

**Ross Valley School District
2012-13 Proposed Budget
Narrative**

State Budget

On May 14, 2012, the Governor released his May Revision to his proposed 2012-13 State Budget. This May Revision attempts to address the budget deficit which has grown since January from \$9.2 billion to \$15.7 billion for 2011-12 and 2012-13. Below is a narrative prepared by staff, as drawn from budget development guidance provided by the Marin County Office of Education that provides details regarding the more significant components.

The budget proposal will maintain programmatic funding at current levels, no increase is provided. The Proposition 98 formula provides new funding for schools, but it will be primarily used as follows:

- \$2.229 billion (\$2.1 billion K-12) to fund the new 2011-12 deferral
- \$2.555 billion (\$2.242 billion K-12) to pay down the cross fiscal year deferral credit card already on the books
- \$98.6 million increase in Special Education funding for mental health services to disabled students that backfills one-time Proposition 63 funding used in 2011-12

The cornerstone of this budget assumes passage of a new tax initiative proposed by the Governor, named the "Schools and Local Public Safety Protection Act of 2012". This initiative, if passed by the voters in the November 2012 election, would temporarily increase the slate sales tax by .25% until the end of 2016 and would increase the income tax rate by up to 3% on the state's wealthiest taxpayers for seven years.

The May Revision provides for 2012-13 "trigger reductions" of \$5.49 billion to K-14 education should the Governor's tax initiative not pass in the November 2012 election. These reductions would become effective on January 1, 2013. Based on Department of Finance (DOF) estimates, the impact on K-12 school districts apportionments (\$2.644 billion) would represent approximately \$441/ADA reduction to the revenue limit. Additionally, the \$2.555 billion (\$2.242 billion K-12) K-14 cross fiscal year deferral reduction would be reversed.

In an attempt to mitigate the loss of revenue limit funding, the May Revision allows more flexibility for schools districts by authorizing a reduction to the school year by up to 15 more days over 2012-13 and 2013-14 in addition to the 5 days currently in law (175 day year.) This means that any school district would be able to use any combination of days in 2012-13 and 2013-14 but the total of the days in those two years cannot exceed 15 days (i.e.: 8 days in 2012-2013 and 7 days in 2013-2014 for a total of 15 days over the two year period), in addition to current law which already allows the school year to be

reduced by up to 5 days each year. Once the 15 days have been used for the two year period of 2012-13 and 2013-14, this provision is eliminated and the statutes revert back to current law of 5 days per year (175 day year). This would have to be negotiated through the collective bargaining process.

The Governors proposal also includes a feature that would reorganize how funds are allocated to school districts. The "Weighted Student Formula" proposal shifts funds to school districts that have higher incidences of economically and socially disadvantaged students. Preliminary estimates indicate the Ross Valley School District would enjoy a funding increase under this proposal; however, conventional wisdom in Sacramento dictates there is little chance it will be part of the final state budget due to political considerations. In any case, if the November 2012 ballot measure fails this reform would not be implemented. Staff did not take this potential change into account when preparing the districts 2012-13 proposed budget, but will modify the budget accordingly should it be included in the final state budget.

Districts can plan for their 2012-13 transportation apportionment for home-to-school and Special Transportation education transportation. S8 81 restored the transportation appropriation. The May Revision now proposes to continue these allocations permanently to the school districts receiving them as revenue limit "add-ons" separate from the Weighted Student Formula (WSF). As a result, school districts currently receiving state funding for transportation would continue to receive allocations of a similar amount each year, but without restrictions on its use or requirements to maintain a minimum level of transportation services.

Lottery funding will be calculated in the same manner as prior years. The current projection for 2011-12 is \$118.00 per ADA (unrestricted) and \$23.75 per ADA (Prop. 20 restricted).

The May Revision has substantially changed the original Mandate Reimbursement Program proposals outlined in the January Budget. The January proposal to either eliminate or make permissive all state mandates has been withdrawn. The May Revision would provide funding to create a block grant funding allocation for K-12 schools. Funding would be based on ADA for school districts and would approximate \$28/ADA for 2012-13. The existing claiming process would be eliminated, thus providing that all school districts are reimbursed at the same rate for providing services for the same mandated requirements. The six highest cost mandates would be suspended until permanently repealed beginning in 2012-13. These would include: Graduation requirements for second science course; Behavior Intervention Plans; Habitual Truants; Notification of Truancy; Notification of Teachers and Pupil Discipline Records; and Pupil Suspension, Expulsion and Expulsion Appeals. The remaining mandates suggested for repeal in the January Budget will be suspended in 2012-13 until subsequent legislation is introduced to permanently repeal those activities. At this time it is recommended that school districts continue to adhere to all mandate requirements and budget revenue on a cash basis. Legislation would be required to eliminate any mandates.

S8 1381 changed the birth date for enrollment in kindergarten by moving the date for eligible age requirement from December 2 to September 1. Under current law these changes are scheduled to be phased in over three years as follows:

- Eligibility by November 1 for 2012-13
- Eligibility by October 1 for 2013-14
- Eligibility by September 1 for 2014-15

This bill mandated a Transitional Kindergarten Program for students displaced as a result of the changes in eligibility birthdates. School districts are currently eligible to collect ADA for these transitional kindergarten students. Under current law, school districts may not receive ADA funding to serve a four year old unless that child has his or her fifth birthday according to the appropriate phase-in period noted above. Children admitted during the school year who do not meet the phase-in period criteria may only be enrolled on a case-by-case basis upon having attained the age of five. The May Revision continues to propose the elimination of the requirement that school districts provide transitional kindergarten instruction beginning with the 2012-13 school year. Both the Senate and Assembly budget subcommittees rejected the Governor's proposals to eliminate Transitional Kindergarten. The Ross Valley School District is planning to operate a ½ day Kindergarten class as a contingency to accommodate these students.

The Governor is proposing that virtually all categorical programs, including K-3 CSR and Economic Impact Aid (EIA), be moved into "Tier III" categorical flexibility in 2012-13. The exceptions are Special Education, QEIA, Child Nutrition, Proposition 49 After-School, and preschool (Federal Programs are outside the purview of the stale legislative action). Should this flexibility not be enacted, most of the temporary flexibility provisions were extended to June 30, 2015 with the exception of the K-3 Class Size Reduction reduced penalty provisions. The flexibility provisions for the CSR reduced penalties expire on June 30, 2014 instead of June 30, 2015. Because CSR may be folded into the Weighted Student Formula, the county office advises districts to consider the extension of Class Size Reduction (CSR) to June 30, 2015. This advice assumes that either the Weighted Student Formula occurs or the extension of Tier III flexibility date for CSR.

Cash Flow Deferrals

The Governor's 2012-13 January Budget proposed an increase of \$2.1 billion in Proposition 98 funding for the purpose of reducing ongoing K-12 school district revenue limit deferrals. The May Revision proposes to reduce those deferrals by an additional \$140 million for a total of \$2.24 billion. The pay down of 2012-13 deferrals only takes place if the tax initiative is successful. If the tax initiative is unsuccessful, there is no change to the existing cross fiscal year cash deferral schedule.

District Budget

At the local level, staff has prepared the proposed 2012-13 district budget with the guidance identified above. Key budget assumptions are identified on the attached list,

including local impacts of student enrollment changes, staffing allocations, step and column salary schedule costs, school and department operational allocations, parcel tax and foundation revenue projections and reserves.

The 2012-13 budget includes a structural surplus of \$683,066, but this amount assumes a successful passage of the statewide school funding ballot measure in November 2012. If this measure were to fail, Ross Valley School District can expect to lose \$969,931 in state funding in January 2013. This would result in a structural deficit, and a cumulative loss of \$2.99 million in funding over the next three years. For this reason, the budget includes a reserve to provide a contingency for the potential funding loss.

State apportionment cash deferrals continue, including the risk they may some day be made permanent. To this end, staff included a \$2,125,896 reserve for the projected deferral for the 2012-13 year, assuming the ballot measure fails in November.

Finally, a Special Education and Mental Health Services reserve of \$150,000 has been provided for unexpected but not uncommon increased costs for special education placements and a new state-mandated mental health services program to be implemented during next school year.

The budget also includes the state required Economic Uncertainty Reserve of 3% of budgeted expenditures and other outgo.

A multi-year financial projection has also been prepared with the above noted assumptions. Flat funding is assumed throughout the projection period; nonetheless, a structural surplus continues each year. However, the reserve for state apportionment cash deferrals has been reduced each year to “make room” for the compounding effect of the reserve for the potential failure of the November 2012 state ballot measure, reducing it to \$1.2 million by the 2014-15 year.

Budget Reductions

Budget reductions for 2012-13 or the following year are not recommended at this time; this recommendation will be revisited after the outcome of the November ballot measure is known. Staff also recommends waiting until after the November 2012 election before considering any program restoration, expansion or other discretionary expenditures.

Next Steps

The state legislature has until June 15 to send the Governor a budget for his signature, and he has until June 30 to sign it, as adjusted should he choose to delete any specific items with his line-item veto authority. There is every expectation that both will occur on time.

The school board will hold a public hearing at its June 19, 2012 meeting, and then adopt the budget thereafter at the same meeting. The budget must be submitted to the Marin County Office of Education by June 30, 2012.