



PAJARO VALLEY UNIFIED SCHOOL DISTRICT MISSION STATEMENT

The Mission of the Pajaro Valley Unified School District is to educate and to support learners in reaching their highest potential. We prepare students to pursue successful futures and to make positive contributions to the community and global society.

February 6, 2013

BOARD STUDY SESSION

DISTRICT'S MULTI-YEAR FISCAL OUTLOOK

MEASURE L BOND PROGRAM UPDATE

6:00 PM – 9:00 PM

DISTRICT OFFICE

BOARDROOM

292 Green Valley Road, Watsonville, CA 95076

1.0 OPENING CEREMONY – MEETING OF THE BOARD IN PUBLIC - 6:00 P.M.

1.1 Pledge of Allegiance

1.2 Welcome by Board President

Trustees Kim De Serpa, Leslie DeRose, Maria Orozco, Lupe Rivas, Karen Osmundson, Jeff Ursino, and President Willie Yahiro

2.0 Approval of the Agenda

3.0 STUDY SESSION: District's Multi-Year Fiscal Outlook

Facilitated by Brett McFadden, CBO

I. Questions/Comments from the Board

II. Public comment

4.0 Update on Measure L Bond Program

Facilitated by Dennis Dunston, Bond Program Manager

I. Questions/Comments from the Board

II. Public comment

5.0 Adjournment



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

Board Agenda Backup

Item No: 3.0

Date: February 6, 2013

Item: Board Study Session – District’s Multi-year Fiscal Outlook

Overview: The passage of Proposition 30 and the governor’s recently proposed Local Control Funding Formula have altered the fiscal landscape facing California school districts. Although fiscal conditions facing districts have likely stabilized, the governor’s funding proposal creates a number of questions regarding how additional state investments in public education will be made in the future. In response, district staff has begun developing possible scenarios for its 2013-14 budget. In addition, the district has initiated the collective bargaining process with both employee unions pursuant to law.

The board’s role in these processes is to establish policy parameters and direction for staff analysis, policy development, and implementation. Board members have requested a special study session to further analyze the district’s multi-year fiscal outlook. District staff will present updated information and data for the board’s analysis. Staff will seek general direction and input regarding the board’s possible policy priorities and future policy action.

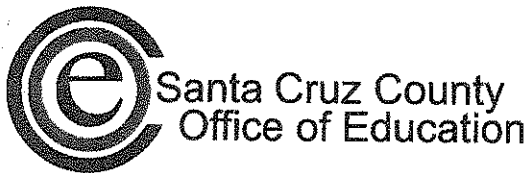
Attached is the County Office of Education’s (COE) recent review of the district’s First Interim Budget Report. The review outlines the COE’s concerns and issues it will require the district to address prior to negotiated settlements with employee unions as well as adoption of the 2013-14 budget.

Recommendation: Report and discussion only.

Prepared By: Brett W. McFadden, Chief Business Officer and Helen Bellonzi, Director of Finance

Superintendent’s Signature:

Dorinda Baker



Board of Education
Ms. Jane Barr
Mr. Jack Dilles
Mr. Aaron Hinde
Ms. Gina Locatelli
Ms. Sandra Nichols
Mr. Dana Sales
Mr. George "Bud" Winslow

Michael C. Watkins, Superintendent • 400 Encinal Street, Santa Cruz, CA 95060 • 831-466-5600 • FAX 831-466-5607 • www.santacruz.k12.ca.us

January 24, 2013

Mr. Willie Yahiro, President
Governing Board
Pajaro Valley Unified School District
8101 B East Lake Ave.
Watsonville, CA 95076

Re: 2012-13 1st Interim Review and Comments

Dear Mr. Yahiro:

Thank you for the submission of the district's 2012-13 1st Interim Budget. In accordance with Education Code Section 42131, the Santa Cruz County Office of Education has reviewed the First Interim Financial Report for the Pajaro Valley Unified School District for fiscal year 2012-13. The Education Code requires that the County Superintendent review the district Interim Report and concur or not concur with the district certification of the financial status based on the following:

Determine whether the financial report complies with the standards and criteria established pursuant to Education Code Section 33127.

Determine whether the Interim Report indicates that the district will be able to meet its financial obligations during the current fiscal year and subsequent two fiscal years.

Based upon our review, we concur with the Positive certification of the 2012-13 First Interim Financial Report for the Pajaro Valley Unified School District. Please see the attached documents for additional information.

With the passage of the Proposition 30 tax initiative in November 2012, there is clearer direction for districts to use in budgeting for the current and future years. For Pajaro Valley Unified School District, the passage of the initiative has improved the financial position of the district. On June 27, 2012, the Governor signed the State Budget Act, AB1464 and Education Budget Trailer Bill SB 1016. Our review utilizes the revised Education Code provisions of the State Budget, current COLA projections based on School Services and the passage of Proposition 30.

As approved by the district's Governing Board, the budget and multi-year projections indicate the district will have sufficient funds to balance the budget in 2012-13, 2013-14 and 2014-15.. We caution the district in making future financial decisions, including entering into costly bargaining unit agreements, until after further details of the Governor's Proposed Budget for 2013-14 are known and there is

Mr. Willie Yahiro, President, Governing Board
Pajaro Valley Unified School District
January 24, 2013

pg. 2

a clear understanding of the effect the Local Control Funding Formula may have on the district, which may not be completely understood for several more weeks or longer.

The review of the 1st Interim Budget is based on an assessment and analysis of the following additional major components of the district's budget:

- Average Daily Attendance (ADA) & Enrollment Projections
- Revenue and Expenditure Projections/Deficit spending
- Negotiations Status
- Long Term Debt
- Reserves
- Cash Flow
- Charter Schools

The budget is a dynamic document that reflects the Governing Board's plan for receipt of revenues and utilization of expenditures to meet the goals and financial obligations of the school district in the coming year, based on the information known to the district and board at the time of approval. To ensure that the budget continues to reflect that plan, the following items should be taken into consideration:

- **AVERAGE DAILY ATTENDANCE (ADA) & ENROLLMENT PROJECTIONS**

The district is projecting 2012-13 P-2 ADA of 17,158 which is a 40 ADA decrease over prior year actual ADA, and a 189 ADA increase compared to the 2010-11 actual ADA.

Compared to the enrollment projection of 18,064, the district is anticipating an attendance ratio of 95% for the current year. This ratio is the same as the actual ADA ratio in the prior fiscal year.

We recommend that the district continue to closely monitor changes in attendance and enrollment throughout the fiscal year. If the projected ADA or enrollment does not materialize as anticipated or grows, the board will need to adjust the budget and future projections accordingly.

- **UNRESTRICTED REVENUE AND EXPENDITURE PROJECTIONS/DEFICIT SPENDING**

Our review indicates that the district has budgeted for flat state aid funding levels for 2012-13. The district is projecting unrestricted expenditures to exceed revenues by \$5.6 million in the current fiscal year. The district is continuing this trend of deficit spending in fiscal year 2013-14 by \$6.9 million and in fiscal year 2014-15 by \$11 million. The SCCOE seriously cautions the district on this ongoing trend of deficit spending. Over the long term it will cause the district to be fiscally unstable if not addressed with ongoing budget adjustments or ongoing increased revenue streams. Anticipated deficit spending should be for one-time, non-recurring expenditures to avoid depletion of the district's unrestricted ending fund balance.

- **NEGOTIATIONS STATUS**

The information submitted with your 1st Interim Budget indicates that salary negotiations have been concluded for the 2012-13 fiscal year. As mentioned above, the SCCOE would recommend caution in negotiations at this time as there are still many unknowns in the state's fiscal future.

The majority of a school district's budget is spent on salaries and benefits 90.3% of the (Unrestricted funds). The state's established standard is based on an average of the district's prior three years of unrestricted salaries to total unrestricted expenditures.

- **LONG TERM DEBT**

The 1st Interim Budget includes non-voter approved long-term debt (COPS) of \$2.6 million which constitutes 1.5% of the district's general fund budget. The debt repayment is budgeted in both the General Fund and the Adult Education Fund. The district should closely monitor the revenue stream of these fund(s) to ensure adequate revenues are received to cover the current and on-going debt repayment schedules for principal and interest payments. Any district with a debt ratio to the general fund of greater than 25% is recommended to increase their minimum unrestricted reserve levels to twice the state standard to ensure funds will be available to meet the repayment obligations.

- **RESERVE FOR ECONOMIC UNCERTAINTIES**

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 3% of expenditures. We believe that this level represents the minimum reserve level that a school district should maintain. The district is currently meeting the minimum reserve level for 2012-13, 2013-14 and 2014-15.

- **CASH FLOW**

Our office reviewed the district's anticipated 2012-13 cash flow projections. It appears based on the current projection, that the district will have funds available in funds other than the General Fund to cover current year cash flow issues. We caution the district to continually monitor cash flow as they spend down balances in all funds.

- **CHARTER SCHOOLS**

- As the chartering authority of a Charter School, Education Code Section 47604.32 requires that:
- *"...each charter school under its authority complies with all reports required of charter schools by law and use these reports to monitor the fiscal condition".*
-

Your district, as the chartering authority, has oversight responsibilities similar to a county office of education over a K-12 school district. Chartering authorities not providing on-going oversight responsibilities and authority over their chartering entities could become fiscally responsible should the charter become fiscally insolvent, if this oversight is not properly documented by the district.

- The district has reviewed the fiscal and budgetary condition of the below listed Charter School. Our office recommends that each district also submit a copy of the letter to the

Mr. Willie Yahiro, President, Governing Board
Pajaro Valley Unified School District
January 24, 2013
pg. 4

charters approving or disapproving the 1st Interim Budget and any concerns to be addressed during the current fiscal year. The district has submitted a letter.

* Ceiba Preparatory Charter

MULTI YEAR PROJECTION

As discussed earlier in this letter, the district projects to meet the reserve requirements in all three years.

Please address any questions concerning the review of the district's 2012-13 1st Interim Budget to me at (831) 466-5602.

Sincerely,



Mary Hart
SCCOE Associate Superintendent/CBO

MH/mmm
Attachments

c: Michael C. Watkins, County Superintendent of Schools
Dorma Baker, Superintendent/Pajaro Valley Unified School District
Brett McFadden, Chief Business Official, Pajaro Valley Unified School District
Helen Bellonzi, Director of Finance, Pajaro Valley Unified School District
Jean Gardner, SCCOE, Director/Fiscal Services
Rema Kumar, SCCOE Financial Analyst
Marilyn Latorraca, SCCOE Financial Analyst

REVIEW AND APPROVAL OF FISCAL YEAR 2012/2013 1ST INTERIM REPORT

TO THE GOVERNING BOARD:

Pajaro Valley Unified School District

FROM:

Michael C. Watkins, County Superintendent of Schools
Santa Cruz County Office of Education

In accordance with the provisions of Education Code Section 42131, this office has completed a review of the **FIRST INTERIM** report for your district. A report on that review follows.

1. TYPE OF APPROVAL

- ☒ The Interim budget has been certified as **POSITIVE**.
Based on current projections, this district will meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- ☐ The Interim budget has been certified as **Qualified**.
Based on current projections, this district may not meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- ☐ The Interim budget has been certified as **Negative**.
Based on current projections, this district will be unable to meet its financial obligations for the remainder of the fiscal year or for the subsequent fiscal year.

2. RESERVES

We have made the following computation of budget year reserves based upon updated prior year information. Adjustments made after this date could further impact the projected ending reserve fund balance.

		Unrestricted	Restricted
Beginning fund balance per unaudited actuals:		\$ 39,516,356	\$ 5,132,350
Projected Increase/decrease in fund balance per 1st Interim:		(5,687,908)	(4,786,681)
Ending fund balance per 1st Interim:		\$33,828,448	\$345,669
State required unrestricted reserves:	\$5,441,983		
District Reserves for Economic Uncertainty (9789):		\$5,441,983	
REU percentage per state criteria and standards:	3.00%		
District REU percentage per 1st Interim:	3.00%		
Restricted/Nonspendable Reserves		448,994	\$345,669
Assigned / Committed Reserves		3,690,803	
Unassigned Reserves		24,246,668	

REVIEW AND APPROVAL OF FISCAL YEAR 2012/2013 1ST INTERIM REPORT

Pajaro Valley Unified School District

Page 2

3. STATEWIDE CRITERIA AND STANDARDS (Ed. Code 33127)

We have reviewed your board 1st Interim report evaluation based upon state mandated budget criteria and standards for fiscal stability, including narrative(s), if any.

- ☒ We accept your Summary Review Document calculations as complete and narrative(s) as reasonable.
- ☐ We have made recalculations based upon updated information for the prior fiscal year. See attached.
- ☐ We were unable to base our evaluation on the criteria and standards, as the information was not completed. The district provided no narratives.

4. RECOMMENDATION AND TECHNICAL CORRECTIONS

A. Unrestricted Reserves Available through 2014-15

- ☒ Appear to be adequate (as recalculated) for the current fiscal year.
- ☐ Are below state recommended levels for your size district (See Section 5, below).
Level: 3% of budgeted expenditures or: \$ N/A, whichever is greater.

B. Revenue and Expenditures through fiscal year 2014-15

- ☐ The revenue appears to be overstated (see Section 5, below).
- ☐ The total expenditures appear to be understated (see Section 5, below).
- ☒ The proposed expenditures and transfers out exceed the estimated total revenue.
- ☒ Total available reserves appear adequate to offset this condition.
- ☐ Total available reserves do not appear adequate to offset this condition, (see Section 5, below).

C. ADA: We recommend budgeting no more revenue limit funding than the state guarantee (prior year ADA). The average daily attendance upon which this budget is based: 17,158

- ☒ ADA budgeted represents the state guaranteed level of ADA revenue limit funding.
- ☐ With our prior concurrence, this level of ADA is above the state guaranteed level of revenue limit funding by _____ ADA. Actual ADA should be monitored closely.
- ☐ This level of ADA exceeds the state guaranteed level of revenue limit funding by _____ ADA (see Section 5, below).

D. Other Recommendations

- ☒ See Section 5 for details.

E. Technical Corrections

☐ Other technical corrections have been noted in our review as explained in Section 5, below.

5. DESCRIPTION OF RECOMMENDATIONS AND TECHNICAL CORRECTIONS

SECTION & COMMENT NUMBER	DESCRIPTION
B-1	The district is projecting to deficit spend in the unrestricted resources in the current year by \$5.7 million, in 2013-14 by \$6.9 million and in 2014-15 by \$11 million. This would amount to 60% of the district's unrestricted beginning fund balance in 2012-13. It does not appear that the district can maintain this level of deficit spending beyond 2014-15.
B-2	As the district spends down its fund balance, this will deplete the amount of cash the district has available. As we continue to state, cash is still a critical concern, even with the passage of Proposition 30. The district must address the level of deficit spending noted above in order to maintain a Positive certification as well as a positive cash flow position.
C-1	The district has experienced a decrease in enrollment in the current year of 40 students. Enrollment is projected to decrease again by 40 students each year in both 2013-14 2014-15. This loss represents the students the district expects to lose to the Ceiba charter school in all three years of the multi-year projections. Loss of ADA to a district-sponsored charter school reduces the P-2 guarantee for the district.
D-1	Contributions from the unrestricted general fund to restricted programs (encroachment) are projected to increase by 22% in the current year over prior year actuals. The district is projecting an increase in contributions of 5.7% in 2013-14 and 3.5% in 2014-15. The district's contributions in the current year are primarily due to the cost of Special Education (53%), Transportation (23%) and the contribution to the Routine Restricted Maintenance Account (21%). The district's contributions in the current year total \$19.4 million. Should future contributions increase at current year projected levels, this may negatively impact the district's unrestricted general fund.
D-2	The district is also projecting to deficit spend in the restricted resources in the current year, spending down \$4.8 million and leaving a projected restricted ending fund balance of \$345,000. We note that most districts will fully budget restricted funds and that the district may not spend down this entire balance. Should these funds be exhausted, and if expenses increase in the restricted programs with no change in the revenue (or if revenue were to decrease), the district might need to make additional budget reductions. Should budget reductions be insufficient, this could potentially result in an increase in contributions, impacting the unrestricted general fund.
D-3	Health and welfare benefit costs in the district are projected to increase by 10% in each year of the multi-year projections.
Continued on next page...	

REVIEW AND APPROVAL OF FISCAL YEAR 2012/2013 1ST INTERIM REPORT

Pajaro Valley Unified School District

Page 4

SECTION & COMMENT NUMBER	DESCRIPTION
	Continued from previous page...
D-4	<p>The district is projecting to deficit spend in most of its funds in the current year. Across all funds, the district is projecting that deficit spending will total \$16 million in the current year. As we have noted in the past, there have been healthy cash balances in the district's other funds that the district has available to borrow against for cash flow needs for payroll and vendor payments. With the decline in the district's general fund cash balance as noted above, the district's cash needs may be greater than in past years. The district should continue to monitor cash balances in all funds to determine if available cash balances will be adequate to cover all the districts obligations. Currently, the district is not projecting to have a cash flow problem in the current fiscal year, although cash deferrals imposed by the state are straining districts state-wide.</p>
D-5	<p>We note that the district's unrestricted salary and benefit ratio to total unrestricted expenditures is projected at 90.3% in the current year, 92.2% in 2013-14 and 92.4% in 2014-15.</p>
D-6	<p>The district currently has \$475,000 in outstanding temporary cash loans from the General Fund to the Child Development fund. These loans will need to be repaid within the current fiscal year.</p>
D-7	<p>The district has settled negotiations with both bargaining units; no potential increases beyond step and column are budgeted in the multi-year projections.</p>
D-8	<p>The district is projecting to continue the K-3 Class Size Reduction (CSR) program beyond 2013-14 for its QEIA schools. Depending on the outcome of the Governor's budget proposals and the Local Control Funding Formula, many scenarios are possible and it is unknown at this time whether the current flexibility will be continued beyond 2013-14 or if this program will be folded into the LCFF.</p>
D-9	<p>The district is projecting that FTE's will remain flat in the multi-year projections, but is projecting some reduction in budgeted salaries due potential reductions in non-FTE salaries.</p>
	Continued on next page...

SECTION & COMMENT NUMBER	DESCRIPTION
	Continued from previous page...
D-10	<p>According to the district's most recent actuarial study dated April 1, 2011, the district has an unfunded actuarial accrued liability (UAAL) for other post-employment benefits (OPEB) of \$53 million. The district implemented Government Accounting Standards Board (GASB) Statement 45 in the 2007-08 fiscal year, which required the district to include as a liability within its financial statements the annual contribution necessary to fund this liability over 30 years. According to the district's 2011-12 audit report, the district's annual required contribution (ARC) in that year was \$7.8 million. The district made contributions of \$4.5 million and therefore has a net OPEB obligation for that year of \$3.3 million. The net OPEB obligation at the beginning of 2011-12 was \$13.9 million bringing the end of year net OPEB obligation to \$17.2 million. At this time, the district has instituted a "payroll tax" to fund only the pay-as-you-go portion of this liability. The pay-as-you-go amounts based on the actuarial report are estimated at \$5.5 million in 2012-13, \$5.6 million in 2013-14 and \$5.9 million in 2014-15.</p> <p>Until the district is able to fund this obligation at the calculated annual amount, it will continue to increase its net liability in this area and this will eventually impact the district's ability to borrow or secure additional debt. The district will need to develop a plan to fund this obligation.</p>
D-11	<p>According to the district's cash flow projections for 2012-13, the district is projecting to have negative cash in the months of March and May. The district does have internal funds from which to borrow. As we have noted previously, many districts throughout the state are experiencing more significant cash flow issues than any other time in recent history due to the extreme deficits to public education, deferrals from the state, declining enrollment resulting in further reductions in funding and the spending down of fund balances and reserves in all funds. The district should continue to carefully monitor cash flow.</p>
D-12	<p>The COE has requested from each district, as part of the 1st Interim submission, cash flow projections for both the current fiscal year and for 2013-14. The district is projecting that it will need to borrow \$4.7 million in November, 2013, \$8.5 million in March, 2014 and \$7.8 million in May, 2014. The district will typically borrow cash when needed from its Fund 67, although may have cash available in other funds, as well. The district should confirm its cash flow projections for its other funds to ensure it can meet its cash flow needs.</p>

EXAMINED BY COUNTY SUPERINTENDENT OF SCHOOLS:

BY:

Mary Hart

Associate Superintendent, Business Services

Date:

1/24/13

cc:

District Superintendent

District Business Office

County Business Office

Revised: 1/2006

GENERAL FUND		2009/10	2010/11	2011/12	2012/13	2012/13	2012/13	2012/13	2013/14	2013/14	2014/15	Change Between 13/14 & 14/15
		Unaudited Actuals	Unaudited Actuals	Unaudited Actuals	Adopted Budget	1st Interim	Change Between 12/13 & 13/14	Change Between Adopted Budget & 1st Interim	Projected Budget	Change Between 13/14 & 14/15	Projected Budget	Change Between 13/14 & 14/15
Revenues												
8010-8099 Revenue Limit Sources		\$ 84,955,391	\$ 90,141,351	\$ 91,453,888	\$ 91,156,854	\$ 91,023,751	-0.47%	-0.15%	\$ 92,395,725	1.51%	\$ 94,305,950	2.07%
8100-8299 Federal		27,756,421	28,566,346	29,660,332	25,483,235	29,165,788	-1.67%	14.45%	24,304,984	-16.67%	24,304,984	0.00%
8300-8599 Other State		51,414,941	48,676,355	48,422,861	44,970,734	48,061,064	-0.75%	6.87%	47,117,267	-1.95%	45,369,584	-3.71%
8600-8799 Other Local		5,392,324	2,965,269	3,308,312	1,613,579	2,607,245	-21.19%	61.58%	1,770,996	-33.99%	1,756,379	2.06%
8910-8929 Interfund Transfers In		10,894	546,280	517,020	124,167	67,001	-87.04%	-46.04%	67,001	0.00%	67,001	0.00%
8930-8979 Other Sources												
Total Revenue, Transfers, and Other Sources		\$169,529,971	\$170,895,601	\$173,362,413	\$163,348,569	\$170,924,849	-1.41%	4.64%	\$165,605,973	-3.11%	\$165,803,898	0.12%
Expenditures												
1000-1999 Certificated Salary		\$ 70,509,829	\$ 66,446,007	\$ 68,806,541	\$ 68,681,124	\$ 70,011,067	1.75%	1.94%	\$ 68,406,927	-2.29%	\$ 69,255,183	1.24%
2000-2099 Classified Salary		24,387,105	23,947,362	24,193,097	25,213,990	25,928,895	7.17%	2.84%	25,618,472	-1.20%	25,607,528	-0.04%
3000-3999 Employee Benefit		40,205,874	43,557,617	47,392,685	51,754,756	52,642,847	11.08%	1.72%	55,063,782	4.60%	58,697,139	6.60%
4000-4999 Books & Supplies		7,313,926	9,868,393	7,187,133	6,530,830	13,214,915	83.87%	102.35%	7,279,632	-44.91%	7,122,845	-2.15%
5000-5999 Services & Other Operating Expenditures		17,895,271	17,561,560	18,775,771	16,851,442	18,861,957	0.46%	11.93%	16,078,452	-14.76%	15,717,247	-2.25%
6000-6599 Capital Outlay		18,618	46,554	16,273	-	252,488	1451.62%	-	-	-	-	-
7100-7299 Other Outgo		721,452	458,179	446,880	466,033	466,033	4.29%	0.00%	373,598	-19.83%	373,598	0.00%
7300-7399 Direct & Indirect Support		(666,005)	(673,718)	(511,381)	(486,255)	(530,003)	3.64%	9.00%	(546,863)	3.18%	(550,762)	0.71%
7610-7629 Interfund Transfers Out		3,656,980	691,927	753,103	610,590	551,239	-26.80%	-9.72%	568,387	3.11%	572,673	0.75%
7630-7699 Other Uses												
Total Expenditures, Transfers, and Other Uses		\$164,043,051	\$161,913,882	\$167,060,102	\$169,622,510	\$181,399,438	8.53%	6.94%	\$172,842,387	-4.72%	\$176,795,451	2.29%
Excess (Deficiency)		\$ 5,486,920	\$ 8,981,719	\$ 6,302,311	\$ (6,273,941)	\$ (10,474,589)	-266.20%	66.95%	\$ (7,236,414)	-30.91%	\$ (10,991,553)	51.89%
Beginning Balance		\$ 25,939,172	\$ 28,572,764	\$ 38,346,395	\$ 44,648,707	\$ 44,648,707	16.44%	0.00%	\$ 34,174,118	-23.46%	\$ 26,937,703	-21.18%
Audit Adjustments / Restatements		(2,853,328)	791,91									

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
ALL FUNDS SUMMARY
2022/23
1ST INTERIM

	01 General	09 Charter	11 Adult Education	12 Child Development	13 Cafeteria	14 Deferred Maintenance	25 Capital Facilities	35 County Facilities	51 Bond Redemption	67 Self Insurance	71 Retiree Benefit	73 Foundation Trust	Total All Funds
Revenue													
1000-8059 Revenue Limit	\$ 91,023,751	\$ 7,631,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,655,418
1100-8259 Federal Revenue	29,165,788	-	141,647	7,432,597	7,815,318	-	-	-	-	-	-	-	44,555,350
1300-8599 State Revenue	48,061,064	1,783,970	686,709	2,670,892	591,000	-	-	-	-	-	-	-	53,793,635
1600-8699 Local Revenue	2,607,245	5,800	394,890	469,517	805,000	9,000	456,308	-	-	40,098,472	3,768,071	100,000	48,714,393
Total Revenue	\$ 170,857,848	\$ 9,421,437	\$ 1,223,246	\$ 10,573,006	\$ 9,211,318	\$ 9,000	\$ 456,308	\$ -	\$ -	\$ 40,098,472	\$ 3,768,071	\$ 100,000	\$ 245,718,706
Expenditures													
1000 Certificated Salaries	\$ 70,011,067	\$ 4,619,667	\$ 938,878	\$ 2,617,064	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,186,676
2000 Classified Salaries	25,928,895	617,335	333,246	1,261,769	2,283,223	-	-	-	-	117,521	-	-	30,541,989
3000 Employee Benefits	52,642,847	2,543,106	686,372	2,583,694	2,771,962	-	-	-	-	76,998	-	-	61,304,979
4000 Books & Supplies	13,214,915	2,382,621	109,434	944,929	4,054,612	-	-	-	-	-	-	-	20,707,511
5000 Services & Other Oper.	18,861,957	2,500,976	174,495	2,940,823	12,100	1,696,000	416,556	-	-	39,779,507	3,768,071	100,000	70,250,485
6000 Equipment	252,488	-	-	-	-	-	39,752	37,736	-	-	-	-	329,976
7100-7299 Other Outgo (7400)	466,033	-	-	-	-	-	-	-	-	-	-	-	466,033
7300 Indirect Costs	(530,003)	3,034	40,191	255,981	230,797	-	-	-	-	-	-	-	-
Total Expenditures	\$ 180,848,199	\$ 12,666,739	\$ 2,273,616	\$ 10,604,260	\$ 9,362,694	\$ 1,696,000	\$ 456,308	\$ 37,736	\$ -	\$ 39,974,025	\$ 3,768,071	\$ 100,000	\$ 261,787,649
Excess (Deficiency)	\$ (9,990,351)	\$ (3,245,302)	\$ (1,050,370)	\$ (31,254)	\$ (151,376)	\$ (1,687,000)	\$ -	\$ (37,736)	\$ -	\$ 124,446	\$ -	\$ -	\$ (16,068,943)
Other Sources/Uses													
89XX Transfers In	\$ 67,001	\$ 276,889	\$ 331,795	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 675,685
8930-8979 Other Sources	-	-	-	-	-	-	-	-	-	-	-	-	-
7610-7629 Transfers Out	551,239	-	-	-	-	-	-	-	-	124,446	-	-	675,685
7630-7699 Other Uses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Sources/Uses	\$ (484,238)	\$ 276,889	\$ 331,795	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (124,446)	\$ -	\$ -	\$ -
Total Incr (Decr) in Fund Balance	\$ (10,474,589)	\$ (2,968,413)	\$ (718,575)	\$ (31,254)	\$ (151,376)	\$ (1,687,000)	\$ -	\$ (37,736)	\$ -	\$ -	\$ -	\$ -	\$ (16,068,943)
Beginning Fund Balance	\$ 44,648,707	\$ 2,968,414	\$ 1,029,752	\$ 31,951	\$ 2,819,395	\$ 3,039,141	\$ 702,207	\$ 37,735	\$ 2,913,322	\$ 10,222,315	\$ 2,756,433	\$ 3,760,860	\$ 74,930,233
End of Year Fund Balance	\$ 34,174,118	\$ 1	\$ 311,177	\$ 697	\$ 2,668,019	\$ 1,352,141	\$ 702,207	\$ (1)	\$ 2,913,322	\$ 10,222,315	\$ 2,756,433	\$ 3,760,860	\$ 58,861,290
Deficit (Surplus) as % of Fund Balance	-23.46%	-100.00%	-69.78%	-97.82%	-5.37%	-55.51%	0.00%	-100.00%	0.00%	0.00%	0.00%	0.00%	-21.45%

FINANCIAL ANALYSIS OF GENERAL FUND UNRESTRICTED AND RESTRICTED MONIES

EXERCISES **POINTS**

Governor's 2013-14 January Budget Proposal (Part Deux)

Marissa Boyd, Legislative Intern ACSA Government Relations
January 15, 2013

Governor Brown released his annual January budget proposal last Thursday. The following is an updated analysis of the components of the governor's budget.

Overall Budget

The governor does not identify any budget deficit associated with the state budget. Recall that the Legislative Analyst's Office believed that the state was facing a budget deficit of \$1.9 billion. Instead the governor notes that his proposal is a multiyear balanced plan. The overall General Fund spending for 2013-14 will be approximately \$97.7 billion up from \$93 billion in the current year. However, the governor acknowledges that the 2013-14 budget will be balanced without a significant reserve. Therefore, the governor proposes several adjustments in order to create a \$1 billion reserve. These adjustments include:

- Suspending four newly identified mandates - \$104 million
- Using the overappropriation of Proposition 98 minimum guarantee to prepay obligations to schools under the CTA vs. Schwarzenegger settlement - \$172 million
- Use the miscellaneous state highway account revenues to pay for transportation bond debt service - \$67 million
- Extending the hospital quality assurance fee - \$300 million
- Extending the gross premiums tax on Medi-Cal managed care plans - \$364 million

In addition to investing in K-12 education, the governor is proposing substantial investments in higher education. The budget proposes to provide stable funding in an effort to prevent further tuition and fee increases. To this end, the budget proposes to provide 5 percent growth funding to each segment of higher education (University of California, California State University and California Community Colleges).

The governor also proposes to expand health care coverage in an effort to meet the state's commitment to implementing federal health care reform. To this end, the budget includes \$350 million to pay for this expansion.

State's Fiscal and Economic Condition

California Economy – The state's economy is similar to that of the nation in that both the nation and California are in the middle of an economic recovery. The state's economy is improving due to improved real estate conditions, job growth and improved consumer attitudes. The housing sector has seen steady increases. For 2012, house prices increase approximately 9 percent above 2011. Similarly, employment gains occurred throughout 2012. Job growth came primarily from the private sector and included high wage, high technology industries. This in turn produced growth in personal incomes where there was growth from \$1.645 billion in 2011 to \$1.728 billion in 2012. Consumer spending also increased by 8.8 percent in 2012.

The governor's proposal forecasts that the state's economy will continue to grow at a moderate pace. Nonfarm employment is project to grow 2.1 percent in 2013, 2.4 percent in 2014 and 2.5 percent in 2015. Further, personal income is forecast to grow by \$83 billion or 5.1 percent in 2012. However, it is noted that the state's economy will be impacted by decisions made at the federal level. Federal actions on tax rates, debt ceiling and sequestration could negatively impact California's economy.

Revenues

Proposition 30, The Schools and Local Public Safety Protection Act of 2012, and Proposition 39, The California Clean Energy Jobs Act, generated significant revenues for the General Fund. These initiatives combined to generate \$5.8 billion of General Fund revenues in 2013-14, or 5.9 percent of total General Fund revenues. Specifically, Proposition 30 is estimated to increase Personal Income Tax (PIT) revenues by \$4.9 billion in 2013-14 and Sales and Use Tax (SUT) by \$1.3 billion in 2013-14. Proposition 39 is estimated to increase Corporation Tax revenue by \$900 million in 2013-14. Total revenues are expected increase from \$95.4 billion in 2012-13 to \$98.5 billion in 2013-14.

The PIT which accounts for 62.7 percent of all General Fund revenues is projected to increase by 2.1 percent. SUT, the state's second largest revenue source at 23.6 percent of all General Fund revenues are expected to increase from \$20.7 billion in 2012-13 to \$23.3 billion in 2013-14. Corporate taxes which account for 9.3 percent of all General Fund revenues declined by 4.6 percent to \$7.6 billion in 2012-13 but will increase by 20.5 percent to \$9.1 billion in 2013-14. Finally, the budget forecasts that these three revenue sources will continue to grow through 2016-17. Total General Fund revenue from these sources is expected to grow from \$80.4 billion in 2011-12 to \$113.2 billion in 2016-17.

Proposition 98

The governor is staying true to his word by investing in public education. The governor's proposal provides \$56.2 billion for the 2013-14 fiscal year. This is an increase of \$2.7 billion from the 2012-13 fiscal year. This increase includes \$6 billion from the passage of Proposition 30. Proposition 98 also includes an increase of \$526 million from the passage of Proposition 39. The governor attempts to establish a multiyear commitment to funding public education. The governor's budget proposal intends to continue to grow Proposition 98 through the 2016-17 fiscal year. Under the governor's plan, Proposition 98 will grow from \$56 billion in 2013-14 to \$66.4 billion in 2016-17. Finally, the governor is proposing to repay \$1.8 billion in inter-year deferrals.

Local Control Funding Formula (aka Weighted Student Formula)

The governor continues to pursue education finance reform through a weighted student formula which is renamed "Local Control Funding Formula." The proposed reform is consistent with the governor's proposal from the 2012 May Budget Revision with several modifications. The reform will fund districts through a base grant with additional supplemental funding weighted based on English Language Learners, economically disadvantaged (i.e. those on Free and Reduced Priced Lunch) and foster youth (*new student population*). These weights or supplemental grants will be equal to 35 percent of the base grant (*The weights were 20 percent in the 2012 May Revision*). In addition, districts with more than 50 percent of the subgroups will receive a concentration grant that is also 35 percent (*as opposed to 40 percent*) of the base grant. Further, there remain considerations for grade spans K-3, 4-6, 7-8 and 9-12. At this time it is unclear the exact grade span amounts. There are several programs that are excluded from this proposal and will remain separate add-ons to district funding. These include the Targeted Instructional Improvement Grant, Special Education, school nutrition and school transportation. Other changes include the following:

- Allocating half of the available Proposition 98 growth funding to move local educational agencies towards their respective formula allocation.
- Folding current career technical education funding into a 9-12 grade span adjustment.
- Authorizing local educational agencies to receive supplemental and concentration grant funding for an English language learner student for no more than five years.
- Linking funding in the K-3 grade span adjustment to maximum class sizes. A student-to-teacher ratio of 24 to 1 is established as the maximum standard in grades K-3 upon full implementation of the new formula. This ratio may be exceeded if agreed to at the local level according to local priorities.

Implementation

This new funding formula will be phased in over approximately 7 years. The intention is for each district to have a target funding level that is equal to the average undeficit revenue limit plus the supplemental/weighted grants plus the concentration grant (if applicable) plus the additional add on of Class Size Reduction, career technical education, Home-to-school Transportation and Targeted Instructional Improvement Grant (TIIG). The state then will provide funding to close the "gap" between a district's target and its current level of funding. Each district will receive a percentage of the growth in Proposition 98 depending on their proximity to their target. Those closer to their target will receive less of an increase than those further from their target. For 2013-14, school districts will receive at least the same amount of funding that they received last year.

County Offices of Education (COE) will have a similar funding mechanism. COE's will receive funding for students in community schools and juvenile court schools as well as weighted funding based on the numbers of schools in the county and the total ADA of all the students in the county. In addition they will receive the same supplemental/weights for EL/FRPL/FY.

A Basic Aid District, under the new proposal, would be defined to be a district where local property tax revenues equal or exceed the district's Base/Supplemental/ Concentration Grant allocation; the district would continue to retain local property tax revenues in excess of that allocation. It is the intent of the administration that no Basic Aid district would lose funding as a result of the proposal.

Accountability

Districts are required to have a "District Plan for Student Achievement" that must be aligned with each district's annual budget/spending plan. There is significant discretion on the contents of the plan. The basic components of the plan must include the following factors:

- Basic conditions for student achievement (having qualified teachers at each school site, sufficient instructional materials available for students, and school facilities in good repair) i.e. meeting the Williams Act requirements.
- Programs or instruction that benefit low-income students and English language learners.
- Implementation of Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, and completion of college-preparatory and career technical education courses).

Further, districts must still follow all the federal accountability requirements, academic performance requirements as well as fiscal and budgetary controls contained in AB 1200.

Financial Flexibility

The governor's budget proposal also makes the following flexibility provisions permanent:

- Elimination of the minimum contribution required for Routine Maintenance,
- Elimination of the required local set-aside for Deferred Maintenance,
- School district ability to use proceeds from the sale of any real surplus property for any one-time General Fund Purpose.

The governor is also interested in discussing several other flexibility items such as the ability to reduce the school year or instructional minutes and the ability to maintain specific budget reserve levels.

Charter Schools

The governor proposes several investments for charter schools by:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program away from the Department of Education and placing it in the California School Finance Authority.
- Increase charter school funding by \$48.5 million to support anticipated charter school growth.
- Modifies the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation. Charter schools that are found to be out of compliance with the minimum standards and laws will be required to comply with annual funding determinations.
- Expands the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools.
- Extends for five years the requirement, authorized in last year's budget act, to notify charter schools and offer them first right of refusal of any surplus property.

Energy Efficiency Investments

The budget sets aside Proposition 39 (2012) bond funds for school districts and community colleges only. In 2013-14, \$400.5 million for energy efficiency projects would be allocated to school districts and \$520 million in each of the subsequent four years. The Department of Education and the Chancellor's Office will administer these funds and shall seek input from the Energy Commission and the Public Utilities Commission to develop guidelines for prioritizing their disbursement. The budget further requires the following:

- Requires school districts upon project completion, to report their project expenditure information to the Department of Education.
- The Administration will work with the Department of Education and the Citizens Oversight Board to ensure the funds are used in a manner consistent with Proposition 39.

School Facilities

Because there is no bond authority currently remaining, the budget proposes a number of school facility funding and program reforms. They are based on the following “guiding principles”:

- K-12 school facility funding needs must be considered in the context of other competing education and non-education needs;
- The school facilities construction process should be easy to understand and efficient;
- School districts and their respective localities should have appropriate control of the facilities construction process and priorities; and
- School districts should have incentives to balance their facility costs against operational needs within the total amount of funding available from state and local sources for education.

The governor proposes the following school facility reforms:

- Proposes a one-time \$9.7 million increase in the Emergency Repair Program.
- Prioritizes funding for construction and modernization of school facilities in a manner that uses less energy, renewable energy projects, and the purchasing of energy efficient equipment.
- Reduces the Office of Public School Construction, OPSC, by \$1.6 million and 20 positions as a result of the reduction of the current School Facilities Program.
- Later this year, the Administration will release the 2013 Five-Year Infrastructure Plan for all major state infrastructure programs, including school facilities. The plan will examine the state’s existing debt burden and the state’s needs assessments, and place less of a reliance on future voter approved general obligation bonds.

Technology Based Instruction (i.e. Online Education)

The governor is a strong proponent of technology based instruction as an alternative to traditional classroom-based settings. The governor proposes to make statutory changes that would enable school districts to offer less restricted asynchronous online courses. Governor Brown’s solution to keep schools accountable is to a revised version of the independent study

contracts concentrating on measurable student outcomes and teacher validation of those outcomes as a basis for whether schools receive funding for offering asynchronous online courses. In this new contract, schools will be held accountable for student achievement, rather than process requirements.

Special Education Funding

The governor proposes to eliminate the integration of federal funds in the state's AB 602 calculation and treating both funding streams separately. The budget proposal consolidates funding for several special education program add-ons into the base AB 602 formula calculation. These programs include the following:

- The two appropriations (\$88.7 million and \$2.7 million) for regionalized services and program specialist services
- \$2.5 million for personnel development

The funding for these programs will be collapsed to reduce the number of add-ons

- The two Workability funding streams
- \$13.2 million in low-incidence disability for specialized books, materials, and equipment with \$1.7 million for specialized services
- \$1.1 million and \$200K both used for personnel development

State Mandates

The governor is proposing to increase the education mandate block grant by \$100 million. Further, the governor intends to add both the Behavior Intervention Plan mandate and the High School Science Graduation mandate into the block grant. According to the administration, 77 percent of school districts and charter schools have elected to receive resources through the mandate block grant.

Adult Education

The governor proposes to move the primary responsibility for Adult Education from K-12 to the community college system. The budget provides \$315 million for this purpose – \$300 million is provided to community colleges for Adult Education and \$15 million is provided for the Apprenticeship Program. The funding provided for K-12 remains flexible and the community colleges are funded with the funds generated by the growth in Proposition 98. This funding will be allocated from a new block grant based on the number of students for core adult education programs such as vocational education, English as a Second Language, elementary and secondary education and citizenship.

Pensions

In his overall budget the governor recognizes the work on AB 340 (PEPRA-Pension Reform) and proposes an adjustment to the State's Pension Contributions portion as required by current law by directing \$63.2 million (\$42.2 million general fund) towards the state's unfunded pension liability to reflect the savings resulting from increased employee contributions under PEPRA. This is for CalPERS specifically. CalPERS has raised employee contributions over the past 12 months to help deal with their Unfunded Liability whereas CalSTRS will require legislation which has yet to be introduced.

The governor also makes reference in a chart on deferred payments to CalPERS for 2010-11 and 2012-13. The governor illustrates the Unfunded Retirement Liabilities in the amounts of \$38.5 billion (CalPERS) and \$64.5 billion CalSTRS. The governor however does not state how California will address these looming liabilities and does not provide any specifics on when.

ACSA Perspective

The first item to address is that the governor's January Budget Proposal is only a proposal. While the governor certainly sets the stage for the budget discussion, it is no guarantee that the final state budget will look exactly like the governor's proposal. The Legislature will want to weigh in on this proposal. There will be legislative hearings, the May Revision will be released and we still have the month of June before the final budget is approved. This illustrates that the budget discussion is fluid and can change over the next several months.

Politically, some believe that the governor has built up some goodwill with both the public and the Legislature. The passage of Proposition 30 has demonstrated the public is behind the governor and generally supports his strategy for solving California's budget mess and investing in public education. It is hard to argue against that proposition. However, the Democrats now have a supermajority in the Legislature and that could be where the Legislature uses their political muscle to move policies that they want to see implemented or to use the additional resources to invest in non-education priorities.

As for the budget itself, there is much to like and just as much to be concerned about. The new Local Control Funding proposal is intriguing and moves in the right direction, however there are still questions about implementation. Stakeholders have not seen any data for district budgets under this new proposal, it is unclear how the past deficits will be restored, and not everyone understands the targets. Further, shifting to a new funding model in this manner is forcing everyone to change how they think and talk about the state budget. For many, this will take time to comprehend.

As the state moves to a locally controlled system, it is unclear if everyone will buy into the proposed accountability changes. The governor wants to move all decisions to local communities and significantly reduce the state's role in decision making. The change to a district plan designed by the district that is not reviewed at the state level will cause some consternation in the Legislature and with some equity groups. Further, it will be important that

the state clearly define “college and career” ready and articulate what activities and strategies are necessary per this new accountability and funding formula.

Also, the 5 year limitation on receiving the supplemental grant for English Learners will be a center component to the new funding formula. At this point, it is unclear how this 5 year limitation will be implemented and whether the limitation follows the pupil from district to district or, if it’s a 5 year limitation within the district.

Lastly, the shift of Adult Education from K-12 to Community Colleges is a landscape change. While the administration views this in terms of flexibility for K-12, it is a striking change that has been in discussion for decades. In addition, this comes on the heels of a Legislative Analyst Report that discusses the Delineation of Function of Adult Education. This issue again is resurfacing as a major discussion item this year.

Typical of the state budget discussion there is much to like, dislike, misunderstand and question. Again, this is the beginning of the 6 month budget tango that will move and shift often before being finalized. Stay tuned for more updates and information as the budget discussions heat up throughout the year.

this flexibility by allowing funding for those online students who are not simultaneously participating with an instructor.

Federal Programs

The nation experienced a temporary reprieve from tumbling over the federal "fiscal cliff" due to a last minute agreement to extend the middle class tax cuts and increase income taxes on high income earners. This action also delayed the automatic cuts to non-defense discretionary programs, including most education programs, until March 1, 2013.

While the fiscal cliff deal has not taken cuts to federal education programs off the table, it did delay the implementation and reduced the total dollar amount of automatic cuts to be taken from this year's funding. A number of sources have lowered the estimated cut level to 5.9% below 2012 federal appropriation levels. These estimates are based on the assumption that the 2013 federal appropriation for education programs (which has yet to be approved by Congress) will be equal to the 2012 appropriation. Future cuts will be applied through reductions in Congressional spending caps (as opposed to automatic cuts) giving the Senate and House Appropriation Committees more discretion in choosing which programs to reduce in 2014 and beyond. However, absent Congressional action, future cut levels are estimated to return to 8.2%.

School Facilities

STATE ALLOCATION BOARD – On December 12, 2012, the State Allocation Board approved apportionments for \$383.8 million to fund 196 projects throughout the state. An apportionment was made for 93% of the projects requested by school districts in the current priority funding round.

The Governor's Budget Proposal would implement many changes to school facilities. New permanent flexibility is proposed in almost all areas of school facilities—deferred maintenance,

routine restricted maintenance, and the sale of surplus property uses/restrictions. The Governor has not expressed support for a new statewide bond measure.

DEFERRED MAINTENANCE – The Governor's Budget Proposal would include funding for the Deferred Maintenance program in the LCFF as part of the base grant. LEAs would not have to make a matching contribution to receive the funds.

ROUTINE RESTRICTED MAINTENANCE ACCOUNT – The Governor's Budget Proposal would permanently eliminate the required contribution to the Routine Restricted Maintenance Account.

SALE OF SURPLUS PROPERTY – The Governor's Budget Proposal would make permanent the temporary flexibility allowing districts to use the proceeds from the sale of any real and personal surplus property for any one-time General Fund purpose. Current law allows the flexibility through January 1, 2014.

Proposition 39—Energy Efficient Funding

The Governor also proposes to allocate \$400.5 million of Proposition 39 funding to K-12 schools. These funds are proposed to be used for energy efficient measures including: the construction or modernization of buildings in a manner that uses less energy; purchasing energy efficient equipment; and undertaking renewable energy projects like installation of solar panels and geothermal heat pumps. The CDE will be responsible for distributing funding and guidelines that prioritize the use of the funds. Additionally, there will be some reporting requirements for project expenditures to ensure that the funds are used in a manner consistent with Proposition 39.

Lottery Funds

Until the Lottery revenues are known, the 2013-14 projection for the unrestricted portion is \$124.25

per-annual ADA and the restricted portion remains at \$30 per-annual ADA.

Charter Schools

The Governor's Budget Proposal contains changes to the funding formula for charter schools. In addition to providing \$48.5 million for the projected ADA growth, the Governor proposes to fund charter schools through the proposed LCFF.

The Governor also proposes changes to support the operational and financial areas for charter schools, which includes shifting the Charter School Facility Grant program to the California School Finance Authority; changing the funding determination and eligibility of non-classroom based charter schools; and extending the first offer of districts' surplus property to charter schools for an additional five years.

Dartboard Factors

The SSC Financial Projection Dartboard factors presented below are developed by SSC with input from independent state agencies and private economic consulting firms, based on the latest information available. These factors are provided to assist school agencies in preparing their upcoming budgets and multiyear projections.

Factor	'12-'13	'13-'14	'14-'15	'15-'16
Statutory COLA	3.24%	1.65%	2.20%	2.40%
K-12 Deficit Factor	22.272%	22.272%	22.272%	22.272%
Ten-Year Treasuries	1.85%	2.15%	2.40%	2.70%
California Consumer Price Index	2.30%	2.20%	2.40%	2.60%

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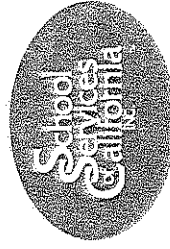
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POCKET BUDGET 2013-14

A Summary
Analysis of the
Governor's
Proposed 2013-14
State Budget for
California's
Schools

Prepared by



January 2013

State Budget

The Governor's Budget for 2013-14 reflects a tepid optimism, recognizing that the state's economy is no longer in decline. Additionally, the state's fiscal outlook has been buoyed by the passage of Proposition 30, which prevented the state from having to make even larger State Budget reductions.

Proposition 98

Proposition 98 is a provision in the State Constitution that establishes the minimum funding level for K-12 education and community colleges. It is based on changes in workload (average daily attendance [ADA]) and inflation (either per-capita personal income or General Fund revenues).

For the current year, the Governor's Budget projects Proposition 98 to be \$53.5 billion, or \$163 million below the level assumed in the 2012-13 Budget Act. The Budget, however, does not propose to reduce the current-year appropriation as a result of the drop in the minimum guarantee, but rather allocates these funds to prefund obligations under the terms of the *C71 v. Schwarzenegger* settlement agreement (the Quality Education Investment Act).

For 2013-14, the Budget projects that the Proposition 98 guarantee will grow to \$56.2 billion, a \$2.7 billion increase, driven by a combination of anticipated growth in base state revenues and Proposition 98's share of newly approved tax revenues under Propositions 30 and 39, both approved by voters in November 2012. In addition, a one-time 2012-13 expenditure of \$2.2 billion to partially buy back interyear deferrals of state apportionments for schools becomes available in the budget year to meet new K-12 education spending priorities.

School Finance Reform

THE LOCAL CONTROL FUNDING FORMULA – The Governor's 2013-14 Budget Proposal brings back his school finance reform proposal from last

year with a new name—now called the Local Control Funding Formula (LCFF)—and some refinements. Over time, the formula would replace revenue limits and most categorical program funding with base grants per pupil, plus supplemental funding provided via percentage “weights” for students that are not English language proficient, who are from low-income families, or who are in foster care. This proposal, if adopted, would replace the existing revenue limit funding system and more than 40 categorical programs.

While most categorical program funding would be redistributed through the new funding formula, the Targeted Instructional Improvement Grant and Home-to-School Transportation funding allocations would be distributed as permanent add-on programs to the new funding formula allocations for local educational agencies (LEAs). The funds would be available for any educational purpose.

County offices of education (COEs) will receive funding under a similar formula, but in two parts: One in recognition of direct instructional services for pupils in juvenile court schools and community schools, and a second allocation for county-wide services based on the total number of districts and the total ADA within the county. Like school districts, each county will have a funding target for each part of the formula and will receive increases over time toward reaching those targets.

The Governor's Budget Proposal eliminates most programmatic and compliance requirements that LEAs are currently subject to under the existing system of school finance, but districts would be required to annually adopt a District Plan for Student Achievement to address how it will use state funding received under the new formula to make specific improvements.

The Budget forecasts that the new funding model will be fully implemented by 2020-21.

GROWTH AND COLA – The Governor's Budget proposes an additional \$304.4 million in the current year for revenue limits related to higher-than-

budgeted ADA and \$2.8 million for ADA growth in 2013-14. Cost-of-living adjustments (COLAs) of 1.65% are specifically provided for a few categorical programs that are funded outside of the new finance formula including special education, child nutrition, and Indian education programs. With the implementation of the LCFF beginning in 2013-14, the Budget estimates that LEAs will receive an average increase in discretionary funding of 4.5% over the current year if the Governor's school finance proposal is adopted. While no school district is expected to see a reduction in funding for the budget year, increased funding for individual school districts is likely to vary considerably from the average under the proposed new allocation model.

Funding Deferrals

The Governor's Proposal includes \$1.8 billion from Proposition 98 funding to buy down a portion of the interyear deferrals for K-12 schools. This funding is not new or considered additional funding; it is a cash payment for an outstanding debt. This proposal is in line with the Governor's efforts to pay down the “Wall of Debt,” which has had a decade long financial impact on LEAs.

Mandates

The Governor's Budget Proposal would fund mandates at \$266.6 million. Funding would be increased by \$100 million from 2012-13 for the Mandate Block Grant (MBG) in order to add two programs to the MBG: Graduation Requirements and Behavioral Intervention Plan (BIP) programs.

Special Education

The Budget Proposal includes a 1.65% COLA for special education and \$3.6 million to fund special education ADA growth. The proposed budget continues to provide \$426 million to Special Education Local Plan Areas to pay for the shift of providing mental health services for special education students to schools. The Governor proposes to restructure requirements for the BIP mandate while increasing the MBG accordingly.

Adult Education

The existing K-12 Adult Basic Education Program funding of \$588.9 million is proposed to be consolidated into the LCFF. The Governor's Budget calls for a major overhaul of Adult Education programs and establishes a new \$300 million Adult Education block grant to be run by community colleges. Funding would be allocated based on the number of adults served in core instructional areas such as vocational education, English as a Second Language, elementary and secondary education, and citizenship. Community colleges would be encouraged to “leverage the capacity and expertise currently available at K-12 district adult schools.”

Child Care

Child care was fragmented in last year's budget, with Stage One Child Care management moved to the Department of Social Services. Stage Two and Three Child Care are still non-Proposition 98 General Fund programs managed in the California Department of Education (CDE). This fragmented system is going to be the subject of a stakeholder group this year designed to assess the current structure of opportunities for streamlining and other improvements. Child care funding will decrease by \$6.6 million (non-Proposition 98) in 2013-14 due to the increase in the number of families meeting eligibility under Stage 3.

Education Technology

The Governor proposes statutory changes that would allow school districts to offer asynchronous online courses through a streamlined and student achievement outcome-based independent study agreement. Last year, the Governor signed legislation, Assembly Bill 644 (Chapter 579/2012), which authorized school agencies to claim ADA funding only for synchronous online instruction (when an online student is under the immediate supervision of a teacher). The Governor's proposal would expand



PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No: 4.0

Date: February 6, 2013

Item: Board Study Session – Update of Measure L Bond Program

Overview: The bond program manager, along with district staff, will provide the board an update on the district's Measure L Bond Program. The update will provide information regarding the program's first issuance, project scoping, scheduling, and outlining initial "quick start" projects for implementation this summer and fall. In addition, staff will provide information on recent state legislative efforts that could significantly delay the district's completion of Measure L projects in a timely manner.

Recommendation: Report and discussion only.

Prepared By: Brett W. McFadden, Chief Business Officer
Richard Mullikin, Director M/O/F
Tim Landeck, Director of IT
Dennis Dunston, Bond Program Manager, TSS

Superintendent's Signature:

Donna Baker