

GLENDALE UNIFIED SCHOOL DISTRICT

October 2, 2012

DISCUSSION REPORT NO. 2

TO: Board of Education

FROM: Dr. Richard M. Sheehan, Superintendent

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

**SUBJECT: District Fiscal Crisis**

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The State of California's fiscal crisis has directly impacted our District. The District is in its fifth year of funding cuts from the State, and it does not appear that these reductions will be restored for several years.

The reductions began in 2008-09 and have resulted in the District receiving 78 cents for every \$1 they are owed. This has resulted in the District's funding dropping below the 2006-07 level. The reduction in funding for 2008-09 through 2012-13 has been \$150.7 million for Glendale Unified.

Additionally, the State has deferred/postponed payments to the District. The State is essentially delaying payments to school districts in lieu of borrowing money at the State level. This results in an interest free loan for the State and a cash flow challenge for school districts. At the end of 2011-12, the District's Unrestricted General Fund balance was \$48.8 million. However, \$40.8 million was an accounts receivable. Districts across the state are borrowing money to meet payroll due to this funding delay. Glendale Unified may need to enter into short-term borrowing in 2012-13, if State trends continue.

The District has actively addressed the challenge of reduced funding through program and staffing reductions. These reductions have reached all areas of the school community. They include reductions to elementary and secondary teaching staff, counselors, clerical positions, maintenance positions, and administration staff. Additionally, there have been negotiated concessions with the bargaining units which include 5 furlough days in 2013-14 and a health insurance "cap".

The District has also restructured the workers' compensation program to reduce costs, reduced the summer school and maintenance program, as well as utilizing reserves that had been set aside for: workers' compensation, Special Education, retiree health benefits, maintenance, and debt service payments. In part, this was possible due to the passage of Measure S, our facility bond. With the passage of Measure S, the District was able to re-direct \$20 million from the maintenance and debt service funds, which allowed the District to continue k-3 staffing with only 24 students per class.

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The Board also evaluated the various flexibility options that were provided by the State and made reductions and/or eliminated several categorical programs so that those funds could be redirected to the core program.

With all of the steps that have been taken, it is once again necessary for us to make significant reductions to maintain solvency over these next few years. The District currently has a structural deficit of \$15 million, which continues to grow as we experience increases in salaries and benefits. The Superintendent is targeting a reduction plan of \$10 million for 2013-14, with the understanding that additional reduction measures will need to be taken in future years.

The reductions that need to occur in 2013-14 will once again touch all areas of the school community, as our primary expenditure (over 90% of the budget) is related to staffing.

As we move through our process, there is another challenge that is looming, Proposition 30 on the November ballot. Should that proposition fail, the District will receive a mid-year cut of \$11 to \$12 million. This would be in addition to the \$10 million in reductions that are planned for 2013-14. If that occurs, the District will be forced to evaluate reducing the 2013-14 school year further.