

GLENDALE UNIFIED SCHOOL DISTRICT

June 23, 2009

ACTION REPORT NO. 1

TO: Board of Education

FROM: Michael F. Escalante, Superintendent

PREPARED BY: Eva Rae Lueck, Chief Business and Financial Officer

SUBJECT: **District Budget for 2009-10**

The Superintendent recommends that, following a “Public Hearing”, the Board of Education adopt the District’s 2009-10 Budget.

The 2009-10 Budget provides an initial expenditure plan for District instructional and operational programs. The Budget will be revised, as needed to address changes in priorities. It will also be adjusted to reflect the final State Budget and the additional funding reductions and flexibility options it might contain.

2009-10 BUDGET ASSUMPTIONS AND RECOMMENDATIONS

Unrestricted General Fund

Background

Each year when the District budget is developed, we utilize allocations and ratios for school sites, historical trend data, on-going contractual obligation information, account analysis, and State funding projections. In the past, the most significant variable in the budget has been enrollment. However, this year the most significant variable is the State funding that will be available. The State fiscal crisis this year has dwarfed all other issues. It has resulted in drastically reduced funding, flexibility options that ultimately eliminate programs, and there are more changes on the horizon. As the District is adopting the 2009-10 Budget the Legislature is in session determining what additional reductions should be made to 2008-09 as well as additional reduction to State’s 2009-10 Budget that was adopted in February of 2009.

The attached 2009-10 Budget document incorporates the changes that were proposed by the Governor in the May Revise and complies with the L.A. County Office of Education requirements. However, it does not meet the solvency targets established for the three year projection. A 3% Reserve is maintained in 2009-10 and 2010-11, however in 2011-12 the District is short \$14.4 million. Also it is important to note that a significant amount of the funds utilized to obtain a 3% reserve in the first two years is one-time funding and/or transfers from sources that are not on-going.

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Examples of one-time funding include \$9.5 million in Federal Stabilization Funds, \$2.9 million from Instructional Material funding, and \$544,000 from the District Discretionary Block Grant. Examples of transfers from sources that are not on-going include fully utilizing the Unrestricted General Fund Balance, reductions to the Restricted Maintenance Reserves, the Special Education Reserves, and the GASB 45 Reserves.

In summary, the Glendale Unified School District has a very serious fiscal challenge that has been mitigated by the reserves that have accumulated over the past decade. The District is in the process of evaluating Tier III programs to determine if they should be eliminated or modified, evaluating programs for further reductions and consolidation, determining the best utilization Federal Title I and Federal IDEA Stimulus (ARRA). The adoption of the 2009-10 Budget is just the first step in an on-going process.

The following is a brief overview of the assumptions utilized in the 2009-10 Budget:

2008-09 Ending Fund Balance:

- The Unrestricted General Fund Ending Balance is projected to be approx. \$21.7 million. This is significantly higher than \$17.2 million on the previous reports. This is primarily the result of eliminating the \$1.2 million transfer to Deferred Maintenance, \$.9 million in State Deferred Maintenance Revenue, a \$1.6 million transfer of Instruction Materials Revenue, and \$544,000 “sweep” of the District Discretionary Block Grant Balance.

It is important to note that the 2008-09 Ending Fund Balance will change significantly at year end closing. The District will be required to transfer all Tier III categorical program balances to the Unrestricted General Fund. Additionally, other flexibility options may be implemented and there will be the normal shift that occurs when unspent budgets are swept into the fund balance at year end.

Multi-Year Budget Assumptions

CATEGORY	2008-09	2009-10	2010-11	2011-12
COLA	5.66%	4.25%	.90%	2.4%
Net COLA Percentage	-6.41%	-3.45%	0.90%	2.40%
Deficit Factor	11.428%	17.967%	17.967%	17.967%
COLA Increase	-\$369	-\$185	\$48	\$130
Revenue Limit per ADA	\$5,409	\$5224	\$5271	\$5,399
Revenue Limit ADA	25,765	25,516	25,172	24,907
Enrollment	26,809	26,552	26,196	25,923
Interest	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Lottery (Per ADA)	\$109.50	\$109.50	\$109.50	\$109.50
STRS	8.25%	8.25%	8.25%	8.25%
Workers Comp	2.27%	2.46%	2.46%	2.46%
Retiree Benefits	2.00%	2.00%	1.00%	1.00%
Indirect Cost Rate	3.25%	4.13%	4.13%	4.13%
Other Uses	\$0	\$0	\$0	\$0
"Solvency" Transfers:				
- Special Ed. Reserve	\$750,000	\$750,000	\$750,000	\$750,000
- Retiree Benefit Fund 20	\$0	\$1,250,000	\$1,250,000	\$1,250,000
- Restricted Major Maint. Reserve Draw-down	\$0	\$1,000,000	\$1,000,000	\$1,000,000
- No Deferred Maintenance Transfer	\$1,238,000	\$1,238,000	\$1,238,000	\$1,238,000
- Deferred Maintenance Fund Revenue to General Fund	\$907,000	\$907,000	\$907,000	\$907,000
Health Insurance Increase	\$2,250,000	\$2,750,000	\$2,750,000	\$2,750,000

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When viewing the multi year projections, it is important to note:

2009-10

- The Beginning Fund Balance is the revised 2008-09 Ending Fund Balance, therefore it is higher than previously projected (refer to 2008-09 Ending Fund Balance section).
- The \$9.5 million Federal Stabilization (ARRA) funding is included. The Federal IDEA and Title I ARRA funds are **not** included at this time.
- Several Tier III programs have been eliminated: Physical Education Teacher Incentive, Community Based English Tutoring, Art and Music Block Grant, and Supplemental Counseling Program. Additionally, the 9th Grade Class Size Reduction Program has been limited to entry level math courses and ELD classes with a phased reduction in the English classes. School Resource Teachers (SRT) have been eliminated, security services have been re-structured to reduce costs, and positions in other programs have been reduced. A “sweep” of an additional \$1.3 million of Instructional Materials Revenue has been transferred into the fund.
- The Budget contains the \$750,000 “solvency transfer” from the Special Education Reserve, as well as the \$1.25 million transfer from the Retiree Health Benefit Fund, \$1 million from the Restricted Maintenance Reserve, \$.9 million State Deferred Maintenance Revenue and elimination of the \$1.2 million District match for Deferred Maintenance.

2010-11

- The Budget contains the \$750,000 “solvency transfer” from the Special Education Reserve, as well as \$1.25 million from the Retiree Health Benefit Fund, \$1 million from the Restricted Maintenance Reserve, \$.9 million State Deferred Maintenance Revenue and elimination of the \$1.2 million District match for Deferred Maintenance. (this is identical to the 2009-10 transfers)

2011-12

- In 2011-12, the transfers are the same as 2010-11. However, unless there are budgetary changes the reserve balances for the Restricted Maintenance will have been reduced to approx. \$500,000 and the Special Education Reserve will have a balance of \$400,000. In 2012-13, with one-time resources and reserves nearly depleted the short fall will grow significantly.

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OTHER FUNDS

- **Child Development Fund (12)** – The Child Development Fund contains accounts for the income and expenditures associated with state and federally subsidized child development centers. This is inclusive of preschool programs and school-age program: General Child Care and Development Programs, Latchkey Program, State Preschool Program, as well as General Child Care and Development Programs. This fund operates on an independent basis and does not encroach on the Unrestricted General Fund.
- **Food Service Fund (13)** – The source of revenue for this fund is based solely on lunch sales. The revenue is received on a per meal basis from the State and Federal programs as well as student payments. The State funding for this program was reduced in 2007-08, 2008-09, and there are serious concerns as to whether there will be State funding in 2009-10. In 2007-08, the District received \$476,298 from the State in the 2009-10 Budget that is being presented to the Board **all** State funding is eliminated. This budget does **not** include indirect cost charges that could be transferred to the Unrestricted General Fund. The indirect charges that would be allowable are estimated to be approx. \$300,000. This fund operates on an independent basis and does not directly encroach on the Unrestricted General Fund.
- **Deferred Maintenance Fund (14)** – The Deferred Maintenance Program is considered a part of the 2008-09 through 2012-13 flexibility options provided in the State Budget Act. The State revenue for this fund was reduced from \$1,291,090 to \$907,220 in 2008-09 and it is anticipated that it will remain at that level through 2012-13. The State funds will now be transferred or deposited into the Unrestricted General Fund. The required match for the Deferred Maintenance Program has also been eliminated through 2012-13. The District will be utilizing the current balance in the fund to ensure that warranty projects are completed as well as items of critical need.
- **Retiree Health Benefit Fund (20)** – Since all programs should share in the GASB 45 liability a new Early Retirement Fund 67.2 was created in 2008-09 to conform to the State accounting system. The only revenue that will be generated in Fund 20 for 2009-10 will be interest income. An expenditure transfer of \$1,250,000 to the Unrestricted General Fund is budgeted for 2009-10 and future years. Historically, this transfer has been budgeted but not implemented. It is anticipated that due to the State fiscal crisis this transfer will be implemented and may be increased.

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- **Building Fund (21)** – This is the Measure K Bond Fund and is utilized to track expenditures related to the bond projects. When projects are to receive State funding as well as Measure K funding the entire project cost is recorded in this fund and transfers are made into the fund from the State Building Fund 35.0. In 2009-10, additional funds from the State Building Program will be budgeted and transferred once disbursements are approved at the State Allocation Board for Hoover High School and Glendale High School. Both projects have been approved for funding however due to the State fiscal crisis the money has not been distributed.
- **Developer Fee Fund (25)** – In 2008-09, \$5.8 million was budgeted for the Columbus Elementary construction project. Since additional State funds were received, this budget is available to be re-allocated to other projects. In 2009-10, this fund will be utilized to assist with the construction payments for the Hoover and Glendale High projects should State revenues be delayed further. This would be done for “cash flow” purposes and the monies would ultimately be repaid to the fund.
- **State Building Fund (35)** – In 2009-10, additional funds from the State Building Program will be budgeted once disbursements are approved at the State Allocation Board for Roosevelt Middle School, Hoover High School, and Glendale High School. When these monies are received they will be transferred out to the respective funds to be utilized for the projects.
- **Capital Projects Fund (40.1)** – In 2008-09, \$6.3 million was budgeted for the Columbus Elementary construction project. Since additional State funds were received, this budget is available to be re-allocated to other projects. In 2009-10, this fund will be utilized to assist with the construction payments for the Hoover and Glendale High projects should State revenues be delayed further. This would be done for “cash flow” purposes and the monies would ultimately be repaid to the fund. The Roosevelt Middle School ORG project will also be accounted for in this fund if State monies become available.
- **Food Service Capital Outlay Fund (40.2)** – In prior years the Food Service Program has transferred monies into this fund for capital projects. Due to the State fiscal crisis this will not occur in 2009-10. The only revenue in this fund will be interest income. There are a couple small projects planned, however the majority of the fund will be retained for potential shortfalls in the Food Service Program.
- **Tax Override Fund (53)** – This fund is related to a 20 year State loan that was given to the District in 1975-76 for construction at College View. Since there has not been any activity other than interest earnings for several years, the District will work with the auditors to close the fund. The fund balance is approximately \$10,000.

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- **COPs Fund (56)** – The only revenue source in this fund is interest income. This fund is utilized to repay the Certificates of Participation (COP), the annual payment is approx \$1.3 million. It is also utilized by the District as a “reserve” and has been discussed as monies that could be utilized for cash flow needs in the Unrestricted General Fund and as a short term funding source. It is important to note that \$1.3 million payment will be a recurring expense in future years.
- **Self Insured Health Insurance (67.0)** – The only revenues are the premiums for the dental and vision insurance plans that are offered to employees and interest earnings. The payroll system allocates the expense for the coverage to the various programs in all the funds. Then an offsetting transfer is made to the revenue account in self insured fund. The cost of the claims and transfers to the third party administrator are the only expense in this fund.
- **Workers Compensation Fund (67.1)** – This fund was established solely for the purpose of accounting for expenditures related to the workers compensation program. The revenue will be from the 2.46% that is assessed against all salaries paid by the District and interest income that is earned. The expenditures will include the payment to ASCIP for 2009-10 coverage, expenditures related to claims that occurred prior to 2005-06, consultant expenses related to claims management, charges from the SLIM JPA, and other related expenses that may occur. The District is in the process of finalizing its separation from the SLIM JPA when that occurs the budget will be adjusted to reflect the claims liability, reserves, and equity transfer from the JPA.
- **Early Retirement Fund (67.2)** – This fund is very similar to the Retiree Health Benefit Fund 20 and was established to set aside funds for the GASB 45 liability. The revenue in 2007-08 through 2009-10 is from the 2% rate applied to salaries in all programs. Approximately half of this rate is to fund the future liability while the balance is to pay the annual premium that is currently charged for the retiree health insurance. Due to the State fiscal crisis the additional percentage for future liabilities is not projected to be set aside in 2010-11 and future years.
- **McLeannan Trust and Other Scholarships (73)** – This fund’s primary source funding is interest earnings and an occasional donation for a scholarship. Typically, the scholarship donations are managed through the ASB accounts at the high schools. However, if there is a donation that is not directly linked to a school site may be deposited into this fund. The only expenditures out of this fund are for student scholarships.

Reference Materials

The following supplemental materials are provided for reference:

- Board of Education Priorities for 2009-10 – Attachment A
- Principles for Guiding Budgetary Decisions – Attachment B
- Staffing Ratios – Attachment C
- CBEDS Enrollment and Projections (developed in October 2008), 2003-04 through 2012-13 – Attachment D
- Long-Range Financial Projection (Version 1, June 18, 2009) – Attachment E
- 2009-10 Line Item Budget Summary – Attachment F
- Other Funds Fiscal Projection – Attachment G
- District Budget and Certification – Attachment H