

# Millbrae School District

## Original Budget for FY 2011-12



### **Board of Trustees**

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### **Administration**

Linda Luna, Superintendent

Michele Dodge, Interim CBO

June 27, 2011

***INTRODUCTION:***

Millbrae School District is a K-8 elementary school district situated in northern San Mateo County, adjacent to the San Francisco airport. The District operates five schools: four K-5 schools and one 6-8 middle school. The City of Millbrae is a small, suburban community with a population of approximately 21,000, covering 3.2 square miles. It is a city of local businesses with a stable community and an ethnically diverse population. The District went through a period of declining enrollment, especially in 2004 when BART built a large station which displaced several apartment buildings. In more recent years, enrollment has grown, and we predict continued growth for the next several years.

***MISSION STATEMENT:***

Our purpose, in partnership with family and community, is to prepare all students to become responsible citizens and to promote intellectual, physical, emotional, social and cultural development.

1. Develop lifelong learners
2. Inspire academic, social, emotional, and physical development and achievement
3. Recruit, support and retain top quality staff
4. Strengthen broader community partnership
5. Provide a safe and nurturing school environment
6. Seek new opportunities while maximizing existing resources
7. Respect diversity and the uniqueness of others

## Budget Calendar

### FY 2011-12

June	Board adopts FY 2011-12 Budget
July	Business Office Staff works on the Year-End Closing (Prior FY 2010-11)
August	Business Office Staff works on the Year-End Closing; Board adopts revised budget based on final state budget Adoption (45 days after State Final Budget)
September	Release of prior year's Unaudited Actuals (FY 2010-11)
October	First Interim cut-off (FY 2011-12)
November	Release of Auditor's Report for the prior year (FY 2010-11)
December	Release of First Interim (FY 2011-12)
January	Governor releases State budget proposal for the next year (FY 2012-13); 2 <sup>nd</sup> Interim cut-off
February	School Board conducts budget study session (based on the Governor's budget proposal)
March	Governing Board establishes priorities for the next year (FY 2012-13); District releases the 2 <sup>nd</sup> Interim for the current year (FY 2011-12)
April	School Board conducts budget study session
May	Release of Governor's May Revise (FY 2012-13); School Board conducts budget study session
June	Board adopts FY 2012-13 Budget

***DISTRICT'S FUNDS AND BUDGET DEVELOPMENT:***

The district's Budget and Accounting format are based on Government Accounting Standards (GASB) and on the California School Accounting Manual (CSAM) and utilizes the Standardized Account Code Structure (SACS). The District operates under Governmental Accounting, with finances organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources and expenditures, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or other limitations. In FY 2011-2012, there are nine funds in the District accounting system. The District's funds include: General Fund (Fund 01), Cafeteria Fund (Fund 13), Deferred Maintenance Fund (Fund 14), Special Reserve Fund for Projects Other Than Capital Outlay (Fund 17), Foundation Special Revenue Fund (Fund 19), Building Fund (Fund 21), Capital Facilities Fund (Fund 25), Special Reserve Fund for Capital Outlay Projects (Fund 40), and Bond Interest and Redemption (Fund 51). The County is the accountant for the Bond Interest and Redemption Fund.

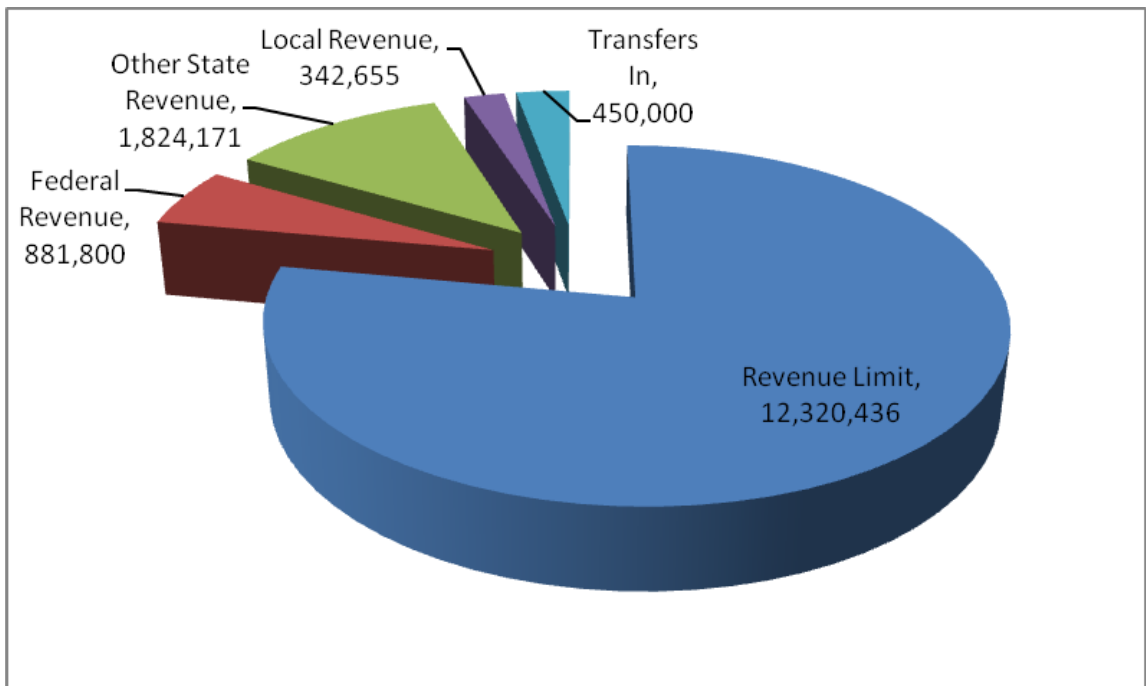
**GENERAL FUND (Fund 01):** This is the chief operating fund for the district. It is used to account for the ordinary operations of the district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund. In the General Fund, there are General Fund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

***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. This includes restricted State and Federal Categorical Programs, as well as other donor restricted sources.

**General Fund Revenues: \$15,819,062 (Unrestricted \$13,264,458; Restricted \$2,554,604)**

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



**Revenue Limit Source (Object 8010-8099): \$12,320,436 (Unrestricted \$11,367,454; Restricted \$952,982)**

Revenue Limit is basically student attendance (ADA) multiplied by the base revenue limit. This represents 77.88% of the total general fund revenues and 85.7% of unrestricted general fund revenues. It is the prime revenue component of the district's total operating revenue. The unrestricted portions represent the Prop. 98 Education funding including the Principal Apportionment (primarily drive by P2 ADA) and Property Taxes. Due to the State's continued severe fiscal downturn, the State of California offset a positive Cost of Living Adjustment (COLA) of 2.24%, coupled with a deficit factor at 19.754%. As a result, the district is losing about \$1,259 Per ADA, or approximately \$2.79 million total for this fiscal year.

The restricted portion in the amount of \$952,982 represents the Special Ed portion of property taxes. As the Special Education programs are not fully funded by State and Federal revenues, we estimate an additional “contribution” of about \$2.13 million from unrestricted resources to make up that funding shortfall.

Since Second Interim, we’ve projected an increase of \$216,000 due to an estimated increase of 39 ADA combined with a stable base revenue limit (funding per student) based on the Governor’s May Revise. The budget is further increased due to reimbursement for increased Unemployment insurance funded through the Revenue Limit calculation.

**Federal Revenue** (Object 8100-8299): \$881,800

This category represents programs funded by the Federal government and represents 5.57% of the total General Fund revenues. It includes funding for Special Education in the amount of \$422,506 and the No Child Left Behind (NCLB) in the amount of \$459,294 including Title 1, Title 2, and Title 3.

Compared to the prior year Second Interim, the Federal revenue drops about \$450,000, due to the prior years’ one-time Federal infusions, which included ARRA funding and Federal Jobs funding. There is no projected extra Federal funding in the 2011/12 year. In addition, the eligibility requirements for Title III (Immigrant funding) changed, and the District no longer qualifies for this funding source.

**Other State Revenue** (Object 8300-8599): \$1,824,171 (Unrestricted \$1,292,548; Restricted \$531,623)

This is the second largest revenue source for the District; it represents 11.53% of the total general fund revenues. This category represents non-Revenue Limit State funding, including State special programs, Class Size Reduction, Lottery, and other State resources. To help offset the impact of Revenue Limit funding reductions, the State provided temporary flexibility in some of the Other State Revenue, specifically the Tier III programs which include Supplemental Hourly Programs (aka Summer School), Staff Development, and GATE. The district has fully utilized the flexibility provision and “swept” these Tier III funds to help backfill the budget gap caused by the State deficit and help maintain core programs.

The restricted funding balance is those Categorical Programs not subject to flexibility. They include Special Education, Economic Impact Aid (EIA), and restricted Lottery.

This budget has decreased since the Second Interim by about \$192,000 due primarily to prior year Mandated Cost reimbursement received and included at Second Interim, and not included in the 2011/12 budget. The decrease was also caused by flexible Deferred Maintenance funding received in 2010/11, not expected in 2011/12.

**Other Local Revenue** (Object 8600-8799): \$342,655 (Unrestricted \$154,456; Restricted \$188,199)

This represents 2.17% of the total general fund revenues. Included in this category are donations, interest earnings, local reimbursements, and rental income. Donations are recognized

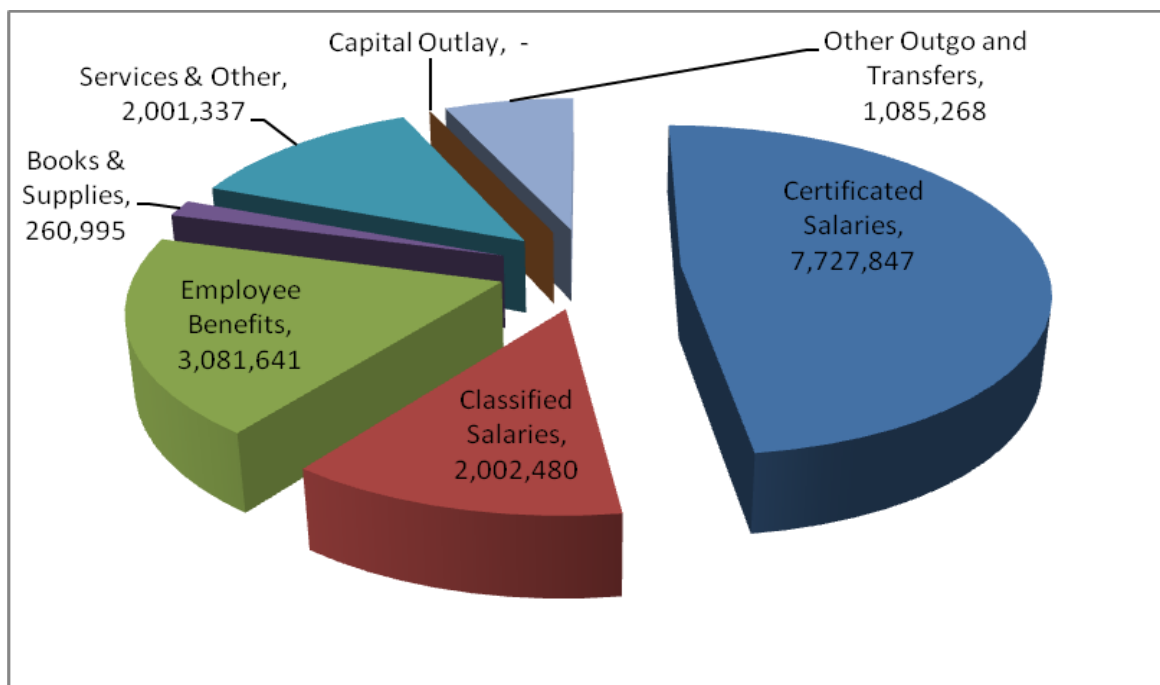
in the budget when the funds are available or received. The unrestricted portions include Interest Income and reimbursement from San Francisco State University for .8 FTE for the interagency service. Contributions from Millbrae Education Foundation are included in the restricted balance, as are other donations.

This category decreased about \$396,000 since Second Interim as we don't budget for local donations until they are awarded. These donations vary significantly each year.

**Transfer In** (Object 8900-8929): \$450,000

This represents 2.84% of the total general fund revenues. This balance represents transfers in from other funds. The budget consists of a transfer in from Fund 40, Special Reserve Fund for Capital Outlay Projects, and is for unrestricted interest and other unrestricted earnings in this fund.

**General Fund Expenditures: \$16,159,568 (Unrestricted \$10,944,085; Restricted \$5,215,483)**



**Certificated Salaries** (Object 1000-1999):\$7,727,847 (Unrestricted \$6,396,684; Restricted \$1,331,163)

Certificated salaries are salaries for positions that require a credential or permit issued by the Commission on Teacher Credentialing. Certificated salaries make up 47.82% of our General Fund. 82.77% of the total certificated positions are funded by unrestricted funding, and 17.23%

of the total positions are funded by restricted dollars (including Federal Job Stimulus carryover funding, Special Education, EIA, and Title I).

The Total Full Time Equivalent (FTE) of 107.5 is budgeted with an increase of 2.1 FTE since Second Interim due to increased teaching staff, with a new “prep period” teacher and a new SDC teacher. Besides increased FTEs, this budget category increased due to staff salary step increases, which occur each year as staff gain experience and educational units. The total increase since Second Interim is about \$325,000.

**Classified Salaries** (Object 2000-2999): \$2,002,480 (Unrestricted \$1,235,124; Restricted \$767,356)

This classification represents the salaries paid for the positions that do not require a credential or permit issued by the Commission on Teacher Credentialing. These positions include the Chief Business Official, Administrative Assistants and Secretaries, District Office Technicians, Instructional Aides, Custodial, and Maintenance and Operation staff. The total Full Time Equivalent is budgeted at 43.925 FTE. Classified salaries are about 12.39% of the total General Fund expenditures. 61.68% of the total classified positions are funded by unrestricted funding, and a 38.32% of the total classified positions are funded by restricted dollars (primarily Special Education restricted funds).

Since Second Interim, the classified FTE has decreased 2.4375 due to budget reductions, including elimination of a central office Secretary and elimination of Library Media Tech Aides, reduction of the Gardner position, partly offset by an increase in Technology support and Special Ed staffing. In addition, the full CBO salary is budgeted in 2011/12, which was vacant for part of the prior year. The net decrease since Second Interim is about \$30,000.

**Employee Benefits** (Object 3000-3999): \$3,081,641 (Unrestricted \$2,449,614; Restricted \$632,027)

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 19.07% of the total general fund expenditures.

This category increased about \$ 252,000 from Second Interim partly due to increased certificated staffing, filling vacant positions, and partly due to higher benefit costs.

People are the District’s biggest asset – and the largest expense is Total Compensation (salaries and benefits). This is expected in the Education industry. Salaries and Benefits make up 79.28% of the General Fund budget and 92.12% of the Unrestricted General Fund budget. This means there is very little budget left for non-salary costs.

**Books and Supplies** (Object 4000-4999): \$260,995 (Unrestricted \$154,916; Restricted \$106,079)

This classification is to account for expenditures for books and supplies, other reference materials, materials, and non-capitalized equipment. It is the smallest expenditure classification; it represented about 1.62% of the total expenditures. Due to budget constraints, the District has again cut back on this category significantly compared to prior years, with a reduction of \$216,000 since Second Interim, primarily due to reductions in local donation funding.

**Services and Other Operation Expenditures** (Object 5000-5999): \$2,001,337 (Unrestricted \$768,708; Restricted \$1,232,629)

This classification is to account for expenditures for services, rentals, leases, maintenance contracts, dues, travel, insurance, utilities, and legal and other operating expenditures. It is about 12.38% of the total expenditures.

This budget category is reduced about \$764,000 from Second Interim due primarily to reductions in revenues from State and Federal funding (thus reducing related expenses), reductions in some one-time services paid for by Alp Way funds, and because the CBO and Educational Services Director position will no longer be filled by outside consultants. We also plan on an avoidance in some Special Ed services due to the restructuring of the program.

**Other Outgo/Transfer Out** (Object 7000-7699): \$1,085,268 (Unrestricted \$-60,961; Restricted \$1,146,229).

The unrestricted amount represents Indirect Costs and Deferred Maintenance flexibility amount. The restricted portion represents the payment and tuition to county program and other local educational agencies for special programs.

### ***OTHER FUNDS:***

**CAFETERIA FUND (Fund 13):** This fund is used to account separately for Federal, State, and local resources to operate the Food Service Program. The program runs like a business, and should be self-supporting. The principal revenues in this fund are: Child Nutritional Programs (Federal), Child Nutrition Programs (State), Food Services Sales, Interest and Other Local Revenues. The expenditures are authorized by the Governing Board as necessary for the operation of the Food Services Program.

The total projected revenue for the Cafeteria is \$682,482. The biggest revenue sources are from 'paid meals', the meals sold and served for breakfast and lunch, and Federal Child Nutrition revenue. The total projected expenditures are \$682,328. Expenditures are anticipated to be lower compared to Second Interim, primarily because a new POS system was purchased and implemented in prior year. The net result is essentially "break even" with Revenues over Expenditures of \$154. Beginning Fund balance is \$45,136; the program is projected to have an ending balance in the amount of \$45,290.

**DEFERRED MAINTENANCE FUND (Fund 14):** This fund is used to account for State apportionments and the District's contribution for deferred maintenance purposes. Deferred

maintenance funding has been “flexed” by the State, so the balance in this fund is prior years balance restricted for Deferred Maintenance. The beginning balance is \$20,414 with anticipated interest income of \$500, we project the ending balance is \$20,914.

**SPECIAL RESERVE FUND (Fund 17):** This fund exists to provide for the accumulation of General Fund monies for special projects other than capital outlay purposes. This fund is primarily to account for the portion of proceeds from sale of Alp Way that the State approved we use for specific one-time expenses, including partial funding of post-retirement benefit liability. The beginning balance is \$3,089,259, with estimated interest earnings of \$30,000, and ending balance of 3,119,259.

**FOUNDATION SPECIAL REVENUE FUND (Fund 19):** This fund is to account for resources received from gift or bequests pursuant to Education code Section 41031 under which both earnings and principal may be used for purposes that support the District’s own programs and where there is a formal trust agreement with the donor. Gifts or bequests not covered by a formal trust agreement should be accounted for in the General Fund. The projected ending balance is \$50,221 primarily related to a gift from H. Rodgers.

**BUILDING FUND (Fund 21):** This fund exists primarily to account for proceeds from the sale of bonds and may not be used for any purposes other than those for which the bonds were issued. This represents the voter approved Proposition 39 (Prop. 39) Bond, Measure X. The District issued the final \$18 million in Spring 2011, with most projects scheduled for completion by Fall 2011. The proceeds are for construction projects specifically outlined in the bond plan. The projected ending balance will be \$0 once all projects are completed.

**CAPITAL FACILITY FUND (Fund 25):** This fund is used to account for moneys received from fees levied on developers or other agencies as a condition of approving a development. The Interest earned in this fund is restricted to this fund. The expenditures in this fund are restricted to the purposes specified in agreements with the developer or specified in Government Code. Estimated revenues in the amount of \$42,000 including the redeveloper agency money, developer fees and interest, with a projected ending balance of \$348,090.

**SPECIAL RESERVE FUND (Fund 40):** This fund exists to provide for the accumulation of General Fund monies for capital outlay purposes. This fund may also be used to account for any other revenues specifically for capital projects. In this fund, there are four separate resources including Assigned, Capital Project, Investment at County, and City Lease Agreement. The following table illustrates the beginning balance, budgeted revenues, expenditures, and budgeted ending balance.

<b>11/12 Budget</b>	Assigned	MAD Funds	Sale Proceeds Capital Projects	Sale Proceeds Invested	City Lease Agreement	Total
11/12 Beginning Balance	1,407,795	12,955	4,113,204	8,100,606	-	13,634,560
Revenue and Sources	346,546	-	222,000	80,000	180,000	828,546
Total Expenses & Transfers	<u>475,816</u>	<u>--0--</u>	<u>1,600</u>	<u>--0--</u>	<u>180,000</u>	<u>657,416</u>
11/12 Ending Fund Balance	<u>1,278,525</u>	<u>12,955</u>	<u>4,333,604</u>	<u>8,180,606</u>	-	<u>13,805,690</u>

***Multiyear Projections:***

The Multi-Year Projection, which is a required component of budget adoption and interim reports, demonstrates the requirement that the District will meet its financial obligations in the current and subsequent two years. The multi-year projection also indicates the District’s ability to maintain the required reserve for economic uncertainties for the current and subsequent two years. The following is the projections and assumptions:

**MULTI-YEAR PROJECTIONS AND ASSUMPTIONS:**

The multi-year projection for the Second Interim Report utilizes the recommended assumptions published by School Services of California (SSC Dartboard) dated January 2011 for the development of revenue projections, with some modifications as required by the San Mateo County Office of Education. Expenditure projections include estimated step and column increases, with the balance of expenditures at the same level as FY 10-11 except for reductions as identified in our budget savings plan.

For the current budget year FY 2011-12, assumptions including:

- class-size for K-3, staffed at 28:1,
- instructional days at 175 days
- no Staff Development Days
- continued full use of Categorical Flexibility
- increase of 20 ADA based on cohorts and current growth trends
- reduction in classified staff
- update staffing for current restructure including addition of SDC class

For the two projection years, FY 2012/13 and FY 2013/14, assumptions include:

- class-size for K-3 remain at 28:1
- potential additional reductions (specific reductions not yet identified) may increase class size beyond 28:1
- instructional days at 175 days
- continued elimination of Staff Development Days
- increase of 20 ADA each year
- no new one-time Federal funds
- ongoing full use of state Categorical Flexibility

The Governor’s proposed budget calls for “flat” funding for K-12 education as long as the voters approve a tax increase. If the tax extension is not approved, K-12 education funding could be reduced \$330/student or more. Until the State enacts a budget, our funding levels remain uncertain. If this funding reduction occurs, the district must document significant expenditure reductions, and spend down reserves dramatically.

In development of the multi-year projection, the SMCOE required an assumption of zero COLA in 2012/13 and 2013/14, which would result in further reductions. Our revenue limit assumptions, based on the SSC Dartboard and the SMCOE requirements include the following:

<b>Factor</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Statutory COLA	2.24%	3.20%	2.70%
Revenue Limit Deficits	19.754%	22.24%	24.25%
Enrollment (as CBEDs)	2,263	2,302	2,323
Projected P-2 ADA	2,202	2,222	2,242
K-3 CSR Funding	480,000	480,000	480,000

A balanced budget and fiscal solvency means we can meet all our expenditure commitments and reserve requirements in the upcoming year and two following years. Under the current assumptions, in order to maintain fiscal solvency, the District must make expenditure reductions in 2012/13 and further reductions in 2013/14. We have included those reductions in the MYP to show a required reserve balances. Without either expenditure reductions or revenue increases the district will have a negative \$991,000 ending balance before required reserves by 2013/14. The Combined MYP, including expenditure reductions, is noted as follows:

	<u>FY</u> <u>2011/12</u>	<u>FY</u> <u>2012/13</u>	<u>FY</u> <u>2013/14</u>
Total Revenues & Sources	15,819,062	15,749,658	15,854,240
Total Expenditures & Uses	16,159,568	15,528,323	14,888,880
Necessary Reductions	-	<u>(532,617)</u>	<u>(965,361)</u>
Increase/Decrease	(340,506)	(311,282)	(1)
Beginning Fund Balance	<u>1,158,288</u>	<u>817,782</u>	<u>506,500</u>
Proj'd Ending Fund Balance	<u>817,782</u>	<u>506,500</u>	<u>506,499</u>
Required 3% Reserve	<b>504,000</b>	<b>504,000</b>	<b>504,000</b>
Other Required Reserves	2,500	2,500	2,500

#### FINAL NOTES:

Until the State passes a budget, K-12 funding level is uncertain. California educational funding levels are at an all time low, while volatility and uncertainty are at an all time high. While the Governor has indicated a strong reluctance to further decrease Education funding, and the legislature has no desire to suspend Proposition 98, it is also clear that any semblance of a balanced State budget must include either tax increases or huge expenditure reductions. It is imperative that the Board and the staff continue to seek and cost containment programs and reductions, and investigate all possible revenue enhancements.

Education has borne the brunt of State funding cuts over the past several years – we can only hope that pattern doesn't continue. Almost any expenditure reductions require buy-in from bargaining units, so are contingent on approval from those affected units. Class sizes are also limited by law, and would require State waivers if we exceed those legal limits.

State tax revenues are up from prior years – but not up enough for legislators to easily pass a balanced budget. The Governor rejected their first attempt, and the June 15 constitutional deadline for a balanced State budget has again been missed.