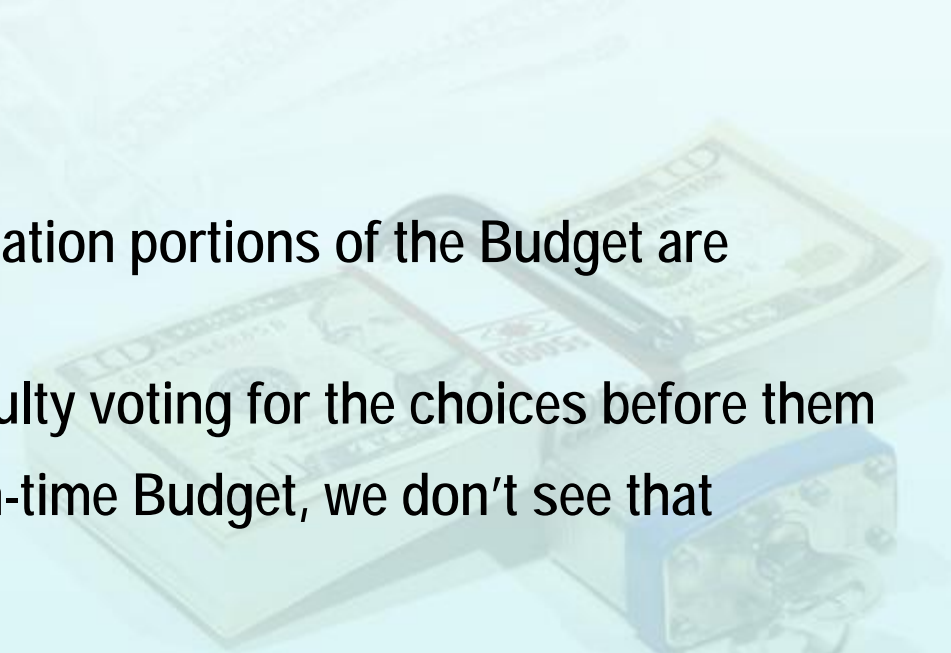


# 2010-11 May Revision Workshop

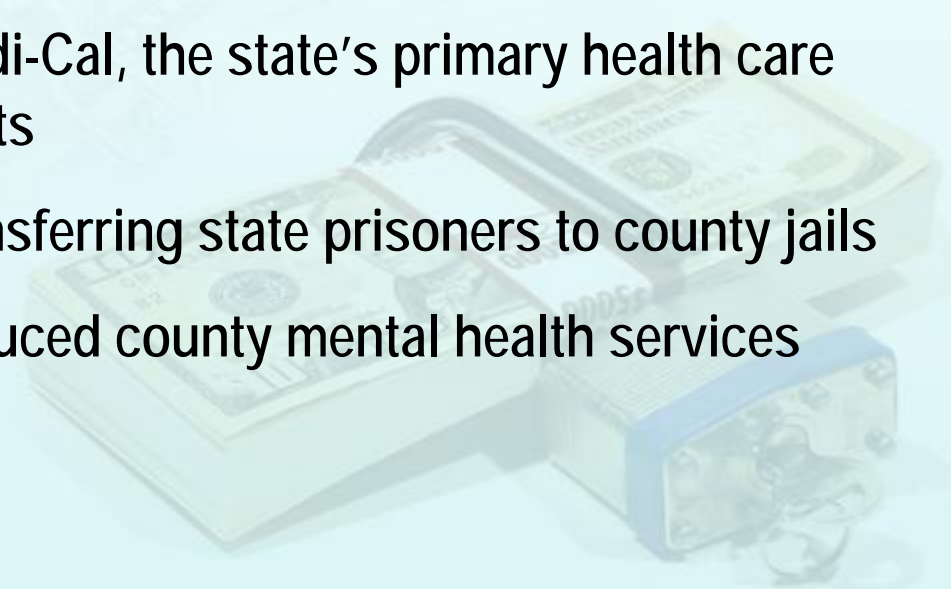


## May Revision Features

- For the most part, the May Revision contains no further cuts to K-12 education
    - Cuts proposed in January remain
    - Targeted proposed administrative cut is eliminated
    - Cuts to child care eliminate subsidized slots for 142,000 children
    - No new federal dollars
  - No new taxes are proposed
  - Major additional cuts to the noneducation portions of the Budget are proposed
  - The Legislature will have great difficulty voting for the choices before them
  - Despite the Governor's call for an on-time Budget, we don't see that happening
- 

## Major May Revision Proposals

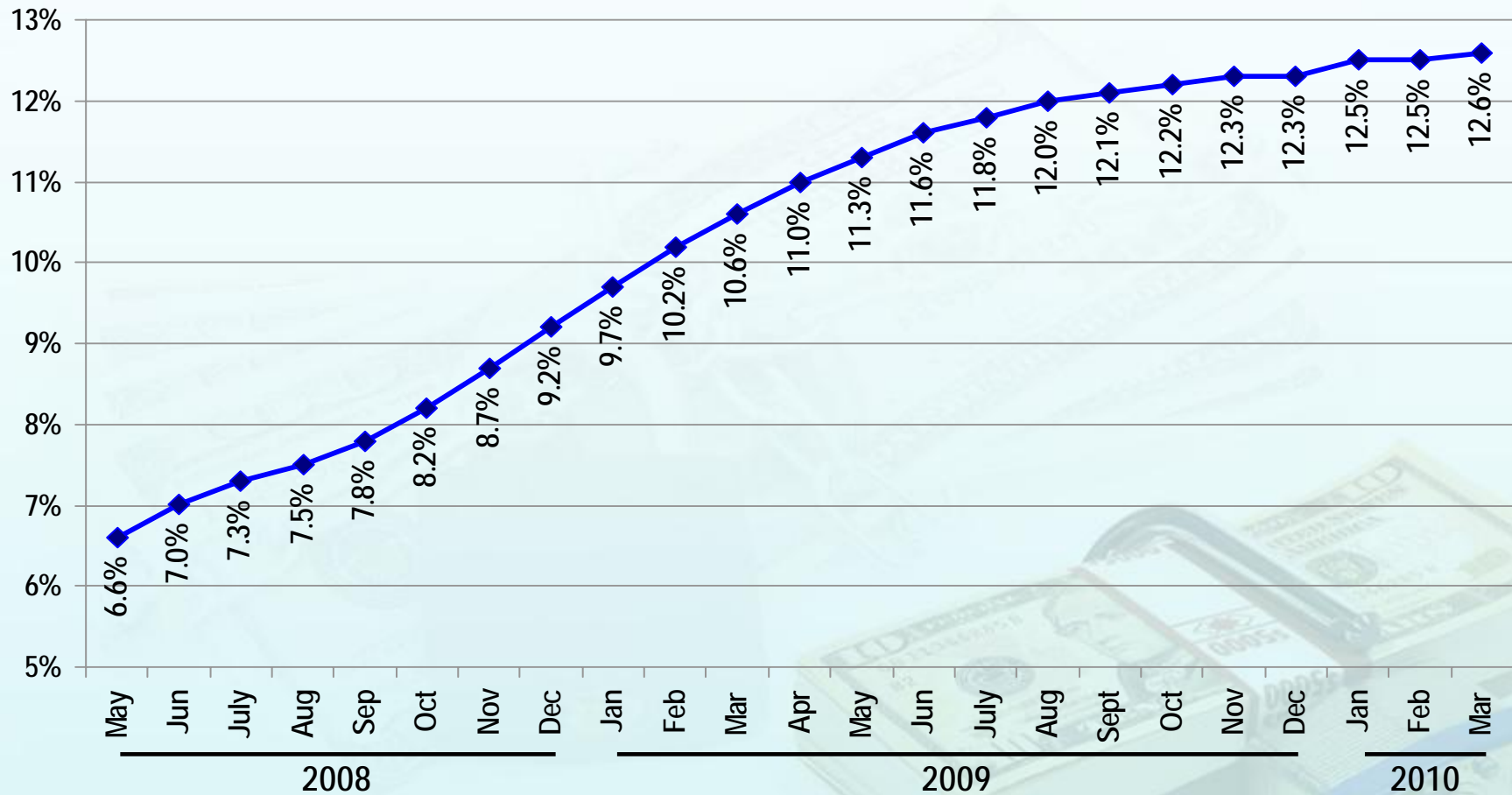
- Program cuts make up the majority of the Governor's May Revision proposals, including:
  - \$1.1 billion in savings from the elimination of CalWORKs, the state's welfare program for the poor
  - \$637 million in savings from cuts to the In-Home Support Services program for the disabled
  - \$750 million in savings from Medi-Cal, the state's primary health care program for low-income residents
  - \$244 million in savings from transferring state prisoners to county jails
  - \$602 million in savings from reduced county mental health services



## Risks to the Revised Budget Proposal

- In January, there were major risks to the Governor's Budget proposals:
  - Federal funds – no guarantee that \$6.9 billion could be secured
  - Voter approval – required for fund shifts
  - Economy and revenues – the economy and revenues could underperform forecasts
- Some of these risks have in fact materialized:
  - Only \$3.4 billion in federal funds are expected to be received
  - Fund shifts requiring voter approval will not be placed on the ballot
  - Current-year revenues have fallen short by \$1.6 billion

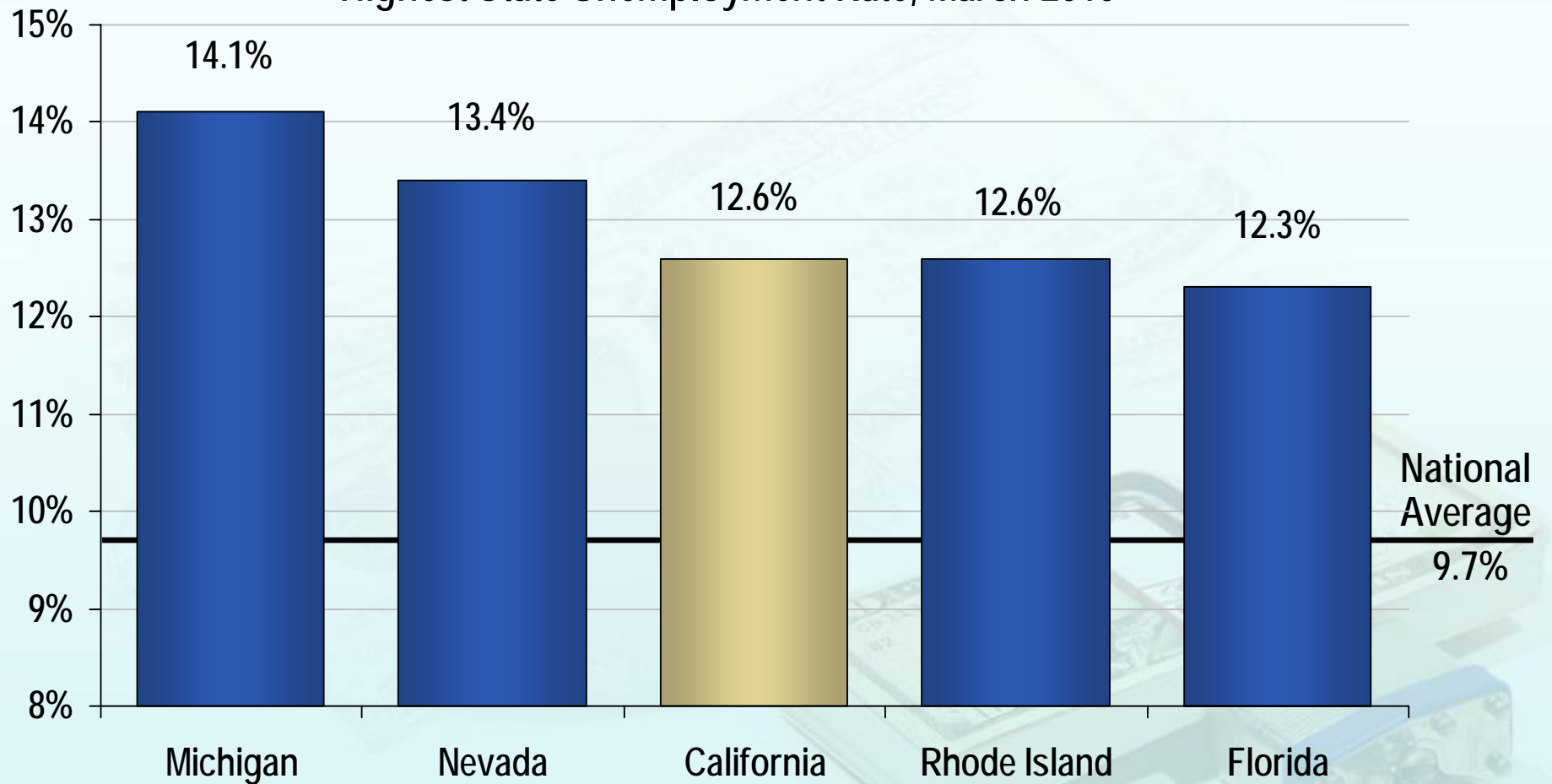
# California's Unemployment Rate



Sources: Employment Development Department; Historical Civilian Labor Force, May 2010

# California's Unemployment Rate vs. Other States

Highest State Unemployment Rate, March 2010



Source: U.S. Bureau of Labor Statistics, April 2010

## Risks to the Revised Budget Proposal

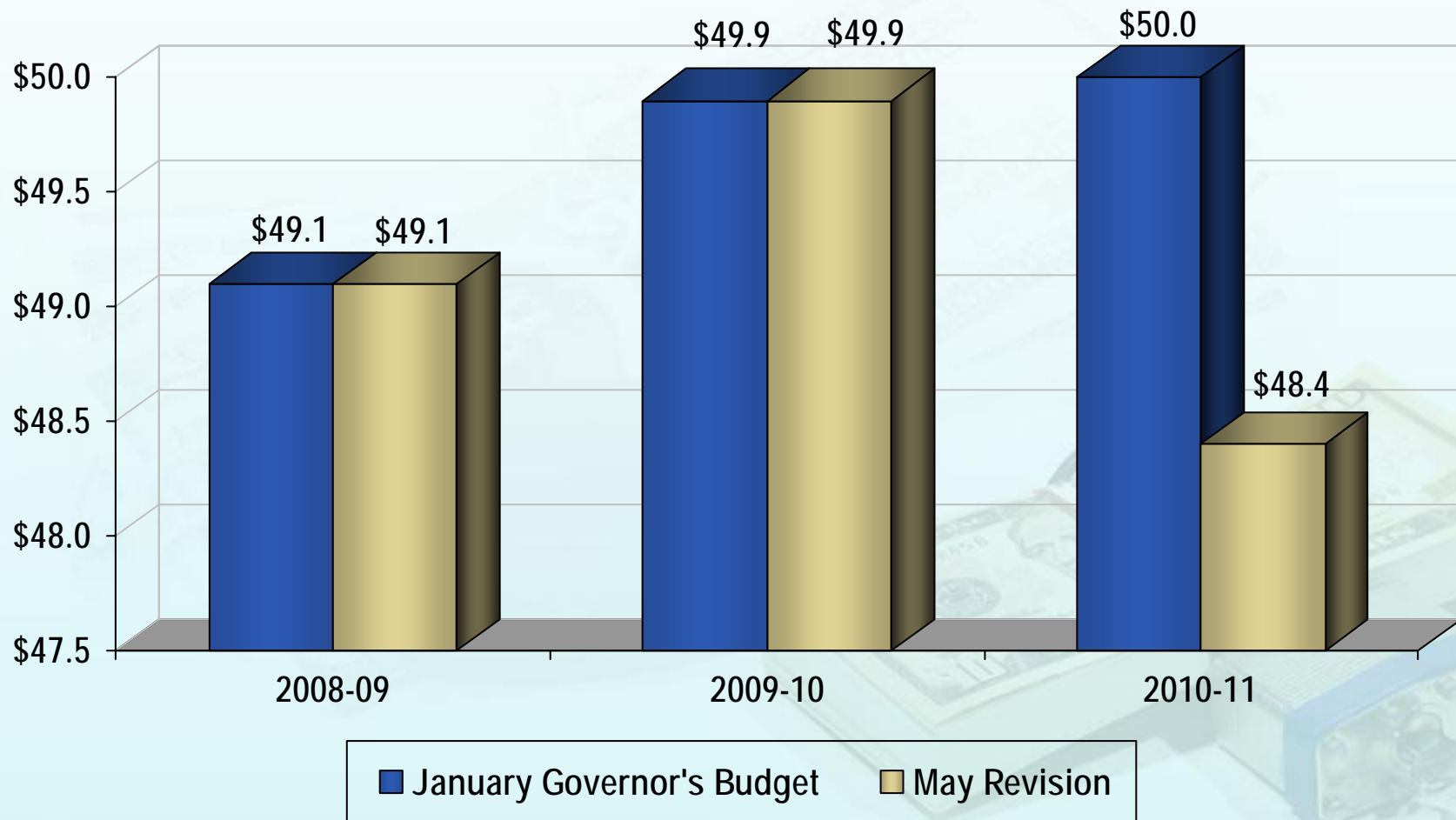
- The May Revision, if enacted as proposed, contains other – but equally significant – risks
  - Court challenges – rebenching Proposition 98, elimination of CalWORKs, state worker pay cuts, health care reductions, and other cuts could face court challenges
  - Late Budget – a late Budget would delay implementation of program reductions, resulting in the loss of budgeted savings
  - Economic and revenue risks – the state and national economies face the possibility of a “double dip” recession, especially in light of the turmoil in overseas economies
- These risks in turn could threaten California’s access to the capital markets, pushing borrowing costs even higher

# Overview of the State Budget

- Proposition 98 continues to provide little short-term protection
  - The Proposition 98 guarantee continues to fall and is therefore technically “overfunded” (applied towards maintenance factor)
  - Education funding, at this point, is totally at the discretion of the state
  - Because of unprecedented economic events, there have been major disputes about some of the constitutional provisions, especially the Maintenance Factor
- In the longer term, Proposition 98 benefits education
  - Restoration of the base is required
  - During the good years ahead, Proposition 98 will drive higher levels of funding
- But until then, California faces a continuation of difficult budget years

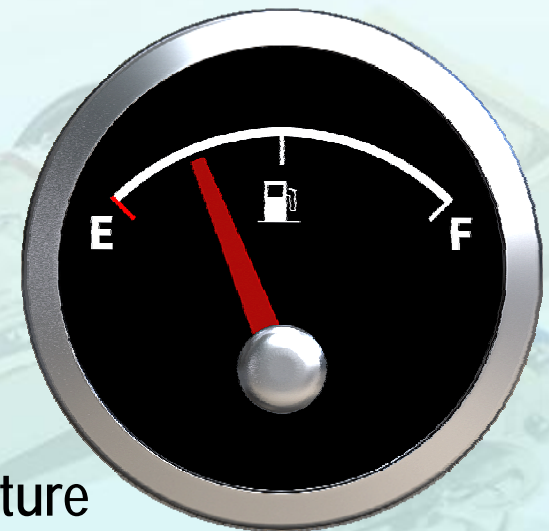
# Proposition 98 – Proposed Funding Level

(In Billions)



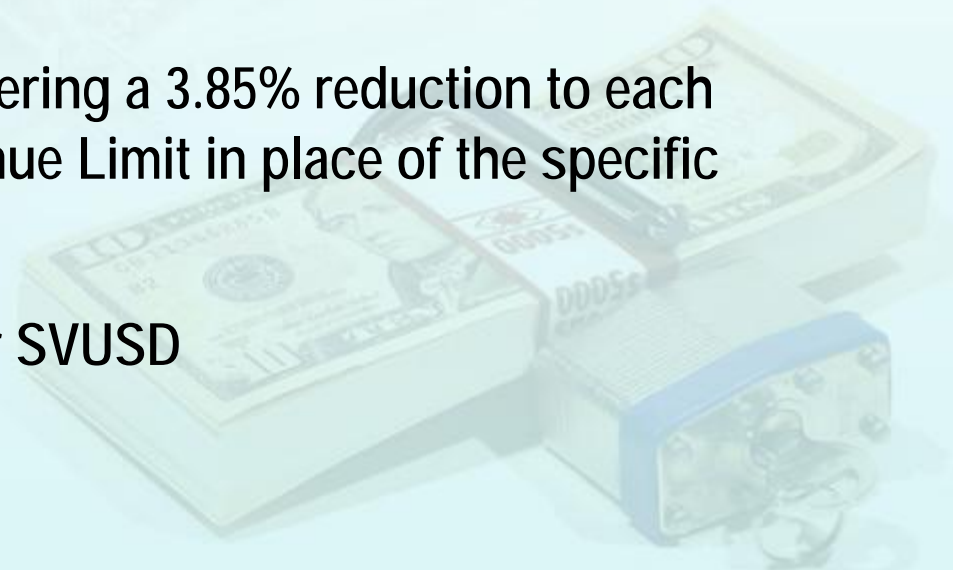
## Proposition 98 Policy Changes

- For 2010-11, the May Revision proposes two significant policy changes that lower the minimum guarantee
  - The guarantee is proposed to be rebenched downward by \$1.45 billion to reflect the elimination of child care funding
  - The Administration proposes to postpone implementation of the hold-harmless provision contained in ABX8 6 (Chapter 11/2010), the gas tax swap for the excise tax
    - Swapping the sales tax on gas for the excise tax lowers the Proposition 98 guarantee by \$682 million
    - The Legislature attempted to protect Proposition 98 from this impact
- These policy changes will be debated in the Legislature

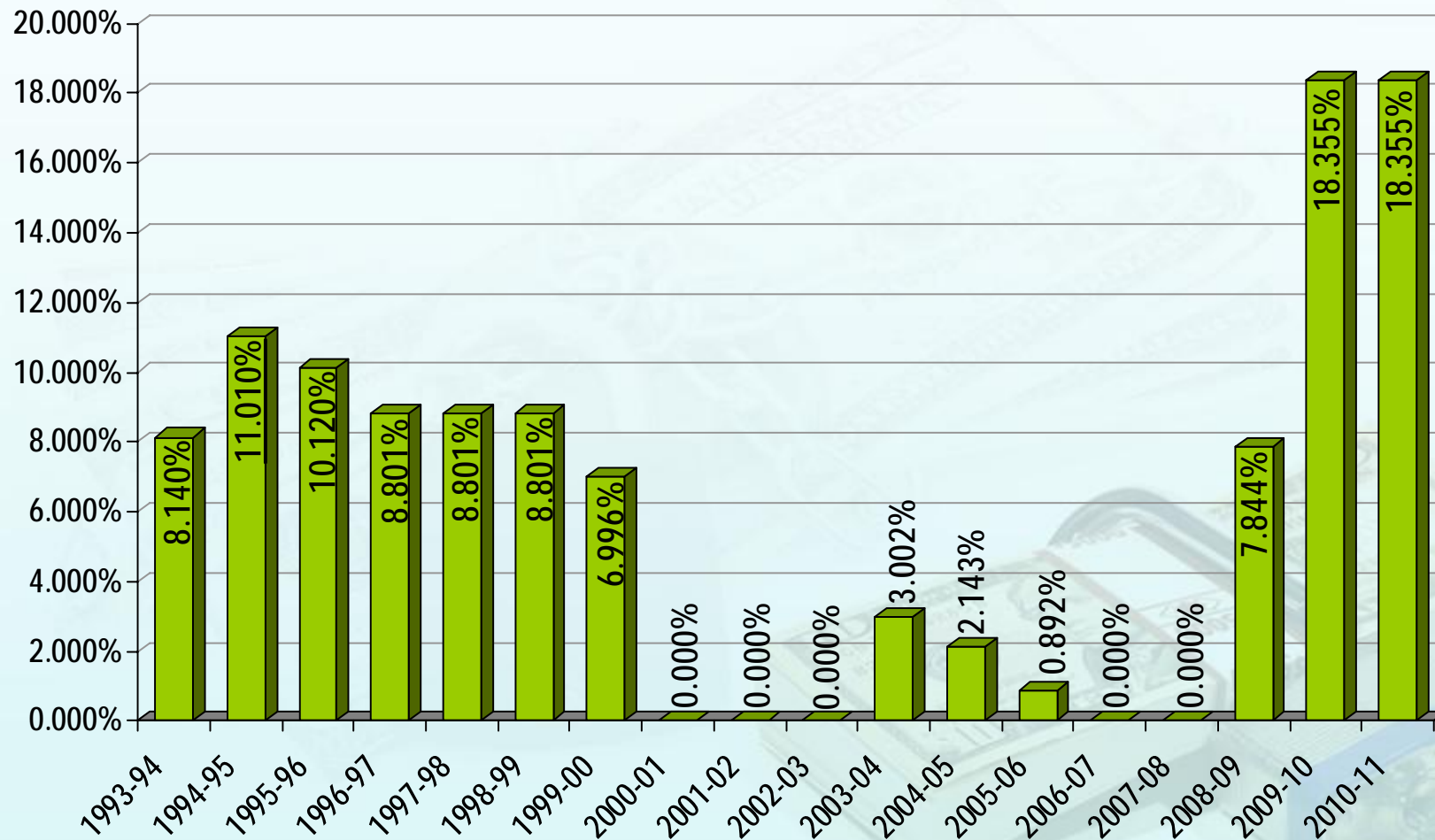


## Targeted Administrative Cut Recast

- The January Governor's Budget proposed cutting \$1.5 billion from revenue limits and targeting the reduction to school district administration:
  - \$1.2 billion reduction to central administration
  - \$300 million related to savings from greater contracting-out flexibility
- The January proposal called for \$201 per-ADA reductions for unified districts:
  - Department of Finance is considering a 3.85% reduction to each district's undeficit Base Revenue Limit in place of the specific amount by district type
  - This reduction would be \$244 for SVUSD

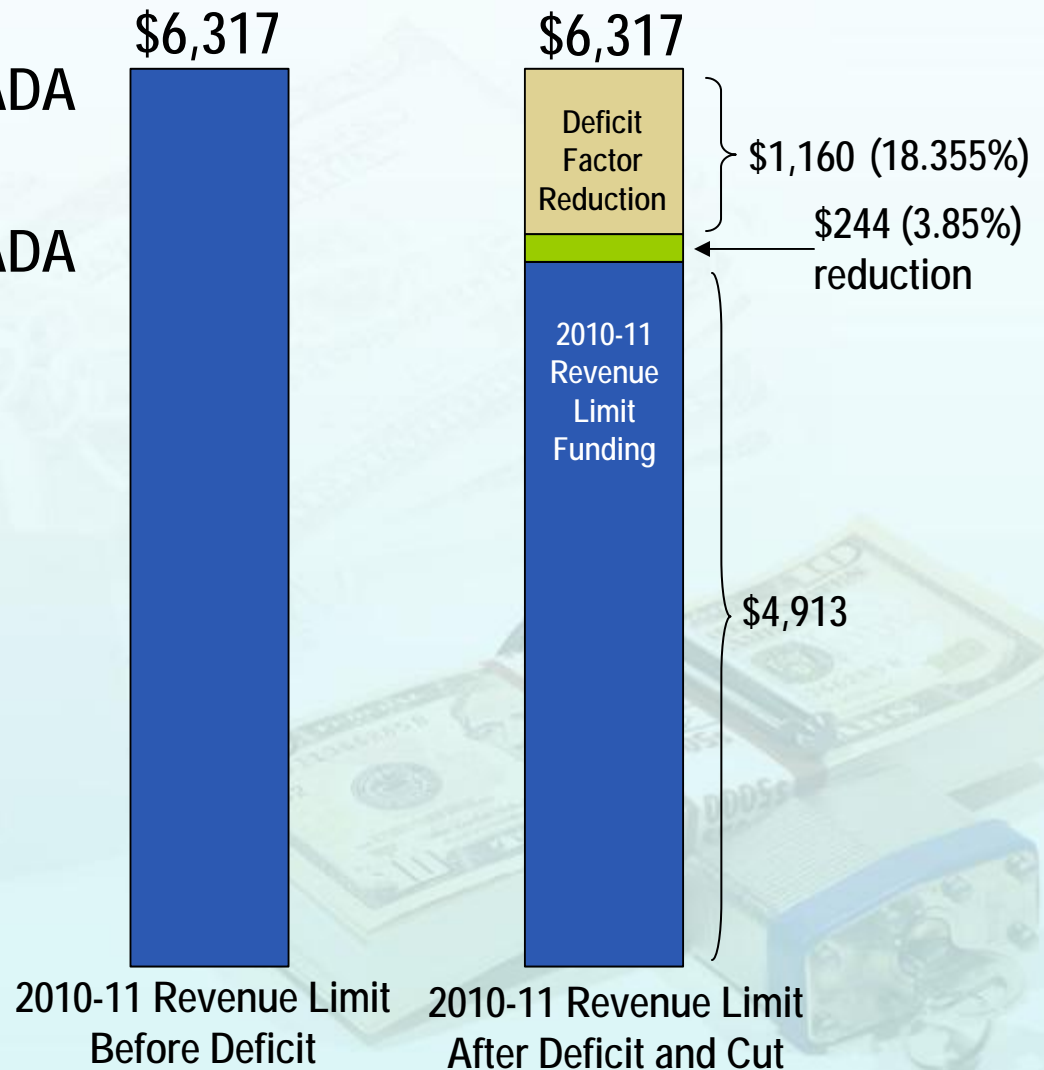


# Revenue Limit Deficit Factors



# 2010-11 Deficit Applied and Cut

- 2010-11 deficit of 18.355% to undeficited revenue limit per ADA
- Apply the 3.85% cut to the undeficited revenue limit per ADA



## Flexibility Opportunities Continue

- The flexibility options introduced in 2008-09 continue without changes
  - 42 Tier III flexible categorical programs
    - Including suspension of deferred maintenance match requirements and instructional materials adoption timelines
  - Relaxation of K-3 Class-Size Reduction (CSR) funding penalties
  - Lowering reserve requirements (only to 2011-12)
  - Shorter school year
- The May Revision proposes no changes to existing flexibility – nor does it offer answers to questions about the future of flexibility
  - Tier III flexibility continues through 2012-13
  - K-3 CSR funding penalties remain relaxed through 2011-12

## Class Size and Class-Size Reduction

- The May Revision makes no changes to the flexibility for K-3 CSR included in ABX4 2 (Chapter 2/2009)
- It also continues to assume that \$340 million in K-3 CSR incentive funding will be unclaimed in 2009-10 and \$550 million in 2010-11

Revised K-3 CSR Graduated Penalties	
Class Size	2008-09 to 2011-12
Up to 20.44	No penalty
20.45 to 21.44	5% penalty
21.45 to 22.44	10% penalty
22.45 to 22.94	15% penalty
22.95 to 24.94	20% penalty
24.95 or more	30% penalty

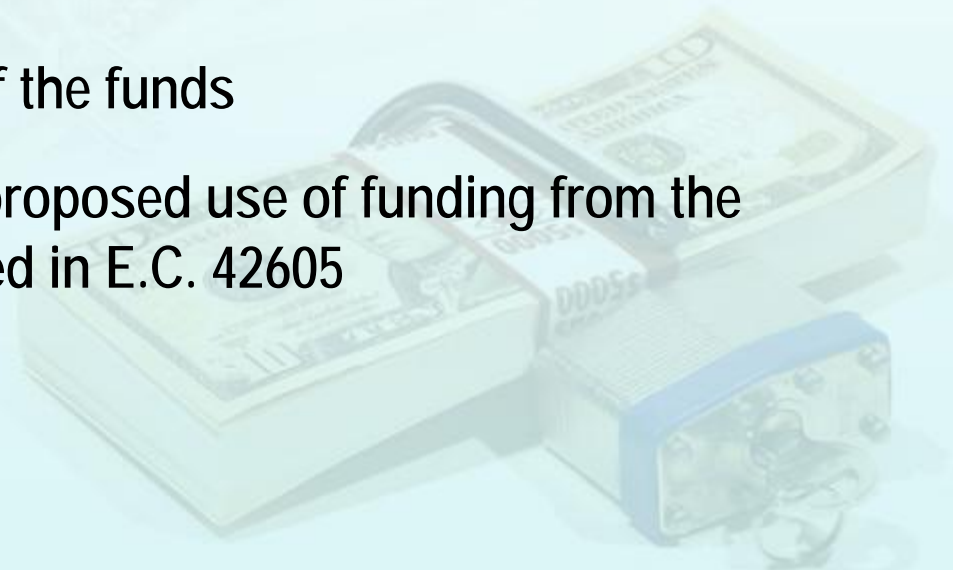
# Class Size and Class-Size Reduction

- The Education Code places limits on maximum class sizes:
  - Kindergarten: Average of 31:1, with no class exceeding 33
  - Grades 1-3: Average of 30:1, with no class exceeding 32
  - Grades 4-8: Average of 29.9:1 or the district's average number of pupils per teacher in 1964
- Exceeding these limits results in loss of revenue limit funding for every student over the limit



## Tier III Flexibility Transfers

- LEAs can choose to allow funds to be used for “any other educational purpose” in the General Fund
- For 2009-10, through the end of the flexibility period state law and audit regulations require a separate public hearing to recognize Tier III flexibility
  - The following statutory requirements must be met:
    - Invite testimony from the public
    - Discuss the proposed use of the funds
    - Approve or disapprove the proposed use of funding from the individual programs identified in E.C. 42605



# School Facilities Issues

- Deferred Maintenance

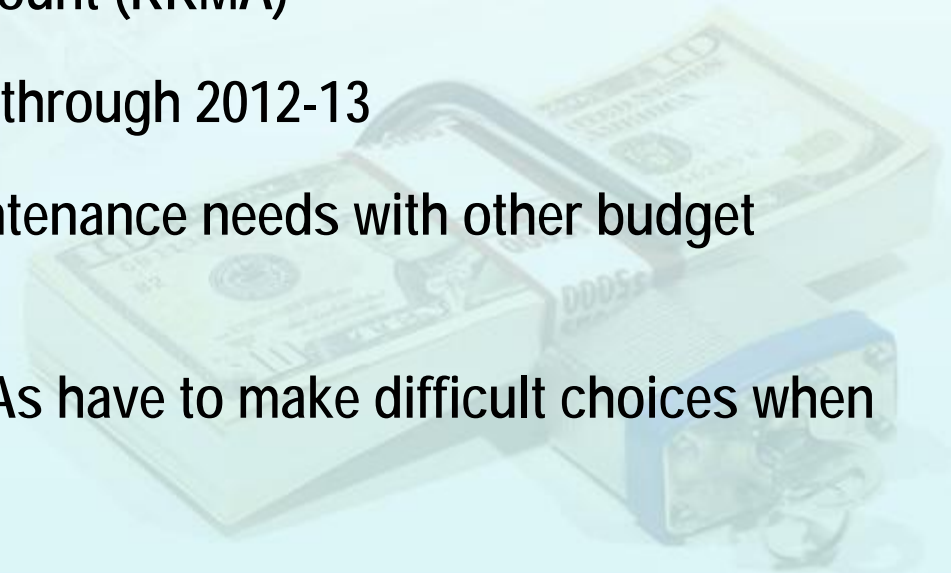
- The Budget provides funding for the state portion of the Deferred Maintenance Program (DMP) with no changes from the January Proposal
- Flexibility for LEAs continues through 2012-13

- Routine Restricted Maintenance Account (RRMA)

- Flexibility continues in this area through 2012-13

- LEAs will need to balance plant maintenance needs with other budget priorities

- The flexibility continues, but LEAs have to make difficult choices when determining priorities



## State Lottery: 2009-10

- State Lottery 2009-10
  - The Legislature passed AB 142 which requires that not less than 37% of total annual revenues from Lottery ticket sales be distributed to education
  - Increases funding to schools by 3%, from 34% to 37%
  - Based on this increase current projections are:
    - \$111 per annual ADA, unrestricted
    - \$14.50 per annual ADA for Proposition 20



# State Lottery: 2010-11

- State Lottery 2010-11

- \$111 per annual ADA for unrestricted

- \$14.50 per annual ADA for Proposition 20

- The Lottery Commission will approve its budget in June and any changes projected in sales of Lottery tickets will result in a change in funding to schools



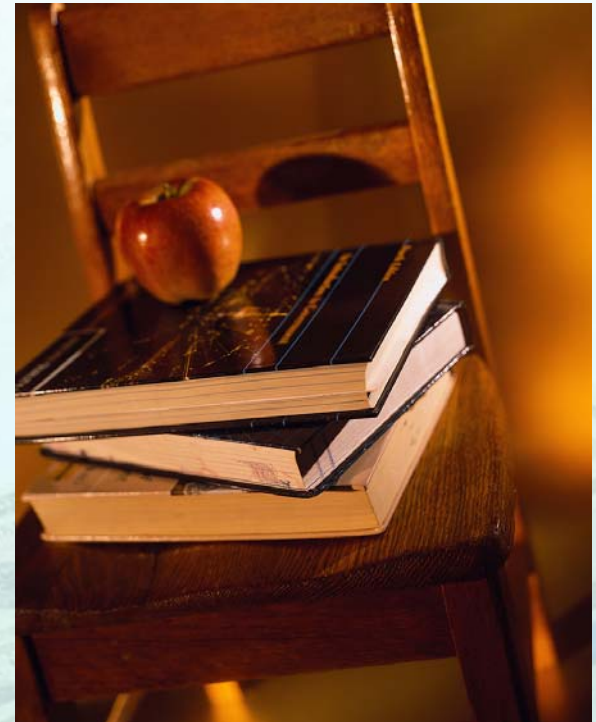
## Mandated Programs

- The Governor's May Revision fully funds only two mandates
  - The same mandates as the January Budget Proposal
    - CAHSEE and Intra-/Inter-District Transfers
- Continue to collect and claim 2009-10 mandated costs
- For operational purposes, continue the best practice of budgeting zero dollars in 2010-11 and future years



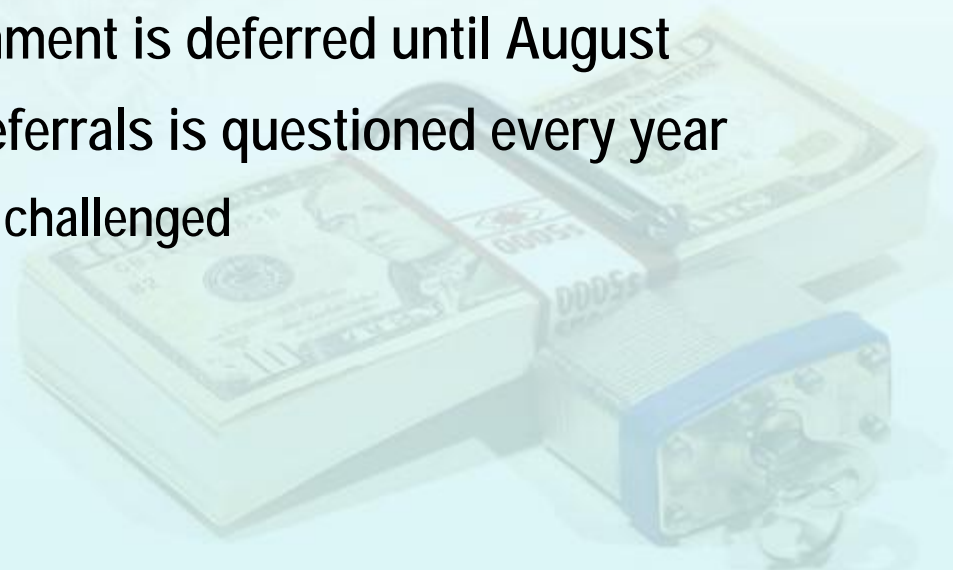
## Other Issues

- The mental health budget includes a proposal to suspend AB 3632 (Chapter 1747/1984), which mandates county mental health agencies to provide services to children with disabilities
  - Concern is that fiscal burden will shift to school districts since they will continue to provide mental health services required by a student's Individualized Educational Program

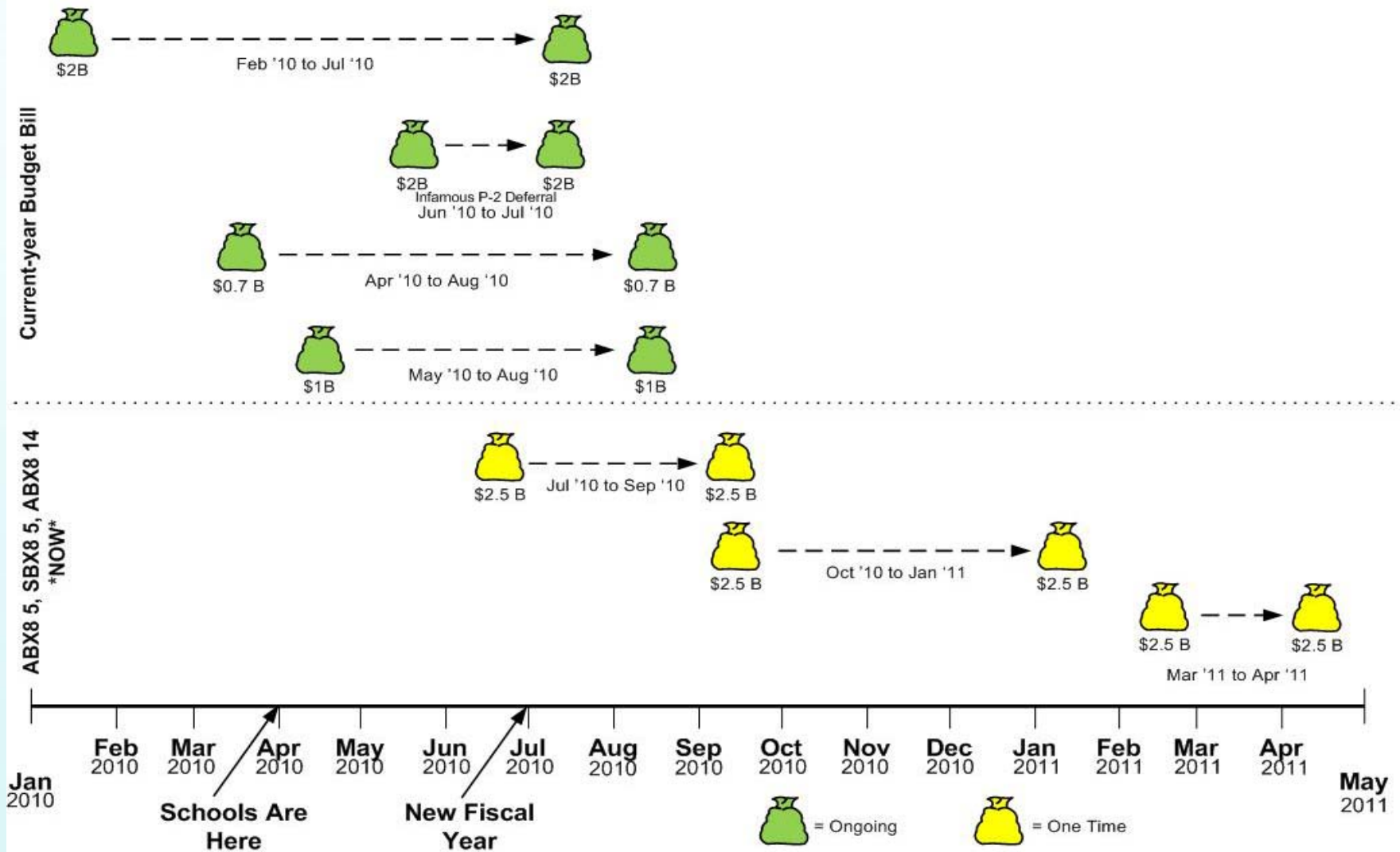


## Deferrals from 2009-10 to 2010-11

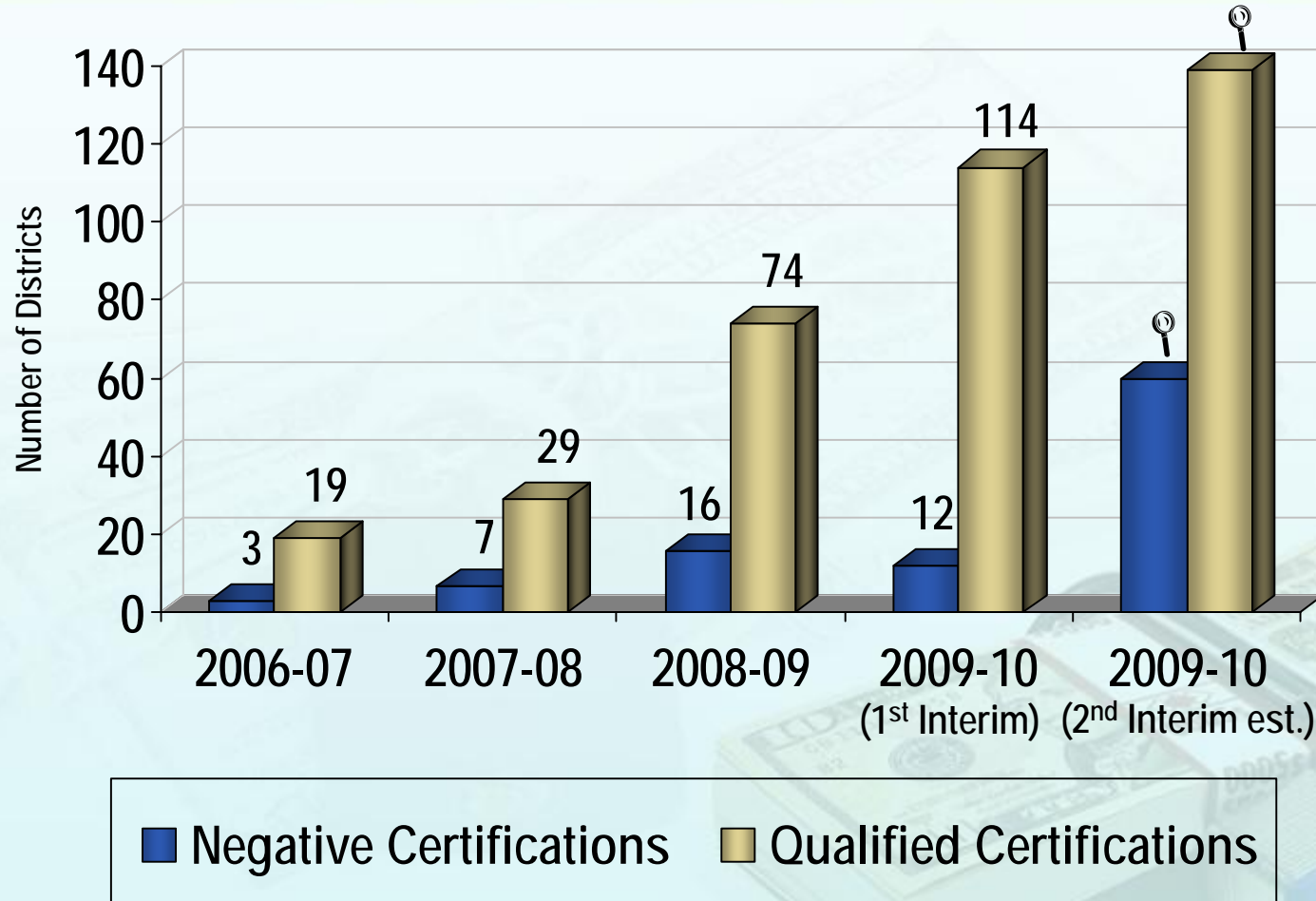
- The June P-2 deferral – approximately \$2 billion now – has been in place since 2002-03
- In addition:
  - \$2 billion from the February Apportionment is deferred until July
  - \$570 million in K-3 CSR funds are also deferred from February to July
  - \$670 million from the April apportionment is deferred until August
  - \$1 billion from the May apportionment is deferred until August
- The accounting treatment of these deferrals is questioned every year
  - Sooner or later, the practice may be challenged



# Principal Apportionment Deferrals 2009-10 to 2010-11



## Update on Qualified/Negative Certifications – First Interim



Source: California Department of Education

See our [Fiscal Report](#) article, "What Happens With a Qualified or Negative Budget?" on the CD-ROM

# Federal Funds Update

- Minor federal increases will not ease the state's burden
- Remaining American Recovery and Reinvestment Act (ARRA) funds need to be spent by September 30, 2011
- 2010-11 funding remains relatively flat:
  - No change in funding for special education
  - Safe and Drug Free Schools (Title IV) funding eliminated
  - Educational technology (Title II, Part D) funding drops by more than 60%



## Other Federal Issues

- Congress has proposed and the President is now supporting provisions that were in the “Keep Our Educators Working Act”
  - \$23 billion to help states retain and hire teachers and other school staff members
- The reauthorization of the Elementary and Secondary Education Act (ESEA) continues to be overdue
  - In spite of expectations that RTTT and other ARRA-related measures signaled the future direction for ESEA, no legislation has been released



## The Rest of the Story

- This Budget is a long way from enactment
  - Many difficult choices must be made that affect millions of people
  - There will be some tough votes, particularly in a major election year
- If the May and June revenues are above estimates, the Legislature may assume some additional revenue as an alternative to cuts
- Unlike last year, things are happening at a more traditional pace
- But even after this Budget is signed, there may be a need for amendments
  - Revenues are not yet stable
  - Cost containment measures may not work – again
  - Any negative economic surprises could lead to yet another crisis
- Two-year Budgets in January have become the norm
  - The current-year problems are joined with Budget-year problems
  - This year is not likely to be different

# Budget Timeline

## Official Budget Timeline

May

Budget subcommittees in each house complete hearings on the Governor's Proposed Budget, including changes in the May Revision, vote on their recommendations, and send a report to the full Budget Committee.

Late May

The full Budget Committee considers these reports and sends the revised Budget bill to the full body. Each house votes on its version of the Budget bill, which requires a two-thirds super majority in each house.

## The Real Story



# Budget Timeline

## Official Budget Timeline

June

The differences between the two houses are worked out by a six-member Conference Committee, three from each house. After the differences are worked out, a single version is sent to both houses. Each house must pass the bill with a two-thirds super majority.

June 15 – June 30

The bill is sent to the Governor for signature and any line-item vetoes.

July

The bill becomes law.

## The Real Story



# Budget Timeline

## Official Budget Timeline

## The Real Story



Thanks to

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## 2010-11 K-12 Revenue Limits – Example

	Average Unified District for 2010-11	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2009-10 Base Revenue Limit	\$6,342.56	0.81645*	\$5,178.38
2.	2010-11 COLA per ADA	<25.00>	–	–
3.	2010-11 Base Revenue Limit	6,317.56	0.81645*	5,157.97
4.	2010-11 Additional 3.85% Reduction	<244.18>	–	<244.18>
5.	Net 2010-11 Funding (C3 minus C4)			\$4,913.79
6.	Net 2009-10 Funded Revenue Limit (net of \$252.99)			\$4,925.39
7.	Dollar Change (Line 5, Column C Minus Line 6, Column C)			<\$11.60>
8.	Percentage Change (Line 7, Column C Divided by Line 5, Column C)			<0.235%>
* 0.81645 = 1 - .18355 (deficit factor)				