



Santa Ana
Unified School District

2008-09 Budget Update

Second Interim

(Financial Information as of January 31, 2009)

March 10, 2009

Jane A. Russo, Superintendent

Ron Murrey, Associate Superintendent, Business Services

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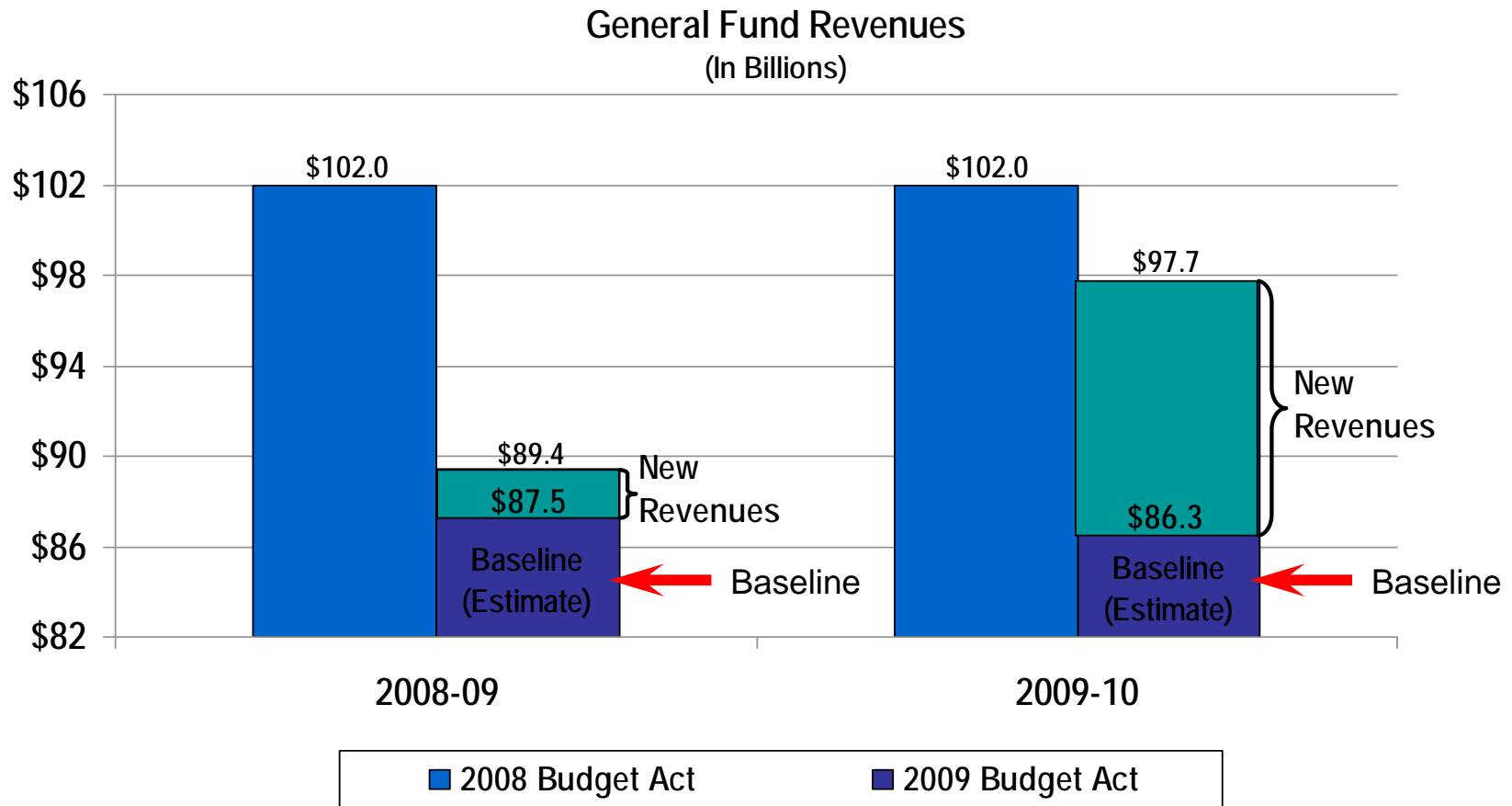
Santa Ana
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The State Budget Crisis





Significant Downturn in State Revenues.....



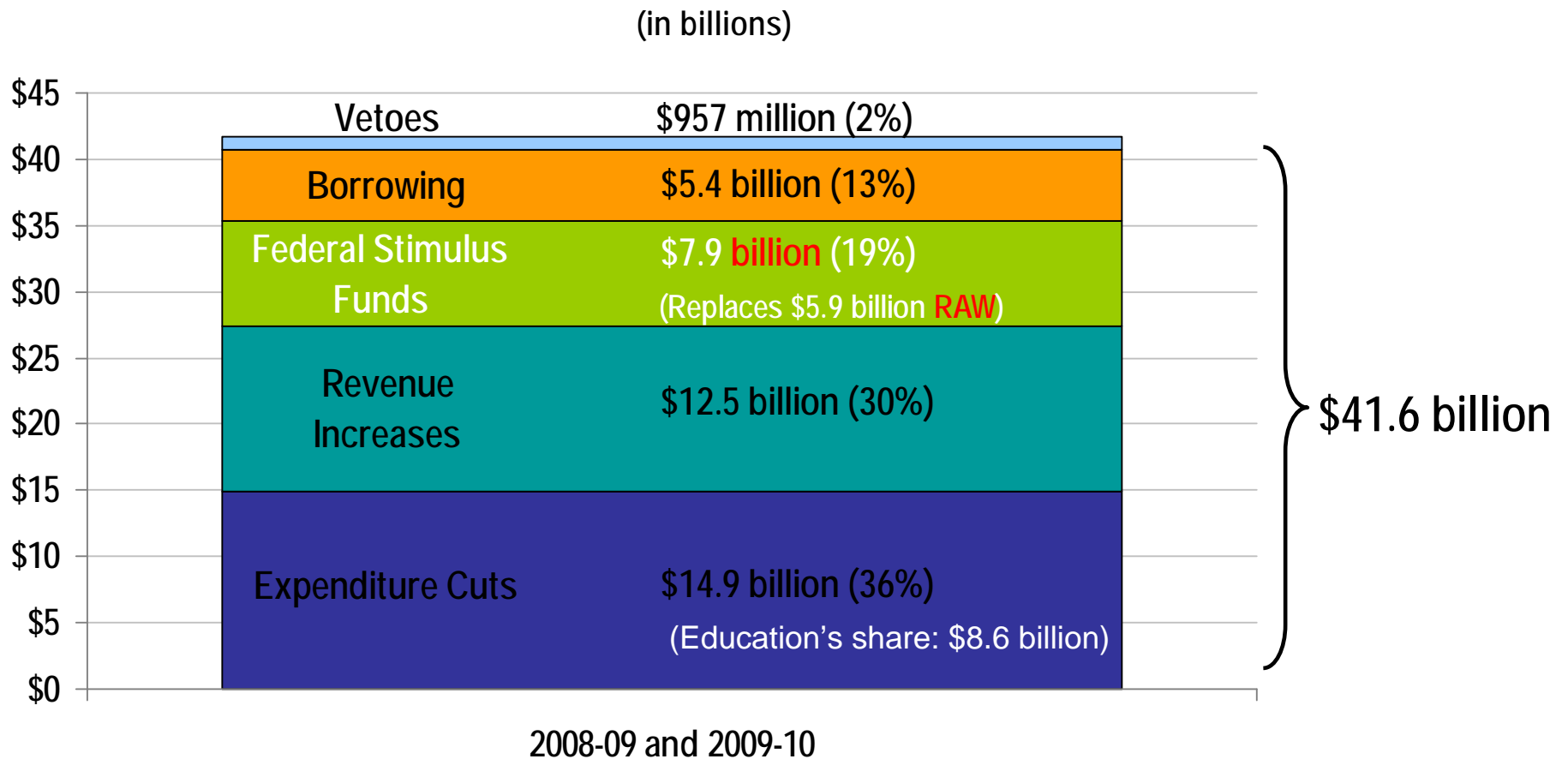
Creates a \$41 Billion State Deficit!



- To address the deficit, the State approved the 2009-10 Budget Act:
 - Covers fiscal year 2008-09 and 2009-10
 - Enacted 2009-10 Budget meets statutory requirements as a completed Budget for 2009-10
- The State Budget Act was passed only 2 weeks ago
- Specifics & details are still vague and unclear.



A combination of (1) Budget Cuts, (2) Revenue or Tax Increases, (3) Federal Stimulus Dollars & (4) State Borrowing.





- State Revenue increases are comprised of:
 - A one-cent increase in state sales tax effective April 1, 2009
 - 0.50% increase in the Vehicle License Fee (from 0.65% to 1.15%)
 - Fee nearly doubles
 - Reduction in Dependent Credit beginning with 2009 tax year
 - Increase in the personal income tax rate beginning in the 2009 tax year
- Note that businesses are spared increases in direct taxes.



Program Cuts	(In millions)		
	2008-09	2009-10	Total
Proposition 98 Reductions (K-12 Education)	\$6,393	\$2,919	\$9,312
Prop 10 Shift – Children and Families Act	—	608	608
UC and CSU Reductions	132	656	788
State Employee Compensation	333	834	1,167
No Federal SSI COLA Pass Through	80	487	567
Proposition 63 Shift – Mental Health Svcs Act	—	227	227
Other	(213)	2,398	2,185
Totals	\$6,725	\$8,129	\$14,854

K-12 Education comprises 40-50% of the State's budget but received 63% of the cuts!



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The State Budget's Impact to K-12 Education & SAUSD



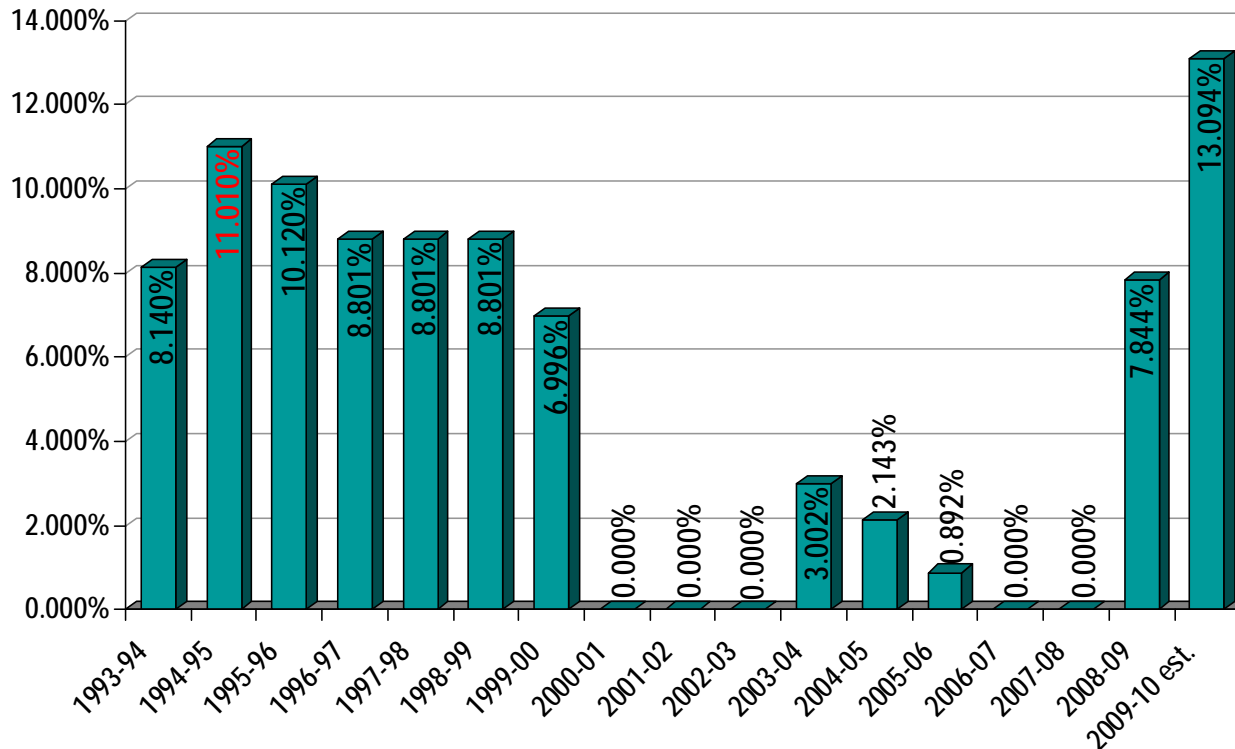
- Cuts applied equally between Revenue Limit & Categorical Programs
- Negative COLA
 - 2008-09: **-2.63%**
 - 2009-10: **-0.97%**
- Categorical program funding reductions
- Categorical program flexibility - Limited
- A lot of “unknowns” & “more questions than answers.”





The Revenue Limit is the major source of revenues for the District (61%) and will be deficated (i.e. reduced) dramatically.

Revenue Limit Deficit Factor



SAUSD \$ Impact due to Revenue Limit Deficit

2008-09	<\$25 million>
2009-10	<\$44 million>



In simple terms, the revenue limit deficit is similar to asking someone to take a pay cut (in this case of -7.84% this year and -13.09% next year) with a promise to repay these amounts at a later, unspecified time.



Program cuts & flexibility categorized into 3 groupings or tiers:

- Tier I (*Programs not subject to cuts and no budget flexibility*)
 - Affected programs include: Special Ed, QEIA, EIA, K-3 CSR, etc.
 - Approx. award amount: \$123 million; Cut amount: n/a, since no cuts
- Tier II (*Programs subject to cuts and no budget flexibility*)
 - 15.4% in mid-year 2008-09 cuts & 4.5% in add'l 2009-10 cuts
 - Affected programs include: English Language Acquisition Program & Academy programs
 - Accountability, reporting, mandates & administrative burdens remain even if the program is eliminated/suspended
 - Approx. award amount: \$1.6 million; Cut amount: \$.3 million
- Tier III (*Programs subject to cuts and with budget flexibility*)
 - 15.4% in mid-year 2008-09 cuts & 4.5% in add'l 2009-10 cuts
 - Most other state categorical programs not listed under Tier I or Tier II
 - Flexibility granted through 2012-13 & can be used for any other educational purpose
 - Approx. award amount: \$31.1 million; Cut amount: \$6.0 million



- Multitude of unknowns & questions remain including, but not limited to:
 - Supplemental Hours
 - K-3 CSR
 - The need / requirement for public hearings related to Tier III flexibility
 - Reductions related to reimbursement programs such as ROP
 - Professional Development Block Grant
 - Accountability, reporting and administrative requirements
 - Etc.
- **An example: Supplemental Hours (a Tier III program)**
 - Do you have to run a summer school / tutorial program to receive funding?
 - Good question, we'll get back to you
 - Yes it "appears" you don't need to run a program
 - If there's no need to run a program, what's the base funding year?
 - It's 2008-09
 - No, it's 2007-08
 - Assume it's 2008-09 but understand it may be 2007-08.



- To address State cash flow issues, the State is further deferring payments to SAUSD & other school districts
- Deferrals for SAUSD totals \$70 million
 - Potential interest income lost (assuming a 2% rate): \$310K
- State deferrals results in: (1) Need for SAUSD to maintain higher reserves & (2) Possibility that we may need to borrow money.

Cash Deferral	From / To	Existing / New	SAUSD \$ Amount of Deferral
Revenue Limit Deferral	From June to July	Existing	\$20 million
Revenue Limit Deferral	From Feb to July 2009	New	\$16 million
K-3 CSR Apportionment Deferral	From Feb to July 2009	New	\$5 million
Revenue Limit Deferral	From July to Oct. 2009	New	\$3 million
Revenue Limit Deferral	From Aug. to Oct 2009	New	\$26 million
Total			\$70 million



- **Option #1: Internal Borrowings**
 - Borrow from Other Funds (e.g. Fund 17, Cafeteria & Self Insurance Funds)
 - Limitation:
 - Borrowing limited to 75% of fund balance.
 - Must be repaid in same year; following year if borrowing within 120 days of fiscal year end
 - District Action:
 - Board authorized 2008-09 transfers, if needed, at the June 24th Board Meeting
 - Will submit similar agenda item for 2009-10 in June

- **Option #2: External borrowings** (Tax Revenue Anticipation Notes; TRANS)
 - Short term borrowing from the private sector
 - Limitation:
 - TRAN borrowings normally cannot cross fiscal years
 - Borrowing not allowed unless cash flow shortage can be validated
 - District Action:
 - SAUSD explored a TRAN for 2008-09. Cash flows did not substantiate a need
 - Revisit TRAN for 2009-10.



- **Option #3: Borrow from the County Treasurer**
 - EC 42620 requires County Treasurer to loan money to school district if they lack sufficient money to meet current expenses
 - Limitation:
 - Amount borrowed cannot exceed 85% of district taxes levied on behalf of district
 - Any transfers must be made prior to the last Monday in April of the current year
 - District Action:
 - As a precautionary measure, the Board authorized resolution (at its' September 23rd Board meeting) to borrow up to \$400 million from the Orange County Treasurer
 - Will submit similar agenda item for 2009-10 in June.



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The Second Interim Report





- 3 Possible Certifications:
 - Positive
 - LEA will be able to meet its financial obligations for the current and two subsequent fiscal years
 - Qualified ← *District recommends a Second Interim Certification of Qualified*
 - LEA may not be able to meet its financial obligations for the current and/or two subsequent fiscal years
 - Negative
 - LEA will not be able to meet its financial obligations for the current or for the subsequent fiscal year
- Based on current State financial information, the district needs to make budget reductions as outlined below :
 - 2008 – 09 mid-year reductions \$21.5 million
 - 2009 – 10 budget reductions \$35.0 million
 - 2010 – 11 budget reductions \$13.5 million



■ **General Fund (Unrestricted & Restricted)**

- **Total Revenue: \$489 million**

Unrestricted \$292 million / Restricted \$197 million



- **Total Expenditures: <\$509 million>**

- **Excess/Shortfall: <\$20 million>***

<\$16 million> Expenditures over Revenue and <\$4 million> in Interfund Transfers

- **Ending Fund Balance: \$32 million / 6.4% Reserve**

* **Deficit Spending after Interfund Transfers (Debt Service & Deferred Maint. Funds)**



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CBEDS / Enrollment Change

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 Budget	54,369	0
2008-09 Projected	54,584	+215

* Includes one-time loss of 343 SAUSD resident students to OCEEA Charter School



- COLA as follows:

	2008-09	2009-10	2010-11
COLA	5.66%	5.02%	.70%
State Deficit *	(7.844%)	(13.094%)	---
Net Funded Revenue Limit	(2.63%)	(.969%)	.70%

- Enrollment/ADA assumed to be flat
- No new charters
- Does not incorporate revenues from:
 - Special Ed Behavioral Intervention Mandate (originally anticipated starting 2009-10)
 - Federal Stimulus Package (OCDE directive)

* If National & State economies continue to slow, future deficits may occur.



- Orange County Department of Education will not allow districts to include these funds in the 2nd Interim Report
- Any funds provided may be offset by State funding reductions
 - “It will help support cash flow at the state level rather than coming to the school districts. If you were expecting the federal stimulus money would come down to all the school districts, that's not likely the case.”
 - Joel Montero, CEO of Fiscal Crisis & Management Assistance Team (FCMAT)
- Details on how funds will be distributed and the application are not yet available
 - Funding comes with restrictions including those mirroring No Child Left Behind guidelines
 - The state will have three years to give out funding.





(\$s in 000's)	2008-09 First Interim	2008-09 Second Interim	Difference
Revenue Limit	\$308,688	\$298,593	<\$10,095>
Federal Revenue	\$67,047	\$66,337	<\$710>
Other State Revenue	\$119,669	\$113,033	<\$6,636>
Other Local Revenue	\$11,011	\$11,232	\$221
Total	\$506,415	\$489,195	<\$17,220>

The revenue decrease is primarily attributable to the 17 month State approved budget which reduced Revenue Limit funding as well as funding for many State categorical programs.



Declining enrollment and inadequate State funding of our schools has resulted in 5 years of educational program reductions.

- ❖ 2004-05, **\$29 million**
- ❖ 2005-06, **\$14 million**
- ❖ 2006-07, **\$15 million**
- ❖ 2007-08, **\$21 million**
- ❖ 2008-09, **\$29.5 million** (approved as of 6/24/08)



Total Budget Cuts to date (2004-05 thru 2008-09): **\$108.5 million!**

Given the State Budget, additional cuts are needed.....



Budget Reductions Category	Dollar Amount (in millions)	% of Total
Funding Change (using Categorical or Other Fund \$s)	\$19.1	32.1%
District Office & Support Services Reductions	\$15.7	26.5%
Special Education	\$9.9	16.7%
School Site	\$8.9	14.9%
Miscellaneous	\$5.8	9.8%



Second Interim assumes board approval of following budget reductions:

	2008-09	2009-10	2010-11
State Reduction in Funding (\$s in millions)	\$21.5	\$35.0	
Return of 0.68% COLA	\$2.0	\$2.0	
No Deferred Maintenance Contribution	\$2.5	\$2.5	
Add'l Categorical Funds for CSR	\$3.5	\$12.2	
Use of 2007-08 Categorical Carryover (one-time \$s)	\$8.3	---	
Tier II & III Categorical Reductions	\$4.1	\$5.4	
Tier III Flexibility	---	\$1.3	
Additional District Office Reductions (thru Reorganization)_	---	\$0.3	
Unspecified Budget Reductions	---	---	\$13.5
Total SAUSD Budget Reductions	\$20.4	\$23.7	\$13.5
Shortfall	(\$1.1)	(\$11.3)	\$0
Total, new on-going Budget Reductions	\$12.1	\$11.6	\$13.5



Declining enrollment and inadequate State funding of our schools has resulted in educational program reductions.

- ❖ 2004-05, **\$29 million**
- ❖ 2005-06, **\$14 million**
- ❖ 2006-07, **\$15 million**
- ❖ 2007-08, **\$21 million**
- ❖ 2008-09, **\$29.5 + \$12.1 (new) = \$41.6 million**
- ❖ 2009-10, **\$11.6 million (new)**
- ❖ 2010-11, **\$13.5 million (new)**



Total Budget Cuts to date (2004-05 thru 2010-11): **\$145.7 million!**



- Expenditures do not include COLA salary increases for 2008-09* or for any future years
- Includes salary increases related to step & column and longevity
- Salary & benefit budgets adjusted for vacancies / freeze
- Favorable Health & Welfare costs
- Elimination of deferred maintenance district match
- Non-salary budgets adjusted downward given lower spending

* While 2008-09 negotiations with the classified association (CSEA) is settled, negotiations are still on-going with the certificated association (SAEA). The district's settlement with CSEA includes a "me too" clause for any salary increases that SAEA negotiates.



(\$s in 000's)	2008-09 First Interim	2008-09 Second Interim	Difference
Certificated Salaries (Incl. Mgmt.)	\$255,069	\$254,735	<\$334>
Classified Salaries (Incl. Mgmt.)	\$65,595	\$64,475	<\$1,120>
Employee Benefits	\$100,767	\$94,789	<\$5,978>
Non-Salary Expenses	\$107,966	\$95,560	<\$12,406>
Total	\$529,397	\$509,559	<\$19,838>

Expenditure decreases are attributable to (1) Reduced Health & Welfare costs due to employee selection of lower cost options, (2) Position vacancies / freezes, (3) Elimination of deferred maintenance district contributions, and (4) Reduced categorical spending due to funding reductions.



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2008–09 MYP
(as of Jan. 31, 2009)

<u>(\$s in 000's)</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Revenues*	\$489,194	\$480,536	\$484,283
Expenditures*	\$509,559	\$487,170	\$481,966
Net Increase – Decrease	(\$20,365)	(\$6,634) ^	\$2,317 ^
Unrestricted	\$4,978	(\$6,038)	\$1,950
Restricted	(\$25,343)***	(\$596)	\$367
Required Reserve	2.0% **	2.0% **	2.0% **
Reserve for Economic Uncertainties	4.4%	3.4%	3.9%

^ Does not include anticipated negotiations savings

* Includes Other Sources & Uses.

** COLA Salary increases for these years (with the exception of CSEA for 2008-09) have not yet been negotiated and are thus not included. However, all revenues associated with COLAs for these years are included as is the cost of step, column & longevity are budgeted.

*** Deficit is due primarily to spending down of State categorical carryovers from prior years..



Projected Ending Balances (All Other Funds)

Fund (all \$s in 000's)	2008-09 First Interim	2008-09 Second Interim	Difference
Fund 11 - Adult Education	\$0	\$0	\$0
Fund 12 – Child Development	\$115	\$115	\$0
Fund 13 – Cafeteria	\$6,246	\$6,246	\$0
Fund 14 – Deferred Maintenance	\$3,235	\$735	<\$2,500>
Fund 17 – Special Reserve	\$9,459	\$9,459	\$0
Fund 21 – Building	\$1,810	\$1,994	\$184
Fund 25 – Capital Facilities	\$393	\$393	\$0
Fund 30 – State Sch Bldg-Lease-Purchase	\$0	\$0	\$0
Fund 35 – School Facilities	\$0	\$0	\$0
Fund 40 – Special Reserve/Capital Outlay	\$0	\$0	\$0
Fund 49 – Capital Projects (COP)	\$3	\$0	<\$3>
Fund 51 – Bond Interest & Redemption	\$7,776	\$7,776	\$0
Fund 56 – Debt Service	\$10,211	\$10,206	<\$5>
Fund 67 – Workers' Comp/Self-Ins.	\$14,349	\$14,106	<\$243>




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Economic Uncertainties & May Revision





Six Propositions on May 19th Ballot:

Proposition	Description
1A: State Finance	Increases size of State's "rainy day" fund and requires above-average revenues to be deposited to it. Also extends sales tax for 1-2 year(s).
1B: Educational Finance	Requires supplemental payments of \$9.3 billion over time, commencing in 2011-12, in lieu of Maintenance Factor repayments related to 2008-09 & 2009-10.
1C: State Lottery 	Securitization of Lottery (\$5 billion)
1D: Children & Families Act	Temporarily redirects money to fund health and human services.
1E: Mental Health Services	Temporarily redirects money support mental health programs.
1F: State Officer Salaries	Prohibits salary increases for legislators if there is a projected negative balance.



- State voters may reject the securitization of the State Lottery (Proposition 1C) and the transfer of special fund money to the General Fund (Propositions 1D and 1E)
- Weakened credit markets may have no appetite for California's Lottery borrowing or short-term bonds
- The state and national economies continue to fall
 - Forecasters are expecting the downturn to last through 2009, rather than turn around later this year
 - State tax revenues, in turn, may drop below forecast.



Risks	\$ Amount
Lottery Securitization fails	\$5 billion
State unable to borrow funds	\$6.4 billion
Further decline in State economy	?
Total additional deficit (excluding decline in State economy)	\$11.4 billion
Assume 50% of deficit funded through addt'l cuts to Education	\$5.7 billion
\$1 Billion in State cuts = \$9 million in addt'l SAUSD cuts	\$51.3 million

- Addt'l cuts of **\$51.3 million** may result if (1) the Lottery Securitization fails and (2) the State is unable to borrow funds
- Cuts may be even larger if there is a further decline in the State economy!
- Caution: These numbers are shown solely for What-If discussion purposes.



- Normally, the statutory May Revision is completed by May 15 of each year
 - Includes updated economic data
 - Statutory COLA for Proposition 98 is recomputed and finalized
 - Governor amends his January Budget to reflect economic and other changes if desired
 - Legislature uses the May Revision as a representation of the Governor's final proposal before adoption
- This year will be different
 - Special election on May 19 affects Budget significantly
 - Budget has already been enacted
- State law amended to move statutory date for May Revision to as late as June 8



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Select slides contained within this presentation is provided courtesy of School Services of California, Inc.





Tier I – No Reduction, No Flexibility

**After School Education and Safety
Advancement via Individual
Determination (AVID)
Child Development
Child Nutrition
Economic Impact Aid
Federal Resources**

**K-3 Class Size Reduction
Pupil Transportation
Quality Education Investment Act
Special Education
State Lottery, including Proposition 20
Tobacco Use Prevention Education
(TUPE)**

Tier II – Funding Reduction, No Flexibility

**English Language Acquisition
Program (ELAP)**

Partnership Academies



Tier III – Reduction and Flexibility

Administrator Training Program (AB 430)

Adult Education

Advanced Placement Grant

Arts and Music Block Grant

CAHSEE Intervention Grants

CalSAFE

Certificated Staff Mentoring Program

Community Based English Tutoring (CBET)

Community Day Schools

Counselors, Grades 7-12

Deferred Maintenance

Education Technology

Gifted and Talented Education (GATE)

High Priority Schools (HP)

Instructional Materials Fund

Math & Reading Training (SB 472)

Morgan-Hart Class Size Reduction

National Board Certification Incentive

Peer Assistance and Review (PAR)

Physical Education Teacher Recruitment Grants

Professional Development Block Grant

Pupil Retention Block Grant

ROC/P

SAIT and Corrective Actions

School and Library Improvement Block Grant

State Assessments (STAR, CAHSEE, CELDT, etc.)

Supplemental Hourly Programs

Targeted Instructional Improvement Block Grant

Teacher Credentialing Block Grant

REVISED 3/10/2009



Santa Ana
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Listing of Staffing Reductions for 2009-10

Potential Certificated Staffing Reductions for 2009–10 Due to May Revise

Eliminated Program	# Affected Employees (max estimate)
Out of Classroom Certificated (includes 19 Elementary/Intermediate Assistant Principals)	192
QEIA Teachers	75
Nurses	2
Eliminated Programs (9 th Grade CSR)	36
Counselors	30
Elementary Music	14
Class Size Reduction Teachers	232
<Retirements>	<51>
Total Certificated Teacher notices	530
Other Certificated Administrators receiving notice	10
Total Certificated Positions receiving notice by March 15 th	540

BOLD positions part of Board Priorities

29 Total certificated administrators to receive notice



Potential Staffing Reductions 2009 - 10

- **Central Office Support Teachers / Administrators**
 - Central Office Administrators
 - Program Specialists
 - Curriculum Specialists

- **Site level Out-of-Classroom Teachers / Administrators**
 - Assistant Principals
 - Coordinator of Student Activities
 - Bilingual Resource Teacher (BRT)
 - Outreach Consultant
 - Categorical Program Specialist
 - Literacy Coach
 - Academic Resource Teacher (ATM Specialist)
 - Safety Net Teacher
 - Site Resource Teachers



Potential Classified Staffing Reductions

Classification / Eliminated Program	# Affected Employees (max estimate)
Instructional Assistants / SSP (Not Special Ed)** (IA Bilit, IA Computer, IA Reading, Science Lab, SSP Bilit)	91
Library Media Techs / Instructional Media Clerk	40
Supplementary Office Staff / Computer Techs	55
Accompanists	7
Community Workers	8
Other Classified positions	58
TOTAL	259

**Vacancies currently exist for Instructional Assistants within Special Education,
BOLD positions part of Board Priorities