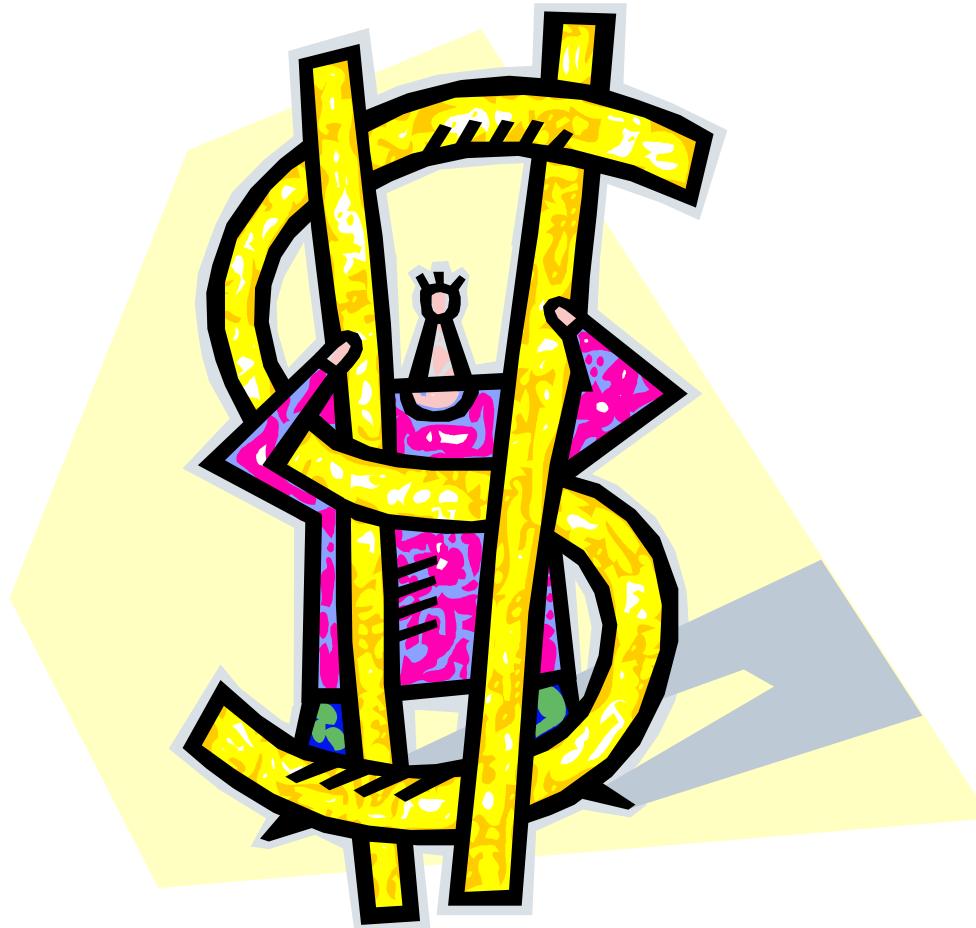


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# Budget 2008-2009

## An Era of Limitations

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# The Problem:

- ◆ State Budget
  - Revenue projections were optimistic
  - Flawed accounting gimmicks
- ◆ Housing market crash
  - Reduction in property taxes collected
  - Educational budget (40%)
    - requires offset with state general fund
- ◆ California Economy
  - significant slowdown similar to that found nationwide

# The Scope:

- ◆ Legislative Analyst's Analysis
  - \$28 Billion deficit over a 20 month period
  - Budget shortfall could last 5 years
    - Through 2013-14 Fiscal Year
    - Annual budget shortfalls of \$20 billion
  - Failure to react with reductions in current year will lead to major cuts in 2009-10



# The Solution: Governor's Proposal



- ◆ **Balanced approach**
  - **Increased Revenues**
  - **Decrease Expenditures**
    - Targeted cuts
    - All sections of budget

# Governor's Proposal: Increase Revenues

- ◆ Temporary Sales Tax Increase
  - 1.5%
  - Three years
- ◆ Broaden Sales & Use Tax
  - Appliance & furniture repair
  - Golf
  - Veterinarian services
  - Amusement Parks & Sporting Events
- ◆ Increase Alcohol & Excise Taxes
  - Five cents per drink (defined in ounces)
- ◆ Increase Annual Vehicle Registration Fee
  - \$12
  - Different than Vehicle License Fee

# Governor's Proposal: Reduce Expenditures

- ◆ \$4.5 Billion in reductions
  - Schools
    - Decrease K-12 Proposition 98 Guarantee
    - Higher Education
  - Prisons
  - Healthcare
  - State expenditures
    - One day per month furlough for state employees

# 2008-09 Mid-Year Reductions: K-12 Education

- ◆ Elimination of the .68 COLA (\$244 Million)
  - Deficit factor moves from .9529 to .94643
  - Impact to SVUSD \$99,500
- ◆ Reduction of Revenue Limits (\$1.8 Billion)
  - Could range between 4.5% and 5.0%
  - Impact to SVUSD between \$669,000 and \$743,000
- ◆ Target & Recapture Prior Year Savings
  - K-3 Class Size Reduction (\$28.6 Million)
  - Pupil Retention Block Grant (\$1 Million)

# Mid-Year Reduction Strategy: Per pupil amount

- ◆ Not immediately directed toward school districts on a per-pupil basis
  - Recapture Prior Year Savings
  - Target specific programs
  - General reduction in categorical funding
  - Reduction to base revenue limit

# Mid Year Reductions: Relief

- ◆ Categorical Program Transfer Flexibility
  - Restricted Reserves can be used to backfill loss in unrestricted revenue limit funding
    - Implementation advisory to come from CDE
      - ◆ Previous guidelines
        - Up to 50% of State Categorical Ending Balance
        - To the extent of total mid-year budget reductions
    - Can not conflict with Federal Law
  - Requires plan
    - Delineate source, use, and amount of transfer
    - Requires adoption by local governing board

# The Solution: Legislative Analyst's Perspective

- ◆ Raising taxes and cutting expenditures will have an adverse effect on the economy
- ◆ Mid-year cuts to education cannot be realistically accommodated by school districts

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# The Solution: Legislative Analyst's Proposal

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## ◆ Revenue

- Raise Vehicle License Fee to 1%
  - Same level as other property taxes
- Consider a smaller one-cent sales tax increase
- Impose a temporary 5% income tax surcharge on all personal income tax payers

# The Solution: Legislative Analyst's Proposal

## ◆ Expenditures:

- Reduce K-12 by \$1 Billion Dollars
  - Suspend the COLA
  - Sweep unexpended resources from program that had lower than expected usage
  - Suspend several targeted programs
    - ◆ Professional Development
    - ◆ Maintenance
    - ◆ Instructional Materials

# The Solution: Legislative Analyst's Proposal

- ◆ Score any 2008-09 Prop 98 spending exceeding the calculated guarantee as “settle-up” dollars
- ◆ Make pass-through requirement of redevelopment dollars permanent
- ◆ Preserve K-12 Revenue limits
- ◆ Identify & cut low priority categorical programs

# Special Legislative Session

- ◆ Current Session
  - Final day of session is November 30<sup>th</sup>
- ◆ Next Session
  - Begins December 1<sup>st</sup>
  - Change in participants
    - New legislators elected 11/4 join discussion
    - Legislators who termed out leave discussion

# Special Legislative Session

- ◆ Tax increases require a 2/3 majority
  - Republicans continue to oppose new taxes
  - Republican proposal to transfer special taxes into general fund
  - Most likely compromise is to place tax increase proposals on the ballot (requires special election)
- ◆ Expenditure reductions require a simple majority
  - Democrats not likely to discuss cuts until governor establishes the necessary votes to pass tax increases

# 2008-09 Summary

- ◆ Range of cuts is endless....no one can provide anything other than a wild guesstimate
- ◆ Opportunity for discussion of ways to lessen the impact of reductions.
- ◆ Two real dangers in the debate
  - Not cutting enough – unable to balance budget
  - Destroying the educational program in overreaction
- ◆ RL reductions are cumulative & on-going
- ◆ Timeline (Ballot measures & Legislation)

# Principle of Budget Development: Standards and Controls

## ◆ Policies

- Planning & Budget Calendar
- Required reserve level
- Staffing and supply formulas
- Multi-year projections

# Principles of Budget Development

- ◆ Avoid roll-over budgeting
  - Formula / statute driven
  - Zero based
  - Focus on one-time expenditures/projects
- ◆ Ensure adherence to the approved budget
- ◆ Don't allow carryover

# Principles of Budget Development

## Categorical Programs

- ◆ Maximize impact by directing towards district instructional goals
- ◆ Require categorical programs to pay their full direct and indirect costs
- ◆ Don't leave categorical balances as unconscious budget reserves
- ◆ Allow no subsidy from the General Fund

# Standards and Controls

## ◆ Managers

- ◆ Monitor Budget
  - Unexpended Balances
  - Review Transactions for accuracy
- ◆ Overtime / Extra Pay
- ◆ Categorical Program allocations and appropriate uses
- ◆ Spending Deadline
- ◆ Carryover

## ◆ Business Office

- Assumptions
- Worksheets
  - Supporting Detail
- Reporting
  - Revenues
  - Expenditures
  - Ending Balance
- Train Management

# The Process of Budget Reduction

## The Goal

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- ◆ To ensure that the cuts are valid and obtainable
- ◆ To provide a list that has the least long term impact on the district's mission
- ◆ Because of unknowns, to provide a reduction plan that can be aborted late in the process

# Top considerations:

- ◆ Reduction in the expense will violate state or federal law or regulation
- ◆ The reduction will clearly and immediately jeopardize student security or safety
- ◆ The reduction can only be accomplished if the collective bargaining agreement can be renegotiated
- ◆ The reduction will immediately impose a matching cost on some other corner of the district
- ◆ The reduction will lead to a direct loss of income that is equal to or greater than the savings generated