

# 2012-2013 REVISED BUDGET

*February 20, 2013*



# PROPOSITION 30

- Approved by voters in November 2012, allocated temporary tax revenues for education and other state funding uses
- Provided a narrow window during which further budget cuts are avoided
- Provided for relatively flat funding for 2012-2013 over 2011-2012 funding levels with some relief on deferrals from previous years
- Did **NOT** provide any additional budget authority over 2011-2012 funding levels
  - Only avoided drastic cuts, above the more than 22% already being sustained
- Allowed school districts to restore contingency cuts or not implement planned contingency cuts

# GOVERNOR'S JANUARY BUDGET

- In January, the Governor proposed his initial plans for the 2013-2014 state budget
- For the first time in five years, education funding goes up on a per-student basis with a 1.65% COLA
- In order to fund the COLA in 2013-14, the deficit factor would remain unchanged at 22.272%
- \$1.8 billion in 2013-2014 to further reverse the interyear K-12 apportionment deferrals that were implemented before and during the economic downturn beginning in 2008-2009
- The Governor proposes a sweeping reform of the state's school finance system with the Local Control Funding Formula (LCFF) – previously the Weighted Student Formula of 2012

# PROPOSITION 98

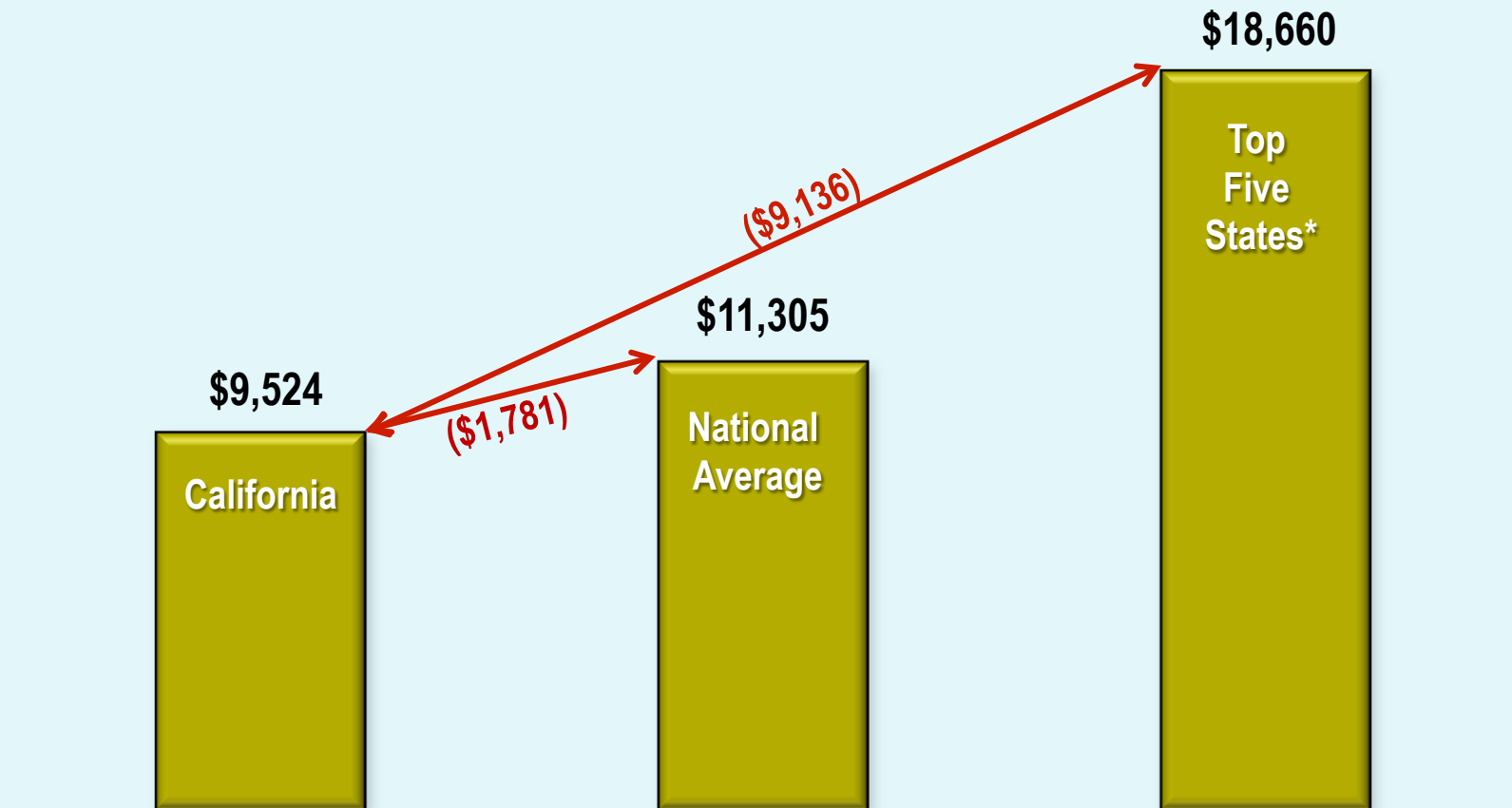
- Major Proposition 98 budget changes for K-12 education include:
  - \$1.8 billion to reduce interyear deferrals to \$5.6 billion
  - \$1.6 billion to begin implementation of a new school finance formula (LCFF) for school districts and charter schools
  - \$400.5 million to support energy efficiency projects in schools from Proposition 39 revenues
  - \$100 million increase for the K-12 Mandate Block Grant to fund the Science Graduation Requirement and Behavioral Intervention Plan mandates
  - \$62.8 million for a 1.65% COLA for selected categorical programs
  - \$48.5 million for charter school ADA growth
  - \$28.2 million to begin implementation of a new funding formula for county offices of education (COEs)

# EDUCATION RECEIVES MORE, BUT...

- The revenue limit deficit continues to be more than 20%, but for the first time since 2007-2008 does not grow
- Funding is still about 10% less than the amount received in 2007-2008
- The Governor continues to deal with the “wall of debt,” but does not dedicate all of the growth in Proposition 98 to this single purpose
- Increased funding for K-12 education is dependent upon a continued improved economy in the state and the nation
  - State and national economic growth are far from certain
  - The economy is no longer shrinking, but it is not growing at a recovery rate

# CALIFORNIA'S EDUCATION SPENDING

K-12 Education Expenditures per Average Daily Attendance (ADA)  
2010-2011



\*Average of the five states with the highest expenditures per ADA

Source: National Education Association

# FUNDING DISTRIBUTION METHOD

- Along with slightly higher funding, the Governor proposes a different method of distribution – the LCFF
- Revenue limits and categorical programs are replaced by base grants and supplemental grants over a phase-in period
- The stated goal is to focus more resources on California's most needy students
- Funding allocated through the formula would generally be flexible and could be used for any educational purpose

# MAJOR LCFF ELEMENTS

- Elements of the proposed formula
  - A base grant target equal to the undeficitated statewide average base revenue limit per ADA – \$6,816 (includes the 1.65% statutory COLA)
  - Differential adjustments for early primary, primary, middle, and high school grade spans; added funding for K-3 Class-Size Reduction (CSR) and 9-12 Career Technical Education (CTE)
  - Additional funding based on the demographics of the schools, including:
    - English Learner population
    - Pupils eligible for free and reduced-price meals
    - Foster youth



# LCFF AND CATEGORICAL PROGRAMS

- Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES), and other federally mandated programs are not included in the formula
- Transportation and Targeted Instructional Improvement Grant (TIIG) funding continue as add-ons to the formula for those school districts that currently receive funding through these programs
  - And the funds can be used for any educational purpose
- The new formula will allocate funds to charter schools in the same way as for school districts
  - However, concentration grants for charter schools will be limited to no more than the concentration grant increase provided to the school district where the charter school resides

# HOW MUCH IS FUNDED?

- Fully funding the new formula in 2013-2014 would cost more than \$15 billion
  - Governor's Proposal sets aside \$1.6 billion
  - A 10% proration factor provides a reasonable estimate, but as more details about the proposal emerges the estimates could change
- Department of Finance staff expect to provide estimates of LEA funding under the Governor's Proposal within the next few weeks
- Most categorical funds are kept in the base, but programs go away
- Timeline: Phased in over seven years – completed in 2020-2021

# WHERE DOES THE PROPOSAL STAND?

- There are currently insufficient details to allow a school district to determine its funding under implementation of the LCFF for 2013-2014, or for any year thereafter
- The Legislature must enact this measure as a change to current school finance statutes
- Governor Brown has made the LCFF and continued deferral reduction reform the capstone components of the 2013-2014 State Budget
  - Last year, he said he would propose dividing additional revenue between growth and debt reduction, and he is keeping that promise
  - He is providing additional Proposition 98 General Fund to schools
  - The LCFF is the Governor's proposed primary mechanism for new revenues to schools

# FEDERAL PROGRAMS

- Cuts to federal funding remain in flux for 2013-2014
  - A temporary reprieve from tumbling over the federal “fiscal cliff” occurred when a “deal” was reached to extend the middle class tax cuts, increase income taxes on high-income earners, and delay the automatic cuts to nondefense discretionary programs, including most education programs, until March 1, 2013
- Prior to the “deal,” cuts to federal education programs were estimated to be as much as 8.2%
- Programs affected include:
  - Education for the Disadvantaged (Title I, Elementary and Secondary Education Act [ESEA])
  - School Improvement (Title II, ESEA)
  - Special Education (Individuals with Disabilities Education Act, Part B)
  - Career, Technical, and Adult Education
  - Federal Impact Aid

# ADULT EDUCATION

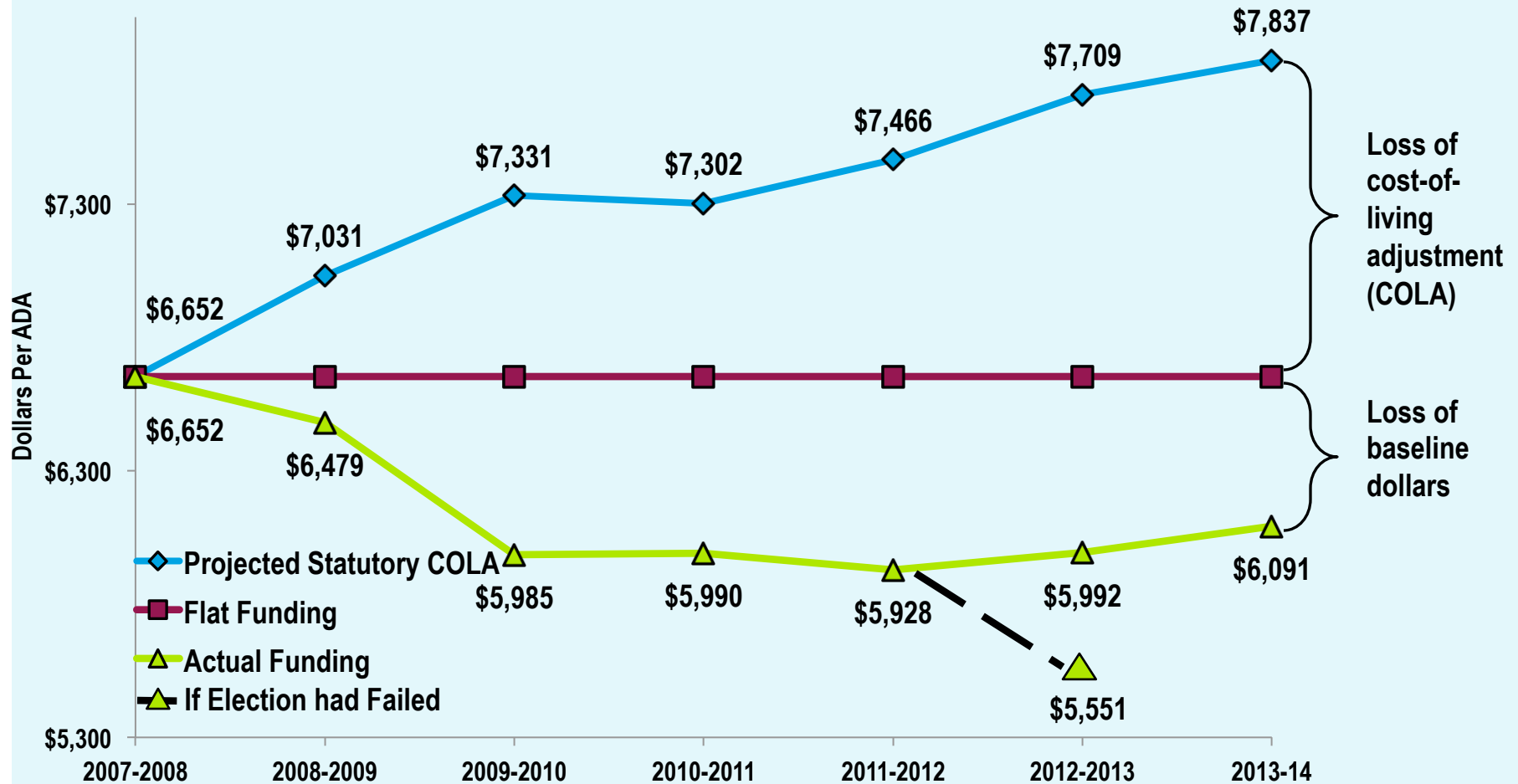
- Governor proposes shifting responsibility for Adult Education programs from K-12 school agencies to community colleges effective 2013-2014
  - Proposal establishes a new \$300 million block grant
- Community colleges are “encouraged to leverage the capacity and expertise currently available at K-12 district adult schools”
- The \$588.9 million in existing Adult Education funding currently being provided to school districts as Tier III flexible funding is proposed to be folded into the LCFF
- School districts would be given the flexibility to continue operation of the program locally

# DISTRICT BUDGET PLANNING

- The Governor's Budget assumes that his new LCFF is passed in the Legislature
- There is much to learn about the LCFF proposal, and it is uncertain what would happen to the resources dedicated to the proposal if it does not pass the Legislature
- Until state law is changed, revenue limits are the means by which state apportionment aid is distributed to school districts statewide
- This leaves the District in a position of needing to plan our budget based on the current funding model, plus 1.65% COLA until the details and fate of the LCFF become clear
- Additional revenues associated with the factors in the LCFF could be part of an alternate budget plan

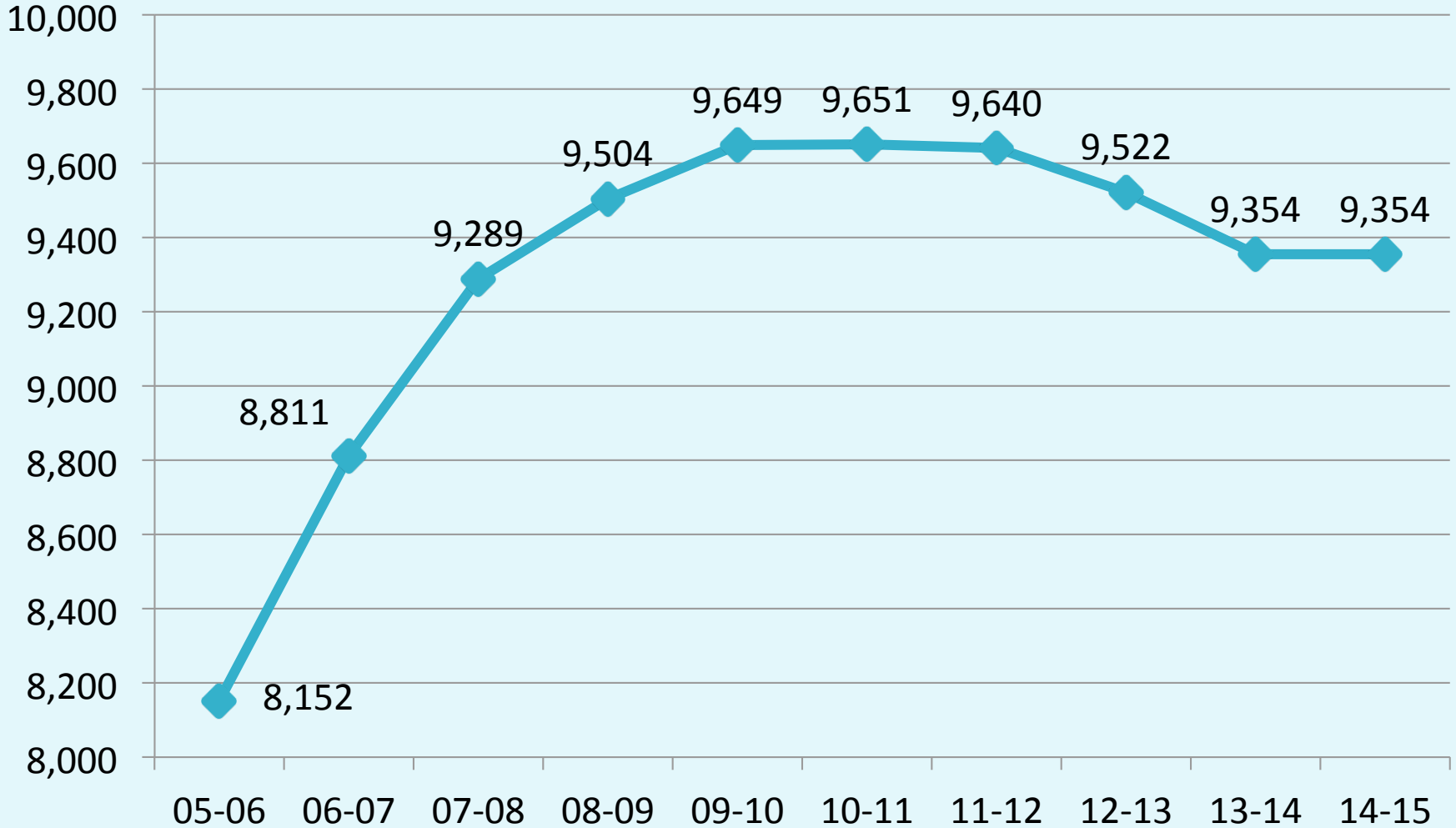
# BASE REVENUE LIMIT (PER-ADA) FUNDING SUMMARY

## Base Revenue Limit



# HISTORICAL & PROJECTED ENROLLMENT

## District (non-Charter) Enrollment





# KEY BUDGET ASSUMPTIONS

		2012-2013	2013-2014	2014-2015
COLA		3.24%	1.65%	2.20%
Deficit		22.272%	22.272%	22.272%
Enrollment		9,428	9,259	9,259
ADA		8,835.62	8,686.66	8,686.66
Automatic Step Increases	Certificated	\$123,876	\$957,375	\$508,804
	Classified	\$97,813	\$108,800	\$110,999
Health & Welfare Increases		\$465,888	\$600,000	\$650,000

# FEBRUARY REVISED BUDGET UNRESTRICTED GENERAL FUND

	2012-2013 Adopted Budget	2012-2013 Revised Budget	2013-2014 Projected Budget	2014-2015 Projected Budget
<b>Beginning Balance</b>	<b>\$6,570,781</b>	<b>\$6,686,367</b>	<b>\$5,149,363</b>	<b>*\$2,500,774</b>
Net Revenue	\$61,135,745	\$60,620,231	\$61,520,781	\$61,885,492
Contributions	(\$6,966,217)	(\$7,195,973)	(\$7,695,589)	(\$7,883,945)
Proposition 30 Contingency	(\$4,002,825)			
ADA Decrease			(\$774,704)	(\$952,881)
<b>Total Budgeted Revenue</b>	<b>\$50,166,703</b>	<b>\$53,424,258</b>	<b>\$53,050,488</b>	<b>\$53,048,666</b>
<b>Budgeted Expenditures</b>	<b>\$54,499,181</b>	<b>\$54,961,262</b>	<b>\$57,554,210</b>	<b>\$58,856,061</b>
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	(\$4,332,478)	(\$1,537,004)	(\$4,503,722)	(\$5,807,395)
<b>Total Ending Balance</b>	<b>\$2,238,303</b>	<b>\$5,149,363</b>	<b>\$ 645,641</b>	<b>(\$5,161,754)</b>
3% Minimum Required Reserve (plus revolving and other assignments)	2,201,520	2,521,573	2,579,938	2,623,652
Excess/(Shortfall) of 3% Reserve (Required Expenditure Reductions)	\$36,782	\$2,627,790	(\$1,934,297)	*(\$5,851,109)

\* 2014-2015 adjusted beginning balance and shortfall assumes reductions of \$2M are made for 2013-2014

# THE BOTTOM LINE

- Even with minimum cut levels, there still remains a structural budget deficit – we spend more than we receive in a year!
  - Depleted reserves make the cuts feel worse
- Declining enrollment will be a significant challenge
  - This can impact staffing and programs
  - “Prior year guarantee” provides some relief
- Governor’s plan begins to reduce deferrals making our cash position slightly improved
- We MUST carefully consider how we spend every dollar
- While we struggle to survive the short term, we can’t forget about the long term...or more importantly, the continued forward movement of our instructional programs

# ROAD TO BUDGET ADOPTION

- As is true every year, the Governor's Budget Proposals mark the beginning – not the end – of the process
- 2<sup>nd</sup> Interim Financial Report will be presented to the Board for approval in March 2013
  - A Qualified Certification will be recommended given the current budget shortfall, absent Board approved budget reductions
- 3<sup>rd</sup> Interim Financial Report will be presented to the Board for approval in May 2013
  - Required as a result of a Qualified 2<sup>nd</sup> Interim
- Be prepared for changes with the Governor's May Revision
  - It may or may not incorporate LCFF, depending on how details evolve
- District's 2013-2014 Adopted Budget will be presented to the Board for approval in June 2013
- Final 2013-2014 State Budget - June 2013?