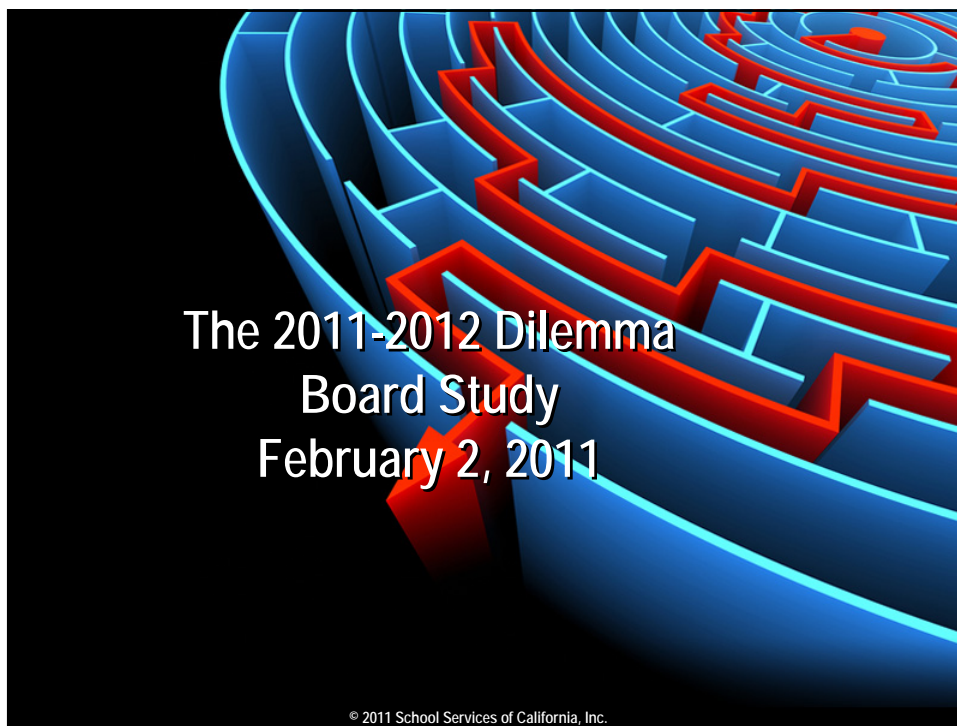


Excerpts From: Governor's Proposals for the 2011-12 State Budget and K-12 Education



U.S. Economic Outlook

- While the "Great Recession" is officially over, lasting 18 months from December 2007 to June 2009, strong economic growth remains elusive
 - U.S. unemployment rate is 9.4% – down from 9.9%
 - Third quarter U.S. Gross Domestic Product (GDP) was just 2.6%
 - Housing starts are one-third of their prerecession levels
- But some positive developments point to better times ahead
 - The stock market has risen significantly, reflecting investor optimism
 - Individuals are saving more and lowering their debt
 - Inflation is nonexistent
 - Corporations and banks are awash in cash

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California's Economic Outlook

B-5

- 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, however, expects the labor market to be a continuing challenge
 - Payroll employment is not projected to reach prerecession levels until 2016, eight years from the beginning of the recession

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Risks to the Budget Proposal

B-24

- Flat funding for K-12 education is dependent upon voters approving the extension of the current temporary taxes
 - The Legislature must place this proposal on the ballot, requiring two-thirds vote in each house
 - Two Republicans in each house must agree – will be a tough sell!
 - Voters may turn this down even if it gets on the ballot
- Legislature must approve shifting special funds (Proposition 63 for mental health and Proposition 10 for First 5 Program)
 - Two-thirds vote is required
- The Legislature must approve the local government realignment proposal and place the tax extension proposals on the ballot to pay for realignment

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Budget Contingency Plan

B-26

- The Governor's Budget assumes that the temporary taxes are extended by the voters for five more years
- The Budget also proposes that additional reductions be made in the event that the tax extensions are not approved
- This leaves schools in a position of needing at least two plans
 - Option 1 – flat funding – continues the funding level contained in the enacted Budget for 2010-11 into 2011-12
 - Option 2 – a \$2 billion reduction in funding – results in a loss of about \$330 per ADA for the average district
 - Districts will need to plan for both eventualities until the fate of the tax extensions is determined
- Additionally, economic changes between now and enactment of the 2011-12 Budget could also cause a revision, up or down

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What Does it Mean to be Protected?

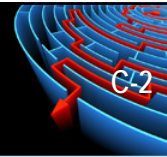
B-27

- The Governor featured "protecting education" as a major theme
 - He acknowledged that education had taken the brunt of past cuts
- Protection isn't perfect, but it does mean:
 - No midyear cuts to school agencies for 2010-11
 - Minor additional reductions for 2011-12, if the tax extensions pass
- But it also means that we will have to fight for funding if the tax extensions do not pass
 - We think, in light of past cuts, education should be protected whether the taxes pass or not
- So, while there is room for improvement, the protection offered is better than we have had during the past three years – as long as the taxes pass

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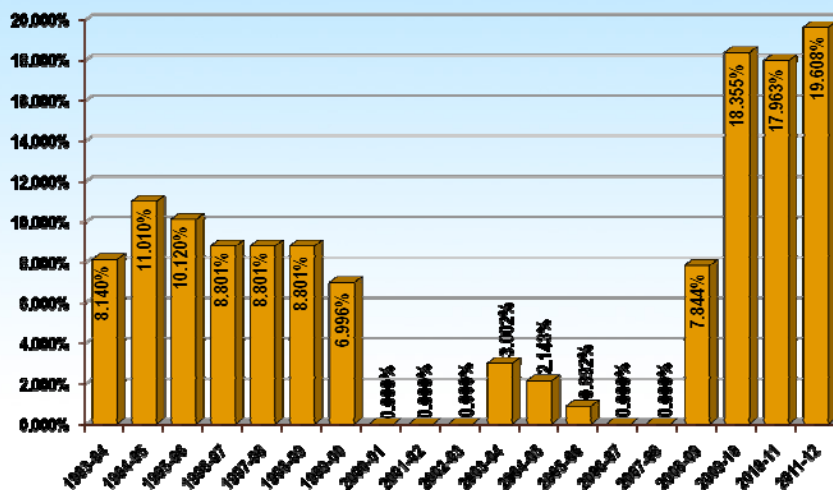
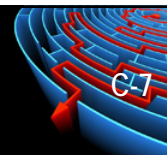
The Proposition 98 Dilemma



- According to the LAO, the Proposition 98 guarantee falls to \$47.5 billion in 2011-12 from \$49.7 billion in the current year
 - The expiration of temporary taxes drives down the guarantee
 - In addition, baseline cost adjustments (enrollment growth, cost-of-living adjustment [COLA], and backfilling the one-time deferral savings) would require an additional \$3.2 billion
- The Governor's Budget proposes *flat funding* for K-12 education *if* the temporary taxes are extended
 - The Legislature has the authority to extend the taxes; however, the Governor is calling for voter approval instead
 - A June 2011 ballot measure is proposed

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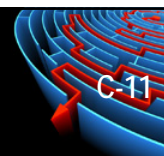
Revenue Limit Deficit Factors



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Deficit Factor Cuts Funding Below 2010-11



- The deficit factor establishes the funded base revenue limit
 - If the deficit factor is unchanged from one year to the next, the statutory COLA is fully funded
 - If it is reduced, the statutory COLA is fully funded, plus an additional amount is funded to reverse prior-year cuts
 - If it is increased, the statutory COLA is not funded and an actual year-over-year cut is imposed

The Governor's Budget does not fund the statutory COLA and imposes an additional cut of \$19 per ADA, on average

- This reduces revenue limit funding by roughly \$113 million below the 2010-11 funded level

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