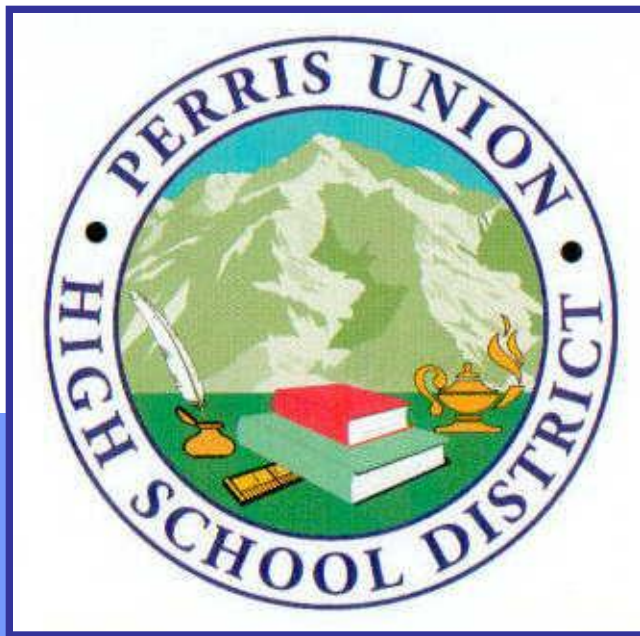


2011-2012 Adopted Budget



June 29, 2011

CALIFORNIA STATE BUDGET



- Governor's January Budget Proposal
 - 2 plans for education
 - If the taxes were extended, education would receive flat funding for 2011-2012
 - This was really a loss of \$22 per ADA
 - If the taxes were not extended, education would lose at least another \$330 per ADA
- Governor's May Revision
 - Only provided his flat funding plan, correcting the loss of \$22 per ADA
 - This was and is still dependent upon future events, extension of taxes

CALIFORNIA STATE BUDGET

- On June 15, 2011, with Assembly Bill (AB) 98, The Legislature approved a 2011-2012 State Budget
 - Without the extension of the temporary taxes sought by the Governor
 - Relies on a long list of cuts, one-time revenues, special fund borrowing, accounting shifts, and other gimmicks to replace the \$9.6 billion in revenues that the Governor sought in his May Revision
 - Reinstatement of \$2.85 billion in K-14 apportionment deferrals
- Governor vetoed this Budget that same day

DISTRICT BUDGET

- Under current law the taxes expire
- The District's 2nd and 3rd Interim Financial Reports were based on the loss of \$352 per ADA
- With the Department of Finance (DOF) fix of \$22 per ADA, the District's 2011-2012 Budget is based upon the loss of \$330 per ADA
- This is the minimum reduction level recommended by RCOE

DISTRICT BUDGET SUMMARY

	2010-2011 Estimated Actuals	2011-2012 Adopted Budget	2012-2013 Projected Budget	2013-2014 Projected Budget
Beginning Balance	\$11,187,293	\$11,364,500	\$2,617,048	\$2,069,298
Revenue	\$79,446,093	\$69,270,360	\$67,595,159	\$67,595,159
Subtotal Expenditures	\$79,268,885	\$81,859,322	\$77,796,349	\$78,817,667
Identified & Approved Budget Reductions (not yet implemented)		(\$3,841,510)		
Additional Required Budget Reductions (not yet identified & approved)			(\$9,653,440)	(\$11,206,555)
Total Expenditures	\$79,268,885	\$78,017,812	\$68,142,909	\$67,611,112
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	\$177,208	(\$8,747,452)	(\$547,750)	(\$15,953)
Total Ending Balance	\$11,364,500	\$2,617,048	\$2,069,298	\$2,053,345
Restricted Ending Balance	\$5,264,367	\$0	\$0	\$0
Ending Balance Above 3%	\$3,688,400	\$271,273	\$25,000	\$25,000

- Includes the loss of \$330 per ADA -

ENROLLMENT AND ADA

- Enrollment is projected to decrease by 1% in 2011-2012
- Enrollment decreased by 0.2% in 2010-2011
- Average Daily Attendance (ADA) is projected to be 93.34% of enrollment, or 8,917 District ADA
 - This is an increase of 0.52% over previous years budget projections as a result of ADA gains through the Attention to Attendance program that began in 2010-2011

ONE-TIME FUNDING SOURCES

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	TOTAL
Spent of Prior Year Ending Balance	\$0	\$6,472,627	\$945,058	\$3,561,571	\$0	\$10,979,256
Tier III Flexibility Revenues	\$3,265,143	\$3,246,742	\$4,282,424	\$4,090,862	\$4,000,000	\$18,885,171
Title I, Part A, ARRA	\$0	\$712,703	\$139,761	\$0	\$0	\$852,464
State Fiscal Stabilization Funds (SFSF), ARRA	\$159,242	\$3,604,537	\$1,364,969	\$158,139	\$0	\$5,286,887
Federal Education Jobs Program Funds, ARRA	\$0	\$0	\$1,048,772	\$984,851	\$0	\$2,033,623
Special Education, IDEA, Part B-611, ARRA	\$0	\$901,991	\$351,975	\$21,021	\$0	\$1,274,987
Fund 40 Transfer In	\$0	\$0	\$5,045,713	\$0	\$0	\$5,045,713
TOTAL	\$3,424,385	\$14,938,600	\$13,178,672	\$8,816,444	\$4,000,000	\$44,358,101

2011-2012 TIER III CATEGORICAL FLEXIBILITY

Program Name	Adopted Budget
National Board Certification Teacher Incentive Grant	\$3,356
Community Based English Tutoring	\$42,390
School Safety and Violence Prevention	\$271,361
Arts and Music Block Grant	\$138,175
Supplemental School Counseling Program	\$559,749
Gifted and Talented Education (GATE)	\$51,304
AB466/AB472 Math/Reading and Math/Reading ELL	\$50,120
Administrator Training	\$51,058
Pupil Retention Block Grant	\$51,117
Professional Development Block Grant	\$108,507
Targeted Instructional Improvement Block Grant (TIIBG)	\$203,288
School and Library Improvement Block Grant	\$126,069
California High School Exit Exam (CAHSEE)	\$217,466
AB1781 Instructional Materials Funding Realignment Program (IMFRP)	\$514,161
Sub Total Tier III Funds Available for Flexibility	\$2,388,121

2011-2012 TIER III CATEGORICAL FLEXIBILITY

Program Name	Adopted Budget
Supplemental Hourly Programs – CORE	\$95,171
Supplemental Hourly Programs – CAHSEE	\$491,873
Supplemental Hourly Programs – Retained/Recommended for Retention Grades 2-9	\$1,446
Adult Education	\$330,514
Deferred Maintenance (Estimated District Match)	\$297,397
Morgan Hart – Class Size Reduction Grade 9	\$486,340
Sub Total Other Funds Available for Flexibility	\$1,702,741
Total Tier III & Other Funds Available for Flexibility	\$4,090,862

USE OF TIER III CATEGORICAL FLEXIBILITY

- Offset State Budget reductions
- Maintain the District's core programs
- Employee costs including step, column, and health and welfare increases
- Prevent otherwise higher class sizes
- Professional Development
- Provide trainings
- Purchase instructional materials and textbooks
- Other Program Improvement/DAIT related professional services

GENERAL FUND EXPENDITURES

- Overall, expenditures are projected to decrease by \$1.25 million
- Overall employee costs are 87.2% of the Unrestricted General Fund and 75.1% of the Combined General Fund
- Significant adjustments include:
 - \$2.0 million of reductions approved by the Board in November 2010
 - 8 furlough days for Management and Confidential
 - Bargaining unit concessions - negotiations in progress

GENERAL FUND EXPENDITURES

- Significant adjustments include (*continued*):
 - Automatic step/column increases of \$745 thousand
 - Health & Welfare cost increases of \$319 thousand
 - No textbook adoptions
 - Reduction of \$312 thousand in Professional Services
 - Use of \$4.3 million of Redevelopment Agency funds for the Pinacate Middle School Expansion Project
 - Utilities projected to increase 5%

BUDGET REDUCTION HISTORY

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
2007-2008 Reductions (all are ongoing)	\$201,374	\$201,374	\$201,374	\$201,374	\$201,374
2008-2009 Reductions (all are ongoing)		\$2,536,447	\$2,536,447	\$2,536,447	\$2,536,447
2009-2010 Reductions (all are ongoing)			\$2,432,653	\$2,432,653	\$2,432,653
2010-2011 Reductions (less \$258,082 are ongoing)				\$2,869,122	\$2,611,040
2011-2012 Reductions (less \$3,982,448 are ongoing)*					\$5,810,778
Total Cumulative Reductions	\$201,374	\$2,939,195	\$8,109,669	\$16,149,265	\$29,741,556

**includes \$3,841,510 of reductions not yet implemented*

ENDING BALANCES AND CASH

	2010-2011	2011-2012	2012-2013
Total Ending Balance	\$11,364,500	\$2,617,048	\$2,069,298
Less Restricted Ending Balance	\$5,264,367	\$0	\$0
Unrestricted Ending Balance	\$6,100,134	\$2,617,048	\$2,069,298
Reserve Level <i>(Unrestricted Ending Balance as a percentage of Expenditures)</i>	7.70%	3.35%	3.04%
Cash Balance <i>(Total Ending Balance made up of Cash)</i>	\$2,794,607	\$815,530	(\$12,743,352)
Cash Reserve Level <i>(Cash Ending Balance as a percentage of Expenditures)</i>	3.53%	1.05%	0.0%
Cash Balance made up of Loans	\$0	\$10,500,000	\$0

2011-2012 CASHFLOW

	Beginning Cash	Total Receipts	Total Disbursements	Net Ending Cash	Interfund Temporary Loans	Tax Revenue Anticipation Note (TRAN)	Total Ending Cash
July 2011	2.8	3.9	5.4	1.3	2.5		3.8
August 2011	3.8	7.7	8.1	3.4			3.4
September 2011	3.4	10.1	8.1	5.4			5.4
October 2011	5.4	4.3	8.4	1.3			1.3
November 2011	1.3	1.8	6.6	(3.5)	(2.5)	7.5	1.5
December 2011	1.5	8.9	6.7	3.7			3.7
January 2012	3.7	18.4	7.4	14.7		(7.5)	7.2
February 2012	7.2	2.0	7.6	1.6			1.6
March 2012	1.6	1.1	7.1	(4.4)		7.5	3.1
April 2012	3.1	6.2	6.7	2.6			2.6
May 2012	2.6	5.3	6.2	1.7			1.7
June 2012	1.7	1.3	5.2	(2.2)	3.0		.8

2011-2012 Fiscal Year Ending with Debt of \$10.5 million

Dollars in Millions

CASH MANAGEMENT

- Internal Borrowing - Temporary Loans will be utilized
- External Borrowing - Tax and Revenue Anticipation Note (TRAN) has been approved
 - Received a credit rating of SP-1+
 - Standard and Poor's highest short-term rate
 - Were approved \$7,554,400
 - Financing is scheduled to close on July 1, 2011 at which time the proceeds will be available for cashflow needs

CASH MANAGEMENT

- For 2011-2012 we will have utilized all borrowing options to the maximum extent available and allowed by law
 - For a TRAN, California Law allows
 - “...together with the interest payable thereon, a TRAN may not exceed 85 percent of a school district’s uncollected revenues” (State Aid apportionment deferral)
 - For a Temporary Loan, Education Code 42603 allows
 - “...no more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be transferred...” (applies to loans repaid in the current fiscal year)
 - “Funds borrowed shall be repaid...in the following fiscal year if the transfer takes place within the final 120 calendar days of the fiscal year...”

FISCAL HEALTH OF THE DISTRICT

- Absent implementation of reductions included within the 2011-2012 budget, we will not meet our financial obligations in the current year
 - Very limited control of revenues
 - Do have control of expenditures
- Reductions of a much more extreme nature must be planned for 2012-2013
 - The budget shortfall is much greater (even if flat funding were to materialize)
 - One-time funding will have been exhausted
 - The ability to borrow the cash needed up to the budgeted spending authority will likely not be possible

AGENDA ITEM 6.2

- At the conclusion of this report, open a Public Hearing to receive testimony relating to the proposed budget and use of categorical funding
- Consider adoption of the 2011-2012 budget (*balanced budget must be adopted by the Board prior to June 30, 2011*)
- Consider adoption of Resolution 44:10-11
 - Implements the 2011-2012 Budget as presented, including Board approved budget reductions
 - States the intent to implement budget reductions sought from bargaining units, through negotiations or other action of the Board
 - Approves the use of categorical funding
 - Commitment to maintain ongoing fiscal solvency
 - Specify, approve and implement further budget reductions in 2012-2013 and 2013-2014

NEXT STEPS FOR PUHSD

- After the California State Budget is adopted, the District's budget will be revised and presented to the Board for approval
- The following Agenda Item would establish a Fund Balance policy, as required by the Governmental Accounting Standards Board (GASB) in Statement No. 54 (GASB 54)
 - This is especially critical not only because of the budget shortfall, but more importantly the structural budget deficit

FUND BALANCE CLASSIFICATIONS

- GASB 54 further implements fund balance classifications to improve the clarity and usefulness of fund balance information
 - Nonspendable Fund Balance - assets that are not in spendable form (e.g. revolving cash account, CFD formation accounts, scholarship accounts)
 - Restricted Fund Balance - subject to externally enforceable constraints
 - Committed Fund Balance - set aside for a specific purpose by formal action of the Board of Trustees
 - Assigned Fund Balance - assigned by delegated authority for a specific purpose as intended by the Board of Trustees (e.g. site carryover, maintenance accounts, donations)
 - Unassigned Fund Balance - residual balances not otherwise classified
 - Includes Reserve for Economic Uncertainties (REU)

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Restricted Ending Balance	\$5,264,367	\$0	\$0	\$0
Ending Balance Above 3%	\$3,688,400	\$271,273	\$25,000	\$25,000

- Includes the loss of \$330 per ADA -

THE BUDGET CHALLENGE

- Recall the 13-month challenge?
- This is now a 12-month challenge since July 1, 2012 is only 12 months away
- \$9.7 million must be cut from the budget prior to the start of the 2012-2013 fiscal year
 - This assumes cashflow needs could be met, and it is likely this will not be possible
- What would happen if flat funding did materialize?
 - This would provide approximately \$3.0 million of additional revenue per year but does not solve the problem

DISTRICT BUDGET SUMMARY

	2010-2011 Estimated Actuals	2011-2012 Adopted Budget	2012-2013 Projected Budget	2013-2014 Projected Budget
Beginning Balance	\$11,187,293	\$11,364,500	\$5,600,294	\$2,243,079
Revenue	\$79,446,093	\$72,253,606	\$70,578,405	\$70,578,405
Subtotal Expenditures	\$79,268,885	\$78,017,812	\$77,796,349	\$78,817,667
Continuation of 8 Furlough Days, Raised Class Sizes and Stipend Reductions			(\$3,293,899)	(\$3,293,899)
Additional Required Budget Reductions (not yet identified & approved)			(\$566,830)	(\$4,837,459)
Total Expenditures	\$79,268,885	\$78,017,812	\$73,935,620	\$70,686,309
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	\$177,208	(\$5,764,206)	(\$3,357,215)	(\$107,904)
Total Ending Balance	\$11,364,500	\$5,600,294	\$2,243,079	\$2,135,175
Restricted Ending Balance	\$5,264,367	\$0	\$0	\$0
Ending Balance Above 3%	\$3,688,400	\$3,254,519	\$25,000	\$25,000

- Includes flat funding and assumes the same level of 2011-2012 concessions-

THE BUDGET CHALLENGE

- What is the solution to the budget challenge?
- There isn't an easy answer to this, but the solution starts with a fiscally responsible fund balance policy that addresses:
 - Unanticipated expenditure increases or revenue shortfalls
 - Apportionment deferrals not able to be mitigated by borrowing
 - Prudent levels of operating capital
 - The structural budget deficit/deficit spending

FUND BALANCE RECOMMENDATION

- Reserve for Economic Uncertainties (REU)
 - Minimum of 3% of the District's general fund annual operating expenditures and other financing uses
 - Plus, to the extent possible, an additional two (2) months of general fund annual operating expenditures
 - Given the current significant budget shortfalls, it may not be possible to reach this additional level at this time

FUND BALANCE RECOMMENDATION

- 2010-2011 ending balance above 3% would be used to offset the budget shortfall in 2011-2012
- Any additional revenues received in 2011-2012 would be used to offset the budget shortfall and deficit spending in 2012-2013
 - This would include any action of the State that results in flat funding
- 2011-2012 ending balance above 3% would be used to offset the budget shortfall in 2012-2013

AGENDA ITEM 6.3

- Consider adoption Resolution 45:10-11
 - Establishes a Fund Balance Policy as recommended
 - Classifies these balances as Committed Fund Balances by the Board of Trustees
 - Requires formal action by the Board of Trustees to amend or modify
- The required budget reductions (\$10 million) combined with cash shortages in 2012-2013 and the limit on cash borrowing options likely make this the only viable option to remaining solvent