YUCAIPA-CALIMESA JOINT UNIFIED SCHOOL DISTRICT
Business Services **MEMORANDUM**

DATE: June 26, 2012

TO: Dr. Sherry Kendrick, Superintendent

FROM: George V.Velarde, Assistant Superintendent, Business Services

ITEM: **Approve (preliminary) 2012-13 Budget**
Adopt Resolution-Development of Fiscal Solvency Plan

<u>Background:</u> EC 42127 requires that the Board of Education adopt a budget by July 1 regardless of the status of the enactment of the State's budget. As in previous years, the State has not enacted the 2012-13 budget as of the adoption of the District's budget. Hence, the District budget is one that is preliminary.

The budget is based on local trends and projections as well as state factors contained in the Governor's May Revision. Local factors, such as enrollment trends and projections of major expenditures, are much more predictable than factors provided in the Governor's May Revision. Specifically, the May Revision contains two elements that will have a profound implication upon the K-12 public education.

- For the short term, his proposal calls for passage of a temporary tax initiative in order to off-set the estimated deficit which grew from $9.2B to $15.7B. "Flat funding" for education if it passes, and inversely, $441/ADA cut to education if it fails.
- For the long term, his plan calls for reformation of the way K-12 education is being funded. The Weighted Student Formula (WSF) will drastically shift funding from ADA and categorical driven formula to ADA, percentage of Free & Reduced Meals and categorical (add-on) allocation formula. This proposal is meeting opposition in both houses and from both parties.

For YCJUSD, the extent of the imbalance was quantified as early as January and difficult solutions subsequently approved. The imbalance and solutions were divided into two phases. The first phase quantified and mitigated an imbalance of $2.7M while the second phase is contingent upon the passage of the Tax Initiative. If the Initiative is disapproved, $3,200,000 is the estimated impact to YCJUSD. The Board has approved a plan for the trigger. The budget, as developed and presented, does NOT contain the trigger and solutions. In addition, this budget does NOT incorporate WSF.

Rationale: To comply with the law, the District's 2012-13 budget was prepared using reasonable assumptions and in advance of the State's enacted budget.

- Enrollment trend to continue with a 3% reduction
- Carryovers from 2011-12 are not included. The budget will be adjusted when the exact amount of the carryovers are determined in the fall.
- Increase deficit factor (from 20.602% to 22.272%) wiped out statutory COLA ($3.24%)
- Step & Column advancements
- Additional cost of certificated substitutes due to anticipated higher per diem

Summary of General Fund Budget (ability to obligate)**:**

	UnRestricted	**Restricted**	**Total Gen Fund**
Revenue	$45,084,523	$16,432,559	$61,517,082
Expense	$47,145,349	$17,972,950	$65,118,299
Rev - Exp	($2,059,326)	($1,540,391)	($3,599,717)

Deficit is the result of expense exceeding revenue. Below are the major causes of deficits which are due to accounting practice, defaults or intentional:

- **Carryovers**. Accounting practice requires that categorical program revenues equal expense. Since the crisis, administrators, program and department managers have been prudent in managing their resources and to some extent have slowed spending. Thus, it is expected that there will be a balance (revenue exceeds expense) for most of the programs at the end of the year. Thus, the deficit is expected to be smaller at the end of the year than at budget time.
- **Textbooks**. Payment of ELA adoption was deferred over three years to preserve cash. Subsequent payments do not have commensurate revenue in the same year, thus appearing to be an expense that does not have matching revenue.
- **Special Education** (Mental Health). The State shifted responsibility and funding from county governments to school districts. The funds were received in 2011-12 for expenses in 2012-13.
- **Use of Reserve**. At the February 14 meeting, the Board approved the use of approximately $878,000 from the reserve to off-set anticipated imbalance.

<u>Unrestricted Side of the Budget</u>

Estimated Beginning Balance	$5,401,847
Deficit	$2,059,326
Estimated Ending Balance	$3,342,521

Estimated Ending Balance

Revolving Check Acct	$50,000
Stores	$50,000
Economic Uncertainty	$2,039,515
Books	$189,000
Compensated Abs	$214,601
Carry over	$799,404

As estimates and based on most current information, the above amounts are approximately correct or close to the amount that the district needs to provide services to students, parents and staff for the 2012-13 fiscal year. Notice that the proposed budget meets the 3% minimum reserve for Economic Uncertainty.

<u>**Cash** (ability to pay)</u>

Cash will remain to be a challenge due to the on-going State imposed deferments of apportionments. It is estimated that 38% or $14,000,000 of the District's apportionment is deferred from one year to the next. As a result, it is necessary to borrow from other funds, county government and TRAN (Tax Revenue Anticipation Note), to meet cash needs during the year. SB 103 calls for more deferrals during the year: July, August, September and October apportionments will be deferred by another four months. Apportionments from these months are used to pay a short term loan that covers deferments from spring to summer. If the Tax Initiative fails, a big cash problem will become a bigger cash problem. Though the money bags continue to shift to the right of the schedule, the District remains responsible for ensuring that there is adequate cash in order to pay for obligations.

<u>Summary of Other Funds:</u>

The Report also contains activities relative to other funds. Provided below are highlights:

- Adult Education (Fund 11) is Tier III and is provided minimum funds to support minimum level of services.
- Child Nutrition (Fund 13) continues to maintain sufficient balance to the extent that the General Fund borrows cash from it during certain times of the year.

- Major Maintenance (Fund 14) is at a dangerously low level with its 2011-12 estimated ending balance of $695,800. Fund 14 is also a Tier III program which legally allows the district to discontinue the match and sweep its reserve to augment cuts in the General Fund. Before the crisis, Fund 14 had over $1.3M ending balance with another yearly required contribution of $900,000 from the State and the General Fund. The lack of funds necessitates careful prioritization of expenses such that expenditures are more and more for emergency repairs and less and less towards preventive maintenance.
- Developer Fees (Fund 25) has an estimated ending balance of $678,000.
- State School Building (Fund 35) is basically depleted due to the consolidation of YHS 9 with YHS.

Review By Others: Superintendent's Cabinet
Coordinator of Fiscal Services

Funding: Not applicable

Recommendation: Approve 2012-13 Budget
Approve Resolution which recognizes the scope of the financial problem in the 2012-13 and 2013-14 and the necessity to develop a solvency plan

Attachments: Budget Report
(under separate cover)