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Important Questions & Answers about the Current State of the School Budget Crisis

**Cabrillo Unified School District
February, 2011**

1. What is the current budget situation in our state? Dismal, to say the least. California was hit hard by an exceptionally tough recession. In a little less than three years, the State Budget shrunk from over \$100,000 billion to \$85,000 billion. The state economy remains the key to everything. Business generates jobs, personal and corporate income, and capital gains. The resulting taxes fund education and other government services. Businesses that are now beginning to generate cash and profits are generally not yet engaging in expansion and new hiring. More than half of the State's revenues reflect the collection of personal income taxes and California's unemployment rate remains generally static at 12.4%, third highest in the nation. When people aren't working, they aren't paying taxes. Most experts are predicting that a return to pre-recession employment rates will occur in 2016.

Rather than dealing directly with a State Budget deficit that had climbed above \$20 billion last year, the Governor and Legislature chose instead to employ a range of one-time strategies and proposed solutions "that never quite materialized" to balance the budget. As a result, newly-elected Governor Jerry Brown has inherited a structural deficit that is now tabbed at over \$25 billion for 2011-2012 and he has announced a set of budget proposals to address that deficit that carry significant fiscal implications for state schools.

2. How is that situation affecting schools like ours? Given that about 30% of the State's General Fund supports K-12 education and the State Budget has been in freefall as noted above, it should surprise no one that state funding for schools has dropped 14.5% over the past three years. While revenues have dropped like a rock, some school operational expenses like energy costs, insurance premiums, and step-and-column increases have continued to climb. As a result, a high percentage of California's school systems have already implemented significant program cuts and personnel reductions.

Here is another way to look at it: If the Proposition 98 formula and related statutory cost of living increases had been fully funded, districts like Cabrillo would be receiving \$6,493 per student based on an average daily attendance (ADA) formula in 2011-2012. Instead, those same schools will be receiving \$5,220 per ADA next year, reflecting a record-high state revenue limit deficit factor of nearly 20%. It's a little like being told by your boss, "Look, times are tough. I know what I owe you but I can only afford to pay you 80 cents on the dollar until times get better. I will make it up to you then." Your challenge would be to maintain the same work standards, achieve all of your professional objectives, and continue to pay your escalating bills at home with fewer dollars. Most likely, you would need to make some significant changes in your standard of living... find another source of income... or both. This is essentially what schools in California are being asked to do on a much larger scale.

As something of a side note, the large deficit factor has dropped the state funding level of a growing number of schools like Cabrillo Unified below existing local property tax levels... creating a new cadre of "low revenue" basic aid districts. (See Question #9 below.)

3. What is the new Governor's plan to address the state deficit? Newly-elected Governor Jerry Brown has released a budget proposal that includes over \$12 billion in cuts to state programs and services... a planned realignment designed to restore local control in the delivery of certain kinds of services... and a five-year extension of a number of temporary taxes totaling over \$12 billion that are otherwise set to expire.

Basically the Governor has two plans on the table:

- If his budget proposal is accepted by the Legislature and state voters approve the tax extension on the June ballot, schools would be flat funded in 2011-2012.
- If his budget proposal is not endorsed by the Legislature and/or his proposed slate of tax extensions are not approved in June by California voters, an estimated additional

\$9 billion in cuts would need to be made... including \$2.3 billion to schools. (School Services of California has estimated that this translates to about \$330 per ADA... an additional cut to Cabrillo Unified of a staggering \$1,056,000!)

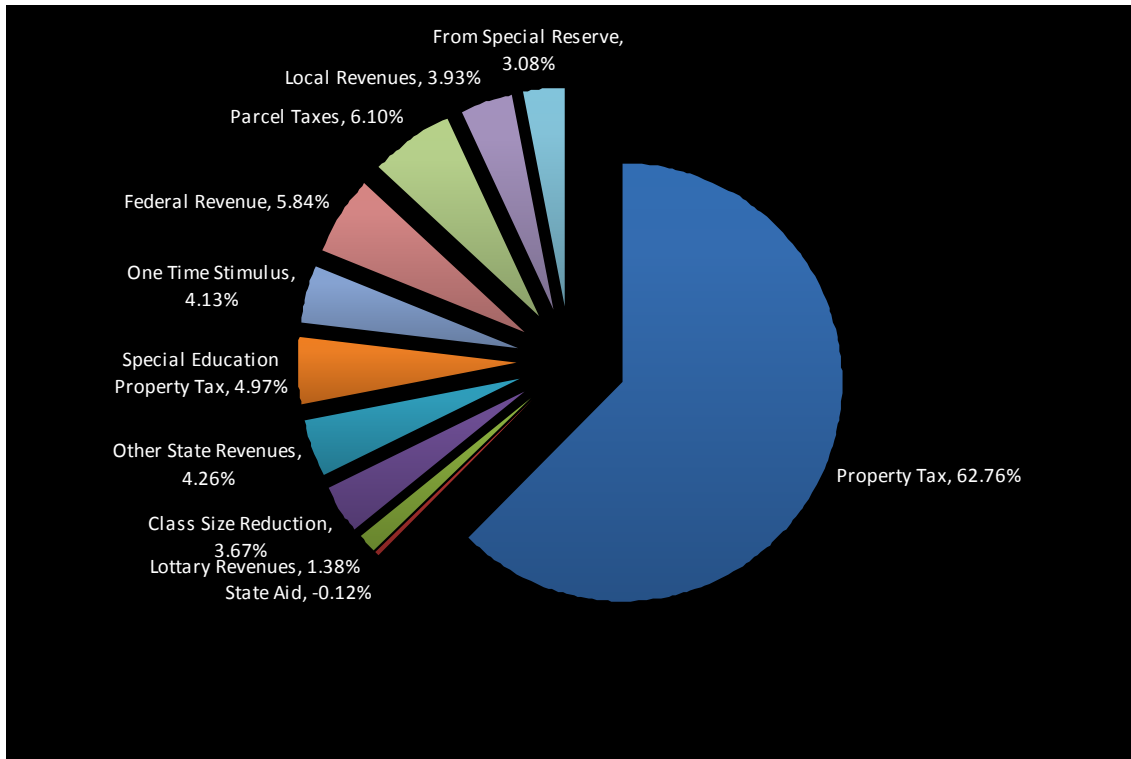
4. Isn't the Governor's plan to maintain flat funding for schools good news for schools? Compared to "more cuts," "flat funding" has a nice sound to it but consider the following analogy: Your child is seriously ill... growing weaker by the day. Treatments to date have provided only temporary relief. You meet with a new doctor who has just arrived in town and she informs you that she has a new treatment that she would like to try. If the treatment works, your child's condition will stabilize. He won't improve... but he won't get much worse... and he will remain in this precarious condition for the foreseeable future. Given the bleak alternative, you would most likely deem the doctor's proposed treatment and prognosis "good news." The same holds true for California's schools... appreciative of the promise of flat funding in a time of seemingly unending budget cuts and mindful that flat funding isn't really "flat" in light of escalating costs in a wide range of areas including energy and insurance. Given the state of the California economy, the Governor's proposal is probably about as good as it can be for schools.

5. What is the plan to restore California schools to full funding levels? There is no such plan. School Services of California has estimated that the State will continue to apply a 19.6% deficit factor on school funding through 2016.

6. How does all of this relate to the current budget situation for the Cabrillo Unified School District? In many respects, the District's current budget situation mirrors the State's. Since 2006-2007, the District's support from Revenue Limit sources and other State revenues have dropped from \$28.8 million to \$22.3 million. Cabrillo Unified has managed to stay afloat by making some cuts to program and personnel, operating under a freeze on non-essential purchases and travel, reaching agreement with all employee groups to accept three unpaid furlough days for a two-year period of time, securing approval of a \$150 per-parcel tax from Coastside residents last June, and burning down a significant amount of one-time monies (primarily Fund 17 reserves and federal ARRA and Jobs Act dollars) along the way. The last of those one-time monies are expected to be gone by the end of next year (2011-2012) leaving the District with a looming structural deficit of a little over \$1 million even if the Governor's budget proposal is approved in its entirety.

	2010-11	2011-12	2012-13
Beginning Balance	1,648,829	1,567,783	1,954,155
Income			
Revenue Limit	19,691,850	19,691,850	19,691,850
Federal Revenues	2,903,608	1,585,441	1,585,441
State Revenues	2,710,601	3,604,979	3,646,628
Local Revenues	2,922,649	2,781,905	2,781,905
Total Income	28,228,708	27,664,175	27,705,824
Expenditures			
Salaries/Benefits	23,688,600	24,095,166	25,080,591
Books and Supplies	1,881,222	1,120,416	880,671
Services	2,925,336	2,350,950	2,202,756
Capital Outlay	-	-	-
Other Outgo	592,149	592,149	592,149
Direct Support/Indir Costs	(50,979)	(86,099)	(86,099)
Total Expenditures	29,036,328	28,072,582	28,670,066
Interfund Transfers			
Transfers In	897,037	1,007,929	-
Transfers Out	(170,463)	(213,150)	(125,750)
Total Transfers	726,574	794,779	(125,750)
Net Incr(Decr) in Fund Balance	(81,046)	386,372	(1,089,994)
Components of Ending Balance			
Revolving Cash	25,000	25,000	-
Designated for Uncertainty	896,497	848,572	864,161
Other Designations	646,286	1,080,583	-
Ending Balance	1,567,783	1,954,155	864,161

7. How is the Cabrillo Unified School District funded, anyway? Total revenue received by school districts comes from a number of sources including local property taxes, state categorical funding (e.g. money which is earmarked for specific purposes such as class size reduction, English language instruction, and visual/performing arts), federal categorical funding such as Title I, Title II and Title III, and local funding sources. Below is a pie chart illustrating the various sources of funding received by the Cabrillo Unified School District in the current year:



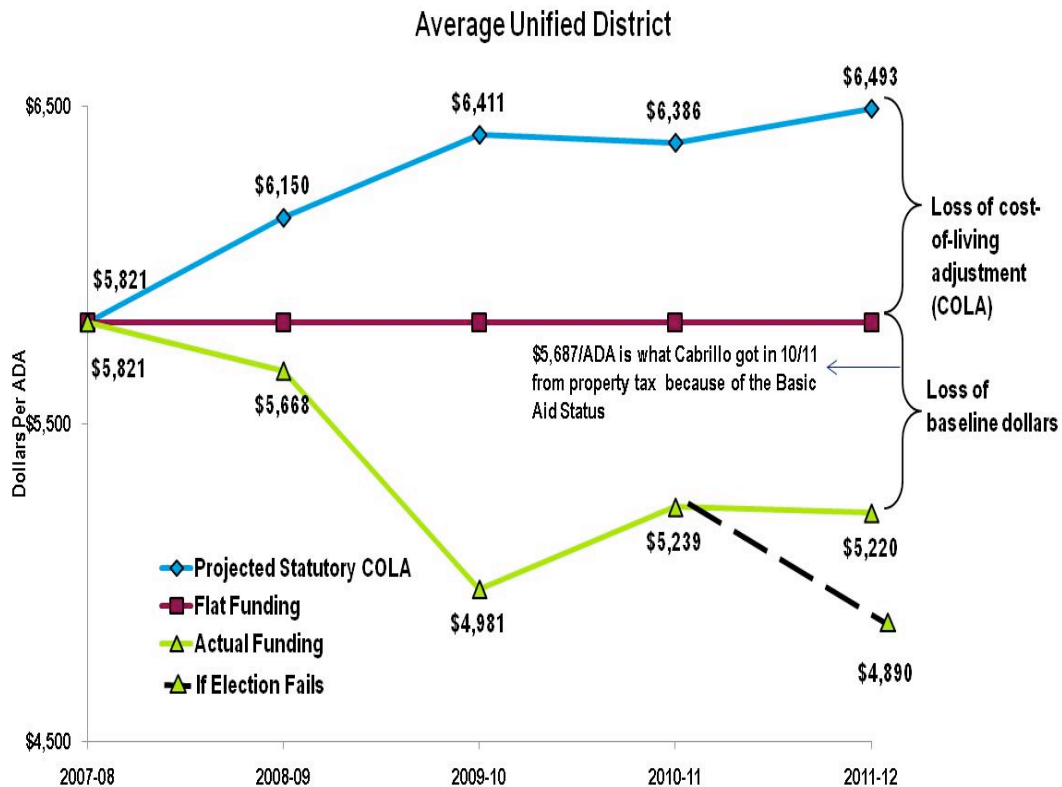
Local property taxes continue to provide a significant amount of funding for the Cabrillo Unified School District. In the 2008-09 school year, Cabrillo— like a number of other districts in the state— “fell” into basic aid status when the State reduced revenue limit funding for schools to a level below current local property tax revenues. *Special education funding* covers a comparatively small part of the cost incurred in providing the services, and the resulting balance encroaches significantly on the District’s unrestricted general fund (currently by \$2.5 million). *Categorical funding* consists of money received from the state and federal government that is earmarked for specific uses. This money is subject to careful regulation and monitoring by governmental agencies. *Local grant donations* include all money received from private sources such as corporate grants, contributions from the Cabrillo Education Foundation (CEF) or Parent Teacher Associations (PTA)/Parent Teacher Organizations (PTO) including individual parent donations. The District receives a comparatively small amount of money from the *State Lottery* as well as state funds to partially offset the additional costs associated with K-3 class size reduction.

8. What is the amount of money per student received by the Cabrillo Unified School District? The total amount of funding from all sources received in the 2010-11 school year averaged about \$9,102 per student. (Source: 2010-11 First Interim.) This does not mean the district spends \$9,102 on every student. Nearly \$3,021 of this money is received for programs targeted for specific uses, such as programs that serve students with disabilities, students learning English, or students who qualify for free and reduced lunch, etc. The amount of general purpose money from all sources is about \$6,081 per student.

9. If we are now a “basic aid” district, does that mean that our budget problems are over? Unfortunately... no. It’s a bit of an over-simplification but basic aid status occurs when a school district’s local property tax base (per ADA) is greater than the state’s funded revenue limit formula. In the past, the relatively few school districts in California who were in basic aid status were generally located in very affluent areas. By being able to retain local school property tax revenues, many of these districts receive per student funding significantly higher than their revenue limit counterparts. Had the state continued to fund schools at the statutory revenue limit, it is highly unlikely that Cabrillo would have ever qualified as a basic aid district.

That hasn’t happened. The state has applied such dramatic “IOU” deficits to the statutory revenue limit in the past thirty months that a number of districts—including Cabrillo—have fallen back into basic aid status. This means that the actual state-funded revenue limit has now dropped below our local property tax revenues per ADA, establishing local tax revenues as our new “floor” for school funding (refer to graph below). Assuming our local property tax revenues remain stable, Cabrillo will be losing \$806 in school funding per student in 2009-2010 rather than the \$1,273 loss per student it would have incurred as a revenue limit district. We are facing some significant budget challenges in the year ahead but it could have been even worse had it not been for our new (and potentially temporary) status as a basic aid district.

Revenue Limit Comparison With Basic Aid Status



10. As a basic aid district, would we be exempt from the Governor’s proposed cut of \$330 per ADA if his budget proposal fails? In theory, the answer is “yes.” In practice... “probably not.” The last time the State determined to cut school funding, basic aid districts were required to absorb a comparable “share the pain” hit. There will be

intense political pressure to share the pain again if the Governor's plan fails. It is probably safe to assume that the Cabrillo Unified School District will need to deal with an additional \$1,056,000 (\$330 per ADA) in reduced revenues in the event of such an outcome.

11. How much of CUSD's current revenue stream comes from the lottery? Funds from the lottery provide less than 1.4% of the school district's budget.

12. How much of CUSD's current revenue stream comes from local property taxes? Currently, property taxes fund approximately 63% of CUSD's total budget, about \$18.3 million.

13. Coastside voters just approved a parcel tax measure in June. Why is the District still concerned about a structural deficit and potential future program cuts? Make no mistake about it, the \$150 per parcel tax approved by Coastside voters last June saved the day for our local schools and students. Had Measure E been nixed by local voters, the Cabrillo Board was poised to move ahead with over \$1.5 million in additional program reductions and related personnel cuts last spring. This year, schools would have been operating without office clerks and counselors, without a high school librarian, with reduced maintenance and grounds support, and with much larger class sizes in the primary grades (K-3). Still, Measure E did not mitigate the entire structural deficit. You may recall that it would have taken a parcel tax measure of something in the range of \$225 to have addressed the entire deficit. A pre-election survey indicated "iffy" support for a \$175 per parcel measure and much stronger support at the \$125 level. The Board ultimately determined to set the requested amount at \$150... and thankfully voters chose to throw schools this crucial lifeline. We still have some important (and difficult) work to do.

14. Are there some "good things" that could happen to reduce or eliminate the structural deficit? Yes... with an emphasis on the word "could." Examples of one-time dollars that could serve to push back the need to make on-going cuts include new federal ARRA or Jobs Bill dollars... state mandated cost reimbursements... settlement dollars... the successful sale of surplus District property... and/or an unexpected significant gift or donation to the District.

Examples of new on-going dollars that would directly reduce the structural deficit include a significant increase in local property tax revenues, a reduction or elimination of the current 19.6% deficit applied to the State revenue limit, and/or reductions in program and personnel. The extreme optimist might suggest that we're sure to catch a break or two from the "good things" list above. The realist would probably counter that the only factor that we really can count on and can control from that very same list is a reduction in District expenditures... programs and people.

15. Why don't we attempt to "wait it out" to see if the fiscal climate improves? We can't. For one thing, we are required by law to operate with a balanced budget "two years out" (for the current year and following two twelve month periods). For another, the massive deficit factor being applied to K-12 funding means that schools throughout the state, like Cabrillo, have been placed in a situation where on-going expenditures now exceed on-going revenues. The District has attempted to buy time by burning down reserves. Reserves are dwindling. The sooner a structural deficit is addressed, the better chance an organization has of heading off the need to make significantly larger cuts down the road. "Waiting it out" is not a viable option.

16. Why didn't we save money for times like this? We did. First of all, it should be reassuring to know that the Cabrillo Unified School District has always operated with a balanced budget. In addition to a "Designated for Economic Uncertainty" reserve fund that all districts are required to maintain (but can't actually use without legislative action), the Cabrillo Unified School District had the vision and good sense to build up a "just in case..."

fund in 2006 when the District received a significant reimbursement from the State for providing mandated services over a period of several years. A significant portion of that 2006 payment (nearly \$2 million) was placed in Fund 17. It is this source of dollars that is helping the District “soften the landing” over the next two-plus years. Without Fund 17, the Cabrillo Unified School District would have already implemented substantial cuts to program and personnel negatively impacting the quality of education in our Coastside community.

17. How will this budget crisis affect my children this year? It won't.

18. What is the District's plan at this point in time? The District is faced with the same dilemma as the State... the need to weigh two plans simultaneously— one if the Governor's proposal is ultimately approved by voters statewide and one if it's not. Unfortunately, the outcome of the Governor's proposal will not be determined at the ballot box until the June General Election... well after the March and May deadlines for notifying staff of potential lay-off. The Cabrillo Board has an ongoing budget problem and some remaining one-time reserves that could be used to “push the problem down the road one last time” but that will make for tough decisions a year from now without any kind of a reserve safety net. Staff will present a budget update to the Board on February 10 and request further direction at that time. Based on the direction given, the Board may then be asked to review and approve program reduction and resulting staff lay-off notices on March 10... either as a precautionary strategy or with the intent of beginning the process of permanently reducing the balance of the structural deficit during the upcoming 2011-2012 school year. Even if the decision is made to “ride it out” for one more year, the Board will be pressed into making cuts of over \$1 million dollars next spring even if the Governor's proposal is ultimately approved.

19. What kind of program reductions might need to be considered? Over the course of the 2009-2010 school year, the Board engaged in a budget review process in response to sharply declining state revenues. Specific strategies included state-of-the-district budget presentations to staff at all school sites... partnering with the Cabrillo Education Foundation to sponsor community town meetings on adequate school funding... placing regular budget updates on district websites with opportunities for community members to surface additional questions or offer suggestions... having some aspect of the district budget discussed at every regularly scheduled board meeting during the school year... and holding a series of special board meeting/public hearings on the budget.

On February 25, 2010 the Board formally approved a Program Adoption List comprised of program reductions in “first cut, last reinstated order” totaling over \$2.5 million. Thanks to Measure E, the Board was able to count on new tax revenues and use one-time Fund 17 and federal ARRA dollars to avoid implementing most of the planned cuts that would have been implemented this year.

Those potential cuts remain on the table... although some of the options are colored by the specific Measure E ballot language and the intent of Coastside voters. Programs that could be impacted include, but are not limited to:

- Further reducing, consolidating, or eliminating additional site and/or district administrative positions
- Further reducing, consolidating, or eliminating additional site and/or district classified positions
- Further reducing District funding to athletics at the intermediate and high school levels
- Increasing K-3 class sizes to a figure “less than class size caps for grades 4-5”
- Reducing but not eliminating school counseling and library services.

20. If the school board determines that it needs to reduce expenditures for the 2011-2012 school year, how will the board decide what to cut? That hasn't been

determined at this point in time. One possibility is that the Board will determine to “stay the course” and make decisions based on the Adopted Program Reductions list that was approved last spring—modified, as necessary, to reflect that Measure E ballot language and intent of Coastside voters.

21. If positions are cut, what are the chances that the assignments will be reinstated once the economy recovers? Tough question! Does a “recovered economy” mean that the Proposition 98 state funding level has returned to pre-2009 levels? Are new laws or mandates in place that require additional funding? Have District priorities shifted? Does an economic recovery mean that the District returns to “revenue limit” status? Probably the safest and most conservative position would be to assume that these cuts will remain in place for an unknown period of time... and then consider restoration of positions and/or services on a case-by-case basis as the fiscal picture brightens.

22. Why is construction and modernization work continuing at Cunha if the District is facing potential budget cuts? The construction work at Cunha is totally bond-funded... funds generated by a voter-approved bond measure that is held in deposit solely for the planned construction and modernization work. By law, these dollars may not be used to address General Fund needs.

23. Why doesn't the District sell some of its surplus property?

It may. But it's important to remember that the sale of larger tracts of property on the Coastside often triggers contentious, prolonged debate and/or legal action... that this is not a particularly good time to sell real estate... and that any proceeds are “one-time” in nature and cannot address the structural deficit that currently exists in the District Budget.

24. Is there a light at the end of the tunnel? Perhaps, but your guess is as good as ours. Stocks have stabilized for now and home values seem to be leveling—and even climbing a bit in some areas. On the other hand, the percentage of home foreclosures and the number of lay-offs in many sectors remain unacceptably high. Thankfully, our new status as a “basic aid” district provides us with a bit of a floor assuming that property taxes on the Coastside remain stable and the state doesn't impose additional “basic aid penalties” along the way. People “in the know” when it comes to public school finance seem to be pointing toward 2015-2016 as the first, potential “return to near-normal” year for California's schools.

25. Can I help? Absolutely! Stay connected with your local schools. Attend school functions. Check the CUSD and school web sites for budget updates. Volunteer your time or contribute to a neighborhood school fund-raiser or two if you so choose. Above all, consider exercising your right as a voter and state resident by contacting the Governor's Office, your state representative and/or your state senator and expressing your opinion or concern about any or all of the issues detailed above. One of the best investments you can possibly make in our Coastside community is to protect and strengthen your local public school system.
