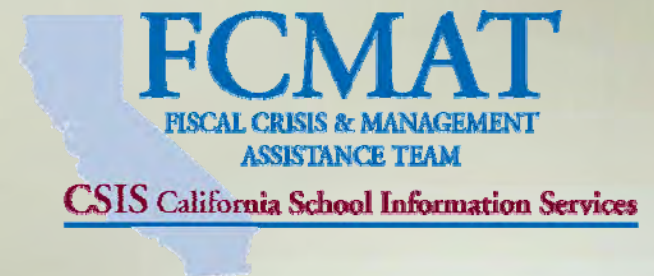


The Storm

It's Here—How It Looks and What To Do

California Association of School Business Officials Convention

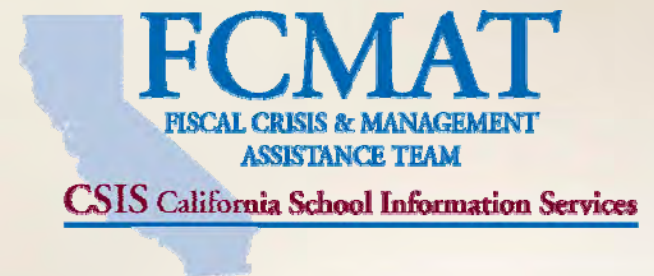
Joel Montero, FCMAT



Beginning with Basic Economics

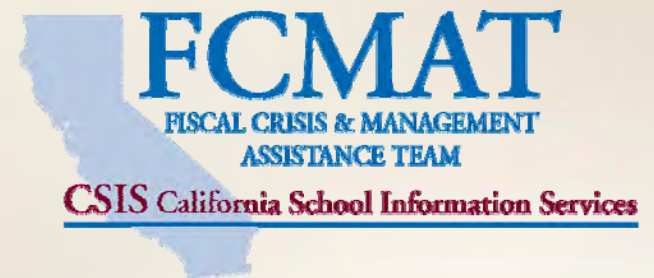
Where Were We a Year Ago?

- The National Economy and Budget
- Lack of Consumer Confidence
- A Correction in the Housing Market
- Construction and Unemployment
- Is it Revenue or Expense?
- The Perfect Storm???

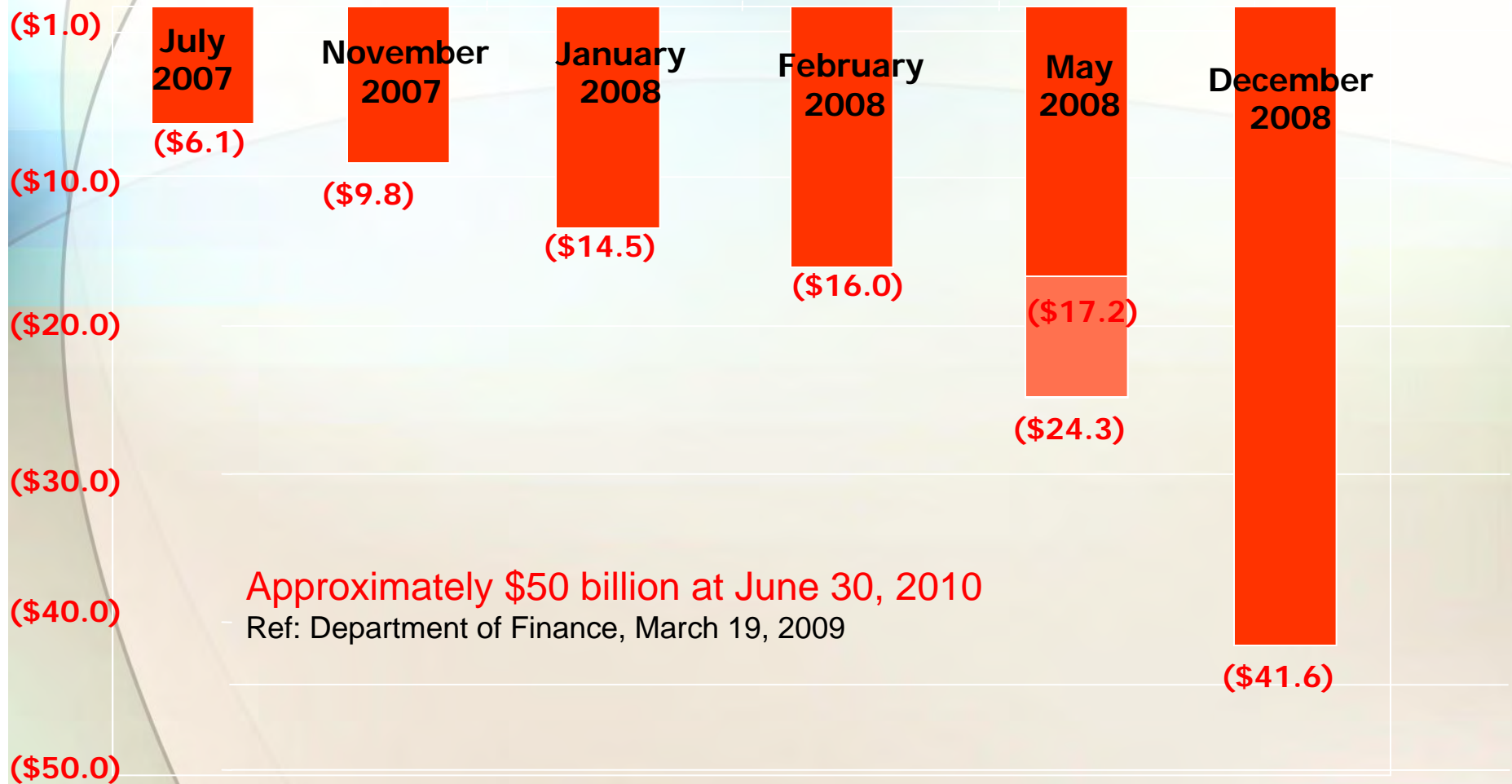


What's The Status?

- There is a economic crisis
- Our state has a structural deficit that is growing
- State revenues continue to decline over projections
- The Legislature and Governor have approved an 17 month budget
- It is a multi-year problem
- Districts in all of California are dramatically impacted
 - Cuts/Cash Deferrals/Program Roll-backs/Declining Enrollment/RIF/Morale



State Budget Deficit Grows Despite Mid-Year Reductions



Source: Department of Finance and Legislative Analyst's Office

Governor's Budget Proposals \$41.8 Billion in Solutions

- Expenditure Reductions - \$14.9 billion (37%)
 - K-14 Education - \$7.7 billion (44% of all cuts)
- New Taxes and Fees - \$12.5 billion (31%)
- Borrowing - \$5.4 billion (13%)
- Federal Stimulus Money - \$7.9 billion (19%)

Governor's Budget Proposals \$5.44 billion in K-12 Core Revenue Reductions

Current Year 2008-09

- Eliminates .68% COLA on Revenue Limits
 - \$247 million (\$41 per student)
- Reduces Revenue Limits by 2.63%
- Reduces targeted Categoricals by 15.4%
 - \$2 billion (\$300 per student)

Governor's Budget Proposals \$5.44 billion in K-12 Core Revenue Reductions

Budget Year 2009-10

- Eliminates 5.02% Statutory COLA on Revenue Limits
 - \$2.5 billion (\$400 per student)
- Reduces Revenue Limits by 1%
- Reduces targeted categoricals by 4.5%
 - \$1.1 billion (\$180 per student)

Governor's Budget Proposals Additional Impacts

Current Year 2008-09

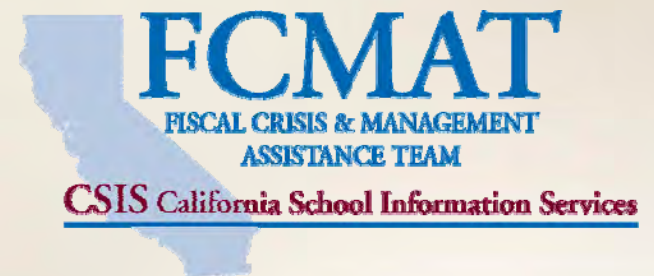
- May "sweep" categorical carryover from prior years
- Full categorical program flexibility in Tier III
- Routine restricted maintenance match from 3% to 1%
- Deferred Maintenance match is eliminated
- Full reserve for economic uncertainty is required
- New cash deferrals are included

Governor's Budget Proposals

Additional Reductions

Current Year/2009-10

- \$152.7 million decrease to revenue limit due to declining enrollment
- Elimination of High Priority School Grants (\$114.2 million in savings)
- Suspension of National Board Certification Incentives for new teachers (\$1 million in savings)
- Suspension of all K-12 mandates with three exceptions:
 - Interdistrict and intradistrict transfers
 - California High School Exit Exam
 - State Special Schools
- \$398.5 million PTA funds for home to school transportation



Governor's Budget Proposals

Local Flexibility

Tier I

No reduction in funding and no flexibility

After School Education and Safety
Child Development
Child Nutrition
Economic Impact Aid (EIA)
Home to School Transportation
K-3 Class Size Reduction
Quality Education Investment Act (QEIA)
Special Education

Governor's Budget Proposals

Local Flexibility

Tier II

Reduction of 19.8% over the two year budget. No flexibility

- Adults in Correctional Facilities
- Apprenticeship Programs
- Agricultural Vocational Education
- Charter School Facility Grants
- County Office Oversight (FCMAT)
- English Language Acquisition Program
- Foster Youth Educational Services
- K-12 High Speed Network
- Partnership Academies
- Pupil Testing
- Year-Round Education

Governor's Budget Proposals

Local Flexibility

Tier III

Reduction of 19.8% over the two year budget. Flexibility to transfer funds for "any educational purpose"

- AB 825 Targeted Instructional Improvement
- AB 825 Teacher Credentialing Block Grant
- AB 825 Professional Development Block Grant
- AB 825 Pupil Retention Block Grant
- AB 825 School Safety Consolidated BG
- AB 825 School and Library Improvement
- Administrator Training Program (AB 430)
- Class Size Reduction 9th Grade
- Deferred Maintenance
- Educational Technology
- Gifted and Talented Education (GATE)
- High Priority Schools and II/US
- Indian Education Centers

Governor's Budget Proposals

Local Flexibility

Tier III

Reduction of 19.8% over the two year budget. Flexibility to transfer funds for "any educational purpose"

- Adult Education
- Alternative Credentialing
- Arts and Music Block Grant
- Bilingual Teacher Training
- California High School Exit Exam Intervention
- CalSafe
- Student Leadership
- Center for Civic Education
- Instructional Materials Fund
- International Baccalaureate
- National Board Certification
- Peer Assistance and Review
- Physical Education Teacher Program
- Personnel Recruitment Grants
- Readers for the Blind
- Regional Occupation Centers/Programs

Governor's Budget Proposals

Local Flexibility

Tier III

Reduction of 19.8% over the two year budget. Flexibility to transfer funds for "any educational purpose"

- Certificated Staff Mentoring Program
- Charter Schools Categorical Block Grant
- Child Oral Health Assessment
- Community Based English Tutoring (CBET)
- Community Day Schools
- Counselors, Grades 7-12
- SB472 Professional Development
- School Safety Competitive Grant
- Specialized Secondary Programs
- Supplemental Hourly Programs
- Teacher Dismissal Apportionments
- Williams Audits

K-14 Education Spending and the Budget Shortfall

Comparison of State General Fund Revenue and Expenditure Increases to Increases in K-14 (Prop. 98) Guarantee

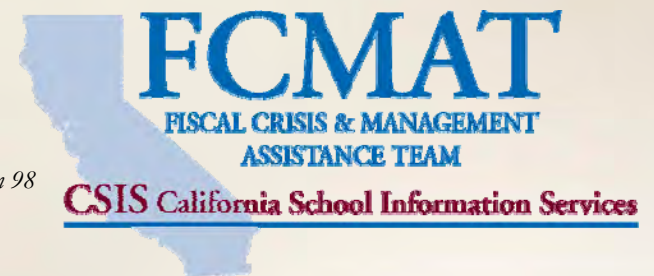
1998-99 Through 2009-10

(Dollars in Billions)			
	1998-99 ¹	2009-10 ²	% Increase
General Fund Revenues	\$57	\$97.7	71%
K-14 (Prop. 98) Expenditures	\$35.2	\$55.9	59%
Non K-14 (General Fund) Expenditures	\$32.8	\$62.5 ³	91%

¹Legislative Analyst's Office. *State spending Plan: 1998-99. October 1998, Page 4, Revenues & Expenditures; p. 26 Proposition 98*

²Department of Finance. *Overview of the Governor's Budget: 2009-10. January 2009 (assumed all proposed budget solutions)*

³Adjusted for Local Property Tax Transfers per VLF Transfer and Triple Flip (LAO, Jan. 2009 est.)



K-14 Education Spending and the Budget Shortfall

Comparison of Major General Fund Expenditure Areas

1998-99 through 2009-10

(Dollars in Billions)

	<u>1998-99¹</u>	<u>2009-10²</u>	<u>% Increase</u>
K-14 (Prop. 98) Expenditures	\$35.2	\$55.9	59%
Health & Human Services	\$15.3	\$30.0	96%
Business, Transportation & Housing	\$0.4	\$2.3	475%
Corrections	\$4.4	\$9.6	119%
Resources	\$1.0	\$1.92	92%
General Fund Revenues	\$57	\$97.7	71%

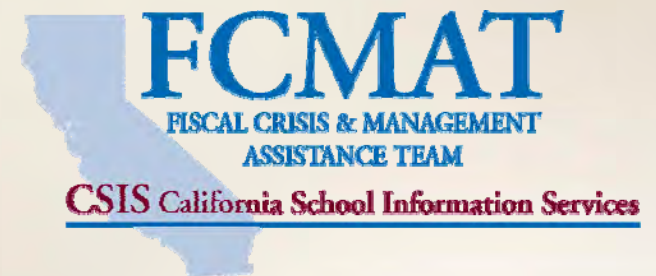
¹Legislative Analyst's Office. *State spending Plan: 1998-99*. October 1998, Page 4, Revenues & Expenditures; p. 26 Proposition 98

²Department of Finance. *Overview of the Governor's Budget: 2009-10*. January 2009 (assumed all proposed budget solutions)

What Can Districts Do Now in Anticipation of an Uncertain Fiscal Environment

- Plan—Current plus at least two years and five years if possible
- Review your Assumptions regarding Interest Income
- Spend Restricted Dollars First and Conserve Cash
- Stay Current With Enrollment and Staffing
- Build Reserves/Fund Balance If Possible
- Be Careful About Debt including OPEB Bonds
- Manage Cash
- Forego Big/Expensive Budget Decision Where Possible
- Don't Put All of Your Hopes In the Flexibility Basket

Remember, This Is a Multi-Year Issue!



What Can Districts Do Now in Anticipation of an Uncertain Fiscal Environment

You Must Do These Things Now

- Eliminate the .68% COLA in the current year
- Reduce your budget by 4.5% current year
- Reduce your budget by 2.5% next year (7% total)
- Set aside unallocated state categorical funds
- Prepare for the worst case scenario re: RIF
- Freeze expenditures conserve cash

What Can Districts Do Now in Anticipation of an Uncertain Cash Environment

- Have a system in place to analyze and monitor cash flow—all funds
- Report cash flow status and projection to the board on a regular basis
- Conserve cash when possible—all funds
- Build Reserves/Fund Balance—all funds
- Consider creating spending plans to manage available cash
- Consider options for dry period financing (borrowing)
- Use Budget Explorer
- Don't run out!

More Collective Bargaining

- There will be no new money in 2009-10 and probably beyond (total RL deficit 13.6%--SSC Dartboard)
- Categorical flexibility will be volatile—consider as one-time money (for a duration of 5 years)
- Costs for health benefits will continue to rise
- There is no option to shorten the school year
- Beware multi-year contracts and “COLA”

How Do You Know Where to Reduce?

- Use comparative data to find areas of opportunity
 - Ed Data Site, School Services, Data Quest (CDE)
- Look at prior year budgets and do trend analysis
- Stay focused on multi-year projections
- Follow the revenue or lack thereof
- Stay on top of enrollment projections
- Every consideration must be on the table
 - Examine numbers and types of employees
 - Examine expenditure patterns
 - Examine class size

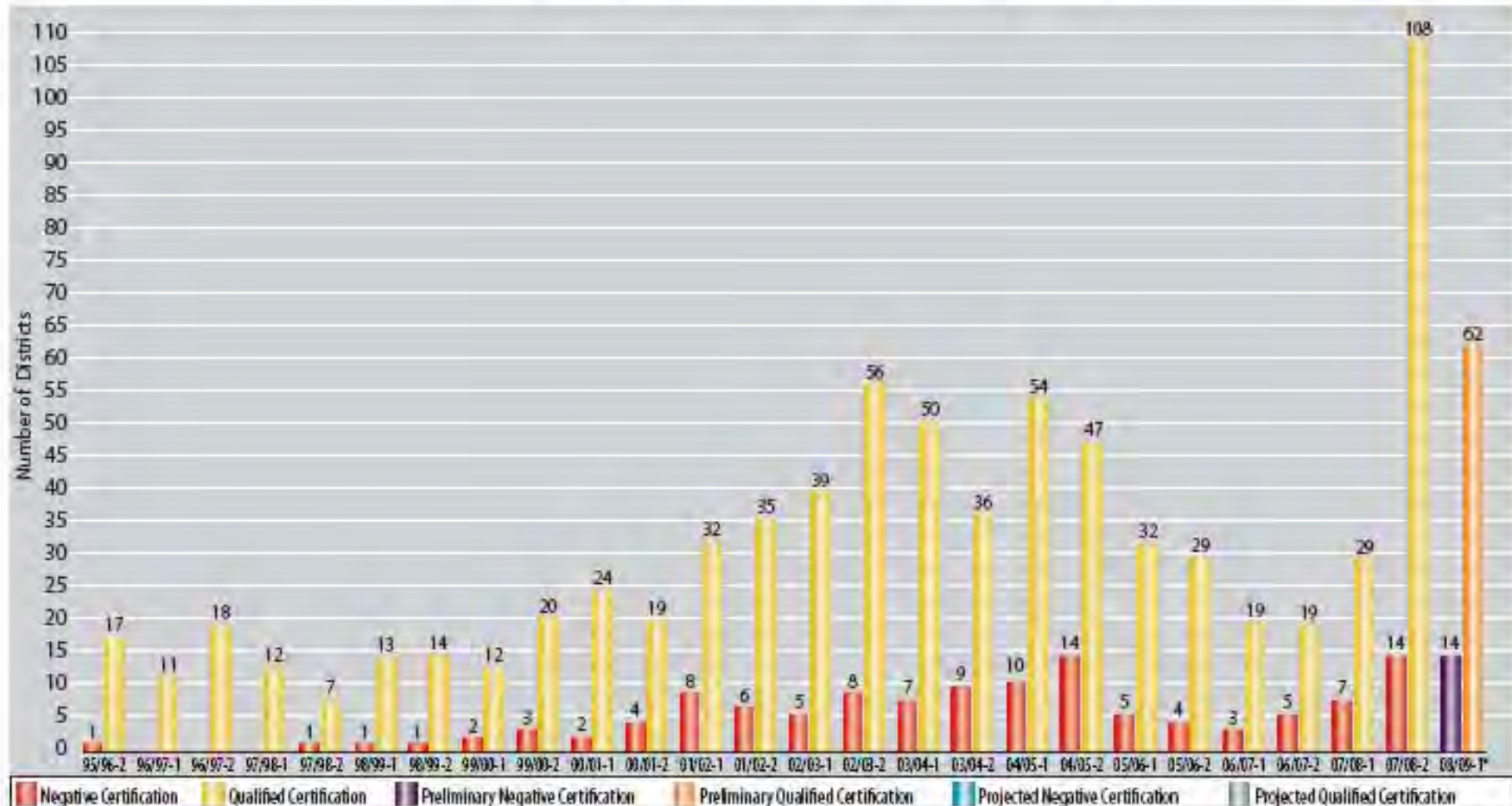
Certifications of Financial Reports

California School Districts – 1995 to Present

Education Code Section 42130 (Reports by District Superintendents)

1st Interim covers period ending October 31st and Board approved by December 15th • 2nd Interim covers period ending January 31st and Board approved by March 16th

3rd Interim covers period ending April 30th and filed by June 1st (required if 2nd Interim is Qualified or Negative)



Positive Certification: Shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

Qualified Certification: Shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

Negative Certification: Shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

*Unofficial Projection. Total number of districts reported: 968. Total positive certifications: 892.

What's New?

- 17 month balanced budget
- Unemployment numbers revised (10.5% in CA.)
- February revenues are in—Sales and Use tax declines
- May Revise will be by June 8th (after the election)
- LAO says.....
 - \$8 billion short at June 30, 2010
 - Proposition 98 over-appropriated by \$3.6 billion (approximately equal to what you will receive in stimulus money!)

What's Likely?

- Additional reductions/corrections in 2009-10?
- Additional cash deferrals?
- Receipt of stimulus (ARRA) dollars?
- Additional categorical program impacts?
- Recovery soon?

Budget Reductions/Corrections

- The 17 month budget is no longer “balanced”
- Proposition 98 has been “adjusted” downward in five out of the last eight years
- The current budget is predicated on passage of several propositions in May 19th most notably Prop 1b and 1c
- The categorical flexibility card has been played
- ARRA dollars are one time and their distribution and use is uncertain

Actions Taken to “Lower” Proposition 98 Base by **\$14.133 Billion** 2002-2009

2001-02 **\$2.2 Billion Total**

- \$583 Million (Mid-Year Reductions) February 2002
(High Priority School Grants, Teaching as A Priority Block Grants, Certificated Staff Performance Awards, Energy Grants, 9th Grade CSR, Cal-Safe)
- \$503 Million (Prior-Year Reversions) June 2002
Backfill of Adult Education Reductions
- \$1.124 Billion (Categorical Deferrals) June 2002

2002-03 **\$2.61 Billion Total**

- \$1.3 Billion (June Apportionment Deferral) March 2003
- \$460 Million (K-12 Funding Reductions) May 2003
- \$734 Million (K-12 Prior-Year Reversions to Backfill Cuts) June 2003

2003-04 **\$1.468 Billion**

- \$1.048 Billion (Prior-Year Reversions to fund Deferral) June 2004
- \$341 Million (Prior-Year Reversions to Fund TIG Grants and Child Care) June 2004
- \$127 Million (New Federal IDEA Funds to backfill reduced State Special Education contribution) June 2004

2007-08 **\$507 Million**

- \$211 Million in Current-Year Reversions February 2008
- \$295.4 Million in Prior-Year Reversions February 2008

2008-09 **\$7.348 Billion**

- \$2.3 Billion (RL/Categorical Reduction and COLA rescission) February 2009
- \$3.244 Billion (February RL/CSR/CC and June Apportionment Deferrals) February 2009
- \$1.1 Billion (Use of Prior-Year Prop. 98 “Settle-Up”) February 2009
- \$619 million (Home-to-School Funding Swap) February 2009
- \$150 million (prior-year reversions and child care cuts) February 2009

Source: State Spending Plans (2002-03, 2003,04, 2004-05, 2007-08 and 2008-09), Legislative Analyst’s Office

Cash Management

- Budget vs Cash is confusing to most
- Currently four deferrals in place:
 - Feb to July 2009 \$2.57 b (RL/CSR)
 - June to July 2009 \$1.6 b
 - July to Oct 2009 \$1.0 b
 - Aug to Oct 2009 \$1.5 b
- Additional deferrals....no, but
- Study options for borrowing
- Cash flow analysis is critical as are reserves
- Budget Explorer cash flow module release end of April

American Recovery and Reinvestment Act (ARRA)

- *“ARRA represents a historic infusion of funds that is expected to be **temporary**. Depending on the program, these funds are available for two to three years. These funds should be invested in ways that do not result in **unsustainable continuing commitments** after the funding expires.”*
- Good news...you will likely see some dollars in May 2009
- Not spending or recognizing the revenue until you receive official notification of an allocation would be prudent
- A determination of “allowable” uses will accompany the notification of available funds
- Bad news...Prop 98

Categorical Flexibility

- Additional directions are forthcoming from the CDE
- Tier III dollars may be transferred for “any educational purpose”
- We recommend transferring into their own Resource for tracking purposes and tracking via Goal and Function
- 2007-08 will likely be the base year for ADA generated programs
- No growth is allowed in CSR

Other Thoughts

- Use the SSC Dartboard for budget development
- If you are on the basic aid cusp, carefully review your RL projections
- Charter School Block Grant rates have been adjusted and are available. Charter School Categorical Block Grant is expected to be reduced to \$404 in 2009-10 across all grade levels
- Stand fast on March 15th RIF notices
- Remember that Reserve for Economic Uncertainty is a minimum
- Err on the side of being conservative

Recovery

- Legislative Analyst Office
- UCLA Forecast
- Our own common sense

Summary

- The fiscal situation for the state has deteriorated since Feb. 2009 and could continue to deteriorate this year
- The state's deficit is growing
- Education growth for a 10 year period is less than other parts of the budget
- We have an 17 month budget but revenue projections are volatile
- ARRA dollars will play some role in district finances
- LEA planning is more critical than ever
- Charter schools are also affected
- Cash is King
- Collective bargaining will be challenging
- It is a multi-year issue