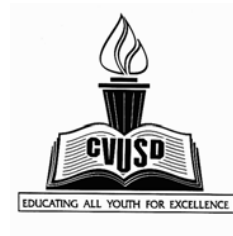


# California State Budget Update



Castro Valley Unified School District  
August 27, 2009

# Economic Issues

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- ❑ The international, national, and California economic picture is still volatile
  - The dollar-denominated value of almost everything is down – real estate, financial investments, retirement accounts, natural resources
  - Demand for goods and services of all kinds is down
- ❑ Unemployment is a key factor
  - We tax earnings and spending – dollars not earned are dollars not spent
  - Unemployment has caused many taxpayers to become tax receivers – an additional strain on reduced governmental services
- ❑ State resources have dropped dramatically – from about \$100 billion two years ago to a projection of about \$89 billion in the current year
  - And tax revenues continue to come in short
- ❑ The economy is cyclical and will turn, but when?

# The Political Landscape

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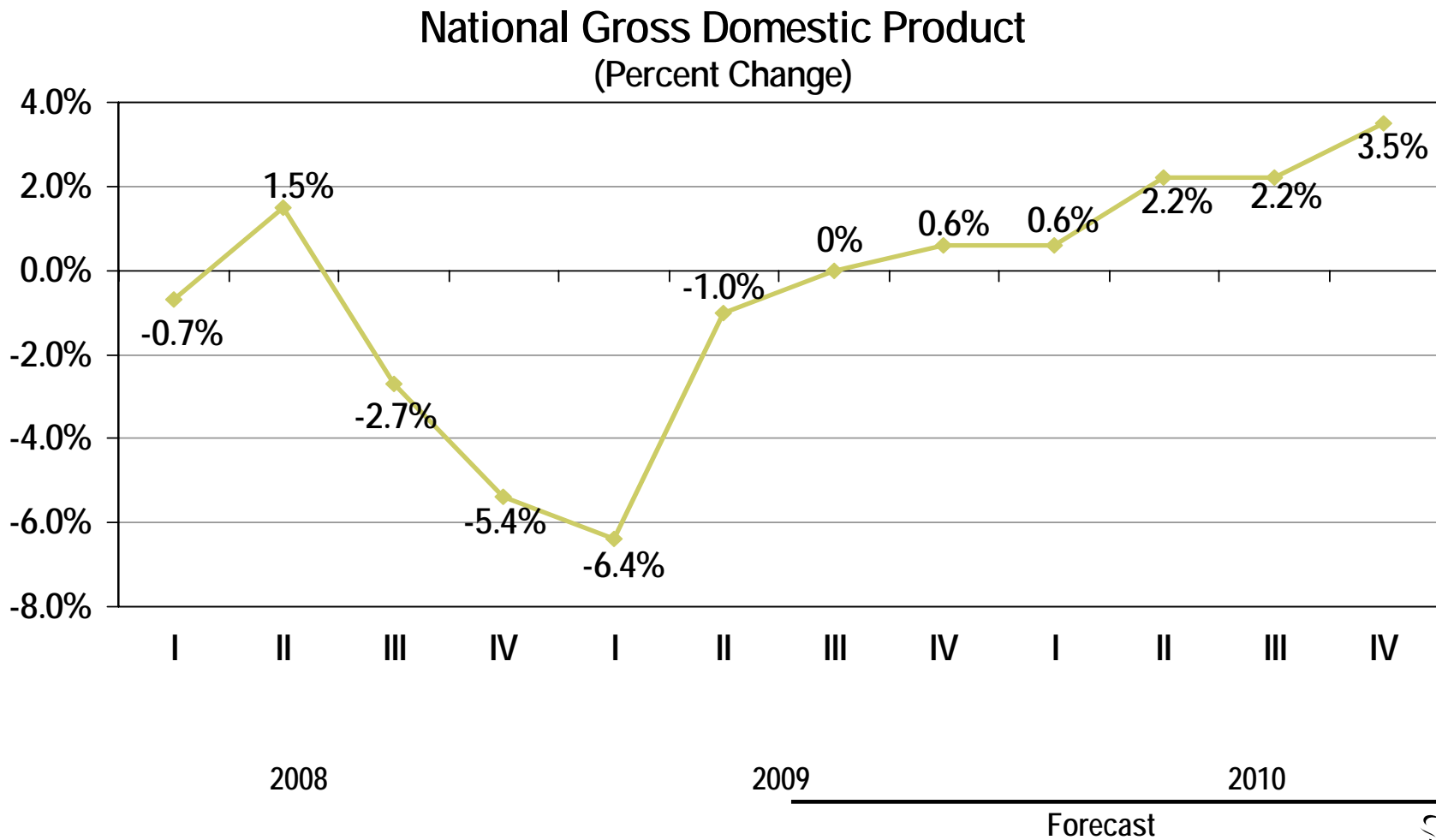
- ❑ Each wave of solutions is harder to make than the one before it
  - The “easy solutions” were used up long ago
  - Cuts have already resulted in huge negative impacts on prisons, social services, and other aspects of government, as well as on education
  - Both new taxes and more cuts face an uphill battle
  - Borrowing is now possible again – but at what cost to the future?
- ❑ Key legislators are short on experience as well as political capital
  - New leaders in both houses are trying hard
  - There is nothing to trade for support
  - The Budget is viewed as a political albatross for incumbents
- ❑ Legislators do not run for office to cut services to constituents

# California Economic Outlook

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- California has suffered more than the nation as a whole
  - The state's unemployment rate reached 11.5% in May compared to the national rate of 9.5%
  - California has experienced a greater drop in its median home price, but also enjoyed a greater run up in prices before the fall
  - Its Budget deficit is among the worst of the 50 states
- It may take longer for the state's economy to turnaround
  - California was the epicenter of the collapse of the subprime mortgage market
    - According to UCLA, residential building permits are off 77% from the 2004 high of 213,000 units

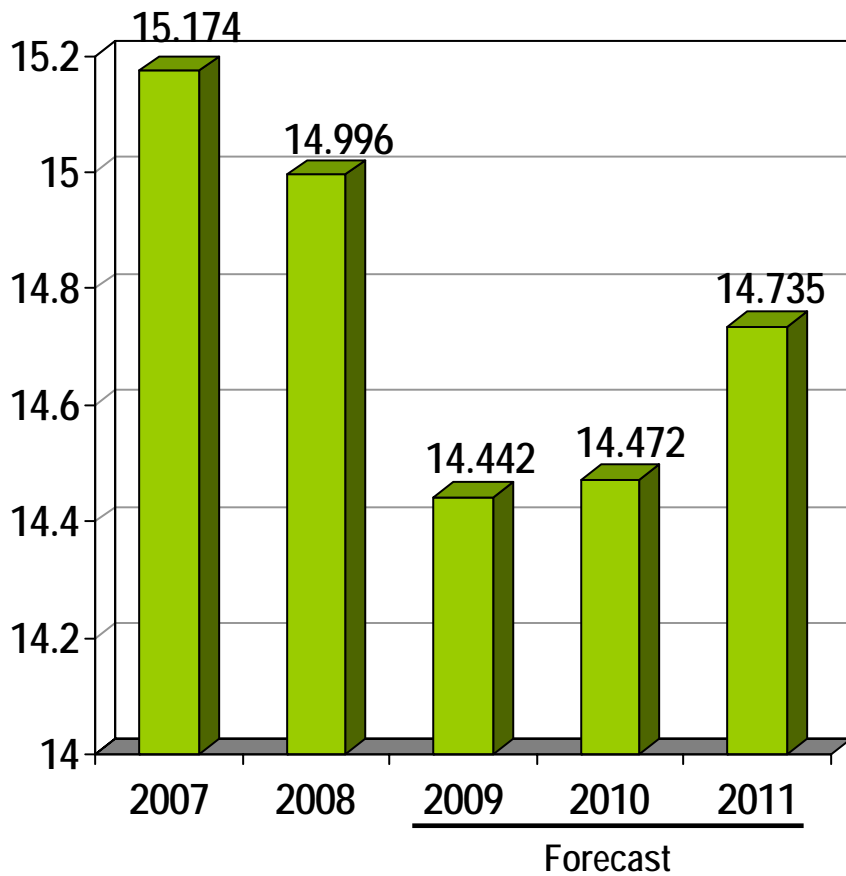
# National Economy – End of the Recession?



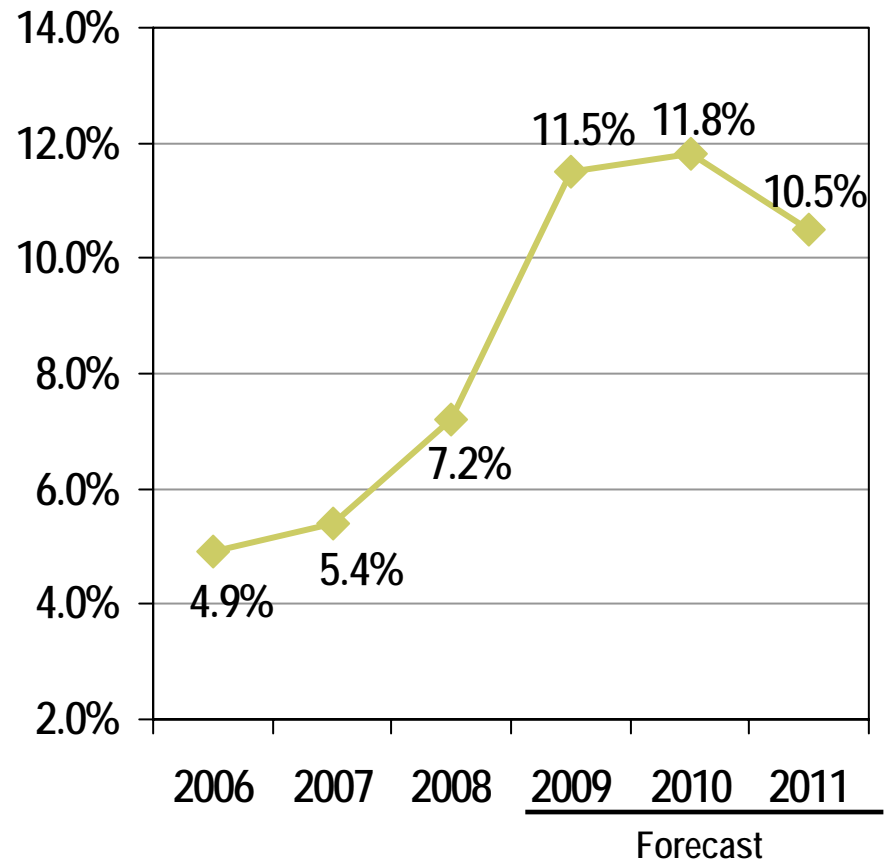
Source: National Bureau of Economic Analysis, July 31, 2009; UCLA Anderson Forecast, June 2009

# California Employment

### California Jobs (in millions)

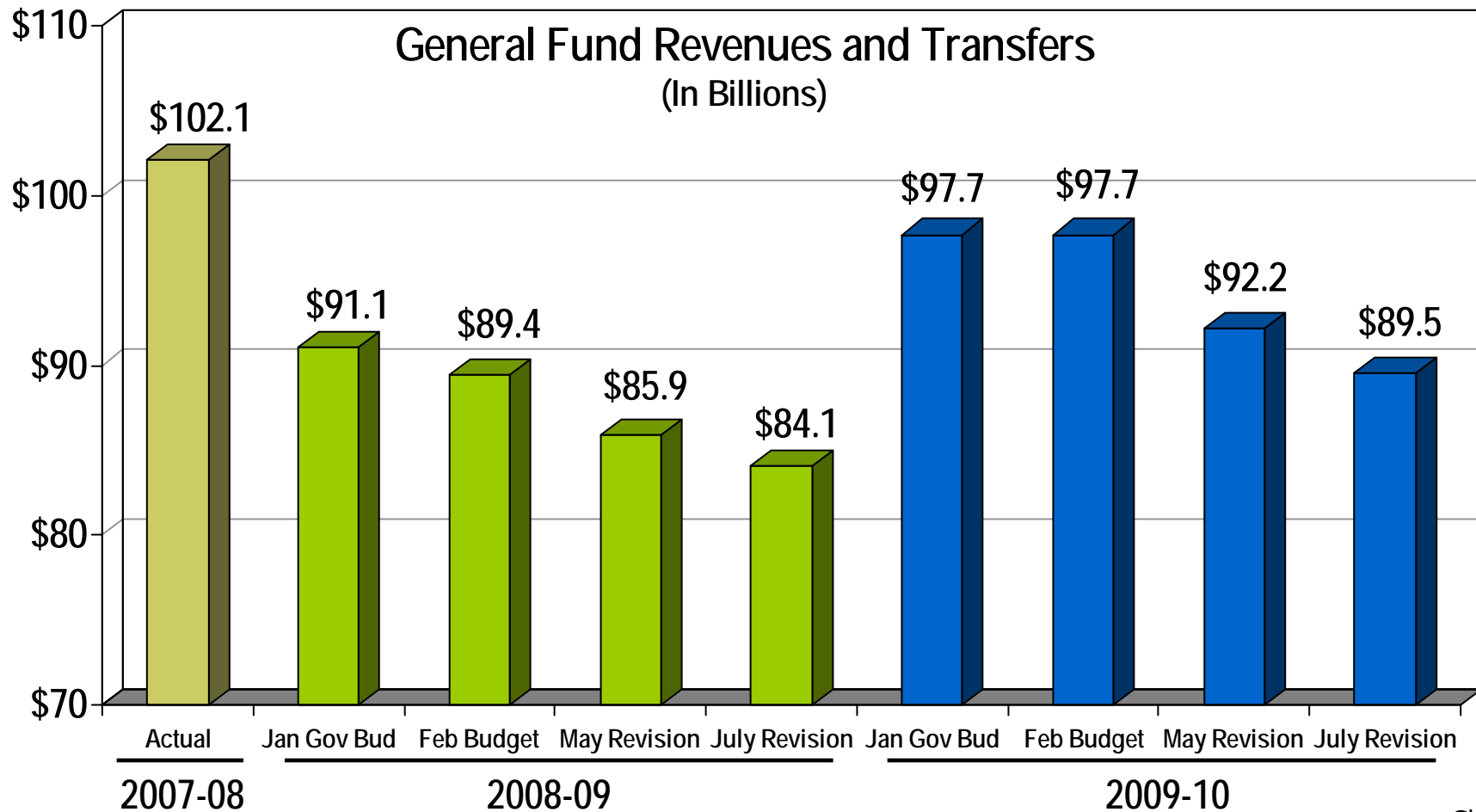


### California Unemployment Rate



Source: UCLA Anderson Forecast, June 2009

# General Fund Revenue Trends



Source: Legislative Analyst's Office

# Current-Year Budget Risks

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- ❑ The 2009 Budget reflects a \$500 million reserve – 0.56% of expected revenues and transfers
- ❑ There is a very great risk that the current-year Budget will fall out of balance
  - The state economy remains weak and revenue collections are already short \$862 million from the budgeted level through July
  - Major Budget solutions are being challenged in the courts
    - ❑ \$500 million in Governor's vetoes
    - ❑ \$1.7 billion in redevelopment agency (RDA) fund shifts
  - Numerous Budget assumptions may not materialize
    - ❑ \$1 billion in savings in corrections
    - ❑ \$1 billion from the sale of the State Compensation Insurance Fund
- ❑ There is no significant upside potential to offset the downside risks

# Proposition 98

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- The Proposition 98 guarantee has plummeted more than 13% in less than one year
  - In September 2008, the Budget Act for 2008-09 placed the guarantee at \$58.1 billion
  - The Budget revision enacted last month set the 2009-10 guarantee at \$50.4 billion
- The fall in the Proposition 98 guarantee created a \$1.6 billion “overappropriation” in 2008-09
  - The Legislature and the Governor enacted a convoluted funding scheme to avoid the 2008-09 “overappropriation” and suspension of the guarantee in 2009-10
- Unless the economy rebounds, further reductions in the Proposition 98 guarantee may occur
  - Remember, however, cutting appropriations that count toward the guarantee would require a two-thirds vote of both the Assembly and the Senate

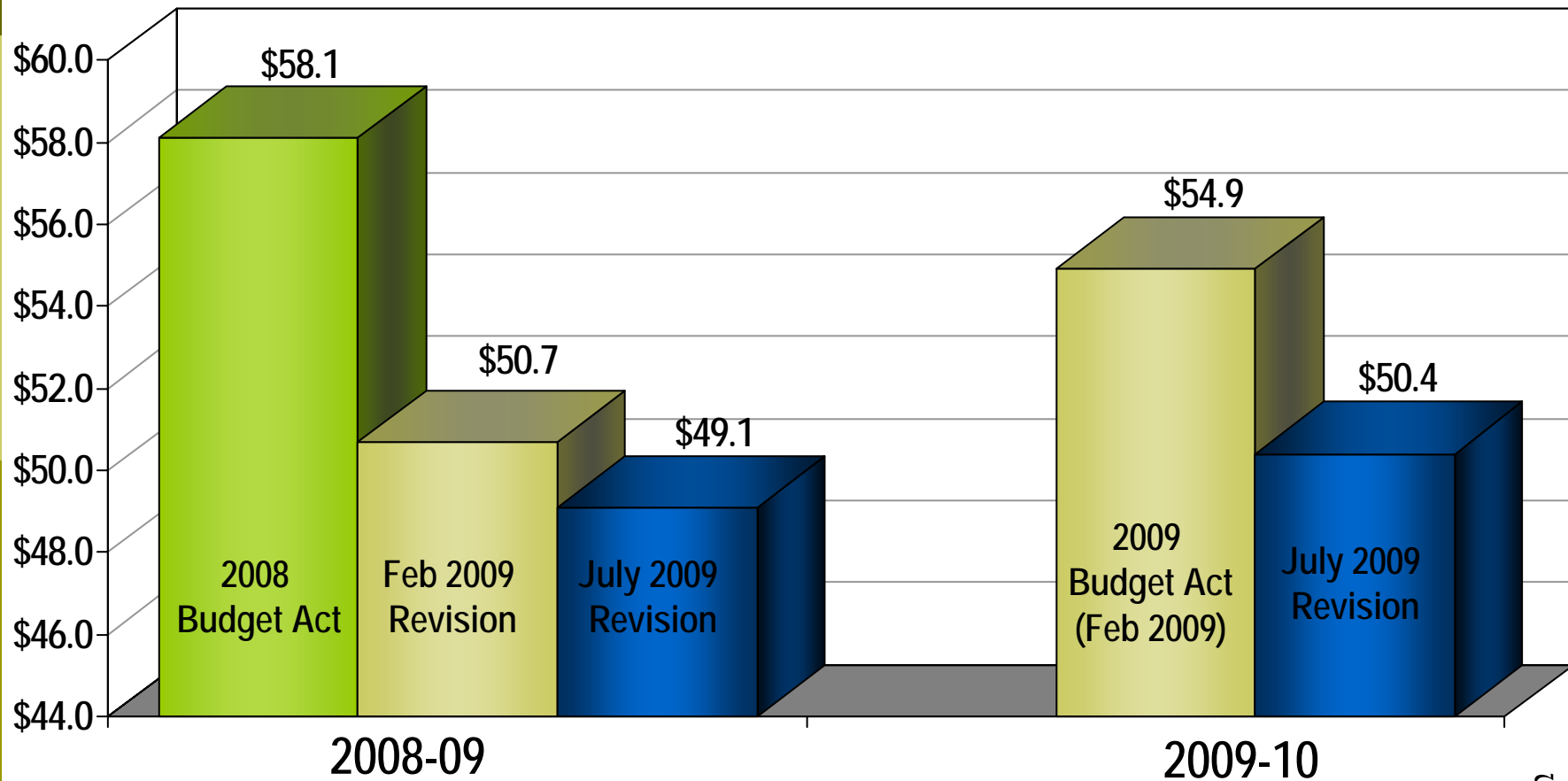
# Proposition 98 and Categorical Sweeps

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- ❑ The Governor's May Revision indicated that the 2008-09 minimum guarantee had fallen, creating a \$1.6 billion "overappropriation"
- ❑ The Legislature did not reduce 2008-09 funding prior to the close of the 2008-09 fiscal year, which appeared to foreclose the opportunity to recapture the \$1.6 billion "overappropriation"
- ❑ However, the Legislature and the Governor ultimately agreed on a scheme that:
  - Swept \$1.6 billion in unallocated categorical funds and reverted this sum to the state's General Fund
  - Restored the same amount, less funding for High Priority School Grants, to every school district in 2009-10, making these funds available to cover 2008-09 expenses
  - Cut \$250 (est.) per 2008-09 Second Principal Apportionment (P-2) ADA from each local educational agency's (LEA's) revenue limit entitlement in 2009-10

# Proposition 98

Proposition 98 Guarantee  
(In Billions)



# Major Changes from the May Revision to the Final Budget

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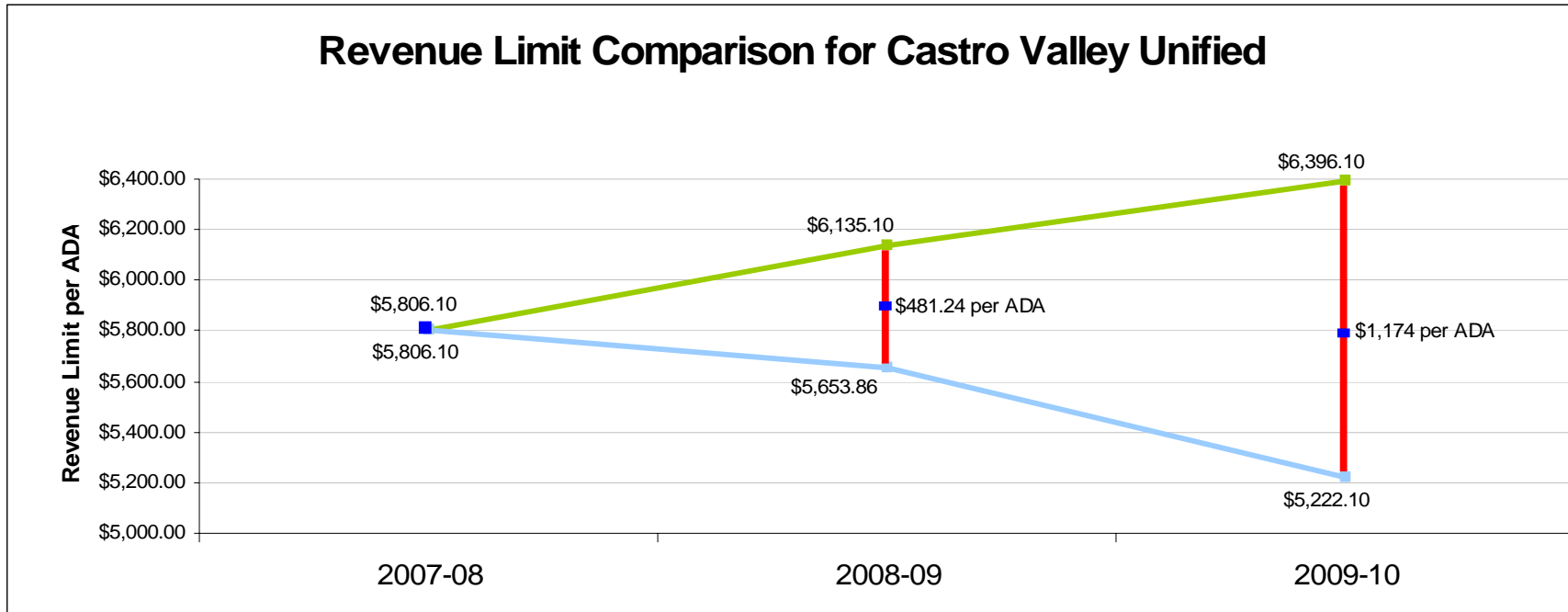
- ❑ Further reductions to revenue limit funding
- ❑ More categorical flexibility is provided
  - List of ending fund balance program sweeps is broadened to include:
    - ❑ Adult Education
    - ❑ Deferred Maintenance
    - ❑ Transportation
    - ❑ California High School Exit Exam (CAHSEE)
    - ❑ Targeted Instructional Improvement Grant (TIIG)
    - ❑ Instructional Materials
  - Textbook adoptions are deferred for five years
  - Shortened school-year option adopted
  - Routine restricted maintenance contribution reduced to zero

# Major Changes from the May Revision to the Final Budget

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- ❑ Home-to-school transportation funding is restored to 80% of prior-year funding level
  - Governor's May proposal to cut program by 65% is rejected
- ❑ All education mandates are deferred
  - Governor's May proposal to fund three education mandates was not adopted
- ❑ California Work Opportunity and Responsibility to Kids (CalWORKs) funding remains intact
  - Governor's May proposal to eliminate program is rejected
- ❑ Eliminated non-Proposition 98 QEIA funding is tweaked
  - Districts' revenue limit funds are redirected to QEIA and the program is extended one additional year
- ❑ Maintenance factor is clarified
  - Schools are entitled to \$11.2 million in out years
- ❑ Base year for ADA-based or selected Tier III categorical programs is changed to 2007-08

# Revenue Limit Funding Plummetts



- Our basic per student revenues have declined approximately \$600 per student since 2008.
- The decline is approx \$1,174 below the statutory level that is adjusted for inflation.