



FCMAT CBO Mentor Program

BUDGET CRISIS RESPONSE REPORT

BRENTWOOD UNION ELEMENTARY DISTRICT

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Overview of the Political Situation

December 2008 Budget Update

During the district's last budget update in September, we shared with you that the Governor had finally signed the 103.4 billion California general fund budget with \$58.1 allocated to education. At that time, the state budget provided a .68 percent COLA (Cost of Living Adjustment) on revenue limit funding only. On December 1, 2008, the National Bureau of Economic Research declared that the U.S. has been in a recession for a year. State officials have made it clear that the economic downturn is having a severe impact on the state budget, from which school district's receive the majority of our funding. The Governor has called a special session of the legislature to solve the estimated \$11.2 billion current-year shortfall.

As of December 1, 2008, the Governor's solution to this shortfall is a proposed \$4.5 billion in mid-year cuts and \$4.4 billion in new revenues for the 2008-2009 fiscal year. One of the Governor's solutions to closing the budget shortfall is to make \$2.2 billion in mid-year cuts to K-12 education. The size of mid-year reductions in funding being discussed translates to approximately \$2.26 million less for Brentwood Union Elementary District.

At the close of the 2007-08 session, both houses of the Legislature failed to put together a plan to close the state's budget gap. The new Legislature isn't much different from the current one and the divide between the two parties is as great as ever. With many Republicans signing a pledge against new revenues, the budget situation is likely to get worse before it gets better.

Please know that the district is being proactive in instituting several cost-saving measures now in anticipation of the cuts being considered by the state. The district has a \$1.5 million reserve fund that will be used to assist Brentwood in weathering these tough budget times. The district's reserves are only a cushion and not the solution. It is likely that the district may need to consider drastic cuts once the Governor roles out his proposed budget in January.

The district administration will continue to monitor the situation and post updates on our website as they become available.

Communication Strategy

Continue to be proactive in explaining the state budget situation to all stakeholders. Use this situation to praise the board for their responsible fiscal management by emphasizing that our district is able to use some of our reserve to get through this current budget challenge without laying off staff. Use a variety of approaches to correspond with stakeholders to keep them informed of our financial situation.

Stakeholders	Communication Strategy
Board Members	Continue to give budget updates at each meeting, forward CASBO, CSBA and ACSA updates as they become available, establish a stoplight budget reduction chart to communicate status of proposed budget reductions
Certificated Staff	Include certificated staff in budget reduction committee, send letter from Superintendent to communicate status of proposed budget reductions to elicit support and alleviate concern
Classified Staff	Include classified staff in budget reduction committee, send letter from Superintendent to communicate status of proposed budget reductions to elicit support and alleviate concern
School Site Councils and PTA groups	Once budget reductions are approved by board, attend School Site Council Meetings and PTA meetings to review reductions and answer questions, Send letters to community groups with specific needs of the district for possible donations to make up difference of budget reductions
Community Groups	Continue to update Website with budget updates. Send letters to community groups with specific needs of the district for possible donations to make up difference of budget reductions
Parents	Send letter from Superintendent to communicate status of proposed budget reductions to elicit support and alleviate concern.

Scope of Reductions

Relative to most of the districts in the state of California, Brentwood Union Elementary District is in excellent financial health. Costs per student are significantly below statewide averages (although revenue per student is unfortunately even more so), and the district enjoys a healthy fund balance. However, regardless of this current strength, given the potential for mid-year cuts, and the near-certainty of no cost of living increases for at least the next two out-years, analyzing the potential impact and developing contingencies before the financial stress occurs would certainly be a most prudent course of action.

As mentioned above, this district is in excellent overall financial condition. We can begin to form a clearer picture of the district’s operational stability if we focus on the unrestricted General Fund (URGF), which represents both the majority of district funds and the area of greatest opportunity for discretionary spending and savings.

Table I outlines a five-year summary of URGF financial activity for Brentwood. At the outset, we can see that for the three prior years (highlighted in yellow) revenue growth has been driven by two major factors: a demographic increase in students averaging 8½% per

year, and increases in revenue limit funding tied to cost of living adjustments (COLA) per student average daily attendance (ADA). Taken at face value these are encouraging numbers. However, there are some significant, sobering, mitigating factors to consider.

Although enrollment is increasing year over year *on average* by 8½%, the *rate* of growth

Table I: Unrestricted General Fund Summary

	Prior 2 06/07	Prior 1 07/08	Current Year 08/09	Out Year 1 09/10	Out Year 2 10/11
<i>Growth Factor (Demographic)</i>		9.11%	8.06%	7.13%	6.30%
ADA	6395	6967	7522	7939	8439
Enrollment	6539	7135	7710	8259	8779
ADA %	97.80%	97.65%	97.57%	96.13%	96.13%
<i>BRL Growth Factor (~COLA)</i>		5.09%	8.01%	-5.27%	1.72%
Revenue Limit/ADA	\$4,600	\$4,834	\$5,221	\$4,946	\$5,031
Revenues					
Revenue Limit	\$29,419,856	\$33,677,575	\$39,273,865	\$39,266,294	\$42,456,609
Federal Revenue	\$8,039	\$5,024	\$43,666	\$46,775	\$49,720
Other State Revenue	\$3,850,517	\$4,066,662	\$4,580,592	\$4,906,759	\$5,215,696
Other Local Revenue	\$996,066	\$1,391,083	\$1,652,086	\$1,769,725	\$1,881,150
Total Revenue	\$34,274,478	\$39,140,344	\$45,550,209	\$45,989,553	\$49,603,175
Expenses					
Certificated Salaries	\$19,987,838	\$22,479,549	\$25,818,207	\$27,656,624	\$29,397,930
Classified Salaries	\$3,313,186	\$3,811,843	\$4,487,375	\$4,806,904	\$5,109,554
Employee Benefits	\$5,038,440	\$5,788,131	\$6,457,303	\$6,917,103	\$7,352,615
Books and Supplies	\$333,609	\$1,018,013	\$920,984	\$986,564	\$1,048,679
Services and Operating	\$2,297,488	\$2,627,746	\$3,384,027	\$3,624,991	\$3,853,226
<i>Subtotal : Regular Expenses</i>	<i>\$30,970,561</i>	<i>\$35,725,282</i>	<i>\$41,067,896</i>	<i>\$43,992,186</i>	<i>\$46,762,004</i>
Regular Expenses	\$30,970,561	\$35,725,282	\$41,067,896	\$43,992,186	\$46,762,004
Contributions	\$2,954,246	\$3,402,525	\$4,706,642	\$5,041,784	\$5,359,223
Capital Outlay	\$50,472	\$22,782	\$131,041	\$131,042	\$131,043
Other Combined Expenses	-\$712,233	-\$660,236	-\$358,552	-\$358,552	-\$358,552
Total Expenses	\$33,263,046	\$38,490,353	\$45,547,027	\$48,806,460	\$51,893,718
URGF General Summary					
Total Revenues	\$34,274,478	\$39,140,344	\$45,550,209	\$45,989,553	\$49,603,175
Total Expenses	\$33,263,046	\$38,490,353	\$45,547,027	\$48,806,460	\$51,893,718
Net Increase/(Decrease)	\$1,011,432	\$649,991	\$3,182	-\$2,816,907	-\$2,290,543
Beg. Fund Balance	\$2,234,150	\$3,245,582	\$3,895,573	\$6,026,943	\$5,338,224
Ending Fund Balance	\$3,245,582	\$3,895,573	\$3,898,755	\$3,210,036	\$3,047,681
Proposed Categorical Cont.:	\$0	\$0	\$2,128,188	\$2,128,188	\$0
Revised EFB with Contributions:	\$3,245,582	\$3,895,573	\$6,026,943	\$5,338,224	\$3,047,681

is actually slowing. From Prior 2 to Prior 1 growth was 9.1%, whereas from Prior 1 to Current Year, growth was 8.1%. This represents approximately *an 11½% decline in growth rate*. Were this trend to continue, we could project 7.1% and 6.3% growth rates in the next two out-years. Although this slowing of growth rate is reason enough to guard against complacency, the current State of California fiscal crisis presents an even greater challenge to Brentwood's continued financial stability.

Statutory increases to Revenue Limit per ADA funding were approximately 5% and 8% in prior years 2 and 1 respectively. Based on what we currently know about proposed legislative solutions to the State budget crisis, we can expect that number to fall to zero in both of the out-years. Additionally, at the time of this writing it appears that California LEAs will face funding cuts of \$275/ADA in the current year, and \$190/ADA in 2009/2010. If so, even with continued growth, we would be at risk for deficit spending in each of the out-years, assuming proportionate revenue and expense patterns continue. In the event of continued cuts in year-over-year funding, this relatively minor projected shortfall will become increasingly more severe, and will at some point no longer be able to be absorbed by the fund balance. With that in mind, we are proposing contingency plans that can be implemented in case of fiscal emergency.

As mentioned above, it is unlikely that any significant savings can be achieved through cuts to major URGF line items. Certificated salaries are at state-wide average (SWA) levels, Classified salaries are 21% below SWA, and benefits and supplies are at 29% and 34% below SWA, respectively. If hit with a major long-term decrease in Revenue Limit funding, the single most viable source for additional funds would be from the categorical programs. However, this would require the State to enact legislation releasing the restrictions on the allowable uses of these funds, which currently can only be used for narrowly defined purposes.

Table II (page 6) details the available dollars for the restricted categorical programs for the current year. The District total for categorical funds is \$8,480,001 for the current year. However, even if the State were to relax virtually all restrictions on these funds, this overall total amount would not be available to fund ongoing general expenses, primarily because some of the funds represent one-time money, and some are intended for legally mandated purposes which typically require contributions *from* the General Fund, and therefore would certainly not be able to contribute *to* URGF.

In the Table II column labeled “O/N/A” we have indicated whether the funds in each account line item are one-time (“O”), are not logically available (“N”) for URGF applications, or are potentially available (“A”) for URGF use. In the percentage column we have entered the approximate percentage of the total account value that we would recommend for transfer. (Note that we have attempted to leave at least 20% of categorical funding in place, in order to (hopefully) prevent these programs from collapsing permanently.) The total of this proposed available amount is \$2,128,188.

Table II: Restricted Categorical Funding

		Total	Available		Proposed	
			O/N/A	\$	%	\$
6285	Community-Based Tutoring Grants	\$65,087	A	\$65,087	100%	\$65,087
6286	English Language Acquisition Programs	\$45,700	A	\$45,700	50%	\$22,850
6300	Lottery: Instructional Materials	\$185,302	A	\$185,302	80%	\$148,242
6405	School Safety & Violence Prevention, 8-12	\$29,207	A	\$29,207	75%	\$21,905
6500	Special Education	\$3,685,819	N	\$0	0%	
6650	Tobacco-Use Prevention Education	\$14,350	A	\$14,350	100%	\$14,350
6760	Arts and Music Block Grant	\$114,432	A	\$114,432	80%	\$91,546
6761	Arts, Music and Physical Education Supplies	\$568,518	O	\$0	0%	
7080	Supplemental School Counseling Program	\$101,759	A	\$101,759	80%	\$81,407
7090	Economic Impact Aid (EIA)	\$452,952	A	\$452,952	80%	\$362,362
7140	Gifted & Talented Education (GATE)	\$62,126	A	\$62,126	80%	\$49,701
7155	Instructional Materials	\$470,221	A	\$470,221	50%	\$235,111
7230	Transportation	\$69,377	N	\$0	0%	
7240	Transportation: Special Education	\$162,279	N	\$0	0%	
7271	California Peer Assistance (CPARP)	\$37,132	A	\$37,132	80%	\$29,706
7275	Staff Development	\$35,294	A	\$35,294	80%	\$28,235
7392	Teacher Credentialing Block Grant	\$644,399	A	\$644,399	80%	\$515,519
7393	Professional Development Block Grant	\$276,526	N	\$0	0%	
7394	Targeted Instructional Improvement Block Grant	\$185,893	A	\$185,893	80%	\$148,714
7395	School and Library Improvement Block Grant	\$391,818	A	\$391,818	80%	\$313,454
7396	Discretionary Block Grant	\$560,567	O	\$0	0%	
7398	Instructional Materials, Library Materials, Tech.	\$113,118	O	\$0	0%	
9010	Other Locally Defined	\$208,125	N	\$0	0%	
		\$8,480,001		\$2,835,672		\$2,128,188

We sincerely hope that this district’s proven record of cost control, along with responsible analysis and planning, and a sizable fund balance will sustain it through this difficult period. But should events take an even more dire turn for the worse, they must be prepared to creatively marshal all available resources so as to continue providing the best services possible to the students in their care.

Principal Talking Points

Based on the financials as they are presented Brentwood is not deficit spending. It has a net fund increase of \$1,593,687. This is all generated from the categorical (restricted) programs of the general fund. The ending balance for categoricals is now \$2,254,886. The district may not maximizing categorical programs to reduce expenses in the unrestricted programs based on this increasing restricted ending balance.

The current required reserve for economic uncertainties is 3% based on the district's average daily attendance (ADA) of 7,522. This district has only reserved \$1,520,086, or 2.81% of total expenditures. A 3% reserve would require an additional \$101,045 to meet the minimum requirement. This would reduce the undesignated/unappropriated ending balance to \$692,469.

The current salary and benefit expense for the district trends at 83.96%, the average district trends at 80%. A 1% increase for certificated salaries equates to \$304,111. A 1% increase for classified salaries equates to \$69,570.48. Certificated salaries account for 81% of total salary expenditures (certificated and classified combined). This seems higher than the average school district. Benefits average 21% of salaries. A 1% increase for certificated and classified combined totals \$373,681. Benefits would total \$78,473 (21%), for a total cost of \$452,154 for a 1% across the board salary increase. The undesignated/unappropriated amount (\$692,469) could adequately cover a 1% salary increase.

The proposed mid-year cuts for 2008-09 are \$300 per ADA or \$2,256,600 ($\$300 \times 7,522$) with no plans for restoration in future years. Current categorical programs total \$8,271,876. One time programs account for \$1,129,085 (resources 6761 & 7396). On going programs equate to \$7,142,791, a 6.5% reduction to this amount equals \$464,281. Categorical funding would be reduced to \$6,678,510. The unrestricted portion of the proposed state reductions would equal \$1,792,319 ($\$2,256,600 - \$464,281$).

In funds 17 and 40 the district has estimated ending balances of \$1,888,038. These ending balances could be transferred back to the general fund to offset the midyear reductions if necessary. A priorities assessment would be required of these funds to determine whether all or any of these dollars could be used to mitigate the 2008-09 proposed midyear cuts.

The district is experiencing ADA growth averaging 381 per year. If this trend were to continue the district would increase its revenue limit funding for next year by \$2,106,980 if the revenue limit per ADA remained flat (\$5,530.13). This would also be adequate to cover

the unrestricted shortfall from 2008-09. Maybe a plan would be to transfer dollars from funds 17 and 40 in the current year to cover the midyear cuts then replenish these balances next year after realizing the \$2,106,980 increase in revenue limit dollars.

Any interfund borrowing in the current year could not be utilized for ongoing costs. These transfers would strictly be to cover one time shortfalls.

18-Point Budget Reduction Process Timeline

November 2008

1. Superintendent meets with cabinet and discuss reduction ideas.
2. Inform the Board of the possibility of mid-year reductions.
3. Inform various departments and schools the fiscal crisis we are in and ask for reduction plans.

December 2008

4. Implement a hiring freeze. Any vacancies that need to be filled will have to be justified.
5. Gather information from the various departments and schools on their reduction plans.
6. Present to the Board mid-year reduction recommendations from departments/schools.

January 2009

7. Governor's proposed 2009-2010 Budget is provided.
8. Review 2009-2010 Governor's Budget with the Board.
9. Board approves mid-year reductions.

February 2009

10. Meet with Instruction/Curriculum division and Budget Committee regarding the 2009-2010 Budget and come up with reduction recommendations.
11. Cabinet finalizes recommendations for reductions.
12. Provide employee forums.
13. Board workshop on reductions.

March 2009

14. Board approves recommended reductions.

May 2009

15. Governor's 2009-2010 proposed revision on the budget is announced.
16. Adjust budget reductions based on the revision.

June 2009

17. Presentation and Public Hearing of the 2009-2010 Budget to the Board.
18. Adoption of the budget.