

**ORANGE COUNTY  
DEPARTMENT  
OF EDUCATION**

200 KALMUS DRIVE  
P.O. BOX 9050  
COSTA MESA, CA  
92628-9050

(714) 966-4000  
FAX (714) 662-3570  
www.ocde.k12.ca.us

**WILLIAM M. HABERMEHL**  
County Superintendent  
of Schools

LYNN APRIL HARTLINE  
Deputy Superintendent

JOHN L. NELSON  
Associate Superintendent

**ORANGE COUNTY  
BOARD OF EDUCATION**

DR. JOHN W. BEDELL

DR. ALEXANDRIA CORONADO

ELIZABETH PARKER

FELIX ROCHA, JR.

DR. KEN L. WILLIAMS

January 23, 2008

To: Assistant Superintendents, Business  
Directors, Business Services  
ROC/Ps

From: Wendy Benkert, Ed. D., Assistant Superintendent  
Business Services

Subject: **GOVERNOR'S JANUARY 2008-09 BUDGET PROPOSAL  
AND PROJECTED LOCAL REVENUES FOR 2008-09**

On Thursday January 10, 2008, Governor Schwarzenegger presented his 2008-09 January Budget proposal. The following are key elements of the Governor's proposal pertaining to K-12 education, along with local property tax receipts and interest rate projections from the Orange County Auditor-Controller's and Orange County Treasurer's offices. This information is being provided to assist in your initial 2008-09 budget assumptions, as well as multi-year projections to be included with the 2007-08 second interim submission. However, please keep in mind that this is the Governor's Budget proposal only, and is subject to change through the legislative process.

Due to a weakening state economy, along with a structural imbalance between projected state revenues and expenditures in the current and subsequent year, the Governor's January Budget proposal is projecting a \$14.5 billion shortfall in 2008-09. In addition, as current year state revenues fall, so does the Proposition 98 guarantee. Based on estimates included in the Governor's January Budget proposal, the current year Proposition 98 guarantee has fallen \$1.4 billion.

In addressing the shortfall in the current year, the Governor has declared a "fiscal emergency" under Proposition 58, passed by the voters in 2004. The Governor is proposing to revise the 2007-08 Budget and impose \$400 million in mid-year budget reductions to K-14, \$360 million from K-12 and \$40 million from community colleges. The Legislature is required to act on the Governor's proposal within 45 days which is set for February 24, 2008 and requires a two-thirds vote by the Legislature.

To address the projected shortfall in 2008-09, the Governor has proposed across-the board spending reductions to all government agencies of 10%, including K-12 education. The proposed reduction in K-12 funding for 2008-09 is in excess of \$4 billion, requiring a suspension of Proposition 98. The Governor's Budget, as proposed contains the most severe budget cuts to K-12 education in the history of the State. The following breaks down the impact of the proposed reductions to K-12 education in 2008-09.

**REVENUE LIMITS:**

**COLA- 2008/09**

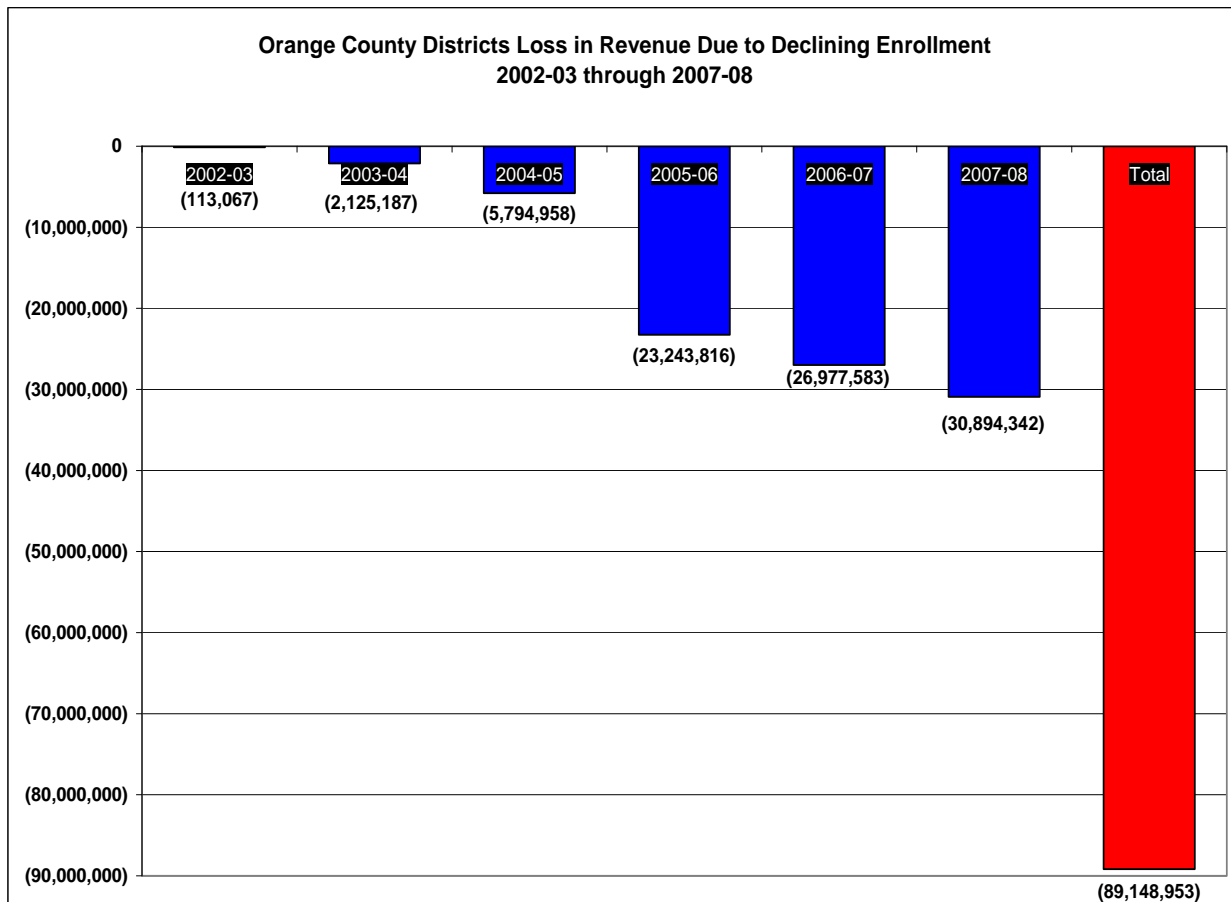
The Governor's Budget proposal includes funding for an estimated statutory cost of living adjustment (COLA) of 4.94%, but contains a revenue limit deficit of (6.99%),

resulting in a net reduction of approximately (2.4%) for districts at the statewide average. The actual decrease in funding will depend on where your district's base revenue limit is in comparison to the statewide average. The attached schedule A, projects the 2008-09 decrease in revenue limit funding per ADA for Orange County districts.

The net (2.4%) reduction yields the following estimated decreases for K-12 school district base revenue limits funded at the statewide average:

District	2008-09 Decrease @ (2.4%)
Elementary	(\$133)
High School	(\$161)
Unified	(\$139)

There continues to be no change proposed to the current funding formula for declining enrollment districts, whereby the funding is based on the greater of the average daily attendance (ADA) for either the current or prior fiscal year. In addition to the reduction in revenue limit funding proposed by the Governor, districts experiencing declining enrollment may see significantly greater decreases in revenue limit funding depending on the actual ADA loss sustained. In the current fiscal year, preliminary enrollment figures indicate Orange County has seventeen out of twenty-seven K-12 school districts that are experiencing declines in enrollment and the county will decline in enrollment as a whole for the fourth consecutive year. Over the previous six years, the enrollment declines have resulted in an estimated loss in revenue countywide of \$89 million. The following graph illustrates the annual loss in revenue over the previous six years as a result of declines in student enrollment countywide.



### **Potential Deficit – 2007/08**

In addition to the reductions proposed for 2008-09 to the revenue limit, as mentioned previously, the Governor's proposal includes \$360 million in current mid-year cuts to K-12 education. The Department of Finance (DOF) hopes to identify sufficient categorical funding that is surplus or not yet allocated to meet the current year cut. However, if there are insufficient funds meeting this criteria, the additional cuts will come from current year, 2007-08 revenue limits. Consequently, districts should plan on current year cuts to the revenue limit of (.50%) or approximately (\$30) per ADA.

### **PERS Reduction**

The Public Employees Retirement System (PERS) school employer contribution rate is currently estimated at 9.000% for 2008-09 and the PERS revenue limit reduction rate is estimated at 4.02% (13.020% - 9.000%). The PERS Board meets annually in May to set the employer contribution rate for the subsequent year. Once the rate has been set, our office will update districts accordingly. The PERS buyout remains for 2008-09 and is projected to be sufficient to buyout approximately 13.84% of the 2008-09 PERS reduction.

### **MAJOR CATEGORICAL PROGRAMS:**

In addition to the budget reductions included in the revenue limit, the Governor's January Budget proposal includes drastic reductions for most categorical programs. After including the 2008-09 estimated COLA of 4.94%, the Governor's proposal includes a (10.9%) reduction on most state categorical programs, resulting in a net reduction of (6.5%) from 2007-08 funding levels for most categorical programs. At these funding levels, the Governor's January proposal includes an estimated combined reduction to revenue limit and categorical programs of (\$305) per ADA from 2007-08 funding levels.

### **Supplemental/Hourly Programs**

The Governor's proposal includes cuts to the supplemental hourly programs in line with other categorical programs. Funding for the hourly programs is increased by the 4.94% COLA and then reduced by (10.9%). The resulting impact is a projected reduction in the hourly rates from \$4.08 in 2007-08 to \$3.81, representing a reduction of (27¢) per hour or (6.6%).

There are no changes to the caps on the K-12 Core Academic and Grade 2-6 Remedial Programs. Both remain capped at 5% of prior year's enrollment times 120 hours. There are no changes proposed to the uncapped Grade 2-9 Retained or Recommended for Retention and Mandated 7-12 Program for pupils who have not demonstrated sufficient progress to pass the California High School Exit Exam (CAHSEE). However, three of the hourly programs continue to be under funded and the following deficits are projected in 2007-08 and 2008-09:

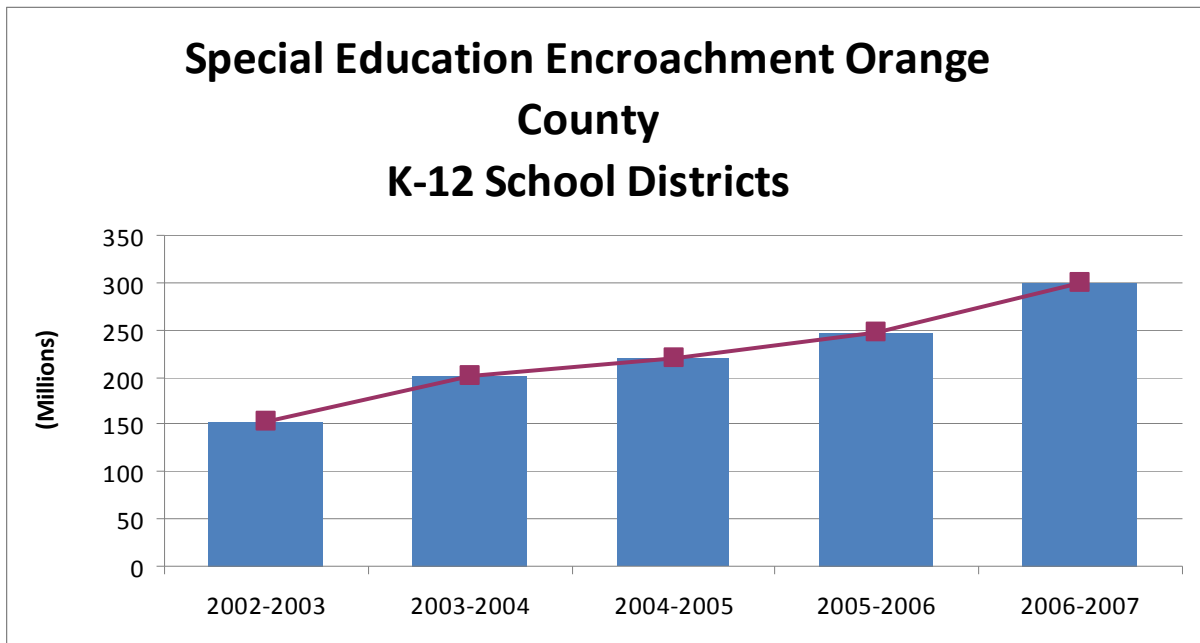
Hourly Program	Projected Funding Deficits
K-12 Core Academic	(12%)
Grade 2-9 Retained or Recommended for Retention	(14%)
Grade 2-6 Remedial Program	(28%)

### **Special Education**

Special Education funding continues to be under funded statewide and the Governor's proposal contains severe reductions to funding in 2008-09. Mirroring other categorical programs, the Governor's proposal includes a (10.9%) reduction after including the 4.94% COLA on the state share of funding for

special education. The net impact is an estimated cut to 2007-08 funding levels of approximately (\$30) per ADA.

In addition to the devastating cuts proposed by the Governor, continuing escalations in costs associated with special education without corresponding increases in special education revenues, have significantly increased the encroachment on the unrestricted portion of the general fund for Orange County districts. The following graph illustrates the increase in special education encroachment for Orange County districts over the previous five fiscal years.



#### **Apprentice Program**

The Governor's proposal includes funding for the 4.94% COLA, and then (10.9%) reduction lowering the hourly rate to \$4.51.

#### **ROC/Ps**

The Governor's proposal allocates funding for the 4.94% COLA , and then (10.9%) reduction and negative growth of (0.55%).

#### **Adult Education**

Funding is allocated for 4.94% COLA, 2.5% growth and then reduced by (10.9%).

#### **K-3 Class Size**

K-3 CSR receives net reduction of (6.5%) lowering the rates to \$1,001 for full day (Option 1) program, and \$500 for half day (Option 2) program. In addition, SB 311 which was passed in September 2004, institutes for 2004-05 through 2008-09 a sliding scale of penalties for the K-3 class size reduction program.

#### **9th Grade CSR**

Grade 9 CSR receives net reduction of (6.5%) decreasing rates to \$198 per student per subject.

**Instructional Materials Funding Realignment Program (IMFRP)**

Funding provided for negative growth and net reduction of (6.5%) currently estimated at \$65 per prior-year CBEDS enrollment.

**Deferred Maintenance**

The Governor's Budget allocates \$262.2 million to fund the state's match in 2008-09, reflecting the (10.9%) reduction after including the 4.94% COLA sustained by other categorical programs. Full funding means that up to 10% of the state appropriation will be set aside for emergency projects. However, the actual allocation for emergency projects is usually less than 10%. Current estimates indicate that districts should budget to receive 85% to 90% of their 100% match in 2008-09.

Funding for the Deferred Maintenance program occurs in the subsequent fiscal year. Consequently, the funding contained in the 2008-09 State Budget is for the 2007-08 deferred maintenance match. Typically, districts have 60 days after the State Allocation Board (SAB) certifies the deferred maintenance match to transfer the required match into the deferred maintenance fund. Therefore, districts have the option of making the 2007-08 match in 2007-08 or 60 days after the SAB certifies the deferred maintenance match in 2008-09.

**Routine Restricted Maintenance**

The annual routine restricted maintenance requirement is 3% of the total general fund expenditures, including transfers out and other financing uses. Education Code Section 17070.75(b)(2)(C) allows for the exclusion of special education pass-through funds for districts that act as the administrative unit for a SELPA.

**AB 825 – Block Grants**

For 2008-09, each block grant will be adjusted from the 2007-08 levels by the 4.94% COLA and (10.9%) reduction along with the projected negative (1.2%) statewide decline in growth. Because the AB 825 block grants are tied to statewide growth, funding will be impacted statewide.

<b>Program Description</b>	<b>2007-08 Estimated Funding</b>	<b>Resource</b>
Pupil retention block grant	2007-08 funding adjusted for 4.94% COLA and (10.9%) reduction and statewide decline in growth of (1.2%).	7390
School Safety Consolidated Competitive Grant	By competitive grant	7391
Teacher Credentialing Block Grant	Based on teacher count	7392
Targeted Instructional Improvement Block Grant	2007-08 funding adjusted for 4.94% COLA and (10.9%) reduction and statewide decline in growth of (1.2%).	7394
Professional Development Block Grant	2007-08 funding adjusted for 4.94% COLA and (10.9%) reduction and statewide decline in growth of (1.2%).	7393
School and Library Improvement Block Grant	2007-08 funding adjusted for 4.94% COLA and (10.9%) reduction and statewide decline in growth of (1.2%).	7395

Under AB 825, flexibility transfers of 15% out and 20% in can be made to any stand-alone categorical program, such as Class Size Reduction (CSR), Transportation, or Special Education. The Pupil Retention and Teacher Credentialing Block Grants allow for transfers in only.

### **Mega-Item Flexibility**

The Governor's proposal offers additional categorical transfer flexibility by increasing the allowable transfers to 60% out and 65% in of Mega-Item programs. However, the programs included in the Mega-Items also received the net reduction of (6.5%) in the Governor's proposal. The following are the major programs eligible for the Mega-Item transfer flexibility and the applicable resource codes:

<b>Description</b>	<b>Resource Code</b>
➤ Home to School and Special Education Transportation	7230, 7235, 7240
➤ Gifted and Talented Education	7140
➤ Staff Development	7271, 7235, 7240
➤ Education Technology	7125
➤ Child Nutrition	5310

### **Lottery**

Based on current sales trends, the 2007-08 estimates are projected at \$121/ADA for unrestricted and \$22/ADA for Proposition 20 Instructional Materials for a total of \$143/ADA. The estimates for 2008-09 currently are estimated to remain flat with a slight increase in the amounts for Proposition 20 Instructional Materials. The 2008-09 rates are currently estimated at \$121/ADA for unrestricted and \$22.50/ADA for Proposition 20 Instructional Materials.

### **Economic Impact Aid (EIA)**

The Governor's proposal includes the COLA of 4.94% and corresponding (10.9%) reduction for a net reduction from 2007-08 levels of (6.5%). This reduces the average funding per pupil from \$315 in 2007-08 to \$295 in 2008-09.

### **Proposition 49 After School Programs**

The Governor's proposal reduces the state allocation by (10.9%) from \$547 million in 2007-08 to \$487 million in 2008-09. The rates per student remain unchanged, however the number and size of the grants may change based on utilization. In 2007-08 LEAs may receive three-year renewable grants which shall not exceed \$112,500 per year for an elementary school or \$155,000 per year for middle or junior high schools.

### **Arts and Music Block Grant**

The Arts and Music Block Grant receive the net (6.5%) reduction from 2007-08 funding level, decreasing the funding to \$14.25 per prior-year CBEDS enrollment with minimum grant levels adjusted to \$2,228 for small districts and \$3,546 for large districts.

### **Physical Education Teacher Incentive Grants**

The Governor's proposal includes the net (6.5%) reduction, decreasing the total allocation of \$41.8 million in 2007-08 to an estimated \$39.1 million in 2008-09. This reduces the estimated amount per selected K-8 site to \$34,000 from \$36,400 received in 2007-08.

### **California High School Exit Exam (CAHSEE)**

The program receives the net (6.5%) reduction, however the \$520 per eligible 12<sup>th</sup> grader remains unchanged from 2007-08 with the 11<sup>th</sup> grader allocation reduced to \$78 per eligible pupil down from \$100 per eligible in 2007-08.

### **School Counseling Program**

The Supplemental School Counseling Program receives the net (6.5%) reduction, lowering the total statewide allocation from \$209 million in 2007-08 to \$195.5 million in 2008-09. This reduces the amount per pupil to \$70 per pupil per grades 7-12 CBEDS enrollment, down from \$78 per pupil in 2007-08.

### **Home to School Transportation**

Home to School Transportation receives the net (6.5%) reduction, lowering the total statewide allocation from \$630 million in 2007-08 to \$589 million in 2008-09.

### **OTHER:**

### **Multi-year Projections**

The School Services of California Inc. (SSC) dashboard is projecting net funded COLAs of 3.0% for 2009-10 and 2.6% for 2010-11 with no additional revenue limit deficits nor funding for prior year deficits. Our office concurs with SSC and recommends districts use these projections when preparing the multi-year projections.

### **Mandates**

The Governor's proposal contains \$38,000 for 2008-09 mandate claims, thus requiring the mandates continue, however once again the State is deferring the payment of mandate claims. It is estimated that schools will generate approximately \$160 million in new mandate claims in 2008-09.

### **GASB 45**

Governmental Accounting Standards Board Statement No. 45 (GASB 45) requires all state and local government agencies – including school agencies – that cover any portion of the cost of other postemployment benefits (OPEB), to begin recognizing the liability in the financial statements. GASB 45 has an implementation timeline beginning in 2007-08 and the subsequent two years based on the size of a district's budget. Although there currently is no requirement for an agency to fund the liability, districts are encouraged to develop a plan to address funding of the liability.

### **CHARTER SCHOOLS:**

Charter school general purpose rates are based on statewide average revenue limits and thus reflect the 4.94% COLA and (6.99%) deficit. The categorical block grant rates also reflect the 4.94% COLA and corresponding reduction of (10.9%) for a net cut of (6.5%).

Estimated Charter School Rates: **The following table lists the estimated charter school rates for 2008-09:**

	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose	\$5,447	\$5,529	\$5,688	\$6,600
Categorical	\$468	\$468	\$468	\$468
Total Funding Rates	\$5,915	\$5,997	\$6,156	\$7,068

**PROPERTY TAX AND INTEREST EARNINGS:**

**Property Taxes**

The Orange County Auditor-Controller's Office is projecting a 4% increase in Secured, zero growth for the Unsecured Roll and a 15% decline in Supplemental taxes due to the continued anticipated slowing of the housing market for 2008-09.

**Interest Yield Projection**

Fiscal year 2007-08 – 4.5%, 2008-09 – 3.75%. These interest rate projections are provided by the Orange County Treasurer and are based on the current yield environment taking into account any possible action from the Federal Open Market Committee. This information is updated throughout the year in the Orange County Treasurer's Monthly Management Reports.

The above information is based on the Governor's January 10, 2007 proposal only, and is subject to change through the legislative process. We will inform districts as changes become known. If you have any questions or concerns regarding this information, please contact me at 714-966-4229, John Fogarty at 714-966-4175 or Darren Dang at 714-966-4176.

WB:jf

cc: Superintendents  
Dari Barzel, Moodys  
Jean Buckley, Tamalpais Advisors Inc.

Attachments



**Projected Decrease per ADA in Revenue Limit Funding for COLA  
K-12 Districts in Orange County**

**Attachment A**



	2007-08 Base R/L	2008-09 Est. Base R/L with 4.94% COLA	2008-09 Deficit Base R/L	Projected Decrease in R/L Funding	Projected % Decrease in R/L Funding
			(0.9301 deficit factor)		
<b><u>Elementary</u></b>					
Anaheim City	5,531.56	5,806.56	5,400.68	(130.88)	(2.37%)
Buena Park	5,541.49	5,816.49	5,409.92	(131.57)	(2.37%)
Centralia	5,530.80	5,805.80	5,399.97	(130.83)	(2.37%)
Cypress	5,530.14	5,805.14	5,399.36	(130.78)	(2.36%)
Fountain Valley	5,515.36	5,790.36	5,385.61	(129.75)	(2.35%)
Fullerton	5,557.24	5,832.24	5,424.57	(132.67)	(2.39%)
Huntington Beach City	5,526.41	5,801.41	5,395.89	(130.52)	(2.36%)
La Habra City	5,529.81	5,804.81	5,399.05	(130.76)	(2.36%)
Magnolia	5,535.06	5,810.06	5,403.94	(131.12)	(2.37%)
Ocean View	5,523.12	5,798.12	5,392.83	(130.29)	(2.36%)
Savanna	5,529.73	5,804.73	5,398.98	(130.75)	(2.36%)
Westminster	5,522.22	5,797.22	5,391.99	(130.23)	(2.36%)
<b><u>High Schools</u></b>					
Anaheim Union	6,648.36	6,978.36	6,490.57	(157.79)	(2.37%)
Fullerton Joint Union	6,683.76	7,013.76	6,523.50	(160.26)	(2.40%)
Huntington Beach Union	6,676.02	7,006.02	6,516.30	(159.72)	(2.39%)
<b><u>Unified</u></b>					
Brea-Olinda	5,783.92	6,071.92	5,647.49	(136.43)	(2.36%)
Capistrano	5,783.18	6,071.18	5,646.80	(136.38)	(2.36%)
Garden Grove	5,780.35	6,068.35	5,644.17	(136.18)	(2.36%)
Irvine	5,774.41	6,062.41	5,638.65	(135.76)	(2.35%)
Laguna	5,784.77	6,072.77	5,648.28	(136.49)	(2.36%)
Los Alamitos	5,931.12	6,219.12	5,784.40	(146.72)	(2.47%)
Newport-Mesa	5,833.90	6,121.90	5,693.98	(139.92)	(2.40%)
Orange	5,786.71	6,074.71	5,650.09	(136.62)	(2.36%)
Placentia-Yorba Linda	5,822.02	6,110.02	5,682.93	(139.09)	(2.39%)
Saddleback Valley	5,784.66	6,072.66	5,648.18	(136.48)	(2.36%)
Santa Ana	5,777.84	6,065.84	5,641.84	(136.00)	(2.35%)
Tustin	5,786.25	6,074.25	5,649.66	(136.59)	(2.36%)