

*Excerpts from School  
Services of California and  
Total School Solutions*

*Presented by*

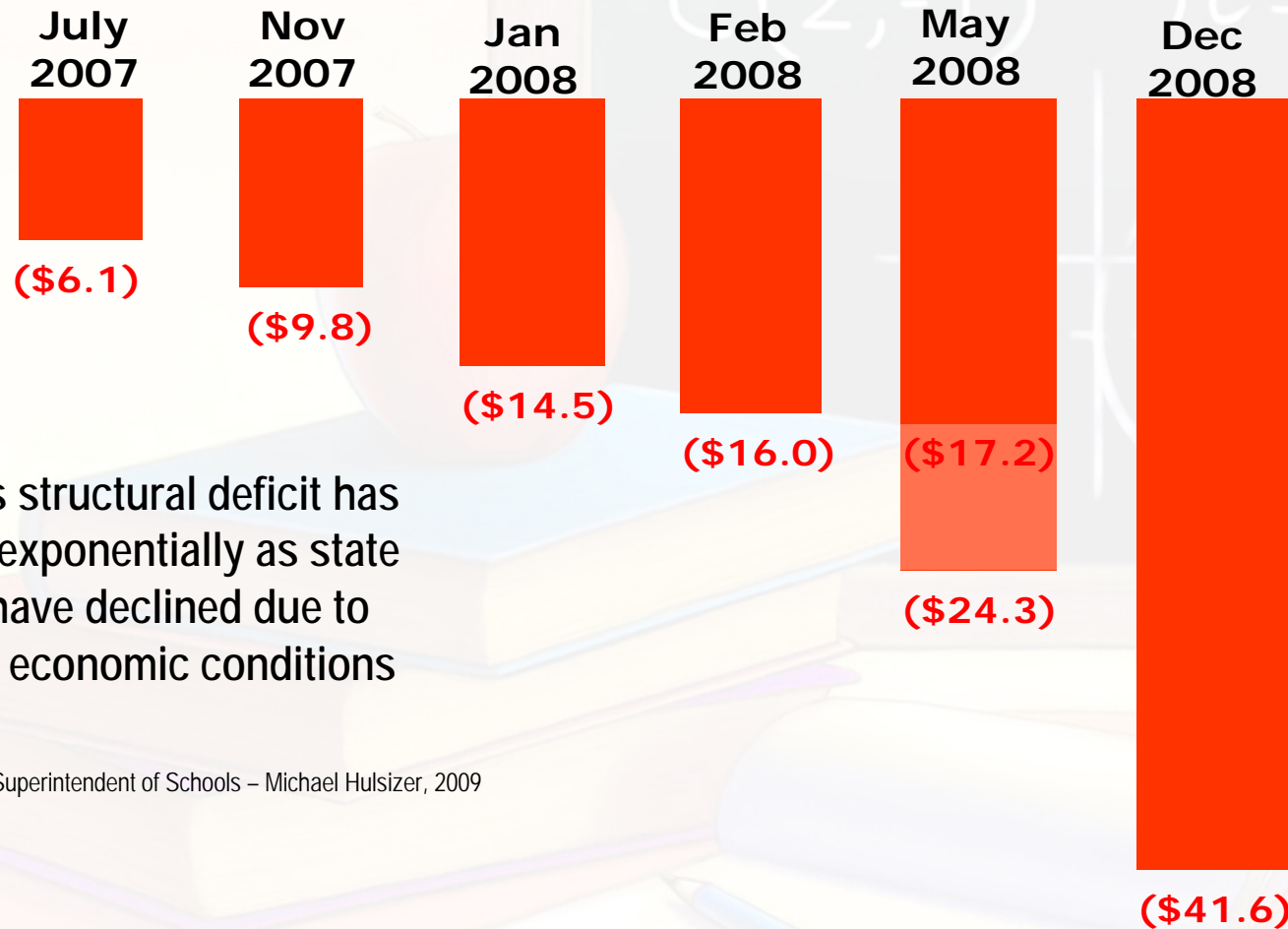
*Assistant Superintendent,  
Business Services  
Song Chin-Bendib*

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**The New State Budget:  
Revising Your Budget and  
Programs 2009-10**



# A Growing State Deficit (in Billions)



The state's structural deficit has increased exponentially as state revenues have declined due to worsening economic conditions

Source: Kern County Superintendent of Schools – Michael Hulsizer, 2009

# Scope of the Budget



- The 2009-10 Budget Act includes both 2008-09 and 2009-10
  - ◆ The actions proposed for the current year, 2008-09, are incorporated in the Budget
  - ◆ The enacted 2009-10 Budget also meets statutory requirements as a completed Budget for 2009-10
- Even with a budget package finally in place, the state's financial condition remains critical
- Factors education leaders should continue to watch out for:
  - ◆ The state's credit rating is at junk bond status – below that of Louisiana
  - ◆ State revenues are projected to continue dropping through 2009 and into 2010
  - ◆ The state will continue to experience cash flow difficulties – which will likely become our difficulties
- K-adult education will experience historic mid-year and budget year reductions
- If revenues continue to drop, additional 2009-10 reductions are possible

# Implications of Employment Trends

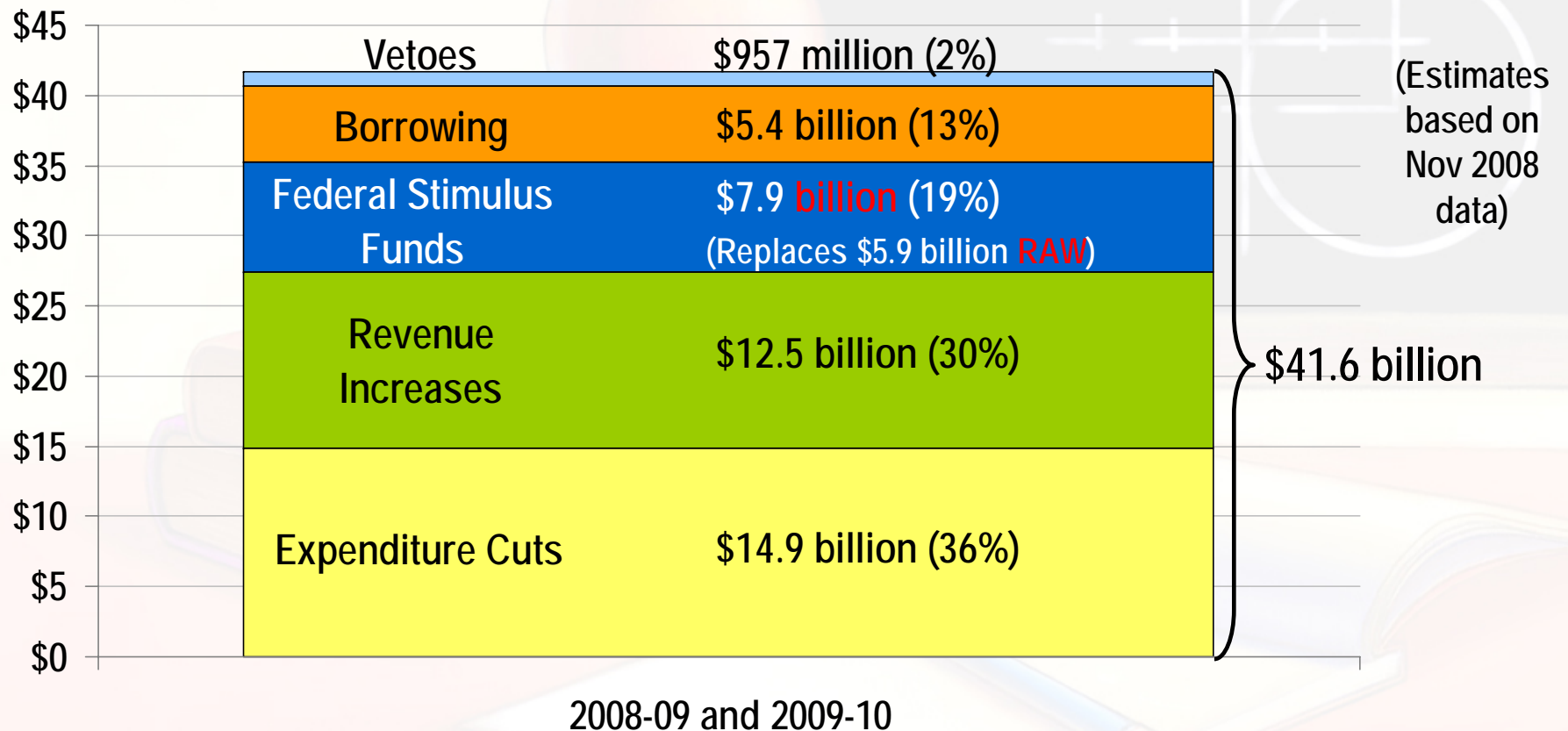


- Employment is a broad measure of the health of the economy
  - ◆ California's unemployment rate, which stands at 10.1%, fluctuates due to layoffs and hiring, but also as a result of the job market outlook
- The recession of the early 1990s saw a loss of 624,200 jobs between June 1990 and February 1993, with the unemployment rate peaking at 9.9%
  - ◆ It took six years to regain the June 1990 employment level
- California has lost more than 400,000 jobs since April 2008
  - ◆ Losses are expected to continue through 2009

# General Fund Budget Solutions



## Solutions (in billions)



# Revenue Increases



- Revenue increases are broad based
  - ◆ One-cent increase in state sales tax effective April 1, 2009
  - ◆ Vehicle License Fee increase from 0.65% to 1.15%
    - ▶ Fee nearly doubles
  - ◆ Reduction in Dependent Credit beginning with 2009 tax year
  - ◆ Increase in the personal income tax rate beginning in the 2009 tax year
- Note that businesses are spared increases in direct taxes

# Borrowing and Transfers



- The Budget continues to rely on one-time revenues from borrowing to maintain ongoing programs
  - ▶ \$5.9 billion from a Revenue Anticipation Warrant (RAW) to be repaid in 2010-11 – or through use of federal stimulus dollars
    - The Legislative Analyst’s Office (LAO) warns that this may violate Proposition 58, which prohibits borrowing for budgetary purposes
    - Sufficient federal stimulus funds would cancel the RAW
  - ▶ \$5 billion to securitize the growth in Lottery revenues
    - Voter approval of Proposition 1C is required and the credit markets must accept this
  - ▶ \$433 million from special fund loans and transfers that must be repaid

# Special Election Ballot Issues



- **Six** propositions have qualified for the May 19, 2009, statewide special election ballot – the first three are most significant for local educational agencies (LEAs)
  - ◆ Proposition 1A: State Finance
    - ▶ Increases the size of the state’s “rainy day” fund and requires above-average revenues to be deposited into it
    - ▶ Proposition 1A and 1B are joined at the hip
    - ▶ If Proposition 1B is approved, a portion of the fund would be transferred to fund supplemental payments to K-14 education



# Special Election Ballot Issues



## ◆ Proposition 1B: Education Finance

- ▶ Requires supplemental payments of \$9.3 billion over time, commencing in 2011-12, in lieu of Maintenance Factor amounts related to fiscal years 2008-09 and 2009-10
- ▶ If passed, this proposition guarantees that education funding will be restored
  - If it fails, we must pursue reimbursement by other means

## ◆ Proposition 1C: California State Lottery

- ▶ Allows Lottery to be modernized to improve its performance
- ▶ LEAs would no longer receive funding based on Lottery sales, but would continue to receive per-ADA amounts equal to what they received in 2008-09
- ▶ If this proposition fails, there is a \$5 billion hole in the Budget
- ▶ Recent poll indicates that 61% of likely voters oppose the idea of borrowing against future State Lottery income

# Other Propositions on Special Election Ballot



## Proposed taxes for particular purposes to supplant General Fund Activities

- ◆ Proposition 1D: Budget Act of 2008: California Children and Families Act: Use of Funds: Services for Children
- ◆ Proposition 1E: The Mental Health Services Act: Proposition 63 Amendments

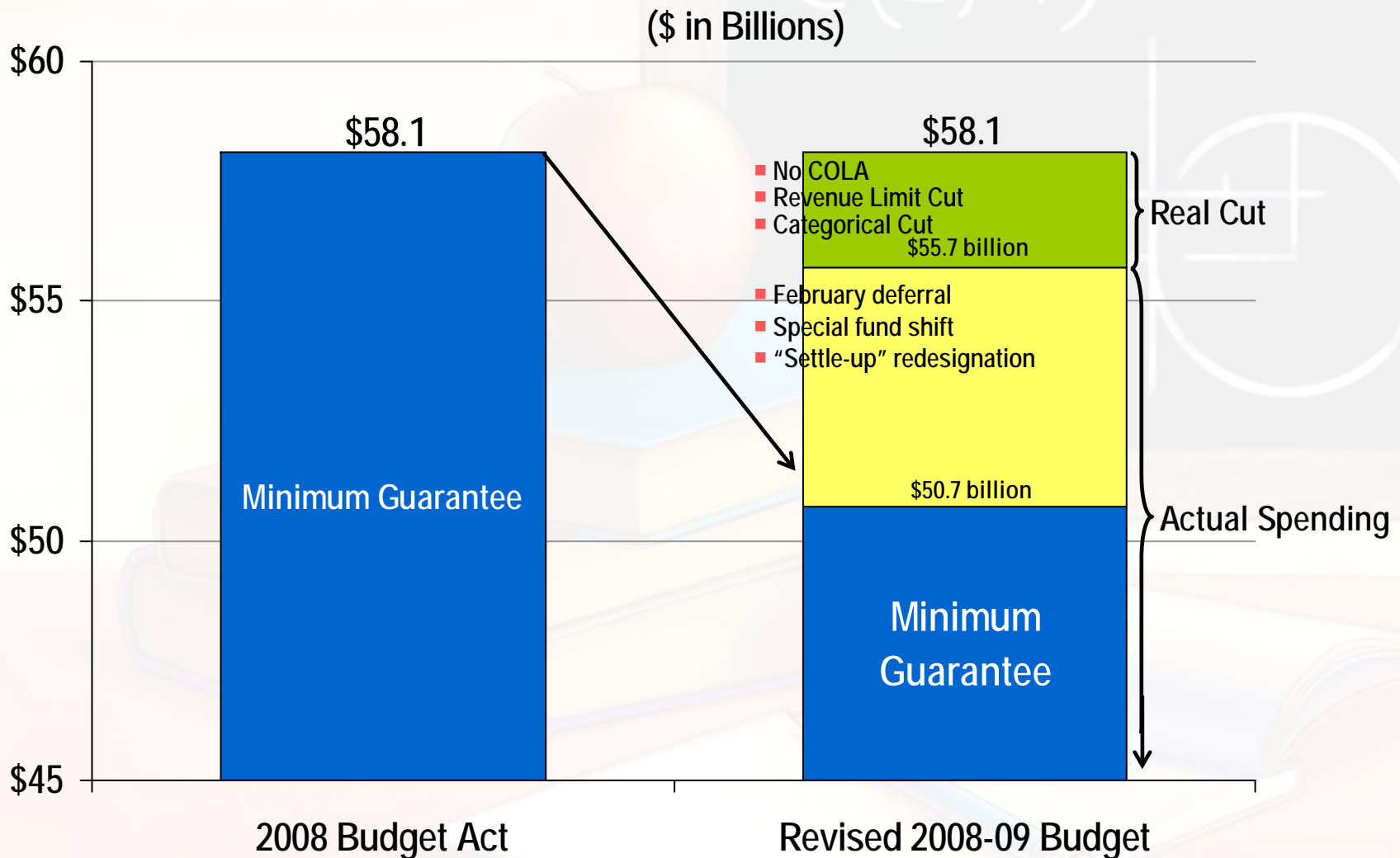
# Other Propositions on Special Election Ballot



- ◆ Proposition 1F: State Officer Salary Increases
- ◆ Proposition 13: Property Tax: New Construction Exclusion: Seismic Retrofitting

**Pulled – on  
June 8, 2010 Ballot**

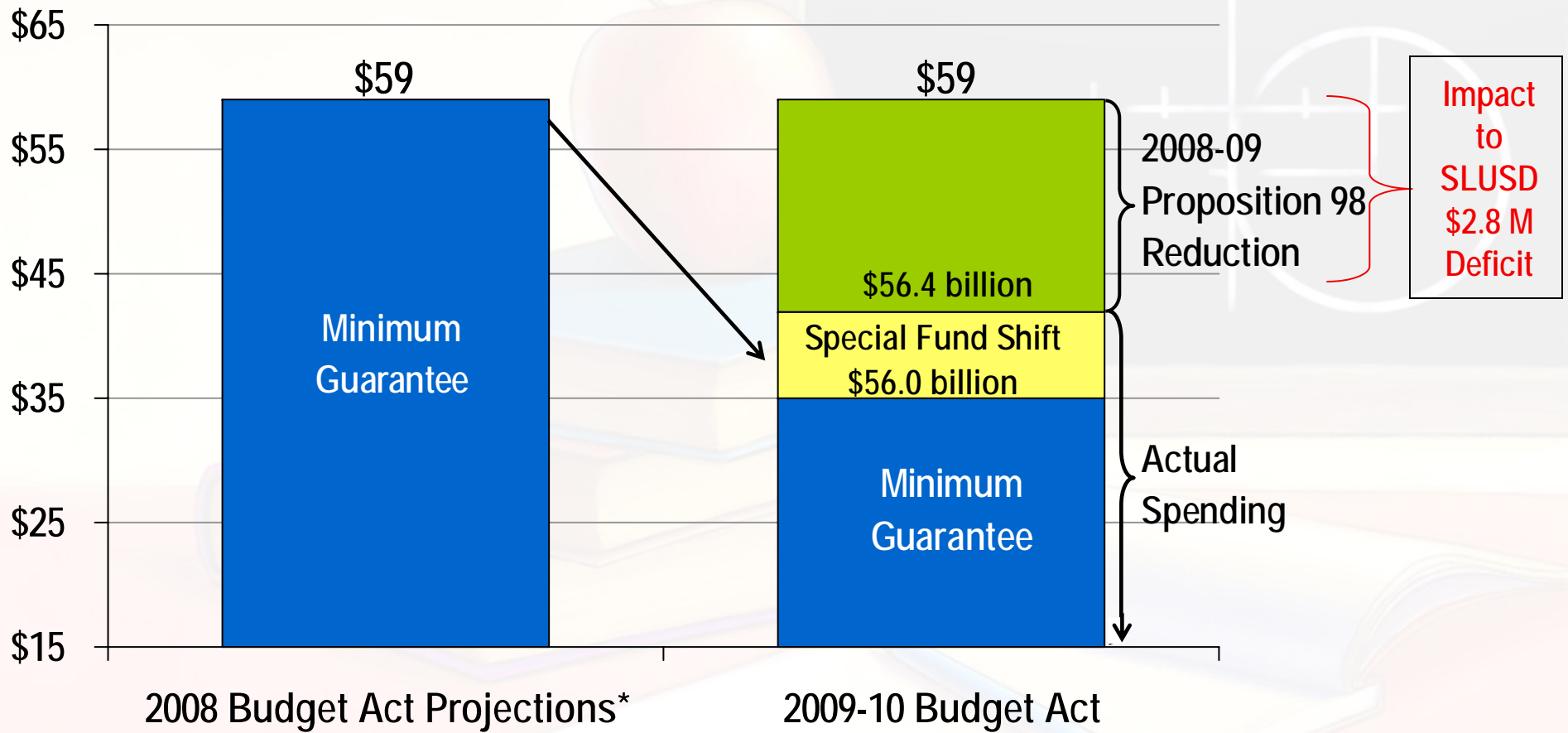
# 2008-09 Proposition 98 Guarantee



# 2009-10 Proposition 98 Guarantee



(\$ in Billions)



\* Includes adjustment for Lottery funds

# 2009-10 Deficit Applied



- Apply 2009-10 deficit factor of 13.094% to your undeficit 2009-10 RL per ADA

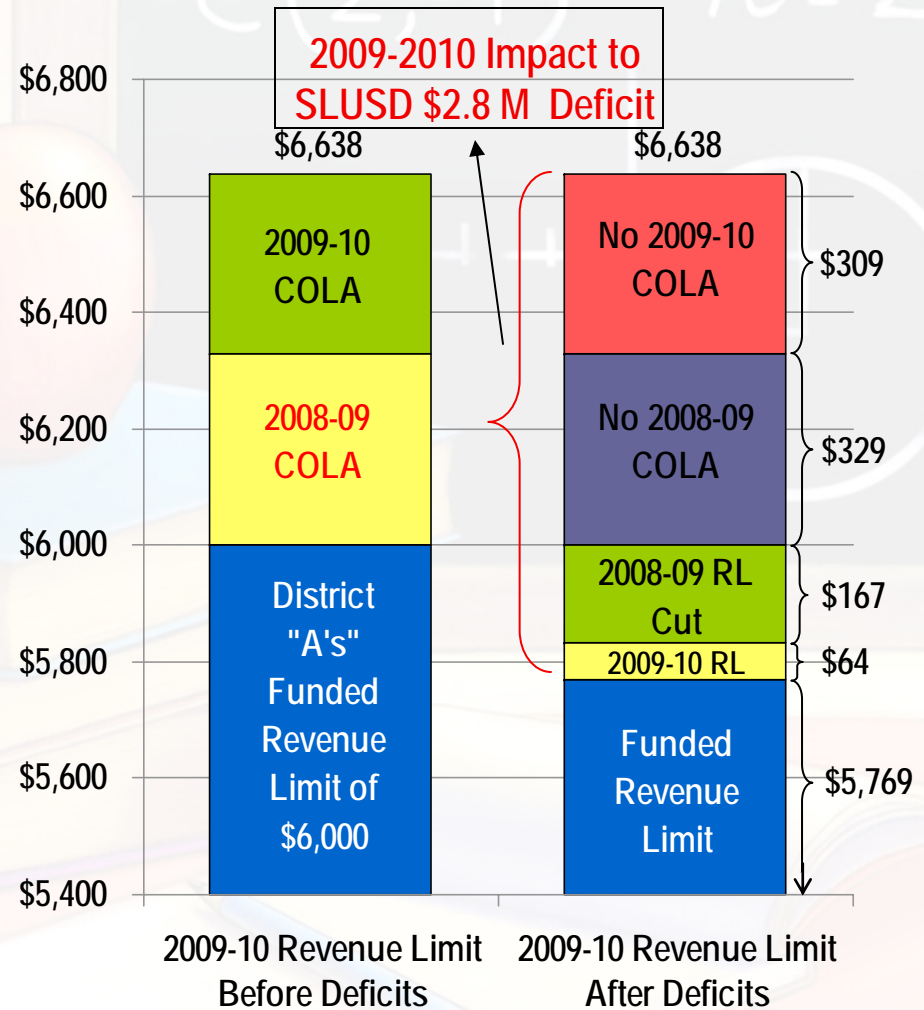
## Example for District "A"

Funded RL =

$$\$6,638 \times (1.0 - 0.13094)$$

$$\$6,638 \times 0.86906$$

$$\$5,769$$



# 2009 SSC Financial Projection Dashboard



Factor		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Statutory COLA (use for K-12 and COE Revenue Limit)		5.66%	5.02%	0.70%	2.30%	2.50%	3.00%
K-12 Revenue Limit Deficit		7.844%	13.094%	13.094%	13.094%	13.094%	13.094%
Net Revenue Limit Change		-2.63%	-0.969%	0.70%	2.30%	2.50%	3.00%
Special Education COLA (on state and local share only)		0.00%	0.00%	0.70%	2.30%	2.50%	3.00%
State Categorical Funding (including adult education and ROC/P)							
	Tier I	0.00%	0.00%	0.70%	2.30%	2.50%	3.00%
	Tier II	-15.38%	-4.46%	0.70%	2.30%	2.50%	3.00%
	Tier III	-15.38%	-4.46%	0.70%	2.30%	2.50%	3.00%
California CPI		1.9%	0.8%	1.9%	2.3%	2.8%	3.2%
California Lottery	Base	\$ 109.50	\$ 109.50	\$ 109.50	\$ 109.50	\$ 109.50	\$ 109.50
	Prop 20	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50
Interest Rate for Ten-Year Treasuries		2.90%	3.00%	3.40%	3.90%	4.30%	4.50%

See SSC's Dashboard at end of this section

# Categorical Ending Balance Sweeps



- Eligible funds include state categorical programs in the General Fund and Cafeteria Fund with the following exceptions:
  - ◆ Economic Impact Aid (EIA)
  - ◆ All funds for instructional materials – includes Instructional Materials Realignment Program (7156) among others
  - ◆ Targeted Instructional Improvement Program (7394)
  - ◆ Special Education (65XX)
  - ◆ California High School Exit Exam Intervention Grants (7055)
  - ◆ Quality Education Investment Act (QEIA) (7400)
  - ◆ Home-to-School Transportation (7230)
  - ◆ Adult Education (0000)
  - ◆ Deferred Maintenance (6205)
  - ◆ Any funding sources for capital outlay, bond funds, or federal funds
- Local agreements or matching requirements for funds are not suspended by the availability of this flexibility and must be considered when evaluating whether the option can be exercised



# Categorical Cuts and Transfer Flexibility



- The state categorical programs are organized into three categories:
  - ◆ Tier I – programs for which funding remains at 2008-09 original Budget enacted level
    - ▶ No cuts, no additional flexibility
  - ◆ Tier II – programs for which funding is reduced
    - ▶ Funding reductions, no additional flexibility
  - ◆ Tier III – programs for which funding is reduced, but flexibility to transfer funding to other education purposes is allowed
    - ▶ Funding reductions, flexibility to transfer up to 100% to another purpose

# Categorical Cuts and Transfer Flexibility



- Tier II and III programs are reduced as follows
  - ◆ 15.38% in 2008-09 plus an additional 4.46% in 2009-10 – cumulative reduction of 19.84%
  - ◆ Cuts applied to 2008-09 funding level
- Flexibility to transfer applies as of 2008-09 and extends to 2012-13
  - ◆ Must allow for comment at a public hearing
  - ◆ Must report to the California Department of Education (CDE) how it is being used

# Other Flexibility Options



- The Budget also allows for other flexibility options
  - ◆ Reducing Routine Restricted Maintenance set-aside requirement from 3% to 1% of General Fund expenditures for current year and until 2012-13
  - ◆ Eliminating 0.5% deferred maintenance local match requirement for current year to 2012-13
    - ▶ State funding available and included in Tier III programs
      - Expect reductions and flexibility
- The final Budget agreement does not include
  - ◆ Change to the length of the school year or instructional minutes requirements
  - ◆ Reduction in required Reserve for Economic Uncertainties

# Programs Affected by Categorical Reductions



## Tier I – No Reduction, No Flexibility

**After School Education and Safety**  
Advancement via Individual  
Determination  
Child Development  
**Child Nutrition**  
**Economic Impact Aid**  
**Federal Resources**  
**K-3 Class Size Reduction**

**Pupil Transportation**  
**Quality Education Investment Act**  
School Bus Replacement  
**Special Education**  
**State Lottery, including Proposition 20**  
**Tobacco Use Prevention Education (TUPE)**

## Tier II – Funding Reduction, No Flexibility

**Adults in Correctional Facilities**  
**Ag Voc Ed Programs**  
**Apprentice Programs**  
**Charter School Facility Grants**

**Foster Youth Educational Services**  
**English Language Acquisition Program**  
**Multi-Track Year Round Grant Program**  
**Partnership Academies**

# Programs Affected by Categorical Reductions



## Tier III – Reduction and Flexibility

### **Administrator Training Program (AB 430)**

### **Adult Education**

Advanced Placement Grant

Alternative Credentialing

**Arts and Music Block Grant**

Bilingual Teacher Training

**CAHSEE Intervention Grants**

CalSAFE

Center for Civic Education

**Certificated Staff Mentoring Program**

Charter Schools Categorical Block Grant

Child Oral Health Assessments

**COE Williams Audits**

**Community Based English Tutoring (CBET)**

Community Day Schools

**Counselors, Grades 7-12**

**Deferred Maintenance**

**Education Technology**

**Gifted and Talented Education (GATE)**

**High Priority Schools**

High School Coaching Training

Indian Education Centers

Immediate Intervention/

Underperforming Schools Program (II/USP)

**Instructional Materials Fund**

International Baccalaureate

**Math & Reading Training (SB 472)**

Morgan-Hart Class Size Reduction

**National Board Certification Incentive**

**Peer Assistance and Review (PAR)**

Physical Education Teacher Recruitment Grants

**Professional Development Block Grant**

**Pupil Retention Block Grant**

Readers for the Blind

**ROC/P**

SAIT and Corrective Actions

**School and Library Improvement Block Grant**

**School Safety Block Grants (Carl Washington)**

**School Safety Consolidated Competitive Grant**

**Specialized Secondary Programs**

**State Assessments (STAR, CAHSEE, CELDT, etc.)**

**Supplemental Hourly Programs**

Targeted Instructional Improvement Block Grant

**Teacher Credentialing Block Grant**

Teacher Dismissal Apportionments

# American Recovery and Reinvestment Act – Funding for Education – Federal Stimulus Package



## Pre K-12 Education Estimates

Program	Total Amount	California Total (est.)
Title I	\$10 billion	\$1.1 billion
School Improvement Grant	\$3 billion	\$377 million
Title II, Part D, Education Technology	\$650 million	\$71 million
Individuals with Disabilities Education Act (IDEA)	\$11.7 billion	\$1.3 billion
McKinney Vento Homeless	\$70 million	\$8 million
School Renovation, Repair	\$0	\$0
Fiscal Stabilization	\$53.6 billion	\$4.9 billion <sup>1</sup>
Child Development Block Grant	\$2 billion	\$220 million
<b>Total</b>	<b>\$80.6 billion</b>	<b>\$8.0 billion</b>

<sup>1</sup>Includes higher education

Source: U.S. Department of Education

# Title I and IDEA – What We Know



- The average district will receive a one-time local educational agency (LEA) increase above base grant of approximately 50% for Title I and 25% for special education
- Funding will begin flowing for 2009-10
- Current Title I and IDEA rules apply to the use of the funding
  - ◆ Funding may not be used at non-Title I schools
  - ◆ IDEA must support special education students and it may be that a portion could be used to support other educational purposes consistent with No Child Left Behind (NCLB)
- **The funds must supplement and not supplant**, but with cuts in state funding there is a potential rebuttal to this argument
  - ◆ Total budgeted expenditures for special education from state and local funds (or local funds only) must be at least as great as in prior year – in total or per capita
- **State and local maintenance-of-effort requirements must be met for special education**
- **These funds are augmentations and are not allowed to be recaptured by the state**
- Federal Stimulus Package doesn't solve the State's long term structural budget gap

# Amending the State Budget



- The State Budget, once enacted, becomes a part of the California statutes – it is a law
  - ◆ Like any law, it can be amended only by an act of both houses of the Legislature and approval of the Governor
  - ◆ The Legislature could, on its own, introduce bills to amend the Budget to accommodate any needed revisions
  - ◆ The Governor could invoke, again, his powers under Proposition 58 and call an emergency session to deal with the Budget
  - ◆ Either way, a two-thirds vote would be needed in each house, then approval of the Governor



# Why Amendments May Be Needed



- We believe the Budget will need to be revised for a variety of reasons
  - ◆ To accommodate any surprises from the May 19 special election
  - ◆ To codify the new statutory COLA and deficit factors
  - ◆ To apportion any changes in federal funding; stimulus package or otherwise
  - ◆ To recognize changes in projected revenues, expenses, and reserves
  - ◆ To deal with cash flow and borrowing issues
  - ◆ To clean up any oversights, disconnects, and technical corrections

## Second Layoff Window



- E.C. 44955.5 provides governing boards the authority to issue layoff notices between July 1 and August 15 in any year that the enacted State Budget contains less than a 2% COLA
- Provision has been on the books for nearly a decade
  - ◆ Never been used because we've never had a Budget before August 15 in a bad Budget year
  - ◆ This year could be different
- Districts should not wait to issue notices now, assuming they can issue additional notices later – use the “second window” as a safety net
- Issue preliminary notices by March 15 assuming worst-case scenarios
- Legislation via “spot bills” could wipe off the August 15<sup>th</sup> window
- LEAs will then NOT have the ability to issue any layoff notices

# 2008-2009 First Interim Report of the Adult Education Fund



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n Leandro Unified  
ameda County

2008-09 First Interim  
Adult Education Fund  
Revenues, Expenditures, and Changes in Fund Balance

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Form 1

Description	Resource Codes	Object Codes	Original Budget (A)	Board Approved Operating Budget (B)	Actuals To Date (C)	Projected Year Totals (D)	Difference (Col B & D) (E)	% Diff Column B & D (F)
<b>E. NET INCREASE (DECREASE) IN FUND BALANCE (C + D4)</b>			138,918.00	(515,567.00)	171,717.65	(479,204.00)		
<b>F. FUND BALANCE, RESERVES</b>								
1) Beginning Fund Balance								
a) As of July 1 - Unaudited		9791	1,748,221.00	2,488,467.00		2,488,467.00	0.00	0.0%
b) Audit Adjustments		9793	0.00	0.00		0.00	0.00	0.0%
c) As of July 1 - Audited (F1a + F1b)			1,748,221.00	2,488,467.00		2,488,467.00		
d) Other Restatements		9795	0.00	0.00		0.00	0.00	0.0%
e) Adjusted Beginning Balance (F1c + F1d)			1,748,221.00	2,488,467.00		2,488,467.00		
2) Ending Balance, June 30 (E + F1e)			1,887,139.00	1,972,900.00		2,009,263.00		
<b>Components of Ending Fund Balance</b>								
a) Reserve for								
Revolving Cash		9711	0.00	0.00		0.00		
Stores		9712	0.00	0.00		0.00		
Prepaid Expenditures		9713	0.00	0.00		0.00		
All Others		9719	0.00	0.00		0.00		
General Reserve		9730	0.00	0.00		0.00		
Legally Restricted Balance		9740	0.00	0.00		0.00		
b) Designated Amounts								
Designated for Economic Uncertainties		9770	0.00	0.00		0.00		
Designated for the Unrealized Gains of Investments and Cash in County Treasury		9775	0.00	0.00		0.00		
Other Designations		9780	1,137,064.00	0.00		1,137,064.00		
Zion loan payment	6390	9780	1,137,064.00					
Zion Loan Payment	6390	9780				1,137,064.00		
c) Undesignated Amount		9790				872,189.00		
d) Unappropriated Amount		9790	750,075.00	1,972,900.00				

# Next Steps



- 1.** Highest priority is to complete the 2008-09 Second Interim Report accurately and on time by March 12, 2009
- 2.** Ending balance from 2007-08 and Tier III Flexibility – A “Regularly scheduled Board Meeting” to hold a public hearing on ending balance and Tier III flexibility transfer of funds