

Alum Rock Union Elementary School District

Board Special Meeting February 6, 2012 Budget Study Session

Presented to Board of Trustees:

- Esau Ruiz Herrera, President
- Darcie Green, Vice-President
- Scott Hung Pham, Clerk
- Dolores Márquez, Member
- Frank Chávez, Member

Presentation Items

- Preliminary Budgeting Concepts
- 2011-12 Budget Recap
- 2012-13 Governor's Proposed Budget
- Why is Education Flat Funded?
- Impact on ARUESD
- Multi-Year Budget Overview as of January, 2012
- Local ARUESD Risks
- ARUESD Historical Perspective

Preliminary Considerations: Multi-Year Projections

Q - What are "Multi-Year Projections" and why does the district's budget include multi-year projections?

A – Under the Education Code (Section 42131) all California School Districts must be able to show that they have a sound financial plan in place that will assure fiscal solvency in the current year plus the next two years. In other words districts need to be able to demonstrate that they will be able to meet all of their financial obligations **over a three year period**. This is accomplished by preparing a "Multi-Year Projection" report that shows our projected revenues and expenditures for the current year and each of the next two years. If a school district is not able to show that it will have a positive ending fund balance for current and next two fiscal years then there are varying degrees of consequences including, among other things, restrictions on borrowing and stricter local (SCCOE) or state oversight or control.

Preliminary Considerations: “Deferrals”

Q - What does "deferred revenue" or “deferrals” refer to and why should the district be concerned about it?

A - The state of California, like school districts, is experiencing a cash flow problem. One way the state is dealing with it is by slowing down (deferring) the rate at which our revenue is paid to us. In other words, they are taking care of their cash flow problem by delaying, or “deferring” until a subsequent year, monies that they owe to school districts, including ARUESD.

Preliminary Considerations: “Ending Fund Balance”

Q - What does the Ending Fund Balance include?

A - The Ending Fund Balance consists of:

- Legally Restricted Funds (categorical carryovers)
- Set asides for Encumbrances
- Reserve for Economic Uncertainties
- Unassigned Fund Balance – available for Board determination

Q – Is the Ending Fund Balance available to be spent?

A - Ending Fund Balance is **not the same as Cash**; it includes State Deferrals and Other Receivables.

Can the District budget anyway it chooses?

- Education Code section 35035(g), 42127, 42130 and 42131
 - The Governing Board of each school district is to **certify that the district has the ability to meet its financial obligations** for the budget year and for the subsequent two fiscal years (multi-year projections)
- Fund Balance Reserves – **standard 3% for Economic Uncertainties**
 - Per Santa Clara County Office of Education, “it is more critical than ever to strive to maintain higher levels of reserves for cash-flow purposes. We remind [Alum Rock] district that a state loan is only caused when a district exhausts cash and does not have any other borrowing options. A positive fund balance is irrelevant.”

Budgetary Constraints

- District must prepare budget for 3 years based on strict guidelines from Santa Clara County Office of Education regarding projected COLA and other budget assumptions provided by the Governor's Proposal, and local budgetary constraints
- Revenue Limitations:
 - Contributions to mandated programs reduce available funds
 - 11% transferred to Transportation and Special Ed funds due to underfunding in these mandated programs
 - 2% of total General Fund is transferred to Routine Restricted Maintenance fund as required per Education Code section 17070.75
- Expenditure projections must be based on current staffing levels and existing programs

2011-2012 First Interim Budget

* 2012-13 and 2013-14 projections were based on budget factors as of December, 2011

	2011-12 Revised Adopted Budget	2011-12 First Interim	Year 2 2012-13 Projected	Year 3 2013-14 Projected
BEGINNING FUND BALANCE	\$ 15,663,963	\$ 15,926,226	\$ 8,468,291	\$ 6,549,788
Revenue Limit	60,722,920	57,465,964	61,749,723	60,735,464
Other Revenues	20,330,519	20,520,503	20,292,057	20,114,468
Total General Fund Revenues	\$ 81,053,439	\$ 77,986,467	\$ 82,041,780	\$ 80,849,932
<u>Contribution to Restricted Programs:</u>				
Routine Restricted Maintenance	(2,112,125)	(2,112,125)	(2,205,669)	(2,525,315)
Transportation (program encroachment)	(1,403,526)	(2,151,961)	(1,482,484)	(1,517,922)
Special Ed (program encroachment)	(9,154,020)	(9,131,296)	(9,281,248)	(9,356,478)
Total Contributions	\$ (12,669,671)	\$ (13,395,382)	\$ (12,969,401)	\$ (13,399,715)
Indirect Costs	1,932,419	1,891,705	1,987,549	1,958,445
TOTAL RESOURCES	\$ 70,316,187	\$ 66,482,790	\$ 71,059,928	\$ 69,408,662
Salaries and Benefits	(64,755,695)	(65,110,358)	(64,853,307)	(65,194,661)
Supplies, Operating & Other Expenditures	(7,381,046)	(8,240,189)	(7,534,946)	(7,623,248)
Other Debt Service Payments	(590,178)	(590,178)	(590,178)	(431,223)
TOTAL EXPENDITURES	\$ (72,726,919)	\$ (73,940,725)	\$ (72,978,431)	\$ (73,249,132)
Net Change to Fund Balance	\$ (2,410,732)	\$ (7,457,935)	\$ (1,918,503)	\$ (3,840,470)
ENDING FUND BALANCE	\$ 13,253,231	\$ 8,468,291	\$ 6,549,788	\$ 2,709,318
Accounting Restriction	20,000	20,000	20,000	20,000
Committed for Economic Uncertainties	3,172,442	3,308,969	3,217,622	3,204,090
Unassigned Fund Balance	\$ 10,060,789	\$ 5,139,322	\$ 3,312,166	\$ (514,772)

2011-2012 Mid-Year Trigger Cuts

- \$1 billion in trigger cuts enacted
- Impact on ARUSD:
 - **-\$12.57** per ADA = loss of \$154,428
 - -50% of Transportation = loss of \$702,897*
(approx. **-\$57.70** per ADA)
 - * SB81 passed by Legislature, awaiting Governor's signature, would reduce loss to \$511,271
- Adjustment to 2011-12 First Interim:
 - Budgeted for \$250.00 per ADA cuts
 - Actual \$12.57 per ADA cuts added back \$2,917,997 to the 2011-12 First Interim Budget Fund Balance

2012-13 Governor's Proposed Budget

Another Short-Term Solution

- Effort to get through a bad time, not a permanent solution
 - **Depends on passage of new temporary taxes in November**
- Specific proposals include:
 - 100% of home-to-school and special education transportation funding is cut under both alternatives
 - Disproportionate effect on districts is a huge problem
- Mid-Year Triggers are built in if the November Tax Measure is rejected by the voters

2012-13 Contingent Trigger Cuts

- Like the 2011-12 Budget Act, the Governor's Budget Proposal for 2012-13 contains **automatic trigger reductions** if voters reject the tax measure
 - The trigger reductions total \$5.4 billion
 - The cuts are linked to the failure of the proposed temporary tax increases, not a general revenue shortfall
- The trigger reductions hit education the hardest, especially Proposition 98

Programs Targeted for Trigger Cuts		
Program	Amount	% Share
Proposition 98	\$4,837 million	89.7%
University of California	\$200 million	3.7%
California State University	\$200 million	3.7%
Courts	\$125 million	2.3%
All Other	\$28 million	0.6%
Total	\$5,390 million	100.0%

Risks to the Governor's Proposal

- The initiative must qualify for the ballot by gaining the required number of voter signatures on a petition
- Governor Brown needs to clear the field of other education-funding initiatives
- Voter sentiment may not support more taxes, putting a \$6.9 billion hole in the proposed budget
- Competing initiatives on a ballot may confuse or frustrate voters, causing initiatives with any chance of success to, instead, fail



Why is Education Flat Funded?

- How does a nearly \$5 billion increase in Proposition 98 Education Funding provide **no real growth in funding for schools?**
 - \$2.4 billion is used to maintain current-year spending levels – the cost of maintaining existing programs after the 2011-12 deferral
 - \$2.5 billion reduce K-14 inter-year deferrals by moving the state expenditures back into the current year
- Buying down deferrals increases cash available in the budget year, and can reduce borrowing costs, but **does not increase spending authority for school districts**
- As the State continued its reliance on payment deferrals, the length of deferrals has increased with the longest deferral stretched from January of the current fiscal year to October of the following fiscal year

Impact on ARUESD 2012-13 Budget

Governor Brown's Proposal (assuming Tax Initiative passes)

- Flat funding reduce 3.17% Statutory COLA to zero by increasing the deficit factor
= loss of \$1,882,797 starting 2012-13
(Total loss of \$6,239,624 over three-year period)
- Elimination of Transportation Apportionment*
-100% = loss of \$1,405,794 starting 2012-13
(Total loss of \$4,217,382 over three-year period)
* Not addressed by SB81

Alternative (assuming Tax Initiative fails)

- Mid-year cut of \$370 per ADA
= additional loss of \$4,499,274 starting 2012-13
(Total additional loss of \$10,368,058 over three-year period)

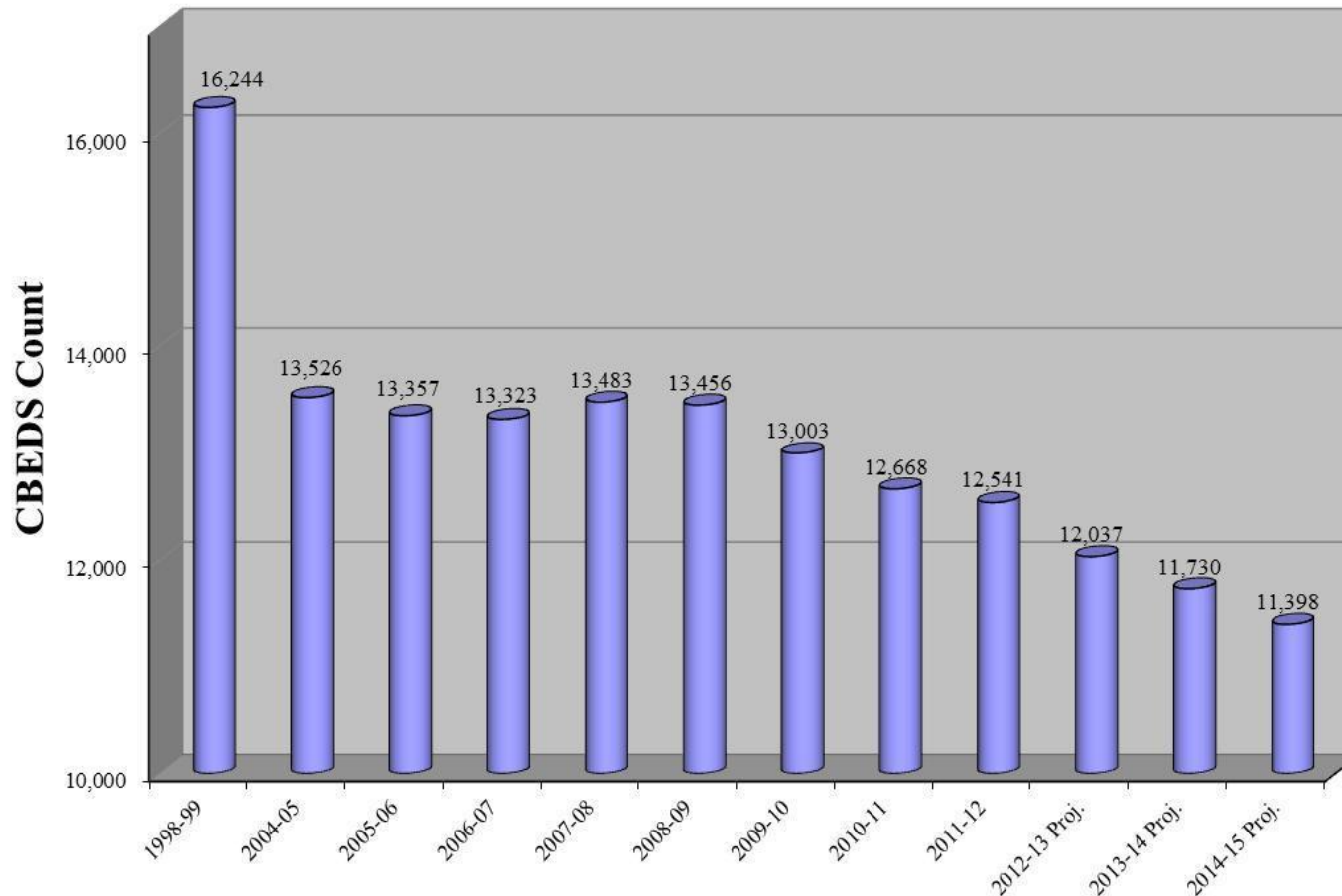
Local Budget Risks

- Charter Growth in 2012-13
 - KIPP Heartwood – continued grades 5-8
 - ACE Charter School – continued grades 5-8
 - Downtown College Prep – add one more grade level to grades 6-8
 - Alpha Middle School – new school grades 6-7 to grow to grades 6-8
 - Rocketship – new school grades K-2 to grow to grades K-5

Local Budget Risks

- Declining Enrollment – students loss impact revenues in the next subsequent year

Alum Rock Enrollment Trend - Historical & Projected



* 2012-13 revenue limit loss of \$626,271

* 2013-14 revenue limit loss of \$2,711,563

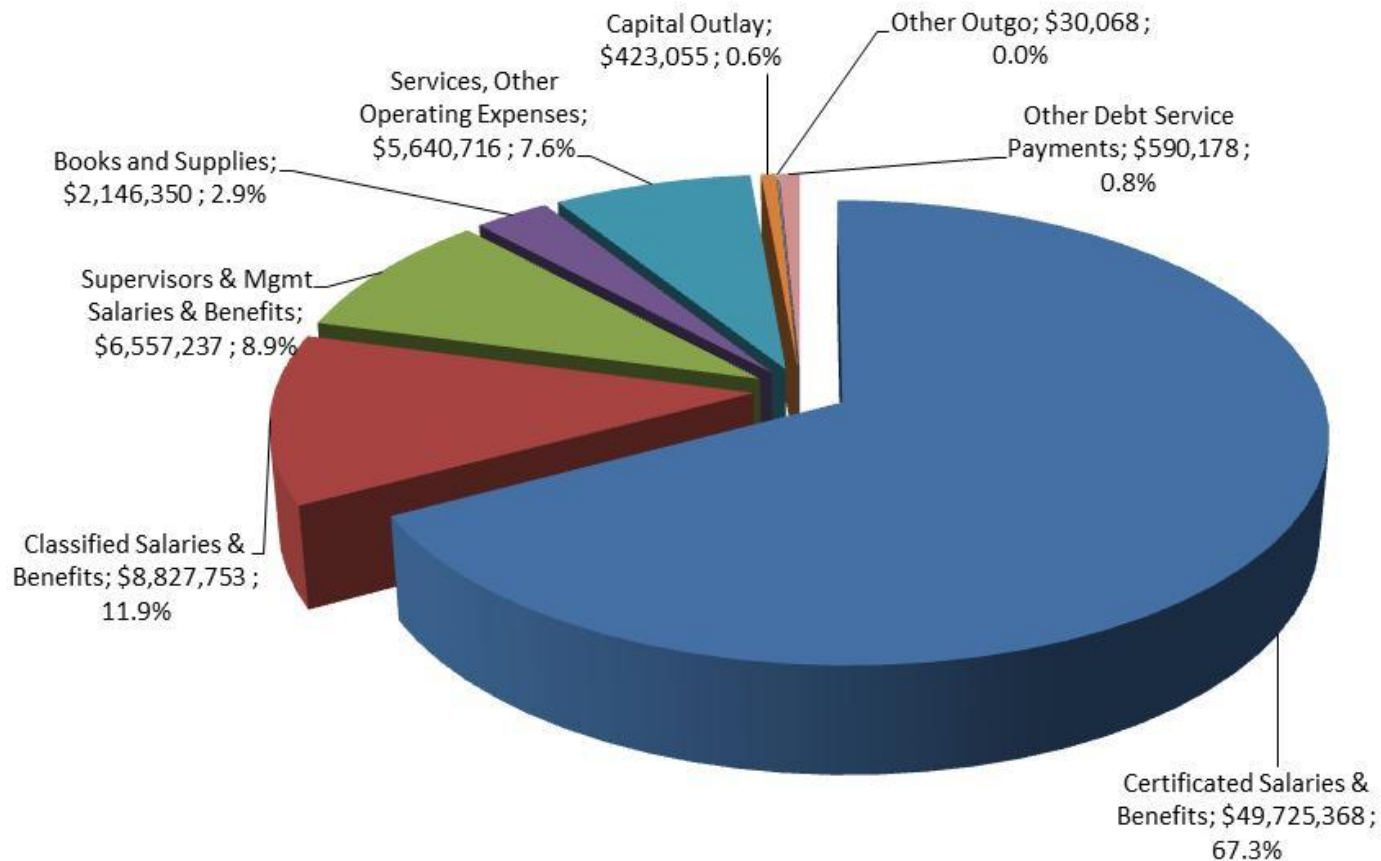
* 2014-15 revenue limit loss of \$1,606,872

* Total loss of \$4,944,706 over three-year period

Local Budget Risks

- * Personnel Cost = 88.1% of total Unrestricted G/F Budget

2011-12 Unrestricted G/F Expenditures as of First Interim



Local Budget Risks

- Cashflow: 38.4% state apportionment deferrals in 2011-12
= \$16,127,366 of State Aid pushed out to 2012-13
(monthly payroll averages \$8.4 million)
- Charter Prop 39 Facility Obligation; cost of space and maintenance
 - KIPP Heartwood
 - Downtown College Prep
 - Alpha Public Schools

Key Budget Assumptions

- Following are key budget assumptions for 2012-13 based on the Governor's Proposal and District enrollment projections:

	2011-12	2012-13	2013-14	2014-15
ADA	12,284.75	12,160.20	11,649.85	11,355.32
Funded COLA	-0.23%	0.00%	2.40%	2.70%
Transportation Funding	-50.00%	-100.00%	-100.00%	-100.00%
Mid-Year Trigger per ADA	-\$12.57	-\$370.00		
Class Size, K-3	20:1	20:1	20:1	20:1
Class Size, Grade 4-8	32:1	32:1	32:1	32:1
Step and Column, Certificated		1.0%	1.0%	1.0%
Step Increase, Classified		0.5%	0.5%	0.5%
Health and Welfare		no change	no change	no change
Operating Expenditures		2.1%	2.4%	2.6%

District Budget Overview

Based on Governor's 2012-13 Budget Proposals (Best Case Scenario)

* Does not include possible 2012-13 mid-year trigger cut

Combined General Fund Unrestricted/Restricted	2011-12 First Interim Updated	2012-13 Projected	2013-14 Projected	2014-15 Projected
Average Daily Attendance (ADA)	12,181.58	12,057.03	11,546.66	11,252.15
Funded Revenue Limit (RL)	\$5,028.27	\$5,028.27	\$5,312.94	\$5,456.09
Beginning Fund Balance	\$ 18,453,048	\$ 11,673,277	\$ 6,179,194	\$ (1,150,571)
Revenue Limit	\$ 60,383,961	\$ 59,866,926	\$ 58,651,963	\$ 58,650,200
Other Unrestricted Revenues	20,520,503	20,292,057	20,114,468	19,919,262
Transportation Revenues	712,897	10,000	10,000	10,000
Special Ed Revenues	5,636,803	5,502,905	5,596,907	5,700,702
Restricted Revenues	16,265,037	16,088,096	15,099,894	15,377,564
Total Revenues	\$ 103,519,201	\$ 101,759,984	\$ 99,473,232	\$ 99,657,728
Salaries and Benefits	(90,218,393)	(89,838,523)	(89,468,423)	(89,355,089)
Supplies and Operating Expenses	(19,792,730)	(17,127,731)	(17,206,737)	(17,595,337)
Indirect Cost and Transfers	302,329	302,365	303,386	304,414
Debt Service	(590,178)	(590,178)	(431,223)	(338,421)
Expenditures/Other Uses	\$ (110,298,972)	\$ (107,254,067)	\$ (106,802,997)	\$ (106,984,433)
Surplus/(Deficit)	\$ (6,779,771)	\$ (5,494,083)	\$ (7,329,765)	\$ (7,326,705)
Ending Fund Balance	\$ 11,673,277	\$ 6,179,194	\$ (1,150,571)	\$ (8,477,276)
Legally Restricted	286,989	0	0	(0)
Accounting Restriction	20,000	20,000	20,000	20,000
Committed - Reserve for Economic Uncertainties	3,308,969	3,217,622	3,204,090	3,209,533
Unassigned Fund Balance, updated 2011-12 First Interim	\$ 8,057,319	\$ 2,941,572	\$ (4,374,661)	\$ (11,706,809)

Historical Perspective Prop 98 Funding

Funded Revenue Limit COLA vs. Projected COLA (Statutory COLA less Deficit & Other RL Adjustments)

* Projected COLAs are per latest SSC Dartboard of the fiscal year

Actual/Projection	2007-08	2008-09	2009-10	2010-11	2011-12	Proposed 2012-13	Projection 2013-14	Projection 2014-15
2007-08	4.53%	3.70%	2.60%	2.50%	2.50%			
2008-09		-2.63%	0.00%	3.50%	2.70%	2.90%		
2009-10			-7.64%	0.50%	2.30%	2.50%	3.00%	
2010-11				5.17%	0.00%	1.90%	2.00%	2.40%
2011-12					-0.23%	3.10%	2.80%	3.00%
2012-13						0.00%	2.40%	2.70%

Why do Unaudited Actuals differ from Multi-Year Projections?

- Revenues change at each budgeting point as COLA projections change
- Salaries and benefits expenditures change during the year as staffing level change; e.g. vacant positions due to retirement or resignations could give savings
- Supplies and operating expenditures change during the year as a result of operation; e.g. utilities usage may increase or decrease from budgeted amounts

Historical Perspective General Fund Revenues

* Actuals from 2007-08 to 2010-11

	2007-08	2008-09	2009-10	2010-11	Adj. 1st Int 2011-12	Change from 07-08	% Change from 07-08
Revenue Limit	72,623,851	71,100,034	61,392,576	62,851,189	60,383,961	(12,239,890)	-16.9%
Class Size Reduction	6,773,131	7,288,606	6,484,495	5,995,323	6,059,718	(713,413)	-10.5%
Tier III Categorical Flexibility	-	6,542,181	6,423,781	6,177,999	6,167,280	(374,901)	-5.7%
Transportation Funding	1,077,434	1,753,625	1,405,677	1,410,111	702,897	(374,537)	-34.8%
Special Education Funding	8,098,274	7,639,635	6,905,460	6,414,984	5,636,803	(2,461,471)	-30.4%
Other State & Federal Revenues	28,483,157	23,556,212	16,777,008	15,737,905	16,286,173	(12,196,984)	-42.8%
Local Revenues	4,969,127	4,772,568	6,614,107	5,081,790	4,996,042	26,915	0.5%
Federal Stimulus Funds	-	4,907,146	3,267,369	2,860,269	1,380,372	1,380,372	
Total Revenues	\$122,024,974	\$127,560,007	\$109,270,473	\$106,529,571	\$101,613,246	(\$20,411,728)	-16.7%
Total Rev w/o Federal Stimulus	\$122,024,974	\$122,652,861	\$106,003,104	\$103,669,302	\$100,232,874	(\$21,792,100)	-17.9%
Total Rev w/o Federal Stimulus or Tier III	\$122,024,974	\$116,110,680	\$99,579,323	\$97,491,303	\$94,065,594	(\$21,417,199)	-17.6%
Transportation Costs	2,817,232	2,661,947	2,474,522	2,239,235	2,864,858	47,626	1.7%
Special Education Costs	13,620,452	14,007,031	14,476,147	14,872,143	14,768,099	1,147,647	8.4%
Total Mandated Programs Costs	\$16,437,684	\$16,668,978	\$16,950,669	\$17,111,378	\$17,632,957	\$1,195,273	7.3%
Mandated Programs Encroachments	(\$7,261,976)	(\$7,275,718)	(\$8,639,532)	(\$9,286,283)	(\$11,293,257)	\$4,031,281	55.5%

- 2011-12 Adjusted 1st Interim Revenue Limit includes mid-year cut of \$12.57 per ADA and 50% cut to Transportation

Historical Perspective General Fund Expenditures

	2007-08	2008-09	2009-10	2010-11	First Interim 2011-12	Change from 07-08	% Change from 07-08
Certificated Salaries & Benefits	70,054,087	67,830,561	64,978,660	64,240,655	64,778,429	(5,275,658)	-7.5%
Classified Salaries & Benefits	18,194,609	18,093,549	16,471,305	16,382,934	16,441,741	(1,752,868)	-9.6%
Management Salaries & Benefits	11,337,380	11,164,795	9,982,869	9,973,101	8,998,223	(2,339,157)	-20.6%
Materials & Supplies	8,957,148	6,833,894	4,429,062	4,197,369	5,795,497	(3,161,651)	-35.3%
Contracts & Operating Expenses	16,219,470	13,987,173	13,380,644	13,871,502	13,534,945	(2,684,525)	-16.6%
Capital Outlay	1,242,907	373,122	335,773	75,583	432,220	(810,687)	-65.2%
Other Outgo & Debt Service	529,194	137,310	318,519	449,465	620,246	91,052	17.2%
Indirect Cost	(195,834)	(302,735)	(267,355)	(277,739)	(302,329)	(106,495)	54.4%
Total Expenditures	\$126,338,961	\$118,117,669	\$109,629,477	\$108,912,870	\$110,298,971	\$ (16,039,990)	-12.7%

- Other Outgo & Debt Service include payments on SERP (early retirement incentive plan)
- Indirect Cost is a charge to Child Nutrition Services that reduce General Fund administrative costs

Historical Perspective General Fund Balance

Actual/Projection	2007-08	2008-09	2009-10	2010-11	Adj. 1st Int 2011-12	Change from 07-08	% Change from 07-08	Proposed 2012-13	Projection 2013-14	Projection 2014-15
Ending Fund Balance	\$18,627,995	\$21,195,352	\$21,027,895	\$18,453,048	\$11,673,277	(174,948)	-0.9%	\$6,179,194	(\$1,150,571)	(\$8,477,276)
Less:										
Legally Restricted*	4,661,335	6,924,656	5,070,636	2,526,822	286,989	(2,134,513)	-45.8%			
Revolving Fund	615,962	699,436	20,000	20,000	20,000	(595,962)	-96.8%	20,000	20,000	20,000
3% Required Reserve	3,817,001	3,553,514	3,463,034	3,267,386	3,308,969	(549,615)	-14.4%	3,217,622	3,204,090	3,209,533
Unassigned Fund Balance	\$9,533,698	\$10,017,747	\$12,474,225	\$12,638,840	\$8,057,319	(\$1,476,379)	-15.5%	\$2,941,572	(\$4,374,661)	(\$11,706,809)
Cash Balance**	\$12,414,745	\$9,349,122	\$9,328,478	\$2,503,888		(9,910,857)	-79.8%			
Cash as a % of Fund Balance	67%	44%	44%	14%						

* Categoricals and ARRA carryovers

** 2011-12 Cash Balance is unknown due to inability to project accounts receivables or accounts payables at year-end

Net Change to Fund Balances:

Actual/Projection	2007-08	2008-09 *	2009-10	2010-11	Adj. 1st Int 2011-12	Change from 07-08	% Change from 07-08	Proposed 2012-13	Projection 2013-14	Projection 2014-15
Total Revenues	\$122,024,974	\$127,560,007	\$109,270,473	\$106,529,571	\$101,613,246	(\$15,495,403)	-12.7%	\$101,759,984	\$99,473,232	\$99,657,728
Total Expenditures	\$ 126,338,961	\$ 118,117,669	\$ 109,629,477	\$ 108,912,870	\$ 110,298,971	(\$17,426,091)	-13.8%	\$107,254,067	\$106,802,997	\$106,984,433
Net Change to Fund Balance	(\$4,313,987)	\$9,442,338	(\$359,004)	(\$2,383,299)	(\$8,685,725)	\$1,930,688	-44.8%	(\$5,494,083)	(\$7,329,765)	(\$7,326,705)

* Positive change to fund balance in 2008-09 due to ARRA funds carryover to reduce deficit spendings in 2009-10 through 2010-11

Historical Perspective General Fund Balance

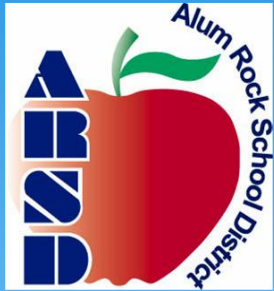
- The District relied on Federal Stimulus funds to maintain instructional programs and offset General Fund expenditures:
 - SFSF – \$6,012,613 reduced deficit spendings in 2008-09 thru 2010-11
 - Ed Jobs Fund – \$2,378,183 to reduce deficit spendings in 2011-12 thru 2012-13

Historical Perspective

Fund Balances

Prior years' fund balances allowed the District to maintain programs, despite declining enrollment and declining revenues, such as:

- K-3 class size at 20:1
- Full 180 days school year
- VAPA program
- Mariachi program
- Middle School afterschool sports
- Dual Immersion School & Small Schools
- Counselors
- School office assistants
- Home-to-School transportation
- Instructional technology in classrooms throughout the districts
- **The number of schools with API > 750 increased from 8 in 2007 to 21 in 2011**



Thank You