

Board Meeting of  
March 14, 2012

To: Board Members

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

Subject: **REVIEW 2011-12 SECOND INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *POSITIVE* CERTIFICATION OF THE DISTRICT'S ABILITY TO MEET FINANCIAL OBLIGATIONS FOR CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; AND AUTHORIZE BUDGET TRANSFERS OF FUNDS**

I. **SUPPORT INFORMATION**

Governing Boards are required to certify the financial condition of each school district at two intervals during the school year. The Piedmont Unified School District's budget is fluid and undergoes constant revision as revenues and expenditures are clarified. For 2011-12 and beyond, districts throughout California will continue to experience 20% reductions in State education funding. However, for 2012-13, school districts must also contend with the possibility that funding could decrease during the next fiscal year by an additional \$370 per pupil (in the form of mid-year cuts) if proposed ballot measures in November, 2012 are not approved by the voters of California. For the Piedmont Unified School District, this additional mid-year cut would push current Revenue Limit losses in excess of \$1,300 per pupil. Consequently, California school districts face a unique challenge in anticipation of the upcoming State budget: whether to cut program and issue massive layoffs now in an effort to reduce expenditures (in anticipation of a worst-case scenario in November), or wait until more information is known before taking more definitive action. Over the past four years, the Piedmont Unified School District Board of Education has developed and adopted budgets that "stay the course" by building strong reserves that have afforded the District and community ample time to plan for and address economic uncertainty in the future while maintaining student programs. The District will be able to meet its financial obligations for the current year and following year, even under a worst-case scenario for the State 2012-13 Budget. This will allow PUSD time to plan for as yet undetermined conditions in 2013-14.

Per the requirements of AB 1200, the District declares its ability to meet its financial obligations through one of three self-certifications: A *Positive* Certification means that the District believes it can 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 financial obligations over three years; and a *Negative* Certification is used when a district will not be able to meet its financial obligations for the remainder of the current year nor for the subsequent two fiscal years. *Qualified* or *Negative* Certifications serve 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 Interim Reports. The District submitted a Positive Certification at the 2011-12 First Interim Report in December 2011, with advance notice that given the current fiscal crisis, the District would provide the Board with financial scenarios addressing a potential \$1.2 million shortfall in the 2013-14 school year by the Second Interim report. These scenarios have been presented to the Board and include both one-time and ongoing revenue enhancement and expenditure reductions. However, since the presentation of the First Interim Report in December, the Governor’s proposed 2012-13 Budget unveiled in January continues to change the financial landscape for how districts will develop and adopt their budgets for next year: Because the Governor’s education budget includes trigger reductions if November 2012 tax initiative(s) fail, districts must consider and calculate their total exposure under a worst-case scenario, while understanding a host of variables will alter these calculations several times in the coming months. For example, mid-year reductions for the 2011-12 budget were projected (and then changed) four times since January: from an initial projected cut to PUSD of as much as \$644k to as low as \$40k before settling at \$137k.

The Second Interim Report as presented reflects relevant information to budgets for 2011-12 through 2013-14 based on conditions as of January 31, 2012. Per guidelines established by the Alameda County Office of Education, the Second Interim report uses the School Services Dartboard, which was updated based on the Governor’s Proposed 2012-13 State Budget in January, 2012 for COLA, revenue limit deficits, and categorical funding. However, as was the case at the First Interim report (when the District chose not to include the SSC projections of a 3.10% and 2.80% increase in COLA’s in 2012-13 and 2013-14 as part of its revenue limit calculations), we will continue take a conservative approach to PUSD budget development and include no cost of living (COLA) adjustments for the current and subsequent school years.

The Governor's 2012-13 Budget extends flexibility reforms adopted in 2009 that help school districts like PUSD maintain core services in the face of limited and dwindling funding. However, unlike in 2011, when the Governor made explicit a desire not to cut K-12 education further (noting that "school funding has been disproportionately reduced since 2007-2008") the Governor's 2012-13 proposed Budget Act reduces funding to PUSD by a minimum of \$260,000 (by increasing the Deficit Factor from 19.754% to 21.666%) in addition to mid-year trigger cuts of \$370 per ADA if the tax initiative fails. Under this "worst-case scenario," the Piedmont Unified School District faces new reductions in State funding of up to \$2.7M over the course of three years. This is exclusive of the loss of nearly \$1M from Emergency Parcel Tax Measure E, set to expire in June, 2012.

The 2012-13 State Budget Act challenges all California school districts and their capacity to mitigate future downside risk. For PUSD (just as it was in 2010-11), under the guidelines established by the Board of Education, the District believes it has built reserves sufficient to sustain educational programs through 2012-13 *even if proposed tax initiatives fail*. PUSD has managed to accomplish this through the shared generosity and shared sacrifices of many: Specifically, through contributions from Parent Clubs to offset the \$137,000 mid-year cuts in 2011-12 and \$250k in increased per pupil contributions; through ongoing sacrifice on the part of PUSD employees to reduce salaries, benefits, and post-employment benefits to keep overall reductions in workforce low; and through the generosity of the community in the form of the base parcel tax (Measure B), emergency parcel tax (Measure E), donations and ongoing fundraising by parent groups, support clubs, and the Piedmont Education Foundation. Working together, PUSD has preserved K-3 class-size reduction, K-12 counseling and library services, a seven-period day at Piedmont High School, Piedmont Middle School, and Millennium High School, and a rich elective program. Together, the Piedmont education community has managed to hold on to a great deal of what has been lost in many other school districts throughout California.

In consultation with the Alameda County Office of Education, PUSD will take a very conservative approach to budget development and its use of current budget assumptions. This is not to suggest the District assumes the worst-case scenario will come to fruition. Rather, the District has chosen instead to outline the full magnitude of the potential fiscal challenges ahead within the Second Interim Report in order to provide perspective on both the District's capacity to meet financial obligations next year (thus validating the Board's decision not to issue layoffs this year) and to inform budget development discussions in anticipation of the District's 2012-13 Adopted Budget scheduled for June, 2012.

Attached is the financial summary of the Second Interim Report, which shows the condition of the District's General Fund as of January 31, 2012. Budget development assumptions as stated were in place at the point in time when each budget revision and multi-year projection was developed. The final page is a summary of the multi-year projection that establishes the District's ability to meet its financial obligations for the current year through 2012-13. It should be noted that revenue summaries include a one-time 5% increase in the Measure B parcel tax levy, consistent with discussions and a recommendation to be brought forth by the Citizens' Advisory Committee for the Parcel Tax.

The District also continues to work within the parameters for use of one-time funds as well as State categorical fund flexibility. All Federal Stimulus funds received have been fully expended as required by law. For State categorical funding flexibility as outlined in the Enacted 2011-12 California State Budget, PUSD retains authority to use money received from the State for Tier III programs for any educational purpose to the extent permitted by Education Code 42605. Categorical program funding flexibility requires an annual public hearing on the proposed explicit use of the funds. In May of 2011, the Board authorized budget transfers from some Tier III categorical programs to support K-12 education, including \$120,000 from Adult Education, but has predominantly maintained categorical funding within existing K-12 categorical programs. A similar hearing will need to be held this year to renew and/or expand this flexibility.

The budget documents presented in this Second Interim report continue to serve as a reflection of the District's goals and philosophy of spending current funds on current students. They reflect the tremendous support of the community as expressed in revenues from the Measure B Parcel Tax; annual support from the Piedmont Education Foundation Endowment; the funding of personnel and direct per-student contributions from parent clubs, including direct contribution increases of \$100 per student; numerous donations and grants from service organizations and support clubs like PRAISE, CHIME, and PAINTS; and philanthropic efforts from individuals and foundations like the Lois B. Rawlings Foundation.

As the District develops its budget for 2012-13, we will initiate the process of identifying how to close a roughly \$3.5M shortfall (under a worst-case scenario) in 2013-14 correlating to the potential loss of \$2.7M in funding between now and 2013-14. The budget development principles approved by the Board will inform this process.

Second Interim (as of January 31, 2012) – Revenue: -\$86,454

Revenue Limit funding remains flat, though a \$137,195 mid-year cut is noted as an adjustment to the reserve fund balance. State Revenue increased \$193,415, but is lower than anticipated as part of the State Mental Health (AB 3632) reimbursement (\$135k) the District hopes to receive later this year. Lottery revenues increased \$43k, and the District received \$6k for transportation (previously included in first-round mid-year cuts), and \$10k for counseling, math, and reading programs.

A decrease in local revenue of -\$33,170 is due to unreimbursed AB 3632 funding (-\$371k) offset by donations to the Wellness Center (\$26k); revised income contributions of (\$95k) from parent clubs, PEF, music donations, special education; receivables from associated student body funds, grants, principal resource accounts, and athletic fees (\$216k).

Second Interim (as of January 31, 2012) – Expenditures: +\$178,639

Increases in salaries (Certificated - 184.7 fte + Classified – 112.2 fte.) include costs for substitute teachers and adjustments to salary calculations in October. Classified salaries reflect additional personnel for specialized programs. An increase in benefits of approximately \$83,416 is attributed to “qualifying event” changes in medical plans and to the transfer of some personnel benefits costs between operating funds. Books & Supplies/Services & Operating expenses are booked against revenues received, though trailing as yet unreceived AB3632 revenues.

Second Interim (as of January 31, 2012) – Ending Fund Balance: \$3,261,169

The total ending balance on June 30, 2012 is projected to be \$3,261,169 which represents 10.6% of total expenditures. The District continues to maintain reserves through cost-saving measures, including roll-over of ending fund balances where authorized, and the preservation of General Fund money through use of restricted, one-time funding (Federal, Parent Club emergency funding, etc.). AB 1200 requires each district to maintain a 3% reserve for economic uncertainty. \$2,314,062 is what remains after the 3% reserve (\$922,107) has been met. The Ending Fund Balance is greater because mid-year cuts are less than originally projected (\$644k to \$137k).

To address a \$3.5 million shortfall anticipated for 2013-14, the District will identify a combination of revenue enhancements and expenditure reductions as part of its Adopted Budget for 2012-13. Per Board direction, budget development assumptions that do not reflect a "worst-case scenario" could be incorporated into the 2012-13 PUSD Adopted Budget. More information will be available at the Governor's May Revise. Options for revenue enhancement include Board authorization of a parcel tax increase and a sweep of Tier III categorical programs (where appropriate). The District will identify reductions by the First Interim report in December, 2012.

#### Multi-year Projections (as of January 31, 2012) - 2012-13 Assumptions

##### Revenue:

- Cost of Living Adjustment (COLA) 0%, which deviates from the School Services of California Dartboard that identifies a 3.17% COLA
- Deficit Factor of 21.666% per School Services of California Dartboard
- Additional ongoing reduction of \$370/ADA if November tax initiative(s) fail (approximately \$912,000)
- No Federal Education Jobs funding
- Revenue Limit ADA at 2465. This is based on current year enrollment.
- Categorical and Special Education funding at 0% increase from the previous year
- No mandated cost reimbursements are included as part of 2012-13
- Adult Education Apportionments are built in/transferred out
- Parcel tax revenue from Measure B increased by 5%; Measure E expired
- Piedmont Educational Foundation Endowment contribution of \$168,769
- \$0 for designated anonymous donations.
- Parent Club contributions of approximately \$1.55 million (direct District-funded support and parent club funded personnel with benefits costs), of which \$250,000 is additional \$100/pupil contribution
- Adult Education contribution of \$120,000 for indirect costs
- Transfer of \$245,600 from Parcel Tax Reserve

Expenditures:

- 0% increase in salary schedules for all employees
- Continuation of furlough days for Certificated and Classified staff, for a savings of \$450,000
- "Step & Column" and "Longevity" salary schedule increases of 1.5% for employees (\$293,000)
- 0% increase in health and welfare benefits for all employees; additional increases in H&W benefits assumed by employees
- Unexpended funds in categorical programs to be reserved for the program from which the funding originated or captured as allowed under 2009 State budget provisions
- \$20,000 transfer to Capital Facilities Fund for Witter Field sinking fund
- Ending Fund Balance: \$590,184
- Funds needed for 3% reserve in 2012-13: \$338,516

Multi-year Projections (as of January 31, 2012) - 2013-14 Assumptions

Revenue:

- Cost of Living Adjustment (COLA) 0%, which deviates from the School Services of California Dartboard that identifies a 2.40% COLA
- Categorical funding increase of 0%
- Continue deficit factor of 21.666%
- Federal funding at the same rate as the 2012-13 rate
- Parcel tax revenues from Measures B as approved by the voters in June 2009 will remain the same as 2012-13. Under revenue enhancement options, the Board *may*, after a public hearing, authorize a 5% increase for the Measure B tax (approximately \$430,000)
- Revenue Limit ADA is the same used for 2012-13
- Adult Education contribution of \$120,000 for indirect costs
- No mandated cost reimbursement is projected in the budget.
- All Parent and support group contributions at the same level as in 2012-13
- PEF contribution of \$168,769 on behalf of the Endowment Fund
- No Parcel Tax Reserve Transfer
- Additional ongoing reduction of \$370/ADA if November tax initiative(s) fail (approximately \$917,000)

Expenditures:

- No salary schedule increases for any employee group
- "Step & Column" and "Longevity" salary schedule increases of 1.5% for employees (\$297,000)
- \$20,000 transfer to Capital Facilities Fund for Witter Field sinking fund
- 0% increase in health and welfare benefit cost for all employees; cost increases in H&W benefits assumed by employees per negotiated cap
- Continuation of furlough days for Certificated and Classified staff, for a savings of \$450,000
- Unexpended funds in categorical programs to be reserved for the program from which the funding originated or captured as allowable under 2009 State budget provisions.
- Ending Fund Balance: **-\$2,593,346**
- Funds needed for 3% reserve in 2013-14: \$3,533,439

Status of Other Funds Operated by the District as of Second Interim (1/31/12)

Adult Education

The Adult Education Fund is balanced for the 2011-12 year. The Adult Education Fund remains solvent for 2011-12 and beyond. The high school diploma program continues to accept adult students and concurrently enrolled Piedmont students. The Creative Retirement Center (CRC) program for senior citizens continues to operate out of Veteran's Hall thanks to the generosity of the City of Piedmont and the Piedmont Recreation Department. The Adult Education Fund has built reserves for use in case of economic uncertainty in future years

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 at least 2 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 0% increase in salaries for 2012-13 and 2013-14 and 1.5% in longevity increases only.



## Deferred Maintenance Fund

Expenditures for this fund support the District's Five-Year Deferred Maintenance Plan. Costs reflected in services and operating expenses remain the same, and the use of Deferred Maintenance funds in support of Seismic Safety Bond projects is ongoing. Changes in the multi-year projections show identical expenditures in Deferred Maintenance, although these will no doubt be subject to change. The Board-approved deferred maintenance contract for 2011-12 transpired after January 31, 2012, and is not included in multi-year projections.

## Building Fund

The Building Fund is the established fund for which all voter-approved Bond measure proceeds are accounted. The balance of the funds may be used in support of any voter-approved project. All current funds are derived directly from Seismic Safety Bond funds approved by the voters in March, 2006. Additionally, the Citizens Oversight Committee reviews all District expenditures related to the Seismic Safety Bond program since the inception of the PUSD Seismic Risk Reduction Program. The COC must report to the Board to present an annual report, and is scheduled concurrently with the Second Interim Report. Current year revenues show interest earnings only. Expenses for Seismic Safety Bond Program projects continue in this fund, but must now be accounted for in the State School Facilities Fund (as modernization funds) as applied to building projects.

## State School Facilities Fund

The State School Facilities Fund is where restricted money received from the State of California for the modernization and construction of school facilities is held. It is different from the Building Fund, which contains proceeds from the voter-approved Bond measure. For purposes of tracking all expenditures from one source account, funds from the School Facilities Fund will be transferred to the Building Fund as needed to complete seismic safety bond projects. Expenditures tied to modernization funds will be tracked separately (and audited separately) to demonstrate that modernization funds were used for their intended purpose.

## Capital Facilities Fund

The Capital Facilities Fund is a fund for capital projects as identified by the Board of Education. This was the fund through which all donations in 1999-2000 for the artificial turf at Witter Field were accounted. Interest earnings, capital improvement projects (funded through donations), and limited facilities rental fees reflect any current changes to this fund. Projected transfers from the General Fund of \$20,000 from rental receipts will go toward the replacement costs for Witter Field and Witter Track.

## Parcel Tax Reserve Fund

The Parcel Tax Reserve Fund was established for funds from the first year of the current Parcel Tax approved by voters to support programs as necessary in later years of the term of the tax. The Parcel Tax reserve fund is required to be fully expended as mandated by the parcel tax measure. The Second Interim Report identifies using all funds currently set aside for the final year of the tax (2013-14) during the 2012-13 school year if the November tax initiative(s) fail.

## NODA Fund

The NODA Fund was established by the Board of Education to use the proceeds from the sale of a mural by artist (and former PHS student) Benjamin Hideo Noda to establish a fund from which the interest earned is used for grants to support visual arts at the secondary level. The NODA account is fully funded, and there are no changes to report at the second interim and no significant changes in the multi-year projections.

## **SUMMARY AND RECOMMENDATION**

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. After the BAC has reviewed the Second Interim

Report, results of its discussions for budget priorities and recommendations are presented to the Board of Education as part of the 2012-13 budget development process.

It is recommended that the Board of Education review and approve the Second 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 based on the District's strong reserve levels and its ability to increase revenue and reduce expenses as needed and in time to respond to economic uncertainty. This recommendation is based on information that is available as of January 31, 2012.

The District staff, Board of Education, and community at large are aware of the effects of enrollment fluctuations and State budget uncertainties and will plan 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 the Alameda County Office of Education 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.

## II. RECOMMENDATION: ACTION

Upon review of the 2011-12 PUSD Second Interim Report, approve a *Positive* certification of the District's ability to address and meet its financial obligations for the current year and subsequent two years