

**“May Revise”  
Impact on Stockton Unified School District  
Open Session**

June 12, 2012



# Overview

- ▶ The Governors “May Revise” projects a deficit of \$15.7 billion for 2012–13 which is \$6.5 billion greater than the January Budget proposal of \$9.2 billion
  - The increase is the result of lower than expected revenues, an increase in Proposition 98 obligations, and adverse court decisions regarding some of the Governor’s proposals
  - It appears that the Governor is committed to preserving current funding levels for public education through a November Ballot Initiative
- ▶ Passage of the November Ballot Initiative would result in “Flat” funding for public education
- ▶ Passage of the November Ballot Initiative would result in a lower deferral of state funding
- ▶ Failure of the November Ballot Initiative would result in an ongoing funding cut of \$441/ADA or \$15 million to SUSD’s revenue limit effective January 2013

# Instructional Year

- ▶ More flexibility by authorizing a reduction to the instructional year up to 15 more days over 2012–13 and 2013–14 in addition to the 5 days currently in law (175 day year)
- ▶ This means that any school district would be able to use any combination of days in 2012–13 and 2013–14 but the total number of days in those two years cannot exceed 15 days
  - For example: 8 days in 2012–2013 and 7 days in 2013–2014 for a total of 15 days over the two year period, in addition to current law which already allows the school year to be reduced by up to 5 days each year
- ▶ Once the 15 days have been used for the two year period of 2012–13 and 2013–14, this provision is eliminated and the statutes will revert back to current law of 5 days per year (175 day year)
- ▶ This would have to be negotiated through the collective bargaining process

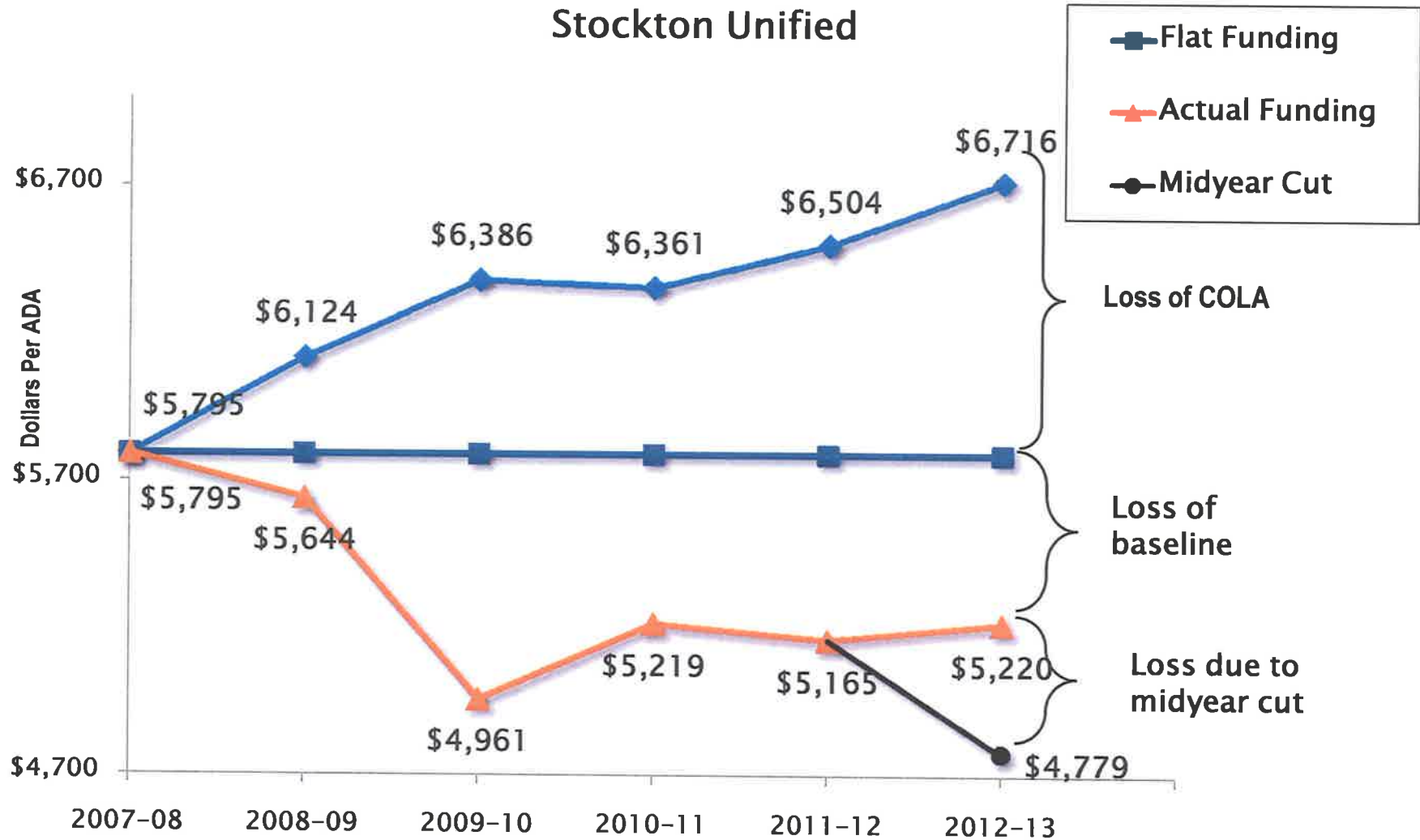
## Education Funding Initiatives

Proponent and Title	Total Revenues Generated	Education Revenues Generated	Source of Additional Revenues	Duration
<b>Governor Jerry Brown – “The Schools and Local Public Protection Act of 2012”</b>	<b>\$8.5 billion in 2012-13; \$6.5 billion thereafter</b>	<b>Limited – additional funds offset State General Fund (GF) obligation; \$2.9 billion increase in Proposition 98 first year</b>	<b>Quarter-cent sales tax increase; up to 3% increase in personal income tax rate for high-income earners (\$250,000 and above)</b>	<b>4 years sales tax, 7 years income tax</b>
<b>* Molly Munger (PTA supported) “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act”</b>	<b>\$5 billion in 2012-13; \$10 billion thereafter</b>	<b>First 3 years: 60% K-12 schools 10% Early childhood education (ECE) 30% State GF bond debt  Remaining years: 85% K-12 schools 15% ECE</b>	<b>Increase in personal income tax for all but low-income earners, from 0.4% for lowest income individuals to 2.2% for individuals earning more than \$2.5 million</b>	<b>12 years</b>

# What Happens if the Governor's Initiative Fails?

- ▶ \$5.5 billion in spending reductions taken by:
  - Reducing apportionments for K-14 – \$2.7 billion – Would result in a ongoing reduction of \$441 /ADA to revenue limits. For SUSD this would result in a funding cut of \$15 million
  - Reversing the deferral buy back – \$2.8 billion which would reduce SUSD's cash for next year
- ▶ K-12 share is 89% of the \$2.7 billion apportionment cut, or about \$2.4 billion

# Funding Per ADA – Actual vs. Statutory Level





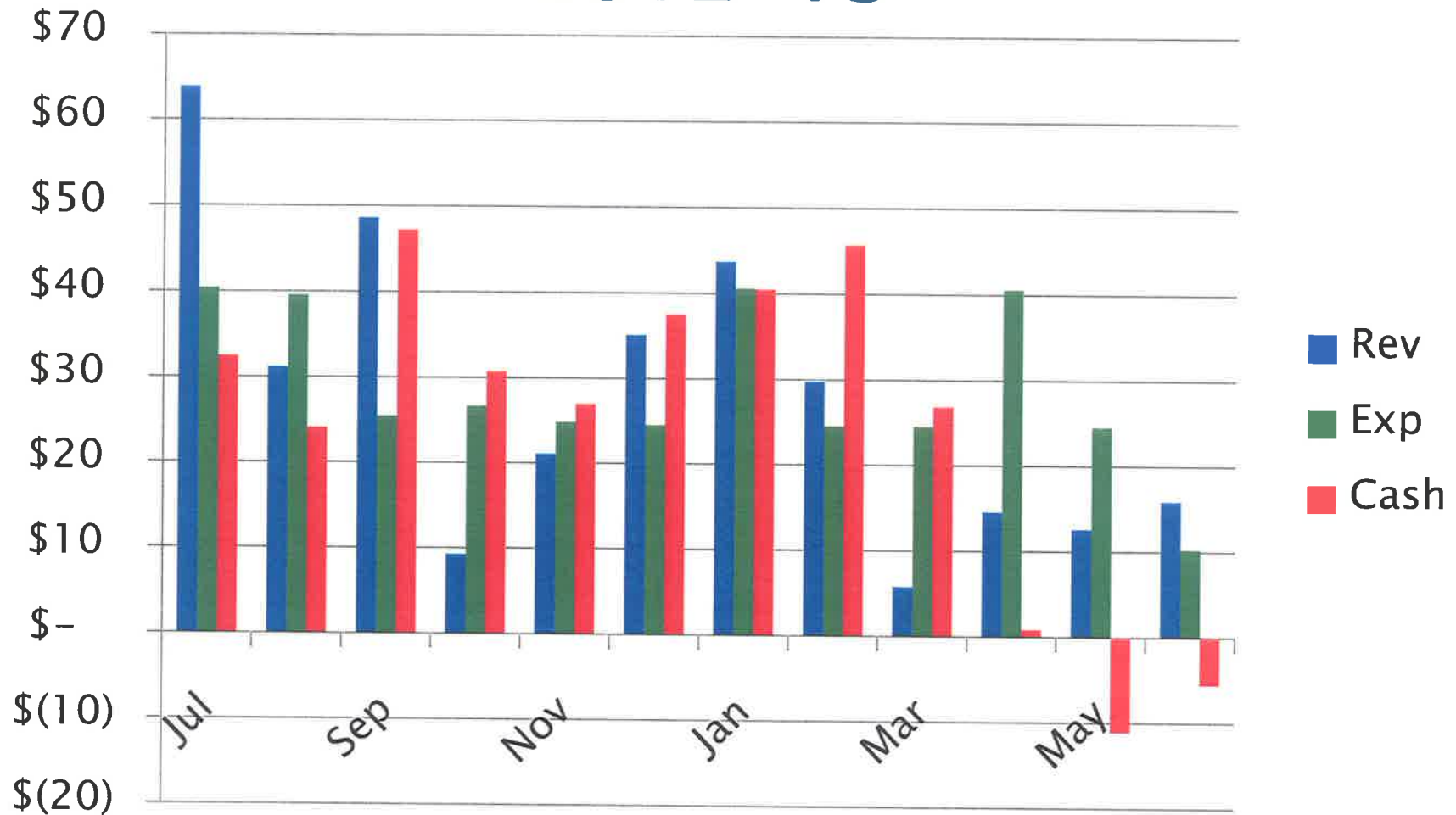
# Cash Flow and Tax and Revenue Anticipation Notes (TRANS)

- ▶ Purpose - To provide short term cash until tax revenues materialize. However TRANS are increasingly becoming a vehicle used by districts to provide cash relief due to state deferrals. For example:

Fiscal Year	Deferral Amount	Funding Percentage	Deferral Percentage
2006-07	\$9.1 million	94%	6%
2007-08	\$10.6 million	94%	6%
2008-09	\$22.6 million	86%	14%
2009-10	\$30.3 million	78%	22%
2010-11	\$39.1 million	73%	27%
2011-12	\$54- \$60 million (est.)	62%	38%
2012-13 (Passage)	\$54 million	69.19% (est.)	30.81% (est.)
2012-13 (Failure)	\$56 million	60.18% (est.)	39.82% (est.)

- ▶ Sizing - Limits the maximum amount of borrowing that may occur
- ▶ Cost of Issuance - For 2011-12 is over \$300,000 and growing (roughly.006)

# Failure: Ballot Initiative (dollars in millions) 2012-13





## Second Interim Report Multi-Year Budget Projections 2011-12 General Purpose/Unrestricted\*

	2011-12	2012-13	2013-14
<b>REVENUE</b>			
Revenue Limit	\$165,702,201	\$165,307,977	\$165,912,494
Other Revenue	\$36,724,939	\$36,363,902	\$36,912,573
Contributions	(\$27,298,054)	(\$27,298,812)	(\$30,807,114)
<b>Total Revenue</b>	<b>\$175,129,086</b>	<b>\$174,373,067</b>	<b>\$172,017,953</b>
<b>EXPENDITURES</b>			
Salaries, Benefits, Books/Supplies, Services, Capital	\$171,942,842	\$176,912,277	\$177,409,477
<b>Total Expenditures</b>	<b>\$171,942,842</b>	<b>\$176,912,277</b>	<b>\$177,409,477</b>
<b>Net Increase/(Decrease)</b>	<b>\$3,186,244</b>	<b>(\$2,539,210)</b>	<b>(\$5,391,524)</b>
<b>FUND BALANCE</b>			
<b>Beginning Fund Balance</b>	<b>\$34,467,429</b>	<b>\$37,653,673</b>	<b>\$35,114,463</b>
<b>Ending Fund Balance</b>	<b>\$37,653,673</b>	<b>\$35,114,463</b>	<b>\$29,722,939</b>
<b>COMPONENTS OF ENDING</b>			
Revolving Cash & Stores	\$1,270,000	\$1,270,000	\$1,270,000
Economic Uncertainty (2%)	\$6,539,816	\$5,816,161	\$5,832,262
Reserve for \$370/ADA Funding Cut		<b>\$12,332,174</b>	<b>\$24,432,173</b>
Other Designations	\$29,843,857	\$15,696,128	(\$1,811,496)

\*Note: 2011-12 year *total* cut of \$1.9 million to the revenue limit. For the 2012-13 year (only), restored \$4.3 million funding cut to regular and special education transportation .

**Revised: Second Interim Report Multi-Year Budget Project  
2011-12  
General Purpose/Unrestricted\***

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<b>COMPONENTS OF ENDING</b>			
Revolving Cash & Stores	\$1,270,000	\$1,270,000	\$1,270,000
Economic Uncertainty (2%)	\$6,539,816	\$5,816,161	\$5,832,262
Reserve for \$441/ADA Funding Cut		<b>\$15,000,000</b>	<b>\$30,000,000</b>
Other Designations	\$29,843,857	\$13,028,302	(\$7,379,323)

\*Note: 2011-12 year *total* cut of \$1.9 million to the revenue limit. For the 2012-13 year (only), restored \$4.3 million funding cut to regular and special education transportation .

# State Budgetary Implications

- ▶ The state has created a management credibility problem
  - The state threatens cuts
  - Management prepares for the cuts by:
    - Negotiating concessions
    - Announcing layoffs
  - The state delays the cuts and threatens to make them larger
  - Management prepares for the newly announced cuts
- ▶ Dollars set aside for the cuts show up in the ending balance making it appear as if concessions weren't needed
- ▶ But in fact, districts have not had a new state dollar since 2007-08 and prior cuts have not been restored
- ▶ Communicating these facts clearly to stakeholders, particularly bargaining units, is critical

# Fiscal Solvency

- ▶ District's ability to: Meet multi-year financial obligations, maintain positive cash balances, and reduce/control deficit spending. Inability to meet financial obligations would call for intervention by county office or state officials
- ▶ Pending \$15 million cut to revenue limit makes it necessary for SUSD to protect cash balances and continue prudent fiscal practices to maintain reserves