

Meeting Date: May 24, 2011

Item Title: Governor's May Revise Report & Budget Update

Item Type: Information

BACKGROUND: The May Revision is, by statute, the Governor's last chance to present his Budget Proposals to the Legislature.

Prior to the proposed May Revise, the District has presented a multi-year strategy in its Second Interim Budget. This budget included projections from the Governor's January Budget Proposal. As staff begins to develop the 2011-12 Budget, it will take into account information presented in the Governor's May Revise.

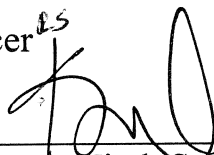
FISCAL IMPLICATIONS: Not applicable.

RECOMMENDATION: Receive information as presented.

AUSD Guiding Principle: #6-Allocation of funds will support our vision, mission, and guiding principles.

Submitted by: Robert Shemwell, Chief Business Officer

Approved for Submission to Board of Education


Kirsten Vital, Superintendent

Governor's Budget Revision for 2011-12

May 24, 2011

Themes for the May Revision

- We still have three major problems in education finance:
 1. Low levels of funding – probably last in the nation now
 2. Volatility of funding – year-to-year funding levels are totally unpredictable
 3. Uncertainty of funding – estimates of funding are wildly uncertain from January to May to Budget enactment and beyond
- We will have all three of these problems until:
 - The economic condition of the state improves and expansion begins
 - State revenues and spending reach an equilibrium
 - Education spending rises in priority at the state level
 - There is a stable, predictable source of ongoing funding for education
- Proposition 98 has not been successful in protecting education
 - We have done worse than the rest of the State Budget in both good times and bad

The May Revision

- The May Revision is in keeping with the general theme of the Governor's January Budget Proposal
 - Big cuts, already enacted, for the non-Proposition 98 side of the Budget
 - Elimination of redevelopment agencies and redirection of property tax
 - Realignment of programs from the state to the local level
 - Extension of temporary taxes by vote of the people
 - Relatively level funding for K-12 education
 - Big funding cuts from community colleges and higher education
- Some things have changed
 - Tax revenues have increased, independent of tax extensions
 - The Governor has had no success getting Republican support for taxes
 - Increased pressure for pension, business, and other reforms

The May Revision

- Some things remain the same
 - The State Budget is still dependent upon future events – extension of taxes
 - The State Budget is balanced only if revenues are increased by some future event
 - “Electioneering” will continue with education funding threatened if new revenues do not materialize
 - Education funding is the “hot button” for voters to approve taxes
 - Voters will not extend taxes to increase welfare payments or to increase funding for prisons – so we can expect education to remain part of the “electioneering”

Risks to the Revised Budget Proposal

- In January, the key risk to the Governor's Budget was voter approval of three temporary taxes by July 2011
 - The Legislature did not agree to put the issue before state voters
 - The Legislature, however, did agree to shift \$1.9 billion in special fund revenues (Proposition 63 for mental health and Proposition 10 for the First 5 Program) to General Fund programs, another major risk
- The May Revision, however, reverses \$1 billion from the Proposition 10 redirection because of pending litigation

Risks to the Revised Budget Proposal

- New risks to the state spending plan accompany the May Revision:
 - Tax proposals worth \$4 billion could be rejected by the Legislature or state voters
 - Litigation challenging special fund shifts, social services grant cuts, and realignment proposals
 - Misestimation of caseload demands for the state's safety net programs and corrections
- Economic and revenue risks
 - Turmoil in the Middle East could raise oil prices, triggering inflation and impairing the recovery
 - The European debt crisis could boost interest rates and limit access to capital
 - Consumers could pull back on spending

Revenue Limits

- The May Revision acknowledges a statutory cost-of-living adjustment (COLA) for revenue limits of 2.24%, up from the estimated 1.67% COLA in January
- The Deficit Factor for school districts and charter schools is 19.754%, up from 19.608% in January
 - The Deficit Factor in the Governor's January Budget was too high, resulting in an average cut of \$19 per ADA in 2011-12
 - The May Revision corrects this error and the per-pupil revenue limit funding will indeed be flat

Base Revenue Limit After Deficit Factor

- Apply the 2011-12 deficit of 19.754% to the undeficit base revenue limit

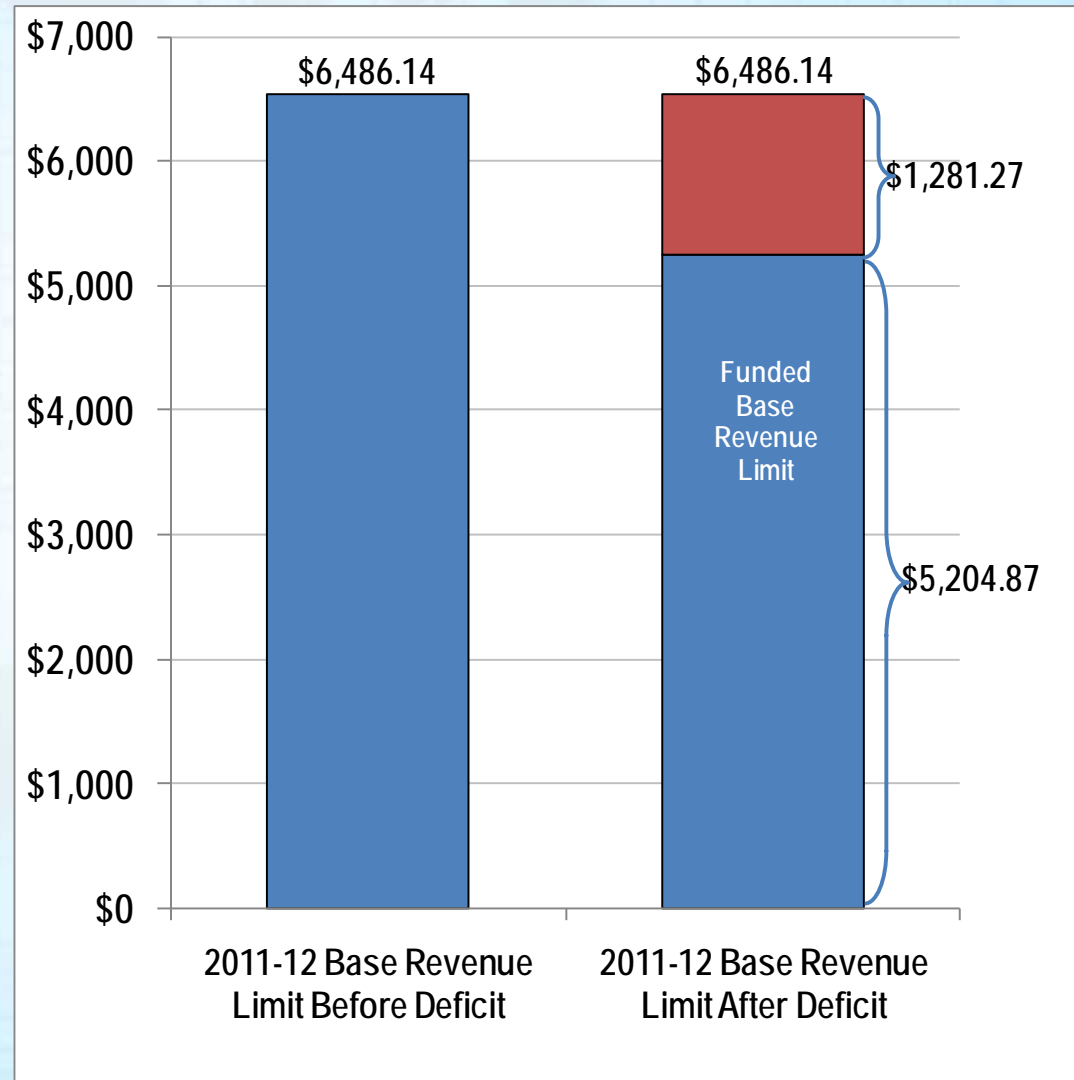
AUSD

Funded revenue limit

$$= \$6,486.14 \times (1 - 0.19754)$$

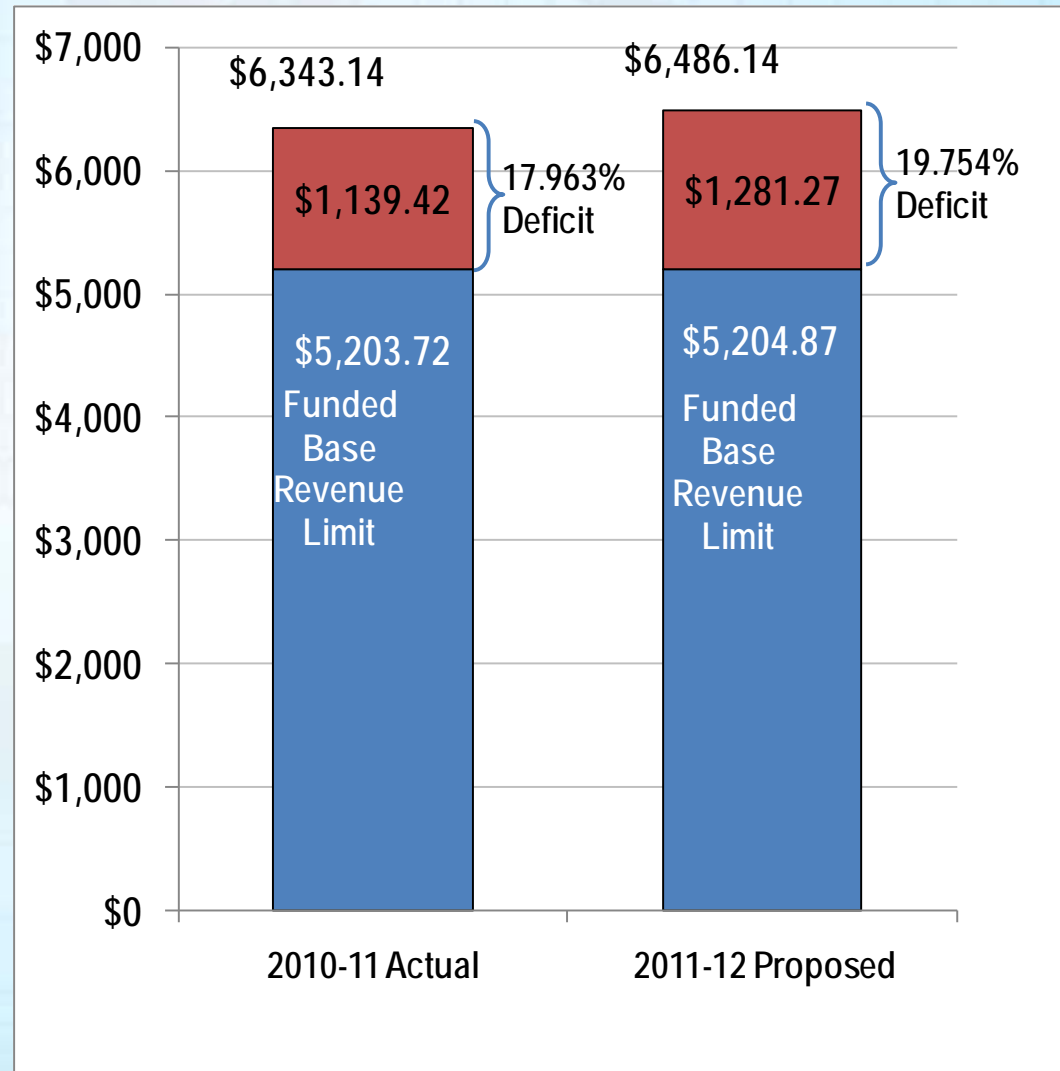
$$= \$6,486.14 \times 0.80246$$

$$= \$5,204.87$$



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

- The Governor's Budget does not fund the 2.24% statutory COLA (\$143 for unified districts) for 2011-12
- The funded base revenue limit is flat between 2010-11 and 2011-12



2011-12 K-12 Revenue Limits – AUSD

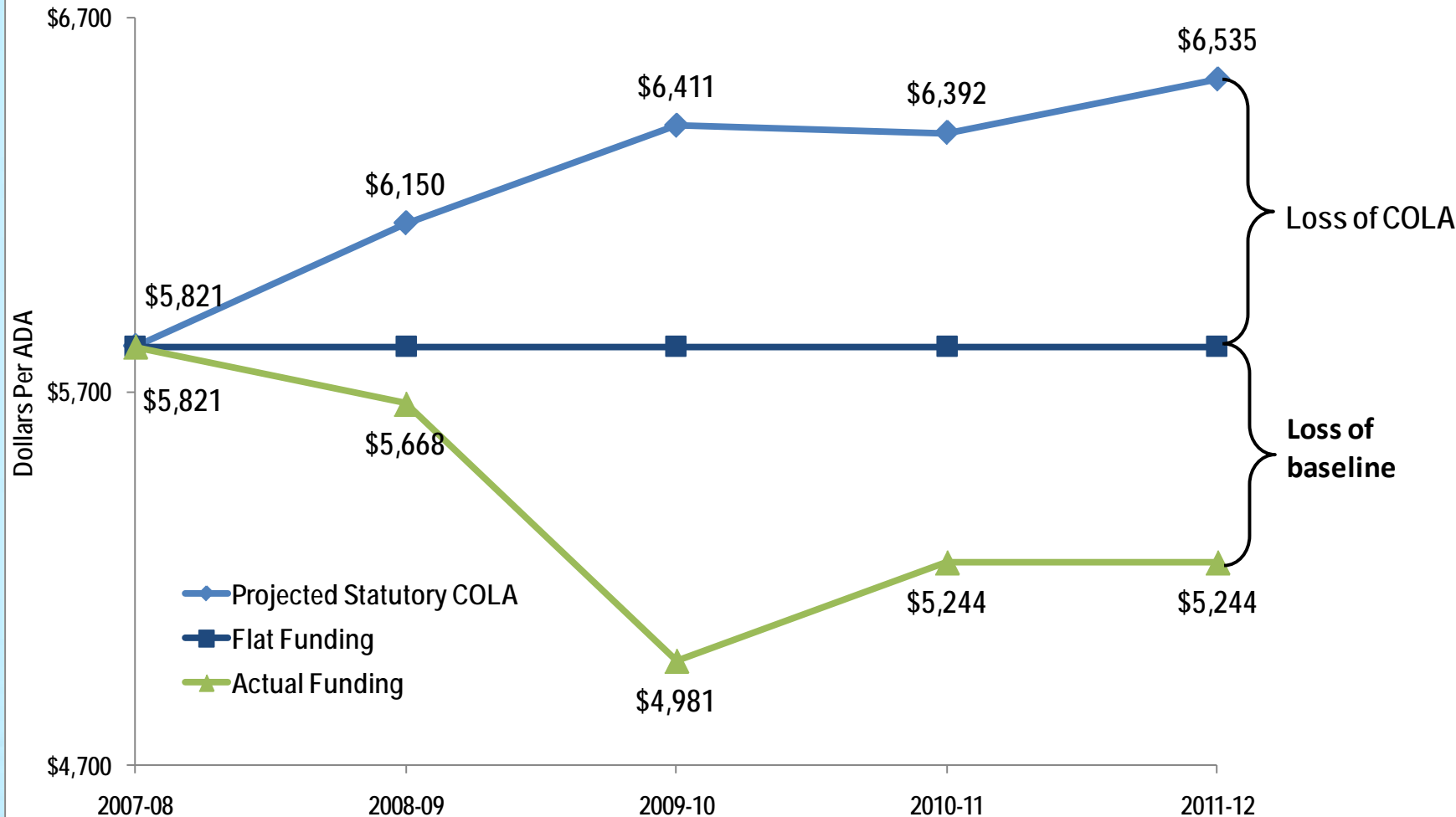
	AUSD for 2011-12	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2010-11 Base Revenue Limit	\$6,343.14	0.82037*	\$5,203.72
2.	2011-12 COLA per ADA	\$143	–	–
3.	2011-12 Base Revenue Limit	\$6,486.14	0.80246**	\$5,204.76
4.	Net 2010-11 Funded Revenue Limit (Line 1, Column C)			\$5,203.72
5.	Dollar Change (Line 3, Column C, Minus Line 4, Column C)			\$1.04
6.	Percentage Change (Line 5, Column C, Divided by Line 4, Column C)			0.00%

* 0.82037 = 1 - 0.17963 (2010-11 deficit factor)

** 0.80246 = 1 - 0.19754 (2011-12 deficit factor)

Projected vs. Actual Funding Per ADA

Average Unified District



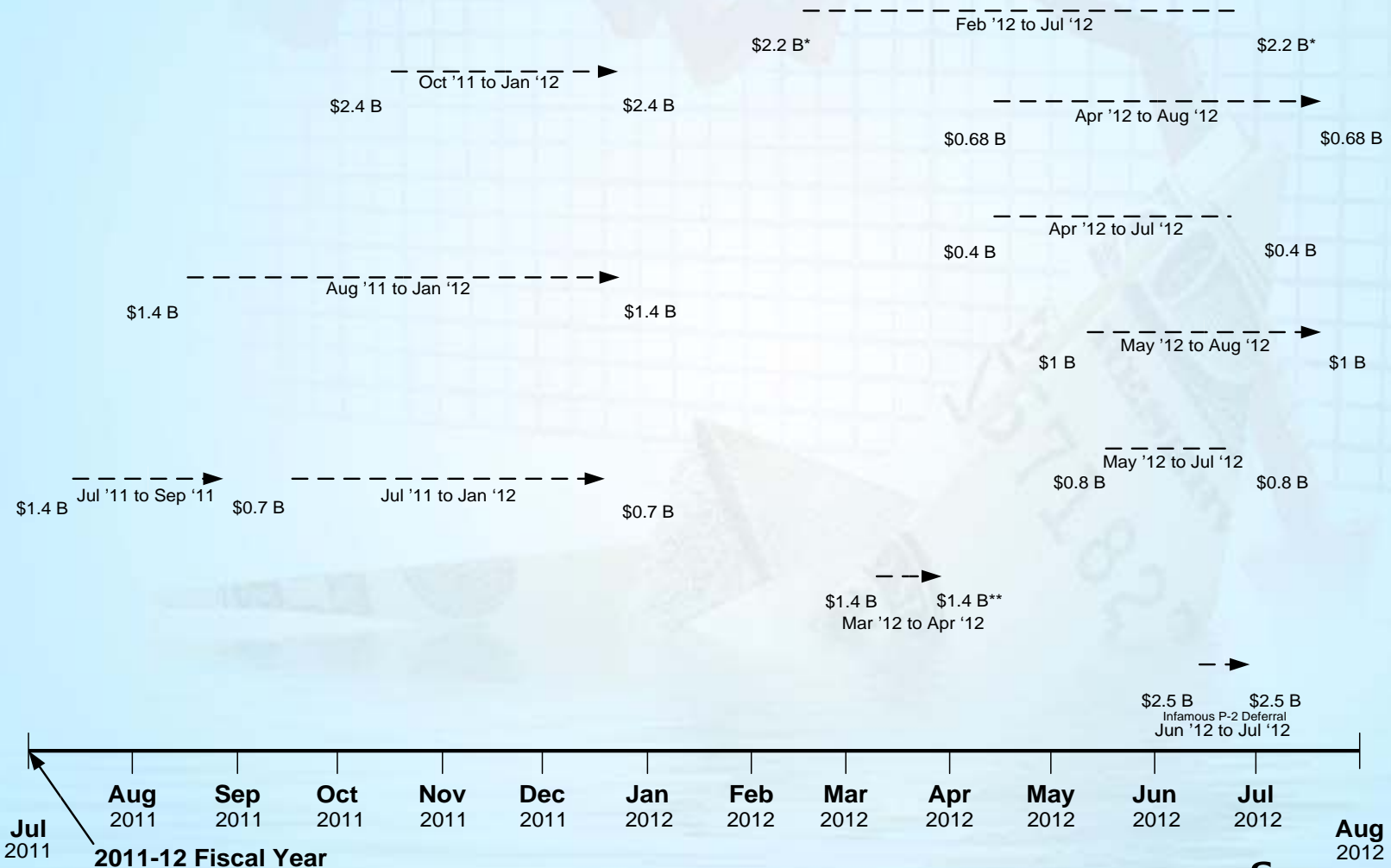
Governor Calls Deferrals Debt

- The increase in the number and amount of deferrals are eliciting further questions among the professional practitioners related to revenue recognition
- Deferrals have been used as a tool in favor of the state, not for the benefit of the educational community
- The deferrals have reached an unprecedented level – almost \$10 billion
 - The ability of the state to repay the obligation will be difficult at best
 - The Governor, in his May Revision, has taken the first step – acknowledging the \$10 billion liability owed to LEAs, and he proposes to eliminate \$2.5 billion in deferrals in the 2011-12 fiscal year
 - Cash flow problems are commonplace under a sea of economic woes in the midst of a struggle to maintain fiscal solvency
- Continue to maintain close communication with your auditors every year on whether or not to accrue

Apportionment Deferrals – How It All Began

- In the beginning, it was just one deferral for a few days
 - But how times have changed – regardless of size, location, or type, all LEAs are now affected by deferrals at varying degrees
- Interyear Principal Apportionment deferrals (crossing fiscal years) have nearly doubled in amount since 2008-09 and are now measured in months, not days
- The projected amount of cash that will cross year-end in 2011-12 will account for nearly 25% of all K-12 funding for the principal and categorical apportionment
 - This equates to approximately \$1,400 per ADA on average
- One-time or intrayear deferrals will be more than \$6 billion within 2011-12

Apportionment Deferrals



*Includes K-12 CSR Deferral

= Intra-year

= Interyear

Proposition 98

- Proposition 98 is supposed to provide a minimum guarantee of funding for K-12 education and the community colleges based on the prior year's funding level, adjusted for workload changes and inflation
- For 2010-11, Proposition 98 was suspended by \$4.3 billion to \$49.7 billion
 - Any increase in current-year General Fund revenues does not automatically increase the minimum guarantee because of the suspension
 - The May Revision proposed a small increase in Proposition 98 spending of about \$100 million related largely to growth in ADA

Proposition 98

- For 2011-12, the May Revision acknowledges an increase in General Fund revenues, resulting in an increase to Proposition 98 above the January Governor's Budget Proposal of \$3 billion in 2011-12 to \$52.4 billion
- The boost in Proposition 98, however, will not result in an increase in per-pupil funding at the district level because the Governor's May Revision proposes to allocate the increase in Proposition 98 to:
 - Reverse \$2.5 billion in K-12 apportionment deferrals
 - Reverse \$350 million in community college deferrals
 - Fund mental health and out-of-home care for special education students, which was previously funded by counties

Proposition 98 Concerns

- The May Revision acknowledges an increase in Proposition 98, but uses the increase to reverse apportionment deferrals
 - This budgeting approach can be used to ultimately reverse all of the apportionment deferrals, thus absorbing a \$9 billion increase in Proposition 98, but providing no additional local funds

Flexibility Options Continue

- SB 70 extends all existing flexibility options by two additional years
- The following options extend through 2014-15:
 - Tier III categorical flexibility
 - Delaying compliance with most recent instructional material adoptions
 - Eliminating required routine restricted maintenance and deferred maintenance contributions
 - Allowing for shortening the instructional year by up to five days
 - Allowing the deposit of surplus property sale revenue into the General Fund
- Other flexibility options:
 - K-3 Class-Size Reduction relaxed penalties – extended through 2013-14
 - Reduction to Reserves for Economic Uncertainty
 - Minimum is one-third of required levels for 2010-11 and 2011-12
 - As of 2012-13, must make progress towards compliance
 - By 2013-14, must meet compliance

Special Education – Mental Health Services

- Federal law requires that mental health services be provided to students with disabilities
 - County mental health agencies in California have been responsible for providing such services for more than 26 years as provided by AB 3632
- For 2010-11, then-Governor Schwarzenegger vetoed \$133 million for this purpose, which led to questions regarding who was financially responsible to address the federal mandate
 - Both county mental health agencies and LEAs are concerned about the financial liability that exists for such services

Special Education – Mental Health Services

- Major change proposed in May Revision
 - The Governor proposes to permanently shift AB 3632 services from counties to schools and provides SELPAs with the following funds:
 - Continuation of \$69 million in federal IDEA funding as appropriated in SB 70
 - Addition of \$221.8 million in Proposition 98 funding for mental health and out-of-home residential services
 - \$98.6 million, per AB 100, continues to be provided to county mental health agencies from Proposition 63
 - LEAs can contract with county mental health for these services
 - Funding will be distributed to SELPAs in a manner similar to AB 602 formulas
 - \$3 million would be set aside for extraordinary costs targeted to Necessary Small SELPAs

Next Steps

- **Balanced budget must be adopted by the 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**

Questions?