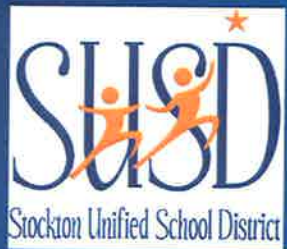


The Governor's Budget Update

August 9, 2011



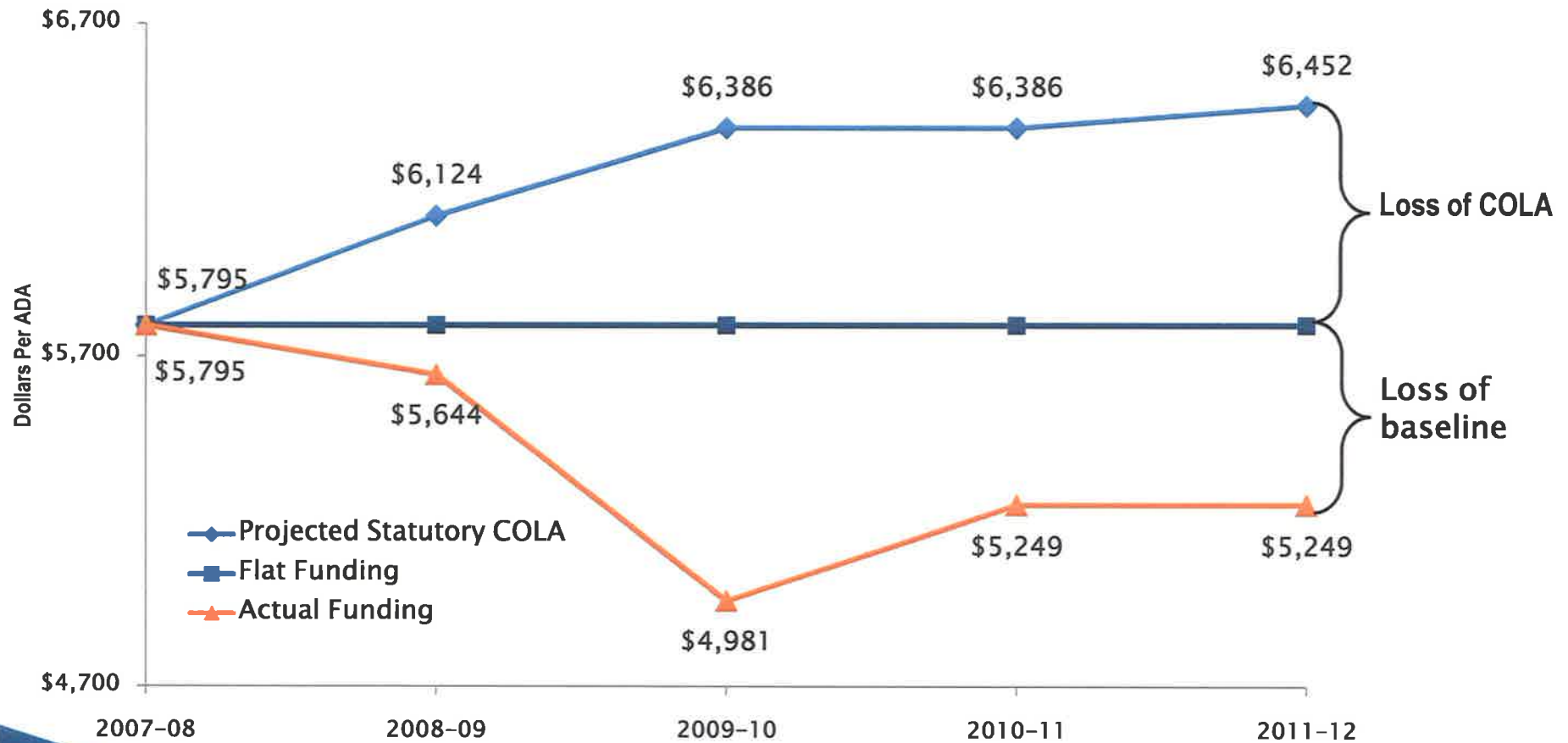
Flat Funding that is not so Flat!

- ▶ While funding per student is the same as last year costs are not!
 - Step & Column
 - Charter Start-up costs
 - Cost of goods, fuel, materials, etc
 - Loss of one-time funds and ending balances
 - Declining enrollment

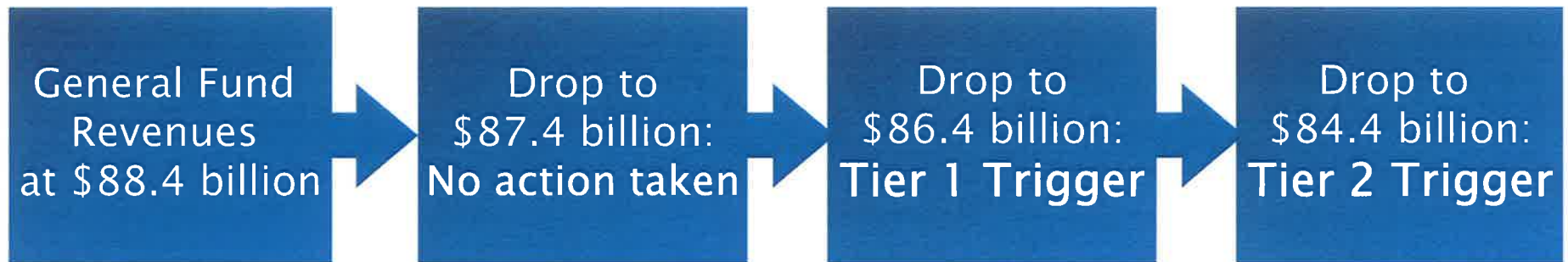


Funding Per ADA – Actual vs. Statutory Level

Stockton Unified District



“Trigger” Provisions 2011–12 Budget



- General Fund Revenues: \$88.4 billion
- If revenues are forecasted to drop \$1 billion to \$87.4 billion, no action taken

Trigger I

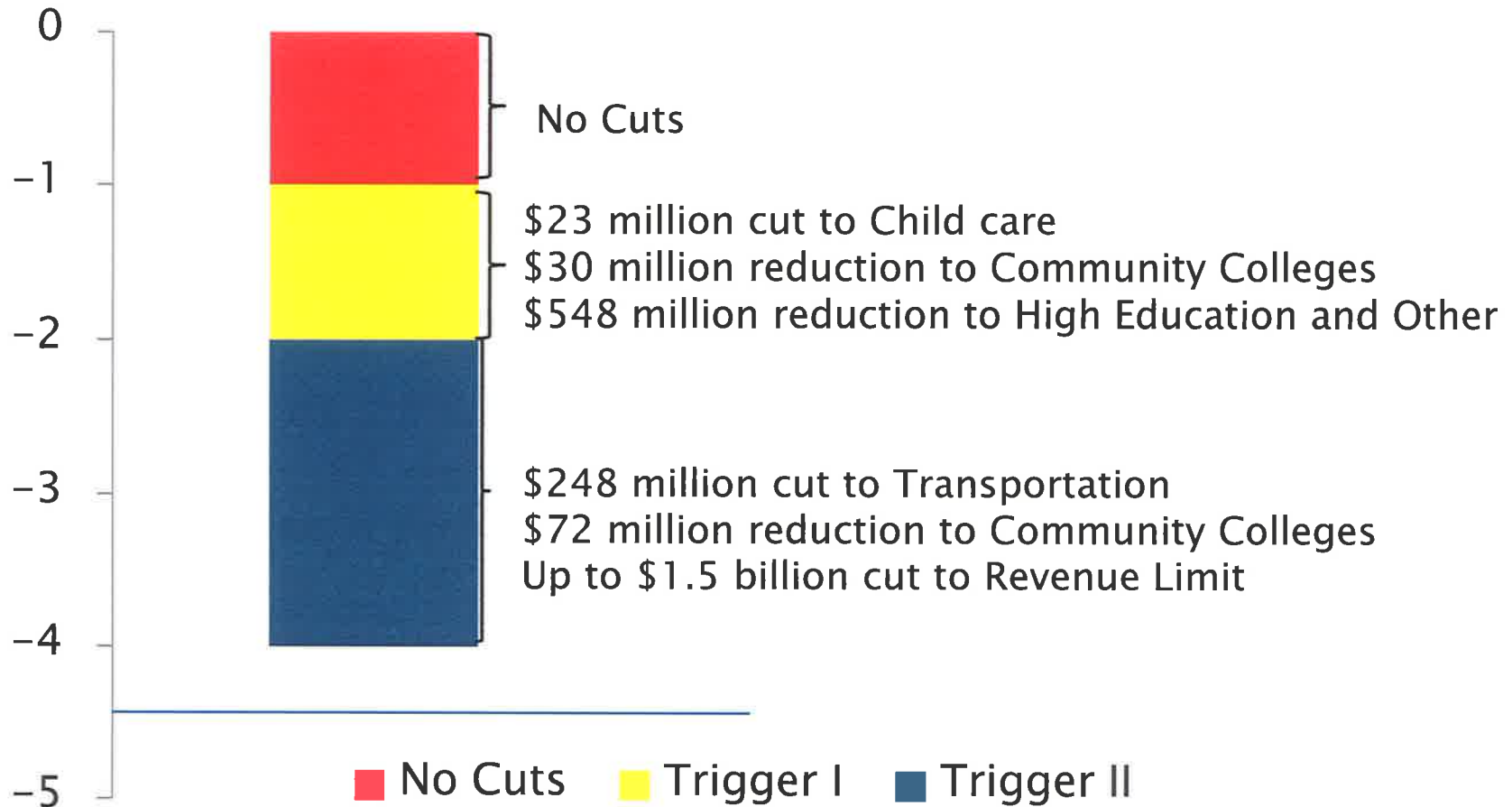
- Revenue forecast drop of another \$1 billion to \$86.4 billion triggers \$601 million in cuts
- Includes cuts of \$100 million each to:
 1. UC
 2. CSUC
 3. Developmental Services
 4. In-Home Supported Services

Trigger II (including Trigger I)

Revenue forecast drop of another \$2 billion from \$86.4 billion to \$84.4 billion, triggers \$1,860 million in cuts:

- ✓ \$248 million to eliminate the last six months of state funding for Home-to-School Transportation (regular and special education)
- ✓ \$72 million to the Community Colleges
- ✓ \$1,540 million for K-12 school districts (up to approximately \$260 per ADA or \$8.7 million)

Summary of Potential “Trigger Cuts”



Key Points about the “Trigger” Provisions

- The Legislative Analyst Office’s November 5–year revenue projection; Department of Finance to do 2011–12 forecast by December 15
- Triggers will apply to the maximum forecast
- Cuts will be determined by December 15. This decision is in the hands of the **Governor’s Director of Finance**
- Other dates to consider:
 - Transportation cuts occur immediately
 - Revenue limit cuts occur on February 1
 - Legislature will likely make changes in January
- From education trailer bill AB 114, enacted June 30

So how likely is the Revenue to drop?

▶ National Economy

- Unemployment unchanged in 2011 at 9.1%
- Home prices still sluggish
- Gross domestic product (GDP) in 2011 1.8% down from last year at 3.1%
- Next year stimulus money is all gone

▶ Forecasts

- UCLA expects GDP to grow 2.5% 2011 and to 2.9% 2012
- Beacon Economics expects GDP to 3.2% in 2011 and 3.3% in 2012 (Beacon has been the most conservative in the past)

So how likely is the Revenue to drop?

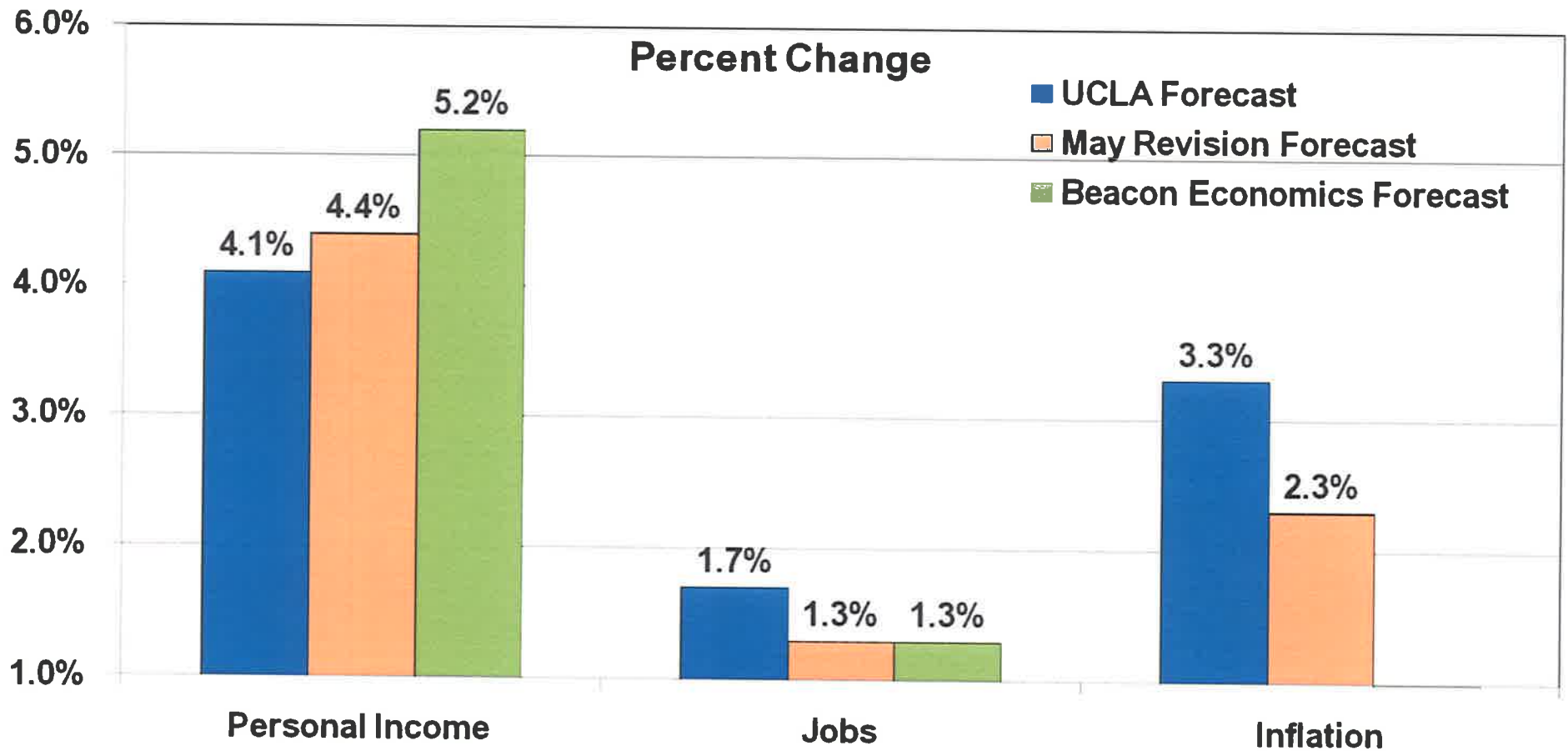
▶ California Economy

- Unemployment among the highest in the nation at 11.7% (although down from 1 year ago at 12.4%)
- Sales of single family homes up 5% from last year
- Home building permits up 12% for March and April 2011 from last year same time
- Revenues year to date are down \$85 million

▶ Forecasts

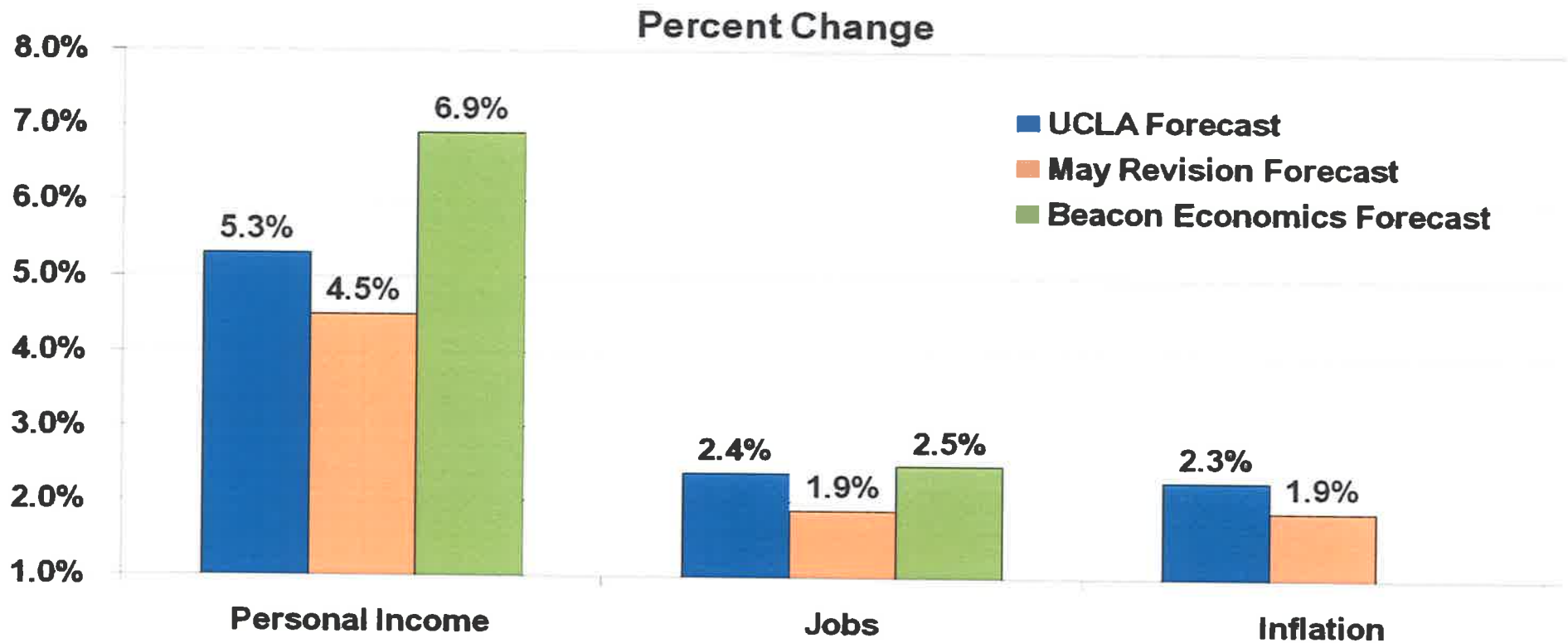
- UCLA expects personal income of 4.1% in 2011 and 5.3% in 2012
- Beacon expects even greater increases in personal income at 5.2% in 2011 and 6.9% in 2012

California Economic Indicators – 2011



Source: 2011-12 May Revision, May 2011, p. 27; UCLA Anderson Forecast, June 2011, p. 106; Beacon Economics, March 2011, p. 16

California Economic Indicators – 2012



Source: 2011-12 May Revision, May 2011, p. 27; UCLA Anderson Forecast, June 2011, p. 106; Beacon Economics, March 2011, p. 16

Risks ...

- ▶ National economy is unstable at this time
 - Sluggish National Economy with recovery slower than expected
 - Debt Solution temporary solution with no long term fixes
 - Federal Funding reductions to increase with new debt deal for spending cuts
- ▶ World economy is unstable at this time
 - Greece and other European countries are struggling
 - Japan is still recovering from earthquakes
- ▶ Lawsuits could unravel the expenditure reductions and funding shifts in this budget
- ▶ Savings in state programs may not happen as budgeted

Governor's Letter on AB 114

Key Points:

1. Doesn't anticipate revenues falling
2. Provides authority to shorten school year by 7 additional days (on top of the 5 approved in 2009)
3. School Boards may need to make reductions due to:
 - Cost increases
 - Loss of federal funds
 - Enrollment declines
 - Other factors
4. School Boards shall take all reasonable steps to balance their budgets and maintain positive cash flow



OFFICE OF THE GOVERNOR

June 30, 2011


To the Members of the California State Assembly:

AB 114 directs schools to adhere to the level of state funding provided in the Budget and not assume a different, or lower, state funding level. If, in fact, revenues fall far short of projections – something we don't anticipate – this bill reduces funding beginning in February. It also provides schools the authority to shorten the school year by up to 7 days. This approach avoids the harmful effects of unnecessary cuts.

In fashioning their local budgets, school boards may nevertheless need to make reductions due to cost increases, loss of federal funds, enrollment declines or other factors. AB 114 does not interfere with these local school board decisions. School boards should take all reasonable steps to balance their budgets and to maintain positive cash balances.

Let us not forget that schools would have enjoyed billions more in state funding if Republicans in the Legislature had allowed the people of California to vote on tax extensions.

Sincerely,


Edmund G. Brown Jr.

GOVERNOR EDMUND G. BROWN JR. • SACRAMENTO, CALIFORNIA 95814 • (916) 445-2841

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Future Expectations

1. Triggers to become a standard practice in budgeting
2. Governor wants a special ballot measure by November 2012 – tax increase for education
3. Wall of Debt (\$225 Billion)
 - a. Proposition 98 Debt – \$10 Billion
 - b. K-14 Deferrals – \$10 Billion
 - c. Borrowing – \$25 Billion
 - d. Retirement Liabilities – \$180 Billion
4. Program Encroachments
 - a. Transportation – \$760 million
 - b. Transportation – ARB Regulations – \$650 million
 - c. Special Education – ?
 - d. Other – ?

What does this mean for SUSD

- ▶ SUSD budgeted “Flat Funding”
 - This means no change in staffing or budget for now (however, subject to mid-year revenue losses).
 - SUSD’s budget contains the Governor’s budget for education
 - SUSD’s staffing adjustments accounted for declining enrollment, Charter School Start-ups, loss of one-time funding, increased costs and deficit spending of one-time funds

Next Steps...

- ▶ SUSD needs to close the books for last year and get the ending balances – unaudited actuals
- ▶ SUSD needs to get staffing settled – first full payroll at the end of August
- ▶ Review positions and school needs
- ▶ Make appropriate staffing adjustments – First week of September to match student enrollment
- ▶ Proceed with Caution until December – First Interim Report. SUSD's budget continues to spend down one time funds and we don't know if the state revenues will be there.