

## Ocean View School District Community Budget Meeting

Presented by

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### Overview

- The State Budget and the Economy
- Proposition 98
- The Education Budget
- What Should Boards Be Doing?

## The State Budget and Economic Environment



### 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

### 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

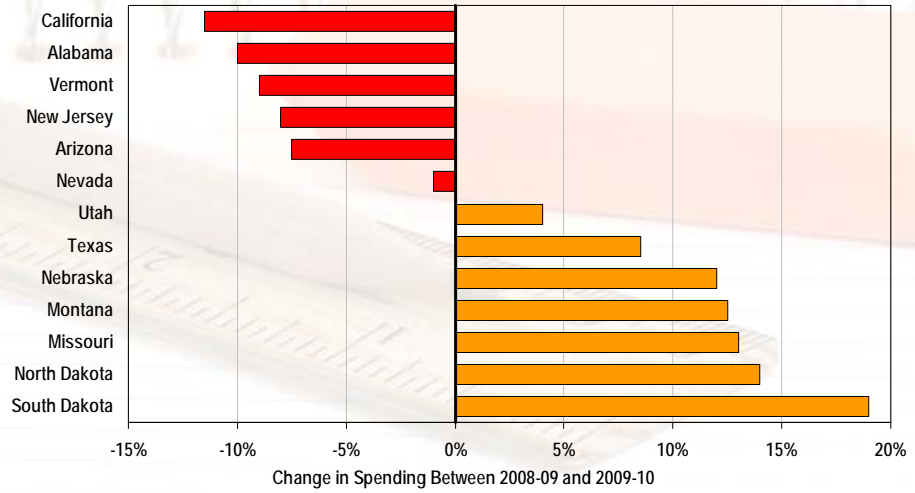
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### California Close to Last in Per-Student Spending

- 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

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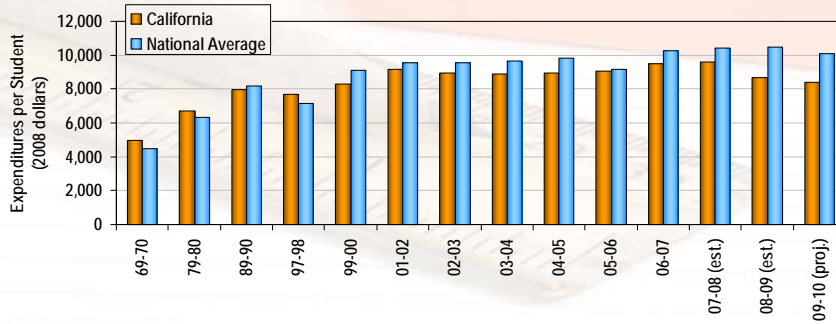
### Education Funding in Other States



Source: Center for Reinventing Public Education

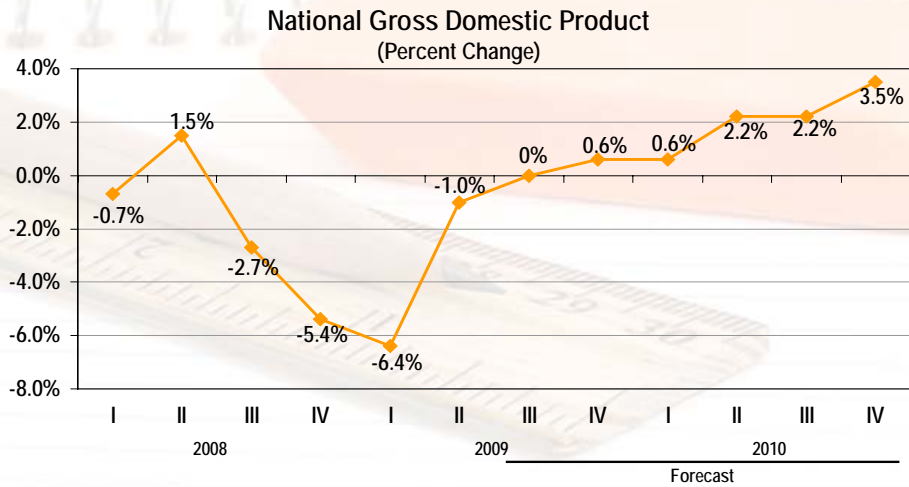
### California Continues to Fall Further Behind

- 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



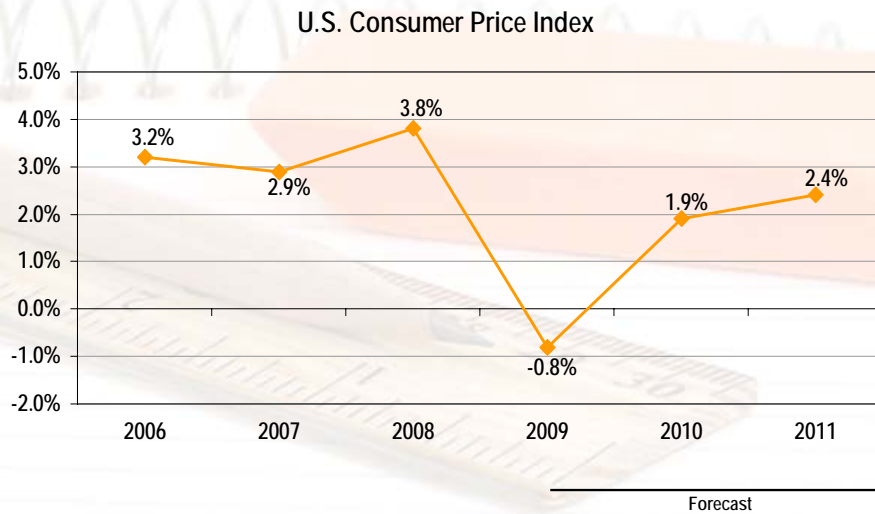
Source: National Center for Education Statistics, 2009; Bureau of Labor Statistics 2008 CPI Inflation Calculator

### National Economy – End of the Recession?



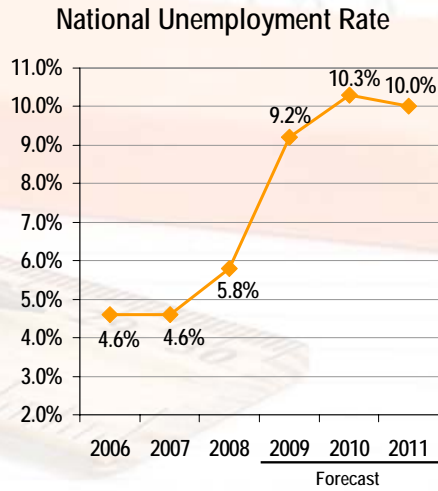
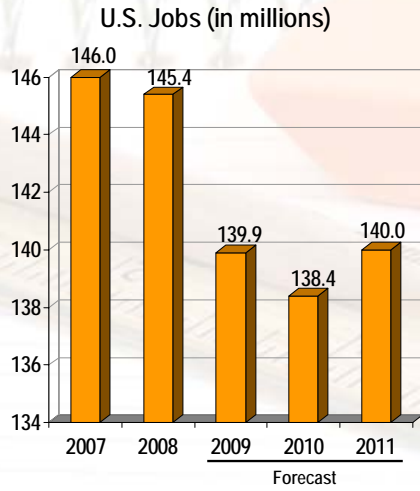
Source: National Bureau of Economic Analysis, July 31, 2009; UCLA Anderson Forecast, June 2009

### Outlook For Inflation



Source: UCLA Anderson Forecast, June 2009

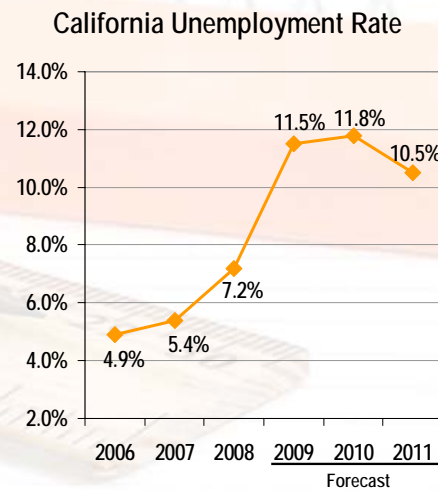
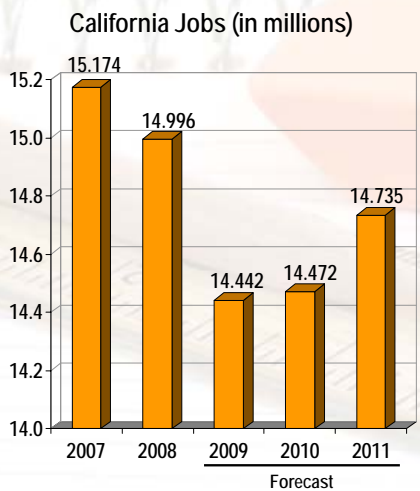
### U.S. Employment



Source: UCLA Anderson Forecast, June 2009

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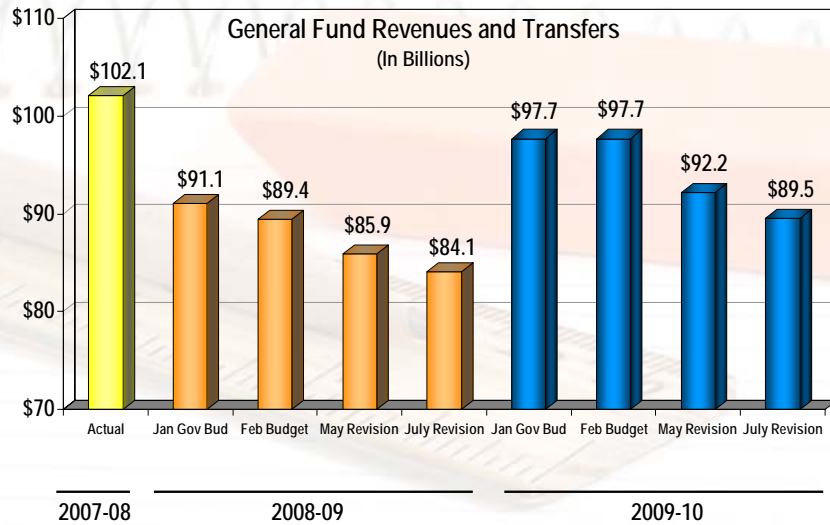
### California Employment



Source: UCLA Anderson Forecast, June 2009

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## General Fund Revenue Trends



Source: Legislative Analyst's Office

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## 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 \$1.9 billion from the budgeted level
  - 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

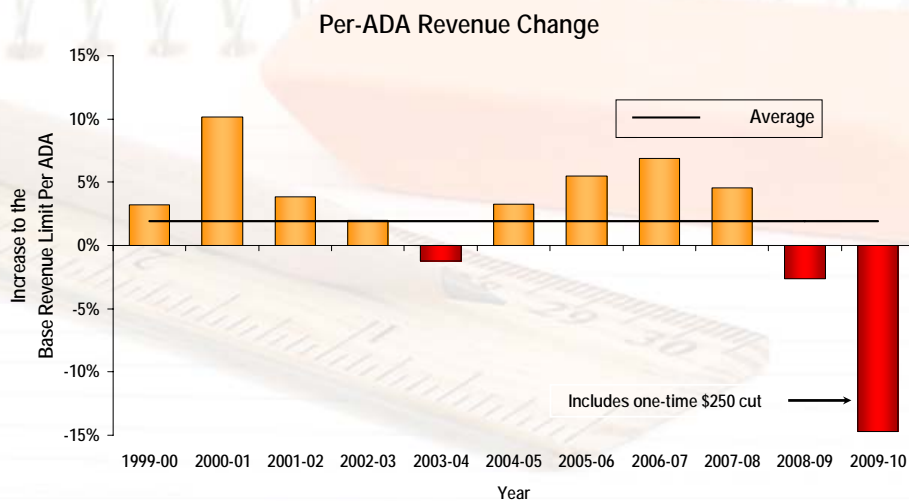
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### Per-ADA Revenue Volatility

- 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



### Per-ADA Revenue Volatility





### Proposition 98

- The Proposition 98 guarantee has plummeted more than 13% in less than one year
  - In September 2008, the Budget Act for 2008-09 placed the guarantee at \$58.1 billion
  - The Budget revision enacted last month set the 2009-10 guarantee at \$50.4 billion
- The fall in the Proposition 98 guarantee created a \$1.6 billion “overappropriation” in 2008-09
  - The Legislature and the Governor enacted a convoluted funding scheme to avoid the 2008-09 “overappropriation” and suspension of the guarantee in 2009-10
- Unless the economy rebounds, further reductions in the Proposition 98 guarantee may occur
  - Remember, however, cutting appropriations that count toward the guarantee would require a two-thirds vote of both the Assembly and the Senate

### Proposition 98 and Categorical Sweeps

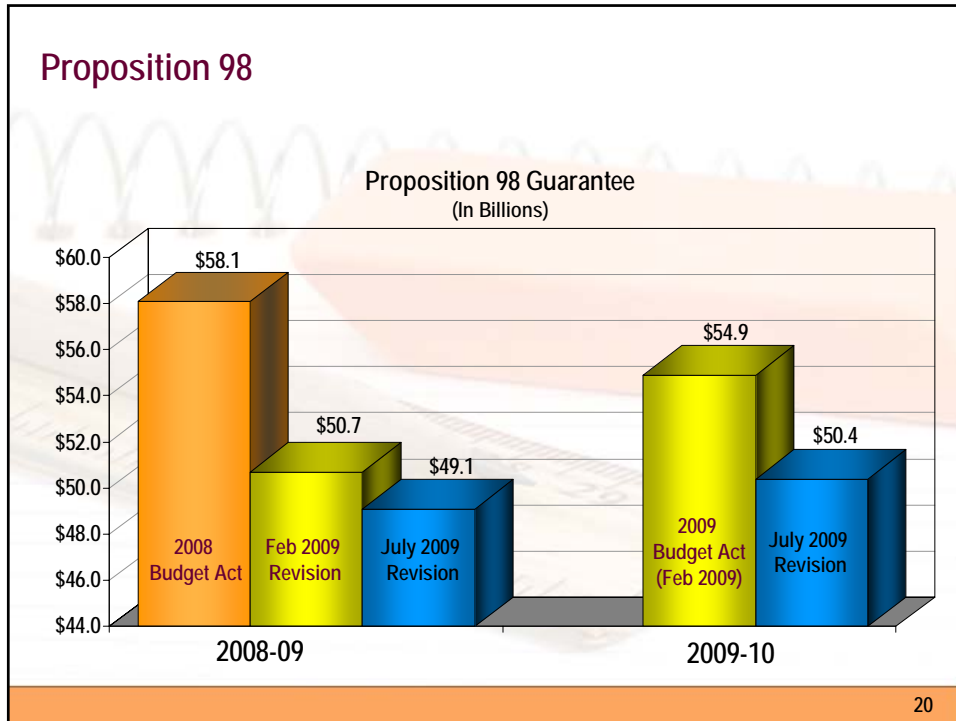
- The Governor's May Revision indicated that the 2008-09 minimum guarantee had fallen, creating a \$1.6 billion "overappropriation"
- The Legislature did not reduce 2008-09 funding prior to the close of the 2008-09 fiscal year, which appeared to foreclose the opportunity to recapture the \$1.6 billion "overappropriation"
- However, the Legislature and the Governor ultimately agreed on a scheme that:
  - Swept \$1.6 billion in unallocated categorical funds and reverted this sum to the state's General Fund
  - Restored the same amount, less funding for High Priority School Grants, to every school district in 2009-10, making these funds available to cover 2008-09 expenses
  - Cut \$250 (est.) per 2008-09 Second Principal Apportionment (P-2) ADA from each local educational agency's (LEA's) revenue limit entitlement in 2009-10

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### Proposition 98 and Categorical Sweeps

- The triple-bank-shot solution allowed the Legislature to avoid voting to suspend Proposition 98 in 2009-10
  - However, it also may have set a precedent by allowing the state essentially to cut appropriations subject to the Proposition 98 guarantee after the close of the fiscal year
    - This approach could be used in future years to cut Proposition 98 funding, regardless of the state's Budget condition
- The flat-rate reduction of \$250 per ADA is inequitable
  - Low revenue limit districts incur a relatively larger reduction than high revenue limit districts
  - Elementary districts are hit harder than high school districts for the same reason

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### Problems with Proposition 98

- Adopted by state voters in 1988, Proposition 98 was intended to set a minimum funding level for K-14 education
- Unfortunately, there have been many manipulations of Proposition 98 over the last 21 years, which distort this as a measure of school funding
  - Off-book loans during the Wilson Administration
  - Inclusion of child care and development as a Proposition 98 expenditure
  - Elimination of maintenance factor obligation proposed by the Governor (ultimately not enacted)

### Problems with Proposition 98

- Cutting appropriations after the close of the fiscal year
- Cutting non-Proposition 98 funds (i.e., Quality Education Investment Act [QEIA]) that would have been allocated to schools
- The school community should consider developing a new measure other than Proposition 98 to gauge state support for public education

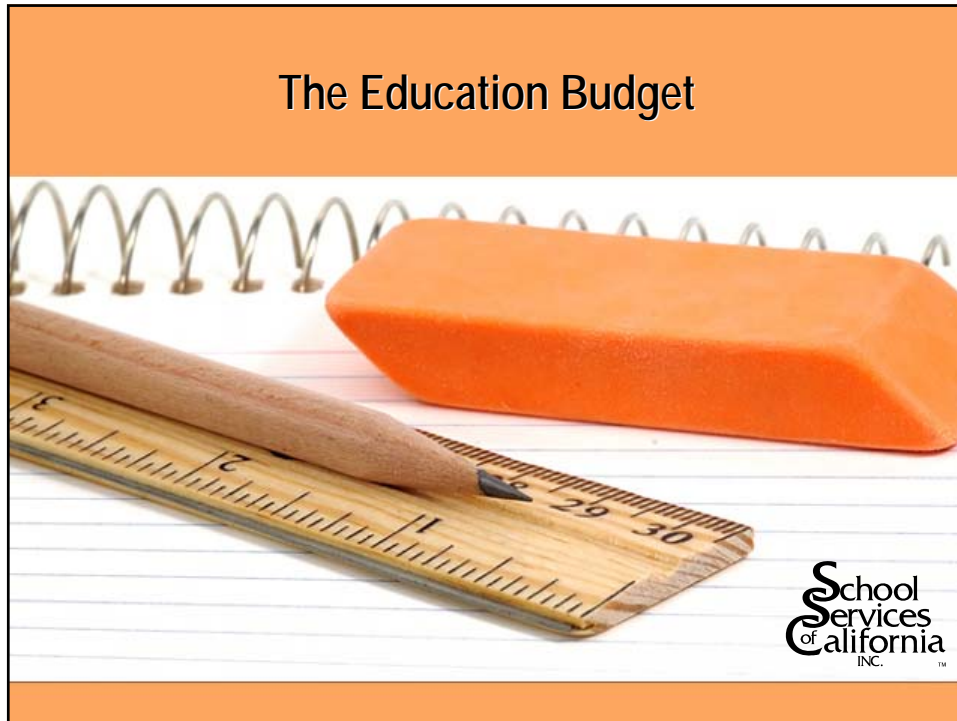
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### Maintenance Factor

- The maintenance factor tracks the amount the state owes to K-14 education when actual funding falls short of the long-term Test 2 target level (ADA and per-capita personal income change)
- In January 2009, the Administration asserted that no maintenance factor would be owed in 2008-09 and 2009-10 because funding was projected to be determined by Test 1 (fixed share of General Fund revenues)
  - \$9.2 billion was at stake
- The final Budget revision agreement (ABX4 3 [Chapter 3/2009]) specifies that the maintenance factor for 2009-10 is \$11.2 billion
  - Enactment of this measure settles this issue
  - This obligation will be paid over several years when healthy General Fund revenue growth resumes

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## The Education Budget



### Major Changes from the May Revision to the Final Budget

- More categorical flexibility is provided
  - List of ending fund balance program sweeps is broadened to include:
    - Adult Education
    - Deferred Maintenance
    - Pupil Transportation Equipment
    - California High School Exit Exam (CAHSEE)
    - Targeted Instructional Improvement Block Grant (TIIBG)
    - Instructional Materials
  - Textbook adoptions are deferred for five years
  - Shortened school-year option adopted
  - Routine restricted maintenance contribution reduced to zero

### Major Changes from the May Revision to the Final Budget

- Home-to-school transportation funding is restored to 80% of prior-year funding level
  - Governor's May proposal to cut program by 65% is rejected
- All education mandates are deferred
  - Governor's May proposal to fund three education mandates was not adopted
- California Work Opportunity and Responsibility to Kids (CalWORKs) funding remains intact
  - Governor's May proposal to eliminate program is rejected
- Eliminated non-Proposition 98 QEIA funding is tweaked
  - Districts' revenue limit funds are redirected to QEIA and the program is extended one additional year
- Maintenance factor is clarified
  - Schools are entitled to \$11.2 million in out years
- Base year for ADA-based or selected Tier III categorical programs is changed to 2007-08

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### Revenue Limits for 2008-09

- The 2008-09 Budget revision left the 7.844% deficit enacted in February 2009 unchanged
  - The May Revision sought to reduce revenue limits by \$1.417 billion through a higher deficit of 11.428%
    - The Legislature did not adopt this change
- The state ultimately recaptured \$1.606 billion, an increase of \$189 million, through the \$250 (est.) per-ADA one-time cut imposed in 2009-10

➡ Most LEAs will find that the substitution of the \$250 per-ADA cut exceeds the cut that they had anticipated using the 11.428% deficit on average \$30 per ADA

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### Revenue Limits for 2009-10

- ABX4 2 (Chapter 2/2009) imposed a revenue limit deficit of 18.355% for 2009-10, an increase from the 17.967% proposed in the May Revision
  - This slight increase captured \$96 million in savings that the Legislature rejected when it did not adopt the Governor’s proposal to eliminate the CalWORKs program
- Foregone savings were related to childcare services for CalWORKs recipients

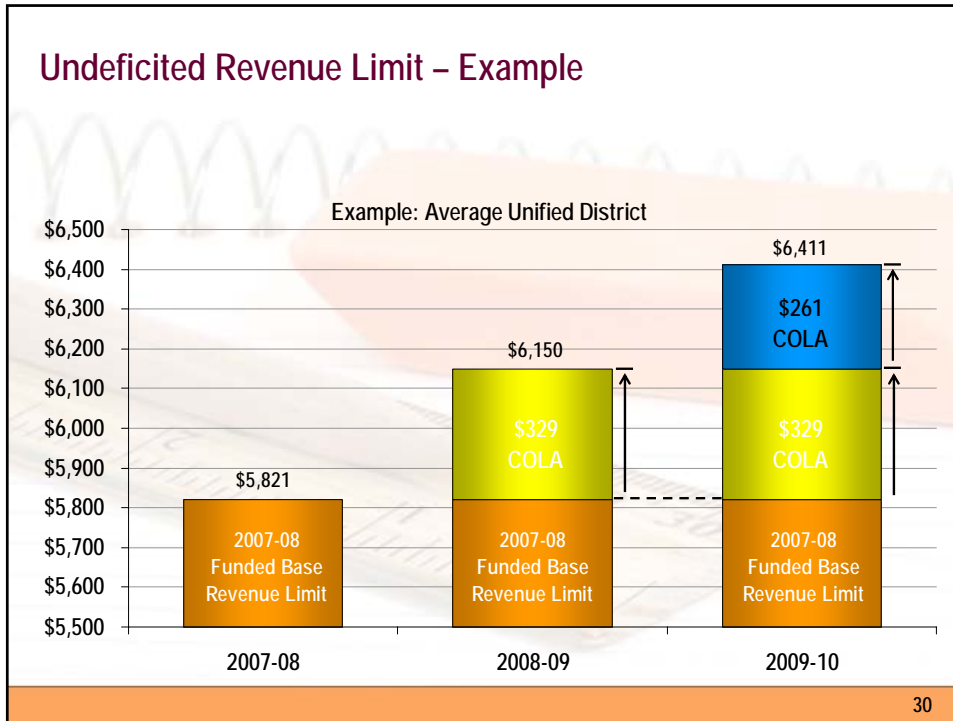
Revenue Limit Factors		
	2008-09	2009-10
Statutory COLA	5.66%	4.25%
K-12 Deficit	7.844%	18.355%
COE Deficit	7.839%	18.621%

### Revenue Limit – Without Deficit

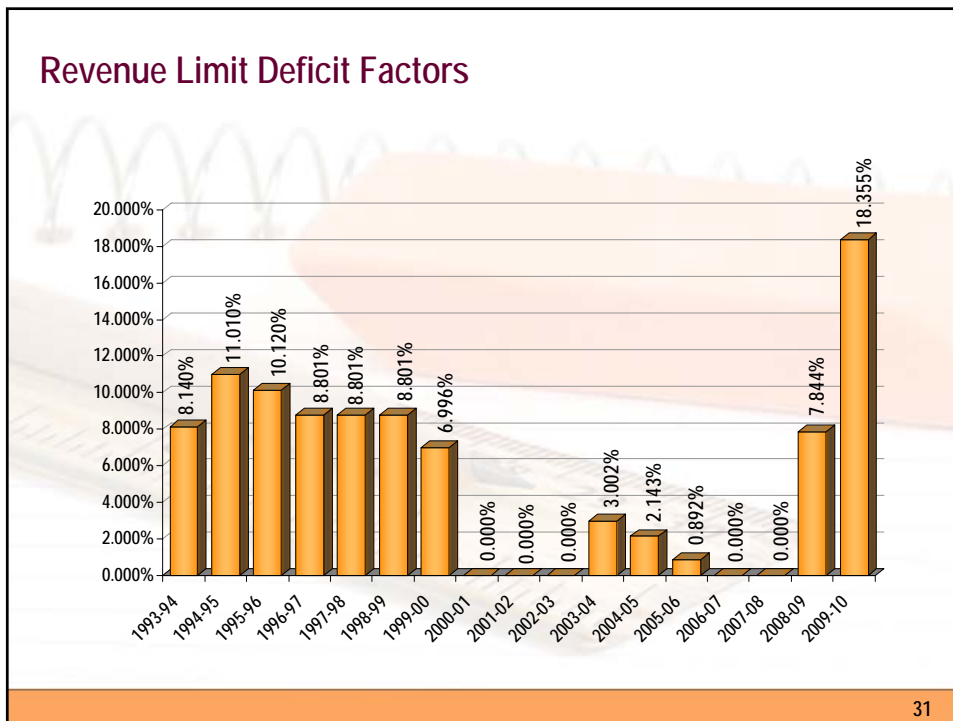
- In order to determine your district’s funded revenue limit per ADA, you must first determine the undeficit revenue limit, i.e., the revenue limit including the statutory cost-of-living adjustment (COLA)
  - The COLAs are unchanged from the May Revision
- The appropriate dollar amount must be added to your 2007-08 base revenue limit to determine your undeficit revenue limit per ADA in 2008-09

District Type	Statutory COLA	
	2008-09	2009-10
All Elementary Districts	\$315	\$250
All High School Districts	\$379	\$300
All Unified Districts	\$329	\$261

### Undeficited Revenue Limit - Example



### Revenue Limit Deficit Factors

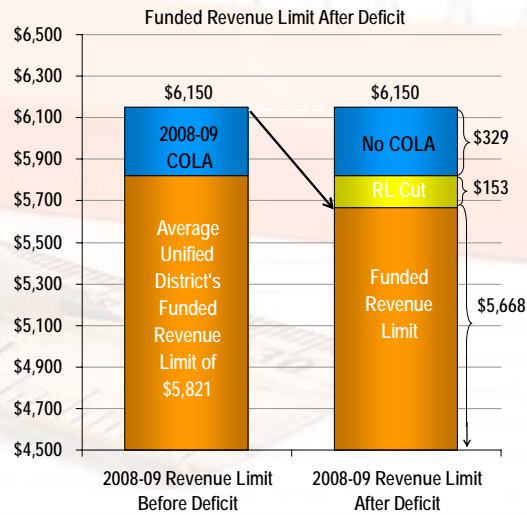


### 2008-09 Deficit Applied

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

#### Example for Average Unified District

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

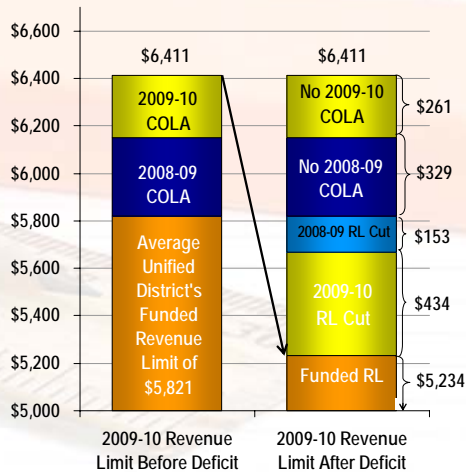


### 2009-10 Deficit Applied

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

#### Example for Average Unified District

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

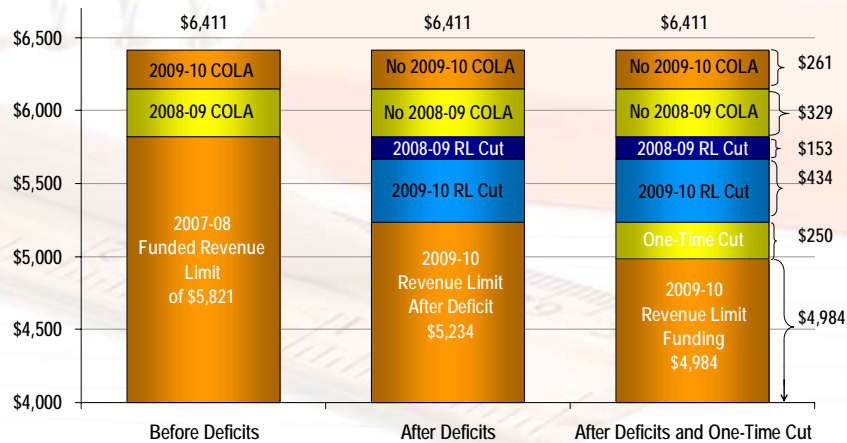


### Additional 2009-10 Revenue Limit Reduction

- 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

### Impact of One-Time Revenue Limit Reduction

Average Unified District 2009-10 Revenue Limit Funding



### Two-Year Impact of Revenue Limit Cuts

- The 2008-09 and 2009-10 Budget revisions cut general purpose revenue limit funding by more than 22% from the statutory level for the average district!
  - Funding will be \$837 *lower* in 2009-10 than in 2007-08 for the average unified district
  - The 2009-10 Budget revision does not fund the statutory COLAs for both 2008-09 and 2009-10, which together total \$590 per ADA for unified districts

### Notes

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## What Should Boards Be Doing?



### Topics for the Board

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

### 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

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### 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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## 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

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## 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

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