

*Berkeley Unified School District  
Budget Update*



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The current California budget crisis is the worst in State's history. There are several factors causing the crisis. Nearly all revenues streams within the State Budget have declined as part of the national recession. California's main revenue streams are income taxes, corporate taxes and sales taxes. Income tax revenues have declined due to increased unemployment, corporate taxes have declined due to reductions in corporate profits and sales taxes have decreased due to a slow down in consumer spending. However, not all of California's budget problems can be attributed to the national recession. California has had a structural budget deficit for several years that has gone unaddressed by the Governor and Legislator. Year after year they have chosen to address the budget deficit using one-time revenues and accounting tricks to balance the budget. Also, the State's income tax structure is not a stable revenue source. State income tax revenues are highly dependant on the smallest, richest population of residents. This group of citizens pays taxes mainly on their capital gains. Any fluctuation in the stock market greatly affects capital gains tax revenues. This creates volatility in California's revenues from year to year.

School District budgets are currently suffering because they are heavily dependant upon State funding. Proposition 98 guarantees school districts a minimum amount of funding based upon state tax revenues. Unfortunately, as state tax revenues decline so does the guaranteed minimum funding level. This is what has allowed the State to reduce the education budget mid-year and still say that they are fully funding education. The District's revenue limit is made up of two parts, state aide and property taxes. As property taxes decline, due to foreclosures and lowering of property values, the state aide portion of the revenue limit increases. The current economy has placed additional burden on the State to pay a higher percentage of many districts revenue limits.

The Governor has declared a "fiscal emergency" and has convened a special legislative session to address the states budget crisis. Currently there are three proposals to address the 2008-09 budget deficit. Each proposal calls for mid-year reductions in State funding to school districts. The Governor's proposal will eliminate the .68% revenue limit COLA with an additional reduction to the revenue limit of \$300 per ADA. The Governor's proposal allows for full flexibility of State categorical funds. This will allow districts to offset the loss of unrestricted revenues using restricted funds. The Democrats' proposal also eliminates the COLA as well as eliminating a long list of state categorical programs retroactively to July 1, 2008. This means that our District would need to immediately eliminate existing programs and find other funding sources to transfer the costs to date, as well as on-going costs of personnel that cannot be immediately reassigned to vacancies. There is very little flexibility in the Democrats proposal to help mitigate the programmatic losses. The Governor has vetoed this plan as of a few days ago. Very little is known about the specifics of the Republican's plan other then they wish to use only expenditure reductions to balance the budget. The other two plans call for a combination of expenditure reductions and revenue increases to balance the budget. Fiscal staff has prepared their budget reduction estimates using the Governor's proposal. However, they are currently working with the Instructional Services Division and site

administrators to identify alternative funding sources for expenditures and employees paid from any categorical programs slated for elimination in the Democrat's plan.

The budget assumptions used in the District's 2008-09 Multi-Year Projection included in the Adopted Budget were as follows:

	<b>2008-09</b>	<b>2009-10</b>
Revenue Limit COLA:	0.00%	4.23%
Categorical COLA:	-6.5%	4.23%
Revenue Limit per ADA:	\$5,986.83	\$6,222.82
ADA Growth:	182.53	182.53

### **What is the impact of the Proposed 2008-09 Mid-year Reduction to the District?**

- The District did not budget the .68% COLA that the Governor proposes to take back so there is no impact for the COLA reduction.
- Loss of \$300 per ADA would be approximately: **(\$1,796,049)**
- Additional Categorical Program revenues that were not anticipated (budgeted at -6.5% COLA, but received a 0.00% COLA) are approximately: \$810,882

**Total estimated 2008-09 mid-year reduction is approximately: \$1,796,049**

### **Proposed Solution:**

- The District will use the \$810,882 in additional categorical funding to partially offset the mid-year loss through the categorical flexibility option included in the Governor's proposal.
- The remaining amount of \$985,167 will be funded using the unrestricted fund balance. Last year the District's fund balance increased by \$1,970,631 so there are sufficient funds to cover the remaining balance and maintain the District's reserve for economic uncertainty.

### **Talking Points regarding the 2008-09 Mid-year Reductions:**

- The District's priority is to maintain current year programs
- Since we are a growing district we have the ability to use our fund balance to get through the current year.
- All districts are going through mid-year reductions but we will come out better than most.
- We must inform the public and contact our legislators to see that education funding is a priority in the 2009-10 State budget.

### **What is the impact on the 2009-10 Adopted Budget?**

- The District will need to make on-going reductions in the amount of **(\$1,796,049)** since it used one-time funding sources to make the reductions in 2008-09.
- The District will need to reduce the 2009-10 COLA from 4.23% to 0.00%, approximately **(\$2,030,423)**
- The District will need to provide step and column increases as well as include a 3% increase to utilities and transportation. The approximate cost to the unrestricted general fund for each are as follows: Certificated step/column approximately \$494,404, Classified approximately \$124,860 and utilities and transportation increases approximately \$132,000

**Total 2009-10 estimated budget reductions: \$4.6 million**

### **2009-10 Budget Talking Points:**

- The District must now make on-going reductions for the one-time reductions made in 2008-09
- The District was anticipating a COLA of 4.23% in 2009-10 that will not occur.
- The District has on-going obligations that automatically increase the budget each year, such as step and column, utilities and services.
- Our focus remains the education of our children. This is an opportunity to make positive changes we might not have made otherwise.
- We are all in this together, it is a time for all bargaining units to work together to find a solution to our budget deficit.
- Regular communication at all levels of the District is important to keep employees apprised of the true budget picture.
- We must educate the public about what reductions to education will mean. California will now drop to the lowest level of per student funding in the nation, while having the highest accountability standards.

### **What is our District's Communication Strategy and Budget Development Timeline?**

Communication about the District's budget is an ongoing process. Whether the budget situation is positive or flat out "ugly" like this year, it is critical that the CBO and staff continually provide budget updates to the leadership team and stakeholders. In developing a communication strategy, several elements must be considered. First, the various stakeholder groups who need to be informed and/or must be informed should be identified. Second, the depth of information that needs to be shared must be determined for each group. Third, the best options for sharing the information must be considered. Fourth, a feedback system is necessary to "check for understanding". Finally, it is necessary to continually monitor the stakeholder groups to determine if and when additional updates are needed.

In an extraordinary year such as this, an aggressive communication strategy is necessary. The extremely late passage of the state's "first" budget created uneasiness with stakeholders. Governor Schwarzenager's call for an emergency legislative session the day after the national election to deal with shrinking revenues was a red flag for our district that we must start an assertive communication program with our employees. Immediately a series of meetings at school sites across the district were organized to inform our employees of the issues with the state budget and the implications for our district. Prior to these meetings, the talking points were determined by the Superintendent's cabinet. Although the basic elements of each presentation were the same, modifications were made as new information became available. In addition to these formal presentations, all site leaders were provided with budget updates to share with their staff and parents.

As various budget packages were being considered, the business services department carefully monitored the proposals and assessed the potential impact on the current year budget. Weekly and daily meetings as necessary with the Superintendent and other members of the cabinet ensured that the leadership team was fully informed as the state budget evolved. The team decided that the Governor's proposal would be the one used to develop a strategy for dealing with the mid-year cuts. Business services is currently meeting with various department leaders to personally discuss the implications of the potential mid-year cuts upon their programs. In addition, representatives of the various employee groups were included in all discussions and updates.

Moving forward in developing a simultaneous response to the adoption of the "final" mid-year cut legislation and the Governor's 2009-10 budget, a structured process will be utilized to determine budget reduction recommendations for the Board. The district's Budget Standards Committee (BSC) comprised of 30 members (teachers, retired teachers, administrators, employee group representatives, board members, parents, senior citizens, classified employees and community members) will begin its weekly meetings in late January. This committee is charged with the responsibility of reviewing all departments and programs to determine options for reducing expenditures to generate a balanced budget. Members of the leadership team will report to the committee and provide a proposal as to what their department or division can contribute to the budget reductions. The committee then analyzes all of the proposals and generates a list of prioritized reductions. The BSC will present their recommendations to the Board in late February or early March. The members of the committee are also empowered to share information about the work of the BSC with their peers and to solicit input feedback from them.

The Superintendent meets with the CBO and business services staff each week to review the progress of the BSC, providing his insights and direction. The Superintendent also attends most of the BSC meetings. In addition, during the spring, the Superintendent will take advantage of every opportunity to share formal and informal comments about the budget at various venues. The Budget will be presented to the Board in June for adoption.