

Impact of the state budget on the Santa Barbara School Districts Budget Facts



Revised
March 26, 2009

Background

The current California budget crisis will result in at least \$2.8 million in reduced revenue to our districts in school year 2009-10. The repercussions are serious and we are preparing for any number of budget cuts that will need to be made in April. Unfortunately, this situation is not new, as evidenced in the list of budget cuts our elementary and secondary districts have endured over past decade.

In anticipation of budget cuts in school year 2009-10, the staff in our business office focused on positioning our elementary and secondary districts for the difficult times we anticipated would be coming. Last year, a Fiscal Recovery Plan was developed and \$4.1 million cuts were made to our districts budget. School districts are required to maintain a three percent reserve and our focus was to shore up the reserves to help us weather the storm that we saw on the horizon. Fortunately, we ended the 2007-08 fiscal year with a combined unrestricted reserve of 7.61 percent, making last year's fiscal recovery ostensibly complete. As our elementary and secondary districts continued to tighten their belts, the state's budget teetered on the verge of collapse because of a decline in the housing market, decrease in retail sales revenues, and increase in expenses. California's budget crisis would soon ripple through the economy.

In October, we reported that the state had to attack the budget problem quickly and aggressively, making permanent improvements through major programmatic reductions and revenue increases. In February 2009, after months of political gridlock, a budget deal was finally brokered by the California Legislature and signed into law by the governor. This 17-month state budget plan addresses a \$41.6 billion budget deficit through reduced spending, increased taxes and internal and external borrowing. The final version of the plan contains both mid-year cuts to education and cuts for the next budget year. The plan is as follows:

Current year cuts (2008-09)

At the state level, total cuts to grades K-12 in the current year would be about \$2.3 billion, with the .68 percent cost-of-living adjustment being repealed and a further cut to revenue limits of \$944 million [**about \$160 per average daily attendance (ADA) or about \$2.2 million for our districts, far less than the \$4.3 million originally envisioned in the governor's December budget proposal**]. In addition, there would be a separate \$944 million cut to certain categorical programs. Categorical programs are treated differently by being considered three separate ways:

Tier 1: Programs that will receive no cuts and are not subject to program flexibility

Included in this category are Economic Impact Aid, child development Cal-SAFE and Preschool For All, Quality Education Investment Act (QEIA), K-3 class size reduction (K-3 CSR), special education, home-to-school transportation, Proposition 49 after school programs, and child nutrition.

Tier 2: Programs that will be subject to a 15 percent cut, but are not subject to program flexibility

Included in this category are adults in correctional facilities, apprenticeship programs, English Language Acquisition Program, Foster Youth, K-12 High Speed Network, partnership academies, state testing, agricultural vocational education, charter school facility grants, and multi-track year round education.

Tier 3: Programs that are subject to a 15 percent cut and are subject to the program flexibility provisions

Everything not listed above is included in this category.

In the elementary district, Tier 3 programs include: pupil testing (STAR, CELDT, etc.), supplemental hourly programs, deferred maintenance, physical education teacher recruitment grants, Community-based English Tutoring (CBET), school safety block grants (Carl Washington), Arts and Music Block Grant, Gifted and Talented Education (GATE), instructional materials fund, Professional Assistance Review (PAR), Professional Development Block Grant, Targeted Instructional Improvement Block Grant, School and Library Improvement Block Grant, Discretionary Block Grant, education technology and instructional materials.

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In the secondary district, Tier 3 programs include: pupil testing (STAR, California High School Exit Exam, CELDT, etc.), California High School Exit Exam intervention grants, counselors for grades 7-12, Arts and Music Block Grant, Gifted and Talented Education, instructional materials fund, PAR, Pupil Retention Block Grant, Professional Development Block Grant, Targeted Instructional Improvement Block Grant, School and Library Improvement Block Grant, Discretionary Block Grant, ninth-grade English class size reduction, and supplemental hourly programs.

Also included in the flexibility provisions is the ability to tap into 2007-08 ending balances for use in the current year and 2009-10. The districts would also be able to reduce their contribution to routine restricted maintenance to one percent, and the dollar-for-dollar matching contribution to the deferred maintenance fund is suspended.

Budget year cuts (2009-10)

There will be no cost-of-living adjustment (COLA) provided in 2009-10 to revenue limits and categorical programs. Additionally, there will be \$265 million in cuts to the revenue limit (**about \$45 per ADA or \$616,995 for our districts versus the \$2,111,494 originally envisioned in the governor's December proposal**) and another across-the-board cut to categorical programs of \$265 million. The cuts to categorical programs will be allocated in 2009-10 the same way as in the current year (see current year reference above) and will amount to an additional cut of about five percent. Additionally, the budget eliminates the high priority schools. **The combined 2008-09 and 2009-10 revenue loss to the budget is far less than the \$6.1 million originally envisioned in the governor's January proposal. Nonetheless, the revenue loss is still a challenge for our districts to manage.**

SBSD Budget Cuts	
June 2008	\$4.1 million
April 2007	\$2.5 million
2003-04	\$1.4 million (elementary) \$2.4 million (secondary)
2002-03	\$900,000 (elementary)
2001-02	\$500,000 (elementary)
2000-01	\$350,000 (elementary)

Steps taken to weather cuts to school funding

State gives school districts options for expenditure reductions

Under the Tier 3 flexibility proposal, the State Budget Act gave local school districts the latitude to use previously restricted funds for unrestricted purposes, including offsetting budget cuts at the local level. Included in the list are such programs as supplemental counseling, Arts and Music Block Grant, instructional materials, and Discretionary Block Grant.

Passage of a four-year parcel tax

On November 4, 2008, we asked voters to pass Measure H2008, a four-year, \$23 per year, parcel tax to support student achievement and high-quality instruction in grades 7-12. The measure passed and funds will be used to supplement math, science and technology education; supplement music, arts and theater programs at the junior

high level; supplement foreign language at the secondary level; and restore ninth-grade math class sizes. *The state cannot touch the funds and every dollar will stay in our schools.*

Also on the ballot was Measure I2008, a four-year, \$27 per year, parcel tax to support student achievement and high-quality instruction in grades K-6. The measure passed and funds will be used to supplement math, science and technology education, as well as offer classroom music programs. *The state cannot touch the funds and every dollar will stay in our schools.*

Preparing for economic uncertainties

In response to the state's budget crisis, on January 21, 2009, we instituted the following measures:

- spending freeze on all general fund expenditures, including funding for state categorical programs;
- freeze on overtime and extra time;
- identification of vacant positions that can be left unfilled;
- replacement of only those positions that are deemed mission critical by the Superintendent's Cabinet;
- dialogue with both employee associations regarding the state's fiscal condition and its implications for our districts;
- meetings with stakeholders to discuss the budget crisis and solicit input on how to reduce expenditures and increase revenues.

Also included in the flexibility provisions is the ability to tap into 2007-08 ending balances for use in the current year and 2009-10.

Reducing unnecessary absences

We will continue to work with parents regarding the importance of school attendance. When a child misses school unnecessarily, the loss is felt in two ways. First, in order for a child to be as successful as possible in school, it is essential that he/she be in class every day. There is a great deal to accomplish in our 180-day school year that

unless a child is sick or unable attend for other valid reasons, we expect every child to be at school, on time, and ready to learn. Second, absence rates do indeed affect school finances. Most sources of money that come to schools are based on student attendance numbers. In 2004-05, the districts lost over \$3 million to student absences.

Changing the districts' funding model: basic aid versus revenue limit

The Santa Barbara Elementary and High School Districts have long received revenue limit funding, as described below. Because of the state's reduction in school funding, enrollment changes, and local property taxes projected to increase at a rate of two percent annually, basic aid is now considered a feasible option for the Santa Barbara Elementary School District for school year 2009-10.

In Santa Barbara County there is a significant amount of funding disparity between school districts that are revenue limit funded as compared to those districts that are basic aid funded, as is evident in the Revenue Limit Per Student table (refer to the table on page 4). The Santa Barbara School Districts are now surrounded by basic aid school districts (as of 2007-08). A shift to basic aid, particularly as the years go on, is expected to have a significant, positive impact on the amount of revenue available per student in our elementary district. The Santa Barbara High School District, serving grades 7-12, is not yet eligible for basic aid. However, it is projected to become a basic aid district in about 4-5 years.

About revenue limit funding and basic aid funding

from EdSource http://www.edsource.org/iss_fin_sys_revlimits.html

Revenue Limit Funding

Public school districts receive funding from a variety of local, state, and federal sources. Some of the funds are earmarked for specific purposes, such as special education and K-3 class size reduction, while the rest are for general purposes.

The amount of general purpose funding a school district receives per student (using ADA—average daily attendance) is called its "revenue limit." It is a combination of local property taxes and state taxes. Each of the nearly 1,000 school districts in California has its own revenue limit based on its type (elementary, high, or unified), size (small or large), historical spending patterns, and a multitude of other variables, which together make for a complicated and lengthy formula.

The bucket analogy

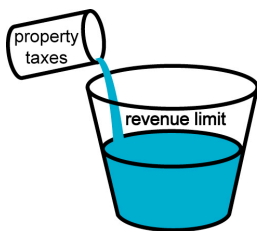
State and local funds are combined to make up a district's revenue limit funding. A simple analogy can help illustrate this.

Imagine a bucket.

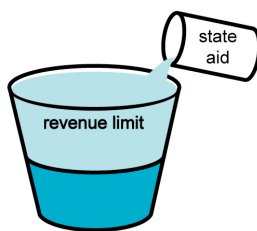
Each district has a different-sized bucket, representing its individualized revenue limit. Revenues raised through local property taxes are dumped into the district's bucket, and if the bucket is not filled all the way, the state comes by and tops it off with state tax revenues.

Revenue limit district funding

Money from local taxes



Money from the state

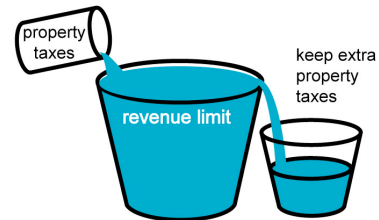


Basic Aid Funding

If the bucket is completely filled by local property tax revenues, the state has no need to "top off" the bucket. If the bucket overflows with local property taxes, the district gets to keep the overage. Districts whose buckets are filled by local property taxes are called "basic aid" or "excess revenue" districts.

Basic aid district funding

Money from local taxes



In the past, the state also gave these districts with high property taxes an additional \$120 per ADA (or \$2,400 per district—whichever was greater). The California Constitution says that the state should contribute this additional money to fulfill its constitutional guarantee to provide all public schools with "basic aid." However, because of budget constraints in 2002-03, lawmakers decided to eliminate the \$120, saying that the state met its constitutional obligation to these districts with other state funding from categorical programs. Based on local property tax revenues, each year there have been from about 60 to 80 "basic aid" districts out of a total of almost 1,000.

Because local property tax revenues and enrollments fluctuate from year to year, some districts are basic aid one year but not the next. At the time of the second principal apportionment (which is made in June), the California Department of Education officially certifies which districts are basic aid for the current school year.

Interdistrict transfers

Faced with the prospect of having to make multimillion dollar budget cuts that would impact more than 5,500 elementary students and result in the potential layoff more than two dozen teachers, on February 24, 2009, the districts' board of education made the difficult decision of stopping interdistrict transfers into the Santa Barbara Elementary School District. The decision will affect 181 current students who attend one of our district's elementary schools but reside outside our district's boundaries.

Revenue Limit Per Student			
Santa Barbara County, FY 2006-07; Source: Ed-Data http://www.ed-data.k12.ca.us			
School District	Basic Aid	Enrollment	Revenue per Student
Montecito Union Elementary	X	420	\$18,821
Vista del Mar Union	X	93	\$16,031
College Elementary	X	436	\$12,945
Cold Spring Elementary	X	199	\$11,683
Ballard Elementary	X	112	\$10,685
Casmalia Elementary		13	\$9,376
Cuyama Joint Unified		283	\$8,567
Santa Ynez Valley Union High	X	1,127	\$8,100
Buellton Union Elementary		661	\$5,235
Blochman Union Elementary		276	\$7,159
Los Olivos Elementary		535	\$7,093
Goleta Union Elementary	X	3,525	\$7,002
Santa Maria Joint Union High		7,600	\$6,429
Santa Barbara School Districts combined elementary and secondary districts		14,334	\$6,014
Hope Elementary		1,273	\$5,960
Lompoc Unified		10,791	\$5,702
Solvang Elementary		557	\$5,661
Carpinteria Unified		2,660	\$5,590
Santa Maria-Bonita Elementary		12,911	\$5,515
Orcutt Union Elementary		4,750	\$5,345
Guadalupe Union Elementary		1,120	\$5,310
Los Alamos Elementary		237	\$5,238

Note: Hope Elementary and Carpinteria Unified school districts became basic aid districts in 2007-08.

The board's decision will deny interdistrict transfers beginning fall 2009, except for 2009-10 sixth-grade students who are currently enrolled as interdistrict transfer students, their siblings who are currently enrolled in the elementary district (until the end of the 2009-10 school year), and children of district employees.

It is currently projected that the change would transition the elementary district into basic aid status. The transition to basic aid will increase revenue and decrease expenses for a total of over \$600,000 for the elementary district. The elementary district's financial position is expected to improve dramatically as property tax values increase over time.

The move will also require about nine teacher layoffs, far fewer than would be required to bring a similar amount of money to the elementary district through a dramatic increase in K-3 class sizes alone. However, a small class size increase in K-3 classes may still be necessitated.

Questions and answers

Q. What is the districts' budget?

A. The Santa Barbara Elementary and High School Districts have a \$120 million general fund.

Q. Do the Santa Barbara Elementary and High School Districts have a financial reserve?

A. Both of our districts are required to have a minimum three percent financial reserve. As of March 2009, the combined financial reserve of our elementary and secondary districts is approximately 7.61 percent, as of second interim.

Q. How is the spending pattern tied to the plan to increase academic achievement?

A. Our spending freeze and budget reductions have not affected our first and most important goal: academic achievement.

Our mission critical objectives are considered with all decisions that impact budget reductions.

Q. What kinds of cuts can we expect?

A. A Fiscal Solvency Plan, based on the input from our Business Office and stakeholders, will be taken to the board of education on April 14 (first reading) and again on April 28 (second reading).

The plan is currently under development.

Budget Reduction Timeline for 2008-09	
Dec 9, 2008	First Interim Budget report presented to the districts' board of education
February	Superintendent visits all campuses to meet with staff on the budget and asks for their budget-cutting suggestions.
February	Superintendent's Cabinet identifies spending reduction recommendations.
March 1	Certificated management employees notified of potential layoff.
March 10	Second interim budget report; board votes on resolution to reduce teaching staff.
March 15	Certificated employees notified of potential layoff.
April 13	Classified and classified management employees notified of potential layoff.
April 14	Fiscal Solvency Plan: public hearing and first reading.
April 15	P2 reporting period determines districts' fundable enrollment for the coming school year.
April 28	Fiscal Solvency Plan: second and final reading
June 9	Board review of preliminary 2009-10 budget and updated multiyear projections.
June 23	Board of education adoption of 2009-10 final budget.

Q. Are the districts considering layoffs?

A. We value our employees and recognize their integral roles in our schools but we must consider layoffs. We appreciate staff's dedication and commitment to creating and maintaining successful programs and services for all students in and out of the classroom. Schools are people-rich institutions and 84.33 percent of the budget is tied up in wages and benefits. That means 84 cents of every dollar in the Santa Barbara School Districts is spent on people, making it difficult to balance the budget solely on the remaining 15 percent of the budget. Every step is taken to avoid laying off employees. We recognize that layoffs have a major impact on all employees and their families and they affect staff morale.

The daily delivery of education to 16,000 students in pre-kindergarten through grade 12 happens because 2,700 full- and part-time employees bring valued skills necessary for student achievement. In addition to more than 900 teachers, our aides, custodians, nutrition services, clerical, facilities and maintenance, counselors, psychologists, school safety, nurses, and campus and district administration personnel work diligently to create an environment where all students can excel.

Unfortunately, layoffs must be considered because of declining enrollment, decreased state funding for schools, loss of funding for special programs, loss of staffing due to returning interdistrict transfer students in the elementary district to their district of origin,

potential class size increase, possible Tier III reductions based on the state budget, and other possible budget cuts in April. The state budget crisis requires that school districts prepare for any number of possible contingencies, including the issuance of preliminary certificated (e.g., teachers, counselors) layoff notices and reductions of other staffing services. According to law, we are required to send out layoff notices in early March to staff whose services **might** not be needed, without knowing what cuts will be made at the end of April and without knowing what changes may be made in the state budget in May. We are required to follow the state-imposed budget reduction timeline and plan for the worst case scenario.

On March 10, the board of education had to make personnel reductions in particular kinds of services, triggering layoff notices to elementary and secondary teachers. Faced with a extremely difficult decision, the board had to take action to protect the districts' fiscal solvency.

Experience tells us that staffing needs change as other certificated staff retire or leave the districts. Our Personnel Department focuses on projecting staffing needs and constantly monitoring the status of staff layoffs, resignations, and departures in order to determine if and when layoff notices can be rescinded.

Q. What criteria is used in deciding layoffs and what is the process ?

A. Layoff notices for certificated employees (e.g., teachers, counselors) are based of the following criteria:

- * employee status (probationary, permanent)
- * credentials held
- * level of seniority
- * courses taught

On March 10, 2009, prior to the March 15 legal deadline, the board of education issued 65 precautionary reduction-in-force (RIF) notices to probationary and tenured teachers based on the worst-case budget scenario [only 55 notices were issued due to positive attrition, such as voluntary retirements or resignations of permanent teachers]. Those who received RIF notices have the right to a hearing to determine if they should be laid off. Meanwhile, the districts' Personnel Department makes every effort to gather information about other employees who intend to retire or leave the district so that those job openings can be taken into account as staffing needs for the fall are determined. As vacancies are identified, reduction-in-force notices are rescinded.

Q. Are the districts “top-heavy” with administrators?

A. In a 2004-05 comparison of administrative ratios, the Santa Barbara School Districts had 2.2 district office administrators and coordinators per 1,000 students. This included administrators, coordinators, and staff directly assisting them. By comparison, the state average was much higher at 5.1 administrators, coordinators, and staff. The national average was higher still at 5.8. Similar data from Ed Source, based on the 2007-08 school year and comparisons to similar districts, again showed our districts’ administration behind state averages and behind averages for all but Napa Valley for similar school districts. A third comparison was taken from 2007-08 California School Information System data that only included district administrators at the director level or higher. Again, Santa Barbara School Districts had the fewest number of administrators of all similar districts.

Although we have added a few administrative positions since 2004, our administrative team is still behind similar school districts and state averages for both directors-and-above positions and for all administrative positions, including coordinators. Only one school district, Napa, had fewer overall administrators, but Napa has more director-and-higher level positions.

Q. Will class size reduction in grade K-3 be affected?

A. We will not have an answer until after the April board meeting.

Q. If the district increases class sizes, can they be reduced at a later time when economic conditions improve?

A. Yes.

Q. Does basic aid impact the taxpayers?

A. No. Basic aid doesn’t have any impact on taxpayers or specific programs, but it does change the way that dollars are routed and it can impact the amount that a school district has to operate.

Q. Can we charge parents tuition?

A. No. Public schools cannot charge fees for elective, compulsory, co-curricular or extra-curricular classes.

Q. Do we charge money for interdistrict transfer students?

A. No. Public schools are not permitted to charge interdistrict transfer students or their home district, even if the student’s home district receives a greater amount of revenue per student than the Santa Barbara School Districts.

Q. How will the decision to stop interdistrict transfers affect charter school enrollment?

A. There is no identified affect at this time.

Q. How long can we expect this economic downturn to continue?

A. We are closely monitoring the shifting sands created by the current economic crisis felt at all levels of government and spreading globally.

We have weathered difficult economic times and the job is going to get harder as the state struggles with the economic downturn. The state has not been able to find banks willing to lend money on a short-term basis to meet cash flow and state revenues are down. Compounding the problems are thousands of housing foreclosures each week, which are diminishing one of the state’s important revenue streams.

In the Santa Barbara School Districts we have been planning around the state budget crisis for the past year and we adopted a budget last June with the expectation that the budget crisis will continue for a number of years to come. At this time, we are preparing for 24-36 months of prolonged economic downturn.

A message from the superintendent

The superintendent and deputy superintendent have been listening to parents, community members, and school site staff to solicit input on how to best weather this crisis. Superintendent Brian Sarvis stated, “We are optimistic that by engaging in a collaborative process with all of our stakeholders and carefully planning for the future we will manage this crisis rather than have it manage us.”

Q. With the precarious nature of state funds for education might there be any new federal funds to support our schools?

A. We are very hopeful that we will receive funds from the recently passed American Recovery and Reinvestment Act, part of the education-related section of the federal stimulus package.

Signed by President Obama on February 17, 2009, the Act contains provisions for early childhood (including pre-kindergarten) through grade 12.

We await further details.

