

GLENDALE UNIFIED SCHOOL DISTRICT

October 18, 2011

REVISED 10/18/2011

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: **Review of 2010-11 and the On-going Structural Budget Deficit**

This report focuses on questions that have been raised regarding the budgeting practices in 2010-11, multi-year projections, and the structural deficit in the current District Budget.

One of the challenges that school districts face is how to maintain credibility in the budgeting process when districts are dependent on State funding and the State funding is unstable. Even when the economy is strong, the State funding is not finalized until after districts are required to adopt their budgets; and in recent years, State funding has shifted during the fiscal year. The various federal funds that have been provided to districts via the State to help mediate the impact of the State fiscal crisis, have often arrived with little warning and budget plans must then be amended mid-year. This is what occurred in 2010-11.

It is important to note, the budget continually changes; however, the Budget and Finance Department should always be able to explain what changed and why it changed.

The first question that needs to be addressed is: **"Why did the District's Ending Fund Balance increase from \$20.8 million in the 2010-11 June Budget Adoption to \$48.5 when the 2010-11 year closed?"**

This increase of \$27.7 million is directly related to the revenues that were budgeted vs. the actual funding that was received:

Revenue Limit: When the District prepared the 2010-11 Budget in June of 2010, the County and State advised that a reduction in per ADA funding was anticipated and should be budgeted. However, when the State budget was finalized in September 2010, the funding had actually been increased. This resulted in a \$270 increase per ADA and the funding increased \$7.4 million over projection.

It should be noted that this was the first positive increase to Revenue Limit funding since 2007-08. In 2008-09 and 2009-10, there were decreases to the per ADA funding resulting a drop of \$832 per ADA.

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Mandated Cost Revenue: The State stopped funding this program several years ago, which resulted in litigation at the State level. Districts throughout the State were advised to budget “zero” for this revenue; however, quite unexpectedly funding was actually released mid-year and Glendale received \$1.4 million.

Class Size Reduction Funding for K-3: Due to the projected reductions in State funding, the Board of Education voted to increase class size in grades k-3 to 30 students per class. Employee layoff notices were given in the spring of 2010; and the revenue budgeted for the program as well as the budget for employee costs, were reduced.

Subsequent to the adoption of the District budget in June, the State budget was finalized with the \$270 per ADA increase and the federal government funded a specialized one-time program to save jobs. The Federal Jobs Program resulted in the District receiving \$4.45 million. These funds were utilized to rescind the lay-off notices and eliminate the two furlough days scheduled for 2010-11.

It should be noted the Revenue Limit increase is considered on-going funding and has been budgeted as such in 2011-12 and future years. However, the Federal Jobs Program was a one-time allocation of \$4.9 million of which \$4.45 was utilized in 2010-11 and the balance will be budgeted in 2011-12. The Board has maintained class size in grades k-3 at 25 in 2011-12 and no additional layoffs have occurred; however, maintaining this program has added to the structural budget deficit that will be discussed later in this report.

Local Revenue: The local revenue increased \$4.1 million over the original 2010-11 adopted budget. This was comprised of \$3.72 million from the Crescenta Valley High School construction lawsuit settlement, \$.32 million from re-insurance refunds, and some miscellaneous donations. These additional revenues that were received are not recurring; so while they assisted us in building our reserve, they are not revenues that should be budgeted in future years.

Federal Funds Directly Related to Fiscal Crisis: The District was aware of \$1.45 million in Title I ARRA funds and included it in the 2010-11 Budget. However, the additional allocation of SFSF ARRA (\$2.27 million) and the Federal Jobs Program (\$4.45 million) were not known at the time of the June budget preparation. As mentioned previously, federal funds were budgeted when the District was notified, and those funds were utilized to rescind the layoff notices, eliminate the furlough days, and retain employees. Unfortunately, these additional revenues are not recurring and are therefore not budgeted in 2011-12.

However, it should be noted, that there will be \$1.2 million in additional SFSF ARRA funds and carry-over of \$.5 million in Federal Jobs Program funding budgeted in the 2011-12 First Interim Report. The additional SFSF funds are the result of the State releasing the final 10% of the State’s allocation.

In summary, the following revenue increases occurred in 2010-11:

Revenue Limit	\$7.40 million
State Mandated Cost Revenue	1.49
Class Size Reduction Revenue k-3	1.96
Settlement of Lawsuit	3.72
Re-insurance Refunds & Donations	.43
SFSF ARRA & Title I	2.36
Federal Jobs Program	<u>4.45</u>
Total Revenue Increase	\$21.81 million
Plus Carry Overs (sites and Tier III)	<u>5.91</u>
Increase to Ending Fund Balance	\$27.72 million

Unfortunately, the only on-going revenue source that can be utilized in future budgets is the \$7.4 million increase to the Revenue Limit. And that increase is vulnerable to State funding cuts, should the State need to make reductions in the future.

Note: The increase in Class Size Reduction k-3 revenue is on-going; however, the related expenditures are also on-going.

Multi-Year Budget Projections and Structural Deficit – The next topic is multi-year budget projections and the structural deficit. Multi-year budget projections are essential to developing a spending plan that allows for measured and thoughtful reductions vs. having to make reactionary cuts. The goal is to provide stability during uncertain economic times by “smoothing out the peaks and valleys” and providing a solid educational program for students and job security for our employees.

In the multi-year budget projection, on-going revenues are budgeted. Additionally, recurring revenues that have a historical basis, i.e. interest income are also budgeted. The “unswept” Tier III Program revenues and matching expenditures are usually not in the multi-year projection. The projection does include increases related to step and column advancement, health insurance increases, as well as projected enrollment and related revenue and staffing changes.

One of the challenges, that has occurred with the additional one-time revenues the District received in federal funds, the mandated cost revenue, the litigation settlement, and other funds, is that they have masked the structural deficit that is currently in the budget.

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Deficit Spending: This occurs when expenditures exceed revenues in the budget year. In 2010-11, due to the one-time revenues that were received, the District did not deficit spend giving the appearance that we were financially solid.

Structural Deficit: This occurs when on-going expenditures exceed on-going revenues in the budget year. In 2010-11, this did occur but was not readily apparent due to the one-time revenues that were received.

Attachment A is a summary of the 2010-11 "Unaudited Actuals", the 2011-12 Adopted Budget, and budget projections for 2012-13 through 2014-15.

The 2010-11 revenues and expenditures are summarized, and there is a net increase to Fund Balance of \$8.9 million. Therefore, the District did not experience "deficit spending" which on the surface is a very positive indicator. However, if the District had not received the \$15.87 million in one-time funds: \$1.45 million Title I ARRA, \$3.45 million SFSF ARRA, \$4.47 million Federal Jobs Program, \$3.72 million litigation settlement, \$1.49 million Mandated Cost Revenue, and shifted \$1.18 million in workers compensation premiums, the financial statement would have shown deficit spending due to the "structural deficit" of \$6.9 million. The on-going expenditures exceeded the on-going revenues by \$6.9 million.

This is significant when the various fund balances/reserves are depleted and one-time revenues are no longer available, the District will need to make severe budget reductions. Additionally, in the multi-year projection, the structural deficit is growing each year. This is due to expenditure increases for step and column changes, health insurance increases, and other cost increases that occur without a matching increase in revenue. There is no projected increase in State revenue.

In 2013-14, the structural deficit is projected to grow to \$21.6 million. If we receive additional on-going State funding increases for the Revenue Limit, the structural deficit will decrease. However, it is also possible that the State fiscal crisis may result in additional cuts to education and that would increase the structural deficit.

In summary, the 2010-11 Ending Fund Balance increased more than we anticipated. However, the increase was primarily from one-time revenues and only provided a temporary fix that will help push out the funding "cliff" an additional year. The District is utilizing reserves to maintain programs; but these reserves do not address the "structural deficit", and once these monies are gone, significant reductions will need to occur if State funding is not restored.

The budgeting and reporting process has become more complex due to federal funds being allocated to assist districts and State flexibility options being implemented. If individuals would like to have a more in-depth review or discussion, they may contact Eva Lueck, Chief Business and Financial Officer at 818-241-3111 ext. 271.

GLENDALE UNIFIED SCHOOL DISTRICT
Unrestricted General Fund - Fund #01.0
Multi-Year Plan

REVISED 10/18/2011

	2010-11	2011-12	2012-13	2013-14	2014-15
	Unaudited	Adopted	Projected	Projected	Projected
	Actuals	Budget	Budget	Budget	Budget
Revenues					
Revenue Limit	128,766,651	128,828,444	127,732,214	127,071,224	127,393,912
Federal Revenue (MAA,ROTC,Misc)	745,047	175,000	175,000	175,000	175,000
State Revenue	23,067,973	19,670,923	19,637,547	19,614,884	19,617,123
Local Revenue	11,210,106	5,841,160	5,841,160	5,841,160	5,841,160
Total Revenues	163,789,777	154,515,527	153,385,921	152,702,268	153,027,195
Expenditures					
Certificated Salaries	75,786,732	79,434,159	79,396,322	82,013,521	83,103,209
Classified Salaries	15,324,699	16,665,759	16,552,444	17,005,704	17,005,704
Employee Benefits	30,167,908	35,549,173	39,035,671	40,994,528	43,204,450
Books & Supplies	2,089,678	1,236,952	1,231,135	1,226,455	1,234,021
Contracted Services	10,214,204	11,859,996	12,165,572	12,486,427	12,823,325
Capital Outlay	86,590	72,590	72,590	72,590	72,590
Other Outgo	99,000	109,000	109,000	109,000	109,000
Direct Support / Indirect Support	(1,534,340)	(1,086,481)	(1,086,481)	(1,086,481)	(1,086,481)
Total Expenditures	132,234,471	143,841,148	147,476,253	152,821,744	156,465,818
Other Financing Sources/Uses	(22,587,059)	(12,354,328)	(16,841,168)	(21,529,076)	(21,403,112)
Net Increase/Decrease in Fund Balance	8,968,247	(1,679,949)	(10,931,500)	(21,648,552)	(24,841,735)
One-Time or Limited Funding Included Above:					
Title I ARRA	1,453,204				
SFSF ARRA	2,272,829				
Federal Jobs Program	4,466,300				
Lawsuit Settlement	3,720,000				
Mandated Cost Revenue	1,486,548				
Utilize Workers Comp Fund for Premium	1,184,450	1,249,300			
Special Ed Reserve		2,250,000	1,110,000		
Post-Employment Benefits Fund #20.0		3,750,000	2,500,000		
Restricted Major Maintenance Reserve		3,000,000	1,000,000		
Total One-Time or Limited Funding	14,583,331	10,249,300	4,610,000	0	0
Deficit Spending Would Have Been	(5,615,084)	(11,929,249)	(15,541,500)	(21,648,552)	(24,841,735)

This chart was developed to illustrate the "structural deficit" that is occurring when on-going revenues are compared to on-going expenditures.