FOLSOM CORDOVA UNIFIED SCHOOL DISTRICT

Budget Communications Committee
October 31, 2011

MINUTES

Committee members present: Rhonda Crawford, Cathy Runnels, and Karen Knight representing the District; Linda Greer and David Werra representing FCEA; Ted Bosque and Elena Cabrera representing FCLA; Rob Thomas representing CSEA; and Sandy Connelly, recorder.

Ms. Crawford welcomed the committee and opened introductions of members.

Handouts provided to the committee were:

- School Services Fiscal Report: Should We Be Focused On the “Triggers”?
- School Services Fiscal Report: State Revenues Slightly Below Forecast for September
- School Services Fiscal Report: California Adds Jobs in September and the Unemployment Rate Drops
- School Services Fiscal Report: UCLA Says Economy Stalled
- EdSource: California’s Fiscal Crisis: What does it mean for schools?
- PowerPoint slide: Summary of Potential “Trigger” Cuts if State revenue Assumptions Are Not Met
- PowerPoint slide: Delayed Principal Apportionment Funding 2011-12 Budget Act

Ms. Crawford offered to provide the Fiscal Reports to the committee either at the meetings or via email. The preference was email. The committee requested the bulletins be posted on Budget Central.

Ms. Crawford briefly recapped each handout and pointed out that district data projections are from several sources including School Services of California, School Innovations & Advocacy, the Legislative Analyst Office (LAO), and the State Department of Finance (DOF), a combination that districts in California utilize. She explained the budget triggers (automatic cuts) that were adopted as part of the state budget are of utmost concern. The state budget was based on an additional $4 billion in revenue assumptions. If state revenues fall short of projections, tiered triggers will go into effect. With the first three full months of revenue data, each month is down. Through September, the state revenue is down by $654 million compared to projections. The tier 2 trigger amount, based on projections, that affects K-12 school districts statewide takes effect if projections are short between $2-4 billion. If the tier 2 trigger is pulled, home-to-school transportation revenue will be eliminated, and the revenue limit will be reduced proportionally, anywhere from 1% to 4%. Special Education transportation revenue will also be
eliminated, however, it is a mandated service and the cost will further increase the encroachment to the general fund. The “pull the trigger” date established in the state budget, if needed, is February 1, 2012. If the revenues continue on a decline, the Governor will have to use lower revenue projections in January for his proposed 2012-13 budget.

The Sacramento County Office of Education is advising districts to budget for the triggers at 1st interim, and to include in the multi-year projections for 2012-13 and 2013-14.

This was the first meeting of the committee for the 2011-12 school year and Ms. Crawford asked the committee how often they would like to meet and what kind of information was desired to make the process successful.

- Big picture information
- Pertinent bargaining unit information prior to decision making
- Postings to Budget Central
- Updates to the Board (Summarized the PowerPoint presentation for the 11-3-11 Board Meeting)
- Historical data, positions eliminated, percentage of cuts since 2007-08
- Attendance data, P-1 – Head count has increased over 2010-11, but not back to 2009-10 levels. Actual percentage of attendance for ADA won’t be known until P-1 reported in December
- First Interim, December 8, 2011, Board meeting
- Trigger Updates – LAO and DOF in November and December
- Revenue Projections
- Cost of 1%
- Multi-year projections
- Emails of Fiscal Reports between meetings
- CTA literature from FCEA

Other points covered were:
- State deferrals – Currently have nine deferrals of apportionments (cash) that won’t be received until 2012-13
- Deficit factor is 20% – For the past four years, the state has given only 80% of what is owed
- Cash flow and cost of borrowing against other funds to make payroll and covering operating costs

The next meeting is scheduled for Monday, January 23, 2012, 3:30 at the current District Office.
Should We Be Focused On the "Triggers"?

We think far too much discussion has been focused on the legal and political aspects of the "trigger" language in Assembly Bill (AB) 114, and that there has been far too little consideration of the underlying economics. The ticking time-bomb embedded in AB 114 provides that, though education received none of the additional $4 billion, K-14 and Higher Education stand to take nearly $3 billion in cuts if the state's revenue forecasts come in lower than projected. Current law is that the cuts are automatic and prorated based on the revised revenue projection of the Legislative Analyst's Office (LAO) in November and the Department of Finance (DOF) in December.

We are only a few weeks from those revised projections. Remember that the revised projections will be based upon four or five months of actual revenue collections and seven or eight months of estimates. Also, remember that the biggest months are in the spring. We think that both the LAO and DOF will do their very best to get the projections right. However, we also recognize that, over the past four years in this volatile economy, the leading economists in the nation have not made an annual projection that turned out to be anywhere near accurate. We think, despite their best efforts, events subsequent issuance of the revised projections are likely to make both the LAO and DOF projections vary significantly from the true annual revenue collections.

So rather than attribute any excessive precision to these projections, we prefer to focus on the underlying economics; recent past and present being more significant than future projections. We do have some facts to deal with. For example, the economic growth of both the United States and California have been "over forecast" in each year since 2009 when the recession was officially deemed to be over. We also know that the growth projections used in developing the 2011 May Revision have turned out to be too optimistic. And a further reflection of that optimism by the state, the addition of $4 billion to the revenue projections, is far riskier today than in June when it was signed into law. We also know that current-year cash projections have come in significantly lower than expected.

Thus, whether the "triggers" get pulled or not, the state will be facing another economic crisis as it tries to balance the 2012-13 Budget. The "triggers", which are by statute one-time cuts, could easily portend a lower revenue picture for not only 2011-12, but 2012-13 as well. We think that going into the January Budget development process, the state could easily be looking at a shortfall this year of $4 billion or more; continuing that lowered expectation into next year brings the total to about $8 billion in basic revenue problems.

There could be problems on the expenditure side as well. The Department of Corrections' budget continues to grow unabated. The more than $13 billion in cuts to the non-Proposition 98 side of the Budget are not yet assured and may have the same slippage we have seen in the past. Finally, as the effects of the recession and very slow recovery linger on, we see more demand for government services by families in distress. As a result, we would not be at all surprised to see the state anticipating a budget shortfall of $10 to $15 billion in January, whether the "triggers" get pulled or not.

http://www.sscal.com/fiscal_print.cfm?contentID=17432
The ongoing economic problems are certainly a barrier to resolution of the state's fundamental budget problems. Despite the best efforts of the current Governor and administration, which we think, with the exception of AB 114, have been commendable, the state is still swimming upstream against a very strong current. The two segments of our economy that are still dragging the recovery down are clear; housing and employment. We cannot have a recovery with an unemployment rate of more than 12%, three times what we have during good times. We cannot have a strong recovery until the housing and construction industries recover. These two problems are joined at the hip; much of the unemployment is caused by the slowdown in housing, construction, mortgage, appliance, and other industries related to construction.

We only need to look at two elements to know where we are headed and how fast. One is a short-term indicator, the other a longer term indicator. First, in the near term, we need to see our friends and neighbors working again, particularly in the housing and construction industry. That generates taxable salaries, which are spent to generate sales and other taxes. Second, to assure longer term economic success, we need to look to workforce development. Major elements of workforce development include K-14 and higher education, as well as Regional Occupational Program, Adult Education, and Career Technical Education. Positioning our population to contribute and to grow California is what our state has always been all about. We need to return to those fundamental values; still, it will take time.

As a result, we continue to urge education agencies to plan to have reduced resources for the foreseeable future. Holding on to reserves, cutting costs, being conservative, and negotiating employee concessions will be as important next year as it has been for the past four years. Despite the urging of the Legislature in AB 114 to spend dollars you don't have, most districts have exercised restraint and are still solvent. The next unplanned cut could change that. So our advice is to continue to stay the course, be guided by your multiyear projections, and be ready for continued budget stress whether the "triggers" are pulled or not.

—Ron Bennett

posted 10/27/2011
State Revenues Slightly Below Forecast for September

On October 13, 2011, the Department of Finance (DOF) reported that state General Fund revenues fell short of the budgeted level by $62 million, or 0.9% for the month of September. The Finance Bulletin indicates that year-to-date revenues are $654 million behind the expected level—now three months into the 2011-12 fiscal year. This is the fourth month (including June from the 2010-11 fiscal year) in a row that revenue collections have fallen below the 2011-12 Budget Act level.

This DOF report, while acknowledging a shortfall, is considerably better than the figures released by the State Controller's Office (SCO) two days earlier. The SCO's Cash Report indicated that collections for September were $302 million below the forecast level. We have consistently cautioned that the SCO figures are compiled differently than the DOF's, and that the State Budget will be based on the revenue forecast of the DOF. Therefore, the $62 million shortfall reported by the DOF is the correct measure of the performance of General Fund revenues.

The Finance Bulletin shows that of the three major taxes, the personal income tax performed better than expected, while the sales tax came in on target and the corporation tax fell short of projections. The report, however, is misleading because it fails to allocate among the major taxes the $4 billion added by the Legislature to close the budget gap (Note: Of the $4 billion, $310 million is attributed to September). After we adjust for the Legislature's assumed boost in revenues, September collections show that the personal income tax was ahead of projections by 4% rather than the 9.3% displayed in the Finance Bulletin; the sales tax came in 5% short rather than on target; and the corporation tax missed the mark by 21% rather than the reported 17.6%.

With regard to the broader California economy, the DOF report concedes that the state's economic recovery "appears to have lost momentum." For the first four months of the calendar year, the state added on average 25,500 jobs. In contrast, from May through August, the state on average has lost 900 each month.

On a positive note, the Finance Bulletin shows that the median price of existing single-family homes sold in August reached the highest level this calendar year at $297,000, and permits for construction of multifamily units was up 57% from last year.

—Robert Miyashiro

posted 10/14/2011
California Adds Jobs in September and the Unemployment Rate Drops

For the month of September, California added 11,800 jobs, according to a report released on October 21, 2011, by the state's Employment Development Department (EDD). The resulting unemployment rate declined from 12.1% in August to 11.9% in September.

Perhaps the better news was EDD's revised assessment of employment growth for August. The department had previously reported that August payroll employment dropped by 8,400 jobs, which fueled growing pessimism about path of the so-called economic recovery.

This latest report, however, paints a different picture of the state's summer job market. The EDD now indicates that California added 21,100 jobs in August, a turnaround of 29,500 jobs from its initial report. Thus, the state job market has actually been moving in the right direction for two months when previous reports were suggesting that job growth had stalled. This is certainly welcome news as the Legislative Analyst's Office and the Department of Finance review the economic data for purposes of its current year revenue forecast and determination of whether automatic trigger cuts will be imposed.

The EDD report notes that on a year-over-year basis, California added 250,600 jobs; the September 2010 unemployment rate was 12.5%.

The net gain of 11,800 jobs in September is composed of an increase of 30,100 jobs in five industrial categories, with professional and business services accounting for most of the gain, partially offset by losses in six categories totaling 18,300, with government employment posting the largest drop.

—Robert Miyashiro

posted 10/26/2011
Economists with the UCLA Anderson Forecast are projecting that the national economy will avoid a double-dip recession, but acknowledge that the economy has stalled. At their quarterly forecast conference yesterday, September 20, 2011, the economists said that the concept of "stall speed" applies to this economy, which is growing at such a slow pace that "any modest shock can trigger a full-blown recession." When pressed for an example of a modest shock from a member of the audience, David Shulman, the project's senior economist, pointed to a default by Greece or a sharp rise in the price of oil as potential triggering events.

The September quarterly report predicts significantly lower growth for the U.S. economy in both 2011 and 2012 than the prior quarterly forecast. Growth in gross domestic product (GDP) is now forecast to be only 1.5% for 2011, compared to 2.5%, which was forecast just three months ago. Similarly, growth for 2012 was revised down from 2.9% to 1.4%. In addition, the employment situation will get worse before it improves. The September forecast indicates that the U.S. unemployment rate will rise from its current level of 9.1% to 9.5% before slowly falling to 8.9% in 2013.

UCLA argues that the U.S. will avoid a double-dip recession because the sectors of the economy that normally drive the broader economy into a recession are already depressed: housing, autos, inventories, and consumer durables. They conclude that a new recession would have to be triggered by a collapse in exports, a decline in consumer spending, and the subsequent fall off in business investment, which they are not predicting will occur.

Shulman acknowledged that they are "much more downbeat than three or six months ago." This assessment is particularly important for California state government finances because the State Legislature added $4 billion to the May Revision revenue forecast under the assumption that economic conditions would improve throughout the fiscal year. Should forecast revenues fall short, the authority to impose automatic trigger reductions to many state programs, including K-12 education and community colleges, is already included in the 2011-12 Budget Act.

In the written report, Shulman noted that the Federal Reserve "has thrown all but the kitchen sink at the economy" to forestall what the Fed saw as an impending "new great depression." With the Fed holding short-term interest rates near zero, long-term rates have come down as well, with the ten-year bond falling below 2%. "Make no mistake, the last time we have seen government yields this low was during the Great Depression," Shulman wrote. In his presentation, the senior economist expressed skepticism that the expected Fed policy to buy long-term Treasuries and sell short-term Treasuries will be effective. He noted that the policy didn't work in the 1960s, and concluded that it won't work now.

Turning to the California economy, senior economist Jerry Nickelsburg highlighted the growing disparity between coastal California and Inland California, which includes both the Inland Empire and the San Joaquin Valley. Nickelsburg pointed to the strengths of the coastal regions, whose businesses are oriented toward high technology education and information services, all high-skill and high-wage employers, in contrast to the inland regions, which have been dependent on in-migration, government employment, and construction.
Nickelsburg presented data that showed that during 2010, the Inland Empire, Sacramento, and Stockton continued to decline in both GDP and employment, while the Bay Area, Orange, Los Angeles, and San Diego counties gained. Given the weak fundamentals, employment levels for inland California might not reach the pre-recession highs until 2017, according to the UCLA analysis.

Similar to the national forecast, UCLA’s outlook for California has dimmed since their June review. Job growth for 2011 has been revised down from a 1.7% gain forecast in June to 1.1% forecast in September. The outlook for 2012 is even more discouraging, with expected job gains falling from 2.4% forecast three months ago to a revised 0.6% in September. California personal income, a broad measure of economic activity for the state, is expected to increase 4.5% in 2011, but slow considerably to 3.6% in 2012; three months ago UCLA had pegged 2012 growth at 5.3%.

—Robert Miyashiro

posted 09/21/2011
California’s Fiscal Crisis: What does it mean for schools?

Early in 2011, Superintendent of Public Instruction Tom Torlakson declared “a financial emergency” for California public schools. He noted that three years of cuts to education had resulted in nearly 2 million students—roughly 30% of pupils in California—attending a school in a district facing “serious financial jeopardy.”

The state currently has a multibillion-dollar budget deficit. To balance the budget, California policymakers could raise more revenue and/or cut funding. If deep cuts are made to K–12 schools, they could cripple some districts’ ability to function and would likely curtail meaningful efforts at educational improvement throughout the state.

What is the connection between the state budget and public school funding?

In 2010–11, policymakers allocated more than 40% of the state’s General Fund to K–12 schools to support California’s vast school system, which includes 6.2 million students, 300,000 teachers, and almost 10,000 schools.

Because education takes up such a big share of the General Fund, funding for public schools may need to be cut—some estimate by as much as 10%—if the state decides to close its deficit with cuts alone.

How big is the deficit?

By January 2011, it was clear that California was spending about $8 billion more than it had received in 2010–11, and budget analysts predicted that the state would be short another $17 billion in 2011–12. Together, those added up to a $25 billion budget shortfall if cuts weren’t made or revenue increased.

In March, Gov. Jerry Brown and the Legislature agreed on about $8 billion in cuts, mostly to health and social services, plus $3 billion in other reductions. And some budget analysts say that higher-than-expected income tax revenues in 2011 could further reduce the deficit. That said, the remaining deficit will still be large.

The governor wants to make up the difference by extending some taxes that Californians have been paying since 2009 but that will soon expire. To date, he has been unable to get the two-thirds approval from the Legislature needed to put those taxes on the ballot for voters to decide. The Legislature could also extend those taxes with a two-thirds vote and the governor’s approval without going to voters.

How much have schools already been cut?

Although schools did not bear the brunt of the budget cuts passed in March, per-pupil spending was reduced by 5% between 2007–08 and 2010–11, according to the non-partisan Legislative Analyst’s Office (LAO). The drop-off has been particularly steep this school year.

The 10% potential cut in education funding mentioned earlier would be in addition to the 5% already cut. To translate that into per-pupil funding, see the figure above.

How did California compare with other states in terms of education funding and salaries before the economic crisis?

California has lagged behind the national average expenditure per pupil for years. In 2007–08, before the crisis hit, California ranked 43rd in the nation in its per-pupil spending. This ranking is based on data collected by the National Center for Education Statistics (NCES) that are adjusted for salary costs of college-educated workers in this state.

The salary costs are considered in education rankings because a substantial portion of a school district’s budget is spent on personnel.

Meanwhile, average teacher salaries in California were the highest in the country in 2007–08, likely reflecting both the state’s high cost of living and generally higher educational requirements for its public school teachers.
In what way do lower per-pupil expenditures affect staffing in California’s schools?
The state’s modest per-pupil expenditures combined with high labor costs result in schools not being able to hire as many teachers, administrators, and other staff.

California ranks 49th in the nation in its overall ratio of staff to students, according to NCES data for fall 2008. Compared with the U.S. average, California has about half as many school district administrators, guidance counselors, and high school teachers per 1,000 students. The state ranks last in the number of school librarians per pupil.

How much money does K–12 education receive, and where does it go?
In the 2010–11 school year, California’s K–12 public education system is estimated to have revenues totaling $64.5 billion from all sources—federal, state, and local. Of that, $56.7 billion is allocated to school districts, charter schools, and county offices of education.

The remaining $7.8 billion goes to state bond repayments for building and modernizing schools, the teacher retirement system, and state agencies such as the California Department of Education (CDE) and the Commission on Teacher Credentialing (CTC), which help run the K–12 system. The portion of total education spending going to the CTC (which is funded by fees) and the CDE is a fraction of 1%.

How do school districts spend their funds?
California’s school districts vary tremendously in terms of size, grades served, and student needs. That said, the average district spends about three-quarters of its money on instruction and instruction-related expenses for both general and Special Education students. Another 8% is spent on pupil services, which include guidance and counseling, psychological services, health services, and transportation. Only 5% is spent on general administration, which includes all district office and school board operations, such as legal costs and payroll and data systems. (See the pie chart above.)

What has been the impact of budget cuts on K–12 schools during the past few years?
Because school districts are so labor-intensive, many have responded to budget cuts by laying off teachers and other staff and increasing class sizes. Some districts have also consolidated schools and programs and shortened the school year through the use of furlough days. The range of budget cuts varies widely depending on local circumstances.

Some districts have weathered the cuts better than others, often because they have increasing enrollment. When districts are growing, they receive more state funds. When enrollment is falling, the state, after one year, pays districts less even though fixed costs—such as heating and maintenance—do not automatically go down. In California, about two-thirds of the counties are experiencing decreasing enrollment.

One or more of the following conditions can also help districts make ends meet:

- Outside support, such as from a city, foundations, high local property taxes, or parents.
- Deep financial reserves at the beginning of the budget reductions.
- Ability to negotiate pay decreases or pay freezes for staff.
- Ability to reduce costs through consolidating systems, investing in alternative energy, and implementing other efficiencies.

- Continuous cutting. Some districts have been making substantial reductions during the past few years so this year’s cuts are less extreme.
- Delaying the use of some federal stimulus funds until the September 2011 deadline, thus having stimulus dollars for 2011–12.

If state cuts continue, what will districts do?
California law severely limits local school districts’ ability to increase their revenues. Districts can augment state-provided funding in just a few ways, most notably private donations and parcel taxes (which require two-thirds voter approval).

If state cutbacks continue, the vast majority of districts will have to take more drastic measures, such as laying off more teachers and significantly increasing class sizes; closing schools; shortening the school year; or further cutting administrators and support staff, such as counselors, nurses, and librarians.

To Learn More
- For more information about school finance in California, go to EdSource’s website: www.edsource.org/school-finance.html
- To get financial information about specific school districts, visit the Ed-Data website: www.ed-data.org
Summary of Potential “Trigger” Cuts if State Revenue Assumptions Are Not Met

No Cuts

- $30 million reduction to community colleges
  - Enrollment fee increase of $10 (to $46)
- $23 million cut to child care
- $548 million reduction to University of California, California State University, and other state programs

Trigger I

- Additional $72 million reduction to community colleges
- $248 million cut to K-12 transportation
- Up to $1.5 billion cut to K-12 revenue limits
  - This cut would be protected based on the level of reduced revenue projections

Trigger II
Delayed Principal Apportionment Funding

2011-12 Budget Act

$9.44 billion or 39% of funding is delayed from 2011-12 to 2012-13.

Blue - ongoing (Education Code 14041.5, 14041.6)
Red - one-time, pursuant to ABX8 14 (May be moved from prior month or delayed to the subsequent month). Total 2010-11 K-12 intra-year deferrals not to exceed $2.5 billion at any given time and must be paid back by April 29, 2011. (Government Code 16326(a))

Mar to Apr
End of Fiscal Year
$2.5B

Aug to Jan
$1.4B ($1.2B actual from PA)

Oct to Jan
$2.4B ($2.2B from PA and $0.2B from 100% deferral of consolidated categories and 7% deferral of Instructional Materials Funding Realignment Program)

$700M ($541M actual from principal apportionment (PA))

End of Fiscal Year
$1.4B ($337M from PA, remaining balance is 100% deferral of consolidated categorical and 100% deferral of Economic Impact Aid)

Purple - One-time modification to the inter-year deferral payment schedule. $3.19B of the 2010-11 inter-year deferrals to July 2011 shall be deferred to August 2011 ($1.4B) and September 2011 ($1.79B) (Education Code 14041.65).

Green - New ongoing additional deferrals of $2.063B based on Education Code 14041.6(d).

Orange — 2012-13 Intra-Year deferrals. Important: these deferrals can not be moved (Government Code 16326(a)(2)).

Note: This chart only shows principal apportionment funding deferrals and DOES NOT include the ~$550M K-3 Class Size Reduction deferral.

September 22, 2011