

San Dieguito Union High School District

INFORMATION REGARDING BOARD AGENDA ITEM

TO: BOARD OF TRUSTEES

DATE OF REPORT: June 15, 2009

BOARD MEETING DATE: June 18, 2009

PREPARED BY: Eric Dill, Executive Director, Business Svcs.
Stephen G. Ma
Associate Superintendent, Business

SUBMITTED BY: Ken Noah
Superintendent

SUBJECT: Budget Update – Fair Share Reduction

EXECUTIVE SUMMARY

Fair Share Reduction – In the past ten days, the call for a “fair share” reduction to Basic Aid (BA) districts has turned real. In response to the state budget crisis, the Legislative Analyst Office (LAO) and leaders of both houses have supported the idea that BA districts should take an equivalent cut to funding as revenue limit districts. In 2002, when Prop 98 was last suspended, BA districts also experienced a similar fair share reduction.

Early last week, the advocacy group for basic aid districts, Schools For Sound Finance (SF)², developed a fair share proposal that was delivered to the state legislature on Thursday. The proposal attempts to limit BA district revenue loss to categorical funding (Tier II and III) to the extent they are available to meet the equivalent revenue limit cut. Districts would not be obligated to contribute excess tax revenue if Tier II and III funding was insufficient to meet the equivalent revenue limit cut.

A number of new basic aid districts (San Dieguito, Carlsbad, and Irvine) have expressed concerns to the (SF)² group about how this proposal seems to be falling more heavily on certain types of districts. Larger districts new to the basic aid ranks tend to have a significantly larger portion of their budget in categorical funds. As a result, there is a disproportionate hit to their budget when compared to smaller, mature basic aid districts. I have personally suggested that the one-size fits all approach will penalize some districts more than others. While our concerns were acknowledged, there was general group consensus that time was of the essence and any attempt to refine the proposal might jeopardize the entire proposal.

The San Dieguito Union High School District has officially transitioned into basic aid status for 2008-09. The equivalent revenue limit cut to this district would be equal to \$8.8 million under the Governor's May Revise. Our stop loss, as a basic aid district, is equal to \$6 million. This revenue loss could increase if ROP is considered a district Tier III program and Home to School Transportation funding is moved to Tier III as suggested by the LAO. While this proposal has significant fiscal impact on the district's budget in the near term, greater reliance on local property tax should help stabilize revenue volatility in the long run. We are hopeful that our transition to basic aid will provide us a better financial foundation in the future.

The (SF)² fair share proposal significantly alters the district budget that was presented to the board on June 4th. Staff is working on making changes to the budget that reflect what is currently known. The budget will be brought back to the board for approval on June 30th. The attached information explains in greater detail the (SF)² proposal and the impacts to the district budget.

RECOMMENDATION:

This item is being presented as an information item.

js
Attachments

**President**

Richard Douglas, Montecito Union ESD

Northern California Vice President

Christine Carter, Reed Union USD

Central California Vice President

Dr. Kevin Skelly, Palo Alto USD

Southern California Vice President

Leslie Fausset, Solana Beach SD

Board of Directors**CARMEL USD**

Marvin Biasotti

DEL MAR USD

Dr. Sharon McClain

FREMONT UNION HSD

Polly Bove

HILLSBOROUGH USD

Marilyn Loushin-Miller

MOUNTAIN VIEW-LOS ALTOS UHSD

Barry Groves

NEWPORT MESA USD

Dr. Jeffrey Hubbard

SAN LUIS COASTAL USD

Ed Valentine

SAN MATEO UNION HSD

David Miller

SEQUOIA UNION HSD

Pat Gemma

ST. HELENA USD

Allan Gordon

TAMALPAIS USD

Dr. Laurie Kimbrel

Consultants

Terry Anderson

Ron Bennett

Dave Heckler

Michele Huntoon

Robert Miyashiro

SCHOOL SERVICES OF CALIFORNIA

(916) 446-7517

REVISED 6-10-09

Schools For Sound Finance

25 Churchill Avenue ▪ Palo Alto, CA 94306 ▪ (650) 329-3700

Schools for Sound Finance (SF)² “Fair Share” Reduction for Basic Aid Districts June 10, 2009

Background

The collapse of state General Fund revenues for 2008-09 and 2009-10 has resulted in unprecedented cuts to K-12 education. The 2009 Budget Act cut revenue limits, on average, 2.63% in 2008-09 and an additional 0.969% in 2009-10. Funding for state categorical programs in Tier II and Tier III have been cut 15.38% in 2008-09 and an additional 4.46% in 2009-10.

Since the enactment of the 2009 Budget Act on February 20, 2009, state revenues have fallen even further, and in reaction the Governor’s May Revision proposes even deeper cuts than what has already been adopted. For the current year, the Governor now proposes an average revenue limit cut of 6.43% and 3.45% in 2009-10.

Basic aid districts have already incurred cuts to their categorical programs consistent with the categorical cuts imposed on their revenue limit counterparts. This “fair share” proposal addresses the revenue limit component of school district funding.

Guiding Principles

There are several principles that have guided the development of the (SF)² “fair share” proposal. They are as follows:

Proportionate Reduction—Notwithstanding the fact that basic aid districts do not receive any funding from the revenue limit, they believe they should nevertheless share in a revenue reduction in line with the reduction imposed on the other publicly funded school districts.

Federal Revenues—Federal revenues from State Fiscal Stabilization Funds (SFSF) will mitigate the state’s revenue limit cut; however, basic aid districts have not been allocated any SFSF funds. Therefore, any “fair share” reduction should take this into consideration and reduce the state’s reduction to basic aid districts so that the net cut is equivalent to the cut incurred by revenue limit districts receiving federal SFSF funds.

State Cut Limited to State Revenues—Because basic aid districts receive no state funding from the revenue limit, their only source of state funds is from the various categorical programs for which they

qualify. Because the “fair share” reduction is intended to reflect the state’s cut to the revenue limit, basic aid districts exposure to this reduction should be limited to the state funding provided for the various categorical programs. In no case should the reduction extend into the local property tax.

Local Election of Categorical Reduction—Consistent with the implementation of the reduction basic aid districts incurred earlier this decade (i.e., the loss of the \$120 per ADA for basic aid), basic aid districts should be granted the authority to designate from which categorical programs their “fair share” reduction should be credited.

Basic Aid Districts “On the Cusp”—Many basic aid districts have recently entered this status either because of declining enrollment or because of the state’s policy to impose deficits on the revenue limit. In either case, these districts hover at the threshold between basic aid and their revenue limit. Any “fair share” policy should avoid imposing a double reduction on these districts, one that would fall on revenue limit districts through the deficit factor and another on basic aid districts through the “fair share” reduction. **In no event shall basic aid districts suffer a deeper reduction than their revenue limit counterparts, regardless of the length of time they have been a basic aid district or how close their property tax funding is to their revenue limit threshold.**

Proposal

A proposal advanced by Schools For Sound Finance to implement a “fair share” reduction for basic aid districts is to reduce state categorical funding by an amount equivalent to the current-year revenue limit cut for the average school district, by district type (i.e., elementary, high school, and unified), after accounting for the receipt of federal SFSF funds by revenue limit districts. Based on the most recent information available, federal SFSF funds received by revenue limit districts will mitigate 80% of the state revenue limit cut in 2008-09, leaving revenue limit districts with a fiscal impact of a 20% net loss related to the revenue limit cut. However, no federal SFSF funds will be available to mitigate the impact of the 2009-10 revenue limit cut. The table below displays the “fair share” reduction for basic aid districts based on pre-conference revenue limit reductions.

Table1. “Fair Share” Reduction Proposal (per ADA)

<i>District Type</i>	<u>2008-09</u>			<u>2009-10</u>		<u>Two-Year Effect</u>
	<i>Base Revenue Limit Cut</i>	<i>Impact of Federal SFSF Funds</i>	<i>Net Base Revenue Limit Cut</i>	<i>Additional Base Revenue Limit Cut</i>	<i>Total Base Revenue Limit Cut</i>	<i>Two-Year Combined Impact</i>
Elementary	\$357	0.8	\$71	\$180	\$537	\$608
High School	\$429	0.8	\$86	\$216	\$645	\$731
Unified	\$374	0.8	\$75	\$188	\$562	\$637

As an example, the table shows that for unified school districts, the average base revenue limit cut in 2008-09 is \$374 per ADA; however, after accounting for their receipt of federal SFSF funds, the net cut would be \$75 per ADA. For 2009-10, the average reduction for unified school districts would be \$374 plus an additional \$188 per ADA, based on the Governor’s May Revision proposal. “Fair share” reductions for basic aid as proposed by (SF)² would be roughly equivalent to the reductions displayed in Table 1. If reduction levels to revenue limit districts change, the numbers in the example would also change.

(SF)²**President**

Richard Douglas, Montecito Union ESD

Northern California Vice President

Christine Carter, Reed Union USD

Central California Vice President

Dr. Kevin Skelly, Palo Alto USD

Southern California Vice President

Leslie Fausset, Solana Beach SD

Board of Directors**CARMEL USD**

Marvin Biasotti

DEL MAR UNION SD

Dr. Sharon McClain

FREMONT UNION HSD

Polly Bove

HILLSBOROUGH USD

Marilyn Loushin-Miller

MOUNTAIN VIEW-LOS ALTOS UHSD

Barry Groves

NEWPORT MESA USD

Dr. Jeffrey Hubbard

SAN LUIS COASTAL USD

Ed Valentine

SAN MATEO UNION HSD

Dr. David Miller

SEQUOIA UNION HSD

Pat Gemma

ST. HELENA USD

Allan Gordon

TAMALPAIS USD

Dr. Laurie Kimbrel

Consultants

Terry Anderson

Ron Bennett

Dave Heckler

Michele Huntoon

Robert Miyashiro

SCHOOL SERVICES OF CALIFORNIA

(916) 446-7517

Schools For Sound Finance

25 Churchill Avenue ▪ Palo Alto, CA 94306 ▪ (650) 329-3700

2009 Talking Points

- The 2009-10 State Budget was enacted four months early and is already out of balance by an estimated \$24.3 billion.
- The enacted Budget includes devastating reductions to California schools with additional cuts proposed in the May Revision.
- Education reductions in the enacted Budget include cuts to categorical programs in basic aid districts.
- Basic aid districts receive all of their general purpose funding from local property taxes. If property taxes fall—as they are in some parts of the state—the state does not make up the loss to the basic aid district.
- Revenue limit districts have received federal State Fiscal Stabilization Funds to offset reductions to their revenue limits.
- California has the highest standards in the nation in student achievement; all schools must work towards closing the achievement gap, and to do so, schools must be funded accordingly.
- California is currently rated 47th in the nation in per-pupil spending and is expected to drop to even lower.
- Further cuts to education funding will make it even more difficult for schools to meet the academic needs of their students.
- All California schools must have a united voice against further reductions to Proposition 98.

**President**

Richard Douglas, Montecito Union ESD

Northern California Vice President

Christine Carter, Reed Union USD

Central California Vice President

Dr. Kevin Skelly, Palo Alto USD

Southern California Vice President

Leslie Fausset, Solana Beach SD

Board of Directors**CARMEL USD**

Marvin Biasotti

DEL MAR UNION SD

Dr. Sharon McClain

FREMONT UNION HSD

Polly Bove

HILLSBOROUGH USD

Marilyn Loushin-Miller

MOUNTAIN VIEW-LOS ALTOS UHSD

Barry Groves

NEWPORT MESA USD

Dr. Jeffrey Hubbard

SAN LUIS COASTAL USD

Ed Valentine

SAN MATEO UNION HSD

Dr. David Miller

SEQUOIA UNION HSD

Pat Gemma

ST. HELENA USD

Allan Gordon

TAMALPAIS USD

Dr. Laurie Kimbrel

Consultants

SCHOOL SERVICES OF CALIFORNIA

Schools For Sound Finance

25 Churchill Avenue ▪ Palo Alto, CA 94306 ▪ (650) 329-3700

Basic Aid Talking Points

What Is A Basic Aid District?

A basic aid school district is one in which the district's per-pupil property tax revenue exceeds its per-pupil revenue limit. For these districts, the state does not provide any general purpose funding, instead they receive all of their general purpose funding from the local property tax. These districts are also referred to as "community funded" or "excess property tax" districts.

Basic Aid Fiscal Issues

A basic aid district has no control over the revenues it receives from the property tax. Property tax collections can vary from year to year, depending upon local economic conditions, sales of commercial, industrial, and residential property, conversion of property to higher value parcels, and reassessments (including downward reassessments during down markets).

Unlike revenue limit districts, basic aid districts do not receive funding based upon district enrollment. Property tax revenue has no direct relationship with district enrollment. Therefore, a basic aid district can experience years of flat or falling property taxes at the same time enrollments may be increasing.

The state has eliminated the \$120 per-pupil general purpose apportionment. Therefore, basic aid districts only receive state aid through various categorical programs. Categorical programs often prescribe how funds may be spent and which students may be served; therefore, these programs are often described as having "strings attached" to the funding.

Background

The state adopted revenue limits as a means of funding K-12 school districts in response to the State Supreme Court ruling in the *Serrano* case. This case held that students were entitled to equal protection under the law and that the quality of their education should not be determined by the property wealth of the district. In turn, the state guaranteed districts a certain amount of funding per pupil, regardless of the contribution from the local property tax. For districts whose property tax exceeded this guarantee, (i.e., the revenue limit), the state provided no additional state aid, apart from the \$120 per pupil guaranteed by the State Constitution. Thus, these districts became known as basic aid districts. The \$120 payment was eliminated in 2003-04 when Proposition 98 was suspended and funding for all school districts was reduced.

(SF)²**President**

Richard Douglas, Montecito Union ESD

Northern California Vice President

Christine Carter, Reed Union USD

Central California Vice President

Dr. Kevin Skelly, Palo Alto USD

Southern California Vice President

Leslie Fausset, Solana Beach SD

Board of Directors**CARMEL USD**

Marvin Biasotti

DEL MAR UNION SD

Dr. Sharon McClain

FREMONT UNION HSD

Polly Bove

HILLSBOROUGH USD

Marilyn Loushin-Miller

MOUNTAIN VIEW-LOS ALTOS UHSD

Barry Groves

NEWPORT MESA USD

Dr. Jeffrey Hubbard

SAN LUIS COASTAL USD

Ed Valentine

SAN MATEO UNION HSD

Dr. David Miller

SEQUOIA UNION HSD

Pat Gemma

ST. HELENA USD

Allan Gordon

TAMALPAIS USD

Dr. Laurie Kimbrel

Consultants

SCHOOL SERVICES OF CALIFORNIA

Schools For Sound Finance

25 Churchill Avenue ▪ Palo Alto, CA 94306 ▪ (650) 329-3700

Basic Aid Talking Points

The “Incremental Dollar”

For basic aid districts, the “incremental dollar” is provided locally through the property tax. This arrangement strengthens the link between the local community and its schools, allowing local taxpayers to hold their schools accountable for the quality of the educational services they provide.

Who are Basic Aid Students?

Many people believe that students served by basic aid school districts are one homogenous, affluent group of students—this couldn’t be further from the truth. The fact is that basic aid school districts in California serve students from all ethnic and economic backgrounds. For example:

- In *Belridge Elementary School District (Kern County)*, 96% of the students participated in the free or reduced meal program and 70% are English Learners.
- In *Horicon Elementary School District (Sonoma County)*, over 50% of students are minority and more than 70% of students participate in the free or reduced meal program.
- Nearly 80% of the students in the *Sausalito Marin City School District (Marin County)* are minorities.
- Almost half of the students in the *Calistoga Joint Unified School District (Napa County)* are English Learners.
- More than two-thirds of the students attending *Fremont Union High School District (Santa Clara County)* are minorities.
- At *Vista del Mar Union Elementary District (Santa Barbara County)*, almost 50% of the students received free or reduced price lunches, while 30% of the students are English Learners.

San Dieguito Union High School District

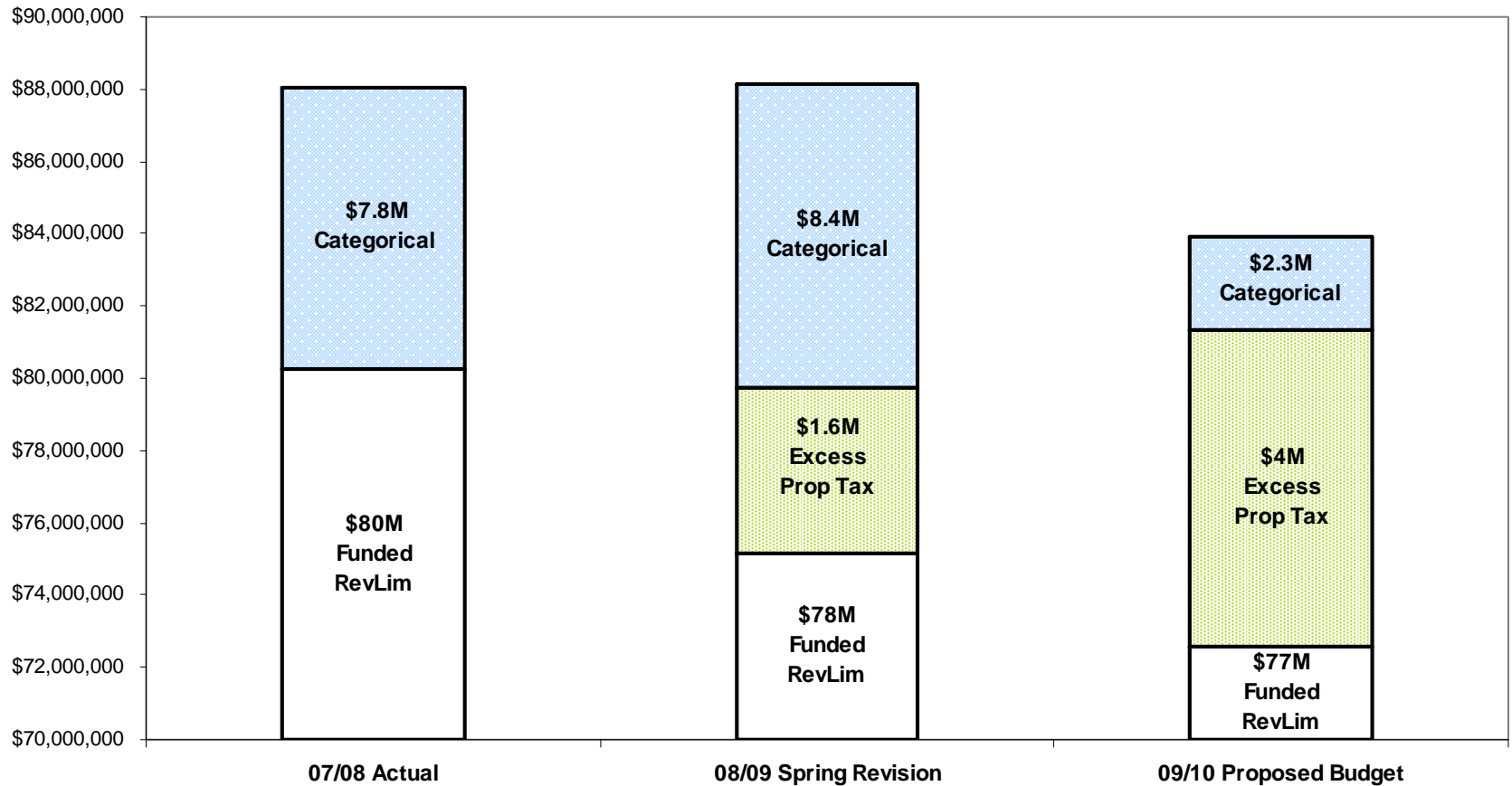
Budget Update Fair Share Reduction

Board Workshop

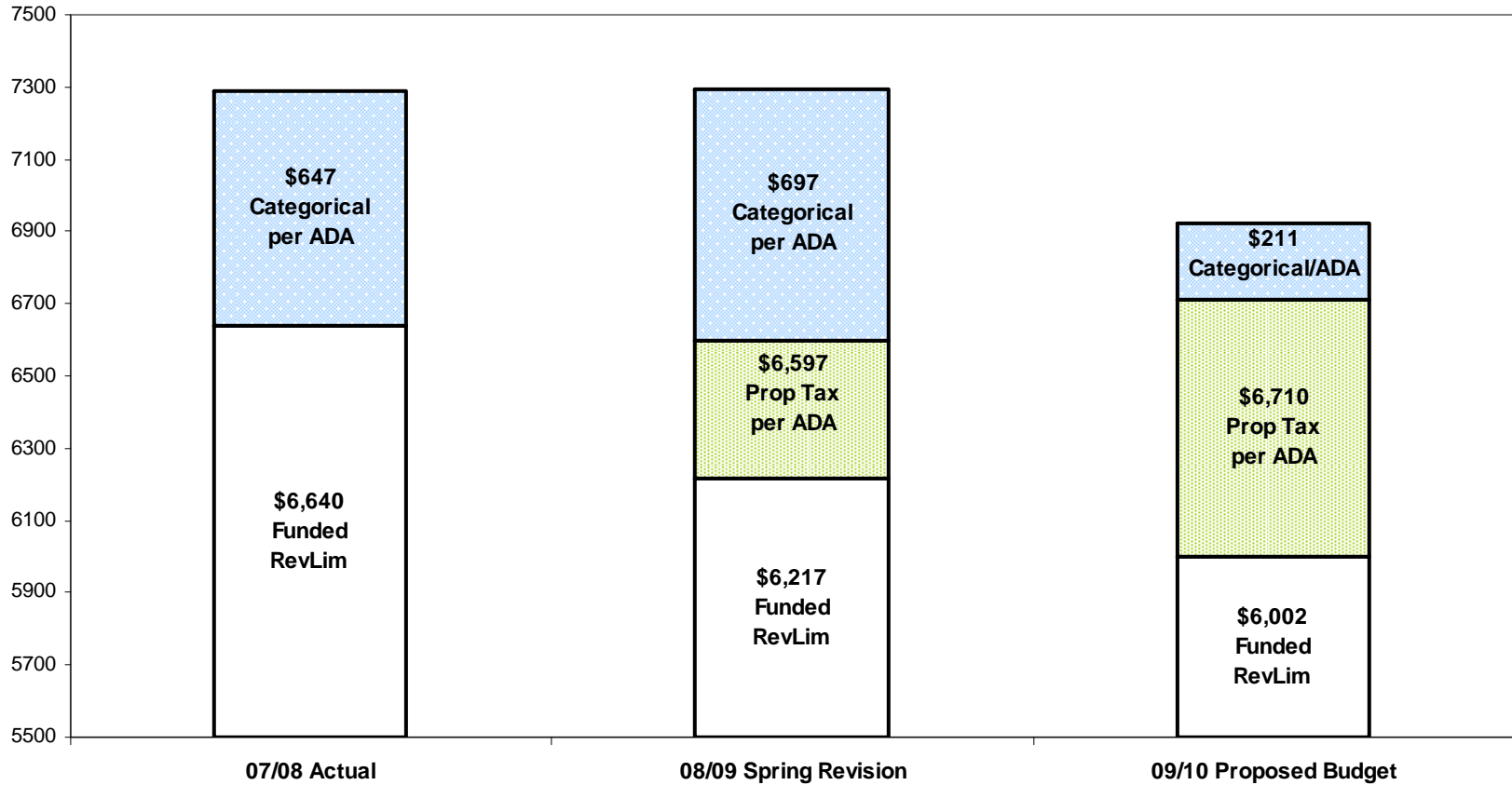
June 18, 2009

5:00 p.m.

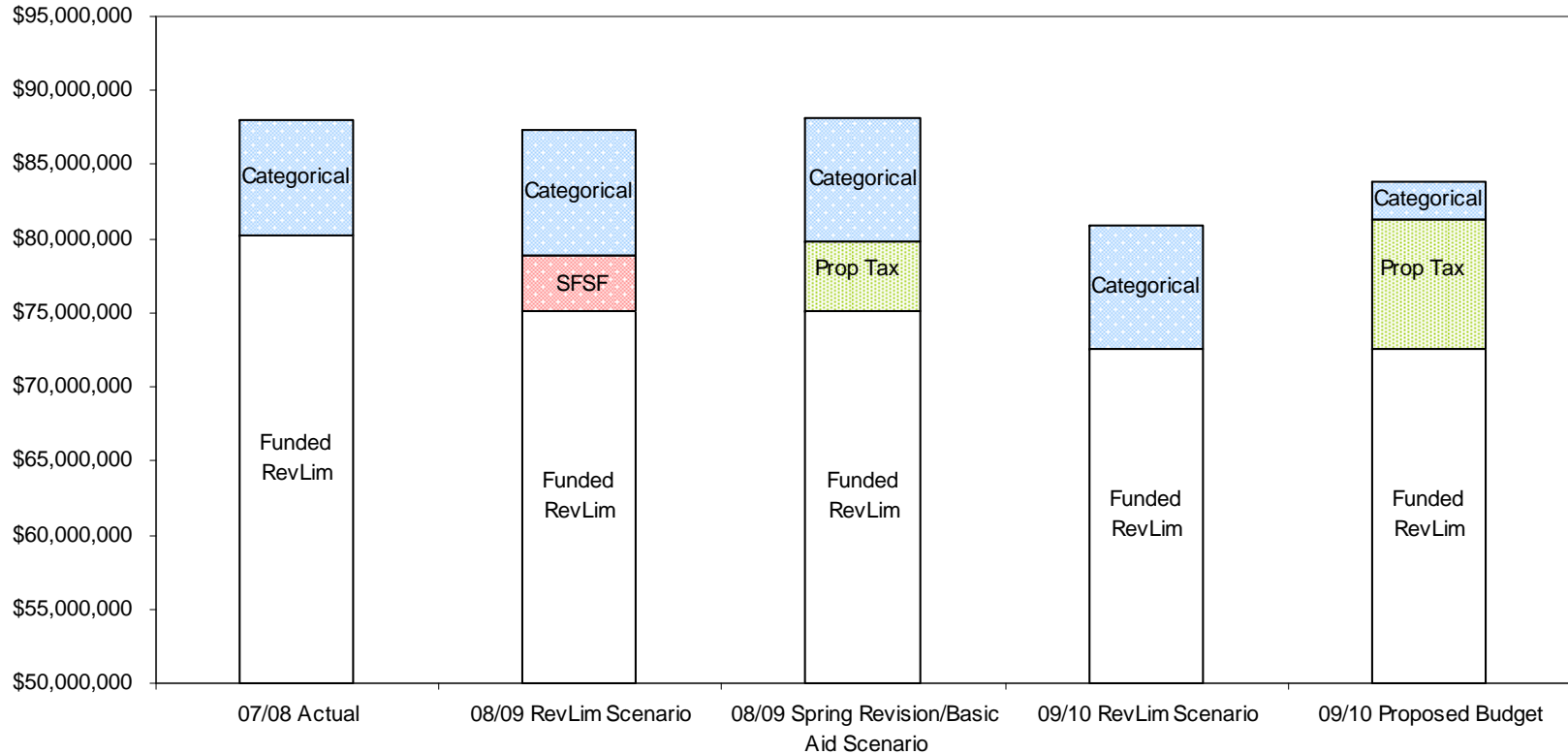
State Funding Cuts



State Funding Cuts per Student



RevLim vs Basic Aid Comparison



Tier III Programs Subject to Fair Share Cuts

09-10 Tier III Budget	Revenue	Expense
Targeted Instruction Improvement Grant*	\$1,170,150	\$1,147,411
Supplemental School Counseling*	\$681,668	\$692,441
Summer School/Supplemental Hourly*	\$595,507	\$528,847
Professional Development Block Grant*	\$453,784	\$421,768
Teacher Credentialing Block Grant*	\$146,475	\$267,676
Peer Assistance and Review*	\$44,550	\$44,550
Pupil Retention Block Grant*	\$58,644	\$124,841
School Safety & Violence Prevention*	\$303,174	\$261,455
Arts & Music Block Grant	\$147,000	\$103,943
Instructional Materials	\$822,000	\$351,041
School & Library Improvement Block Grant	\$332,861	\$134,474
Community Based English Tutoring	\$36,977	\$0
English Language Acquisition	\$20,138	\$30,645
	\$4,903,014	\$4,154,135

*Salary Intensive Programs

Other Tier III Programs

Other Tier III Programs	Revenue	Expense
ROP (via SDCOE--possibly unaffected)	\$1,100,000	\$1,100,000
Deferred Maintenance (Fund 14)	\$418,000	\$418,000
Adult Education (Fund 11)	\$670,684	\$514,306
	\$2,188,684	\$2,032,306

- Total loss of revenue = \$7,091,698
- Budgeted expense in these programs was \$6,186,441
- (Above assumes loss of ROP)

Stop Loss

- While categorical cuts are deep, the net effect is less painful than revenue limit cuts
- Cuts are capped at the level of Tier III funding
- (Below assumes on-going ROP funding)

	Revenue Limit	Basic Aid
Funding Cuts	(\$12,611,582)	(\$5,991,698)
State Fiscal Stabilization Fund offset	\$3,750,000	\$0
Excess Taxes		\$1,600,000
Net Loss	(\$8,861,582)	(\$4,391,698)

Possible Cuts to District Programs

	08/09	09/10	10/11	Total
Deferred Maintenance Match	\$502,000	\$520,000	\$500,000	\$1,522,000
Basic Aid Reserve	\$1,000,000			\$1,000,000
Instructional Materials (ELA Adoption)			\$822,000	\$822,000
Adult Education		\$514,306	\$514,306	\$1,028,612
Summer School			\$528,847	\$528,847
Adult Education Ending Balance*	\$351,562			\$351,562
Nutrition Services Ending Balance*	\$295,312			\$295,312
Totals	\$1,853,562	\$1,036,306	\$2,365,153	\$5,253,021

*If possible under Tier III or Federal restrictions.

Home-to-School Transportation

- Governor proposes to cut Home-to-School by 65%
 - Potential loss of \$391,394
- Legislative Analyst proposes to make HTS a Tier III program, thus subjecting it to 100% cut to Basic Aid districts
 - Potential loss of \$602,145

Home-to-School Transportation

- State Home-to-School revenue represents 55% of non-field trip revenue

Home to School Transportation	09/10 Budget	
State HTS Revenue	\$602,146	
TIIG Contribution	\$52,400	
Bus Pass Fees	\$490,000	
Total Revenue		\$1,144,546
Budgeted Expense		(\$1,090,152)

Next Steps – 2009/10

- Temporary suspension of Deferred Maintenance Program
- Eliminate Basic Aid reserve
- Reduction of state funded Adult Ed programs (ESL, GED, HS Diploma)
- Maintain Home to School Transportation and Summer School programs as planned