# Orange Unified School District Budget Update


December 9, 2010

# Presentation Overview



- National Economic Outlook
- California's Economic Outlook
- The State Budget
- State Budget Assumptions
- Major Changes from May Revision to Final Budget
- Impact of the 2010-11 Final Budget vs. May Revision on the District
- LAO – Fiscal Outlook
- Budget Flexibility Expiration
- Next Steps

# The Economy



- The economy is the key to financial recovery for the state as a whole and for public agencies
  - Unemployment remains higher than the rest of the nation
  - Predictions of an early recovery in the spring of 2010 proved to be overly optimistic
    - Recovery is slow at best
    - Projections are that the economy will remain sluggish until at least 2013
- The keys to recovery
  - Increased construction activity
  - Improvement in real estate
  - Decreased unemployment

# California's Economic Outlook



- **California's economy remains weak**
  - **The state unemployment rate is 12.4%, among the highest in the country (May '10 = 12.6%)**
  - **Home sales slowed in October, down 7.4% from September and down 24.3% from October 2009**
  - **Foreclosed homes made up more than one-third of October sales**
- **UCLA forecasts some improvement in 2011**
  - **Employment will rise 1.90%, after declining three years**
  - **Personal income will increase 3.70%**
  - **Unemployment rate will remain high at 11.0%**

# The State Budget



- What are the provisions of the new State Budget?
  - Improved from the May Revision
    - Reverses 3.85% revenue limit cut
    - Holds school agencies harmless for the negative .39% COLA
  - Still, there are concerns
    - Class-size reduction (CSR) flexibility was not extended
    - Tier III flexibility was not extended
- Longer term, we need real Budget reform
  - Districts need a more stable funding source
  - California is still ranked at the bottom in education spending

# State Budget Assumptions



- **Higher revenues: Assumes $1.4 billion higher revenues, on top of the 5.7% revenue increase projected in the May Revision**
  - **July and August revenues are tracking the May Revision forecast, not exceeding it**
- **Federal funds: $5 billion are assumed, $1.6 billion more than the May Revision**
- **Expenditure cuts: $7.5 billion are assumed**
  - **One-half of the fiscal year has already elapsed without implementation**
- **The economy: Assumes personal income growth of 3.2% in 2010 and 4.5% in 2011**
  - **UCLA forecasts weaker growth: 1.9% in 2010 and 3.7% in 2011**

# Major Changes to the Final Budget



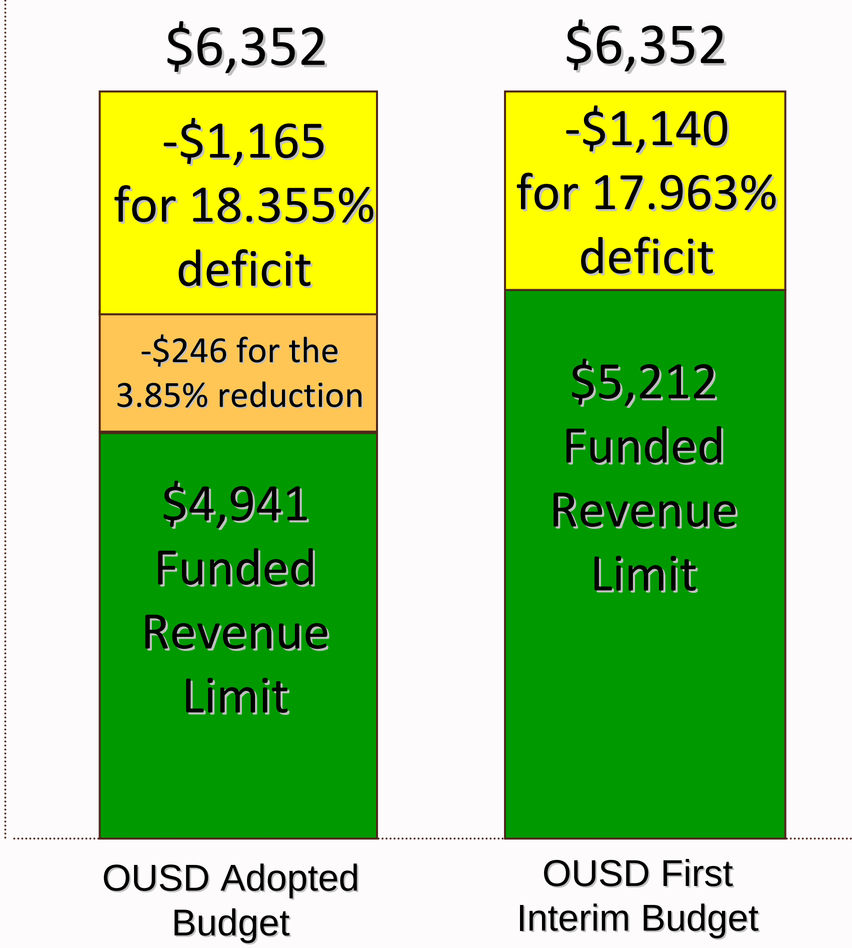
- May Revision: Reduced revenue limits by $1.5 billion
  - Final Budget: Fully restores revenue limit cut
- May Revision: “Fully funded” negative 0.39% COLA
  - Final Budget: Holds school agencies harmless from negative COLA
- May Revision: No funding for prior-year mandates
  - Final Budget: $300 million in one-time mandate funds, of which $100 million is for 2010-11 claims and $200 million is for prior-year claims (unknown impact – up to $750,000)
- May Revision:  Mental Health Funding Cuts - Impact Unknown


  - Governor used the “blue pencil” to veto AB3632 Mental Health Funding (impact of up to $2,250,000 to the District)

# Impact of the 2010-11 Final Budget vs. May Revision on the District



- Applied the .39% negative COLA to the deficit factor saving $25 per ADA
  - On-going: + $673,750
- Restores the 3.85% revenue limit cut of $246 per ADA
  - On-going: + $6,629,700



# Multi-Year Projections
# *Before* New Revenues



| | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|
| Revenues | $215,494,123 | $204,463,110 | $201,467,393 |
| Total Expenditures | $227,435,275 | $221,235,040 | $228,869,415 |
| Inc./(Dec.) in Fund Balance | ($11,941,152) | ($16,771,930) | ($27,402,022) |
| Beginning Fund Balance | $37,941,250 | $26,000,098 | $9,228,168 |
| Ending Balance | $26,000,098 | $9,228,168 | ($18,173,854) |
| Less: Restricted Reserves | ($8,404,185) | ($7,368,178) | ($7,597,209) |
| Unrestricted Balance | $17,595,913 | $1,859,990 | ($25,771,063) |

# Multi-Year Projections
# 2010-11 First Interim Report



| | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|
| Revenues | $224,143,830 | $211,400,678 | $208,068,554 |
| Total Expenditures | $228,052,174 | $215,624,677 | $228,775,851 |
| Inc./(Dec.) in Fund Balance | ($3,908,344) | ($4,223,999) | ($20,707,297) |
| Beginning Fund Balance | $37,941,250 | $34,032,906 | $29,808,907 |
| Ending Balance | $34,032,906 | $29,808,907 | $9,101,610 |
| Less: Restricted Reserves | ($10,672,693) | ($9,449,867) | ($9,094,403) |
| Unrestricted Balance | $23,360,213 | $20,359,040 | $7,207 |

# LAO – Fiscal Outlook



- State Deficits
  - 2010-11: $6 Billion
  - 2011-12: $19 Billion
    - Governor-elect Brown is estimating $28 Billion
  - 2012-13: $22.4 Billion

- State Revenues
  - 2010-11: $84.4 Billion
  - 2011-12: $78.2 Billion
  - 2012-13: $83.7 Billion

# Budget Flexibility Expiration



- **Class Size Reduction Flexibility will sunset in 2011-12**
  - **Reduces unrestricted general fund revenue by $5.2M on-going, beginning with the 2012-13 fiscal year.**
- **Tier III Flexibility will sunset in 2012-13**
  - **Reduces unrestricted general fund revenue by $3.6M on-going, beginning with the 2013-14 fiscal year.**
- **Reduction of school year by five days will sunset in 2012-13**
  - **Increases unrestricted general fund expenditures by $3.4M on-going, beginning with 2013-14 Fiscal Year.**

# Next Steps



- **State Action:**
  - **2011-12 Proposed Budget – January 2011**
  - **Unforeseen economic/legislative events**
    - **New Governor & Legislature**
    - **Midyear Budget Cuts**
  - **May Revise – May 2011**
  - **2011-12 Adopted Budget – June 2011**

- **Deadlines: Education Code (42127, 42130)**
  - **<u>March 15, 2011</u>: Adopt 2010-11 Second Interim Budget**
  - **<u>June 30, 2011</u>: Adopt 2011-12 District Budget**