

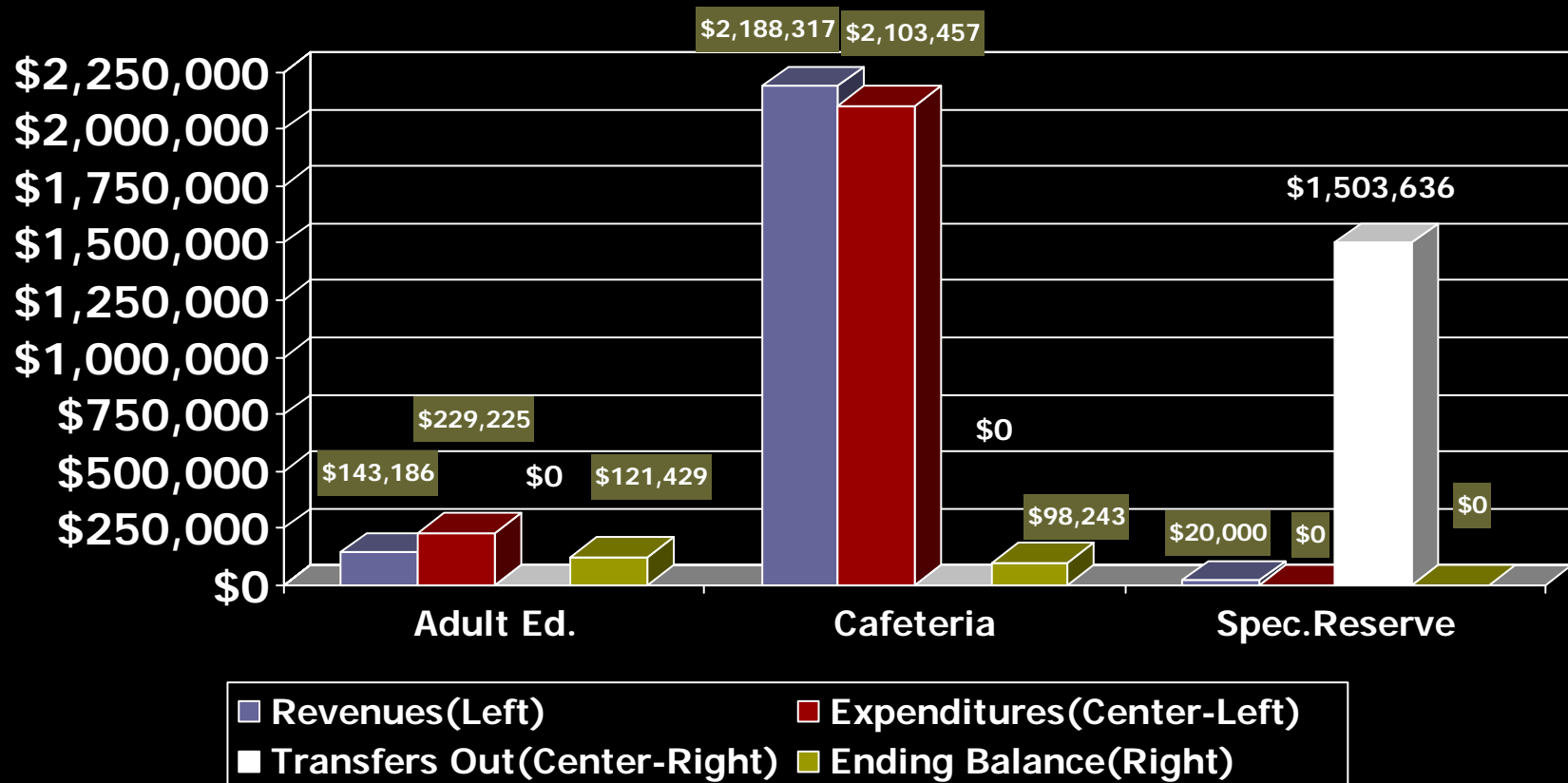
COTATI-ROHNERT PARK USD 2008- 2009 FIRST INTERIM REPORT

FISCAL CRISIS PLANNING -
2008/2009 AND BEYOND
DECEMBER 9, 2008

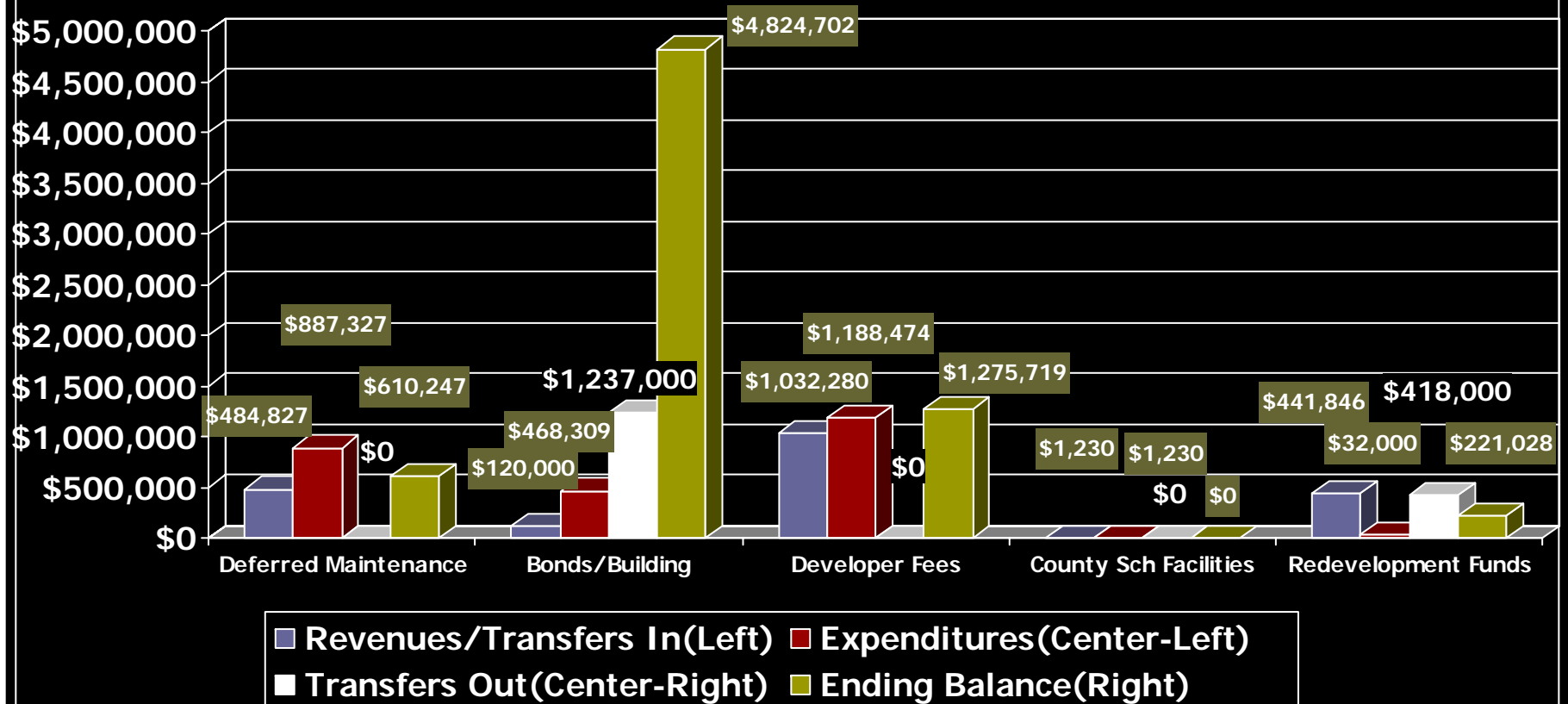
EDUCATION CODE 42131

- What is an Interim Certification –
 - The Governing Board of the district certifies the following – *...that based upon the current projections the district will meet its financial obligations for the current fiscal year and subsequent two fiscal years.*
 - *Three levels of certification:*
 - *Positive*
 - *Qualified – may not meet*
 - *Negative – will not meet*

First Interim – Other Operational Funds (non-construction related)



First Interim – Other Operational Funds (construction/facilities)



Unrestricted General Fund - Assumptions OCTOBER 31, 2008

- Unrestricted General Fund Projected Revenues as of June 30, 2009:
 - \$39,510,982 change from Adopted Budget
 - Decrease (\$5,478)
- Unrestricted General Fund Projected Expenditures/Transfers/Contributions as of June 30, 2009:
 - \$39,941,554 – change from Adopted Budget
 - Decrease (\$212,836)

Unrestricted General Fund Summarized Budget Changes

- Certificated FTE's - from 299.12 to 301.02
- Increased Class Size Overages \$50,000
- No material changes in:
 - Classified Salaries
 - Employee Benefits
 - Supplies
 - Services

UNRESTRICTED GENERAL FUND PROJECTED FUND BALANCE AND RESERVE LEVELS

- Minimum reserve level required (3%):
 - \$1,756,613
- Projected ending fund balance as of 06/30/09:
 - \$1,853,351
- Undesignated amount - \$89,771
 - Includes increased transfer from Fund 17
 - Unallocated balance is a component of the 2009-2010 beginning balance for our required multi-year projections.

RESTRICTED GENERAL FUND – CATEGORICAL PROGRAMS

- Projected Revenues/Contributions/Transfers In as of June 30, 2009:
 - \$18,873,338 – change from Adopted Budget:
 - Increase \$670,347
- Projected Expenditures as of June 30, 2009:
 - \$21,478,011
 - Increase \$3,275,019
- These changes represent the accounting adjustments required to book prior year categorical and donation account balances of over \$2.8M.

Top Ten Categorical Program Carryovers from 07/08 Fiscal Year

| | |
|------------------------|-----------|
| ■ IMRFP(Textbooks) | \$522,020 |
| ■ Arts,Music,PE Grant | \$293,246 |
| ■ School/Library (SIP) | \$182,210 |
| ■ Arts-Music Ongoing | \$144,383 |
| ■ Supp.Counseling | \$141,859 |
| ■ Professional Devlp | \$133,760 |
| ■ EIA-LEP | \$130,617 |

Top Ten Categorical Program Carryovers from 07/08 Fiscal Year

- Sch.Site Discretionary \$121,702
- Restricted Lottery \$111,327
- School Safety \$105,476
 - TOTAL CARRYOVER \$1,886,600
 - CARRYOVER REMAINING AS OF DEC.5 2008
\$1,302,846

INTERIM CERTIFICATION--- MEETING FINANCIAL OBLIGATIONS?

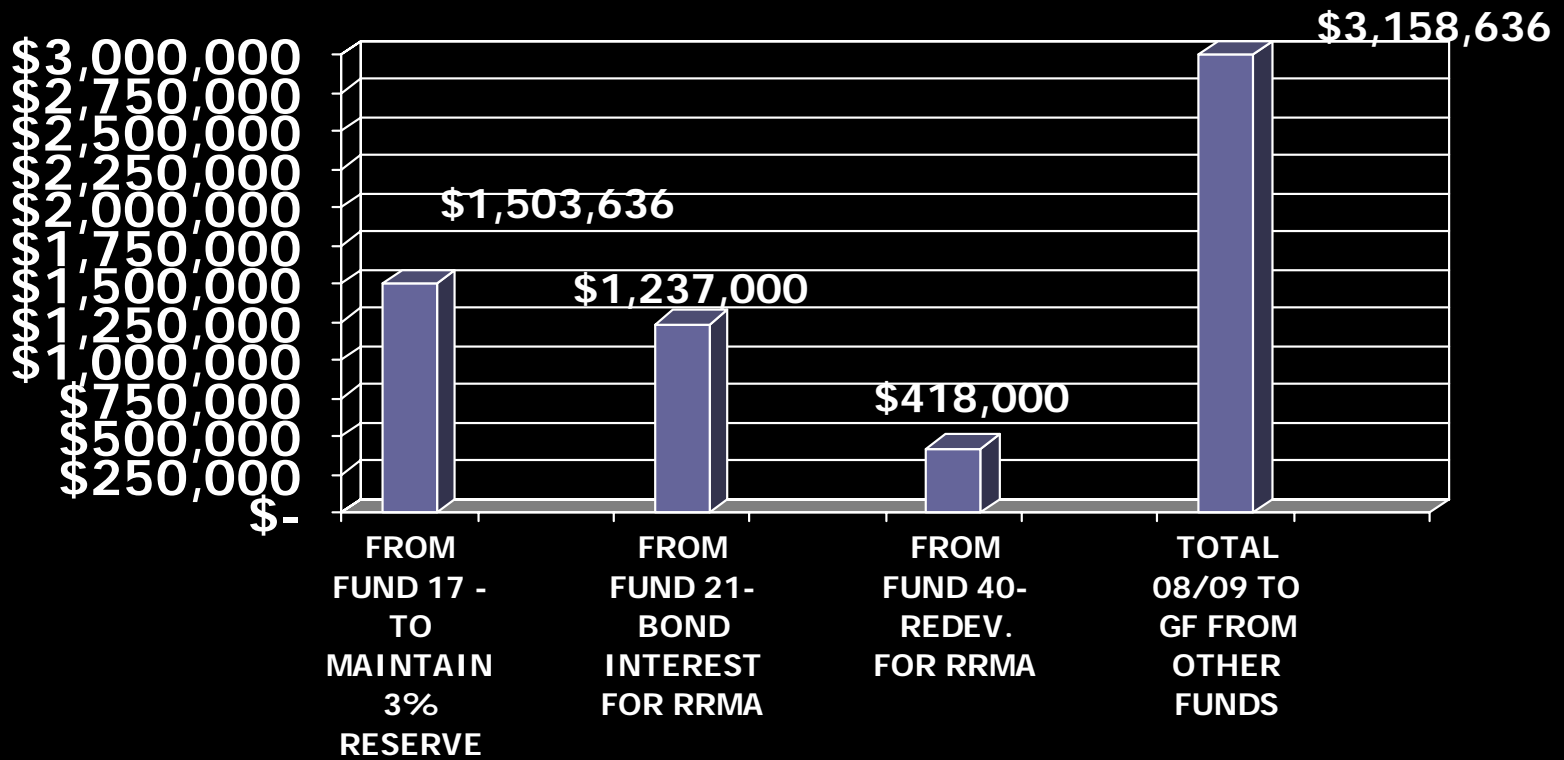
- **CASH** and cash flow – don't run out of actual dollars in the bank;
- **Fund Balance** – maintain the minimum required 3% reserve levels – for CRPUSD that reserve level is approximately \$1,756,613 in the current year –

First Interim 2008/2009

Issue #1 – Having Available Cash

- \$1.5M transferred from Fund 17 to unrestricted General Fund: one-time funds now completely depleted;
- \$1.2M transferred from Bond Fund interest to Required Restricted Maintenance general fund accounts, two issues:
 - bond interest has nearly been depleted;
 - District auditor has noted that transfers of bond interest are not sustainable and such transfers could be legally challenged – both may be noted in our 07/08 audit report.
- \$400K transferred from Redevelopment Fund to Required Restricted Maintenance general fund accounts.

2008-2009 General Fund Cash Flow



■ TRANSFERS-INTO THE GENERAL FUND FROM OTHER FUNDS

2008-2009 General Fund Cash Flow

\$6,648,626

\$5,811,331



How Does a District Have a Positive Fund Balance but Negative Cash?

- Part of the Fund Balance is made up of Account Receivables, about \$1.6M at the end of a normal year;
- State of California plans to defer over \$1M in current year revenues into next year.

Actions Needed to Maintain Minimum Cash Levels in the Current Year

- Steps taken as of today and future steps required:
 - The District has imposed a freeze on all non-essential expenditures and hiring for vacant positions with exceptions granted only for critical classroom instructional needs and expenditures related to Special Education issues;
 - The Board will be asked to review and approve in January and February 2009 a list of current year budget adjustments and reductions;
 - The Board may be asked to authorize a temporary loan from the Bond Fund to the General Fund to cover a possible cash deficit that could arise sooner than June if the State cash flow position deteriorates;

Reductions Now Lessen the Need for Greater Cuts in the Future Years:

- For 2008/2009:
 - Reduce expenditures in the General Fund by \$500,000 -- These would need to be ON-GOING reductions;
 - Carried forward, these budget/expenditure reductions equate to an additional \$1M in savings in the 2009/2010 budget and a cumulative savings of \$1.5M by 2010/2011.

#2 Issue – Fund Balance and cash balance in 09/10 and 10/11

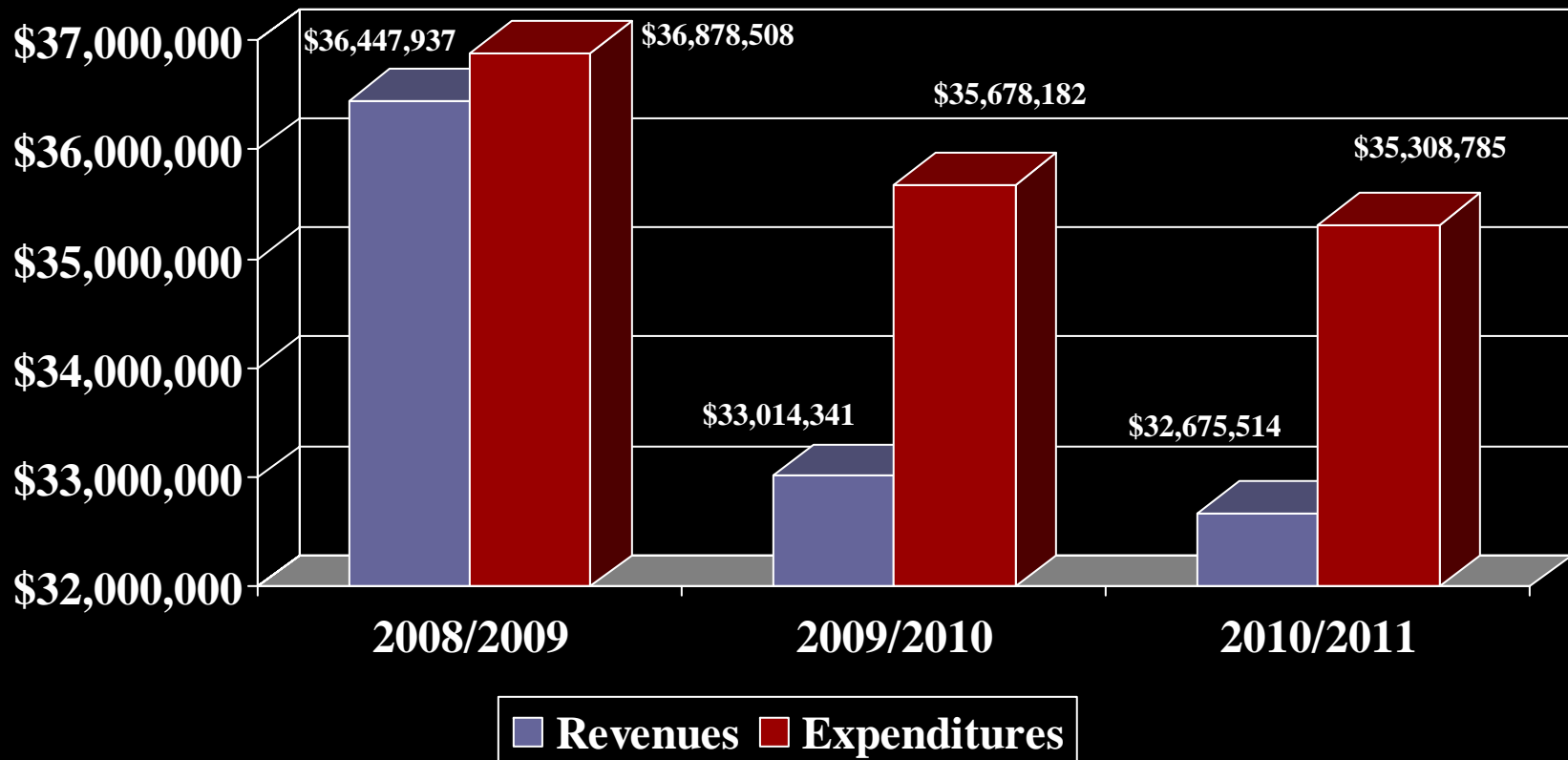
- With no Cost of Living Adjustment (COLA) to offset continued declining enrollment, continued increases in employee benefit costs, salary schedule maintenance and general operating cost increases, the District must reduce expenses now to remain fiscally solvent.

MULTI-YEAR PROJECTIONS BEFORE MID-YEAR BUDGET REDUCTIONS

- Our District is projecting an operating loss “per ADA” of \$67 in 08/09 – this reduction comes directly from our unrestricted general fund operating budget (\$430,572);
- In 09/10- the projected deficit per ADA is \$432 or (\$2,663,841);
- In 10/11- the projected deficit per ADA is \$445 or (\$2,633,271).

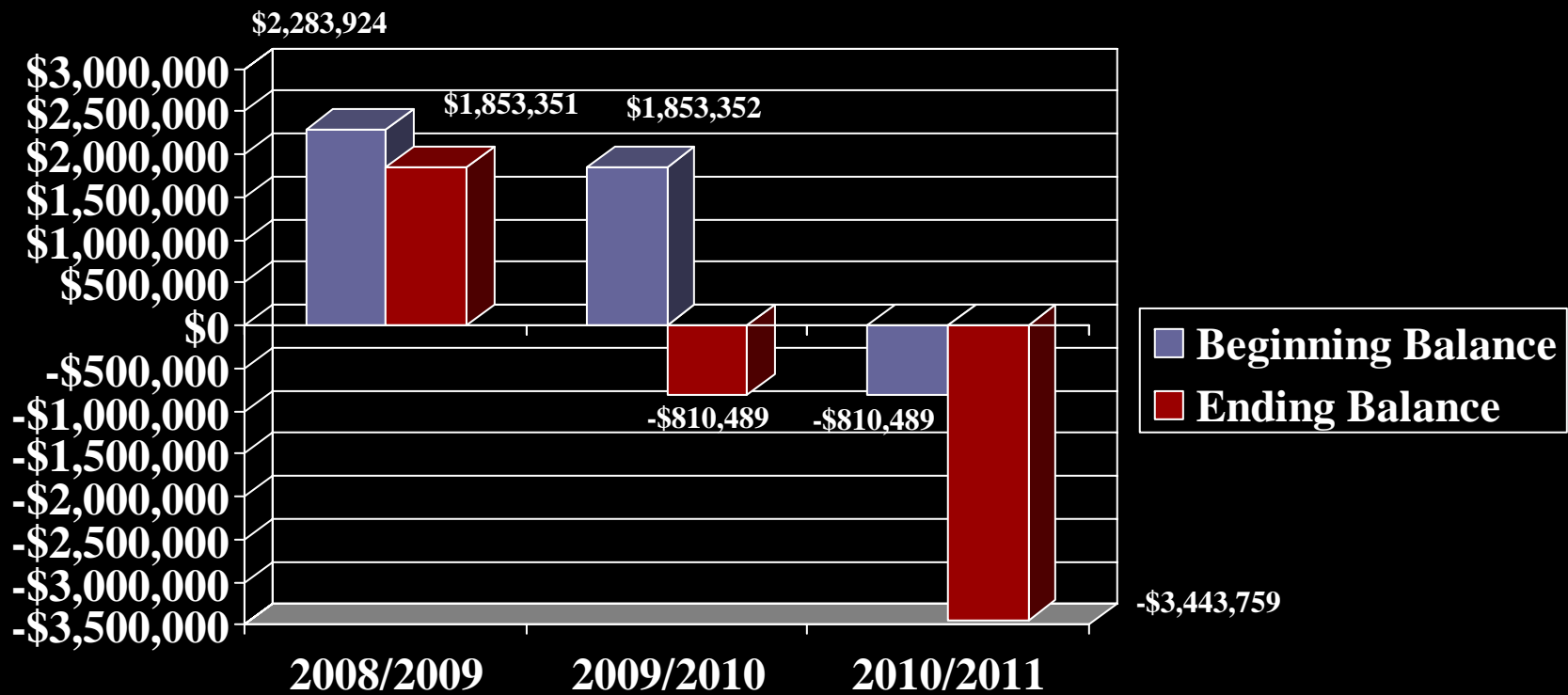
Our Local Fiscal Crisis: 2008-2011

Unrestricted General Fund

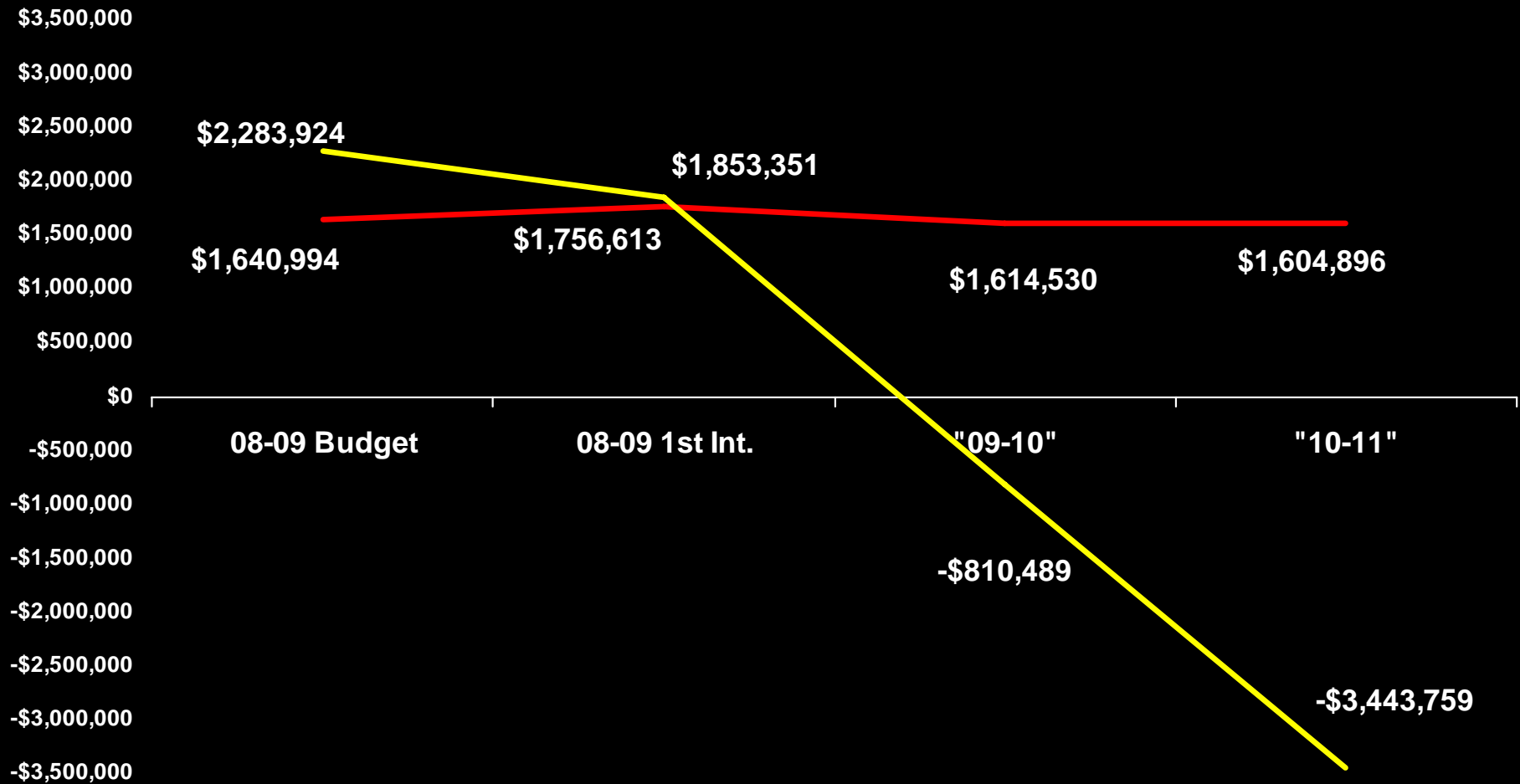


Our Local Fiscal Crisis: 2008-2011

Unrestricted General Fund



Unrestricted General Fund Multiyear Projection – Reserve and Ending Balance

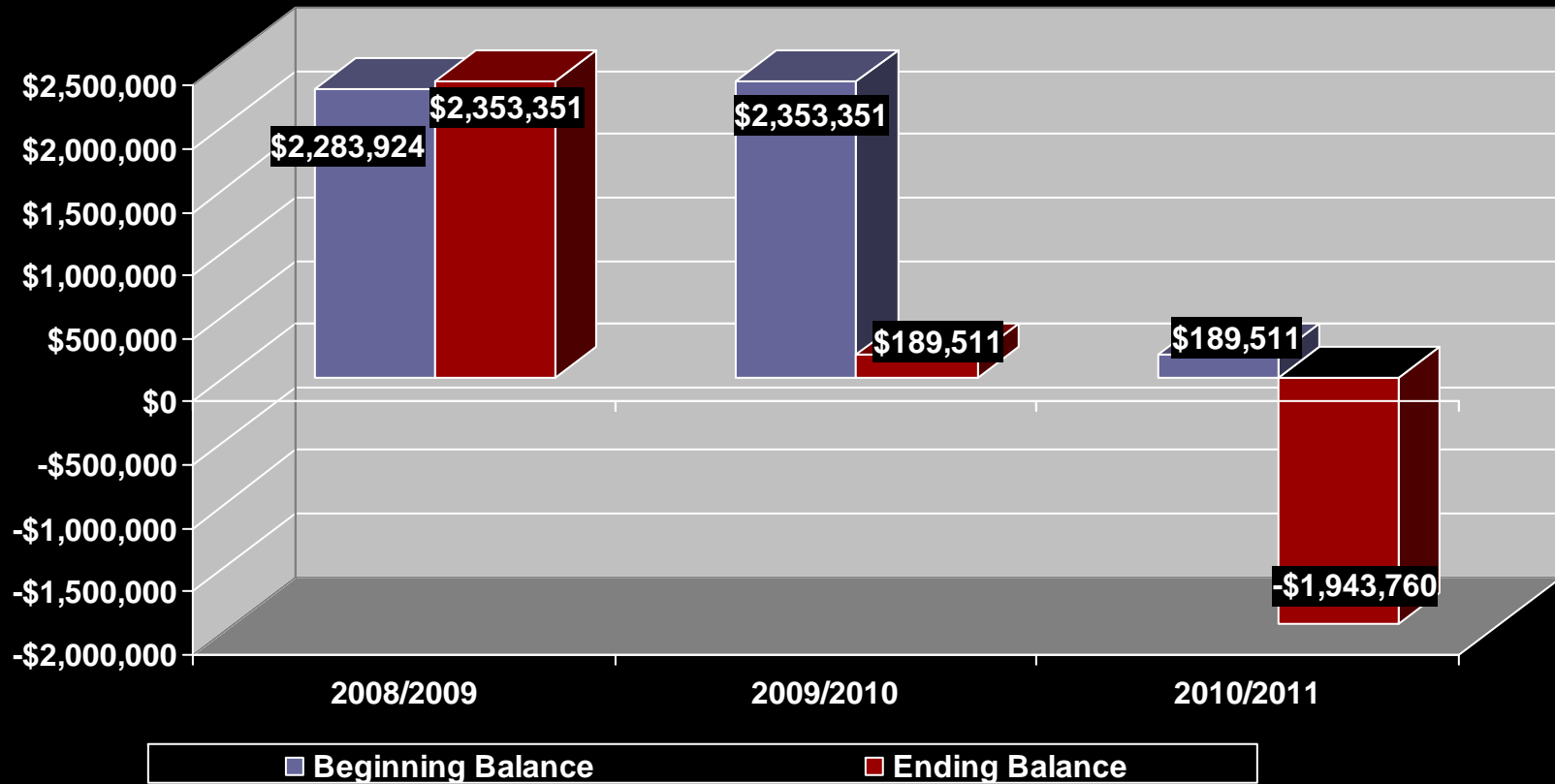


— Required 3% Reserve Level

— Projected Ending Balance

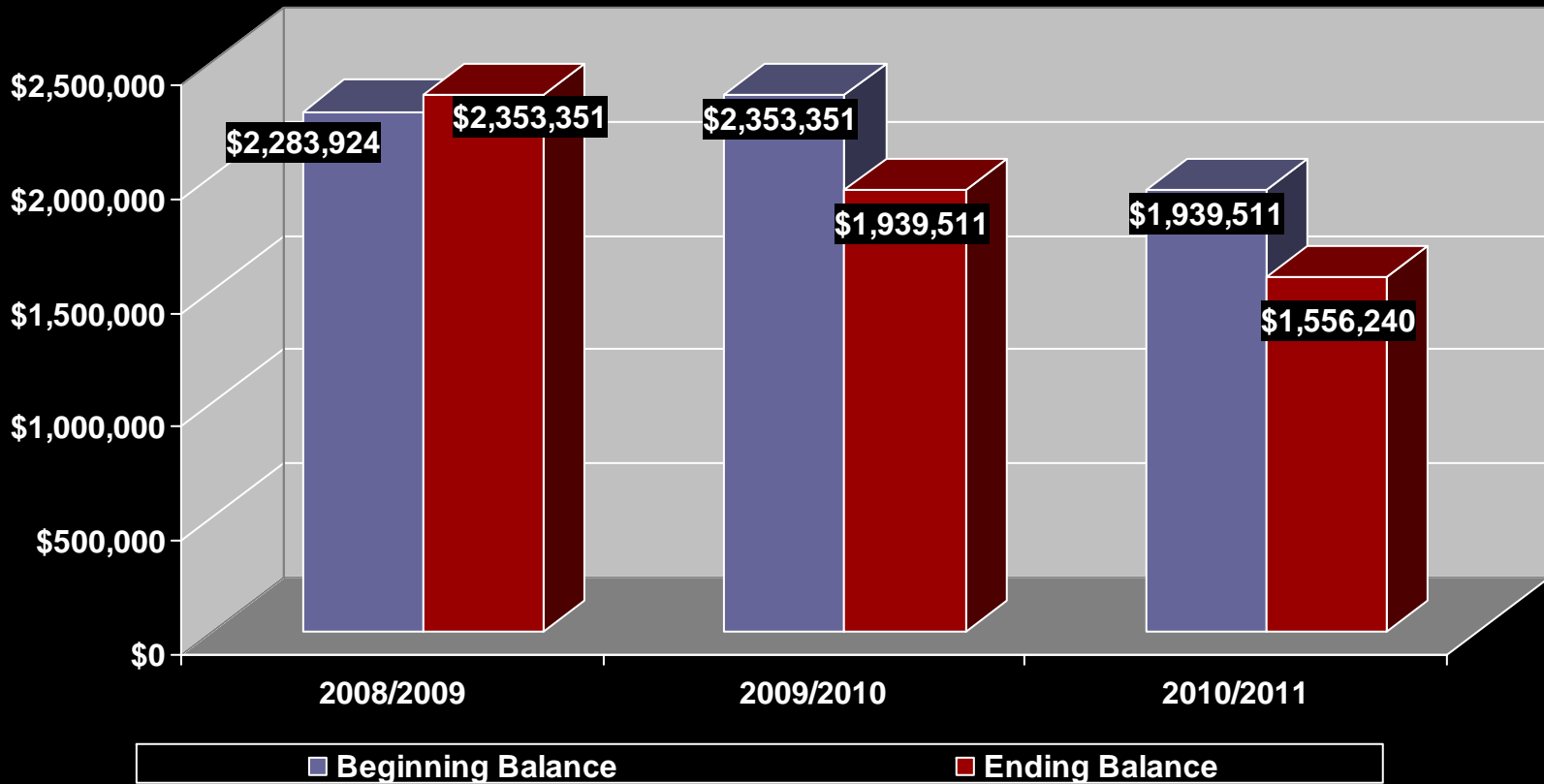
Our Local Fiscal Crisis: 2008-2011

Unrestricted General Fund w/500K Reduction in 08/09



Our Local Fiscal Crisis: 2008-2011

Unrestricted General Fund w/500K Reduction in 08/09 and \$1.75M in 09/10



\$2.25M in Reductions Required Given the Following Assumptions

- ADA decrease will not exceed projections:
 - 6,162 in 09/10
 - 5,922 in 10/11
- Funded Revenue Limit will not decrease below these per ADA levels:
 - \$5,820 in 08/09
 - \$5,822 in 09/10
 - \$6,026 in 10/11

Projected Reductions Needed are Equivalent to Program Cuts of 5.5%

- **Certificated Salaries** \$19,613,791
 - Cut \$1,078,759
- **Classified Salaries** \$3,489,974
 - Cut \$ 191,949
- **Benefits** \$9,096,894
 - Cut \$ 500,329
- **Books and Supplies** \$ 518,153
 - Cut \$ 28,498

\$2.25M in Reductions = 5.5% CUT

- Services/Operating \$2,788,800
 - Cut \$153,384
- Transfers/Encroachments \$5,093,193
 - Cut \$280,126

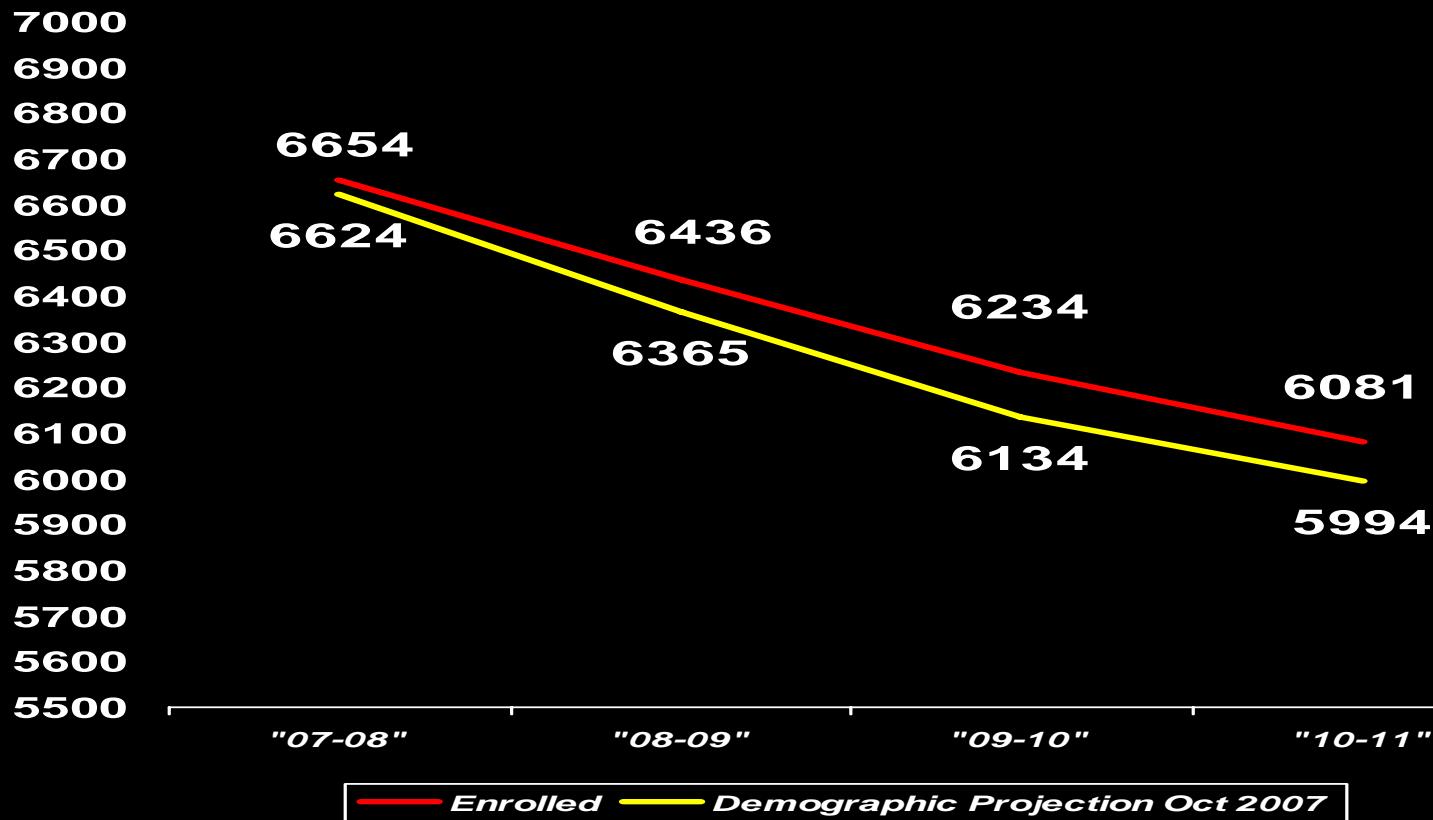
Developing an Austerity Budget –

- Reductions or program eliminations in the following areas:
 - Libraries;
 - Information technology;
 - Athletic programs;
 - Music/Art programs;
 - Counseling;
 - Adult Education;
 - Transportation (Athletic, Field Trips, Home to School)
 - Maintenance, Grounds, Custodial services;
 - Office support staff;
 - Administration (site level and district-wide)

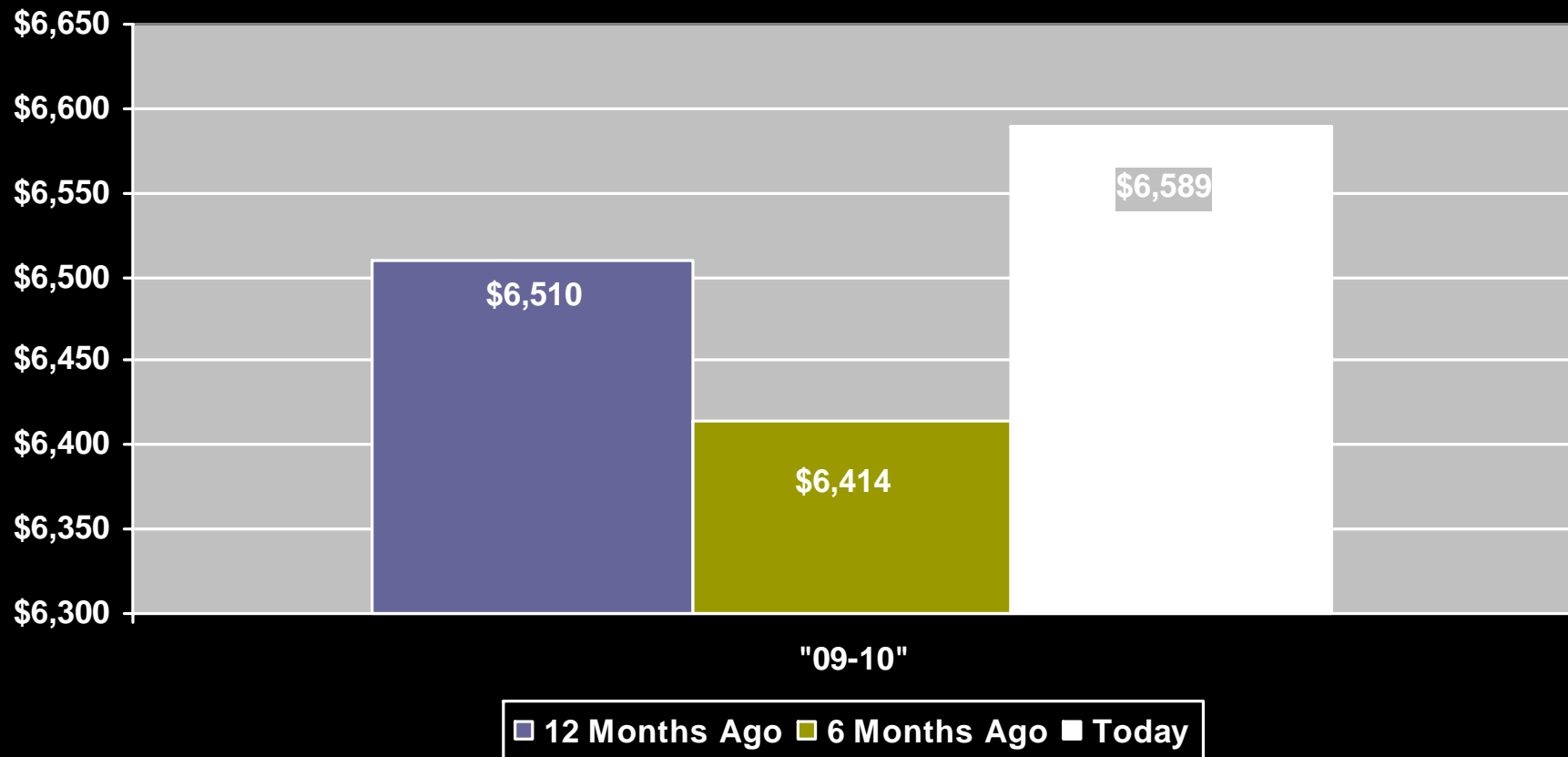
Additional Budget Items for Review and Discussion

- Increased class sizes (all grade levels, including K-3);
- Changes in graduation requirements, fewer units required and offered;
- Facility “black-outs”;
- One or two year elimination of step and column salary increases for all employees;
- Rollback of employee compensation, salary reduction for all employees;
- Sharing of future health benefit cost increases;
- Consolidation of middle and high school programs;
- Local revenue generation.

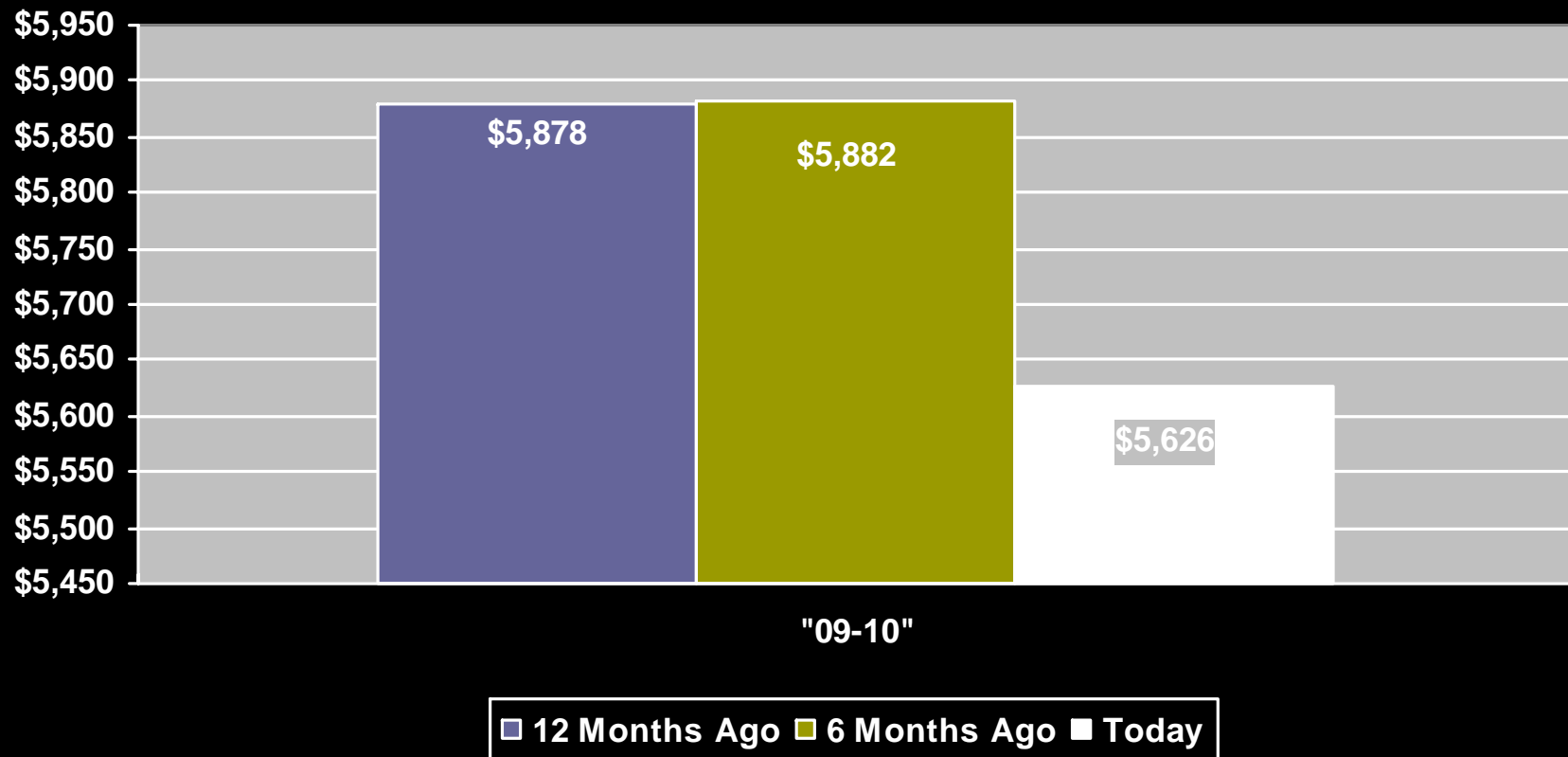
District Enrollment Continues to Decrease at +/- 3% per Year



Projected 2009/2010 Unrestricted GF Expenditures per ADA –



Projected 2009/2010 Unrestricted GF Revenue Limit Funding per ADA –



In Summary-----

- Enrollment and ADA declines are projected to continue;
- A zero Cost of Living Adjustment for our District means significant declines in revenue;
 - 08/09 <\$819,830>
 - 09/10 <\$1,394,537>
- This District does not have sufficient reserves to survive more than one year of a zero COLA.

CALIFORNIA BUDGET CRISIS

- Gov. Arnold Schwarzenegger has called an emergency session of the State legislative bodies to address the unprecedented budget crisis;
- The estimated budget shortfall has grown to \$28 billion;
- Gridlock in Sacramento – battle between increasing revenues and reducing expenditures.

CALIFORNIA BUDGET CRISIS

- The three main components of California's operating revenue, personal income tax, sales and use tax, and corporation tax, have dropped sharply from even recent projections, down 9.2% or \$8.7 Billion since last year;
- Property tax revenues, also much less than projected, are disbursed to local municipalities.

So Now the Bad News-----

- As noted, over 88% of our operating General Fund revenues come from the State of California;
- State revenues are expected to decline approximately \$25 billion over the next 18 months;
- The current five year projections do not show any significant improvements in the State's fiscal condition;
- The State has severe cash flow issues and, unless action is taken soon, is expected not to be able to make payments to vendors, state employees and school districts as early as this March.

Unprecedented Program Reductions are Possible in the Next Few Months

- In addition to the \$2.25M in reductions made necessary by declining enrollment coupled with unfunded cost of living adjustments, the District faces the possibility of additional State cuts in either revenue limit and/or categorical programs in excess of \$2.1M.

Planning for Revenue Reductions-----

- The State may impose mid-year and 2009-2010 K-12 budget cuts in excess of \$330 per ADA;
- It is unclear at this time if the cuts will be made to the unrestricted revenue limit, as per the Governor's plan or to specific categorical programs, as per the legislator's plans;
- Either way, fundamental changes in District operations would be required.

Identifying \$2.1 Million in Additional Budget Reductions – Elimination of Categoricals

- Either by the State eliminating specific categorical programs or by authorizing districts to utilize categorical program balances from the prior and current year, we anticipate that all state categorical programs with the exception of Special Education, may be effectively terminated due to lack of funds by the end of this school year.
- Employee impact – at least 126 positions, in whole or in part, would be terminated as soon as practically and legally possible.

Examples of the Programs at Risk of Severe Reduction or Possible Elimination ----

- Lottery
- Class Size Reduction
- Community Day School
- Community Based English Tutoring
- English Language Acquisition Program
- School Safety and Violence Prevention
- Arts and Music On-going and Block Grant
- Deferred Maintenance
- Restricted Maintenance
- Adult Education
- Beginning Teacher Support
- CAHSEE Intervention
- Supplemental Counseling
- Economic Impact Aid-LEP
- Educational Technology
- Instructional Materials (Textbooks)
- Gifted and Talented Program
- Peer Assistance and Review
- Home to School Transportation
- Professional Development Grant
- Pupil Retention Grant
- School and Library Grant
- Discretionary Block Grant
- School Garden Grant
- Misc. Other Categorical Programs
- Total \$2.1 Million in Reductions

In Conclusion.....

- Current District budget structure is not designed to withstand years in which we experience both enrollment decline and zero or negative cost of living adjustments;
- All available District reserves will be depleted in six months;
- Structural budget changes are not recommended but are required if this District is to remain viable and under local control;

In Conclusion.....

- Approval by the Sonoma County Office of Education of the CRPUSD First Interim Report is contingent upon recognition by the Board of the 2008-2009 cash deficit and the structural imbalance of over \$2.6M in the 2009-2010 unrestricted General Fund budget, both of which must be addressed by March 2009 in order for the District to maintain the required minimum 3% reserve and continued fiscal solvency;
- Staff recommends a **Qualified Certification** of this report and plans for continuing budget and related operational adjustments over the next several months.