

A 3D maze with blue walls and a red path leading to a red arrow pointing forward. The maze is complex and winding, with the path starting from the bottom left and moving towards the top right. The red path is highlighted against the blue walls, and a red arrow is at the end of the path, pointing towards the right. The background is black.

**Orange Unified School District
2011-12 State Budget Update
January 20, 2011**

Presentation Overview

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- State and National Economics
- California's Outlook
- The Governor's Budget Proposals
- Revenue Limits & Deficit Factors
- Proposed 2011-12 Funding
- K-12 Funding With and Without Tax Extension
- K-12 Budget Flexibility Options
- Risks to the Budget Proposals
- Next Steps

State and National Economics

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- The economy is the key to everything
 - Business generates jobs, personal and corporate income, and capital gains
 - Government taxes those sources and funds education and other government services
 - Businesses are generating cash and profits, but they are not yet confident enough for expansion and hiring
- The state still hasn't recovered, and won't for a long time to come
- The Feds plan to do less for states in terms of stimulus – no new funding is anticipated
- Good news: Things have stopped getting worse and there is some improvement
- Bad news: Full recovery may take until 2016, a year longer than was estimated last year

California's Economic Outlook

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- California's economy was hit hard during the recession
 - Subprime loans and the collapse of housing led the downturn
 - The state's 12.4% unemployment rate is the third highest in the nation
 - Since the employment peak, the state has lost 1.3 million jobs
 - Construction employment was hit hardest
- UCLA says the state is well positioned for the recovery
 - UCLA identifies education, health care, exports, and technology as leading the way
 - Regional differences: Coastal cities will thrive, while the Inland Empire and Central Valley will struggle
- The Governor's Budget projects that the labor market will be a continuing challenge
 - Employment is not projected to reach pre-recession levels until 2016, eight years from the beginning of the recession

The Governor's Proposals for 2011-12

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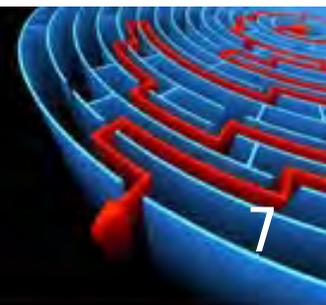
- So, how does the Governor propose to dig the state out of this economic quagmire?
 - Cuts – lots of them
 - But with the acknowledgement that education has already taken more than its fair share of cuts
 - Realignment
 - Restore local control of services to save the state money
 - Continuation of taxes
 - Temporary taxes would be extended by five years
- The Governor has two tax plans:
 - If the taxes are extended, the cuts are as budgeted in January
 - Education would be flat funded for 2011-12
 - If the taxes are not extended, an estimated additional \$12.5 billion in cuts would be needed, including large cuts to education

Revenue Limits

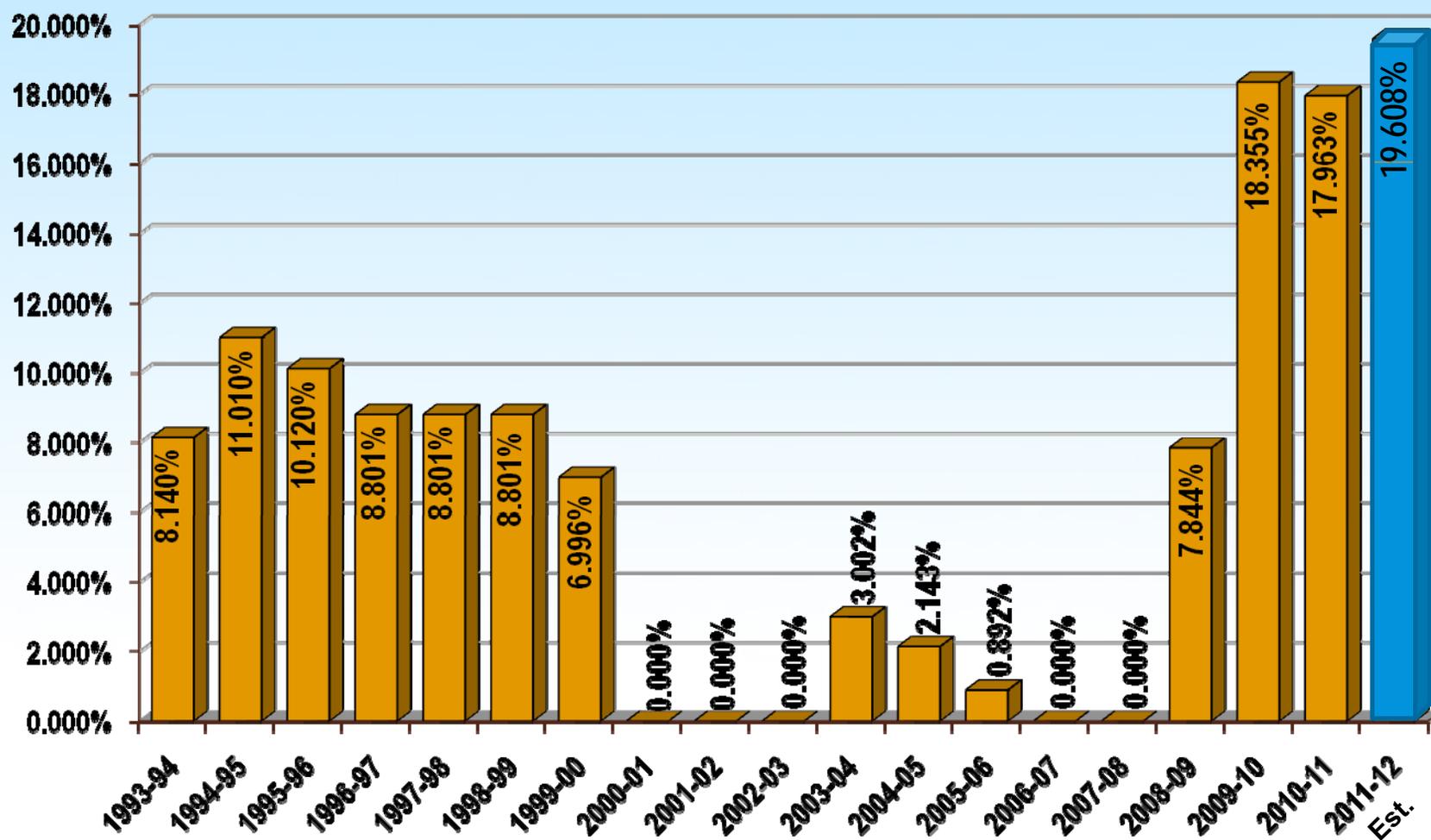
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- The Governor's Budget proposes the following for revenue limits:
 - For 2010-11:
 - No change to the enacted 2010-11 Budget Act levels
 - For 2011-12:
 - Full funding for an estimated 0.22% increase in ADA
 - No funding increase for the estimated 1.67% statutory COLA
 - 19.608% deficit factor, which eliminates the statutory COLA
- The actual statutory COLA is dependent on data published by the U.S. Department of Commerce in April 2011

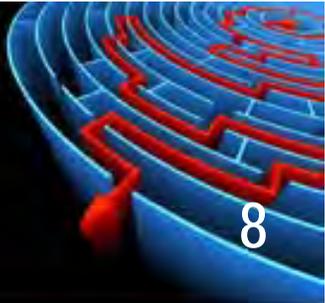
Revenue Limit Deficit Factors



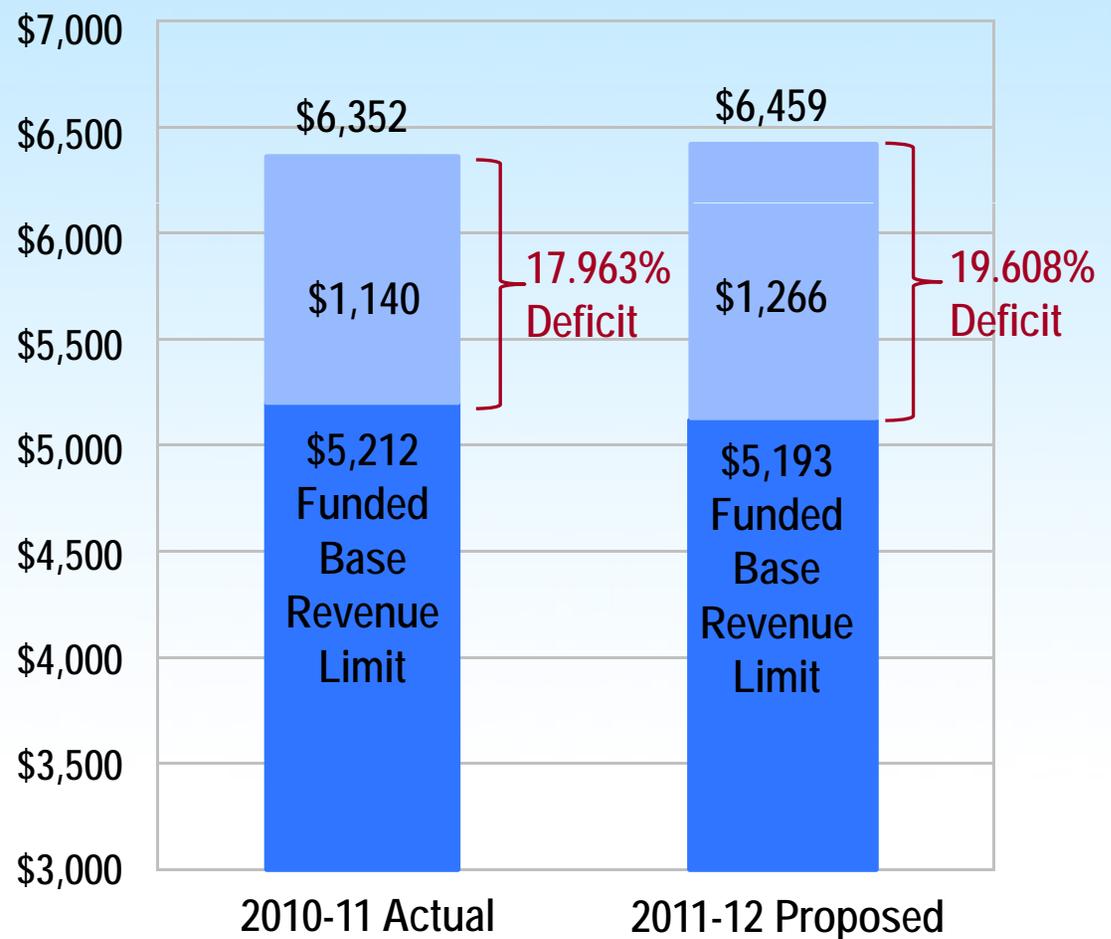
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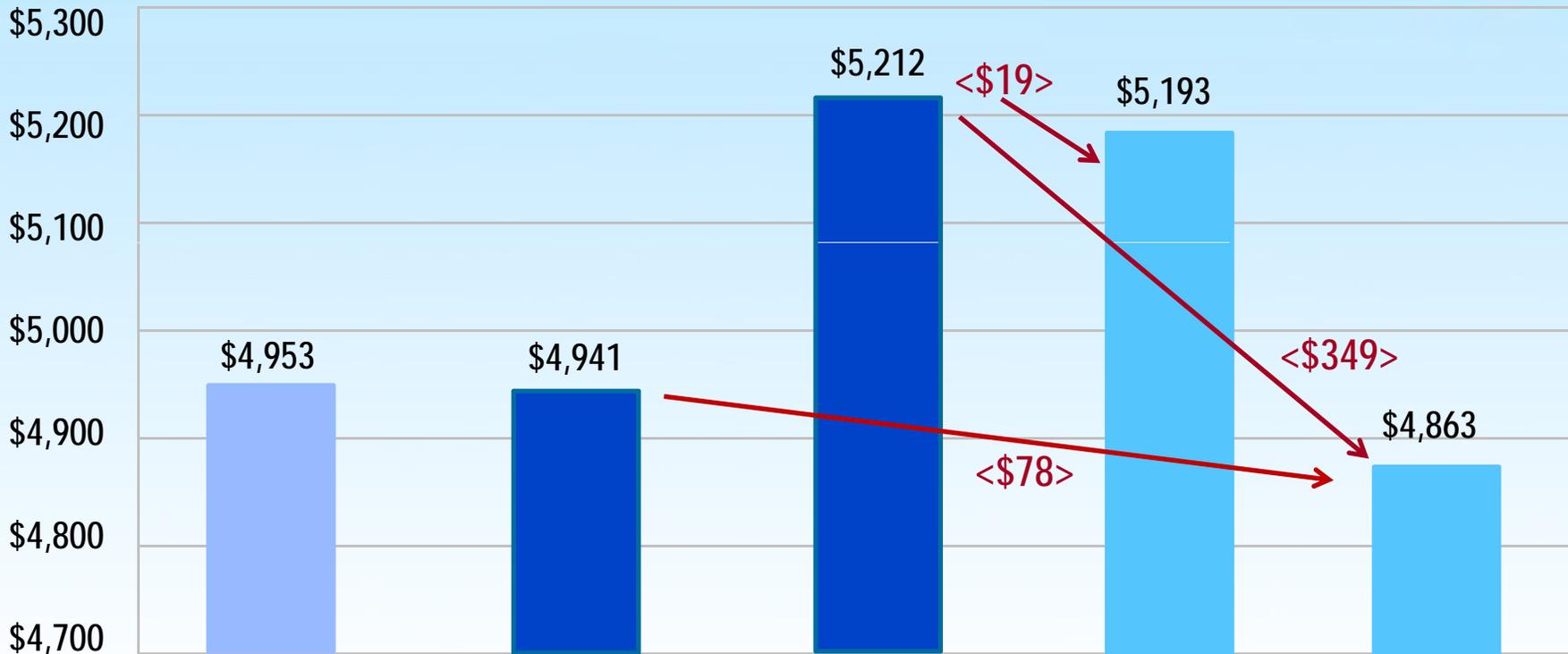
Proposed 2011-12 Funding vs. 2010-11 Enacted Budget



- The Governor's Budget does not fund the 1.67% estimated COLA (approximately \$107 per ADA)
- The funded base revenue limit drops approximately \$19 per ADA from the 2010-11 level



ADA Funding With and Without Tax Extension



2009-10

Budget Act,
One-Time
\$253
Reduction

2010-11

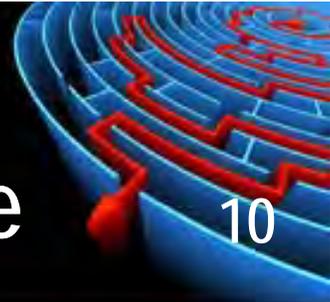
May Revision
Ongoing 3.85%
Reduction and
-0.39% COLA

2011-12

Budget Act,
Restores 3.85%
Reduction and
-0.39% COLA

Governor's
Budget,
Taxes
Extended

Prop 98
Guarantee,
Taxes Not
Extended



Flexibility Options Proposed to Continue

- The Governor's Proposal would extend available flexibility options by two years beyond the current expiration dates

Current Law Expiration Date	Governor's Budget New Expiration	Description of Flexibility
June 30, 2012	June 30, 2014	Reduced penalties for K-3 Class-Size Reduction (CSR) (for up to the number of classes applied for as of January 31, 2009)
June 30, 2013	June 30, 2015	Routine restricted maintenance set aside reduced from 3% to 1%
		Suspension of deferred maintenance local match requirement
		Flexibility of Tier III categorical programs; funding level based on 2008-09 (with public hearing requirement)
		Suspension of instructional materials adoption requirement
June 30, 2013	?	Reduction of school year by five days

Risks to the Budget Proposal

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- Flat funding for K-12 education in 2011-12 is dependent upon the extension of the current temporary taxes and flexibility
 - The Legislature must pass legislation enacting the Governor's proposed changes, including extending flexibility
 - Requires a majority vote
 - The Legislature must place the tax extension proposal on the ballot
 - Requires a two-thirds vote, two Republicans in each house must agree
 - Voters may turn this down even if it gets on the ballot
 - Court Challenges

Next Steps

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- State Action:
 - March 2011: Legislative action to adopt the Governor's Budget proposals
 - May 2011: May Revise
 - June 2011: Voters will decide whether to continue the temporary taxes
 - If the taxes are extended, the legislature would then adopt the Budget Bill before the new fiscal year begins
 - If the taxes are rejected, further unspecified cuts would be required
- Deadlines: Education Code (42127, 42130)
 - March 15, 2011: Adopt 2010-11 Second Interim Budget
 - June 30, 2011: Adopt 2011-12 District Budget