



Santa Barbara SCHOOL DISTRICTS

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Date: September 15, 2009
To: Dr. J. Brian Sarvis, Superintendent
From: Eric D. Smith, Deputy Superintendent
Subject: Report on plan to offset one-time revenue reduction of \$3.4 million from the state
Conference: (20 minutes)

Background

On July 28, 2009, the governor and legislature finally agreed on a budget package to close the state's massive \$26 billion deficit. The budget deal was finalized through a combination of spending cuts to virtually all programs, deferrals, major borrowing from local governments, accounting gimmicks and other one time solutions. Most Capitol observers predict that projected revenues will come in far below anticipated expenditures and that the state budget as adopted could unravel as early as Thanksgiving of this year.

As reported in August, the state budget included an accounting gimmick that effectively reduced the amount of revenue given to school districts in fiscal year 2008-09, thereby lowering the funding entitlement for K-12 education in fiscal year 2009-10. It did this by inflicting a one-time cut of \$252.83 per student in fiscal year 2009-10. This reduction will result in a one-time loss of roughly \$3.4 for our combined districts. Of this amount, roughly \$1.1 million will be allocated to the elementary district and \$2.3 will be allocated to the secondary district.

Issue

Due to the magnitude of this revenue loss, we have scrutinized how we could cobble together a solution to surrender this payment to the State. In the interim, we have placed a freeze on state categorical spending and have consciously made the decision to leave non-essential vacant positions unfilled. We have made every attempt to make these cuts as far away from the classroom as possible in order to avoid disruption to the educational program. We have also endeavored to do so without eliminating jobs.

The attached plan represents our best thinking to date. It uses fund balance transfers, ending fund balance sweeps, budget transfers and fund balance designations to identify the \$3.4 million we need surrender to the state. It is imperative we make these one-time cuts now so we may confront the more daunting expenditure reductions we will be required to make in the near future.

Fiscal Impact

Loss of \$3.4 million to the districts.

Adams Elementary School	Harding Elementary School	Peabody Charter School	Goleta Valley Junior High School	Dos Pueblos High School
Cesar Chavez Charter School	McKinley Elementary School	Roosevelt Elementary School	La Colina Junior High School	La Cuesta Continuation High School
Cleveland Elementary School	Monroe Elementary School	Santa Barbara Charter School	La Cumbre Junior High School	San Marcos High School
Franklin Elementary School	Open Alternative School	Santa Barbara Community Academy	Santa Barbara Junior High School	Santa Barbara High School
		Washington Elementary School		

**SANTA BARBARA SCHOOL DISTRICTS
PLAN TO OFFSET ONE-TIME REVENUE REDUCTION FROM THE STATE**

A. DECREASE UNRESTRICTED GENERAL FUND RESERVE BY AMOUNT OF RESTRICTED ENDING BALANCE SWEEP

The budget adopted by the state gives school districts the ability to transfer restricted ending balances as of June 30, 2009, to the unrestricted side of the budget and be used for any educational purpose. This transfer authority applies not only to the restricted ending balance, but also to deferred revenue amounts and other carryover amounts in these programs. Using this authority, we were able to “sweep” ending balances in the amounts of \$262,850 and \$1,746,825, respectively to the elementary and secondary from the restricted to the unrestricted side of the budget. By surrendering this amount to the state, we will reduce our reserve for economic uncertainties to 5.24 percent.

Savings elementary: \$ 262,850	Savings secondary: \$ 1,746,825	Total: \$ 2,029,675
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B. REDUCE ROUTINE RESTRICTED MAINTENANCE ACCOUNT IN THE SECONDARY DISTRICT BY \$523,443 FOR ONE YEAR ONLY

The state adopted budget provides school districts with the flexibility to reduce their routine maintenance account (RRMA) from three percent of total expenditures to zero percent of total expenditures. This flexibility is in effect until fiscal year 2011-12. During our review, we were able to identify a place holder of \$523,443 in the secondary routine restricted maintenance account. The use of this place holder indicates that there are no personnel tied to this position and a reduction in force would not be necessary if we were to reduce the RRMA budget by this figure which would increase the unrestricted ending balance by a like amount.

Savings elementary: \$	Savings secondary: \$ 523,443	Total: \$ 523,443
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C. DESIGNATE FUNDS FROM SETTLEMENT AGREEMENT WITH COTTAGE HOSPITAL

It has recently come to our attention that Cottage Hospital owed the Santa Barbara School Districts \$62,431 in fees resulting from the expansion of their facility located at Pueblo and Bath Streets in Santa Barbara. Apparently, the regulatory agency that approves hospital construction in the State of California—Office of Statewide Health Planning and Development—was neither aware nor equipped to collect fees on our behalf. Cottage has approached us about paying these fees and both parties agree that a settlement agreement would be the best vehicle to use for this repayment. Since the payment will be received in lieu of Cottage paying development fees, the revenue will be receipted as unrestricted. However, since these fees are being collected in lieu of development fees, we are using the 50/50 spit that has been the past practice of dividing these funds between the districts.

Savings elementary: \$ 31,216	Savings secondary: \$ 31,215	Total: \$ 62,431
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D. TRANSFER FUND BALANCE FROM INACTIVE WORKERS COMPENSATION SELF INSURANCE FUND

In fiscal year 2003-04, the districts' abandoned their self insured workers compensation program with Keenan and Associates and joined SISC I, a joint powers authority for workers compensation insurance. Before the districts' joined SISC, it executed a loss portfolio transferred with Fremont, which in industry parlance “sold the tail on the existing claims”.

Fremont subsequently went bankrupt but the excess insurance carrier that was in force at the time agreed to insure all but roughly \$200,000 of the claims. We have set up this amount as a contingent liability in Fund 67 and are paying these claims as they come due. During our review, we noted that there is an ending fund balance in excess of \$669,387 in the fund (excluding the amount set up as a liability to pay the outstanding claims from the portfolio loss transfer).

Since the districts have no residual workers compensation claims—other than those referenced above—it is possible to transfer this ending fund balance to the unrestricted general fund.

Savings elementary: \$ 150,000	Savings secondary: \$ 350,000	Total: \$ 500,000
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E. DESIGNATE EXCESS (I.E. BASIC AID) PROPERTY TAXES IN ELEMENTARY DISTRICT FOR PAYMENT TO STATE

The elementary district became basic aid in fiscal year 2008-09, however it will not be certified as such until the February of 2010 P-2 apportionment. Once a district reaches basic aid status, it can no longer receive the shift of property taxes from cities, counties and special district under ERAF (i.e. the Education Revenue Augmentation Fund). Inasmuch as a positive ERAF contribution cannot force a district into basic aid status, a negative ERAF adjustment cannot force a district out of basic aid status. During the 2009-10 fiscal year the elementary district is projected to have \$124,704 ERAF taken out of its property taxes. Since the elementary district will become basic aid in fiscal year 2009-10 it will no longer subject to ERAF, and the \$124,704 shifted away from the district must be returned to the district as excess property taxes under its basic aid status.

Savings elementary: \$ 124,704	Savings secondary: \$	Total: \$ 124,704
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F. RECALCULATE K-3 CLASS SIZE REDUCTION (CSR) APPORTIONMENT BASED ON PASSAGE OF ASSEMBLY BILL X4 2

Assembly Bill X4 2 clarified that funding for K-3 CSR will be based on the number of students estimated at the districts filing of the fiscal year 2008-09 provisional operations application. Since the 2009-10 budget was based on a K-3 cohort estimate of 2,369, and the 2008-09 provisional operations application was based on 2,509, and after the class size penalties are deducted, there is a net increase in revenue of \$83,967.

Savings elementary: \$ 83,967	Savings secondary: \$	Total: \$ 83,967
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G. RECOGNIZE EXCESS PROPERTY TAXES DUE TO REDUCTION IN CHARTER SCHOOL IN LIEU TAXES

The state budget requires that charter school funding levels be reduced to commensurate with the levels of reductions proposed for revenue limits (i.e. deficits and the \$252.83 per ADA reduction) and categorical funding. As a result, the amount of in lieu taxes the elementary district has to transfer to the charter schools is also reduced. Since “basic aid” school districts get to keep property taxes in excess of their revenue limit entitlement, this reduction results in an increase in unrestricted revenue to the district.

Savings elementary: \$ 106,292	Savings secondary: \$	Total: \$ 106,292
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H. ELEMENTARY DISTRICT RECOUP MEALS FOR NEEDY ADD ON FROM THE SECONDARY DISTRICT FOR THE 2007-2008 FISCAL YEAR

Prior to the passage of Proposition 13, school district governing boards were able to levy a permissive override tax to fund the meals for needy program. Of the roughly 1,000 school districts in the State of California, only about a third of the districts opted to levy this tax. Our board of education at that time opted to levy the tax in both districts—albeit at different rates—even though the cafeteria fund operates out of the elementary district. After the passage of Proposition 13, and then the subsequent development of the revenue limit, the meals for needy tax were folded into the revenue limit of those districts that levied the permissive override. The revenue limit add on is adjusted by both meal counts and cost of living adjustments, so as long as the district remains in revenue limit status.

During our analysis, we reviewed whether revenue generated through the meals for needy add on in the secondary district had been paid over to the elementary district over the last two years. Although we were able to identify that this transfer took place in fiscal year 2008-09, we determined that for fiscal year 2007-08 it did not. After discussing this with our independent auditors, we have determined that it is appropriate for the elementary district to recoup some of the meals for needy revenue it lost to the secondary district in fiscal year 2007-08.

Savings elementary: \$ 324,324	Savings secondary: \$ <324,324>	Total: \$ 0
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**SANTA BARBARA SCHOOL DISTRICTS
PLAN TO OFFSET ONE-TIME REVENUE REDUCTION FROM THE STATE**

	Elementary	Secondary	Total
A Decrease unrestricted general fund reserve by amount of restricted ending balance sweep	\$ 282,850	\$ 1,746,825	\$ 2,029,675.00
B Reduce routine restricted maintenance account in the secondary district for one year	\$ 0	\$ 523,433	\$ 523,433.00
C Designate funds from settlement agreement with Cottage Hospital	\$ 31,216	\$ 31,215	\$ 62,431.00
D Transfer fund balance from inactive workers compensation self insurance fund	\$ 150,000	\$ 350,000	\$ 500,000.00
E Designate excess property taxes in elementary district for payment to state	\$ 124,704	\$ 0	\$ 124,704.00
F Recalculate K-3 class size reduction apportionment based on passage of Assembly Bill X4 2	\$ 83,967	\$ 0	\$ 83,967.00
G Recognize excess property taxes due to reduction in charter school in lieu taxes	\$ 106,292	\$ 0	\$ 106,292.00
H Elementary district recoup meals for needy add on from the secondary district for the 2007-08 fiscal year	\$ 324,324	\$ <324,324>	\$ 0.00
TOTAL	\$1,103,353.00	\$2,327,149.00	\$3,430,502.00