



Beverly Hills Unified School District

To: Beverly Hills Unified School District
Board of Education

From: Mary Anne McCabe, Executive Director, Budget/Food Services
Dawnalyn Murakawa-Leopard, Chief Administrative Officer

Date: March 12, 2013

Re: 2nd Interim Budget Narrative

Education Code Sections 35035(g), 42130, and 42131 require the Board of Education to certify the District's ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. This must be done at least twice a year and is referred to the Interim Report process. The First Interim Budget, reporting on the status of the District's financial health as of October 31, is due to the Los Angeles County Office of Education for their review by December 15 of each year, and the Second Interim Budget, reporting on the status of the District's financial health as of January 31, must be submitted to LACOE by March 15 of each year.

There are three types of certification that a budget may be given:

- ✓ Positive – the District will meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- ✓ Qualified – the District may not meet its financial obligations for the current year or two subsequent fiscal years based on certain factors.
- ✓ Negative – the District will be unable to meet its financial obligations for the remainder of the current fiscal year or the two subsequent fiscal years.

The Second Interim Budget report being presented to the Board reflects a fiscal condition that supports a positive certification, and it is respectfully requested that the Board approve it as such.

The purpose of this narrative is to provide the Board of Education with an overview of the major assumptions contained within the Second Interim Budget as well as a detailed explanation of the report's structure and all of the assumptions underlying the budget calculations.

OVERVIEW

Of note within the Second Interim Budget:

- In alignment with the recommendation of the Los Angeles County Office of Education, the District has structured its report in alignment with the current funding structure and has not incorporated the Local Control Funding Formula included within the Governor’s Budget Proposal.
- The District’s assumptions include:
 - Statutory cost of living adjustments of 3.24% for 2012/13, 1.65% for 2013/14, and 2.2% for 2014/15
 - Property tax increases of 1.5% for 2013/14 and 3% for 2014/15
 - A current year reduction in property tax collection by \$278,475
 - A reduction in federal funding of 5.9% due to sequestration, affecting Special Education, Title I, Title II, Title III, and Vocational and Applied Technology Education
 - A continued “fair share” reduction at 9.57% as calculated against its total revenue limit funding subject to deficit. The District’s reduction is taken from state categorical programs in the total amount of \$3,088,332.
 - An increase to local revenue for the current year only, and not the subsequent years, as a result of the District’s agreement with the City of Beverly Hills resulting in a one-time payment of \$2,850,000
 - A reduction in certificated and classified salaries and benefits of \$828,800 for 2013/14 as a result of the implementation of the District’s revised fiscal stabilization plan.
 - An increase to expenditures in the current year of \$460,000 in services and other operating expenses as a result of the transfer of responsibility to Districts to cover the costs of room and board and mental health fees for Special Education Residential Placements. The District anticipates a reduction in the subsequent year of \$250,000 as a result to a student exiting the program.
- The District continues to reflect a structural deficit in its budget for 2013/14 and 2014/15. While the District will not have a deficit in the current year as a result of the one-time funds generated by the District’s agreement with the City of Beverly Hills, this does not resolve the deficit over the long term and unable to meet this budget standard for the subsequent years.

REPORT STRUCTURE

Fund Reports and Table Structure

Within the Second Interim Budget report, revenues, expenditures and fund balances for each fund are detailed separately. Each fund is described using a consistent format as follows:

- Column A – The original budget adopted in June 2012
- Column B – The Board approved operating budget

- Column C – Actuals as of January 31, 2013
- Column D – Projected totals
- Column E – Difference between D and B
- Column F – Percent difference as a percentage of column E

Criteria and Standards

The criteria and standards were created to develop, review, and assess school district and county office of education budgets and interim financial reports. This provided a measurement system for fiscal solvency on a periodic basis. The District is required to identify whether each standard is “met” or “not met.” If a standard is not met, the expectation is that the District will review the criteria and use the information as a starting point for analysis and dialogue with the Board of Education, Staff, and the County Office in their review.

The District meets the following standards:

1. Average Daily Attendance has not changed by more than two percent since last reported
2. Enrollment Projections are within two percent of first interim projections
3. Revenue Limit projections are within two percent of first interim projections
4. The ratio of Salaries and Benefits to the unrestricted expenditures has not changed by more than three percent.
5. Facilities Maintenance funding meets requirements for Deferred Maintenance and Ongoing and Major Maintenance. (Note that the Deferred Maintenance requirement has been suspended through current law.)
6. Available Reserves are not less than 3%.

The District does not meet the following standards:

1. The ratio of ADA to Enrollment has not increased from the historical average by more than one half of one percent.
The district has not met this standard due to changes in enrollment related to a reduction in interdistrict permits associated with the District’s transition to Basic Aid status
2. Other revenues have not changed by more than 5 percent since the first interim.
Throughout the year, the District receives donations that create changes over projections because the District does not budget these donations in advance. In addition, the one-time funds generated by the District’s agreement with the City of Beverly Hills were not included in the adopted or first interim budgets so we did not meet that criteria.
3. Deficit Spending does not exceed one third of the District’s available reserves.
While the District meets this standard in the current year as a result of the one-time funds generated by the District’s agreement with the City of Beverly Hills, the District budget continues to reflect an ongoing structural deficit in the two subsequent years and is therefore unable to meet this standard for those years.

4. The projected Fund Balance will be positive at the end of the current and two subsequent years.
The District's ongoing structural deficit will require the District to transfer funds from the Special Reserve fund in order to maintain the required fund balance.

Supplemental information:

- S-1 The District does not have any known or contingent liabilities
- S-2 The District does have ongoing expenditures funded by one-time revenues
- S-3 The District does project temporary borrowing between funds in order to maintain necessary cash flow due to the state's "Fair Share" reduction and tax revenue receipt schedules.
- S-4 Although the District and the City have approved an agreement that will provide one-time revenue to the District, a portion of that revenue is contingent upon the execution of an assignment agreement.
- S-5 Projected contributions and transfers have not increased by more than \$20,000 or more than five percent since the first interim.
- S-6 The District does have long-term commitments, which it discloses and monitors closely.
- S-7 The District does not have any changes in estimates for unfunded liabilities since first interim projections.
- S-8 The District has not settled all labor negotiations at this time.
- S-9 The District does not project that any other funds will have a negative fund balance at the end of the current fiscal year.

Additional Fiscal Indicators: The District has analyzed additional fiscal indicators and notes that the system of position control is independent from the payroll system and that enrollment is decreasing

DETAILED BUDGET ASSUMPTIONS

GENERAL FUND

The general fund is the chief operating fund for the district.

Revenue Assumptions used:

Los Angeles County Office of Education has recommended that for this report school districts continue to project revenues based on current revenue limit and categorical program structures while we await the implementation of a new funding model for the 2013/2014 as introduced by Governor Brown on January 13, 2013 and see how it will affect Basic Aid districts. This is important because the interim budget process requires a school district to submit a budget for three years as stated above.

The assumptions used in this budget include the following:

BHUSD – Narrative for 2nd Interim Budget – Presented March 12, 2013

Revenue Limit calculations we are required to make and compare to the property tax dollars received and estimated provide the criteria to establish we are a “basic aid” district or “revenue limit” district. They include:

- a 3.24% statutory cost of living adjustment for 2012/13
- Slight decline in ADA but for calculation purposes district continues with current ADA or prior year whichever is greater
- a revenue limit transfer for ADA generated by special education students
- A reduction in property tax collection by \$278,475 and Public Employee Retirement System reduction by \$20,139 for the budget year (buyout set at 40% so district has a small savings).
- Subsequent years
 - Property tax increase by 1.5% for 2013/14
 - Property tax increase by 3% for 2014/15
 - a 1.65% adjustment for 2013/14
 - a 2.2% adjustment for 2014/15

Federal Revenue assumptions include net change of \$44,073:

- Current year
 - A reduction for IDEA funding as passed through the SELPA in the amount of \$48,049
 - Increase revenue for Federal mental health income from prior year that must be adjusted as income for the current year in the amount of \$90,895
 - Increase of federal funds for Advanced Placement Tests generated from eligible students based on free and reduced meal qualifications in the amount of \$1,227
- Subsequent years
 - Reduction to federal funded programs due to sequestration by 5.9% affecting Special Education IDEA funding, Title 1, 2, and 3 programs under NCLB, Vocational and Applied Technology Education
 - Reduction to federal funded adult program under Title 2, Workforce Investment Act (WIA) by \$59,000
 - Plan for no carryover brought forward to the 2013/2014 year (spent in current year)

State Revenue assumptions include net increase of \$52,057

- Lottery estimate per ADA is \$125 and \$30 (Proposition 20 for Instructional Materials)
- Mandated block grant for \$28 per ADA continues in the current year budget
- Basic Aid status continues to require a “fair share” reduction for 2012/2013 at 9.57% as calculated against its total revenue limit funding subject to deficit. District fair share is taken from the categorical programs in the total amount of \$3,088,332
 - Offset to Instructional Materials @\$291,363

- Offset to K-3 Prior year deferral @ \$442,698
- Offset to Safety & Violence Prevention prior year deferral @ \$46,408
- Offset to Core Academic (supplemental instruction) @ \$54,475
- Offset to Remedial Program (supplemental instruction @ \$38,494
- Offset to Low Star Score (supplemental instruction @ \$5,537
- Offset to Gate program @ \$34,371
- Offset to Adult Education @ \$541,864
- Offset to 9th grade CSR @ \$160,491
- Offset to oral health @ \$1,516
- Offset to current year Safety & Violence Prevention @ \$50,438
- Offset to Advanced placement @ \$676
- Offset to School & Library Improvement @ \$237,501
- Offset to Pupil Retention Block Grant @ \$16,113
- Offset to professional Development Block Grant @ \$530,234
- Offset to Peer Assistance & Review @ \$25,299
- Offset to Math/Reading Assistance @ \$25,299
- Offset to Math/Reading Professional Development for English Language Learners @ \$13,027
- Offset to Middle & High School Counseling @ \$226,279
- Offset to Arts and Music Block Grant @ \$70,921
- Offset to Ca High School Exit Exam @ \$32,589
- Offset to Community Based English Tutoring @ \$11,828
- Offset to K-3 Class Size Reduction current year @ 236,168
- Subsequent years
 - Based on final revenue limit subject to calculation we will adjust for the fair share reduction (continuing at \$3 million dollars)
 - Continue mandated block grant and apply for continue funding to receive increase for Graduation requirement sand behavioral intervention mandates
 - The Local Control Funding Formula is the Governor’s priority beginning with 2013/14 but there are some major decisions required through the legislative process. We are following the suggestion of LACOE to wait a bit before including but to begin the structuring required, which targets 2014/15 for implementation. (Would appeal 250 sections of Education Code, which include revenue limit and 42 categorical programs and follow with a formula to weight grade levels and supplemental concentration funding for English language learners and free and reduced meal eligible student in addition to the base grant)
 - Federal programs, Special Education, Child Nutrition, Mandate Block Grant are some programs that will operate outside the Local Control Funding Formula

Local Revenue

- Current year adjustment totals are an increase of \$3,152,880
 - Includes adjustment for current year for renting facilities by \$8,000
 - Increases local revenue by the new agreement with the City of Beverly Hills for \$2,850,000 as a one-time contribution for 2012/2013
 - Increase local revenue for donations from School PTA, PTSA, and PTA Council by \$230,537, and BHEA
 - Increase in Special Education pass through from the SELPA under AB602 for \$64,343
- Subsequent years adjust for the removal of the one-time funds from the city and maintain the donation revenue to mirror expenses from PTAs and PTSA

Expenditure Assumptions

Certificated Salaries

- Current year net change a reduction of \$82,045
- Subsequent year
 - Amend the proposed reductions from the 1st interim for positions to the following due to one-time funding
 - Reduction to Mandarin Chines by .2 FTE
 - Reduction to High School WASC TOSA by .4 FTE
 - Elimination of K-8 librarians
 - Elimination of K-5 Home School Guarantee by 3 FTE
 - Elimination of High School Credit Recovery
 - Elimination of administrative position
 - Elimination of Adult Ed teaching position
 - Include step and column increase

Classified Salaries

- Current year decrease by \$132,840 based on line by line review of budget
- Subsequent year
 - Include step and column as offset by substitute costs and additional time
 - Reduction of a routine maintenance position is proposed

Employee Benefits

- Current year adjusts benefits by \$224,938 by reviewing all benefit calculations and noticing positing errors and reviewing results of enrollment from open enrollment for health and welfare.
- Subsequent year
 - Reduction of earlier SERP annual payment of \$200,0000
 - Maintain existing benefit rates
 - Adjust benefits for reduced salaries

Books and Supplies

- Current year increased by \$49,909 to mirror increase in lottery funding under Prop 20 and movement of categorical funds to meet needs and Replace emergency water/supplies district wide as needed
- Subsequent year reduced for categorical carryover

Services and Other Operating Expenses

- Current year increased by \$622,114
 - Special Education Residential Placement (\$460,000) to include room and board and mental health fees. (Average placement is running \$100,000-\$150,000 per student)
 - No change to legal budget estimate
 - Adjusting budget for settlements and incidentals
 - Equipment replacement (as approved earlier) was for high school
- Subsequent years
 - Reduction to Special Education placement by \$250,000 due to student exiting program
 - Reduction for categorical carryover expenditures
 - Maintain current liability/property insurance coverage

Capital Outlay

- Current year for washing machine at High school as earlier approved
- Subsequent years no plan for budgeting

Other Outgo

- Current year reduced by \$144,954 due to reduction in tuition charged by LAUSD at \$72,500 and debt service payment for residential property for only 3 out of 4 quarters due to close date
- Subsequent years no change from 2012/13

Sources and Uses

- Current year reduction to contribution from unrestricted to restricted programs by \$102,643
- Subsequent year increases contribution in 2013/14 due to loss of IDEA revenue from sequestration and need to continue services; maintain contribution for cafeteria fund as a projection but will be reviewed prior to adopted budget.

Net Increase (Decrease) in fund balance

- Change in fund balance is affected by difference between current year revenue and expenses. If there is excess revenue we have a surplus and if excess expenditures then we have a structural deficit that needs to be explained

- One time funds to be received in 2012/13 will be used in 2013/14 as a bridge for the recovering economy as it affects assessed valuation
- Monitored by Finance Committee
- Cautioned by LACOE to address ongoing spending and to develop plan to correct

The district still maintains a reserve to meet the requirement minimum as established by resolution for the Special Reserve to be the “Basic Aid” Reserve as a stabilization fund.

CAFETERIA FUND:

The fund to be used for the operation of a school meal program that may receive federal and state revenue in addition to local revenue for meals provided. The Cafeteria operation continues to find the appropriate solution to address the needs of the district in providing meals for students. The district requested removal from the National School Lunch Program in the 2011/12 fiscal year at the request of our consultant, which removed all subsidies and the consultant covered the free and reduced meals. Reenrollment in the program will require some additional change but could bring in additional revenue but will require restructuring, training, and conformance with rules and regulations on meal production, accountability, and the way applications are processed.

The Board of Education stated there would be a contribution of not to exceed \$200,000 made to offset the costs. Staff is closely monitoring the daily sales and has installed multiple new vending machines to assist students needing a snack break. Elementary schools will receive a vending machine within the next week and the first commission check will arrive around the same time.

The multi-year budget has been maintained with the existing program in place but with the understanding the board must formally reauthorize any transfer in subsequent years.

SPECIAL RESERVE

The Special Reserve is maintained as the Basic Aid reserve for the district. Interest continues to increase the fund balance in current and subsequent years.

BOND FUND

The bond fund exists to maintain a tracking of revenue and expenditures from the sale of bonds. No bond sales have been included in the subsequent budgets at this time because it is understood the Board is actively engaging in dialog to determine next funding requirements and subsequent project identification.

Current budget adjusts for staffing changes made since 1st interim with resignation and retirement until new hiring has taken place. Reductions were made to some projects that the board is putting on hold until reprogramming has been completed on the fiscal side to maintain in ending balance for reallocation.

CAPITAL FACILITIES FUND

The Capital Facilities fund was established to hold revenue from levied fees against developers and other agencies as a condition of property development and improvement. The funds can be used to address student housing needs. The District has delegated authority to the City to collect fees and semiannually submit fees owed to the District. Interest accrues on cash available.

SCHOOL FACILITIES FUND

The School Facilities Fund was established to receive state apportionments for school building assistance. The last funded project was the High School STC building. We are currently awaiting a final closeout letter/audit result from the state. Any residual funds remaining after the closeout and final letter has been received can be used for other building projects. Current balance the Fund is \$27,000 with \$500,000 apportioned for use if we get the “all clear.”