



# ESCONDIDO UNION SCHOOL DISTRICT

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2010-2011 STATE BUDGET  
OCTOBER 27, 2010



# THE NATIONAL OUTLOOK

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- The economy is the key to financial recovery for public agencies, and for the state as a whole
  - Predictions of a recovery in the spring of 2010 proved too optimistic
  - Current predictions are that the economy will remain sluggish until at least 2012
  - Fears of a double-dip recession have lessened
- Keys to the recovery in California remain:
  - Improvement in the construction industry
  - Improvement in employment

# THE STATE BUDGET



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- The State Budget's 2010-11 deficit was estimated at \$18 billion, and was closed with:
  - \$7.8 billion of cuts (\$3.4 billion from education)
  - \$5.4 billion from federal funds
  - \$3.3 revenue enhancements – including reliance on the more optimistic projections of the Legislative Analyst's Office (LAO)
  - \$2.7 billion from loans, shifts, and other gimmicks
- Governor also vetoed \$963 million in spending, which leaves the state with a year-end reserve of \$1.3 billion

# THE STATE BUDGET



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- Federal revenue assumptions of \$5.4 billion include \$1.3 billion due to recent congressional action to extend the Federal Medical Assistance Percentage(FMAP)
- Many of the federal dollars have not yet been appropriated by Congress
- Certain corporate tax breaks scheduled to go into effect in 2010-11 are deferred for two years – generating \$1.2 billion per year
- Eleven state properties scheduled for sale in 2010-11 would add \$1.2 billion in one-time funding



# THE STATE BUDGET

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- The \$7.5 billion in expenditure reductions include \$3.4 billion for the suspension of Proposition 98
- State Budget avoids some of the harshest proposed cuts, such as elimination of the CalWORKS and subsidized child care programs
- Recent court decisions strengthen the Governor's power to impose furlough days to garner reductions in state worker payroll costs
- Pension reform for new state workers and new ballot initiative for "State Rainy Day Fund" (again!)
- \$800 million of savings is anticipated through cuts to medical care for inmates



# RISKS TO THE STATE BUDGET

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- According to LAO – two-thirds of state budget solutions are one-time in nature
- Assumed revenues are \$1.4 billion above May Revision level – currently, revenue collections tracking at May Revision level
- State Budget assumes growth in personal income in 2010 will be 3.2% and in 2011 will be 4.5% - UCLA Forecast projects 1.9% and 3.7%, respectively
- Receipt of all \$5.4 billion of assumed federal funding is not certain

# RISKS TO THE STATE BUDGET



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- Expenditure cuts of \$7.5 billion need to materialize over the remaining 8 months of the fiscal year
- Temporary tax increases passed in 2009-10 expire at the end of 2010-11
- Election year politics may determine whether we'll experience mid-year cuts
  - New Governor and Legislature may wish to tackle the budget imbalance immediately
  - Outcome of certain ballot Propositions could also change the state budget landscape, particularly Propositions 22, 24, and 25

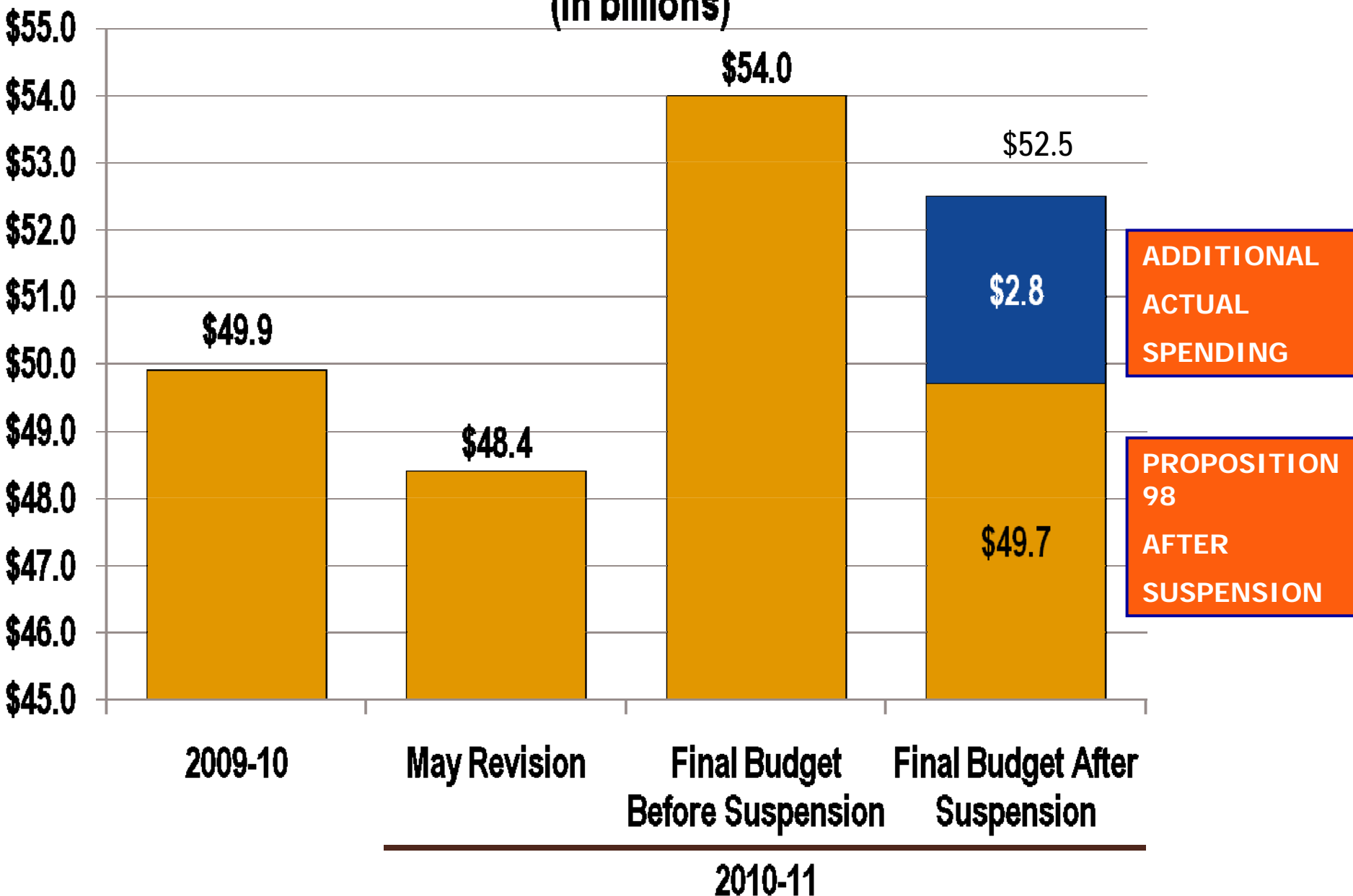
# THE EDUCATION BUDGET



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- Proposition 98 was designed to establish a constitutional minimum funding guarantee for K-14 education
  - Over the years, that guarantee has been subject to manipulation
  - For 2010-11, the guarantee is suspended (reduced by a two-thirds vote of the Legislature)
  - Absent the suspension, the funding level would have been \$54 billion for 2010-11, rather than the \$49.7 billion in the Budget Act
  - Actual spending for education will be closer to \$52.5 billion, due to inclusion of one-time extras

# Proposition 98 Guarantee (in billions)



# PROPOSITION 98



- \$2.8 billion will be appropriated, but won't count toward the Proposition 98 guarantee:
  - \$1.9 billion K-14 appropriation (buys out the negative COLA and the ongoing cut to revenue limits) – DEFERRED TILL JULY 2011
  - \$420 million in QEIA funding
  - \$300 million for prior-year maintenance factor
  - \$240 other one-time funding
- Since these one-time sources are outside the Proposition 98 guarantee, they will need to be replaced in order to maintain program levels in 2011-12

# PER-STUDENT FUNDING

- In spite of new revenues for 2010-11, per student funding remains at 10% below 2007-08 funding levels
- The last time California provided more than the national average per-student funding level to K-12 education was 1980-81!



## California's Schools Lag Behind Other States on a Number of Measures

	California Rank	California	Rest of U.S.
K-12 Spending Per Student (2009-10)*	44	\$8,826	\$11,372
K-12 Spending as a Percentage of Persona Income (2008-09)*	46	3.28%	4.25%
Number of K-12 Students Per Teacher (2009-10)*	50	21.3	13.8
Number of K-12 Students Per Administrator (2007-08)	46	358	216
Number of K-12 Students Per Guidance Counselor (2007-08)	49	809	440
Number of K-12 Students Per Librarian (2007-08)	50	5,038	809

\* 2008-09 and 2009-10 data are estimated, Source: National Education Association

# REVENUE LIMITS

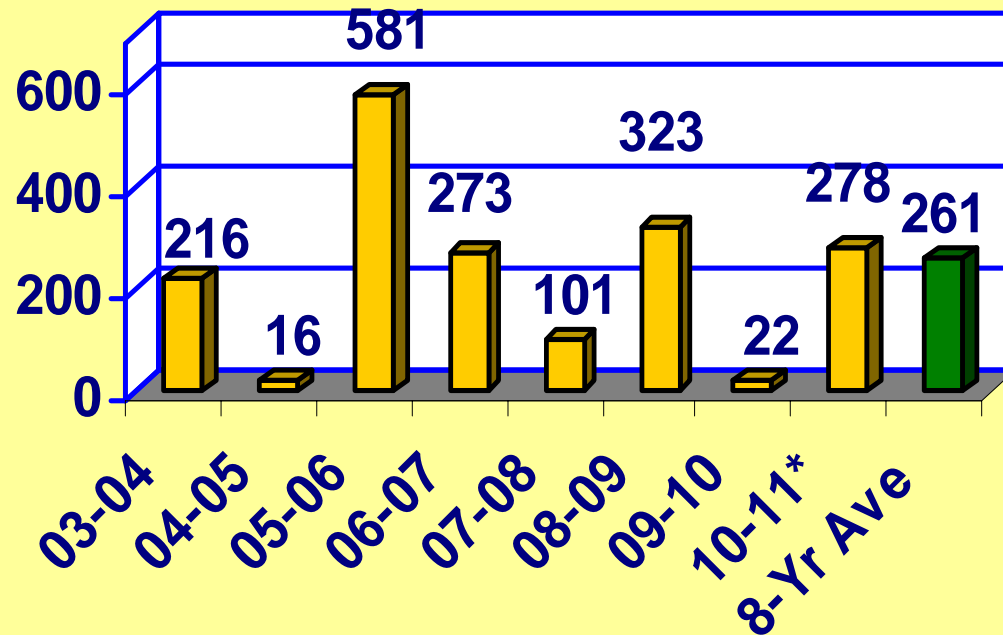


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- Most of the increased funding will be in the form of improved revenue limit funding
  - Projected negative cost-of-living-adjustment (COLA) is still  $-.39\%$ , but will be offset with by a commensurate decrease in the deficit factor
  - The ongoing cut of \$1.5 billion to revenue limits proposed by the Governor in the May Revision is fully restored – but not paid for in 2010-11
  - EUSD per-student funding will improve by \$259 per student – or roughly \$4 million- but, if we had full funding (no deficit) the improvement would be an estimated \$1,099 per student

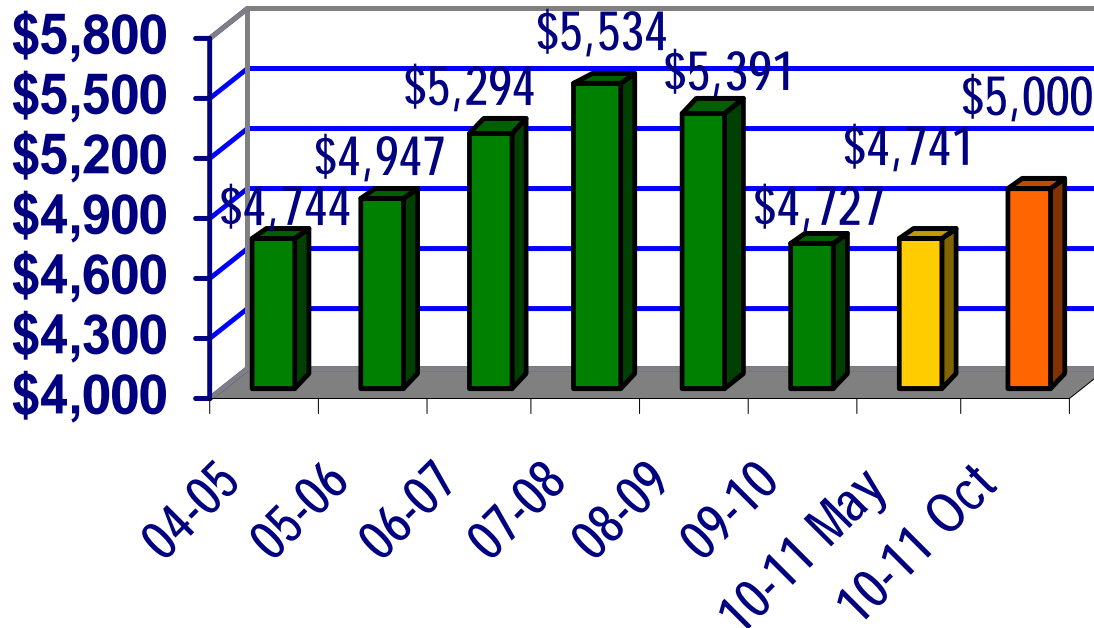
# 2010-11 ENROLLMENT – AT PROJECTION – ABOUT 17,750

## 8 YEAR HISTORY OF EUSD DECLINING ENROLLMENT

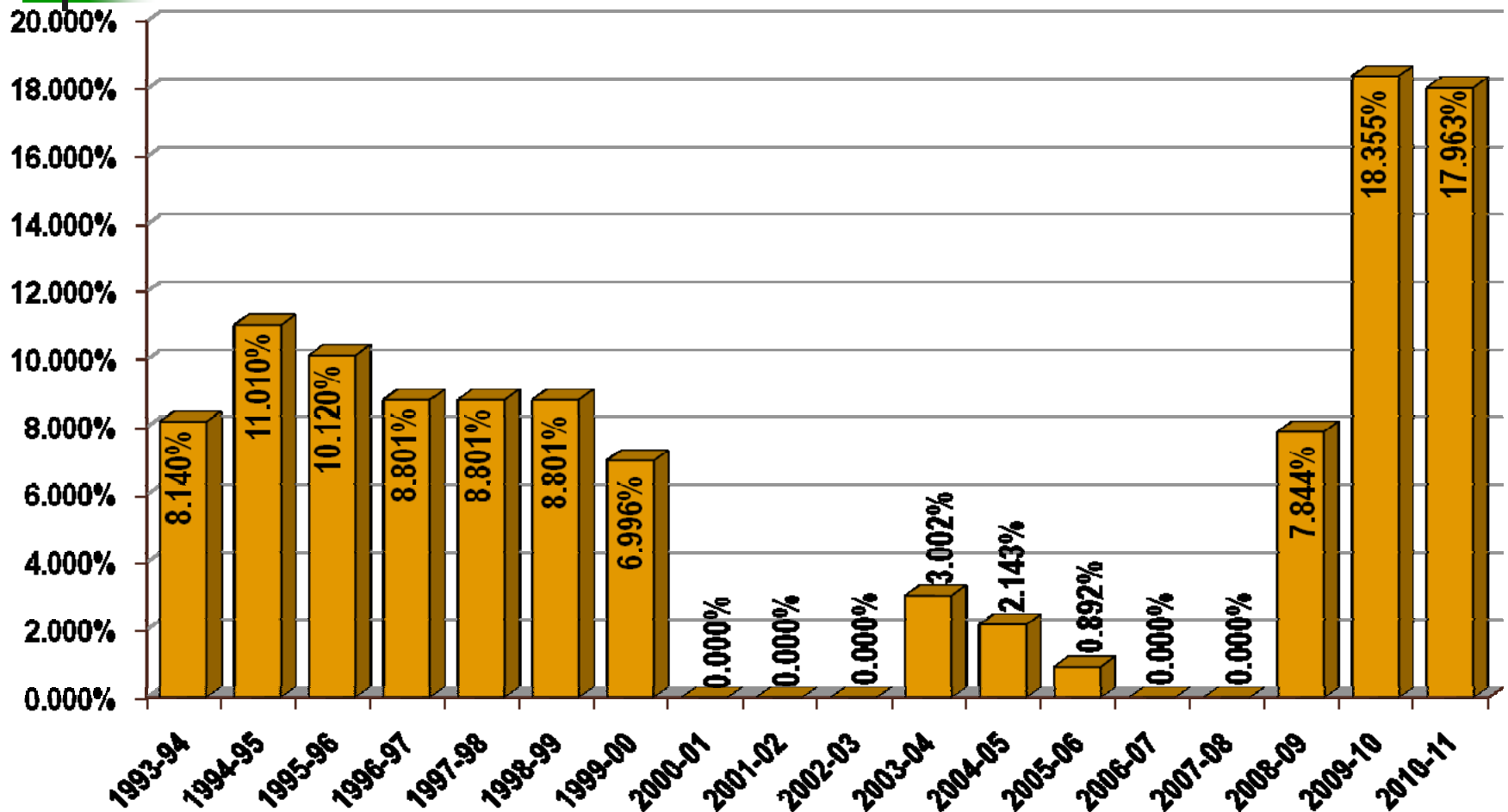


# IMPROVED PER STUDENT FUNDING STILL 10% BELOW 2007-08 LEVEL

## SEVEN-YEAR HISTORY OF EUSD BASE REVENUE LIMIT - Unrestricted Funding

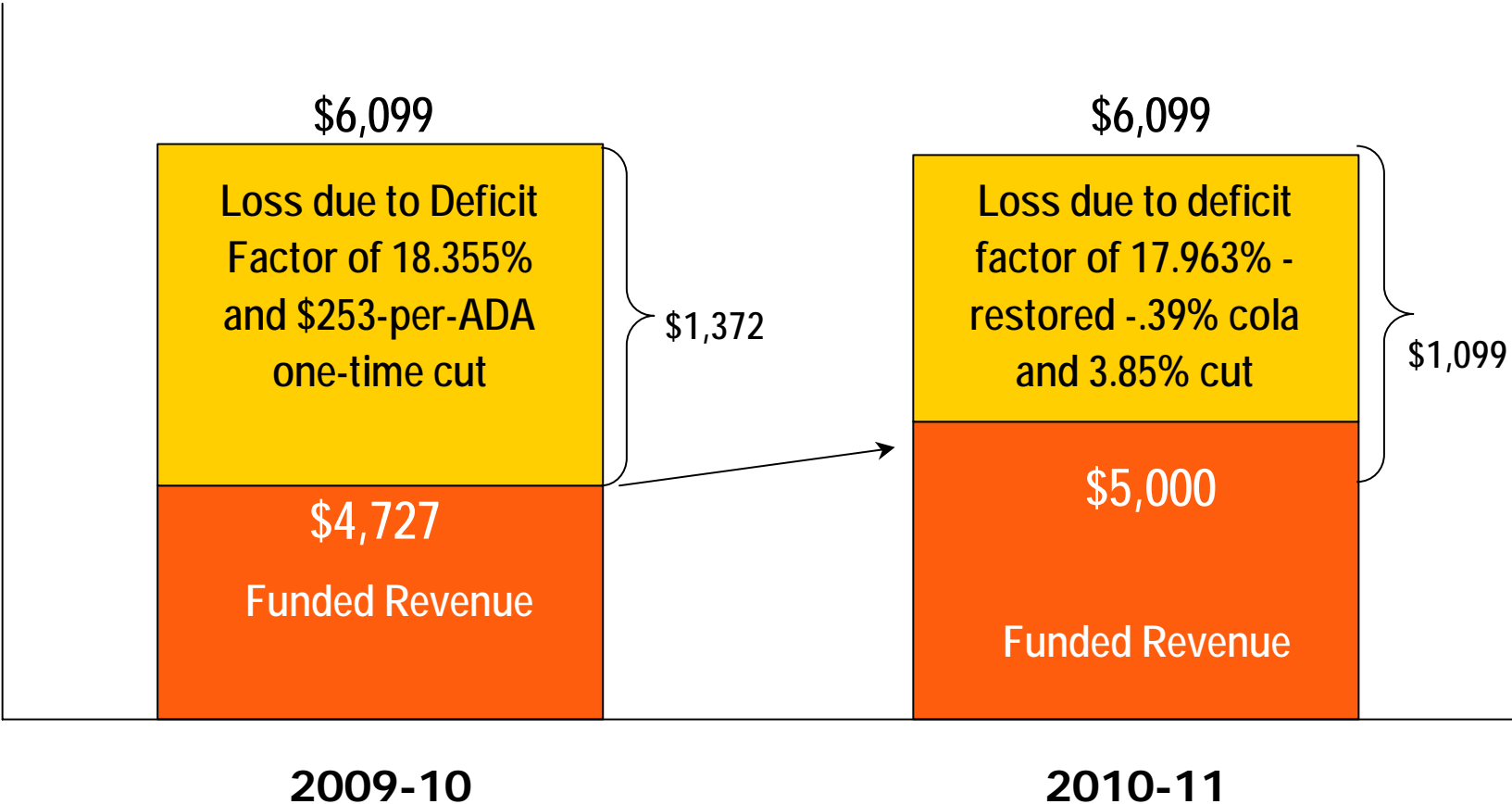


# REVENUE LIMIT DEFICIT FACTORS



# Funded Revenue Limit - 2009-10 vs. 2010-11

## ESCONDIDO UNION SCHOOL DISTRICT





# CASH DEFERRALS

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- While the state proposes more revenue limit dollars per ADA, the payment is delayed until July 2011
- Along with the deferrals already established by SBX8 5 and SBX8 14, the newest deferral of \$1.7 billion included in the State Budget brings total annual deferrals to K-12 education to \$7 billion
- Another result of the late passage of the budget was AB 1624, which delayed the October apportionment payments while the state arranged for short-term borrowing. Payment is to come no later than November 15

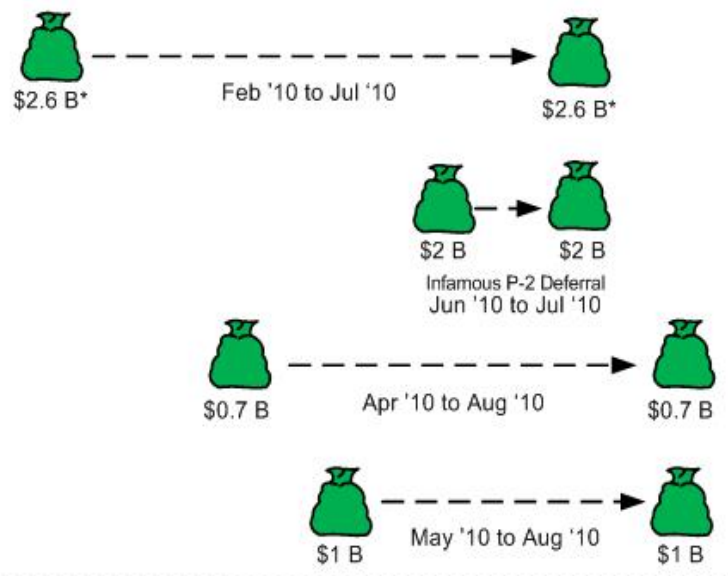
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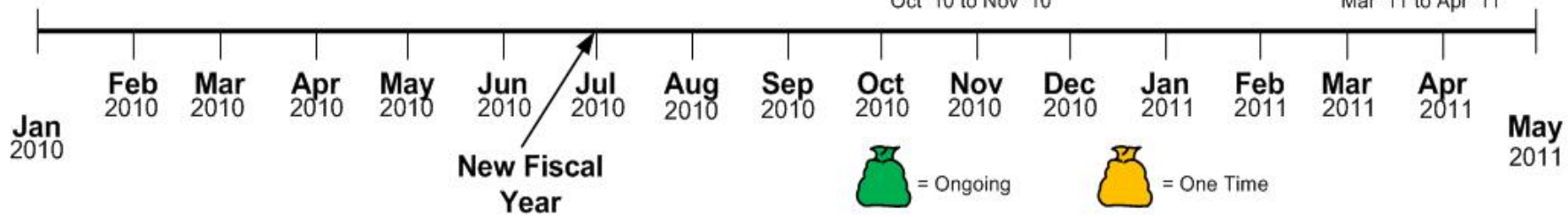
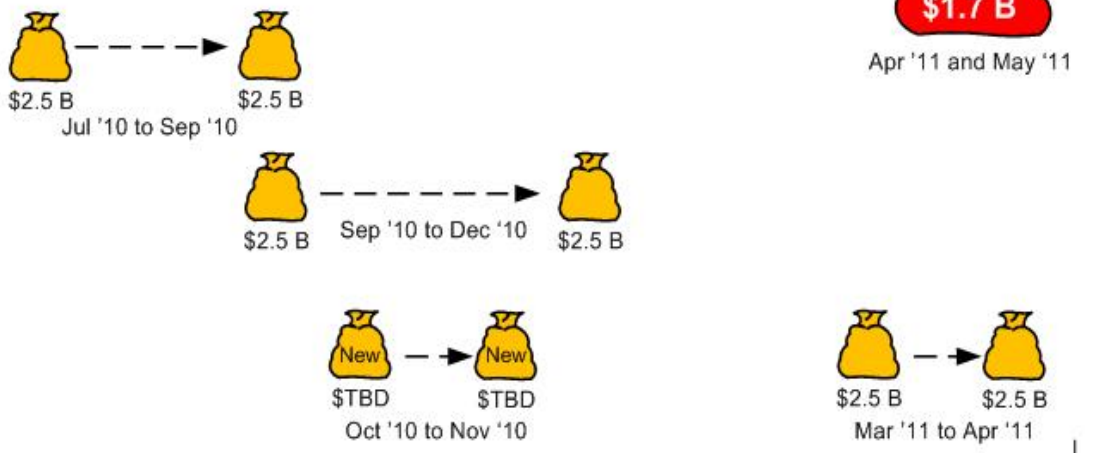
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- The absence of an October apportionment payment resulted in the district's needing to transfer \$3 million in order to carry on normal operations
  - \$1 million was already-planned "Transfer In" of settlement monies from Fund 40-00
  - \$1 million was already-planned "Transfer In" of GASB 45 Reserve from 17-42
  - Final \$1 million was the temporary transfer of the second \$1 million in Fund 17-42 – intent is to replace these funds when we have sufficient cash to do so

Permanent Deferrals



One-Time Deferrals





# MANDATES

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- Two mandates will be funded for 2010-11, including inter- and intradistrict transfers, and CASHEE (high school exit exam)
  - \$100 million set aside for claims
- \$200 million for prior-year claims to be paid as an equal amount per ADA with oldest claims paid first
- For 2010-11, 8 mandates are suspended
- State attempting to eliminate two mandates, including Special Education Behavior Intervention Plan (BIP) – expect litigation

# CATEGORICAL PROGRAMS



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- State Categorical flexibility unchanged
- Current law still has class size flexibility ending in 2011-12, and other program flexibility, including school year reductions ending in 2012-13
- The English Language Acquisition Program (ELAP) has been eliminated, with funding being directed to enhance the Economic Impact Aid (EIA) program



# SPECIAL EDUCATION

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- Special education funding continues to be Tier I, not subject to cuts or flexibility
  - The negative .38% COLA has been restored to AB 602 (state) funding
  - Growth is funded
- Federal IDEA American Recovery and Reinvestment Act (ARRA) carryover continues to be an important source of special education funding for 2010-11 - \$2 million

# SPECIAL EDUCATION

- Federal law requires that students with disabilities receive needed mental health services – which have been provided by county health departments for 26 years
- Governor's line-item veto of mental health funding leaves this mandate unfunded, with the responsibility likely to fall to school districts – along with significant financial consequences
- Litigation on this issue was filed in federal district court on October 21, 2010 – to temporarily force return to "status quo" for providing services
- Senate Pro Tempore Darrell Steinberg has vowed to work with the new Governor to restore funding

# FEDERAL FUNDING



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- ARRA funding still available for districts with remaining one-time funds:
  - EUSD – Title I ARRA – about \$900,000 left
  - SFSF – carried over \$1.9 million
  - Prospects for remaining 10% SFSF in 2010-11
  - Federal IDEA ARRA – using final \$2 million to lower special education encroachment
- Anticipate standard funding amounts for ongoing, non-ARRA federal programs
- Felicita School Improvement Grant - \$1.7 million for 2010-11 – \$5 million over 3 years

# NEW FEDERAL JOBS BILL



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- H.R. 1586 passed on August 10, 2010
- Provides \$1.2 billion of one-time funding to support educational programs, specifically to be used toward salary and benefits associated with the rehiring of staff, retaining existing employees, or hiring new staff for educational related services
- District's share is in excess of \$3.1 million
- Spending deadline is September 30, 2012
- Expect significant reporting requirements, and potential audit, just as with ARRA funding

# STATE LOTTERY



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- The State Lottery Commission projects sales of \$3.5 billion for 2010-11, with \$1.1 billion provided to education
  - \$130 per average daily attendance (ADA) – with \$112.50 per ADA for unrestricted, and \$17.50 per ADA for restricted instructional materials
- Lottery funds comprised about 1.6% of the district's 2009-10 revenues

# KINDERGARTEN ENTRY AGE



- New SB 1381, changes the entry age for kindergarten students, phasing in the change over three years (2012-13 through 2014-15)
  - Cut-off birth date will go from the current December 2, to September 1 of a given year
- Requires districts to offer a transitional kindergarten, beginning in 2012-13, defined as the first year of a two-year program, with emphasis on age-appropriate curriculum



# STATE TEACHER'S RETIREMENT SYSTEM (STRS)

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- STRS has proposed significant new interest and penalties that will apply to all local educational agencies (LEAs)
  - Proposed regulations appear onerous, and will result in penalties for such normal business practices as making retroactive column changes and providing employees with retroactive negotiated pay increases
  - Public comment period ongoing – and due to LEA input, STRS has postponed implementation until October 2011

# WHAT'S NEXT?



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- While far from a “good” budget, it is one of the better “bad” budgets
- Current advice is to plan now, but don’t “open the check book” until the spring when:
  - We’ll know if there will be mid-year cuts
  - We’ll see if the economy is on the mend
    - Watch upcoming Holiday shopping levels
  - We’ll see if the state can effect the savings assumed in the budget