



**Santa Ana**  
Unified School District

# **2012 – 13 Budget Development**

## **(The New Normal)**

***January 24, 2012***

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- State Budget Update – The New Normal
- 2012-13 Budget Development Assumptions
- Budget Reductions for 2012-13 and 2013-14
- Next Steps



## The Road Not Taken

Two roads diverged in a yellow wood,  
And sorry I could not travel both  
And be one traveler, long I stood  
And looked down one as far as I could  
To where it bent in the undergrowth;

Then took the other, as just as fair,  
And having perhaps the better claim  
Because it was grassy and wanted wear,  
Though as for that the passing there  
Had worn them really about the same,

And both that morning equally lay  
In leaves no step had trodden black.  
Oh, I marked the first for another day!  
Yet knowing how way leads on to way  
I doubted if I should ever come back.

I shall be telling this with a sigh  
Somewhere ages and ages hence:  
Two roads diverged in a wood, and I,  
I took the one less traveled by,  
And that has made all the difference.

Robert Frost, 1920 Mountain Interval



Past Practice



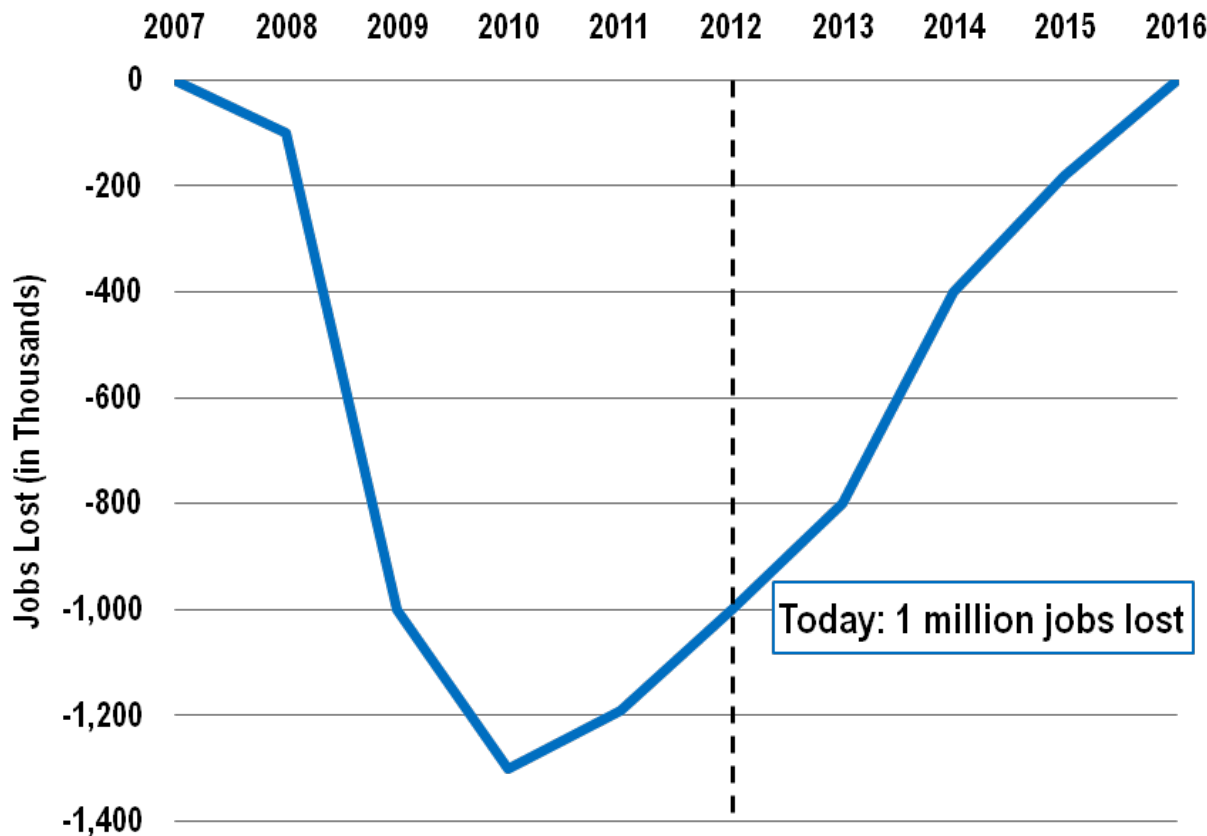
**Multiyear Budget Projection  
2012-13 to 2016-17???**



**The new budget realities will require new thinking  
and new solutions to weather the upcoming storm**



### Jobs Lost During Recession Not Recovered Until 2016



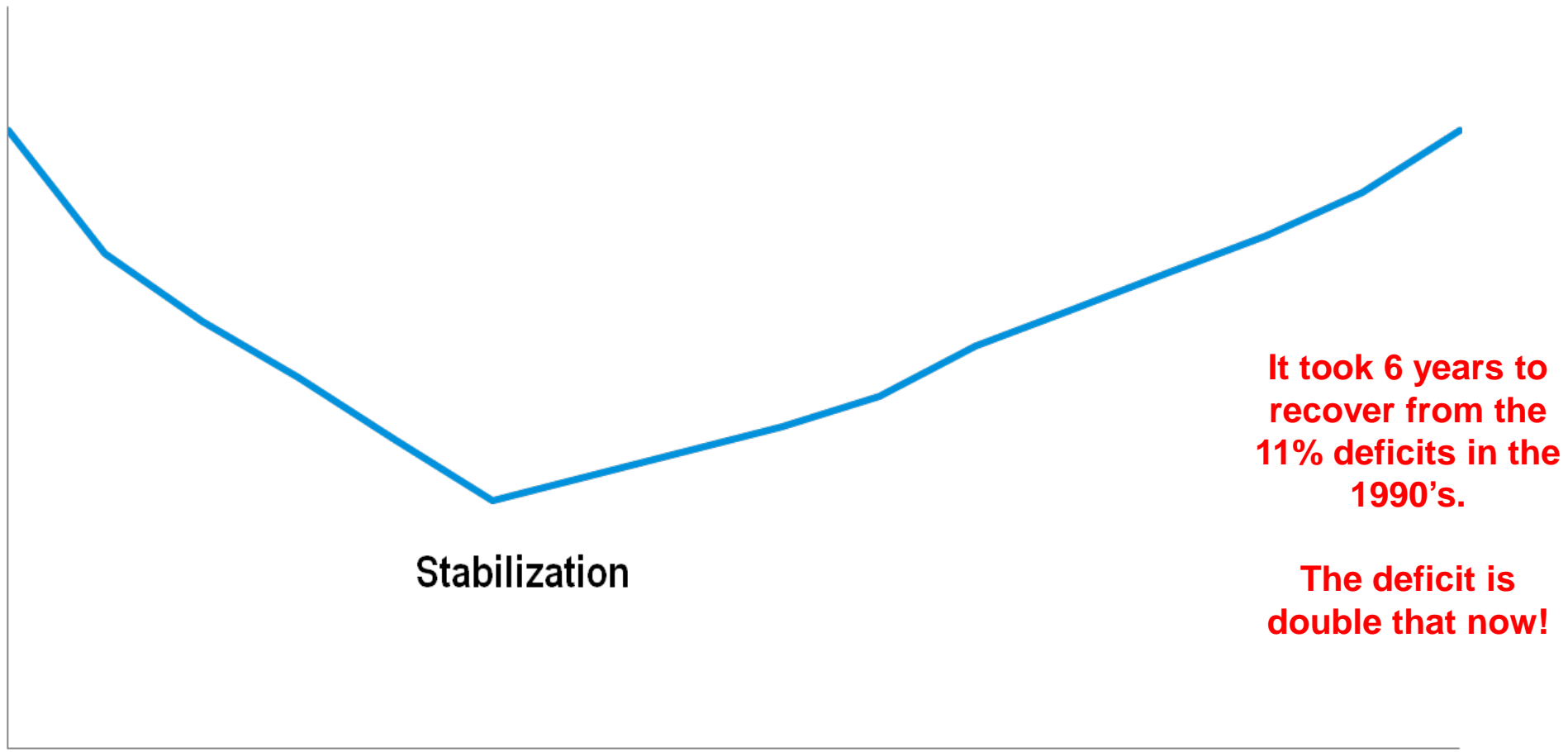
- California **lost 1.3** million payroll jobs in the recession
- About one-third of this job loss has been recovered
- It may take four and a half more years to reach California's prerecession employment peak



- Recovery for education funding requires:
  - First, the threat of more current or future cuts must end
  - Then, the state must have the money to begin funding current-year cost-of-living adjustments (COLAs) and other program growth
  - Then, the state must fund at least some portion of the deficit factor, now at **21.666%** in addition to funding the current-year COLA
  - Then, the state must deal with restoration of the deferrals
- During the recession of the early 1990s, the deficit was smaller and there were no deferrals, but recovery still took six years
  - So, the state has a lot of work to do and it will take time
- **And at the point of full restoration**, we would perhaps rise to 46<sup>th</sup> in the nation again!
  - Only after that would California be in a position to increase its level of effort to begin to match other states



The Economic Cycle



December 2007

Spring 2010

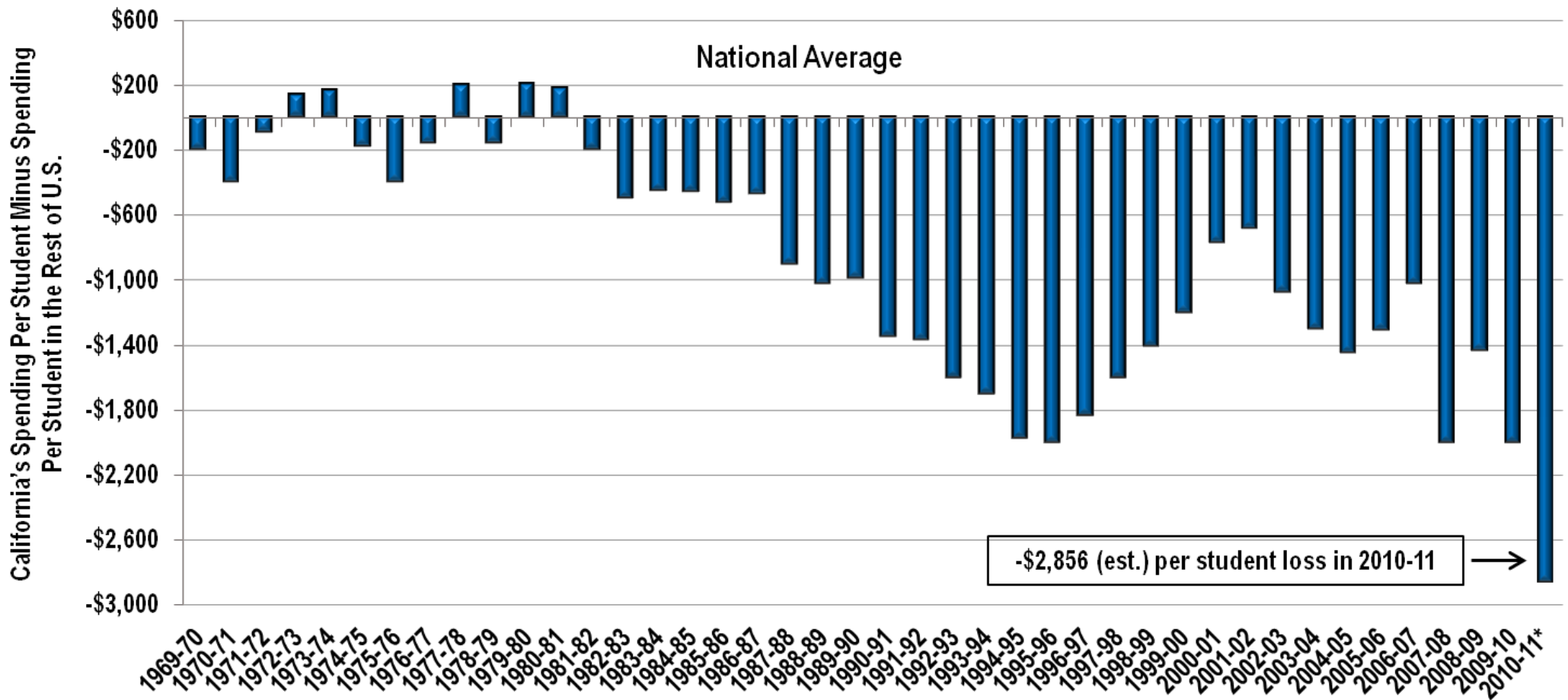
~~2015~~  
2016 ???  
6





**\$2,856 behind the National Average!!**

California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



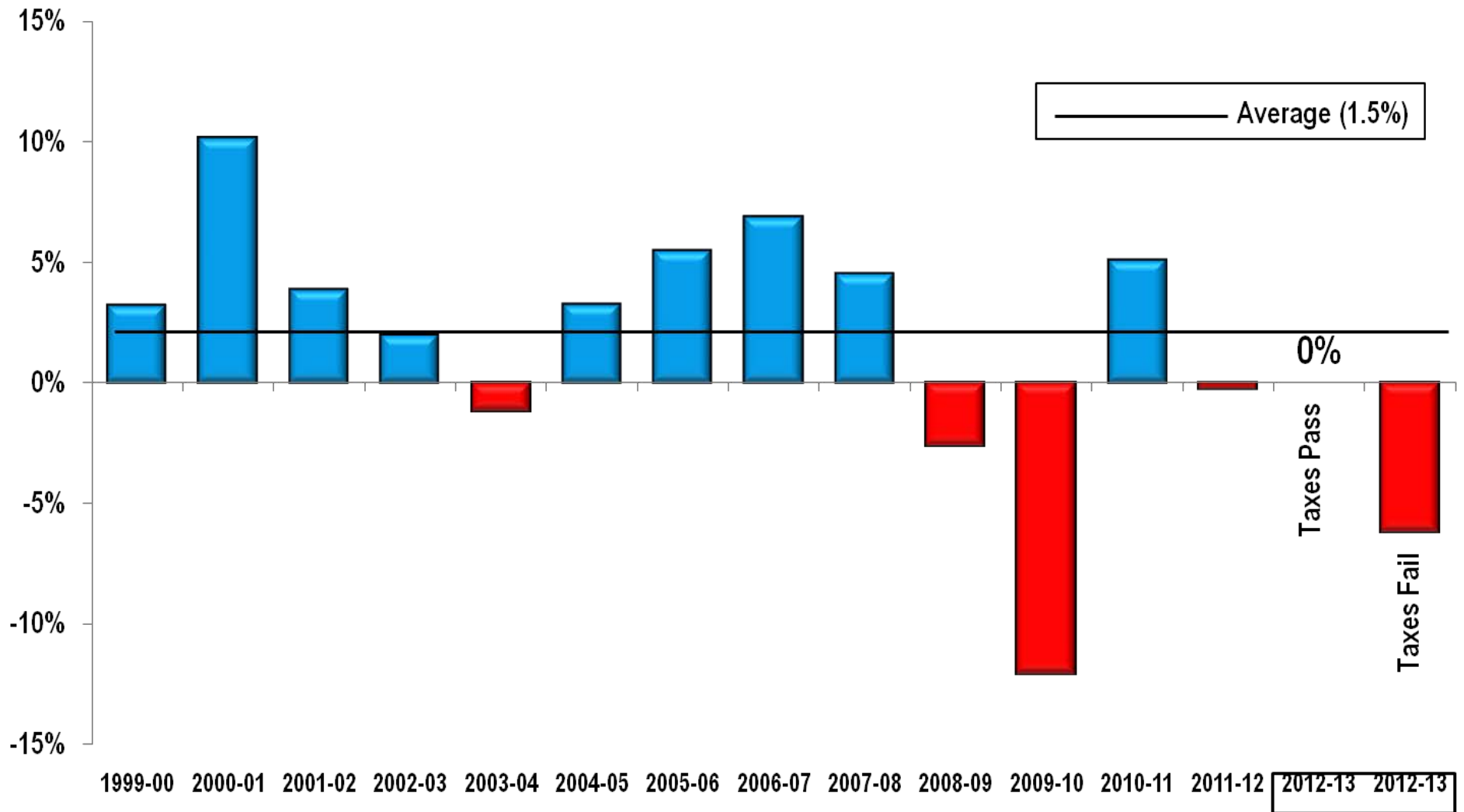
\* 2010-11 data estimated

Note: Rest of U.S. excludes the District of Columbia

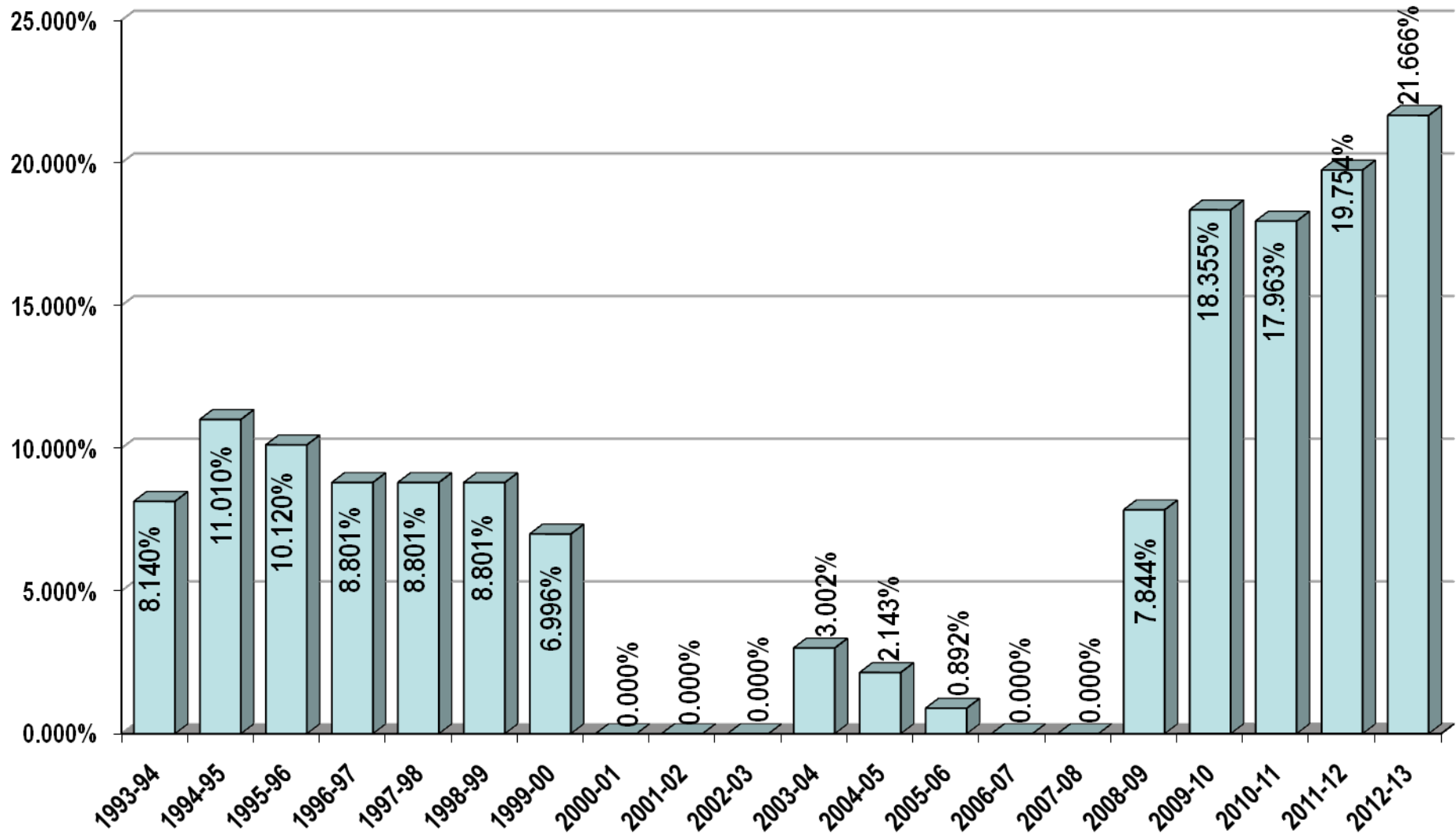
Source: National Education Association



### Per-ADA Revenue Change

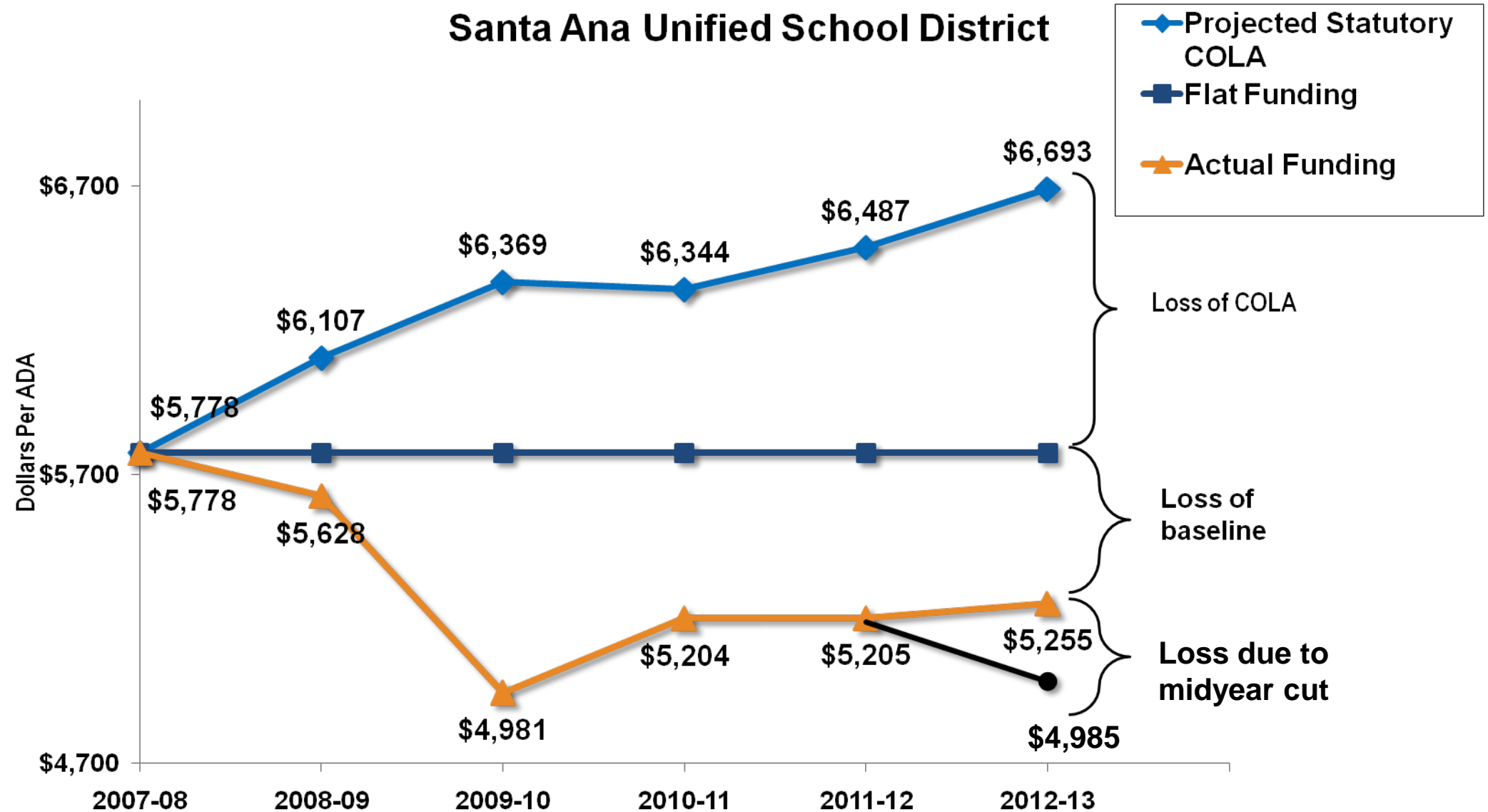










### Santa Ana Unified School District





	Proposed Cuts		Enacted Cuts	
	Revenue Limit	Categorical	Revenue Limit	Categorical
<b>2008-09</b>	<b>-2.40%</b>	<b>-6.50%</b>	<b>-2.63%</b>	<b>-15.38%</b>
<b>2009-10</b>	<b>-2.52%</b>	-	<b>-7.64% + \$252.83 per ADA</b>	<b>-4.46%</b>
<b>2010-11</b>	<b>-0.38%</b>	<b>-0.38%</b>	<b>+5.17%*</b>	-
<b>2011-12</b>	<b>-.369% + \$330 per ADA</b>	-	<b>-0.25%</b>	<b>-\$248 million in Transportation</b>
<b>2012-13</b>	<b>-\$2.1 billion (Equivalent of 15 instructional days)</b>	<b>-\$495 million Transportation elimination</b>		

\*Net increase in 2010-11 revenue limit is because of the nature of the \$252.83 per-ADA reduction in 2009-10



- California demands and deserves a “world-class” education system
- The top five states, in terms of student performance, are Vermont, Rhode Island, Wyoming, New Jersey, and Maine
- The bottom five are California, Idaho, Mississippi, Nevada, and Arizona

	Top Five	Bottom Five
<b>Per-student spending</b>	<b>\$16,000 – \$22,000</b>	<b>\$6,700 – \$8,700</b>
<b>Percent of state resources</b>	<b>4.2% – 6.0%</b>	<b>3.2% – 3.9%</b>
<b>4<sup>th</sup> Grade NAEP*</b>	<b>32% – 44%</b>	<b>22% – 33%</b>
<b>8<sup>th</sup> Grade NAEP*</b>	<b>34% – 47%</b>	<b>19% – 37%</b>
<b>*National Assessments of Educational Progress</b>		

- California has fallen from number one to number 46 in per-ADA funding; and the results bear that out



- How does a nearly \$5 billion increase in Proposition 98 provide no real growth in funding for schools? The answer is deferrals.
  - \$2.4 billion is used to maintain current-year spending levels
  - The cost of maintaining existing programs after the 2011-12 deferral
  - \$2.5 billion buys down K-14 interyear deferrals by moving the state expenditures back into the current year
- Buying down deferrals increases cash available in the budget year, and can reduce borrowing costs, but does not increase spending authority<sub>13</sub>



- Flat funding for K-12 education is dependent upon voters approving Governor Brown's initiative authorizing new temporary taxes
  - The initiative must qualify for the ballot by gaining the required number of voter signatures on a petition
  - Necessary labor support for the initiative has not been secured
  - Governor Brown needs to clear the field of other education-funding initiatives
- Voter sentiment may not support more taxes, putting a \$6.9 billion hole in the budget as proposed by Governor Brown
- Competing initiatives on a ballot may confuse or frustrate voters, causing initiatives with any chance of success to, instead, fail





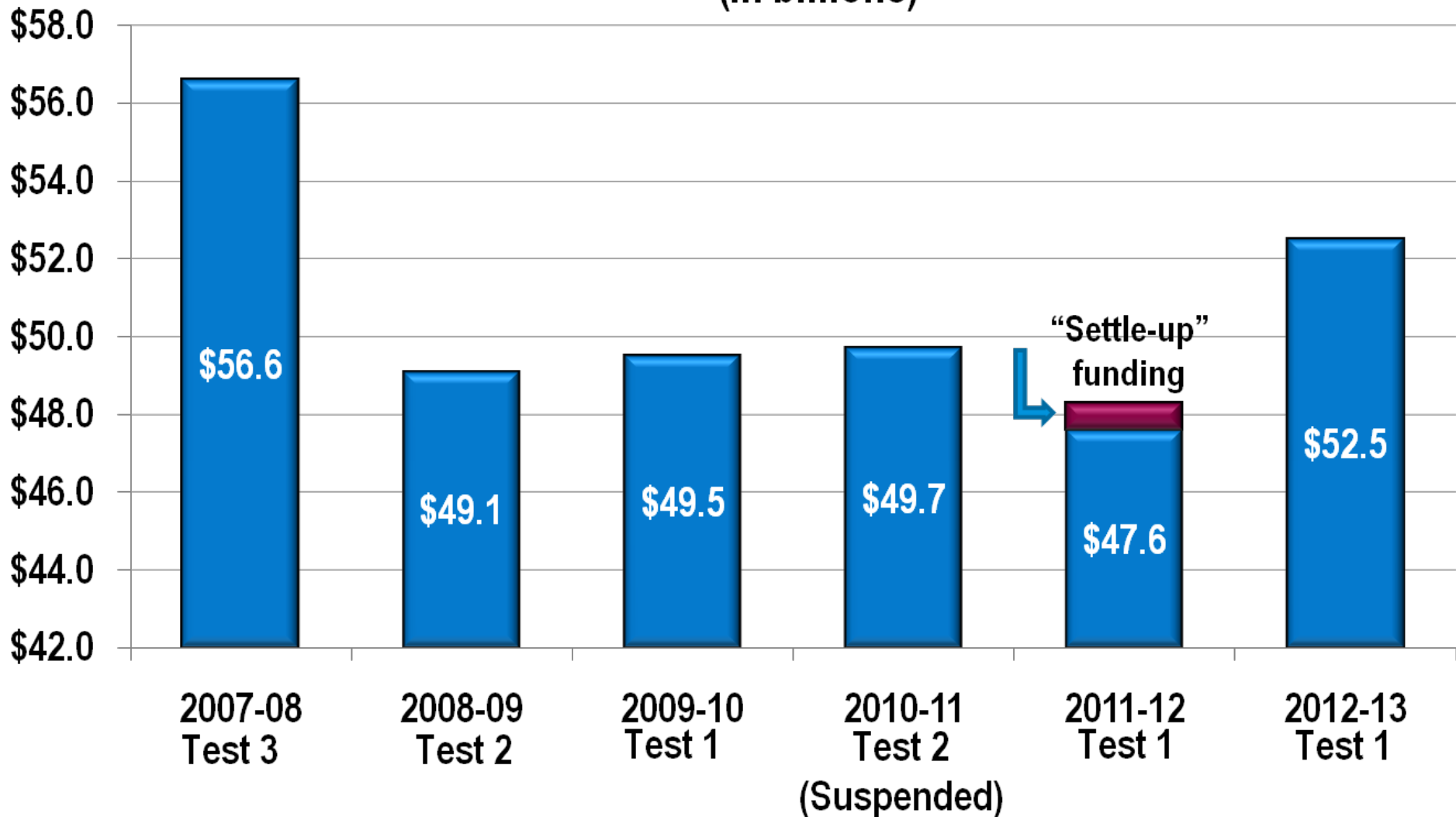
- Like the 2011-12 Budget Act, the Governor’s Budget Proposal for 2012-13 contains automatic trigger reductions
  - The trigger reductions total \$5.4 billion
  - The cuts are linked to the failure of the proposed temporary tax increases, not a general revenue shortfall

- The trigger reductions hit education the hardest, especially Proposition 98

Programs Targeted for Trigger Cuts		
Program	Amount	% Share
Proposition 98	<b>\$4,837 million</b>	<b>89.7%</b>
University of California	<b>\$200 million</b>	<b>3.7%</b>
California State University	<b>\$200 million</b>	<b>3.7%</b>
Courts	<b>\$125 million</b>	<b>2.3%</b>
All Other	<b>\$28 million</b>	<b>0.6%</b>
<b>Total</b>	<b>\$5,390 million</b>	<b>100.0%</b>



### Proposition 98 Funding (in billions)

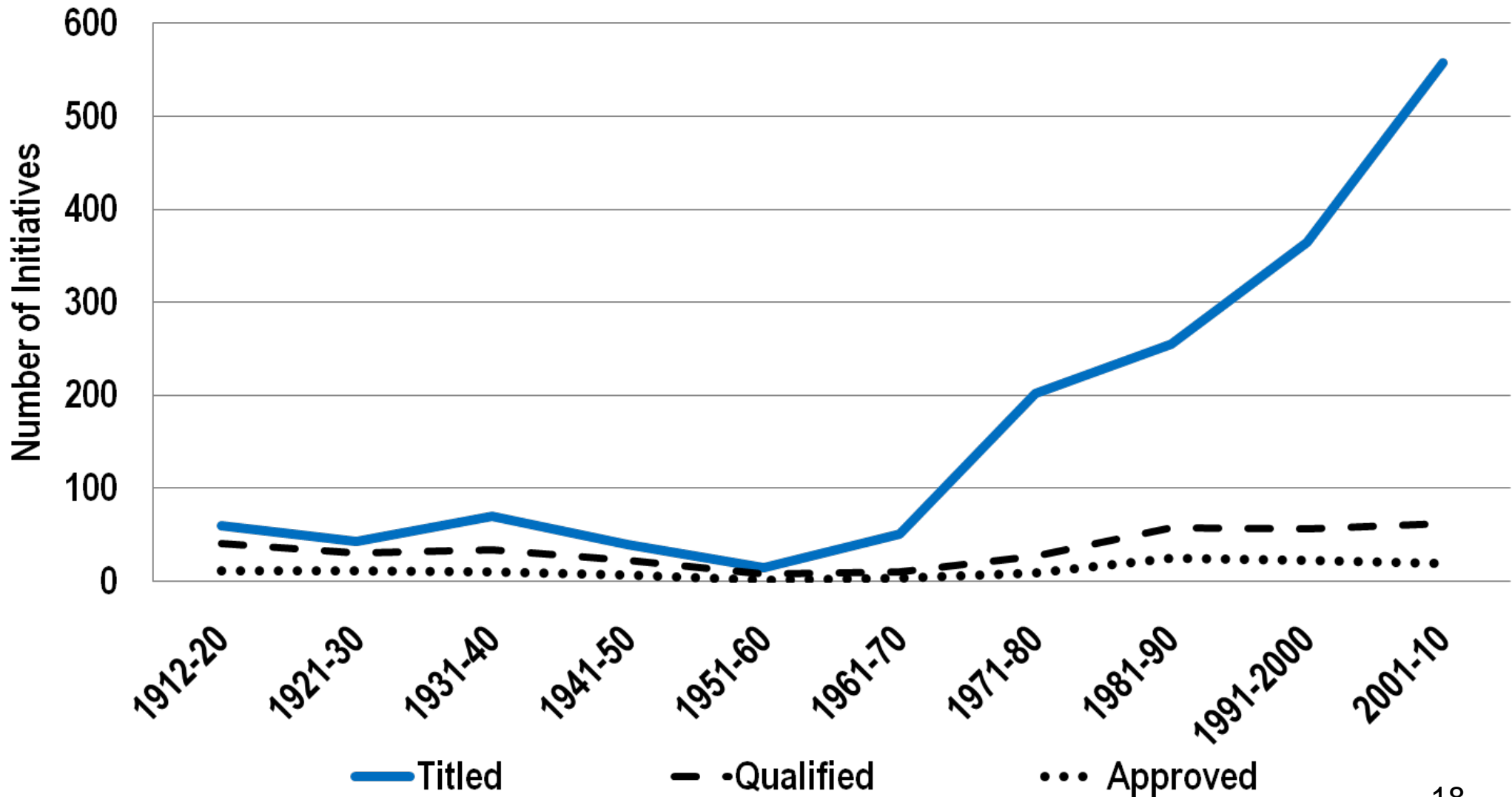




- If the tax initiative fails, Governor Brown proposes to cut K-14 education by **\$4.8 billion**
  - Proposition 98 drops by **\$2.4 billion** because of the loss of new tax revenues
  - The interyear deferral buyout is rescinded, and existing deferrals are maintained, saving **\$2.4 billion**
- State payments for debt service on school bonds are re-categorized as Proposition 98 expenditures
  - Historically, debt service has been funded outside of Proposition 98
  - By moving debt service into Proposition 98, K-14 costs are increased by \$2.4 billion
  - Requires corresponding cuts to other K-14 spending of an equal amount – divided between K-12 (89%) and community colleges (11%)
  - Governor Brown equates this reduction to eliminating three weeks of instruction from the school year

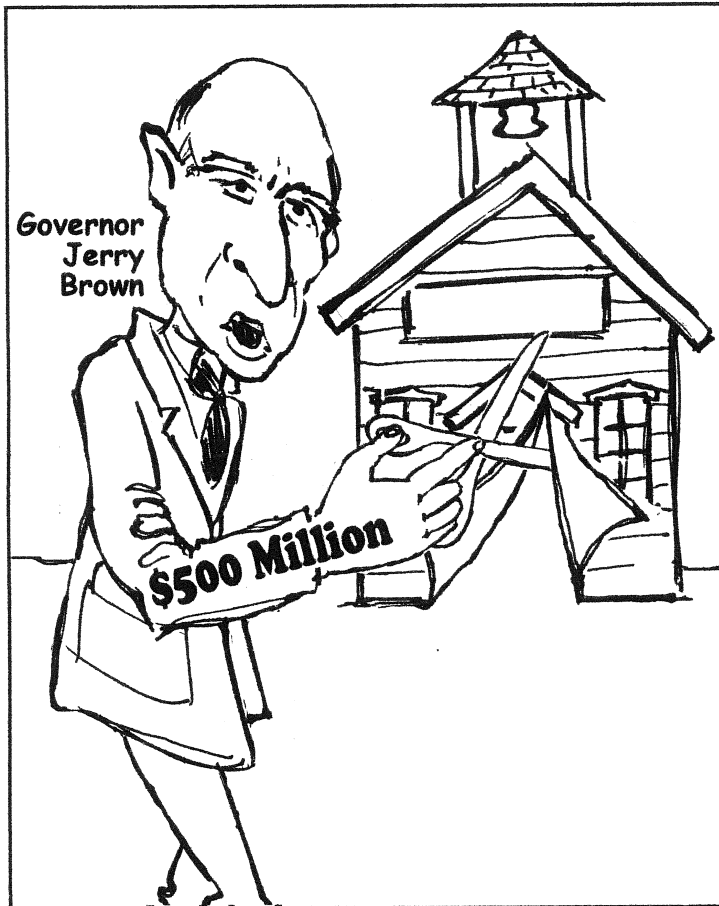


## History of California Ballot Initiatives

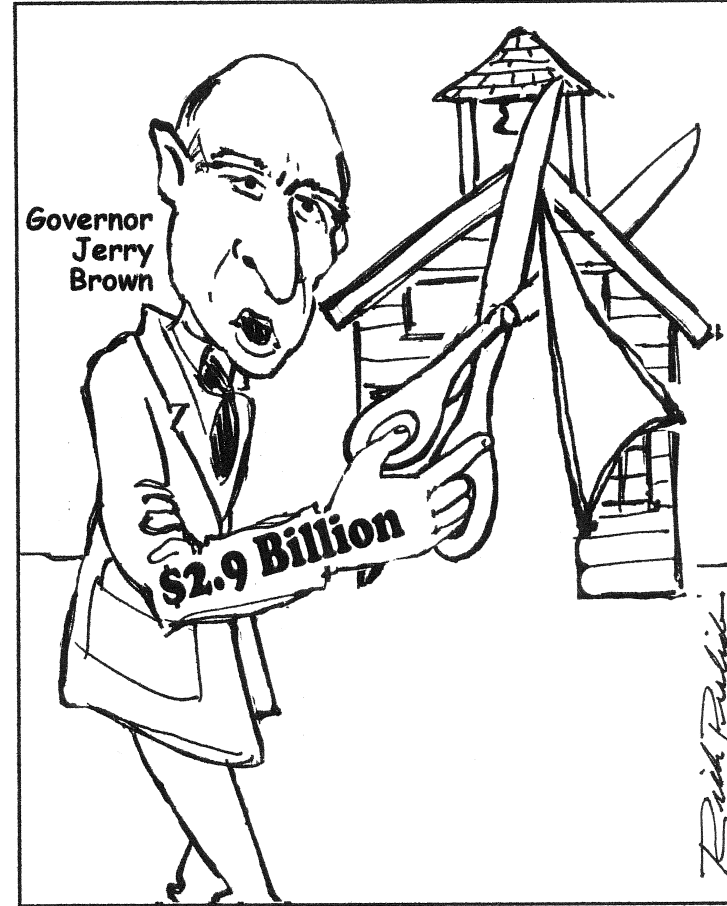




## The Governor's Tax Initiative



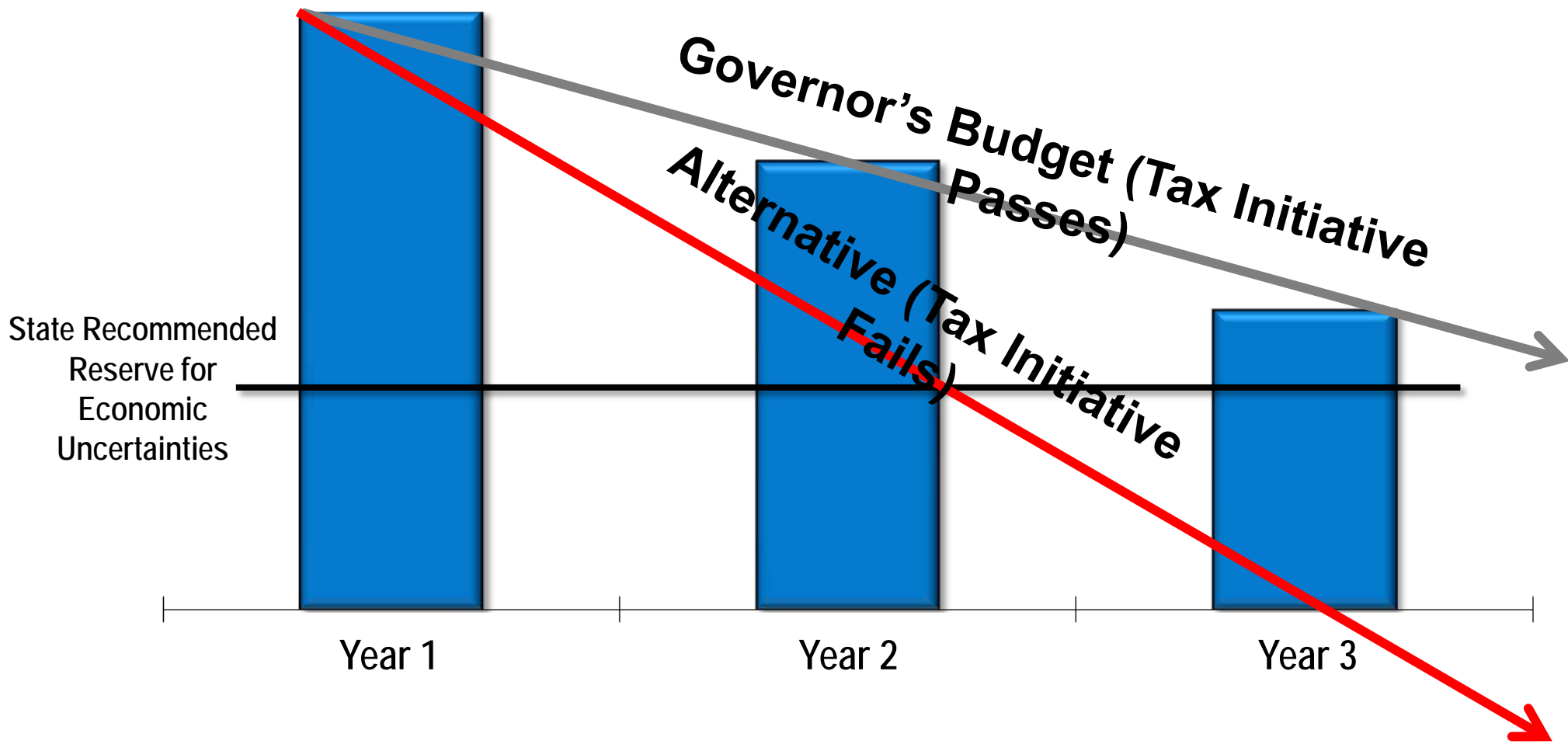
**if it passes...**



**if it fails...**



### Ending Fund Balance







- When first adopted a decade ago, the K-12 apportionment deferral from June to July was accepted as preferable to a direct cut in education spending
  - This deferral was a clear violation of accounting principles
  - It did not pose any significant cash flow challenge
  - However, it was the start of a slippery slope that has led the state to defer almost \$10 billion in state payments to school districts, almost 40% of the principal apportionment
- The expansion of this policy has allowed school districts to spend beyond the level of the annual apportionment; however, it has also led to great inequities across districts and to multi-billion dollar claims on future revenues
- Just as creation of a deferral generates one-time savings, the buy-back can be accomplished with one-time dollars






- **No Certificated or Classified Layoffs**
  - Impact of Education Code 44956(a)(5) Preferential Substitute Service
  - Increases 2012-13 reduction target by \$2.5 million to a total of \$34.5 million
- **Staffing of 1<sup>st</sup> and 2<sup>nd</sup> grade at 30:1**
  - Provides Elementary sites with supplemental funding for research-based support for English learners and at-risk students
- **QEIA waiver denied by State Board of Education**
  - Waivers to be considered at the January 2012 meeting
- **Grades 4 – 8 staffing formula Education Code adjustments**
  - District wide staffing ratio to meet 1964 Education Code 41376
- **Jobs Bill funding that reinstated 5 furlough days for Certificated/Management expires at the end of 2011-12**



**Santa Ana**  
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**Adjustments to  
2012-13 Reductions**

\$ in millions

	Description of Reduction	Proposed Amount of Reduction/ Increase	Reductions Required
	Reduction Target 2012-13 (January 10, 2012)		<b>\$23.1</b>
	2011-12 mid-year base revenue cut <b>one-time</b>	<b>\$1.0</b>	<b>\$22.1</b>
	Transitional K students may be claimed in ADA once they turn 5	<b>\$1.5</b>	<b>\$20.6</b>
	Mid-year reductions if tax initiative does not pass (\$370/ADA estimate)	<b>\$20.0</b>	<b>\$40.6</b>



\$ in millions

	Description of Reduction	Proposed Amount of Reduction/ Increase	Reductions Required
	Reductions required for 2012-13		<b>\$40.6</b>

## REDUCTIONS REQUIRED FOR 2013-14

	Initial Target		<b>\$47.0</b>
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The District currently must determine ongoing expenditure reductions of **\$87.6** million over the next 18 months to maintain fiscal solvency



Days  
Remaining to  
Identify 2012–  
13 Reductions

49



Date	Event or Activity
On-going until Settled	Negotiations with our certificated & classified associations (SAEA & CSEA respectively) for <u>ongoing reductions</u>
Feb 14 & 28, 2012	Board Meetings
March 13, 2012	Approval of 2012 -13 Budget Reduction Measures and 2 <sup>nd</sup> Interim Report

**CURRENT REDUCTION TARGET**  
**\$40.6 Million**