

Superintendent's State of the District Budget Report



DATE: January 15, 2009

I will start with a brief overview of the state budget and the state economy.

How did the state get into this mess?

Proposition 13 limited the state's ability to raise revenue from the most stable source-property taxes. State revenue is now dependent on volatile sales and income taxes.

A worldwide economic problem that is probably at least two years before recovery.

Even with less revenue, California continues to spend more and provide more services than other states. Over the past six years, regarding state services, the state has spent less in only two areas- transportation and education.

Within 3 years of passage of Proposition 13, education spending in California dropped from the top 5 to the bottom 10 in the nation.

California has some of the highest standards for student achievement with one of the lowest funding levels.

Projected state budget shortfall is huge - current estimate is \$40 billion over the 2-year period of 2008-09 and 2009-10.

Thus far there has been no agreement from state government.

State budget for 2008-09 was finally adopted on September 8, 2008, despite the constitutional deadline of June 30, 2008.

Despite just adopting a budget seven weeks earlier, the governor declared a state fiscal emergency and called a special session of the legislature to begin on November 1, 2008.

Since that time we have heard the Governor's proposal, Democrat's proposal, Republican's proposal, Democrat's deal, and now the latest proposal from the Governor.

Much of current circumstance can be traced to past budgets:

In the years 2002 through 2007 California's economy was strong but we still had a budget crisis each year as state spending exceeded revenues produced even in those good years.

The state has used accounting 'gimmicks' for the past 6 years. These include: one-time money, delaying apportionments from one year to another, and creative accounting like securitization of future lottery revenues! The result for Californians is that we have been weakened by past budgets and with the unexpected drop in revenues; we are left with a disastrous state budget scenario.

California now has the second lowest credit rating in the nation and even the ability to borrow is severely limited, as we do not have a budget.

We have now experienced a significant collapse in the state's General Fund revenue - a decline upwards of \$20-40 billion.

Governor's approach to 2009-10

1. 0.68% COLA included in the 2008-09 budget is eliminated and cut from Proposition 98 guarantee.

2. COLA declared at 5.02% and not funded.

3. Revenues

Increase of 1.5 cents in sales tax

Broaden sales tax

Nickel-per-drink beverage excise tax

Oil severance tax

Increase vehicle registration fees

Reduce dependent exemption credit

Shift tribal gaming revenues from transportation to general fund

Special fund transfers and loans

Securitization of the lottery- borrow on future lottery revenue

Must be approved by voters

Lottery revenues would no longer go to public education

4. Reductions

\$2.8 billion in deferrals for April revenue limits and K-3 Class Size Reduction funding to July 2009. This relieves the state of a \$2.8 billion obligation for the current year and leaves to question whether, in light of the current economic issues for 2009-10, the state can 'make up' that payment in the 2009-10 year.

\$1.1 billion in current year spending to "settle-up" Proposition 98 obligations- the state owes K-12 education, based upon Proposition 98, an additional \$1.1 billion- his proposal eliminates the "settle up." Proposition 98 moving toward a Test 1 determination- a fixed share of the general fund in 2008-09 and 2009-10 as opposed to providing for additional revenue when it is available.

Eliminating all mandates except for two: student transfers (inter, intra) and California High School Exit Exam remediation/intervention support.

\$1.6 billion cut in revenue limit in 2008-09 making it permanent in 2009-10 with an additional \$1.1 billion in 2009-10.

Additional \$1.1 billion cut – The governor believes that this cut can be ameliorated because he is also proposing to release districts from the obligation to teach 180 days so long as unions agree to re-negotiate their contracts for 5 fewer days AND school boards believe fewer school days are a good idea.

5. Flexibility

Ability to transfer state categorical funding, including special funds, to unrestricted General Fund.

Lifting of statutory requirements for most state categorical programs- we have 30 categorical programs e.g.: eliminating 20:1 K-3 CSR; eliminating required money for libraries; eliminating school improvement programs; etc.

Allow for prior-year restricted balances to be transferred to unrestricted General Fund.

Cut budget reserve requirements in half.

Eliminate Deferred Maintenance match requirement.

Reduce routine restricted maintenance set-aside from 3% to 1%.

Permanent categorical flexibility- looks like one block grant of money from the state, Excluded programs: lawsuit-mandated, initiatives, federal programs.

How does the K-12 education state budgeting process work?

The governor proposes a budget in January. School districts are required to submit a report called the "Second Interim" in March. Our "Second Interim" report must use, as assumptions, the governor's proposals of January. In May, the governor issues the "May Revise." This is essentially another look at the proposed budget based on two important new facts: actual revenues the state is currently receiving and projected to receive for the remainder of the year, and the negotiations between republicans and democrats in the legislature. School districts are required to use the "May Revise" in preparing for their budget approval in June. The state is required to have its budget approved by the end of June as well. Typically, the state has not met its constitutional requirement and school districts are left to make their 'best guess' as to what the final budget will be based upon the assumptions of the "May Revise."

In a typical year this is difficult but in this year, with the proposal of categorical fund flexibility and not knowing how much flexibility may ultimately be given to local districts, all districts will be forced to be more conservative in their budgeting process.

Budget issues still facing K-12 education in 2008-09

We still do not have an agreement regarding the state budget adjustments necessary for this current year as a result of the significant decrease in state revenues. Currently the proposals have gone back and forth with no resolution. The areas where there appears to be agreement between the Governor and the democrats in the legislature are:

Eliminate the 0.68% COLA

Transfer of prior year (2007-08) categorical balances to general fund

Reduce routine restricted maintenance from 3% to 1%

Eliminate deferred maintenance matching requirement

Areas where there is disagreement still:

The Governor proposes:

-4.50% cut to the revenue limit - this translates to a cut across all educational programs

-Reduce by one-half the reserve for economic uncertainties

The democrats in the legislature propose:

-Cut targeted categorical programs up to \$2.5 billion

Actions we will consider for the "Second Interim"**Eliminate the 0.68% COLA****Reduce the revenue limit by 4.50%****Set aside and reserve unallocated state categorical funds****What else will we do?**

Until we know exactly what the budget adjustments are at the state level, we will continue to act responsibly and conservatively. This past week, I met with our Leadership Team to discuss a freeze on spending. This freeze would be for everything except that which may be deemed as essential. Each school principal is discussing with his or her staff what is "essential" so that within the next week, we should have prepared a list for guidance. I believe that a complete freeze on spending will not meet the needs of our community but that a partial freeze on spending will help us stay focused on the need to conserve our resources during this difficult time while at the same time providing great educational programs for our students.

I am visiting all of our schools and departments to discuss the budget issues. I am about half done with these visits and not surprisingly, I have found the staffs in our district interested in understanding the current budget scenario but more importantly, determined to remain focused on our most important and essential task, providing a world class education for the children in Claremont. I will continue to urge all of us to smile as much as possible and while our minds work to creatively find resolution to this budget scenario our hearts must stay focused on the reason we all volunteered for our positions- the children in our schools.



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