



Budget Update: Governor's Proposed Budget Tax & Revenue Anticipation Notes

January 25, 2011

Jane A. Russo, Superintendent

Cathie Olsky, Ed.D., Deputy Superintendent

Michael P. Bishop, Sr., CBO, Associate Superintendent, Business Services

Tony Wold, Ed.D., Director, Program Quality Analysis

Swandayani Singgih, Assistant Director, Fiscal Services

Christeen Betz, Assistant Director, Fiscal Services



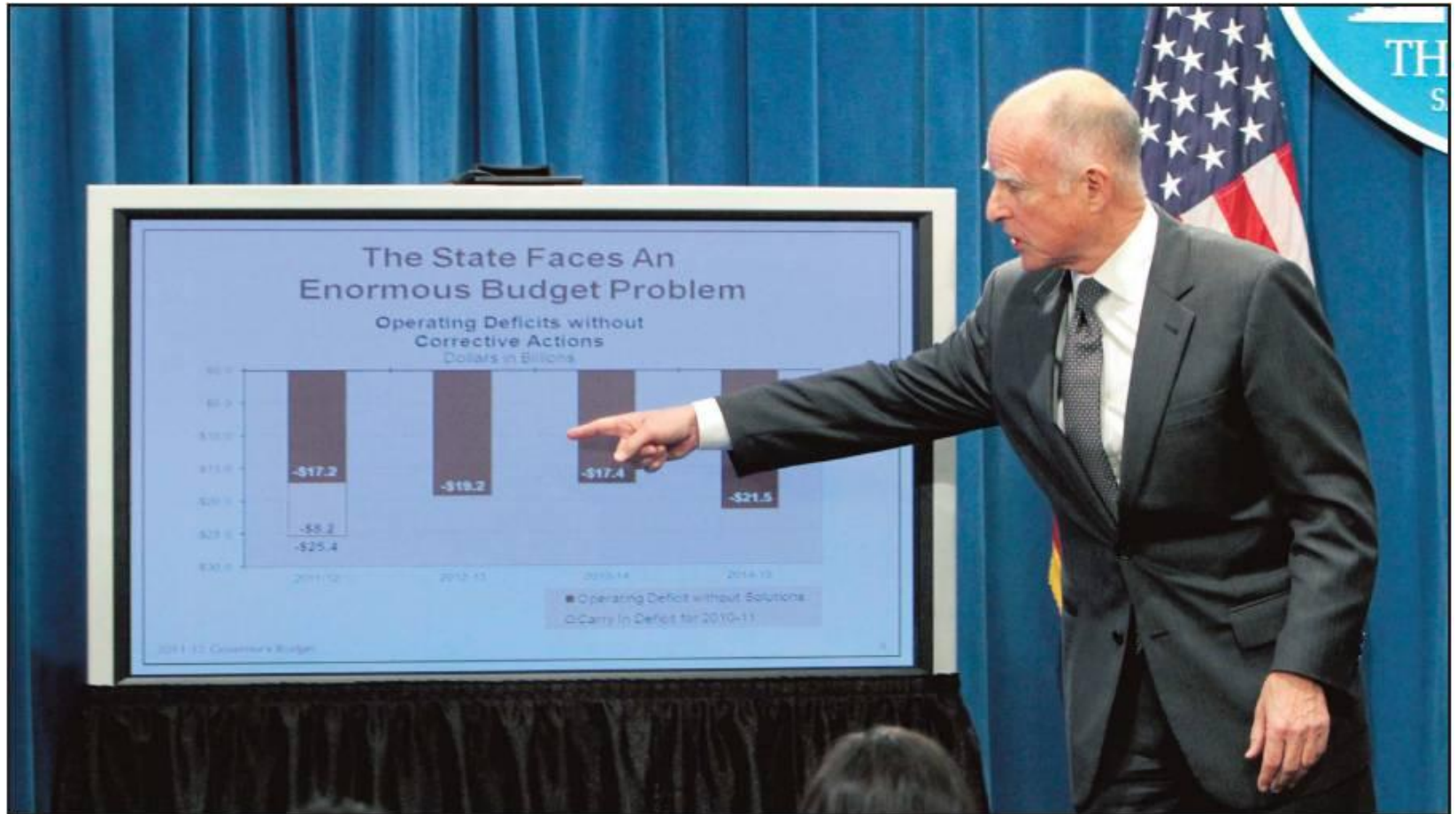
1. 2011-12 Governor's Budget Proposal
2. Impact of State Budget to SAUSD
3. Why Does SAUSD Still Need to Make Budget Reductions?
4. State Deferrals Cause District Borrowing
5. Next Steps



Santa Ana

Unified School District

2011-12 Governor's Budget Proposal



Full budget and press conference available at <http://www.gov.ca.gov/>



- State Budget Update:
 - California's budget deficit is more than \$26 billion for 2011-12
 - No Mid-year cuts this year for Proposition 98; "flat funding"
 - "School Services Vice President Robert Miyashiro explained that the governor isn't actually proposing to carry over this year's funding levels from one year to the next. Rather, K-12 funding must be calculated each year using a complex formula that projects what the funding level should be and then slices a certain percentage from that level (in this case, 19.3 percent for 2011-12)." "They've taken out \$113 million, but they did not acknowledge it; they did not highlight it," Miyashiro said. *January 21, 2011 Orange County Register*
 - Additional State Revenue of \$13.8 millions that the District gets as a result of the restoration of 3.85% reduction and -0.39% COLA is no longer subject to State cuts
- Statutory COLA - No COLA for K-12 in 2011-12 (Projected COLA would have been 1.67% (\$965 million))
- Deficit Factor - 19.608% which eliminates the statutory COLA of 1.67%
- Deferral – Additional \$2.1 billion deferral on top of 2010-11 apportionment deferral of \$1.7 billion for K-14
- Tier III Categorical Flexibility – Extend flexibility for two additional years (ending in 2014-15)
- Class Size Reduction (CSR) – Extend reduction penalty flexibility for two additional years (ending in 2013-14)
- Unrestricted General Fund Reserves: Reduce minimum reserve for economic uncertainty from 0.5% to 0.33%
- Categorical funding: No growth, no COLA, no new programs



- Governor's proposed solutions to balance 2011-12 budget
 - **Plan A:**
 - **Spending Cuts - \$12.5 billion**
 - No further cuts to education since education has already been hit with reductions in past years
 - In areas such as Medi-Cal services, CalWorks, Higher Education, Childcare. etc.
 - **Realignment of Services - \$5.9 billion (of \$9.2 billion in total proposed tax extension)**
 - Shift services from State to local agencies, i.e. Mental Health services (including AB 3632), Foster care and child welfare services, Court Security, Cal Fire, fire & emergency response services, Juvenile facilities, etc.
 - Funded with the extension of 1% sales tax and 0.5% vehicle license fee (VLF)
 - » Is subject to voter approval at the June special election
 - » Extended for additional five years
 - » Drawback: Causes a reduction to General Fund revenues used for calculating the Prop 98 minimum guarantee level
 - **Extension of taxes (\$9.2 billion)**
 - Includes income tax, sales tax, vehicle license fee
 - Is subject to voter approval at the June special election
 - Continues for additional five years



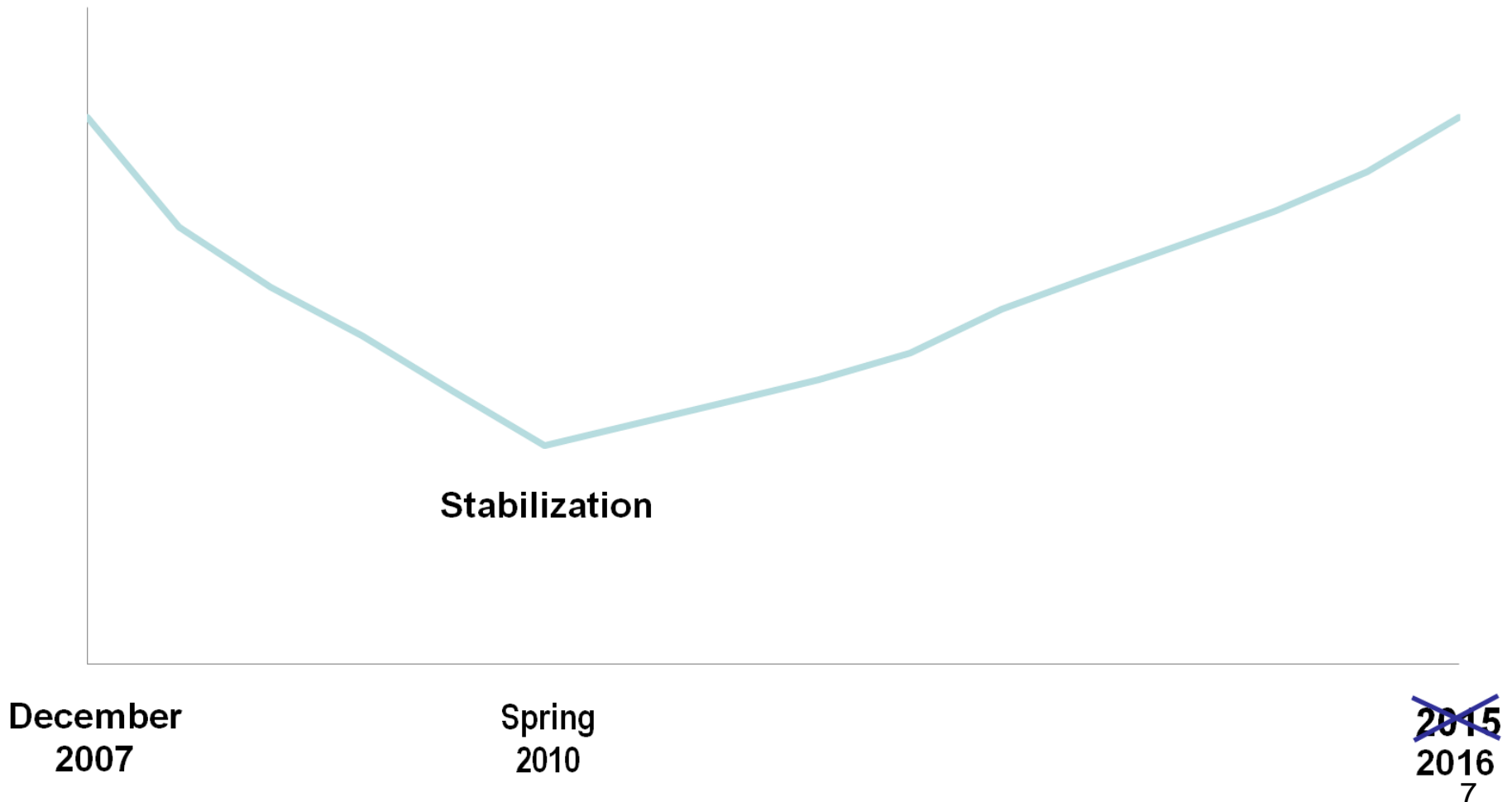
- What if the extension of taxes are not supported by the legislature and/or voters (\$9.2 billion):
 - **Plan B:**
 - Prop 98 minimum funding level would drop by \$2.3 billion resulting in a reduction of approximately \$330 per ADA
 - » For the District it would be a reduction of approximately \$17 million in State revenue
 - Additional \$6.9 billion in cuts would need to be identified, possibly including additional large cuts to education
 - According to Ron Bennett from SSC, it would be more likely that the Governor would release a new proposal sometime in March if the temporary tax extension were not placed in June ballot. His proposal would cost K-12 approximately \$2.1 billion.
 - **Plan C:**
 - An estimate reduction of \$1,000 per ADA
 - » It's not in the Governor's proposed budget
 - » For the District it could be a reduction of approximately \$51 million in State revenue
 - » "Cuts will have to be made where the money is," according to Governor Jerry Brown



Santa Ana
Unified School District

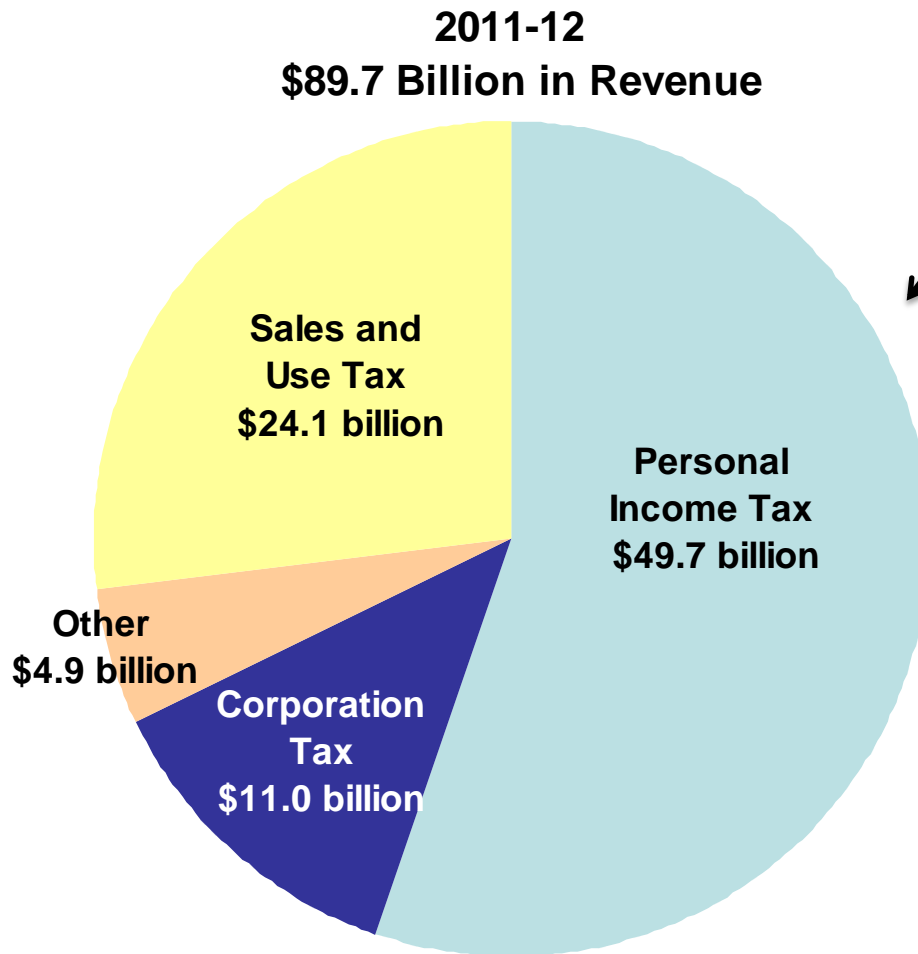
**Recovery
Takes a Long Time**

The Economic Cycle





General Fund Revenue Sources



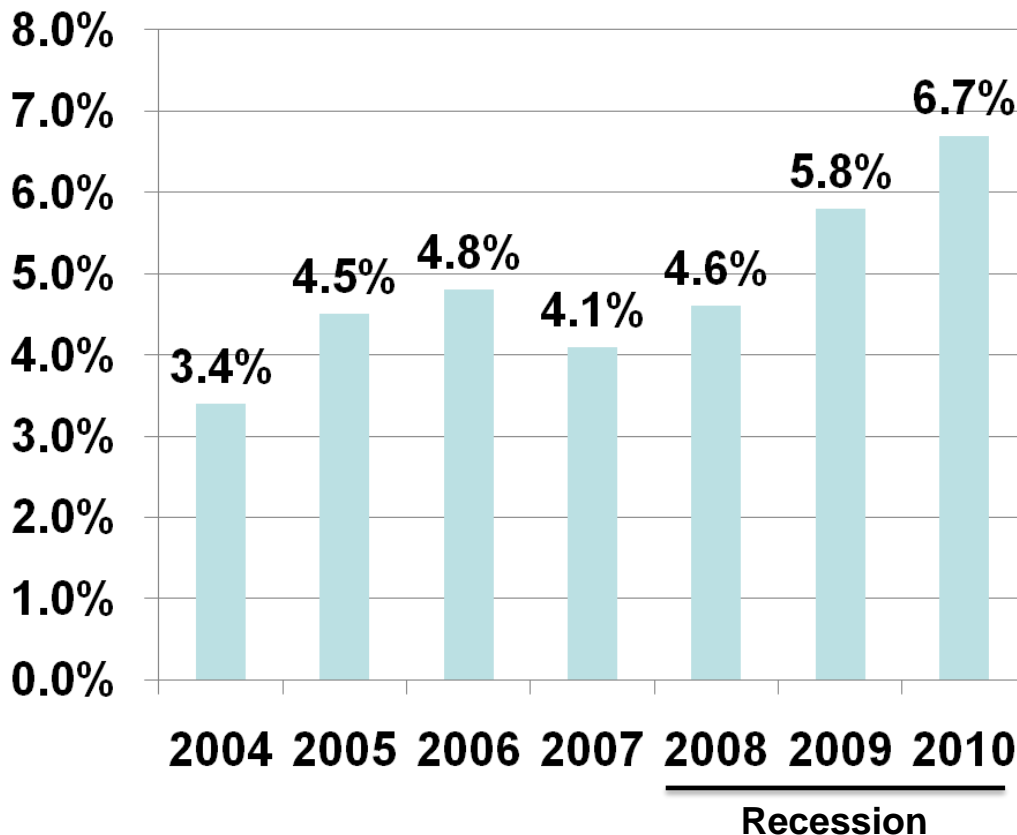
Personal Income Tax

- The top 1% of state taxpayers paid 43% of this tax in 2008
- Taxpayers with incomes more than \$100,000 paid 84% of this tax in 2008
- Capital gains is a volatile source of income, dropping from \$132 billion in 2007 to \$35 billion in 2009



California's Debt Burden

Debt Service As A Percentage of General Fund Revenues

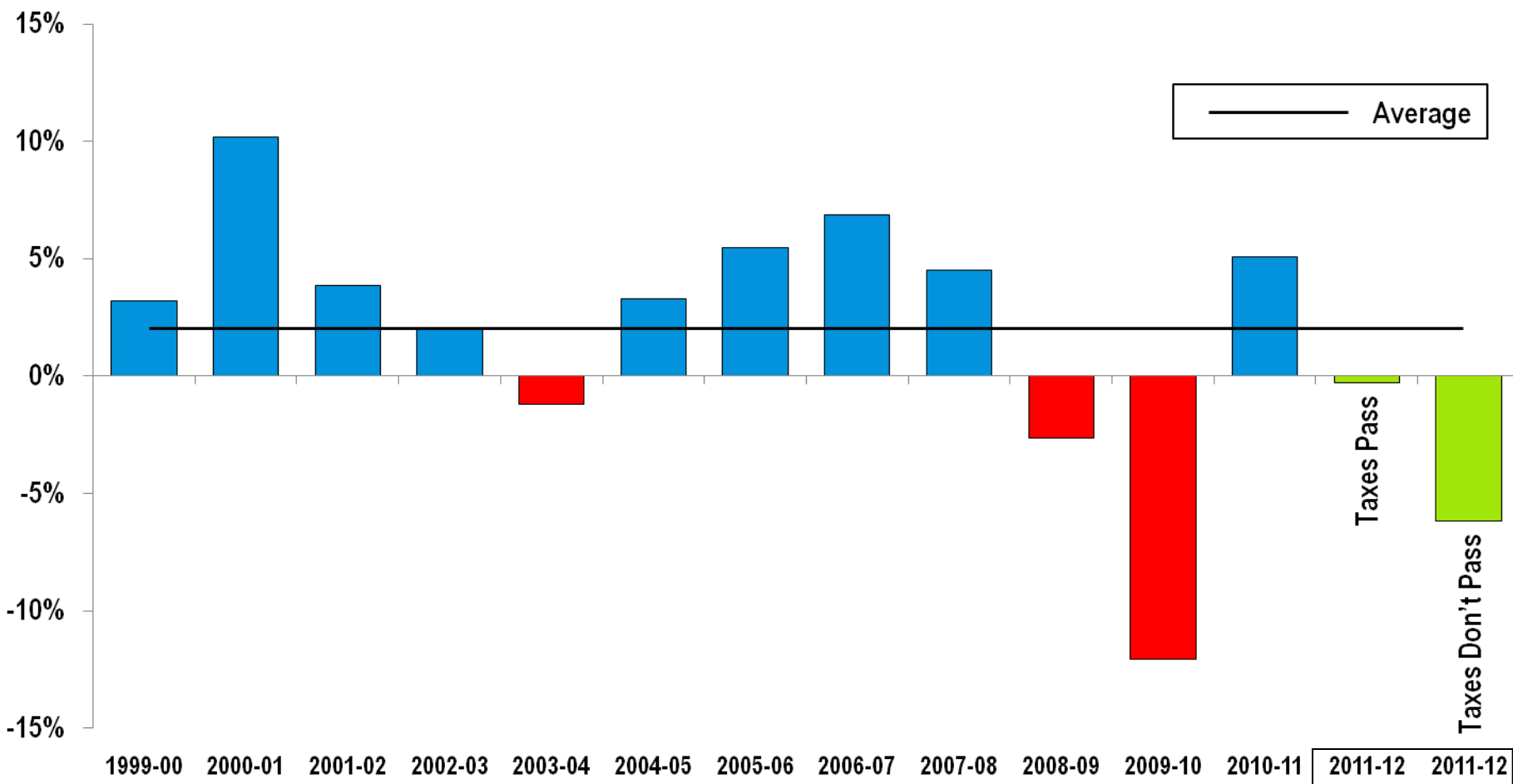


Source: State Treasurer's Office, December 2010

- California's debt service burden has risen sharply during the recession
 - California's credit rating is the worst in the nation
- | | |
|------------|-----|
| Florida | AAA |
| Georgia | AAA |
| Texas | AA+ |
| California | A- |
- Debt service costs total about \$5.8 billion in 2009-10



Per-ADA Revenue Change





| Dollars in Billions | | | |
|-------------------------------|---------|---------|------------|
| | 1998-99 | 2010-11 | % Increase |
| K-14, Proposition 98* | \$35.2 | \$49.7 | 41% |
| Higher Education (CSU and UC) | \$4.7 | \$7.4 | 57% |
| Natural Resources | \$1.2 | \$2.0 | 67% |
| Health and Human Services | \$15.3 | \$27.0 | 76% |
| Corrections | \$4.4 | \$9.3 | 111% |
| General Fund Revenues | \$57.3 | \$94.1 | 64% |

* Includes state general fund and local property taxes

Sources: Legislative Analyst's Office, State Spending Plan: 1998-99 and 2011-12 Governor's Budget Summary



K-12 Education Took Biggest Cuts

General Fund Expenditures by Major Program Area

| | Dollars in Billions | | | | % Change 2007-08 to 2010-11 |
|---|---------------------|---------------|---------------|---------------|-----------------------------------|
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
| K-12 Education | \$42.5 | \$35.5 | \$34.6 | \$36.3 | <14.5%> |
| Higher Education | \$11.8 | \$11.7 | \$10.6 | \$11.6 | <1.4%> |
| Health and Human Services | \$29.7 | \$30.9 | \$25.0 | \$27.0 | <9.3%> |
| Corrections and Rehabilitation | \$10.2 | \$10.3 | \$8.2 | \$9.3 | <9.0%> |
| Natural Resources | \$1.9 | \$2.0 | \$1.9 | \$2.0 | 8.3% |



Santa Ana
Unified School District

**WHY DOES SAUSD STILL NEED
TO MAKE CUTS WHEN FUNDING
TO EDUCATION IS “FLAT”?**



- Why does SAUSD still need to cut \$31.5 million in 2011-12?
 - State has not funded \$60 million that is “owed” to SAUSD (deficit reduction)
 - Tier III flexibility allowed SAUSD to temporarily not make \$18.5 million in ongoing reductions
 - CSR Penalty flexibility allowed SAUSD to temporarily not make \$10 million in ongoing reductions
- The \$31.5 million cut needed for 2011-12 is due to the State deficit factor that remain in Governor Brown’s current budget proposal



Inadequate State funding of our schools has resulted in Educational program reductions. The latest, unspecified projected budget reductions for 2011-12 & 2012-13 are **-\$31.5 million** & **-\$30.5 million** respectively.

- 2004-05, **<\$29 million>**
- 2005-06, **<\$14 million>**
- 2006-07, **<\$15 million>**
- 2007-08, **<\$21 million>**
- 2008-09, **<\$41.6 million>**
- 2009-10, **<\$11.6 million>**
- 2010-11, **<\$31.0 million>** (\$11 million in on-going & \$20.0 million in one-time cuts)
- 2011-12, **<\$31.5 million>** (previously \$18.0 million)
- 2012-13, **<\$30.5 million>** (previously \$24.0 million)



Total Budget Reductions (2004-05 thru 2012-13): **<\$225.2 million>**



- Enrollment
 - A decline of **<767>** students was projected for 2010-11 through 2012-13 (the updated projection may include a small increase of 200-400 in 2011-12)
 - No financial impact due to this decline in 2010-11 as State legislation provides financial protection to declining enrollment districts (i.e. Revenue Limit for the year determined on higher of current or prior year's ADA)
 - Financial impact in 2011-12
 - To be revised at 2nd interim and when official CBEDS data, P1 attendance, and revised enrollment projections are available

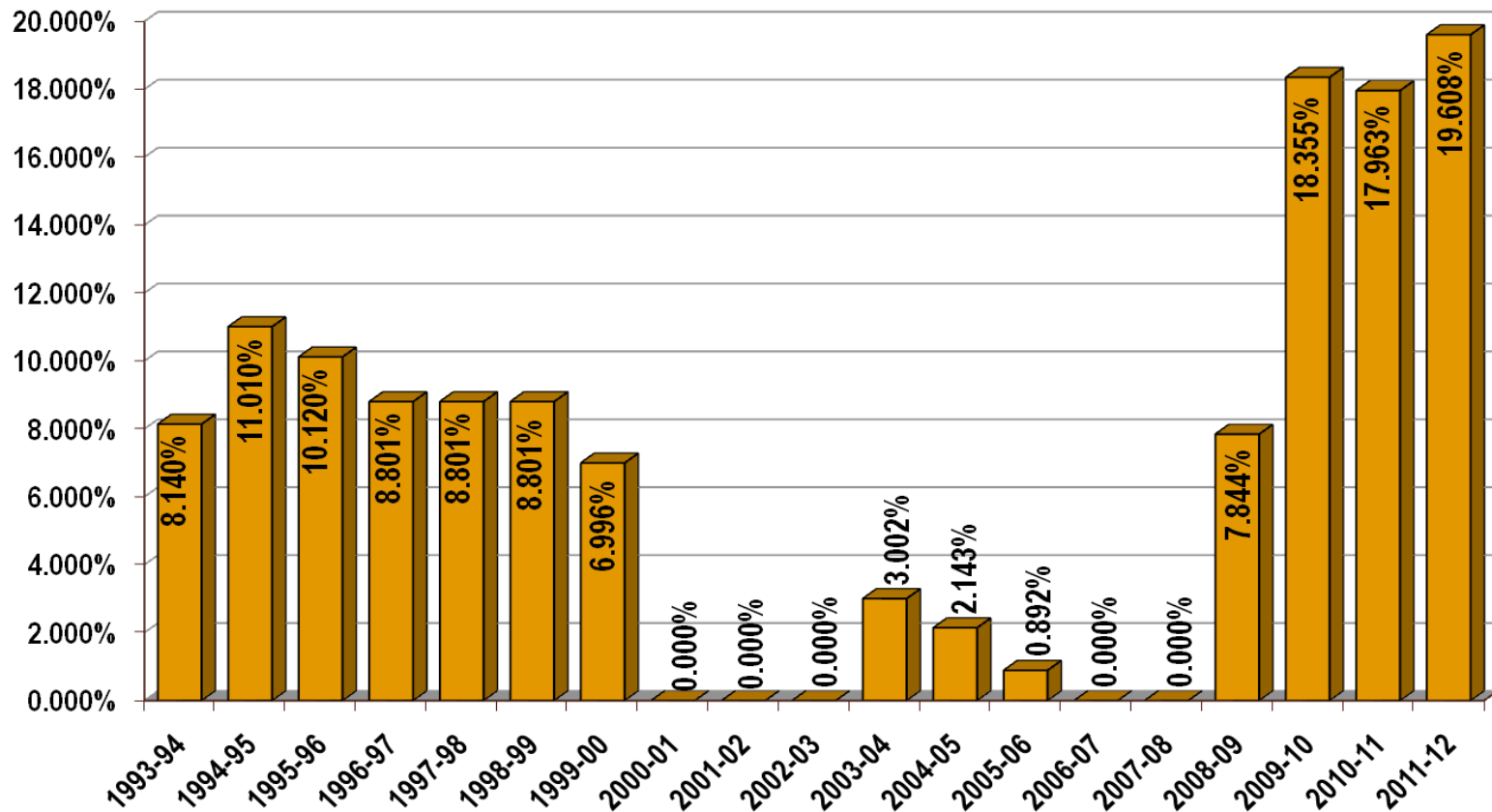
| Fiscal Year | Enrollment | CBEDS Change (from Prior Year) |
|--------------------------------|------------|--------------------------------------|
| 2001-02 | 60,788 | +951 |
| 2002-03 | 60,973 | +185 |
| 2003-04 | 59,895 | (1,078) |
| 2004-05 | 58,884 | (1,011) |
| 2005-06 | 56,563 | (2,321) |
| 2006-07 | 54,839 | (1,724) |
| 2007-08 | 54,369 | (470) |
| 2008-09 | 54,584 | +215 |
| 2009-10 | 54,084 | (500) |
| 2010-11 Projected CBEDS | 53,754 | (330) |
| 2011-12 Projected [^] | 53,954 | 200 |
| 2012-13 Projected [^] | 53,954 | 0 |

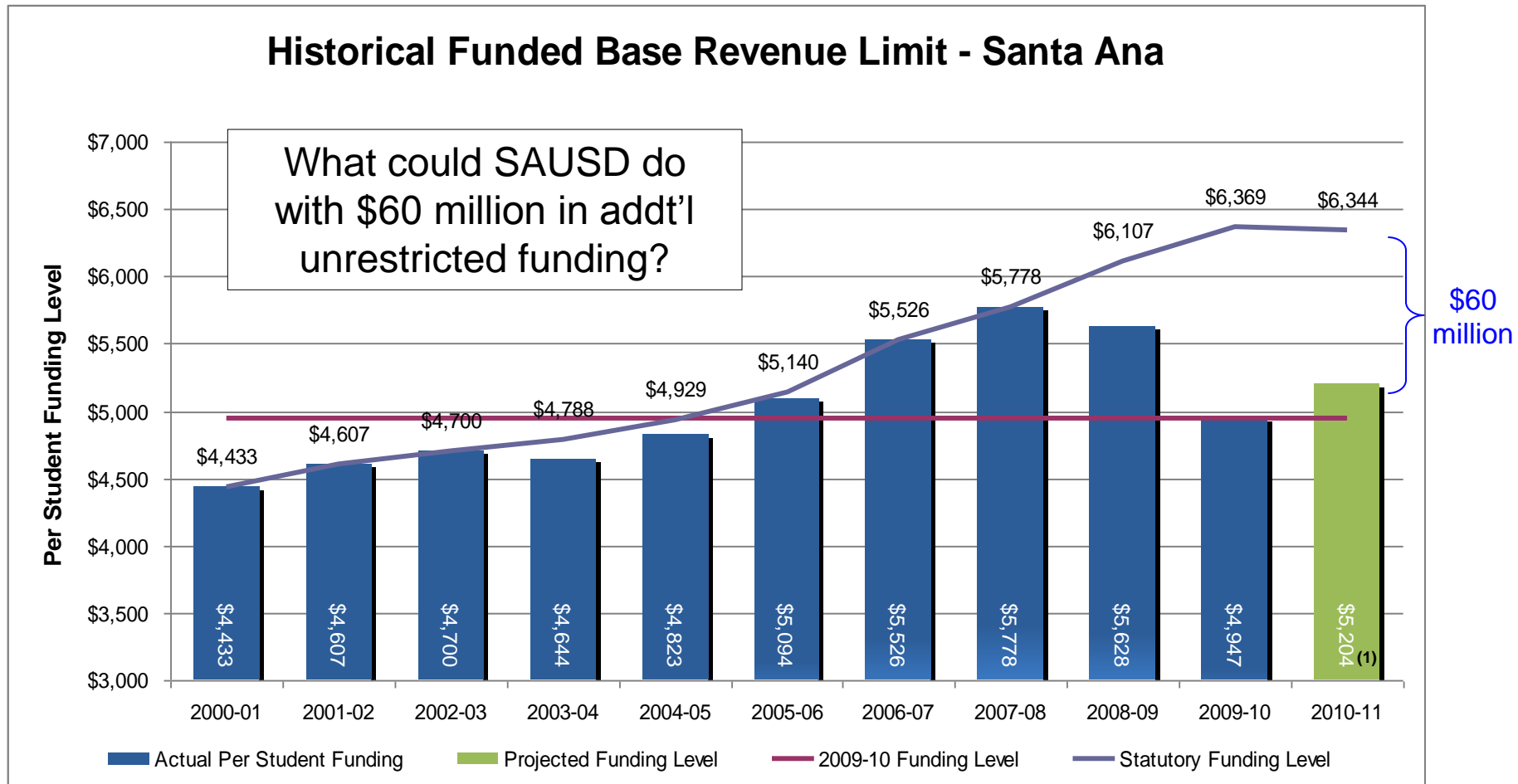


Santa Ana

Unified School District

Revenue Limit Deficit Factors

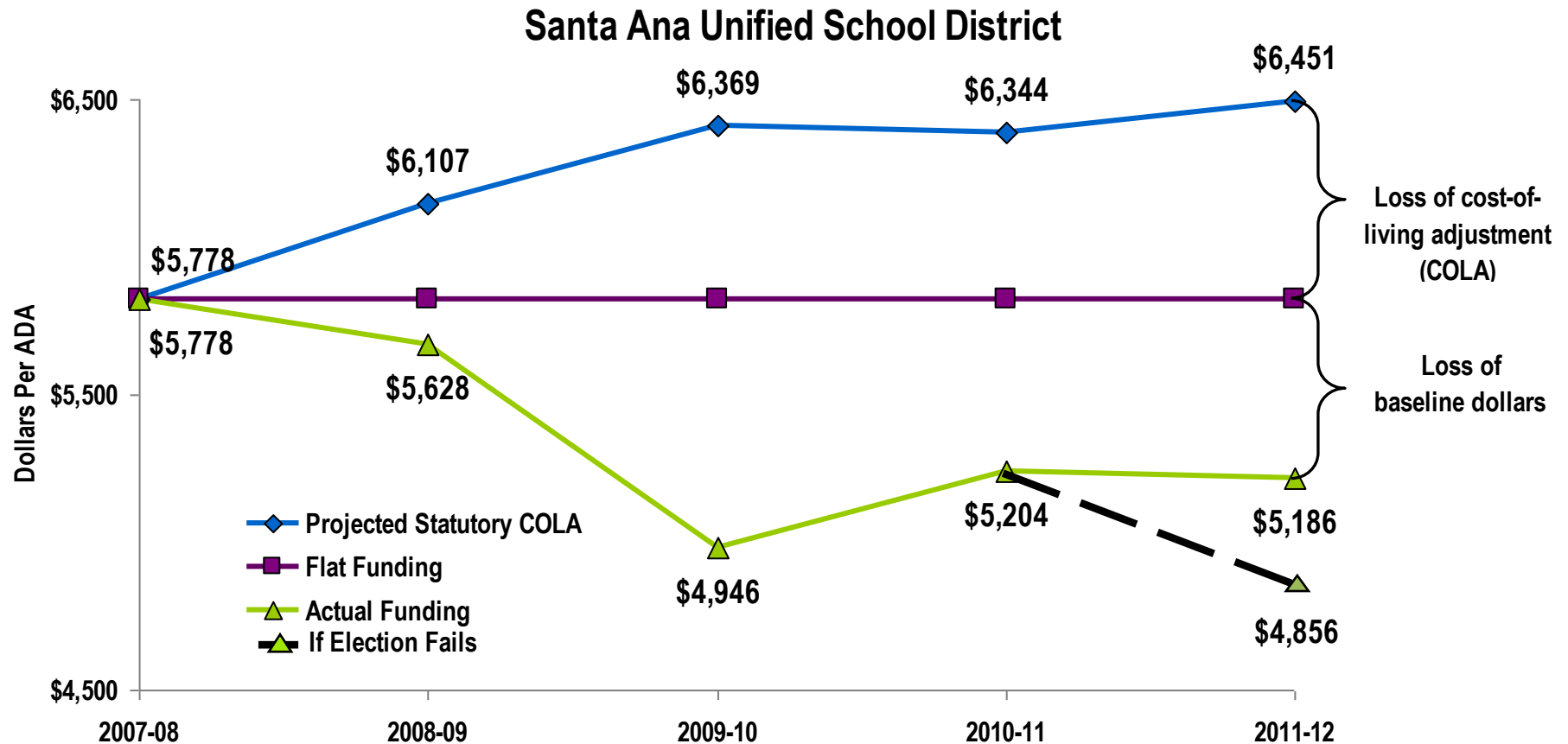






Santa Ana Unified School District

Projected vs. Actual Funding Per ADA

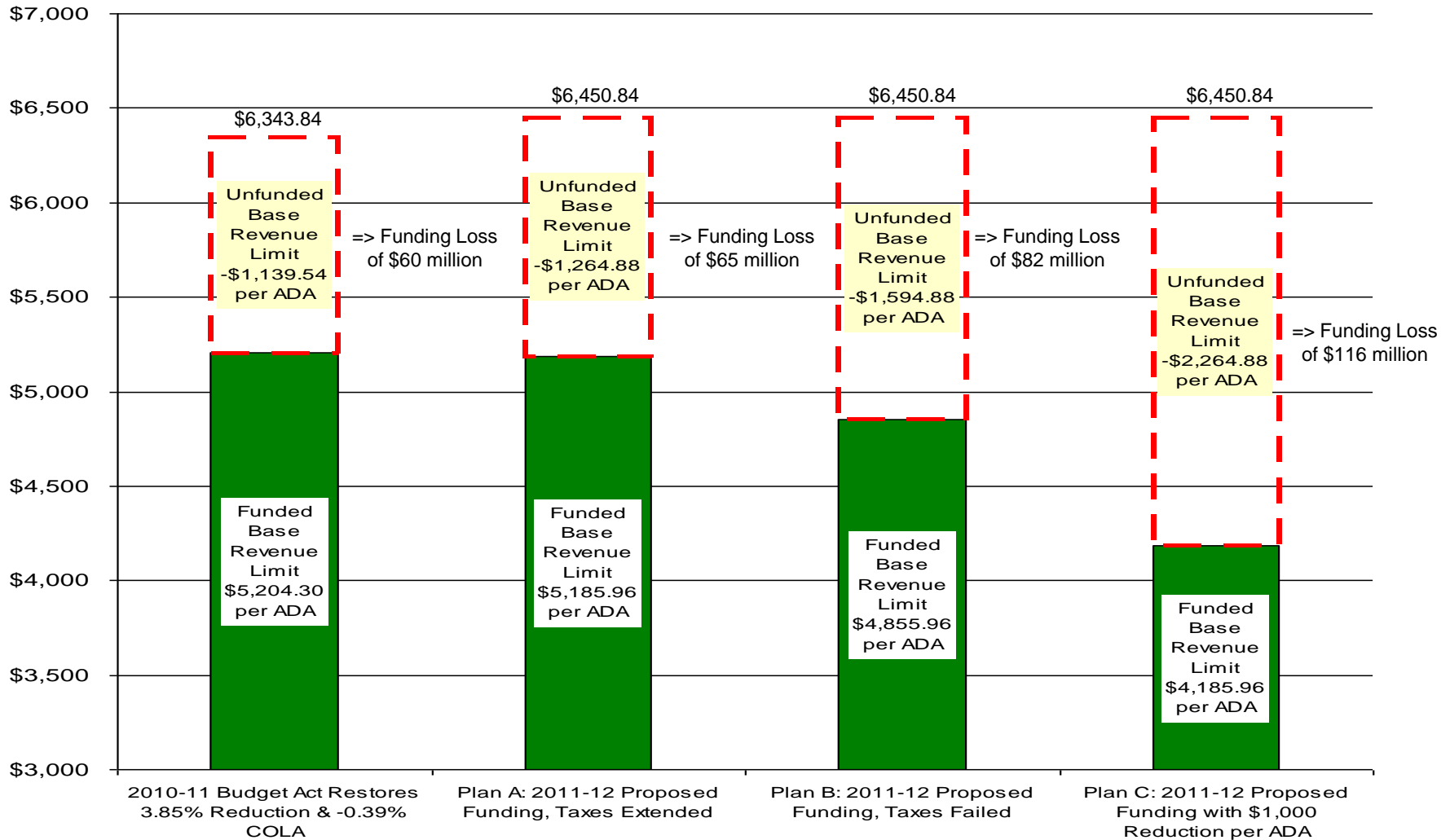




Santa Ana

Unified School District

Proposed 2011-12 Funding vs. 2010-11 Enacted Budget for SAUSD





- COLA & Deficit Reduction
 - COLA and Deficit Reduction as follows:

| | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> |
|-------------------|----------------|----------------|----------------|
| COLA | <0.39%> | 0.0% * | 1.80% ** |
| Deficit Reduction | <17.963%> | <19.608%> | <19.608%> |

*2011-12 COLA. While the statutory COLA for 2011-12 is at 1.67%, the deficit reduction of 19.608% eliminates this statutory COLA.

**2012-13 COLA. Funding of this COLA is projected at 1.80% (per SSC's dartboard). (Revenue Limit impact: approx. \$6 million)

IF WE DID NOTHING



Santa Ana
Unified School District

**2010–11 MYP
as of First Interim**

| <u>(\$s in millions)</u> | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> |
|--|----------------|-----------------|-----------------|
| Unrestricted Budget Reductions Required | | (\$31.5) | (\$30.5) |
| | | | |
| Reserves <u>with</u> Cuts | | | |
| Designation for Economic Uncertainties | \$37.3 | \$29.1 | \$33.7 |
| Designation for Economic Uncertainties % | 7.1% | 6.4% | 7.8% |
| | | | |
| Reserves <u>without</u> any Cuts | | | |
| Designation for Economic Uncertainties | \$37.3 | (\$2.3) | (\$59.8) |
| Designation for Economic Uncertainties % | 7.1% | (0.5%) | (12.0%) |



*“Those that fail to learn from history
are doomed to repeat it.”*

Winston Churchill





Plan A



- Governor's Proposal is adopted and 5 year tax plan passed by voters

DISTRICT ACTION

- District receives "flat funding" and pushes the magnitude of the issue forward to the next year
- Cuts of \$31.5 million
 - One time use of jobs bill
 - One time uses of 2010-11 Base Revenue Limit funding (currently reserved)
 - Ongoing Health/Welfare savings (if any) and/or other reductions to be identified
- 2012-13 cuts of approximately \$15 - \$20 million remain to be identified by December 12, 2011



- Legislators or voters reject the Governor's plan. Base Revenue limit reduced by approximately \$330 / ADA
- Assumes that "flexibility" continues

DISTRICT ACTION

- District must make projected cuts **(Plan A)** plus a little bit more
 - Cuts of \$31.5 million+
- One time solutions for 2011-12 magnify 2012-13 issue
 - One time use of jobs bill
 - All district reserve funds
 - Ongoing Health/Welfare savings (if any) and/or other reductions identified for 2011-12
- 2012-13 cuts will be approximately \$40 - \$50 million with no reserves remaining to assist with unknowns or 2013-14



- Voters reject the Governor's plan. Base Revenue limit reduced by approximately \$330 / ADA (**Plan B**)
- Governor further cuts K-14 education by \$4 - \$6 Billion (\$400 - \$670/ADA)

DISTRICT ACTION

- Cuts of approximately \$80+ million
- One time solutions for 2011-12 are not sufficient
 - One time use of jobs bill
 - All district reserve funds
 - Ongoing Health/Welfare savings (if any) and/or other reductions identified for 2011-12 in the range of \$40-50 million
- 2012-13 cuts will be about \$40 - \$50 million MORE to be identified with no reserves remaining to assist with unknowns



STATE DEFERRALS



The State will pay the District, not on Tuesday but several months later, for money they owe us!

They will pay us late even though we have obligations such as payroll, vendor invoices that must be paid on a timely basis.



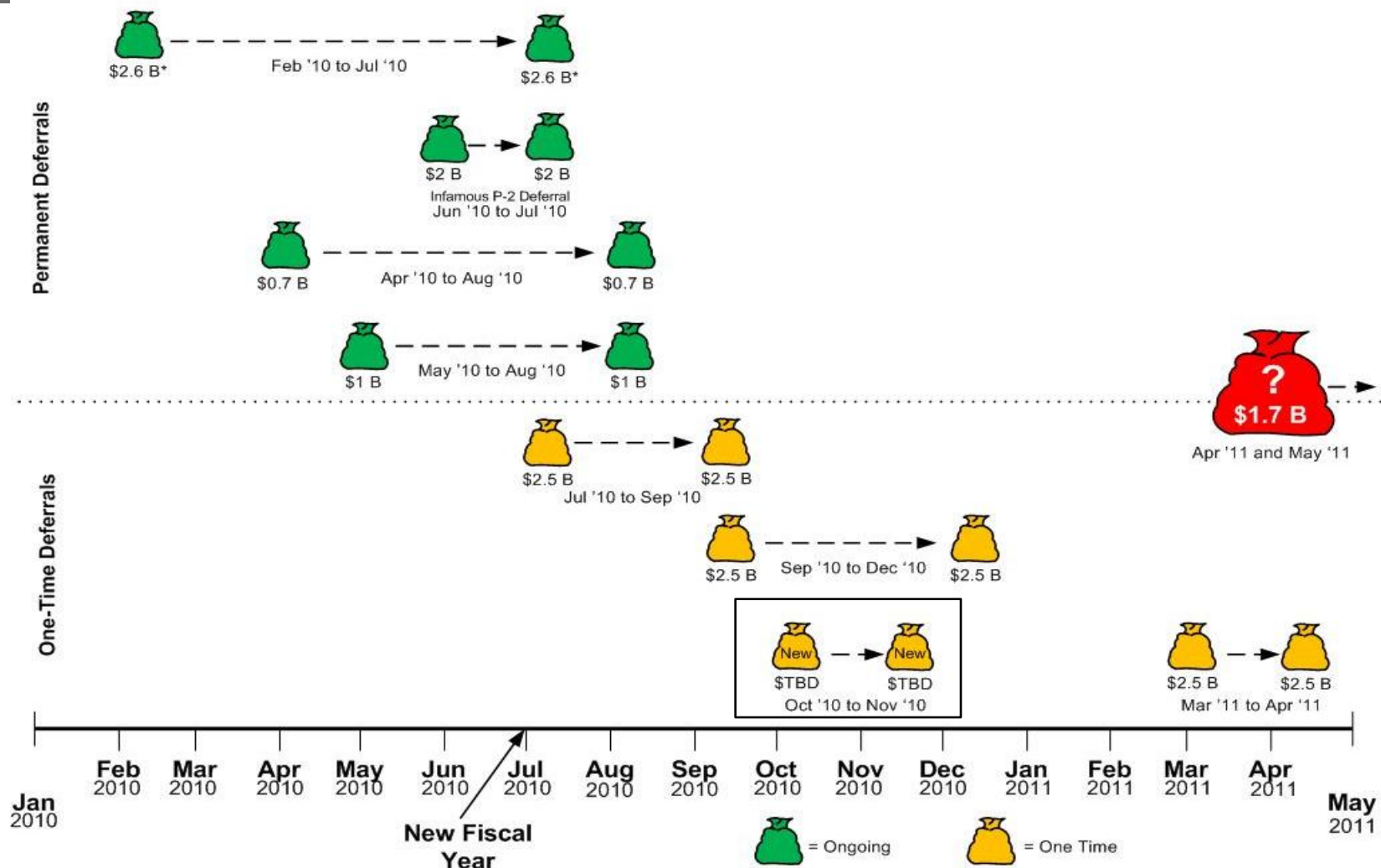
- Believe it or not, there was a time without deferrals
 - Yes, once upon a time the state really had cash all year long
- What started as a single deferral of \$1.3 billion in 2002-03 that delayed funds just a few days – from June to July – has evolved into a routine cash management tool to mask the state's structural Budget problems
- The state managed to operate without **additional** deferrals until 2008-09
 - Since 2008-09 deferrals have become a staple of the State Budget
 - The deferrals have increased each year, and the state has extended them to include other program areas, such as health and human services



Santa Ana

Unified School District

Deferrals 2010-11



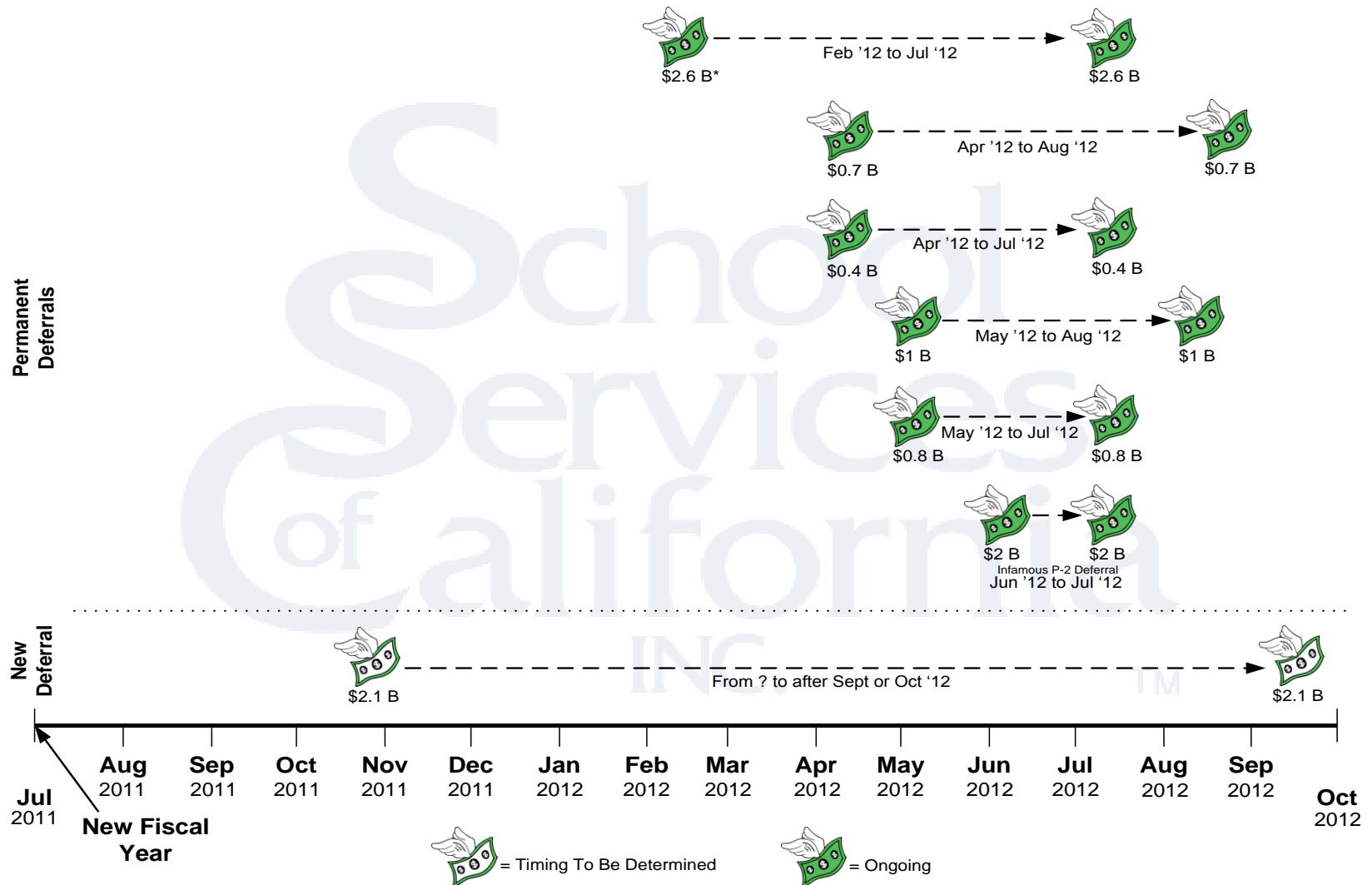
* Inclusive of categorical funds

Note: An additional deferral for K-12 of \$1.7 billion from 2010-11 into 2011-12 fiscal year



Santa Ana Unified School District

2011-12 Apportionment Deferrals



*Includes K-12 CSR Deferral



- **Apportionment deferrals for LEAs have become the solution to the state's cash flow problem**

| Month From | Month To | Dollar Amount |
|-----------------|-------------|----------------------|
| Existing | | |
| February 2012 | July 2012 | \$2.6 billion* |
| April 2012 | July 2012 | \$420 million |
| April 2012 | August 2012 | \$679 million |
| May 2012 | July 2012 | \$800 million |
| May 2012 | August 2012 | \$1 billion |
| June 2012 | July 2012 | \$2 billion |
| New | | |
| ?? | ?? | \$2.1 billion |
| Total | | \$9.6 billion |



Santa Ana
Unified School District

NEXT STEPS





| Date | Event or Activity |
|------------------------|--|
| On-going until Settled | Negotiations with our certificated & classified associations (SAEA & CSEA respectively) |
| Feb 8 Feb 22 | Budget Update |
| Feb 1 | Special Board Meeting on Proposed Budget Reductions |
| Mar 8 | Presentation of Second interim Report Approval of 2011-12 Budget Reductions Reach Decision on CSR for 2011-12 & future years |

