

2011-2012 REVISED BUDGET

August 17, 2011



ADOPTED BUDGET - RCOE GUIDANCE

- The District's 2011-2012 Adopted Budget was based upon the loss of \$330 per ADA as recommended by the Riverside County Office of Education (RCOE), in their Adopted Budget Guidance Letter (excerpt shown)



Impact of 2011-12 May Revision Proposal

Due to the continuing risks associated with the Governor's May Revision proposal, our office advises districts to continue to plan for an ongoing reduction of \$330 per average daily attendance (ADA) until the state enacts a final budget.

Although the state has made significant gains to balance its 2011-12 budget, the Governor's May Revision still projects a budget shortfall totaling \$10.8 billion. While the Governor continues to propose "flat-funding" for K-12 education, the commitment to hold K-12 education harmless from further funding reductions remains contingent upon an extension of temporary taxes set to expire this fiscal year. **Until the state enacts a final budget, our office strongly advises and believes it fiscally prudent for Riverside County school districts to continue to plan for an ongoing reduction of \$330 per ADA.** If a district chooses to remove the \$330 per ADA cut included with the 2010-11 Second Interim Financial Report, our office urges the district to hold the revenues in the ending fund balance (at a minimum in the "assigned" category pursuant to GASB 54) until the state enacts a final budget. The reserved amount should be doubled in 2012-13 and tripled in 2013-14.

ADOPTED 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
Ending Balance Above 3%	\$8,952,767	\$271,273	\$25,000	\$25,000

ADOPTED BUDGET - KEY FACTORS

- The District's Adopted Budget included:
 - \$8.8 million of one-time funding sources
 - \$3.8 million of expenditure reductions subject to negotiations
 - Budget reductions of more than \$13.5 million (\$29.7 million cumulative)
 - Expenditures that exceeded revenues by \$8.7 million (deficit spending)
- The District's Multi-Year Projections included:
 - \$9.7 million budget shortfall for the 2012-2013 budget
 - \$11.2 million budget shortfall for the 2013-2014 budget
- In summary, a **3-year budget shortfall of \$24.7 million**
(including employee concessions not yet implemented)

RCOE'S CONDITIONAL APPROVAL OF THE ADOPTED BUDGET

- In accordance with Education Code Section 42127, RCOE reviewed the District's Adopted Budget and has given the budget a conditional approval (excerpt shown)

Based on our analysis of the information submitted, the county superintendent conditionally approves the district's budget due to the following concerns:

- *2011-12 Budget Shortfall* – The district's 2011-12 Adopted Budget includes more than \$3.8 million in reductions to salaries and benefits expenditures, which are still subject to negotiation with the district's bargaining units. Without these reductions, the district does not meet the minimum reserve requirement in the current year, assuming flat revenue limit funding in 2011-12. In a scenario assuming a \$300 per ADA revenue limit reduction and without these reductions, our office projects the district will close the 2011-12 fiscal year with a negative ending General Fund balance.

RCOE'S CONDITIONAL APPROVAL OF THE ADOPTED BUDGET

■ RCOE conditional approval (additional excerpts shown)

- *Employee Negotiations* – The district is currently at impasse with the certificated bargaining unit, and continues to negotiate with the classified bargaining unit. As noted above, the district is relying heavily on negotiated salary and benefit concessions to balance the 2011-12 budget.
- *Operating Deficit* – Multi-year financial projections indicate a substantial General Fund operating deficit for the current fiscal year, assuming an ongoing \$330 per ADA revenue limit reduction (estimated at \$3.0 million). Over the prior two fiscal years, the district has reduced its combined General Fund balance by \$6.3 million, spending down reserves and using one-time funds, such as a \$5.0 million transfer from the Special Reserve Fund for Capital Outlay, to support ongoing expenditures.

RCOE'S CONDITIONAL APPROVAL OF THE ADOPTED BUDGET

- In the conditional approval letter, RCOE also noted their significant concerns regarding the multi-year projections (excerpt shown)

- *2012-13 & 2013-14 Budget Shortfalls* – Multi-year financial projections indicate a \$9.7 million budget shortfall in 2012-13 and an \$11.2 million shortfall in 2013-14, assuming a \$330 per ADA revenue limit reduction (estimated at \$3.0 million annually). Even in a flat-funding scenario, our office projects a negative ending General Fund balance in the two subsequent fiscal years.

- Note: RCOE points out that though while not a condition of approval, they did evaluate the budget to determine whether it is consistent with a financial plan that will enable the district to meet its multi-year financial commitments

CONDITIONAL APPROVAL IMPLICATIONS

- As a result of the conditional approval, by September 8, 2011, RCOE is requiring the district to:
 - Close the 2010-2011 books and certify the 2010-2011 Unaudited Actuals
 - Submit a revised budget that includes budget revisions to rebuild reserves in order meet the minimum-required level in 2011-2012
 - Submit revised multi-year financial projections that includes a plan to address the budget shortfalls in 2012-2013 and 2013-2014
 - Update 2011-2012 cash flow projections to include actuals through August 31, 2011 and reflects the new deferral schedule
- To take the actions required by RCOE's conditional approval, a special meeting of the Board of Trustees will be necessary prior to September 8, 2011

ADDITIONAL RCOE GUIDANCE

- In their conditional approval letter, RCOE strongly recommends contingency planning to address potential mid-year reductions (excerpt below)

As noted in our most recent guidance letter, the final State Budget package includes optimistic revenue assumptions, which if not realized could very likely result in the state's implementation of the K-12 education trigger reductions outlined above. In order to prudently plan for this possibility, our office strongly recommends the district develop contingency plans to address a potential mid-year funding reduction. **As the district's current budget appears to lack sufficient reserves to cover a potential 2011-12 revenue loss, we urge the district to either work with its bargaining units now to secure the flexibility necessary to reduce the school year, as authorized in AB 114, or develop another expenditure reduction plan.** Furthermore, we advise the district to act quickly and implement additional solutions to rebuild its reserve, and balance its revenues and expenditures to ensure its long-term fiscal health.

ADOPTED BUDGET - SCENARIO 2

- Though the District's budget was adopted based upon the loss of \$330 per ADA, a second scenario was considered based upon the potential receipt of flat funding
- Flat funding would have, and ultimately did provide approximately \$3.0 million of additional revenue per year
- The Board adopted a Fund Balance Policy that anticipated and provided a plan for the receipt of flat funding
 - Additional revenues received in 2011-2012 would be used to offset the budget shortfall and deficit spending in 2012-2013 (including any action of the State resulting in flat funding)
 - 2011-2012 ending balance above 3% would be used to offset the budget shortfall in 2012-2013

STATE BUDGET ACT UPDATE

- On June 30, 2011, Governor Brown signed the State Budget Act, Senate Bill 87, and the Education Trailer Bill, Assembly Bill 114
 - Provided additional K-12 education funding effectively increasing funding levels to that of 2010-2011 - flat funding
 - Enacted automatic reductions to education funding through “trigger language” in the event state revenues fall short of Budget Act estimates by more than \$2.0 billion
 - Reinstated \$2.1 billion in additional deferrals as proposed in the Governor’s January Budget Proposal (bringing the K-12 education deferral total to \$9.44 billion)
 - Require school districts to revise their budgets to reflect flat funding
- PUHSD has revised its budget and multi-year projections to reflect the funding made available by the Budget Act

ASSEMBLY BILL 114

- When signing AB 114, the Governor underscored the continuing responsibility and authority of school district governing boards to maintain fiscal solvency, by recognizing that school boards may still need to make reductions in 2011-2012 due to cost increases, loss of federal funds, enrollment declines, or other factors



OFFICE OF THE GOVERNOR

June 30, 2011

To the Members of the California State Assembly:

AB 114 directs schools to adhere to the level of state funding provided in the Budget and not assume a different, or lower, state funding level. If, in fact, revenues fall far short of projections – something we don't anticipate – this bill reduces funding beginning in February. It also provides schools the authority to shorten the school year by up to 7 days. This approach avoids the harmful effects of unnecessary cuts.

In fashioning their local budgets, school boards may nevertheless need to make reductions due to cost increases, loss of federal funds, enrollment declines or other factors. AB 114 does not interfere with these local school board decisions. School boards should take all reasonable steps to balance their budgets and to maintain positive cash balances.

Let us not forget that schools would have enjoyed billions more in state funding if Republicans in the Legislature had allowed the people of California to vote on tax extensions.

Sincerely,


Edmund G. Brown Jr.

TENTATIVE AGREEMENT WITH CSEA

- Since adopting the District's budget in June 2011, a Tentative Agreement (TA) with the Classified School Employees Association (CSEA) has been reached
- This addressed 2010-2011 and 2011-2012 by providing for a salary equivalent of up to 9 furlough days with credit given for 3 furlough days taken in 2010-2011
- The annual salary rollback, equivalent to 6 furlough days will begin with the classified employees August 2011 paychecks (2M and 2B), with the adjustment for any paychecks already being received also being spread out over the remainder of the fiscal year
- If there becomes a reduction of up to 5 instructional days (as determined by any subsequent agreement with the certificated bargaining unit), up to 5 non-work days are granted in exchange for the salary reduction
- The TA was ratified by the CSEA membership on August 10, 2011 and will be presented to the Board in the following agenda item

DISTRICT BUDGET SUMMARY

- *REVISED BUDGET* -

	2010-2011 Estimated Actuals	2011-2012 Revised Budget	2012-2013 Projected Budget	2013-2014 Projected Budget
Beginning Balance	\$11,187,293	\$11,364,500	\$5,449,796	\$2,239,188
Revenue	\$79,446,093	\$72,255,205	\$70,595,305	\$70,576,614
Subtotal Expenditures	\$79,268,885	\$81,648,856	\$77,950,686	\$78,974,278
Identified & Approved Budget Reductions (not yet implemented)		(\$3,478,947)		
Additional Required Budget Reductions (not yet identified & approved)			(\$4,144,774)	(\$8,303,608)
Total Expenditures	\$79,268,885	\$78,169,909	\$73,805,912	\$70,670,670
Net Increase/(Decrease) to Ending Balance (deficit spending amount)	\$177,208	(\$5,914,704)	(\$3,210,608)	(\$94,056)
Total Ending Balance	\$11,364,500	\$5,449,796	\$2,239,188	\$2,145,132
Ending Balance Above 3%	\$8,952,767	\$3,104,689	\$25,000	\$25,000

AUGUST REVISED BUDGET - KEY FACTORS

- The District's Revised Budget includes:
 - \$3.0 million of additional funding
 - Expenditure adjustments for the originally planned 8 furlough days with classified employees, to the agreed upon 6 days and, the same adjustment for management and confidential employees
 - \$3.5 million of expenditure reductions subject to negotiations with the certificated bargaining unit
 - Expenditures that exceeded revenues by \$5.9 million (deficit spending)
- The District's Multi-Year Projections include:
 - \$4.1 million budget shortfall for the 2012-2013 budget
 - \$8.3 million budget shortfall for the 2013-2014 budget
- In summary, a **3-year budget shortfall of \$15.9 million**
(including employee concessions not yet implemented)

NEXT STEPS

- Special Board Meeting to address the conditional approval of the District's Adopted Budget
- We will continue to keep the Board, public and employees informed about the District's budget and fiscal status
 - Regular updates at Board meetings
 - Budget Briefings to employees
 - The District's website
 - Budget and Financial reports
 - Copies of Board presentations
 - Relevant and up to date information
 - Frequently Asked Questions (FAQs)

**Budget
Info**
[**CLICK HERE**](#)