



# **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 additions 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