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Date: June 8, 2010
To: Board of Trustees
From: Justin Frese, Deputy Superintendent
Subject: 2010-11 Proposed Budget

Please find attached the 2010-11 Budget for your approval.

May Revise Overview

At this time it is not clear what the State budget will hold for education in the coming year. Both the Legislative Analyst's Office and the Governor's Department of Finance are forecasting a weak but improving economy. There are three issues we are watching closely as the State continues to wrestle with balancing the budget:

Negative COLA

The most recent Governor's proposal includes a -.39% Cost of Living Adjustment for 2010-11. There is some question as to whether or not the final State budget will include a negative COLA and if so, how it will be applied. At this time Sonoma Valley Unified School District is planning on this reduction for all state categorical programs.

Additional State Cuts

The Governor's May Revision included an additional 3.85% reduction to Revenue Limit districts. In past years, these reductions have been followed with "fair share" language for Basic Aid districts, but it is not clear at this time if this will happen again.

The Governor's office has acknowledged that Basic Aid districts are already taking a serious cut to their local taxes, but this offers no assurances that an additional cut is not coming. Until such time as it is clear that there will not be a fair-share payment for the new 3.85% cut, the District is continuing to budget for a \$1,105,000 ongoing cut from the State. This is in addition to the \$1,699,000 payment to be made in 2010-11 from the last round of State cuts.

Timely and Accurate Budget

Over the last few years, Sacramento has been consistently late in adopting a State budget. This year, it is anticipated that the budget will be approved on time or nearly so. The real concern is whether or not the State will have to go back and revise the budget in the fall when revenues begin to come in.

According to a June 4, 2010 Fiscal Report from School Services of California (SSC), the risk of mid-year cuts remains because:

1. The revenues could fall short due to a “double dip” recession.
2. Budget savings may not materialize.
3. Caseloads could be higher than projected.
4. Federal or other special revenues could fall short.
5. Any combination of these factors.

Local Taxes

As a Basic Aid District, Sonoma Valley is predominantly funded on local tax dollars. Over the last few years the growth in tax revenue has dropped off precipitously. Since 1983, taxes have grown an average of 8.5%. This average compares starkly to last year’s actual tax growth of 2%. Additionally, the county recommends planning for a tax drop of 1.94% for next year.

We believe that budgeting for a tax drop is too conservative and are continuing to hold tax estimates for 2010-11 at 2% growth. Sonoma Valley is in a position to be more aggressive on tax growth estimates because funds in previous years have been set aside as a tax reserve. For the 2010-11 school year, the District anticipates a tax reserve of approximately \$985,000.

State Flexibility

As was the case last year, the State is continuing to give districts tremendous flexibility with many categorical programs, allowing us to be more creative in the use of these funds to keep essential programs going. We will continue to use whatever flexibility given to us to ensure that we remain solvent and that programs continue as uninterrupted as possible.

Part of the requirement to use this flexibility is that a public hearing be held to discuss these uses. The CDE has let us know that the regular public hearing for the adoption of the budget meets this requirement and that there is not a need for a second hearing. This is the same process that we used last year to meet this requirement. Attached is a form that delineates the affected programs. While we believe this extra step is not legally necessary, it will ensure we are fully compliant with the requirements. You will notice that the proposed uses for every program are listed as “any educational purpose”. This keep our options open.

One-Time Federal Funds

In 2009, when large state budget cuts were being made to education, Sonoma Valley Unified received \$1,125,000 of one-time Federal SFSF funding. About the same time as these funds were being allocated to school districts, Sonoma Valley’s funding status shifted from Revenue Limit to Basic Aid. Because Sonoma Valley was Basic Aid, it was understood that we were not eligible for these funds and would have to return them.

It has recently come to our attention that we may be able to keep these funds. We will be working with the California Department of Education to get clarity around this issue. I will keep you informed as more information becomes available.

Deficits and Ending Balances

Below is the most recent ending balance projection for the next three years. This does not reflect additional reductions that will have to be considered for the 2011-12 school year. Also keep in mind

that the 2009-10 ending balance estimate is based on the current budget. The actual ending balance will be known in September once the books are closed, and will almost assuredly be larger because of the mid-year soft spending freeze implemented last winter.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Beg. Balance	\$3,024,000	\$3,147,000	\$1,499,000
Add /<Deficit>	\$123,000	<\$1,648,000>	<\$1,261,000>
Ending Balance	\$3,147,000	\$1,499,000	\$237,000

Conclusion / Next Steps

It is my recommendation that the Board of Trustees approve the attached 2010-11 Budget as presented. Please keep in mind that this budget is only a snapshot in time, and there may be changes needed once the State's budget is known. If there are substantive changes needed based on the State budget, I will bring these back to the Board in August.

At the September 2010 Board Meeting, I will present to the Board a proposed budget cut process to consider for the 2011-12 School Year. The goal will be to gather feedback in September and have the Board of Trustees approve the process at the October 2010 meeting.

Please let me know if you have any questions.