

# 2011-2012 REVISED BUDGET

*February 15, 2012*



# 2011-2012 TRIGGER REDUCTIONS

- The 2011-2012 Budget Act contained automatic mid-year trigger reductions, if state revenues fell short
- Based on a \$2.0 billion shortfall trigger level, automatic reductions were enacted in January 2012
  - One-time reduction of \$13 per ADA for unified school districts
    - **For PUHSD this equates to \$134 thousand, or \$15 per ADA**
  - Remaining home-to-school and special education transportation funding is eliminated (51.67% reduction)
    - **For PUHSD this equates to \$359 thousand, or \$40 per ADA**

# 2011-2012 TRIGGER REDUCTIONS

- Subsequent to the mid-year trigger reductions, Senate Bill 81 was signed by the Governor (February 10, 2012)
  - Reversed the 51.67% reduction to transportation revenue
  - Imposed a 0.65% cut to the revenue limit
  - **For PUHSD this equates to \$439 thousand, or \$49 per ADA**
- **Total mid-year revenue loss for PUHSD of \$64 per ADA, or \$573 thousand in 2011-2012**

# GOVERNOR'S JANUARY BUDGET PROPOSAL

- The Governor's Budget Proposals for 2012-2013 represent another desperate effort to get through a bad time, not a permanent solution
- Specific proposals include:
  - 100% of home-to-school and special education transportation funding is totally eliminated under both alternatives
    - **For PUHSD, this equates to a loss of \$694 thousand, or \$78 per ADA**
    - Disproportionate effect on districts will be a huge problem
      - If the transportation cuts are converted to Revenue Limit cuts, (similar to SB 81), the per ADA loss could increase to approximately \$96 per ADA

# GOVERNOR'S JANUARY BUDGET PROPOSAL

- Governor's Budget: Assumes voters approve a \$6.9 billion tax measure
  - Funding the statutory increase in Proposition 98 by manipulating deferrals
  - This alternative provides no additional spending for education, but maintains revenue limits at about 2011-2012 pre-trigger-cut levels
- Alternative: Assumes voters reject the tax measure
  - Education is cut \$2.4 billion, about \$370 per ADA
  - For PUHSD, this equates to a loss of \$3.3 million
- The mechanics of the Budget are complex, but this outcome is the bottom line



# PER-ADA REVENUE VOLATILITY

- As in the recent past, we continue to have very high volatility in revenues directed toward education
- 2012-2013 continues the roller-coaster ride because of yet another contingency
- Under the Governor's Budget for 2012-2013, revenue levels are maintained at the 2011-2012 Proposition 98 pre-trigger level except for home-to-school and special education transportation
- Revenues would be an estimated \$370 per ADA lower than 2011-2012 if the tax measure does not pass
- California needs to provide a more stable revenue stream for schools



# REVENUE LIMITS AND FUNDING FLEXIBILITY

- Governor Brown has concluded that California's current school finance system is "too complex, administratively costly and inequitable"
  - Complexity – There are too many categorical programs with separate funding streams, allocation formulas, and spending restrictions
  - Administrative burden – These programs require staff in school districts to administer the programs and staff at CDE to ensure compliance
  - Lack of equity – Many program allocations have been frozen at the 2008-2009 funding level and do not reflect demographic changes
- Revenue limits provide school districts with their largest source of unrestricted income, accounting for about two-thirds of their funds
- The Tier III categorical block grant also provides districts with a source of unrestricted income, but this funding provision is temporary
- The Governor's Budget calls for a major change: Weighted Pupil Funding

# WEIGHTED STUDENT FUNDING FORMULA

- To promote greater local decision-making authority, Governor Brown proposes a weighted student funding formula to replace revenue limits and most categorical program funding formulas
  - All of the categorical programs included in the formula “will immediately be made completely flexible” to support any local education priorities
- Elements of the formula
  - Special education, child nutrition, Quality Education Investment Act (QEIA), After School Education and Safety (ASES), and other federally mandated programs are exempt
  - Additional funding is based on the demographics of the schools, including:
    - English Learner population
    - Pupils eligible for free and reduced-price lunches
- Accountability: Qualitative and test-based measures
- Timeline: Phased in over five years



# LOCAL BUDGET IMPACT OF THE WEIGHTED STUDENT FUNDING FORMULA

- The Department of Finance (DOF) indicates that for 2012-2013, 80% of a district's funding will be based on current law formulas and 20% will be based on the weighted student formula
  - Governor Brown is not proposing a “hold-harmless” provision; therefore, some districts will gain and some will lose under the new formulas
    - In general, districts with high concentrations of English Learners and low income students will gain funding and those with few of these students will lose funding
- **There are currently no details that would allow a school district to determine its funding gain or loss for 2012-2013, or for any year thereafter**
- The Legislature must enact this measure as a change to current school finance statutes
- We will provide more information as the details of this proposal are released

# RISKS TO THE BUDGET PROPOSAL

- Flat funding for K-12 education is dependent upon voters approving Governor Brown's initiative authorizing new temporary taxes
- The Governor's Budget acknowledges that the projected statutory COLA is 3.17% and that this funding is to be eliminated through the deficit factor
  - The DOF has provided a K-12 deficit factor of 21.666% to eliminate this COLA, however the analysis done by School Services of California finds that this deficit factor does not fully eliminate the COLA and recommends that districts budget flat funding in 2012-2013 (i.e., the amount prior to the \$13 per ADA trigger reduction), consistent with the policy stated in the Governor's Budget
- Weighted Pupil Funding could be challenged
- Home-to-school and special education transportation cuts could still be converted to Revenue Limit cuts (similar to SB 81)

# BUDGET CONTINGENCY PLAN

- The Governor's Budget assumes that new temporary taxes are approved by the voters for five years at the November 2012 ballot
- The Budget also proposes severe additional reductions in funding for schools in the event that the tax initiative is not approved
- This leaves districts in a position of needing at least two plans
  - **Governor Brown's Proposal:** Flat funding – continues the funding level contained in the enacted Budget for 2011-2012, except for transportation
  - **Alternative:** A \$2.4 billion reduction in K-14 funding – results in a loss of about \$370 per ADA for the average district
- **PUHSD will need to plan for both eventualities until the fate of the tax initiative is determined**

# DISTRICT'S BEST CASE SCENARIO

## *GOVERNOR'S TAX PLAN IS SUCCESSFUL*

### Combined General Fund Budget Summary February Revised Budget and Multi-Year Projections

	2011-2012 Revised Budget	2012-2013 Projected Budget	2013-2014 Projected Budget
Beginning Balance	\$12,721,914	\$5,469,423	\$2,278,916
Revenue	\$73,780,425	\$71,939,692	\$71,748,591
Subtotal Expenditures	\$81,032,916	\$75,923,066	\$78,572,261
Additional Required Budget Reductions (not yet identified & approved)		(\$792,867)	(\$6,725,177)
Total Expenditures	\$81,032,916	\$75,130,199	\$71,847,084
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	(\$7,252,492)	(\$3,190,507)	(\$98,494)
Total Ending Balance	\$5,469,423	\$2,278,916	\$2,180,423
Ending Balance Above 3%	\$3,038,435	\$25,000	\$25,000

# DISTRICT'S WORST CASE SCENARIO

## *GOVERNOR'S TAX PLAN IS NOT SUCCESSFUL*

### Combined General Fund Budget Summary February Revised Budget and Multi-Year Projections

	2011-2012 Revised Budget	2012-2013 Projected Budget	2013-2014 Projected Budget
Beginning Balance	\$12,721,914	\$5,469,423	\$2,182,454
Revenue	\$73,780,425	\$68,627,804	\$68,450,422
Subtotal Expenditures	\$81,032,916	\$75,923,066	\$78,572,261
Additional Required Budget Reductions (not yet identified & approved)		(\$4,008,293)	(\$10,020,936)
Total Expenditures	\$81,032,916	\$71,914,773	\$68,551,325
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	(\$7,252,492)	(\$3,286,969)	(\$100,903)
Total Ending Balance	\$5,469,423	\$2,182,454	\$2,081,550
Ending Balance Above 3%	\$3,038,435	\$25,000	\$25,000

# WHAT'S NEXT FOR PUHSD?

- Funding uncertainty makes this another difficult budget
- We again must plan for two different budget scenarios
  - It will be critical for employee bargaining groups to be involved in the contingency planning efforts
- The District's budget must be adopted by the Board of Trustees prior to June 30, 2012
  - State budget will most likely not be in place by then
- Developing the budget requires:
  - Clarifying assumptions
    - How much revenue?
    - How will expenditures change?
- The Second Interim report will be a good budget check point

# EMPLOYEE NEGOTIATIONS CHECK POINT

## *ADVICE FROM SCHOOL SERVICES OF CALIFORNIA*

### **If . . .**

You have not needed or have been unable to successfully negotiate employee concessions. If the tax initiative fails, you will be unable to maintain minimum reserve levels in the second and/or third year of your MYP.



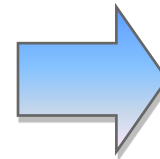
Existing concessions are set to expire and you are unable to maintain minimum reserve levels without them.



Concessions or no concessions, you are able to survive the threat of mid-year cuts.



You have been conservative in your planning, causing annual growth in the ending fund balance. Employees have shouldered some of the burden of prior-year cuts and concessions are ongoing. Even with the threat of a mid-year cut, you are able to maintain a healthy reserve.



### **Then . . .**

Prepare detailed documentation of what you need and why. Be willing to insist on your position through impasse. Remember that it is management and the board that must ensure the fiscal solvency of the district.

Propose extending existing concessions. Use “trigger” contingency language to provide the union with some assurance that concessions and working conditions will be restored when revenues improve and give the district what it needs should the tax initiative fail.

Propose maintaining the status quo.

Consider a one-time, off-schedule bonus. This validates your commitment to employees and will go a long way in maintaining trust in the labor-management relationship.

# THE ROAD TO BUDGET ADOPTION

- The state budget has a long way to go before it becomes law
  - There will be resistance to the tax initiative
  - The weighted student formula is a “work in progress”
  - The home-to-school and special education transportation cut is a political “hot potato”
  - There is resistance by the Legislature to make further cuts
- Ballot measures must be qualified and certified by June 28, 2012 – this is as important as the election itself
- The Budget relies on improved economic projections
  - But cash continues to come in low
  - And unemployment remains high
- The May Revision will be very important again this year
  - Governors often amend their plans in May
  - Revenues and deficit factors get recast
  - The world could look quite different in May
- There is plenty of room for negotiations before final adoption