

ESCONDIDO UNION SCHOOL DISTRICT

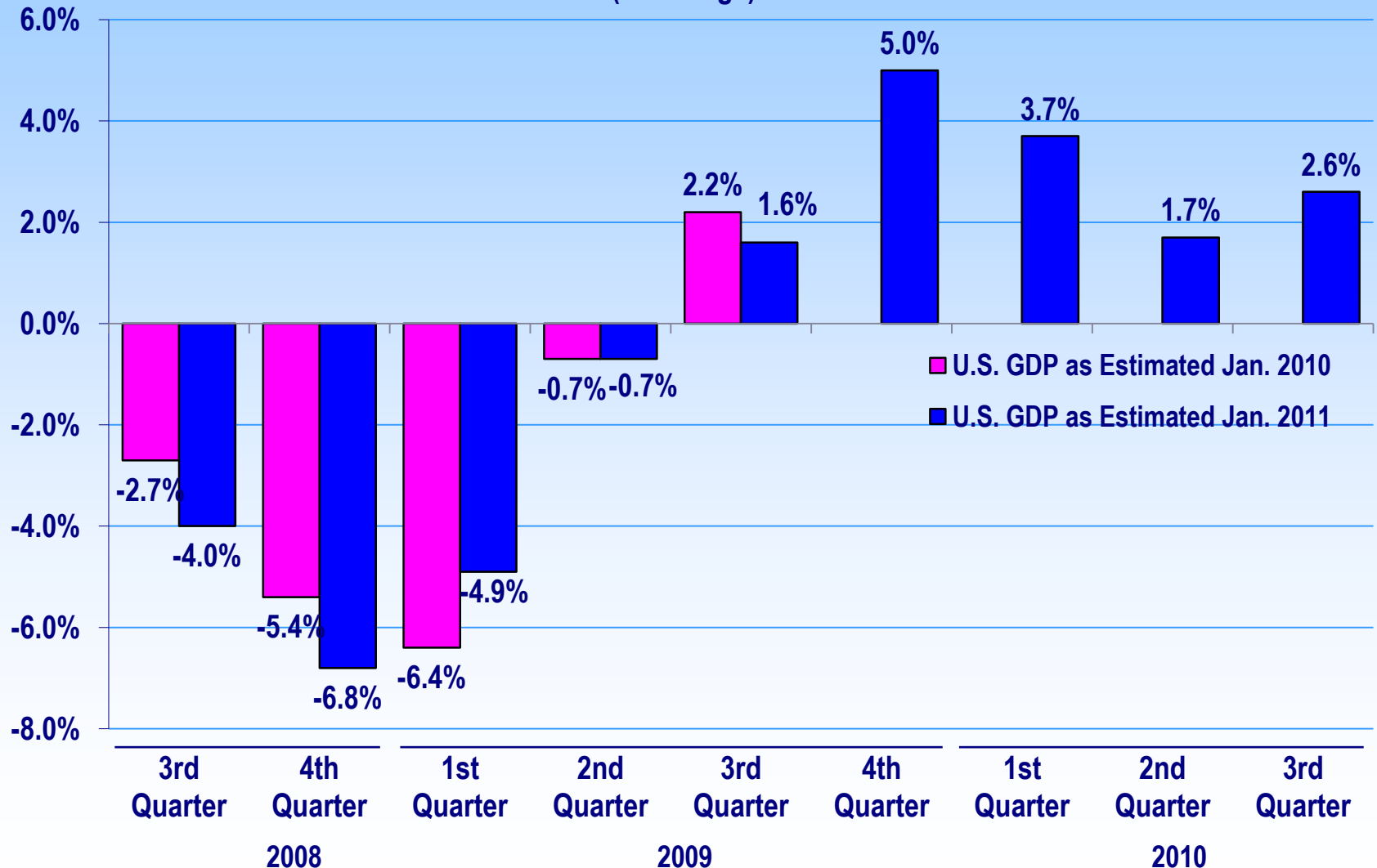
**2011-2012 STATE BUDGET
AND PRELIMINARY
IMPLICATIONS FOR
DISTRICT BUDGET**

STATE AND NATIONAL ECONOMY

- THE ECONOMY APPEARS TO HAVE STOPPED SHRINKING
 - SOME ECONOMIC DATA POINTS TO BETTER TIMES AHEAD
- FEDERAL GOVERNMENT PLANS TO PROVIDE LESS HELP TO STATES – NO NEW STIMULUS
- THE CONSENSUS VIEW IS THAT THE ECONOMY WILL CONTINUE TO GROW SLOWLY IN 2011, WITH BETTER ACCELERATION IN 2012

U.S. ECONOMIC OUTLOOK

U.S. GDP (% Change)



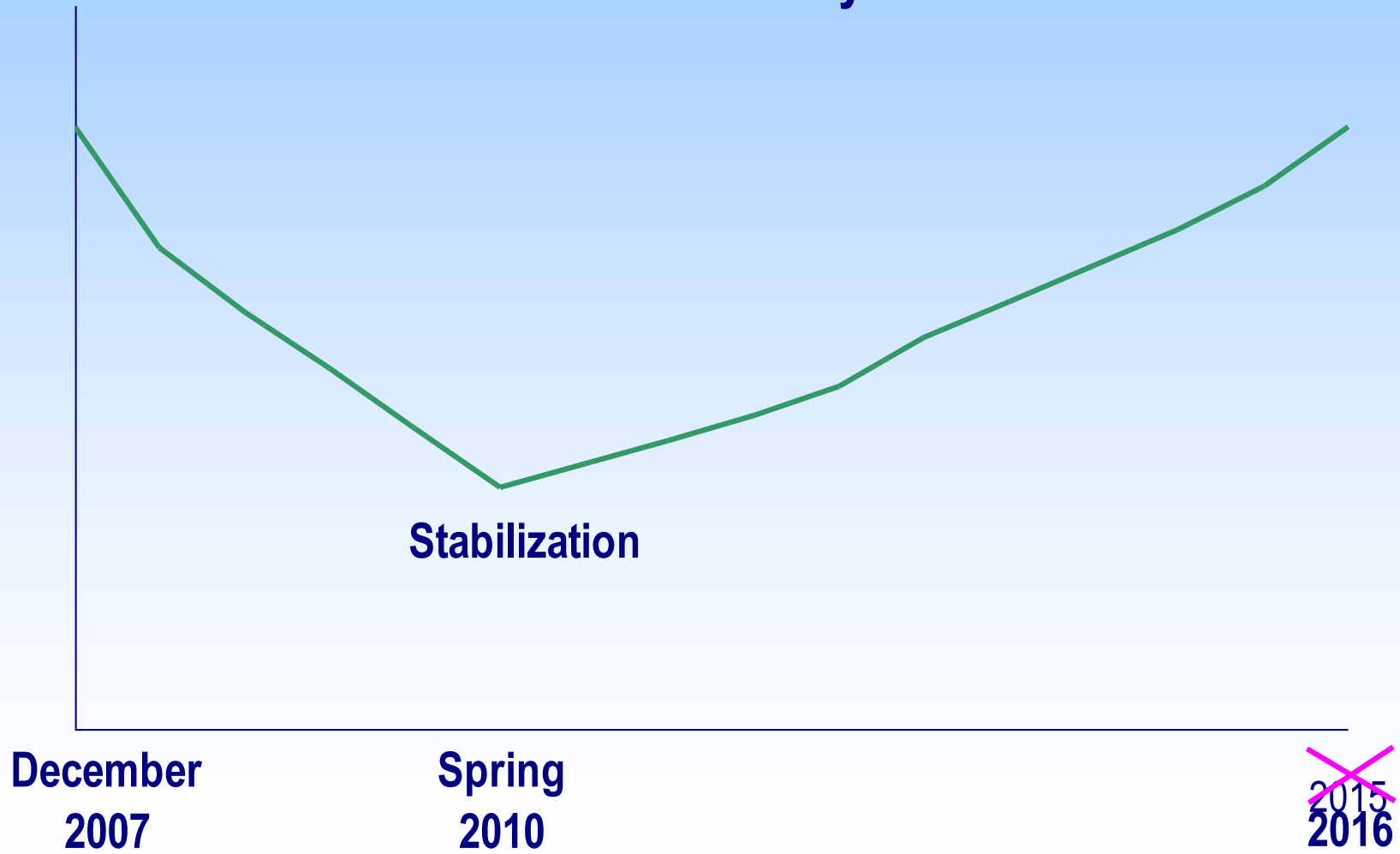
Source: Bureau of Economic Analysis, December 22, 2010

STATE AND NATIONAL ECONOMY

- UCLA FORECAST SAYS THAT CALIFORNIA IS POISED FOR RECOVERY
 - HEALTH CARE, EDUCATION, TECHNOLOGY, AND EXPORTS WILL LEAD THE WAY
 - REGIONAL DIFFERENCES IN RECOVERY RATE – WITH INLAND EMPIRE AND CENTRAL VALLEY LAGGING COASTAL AREAS
- FULL RECOVERY WITH RETURN TO PRE-RECESSION LEVELS OF UNEMPLOYMENT WILL TAKE ANOTHER FIVE YEARS –TILL 2016!

RECOVERY TAKES A LONG TIME

The Economic Cycle

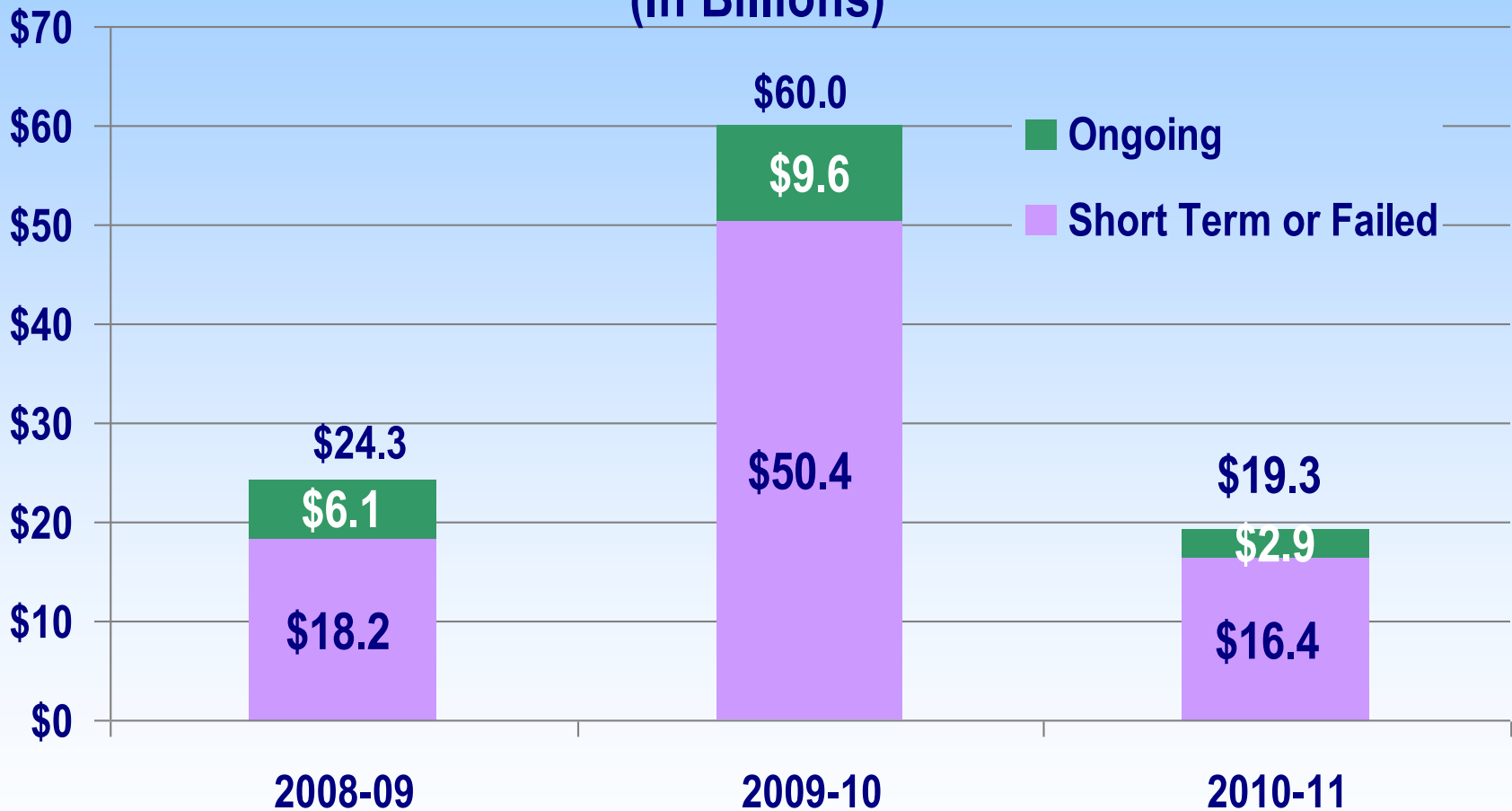


WHY IS THE BUDGET SO BAD?

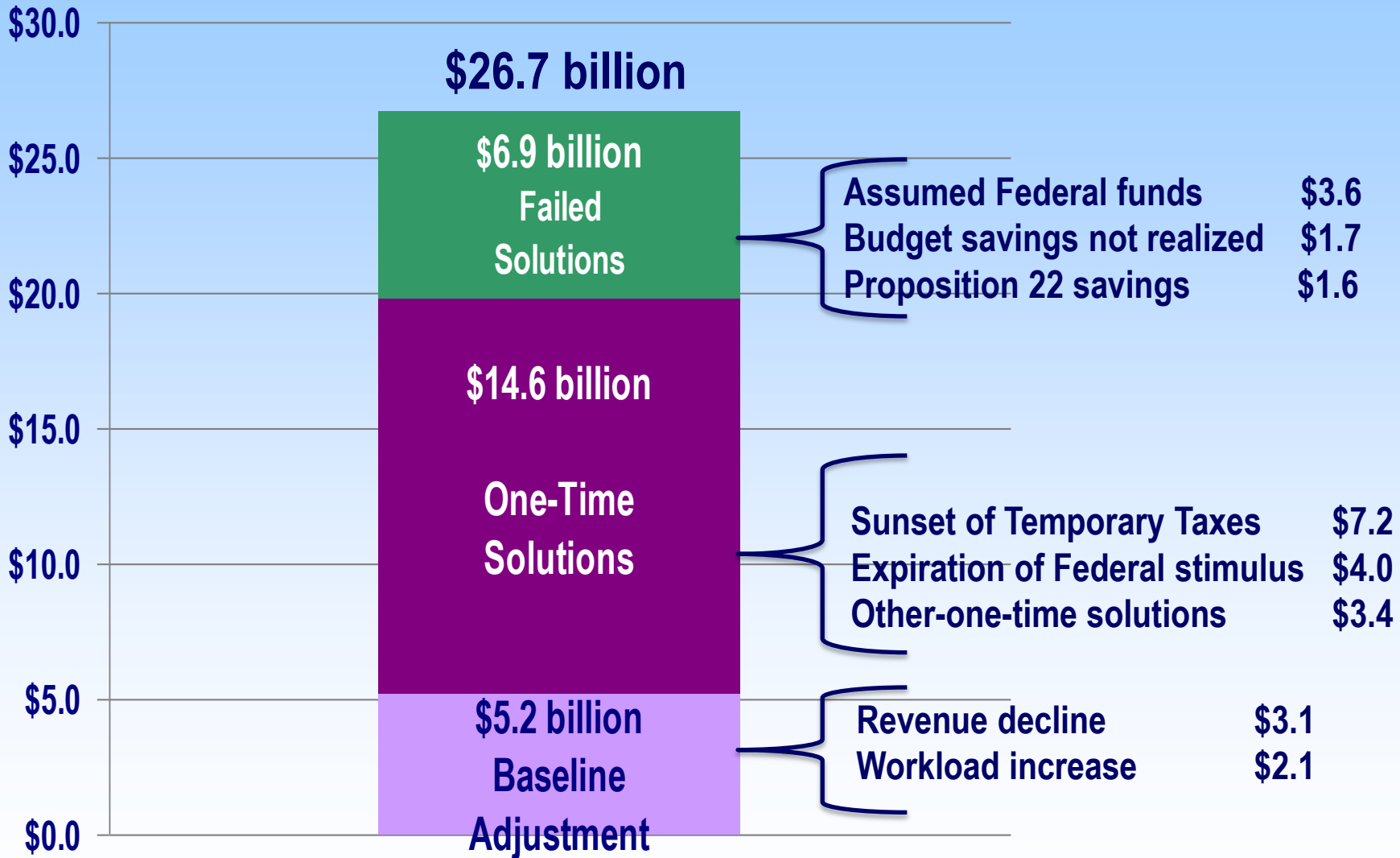
- LAWMAKERS' USE OF ONE-TIME SOLUTIONS HAS PROLONGED STATE BUDGET RECOVERY
 - \$17.4 BILLION FEDERAL STIMULUS
 - \$8.3 BILLION IN TEMPORARY TAXES
 - \$6.5 BILLION ACCELERATED COLLECTION OF TAX REVENUES
- SOME SOLUTIONS USED HAVE MADE THE DEFICIT WORSE
 - \$14.6 BILLION IN ECONOMIC RECOVERY BONDS
 - \$7.6 BILLION IN SECURITIZED TOBACCO SETTLEMENT REVENUE STREAM
 - \$5.5 BILLION BORROWING FROM OTHER FUNDS

PRIOR-YEAR “SOLUTIONS”

Ongoing vs. Short Term or Failed Budget “Solutions”
(In Billions)



THE 2011-12 BUDGET GAP



Source: 2011-12 Governor's Budget, p.4

2011-12 PROPOSAL(S)

- THE GOVERNOR HAS TWO BUDGET PLANS:
 - ONE ASSUMES THAT REDUCTIONS WOULD BE LIMITED TO \$12.5 BILLION, BECAUSE ABOUT \$9 BILLION IN TEMPORARY TAXES WOULD BE EXTENDED FOR FIVE YEARS – REQUIRES VOTER APPROVAL
 - THE OTHER ASSUMES THAT TAXES ARE NOT EXTENDED, AND ADDITIONAL CUTS ARE REQUIRED – ABOUT \$9 BILLION MORE!
 - BOTH PLANS ASSUME A MAJOR REALIGNMENT OF GOVERNMENTAL SERVICES – MORE LOCAL CONTROL

2011-12 PROPOSAL(S)

- THIS TRANSFER OF RESPONSIBILITY (AND EXPENSE) TO LOCAL AGENCIES WOULD FUNDAMENTALLY CHANGE HOW MANY GOVERNMENTAL SERVICES ARE DELIVERED IN CALIFORNIA
 - DEDICATED REVENUES OF 1% SALES TAX, AND .5% VEHICLE LICENSE FEES (VLF) WOULD PAY FOR NEW SERVICES
- THIS DEDICATED REVENUE STREAM WOULD BE OUTSIDE THE PROPOSITION 98 FUNDING BASE!
- LOCAL EDUCATIONAL AGENCIES (LEAs) WOULD PICK UP THE COST FOR CHILD CARE AND MENTAL HEALTH SERVICES

2011-12 PROPOSAL(S)

- PROPOSAL INCLUDES \$12.5 BILLION IN CUTS
 - MOST TO NON-EDUCATION AREAS OF THE BUDGET, IN RECOGNITION OF THE GREATER THAN “FAIR SHARE” OF CUTS ALREADY TAKEN BY K-14 EDUCATION
 - MANY PROPOSED CUTS ARE SIMILAR TO REDUCTIONS PROPOSED IN THE PAST – AND REJECTED BY THE LEGISLATURE
 - GOVERNOR PROPOSES TO ELIMINATE REDEVELOPMENT AGENCIES – AND USE THEIR FUNDING TO HELP SHIFT MANY GOVERNMENTAL SERVICES TO LOCAL AGENCIES

K-12 EDUCATION TOOK THE BIGGEST CUTS

General Fund Expenditures by Major Program Area

	Dollars in Billions				% Change 2007-08 to 2010-11
	2007- 08	2008- 09	2009- 10	2010- 11	
K-12 Education	\$42.5	\$35.5	\$34.6	\$36.3	<14.5%>
Higher Education	\$11.8	\$11.7	\$10.6	\$11.6	<1.4%>
Health and Human Services	\$29.7	\$30.9	\$25.0	\$27.0	<9.3%>
Corrections and Rehabilitation	\$10.2	\$10.3	\$8.2	\$9.3	<9.0%>
Natural Resources	\$1.9	\$2.0	\$1.9	\$2.0	8.3%

Source: 2011-12 Governor's Budget Summary

2011-12 PROPOSAL(S)

- THE GOVERNOR PROPOSES “FLAT” FUNDING FOR K-12 EDUCATION, **BUT**
 - FLAT FUNDING IS PREDICATED ON PASSAGE OF THE TAX EXTENSION
 - FLAT FUNDING ALSO MEANS NO MID-YEAR CUTS FOR 2010-11, AT LEAST FOR NOW
- THE LEGISLATURE MUST PLACE PROPOSAL ON BALLOT
 - PASSAGE WILL BE A TOUGH SELL – REQUIRING AT LEAST 2 REPUBLICAN VOTES IN BOTH HOUSES
 - TIMING CRITICAL TO GET ON JUNE BALLOT
 - VOTERS MAY REJECT TAX EXTENSION

2011-12 PROPOSAL(S)

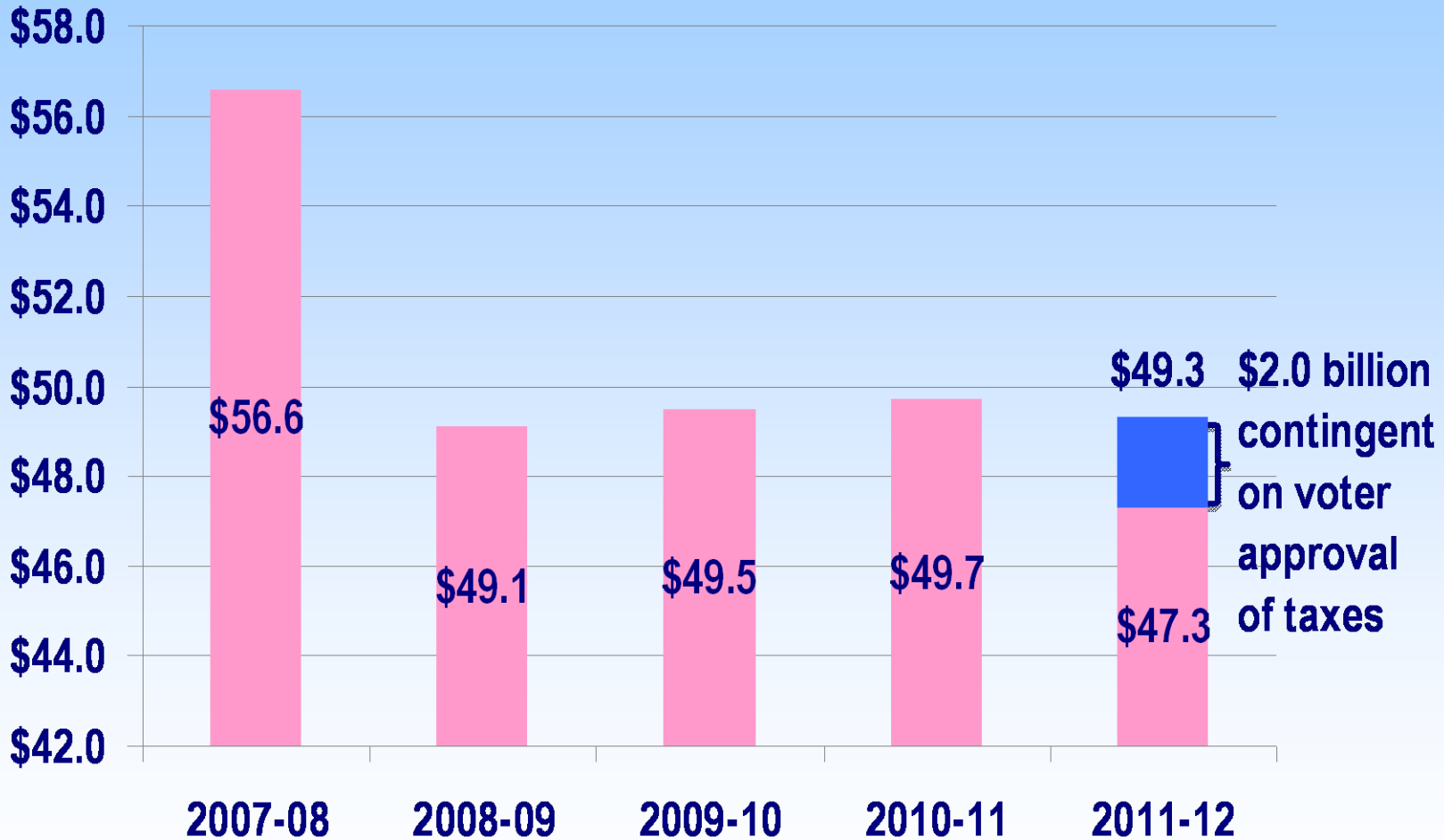
- LEGISLATURE MUST APPROVE REALIGNMENT OF GOVERNMENTAL SERVICES
- LEGISLATURE MUST ALSO APPROVE PROPOSED FUNDING SHIFTS – PROP 10 AND PROP 63
 - A TWO-THIRDS VOTE IS REQUIRED
- COURT CHALLENGES COULD THWART FULL IMPLEMENTATION OF THE PROGRAM REDUCTIONS AND FUND SHIFTS
 - PASSAGE OF PROPOSITION 22 LAST NOVEMBER AT ODDS WITH GOVERNOR'S PROPOSAL FOR REDEVELOPMENT FUNDS AND TRANSPORTATION BONDS

PROPOSITION 98

- PROPOSITION 98 GUARANTEE IS NOT SUSPENDED
 - IF TEMPORARY TAXES AREN'T EXTENDED, THE GUARANTEE DROPS BY \$2.3 BILLION
 - THE GOVERNOR HAS INDICATED HE WILL EXPECT EDUCATION TO TAKE THAT REDUCTION
 - THOUGH HE HAS TRIED TO PROTECT EDUCATION FROM FURTHER CUTS, THERE IS NO GUARANTEE THAT THE DROP WOULD BE LIMITED TO \$2.3 BILLION, AS \$6 BILLION OF ADDITIONAL OF CUTS WOULD NEED TO BE IDENTIFIED

PROPOSITION 98 FUNDING

Proposition 98 Funding (Billions)

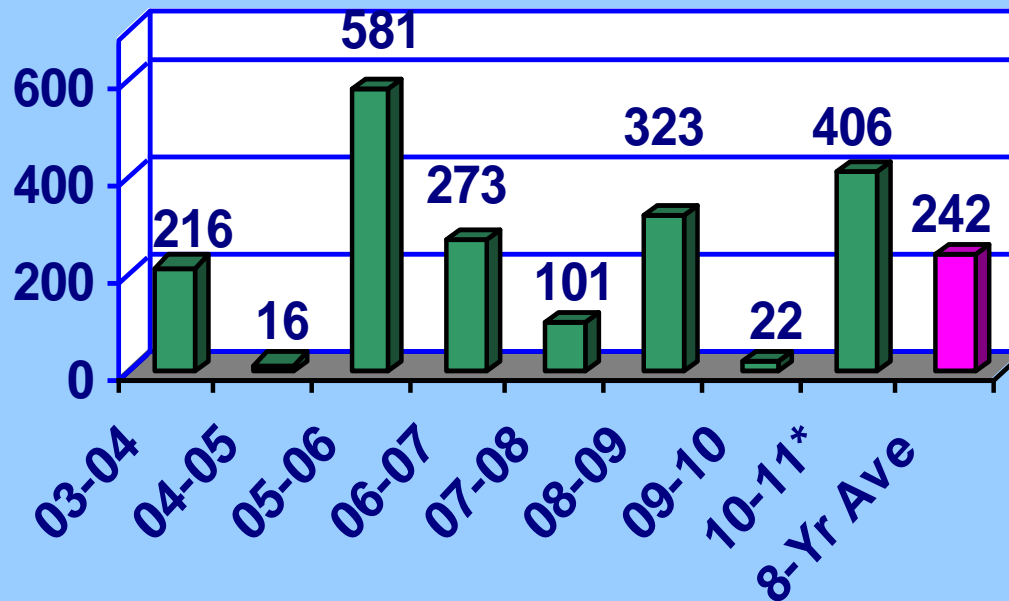


FLAT FUNDING DOESN'T MEAN “NO CUTS”

- FLAT FUNDING ISN'T REALLY FLAT
 - WITH TAX EXTENSION, PROP 98 WOULD BE \$49.3 BILLION, COMPARED TO \$49.7 BILLION IN 2010-11
 - THE AVERAGE DISTRICT WOULD LOSE ABOUT \$19 PER AVERAGE DAILY ATTENDANCE (ADA) – **FOR EUSD \$18 ADA**
- THOUGH THE COST-OF-LIVING ADJUSTMENT WOULD BE 1.67%, IT ISN'T FUNDED (DEFICIT INCREASES TO 19.892%)
- EXHAUSTION OF FEDERAL STIMULUS AND DECLINING ENROLLMENT MAKE SOME LEVEL OF CUTS INEVITABLE FOR MOST DISTRICTS

2011-12 PROJECTED LOSS IN REVENUE LIMIT IS \$2 MILLION, EVEN IF TAX EXTENSION PASSES!

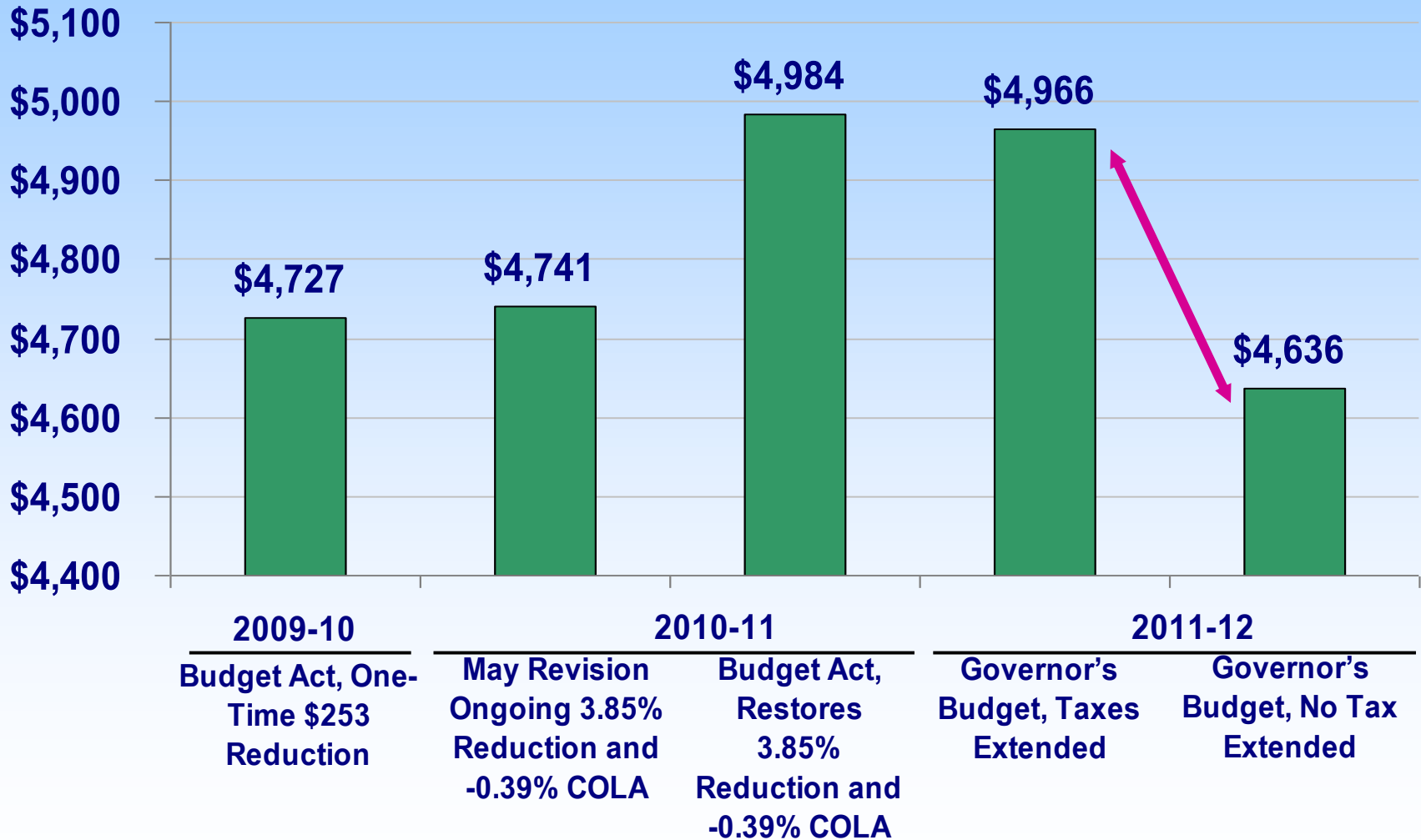
8 YEAR HISTORY OF EUSD DECLINING ENROLLMENT



IF TAXES NOT EXTENDED

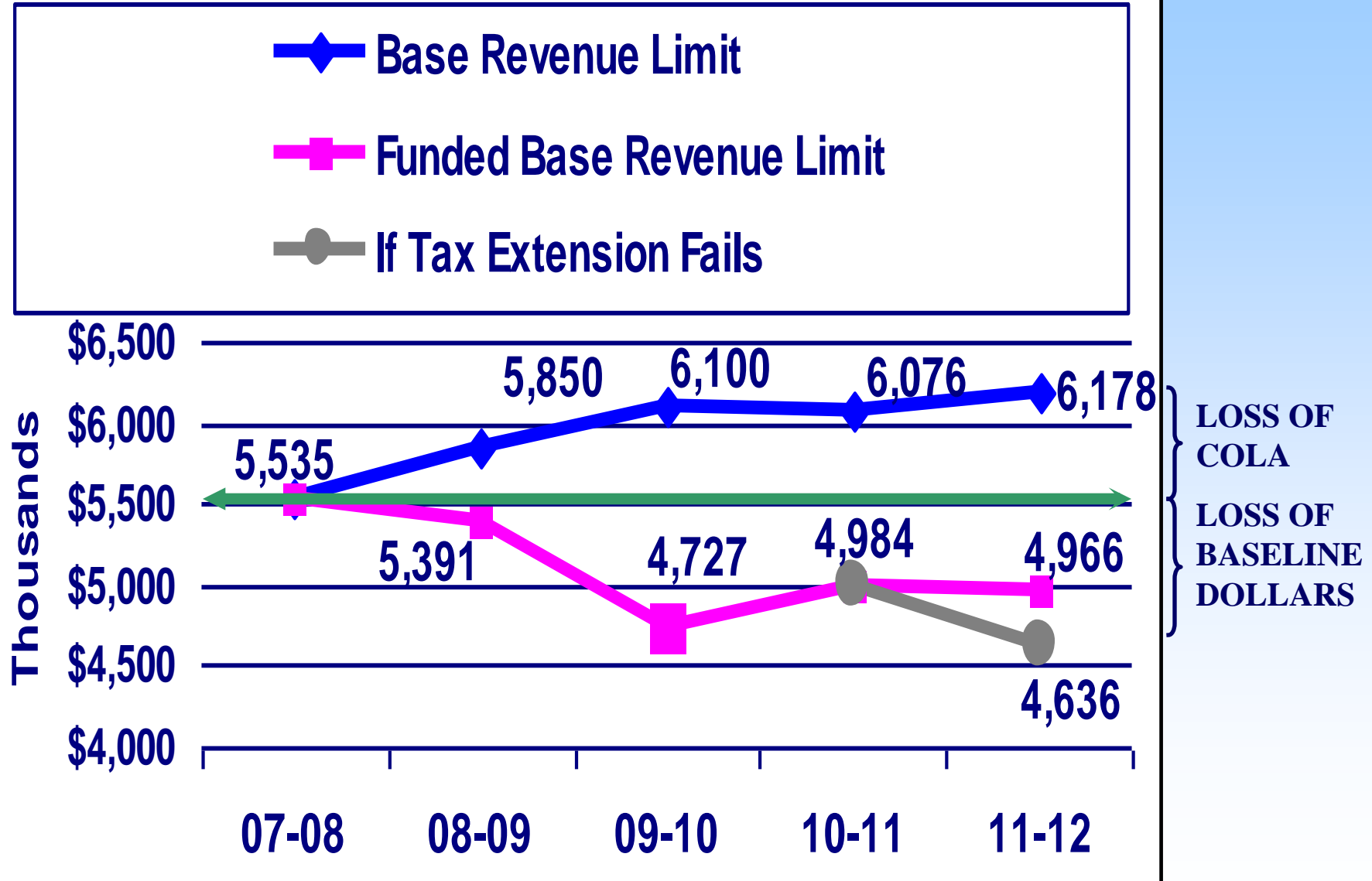
- THE BUDGET PROPOSAL ALLOWS FOR AN ADDITIONAL REDUCTION OF ABOUT \$330/ADA IF TAXES AREN'T EXTENDED
 - THIS AMOUNTS TO A LOSS FOR THE DISTRICT OF ABOUT \$5.7 MILLION
- DISTRICTS NEED TO PLAN FOR BOTH EVENTUALITIES UNTIL THE FATE OF THE TAX EXTENSIONS IS DECIDED
- ONCE AGAIN, DISTRICTS WILL BE IN A POSITION OF PLANNING FOR THE WORST, WHILE HOPING FOR THE BEST

WHAT DOES A \$2.3 BILLION DROP LOOK LIKE FOR EUSD?



Note: AMOUNTS ARE FOR EUSD – 2010-11 AND 2011-12 AMOUNTS ARE PROJECTED

EUSD BASE REVENUE LIMIT HISTORY

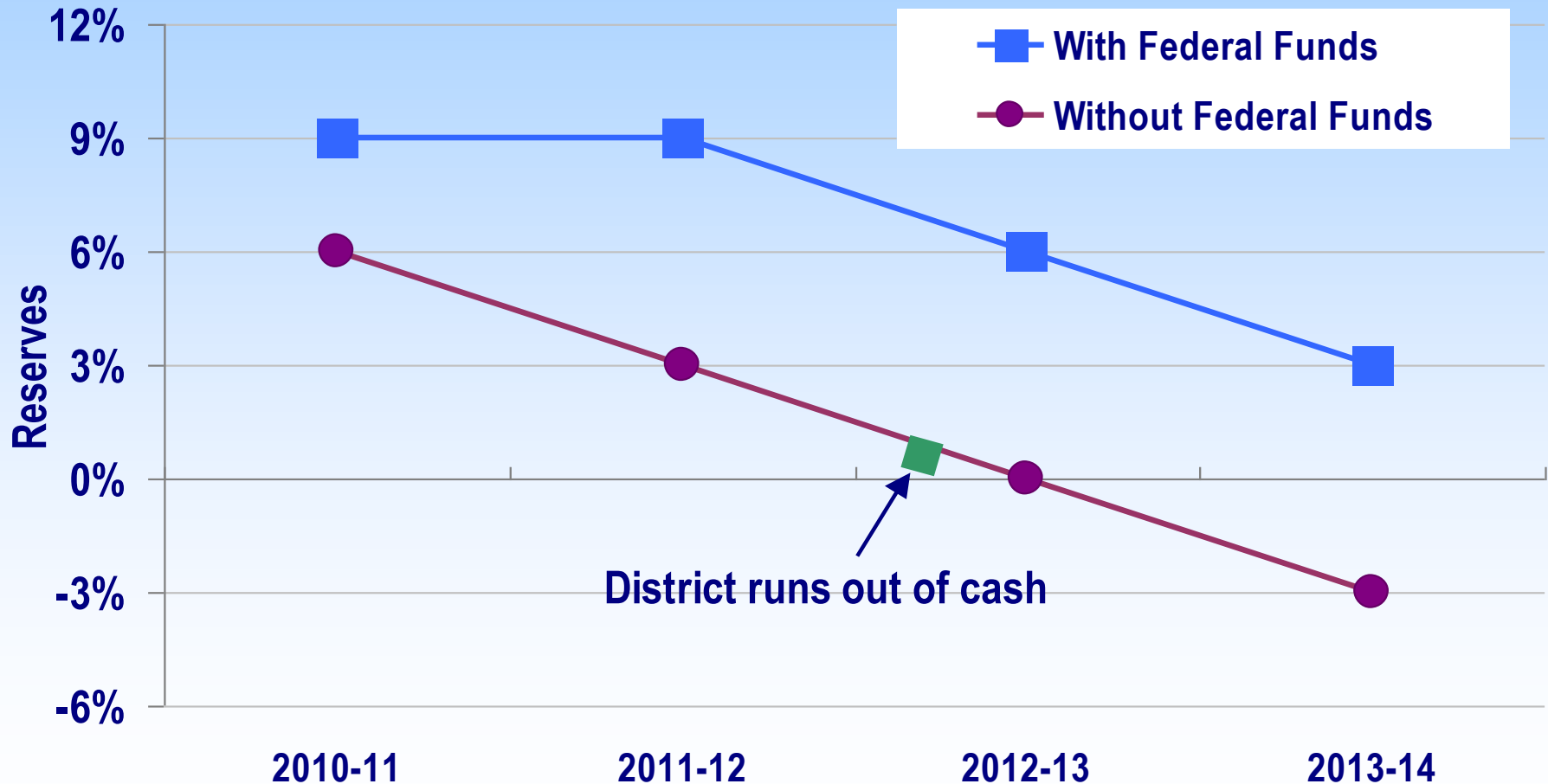


2011-12 EDUCATION BUDGET

- CASH FLOW CONTINUES TO BE AN ISSUE – BOTH FOR THE STATE AND FOR LOCAL LEAs
- GOVERNOR’S PROPOSAL INCLUDES ANOTHER \$2.1 BILLION DEFERRAL – INCREASING TOTAL DEFERRALS TO \$10 BILLION – ALMOST 45% OF WHAT THE STATE OWES EDUCATION!
 - TIMING OF THIS PROPOSED DEFERRAL IS UNDECIDED AT THIS TIME
 - THE NEW REALITY FOR SCHOOL DISTRICTS IS THAT IN ADDITION TO HAVING A BALANCED BUDGET, WE MUST MONITOR CASH AND PROTECT THE DISTRICT’S ABILITY TO BORROW WHEN NEEDED

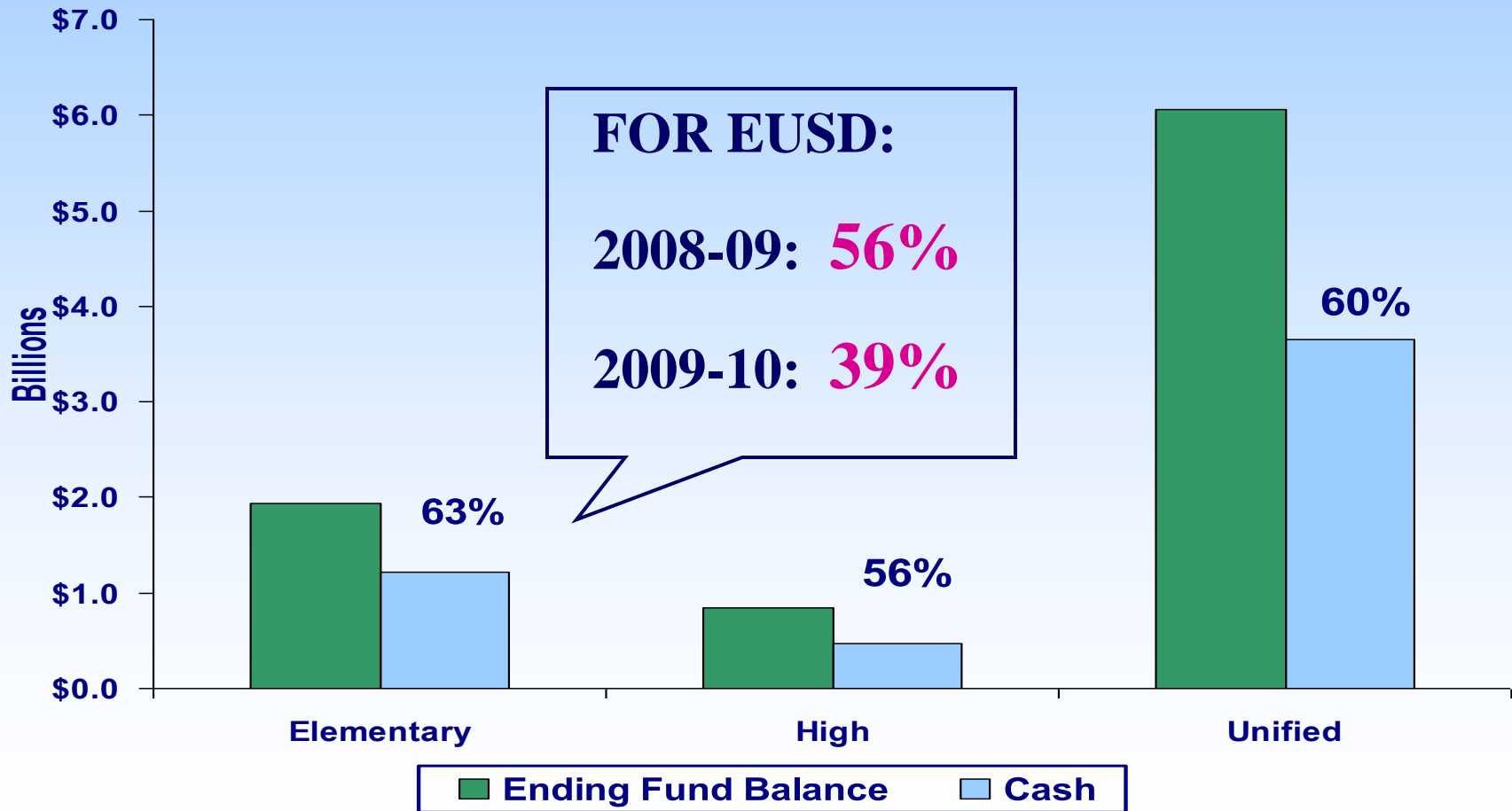
Federal Funds Mask the Deficit

- One-time federal funds received and used to save jobs during 2010-11 and 2011-12



CASH AS PERCENTAGE OF ENDING FUND BALANCE

Statewide Total for the 2008-09 Combined General
Fund



EUSD - 4-YR HISTORY OF MONTHLY GENERAL FUND CASH BALANCES

Fiscal Year	July	Aug	Sept	Oct	Nov	Dec
2010-11	\$ 9.9	\$ 9.2	\$ 9.0	\$ 4.5	\$ 3.7	\$ 20.7
2009-10*	\$ 30.4	\$ 23.3	\$ 18.7	\$ 17.9	\$ 12.1	\$ 20.8
2008-09*	\$ 20.3	\$ 20.3	\$ 18.5	\$ 18.3	\$ 15.1	\$ 24.7
2007-08	\$ 20.8	\$ 17.6	\$ 15.3	\$ 14.5	\$ 16.6	\$ 19.5

Amounts are in millions - Adjusted for TRAN borrowing *

2011-12 SPECIAL EDUCATION

- NO COLA IS PROVIDED – PER STUDENT FUNDING RATE UNCHANGED FROM 2008-09
 - \$3.38/ADA AVAILABLE FEDERAL FUNDS
 - GROWTH IS PROVIDED TO THOSE SELPAS THAT ARE GROWING
- NO REPLACEMENT PROPOSED FOR SPECIAL DISABILITIES ADJUSTMENT (SDA), DUE TO SUNSET IN JUNE 2011
 - STATE MAY BE IN DANGER OF NOT MEETING FEDERAL MAINTENANCE OF EFFORT (MOE) FOR SPECIAL EDUCATION

2011-12 SPECIAL EDUCATION

- THE ISSUE OF WHO IS RESPONSIBLE FOR PROVIDING MENTAL HEALTH SERVICES (AB 3632) IS MOVING THROUGH THE COURTS
 - SIGNIFICANT UNCERTAINTY REMAINS
- THE GOVERNOR HAS PROPOSED FOR 2011-12 THAT \$98.6 MILLION IN PROPOSITION 63 FUNDS BE REDIRECTED TO COUNTIES TO REIMBURSE FOR PRIOR-YEAR SERVICES
 - USE OF PROP 63 FUNDS REQUIRES TWO-THIRDS VOTE IN LEGISLATURE
- FROM 2012-13 ON, AB 3632 SERVICES WOULD BE HANDLED BY COUNTIES UNDER NEW REALIGNMENT PLAN – WITH DEDICATED FUNDING

CATEGORICAL FLEXIBILITY

- TO HELP DISTRICTS COPE – GOVERNOR PROPOSES EXTENSION OF ALL FLEXIBILITY OPTIONS – FOR TWO MORE YEARS
 - EASING OF CLASS SIZE REDUCTION PENALTIES WOULD EXPIRE 2014
 - SUSPENSION OF NEW ADOPTIONS – 2015
 - TIER III CATEGORICAL FLEXIBILITY – 2015
 - ROUTINE AND DEFERRED MAINTENANCE – 2015
- AS A CANDIDATE, GOVERNOR BROWN ADVOCATED PROGRAM SIMPLIFICATION – BUT NO CHANGES PROPOSED AT THIS TIME

FEDERAL PROGRAMS

- 2011-12 FEDERAL BUDGET AWAITS APPROVAL
 - SECRETARY OF EDUCATION HAS ADVISED HIS DEPARTMENT TO ANTICIPATE A REDUCTION IN FUNDING
- REAUTHORIZATIONS OF THE ELEMENTARY AND SECONDARY EDUCATION ACT (ESEA) AND INDIVIDUALS WITH DISABILITIES ACT (IDEA) ARE DUE
- IN DECEMBER 2010, CHILD NUTRITION PROGRAM WAS REAUTHORIZED
 - INCREASED MEAL REIMBURSEMENTS
 - MAJOR NEW RULES THAT AFFECT MEAL OFFERINGS AND MEAL PRICES

OTHER

- 2011-12 BUDGET PROVIDES FOR \$89.9 MILLION FOR CURRENT-YEAR MANDATES
 - CURRENT MANDATE SUSPENSIONS CONTINUE
- LOTTERY PROJECTIONS FLAT - \$128.50/ADA
- FUNDING FOR CHILD CARE PROGRAMS IS REDUCED –
 - ELIMINATES FUNDING FOR 11 AND 12-YEAR OLDS
 - RAISES FAMILY MEANS TESTING
 - NEW, MORE RESTRICTIVE STAGE 3 CHILD CARE RULES TAKE EFFECT APRIL 1, 2011