

# Covina-Valley Unified School District



Budget

2010-11

## **Covina-Valley Unified School District**

**DATE:** June 28, 2010

**TO:** Members of the Board of Education and Dr. Pappas

**FROM:** Susan Cross Hume, CPA, CIA  
Chief Business Officer

**SUBJECT:** FINAL BUDGET FOR 2010-11

The estimated ending balances for the 2009-10 fiscal year, and our initial budget for the 2010-11 fiscal year, are presented here for your review and approval. The District is required by Education Code 42127 to adopt a budget for all District funds for the subsequent fiscal year by June 30th of each year. At the same time, the District presents its estimated actual financial results for the current fiscal year. This memo provides a summary of the assumptions used in the preparation of the budget, as well as an analysis of current multi-year financial projections for the District.

### **2009-10 Estimated Unaudited Actuals**

The estimated unaudited actuals consist of the District's current budget (Second Interim), adjusted to reflect projected and known changes through the end of the fiscal year. These adjustments include:

- Updating the final estimated Revenue Limit projection to our Los Angeles County Office of Education (LACOE) projection

Since the District is in declining enrollment, its revenue limit producing Average Daily Attendance (ADA) is based upon the prior year (2008-09) P-2 ADA. Therefore, the District's current year P-2 ADA report, filed in April, has no effect on the currently budget amount for revenue limit income. There are no material changes to the Revenue Limit income from the Second Interim budget.

- Additional Federal ARRA (American Recovery and Reinvestment Act) Income

The District has been informed that it will receive \$192,842 in additional State Stabilization funding. This funding will be used to offset unrestricted General fund salaries in the 2009-10 fiscal year. This adjustment results in an improvement to the District's ending fund balance.

- Updating all categorical revenue accounts to reflect actual grant and entitlement amounts as apportioned by the State and Federal governments.

Various minor changes to categorical programs have been incorporated into the budget as of Second Interim. There are no material changes to categorical budgets through year end.

- Reduction of General Fund unrestricted expense accounts

District fiscal staff have reviewed all line item expenditure budgets, budget vs. actual, for the unrestricted General Fund. Based upon this analysis the utilities budget will be reduced \$200,000 and the certificated substitute budget will also be reduced \$200,000. These adjustments result in an estimated improvement to the District's ending fund balance.

- All other line item 2009-10 budget amounts are not expected to be materially different from the Second Interim budget and thus are carried forward to the year-end projection.

Based upon a review of current actual financial data (as of month-end May 31, 2010), we estimate that the District will under-spend total budgeted expenditures in the Unrestricted General Fund. Total budgeted unrestricted revenues should approximately equal total revenues received. The favorable budget variance in the expenditure accounts should result in a slight improvement to the District's budgeted unrestricted net deficit.

Based upon these assumptions, the Estimated Actuals show a net decrease to the fund balance of (\$8,677,785). This consists of a net decrease in the Unrestricted Fund of (\$1,332,977) combined with a net decrease in the Restricted Fund (spending down of prior year categorical carryovers) of (\$7,344,808).

The estimated total ending General Fund balance for the 2009-10 fiscal year is \$11,706,804. The Unrestricted Ending Fund balance is estimated at \$11,626,524, which is 10.4% of total General Fund expenditures. (The State requirement is 3%.)

These projections constitute our best estimate at this time of how the District will finish the 2009-10 fiscal year. Final results will not be known until we close our books and prepare our year-end financial statements (J-200 Unaudited Actuals) in August.

## **2010-11 Budget**

When building its 2010-11 budget, the District utilizes the most up-to-date information and forecasts that it has received from the California Department of Education (CDE), and the Los Angeles County Office of Education (LACOE). Revenue accounts are estimated based upon the CDE's and LACOE's projections of the June 30 State Budget. By law the State is required to pass its budget by June 15. The District then builds its budget based upon the State's allocations. In years when the State does not pass an on-time budget, the District's budget is based upon the Governor's May Revision. Further revisions to update the District's budget will then be made after the Governor signs the State Budget.

As of this writing the State Legislature has again missed its statutory deadline for passing a State budget. Therefore, the District's budget for 2010-11 is based upon the most current May Revision information from the Governor. It should be noted that, based upon prior years, the final budget eventually passed by the Legislature and signed by the Governor may vary considerably from the May Revision.

Estimated State revenue factors used by the District in building its 2010-11 budget include:

- Negative COLA (Cost of Living Adjustment) to the Revenue Limit of (0.39%).
- No change in the Revenue Limit deficit of 18.355%
- Additional deficit applied to the base undeficit Revenue Limit of 3.85%
- Negative COLA applied to State categorical programs of (0.39%).
- No new programs

Expenditures are forecast taking into account all known and projected increases and decreases in expenditures, including changes due to our negotiated salary agreements, steps and columns, changes in staffing and benefits, changes in contracts and leases, and projected inflationary increases.

The District's budget is required by law to be reviewed and certified by LACOE. Our LACOE consultant reviews all of our detailed assumptions for both our 2010-11 budget and our three-year projection. A budget built on assumptions that cannot be verified and justified by LACOE will not be certified.

## **Revenues**

The 2010-11 General Fund budget projects total revenues of \$99.0 million, for a net decrease (over 2009-10 estimated revenues) of \$3.9 million. The majority of the change is due to a decrease in Revenue Limit income, and the end of one-time Federal ARRA funding received in 2009-10.

Revenue Limit Income is projected to decrease (\$2.1) million. This decrease is due to a decrease in per student ADA funding (based upon the factors outlined above) as well as a decline in enrollment. Per student ADA funding will decrease to \$4,953. Revenue limit producing ADA is decreased by 416 students, which was the drop from the 2008-09 P-2 to the 2009-10 P-2. An additional drop of 254 ADA is projected for the 2010-11 P-2. This drop will be reflected in 2011-12 revenue limit income.

Ongoing categorical Federal revenues are budgeted at current-year allocations, net of the effect of carry-over funds, until notifications of funding levels are received from the Federal government.

State categorical programs are budgeted with a decrease to revenues and expenditures equal to the negative (0.39%) COLA.

Other revenues are based upon historical trends and estimated actuals. Material changes to the 2010-11 budget from the 2009-10 estimated actuals include:

- \$1.493 million in past due redevelopment agency pass through taxes (chiefly from the City of West Covina) to be collected in 2010-11.
- A \$1.5 million transfer from the District's Adult Education Fund into the Unrestricted General Fund. This is allowed through the State's Tier Three flexibility.

### **Categorical Sweeps**

As part of the State's "flexibility" package granted to school districts, revenues from those categorical programs identified as Tier Three may be swept for use to the District's Unrestricted General Fund until fiscal 2013-14. The District will continue to utilize programs and funding identified in the 2009-10 budget to help offset cuts to the Revenue Limit. For 2010-11 this amounts to \$2.9 million in ongoing dollars that has been reallocated from specific program budgets to the unrestricted fund. A detailed list by program is attached. Additionally, the District plans to sweep \$1.5 million from the Adult Education fund in 2010-11.

### **Expenditures**

For 2010-11, total General Fund expenditures are projected at \$102.5 million, a net decrease of \$8.9 million from 2009-10. The only material increases to the 2010-11 budget are for step and column additions. The 2010-11 budget incorporates \$7.6 million in net budget cuts, which includes \$2.9 in cost savings from the 8 to 10 furlough days to be taken by all Covina-Valley staff. A detailed list of cuts is attached.

### **Change in Fund Balance**

Based upon these assumptions, the estimated total ending General Fund balance for the 2010-11 fiscal year shows a net decrease of (\$2,037,193). This deficit occurs entirely in the Unrestricted Fund. In the Restricted General Fund, expenditures are budgeted to equal revenues, so net income is zero.

The budget projects an ending Unrestricted Fund balance of \$9,589,331 or 9.29% of total General Fund expenditures.

### **Three-Year Projection**

The District is required to submit a three-year financial projection for the General Fund at the time of budget submission. However, unlike at First and Second Interim, the District is not required to certify the District's financial status at this time. Detailed assumptions for the preparation of the three-year projection are attached.

The District's three-year projection shows an ending Unrestricted Fund balance at June 30, 2012 of \$3,160,651 or 3% of total expenditures. The projection at June 30, 2013 shows an ending Unrestricted Fund balance of (\$4,059,646), or (3.81%).

Detailed information regarding these changes is attached for your review.

## OTHER FUNDS

**Adult Education Fund:** The Adult Education Fund shows projected net deficit spending in both the current and budget fiscal years. The program has had to reduce classes and cut back on programs due to a 20% drop in State funding. The Fund will contribute \$1.5 million from its reserves to the Unrestricted General Fund in 2010-11.

**Child Development Fund:** The Child Development Fund shows deficit spending projected for the current fiscal year. At this time, the 2010-11 budget is uncertain, since the Governor's May Revise proposed significant cuts to some childcare programs. To date, these reductions have been strongly opposed by State lawmakers. The District is adopting a status quo budget until the State budget is finalized.

**Cafeteria Fund:** The Cafeteria Fund shows budgeted net income in 2009-10. The fund is projected to break even for 2010-11. Increased participation and number of meals served through the National School Lunch Program allow the fund to continue to operate in a strong financial position.

**Deferred Maintenance Fund:** The Deferred Maintenance Fund is budgeted to realize net income in the current year. For 2010-11, State Deferred Maintenance funding is projected to be received at the same level as 2009-10. The Governor has recommended in the May Revise that State funding continue at the same level. The District plans to continue making its full required match from the Bond Building Fund.

**Bond Building Fund/County School Facilities Fund:** Activities in these funds reflect revenues collected and expenditures made for Measure C Projects. State revenue from the State School Facilities Program is recorded when received from the State in the County School Facilities Fund, and then transferred into the Bond Building Fund to pay for expenditures. As of June 30, 2010, all anticipated funding has been received from the State. The expenditure budget for 2010-11 reflects the following projects:

- Modernization of Covina High School gym
- Sierra Vista parking lot renovation
- Security camera project
- High School marquees
- Finance and Business Academy - Covina High School (QZAB project)
- Arts, Media, and Entertainment Academy - Northview High School (QZAB project)
- Building H3 modernization and IT Academy - South Hills High School
- Campus beautification - South Hills High School

**Capital Facilities Fund:** The Capital Facilities Fund accounts for the collection and expenditure of developer fees. Approximately \$40,000 in fees was collected in 2009-10. Expenditures are for temporary housing and other projects related to modernization projects around the District.

**Other Enterprise Fund:** The Enterprise Fund records financial activity of Kids' Korner, the District's before and after school childcare program. The fund is projected to deficit spend in the current fiscal year. For 2010-11, fees will be raised and further operating efficiencies will be put into place so that the Fund may at least break even.

**Self Insurance Fund:** The Self-Insurance Fund consists of four sub-funds: Health and Welfare, Retiree Health and Welfare, Property and Liability, and Workers' Compensation.

The District has no deductible on health and welfare self-insurance; the two sub-funds are pass through accounts for the premiums paid by the District and its employees and retirees.

Currently the District charges a 0.5% payroll tax on all payrolls to fund the District's share of the retiree benefits fund. This rate provided sufficient funding for 2009-10. Once payrolls are finalized in the fall the rate will be reviewed and adjusted if needed.

The District carries a \$25,000 deductible per claim for Property and Liability, and \$250,000 per claim for Workers' Comp. Liabilities are projected and booked, and claims are paid through these two sub-funds.

The District funds the Property and Liability Fund by charging an allocated amount to the General Fund, Cafeteria Fund, Adult Education Fund, and Child Development Fund. The amounts charged in 2009-10 provided sufficient funding. These amounts are not expected to increase materially in 2010-11.

Currently the District charges a 1.3% payroll tax on all payrolls to fund the Workers Compensation fund. This rate provided sufficient funding for 2009-10. Once payrolls are finalized in the fall the rate will be reviewed and adjusted accordingly.



**COVINA-VALLEY UNIFIED SCHOOL DISTRICT  
GENERAL FUND BUDGET – 2010-11  
BUDGET HIGHLIGHTS – REVENUES**

**REVENUE LIMIT FACTORS**

Statutory Cost of Living Adjustment (COLA)	<0.39%>
Deficit factor	18.355%
Net effect	<0.39%>
Additional Revenue Limit Deficit	3.85%
Per ADA Allocation	\$4,953.35

**AVERAGE DAILY ATTENDANCE (ADA)**

ADA Used in Calculation of 2010-11 Revenue Limit (2009-10 P-2)	13,530
Decrease from 2009-10 Revenue Limit ADA	<416>
Estimated 2010-11 P-2 ADA (funded 2011-12)	13,276

**STATE REVENUES**

- No new State programs
- Deficit of (0.39%) applied to all programs
- Lottery projected at \$125.50 per ADA (\$111.00 Unrestricted, \$14.50 Restricted)
- K-3 Class Size Reduction projected at \$1,071, less penalty for loading at 22:1 per student
- No Mandated Cost revenues projected

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT  
GENERAL FUND BUDGET – 2010-11  
BUDGET HIGHLIGHTS – EXPENDITURES**

**MAJOR CHANGES TO EXPENDITURE ACCOUNTS**

Salary and Benefits:

Steps and column increase	\$1,467,038
Furlough days	(\$2,944,789)
Savings from changes to employee health benefit plans	(\$1,350,657)
Additional amounts for health benefit plans to be paid by employees	(\$652,350)
Net compensation savings from implementation of early retirement plans (includes compensation difference between retiring employees and their replacements, as well as savings from non-replaced employees)	(\$2,072,225)
Cost of early retirement incentive plans and related retiree benefits (one year only)	\$601,078
Additional staff reductions (in addition to those resulting from the early retirement plan ) due to decreased enrollment	(\$403,000)
Reduction in the substitute teacher budget	(\$200,000)
Classified position reductions	(\$181,950)
Reductions in site allocations due to declining enrollment	(\$14,000)
Election costs	(\$76,000)
One-time expenses in 2009-10	(\$235,000)

**Covina-Valley Unified School District  
2010-11 Budget Projection Assumptions  
Fiscal Years Ending June 30, 2010, 2011, 2012, 2013**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Revenue Limit				
Statutory COLA	4.25%	(0.39%)	2.1%	2.4
Deficit	18.355%	18.355%	18.355%	18.355%
Net Change to Revenue Limit	(7.64%)	(0.39%)	2.1%	2.4%
Additional One-Time Cut	\$252.83/ADA			
Additional On-going Cut		3.85% Deficit applied to Undeficit Base Revenue Limit (\$245.10/ADA)		
Dollars per ADA received by District	\$4,965	\$4,953	\$5,057	\$5,179
Change from prior years	(\$684)	(\$12)	\$104	\$122
Funded ADA	13,942	13,530	13,276	12,980
Decrease in Funded ADA	(192)	(416)	(254)	(296)
Categorical Programs				
Federal COLA	None Projected	None Projected	None Projected	None Projected
Tier I State Programs	0%	(0.39%)	2.1%	2.4%
Special Education	0%	(0.39%)	2.1%	2.4%
Tier 2 and 3 State Programs	(4.46%)	(0.39%)	2.1%	2.4%
1999-2000 Special Ed Settlement	\$61,072	\$61,072	-	-
Behavioral Intervention Plan (Hughes Bill) Settlement	-	\$200,000	\$200,000	\$200,000
Lottery (per ADA)	\$125.50	\$125.50	\$125.50	\$125.50
Local Income (Includes Interest and District Portion of Redevelopment Agency Fees)	3%	3%	3%	3%

2010-11 Budget Projection Assumptions - continued

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Prior Year amounts owed from Redevelopment Agencies (one time catch up payment)		\$1,493,471		
Interfund Transfer - from Adult Education Fund	-	\$1,500,000	-	
Encroachment Special Education	Based on current income estimates from SELPA and current expenditure projections	Based on current income estimates from SELPA and current expenditure projections	5%	5%
Routine Repair and Maintenance	Based on current expenditure projections	Based on current expenditure projections	1.5%	1.5%
Step and Column Increase				
Certificated	1.75%	1.75%	1.75%	1.75%
Classified	1.25%	1.25%	1.25%	1.25%
Benefits	1.25%	1.25%	1.25%	1.25%
Estimated decrease in teachers		(17)	(8)	(7)
Employee Compensation Increase (other than Step and Column)	0	0	0	0
Supplies and Services	Adjusted by CPI	Adjusted by CPI	Adjusted by CPI	Adjusted by CPI

Covina-Valley Unified School District  
2010-11 Budget Projection Assumptions  
Tier 3 Programs – Amounts Redirected to the  
Unrestricted General Fund Budget

The following Tier 3 categorical amounts, which were formerly restricted to specific use, have been reallocated to the District's Unrestricted General Fund Budget for 2010-11. The budgeted amounts have been projected in the 3-year projection to remain in the Unrestricted Fund for all three years.

School Counseling	\$ 64,036
P.E. Teacher Incentive	87,710
California High School Exit Exam	143,504
Gifted and Talented Pupils	74,481
Instructional Materials	500,000
Pupil Retention Block Grant	41,356
Professional Development Block Grant	500,000
Targeted Instructional Improvement Grant	637,369
School Library Improvement Block Grant	634,625
Art & Music Block Grant	150,282
Math and Reading Professional Development	102,809
	<u>\$ 2,936,172</u>

Additionally, the District is projecting to make a one-time transfer from the Adult Education Fund of \$1,500,000 in fiscal year 2010-11.