

TO: BOARD OF EDUCATION

FROM: SANDRA LYON / JANECE L. MAEZ

RE: 2012-13 STATE BUDGET UPDATE

DISCUSSION  
01/19/12

DISCUSSION ITEM NO. D.03

Governor Brown released his proposed State Budget on January 5, 2012, a few days ahead of schedule. Although there have been signs of an economic recovery, it is weak at best. The growth of the economy has been insufficient and has forced another spending plan that reflects California in crisis.

Only a month ago, upon advise of the County Office of Education and professional experts in school finance, staff was presenting the fiscal condition of the district with multi-year projections that included cost-of-living adjustments (COLA) in future years. The current mid-year trigger cuts were described as one-time and were significantly less than had been anticipated. At that time, a structural deficit of between 4.0 and 4.5 million dollars existed. Staff was able to recommend a positive certification of the First Interim Report because the current status and projected future status reflected that the district was able to meet all obligations and maintain a reserve of more than 3%.

The news continued to be positive in December when the anticipated mid-year cuts were much less than expected. The district had reserved 3.0 million dollars for potential cuts in the 2011-12 district budget. The actual reductions were only \$500,000. This allowed the district to release this reserved amount and increase our unappropriated fund balance.

With the release of the State budget last week, it appears that Santa Monica-Malibu Unified will again be fortunate to have a large reserve, allowing us to buffer the immediate reductions and be measured and deliberate as we determine how the district adjusts for the structural deficit we continue to face.

The key components of the State Budget and its impact on SMMUSD are outlined in the following table:

<b>GOVERNOR'S PROPOSAL 2012-13 STATE BUDGET</b>	<b>SMMUSD IMPACT</b>
State Budget dependent on passage of a tax initiative – potential for additional trigger reductions December 2012	Difficulty in planning Future Reductions
Weighted Student Funding – combining non-Federal categorical funds with revenue limit funds to be distributed on the basis student need	Unknown
No Cost of Living Adjustment (COLA)	\$2,200,000
Elimination of Transportation funds – Home-to-School and Special Education	\$800,000
Mandated Costs Reimbursements	\$150,000 (2011-12)
Transitional Kindergarten - November 1 date remains unchanged; no funding to provide TK program	No Funding
Child Care Reductions	Unknown

The loss of a cost of living adjustment and elimination of transportation funding increases the district deficit to over 6.5 million dollars. The threat of another mid-year reduction creates uncertainty and difficulty in planning appropriate actions. Staff is already identifying areas for Board consideration and action. As the next several months unfold, we will learn more about how the legislature will react to this budget. It is not going to get any easier for State legislators to come to a budget agreement with the difficult decision ahead of them. It is always appropriate to remind those who follow State and district budgets that this is only the beginning, not the end of the process. We have a very long road ahead.

Below is the preface of a School Services of California article that provides additional detail as of January 9, 2012. Staff will attend the School Services Budget conference on Wednesday, January 18 and will update their comments with information from those sessions.

# *The* FISCAL REPORT *32 informational update*

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Volume 32

No. 1

## **Governor's Proposals for the 2012-13 State Budget and Education**

### **Preface**

*The economic recovery, weak at best, has created the need for yet another crisis spending plan for the state of California. The Governor's Budget Proposal for 2012-13 represents a heroic effort to balance the increasingly heavy demands of an under-employed population with the stark reality that, on the natural, there will be little new revenue available to the state over the next few years.*

*As a result, this will be the fifth straight year that education cuts will be maintained. Five years ago, California's education spending on a per-student basis was among the lowest in the nation, even before a cut of roughly 15% was imposed. That cut remains the baseline as we enter yet another difficult year.*

*Even under the most optimistic assumptions, education recovers only a small portion of the ongoing cuts imposed beginning in 2008-09. But at this point, any gain for education would be more than welcome and will be difficult for the state to afford.*

*Notwithstanding the difficult economic climate, we think the Governor, while facing hard choices, is indeed attempting to avoid further cuts to public education. But the assumption that he will have to rely completely on solutions that can be accomplished with a 50% vote of the Legislature severely limits the options available. Though the Budget can be passed by the existing Democratic majority in each house, tax measures still require a two-thirds vote, which has not been available to this Governor. Recognizing this, the Governor will instead seek a ballot proposal that bypasses the Legislature, allowing state voters to weigh in on his tax proposal directly.*

### **Potential Gains or Midyear Cuts?**

*While the Governor has proposed increases to education funding, they are contingent on the passage of a major tax initiative in November. This means it will be difficult to plan and budget again this year. The state has not solved its budget problems on a permanent basis. We will,*

*therefore, continue to recommend that districts plan conservatively and maintain prudent reserves.*

*What constitutes a prudent reserve? While it is difficult to give a specific number that would apply to all districts, the average district finished 2010-11 with a reserve of about 14%. We see no reason to reduce that amount in 2012-13. Districts will need to assess the risk of a midyear cut, make an informed estimate of the potential exposure, and plan accordingly. We, at SSC, are analyzing the exposure now and will offer our specific recommendations in the revised SSC Education Dashboard that will accompany our Governor's Budget Workshop materials.*

### ***Revolutionary Changes***

*Beyond the very significant financial portrayal offered by the Budget, there are also revolutionary proposals that fundamentally alter the manner in which public education is funded and delivered in California.*

*Weighted Student Funding—Categorical programs that are not mandated by the federal government (e.g., special education) would be combined with revenue limits and allocated "on a single formula," based on the number of students in a school and the concentration of English learners and pupils eligible for free and reduced-price lunches.*

*Cost of Living (COLA)—No COLA adjustment is proposed for 2012-13.*

*Elimination of Home-to-School Transportation—The Budget reaffirms the current-year trigger reduction of \$248 million for transportation and proposes a complete elimination of funding (\$619 million) for the program in 2012-13. No further details are available at this time.*

*Mandates—The Budget provides \$200 million for a new K-12 and community college mandate incentive block grant and also proposes to eliminate more than half of the existing mandates.*

*Transitional Kindergarten—No funding is provided for Transitional Kindergarten, but the change of kindergarten eligibility for children turning five in November is retained, resulting in a state savings of \$224 million.*

*Deferrals—The Governor's Budget proposes to direct \$2.3 billion in Proposition 98 funding to reduce interyear apportionment deferrals for K-12 education and community colleges.*

*Child Care—Funding for child care is proposed to be reduced by \$447 million in non-Proposition 98 funds and \$70 million in Proposition 98 funds, reflecting reduced reimbursement rates and the alignment of eligibility for state child care services with federal welfare-to-work participation requirements.*

### ***Conclusion***

*We are not going to get a stable and reliable budget until we have a stable and reliable economy. That is not going to happen this year. We have therefore added materials to our Governor's Budget Workshop to help deal with what has become a new reality in California. We depend heavily on our highest earners to fund government operations in California and the nation; a "tax the rich" strategy only works when the rich are doing well. Until the economy recovers, neither the rich nor the poor will do all that well, but you can be assured that the demand for government services, including education, will increase.*

*We applaud the Governor's tenacious approach in trying to put California's finances on a stable footing. But this year, he is unlikely to get much help; not from the Republicans, the economy, or the Feds. His one, last best hope is some temporary help from the voters. That help will be very difficult to secure.*

*So, despite the Governor's best hopes and intentions, we believe public education is in for another rough year. Now is the time to keep options open and to plan conservatively. As in past years, public school agencies will need to do it better, do it cheaper, and do it locally. The long term effects on our society and our economy of doing less are unthinkable. We look forward to seeing you at our workshops.*

**NOTE:**

*In order to provide our analysis of the Governor's Budget Proposal in the shortest possible time, we have relied on information provided by the Administration and the Department of Finance on Thursday, January 5, 2012. Unfortunately, a copy of the proposed Budget Bill was not yet available, nor were there draft bills for some of the Administration's proposals. In other words, there may be some surprises and later information might be different.*

*As we gather further information about the Governor's proposal in the coming days, we will provide updates and any necessary corrections on our website. Simply go to [www.sscal.com](http://www.sscal.com).*

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*Ms. Maez's presentation can be found under Attachments at the end of these minutes. She answered questions about RDA funding and the work with the City of Santa Monica. Dr. Escarce expressed his concern about declining enrollment and requested that the permit policy come forward for review sooner than later.*

# Santa Monica-Malibu Unified School District

## 2012-13 State Budget Governor's Proposal

Agenda Item D.03  
SMMUSD Board of Education  
January 19, 2012

### Governor's Budget Proposal:

- reflects the very slow recovery of the State's economy
- provides only short-term, temporary solutions
- uses a portion of the new taxes to pay for prior year State obligations - deferrals

### Governor's Budget Proposal:

- once again manipulates provisions of Prop 98 – giving the appearance that State obligations to schools are being met
- increases the State “debt” to schools
- continues to provide an uncertain future for school districts

### Key Elements Affecting SMMUSD

No Cost of Living Adjustment (COLA)	\$2,200,000
Elimination of Transportation funds – Home-to-School and Special Education	\$800,000

### Key Elements Affecting SMMUSD

Budget dependent on passage of a tax initiative – trigger reductions of \$370/ADA if rejected	\$4,000,000 Trigger Cut
Weighted Student Funding – combining non-Federal categorical funds with revenue limit funds to be distributed on the basis student need	Unknown

### Key Elements Affecting SMMUSD

Mandated Costs Reimbursements	\$150,000
Transitional Kindergarten - November 1 date remains unchanged; no funding to provide TK program	No Funding
Child Care Reductions	Unknown



## How Does this Impact the Bottom Line?

		2012-13	2013-14	2014-15
<b>Mid-Year Trigger Cut</b>			millions	
	One-time	4.0		
	Ongoing	4.0	4.0	4.0
<b>Structural Deficit</b>				
	Without Trigger Cut	(6.7)	(5.1)	(9.2)
	With Trigger Cut			
	One-time	(10.7)	(5.1)	(9.2)
	Ongoing	(10.7)	(9.1)	(13.2)
<b>Fund Balance</b>				
	Without Trigger Cut	8.1	3.0	(6.2)
	With Trigger Cut			
	One-time	4.1	(1.0)	(10.2)
	Ongoing	4.1	(5.0)	(18.2)
<b>3% Reserve Amount</b>		3.5	3.6	3.7

## SMMUSD Next Steps

- Communicate with constituencies
- Develop an action plan with multiple options and triggers
- Try to preserve fund balance
- Hope for the best - BUT plan for the worst