

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

Proposition 98 and The Education Budget



- Because of suspension, Proposition 98 is not a factor in 2010-11, except for marking the maintenance factor
- For 2011-12, there is no proposal to suspend Proposition 98
 - But if the temporary taxes are not extended, Proposition 98 drops by \$2.3 billion
 - And the Governor indicates he expects education to take that hit
 - Additionally, another \$6 billion in solutions would need to be found
- With extension of taxes education is flat-funded for 2011-12
 - No midyear cuts are proposed, so we keep the funding level in the enacted 2010-11 Budget through 2011-12
- Mandates are funded to the tune of \$89 million
- The maintenance factor, to be collected in some future "good year," continues to grow

California's Economic Outlook



- California's economy was hit hard during the recession
 - Subprime loans and the collapse of housing led the downturn
 - The state's 12.4% unemployment rate is the third highest in the nation
 - Since the employment peak, the state has lost 1.3 million jobs
 - Construction employment was hit hardest
- UCLA says the state is well positioned for the recovery
 - UCLA identifies education, health care, exports, and technology as leading the way
 - Regional differences: Coastal cities will thrive, while the Inland Empire and Central Valley will struggle
- The Governor's Budget, however, expects the labor market to be a continuing challenge
 - Payroll employment is not projected to reach prerecession levels until 2016, eight years from the beginning of the recession

Risks to the Budget Proposal



- Flat funding for K-12 education is dependent upon voters approving the extension of the current temporary taxes
 - The Legislature must place this proposal on the ballot, requiring two-thirds vote in each house
 - Two Republicans in each house must agree – will be a tough sell!
 - Voters may turn this down even if it gets on the ballot
- Legislature must approve shifting special funds (Proposition 63 for mental health and Proposition 10 for First 5 Program)
 - Two-thirds vote is required
- The Legislature must approve the local government realignment proposal and place the tax extension proposals on the ballot to pay for realignment

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

K-12 Education Took Biggest Cuts



General Fund Expenditures by Major Program Area

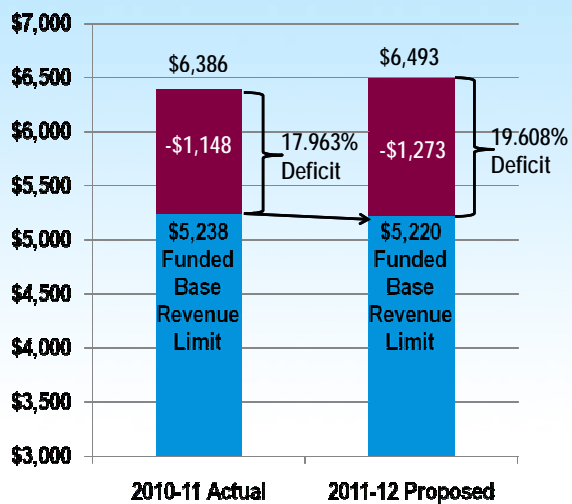
	Dollars in Billions				% Change 2007-08 to 2010-11
	2007-08	2008-09	2009-10	2010-11	
K-12 Education	\$42.5	\$35.5	\$34.6	\$36.3	<14.5%>
Higher Education	\$11.8	\$11.7	\$10.6	\$11.6	<1.4%>
Health and Human Services	\$29.7	\$30.9	\$25.0	\$27.0	<9.3%>
Corrections and Rehabilitation	\$10.2	\$10.3	\$8.2	\$9.3	<9.0%>
Natural Resources	\$1.9	\$2.0	\$1.9	\$2.0	8.3%

Source: 2011-12 Governor's Budget Summary

Proposed 2011-12 Funding vs. 2010-11 Enacted Budget



- The Governor's Budget does not fund the 1.67% estimated COLA (\$107 for unified districts)
- The funded base revenue limit drops approximately \$19 per ADA from the 2010-11 level



2011-12 K-12 Revenue Limits – Example



	Average Unified District for 2011-12	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2010-11 Base Revenue Limit	6445.84	0.82037*	5287.97
2.	2011-12 COLA per ADA	107.00	–	–
3.	2011-12 Base Revenue Limit	6552.84	0.80392**	5267.96
4.	Dollar Change			(20.01)
5.	Percentage Change			(.38%)
6.	Per ADA Reduction If Tax Extension Fails			(330.00)
7.	Net Funded Revenue if Tax Extension Fails			4937.96
8.	Percentage Change (Line			(6.62%)

District Multi Year Budget – Based on Governor's 2011-12 Budget Proposals



	2010-11	2011-12	2012-13	2013-14
Beginning Fund Balance	16,784,025	15,440,337	12,715,490	9,266,865
Revenues	73,594,534	76,946,925	78,439,846	80,302,994
Expenditures	74,638,221	79,671,773	81,888,471	83,662,198
+/- Revenues to Expenses	(1,043,687)	(2,724,848)	(3,448,625)	(5,251,010)
Ending Fund Balance Best Case – 1	15,740,337	12,715,490	9,266,865	5,907,661
Loss if Tax Extension Fails		(3,637,649)	(3,637,649)	(3,637,649)
Ending Fund Balance Tax Extension Fails – 2	15,740,337	9,238,591	2,311,165	(4,525,836)
Another \$300 /ADA Reduction		(3,300,000)	(3,300,000)	(3,300,000)
Ending Fund Balance Worst (we hope) Case - 3	15,740,337	5,938,591	(4,288,835)	(14,425,836)

Key Budget Assumptions



- Following are key budget assumptions for 2011-12:

ADA	11,104 ADA	Step and Column	1.5%
COLA	\$107/ADA	Health and Welfare	5%
Deficit	19.608%	Furlough Days	End 2011-12
Measure R	10.7 million	Summer School	Funded through Gen Fund
Prop Y and YY	6.0 million	Reserve Level	3.0%
Other Local	11.4 million	Federal Jobs \$\$	None
Staffing Levels		Save Our Schools	None
K	23:1	State Flexibility	Ends
1-3	25:1	175 Instructional Days	2012-13
4-5	30:1	K-3 CSR	2013-14
4-5 Title 1	27:1	Tier III	2014-15
6-12	35:1		
6-8 JAMS	33:1		

Next Steps



- Balanced budget must be adopted by district prior to June 30, 2011
 - State Budget will most likely not be in place by then
- Developing the budget requires:
 - Clarifying assumptions
 - How much revenue?
 - How will expenditures change?
- Once the State Budget is adopted, the district makes adjustments to its budget within 45 days

