

State Budget Update

Irvine Unified School District
October 19, 2010



The State Budget

- What are the provisions of the new State Budget?
 - Much improved from the May Revision
 - Reverses 3.85% cut and negative cost-of-living adjustment (COLA)
 - Restoration of child care cuts later vetoed by the Governor
 - AB 3632 legislation vetoed by the Governor
 - No supplanting with Federal Jobs Bill funding
 - Several other positive surprises
 - Still, there are concerns:
 - Will there be midyear cuts?

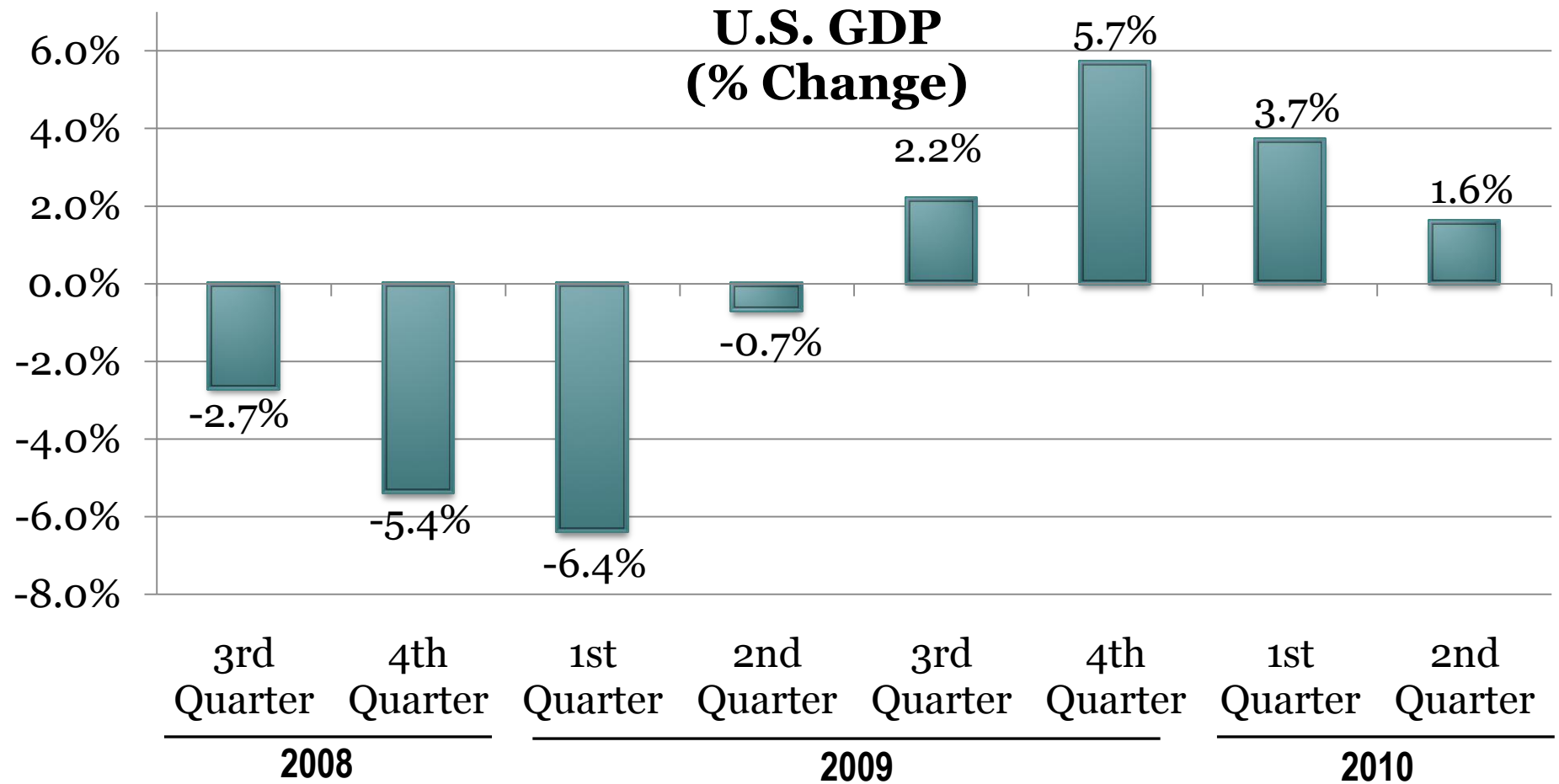
Federal Funding

- American Recovery and Reinvestment Act (ARRA) issues
 - State Fiscal Stabilization Fund (SFSF) true up on the way, about 10%
 - Audits still planned, need to prepare
 - Assurances regarding supplanting made by the state to the feds appear to be intact in the Budget deal
- The Education Jobs Bill
 - Basic rules relate to saving public sector jobs
 - Creative uses include splitting the funding for use over two years
 - Assurances agreed to by the state appear to be honored
 - Audits and record keeping are necessary
- Prospects for additional federal funding as planned by the Governor are very speculative
- Remember: Appropriate use of one-time dollars is important

Categoricals: Now and Later

- Five years is almost up
 - K-3 CSR flexibility goes away for 2012-13 in the Multiyear Projection (MYP)
 - All the rest goes away for the June 2013 district budget
 - Proposed end dates are causing deeper cuts now
 - Will they be extended?
- Current law requires that all programs revert to preflexibility provisions
 - Will programs really revert?
 - We don't think so, but when will we know more?
 - What can districts plan for?
- Active management of categorical programs is very critical

Economic Outlook



California's Economic Outlook

- California's economy remains weak
 - The state unemployment rate is 12.4%, among the highest in the country
 - Home sales slowed in August, down 2.7% from July and down 14.0% from August 2009
 - Home foreclosures made up more than one-third of the existing homes sold in August
- UCLA forecasts some improvement in 2011
 - Employment will rise 1.90% after three years of decline
 - Personal income is expected to increase 3.70%
 - But the unemployment rate will remain high at 11.0% in 2011

Irvine's Economic Outlook

- Orange County's economic picture
 - Irvine's unemployment rate is 7.3% as of August 2010

California's Schools Lag Behind Other States on a Number of Measures

| | California Rank | California | Rest of U.S. |
|--------------------------------------------------------------------|-----------------|----------------|-----------------|
| K-12 Spending Per Student (2009-10)* | 44 | \$8,826 | \$11,372 |
| K-12 Spending as a Percentage of Personal Income (2008-09)* | 46 | 3.28% | 4.25% |
| Number of K-12 Students Per Teacher (2009-10)* | 50 | 21.3 | 13.8 |
| Number of K-12 Students Per Administrator (2007-08) | 46 | 358 | 216 |
| Number of K-12 Students Per Guidance Counselor (2007-08) | 49 | 809 | 440 |
| Number of K-12 Students Per Librarian (2007-08) | 50 | 5,038 | 809 |

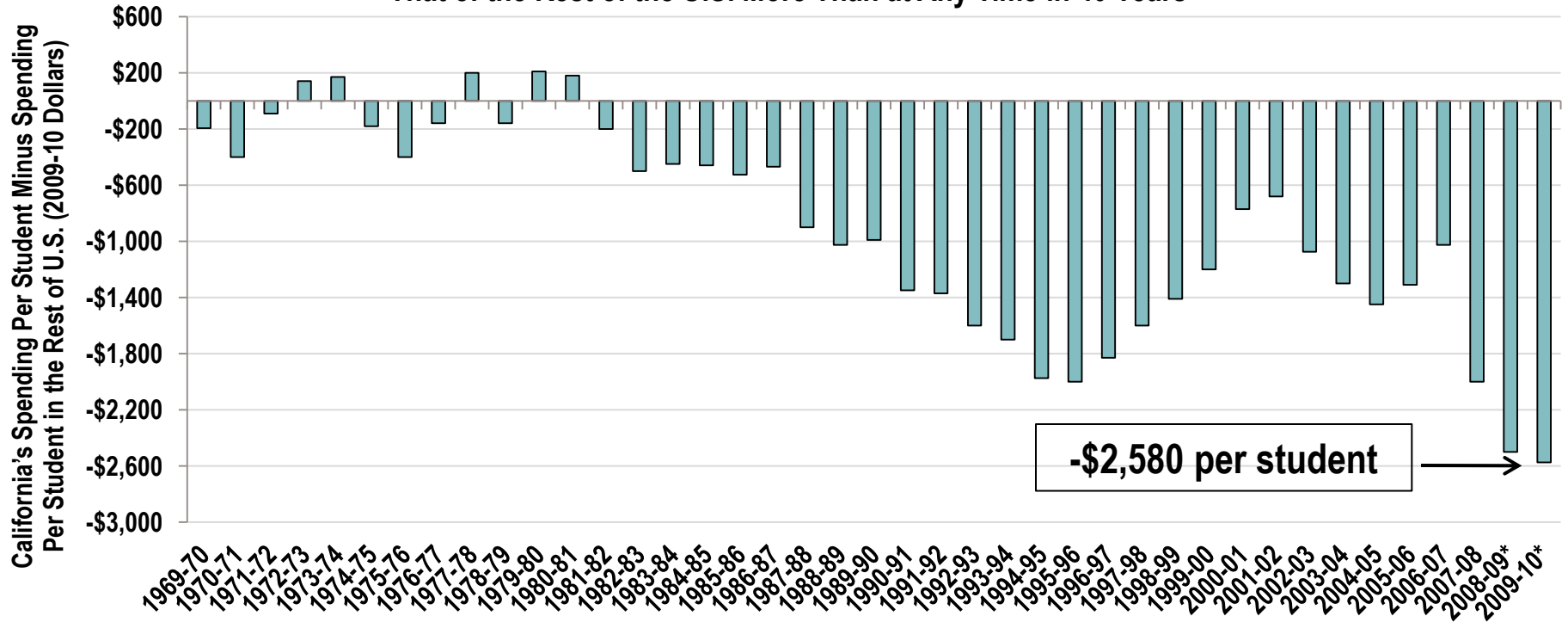
*2008-09 and 2009-10 data are estimated.

Note: "California Rank" and "Rest of U.S." exclude the District of Columbia. Spending per student and number of students per teacher are based on Average Daily Attendance (ADA). Number of students per administrator, guidance counselor, and librarian are based on statewide enrollment.

Source: National Education Association, National Center for Education Statistics, and U.S. Bureau of Economic Analysis

California's Spending Lags the Nation

California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



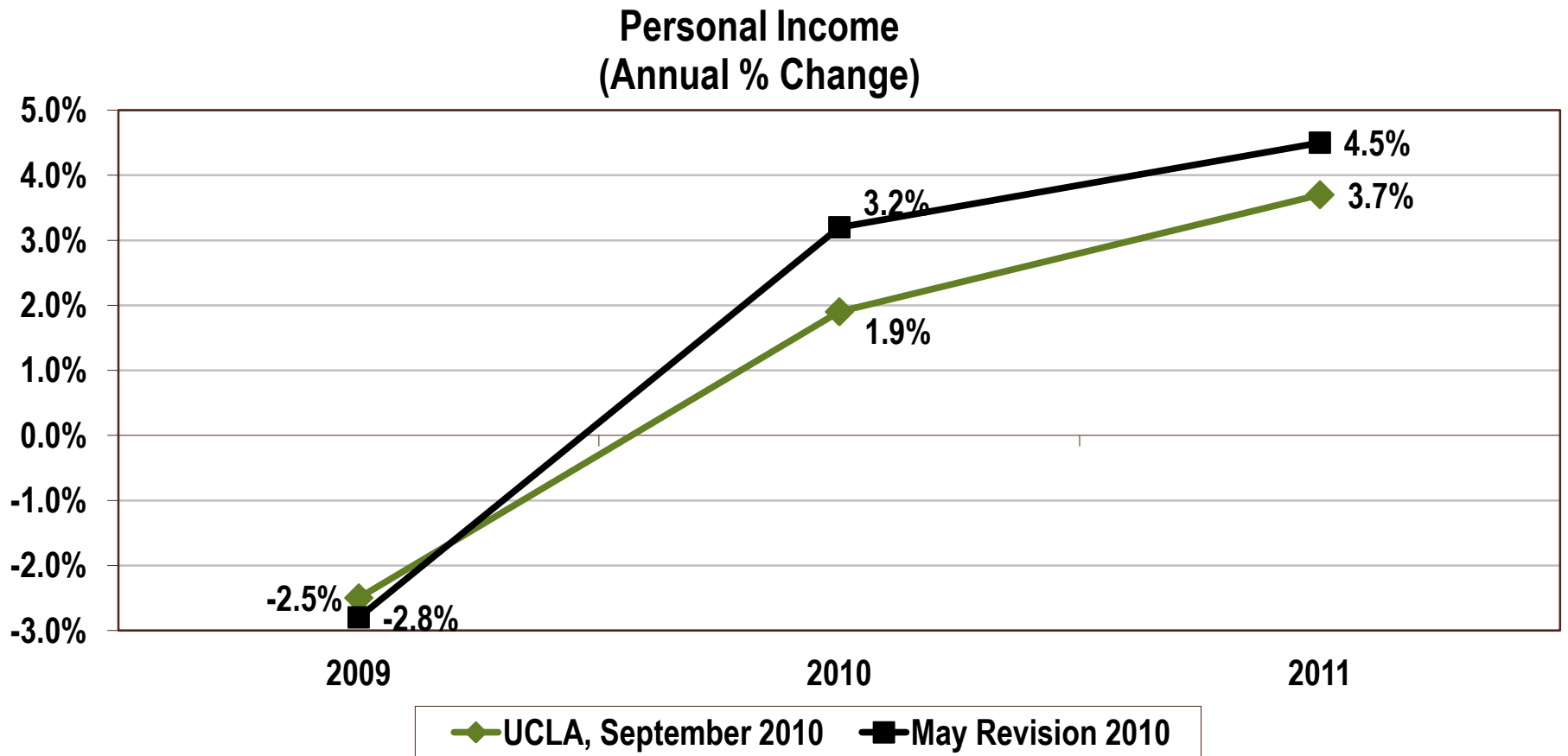
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Note: Rest of U.S. excludes the District of Columbia

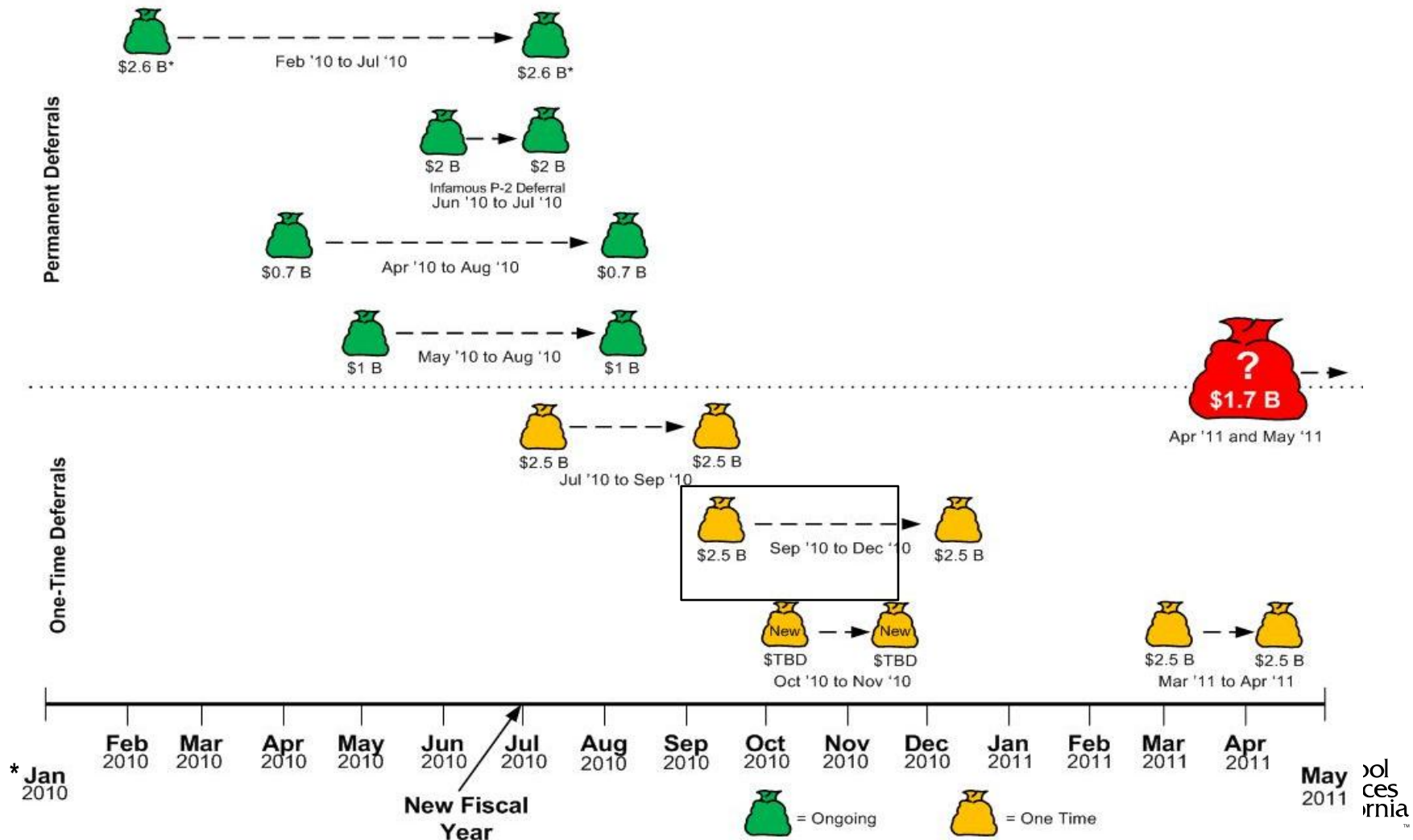
Risks to the State Budget

- Higher revenues: Assumes the Legislative Analyst's Office's \$1.4 billion higher revenue estimate, 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, which would offset General Fund expenditures, \$1.6 billion more than the May Revision
- Expenditure cuts: \$7.5 billion are assumed
 - However, one-third of the fiscal year has already elapsed without these reductions
- 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

Comparing the Forecasts - Income



Deferrals 2010-11

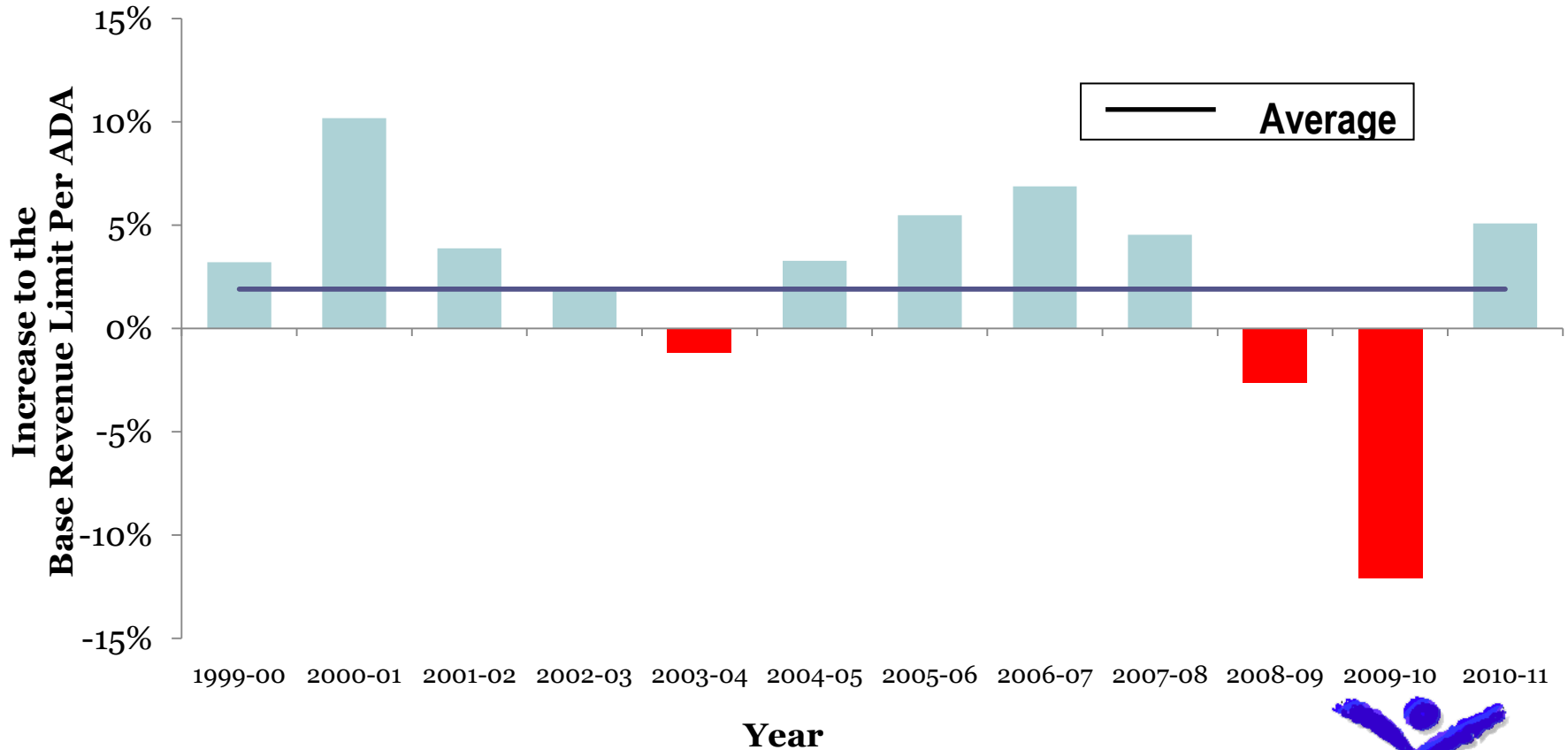


2010-11 Apportionment Deferrals

- Apportionment deferrals for LEAs continue to be the state's solution to its own cash flow problems – making these problems worse for LEAs
- The State Budget includes additional deferrals:
 - Permanent deferral in the amount of \$1.7 billion with timing proposed for April/May 2011 to July 2011
 - One-time deferral from October 2010 to November 2010 with the dollar amount to be determined
- Remember the Generally Accepted Accounting Principles address the accounting treatment of deferrals that cross fiscal years
 - Verify with your audit firm before recording on your books

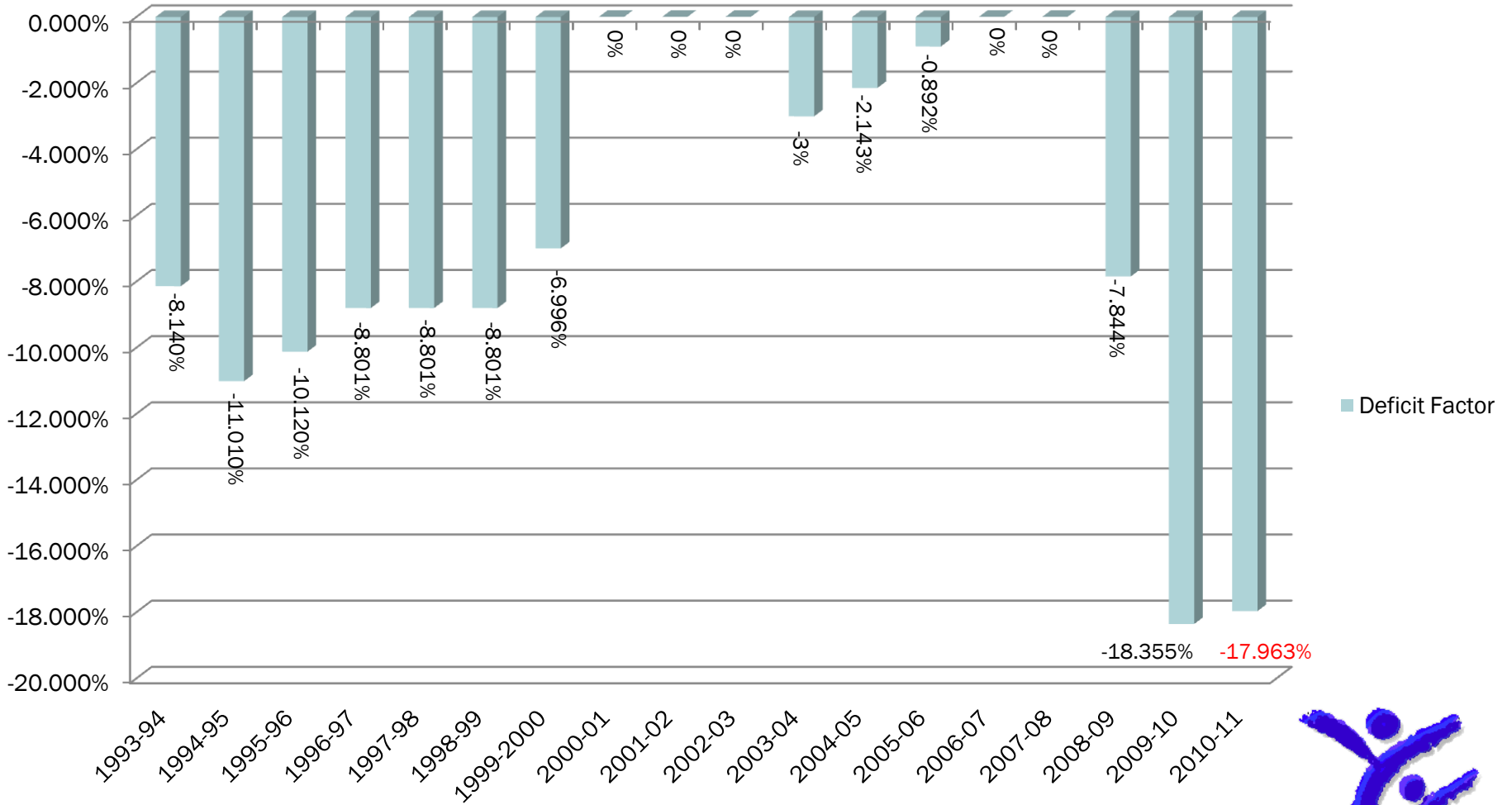
Per-ADA Revenue Volatility

Per-ADA Revenue Change



Revenue Limit Deficit History

(revised 10/15/10)



Revenue Limit Funding

- The Budget agreement continues to recognize the negative statutory COLA of 0.39%

| District Type | 2010-11 Statutory COLA <0.39%> |
|---------------------------|--------------------------------|
| All Elementary Districts | <\$24> |
| All High School Districts | <\$29> |
| All Unified Districts | <\$25> |

- However, the effects of the negative COLA are eliminated through a lower deficit factor

| | 2009-10 Budget Act | May Revision 2010-11 | Final Budget 2010-11 |
|----------------|-----------------------|----------------------|----------------------|
| Statutory COLA | 4.25% | -0.39% | -0.39% |
| K-12 Deficit | 18.355% | 18.355% | 17.963% |
| COE Deficit | 18.621% | 18.621% | 18.250% |

Revenue Limit Funding

- The Budget agreement rejects the Governor's proposed \$1.5 billion cut to revenue limits
 - This cut was targeted to district administration in the January Governor's Budget and was amended at the May Revision to be unallocated
 - The Department of Finance (DOF) had estimated the impact to be approximately a 3.85% reduction based on the total undeficitated base revenue limit
- The elimination of this cut increases district's funding above the May Revision

| District Type | Average Increase |
|-------------------|---------------------|
| Elementary | \$235/ADA |
| High School | \$283/ADA |
| Unified | \$246/ADA |
| Irvine USD | \$257.43/ADA |

2010-11 IUSD Revenue Limit

| | Average Unified District for 2010-11 | Base Revenue Limit per ADA (A) | Proration Factor (B) | Funded Base Revenue Limit (C) = (A) x (B) |
|----|----------------------------------------------------------------------------|--------------------------------------|-------------------------|-------------------------------------------------|
| 1. | 2009-10 Base Revenue Limit | \$6,365.41 | 0.81645* | \$5,197.04 |
| 2. | 2010-11 COLA per ADA | <25.00> | - | - |
| 3. | 2010-11 Base Revenue Limit | 6,340.41 | 0.82037** | 5,201.48 |
| 4. | Net 2009-10 Funded Revenue Limit (net of \$252.99 [= \$5,197.04 - 252.99]) | | | 4,944.05 |
| 5. | Dollar Change (Line 3, Column C, Minus Line 4, Column C) | | | \$257.43 |
| 6. | Percentage Change (Line 5, Column C, Divided by Line 4, Column C) | | | 5.21% |

* 0.81645 = 1 - 0.18355 (2009-10 deficit factor)

** 0.82037 = 1 - 0.17963 (2010-11 deficit factor)



2010-11 Budget Assumptions (included in Adopted Budget)

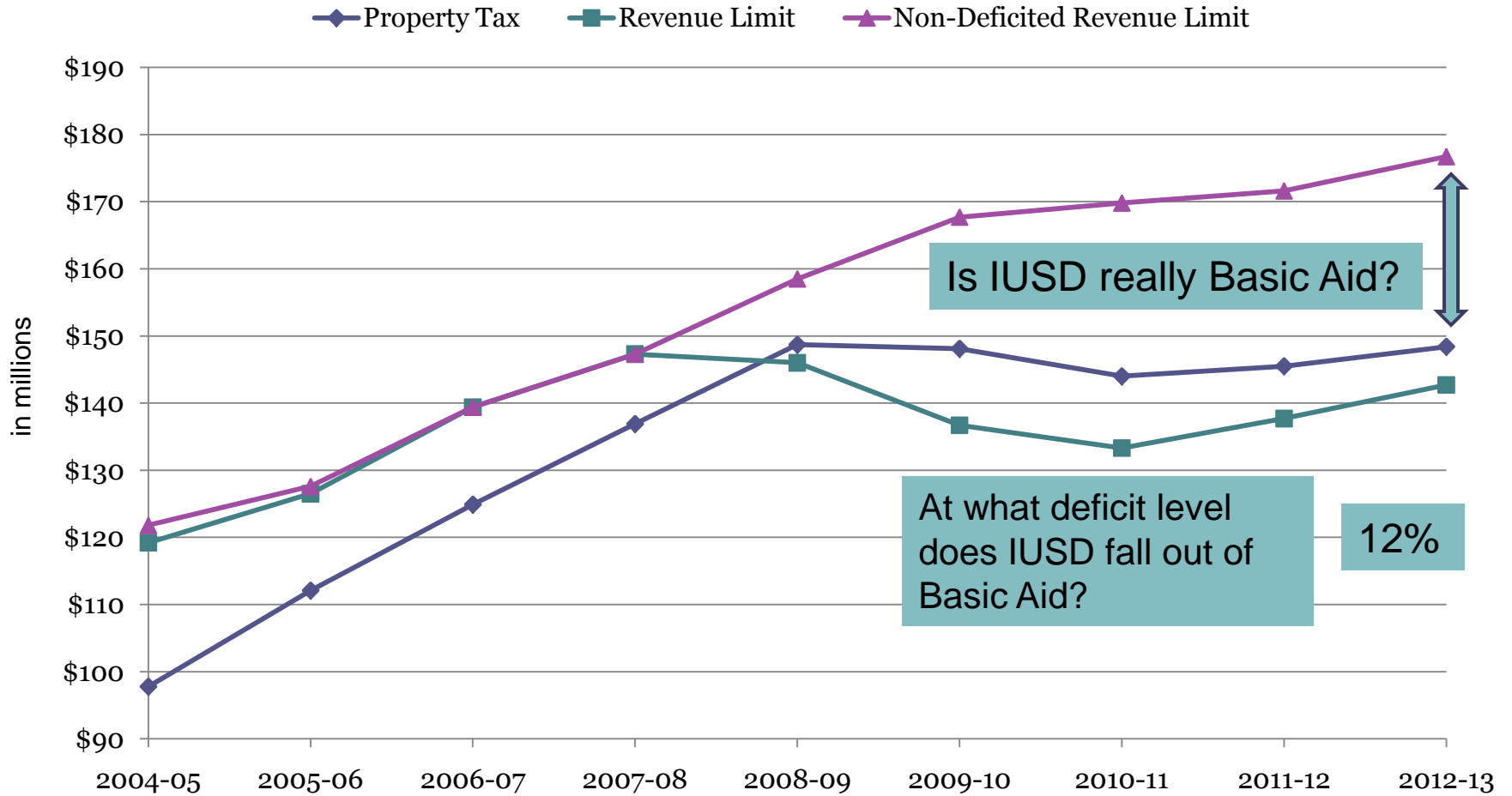
| Description | 2010-11 | 2011-12 | 2012-13 |
|----------------------------------|---------------|---------------|---------------|
| ADA Growth | 250 | 250 | 250 |
| Revenue Limit COLA | -.39% | 2.10% | 2.40% |
| Rev Limit /Student | \$6,340.41 | \$6,473.56 | \$6,628.92 |
| Rev Limit Deficit | 18.355% | 18.355% | 18.355% |
| Rev Limit/Student – deficated | \$5,176.63 | \$5,285.34 | \$5,412.19 |
| Property Tax Growth | 0% | 1% | 2% |
| Bren Donation | \$2,184,000 | \$2,150,000 | \$2,150,000 |
| IRWD – Special Reserve Fund | \$1,063,000 | \$1,190,000 | \$1,327,800 |
| IPSF/City - Class Size Support | \$1,000,000 | \$1,000,000 | \$0 |
| Furlough Days | 8 | 0 | 0 |
| Fair Share Reduction | (\$9,747,723) | (\$9,800,917) | (10,439,487) |
| 3.85% Reduction (Previously Adm) | (\$6,472,510) | (\$6,594,544) | (\$6,655,562) |
| Retiree Savings | \$1,000,000 | \$500,000 | \$500,000 |
| Health Insurance Contribution | \$8,443 | \$8,443 | \$8,443 |
| Certificated Step/Column | 2% | 2% | 2% |

2010-11 Budget Assumptions

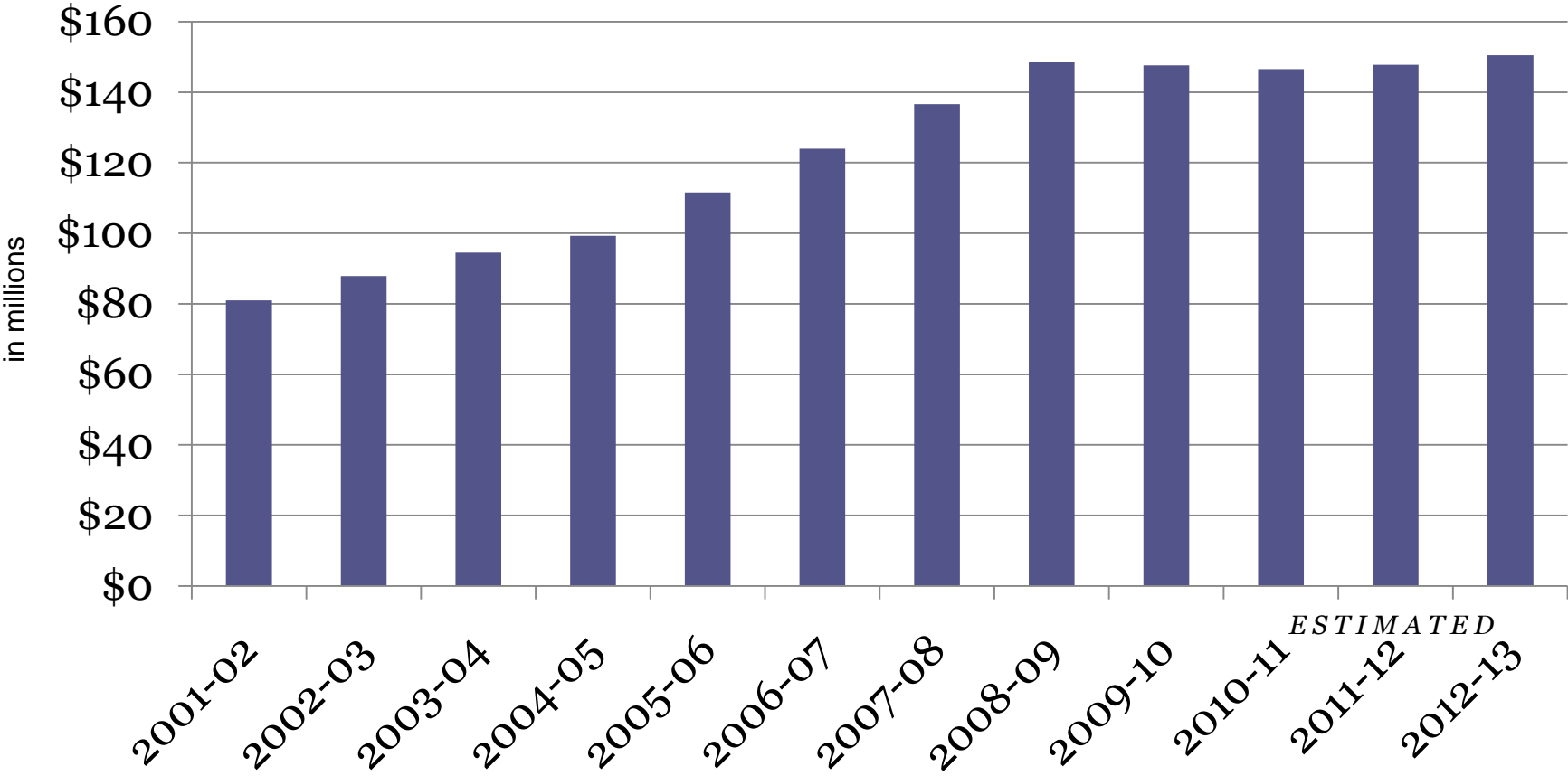
(Revised 10/15/10)

| Description | 2010-11 | 2011-12 | 2012-13 |
|----------------------------------|---------------|---------------|--------------|
| ADA Growth | 430 | 250 | 250 |
| Revenue Limit COLA | -.39% | 1.7% | 1.9% |
| SSC Recommended Planning COLA | -.39% | 0% | 1.9% |
| Rev Limit /Student | \$6,340.41 | \$6,340.41 | \$6,460.41 |
| Rev Limit Deficit | 17.963% | 17.963% | 17.963% |
| Rev Limit/Student – deficated | \$5,201.48 | \$5,201.48 | \$5,299.92 |
| Property Tax Growth | 0% | 1% | 2% |
| Bren Donation | \$2,184,000 | \$2,150,000 | \$2,150,000 |
| IRWD – Special Reserve Fund | \$1,063,000 | \$1,190,000 | \$1,327,800 |
| Educational Jobs Bill – Federal | \$5,034,911 | \$0 | \$0 |
| IPSF/City - Class Size Support | \$1,000,000 | \$1,000,000 | \$0 |
| Furlough Days | 8 | 0 | 0 |
| Fair Share Reduction | (\$9,747,723) | (\$9,800,917) | (10,439,487) |
| 3.85% Reduction (Previously Adm) | \$0 | \$0 | \$0 |
| Retiree Savings | \$1,000,000 | \$500,000 | \$500,000 |
| Health Insurance Contribution | \$8,443 | \$8,443 | \$8,443 |
| Certificated Step/Column | 2% | 2% | 2% |

Basic Aid Status



Property Taxes



2010-11 IUSD Budget Implications and Outlook

- The State Budget is based on unrealistic projections
 - Uncertainty continues
 - Fair Share \$9.7M included in 2010-11 Reserve
 - 3.85% Reduction - \$6.5M included in 2010-11 Reserve
 - Health Fund balances continue to decline
- Federal Jobs Bill
 - IUSD will receive \$5,034,911
 - 1st allocation 90% - \$4,531,420 was received on Sept. 30th



Next Steps

- Federal Jobs Bill
 - Identify a spending plan for the one-time money
- 1st Interim Report – December 7th
 - Updated budget assumptions
 - Increases from ending fund balances
 - Updated salary projections
 - Updated MYP
- Budget Study Session following new Governor's January Budget Announcement



School Services Recommends....

- Open the planning books but close the checkbook

