

# **Budget Communications Committee Meeting Minutes**

## **March 10, 2010**

### **Call to Order**

Gina Manusov called the meeting to order at 12:34 p.m.

### **Employee Suggestions Feedback**

Gina explained that the group responses to the employee suggestion worksheets were compiled into one document, and any comments from the groups were included. Several suggestion items are marked with an “x,” and these are items she feels should be deleted from the list since they have been implemented, or the groups’ consensus was that they are not viable or are a poor return on investment. No items will be deleted if a majority of the groups marked that they should be considered/reconsidered. Gina gave the members five minutes to review the list of possible deletions. Everyone agreed that the marked items should be deleted. The members were directed to review the remainder of the list at their leisure. Gina shared her plan to prepare a new document that will incorporate all of the suggestions received to date, with the exception of the deleted items, into five or six categories such as energy, staffing, employees, etc. She will start the process of asking the appropriate district staff members to do research on the items the groups thought required more information. If an item is found to be not viable, that information will be brought back to the group.

A member asked what the “C” stood for on items 74-99. Gina explained that these items were new suggestions this year, and the “C” stands for “consider.” She also explained that during some follow up between meetings, it was suggested that the cost of Apple/Mac purchases be reduced, so that suggestion was added to item 74a.

Gina said the other suggestion document that was distributed is a list of items that came in since the last meeting. These won’t be ranked, but they will be added to the previous list for research and consideration. Gina asked for additional new suggestions, and they are:

- Regarding the cut days, don’t cut full days, but split the days in half.
- The Novato School District has their food scraps recycled, which saves them \$50,000 on their \$110,000 bill just by taking food scraps from the trash containers.
- Parents in another school district are pushing to raise money to support teacher jobs. The money raised can only be used to “purchase” a teacher job.
- Kyocera is putting solar panels into district buildings, which saves a lot on electric bills. (Regarding energy conservation and resource management suggestions, Gina mentioned that we are planning to put together an energy conservation program for the district that will likely be developed by committee. We’ve been collecting information about solar. The lighting retrofit is close to being completed at this point, except for punch list items. The S.A.V.E. program is

fully implemented, and we are reaping the benefit of savings this year. It is time to move on to the next step.)

- Get rid of PPO plan and go to Kaiser only. (Gina mentioned that we have a district insurance committee, and this suggestion will likely be referred to them. We also have an insurance consultant, Gallagher Benefit Services, who understands what avenues are available to us, and they can make suggestions to bring costs down and improve services. This group would be able to address this type of suggestion as well.)
- Employees loan money to the district with a prescribed timeline for repayment instead of having a salary rollback. (This suggestion was made earlier but inadvertently left off the list.)

A member mentioned that she had been approached by someone who thought the committee should have told the sites about the pink slips if they had this information. Gina replied that the dates the notices would go out were discussed in the committee, but the committee would not know about the particulars.

A member asked if a ConnectEd message would be going out asking households to fill out and send in the census forms. Gina said historically, Escondido is underreported, and she would follow up with Randy Garcia. The member said the forms are coming next week, and if we don't get the message out right away, it will be too late.

### **Fund Balance Information**

Because a lot of discussion has taken place regarding projected versus actual numbers and the challenges faced in trying to estimate what those numbers will be, Gina said she hopes the materials provided will bring some light to the issue. She clarified that Funds 17 and 40 are special reserve funds—one for non-capital improvements (17) and the other for capital improvements (40). They are not part of the general operating budget. The budget solution plan addresses the one-time use of those funds. Sometimes the press and public combine these funds with the general fund.

Carol Rouse reviewed the following handouts with the group:

Eight-Year History of District Projected and Actual Ending Balances

General Fund Unrestricted and Restricted Expenditures by Object (printouts from financial statements from 2002-03 to 2008-09)

2009-10 Adopted Budget Comparison

2008-09 Unrestricted/Restricted/Combined Budget Comparison (background information)

Carol informed the group that in order to figure out where the district is financially, we go through the process of estimating where we are going to be at the end of the year. To determine this, we factor in what we know now (actuals to date) and estimate payroll, other expenditures, and revenues to be received. This estimate for the current year ending balance becomes the beginning balance of the next budget year. Two years will always be shown.

Carol went into more detail regarding the 2008-09 fiscal year. In 2008-09, we estimated that we were going to spend \$1 million more than what we received in unrestricted and \$924,000 more than we received in restricted. Last year's numbers of \$8.2 million in restricted and \$20.9 million in unrestricted were based on what we knew when we prepared the estimated actuals. The unaudited actuals document prepared in September, when the year was closed out, shows what really happened in the district, with a net increase of \$5 million in unrestricted and \$1.4 million in restricted, representing a total change of \$6.4 million. With the net increases in the fund balance factored in, the ending reserves balance of \$26.9 million unrestricted and \$10.5 million restricted totals the \$37.5 million figure that has been at issue.

Carol explained why this happened: We had an early budget last year, which had never happened in the state before. The district's projected ending balance was based upon the provisions of the state's adopted budget (adopted in February 2009). Within three to four months, the state's budget had fallen out of balance again, and the Legislature set out to bring it in to balance. However, they did not reach an agreement until July 2009, long after the district's estimates were required to be completed. By the time the books were closed in August, provisions for the newly adopted July 2009 budget revision had to be followed, and all the work on the district's projections was required to be changed to follow the latest law.

Regarding the 2008-09 Unrestricted Budget Comparison, the revenue limit is the main source of funding at an estimated \$89 million. It was actually \$93 million because the Legislature decided not to cut so much that year, but made the cuts in the next year instead. We had \$3.6 million in unanticipated revenue limit because the law hadn't changed when we did our estimate. We have some savings in expenditures in various categories every year, which we can count on. We estimated we would spend \$103 million, and we spent \$102.2, which provided additional savings on top of what was already factored in. Contributions were quite a bit less than estimated. The district decided at the last minute to take advantage of state flexibility. There was an increase in the fund balance because we didn't make a full contribution to Deferred Maintenance, resulting in a \$1.1 million difference. American Recovery and Reinvestment Act (ARRA) monies received in June and a categorical compensation cut for 09-10 had to be accounted for in the current year (2008-09), which was unanticipated. Federal revenues were a big adjustment, contributing to a higher ending balance. Overall, between the ARRA monies and savings from the freeze of \$1.4 million, we ended up with \$2.3 million extra. Looking at the 2008-09 Combined Unrestricted and Restricted General Fund Budget handout, there is \$5.1 million in extra revenue, including \$3.7 million in extra revenue limit sources and \$1.1 million in extra categorical monies. We saved more money on the budget freeze (\$2.3 million), transfers out, and the Deferred Maintenance decision, resulting in \$8.3 million for the entire fund balance, combining \$2.3 million restricted and \$6 million unrestricted.

Over the years, it appears that there is a large difference in what we estimate our budget to be and what we actually end up with. We do not intentionally over budget. It is due to a variety of factors. Often, we have new information from the state. Most of our

categories that wind up with bigger balances are discretionary monies and are the hardest to predict as plans by the sites and departments change.

A committee member said that for the last four years, there has been \$40 million in differences between the projected and ending balances. Every year we are over budgeting by significant amounts of money. He asked how we could make accurate decisions based on that.

Gina said we have to finalize our budget even when we don't have a final state budget to base it on. We have our final budget adoption in June, and it is sent to the county. The budget is always going to be different once the Legislature decides. There is going to be a difference between what was budgeted and the estimated actuals. It is also correct that the fund balance has crept up. We expect it to go down, but it doesn't. What we have looked at is an average of how much we are off each year. We are going to take that into consideration, expecting more to fall into the bottom line. There is always going to be that difficulty. Once we know what the state budget is, our next responsibility is to revise our initially adopted budget accordingly.

A committee member asked, since typically we over budget significantly and never go into the negative, if we should expect the cut figure to be lowered. Carol said that when you have a budget plan and something else happens, the plan could change. If you multiply that by the number of people we have working and making decisions on budgets, it ends up being a big number.

Carol discussed the figures and notes on the Eight-Year History of District Projected and Actual Ending Balances handout.

Regarding the 2009-10 Adopted Budget Comparison handout, Carol said that the \$96.1 million revenue limit in 2008-09 went to \$83.1 million this year, which is a huge difference. State revenues have dropped off considerably. We don't see a big drop in federal monies because of carry over. Revenues were \$153.6 million last year, and this year they are \$133.2 million, which is a major drop. Last year, we also had \$74.7 million in certificated salaries, and this year they are \$73.4 million. By the time the unspent monies drop out, we estimate spending \$71.8 million due to increased class size. Classified salaries and health benefits are very similar to last year. We made a \$2.7 million payment to FBC to begin paying down the FBC deficit. Right now, based on where the budget is and what the cash flow is, we will have \$5.6 million left over in restricted, but that will change. In the budget documents, we always have to treat restricted as if there is no carry over. If the certificated retirement incentive moves forward, that would need to be factored in and will affect the fund balance. We project to have \$25.7 million left over at yearend, which is down from \$37.5 million last year.

Looking at the EUSD 6-year History of Employee FTE handout for both of our employee groups, we have reduced in staff, so why is the budget the same size? It is because we're paying more dollars for fewer employees. If you look at 2005-06 and then compare that

to 2006-07, in a year when the COLA was 5.92 percent and we gave a salary increase and bonus, it jumped. The last two to three years appear to be static.

A committee member asked if we budgeted for \$15 million, but only spent \$5 million, where does the \$10 million go? Carol said it goes to the bottom line. When we have additional monies that are undesignated, it stays in the supply account.

A committee member asked if these monies could be spent elsewhere. Carol said that it depends on what the funding source is designated for. For example, if it was designated for special education, it could only be used for expenditures related to special education students. Legally, we are limited to specific uses by many programs. Essentially, any program that was not made flexible by the state's short-term flexibility provisions passed last year (Tier III), must continue to be used for its original purpose. Examples include Economic Impact Aid (EIA) and English Language Acquisition Program (ELAP). State categorical programs (known as Tier III programs) were given short-term flexibility, and those may be used for "any educational purpose" (during the period of years where flexibility applies—through 2012-13 per current law).

Due to the state's one-time flexibility rules in 2008-09, when the books were closed, many of the state's categorical balances were transferred to the unrestricted fund, as required. These amounts offset the normal general fund contributions (general fund support) to the district's programs that are not self-supporting (Special Education/Home-to-School Transportation, Community Day School, and Routine Restricted Maintenance). That is why, if you compare the 2008-09 "Contributions to Restricted" with those of 2009-10, there is a large difference. In 2008-09, the flexibility transfers coming back into the unrestricted fund offset the \$4.5 to \$6.0 million of typical general fund contributions needed every year. In 2009-10, the typical amount of \$5.4 million is budgeted for transfer to the restricted programs, compared with 2008-09, where the unrestricted amount was a positive \$1.8 million, due to state flexibility amounts offsetting our transfers to the restricted programs (this phenomenon will not likely happen again).

A committee member asked if it could be used to help with CSR, and Carol said that no federal program is flexible.

A committee member asked if special education money can be used for salaries, and Carol said that it could if they are special education employees.

A committee member asked about ARRA special educations monies. Carol said they are subject to the same rules as IDEA monies.

Title I ARRA monies, \$2.2 million, have to be treated as Title I also. The only exception is the SFSF monies, which were used as replacement dollars for unrestricted. The bulk of this money was used for CSR teachers and restoration of two hours for library technicians. We haven't heard about the extra SFSF money we are due to receive.

The estimated actuals at this time are projected to be \$25.7 million at the close of the 2009-10 year.

Members were encouraged to call or e-mail Carol if they had questions after looking at the materials.

The GASB, Governing Accounting Standards Board, develops accounting regulations and reporting guidelines. One of the rules has to do with recognition and eventual funding of our employee retirement benefits liability. We have 30 years to recognize the entire liability, and we are in year 3. Every two years, we have to get an actuarial study. This is not reflected on the fund financial statements but on a separate set of statements, GASB 34.

Carol said that deficit spending is not necessarily a bad thing if it is planned. The fund balance will go down. We can't lose \$20 million of revenue and expect to be in the same position we were in.

A committee member suggested putting together a glossary of terms and acronyms, and Gina said that would be done for the next meeting.

### **Cut Figure Update**

Gina said we have two different figures as reflected on the 2010-2011 Budget Reduction Proposal from the February 25 board meeting and the 2010-2011 Revised Budget Reductions Needed sheet dated March 10. The original \$13.5 million cut figure has changed twice. As of the last board meeting, a couple of items hadn't been added in. Estimates were revised as the SFSF money has gone up. As a result, we assumed we would have more carry over. In-depth estimates on categorical programs changed a little bit due to the negative COLA. We neglected to include the second FBC payment, which increased the cut figure to \$14.1 million. Since then, we have had more of an opportunity to do some additional research, and the cut figure is down to \$11.3 because we doubled counted the 2009-10 \$2.7 million FBC payment, which rolled forward to the 2010-11 budget. We found out this week that the workers' compensation rate is going up by 4 percent, and we had reflected a higher rate originally.

A committee member asked if recovery of ADA because of the flu was included. Gina responded that we don't know if it's going to go forward. The SDCOE informed us that there would not be a letter coming from the county health department. Legislation is out there in terms of recovery of funds, but they are requiring medical proof. Because doctors weren't even testing for it, but telling sick children to stay home, we are not counting on anything at this time.

A committee member asked if the ARRA carry over of \$4.1 million is what is left of the stimulus money that's carried over and was told that it is, a majority of which is special education IDEA money.

## **Budget Reduction Scenarios**

Gina said that this is the plan that was shared with the board at the last meeting on February 25. The new version (dated 3-11-10) will be presented to the board tomorrow night with the revised cut figure.

Basically, this is a three-year look. We have to project out two years, showing we can remain solvent, when doing budget planning. Regarding the 2011-12 and 2012-13 years, ideas are thrown out there for cuts, and they do not represent a detailed plan that has been developed or fleshed out fully. They are there to show the need for additional reductions in the following years in order for the district to remain solvent. We need to consider the third year out when making decisions on how hard of a line to take in the immediate year.

Gina explained that retirements are neutral. When a more senior person retires, and we hire a less senior person for less money, there is no cost savings to the district for the first year due to the incentive paid to the retiree. After the first year, you would recognize some savings. At this point, we don't know what the retirements will look like, but as time goes on, we will have a better idea.

A committee member asked how the TKF grant could be manipulated since it is a grant. Gina explained that the TKF line item is the district's contribution.

A committee member asked if we really need to fund TKF since the CARE grant provides the same services. Carol responded that it is \$1.4 million for four years. This question will be directed to Randy Garcia or Kimberly Israel.

Gina further explained that we intend to pay future FBC payments out of redevelopment monies coming to the district. We have been waiting for this money for a long time, and it should start to flow next year. We've taken a conservative approach so we won't have to dip into the general fund to pay for FBC. The \$7 million in deficit spending is from the unrestricted part of the budget. Restricted is not shown.

In reviewing the 2011-2012 column, Gina noted that state flexibility reductions are shown with zero dollars because savings were shown in the first year. She also mentioned that one payroll costs the district approximately \$10 million.

A committee member asked if the redevelopment revenue is shown as a reduction. Gina said that redevelopment money could be used for operational purposes. It's a solution for funding rather than a reduction. It's an increase to the bank account. The "total reductions" label on the spreadsheet will be changed to "budget solutions."

A committee member asked when we would get money for 2011-12. Gina said she would bring charts showing deferrals. We are apportioned on a certain day, but we get it 60 days or 6 months later. It was just passed in Sacramento that they will pay us in 30, 60, or 90 days, depending on what's going on with them. This speaks to the challenge of the day-to-day cash flow and the ability to pay bills. The fund balance is very important

for operations. Aside from the 3 percent reserves requirement, you do need capital to work with.

A committee member asked if it was true that we have the ability to borrow money from the county. Gina said we are able to receive loans from the county treasury. They have developed a cross-year product, which we haven't done before but may be exploring for next year. TRAN (Tax and Revenue Anticipation Note) is borrowing on the expectation of receiving revenue. We had a \$5 million TRAN this year, which has to be repaid in April.

A committee member asked if it costs the district to borrow. Gina replied that it does, and we earn interest on the money once it's in the coffers. Interest earned is really low, and it is becoming more expensive to borrow.

A committee member asked what kind of land the district holds that is not used for schools and cited the examples of exchanging land for building a new middle school, land that the Toyota dealership is on that the district owned, and the property at Washington and Ash. Gina responded that the district never owned any of those properties. In each of those examples, the properties were part of the negotiations. We never owned the Citracado property, which was considered for relocating Del Dios Middle School. The city owned the Lincoln property, which was considered for a school site (we built Farr Avenue School instead). The Washington and Ash property belongs to the city as well, and we were looking at a three-way deal with Wal-Mart, the city, and the district, with that property being provided to the district for our administration offices. When we built our last four schools, we exhausted all of our land holdings. We owned the Bernardo and Reidy Creek properties, we purchased the Farr site, and Bear Valley was owned by the district, but it had been leased to the high school district.

A committee member asked how the budget reduction change impacts the lay off notices. Gina said that nothing directly is going to happen. It changes an important part of the discussion, and there are still some elements to be considered. We still have that range, going up to \$15 million. There will be no changes to the upper part of the Budget Reduction Scenarios for tomorrow night's board meeting. Use of the fund balance and the level of deficit spending haven't been discussed yet. We are starting at a better number, which is a nice thing.

A committee member asked what the plan was for restructuring library services. Gina said there isn't a plan. Cabinet's recommendation is that we don't impact library services in 2010-11.

Regarding CSR noted in the 2012-13 column, there will be no CSR funding, which is huge (\$4.2 million). As far as we know right now, the flexibility for CSR will go away after 2011-12. If extended for another year, our situation would be \$4.2 million in the positive. It is a very big unknown, but it has a significant impact the third year out. There are many discussions going on right now regarding CSR flexibility.

A committee member asked if we still get money from the state, even after raising CSR to 30:1. Gina explained that what the state has done, in order to assist districts in weathering the storm right now, is to change the penalty structure to allow districts to continue receiving some CSR revenue based upon their 2008-09 CSR application estimate. They will pay as if we had CSR for the first 20 kids in a classroom. The most you can lose is 30 percent. Taking a kindergarten class at 30, for example, the district will be funded CSR money for the first 20 kids with a 30-percent reduction, resulting in a 70- percent funding level for the first 20 kids and no funding for kids over 20. This continues until 2011-12. The savings represent the net of the reduced revenue with the reduced number of teachers taken into consideration.

Regarding the redevelopment revenue in 2012-13, Gina said that each year we are taking out the FBC payment. The expected \$1 million noted in this year's column is above the amount needed for the FBC payment. At the end of this fiscal year, after the city has closed its books, they will provide more information.

To summarize, tomorrow night, the revised cut figure will be presented, but no budget reduction scenarios will change. The notes section of the scenarios will change with the new cut figure, the numbers will ripple through, and the third year will look better. We need to keep looking at the third year and work backwards from there.

The 2010-11 Revised Budget Reductions Needed handout mentions \$1.9 million for step/column for eligible employees. This is not a proposed reduction, but an increased cost.

A committee member asked if Race to the Top money that California did not get is part of the Governor's plan. Gina responded that it is not. The \$6.9 billion that the Governor anticipates receiving from the federal government is "what's fair to California" money.

A committee member asked if parcel taxes are a possibility. Gina said that our Facilities department is doing some research on it. It requires an election, and some planning needs to be done. It is an initiative to voters to assess a certain amount of money that's not connected to the value of homes and can be used for operational things, which are described in your election materials. It is certainly worth doing the research, but it is not a quick solution.

A committee member asked which budget was used to formulate the worksheet that was given at the last meeting. Gina said that it wasn't based on a budget, but on an analysis of what's different for 2009-10 and 2010-11. The cut figure has only been addressed from the perspective of what's going to change (increased utilities, revenues going down, etc.) if we did everything the same?

### **Talking Points**

Suggested talking points included:

- The Budget Reduction Scenarios, showing the three-year projection, would be a good tool as it is easy to follow/understand.
- The cut figure has been reduced.
- The fact that the out years are a concept and not a plan that has been fully processed.

### **Additional Questions/Comments**

A committee member mentioned that Florida has gotten some special dispensation so they didn't have to test. Gina said she would look into it.

A committee member asked what portion of the \$15 million set aside in the budget for textbooks is being spent and what portion is being held? Carol said we don't know what the math adoption will cost this year. Brenda Jones will bring information to cabinet next Monday. Paula Pendell said she is putting information together right now and working with the publishers. The math adoption is just for sixth grade, which will save money. The last time we received a math adoption was in 2001, and we are in great need of it.

A committee member asked if consumables are somewhere else on the budget instead of new monies coming in for textbook new adoptions. Carol said the \$15 million is not just for textbooks but is also for supplies. Before flexibility, we had specific textbook money, which could be used only for that purpose. That morphed into the unrestricted flexible program, and the rules were relaxed on textbook adoption.

A committee member asked about Prop 20 lottery monies. Carol responded that the lottery amount per student fluctuates and tends to be \$15 to \$20 maximum. Right now it is \$13.