

To: Board Members

From: Constance Hubbard, Superintendent
Michael Brady, Assistant Superintendent (Business Services)
Michelle Nguyen, Director of Fiscal Services

Subject: **REVIEW 2010-11 FIRST INTERIM FINANCIAL REPORT AND APPROVE A POSITIVE CERTIFICATION OF THE DISTRICT'S ABILITY TO MEET FINANCIAL OBLIGATIONS FOR CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS**

I. **SUPPORT INFORMATION**

The budget document is a reflection of the District's goals and philosophy, and is consistent with our top priorities of providing a breadth and depth of program experience for all students while maintaining highly qualified staff by providing a competitive compensation package.

The Budget is fluid and therefore under constant revision as revenues and expenditures are clarified. Two years ago, in December of 2008, the District's First Interim report highlighted "speculation regarding...budget cuts proposed by the Governor...including serious reductions in revenue limit funding." The revenue limit reductions were indeed serious, and California's public schools over the past two years have witnessed unprecedented losses in per pupil and categorical funding. Throughout these last two years of State and national economic instability and uncertainty, the Piedmont Unified School District has continued to meet its obligations to ensure fiscal solvency. Last December's First Interim summary statement emphasized that "the District remains confident it will have sufficient funds to meet this year's financial obligations, and will present a balanced budget for the 2010-11 school year by June of 2010." Through the Board's careful and deliberate decision-making process to reduce ongoing expenditures, to build its reserves, and with phenomenal support from the Piedmont Community through passage of an emergency parcel tax and program preservation funding, the District can again state with confidence that its budget is balanced for 2010-11.

Governing Boards are required to certify the financial condition of each school district at two intervals during the school year. A *Positive Certification* means that the District will be able to meet its financial obligations for the remainder of the current fiscal year and subsequent two fiscal years. A *Qualified Certification* indicates a district may not be able to meet these financial obligations. A *Negative Certification* is used when school districts are not able to meet financial obligations for the remainder of the year or for the subsequent fiscal year. *Qualified or Negative Certifications* act as an "early warning device" and are transmitted to the County Office, California Department of Education, and the State Controller for possible intervention by these agencies.

Certification is based on the General Fund Summary of Revenues and Expenditures as presented in the First Interim Report. Based on actual expenditures through October 31, the First Interim Report reflects updated projected year-end totals and becomes the Approved Budget. The Second Interim Report is presented in March of each year and is based on actual expenditures through the previous January 31st. Although the District will be able to meet its financial obligations for the current year and 2011-12 (with a diminished reserve balance for economic uncertainty), the 2012-13 year reveals a negative ending fund balance of nearly \$4.0 Million. This figure is \$1 million less than what was reported during the Revised Budget presentation in September, 2010, primarily due to the passage of a new State budget that restores over \$600k in Revenue Limit funding and one-time federal stimulus funding of \$479k.

In spite of this influx of State and federal funding, the District will proceed with its current plan reduce to ongoing expenditures by \$1.4 million starting in the 2011-12 school year. Even if funding levels hold, the District will need to continue to make reductions in 2012-13. There are several options available to meet this objective, including revenue enhancement (parcel tax), reductions in program (layoffs), and savings through negotiations with employee associations. The details of the District plan for meeting fiscal obligations in the third year of the multi-year projections will unfold over the course of the next several weeks. For the purposes of this First Interim report, the Board is asked to approve a Positive Certification based on PUSD's commitment to reduce expenditures and its capacity to generate additional revenue sufficient to meet these requirements. A Positive Certification also enables the District to maintain its high credit rating, and facilitates the issuance of future bond sales (including interest-free Qualified School Construction Bonds) so that current Seismic Safety Bond program projects can be completed on time and without interruption. The District, in consultation with the Alameda County Office of Education, has determined that a Positive Certification is entirely warranted. A Positive Certification provides the District with greater flexibility with respect to its future financial options and supports an anticipated Second Interim Positive Certification.

Attached is the financial summary of the First Interim, which shows the financial condition of the District's General Fund as of October 31, 2010. The first page is a summary of the information in a concise format; the subsequent pages are presented in the Standardized Account Code Structure (SACS) format required by the State. The final page is a summary of the multi-year (three-year) projection that indicates the District's ability to meet financial obligations for the current and two subsequent fiscal years, with the understanding that the amount identified in 2011-12 (\$1.4 million) will represent the implementation of plans that decrease expenditures, offer opportunities for enhanced revenue, and reflect the efforts of labor negotiations. It is important to note the assumptions in place at that point in time at which each budget revision and multi-year projection is developed.

The most significant issue affecting the District's budget at this "snap-shot" in time is the State economic budget crisis. The Legislative Analyst's Office (which provides non-partisan fiscal and policy advice to the State legislature) cautions that the State "must address a budget problem of \$25.4 billion between now and the time the Legislature enacts a 2011-12 state budget plan. The budget problem consists of a \$6 billion projected deficit for 2010-11 and a \$19 billion gap between projected revenues and spending in 2011-12." The forecast for the future is similarly bleak: The LAO

projects “annual budget problems of about \$20 billion each year through 2015-16.” Although public education has seen some relief with the passage of the new State budget, the crisis still looms. For this reason, District staff recommend adherence to the Board’s original goal to reduce the overall deficit by \$1.4 million in 2011-12. The amount in further reductions in 2012-13, if State funding holds, would be approximately \$1 million.

The likelihood of mid-year cuts and/or deferrals in State funding, though not a foregone conclusion, remains high. By proceeding with the Board’s previously identified goal of \$1.4 million in expenditure reductions/revenue enhancements, should mid-year cuts become a reality, the District does *not* believe it would need to make further reductions beyond \$1.4 million already identified. Finally, the LAO report does not include any cost-of-living adjustments (COLA’s) in their projections, noting that “if [COLA] inflation adjustments were provided each year during the forecast”, the State’s budget problems could increase “by as much as \$3 billion in 2015-16.” Consequently, the District concurs with the Alameda County Office of Education “common message” which does not include any Revenue Limit COLA for the 2011-12 year.

All indications are that the challenges facing public education will be with us for at least the next three to five years. By examining current conditions, taking early action, and focusing on long-term fiscal strategies consistent with the Board’s educational philosophy, the District will bring its budget into balance. The Board, at its meeting of October 13, 2010, reiterated its desire to “develop and implement a three-year plan to balance the budget in collaboration with administration, employee groups, support groups, parents, and the community, in order to sustain the quality of our educational and instructional programs and school facilities.” The First Interim Report reveals the ongoing disparity between revenue and expenditures and the magnitude of the gap between them.

First Interim (as of October 31, 2010) – Revenue: + \$1,441,346

- Revenue is based on an Average Daily Attendance (ADA) of 2467 as confirmed from the P-2 from 2009-10. Enrollment is projected to be relatively flat over the next two to three years. The District’s enrollment as indicated on our annual CBEDS (California Basic Educational Data System) report from October, 2010 is 2551 students. Because the District is funded on the current or previous year’s ADA, the previous year’s confirmed number is used for current year calculations. There was an increase of \$479k in ARRA federal stimulus funding and over \$600k in Revenue Limit adjustments. Local funds include receipt of \$33k in parent donations, ASB accounts; \$3k in donations to the Wellness Center, \$26k in contributions from CHIME, music donations, and PHS Summer School contributions, and \$233,000 in receipts from parent club contributions, Piedmont Education Foundation grants, and library receipts (all the aforementioned booked as expenditures); \$5,000 in interest earning

First Interim (as of October 31, 2010) – Expenditures: +\$428,048

- Certificated salary expenditures reflect a modest increase of \$23,265 in personnel costs as certificated positions reflect actual placements, and slight adjustments to confirmed step and column calculations in October. There is an increase in classified salaries of \$133,880, of which \$30k is increased overtime for training and implementation of the new SIS (student information system), CALPADS data

certifications, and student data migration from SASIxp during the summer months, \$60k in mandated categorical program costs, and an allowance of \$35k for crossing guards (which were not needed - these salaries will be backed out at the Second Interim report). Changes in employee benefits (\$13,873) include employee-initiated changes to medical benefits plans. Services and operating expenses are booked against revenues of \$256k.

First Interim (as of October 31, 2010) – Ending Fund Balance: \$3,075,676

- The total ending balance on June 30, 2011 is projected to be \$3,075,676 which represents a total of 10.4% of total expenditures. AB 1200 requires each district to maintain a 3% reserve for economic uncertainty. A designated balance of \$2,171,154 for use to support programs in 2011-12 remains after meeting the 3% requirement.

Multi-year Projections (as of October 31, 2010) - 2011-12 Assumptions

Revenue:

- Cost of Living estimated Statutory COLA of 0.00% as projected by School Services of California and the State Legislative Analyst's Office, with an applied deficit factor of 17.963%. The revenue planning COLA is 0.00%. These projections will be updated as part of the Governor's January budget proposal.
- A stable projection of ADA for students from the 2010-11 year at 2467. The Second Interim will reflect ADA based on the current year's certified P-1.
- Categorical program revenue at the 2010-11 rate plus a COLA of 0.0%.
- No mandated cost reimbursements are included as part of 2011-12.
- All new ARRA Federal Stimulus funds fully expended
- Piedmont Educational Foundation Endowment contribution of \$162,159.
- State revenues for Adult Ed are received and transferred from the General Fund.
- A transfer of \$120,000 from Adult Ed fund back to the General Fund for direct support of K-12 programs.
- Parent Club contributions of approximately \$1.30+ million (direct District funded support and parent club funded personnel with additional benefits costs)
- No transfer to or from the Parcel Tax Special Reserve.
- Parcel Tax Measures B & E are projected at the same level as 2009-10 (**no increase**). The Parcel Tax Citizens' Advisory Committee will present their recommendations in February 2011 as to the levy of the Measures. The Board will hold two public hearings in March and April before deciding on the levy for 2011-12.
- No one-time "Program Preservation" funds from support groups
- Ten-year Special Education apportionment settlement (\$12k) expires

Expenditures:

- Step and column increases for 185.63 certificated employees and 109.5 classified employees estimated at approximately \$280,000.
- No salary increase for any employee group
- 13.5% increase in health & welfare benefits estimated at \$402,000; 10% overall increase in benefit costs
- Unexpended funds in categorical programs are reserved for "sweep" to the General Fund where flexibility for unrestricted use is approved by the State

Multi-year Projections (as of October 31, 2010) - 2012-13 Assumptions

Revenue:

- Cost of Living Statutory COLA of 1.90% over the 2011-12 level as by School Services of California with an applied deficit factor of 17.963%.
- An ADA figure of 2467 used for 2011-12.
- Categorical program revenue at the same rate as in 2011-12 plus a 1.9% COLA.
- No mandated cost reimbursement is projected in the budget.
- All Parent and support group contributions at the same level as in 2011-12: approximately \$1.30+ million (direct District funded support and parent club funded personnel with additional benefits costs) + PEF contribution of \$162,159
- State revenues for Adult Ed are received and transferred from the General Fund.
- A transfer of \$120,000 from Adult Ed fund back to the General Fund for direct support of K-12 programs.
- No transfer to or from the Parcel Tax Special Reserve.
- Parcel Tax Measure B projected at the same level as 2009-10
- Emergency Parcel Tax Measure E (\$941k) expires

Expenditures:

- Step and column increases for Step and column increases for 185.63 certificated employees and 109.5 classified employees, estimated at \$300,000.
- No salary increase for any employee group
- 13.5% increase in health & welfare benefits estimated at \$424,000 over the 2011-12 rate; 10% overall increase in benefit costs
- No Transfer from the General Fund to the Parcel Tax Special Reserve fund
- District freeze on supplies & services with a 3% built-in cost inflation.

Status of Other Funds Operated by the District as of First Interim (October 31, 2010)

- Adult Education

The Adult Education Fund shows deficit spending for the 2010-11 year. There is more than double the amount in reserves to offset anticipated decreases in revenue for fee-based classes. The law requires that the Adult Education program be self-sufficient and in no way supported financially by the District's General Fund. The Adult Education Fund remains solvent, and will continue to serve students seeking a high school diploma. The Business Services Department maintains full control over all aspects of the Adult Education program and budget. There are no significant changes in the multi-year projections. If proposed mid-year cuts take effect, revisions will be provided at the Second Interim report.

- Cafeteria Fund

The Cafeteria Fund is a separate fund for which the District tracks all food services operations. Food services at the elementary sites are exclusively operated by parent volunteers. Food service at the High and Middle schools require 3-5 employees whose salaries are accounted for through this fund. All costs associated with the operation of the food services provided to the students

are wholly supported by the Parent Club organizations. This fund does not receive contributions from the District General Fund. Revenue is anticipated to increase by the cost of salary and benefits for employees in the multi-year projections. Expenses include a 1.5% increase in salaries (longevity) for 2011-12 and 1.5% in 2012-13.

- Deferred Maintenance Fund

The First Interim Report reflects support of the Seismic Safety Bond program, as well as expenditures to meet the goals of the District's Five-Year Deferred Maintenance Plan. There are virtually no changes in multi-year projections.

- Parcel Tax Reserve Fund

The Parcel Tax Reserve Fund is normally established for funds from the first year of the current voter-approved Parcel Tax to support programs as necessary in later years during the term of the tax. There are no transfers in or out of the fund for 2010-11, nor do multi-year projections show any transfers into this fund.

- Building Fund

The Building Fund is the established fund for which all voter-approved Bond measure proceeds are accounted. These funds may be used in support of voter-approved projects only. All current funds are derived directly from Seismic Safety Bond sales approved by the voters in March, 2006. Additionally, the Citizens Oversight Committee reviews all District expenditures since the inception of the PUSD Seismic Risk Reduction Program. The COC will report to the Board in early February, 2011. Multi-year projections show funds fully expended in 2011-12. As State matching funds become available, they will be identified under "State Revenues"

- Capital Facilities Fund

The Capital Facilities Fund is a fund for capital projects as identified by the Board of Education. There are no changes in the multi-year projections; Efforts to set aside \$45,000 per year for future capital projects have been suspended given the current State budget crisis. A transfer of \$200,000 to this fund in 2012-13 as part of the June, 2010 authorized sweep of Deferred Maintenance funds is pending Board approval.

- NODA Fund

The NODA Fund was established by the Board of Education to use the proceeds from the sale of a mural by the artist Noda to establish a fund to support visual arts at the secondary level. Arts grants are funded through interest earned. The NODA account is fully funded, and there are no changes to report at the first interim, nor significant changes in the multi-year projections.

Summary and Recommendation

It is recommended that the Board of Education review and approve the First Interim Report as presented and that they provide a *Positive Certification* as to the District's ability to meet its financial obligations for the current year and subsequent two fiscal years. Multi-year projections show Ending Fund balances meeting designated reserve levels in 2012-13 with the District's commitment to a minimum of \$1.4 Million in ongoing reductions beginning in 2011-12. These will be fully articulated at the Second Interim report in March, where a *Positive Certification* is also anticipated.

These are extraordinary economic times and it is difficult to gauge the future. The District's budget continues to be conservative over the next few years. Funding will remain significantly reduced, and the prospect of apportionment deferrals lapsing into unrealized money is a distinct possibility. The staff, Board of Education and community at large are very aware of the effects of enrollment fluctuations and State budget uncertainties and are planning accordingly. Piedmont is committed to the long-term tradition of solid fiscal responsibility in the management of the District's finances. The District business services staff continues to work closely with the Business Services department at Alameda County Office and in consultation with School Services of California. The Alameda County Office of Education is dedicated to supporting Piedmont to assure all requirements of AB 1200 and the Daucher Bill are met.

The Budget Advisory Committee (BAC), which is a standing committee with representatives from all stakeholders in the District, is a vehicle for dissemination of information to as many parents, students, staff and community members as possible. Its purpose is to review the District's budget, share the information with constituent groups and generate recommendations for Board consideration in the budget development process. It provides frequent opportunities for the Piedmont educational community to review the District's budget and identify trends and make recommendations for Board consideration in the budget development process. The Committee is advisory in nature and does not have decision-making responsibilities. Additionally, a Citizens Advisory Committee Citizens' Advisory Committee on Parcel Tax Program Measures B and E (June 2, 0009 Election) was established to serve in an advisory capacity to the Board to help review and project the financial needs of the District with respect to whether and in what amount to levy voter-approved parcel taxes.

II. **RECOMMENDATION: ACTION**

Upon review of 2010-11 First Interim Report, approve a *Positive Certification* of the District's ability to meet financial obligations for the current year and the subsequent two fiscal years (including the implementation of at least \$1.4 Million in expenditure reductions/revenue enhancements to be outlined and defined by the Second Interim report); and authorize the appropriate budget transfers of funds.