

ESCONDIDO UNION SCHOOL DISTRICT

**BUDGET COMMUNICATIONS
COMMITTEE**

NOVEMBER 30, 2011

2010-2011 UNAUDITED ACTUALS

- ❑ Latest state budget in history
- ❑ Because education had already taken cuts in excess of its proportionate share in earlier state budgets, major reductions in 2010-2011 were to health and social programs and to higher education
 - ❑ Proposed 3.85% reduction to Revenue Limits was eliminated (though, this added about \$4 million “on paper” for EUSD, payment was added to state’s growing deferral obligation)
 - ❑ Negative cost-of-living adjustment (COLA) was reversed to provide a zero COLA
 - ❑ 2010-2011 deficit factor went from 18.355% to 17.963%
 - ❑ In 2010-2011, the district lost \$18.7 million to the deficit factor, which will be repaid at some time in the future

FIVE-YEAR HISTORY OF EUSD DISTRICT REVENUE LIMIT

FISCAL YEAR	2006-07	2007-08	2008-09	2009-10	2010-11 *
BASE REVENUE LIMIT	\$ 5,294	\$ 5,534	\$ 5,850	\$ 6,100	\$ 6,076
ADA	17,865.35	17,661.60	17,599.00	17,403.90	17,151.49
ADJ. REV. LIMIT BEFORE DEFICIT	\$ 97,499,048	\$98,081,604	\$103,572,829	\$106,156,828	\$104,205,593
DEFICIT FACTOR	0.00%	0.00%	7.844%	18.355%	17.963%
FUNDING LOST DUE TO DEFICIT	\$ -	\$ -	\$ 8,103,481	\$ 19,553,091	\$ 18,783,402
ONE-TIME LOSS	N/A	N/A	N/A	\$ 4,446,441	N/A
ONGOING CUT	N/A	N/A	N/A	N/A	N/A
FUNDED BASE REVENUE LIMIT	\$ 5,294	\$ 5,534	\$ 5,391	\$ 4,727	\$ 4,984
FINAL ADJ. REVENUE LIMIT FUNDING	\$ 97,488,048	\$98,107,564	\$ 95,469,328	\$ 82,772,143	\$ 86,429,247

* EXCLUDES AB 851 ADJUSTMENT OF 17.45 PER ADA (INCLUDES DEFICIT OF 17.963%)

2010-2011 ESTIMATED VS. UNAUDITED ACTUALS

- ❑ Actual results were 2.5% better than projected
- ❑ Most of the “savings” came in the discretionary parts of the budget
- ❑ In the restricted General Fund, special education revenues ended higher by an estimated \$275,000 (adding to carryover)
- ❑ Amount paid (or accrued) through June 30, 2011 for FBC payoff was \$9.9 MILLION, plus issuance costs of \$277,969

	ESTIMATED	ACTUAL	VARIANCE	VAR %
UNRESTRICTED	\$24,042,468	\$24,635,454	\$592,986	2.47%
RESTRICTED	\$11,013,786	\$11,308,098	\$294,312	2.67%
COMBINED	\$35,056,253	\$35,943,552	\$887,299	2.53%

RESERVES AND GASB 54

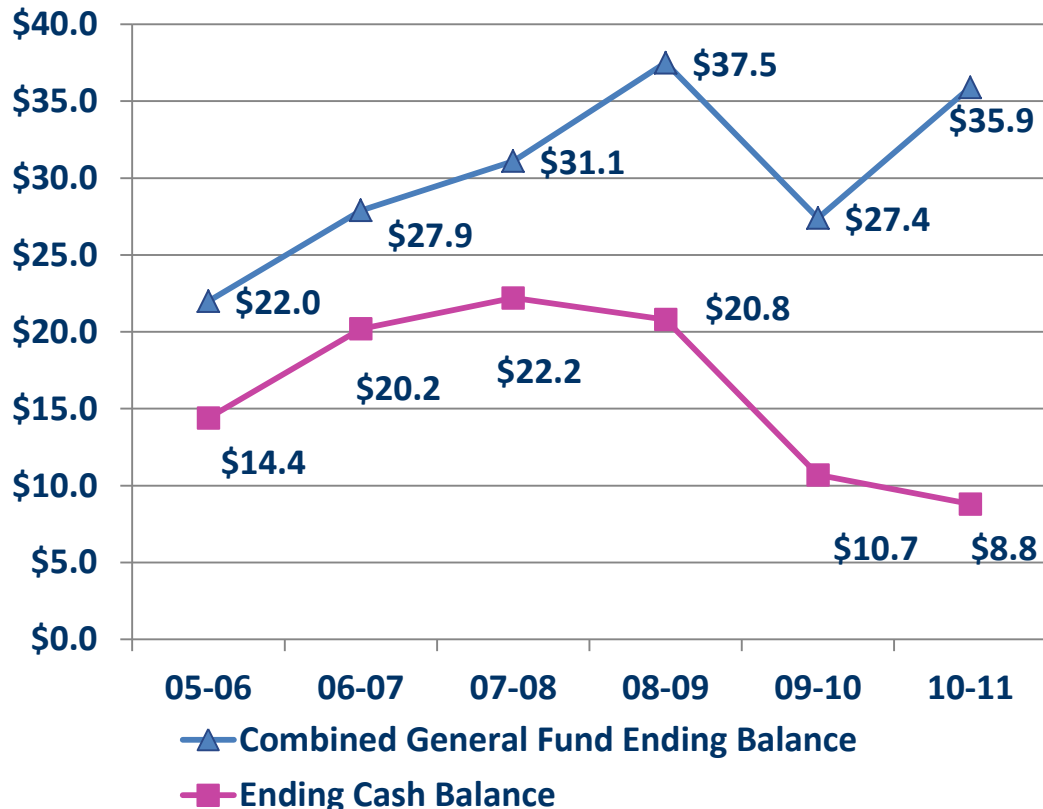
- ❑ **Governmental Accounting Standards Board Statement No. 54 required districts to adopt a minimum fund balance policy**
 - Approved 6-23-11, setting a minimum Reserve for Economic Uncertainty of 4%
 - Policy officially goes into effect for 2011-2012 year reporting
- ❑ **For 2010-2011, California Department of Education (CDE) directed districts to close the books under the pre-GASB 54 guidance**
 - ❑ SACS forms design included expectation that 2010-2011 would use old reserve/designations in place before GASB 54
 - ❑ 2010-2011 Estimated Actuals (approved on 6-23-11 as part of the 2011-2012 Budget Adopted) included pre-GASB 54 reserve levels and designations
 - ❑ The 4 % Reserve for Economic Uncertainty has been implemented for the 2011-2012 year, as per policy

FINANCIAL CONDITION OF EUSD AS OF JUNE 30, 2011

- ❑ The district's declining enrollment continued to be a concern – enrollment dropped by average of 400, or about 2.2%
- ❑ Though the state eliminated the 3.85% of proposed revenue limit reductions, it did not appropriate funding to pay this amount in 2010-2011 (appropriated payment as part of 2011-2012 budget)
- ❑ As a result, the district had a record-high \$27.4 million in General Fund Receivables as of 6-30-11
 - ❑ Unpaid Revenue Limit was \$17.5 million (in 2009-2010 it was \$12.3 million)
 - ❑ Unpaid Class Size Reduction funding was \$2.9 million
 - ❑ Federal payment process for most grants has changed to a “claim” process – we're now paid based on expenditures

FINANCIAL CONDITION AS OF JUNE 30, 2011

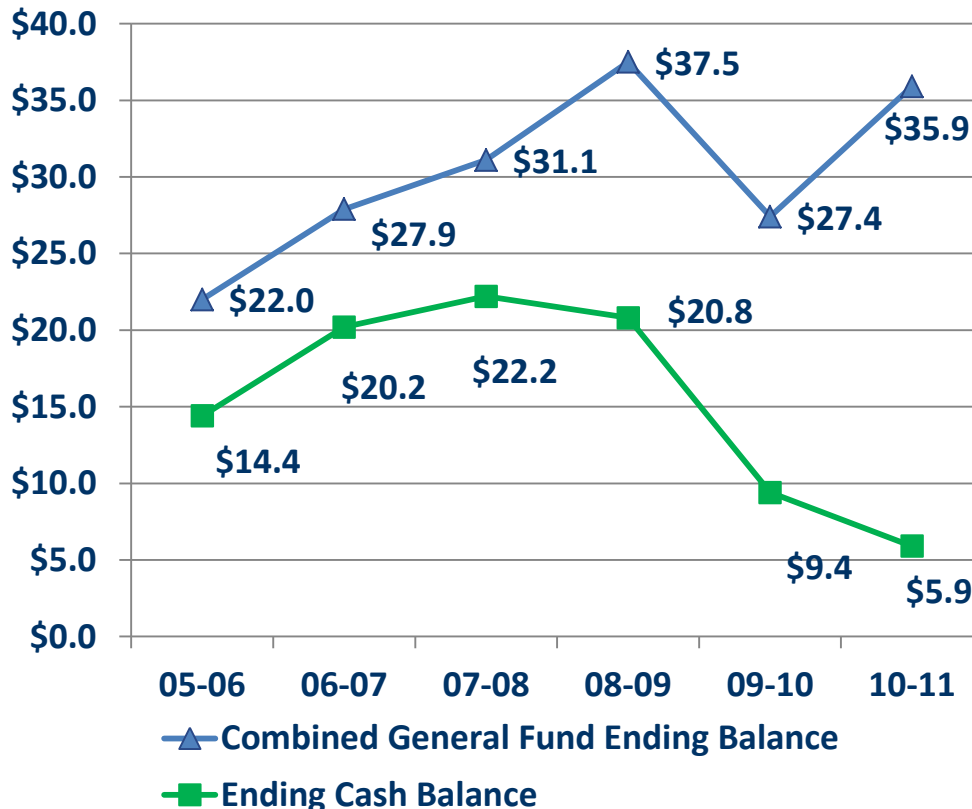
SIX-YEAR HISTORY OF COMBINED
GENERAL FUND ENDING BALANCE
COMPARED TO CASH BALANCE (millions)



- ❑ State's promise to pay deferrals in the future has become a cash problem for local districts
- ❑ General Fund cash balance was just 24.5% of fund balance – in 2009-2010 it was 39%

FINANCIAL CONDITION AS OF JUNE 30, 2011

SIX-YEAR HISTORY OF COMBINED GENERAL
FUND ENDING BALANCE COMPARED TO
CASH BALANCE - EXCLUDES FEDERAL
STIMULUS FUNDING (millions)



- ❑ \$2.9 million of 2010-2011 cash balance was attributable to remaining ARRA funding
- ❑ Without the ARRA funding, cash balance would have been just 16% of fund balance

2011-2012 STATE BUDGET

BEFORE MID-YEAR CUTS

A TALE OF TWO BUDGETS

☐ THE 2011-2012 EDUCATION BUDGET IS A STUDY IN CONTRASTS – ON THE UPSIDE:

- It was on time
- It provided flat funding for education, unless there are mid-year cuts
- It allowed districts to avoid the worst cuts
- About \$80 billion of the \$86 billion spending plan was real money – fewer gimmicks than in previous years

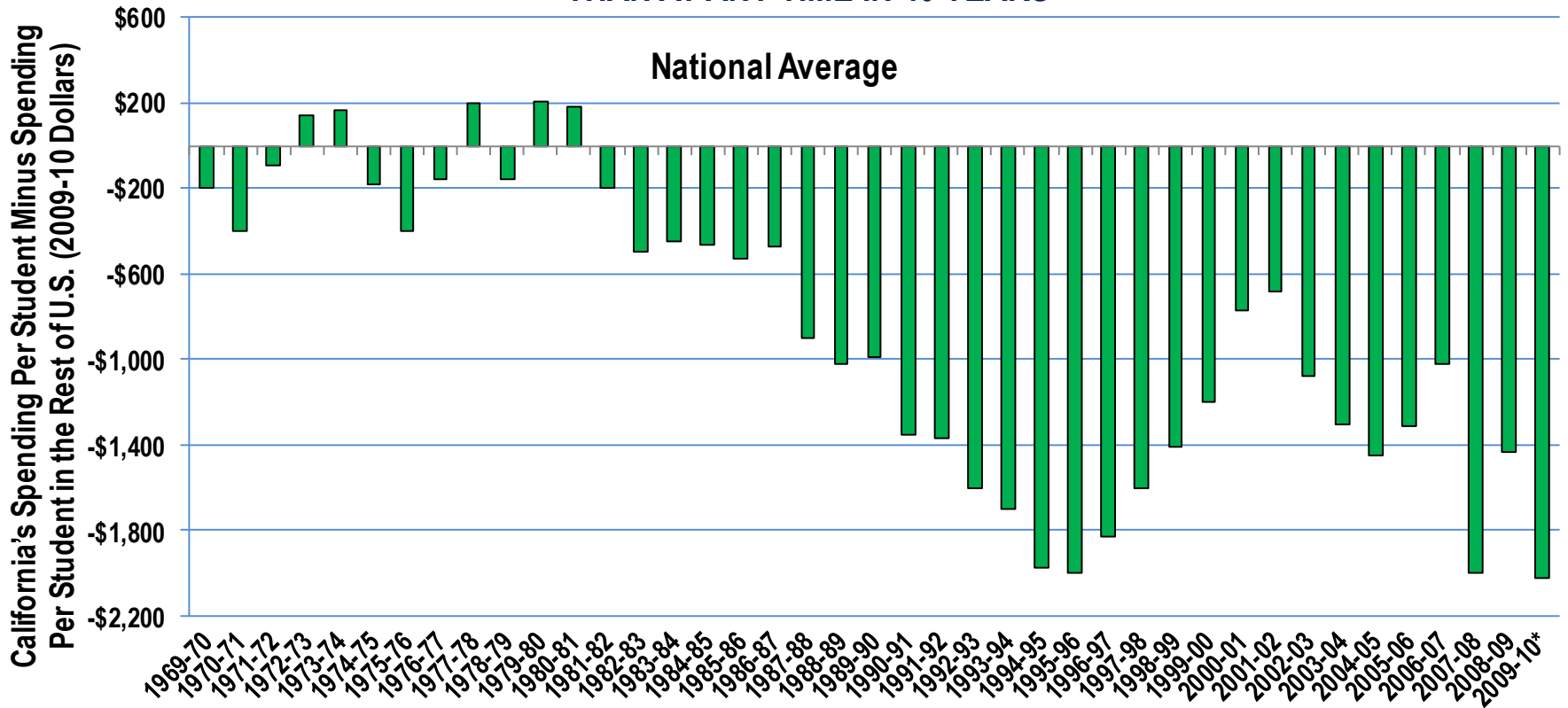
☐ ON THE DOWNSIDE:

- It underfunded Proposition 98 without suspension
- It dictated detailed budget terms to the local school boards
- “Trigger” will likely result in midyear cuts
- It stripped county offices of education (COEs) of fiscal oversight
- It created more debt to schools – both cash and budget authority
- It continued California’s poor track record of funding education

CALIFORNIA'S EDUCATION SPENDING CONTINUES TO LAG

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CALIFORNIA'S K-12 SPENDING LAGS BEHIND THE REST OF THE U.S. MORE THAN AT ANY TIME IN 40 YEARS



* 2009-10 estimated

Note: Rest of U.S. excludes the District of Columbia

Source: National Education Association

-\$2,026 (est.) per student loss in 2009-10

MAJOR CHANGES FROM THE MAY REVISION TO THE FINAL STATE BUDGET

- ❑ MAY REVISION: PROPOSED \$2.5 BILLION TO “PAY DOWN” PROPOSITION 98 DEFERRALS
 - Final Budget: Defers additional \$2.1 billion of payments to schools
- ❑ MAY REVISION: COUNTED ON \$9.6 BILLION IN TEMPORARY TAXES
 - Final Budget: Assumed \$4 billion more in General Fund revenues above May forecast
- ❑ MAY REVISION: DID NOT CONTAIN “TRIGGER CUTS” TO EDUCATION, JUST THE THREAT OF ADDITIONAL CUTS
 - Final Budget: Put K-12 education at risk of losing \$1.9 billion by triggering a cut if revenues fall short of projections
- ❑ MAY REVISION: CONTAINED NO ADDITIONAL FLEXIBILITY PROVISIONS
 - Final Budget: Allows automatic reductions to the school year (seven additional days) if triggered cuts are made – however, would still be subject to collective bargaining

MAJOR CHANGES FROM MAY REVISION TO THE FINAL STATE BUDGET

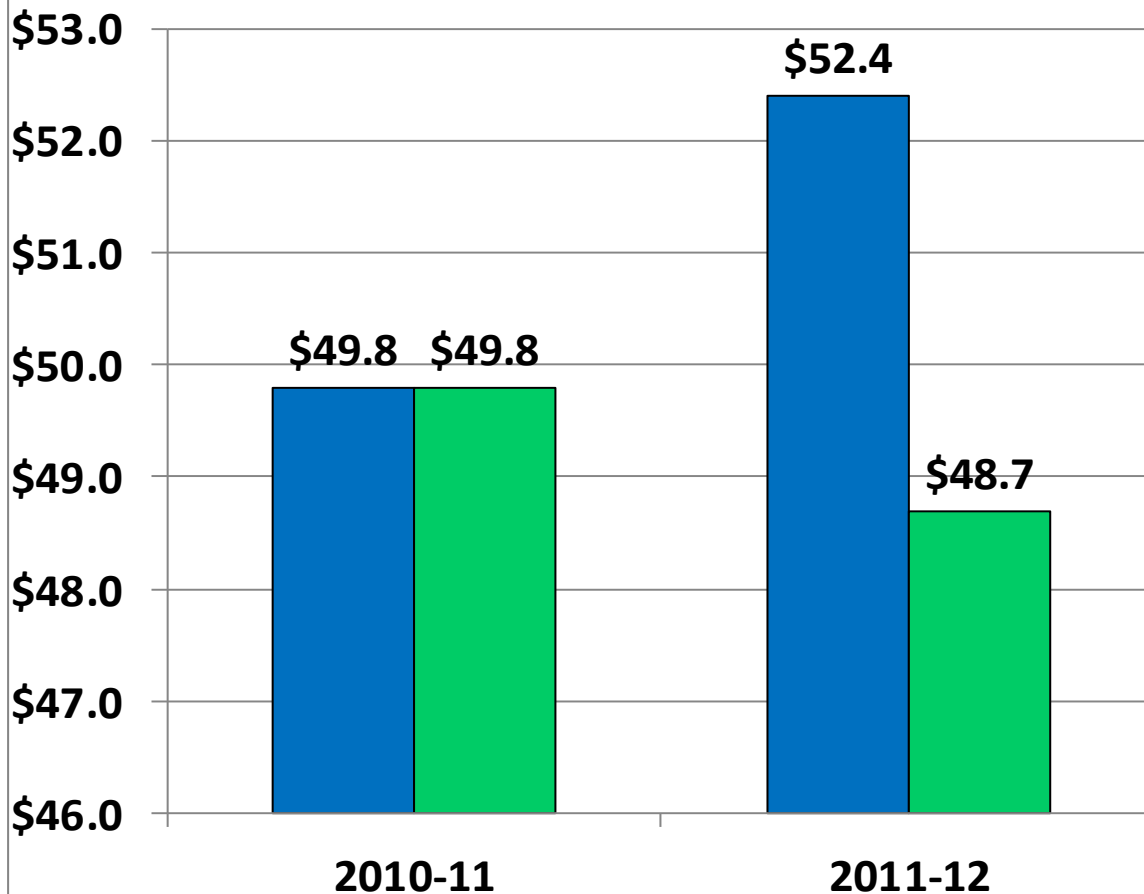
- ❑ MAY REVISION: CONTAINED NO LANGUAGE THAT RESTRICTS LOCAL BUDGETING PRACTICES AND FISCAL OVERSIGHT SAFEGUARDS
 - State Budget placed several requirements on the funding level school agencies must budget and staffing levels that must be met in 2011-2012, and suspended various AB 1200 provisions
- ❑ MAY REVISION: FUNDED PROPOSITION 98 AT THE MINIMUM, WITHOUT SUSPENSION
 - Final Budget: Took away \$2.1 billion from K-12 education through a sales tax shift and reallocated those funds to other areas of the Budget (to fund the shift of certain responsibilities to local governments) without suspension of education’s minimum guarantee
 - Voters will be asked to affirm the legality of this shift in sales tax
 - Approved measure would make Proposition 98 funding “whole” by requiring replacement of the sales tax dollars to the Proposition 98 base

HISTORY OF PROPOSITION 98 MANIPULATIONS

- ❑ SINCE ITS ADOPTION BY STATE VOTERS IN 1988, PROPOSITION 98 HAS BEEN MANIPULATED AND DISTORTED NUMEROUS TIMES
 - Cutting and recasting appropriations after the close of a fiscal year
 - Suspending the guarantee and negotiating a repayment as non-Proposition 98 expenditure (Quality Education Investment Act – QEIA)
- ❑ THE 2011-2012 GUARANTEE WAS MANIPULATED IN SEVERAL WAYS WHICH ULTIMATELY LOWERED THE AMOUNT TO BE PROVIDED BY \$3.2 BILLION
 - Child care funding removed - \$1.0 reduction
 - State Realignment – \$2.1 billion reduction
 - Redevelopment Agency closures - \$1.7 billion reduction
- ❑ PAST ACTIONS SET THE STAGE FOR THE LEGISLATURE'S ABANDONMENT OF THE CONSTITUTIONAL MINIMUM FUNDING GUARANTEE, INCLUDING A TWO-THIRDS VOTE FOR SUSPENSION, AS HAPPENED IN 2011-2012

PROPOSITION 98 – MAY REVISION VS. STATE BUDGET

**Proposition 98 Funding
(in billions)**



■ May Revision

■ Budget Act

Proposition 98 Adjustments:

+ \$581 million Motor Vehicle Fuel Tax

+ \$222 million Assembly bill (AB) 3632 Shift

- \$1.1 billion Child Development transfer

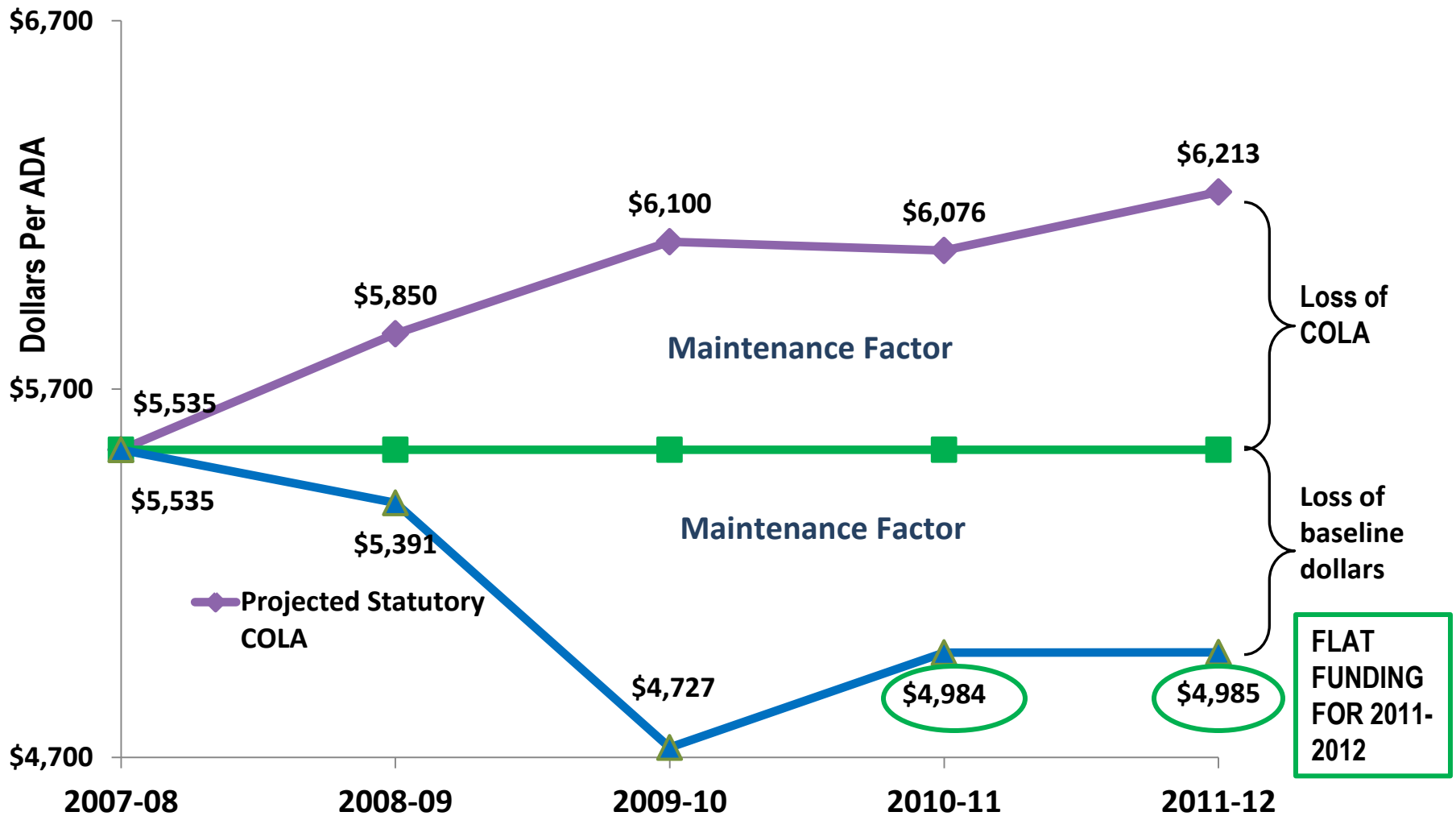
- \$1.7 billion Redevelopment Agency

- \$2.1 billion Realignment Sales Tax

Note: Budget authority is about \$51.2 billion – due to new \$2.5 billion deferral

5-YEAR HISTORY OF REVENUE LIMIT FUNDING

ESCONDIDO UNION SCHOOL DISTRICT



NEW AB 114 REQUIREMENTS – NEW INTRUSIONS ON LOCAL CONTROL

- WHILE THE STATE BUDGET INCLUDED UNCERTAINTY SURROUNDING THE POSSIBILITY OF MID-YEAR CUTS, LANGUAGE IN THE FORM OF AB114 WAS ALSO ADOPTED THAT PLACED RESTRICTIONS ON HOW AGENCIES MUST HANDLE THAT UNCERTAINTY**
 - Required each agency to budget same level of revenue limit dollars as received in 2010-2011 – “flat” funding**
 - Required that agencies maintain staffing levels and programs commensurate with that level of funding**
 - Prohibited school agencies from budgeting for mid-year cuts**

GOVERNOR'S CLARIFICATION OF AB 114

- ❑ THE SPECIFICATIONS OF AB 114 APPEARED TO DIVERT AUTHORITY AWAY FROM LOCAL GOVERNING BOARDS TO MANAGE THEIR FINANCIAL AFFAIRS LOCALLY

- ❑ IN HIS SIGNING MESSAGE FOR AB 114, GOVERNOR BROWN ATTEMPTED TO CLARIFY THE AMBIGUOUS ASPECTS OF AB 114
 - The Governor stated that local school boards should take all reasonable steps to balance their budget and maintain positive cash balances
 - The Governor made clear that AB 114 pertains only to levels of state funding, and not to federal or local funding sources
 - Thus, for districts that needed to make reductions due to increased costs, declining enrollment, exhaustion of one-time federal stimulus dollars, deficit spending, or other issues, the Governor made clear that AB 114 does not interfere with a local board's ability to do so

TRIGGER REDUCTION EXPOSURE

- ❑ THE 2011-2012 BUDGET ACT PROVIDES FOR AN AUTOMATIC REDUCTION TO STATE APPROPRIATIONS, INCLUDING FUNDING TO SCHOOLS IF STATE REVENUES FALL SHORT OF PROJECTIONS
 - The K-12 reductions are directed at revenue limits (\$1.5 billion) and Home-to-School Transportation (\$248 million)
 - School districts, however, are prohibited from budgeting for these reductions
 - The level of the reduction is linked to the amount of the shortfall in the State Budget revenues and could range from zero to 4% of the undeficitated revenue limit

- ❑ IF THE FULL REVENUE LIMIT REDUCTION IS IMPLEMENTED, THE AVERAGE MAXIMUM CUT COULD BE ABOUT
 - \$250 per ADA for elementary school districts

TRIGGER REDUCTION EXPOSURE

- ❑ DECISION ON MID-YEAR CUTS WILL BE MADE BY DECEMBER 15, 2011
- ❑ LAO HAS ALREADY PROJECTED THAT REVENUES ARE SHORT BY \$3.7 BILLION
- ❑ STATE DEPARTMENT OF FINANCE WILL ALSO PROJECT REVENUE ESTIMATE
 - DIRECTOR OF FINANCE WILL BASE FINAL DECISION ON HIGHER OF THE TWO PROJECTIONS
 - MAXIMUM EXPOSURE FOR DISTRICT IS APPROXIMATELY \$4.4 MILLION (\$4.2 REVENUE LIMIT AND \$.2 MILLION IN TRANSPORTATION)
 - SOME CHILD CARE FUNDING IS ALSO AT RISK
- ❑ WE'LL KNOW SOON!