

Update on State Fiscal Crisis Impact on El Dorado County Districts

El Dorado County Office of Education
Francie Heim
Deputy Superintendent
February 2008

Headlines from Newspapers Around the State

- **Districts Scramble to Rewrite Budgets to Reflect State Cuts**
- **Districts Plan for Promised Cuts**
- **Cuts Looming for Schools**
- **District Readies Potential Budget Cuts**
- **Educators Get Ready to Face Catastrophic Budget Cuts**

What a difference a year makes....

January 2007 Governor's Budget

“Today I am presenting to the Legislature my 2007-2008 budget, and we have some great news. I know that you all remember that when I took office we almost, as a state, were in bankruptcy, and we had a projected operating deficit of 16.5 billion dollars. But as I have said yesterday in my State of the State Address, that through discipline and through new revenues that come from economic growth, we reduced the deficit over time and got our fiscal house in order. And we did it not by burdening the people, or burdening businesses, but by encouraging economic growth. Every year we brought our structural deficit down further and further. So in the current budget year, with our economic expansion and with the great help of the Legislature, we got that projected operating deficit all the way down to 4 billion dollars, and California's economy has been coming roaring back.

It is true that the housing market has slowed down in California and nationwide, but most economists project a return to normal growth in the coming budget year. And the good news is that this slowdown in job growth in that particular sector has been offset by strong activities in commercial construction, and other parts of our economy are still growing very, very strongly. Foreign exports are up by 11 percent, capital gains remain strong, and state income tax revenues are expected to rise by 6.8 percent in the next fiscal year. Statewide taxable sales are also up by 7 percent. And all this economic activity has resulted in strong and sustainable growth in revenues and in jobs. As a matter of fact, for the first time in the history of California, we are having revenues over 100 billion dollars; to be exact, 101.3 billion dollars. And we have, at the same time, the lowest unemployment rate in 30 years. Needless to say, California's economy is in great shape, and we have made this progress without raising taxes.

So I'm very happy to announce today that in this new budget our new operating deficit has been reduced to zero. You heard me right—we have reduced the operating deficit to zero. It was not easy, it was a lot of hard work, and it is by no means finished, but this is a great accomplishment.”

January 2008 Governor's Budget

“Anyway, as you know, we are facing a very tough situation. But with tough times come historic opportunities, and I'm convinced that the Legislature will help in order to take this temporary problem that we have and turn it into a permanent solution, a permanent victory for the people of California, by joining me to **enact true budget reform. We simply cannot have a budget system where revenues and spending are not tied together. We must rise to the challenge and fix California's budget system once and for all.**

The housing problem that is currently slowing the economy is well known, and we can't say for sure when these problems will be shaken off so that our vibrant growth can continue. But right now, mainly because of the housing slump and the subprime mortgage crisis, state revenues are flat. As a matter of fact, we are now 4.6 billion dollars short of the projected revenues for 2007-2008. The result is that we have a 3.3 billion dollar hole in the current budget, which is projected to grow to 14.5 billion dollars by the end of the next fiscal year, which is June of 2009, if we don't do anything about it.

But I want everyone to understand that the **economy is not the villain here. The economy contributes a little bit to the problem, but the villain is the system itself, the budget system.** On the spending side, the action is automatic. Formulas, population and caseloads just drive the costs up without us doing absolutely anything. But to control those costs takes a lot of work.

So to close this budget gap I'm proposing two actions. First, my new budget will reduce almost every state program by 10 percent next year, or as close as possible. And in the Fiscal Emergency Special Session of the Legislature I'm calling today I'm proposing to start many of those cuts this fiscal year, 2007-2008. That includes eliminating cost-of-living adjustments and reducing a portion of the appropriation to schools that are above the Proposition 98 Guarantee.”

Cutting 10% (K-12)? How hard could that be?

Catastrophic isn't too strong a word.

K-12 Education has been making do with LESS for a long time.

According to a report released in January 2008 from *Education Week*, California **spends \$1,900** less per student than the national average. Other recent studies have shown that California seriously underfunds its public schools, with New York spending 75 percent more than California. The “Getting Down to Facts” studies show that billions more would be necessary to ensure the opportunity for all students to meet the state’s rigorous academic standards. In addition, California has some of the most overcrowded classrooms and the greatest shortages of librarians, counselors and other critical support staff in the nation. (Education Coalition, January 2008)

How have we been doing with “less”?

All things considered, remarkably well!

Experts including the Fordham Foundation (one of the nation's leading proponents of rigorous academic standards), the Public Policy Institute of California, EdSource and researchers at Stanford University all confirm that **California's K-12 academic and performance standards are among the most challenging in the nation.** With hard work, modest investments in teacher training and the adoption of standards-aligned textbooks, our students and schools have been making progress. Reading scores are up 25 percent and math scores have increased 17 percent in the last four years. This progress cannot continue with these proposed cuts to our public schools. (Education Coalition, January 2008)

Year of Education

The widely anticipated year of education just isn't quite what we expected.

The much awaited **adequacy studies**, that confirmed the need for **billions of dollars of investment** in K-12 education as well fundamental reforms, are sitting on the shelf.

Instead we are given the **challenge of staying solvent** in uncertain times. Decision timelines are fast approaching.

Planning for the “Crisis”

The extent of the crisis reveals itself in three phases.

January **Governor’s Budget**

District Phase 1 planning before March 15. Primarily driven by a **March 14** requirement to provide layoff notices to teaching/certificated staff for the next fiscal year. Classified layoffs require 45 day notice.

District 2nd Interim Financial report. By March 15, the board must approve a budget for 2007-08, with projections for 2008-09 and 2009-10 and make a finding of fiscal solvency for those three years

May **May Revise**

Governor updates budget proposal with more current information
District finalizes plan in June 2008 with adoption of 2008-09 Budget.

Final Budget Legislation (probably August-September)

Legislature gets to work May, June, July, August... to determine final budget package. Meanwhile school has started in xxxxx and budget plan implemented.

Planning for the “Crisis”

The challenge before all of us is to find a **balance** between the “catastrophic proposal” in the Governor’s budget and what we think will be the most likely outcome in the final budget.

Unfortunately districts must put a plan into place long before the Legislature and Governor take final action.

Before we go further...VERY short refresher course on how schools are funded (25 words or less)

70% to 80% of district's funding comes from “revenue limit” funds; money generated by student attendance.

The other portion is mostly “categorical” funds. Money that can only be spent for certain restricted expenditures.

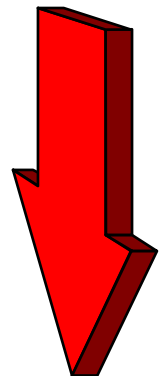
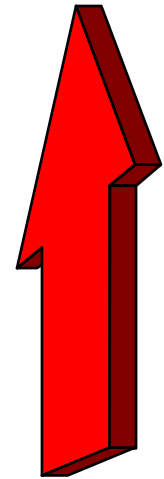
Typically we require categorical funds to be “self-supporting”. Income = expenditures. So if a categorical program is reduced in funding, the expenditures are reduced accordingly.

Not all programs are self supporting; e.g. Special Education, home to school transportation, K-3 class size reduction.

Reductions in funding to these programs significantly impact the general fund.

Where Do Schools Get Most of Their Money?

- Primarily from Revenue Limit funds
 - $ADA \times \text{District Revenue Limit} = \text{Entitlement}$
 - ADA = Average Daily Attendance
 - Revenue Limit is different for each district
- Entitlement – the amount of money you should receive from state aid and local taxes
 - Subtract local taxes from entitlement
 - Balance is state aid
 - Taxes goes up, state aid goes down





SIMPLIFIED EXAMPLE - #1

Understanding ADA x Revenue Limit = Entitlement
 Entitlement less Taxes = State Aid

| Basic Calculation | | |
|--|---|------------------------------|
| 1 | District ADA (Average Daily Attendance) | 1,000 |
| 2 | Revenue Limit | varies by district \$ 5,500 |
| 3 | ADA x Revenue Limit = | Line 1 x 2 \$ 5,500,000 |
| Sources of funding | | |
| 4 | Property Taxes | \$ 1,000,000 |
| 5 | State Aid | Line 3 - line 5 \$ 4,500,000 |
| 6 | Total Funding | line 5 + line 6 \$ 5,500,000 |
| <i>Note; Taxes increase, state aid decreases</i> | | |

SIMPLIFIED EXAMPLE - #2

Understanding ADA x Revenue Limit =

Entitlement

COLA (cost of living adjustment) added but

NOT funded

Deficited Entitlement less Taxes = State Aid

| Basic Calculation | | | |
|--|---|-----------------|--------------|
| 1 | District ADA (Average Daily Attendance) | | 1,000 |
| 2 | Revenue Limit | | \$ 5,500 |
| 3 | Add COLA | 0.05 | \$ 275 |
| 4 | New Revenue Limit | | \$ 5,775 |
| 5 | ADA x Revenue Limit = | Line 1 x 4 | \$ 5,775,000 |
| 6 | Deficit applied to line 5 | 95.24% | \$ 5,500,000 |
| Sources of funding | | | |
| 7 | Property Taxes | | \$ 1,000,000 |
| 8 | State Aid | Line 6 - line 7 | \$ 4,500,000 |
| 9 | Total Funding | line 7 + line 8 | \$ 5,500,000 |
| <i>Note; Taxes increase, state aid decreases</i> | | | |

COLA? Cost of Living Adjustment

The statutory COLA is **estimated** to be 4.94%. This estimate is subject to change. Statutory COLA is based on the Implicit Price Deflator for Government Goods and Services published in **May of 2008**. The Governor's plan also proposes to change the COLA factor to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W).

Guaranteed increase each year to revenue limit, but NO guarantee it must be funded!

Governor Proposal for 2008-09. Unfunded COLA plus a potential decrease from 2007-08 levels.

| Funded Revenue Limit (RL) Change (Average) | Prior Year Avg RL | 2008-09 COLA | 2008-09 Deficit | 2008-09 Funded RL | Average \$ change | Average % change |
|--|----------------------|-----------------|--------------------|----------------------|----------------------|---------------------|
| Elementary | \$ 5,567 | \$ 275 | \$ (408) | \$ 5,434 | \$ (133) | -2.4% |
| High School | \$ 6,690 | \$ 330 | \$ (491) | \$ 6,529 | \$ (161) | -2.4% |
| Unified | \$ 5,821 | \$ 288 | \$ (427) | \$ 5,682 | \$ (139) | -2.4% |
| <i>*Net change on average. Varies from district to district.</i> | | | | | | |

Best Guess?

Best Case

- 2007-08 mid year reductions done at state level (no direct local impact)
- **Unfunded COLA** in 2008-09 (\$275 per Student to fund increased costs plus no increases to categorical funding)
- Forest Reserve Reauthorization (federal)

Worst Case

- 2007-08 mid year reductions done at state level (no direct local impact)
- **Unfunded COLA** in 2008-09
- **Additional 2.4% CUT to per student funding, \$133.**
- Additional Categorical funding **reductions of approximately 6.5%**
- No Forest Reserve funds

Each district is unique in their ability to “weather” the storm

Declining Enrollment Districts

- Declining for the past several years
- Budget is “bare bones”
- Reserves have been used to stabilize the district while they cut the budget due to declining enrollment
- Reserves are now at bare minimum levels
- Limited places left to cut
- No extra reserves to “buy” time to see if the “catastrophic” reductions are truly going to need to be done.

Increasing Enrollment Districts

- Growing for last several years
- Have not had to engage in budget reductions for past several years
- Have been able to build up reserves beyond required minimums (3% is the MINIMUM requirement for a district the size of xxxx)
- Those reserves can be used to “buy” time. E.g. Defer some of the potential “catastrophic” reductions to 2009-10.

xxxxx District

Best Case

NO increased COLA in 2008-09 but costs are increasing, e.g. automatic salary schedule movement for employees (step & column), fuel prices, etc

Approximately
\$500,000

Worst Case

- Increased costs, no COLA \$500,000
- **2.4%** Revenue Limit reduction, categorical reductions, no forest reserve = \$1,000,000

Approximately
\$1.5 million

Challenge for xxxxxx

What scope of budget plan should be developed?

What portion of reserves are used to “defer” the potential problem to 2009-10?

xxxxxx has **adequate** reserves. The district has set aside 2% in addition to the required 3%. Additional 1% in reserves for equipment replacement and textbooks. This means approximately \$700,000 in reserves that could be used to delay significant reductions until 2009-10. The challenge for the district leadership and board will be to determine how much of the reserve to use in 2008-09. Basically using one time money to pay for an ongoing problem. “Defer” some of the cuts.

Budget Plan for Reductions

- **\$500,000 to \$1,500,000**

Common themes for prioritizing budget reductions

- Minimize impact on academic achievement and student safety
- Minimize layoffs where possible
- Maintain a budget reserve at the level required by the State

Challenge for xxxxxx is to develop these priorities.

Budget Reduction Process

- Superintendent's Leadership team
Strategies developed for the first \$500,000 of reductions.

Major concepts:

- Reduce general fund contribution to food service
- Reduce non-essential purchases at all sites and district office for 2008-09
- Additional scrutiny general fund travel and conference and all capital outlay expenses (2007-08 and 2008-09)
- Additional scrutiny (potential freeze) for overtime costs in all categories
- Categorical fund review to determine if costs currently funded by the general fund, that might be subject to budget cuts, could instead be funded through categorical funds.

Budget Process

- District Steering Committee/Budget Advisory Committee
Role
 - Understanding the issues
 - Advisory role
 - Build upon prior work of the committee
 - Brainstorm potential ideas
 - Discussion about reducing programs & services - not people
- Superintendent's Cabinet/Administrative team reviews budget ideas and recommends actions for the Governing Board
- Board receives public comment and takes action on budget and related items

Next steps

- Do you as a committee have enough information on the scope of the budget issue?

- Communication is critical in difficult times

Thoughts on how we best communicate with parents, community, staff? We want to keep people apprised of the limited information we have. We want them to know how devastating the Governor's proposals are to education. Yet we don't want to create undue panic among staff and parents. We want to ensure that our budget reduction plan is a thoughtful process. How do we achieve that balance?