

2009 May Revision In June Workshop

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California's Economy

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- California's economy is suffering even more than the nation as a whole
 - The state was at the epicenter of the subprime mortgage collapse
 - Home building fell for the fourth consecutive year in 2008, with housing starts expected to be down 24% in 2009
 - The state's unemployment rate is among the highest in the nation at 11.2% in March 2009, up from 6.4% one year earlier
 - Personal income is projected to decline 1.0% in 2009, the first time it has fallen since 1938

Major May Revision Proposals

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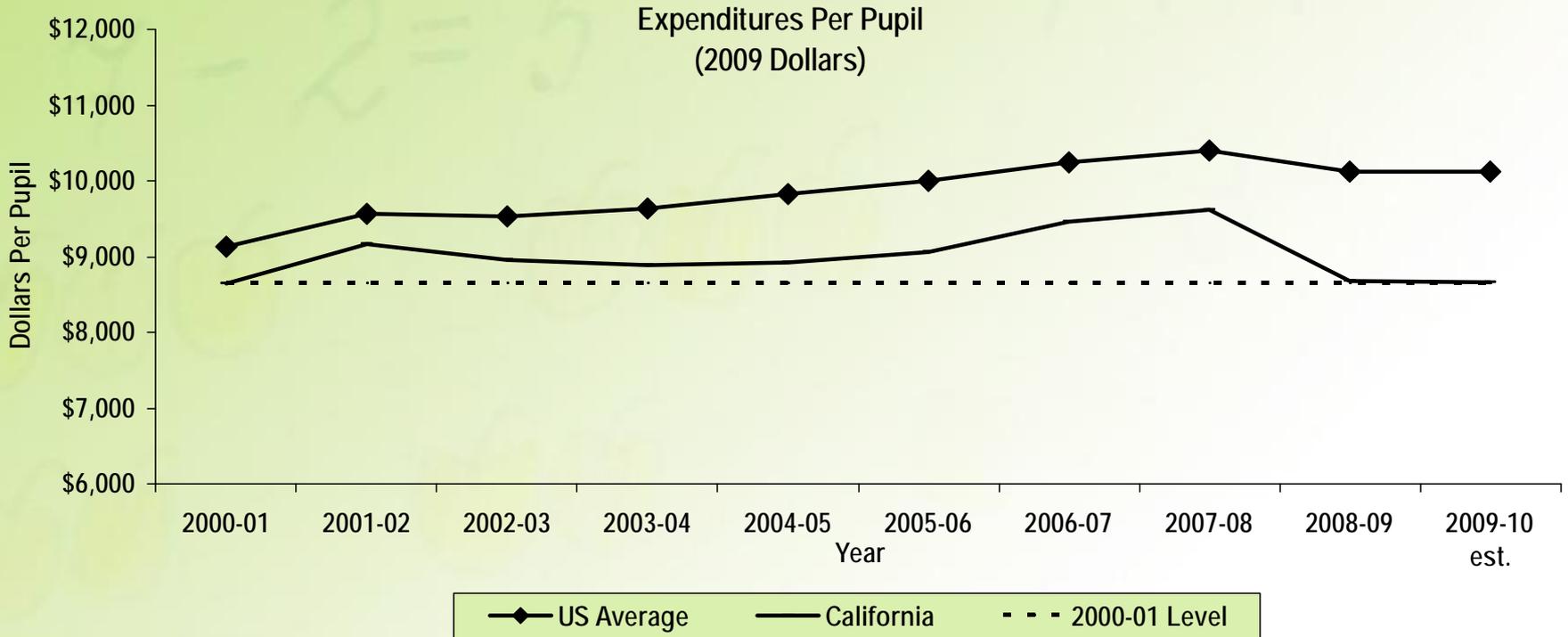
- The projected deficit is now \$24.3 billion with the failure of the May 19 special election ballot measures and falling revenue projections
- Major Budget-balancing proposals:
 - \$16 billion in cuts and savings, with \$7.2 billion from Proposition 98
 - \$2.8 billion from revenue accelerations and fees
 - \$2 billion from local government borrowing
 - \$3.5 billion from program consolidations, fund shifts, and other changes

The Lost Decade

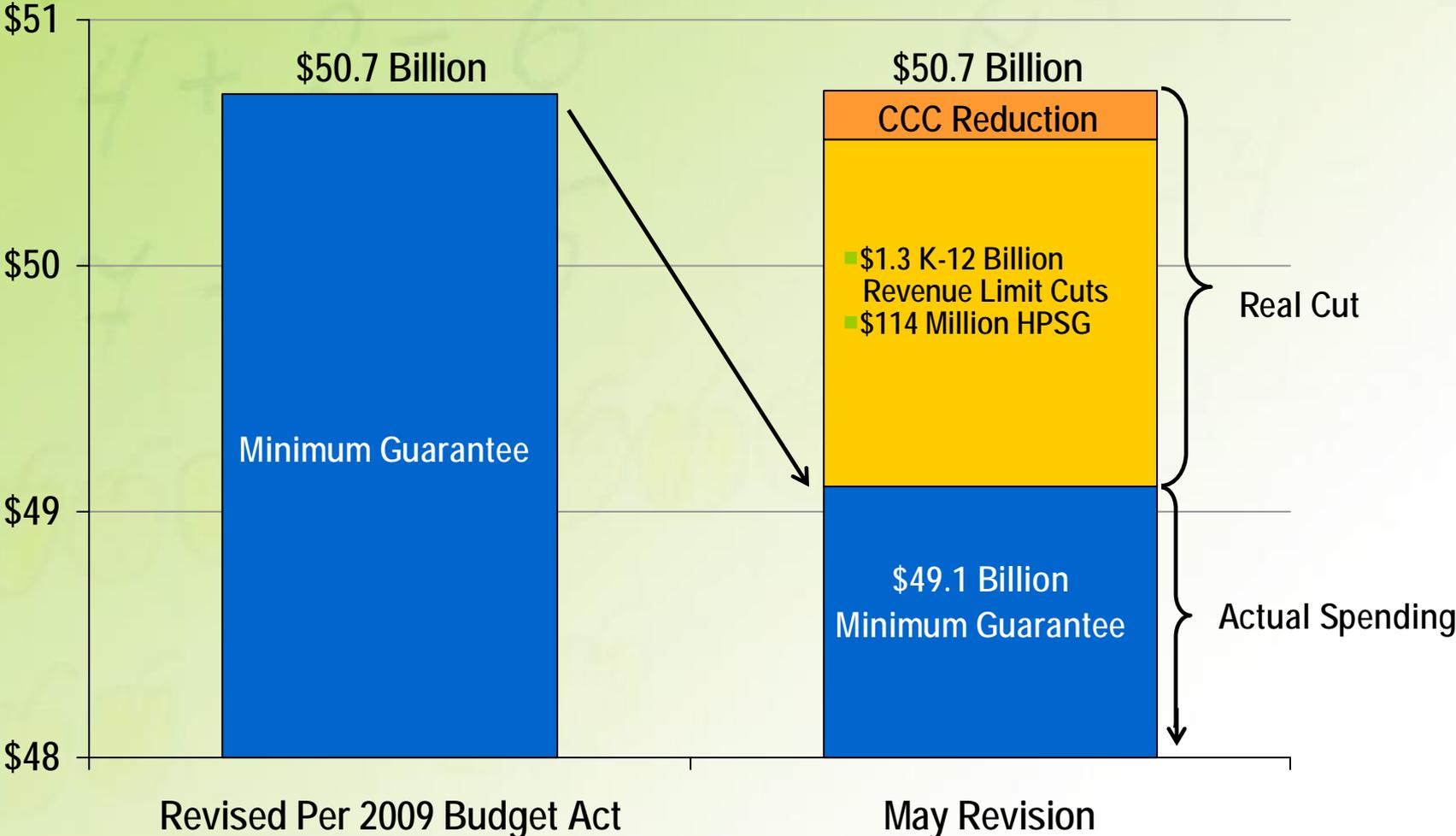
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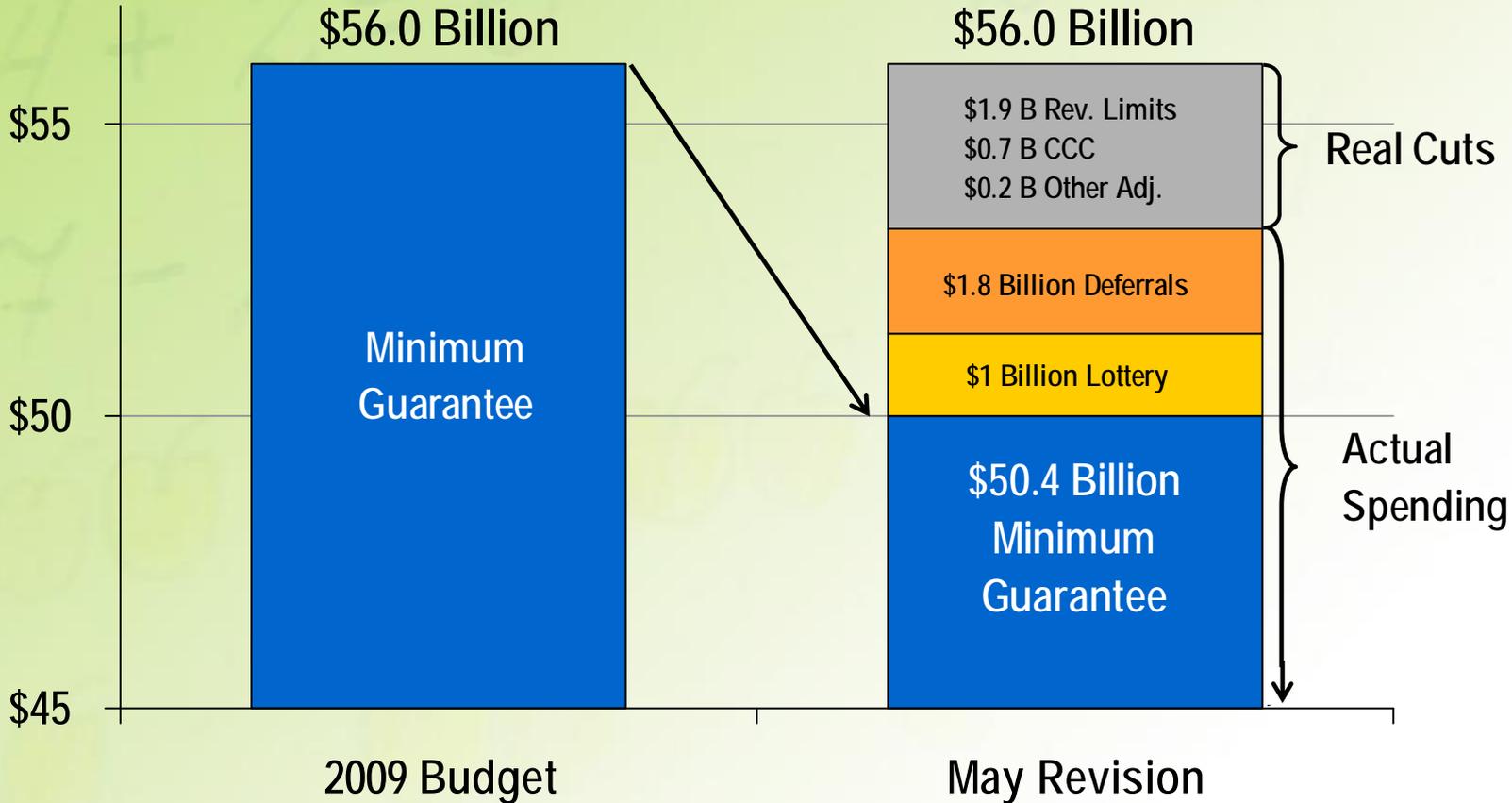
- The cuts sustained so far plus the May Revision's additional cuts erase almost a decade's worth of increased spending power for California schools
 - The last time California's per-pupil spending was at this level, adjusted for inflation, was 2000-01



2008-09 Proposition 98 Guarantee



2009-10 Proposition 98 Guarantee



2008-09 K-12 Revenue Limits – Your District



	2008-09	Base Revenue Limit per ADA (A)	Deficit Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2007-08 Base Revenue Limit	\$ <u>5777.14</u>	1.00000	\$ <u>5777.14</u>
2.	2008-09 Base Revenue Limit	\$ <u>6106.14</u>	0.88572*	\$ <u>5408.33</u>
3.	Dollar Change (Line 2, Column C, minus Line 1, Column C)			\$ <u>-368.81</u>
4.	Percentage Change (Line 3 divided by Line 1, Column C, converted to a percentage)			<u>-6.384</u> %

*0.88572 deficit factor = 88.572% funding, or a 11.428% deficit

2009-10 K-12 Revenue Limits – Your District



	2009-10	Base Revenue Limit per ADA (A)	Deficit Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2008-09 Base Revenue Limit	\$ <u>6106.14</u>	0.88572	\$ <u>5408.33</u>
2.	2009-10 Base Revenue Limit	\$ <u>6367.14</u>	0.82033*	\$ <u>5223.16</u>
3.	Dollar Change (Line 2, Column C, minus Line 1, Column C)			\$ <u>-185.17</u>
4.	Percentage Change (Line 3 divided by Line 1, Column C, converted to a percentage)			<u>-3.424</u> %

***0.82033 deficit factor = 82.033% funding, or a 17.967% deficit**

Supplemental Hourly Programs

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- Cuts proposed to revenue limit funding do not impact this program
 - Remember, it's already been cut for 2008-09 and 2009-10 as part of categorical program reductions
 - A cumulative reduction total of 19.84% for 2009-10
- CDE has indicated that cleanup legislation will make 2007-08 the base year for purposes of calculating funding levels for 2008-09 through 2012-13

Adult Education and ROC/Ps

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- Like hourly supplemental programs, the categorical portion of funding for these programs is subject to Tier III categorical program funding reductions and flexibility
- In addition, these programs are anticipated to be included in clean-up legislation to change the base year to 2007-08
 - Estimate the 2008-09 and 2009-10 funding cuts based on 2007-08 or actual annual funding received
- The May Revision makes no changes to the funding levels enacted in the 2009 Budget Act

Charter School Funding



- The May Revision reduces charter school funding rates commensurate with the reductions proposed for revenue limits; categorical funding rates are unchanged from the 2009 Budget Act level
- Preliminary estimates of the new rates are as follows

		K-3	4-6	7-8	9-12
2009-10	General Purpose	\$5,048	\$5,125	\$5,273	\$6,119
	Categorical	\$401	\$401	\$401	\$401

ARRA – Intent versus Reality

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- The intent of the American Recovery and Reinvestment Act (ARRA) is to:
 - Save jobs
 - Stimulate the economy
 - Improve academic outcomes and support school reform
- The reality for ARRA in California is;
 - A trickle of funds into a severely leaking Budget bucket
 - Since the passage of ARRA, California's Budget gap has increased to \$24 billion
 - ARRA funds expected to offset cuts made based on the Budget enacted in February 2009 are now needed to offset May Revision proposed cuts

ARRA – California's Budget Crisis

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- Given California's worsening budget situation – any plans that local educational agencies (LEAs) previously made for ARRA funds may require reconsideration
 - It may now be necessary to use the funds to:
 - Save an existing job rather than restoring one that has already been cut
 - Avoid further cuts – but keep the ones that have been made so far
 - Pay for something ongoing rather than one time – at least for now

The ARRA Program Details

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- Much more is known now than in February, but there are many outstanding issues that are yet to be resolved
- Just as the state has treated this funding as part of its Budget-balancing solution, so should LEAs
 - SFSF dollars will be necessary to offset cuts
 - Title I funds for many LEAs will be needed to offset reductions in base grants
 - IDEA funding will be needed to help control local contributions

State Funding Flexibility



Recap of Flexibility

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- To help offset the impact of categorical program and revenue limit cuts, the February 2009 Budget provided two types of flexibility:
 - Ending balance sweeps – based on the 2007-08 ending balance for state categorical programs with specific exceptions
 - These transfers may be executed in 2008-09 or 2009-10, but do not include ending balances accrued after June 30, 2008
 - Transfer flexibility for 42 state categorical programs – funds may be transferred from eligible programs to any other educational purpose
 - Permitted as of 2008-09 through 2012-13
- Plus relaxation of K-3 Class-Size Reduction caps and timelines for purchasing State Board-approved instructional materials

Recap of Flexibility Plus Updates – Tier III Categorical Programs

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- Funding for 42 programs are permitted to be shifted to any other education purpose as of 2008-09 through 2012-13
 - CDE has indicated that this funding will be provided as unrestricted funding and that LEAs may use locally defined codes to track the funds
- In addition, SBX3 4 stated that a public hearing is required as a condition of exercising the allowed flexibility; however, CDE has clarified that a hearing is required to receive the funds for the affected programs
 - This hearing need not be a separate hearing, but may be addressed as part of the regular budget adoption hearing process

Recap of Flexibility Plus Updates – Tier III Categorical Programs

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- Funding for all Tier III programs is to be provided based on the proportion of funding received by each LEA of the state's total 2008-09 funding for the included programs
 - In subsequent years, this amount would be adjusted based on statewide budget adjustments
- SBX3 4 identified 2008-09 as the base year for all programs, but CDE has indicated that, for several programs that rely on attendance/participation data, the base year legislatively will be changed to 2007-08
 - Supplemental Hourly Programs
 - ROC/P
 - Adult Education
 - Cal-SAFE
 - 9th Grade Class-Size Reduction
 - Advanced Placement Fee Waiver Program

Recap of Flexibility – Deferred Maintenance

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- The May Revision provides funding for the state portion of the Deferred Maintenance Program (DMP), but this program is also subject to categorical funding reductions and flexibility
 - As a result, the LEA matching requirement is eliminated for fiscal years 2008-09 through 2012-13 and funds may be used for other purposes
 - The reporting requirement is estimated during this time (report to Legislature not required)
 - The submittal of the Five-Year Plan to the State Allocation Board (SAB) is eliminated as well
- DMP funds distributed in 2008-09 establishes the funding level baseline as the proportionate level of funding for the next four years

Recap of Flexibility – Routine Restricted Maintenance Account

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- LEAs in the SB 50 School Facilities Program are required to set aside 3% of total general fund expenditures
- LEAs in the old lease-purchase program are required to set aside 2%
- But, flexibility in the Budget reduces the contribution requirement to 1% for fiscal years 2008-09 through 2012-13 (for both programs)
 - The majority of expenditures in the Routine Restricted Maintenance Account (RRMA) are for classified salaries and benefits, so LEAs will have to make advance decisions on staffing
- There may not be as much flexibility in RRMA due to staffing requirements and individual LEA circumstances; however, all options should be considered and utilized as appropriate

Recap of Flexibility – Class-Size Reduction



- No changes have been made to K-3 CSR since SBX3 4 was signed
 - Penalties for exceeding 20:1 are relaxed as of 2008-09 through 2011-12
 - Penalties begin when average class sizes exceed 20.44 students and reach up to a 30% loss in funding

Revised CSR Graduated Penalties	
Class Size	2008-09 to 2011-12
Up to 20.44	No penalty
20.45 to 21.44	5% penalty
21.45 to 22.44	10% penalty
22.45 to 22.94	15% penalty
22.95 to 24.94	20% penalty
24.95 or more	30% penalty

Recap of Flexibility – Charter Schools

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- Charter school categorical block grant funds are included within Tier III categorical cuts and flexibility
 - But funds are already flexible, so this does not add further flexibility
 - In addition, charters control this portion of funding regardless of the Tier III flexibility
- To the extent a charter school receives other noncharter school block grant funds, such funds are affected in the same way as for a noncharter LEA

Recap of Flexibility – Instructional Materials

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- The Budget protects ending balances for instructional materials
 - Spend these first
- But it permits shifting funding (albeit at a reduced level) from the Instructional Materials Realignment Fund as a Tier III program
- Furthermore, the Budget waives until July 1, 2010, the 24-month timeline for having in place new State Board of Education-approved instructional materials
 - The flexibility to delay instructional materials purchases does not eliminate all legitimate and required expenses
 - LEAs must continue to have sufficient instructional materials for core subject areas and meet all the requirements of Education Code Section (E.C.) 60119
 - All students must have access to State Board-approved instructional materials for in class and homework

May Revision Flexibility Proposals

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- Flexibility is like adding sugar to medicine – it may make it easier to handle, but side effects are unchanged
 - Given the magnitude of the additional cuts, additional flexibility is helpful, but not sufficient to soften the blow of the cuts
 - Flexibility cannot restore funding cuts
- The May Revision contains a few new proposals:
 - Reduction in the school year



Summary and Perspectives

$3 + 3 = 6$
 $4 + 2 = 6$
 $7 - 2 = 5$
4
3 +



Legislature's Response

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- In response to the May Revision, legislative leaders promised to complete the Budget process quickly – before the state runs out of cash in July
 - Appointed a ten-member Budget Conference Committee to immediately begin hearings
 - Invited public comment
 - Testimony limited to 90 seconds
 - Will begin taking action in early June
- Governor addressed joint session of the Legislature
 - Followed by meeting with legislative leaders

Budget Timeline



What's Next?

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- We expect that at least some of the revisions requested by the Governor will be enacted in June or July to avoid yet another cash crisis
- When planning the 2009-10 school year, you will need to plan for a full 180 days unless and until two things happen:
 - The state acts on the Governor's request to shorten the school year
 - A shorter work year is negotiated with your bargaining units
- Any additional flexibility, if it comes at all, will be difficult to implement
- You will need to adopt your district budget in accordance with the May Revision, even though we expect more changes
- We will monitor the revision of the 2009-10 Budget
- As soon as we have a feel for when the state is likely to reach its major milestones, we will publish dates for our School Finance and Management Conference – see you there!