Governor’s Budget Proposal

Item #10.1

Board of Education Meeting

February 7, 2013
U.S. Economic Outlook

- Continued slow growth
- Fiscal cliff
  - Agreement to avoid raising taxes on all but the top income earners
  - Payroll tax cut allowed to expire (4.2% to 6.2%)
- Global economic trends pose ongoing risks
- Domestic developments are mixed
  - Slow improvement in unemployment numbers
  - Housing recovery seems to becoming more stable
California Economic Outlook

- California is recovering slowly
- Improvement in housing new construction and in prices
- Unemployment 9.8% compared to national average of 7.8% (Dec 2012)
- Economy is vulnerable to global slowdown because of significant export sector
Apportionment Deferrals

• $1.8B proposed to reverse inter-year deferrals
  – At the peak of the downturn, approximately 45% of state aid payments to school districts were deferred to the following year

• This deferral buy down is a one-time expenditure and does not impose a similar cost in subsequent years

• An estimated $5.6B in deferrals will remain at the end of 2013-14

• Because of the deferrals, SCUSD must borrow money (TRANs) to have positive cash flow at year end
Local Control Funding Formula (LCFF)

• Major change to how California schools are funded
• Current system is overly complex:
  – Too many categorical programs with separate funding streams, allocation formulas, and spending restrictions
  – Requires staff in school districts to administer the programs and staff at CDE to ensure compliance
  – Many allocations have been frozen at the 2008-09 funding level and do not reflect demographic changes
Major LCFF Elements

• LCFF replaces revenue limits and most categorical program funding
• Elements of the proposed formula
  – A base grant target equal to - $6,816
    • Statutory RL = $6,707
    • Deficited RL = $5,213
  – Differential adjustments
  – Additional funding based on the demographics of the schools
    • English Learner population
    • Pupils eligible for free and reduced-price meals
    • Foster youth
LCFF and Categorical Programs

- Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES), and other federally mandated programs are not included in the formula.
- Transportation and Targeted Instructional improvement Grant (TIIG) funding continue as add-ons to the formula.
  - These funds can be used for any educational purpose.
- The new formula allocates funds to charter schools in the same way as for school districts.
- Timeline: Phased in over seven years – completed in 2020-21.
How Much is Funded?

• Fully funding the new formula in 2013-14 would cost more than $15B
  – Governor’s Proposal sets aside $1.6B
• Department of Finance will be providing estimates of LEA funding under the Governor’s proposal
• Most categorical funds are kept in the base, but programs go away
Where Does the Proposal Stand Now?

• There are currently insufficient details to allow a school district to determine its funding under implementation of the LCFF for 2013-14, or for any year thereafter
• The Legislature must enact this measure as a change to current school finance statutes
• Definition will evolve over the next few weeks/months
Federal Programs

• Cuts to federal funding remain in flux for 2013-14
  – A temporary reprieve was granted by passage of the American Taxpayer Relief Act (ATRA) in December
  – Delayed the automatic cuts to non-defense discretionary programs until March 1, 2013
  – Cuts to federal support to education are estimated to be as much as 8.2%

• Programs affected include:
  – Title I
  – Title II
  – Special Education
  – Career, Technical, and Adult Education
  – Federal Impact Aid
What Does This Mean for US?

- Great uncertainty
  - Federal cuts? ($1M impact to unrestricted General Fund)
  - What will the legislature do with LCFF?
- SCUSD structural budget deficit
  - Costs increase every year
    - Projected health benefit increases ($7.7M)
    - Projected Step/Column cost ($2.9M)
    - Consumer Price Index (CPI) increase for cost of goods/materials (2.3% for 2011-12)
What Does This Mean for US?

- Best case scenario
  - District receives fair share of $1.6B
    - $10.3M
    - Less declining enrollment/Sequestration $5M
    - Less projected expenditures $18.2M
    - Plus negotiated savings $7.8M
    - Amount still required $5.1M
  - Right sizing (Year 1) $2.0M
  - Sequestration $1.0M
  - Still required reductions $2.1M
What Does This Mean for US?

• Worst case scenario
  – District receives 1.65% COLA
    • $4.4M
    • Less declining enrollment/Sequestration $5M
    • Less projected expenditures $18.2M
    • Plus negotiated savings $7.8M
    • Amount still required $11.0M
  – Right sizing (Year 1) $0.0
  – Sequestration $0.0
  – Still required reductions $11.0M
Next Steps

• Second Interim - March
• May Revise - May
• Third Interim - June
• 2013-14 Budget - June