



Santa Ana
Unified School District

2011–12 Budget Update

July 26, 2011

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1. State Budget Update and Impact to SAUSD
2. Trigger Point for Future Cuts
3. Budget Pressure Points
4. Next Steps





- May Revision: Proposes \$2.5 billion to “pay down” Proposition 98 deferrals
 - **Final Budget: Defers approximately \$2.1 billion of payments to schools**
- May Revision: Keeps \$9.6 billion in temporary taxes
 - **Final Budget: Assumes \$4 billion more in General Fund revenues above May forecast**
- May Revision: Funds Proposition 98 at the minimum, without suspension
 - **Final Budget: Takes away \$2.1 billion from K-12 education through a sales tax shift and reallocates those funds to other areas of the Budget without suspension**



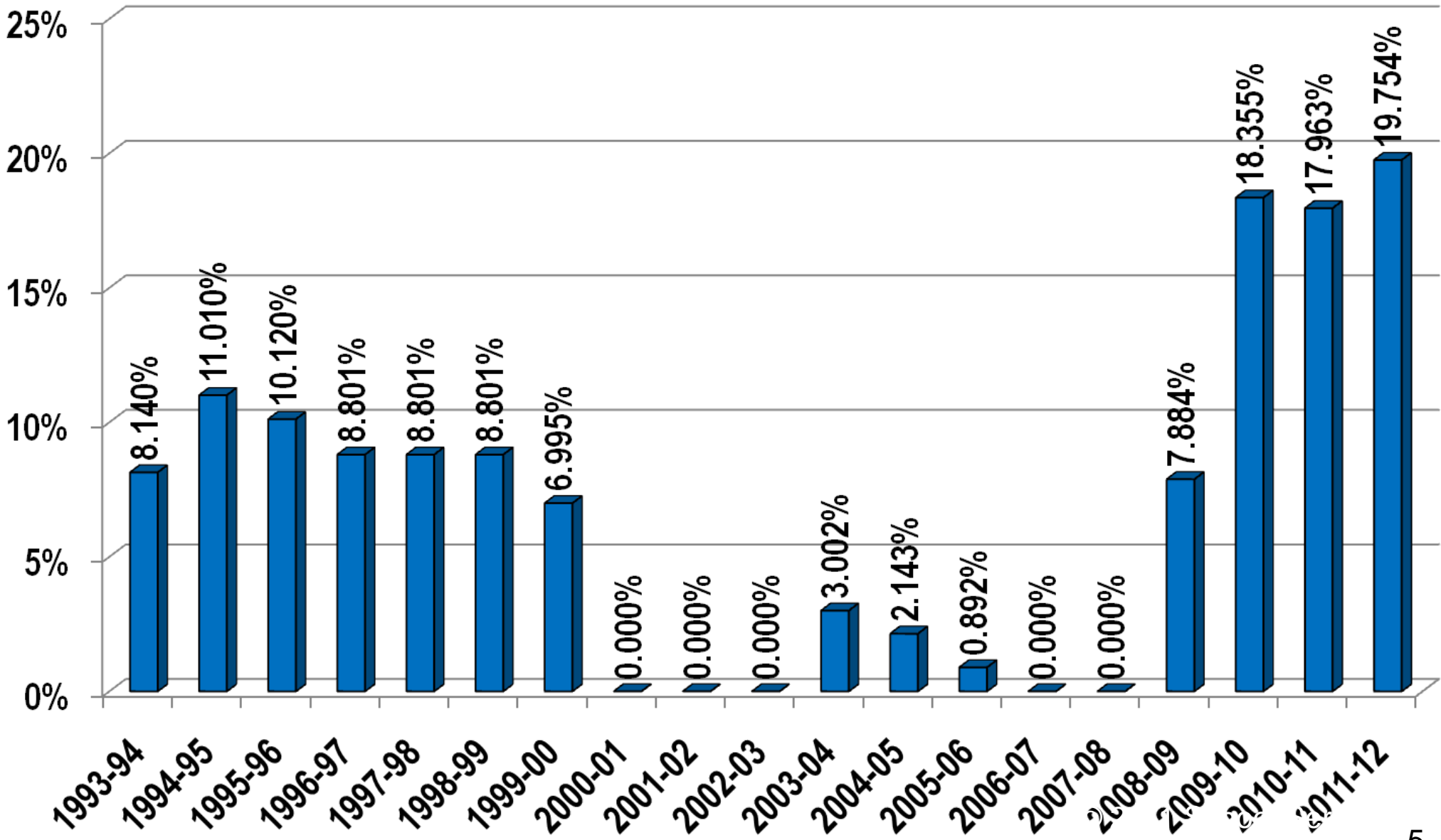
- May Revision: Did not include “trigger cuts” to education, just the threat of additional cuts
 - **State Budget: K-12 education at risk of losing \$1.9 billion by triggering a cut if revenues fall short of projections**
- May Revision: Contains no language that restricts local budgeting practices and fiscal oversight safeguards
 - **State Budget: Places several requirements on the funding level school agencies must budget and staffing levels that must be met in 2011-12, and suspends various AB 1200 provisions**
- May Revision: Contains no additional flexibility provisions
 - **Final Budget: Allows automatic reductions in the school year if triggered cuts are made – however, would still be subject to collective bargaining**



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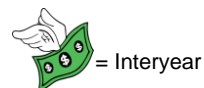
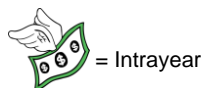
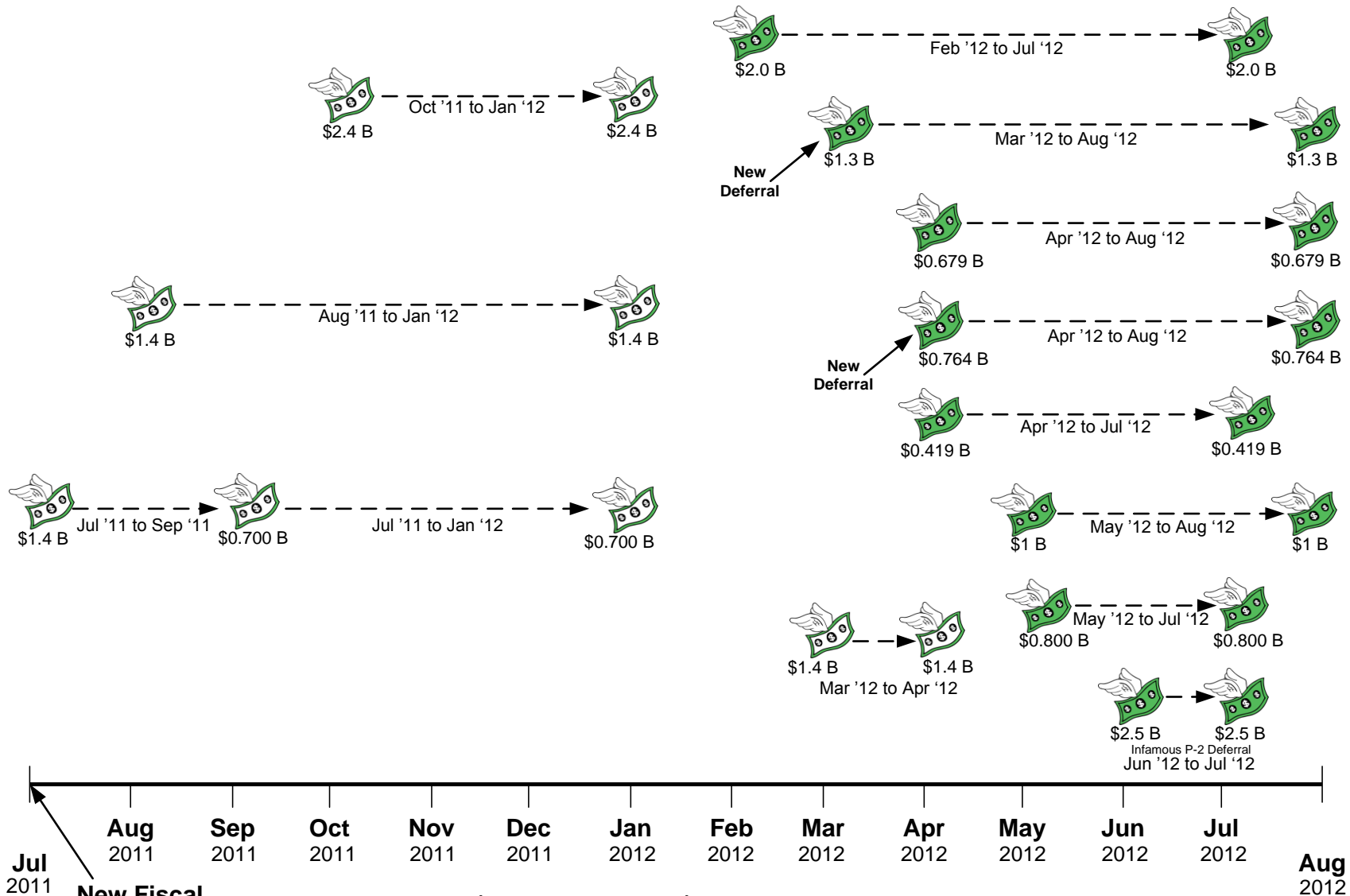
Revenue Limit Deficit Factors





Santa Ana Unified School District

2011-12 Apportionment Deferrals



B = Billion



Note: The amounts reflect SB 82 statutory language



- The adopted State Budget does not have a material impact on the SAUSD budget due to the following:
 - SAUSD was prepared for the Legislature and Governors Budget
 - SAUSD’s adopted budget was based upon “flat funding”
 - SAUSD did not institute any reduction in force due to a loss of State funding
- The States reduction of \$2.1 Billion to education was accomplished through another deferral of revenue from fiscal 2011-12 to fiscal 2012-13 but does not equate to a cut to SAUSD.
- Expect the 2012–13 budget challenge to be more difficult than fiscal 2011–12
 - Federal ARRA funds have been utilized
 - **\$32.0 million** in reductions are needed
 - This is AFTER utilizing Fund 17 reserves
 - 140 days remaining until ongoing reductions must be identified



- 2011-12 numbers shown as part of the Adopted Budget will undoubtedly change as:
 - Additional Budget details are released
 - 2011-12 Budget development incorporates detailed review of positions, expenditures & programs while 2011-12 projections from the Third Interim are developed via a macro approach.

Mitigation for potential mid year cuts



Projection in million dollars	2011-12 Adopted Budget
Beginning Fund Balance (a)	\$ 85.3
Add: Revenues (b)	\$457.8
Less: Expenditures (including Budget Reductions) (c)	\$486.5
Deficit Spending (d) = (b) - (c)	(\$28.6)
Ending Fund Balance (a) + (d)	\$ 56.6
<u>Non-spendable:</u> Revolving Cash/ Stores / Prepaid Exp.	\$3.0
<u>Restricted:</u>	
- Desig. For Restricted Fund Balance	\$5.6
<u>Committed:</u> Stabilization Arrangements	\$15.0
<u>Assigned:</u>	
- Future State cuts (if tax extensions do not pass)	\$17.2
- Desig. for Unrestricted Reserve	\$5.9
<u>Unassigned/Unappropriated:</u>	
- Desig. for Economic Uncertainties	\$9.9
	2.0%



- By December 15, 2011, the Director of Finance is required to determine whether revenues are coming in as forecast or are falling short
 - Uses the **higher** of either the LAO's November 2011 forecast or the Department of Finance's December forecast
- If the revenues are not as strong as expected, automatic spending reductions are triggered in three tiers as of January 1, 2012:
 - Less than \$1 billion below forecast – no changes are required
 - Between \$1 billion and \$2 billion below forecast
 - Child Care, Community College and Higher Education cuts occur



- More than \$2 billion below forecast, all previous cuts are implemented, plus . . .
 - Up to 4% reduction to revenue limits – \$1.5 billion
 - » 4% if revenues fall \$4 billion or more; proportionately less if revenue loss is \$2 billion to \$4 billion
 - \$248 million cut to school transportation
 - \$72 million reduction to community colleges
- If revenues fall short by more than \$2 billion, authorizes reduction in the 2011-12 school year of up to seven days, in addition to the five days authorized by current law
 - Goes into effect on February 1, 2012
 - A shorter school year is subject to collective bargaining and must be implemented by the end of the school year in order to capture the savings



- The 2011-12 Budget Act provides for an automatic reduction to state appropriations, including funding for schools, if state revenues fall short of projections
 - The K-12 reductions are directed at revenue limits (\$1.5 billion) and Home-to-School Transportation (\$248 million)
 - School districts, however, are prohibited from budgeting for these reductions
 - The level of the reduction is linked to the amount of the shortfall in the State Budget revenues and could range from zero to 4% of the undeficitated revenue limit
- If the full revenue limit reduction is implemented, the average maximum cut would be about
 - \$260 per ADA for unified school districts
 - \$300 per ADA for high school districts
 - \$250 per ADA for elementary school districts



- AB 121 (Chapter 41/2011) defines the timeline that would trigger midyear reductions
 - Not later than December 15, the Director of Finance shall forecast the General Fund revenues for 2011-12
 - The Director of Finance's revenue forecast will be compared to the LAO's November 2011 General Fund forecast
 - Based on these two forecasts, the Director of Finance will use whichever forecast is higher
 - The higher revenue forecast will determine if a midyear reduction to education will be made
- Based on this timeline, realistically, the first time LEAs will be able to incorporate midyear cuts into their budget, if necessary, will be as of the Second Interim reporting period



- Operation of school agencies will be as complicated as ever
 - AB 114 (Chapter 43/2011) dictates how school boards will budget revenues and expenses
 - It also dictates program and staffing levels
 - Further, it prohibits districts from budgeting for any potential midyear cut as a result of slower than planned revenue growth
 - And AB 1200 oversight is dramatically reduced
- Decision making will be more difficult because of uncertainty
- District finances will be much riskier as a result of loss of local control
- The long-term implications are substantial



- If the trigger mechanism comes into play, LEAs will experience a negative impact on cash flow beginning in February 2012
- The exact amount of the reduction to revenues will not be known until, or if, the trigger mechanism is tripped in December 2011, but the months of February through June have the potential for reductions in state revenue and cash flow



- Categorical Programs (both Federal and State funded) have increased accountability and compliance requirements
- Along with the State budget, many of these programs are not adequately funded to meet the requirements of the accountability
 - For example QEIA does not provide funding for 20:1 at grades K-3 but requires this as part of the accountability requirements





- LEAs (88 of 90) in Cohort I that have been indentified as not meeting the grant standards will need to submit a corrective action plan **prior to the first day of instruction**
- LEAs in Cohort I that are found to meet the rigor of the grant requirements will receive the second year of funding as expected
- The CDE has determined that applications submitted for Cohort II funding did not provide adequate proof of meeting SIG requirements



- K-3 Class Size Reduction (CSR)
 - CSR encroaches by **<\$6 million>**
 - However, SAUSD utilizes categorical funds to offset this encroachment
 - Loss of ARRA Title I limits sites remaining categorical funding after CSR to approximately \$50k per Elementary Site
 - This creates a significant financial strain on site operations
 - **MYP assumes continuation of Grade 1 & 2 CSR in 2011–12**
 - 2011–12 Rationale: While the CSR program encroaches, categorical funding of expenditures, the preferential treatment of subs & CSR funding flexibility makes continuation a viable option.
 - Financial Impact: CSR encroachment of approximately \$2 million is factored into the adopted budget
 - 2012–13 Rationale: Class Size Reduction has been identified as a potential program reduction by the LAO along with the QEIA program which has the potential budget impact of **<\$22 million>**, of which **<\$11 million>** is reflected in the 2012–13 MYP due to the likely loss of QEIA funding



- **<u>\$32.0 million</u>** in reductions must be identified by December 13, 2011
- This target is **AFTER** one-time reserves from Fund 17 are committed
- **One-time solutions** used in 2009–10, 2010–11 and 2011-12 **are exhausted**
- Real **ongoing reductions** will need to be identified in the next 5 months for 2012–13



Days
Remaining to
Identify 2012–
13 Reductions

140



Date	Event or Activity
On-going until Settled	Negotiations with our certificated & classified associations (SAEA & CSEA respectively) for <u>ongoing reductions</u>
August 23	Board Meeting
December 13, 2011	Approval of 2012 -13 Budget Reduction Measures

CURRENT REDUCTION TARGET
\$32.0 Million