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## 1. APPROVE 2011-2012 FIRST INTERIM REPORT

[Status: 5. Approved by Superintendent's Office] [Vote]



### ▼ [Superintendent's Recommendation](#)

The Superintendent recommends approval of the Positive Certification of District Solvency on the First Interim Report for fiscal year 2011-12 and the subsequent two fiscal years – 2012-13 and 2013-14.

### ▼ [Background](#)

Education Code Sections 35035(g), 42130, and 42131 require the Governing Board of each school district to certify twice a year to the district's ability to meet its financial obligations for the remainder of the current fiscal year and the subsequent two fiscal years. A positive certification means that the District can meet its financial obligations for three years. The interim report and certification documents must be presented in the Standardized Account Code Structure (SACS) format prescribed by the Superintendent of Public Instruction. The First Interim Report is routine in nature and is presented for Board review on an annual basis. Projections are always preliminary in nature and are utilized to formulate general estimates of future revenues and expenditures. Future budget (2012-13) discussions will begin after the new Governor presents his new budget proposal in January 2012. The final education budget for subsequent years, as approved by the State, can differ significantly from the projections outlined in the First Interim Report.

For fiscal year 2011-12, the Los Angeles County Office of Education (County Office) is requiring each district to complete and submit:

- A statement of Revenues, Expenditures, and Changes in Fund Balance;
- Cash flow projections for fiscal year 2011-12 and the first three months of 2012-13;
- The Average Daily Attendance (ADA) Report and ADA Projections for 2012-13 and 2013-14;
- Financial projections for the restricted, unrestricted, and the combined General Fund for fiscal years 2011-12, 2012-13, and 2013-14;
- A listing of all assumptions used in the preparation of the reports; and
- A contingency plan with the 2011-12 First Interim Report detailing how the district will address the potential revenue reductions should the trigger language be implemented in order to maintain the district's required level of reserves.

The Governing Board's certification and the accompanying three-years of financial information must be submitted to the County Office within 45 days after the close of the reporting period as shown below:

Closing Date	File on or Before
First Interim	October 31, 2011 December 15, 2011

### IMPLICATIONS FOR THE DISTRICT

The Los Angeles County Office of Education is requiring each district to submit financial projections and a listing of all assumptions used in the preparation of the First Interim for fiscal year 2011-12 and the two subsequent fiscal years 2012-13 and 2013-14. Assumptions must be clearly indicated for each year. The following are the key assumptions for preparing the districts 2011-12 First Interim Report and multiyear projections:

#### Revenue Limit Funding

- A Net Funded Cost-of-Living Adjustment (COLA) for the revenue limit, including categorical programs, is zero

percent for 2011-12 and is projected at 3.10 percent for 2012-13 and 2.80 percent for 2013-14. Because of the uncertainty inherent in the State's financial forecast, districts are cautioned to exercise considerable caution in utilizing these positive COLAs in projecting revenues and should NOT enter into any long-term agreements that would rely upon the COLA as a revenue source.

- The revenue limit deficit is 19.754 percent for 2011-12 and is projected at 19.754 percent for both 2012-13 and 2013-14.
- Categorical programs associated with the revenue limit will experience reductions and flexibility options separate from the revenue limit deficit. Supplemental Instructional programs, Community Day Schools, Regional Occupational Centers/Programs (ROC/Ps) and Adult Education are included in Tier III programs and are based on 2007-08 funding levels. Total overall funding for these programs was reduced by an estimated 20 percent in 2010-11 over 2007-08 funding levels. A zero percent COLA is provided for 2011-12, projected COLAs for 2012-13 and 2013-14 are 3.10 percent and 2.80 percent respectively.
- Public Employees' Retirement System (PERS) Employer Contributions Rate: The PERS employer contribution rate is 10.923 percent for 2011-12. The PERS rate for 2012-13 and 2013-14 is estimated at 13.53 percent.

#### Categorical Flexibility

The categorical flexibility introduced in 2008-09 was extended for an additional two years. K-3 Class Size Reduction flexibility expiration date was extended to 2013-14. Tier III categorical funding flexibility was extended to 2014-15, allowing districts to continue to use those programs' funding as unrestricted revenues with no program reporting requirements.

#### Deferred Maintenance

The requirement to make the Deferred Maintenance match of one half of one percent of General Fund Expenditures is suspended through 2014-15. Deferred Maintenance is included in the Tier III programs; funds may be used for any purpose. However, the District maintained its match of one half of one percent in the 2011-12 Adopted Budget and plans to make its match for the two subsequent years. By doing this now, the District will not face the daunting tasks of making its match in 2014-15.

#### Routine Restricted Maintenance Account (RRMA)

The reduction of required contributions into the Restricted Routine Maintenance Account from three percent to one percent of a district's General Fund expenditures was continued through 2014-15. Again, the District has maintained the required three percent in order to avoid the challenge of funding this account in 2014-15.

#### Reduction of Instructional Days

The reduction of instructional days from 180 to 175 was continued through 2014-15 (subject to local negotiation). Should the reductions be triggered, then AB 114 authorizes local school boards to negotiate the reduction of the school year by up to seven (7) days, to a minimum of 168 instructional days, with proportional decreases in the minimum number of instructional minutes.

#### Tier III – Funding Reductions with Broad Flexibility

Districts may use funding received for these programs for any educational purpose (including transfer to the Unrestricted General Fund) from 2008-09 through 2014-15, with some exceptions. Districts must account for all revenues and expenditures related to funding from these programs as unrestricted.

New in January 2012, districts must, as a condition of receipt of the funds, annually hold a public hearing to discuss the explicit uses of the funds. This information should be sufficiently detailed in the assumptions and specifically identified in the Board meeting minutes to ensure compliance. Assembly Bill 189 requires that the public hearing be held prior to and independent of the annual Governing Board's budget adoption meeting.

#### American Recovery and Reinvestment Act and Federal Jobs and Medicaid Assistance Act

The American Recovery and Reinvestment Act (ARRA) and the Federal Education Jobs and Medicaid Assistance Act (Ed Jobs), provided significant funding to school districts for 2008-2009 through 2010-11. However, these were one-time funds, and no new ARRA or Ed Jobs funds will be provided for 2011-12. The ARRA funds had to be spent by September 30, 2011, and the Ed Jobs funds have to be spent by September 30, 2012.

#### Mandated Costs

The same mandates that were suspended in 2010-11 are again suspended in 2011-12. Districts are not required to perform the mandates, and will not be reimbursed for any activities. However, in the Budget Act, eight unfunded mandates were identified. An unfunded mandate, previously a deferred mandate, is indicated when a mandate is listed in the Budget Act, but with a zero appropriation and has not been suspended.

Districts are still required to perform the mandated functions, but districts will not receive funding in the current year for unfunded mandates. While districts will eventually be reimbursed, the present choices are to comply and accept the deferrals or go to court to seek injunctive relief.

#### Cash Flow Projections

Increased emphasis must be put on cash flow analysis and monitoring as a result of the impact of reduced apportionments for this year and future years. The 2011-12 Budget Act includes \$2.1 billion in new 2011-12 to 2012-13 deferrals. Districts must incorporate all apportionment deferrals in their cash flow projection and are required to extend the cash flow to a 15-month period to reflect July, August, and September 2012.

#### Other Issues to Consider

The ticking time-bomb embedded in AB 114 provides that, K-14 and Higher Education stand to take nearly \$3 billion in cuts if the state's revenue forecasts come in lower than projected. Current law is that the cuts are automatic and prorated based on the revised revenue projections of the Legislative Analyst's Office (LAO) in November and the Department of Finance (DOF) in December.

We are only a few weeks from those revised projections. The revised projections will be based upon four or five months of actual revenue collections and seven or eight months of estimates. Remember, the biggest months are in the spring. We think that both the LAO and DOF will do their best to get the projections right. However, we also recognize that, over the past four years in this volatile economy, the leading economists in the nation have not made an annual projection that turned out to be anywhere near accurate.

So, rather than try to guess what these projections will be, staff prefers to focus on the past and present economics. The economic growth of both the United States and California have been "over forecast" in each year since 2009 when the recession was officially deemed to be over. Staff also knows that the growth projections used in developing the 2011 May Revision have turned out to be too optimistic. A further reflection of that optimism by the state, the addition of \$4 billion to the revenue projections, is far riskier today than in June when it was signed into law. Staff also knows that current-year cash projections have come in significantly lower than expected.

Thus, whether the "triggers" get pulled or not, the state will be facing another economic crisis as it tries to balance the 2012-13 Budget. The "triggers", which are by statute one-time cuts, could easily portend a lower revenue picture for not only 2011-12, but 2012-13 as well. We think that going into the January Budget development process, the state could easily be looking at a shortfall this year of \$4 billion or more; continuing that lowered expectation into next year brings the total to about \$8 billion in basic revenue problems.

There could be problems on the expenditure side as well. The Department of Corrections' budget continues to grow unabated. The more than \$13 billion in cuts to the non-Proposition 98 side of the Budget are not yet assured and may have the same slippage we have seen in the past. Finally, as the effects of the recession and very slow recovery linger on, we see more demand for government services by families in distress. As a result, we would not be at all surprised to see the state anticipating a Budget shortfall of \$10 to \$15 billion in January, whether the "triggers" get pulled or not.

#### Report by Fund

Based on the direction from LACOE, assumptions (Attachment A) and data, the following report by fund is submitted:

- General Fund Unrestricted – The Unrestricted General Fund is used to deliver the District's educational program. Most of the District's revenues and expenditures are recorded in this fund. For the first time in a long while the District is no longer deficit spending.
- General Fund Restricted – In recent years, Special Education and Categorical programs have not been funded at the same level as the Unrestricted General Fund. Educational programs that are funded with categorical monies are continually adjusted in accordance with funding levels in order to prevent encroachment. Special Education programs, however, continue to encroach on the Unrestricted General Fund.
- Child Development Fund – The Child Development Fund is a self-supporting fund to account for the District's before and after school Child Care Program. It is anticipated that revenues in the Child Development Fund will slightly exceed expenditures. The fund has sufficient carry over to meet operating obligations.
- Cafeteria Special Revenue Fund – The Cafeteria Fund accounts for the Federal, State, and local revenues to operate the District's Food Service program. There is no projected impact to the General Fund for 2011-12. Revenues slightly out-pace expenditures for the current school year however, as food and supply cost increase the District may need to increase student rates in the near future to cover expenses.
- Deferred Maintenance Fund – A fund established to meet maintenance needs deferred from previous years.

- The fund is structured to account for matching dollars from the State to address facility maintenance projects. The requirement to make the Deferred Maintenance match of one half of one percent of General Fund expenditures is suspended for 2008-09 through 2014-15. However, the District maintained its match of one half of one percent in the 2011-12 Adopted Budget and plans to make its match for the two subsequent years. By doing this now, the District will not face the daunting challenge of making its required match in 2014-15.
- Special Reserve Fund for Post-Employment Benefits Fund – A fund that provides a reserve to cover post-employment benefits for the District's Teamsters retirees. The District's contribution to this fund is in accordance with Article XIV, Section F, Paragraph 3 of the Teamsters Agreement.
  - Building Fund – Accounts for proceeds from the sale of bonds, the sale or lease-with-option to purchase real property, and revenues from rentals and leases of real property. The Building Fund is where all proceeds and expenditures related to bond projects are maintained. There is no impact on the General Fund from activity associated with construction projects.
  - Capital Facilities Fund – The Capital Facilities Fund is where all Developer Fee proceeds are maintained. Due to modest increased housing development/improvements in the area, the developer fee revenues continue to be modest; staff anticipates additional revenues based on current trends. Proceeds provide funds for facility upgrades.
  - County School Facilities Fund – A fund to account for the State's contribution for the District's modernization and new construction projects. The County School Facilities Fund is where all proceeds and expenditures related to modernization are maintained. There is no impact on the General Fund from activity associated with modernization projects.
  - Bond Interest and Redemption Fund – Any premiums or accrued interest received from the sale of bonds are deposited into this fund.
  - Debt Service Fund – A fund established for Certificates of Participation repayment and other long-term loan repayments.
  - Designated for Economic Uncertainties – The budgeted amount is adequate to meet the State's minimum requirement of 3 percent of the District's expenditures for unforeseen emergencies.

Information based on the assumptions dictated by the Los Angeles County Office of Education, statements of revenues, expenditures, worksheets and reports required by the county demonstrate a Positive Certification of Financial Solvency. The First Interim Report, based on current information, assumptions, and projections, will certify that the San Gabriel Unified School District will meet its financial obligations for the current year and subsequent fiscal years according to the state adopted Criteria and Standards.

#### BUDGET IMPACT

The First Interim Financial Report reflects the current financial position of the District as of October 31, 2011 and is built around the 2011-12 Budget Act. In the 2011-12 Budget Act, the Legislature identified \$4 billion more in General Fund Revenues over the \$6.6 billion in new revenues reflected in the May Revision, bringing the total to \$10.6 billion more in General Fund revenue over the two-year period of 2010-11 and 2011-12. Per AB 114, should the projected increase in 2011-12 State General Fund revenues of \$88.5 billion not be realized, then a series of funding reductions and other actions would be "triggered", depending upon the amount of the shortfall (as determined by the Department of Finance by December 15, 2011). The "trigger" language is as follows:

- If revenues for the year fall short less than \$1 billion, then no changes are required.
- If revenues fall short between \$1 billion and \$2 billion, then a \$23 million across-the-board reduction to child care and a \$30 million reduction to community colleges, accompanied by a \$10 increase to student enrollment fees will be imposed.
- If revenues fall short more than \$2 billion, then additional cuts of up to \$1.9 billion will be made, including a 4.0 percent reduction to revenue limits, a \$248 million (50 percent) cut to school transportation (including special education transportation), and a \$73 million reduction to community colleges.
- Should the reductions be triggered, then AB 114 authorizes local governing boards to negotiate the reduction of the school year by up to seven days, to a minimum of 168 instructional days, with proportional decreases in the minimum number of instructional minutes.

NOTE: Please see the Potential Maximum Reduction per Assembly Bill 114 (Attachment B)

Districts are to include a contingency plan with their 2011-12 First Interim Report that details how the district will address the potential revenue reductions should the trigger language be implemented in order to maintain their required level of reserves. (Attachment C).

▼ [Prepared By](#)

Ralph Patterson, Interim Assistant Superintendent, Business Services

▼ [Supporting Documents](#)



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