



Ocean View School District  
**Back to School . . . Are We Still Solvent?**  
Presented by  
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Associate Vice President



**The State Budget and  
Economic Environment**



# Back to School . . . Are We Still Solvent?

## 2 National Economic Outlook



- The national recession began in December 2007 and is now 21 months old
  - It is the longest downturn since the Great Depression of the 1930s
- There are some signs that the economy has hit bottom
  - The stock market is up about 40% since its March 2009 bottom of 6,600 points on the Dow Jones Industrial Average
  - The rate of job loss has slowed and the unemployment rate fell slightly to 9.4% in June
  - Gross Domestic Product is no longer in freefall
    - ▶ It was essentially flat in the second quarter of 2009

## 3 California Economic Outlook



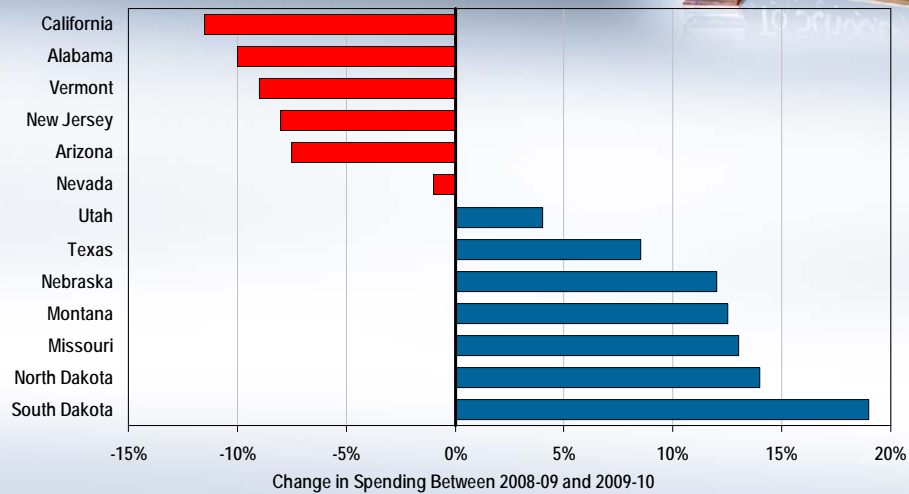
- California has suffered more than the nation as a whole
  - The state's unemployment rate reached 12.2% in August compared to the national rate of 9.7%
  - California has experienced a greater drop in its median home price, but also enjoyed a greater run up in prices before the fall
  - Its Budget deficit is among the worst of the 50 states
- It may take longer for the state's economy to turnaround
  - California was the epicenter of the collapse of the subprime mortgage market
    - ▶ According to UCLA, residential building permits are off 77% from the 2004 high of 213,000 units

#### 4 California Close to Last in Per-Student Spending



- Last year, California ranked 46<sup>th</sup> in the Quality Counts rankings of states based on per-student spending, and California is cutting education spending
  - Utah was last in the rankings and is increasing education spending
  - Texas, Nevada, and Arizona are also in the running for last place in the standings, however Texas is increasing education funding
- California is cutting education much more than the other low-ranked states
- We are falling much further below the national average
- This is a race we do not want to win

#### 5 Education Funding in Other States

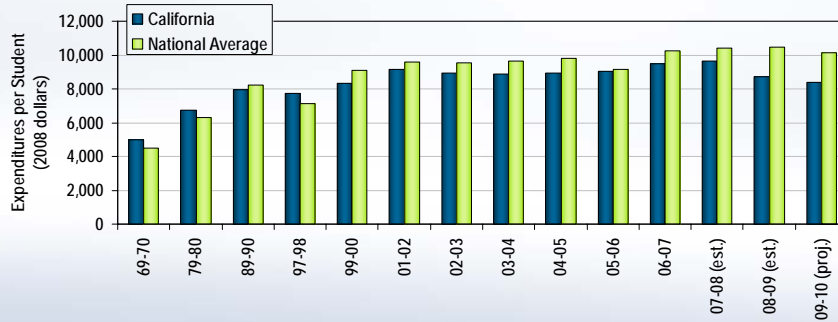


Source: Center for Reinventing Public Education

6 California Continues to Fall Further Behind



- We certainly make up no ground in 2009-10 and actually lose some
  - We can expect our 2006-07 gap of \$731 from the national average in per-pupil expenditures to grow to more than \$1,700 (est.) in 2009-10

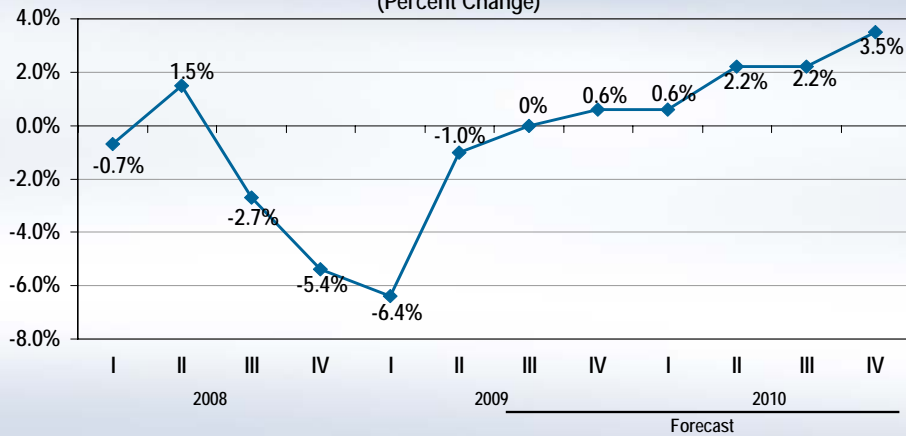


Source: National Center for Education Statistics, 2009; Bureau of Labor Statistics 2008 CPI Inflation Calculator

7 National Economy – End of the Recession?



National Gross Domestic Product (Percent Change)

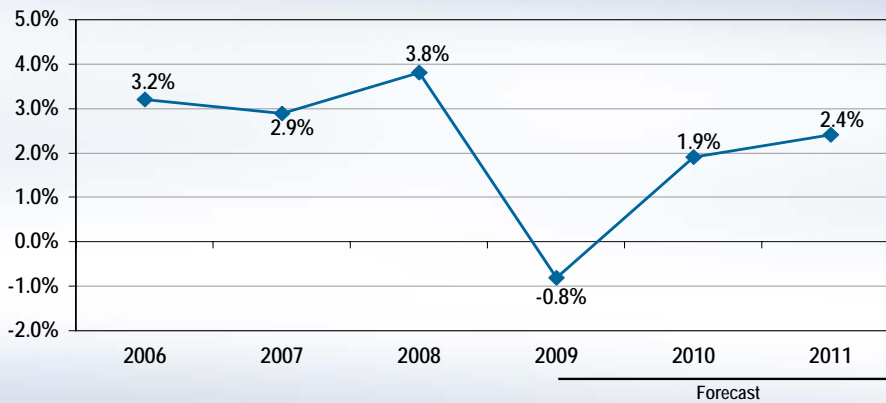


Source: National Bureau of Economic Analysis, July 31, 2009; UCLA Anderson Forecast, June 2009

8 Outlook For Inflation



U.S. Consumer Price Index

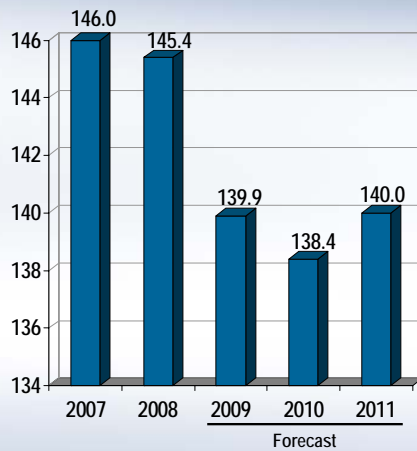


Source: UCLA Anderson Forecast, June 2009

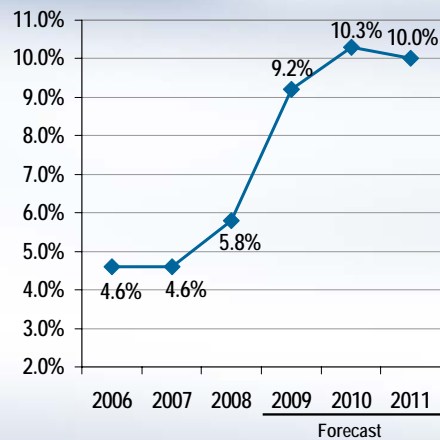
9 U.S. Employment



U.S. Jobs (in millions)

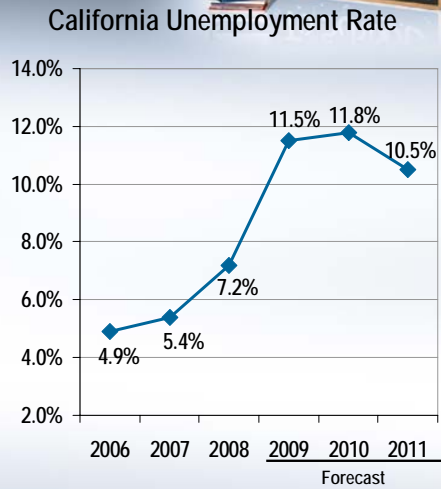
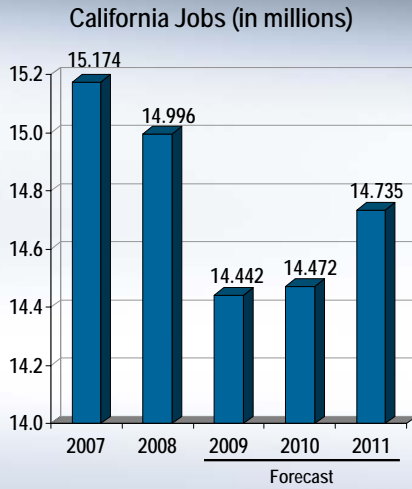


National Unemployment Rate



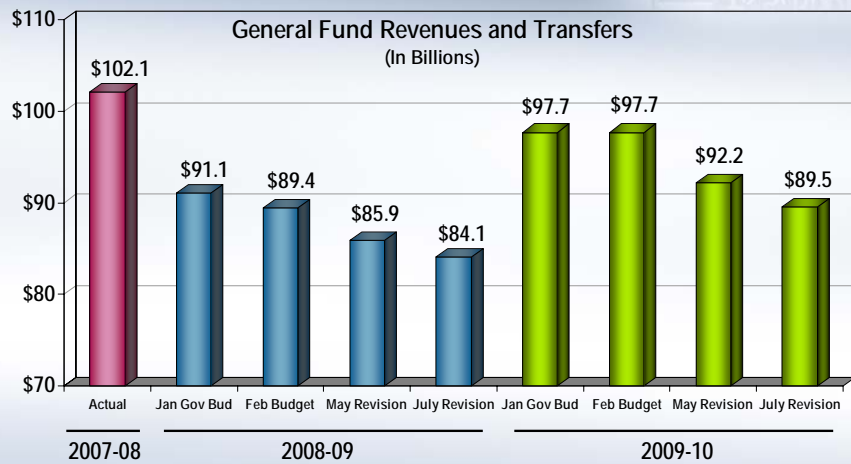
Source: UCLA Anderson Forecast, June 2009

### 10 California Employment



Source: UCLA Anderson Forecast, June 2009

### 11 General Fund Revenue Trends



Source: Legislative Analyst's Office

## 12 Current-Year Budget Risks



- The 2009 Budget reflects a \$500 million reserve – 0.56% of expected revenues and transfers
- There is a very great risk that the current-year Budget will fall out of balance
  - The state economy remains weak and revenue collections are already short \$862 million from the budgeted level through July
  - Major Budget solutions are being challenged in the courts
    - ▶ \$500 million in Governor's vetoes
    - ▶ \$1.7 billion in redevelopment agency (RDA) fund shifts
  - Numerous Budget assumptions may not materialize
    - ▶ \$1 billion in savings in corrections
    - ▶ \$1 billion from the sale of the State Compensation Insurance Fund
- There is no significant upside potential to offset the downside risks

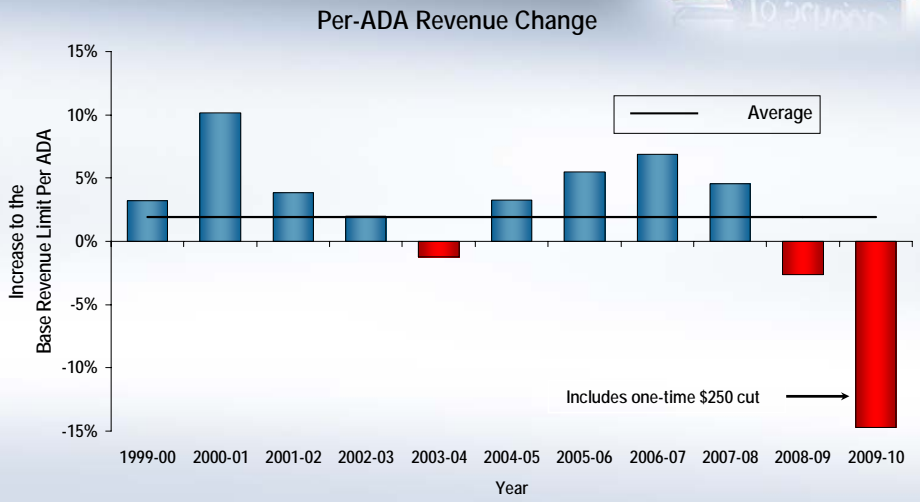
## 13 Per-ADA Revenue Volatility



- As in the past, we continue to have very high volatility in revenues directed toward education
- 2009-10 continues the roller-coaster ride as revenue continues to fall
- The 2009-10 reduction is a cumulative 14.7% from the 2007-08 funding level that includes the effect of the \$250 one-time reduction to revenue limits
- California needs to provide a more stable revenue stream for schools



### 14 Per-ADA Revenue Volatility



### Notes



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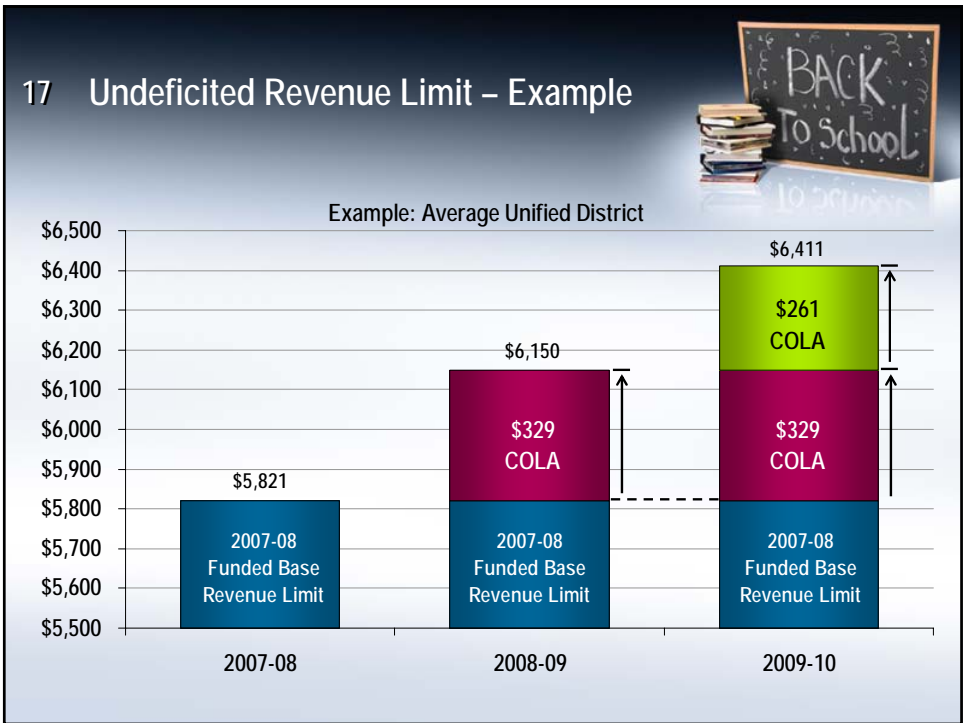
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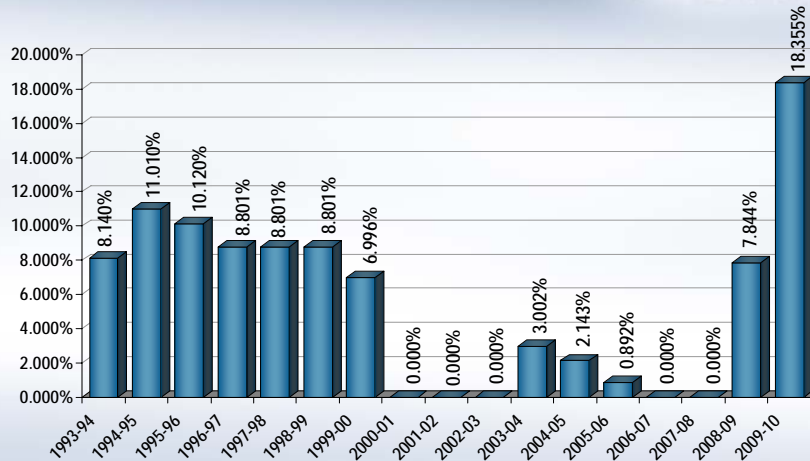
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# The Education Budget



18 Revenue Limit Deficit Factors



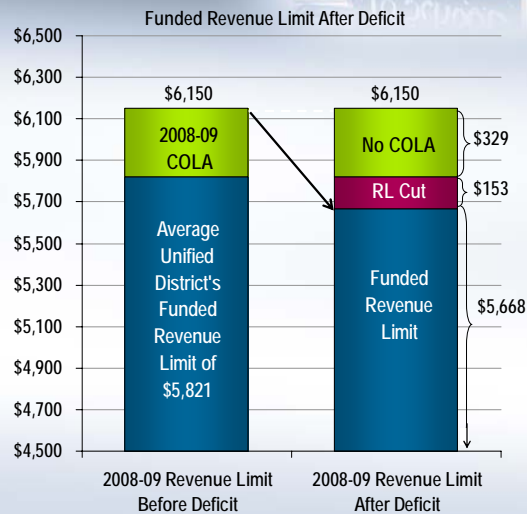
19 2008-09 Deficit Applied



- Apply 2008-09 deficit of 7.844% to your undeficit 2008-09 revenue limit (RL) per ADA

Example for Average Unified District

Funded RL  
 = \$6,150 x (1.0 - 0.07844)  
 = \$6,150 x 0.92156  
 = \$5,668



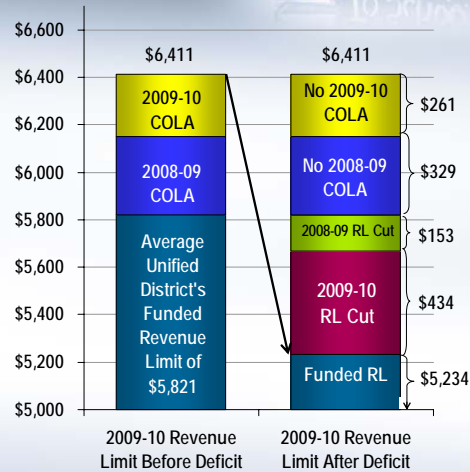
20 2009-10 Deficit Applied



- Apply 2009-10 deficit factor of 18.355% to your undeficit 2009-10 RL per ADA

Example for Average Unified District

Funded RL  
 = \$6,411 x (1.0 - 0.18355)  
 = \$6,411 x 0.81645  
 = \$5,234



21 Additional 2009-10 Revenue Limit Reduction

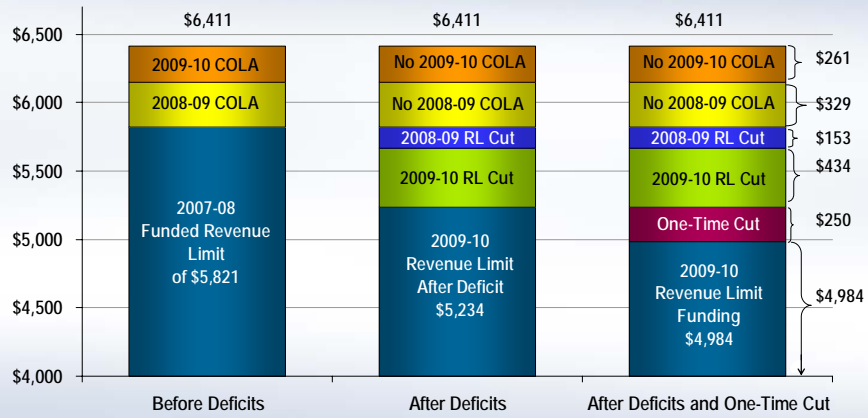


- In addition to the ongoing revenue limit cut imposed by the deficit factor, the Budget revision imposed a one-time reduction of an estimated \$250 per P-2 ADA in 2008-09
  - This reduction is intended to recapture the \$1.6 billion overappropriation of Proposition 98 in 2008-09
  - The California Department of Education (CDE) will establish the exact amount of the per-ADA cut, but we estimate the reduction at \$250
  - The reduction is to come from state funds that support the district's revenue limit entitlement
    - If the reduction exceeds the state aid, the balance is to be reduced from state categorical funding, excluding special education, QEIA, After School Education and Safety Program (ASES), and child care and development

22 Impact of One-Time Revenue Limit Reduction



Average Unified District 2009-10 Revenue Limit Funding



Notes




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# What Should Boards Be Doing?



## 25 Topics for the Board

- Policy Considerations
- Oversight and Monitoring
- Community Outreach
- Planning for the Future

# Back to School . . . Are We Still Solvent?

## 26 Policy Considerations



- Priorities will be very difficult to set
  - Many competing interests, all worthy of consideration
  - It isn't over yet – contingencies in case of more bad news
- Staffing and position control is key
  - 90% of the money goes to people and 90% of the cuts will be people
  - But if staffing is not controlled, there is no way to recover
- Employee relations must be handled with sensitivity
  - Fewer employees and higher workloads lead to strained relations
  - Unions are resistant to “give backs,” but you may need them
  - We are in it together in both good times and bad
- Preserving program balance is important, but will be difficult
- Being a good Board Member will take more work than ever

## 27 Oversight and Monitoring



- The Board is responsible for overseeing execution of the plan
  - Budget approval
    - ▶ Board also approves all revisions
  - Approval of the interim reports
  - Approval of the Unaudited Actuals
  - Receive the independent audit
- The County Superintendent communicates warnings to the Board President
  - The district Superintendent is copied, but the Board must act
  - Fiscal Experts and Fiscal Advisors can help and are appointed by the County Superintendent
  - Take any warning from the COE seriously
- Monitor the three-year multiyear projections
  - Solve problems as early as possible
  - And be ready for more bad news

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## 28 Community Outreach



- The community is shocked by the loss of vital services
  - Anything that affects support of families affects schools
- Communicate what you are doing and why
  - Inform about the options and choices
  - Be careful about passing costs on to parents
    - ▶ Many parents are unemployed or underemployed; fees and other school expenses may be unaffordable – be sensitive to that
  - Consider a budget committee, as much for communication as advice
  - Don't forget to keep the city leadership in the loop
    - ▶ The Chief of Police, Fire Chief, City Manager, and City Council may be impacted by your choices and need to plan ahead too
- The Board is the link to the community
  - Vision, values, priorities, and community expectations all get translated into policy decisions by the Board
- Keep political representatives informed of your opinions

## 29 Planning for the Future



- There will be a return to good times, so get ready now
- We will get back \$11.2 billion in ongoing funding – how should it be used?
  - Plan now so you are not surprised later
- Professional development and networking are important
  - Stay involved in professional organizations and in professional and staff development
  - The Board needs professional development as well
- Learn during bad times what is important and what makes a difference
- Keep capital construction projects that are funded by capital funds going
- Optimize use of facilities
  - For example, if K-3 class sizes go up, what will you do with the empty class rooms?
  - If you close a school, when will you need it back?
- A lot of learning is going on right now; use it to build capacity for a better future

