

Millbrae School District

First Interim - FY 2009/10



Board of Trustee

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December 14, 2009

EXECUTIVE SUMMARY:

Because of the economic crisis and reduced funding for the Revenue Limit (Prop. 98), the district has been facing budget shortfall for years. The district has taken advantage of one-time Federal resource infusion and State categorical flexibility, using rental and interest income from other funds to balance the current year budget. This is only a one time solution. Now, the flexible reserve from other funds has been depleted. The district will be facing significant budget shortfall issue. Because of the sluggishness of the state economy, the district expects the Revenue Limit (Prop. 98) to continue to be deficit for the subsequent years, which will force the district to take drastic cuts in subsequent years.

Overall, it is clear that the State is far from being out of the woods in regards to addressing future budget shortfalls and we can only expect a continuing impact to K-12 funding. With this as background the following sections are addressing the financial overview and the key issues that the district is facing.

INTRODUCTION:

Education Code Section 42130 requires school districts to submit a first interim report, which covers their financial and budgetary status as of October 31, 2009, to the governing board of the district for certification and then submitted to the County Office of Education on or before December 15. The interim report must also include the Multi-Year projections and assumptions.

Education Code Section 42130 (a) (1) defines the certifications.

- 1) A Positive Certification shall be assigned for those Local Educational Agencies (LEAs) that WILL MEET their financial obligations for the current and two subsequent fiscal years.
- 2) A Qualified Certification shall be assigned for those Local Educational Agencies (LEAs) that MAY NOT MEET their financial obligations for the current OR two subsequent fiscal years.
- 3) A Negative Certification shall be assigned for those Local Educational Agencies (LEAs) that WILL BE UNABLE TO MEET their financial obligations for the current OR two subsequent fiscal years based on current projections.

For districts filing a Qualified or Negative Certification, the district must also submit two additional copies of all documentation to the County Office of Education to be forwarded to the California Department of Education (CDE) and the State Controller's Office.

FINANCIAL OVERVIEW: California school districts revenues and expenditures are subject to constant change. The District's budget is not a static document, but instead is constantly being revised to respond to decisions at the state and federal level, as well as to the expenditure needs of the local agency. The First Interim Report's projections have been updated to reflect new information received and board action taken since the original budget adoption on

June 30, 2009. The next financial report will be the Second Interim Report for the period ending January 31, 2010, and will be presented at a March Board meeting.

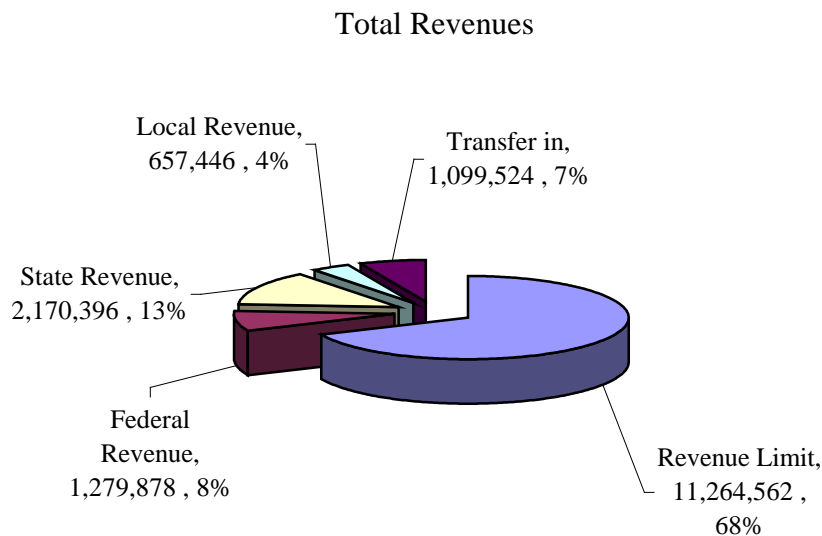
GENERAL FUND (Fund 01): This is the chief operating fund for the district. It is used to account for the ordinary operations of the district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund. In the General Fund, there are General Fund Unrestricted and General Fund Restricted.

General Fund Unrestricted: This is to account for those projects and activities that are funded with unrestricted revenues.

General Fund Restricted: This is to account for those projects and activities that are funded by external revenue sources that are legally restricted or restricted by the donor to specific purposes.

General Fund Revenues: \$16,471,806 (Unrestricted \$13,159,993; Restricted \$3,311,813)

The follow chart illustrates the funding source of the total General Fund revenues.



Revenue Limit Source (Object 8010-8099): \$11,264,562 (Unrestricted \$10,197,884; Restricted \$1,066,678)

This represents 68% of the total general fund revenues. It is the prime revenue component of the district's total revenue source. The unrestricted portions represent the current Fiscal Crisis, the State of California is only able to fund the Prop. 98 at the 82% level and with an additional one-time Base Revenue Limit Reduction at \$252.83 per ADA, which represents a cut in funding for our District of approximate \$2.9 million dollars in the current year. The restricted portion in the amount of \$1,066,678 represents the Special Ed portion of revenue limit taxes to fund the Special Ed. Programs.

Federal Revenue (Object 8100-8299): \$1,279,878

This represents 8% of the total general fund revenues. It includes funding for the Special Ed. in the amount of \$816,368, the No Child Left Behind (NCLB) in the amount of \$459,104 including Title 1, Title 2, Title 3, and the amount of \$4,406 for the Safe and Drug Free Schools Grant.

Other State Revenue (Object 8300-8599): \$2,107,396 (Unrestricted \$1,686,985; Restricted \$483,411)

This is the second largest revenue source for the District; it represents 13% of the total general fund revenues. The unrestricted revenue includes Supplemental Instruction Program, Class Size Reduction (K-3), unrestricted Lottery, and Special Ed Mandated Settlement, Oral Health Exam, and Pupil Testing Reimbursement. The restricted revenue is referred to as Categorical Programs, they included Special Ed., Gifted and Talented (GATE), Home-to-School Transportation, Economic Impact Aid (EIA), restricted Lottery, Art and Music Block Grant, Middle School Counseling, Instructional Material (referred to as Text Book Grant), Drug/Alcohol/Tobacco (referred as TUPE), Professional Development, School and Library Improvement Block Grant and Other State Revenue such as Prop. 49, After School Education and Safety, PE Teacher Incentive Grant, Community Base Tutoring Grant, English Language Acquisition Program, School Safety and Violence Prevention, and Peer Assistant and Review Grant.

Other Local Revenue (Object 8600-8799): \$657,446 (Unrestricted \$175,600; Restricted \$481,846)

This represents 4% of the total general fund revenues. It is a small portion of the entire District's revenue source. The unrestricted portion includes Interest Income, Donations, and Reimbursement from the San Francisco State University for .8 FTE for the interagency service. The restricted portion includes the Millbrae Assessment District revenue, Gate revenue from the other districts, Millbrae Education Foundation, Home Work Center Grants, Tuition and Sp. Ed from the County due to the Inter District Agreement.

Transfer In (Object 8900-8929): \$1,099,524

This represents about 7% of the total general fund revenues. Given that the State Education funding (Revenue Limit or Prop. 98) is at an 82% level along with the additional one time Base Revenue Limit Reduction of \$252.83 per ADA, the total revenues for the District can not fully support the overall operation of the District. In order to meet the legal requirement for fiscal solvency, the District transfers revenue from other funds to meet its obligations. The following illustrate the breakdown of Transfers In to General Fund:

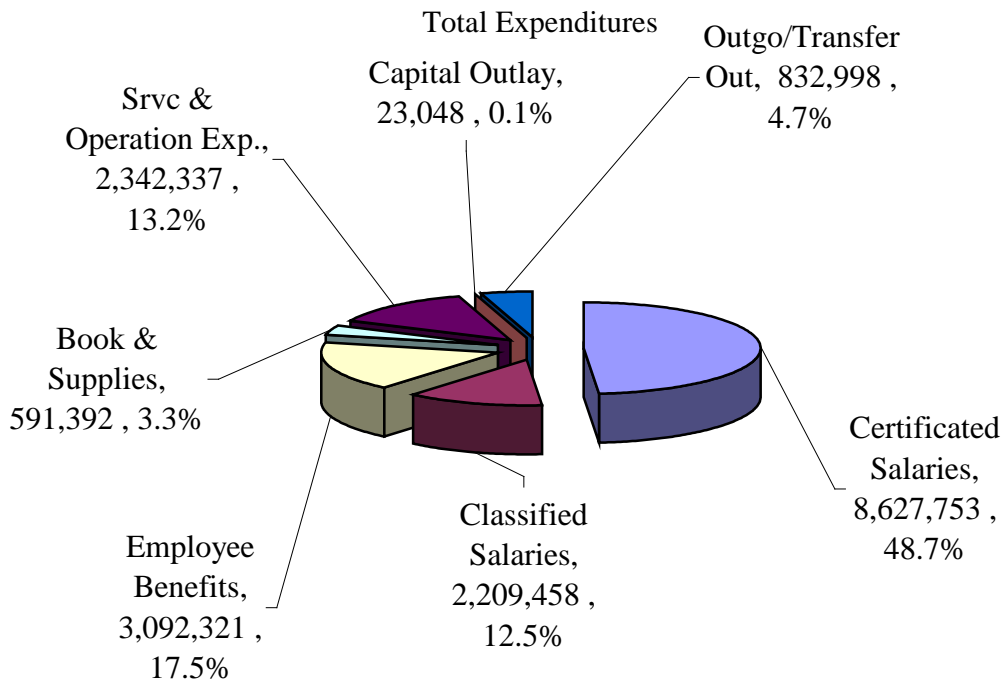
\$349,470 from Special Reserve Fund for Capital Outlay Projects (Fund 40, Unrestricted Portion)

\$322,000 from Investments (Fund 40, Proceed from the Sale of Site money, 1 Alp Way Property) Interest Transfer

\$13,190 from Capital Facilities Fund (Fund 25, Redevelopment Agency Pass-Through Money which is not subject to Capital Outlay Project uses)

\$414,864 From Special Reserve Fund (Fund 17, the accumulation of General Fund for general operating purposes other than capital outlay)

General Fund Expenditures: \$17,719,307 (Unrestricted \$11,845,432; Restricted \$5,873,875)



Certificated Salaries (Object 1000-1999):\$ 8,627,753 (Unrestricted \$6,955,520; Restricted \$1,672,233)

Certificated salaries are salaries expenditures (including transfers out). 19% of the total certificated positions are funded by restricted funding, and with the remaining 81% being funded by unrestricted dollars. At the First Interim, the total Certificated Full-Time Equivalent (FTE) is 117.65. These 117.65 FTEs include positions such as Teachers, Superintendent, Principals, Assistant Principal, Dean, and Directors.

Classified Salaries (Object 2000-2999): \$2,209,458 (Unrestricted \$1,326,703; Restricted \$882,755)

This classification represents the salaries paid for the positions that do not require a credential or permit issued by the Commission on Teacher Credentialing. The positions in this classification are the Chief Business Official, Administrative Secretary, DO staff, Instructional Aide and Maintenance and Operation staff. It is about 12.5% of the total general fund expenditures (including transfers out). 40% of the total classified positions are funded by restricted funding, and 60% of the position are funded by unrestricted dollars. At the First Interim, the total Classified Full-Time Equivalent (FTE) is 53.1.

Employee Benefits (Object 3000-3999): \$3,092,321 (Unrestricted \$2, 351, 788; Restricted \$740,533)

This classification is to account for employers' contributions to retirement plans (State Teachers' Retirement System, and Public Employees' Retirement System), Health and Welfare benefits and the payroll related statutory costs such as Workers' Compensation, State Unemployment Insurance, FICA, and Medicare. It is about 17.5% of the total general fund expenditures.

Education is a People business. It takes people to teach people, therefore, the biggest expenditure for the District/Education Field would be the Total Compensation. In FY 2009-10, the Total Compensation represents about 79% of our total expenditures (including Transfers out). It is about 82.5% of our total expenditures, if Transfers out is excluded from the Total expenditure.

Books and Supplies (Object 4000-4999): \$591,392 (Unrestricted \$378,707; Restricted \$212,685)

This is to account for expenditures for books and supplies, other reference materials, and non-capitalized equipment. It is the smallest expenditure classification; it represents about 3.3% of the total expenditures.

Services and Other Operation Expenditures (Object 5000-5999): \$2,342,337 (Unrestricted \$872,728; Restricted \$1,469,609)

for positions that require a credential or permit issued by the Commission on Teacher Credentialing. It represents 48.7% of the total general fund

This is to account for expenditures for services, rentals, leases, maintenance contracts, dues, travel, insurance, utilities, legal, and other operating expenditures. It is about 13.2% of the total expenditures.

Capital Outlay: (Object 6000-6699): \$23,048 (Unrestricted \$0; Restricted: \$23,048)

This is to account for the capital expenditure which is subject to depreciation subsequently. The budget represents the purchase of an auto scrubber for Maintenance and a device for Special Education program.

Other Outgo/transfer Out (Object 7000-7699): \$832,998 (Unrestricted \$-40,014; Restricted \$873,012)

The negative of the \$40,014 is mainly the result of the Indirect Cost from the restricted programs and the Indirect Cost from the Cafeteria Fund. The restricted portion represents \$135K MAD money to Sp. Reserve Fund (fund 40) and Special Ed. County costs for Instruction and Transportation.

Please note: Based on the Education Code, the district can charge the restricted programs and the Cafeteria for the Indirect Cost to pay for the centralized service and the direct support for doing business.

General Fund Ending Balance

There are several key Fiscal Indicators to evaluate the District's fiscal health. One of the key fiscal indicators is the Unrestricted Fund Balance. The following illustrates the ending balance for the General Fund:

| | |
|--|--------------|
| FY 2009-10 | Unrestricted |
| Ending Balance | 826,096 |
| Designated Amount for Economic Uncertainty | 737,855 |
| Revolving Cash | 2,500 |
| Other | 85,741 |

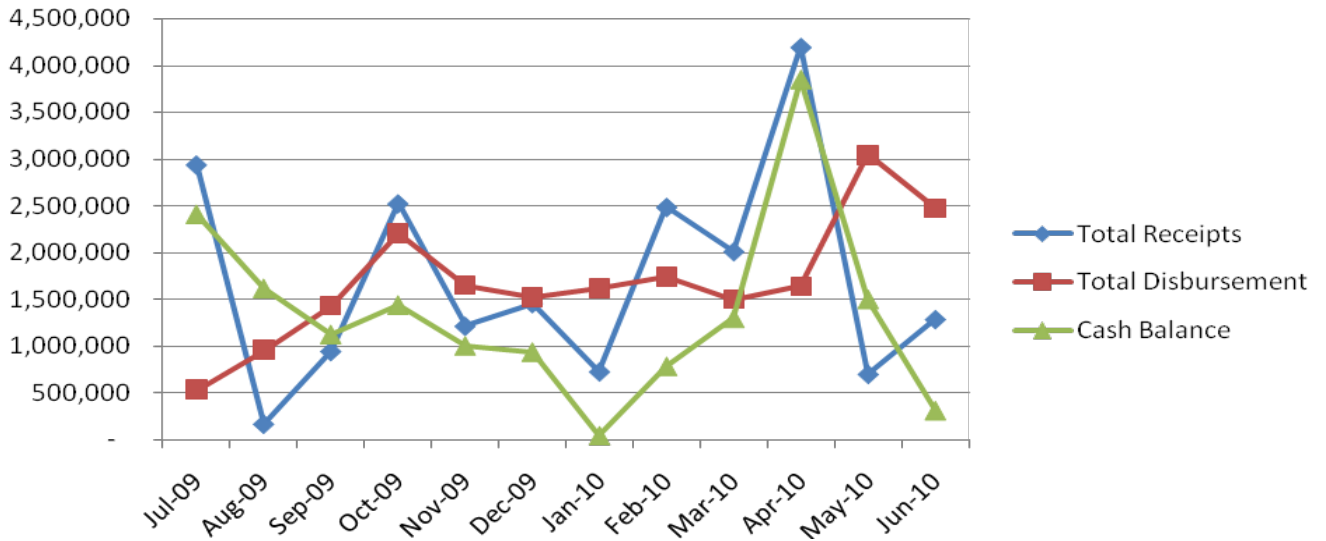
In FY 2009-10, the Designated Amount for Economic Uncertainty is 737,855 which include reserve in the amount of \$531,582 at about 3% level, Categorical Sweep (Flexibility-ABX4 3) \$206,273 and undesignated amount \$85,741. Again, the reserve should be the Minimum, not the Maximum.

CASH FLOW:

Cash is King! Adequate cash flow is essential to the survival of a business. Cash flow can be used as an indication of a district's financial strength. The cash flow analysis is a useful management tool to help project whether the district will have enough cash to meet its obligations. Frequent evaluation of the sources of revenue and uses of revenues received will help the district plans and operate with increasing efficiency and effectiveness.

Maintaining a positive net cash balance (inflow of funds exceeds or equals outflow of funds) is a goal. The sources of revenue including Revenue Limits, Federal, State and Local come in to the district with a different schedule and a different amount. For example, the Principle apportionments (the major revenue source) come in with a different % each month. However, the biggest expenditure for the district is the employees' compensations (salaries and benefits) which represent 80%-90% of the total budget. The district experiences a lighter payroll in July and August due to teachers' pay schedule. In general, the payroll expenditures, utilities bills such as electricity, water, gas, waste collection and the phone bills are on the monthly basis throughout the year. Therefore, revenues or income allotment of the district can not always offset expenditures. In addition, the State is facing the structural budget shortfall and cash flow issues, the revenues are being deferred. Overall, it is about 25% of the total state apportionments are being deferred to FY 2010-2011.

The district will have a negative cash balance in February, 2010. Then we will use Tax Revenue Anticipation Notes (TRANS) in the amount of \$1.6 M to help the cash flow issue. At the ending of the fiscal year, the district will experience a negative cash balance again, the “inter-fund” borrowing cash will be expected and will be from Fund 40 (Special Reserve –Capital Outlay). This temporary borrowing will be paid back in following year once the Deferred Revenues become available from the State. The cash flow projection is illustrated in the following:



| | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 |
|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Receipts | \$2,937,522.22 | \$ 163,918.47 | \$ 941,580.72 | \$2,522,061.34 | \$1,211,809.75 | \$1,455,096.69 |
| Total Disbursement | \$ 529,145.20 | \$ 956,403.58 | \$1,433,872.57 | \$2,207,183.40 | \$1,649,215.52 | \$1,521,862.38 |
| Cash Balance | \$2,408,377.02 | \$1,615,891.91 | \$1,123,600.06 | \$1,438,478.00 | \$1,001,072.23 | \$ 934,306.54 |
| | Jan-10 | Feb-10 | Mar-10 | Apr-10 | May-10 | Jun-10 |
| Total Receipts | \$ 723,417.38 | \$2,483,574.72 | \$2,009,861.12 | \$4,195,293.25 | \$ 696,266.80 | \$1,283,673.74 |
| Total Disbursement | \$1,618,578.50 | \$1,740,363.30 | \$1,497,156.62 | \$1,640,156.09 | \$3,048,165.89 | \$2,472,809.05 |
| Cash Balance | \$ 39,145.42 | \$ 782,356.84 | \$1,295,061.34 | \$3,850,198.50 | \$1,498,299.41 | \$ 309,164.10 |

MULTI-YEAR PROJECTIONS AND ASSUMPTIONS:

Current year with cooperation from all areas such as infusion of Federal dollars, the State Categorical flexibilities, zeroing out the Special Reserve for other than Capital Outlay fund-Bart Money (Fund 17), and transferring Interest and Rental Incomes from Special Reserve Fund-Capital Fund (Fund 40), the district is able to have a balanced budget. However, the Federal dollars, Fund 17 are one-time money and one time solution. The district will experience significant budget shortfall for the subsequent years.

The multi-year projection for the First Interim Report utilizes the recommended assumptions published by School Services of California for the development of revenue projections. In this multi-year projection, we assume the operation of the District to remain at “status quo” in terms of education programs, staffing and site allocation.

The following are the specific assumptions used for the development of the multi-year projections.

| Factor | 2009-10 | 2010-11 | 2011-12 |
|--------------------------------|-------------------|----------------|----------------|
| Revenue Limit Deficits | 18.355% | 18.355% | 18.355% |
| Other Revenue Limit Adjustment | - \$252.38/ADA | - | - |
| Enrollment (as CBEDs) | 2150 | 2150 | 2150 |
| Projected P-2 ADA | 2,096.28 | 2,096.28 | 2,096.28 |
| California Lottery: Base | \$111.00 | \$111.00 | \$111.50 |
| California Lottery: Prop. 20 | \$13.25 | \$13.25 | \$13.50 |
| K-3 Funding | \$882,504 | \$882,504 | \$882,504 |
| Budget Shortfall | | (1,735,476) | (320,410) |

The Multi-Year Projection using the current assumptions for 2010-11 indicates that the District will have budget shortfall in the amount of \$1,735,476. In order to have a balanced budget, the district requires reducing the expenditures by the same amount. The structural budget shortfall will continue to FY 2011-12. The additional \$320,410 budget cut will be executed in FY 2011-12.

OTHER FUNDS: The District’s other funds are projected to have positive ending balances.

FINAL NOTES:

It is imperative that the Board move forward with projected reductions through continuing to seek and fully implementing the cost containment programs and reductions. In the mean time staff will plan a report to the Board and a study session following the January Governor’s budget announcement or following the outcome of the special legislative session. At that time it will be necessary to execute reductions for the 2010-11 year. The amount of the reduction needed will

be dependent upon the outcome of the Governor's announcement or legislative actions. With planned reductions, the recommendation to the Board is to adopt a Positive Certification for the First Interim Report.