

Governor's Proposal for the
2009-10 State Budget and K-12 Education

Orange Unified School District
Presentation to the
Board of Education
January 15, 2009

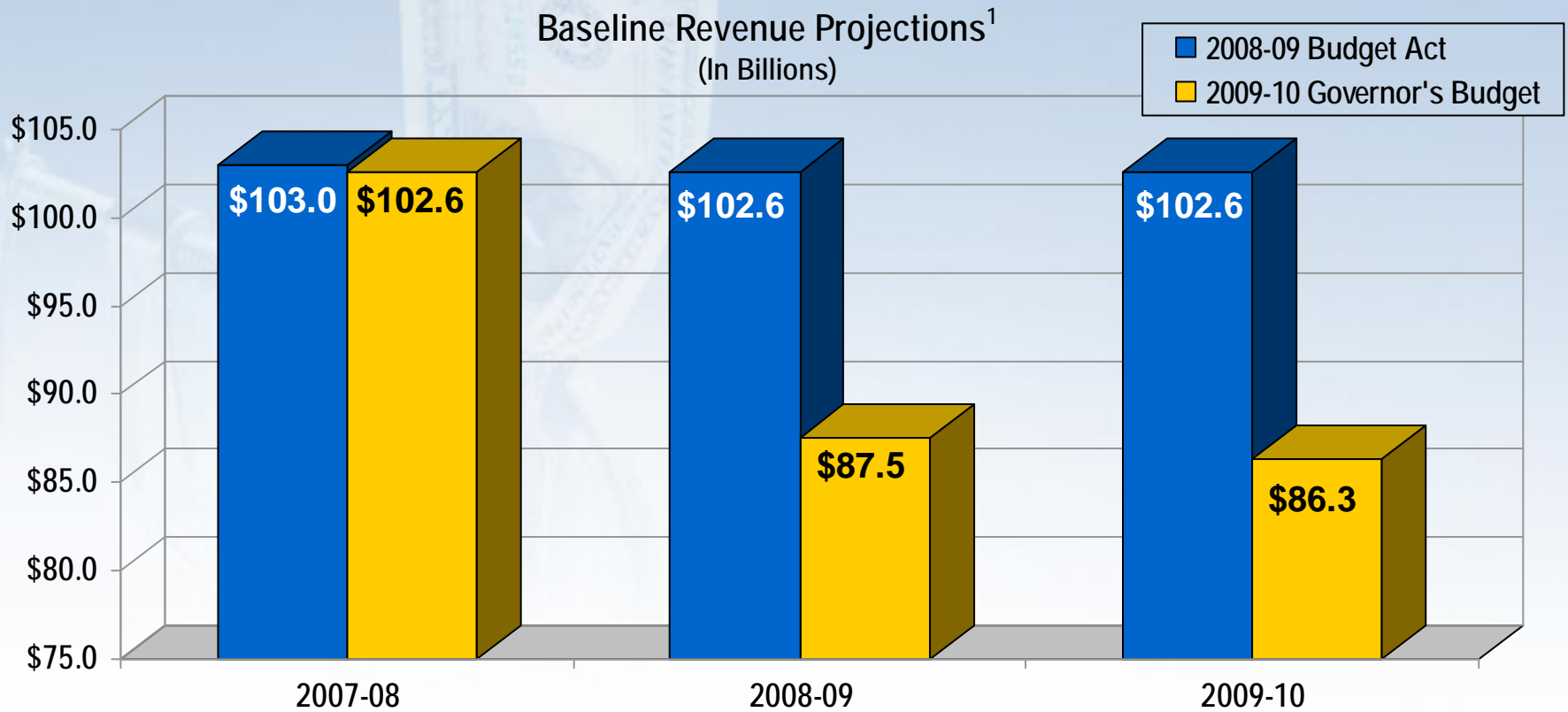


School
Services
of California
INC. TM

- The projected State Budget shortfall is huge and continues to grow
 - The State Administration's current estimate is \$40 billion over the two-year period of 2008-09 and 2009-10
 - A "normal" State Budget has expenditures of about \$100 billion
 - So the shortfall equates to 40% of a single year Budget or 20% of the combined expenditures for two years – either way, a huge number

General Fund Revenue Collapse

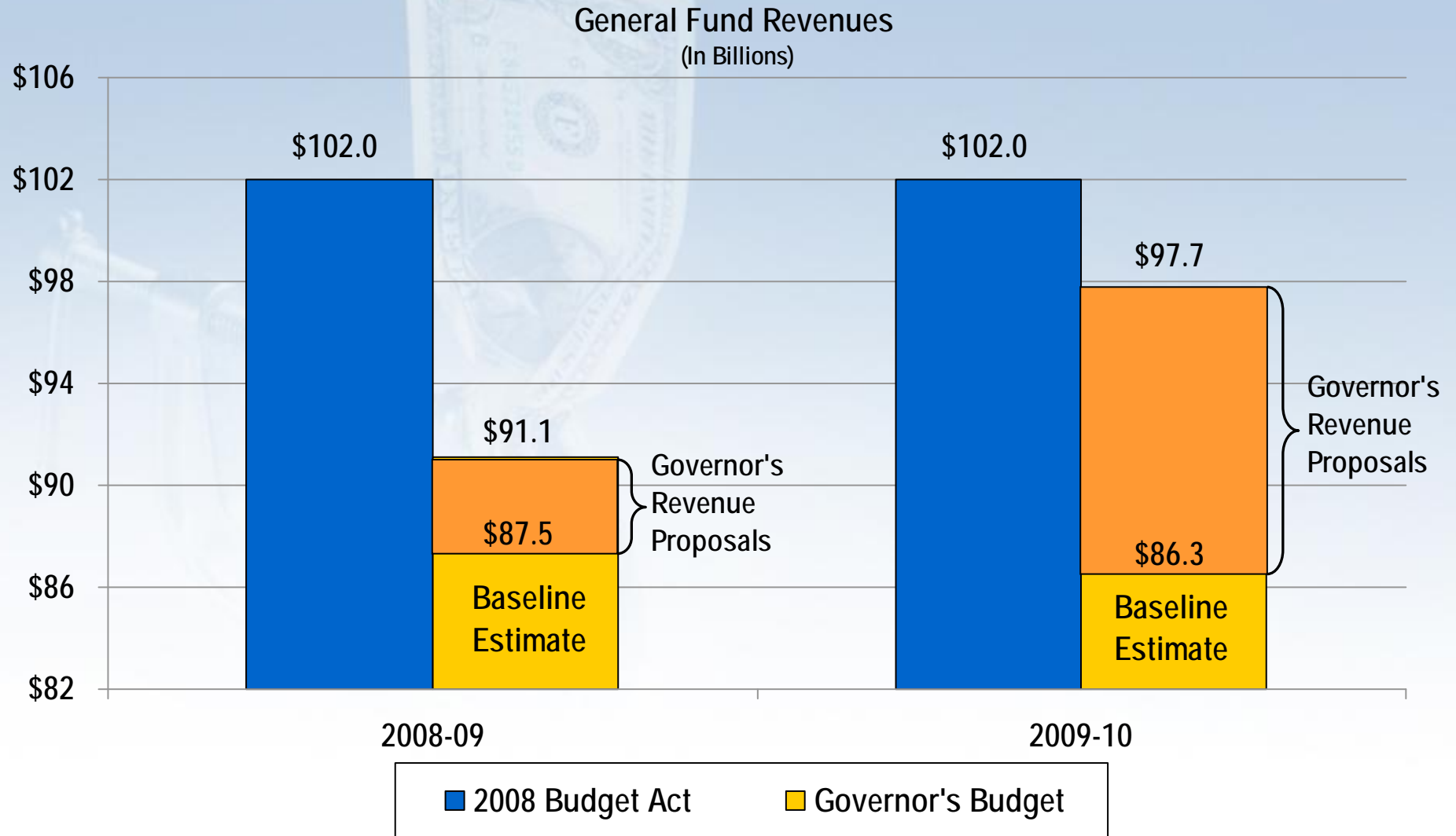
- Three-year shortfall totals \$31.3 billion



¹ Excludes new tax proposals

Source: 2009-10 Governor's Budget

Governor's Budget Projections



2008-09 Proposed Cuts – Governor’s and Legislature’s Major Proposals

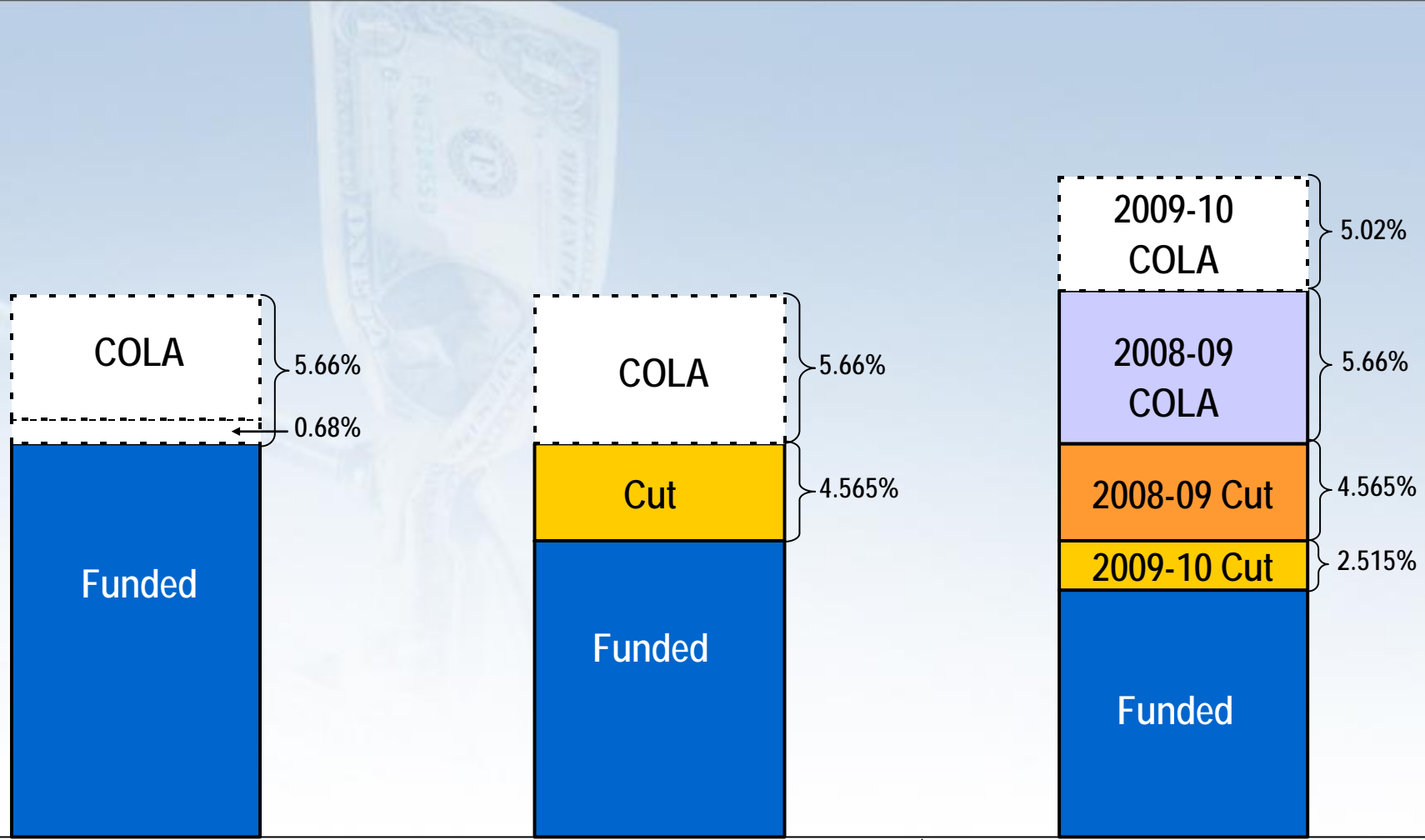
| Provision | Governor’s January Proposal | Legislative Proposal (SBX1 4, vetoed) |
|----------------------------------|---|---|
| Revenue Limit | Eliminate 0.68% COLA; reduce further by 4.50% | Eliminate 0.68% COLA |
| Categorical Program Eliminations | | High Priority Schools Grant Program, Math and Reading Professional Development Program, Deferred Maintenance, Instructional Materials, Professional Development Block Grant, others |
| Categorical Program Reductions | Minor changes | Many programs |

2008-09 Proposed Flexibility – Governor’s and Legislature’s Major Proposals

| Provision | Governor’s January Proposal | Legislative Proposal (SBX1 4, vetoed) |
|--|--|---|
| Prior-Year Categorical Balances | Transfer (with limitations) | Transfer (with limitations) |
| Current-Year Categorical Allocations | Transfer (no dollar limitation) after public hearing | Limit Mega-Item transfer for Home-to-School Transportation to “in” only |
| Routine Restricted Maintenance Set-Aside | Reduce from 3% to 1% | Reduce from 3% to 1% |
| Deferred Maintenance Match Requirement | Eliminate | Eliminate |
| Reserve for Economic Uncertainties | Reduce by half for 2008-09 and 2009-10 | – |

- Governor's Budget Proposal for:
 - 2008-09 reduces budgeted COLA of 0.68%, eliminating the entire 5.66% statutory COLA
 - 2009-10 provides a zero funded COLA, eliminating the projected statutory COLA of 5.02% through the deficit
- Governor's Budget made further cuts to revenue limit funding
 - \$1.6 billion in 2008-09 is equal to a cut of 4.565%
 - \$1.1 billion in 2009-10 is equal to a reduction of 2.515%

2008-09 and 2009-10 K-12 Revenue Limits



2008-09 Budget Act

2008-09 Proposed Governor's Budget

2009-10 Proposed Governor's Budget

- In addition, the Governor proposes providing permanent categorical flexibility
 - Proposal calls for rolling virtually all state categorical funding into one block grant
 - Excluded programs include Quality Education Investment Act (QEIA), After School Education & Safety Program (ASES), and other limited-term grants
- Essentially, moves regular K-12 funding closer to charter school model

- While the flexibility proposed by the Governor is broad, keep in mind that not all programs are included
 - Exempted programs include:
 - Federally funded
 - Those requiring voter approval to change – e.g., ASES, Proposition 20 (Lottery)
 - Legal settlements – QEIA, Williams

2009 SSC School District and COE Financial Projection Dashboard

| Factor | | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|--|---------|---------------|----------------|----------------|----------------|----------------|----------------|
| Statutory COLA (use for K-12 and COE Revenue Limit) | | 5.66% | 5.02% | 0.50% | 2.00% | 2.50% | 3.00% |
| K-12 Revenue Limit Deficit | | 9.685% | 16.161% | 16.161% | 16.161% | 16.161% | 16.161% |
| Net Revenue Limit Change | | -4.57% | -2.52% | 0.50% | 2.00% | 2.50% | 3.00% |
| Special Education COLA (on state and local share only) | | 0.00% | 0.00% | 0.50% | 2.00% | 2.50% | 3.00% |
| State Categorical COLA (including adult education and ROC/P) | | 0.00% | 0.00% | 0.50% | 2.00% | 2.50% | 3.00% |
| California CPI | | 2.9% | 1.7% | 2.7% | 2.9% | 3.1% | 3.2% |
| California Lottery | Base | \$ 109.50 | \$ 109.50 | \$ 109.50 | \$ 109.50 | \$ 109.50 | \$ 109.50 |
| | Prop 20 | \$ 11.50 | \$ 11.50 | \$ 11.50 | \$ 11.50 | \$ 11.50 | \$ 11.50 |
| Interest Rate for Ten-Year Treasuries | | 3.33% | 3.55% | 4.44% | 4.80% | 4.90% | 5.00% |



- The proposed Budget for 2009-10 includes \$312.89 million for the Deferred Maintenance program
 - Eliminates the matching requirement of one-half of one percent
 - LEAs would be eligible for funding without making a contribution

- The January Budget proposal allows for increases to fully fund K-12 mandates
 - However, the proposal suspends all but two mandates:
 - Interdistrict and intradistrict transfers
 - California High School Exit Exam

- For 2008-09 the Governor has proposed deferring \$2.6 billion due to be paid in April 2009 to July 2009.
- Orange Unified currently has \$66 million in cash and we will continue to receive property tax revenues and federal funds.
- We anticipate being able to meet payroll and pay vendors without needing to borrow from an outside source until September 2009.

Impact to Orange Unified – Midyear Reductions 2008-09

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- For 2008-09 the Governor has proposed elimination of 0.68% COLA and a Revenue Limit reduction of 4.5%.
 - Estimated Impact - \$319 per ADA - \$8.6 million

- For 2009-10 the Governor has proposed funding statutory COLA (5.02%) at zero.
 - Estimated Impact - \$10.2 million
- For 2009-10 the Governor has proposed reducing school year from 180 days to 175 days and reducing the Revenue Limit by an additional 2.5%. Reducing days at the local district level is negotiable.
 - Estimated Impact - \$153 per ADA - \$4.1 million

- Projections for statutory COLA for 2010-11 have dropped from 3.5% to 0.50%.
 - Estimated Impact - \$5 million

- The Governor has proposed permanent flexibility and local control for some categorical program funding.
 - Categorical flexibility for Orange Unified is estimated to be in the \$10 million to \$15 million range.

Potential Funding Adjustments

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| | |
|--|--------------|
| ● Administrative Funding Adjustments | \$ 2,505,000 |
| ● Fund Deferred Maintenance Match with Redevelopment Funds (one time) | \$ 1,200,000 |
| ● Consolidate small schools and eliminate class size reduction | \$ 1,200,000 |
| ● Convert to one common calendar | \$ 500,000 |
| ● Reduce staffing – Leadership, Certificated, Classified | \$ 2,900,000 |
| ● Freeze step and column (one time) | \$ 3,150,000 |
| ● Reduce salaries: | |
| ■ 1% of salary equals \$1.6 million | \$ Varied |
| ● Restructure District contribution to Health and Welfare plans | \$ Varied |

- Orange County Department of Education requires a detailed list of approved budget reductions with the Second Interim Report due March 15, 2009.

Summary of Required Budget Reductions Beginning 2008-09

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| | |
|------------------------------------|-----------------|
| ● Cuts already made 2008-09 Budget | \$ 12.1 million |
| ● Proposed Midyear Reductions | \$ 8.6 million |
| ● Proposed Zero COLA 2009-10 | \$ 10.2 million |
| ● Proposed 180 days to 175 days | \$ 4.1 million |
| ● COLA Reduction 2010-11 | \$ 5.0 million |