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# **Alameda Unified School District**

## **Governor's May Revise Report**

**May 25, 2011**

## **Introduction to the May Revision**

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- **The May Revision is, by statute, the Governor's last chance to provide his Budget proposals to the Legislature**
- **It may differ from January only slightly, or be dramatically different**
  - **Overall, the State Budget situation has gotten worse**
  - **Federal dollars, upon which the January Budget depended, have been slow in coming**
  - **Inaction by the Legislature has caused planned savings to slip away**
  - **Costs of some programs have risen more than anticipated**
  - **Revenues are still falling below the state's already low forecasts**
- **Education was protected somewhat, relative to other programs, in January**
  - **In May, education continues to be better protected than other programs**
  - **There is a lot to be negotiated before we have a state budget**

# Overview of the State Budget

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- **Education fares better than the rest of the Budget**
- **The rest of the Budget is absorbing even heavier cuts in order to protect education from deeper cuts**
  - **But there is no “free ride” – the nearly \$2.5 billion taken from education in January remains unrestored**
  - **Child care takes a huge cut**
  - **Social and health programs that serve K-12 students and their families are hit even harder**
  - **California Work Opportunities and Responsibility to Kids (CalWORKs), which is California’s main avenue to welfare payments, is on the chopping block**
- **The Budget reflects two major unresolved problems:**
  - **California’s finance system serves the state poorly in both good and bad times**
  - **The current economic woes remain unresolved**

## May Revision Features

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- **For the most part, the May Revision contains no further cuts to K-12 education**
  - **Cuts proposed in January remain**
  - **Targeted proposed administrative cut is eliminated**
  - **Cuts to child care eliminate subsidized slots for 142,000 children**
  - **No new federal dollars**
- **No new taxes are proposed**
- **Major additional cuts to the noneducation portions of the Budget are proposed**
- **We expect the Legislature to have great difficulty voting for the choices before them**
- **Despite the Governor's call for an on-time Budget, we don't see that happening**

## Major May Revision Proposals

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- The revised Budget gap is projected to be \$19.1 billion, slightly smaller than the \$19.9 billion gap in the January Budget
- The Governor proposes to close this gap without raising taxes
  - \$12.4 billion in cuts
  - \$3.4 billion in additional federal funds
  - \$3.4 billion in borrowing fund shifts, asset sales, and surcharges
- A few programs are proposed for increases from the January Governor's Budget:
  - Restores \$140 million for state parks
  - Restores \$46 million for Cal Grants
  - Withdraws proposal to cut \$112 million for University of California (UC) and California State University (CSU) enrollment growth

"Where is all the Low Hanging Fruit?"



# National Economy

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- **The U.S. economy is no longer in decline, but is growing slowly**
  - **The recession began in December 2007, 29 months ago**
  - **U.S. Gross Domestic Product (GDP) grew 3.2% in the first quarter of 2010**
  - **162,000 jobs were added in March (unrevised survey)**
- **But the unemployment rate has remained high**
  - **The April 2010 rate was 9.9%, up from 8.9% one year ago**

# California Economy

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- **The state's economy is recovering along with the nation's**
  - **State personal income grew at 4.1% and taxable sales grew at 1.9% in the 4<sup>th</sup> quarter of 2009, according to the University of California Los Angeles (UCLA) Forecast**
- **However, job growth remains a major drag on the economy**
  - **California added only 2,800 jobs in February and 4,200 jobs in March**
  - **If California had shared in the 162,000 U.S. jobs added in March, our proportionate gain would have been more than 16,000 jobs**
  - **The state's unemployment rate, at 12.6%, is the third highest in the nation**



## **Risks to the Revised Budget Proposal**

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- **In January, we noted several major risks to the Governor's Budget proposals:**
  - **Federal funds – no guarantee that \$6.9 billion could be secured**
  - **Voter approval – required for fund shifts**
  - **Economy and revenues – the economy and revenues could underperform forecasts**
- **Some of these risks have in fact materialized:**
  - **Only \$3.4 billion in federal funds are expected to be received**
  - **Fund shifts requiring voter approval will not be placed on the ballot**
  - **Current-year revenues have fallen short by \$1.6 billion**

## **Risks to the Revised Budget Proposal**

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- **The May Revision, if enacted as proposed, contains other – but equally significant – risks**
  - **Court challenges – rebenching Proposition 98, elimination of CalWORKs, state worker pay cuts, health care reductions, and other cuts could face court challenges**
  - **Late Budget – a late Budget would delay implementation of program reductions, resulting in the loss of budgeted savings**
  - **Economic and revenue risks – the state and national economies face the possibility of a “double dip” recession, especially in light of the turmoil in overseas economies**
- **These risks in turn could threaten California’s access to the capital markets, pushing borrowing costs even higher**

# General Fund Budget Summary

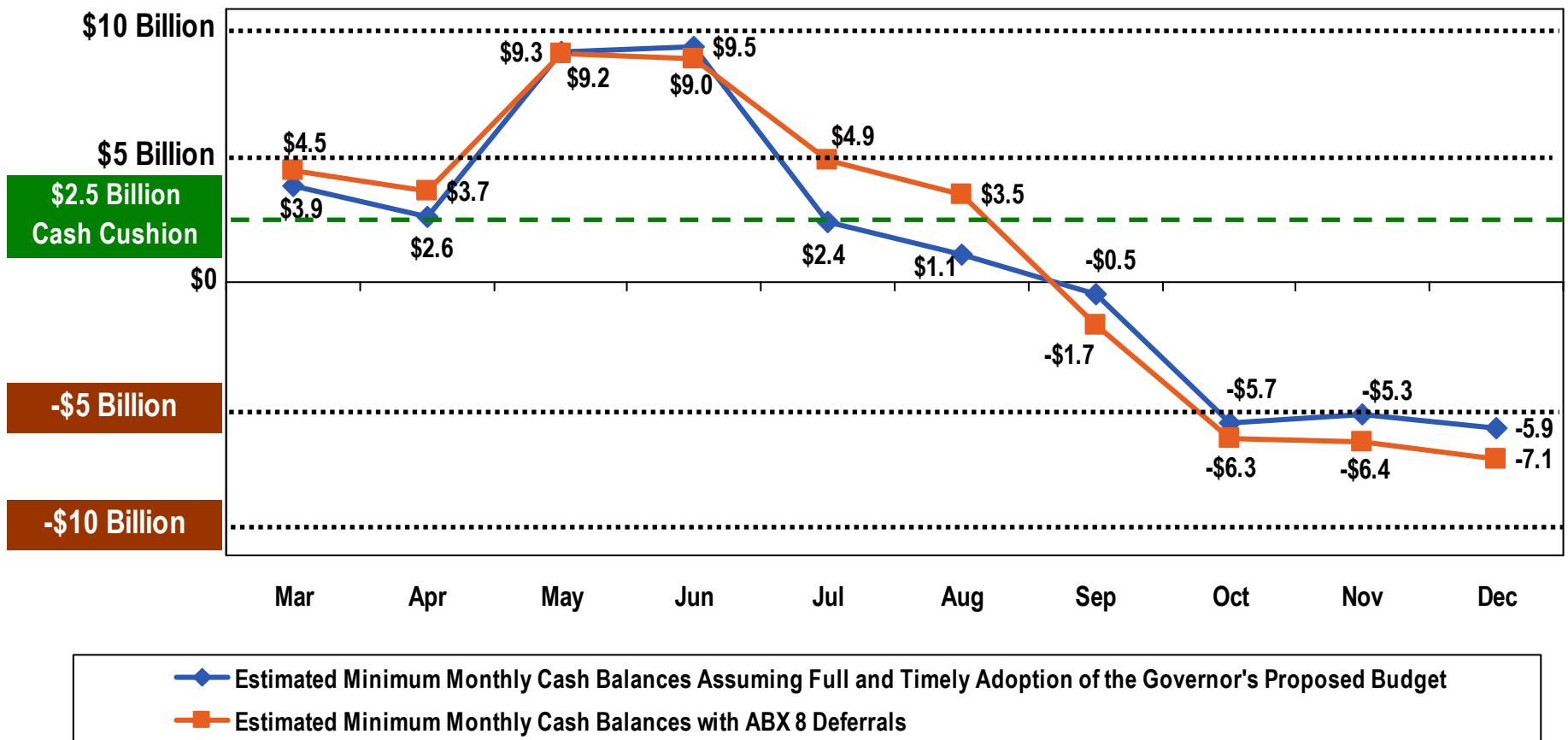
	(Dollars in Millions)	
	2009-10	2010-11
Prior-Year Balance	-\$5,361	-\$5,305
Revenues and Transfers	86,521	91,451
Total Resources	81,160	86,146
Total Expenditures	86,465	83,404
Fund Balance	-\$5,305	\$2,742
<b>Budget Reserve:</b>		
Reserve for Encumbrance	1,537	1,537
Reserve for Economic Uncertainties	-6,842	1,205
Budget Stabilization Account	0	0
Total Available Reserve	-\$6,842	\$1,205

Source: State Budget 2010-11

- One year ago, the proposed reserve for 2009-10 was +\$4.5 billion, a swing of more than \$11 billion
- The reserve equals 1.3% of projected revenues in 2010-11
- Revenues increase 5.7% in 2010-11, while expenditures drop 3.5%
- The current-year fund balance deteriorated \$1.4 billion since January

# California's General Fund Cash Outlook For the Months of March 2010 – December 2010

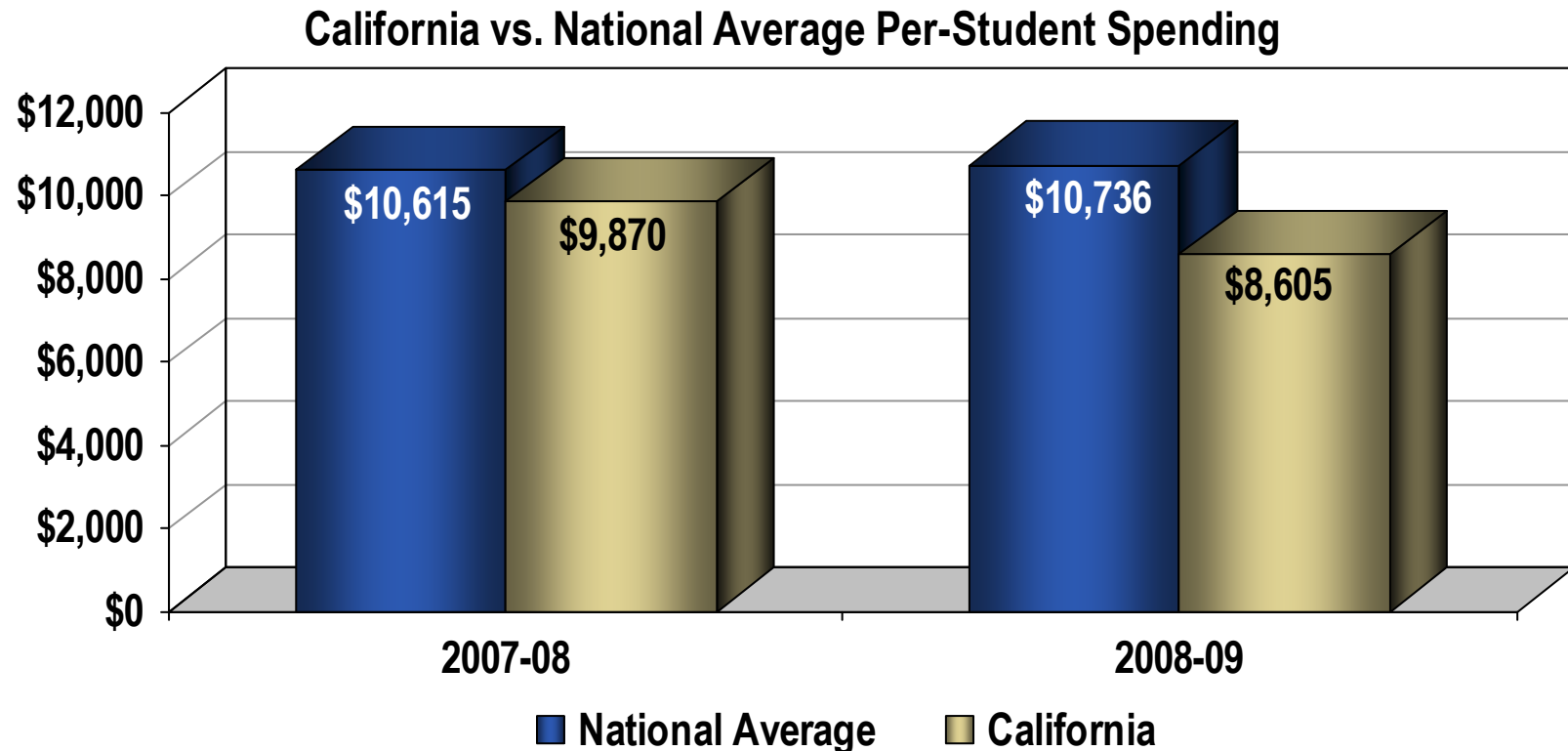
Based on the Department of Finance January 2010 Budget Data and Actual Receipts Through February  
(In Billions – Excludes 2010-11 External Cash Flow Borrowing)



Source: California State Controller's Office

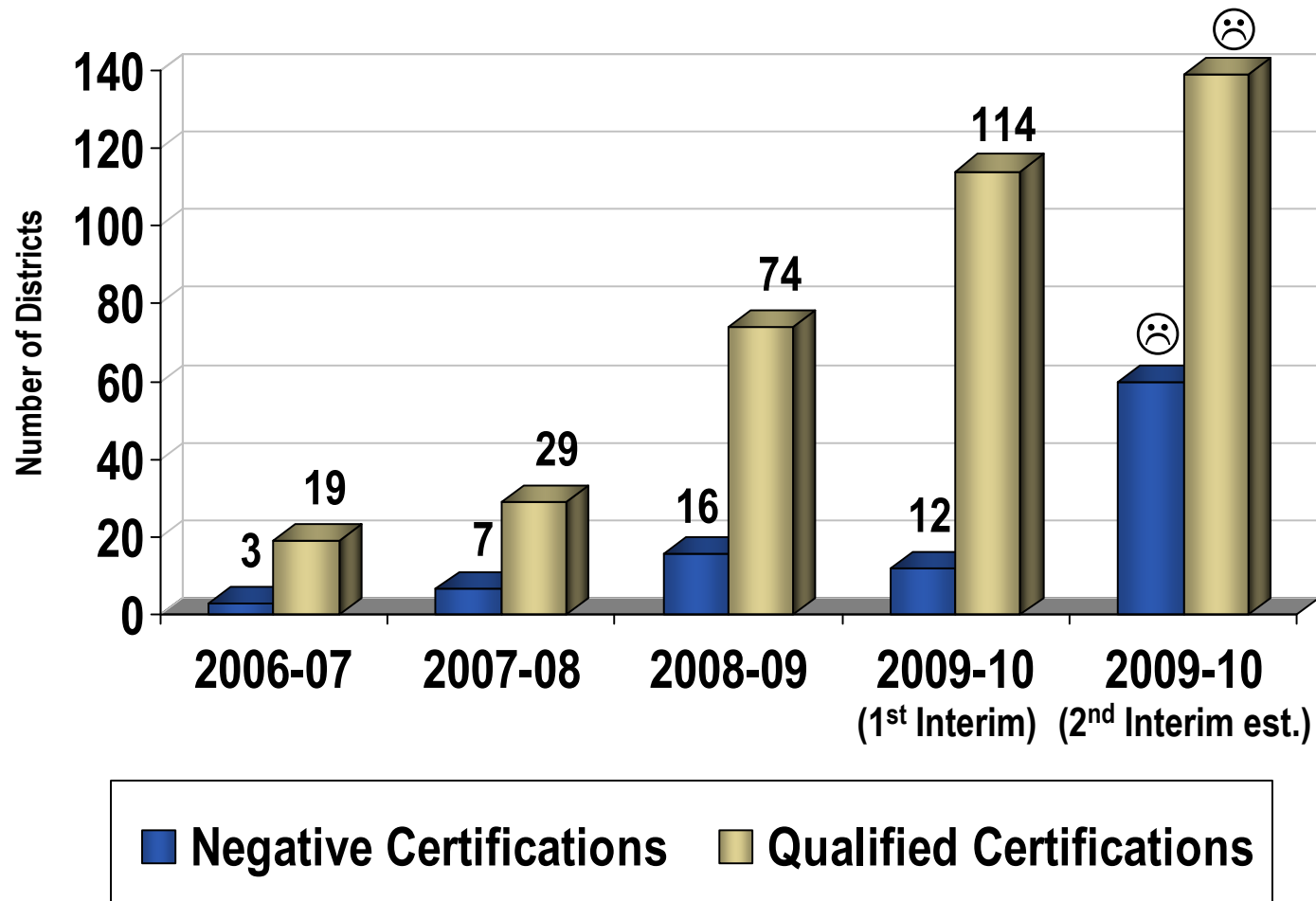
# California Per-Student Spending Falls Far Below Average

- According to the National Education Association's (NEA) Rankings of the States 2009, as of 2008-09, California was 44<sup>th</sup> in per-student spending, falling from 34<sup>th</sup> in 2007-08



Source: Rankings of the States 2009 and Estimates of School Statistics 2010, National Education Association

# Update on Qualified/Negative Certifications – First Interim



Source: California Department of Education

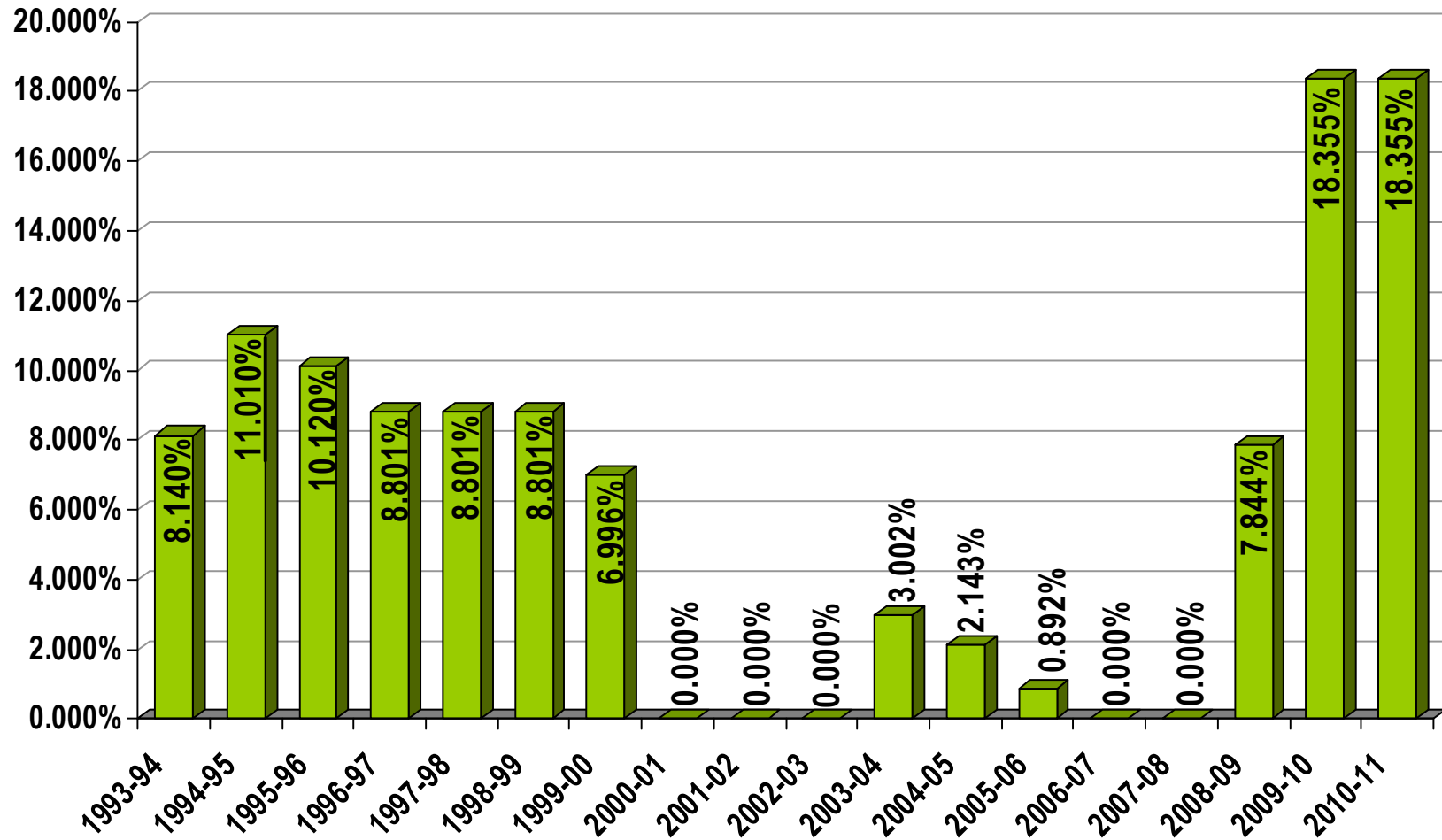
See our [Fiscal Report](#) article, "What Happens With a Qualified or Negative Budget?" on the CD-ROM

# Revenue Limit Funding

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- **Base revenue limit (BRL) funding under the May Revision would receive the following adjustments:**
  - **Funding for growth and a “fully funded” statutory cost-of-living adjustment (COLA) of -0.39%, essentially unchanged from the -0.38% estimate in January**
  - **No change in the deficit factor from the Governor’s January Budget Proposal**
    - **18.355% for K-12 school districts**
    - **18.621% for county offices of education (COEs)**
  - **To implement the \$1.5 billion cut to revenue limits, the DOF, at press time, was considering a 3.85% reduction to each district’s undeficitated revenue limit, but had not made a final decision**
    - **The methodology chosen is likely to affect the specific dollar loss for each individual district**

# Revenue Limit Deficit Factors





# Targeted Administrative Cut Recast

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- The January Governor's Budget proposed cutting \$1.5 billion from revenue limits and targeting the reduction to school district administration:
  - \$1.2 billion reduction to central administration
  - \$300 million related to savings from greater contracting-out flexibility
- The January proposal called for the following per-ADA reductions by district type:

Elementary	High School	Unified
\$191	\$231	\$201

# Targeted Administrative Cut Recast

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- **The May Revision:**

- **Drops the targeted nature of the cut, allowing broad local discretion in how the cut will be implemented**
- **Department of Finance (DOF) is considering a 3.85% reduction to each district's undeficitated BRL in place of the specific amount by district type**
  - **This reduction could range from approximately \$225 per ADA to about \$280 per ADA, depending upon the district's BRL**
  - **Again, the methodology matters, for any specific district the cut will be different than was proposed in January**
  - **If the 3.85% was applied to the deficated revenue limit, the cuts would be very close to those in the January Budget**

# Flexibility Opportunities Continue

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- **The flexibility options introduced in 2008-09 continue without changes**
  - **42 Tier III flexible categorical programs**
    - **Including suspension of deferred maintenance match requirements and instructional materials adoption timelines**
  - **Relaxation of K-3 Class-Size Reduction (CSR) funding penalties**
  - **Lowering of reserve for economic uncertainty requirements**
  - **Shorter school year**
- **The May Revision proposes no changes to existing flexibility – nor does it offer answers to questions about the future of flexibility**
  - **Tier III flexibility continues through 2012-13**
  - **K-3 CSR funding penalties remain relaxed through 2011-12**

## Report on Governor's 2010-11 Budget "January"

### ● Loss in AUSD Revenue 2010-11 (Real Dollars)

<b>On-Going (\$201) per ADA 2009-2010 P2 ADA = 9375</b>	<b>(\$1,884,375)</b>
<b>2010-2011 COLA (-.38) 2009-2010 P2 ADA = 9375</b>	<b>(\$225,000)</b>
<b>Total</b>	<b>(2,109,375)</b>

## Report on Governor's 2010-11 Budget “May Revise”

### ● Loss in AUSD Revenue 2010-11 (Real Dollars)

On-Going (3.85%) reduction of undeficated revenue 2010-11	<b>(\$2,174,150)*</b>
Old=\$201 **	<b>(\$1,884,375)</b>
New=\$244**	<b>(\$1,878,337)</b>
<b>Additional Loss</b>	<b>(\$295,813)</b>

\*Note:  $\$56,471,441 \times 3.85\% = (\$2,174,150)$

\*\*Note: Not really an ADA reduction but a reduced % of revenue

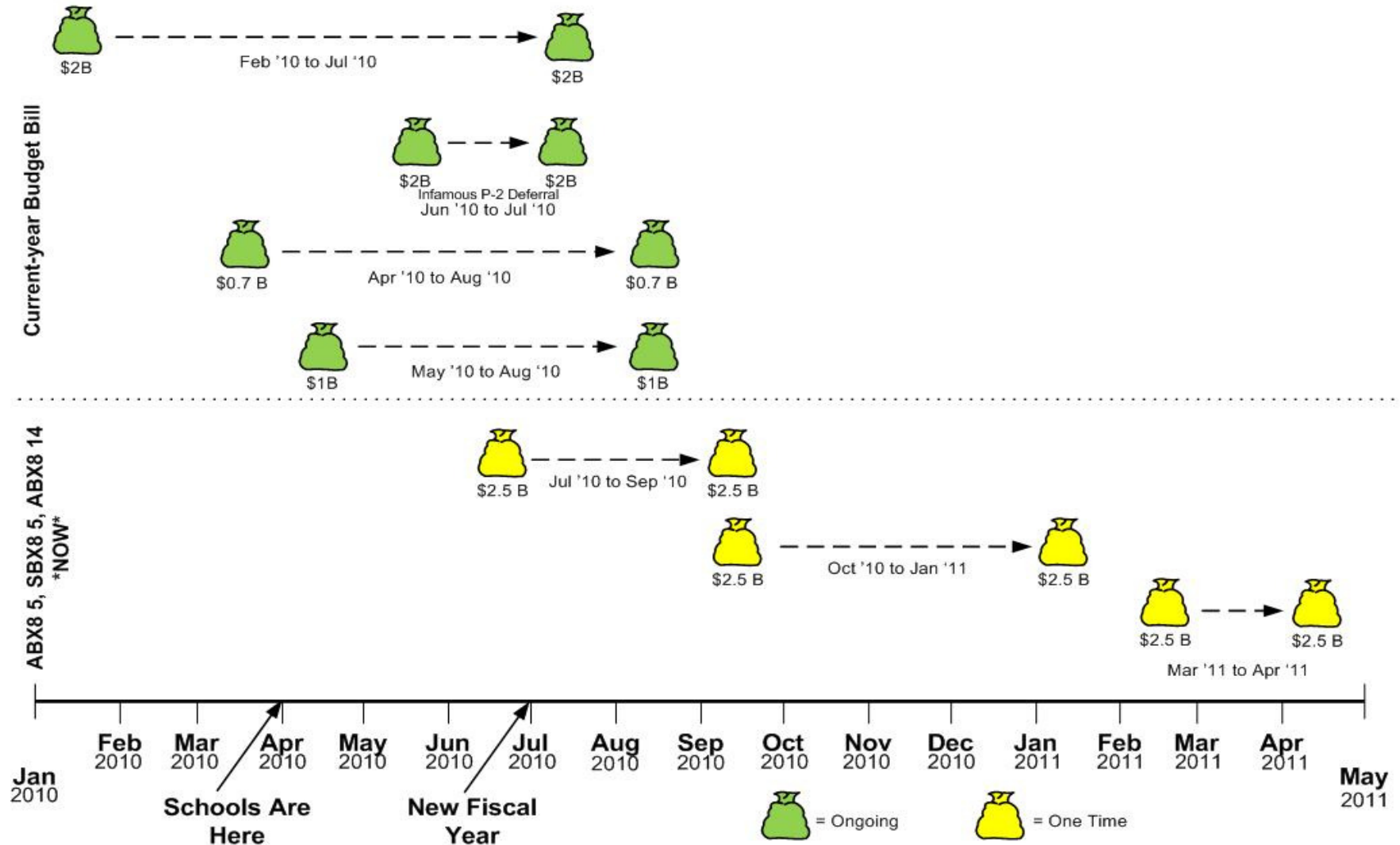
## Report on Governor's 2010-11 Budget "May Revise"

### ● Loss in AUSD Revenue 2010-11 (Real Dollars)

2010-2011 COLA (-.39) 2010-2011 P2 ADA = 8838	<b>(\$220,950)</b>
<b>Total</b>	<b>(\$220,950)</b>

# Principal Apportionment Deferrals

## 2009-10 to 2010-11



# End of Presentation