

State Budget Overview 2008-09 and 2009-10

**Metropolitan Education District
Second Interim Report
March 11, 2009**



Purpose of Interim Reports

- ❄ Formal review of current year budget status
- ❄ Multi-Year Analysis of projected revenues, expenditures and fund balances
- ❄ Determination of the **adequacy of fund** balances at the end of the current & 2 subsequent fiscal years
- ❄ Determination of the **adequacy of cash** balances at the end of the current and 2 subsequent fiscal years
- ❄ Identification of **contingent liabilities**, & resources to service those liabilities
- ❄ Board Certification of Financial Condition

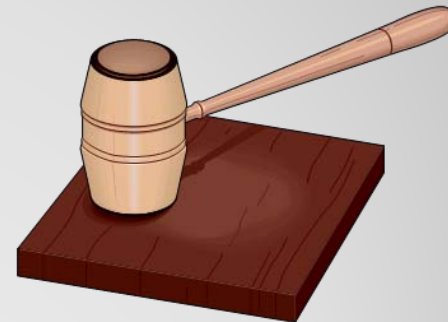
Interim Financial Reports

❄ Two Interim Reporting Periods

- ✓ October 31 Actuals (1st Interim)
- ✓ January 31 Actuals (2nd Interim)

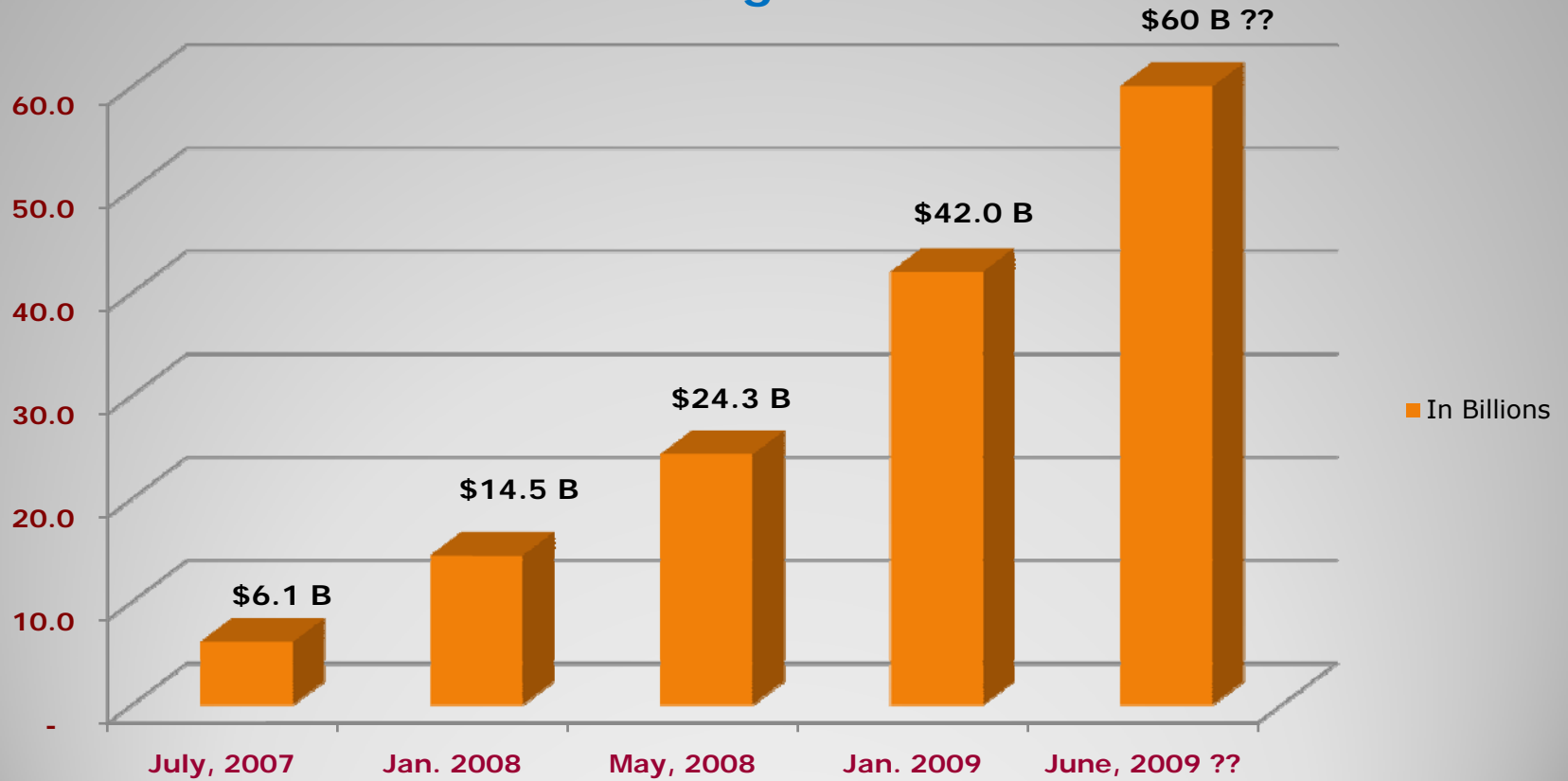
❄ Board Certification

- 😊 Positive (good)
- 😞 Qualified (not so good)
- ☠ Negative (bad)

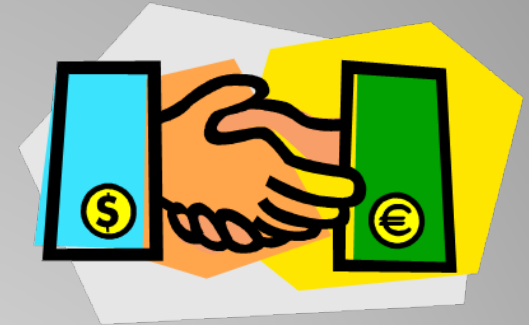


Economic Trends

State Budget Deficits



Proposals to close the budget deficit



In order to close the deficit, this final Budget Deal (4 months early) includes three broad strategies

- \$15 billion mid-year reductions and program cuts, become permanent till 2012-13
- \$14.4 billion increase revenues by raising taxes
- \$11.4 borrowing

2008-09 Mid-Year Cuts (\$6.4 billion)

Prop 98 minimum guarantee falls from \$58.1 billion to \$50.7 billion, \$51.7 to be funded.



Cuts & Deferrals

- \$244 million - eliminates .68% COLA
- \$944 million - reduction from the revenue limit
- \$944 million - 15.38% reduction to specified categorical programs
- \$3.2 billion - deferral (K-14 inclusive)
- \$1.1 billion – prior year settle-up funds

Special Election – May 19, 2009



Voter approval will be necessary for 5 of the initiatives for the May 19, 2009 Special Election.

- ✓ All of them must pass in order for the budget deal to hold together.
- ✓ Prop 1A sets the spending limit but includes a rainy day fund -Prop. 1B includes the future payment of the Proposition 98 maintenance factor (Supplemental Education Fund). Both 1A and 1B must pass for financing Education .

2008-09 Budget for ROCP & Adult Education

- No COLA
- **15.38%** cut to categorical funding
- General Fund Cuts:
 - \$2,220,064 - ROCP revenue limit
 - \$ 4,242 - Beginning teacher salary
 - \$ 109,281 - Apprentice Allowance
- Adult Education Cuts:
 - \$1,433,268 - revenue limit
- Deferred Maintenance Cuts:
 - \$ 27,216 - State DM match funding



Covering mid-year cuts – General Fund

One-time mid-year cuts are covered by one-time savings, use of reserves:

- \$558,755 - reserves from 6.5% cut
- \$433,867 – reduce satellite payments
- \$500,000 - reduce equipment, site improvement budgets
- \$595,096 – reserve for state budget deficits
- \$149,262 – reduce 10% reserves



Covering mid-year cuts - MAEP

One-time mid-year cuts are covered by one-time savings, use of reserves:

- \$218,734 – funding for prior year excess ADA
- \$466,075 - reserves from 6.5% cut
- \$150,000 - reduce site improvement & equip budget
- \$175,093 - Reduce travel, conf., contracted services
- \$48,093 – reduction in 10% reserves
- \$375,273 - reserves for state budget deficit



2009-10 Budget



- No COLA
- Additional 4.46% cut on top of the 15.38% cut to specified categorical programs (19.84%)
- Plus a .55% cut due to declining state enrollment
- General Fund:
 - **\$3,198,529** – on-going for 4 years
- Adult Education Fund:
 - **\$1,849,438** - on-going for 4 years
- Categorical Flexibility

Our Options are limited

- ❖ 20% cuts are larger than K-12 deficit (13.094%)
- ❖ Don't have the flexibility of backfilling the deficit with funds from 40+ categorical programs
- ❖ We ARE a categorical program
- ❖ We Won't receive additional funding from federal stimulus money for:
 - ✓ Title I
 - ✓ Special Education
- ❖ CUTS: It's not this OR that, it's this AND that!



Covering on-going cuts to General Fund revenue

On-going revenue cuts must be off-set by cuts to on-going expenditures:

- ✓ \$ 387,000 – convert evening program to fee-based
- ✓ \$ 95,678 - cancel summer school classes at CCOC
- ✓ \$ 130,249 - close classes at Job Corps
- ✓ \$ 597,568 – targeted layoffs
- ✓ \$ 629,751 - class closures at CCOC
- ✓ \$ 194,465 - 4% salary rollback
- ✓ \$ 400,000 - eliminate cosmetology contracts
- ✓ \$ 78,745 – reduction to apprenticeship pass through
- ✓ \$ 264,839 – other expenditure reductions
- ✓ \$ 127,527 – 20% reduction to satellite ROP funding
- ✓ \$ 292,707 – 10% reduction in reserves



Covering on-going cuts to Adult Education Revenue

On-going revenue cuts must be off-set by cuts to on-going expenditures:

- ✓ **\$266,906 – cancel summer school classes**
- ✓ **\$759,503 – targeted layoffs**
- ✓ **\$389,354 – reduction in hourly classes**
- ✓ **\$245,233 - 4% salary rollback**
- ✓ **\$188,442 – 10% reduction in reserves**



Even more cuts will be necessary in 2010-2011 due to on-going deficit spending (3 consecutive year)

Deferred Maintenance

- **Regular Annual Funding**

- Critical funding for maintaining older buildings
- Electrical, HVAC, floor covering, paving, plumbing, wall systems, roofing
- Force labor painter

- **Extreme hardship**

- New roofing (completed)
- New HVAC (completed)
- New Transformers (completed)
- Sanitary sewer system replacement grant application pending (approved but unfunded)

- **Recommend continued funding**



Apportionment Deferrals

- ❑ The state has shifted its cash flow problem to education by deferring apportionments
 - February def. to July
 - June def. to July
 - July & August def. to October
- ❑ Board policy requires 10% reserves
- ❑ We'll need to borrow from Capital Outlay too



Federal Stimulus and Restoration Priorities *

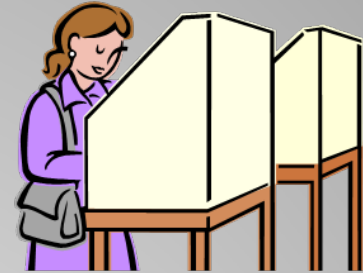
Our priority: minimizing impacts on students, maintaining core programs:

- 1.** Satellite ROP funding – % adjustment per funding plan
- 2.** Restore CCOC classes
- 3.** 4% salary reductions
- 4.** Restoration of some positions

* Remember, federal stimulus money is one-time. The cuts to our on-going funding is permanent. Restored cuts now are only delayed until later.



Proposition 98 & the Ballot Initiatives



- Proposition 98 is directly linked to the overall strength of incoming revenues.
- Five ballot measures must pass in order for the budget package to hold together.
 - Prop 1A – Rainy reserve fund for state
 - Prop 1B – Supplemental payments for education over time
 - Prop 1C – Securitization of state lottery
 - Prop 1D – First 5 funding
 - Prop 1E – Mental health services
- Tax increases will expire early without these ballot measures passing

Ballot Initiatives

- If the Lottery Initiative (Prop. 1C) does not pass, a \$5 billion hole in the budget will be created.
- If the First 5 Initiative (Prop 1D) does not pass, this will create a \$608 million hole in the budget.
- If the Mental Health Initiative (Prop. 1E) does not pass, this will create a \$227 million hole in the budget.
- *Total losses of \$5.8 billion in the budget package.*



Unknowns (surprises)



- April surprise is expected: State tax revenues continue to decline
- Special Election May 19, 2009, pass or fail?
- Effect of one-time Federal Stimulus package, when will we know? (April, maybe?)
- Governor's Budget Revise in June, 2009 will depend on results of the above
- Adjustments to the budget are expected.

Given the Assumptions- The Financial Standards are Met

- ✓ All Funds will meet their financial obligations for the current & subsequent 2 fiscal years
- ✓ All funds will end the year with positive cash balances
- ✓ General and Adult funds will maintain at least a 5% required reserve for economic uncertainty. Board policy requires 10% reserves for cash flow
 - ✓ 6% Reserve for Economic Uncertainty
 - ✓ 4% General Reserve for Cash Flow



Recommendation

- ✓ The Governing Board accept the 2nd Interim Report and Instruct the Board President to submit a positive certification to the County Superintendent of Schools for all funds

