

Covina-Valley Unified School District



Budget

2011-12

Covina-Valley Unified School District

DATE: June 27, 2011

TO: Members of the Board of Education and Dr. Nichols

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

SUBJECT: FINAL BUDGET FOR 2011-12

The estimated ending balances for the 2010-11 fiscal year, and our initial budget for the 2011-12 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.

2010-11 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 (2009-10) P-2 ADA. Therefore, the District's current year P-2 ADA report, filed in April, has no effect on the current budget amount for revenue limit income. There are no material changes to the Revenue Limit income from the Second Interim budget.

- 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.

- Analysis and revision of General Fund expense accounts.

District fiscal staff have reviewed all line item expenditure budgets, budget vs. actual, for the unrestricted General Fund. Based upon this analysis there are no material differences between the budget as presented at Second Interim and the Estimated Actuals.

- Projection of restricted fund balance carryovers

District fiscal staff has analyzed estimated results for each categorical program the District operates. Estimated carryover amounts should not materially vary from budget.

- All other line item 2010-11 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, 2011), we estimate that the District will show final unaudited actual results which approximate the current budgeted amounts.

Based upon these assumptions, the Estimated Actuals show a net decrease to the fund balance of (\$1,347,972). This consists of a net increase in the Unrestricted Fund of \$518,008 combined with a net decrease to the Restricted Fund of (\$1,865,980).

The estimated total ending General Fund balance for the 2010-11 fiscal year is \$14,002,971. The Unrestricted Ending Fund balance is estimated at \$13,911,234 which is 12.72% 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 2010-11 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. Results will be presented to the Board in early September.

2011-12 Budget

When building its 2011-12 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.

On June 15th the State Legislature passed a State Budget bill (AB 98) for 2011-12 on a largely party-line vote. Since the Governor had been unable to secure the necessary Republican votes to extend the temporary taxes as outlined in his May Revision, Democratic Legislators pushed through a budget which generally repeated their prior years' budgeting techniques. These included relying on a long list of cuts, one-time revenues, special fund borrowing, accounting shifts, and other gimmicks to replace the \$9.6 billion in revenues that the Governor sought in his May Revision.

The Legislature kept essentially the same funding level for K-12 education as proposed in the Governor's May Revise, including the key element of flat funding of the Revenue Limit. The budget bill kept the revenue change at -0-, but reinstituted the cash deferral previously proposed so the State could put off actually paying the schools. So while the K-12 education portion of the budget was kept "whole", actual cash payments were delayed even further.

The Governor vetoed the budget on June 16. He called out the budget as "not a balanced solution," which contained big deficits and added billions in new debt. Describing the budget as "not financeable," he called upon the Legislature to present him with an "honest, balanced budget."

It is expected that the Governor will continue working on a revenue extension proposal with Republican lawmakers. These negotiations assumedly will discuss the Republicans supporting some form of additional revenues (or at least the opportunity for voters to weigh in) in exchange for a tightening of the state spending cap, reforms of public pensions, and a relaxation of various environmental and other regulations. It is unknown when a final budget will be passed. As these activities play out at the State level, the District will use the flat funding scenario for now, while monitoring the situation closely.

Estimated State revenue factors used by the District in building its 2011-12 budget include:

- Statutory COLA applied to the Revenue Limit of 2.24%, adjusted by an increase in the deficit factor from 17.963 to 19.754%. This results in flat funding (no change in the per ADA base revenue limit amount) for the 2011-12 fiscal year. This base revenue limit amount is 10% less than the per ADA amount received by the District in 2007-08.
- -0- COLA applied to State categorical programs. Categorical programs continue to be funded at 2010-11 year levels, which are generally the amount received by the District in 2007-08, deflated 20%.
- No new programs have been funded

Expenditures are forecast taking into account all known and projected increases and decreases in expenditures, including changes due to our negotiated salary agreements, step and column, 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 2011-12 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 2011-12 General Fund budget projects total revenues of \$104.7 million, for a net decrease (over 2010-11 estimated revenues) of (\$1.044) million. The major part of the change is due to a decrease in Revenue Limit income due to a drop in ADA.

Revenue Limit Income is projected to decrease (\$1.65) million. Per student ADA funding will remain the same at \$5,230. Revenue limit producing ADA is decreased by 314 students, which was the drop from the 2009-10 P-2 to the 2010-11 P-2. An additional drop of 411 ADA is projected for the 2011-12 P-2. This drop will be reflected in 2012-13 revenue limit income.

The District received \$2,660,786 in Federal Education Jobs Fund Entitlement funding in 2010-11. This revenue will be deferred and spent in the 2011-12 school year. 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 -0- COLA.

Other revenues are based upon historical trends and estimated actuals. Material changes to the 2011-12 budget from the 2010-11 estimated actuals include:

- The 2010-11 budget included \$557,913 in mandated cost revenues for the District (mostly reimbursements from prior years). The Governor has not included mandated cost reimbursements for the 2011-12 fiscal year. Therefore, the District has budgeted -0- in mandated cost revenues.
- The District has increased interfund transfers for an additional \$500,000 transfer from the District's Adult Education Fund into the Unrestricted General Fund (bringing the total transfer for 2011-12 to \$2 million). This is allowed through the State's Tier Three flexibility.
- Also under Tier Three flexibility, the District plans to transfer \$500,000 annually from the Deferred Maintenance Fund, beginning in 2011-12.
- Encroachment is estimated to increase \$927,324 for the 2011-12 fiscal year. This increase is mainly due to the end of Federal ARRA (American Recovery and Reinvestment Act) funding specifically directed to Special Education.

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 year 2014-15. The District will continue to utilize programs and funding first identified in the 2009-10 budget to help offset cuts to the Revenue Limit. For 2011-12 this amounts to \$2.77 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 \$2 million from the Adult Education fund and \$500,000 from the Deferred Maintenance Fund in 2011-12.

Expenditures

For 2011-12, total General Fund expenditures are projected at \$106.8 million, a net decrease of (\$1.8) million from 2010-11. The only material increases to the 2011-12 budget are for step and column additions. The 2011-12 budget incorporates \$2.26 million in net budget cuts. The budget also includes use of the Federal Jobs money to offset Unrestricted Fund salaries. Furlough days taken by all Covina-Valley staff continue in the budget. A detailed list of cuts is attached.

Change in Fund Balance

Based upon these assumptions, the estimated total ending General Fund balance for the 2011-12 fiscal year shows a net increase of \$424,541. This increase 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 \$14,335,775 or 13.34% 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, 2013 of \$11,261,279 or 10.08% of total expenditures. The projection at June 30, 2014 shows an ending Unrestricted Fund balance of \$3,552,977, or 3%.

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, raise fees, and cut back on programs due to a 20% drop in State funding and Tier Three flexibility transfers made to the General Fund. In both the 2008-09 and 2010-11 school years, \$1.5 million was transferred from the Adult Education Fund to the General Fund through Tier Three flexibility. Due to continued negative budget forecasts from the State, the District has included a \$2 million contribution from the Adult Education apportionment to the General Fund for the next three years.

Child Development Fund: Due to a State requirement that Child Development Funds spend down their fund balances, the District's Child Development Fund shows deficit spending projected for both the current and budget fiscal years.

Cafeteria Fund: The Cafeteria Fund shows budgeted net income in 2010-11. The District will transfer additional salaries to the Cafeteria Fund from the General Fund in 2011-12, resulting in a net loss (spending down of fund balance) for the projected budget year. 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 break even in the current year. For 2011-12, State Deferred Maintenance funding is projected to be received at the same level as 2010-11. The District plans to continue making its full required match from the Bond Building Fund. The Deferred Maintenance Fund will contribute \$500,000 from its reserves to the Unrestricted General Fund as part of Tier Three flexibility in 2011-12. In order to continue to budget at break even the Fund will reduce expenditures.

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, 2011, all anticipated funding has been received from the State. Major projects included in the expenditure budget for 2011-12 are:

- Finance and Business Academy - Covina High School (QZAB project)
- Arts, Media, and Entertainment Academy - Northview High School (QZAB project)
- Playing fields renovations - South Hills High School

Capital Facilities Fund: The Capital Facilities Fund accounts for the collection and expenditure of developer fees. Approximately \$560,000 in fees was collected in 2010-11. 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 be self-supporting in both the current and next fiscal years.

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 2010-11. 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 2010-11 provided sufficient funding. These amounts are not expected to increase materially in 2011-12.

Currently the District charges a 1.3% payroll tax on all payrolls to fund the Workers Compensation fund. This rate provided more than sufficient funding for 2010-11. In order to provide cost savings to the General and other operating funds, the rate will be reduced in 2011-12 to 1.1%.

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGET – 2011-12
BUDGET HIGHLIGHTS – REVENUES**

REVENUE LIMIT FACTORS

Statutory Cost of Living Adjustment (COLA)	2.24%
Deficit factor	19.754%
Net effect	-0-
Per ADA Allocation	\$5,230.82

AVERAGE DAILY ATTENDANCE (ADA)

ADA Used in Calculation of 2011-12 Revenue Limit (2010-11 P-2)	13,236
Decrease from 2010-11 Revenue Limit ADA	(314)
Estimated 2011-12 P-2 ADA (funded 2012-13)	12,825

STATE REVENUES

- No new State programs
- No change in funding (-0- COLA)
- Lottery projected at \$128.50 per ADA (\$111.00 Unrestricted, \$17.50 Restricted)
- K-3 Class Size Reduction projected at \$1,071, less penalty for loading at 22:1 per student (no change from prior year)
- No Mandated Cost revenues projected

INTERFUND TRANSFERS

- | | |
|--|-----------|
| • Increase in Tier Three Flexibility transfer from Adult Ed to General Fund | \$500,000 |
| • New Tier Three Flexibility transfer from Deferred Maintenance fund to General Fund | \$500,000 |

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGET – 2011-12
BUDGET HIGHLIGHTS – EXPENDITURES**

MAJOR CHANGES TO EXPENDITURE ACCOUNTS (Unrestricted General Fund)

Salary and Benefits:

Step and column increase	\$1,356,507
Staff reductions due to decreased enrollment	(\$1,120,000)
Credit to Unrestricted Fund for salaries paid for from Federal Jobs funding	(\$2,660,786)
Classified position reductions	(\$300,855)
Reallocate additional salary costs to the Nutrition Services Fund	(\$235,643)
Decrease utilities expense	(\$200,000)
Cost savings on copiers/printers	(\$200,000)
Cost sharing for transportation	(\$200,000)
Election costs	\$109,600

**Covina-Valley Unified School District
2011-12 Budget Projection Assumptions
Fiscal Years Ending June 30, 2011, 2012, 2013, 2014**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Revenue Limit				
Statutory COLA	(0.39%)	2.24%	3.2%	2.7%
Deficit	17.963%	19.754%	19.754%	19.754%
Net Change to Revenue Limit (2010-11 increase is due to restoration of 2009-10 one time \$258 cut)	5.17%	0	3.2%	2.7%
Dollars per ADA Change from prior years	\$5,230 \$258	\$5,230 0	\$5,398 \$168	\$5,544 \$146
Funded ADA	13,550	13,236	12,825	12,522
Decrease in Funded ADA	(403)	(314)	(411)	(303)
Federal Education Jobs Funding (to be spent 2011-12)	\$2,660,786	-	-	-
Categorical Program COLAs				
Federal Programs	None Projected	None Projected	None Projected	None Projected
State Programs	None Projected	None Projected	3.2%	2.7%
Special Education	None Projected	None Projected	3.2%	2.7%
Class Size Reduction	\$1,071 per student	\$1,071 per student	\$1,071 per student	\$1,071 per student

2011-12 Budget Projection Assumptions – continued

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
1999-2000 Special Ed Settlement	\$61,072	-	-	-
Lottery (per ADA)	\$130	\$128.50	\$127.20	\$125.95
Mandated Costs	\$557,913	-	-	-
Local Income (Includes Interest and District Portion of Redevelopment Agency Fees)	3%	3%	3%	3%
Interfund Transfer - from Adult Education Fund	\$1,500,000	\$2,000,000	\$2,000,000	\$2,000,000
Interfund Transfer - from Deferred Maintenance Fund	-	\$500,000	\$500,000	\$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 Increases				
Certificated	2.0%	2.0%	2.0%	2.0%
Classified	1.5%	1.5%	1.5%	1.5%
Benefits	1.5%	1.5%	1.5%	1.5%

2011-12 Budget Projection Assumptions – continued

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Estimated decrease in FTE teachers due to declining enrollment	(17)	(16)	(7)	(10)
Employee Compensation Increase (other than Step and Column)	0	0	0	0
Supplies and Services	Current year projected expenditures	Current year projected expenditures adjusted by CPI and known changes	Adjusted by CPI	Adjusted by CPI

**Covina-Valley Unified School District
2011-12 Budget Assumptions
Tier Three Programs - Amounts Redirected to
Unrestricted General Fund Budget**

The following Tier Three categorical amounts, which were formerly restricted to specific use, have been reallocated to the District's Unrestricted General Fund Budget for 2011-12. The budgeted amounts have been projected in the 3-year projection to remain in the Unrestricted Fund for all three years.

P.E. Teacher Incentive	\$ 88,079
California High School Exit Exam	144,106
Gifted and Talented Pupils	85,009
Instructional Materials	500,000
Peer Assistance and Review	20,751
Math and Reading Professional Development	103,245
Pupil Retention Block Grant	41,530
Professional Development Block Grant	500,000
Targeted Instructional Improvement Grant	480,970
School Library Improvement Block Grant	657,320
Art & Music Block Grant	<u>151,103</u>
	<u><u>\$ 2,772,113</u></u>

Additionally, the District is projecting to make an interfund transfer from the Adult Education Fund of \$2,000,000 for fiscal years 2011-12, 2012-13, and 2013-14. The District is also projecting a \$500,000 interfund transfer from the Deferred Maintenance Fund to the General Fund in fiscal years 2011-12, 2012-13, and 2013-14.