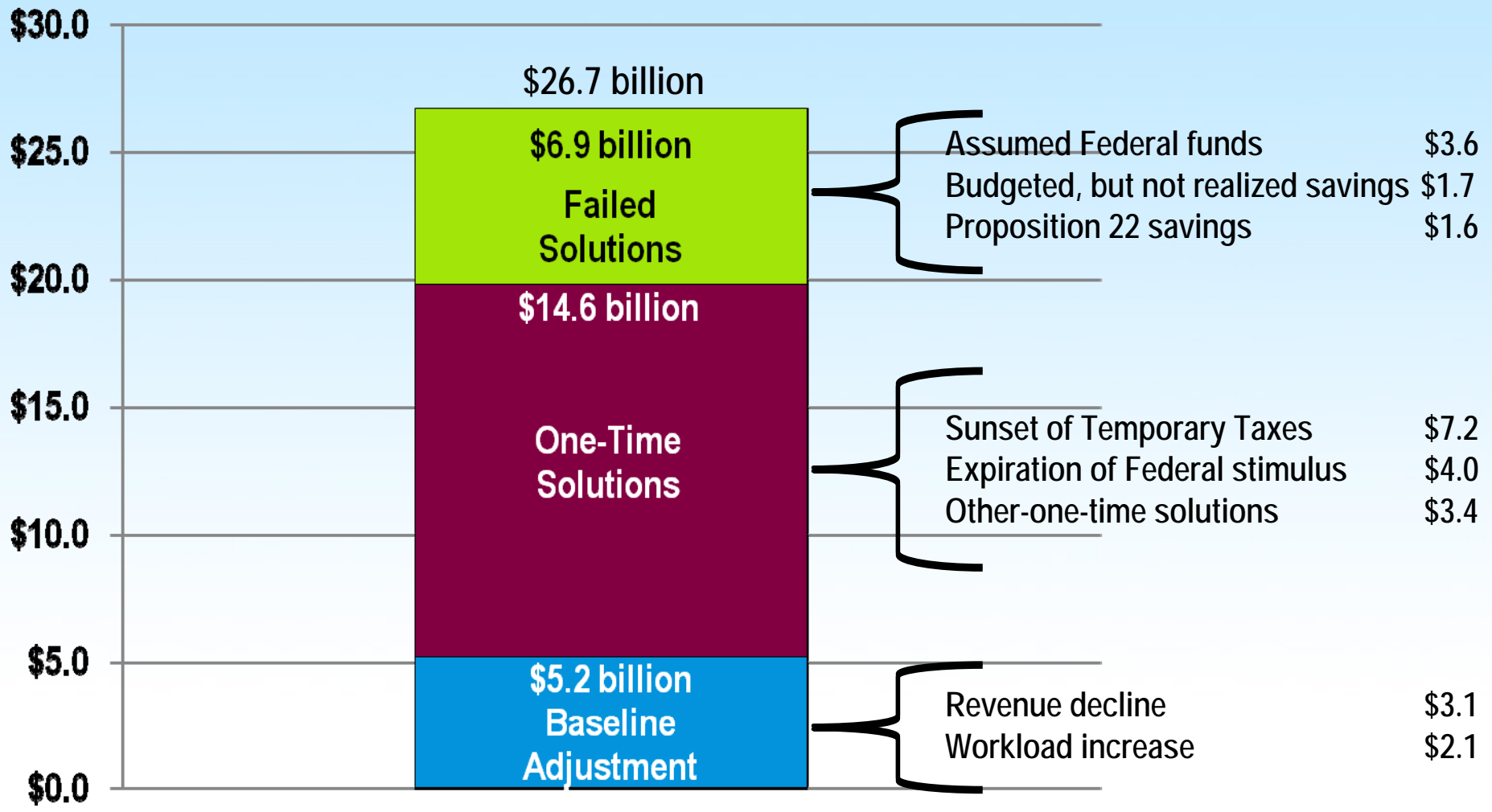
The Economic Cycle



The Budget Gap



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Source: 2011-12 Governor's Budget, p.4

What's Proposed for the Rest of the Budget?



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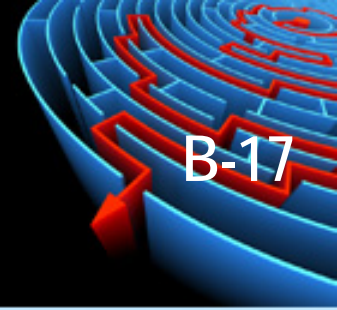
- Governor Brown proposes \$12.5 billion in cuts, which come primarily from other areas of the State Budget
- Major reductions include:
 - \$1.7 billion by limiting Medi-Cal services and requiring beneficiaries to share in costs
 - \$1.5 billion by establishing time limits and reducing California Work Opportunity and Responsibility to Kids (CalWORKs) grants
 - \$1 billion in reductions to University of California (UC) and California State University (CSU)
 - \$750 million from the Department of Developmental Services

What's Proposed for the Rest of the Budget?

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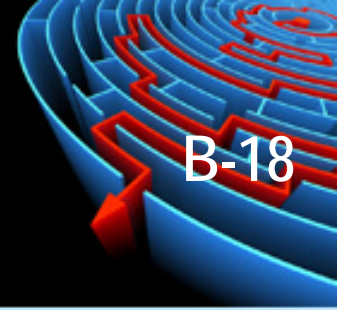
- \$750 million in childcare savings
- \$486 million by reducing hours for In-Home Supportive Services (IHSS)
- \$308 million in reduced take-home pay for state employees without contracts
- \$300 million (net) from community colleges
- It appears that other major savings come from one-time savings and borrowing

What's Proposed for the Rest of the Budget – Realignment



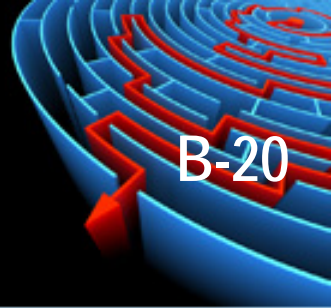
- The Governor's Proposed Budget calls for a shift of government services to the local level
 - Custody and care of juvenile offenders and low-level adult felons
 - Court security
 - CAL FIRE, fire and emergency response activities
 - Foster care and child welfare services
 - Adult protective services
 - Mental health services, including AB 3632
- Transfer of responsibilities would be accompanied by dedicated revenues
 - 1% sales tax and 0.5% vehicle license fee (VLF) which have been in effect since 2009
 - Would continue for an additional five years
 - Subject to voter approval at the June special election

Realignment and Education



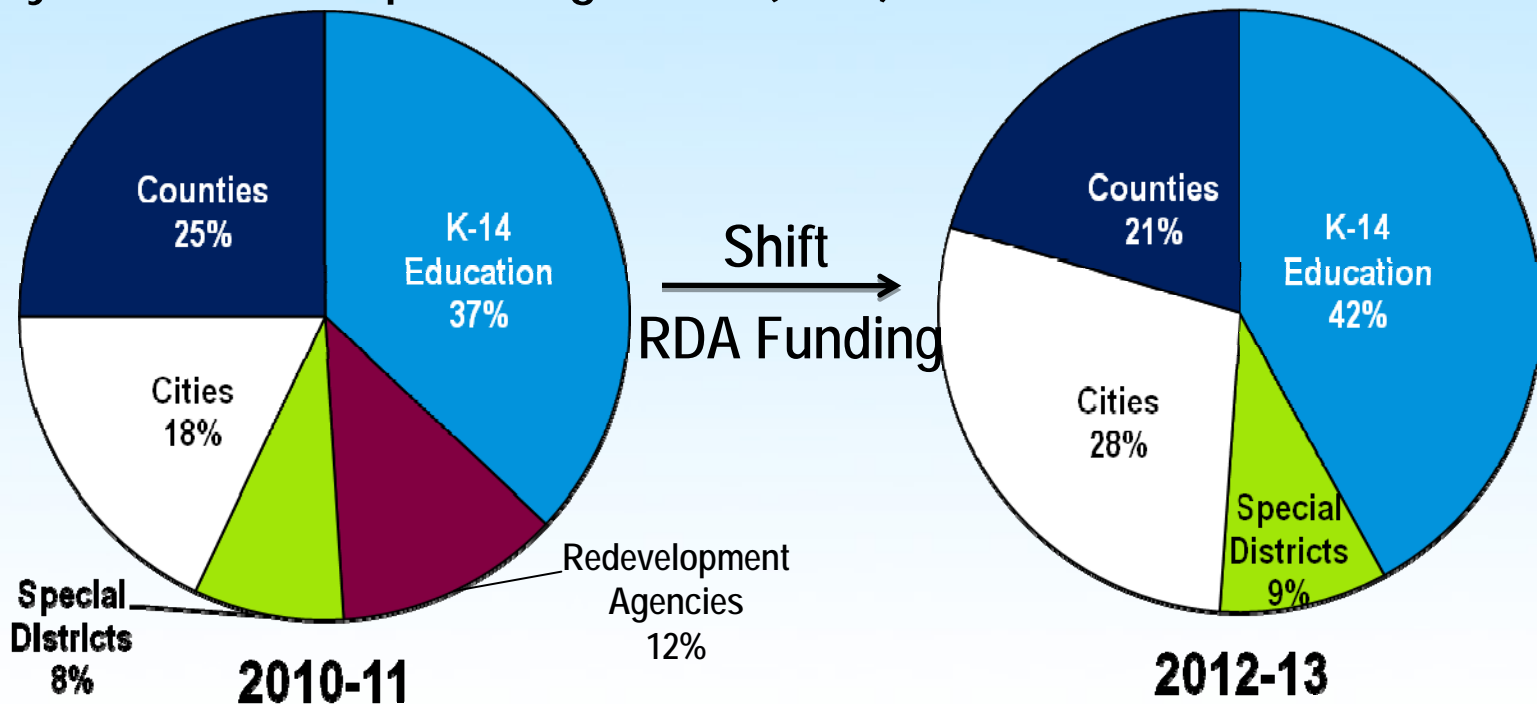
- The Governor's realignment proposals could affect LEAs in several ways:
 - Proposition 98
 - The 2011-12 proposed level of funding assumes that voters agree to extend temporary tax measures
 - Absent such action, the Proposition 98 guarantee would drop along with revenues
 - Tax revenues from the 1¢ sales tax and 0.5% from the VLF would be dedicated to a special fund
 - Results in a reduction to General Fund revenues used for determining the Proposition 98 minimum guarantee
 - Programs
 - Structure and funding for child care and mental health is changed to allow for increased local control

Where Do Local Property Taxes Go?



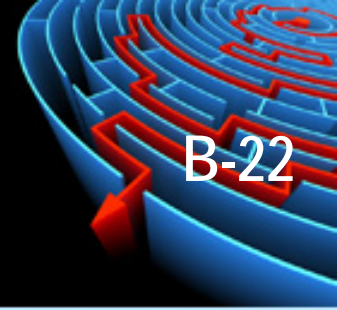
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- The Governor proposes restructuring the flow of local property tax funding away from redevelopment agencies (RDA) to other local entities

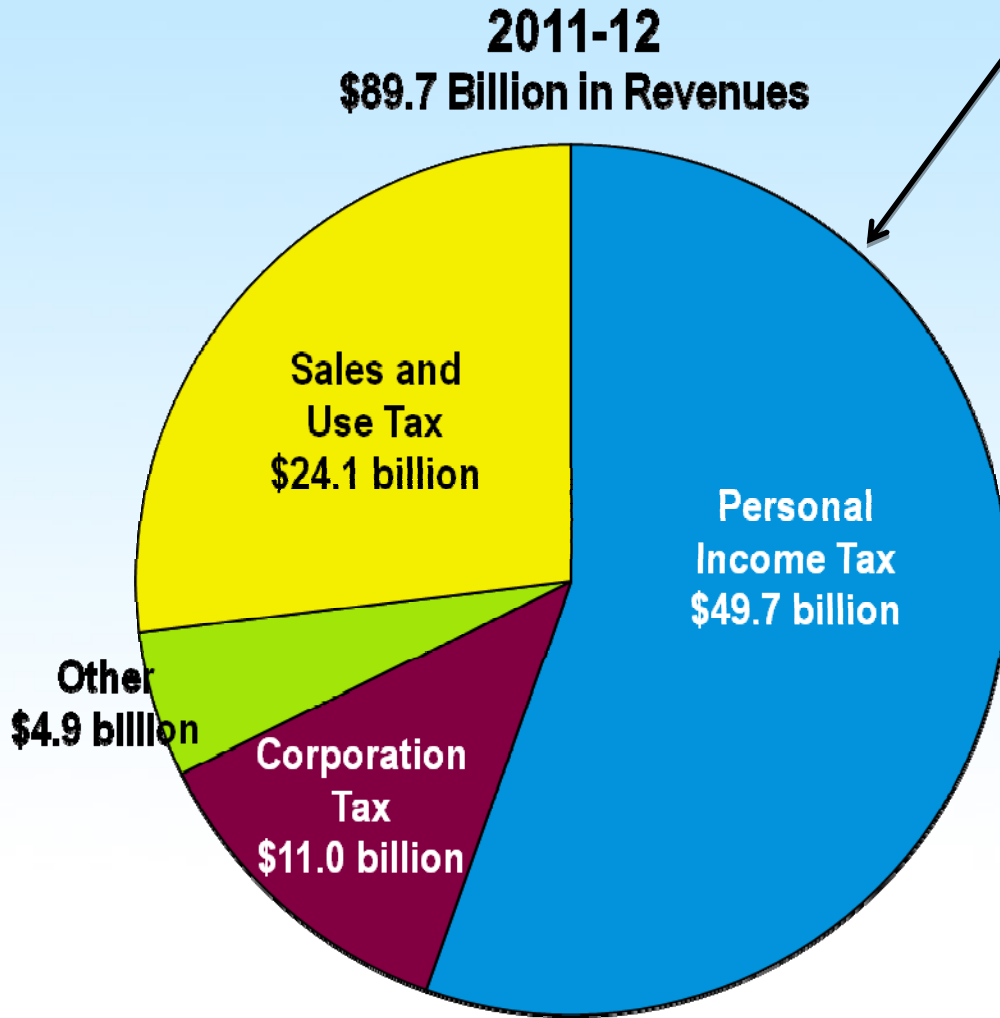


- The Governor estimates that RDAs will divert \$5 billion in property tax revenue from other agencies in 2011-12 allocated in proportionate shares to remaining local agencies

General Fund Revenue Sources



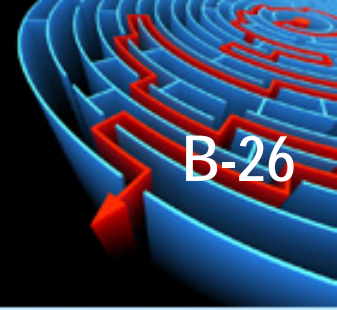
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Personal Income Tax

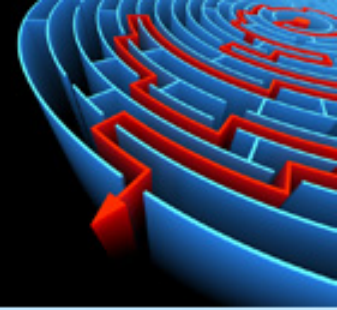
- The top 1% of state taxpayers paid 43% of this tax in 2008
- Taxpayers with incomes more than \$100,000 paid 84% of this tax in 2008
- Capital gains is a volatile source of income, dropping from \$132 billion in 2007 to \$35 billion in 2009

Budget Contingency Plan



- The Governor's Budget assumes that the temporary taxes are extended by the voters for five more years
- The Budget also proposes that additional reductions be made in the event that the tax extensions are not approved
- This leaves schools in a position of needing at least two plans
 - Option 1 – flat funding – continues the funding level contained in the enacted Budget for 2010-11 into 2011-12
 - Option 2 – a \$2 billion reduction in funding – results in a loss of about \$330 per ADA for the average district
 - Districts will need to plan for both eventualities until the fate of the tax extensions is determined
- Additionally, economic changes between now and enactment of the 2011-12 Budget could also cause a revision, up or down

Impact on Glendale Unified School District



- ❑ Option 1 – Flat Funding (Best Case) – Impact on GUSD

\$19 Cut per ADA —————> \$500,000 (approx.)

- ❑ Option 2 – If Elections Fail - \$330 Reduction Per ADA in 2011-12

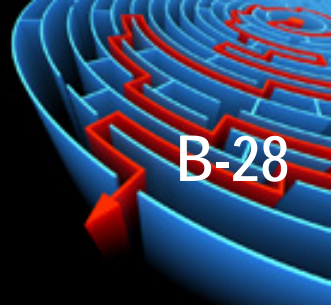
\$8.3 Million Reduction in Revenue

Plus

\$500,000 - \$19 Cut Per ADA

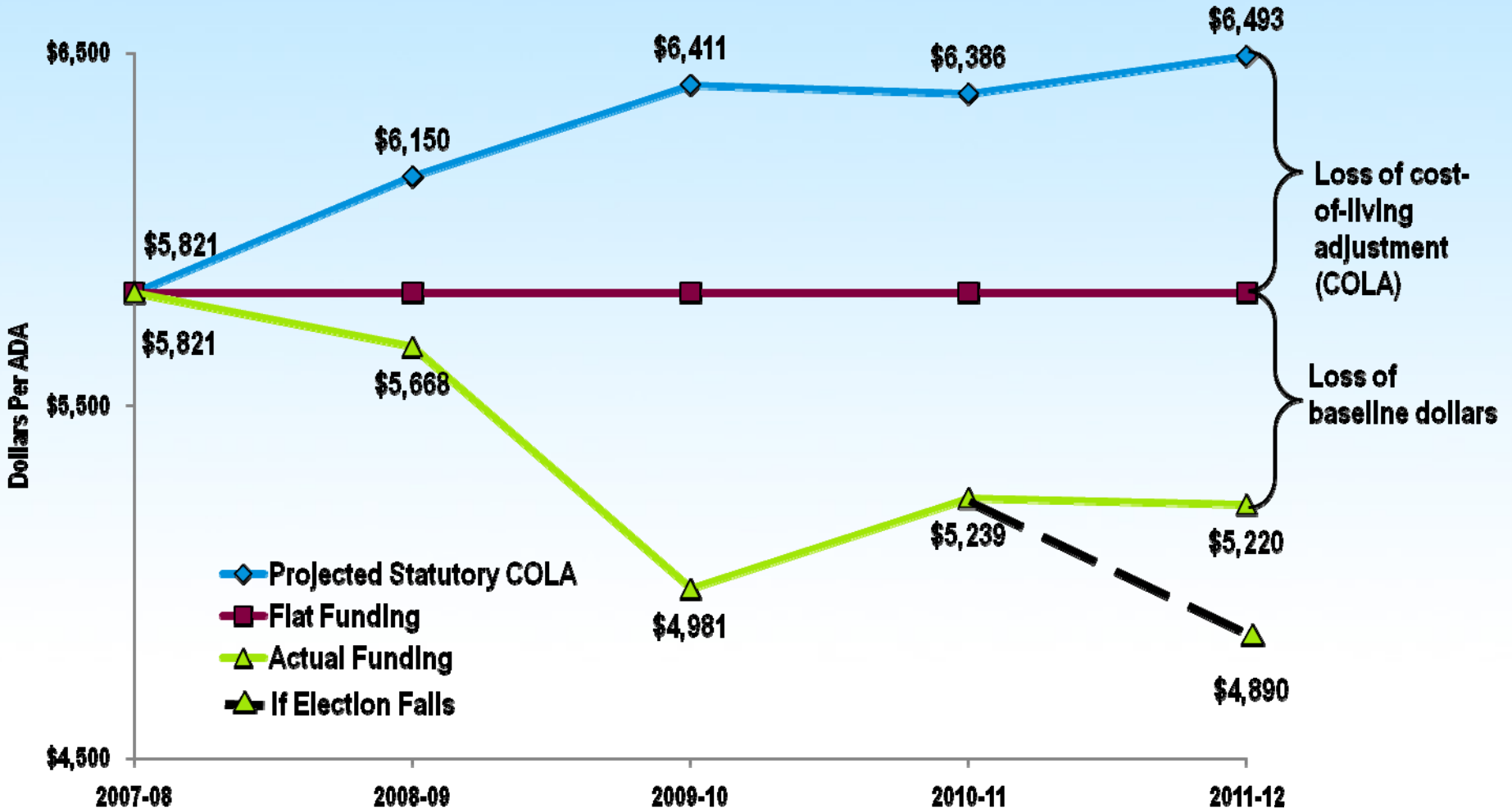
Total Impact - \$8.8 million cut

Projected vs. Actual Funding Per ADA

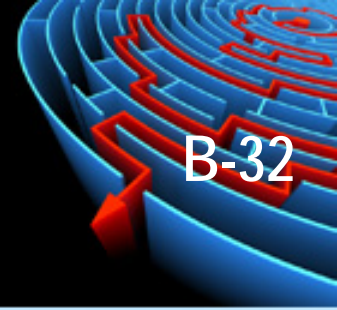


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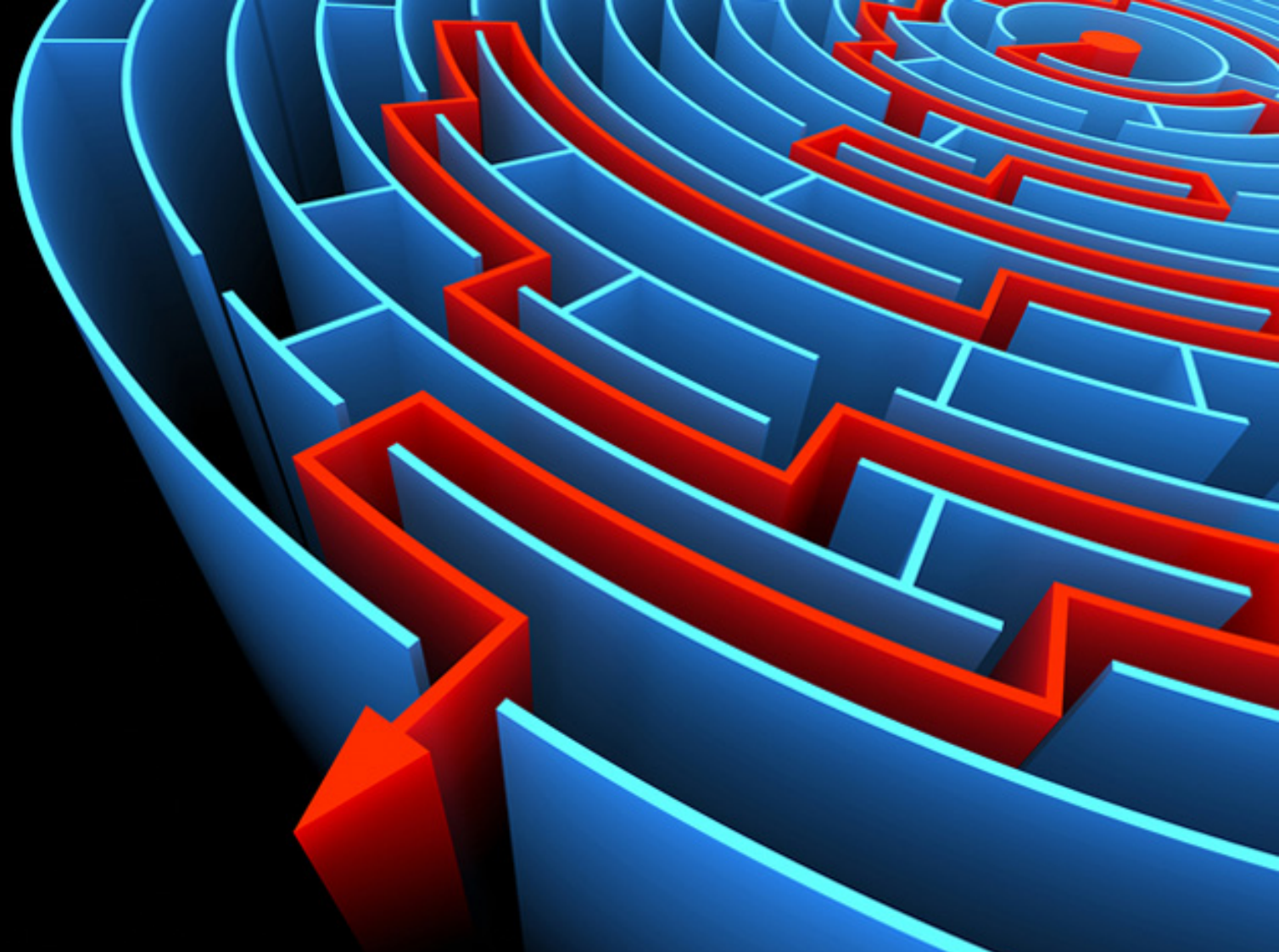
Average Unified District



Budget and Special Election Timeline

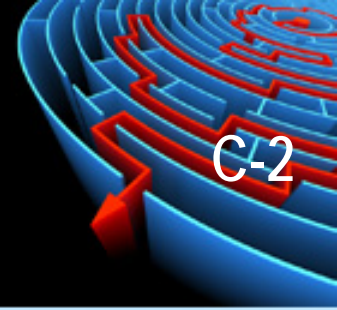


- The Governor released his Budget Proposal on January 10
- He has called for legislative action within the next 60 days to adopt all necessary statutory changes to implement the Budget
 - These are usually the Budget Trailer Bills
 - These changes would conform to the Governor's Budget Proposal
 - The actual Budget Bill, however, would not be adopted
- In June, the voters will decide whether to continue \$8.8 billion in temporary taxes
 - If the taxes are extended, the Legislature would then adopt the Budget Bill before the new fiscal year begins
 - If the taxes are rejected, further unspecified cuts would be required



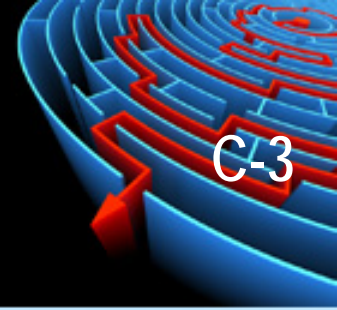
The Education Budget and Challenges Ahead

The Proposition 98 Dilemma



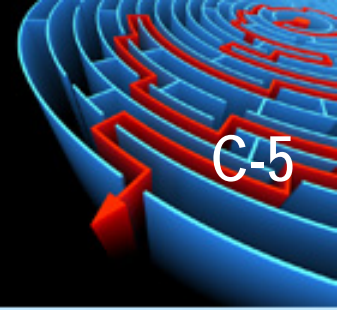
- According to the LAO, the Proposition 98 guarantee falls to \$47.5 billion in 2011-12 from \$49.7 billion in the current year
 - The expiration of temporary taxes drives down the guarantee
 - In addition, baseline cost adjustments (enrollment growth, cost-of-living adjustment [COLA], and backfilling the one-time deferral savings) would require an additional \$3.2 billion
- The Governor's Budget proposes flat funding for K-12 education if the temporary taxes are extended
 - The Legislature has the authority to extend the taxes; however, the Governor is calling for voter approval instead
 - A June 2011 ballot measure is proposed

The Tradeoff for K-12 Education



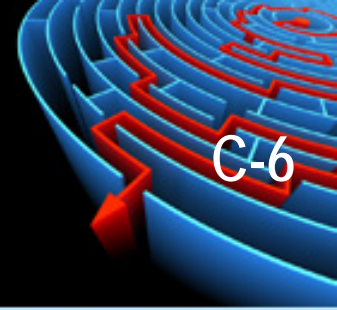
- If the temporary taxes are extended, K-12 education would receive less than what is called for under Proposition 98
 - The Governor's Budget realigns some state programs to local governments and redirects almost \$6 billion to a newly created Local Revenue Fund, bypassing the General Fund and Proposition 98
 - Only \$5 billion would flow through the General Fund, resulting in an additional \$2 billion for Proposition 98, which would be roughly sufficient to maintain flat funding in 2011-12
- Proposition 98, however, may provide more funds to K-14 education if the economy and revenues outperform the forecast
 - 2011-12 is expected to be a Test 1 year, which guarantees 41% of General Fund revenues to education
 - Unexpected revenue gains of \$5 billion or more in 2011-12 would also yield an additional \$2 billion for Proposition 98

Revenue Limits



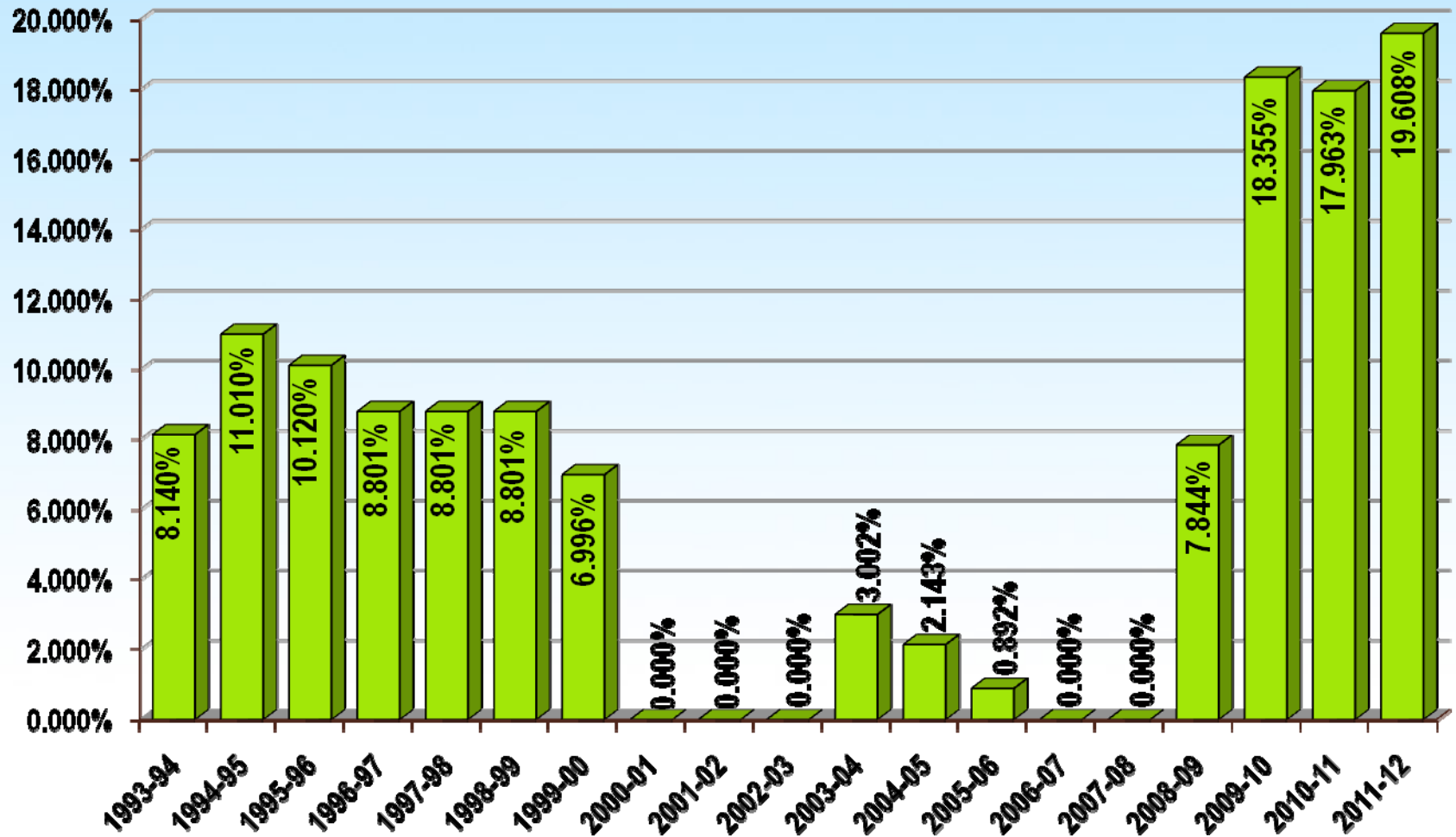
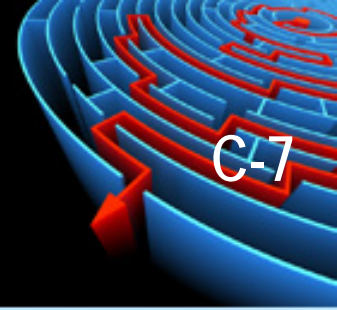
- The Governor's Budget proposes the following for revenue limits:
 - For 2010-11: No change to the enacted 2010-11 Budget Act levels
 - For 2011-12:
 - Full funding for an estimated 0.22% increase in ADA
 - No funding increase for the estimated 1.67% statutory COLA
 - 19.608% deficit factor, which eliminates the statutory COLA
- The actual statutory COLA is dependent on data published by the U.S. Department of Commerce in April 2011 and will be updated in the May Revision

Revenue Limit COLA



	Statutory COLA	
District Type	2010-11 -0.39% (Actual)	2011-12 1.67% (Est.)
All Elementary Districts	-\$24	\$102
All High School Districts	-\$29	\$123
All Unified Districts	-\$25	\$107

Revenue Limit Deficit Factors



2011-12 Education Budget

FAILURE OF
TEMPORARY
TAX EXTENSION
INITIATIVE



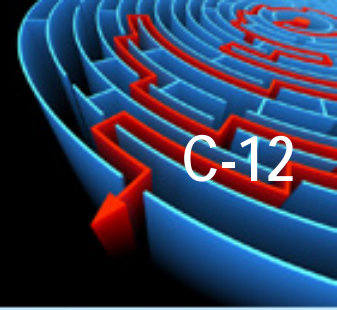
EXPIRING
ONE-TIME
FEDERAL
FUNDING

POOR
STATE GENERAL
FUND REVENUES

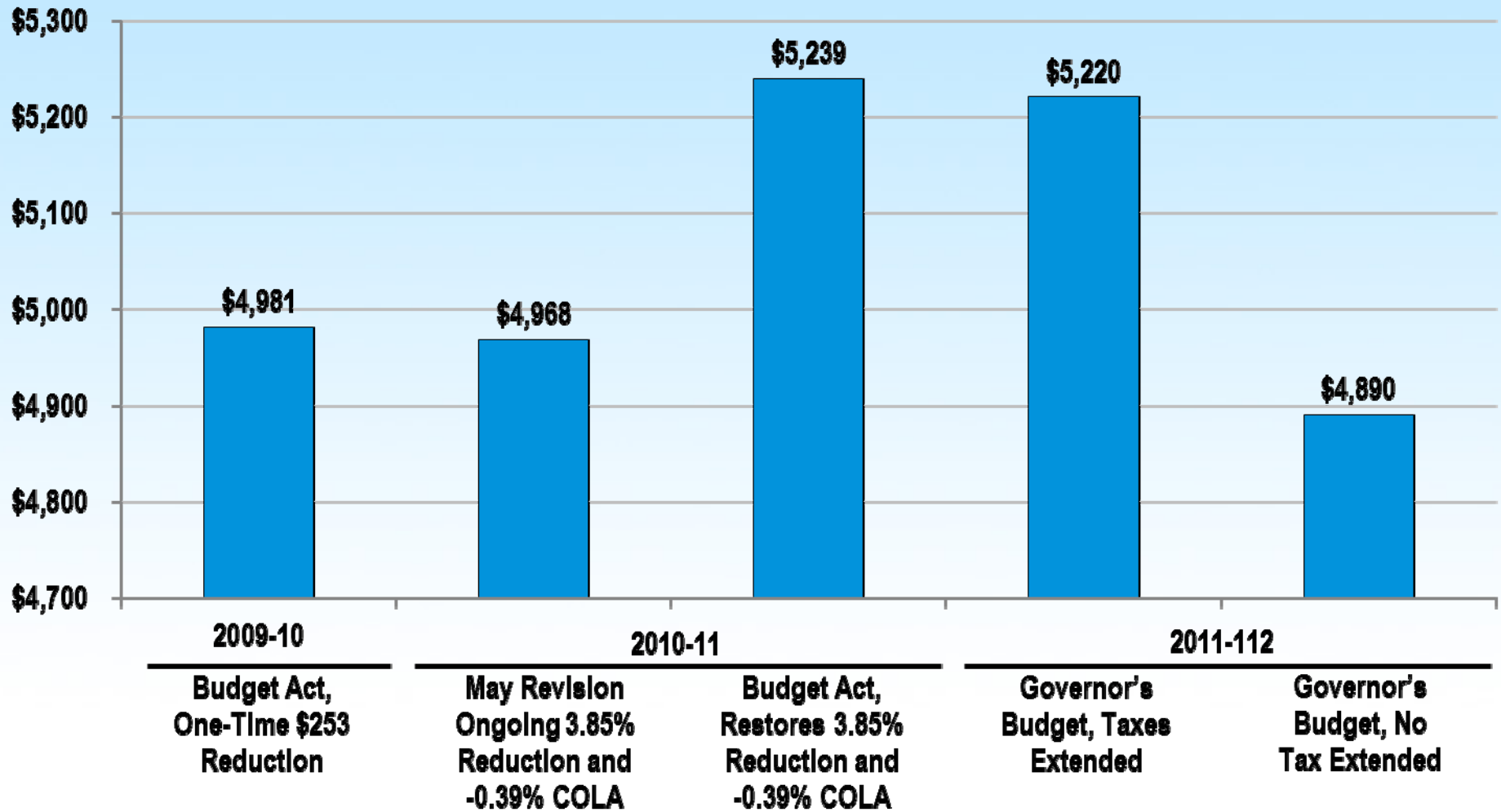
RISK TO FLAT FUNDING

Red Fisher

What Does a \$2.2 Billion Cut Look Like For a Typical District?

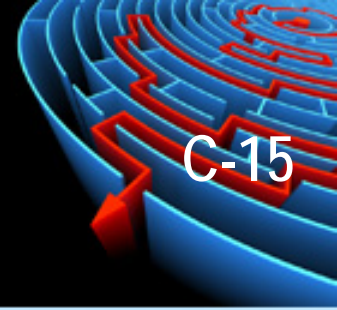


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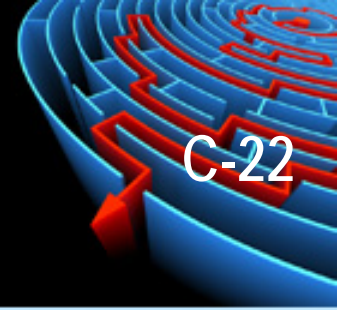
Note: All calculations are based on the average unified funded revenue limit in each of the years referenced

Deferrals Continue to Grow



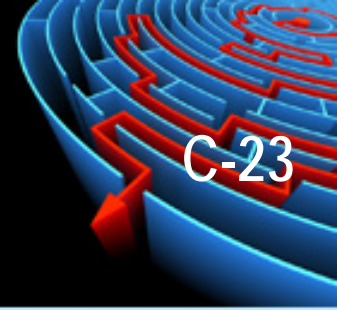
- In order to maintain “flat” funding for Proposition 98, the Governor proposes additional deferrals
- The Governor proposes to add \$2.1 billion in year-over-year deferrals, which would bring total K-14 deferrals to nearly \$10 billion
 - This amounts to around 45% of the state’s contribution to education being deferred between school years
- In short, the size and duration of deferrals grow, which exacerbates cash shortages experienced by LEAs

Special Education



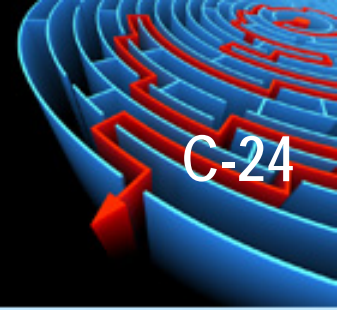
- The Governor's Budget provides growth, but no COLA for special education
 - Growing special education local planning areas (SELPAs) would receive \$465.4404 per ADA – this rate has not changed since 2008-09
- There is also \$20.2 million in additional federal funding, which would be distributed based on the AB 602 formula, estimated at \$3.38653 per ADA
- There is no funding proposed for the Special Disabilities Adjustment (SDA), which is due to sunset at the end of 2010-11
 - But the Governor does not redirect the \$74 million from SDA to other areas within special education
 - It appears that the state may be at risk of not meeting its Maintenance-of-Effort requirement if it makes such a reduction rather than a redirection

Special Education: AB 3632 Update

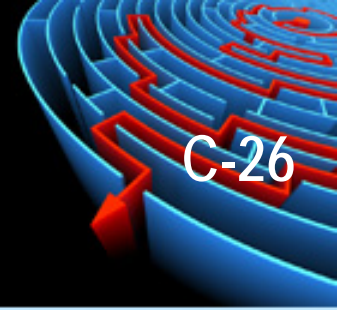


- Federal law requires mental health services be provided for students with disabilities
 - County mental health agencies in California have been required to provide those services for the past 26 years per state law
- Actions taken as part of the 2010-11 Budget Act have drawn into question whether or not the mandate has been suspended
 - Yet services continue to be required due to their inclusion in individual education plans (IEPs), not to mention student need
- The issue of whether counties, the state, or local schools districts are financially responsible to provide services is working its way through the courts

Special Education: AB 3632 Update



- In the meantime, the Governor has weighed in with a proposal:
 - In 2010-11 there is no change to the status quo (i.e., a matter that the courts and the Legislature will have to work out)
 - In 2011-12 provide \$98.6 million from Proposition 63 (Mental Health Services Act) to counties to reimburse them for prior-year mandate claims (2004-05 through 2008-09)
 - Such action requires a two-thirds vote of the Legislature
 - From 2012-13 forward, the AB 3632 services are assumed to be handled under county realignment along with funding
- This remains an area of significant uncertainty and expense with many details yet to be worked out

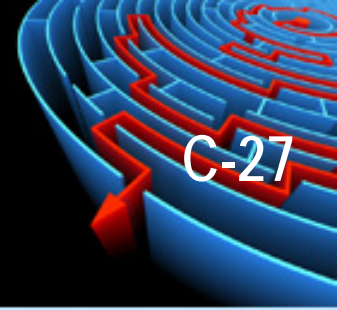


Flexibility Options Proposed to Continue

- The Governor's Proposal would extend available flexibility options by two years beyond the current expiration dates

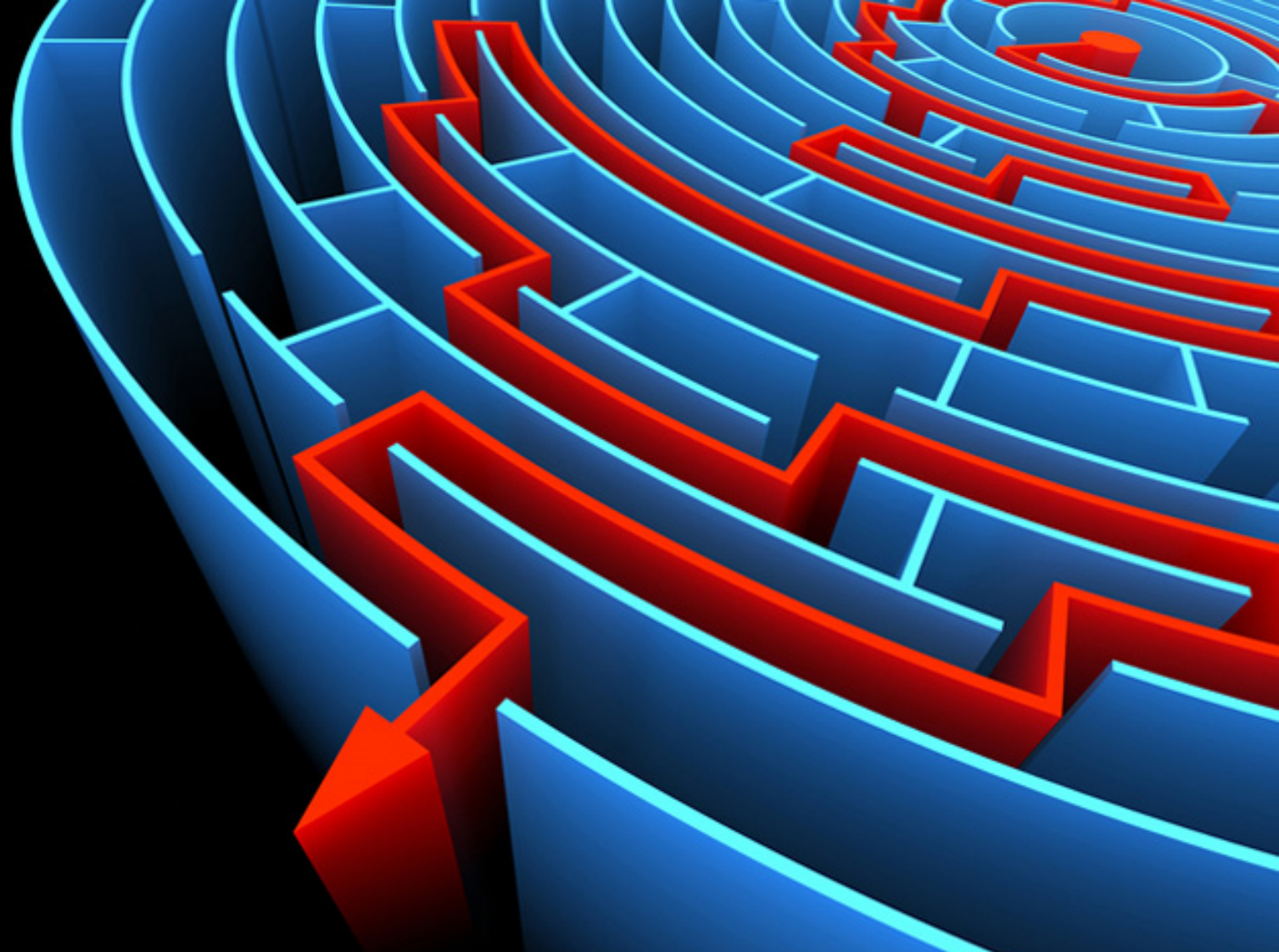
Current Law Expiration Date	Governor's Budget New Expiration	Description of Flexibility
June 30, 2012	June 30, 2014	Minimum reserve requirement is one-third of statutory requirement in 2009-10, progress is shown in 2010-11, and full statutory requirement is restored in 2011-12
		Reduced penalties for K-3 Class-Size Reduction (CSR) (for up to the number of classes applied for as of January 31, 2009)

Flexibility Options Proposed to Continue



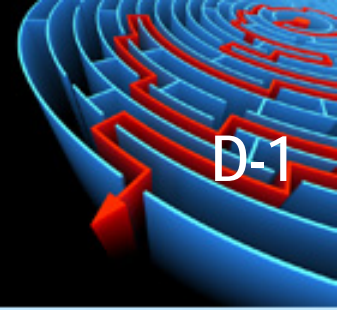
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Current Law Expiration Date	Governor's Budget New Expiration	Description of Flexibility
June 30, 2013	June 30, 2015	Base year of 2007-08 for ADA-funded flexible programs (adult education, regional occupational programs, etc.)
		Routine restricted maintenance set aside reduced to zero (except as necessary for <u>Williams</u> compliance)
		Deferred maintenance hardship funding suspended
		Suspension of deferred maintenance local match requirement
		Flexibility of Tier III categorical programs; funding level based on 2008-09 (with public hearing requirement)
		Suspension of instructional materials adoption requirement

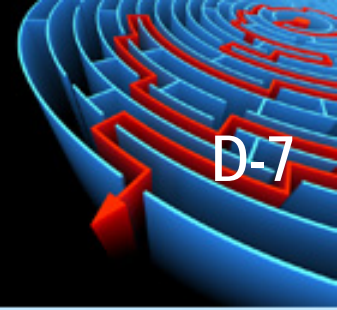


Local Agency Operations and the Budget

Overview – Local Agency Operations and the Budget



- Use of Multiyear Projections
- Adequate Reserves
- Cash
- Class Sizes
- Facilities
- Health & Welfare Benefit Costs
- Retirement
- Budget Reductions



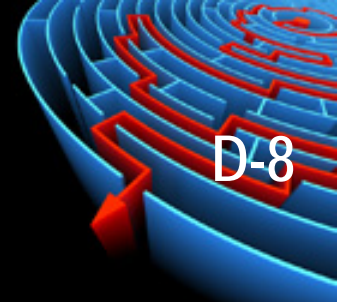
Trend of Second-Period Interim Reporting

- 84% of the LEAs managed to file positive certifications
- The ongoing fiscal challenges have caused the number of school agencies reporting qualified status to almost double, with five fewer districts reporting a negative status since 2008-09

	2005-06	2006-07	2007-08	2008-09	2009-10
Positive	1,007	1,016	929	942	876
Qualified	29	19	109	89	160
Negative	4	5	14	19	14

- Remember:
 - Qualified means you can't balance the budget
 - Negative means you expect to run out of cash

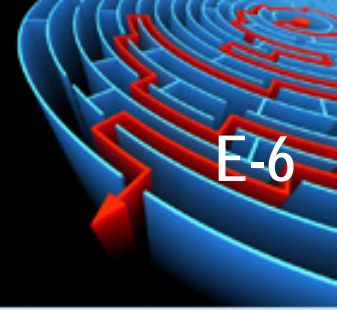
Statewide Averages for Reserve Levels



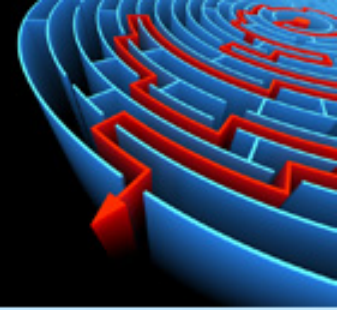
2008-09 Average Unrestricted General Fund Plus Fund 17 Net Ending Balances as a Percentage of Total General Fund Expense, Transfers, and Other Uses	
Elementary Districts	17.9%
High School Districts	15.5%
Unified Districts	11.2%

- Statewide, the average reserve was significantly higher than the state-required minimum due to flexibility provisions provided in 2008-09 Budget
- This increase is likely to be short lived
 - A seemingly high ending fund balance is unlikely to carry a district through turbulent times, especially when voter approval is necessary to maintain current funding levels

Capital Facilities



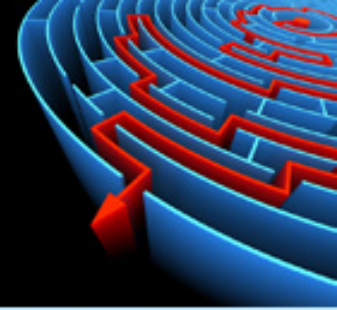
- LEAs should move forward with capital projects now
 - Availability of lower-cost materials drives down the cost of projects
 - Bid market is competitive
 - Interest rates on bonded indebtedness are low
- Funding projects:
 - Sell local bonds
 - Use Special Reserve for Capital Outlay
 - Use the promise of approved, yet unfunded, state apportionments to secure bridge financing or Certificates of Participation
 - Use Qualified School Construction Bonds or Qualified Zone Academy Bonds (QZABs) if your LEA has the opportunity
- Remember – inform your stakeholders about the advantages of moving ahead with capital outlay projects in this economic climate, even when other areas of the budget may be in trouble



School
Services
Of California
INC.™

Thanks you

Next Steps for GUSD

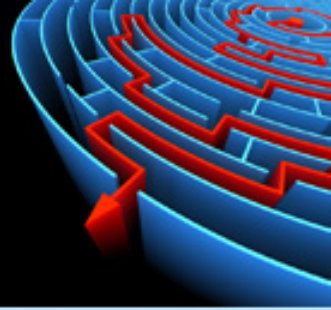


Detailed Review of Proposed State Budget Impacts

Items with a Critical Impact

- April - Measure S Election
- June – Governor’s Proposed Election to Extend Taxes

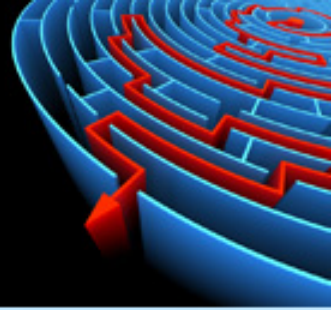
Budgetary Goals for 2011-12



Fundamental Building Blocks to Support Instructional Program (December 14 Discussion)

- No Additional Layoffs to the Base Staffing**
- Reduce/Eliminate Furlough Days in Future Years**
- Maintain K-3 Staffing at 24 Students Per Class**

Superintendent's Recommendation



Maintain Reductions Implemented Last Year Until More Information is Available

- Staffing**
- Tier III**
- Summer School**