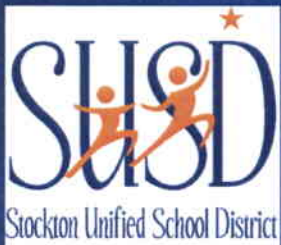


Stockton Unified School District First Interim Financial Report Open Session

December 13, 2011



Overview

- ▶ Refresher – Where did we start?
- ▶ Current Status – Where are we now?
- ▶ Next Steps – Where are we heading?

Reserves

- ▶ Use of District Reserves – Why are the District’s Reserves so high?
 - Reserves are high because of the uncertainty that has occurred over the past few years from state funding. The roller coaster ride has made it necessary to protect both reserves and cash. I recently attended a Chief Business Officials conference. It was noted that reserves are higher than expected for many districts and it makes for a difficult discussion at the bargaining table. However, it does not warrant an apology or reason to become embarrassed. In this time of economic uncertainty having higher than expected reserves is the right approach to take. Three things:
 - 1) Never deplete your reserves
 - 2) Never run out of cash
 - 3) Never lose your ability to borrow

- ▶ Why not use the Reserves to cover all increased expenditures?
 - Use of Reserves is one-time in nature and represents an actual decrease in cash
 - Must carefully determine the actual cash impact based on uncertainty in state funding (deferrals)
 - Cannot recapture cash after it is spent

Tax and Revenue Anticipation Notes (TRANS)

- ▶ Purpose – To provide short term cash until tax revenues materialize. However TRANS are increasingly becoming a vehicle used by districts to provide cash relief due to state deferrals. For example:

Fiscal Year	Amount
2006-07	\$9.1 million
2007-08	\$10.6 million
2008-09	\$22.6 million
2009-10	\$30.3 million
2010-11	\$39.1 million
2011-12	\$54- \$60 million (est.)

- ▶ Sizing – Limits the maximum amount of borrowing that may occur
- ▶ Cost of Issuance – For 2011-12 is over \$200,000 and growing (roughly.006)

Components of Ending Fund Balance

Unrestricted General Fund – First Interim Financial Report – 2011–12

	Adopted	1st Interim	Increase/ (Decrease)
Ending Fund Balance*	\$35,131,272	\$38,510,054	\$3,378,782

Components of Ending Fund Balance	Adopted	1st Interim	Increase/ (Decrease)
Revolving Cash	\$70,000	\$70,000	\$0
Stores	\$1,200,000	\$1,200,000	\$0
Reserve for Economic Uncertainty (2%)	\$5,598,567	\$6,653,072	\$1,054,505
Other Designations	\$28,262,705	\$30,586,982	\$2,324,277

*Note: Expected Ending Cash Balance is \$8 million

Refresher – Where did we start?

- ▶ Flat Funding
 - Requirement for district to use same per pupil funding level as used in previous fiscal year

- ▶ “Trigger” Provisions
 - Determination of mid-year cuts based on state falling short of its revenue projections

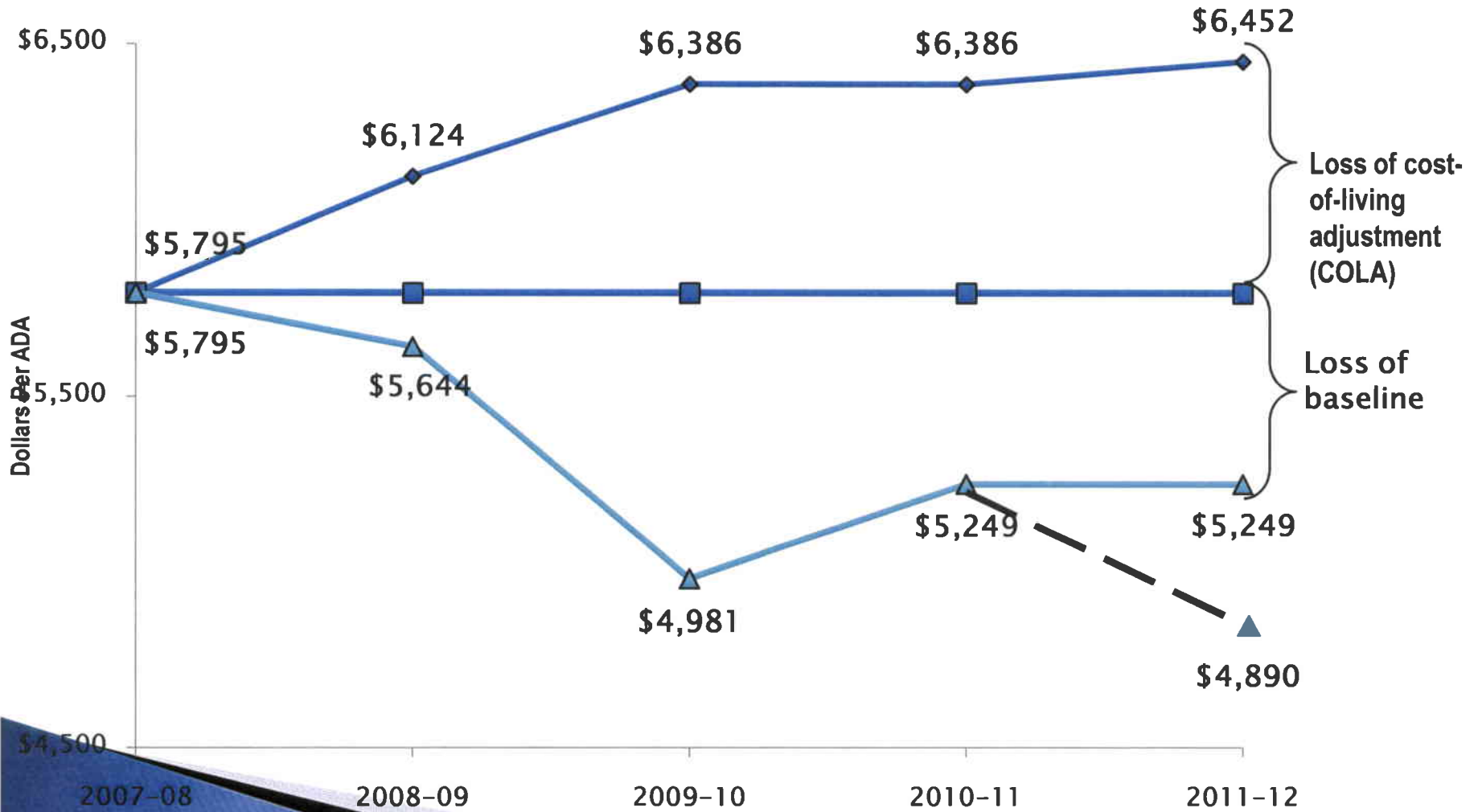
- ▶ AB 114
 - Legislation signed by Governor as part of enacted State Budget

- ▶ Unaudited Actual Financial Report
 - Report of financial position of school district as of June 30, 2011 of last year

- ▶ Cash Deferrals
 - Delays of state allocations of revenue .
 - \$39 million for 2010-11 and between \$54 million to \$60 million for 2011-12

Funding Per ADA – Projected vs. Actual

Stockton Unified District

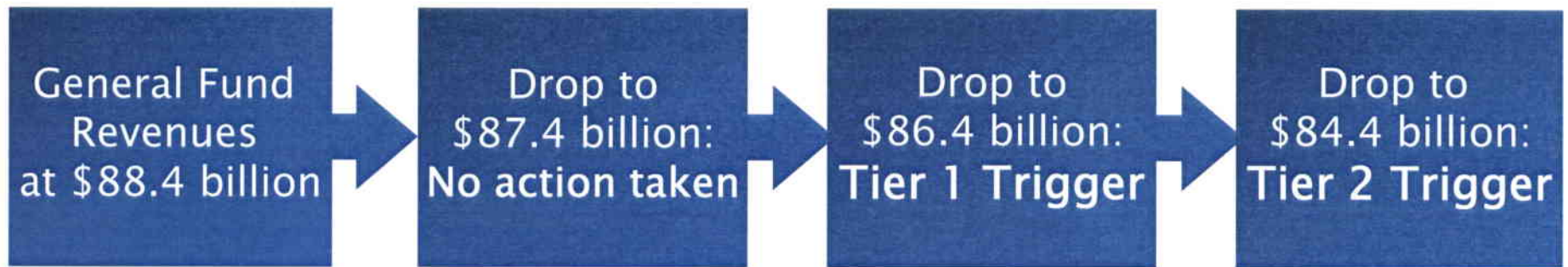


Funding Per ADA - Actual vs. Statutory Level

Stockton Unified District



State “Trigger” Provisions 2011–12 Budget



- General Fund Revenues: \$88.4 billion
- If revenues drop \$1 billion to \$87.4 billion, no action taken

Trigger I

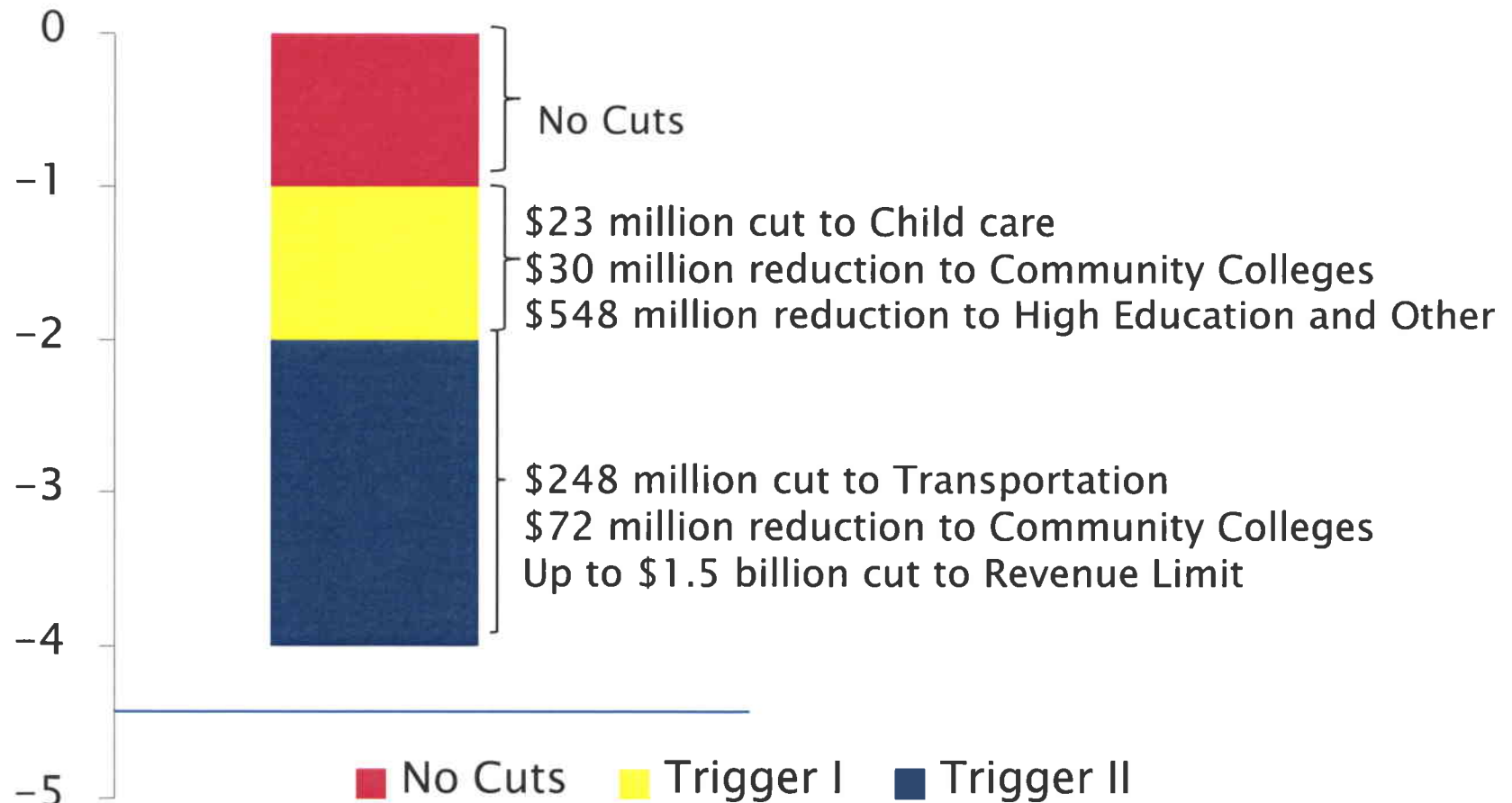
- State revenue forecast drop of another \$1 billion to \$86.4 billion triggers \$601 million in cuts
- Includes cuts of \$100 million each to:
 1. UC
 2. CSUC
 3. Developmental Services
 4. In-Home Supported Services

Trigger II (including Trigger I)

State revenue forecast drop of another \$2 billion from \$86.4 billion to \$84.4 billion, triggers \$1.860 billion in cuts:

- ✓ \$248 million to eliminate the last six months of state funding for Home-to-School Transportation (regular and special education)
- ✓ \$72 million to the Community Colleges
- ✓ \$1.540 million for K-12 school districts (up to approximately \$260 per ADA or \$8.7 million)

Summary of Potential State “Trigger” Cuts



Current Status – Where are we now?

▶ Reinstatement of Positions

- Assistant/Principals, Police Officers, Campus Security Monitors, Campus Security Assistants, Student Support Technicians, Teachers, and Office Assistants

▶ Implementation of CORE Program

- Providing greater flexibility of categorical allocations by defining the CORE program and thereby allowing expenditure shifts from General Purpose Unrestricted budget to restricted categorical budget

▶ Lowered Kindergarten Classes from 32:1 to 20:1

- Reinstated fifty eight (58) kindergarten teaching positions which provide increased instructional opportunities to students.

Current Status – Where are we now? (continued)

- ▶ Negotiating “Trigger” Language
 - Established updated ceiling for mid-year cut to transportation and revenue limit which resulted in a decrease from \$11 million to \$8.5 million

- ▶ Filing of Positive First Interim Financial Report
 - Upgraded financial status from qualified to positive and will result in discontinuing assignment of financial expert by County Office of Education

- ▶ Maintaining Positive Cash Balances
 - Balancing out deferrals from the state which result in funding shortages and a need to temporarily borrowing cash through use of financial instruments (TRANS)

Key Multi-year Assumptions

▶ Revenue

- Enrollment/ADA – Funding is based on current ADA. Percent of average ADA to enrollment increased from 90% to 91%
- “Flat” Funding–Does not include potential mid-year cuts to transportation or revenue limit. May change with Governor’s January release of future year projections

▶ Expenditures/Savings

- Salary and benefit adjustments – Due to step/column and enrollment changes
- Redefined CORE Program – Based on roughly \$3 million ongoing
- Small School Reconfiguration – Expenditure/savings of \$700,000
- Transportation Services – Restructuring of existing services for special education students would result in savings of \$500,000
- Energy Savings – Reduced utility savings of \$700,000
- Categorical Flexibility –Adult Education flexibility roughly \$1.4 million (without program reductions)
- Cost Accounting Categorical Review– Ongoing accounting adjustments of categorical programs for savings of \$400,000
- Leases – Removed costs of PDC lease agreement for savings of over \$142,000
- Routine Restricted Maintenance Account (RRM) – Reduced expenditures by \$500,000 for alignment expenditure trends (maintenance of roofs and structures)

2011-12 First Period Interim

Major Budget Assumptions for Enrollment

First Interim Financial Report

	Adopted Budget	First Interim	Projected Enrollment Change
Students in Grades K-8	24,051	24,893	842
Students in Grades 9-12	8,223	8,373	150
Students in Specialized & Alternative Schools	307	285	-22
Special Education Students	1,339	1,287	-52
Totals	33,920	34,838	918

First Interim Financial Report:

General Fund Comparison – Unrestricted 2011-12

	2011-12 Adopted	2011-12 First Interim	Variance
REVENUE			
Revenue Limit	\$164,919,008	\$167,852,756	\$2,933,748
Other Revenue	\$32,967,221	\$35,067,984	\$2,100,763
Contributions	-\$25,981,180	-\$26,678,296	-\$697,116
Total Revenue	\$171,905,049	\$176,242,444	\$4,337,395
EXPENDITURES			
Salaries, Benefits, Books/Supplies, Services, Capital Outlay	\$167,902,330	\$172,199,819	\$4,297,489
Total Expenditures	\$167,902,330	\$172,199,819	\$4,297,489
Net Increase/(Decrease)	\$4,002,719	\$4,042,625	\$39,906
FUND BALANCE			
Beginning Fund Balance	\$31,128,553	\$34,467,429	\$3,338,876
Ending Fund Balance	\$35,131,272	\$38,510,054	\$3,378,782
COMPONENTS OF ENDING BALANCE			
Revolving Cash & Stores	\$1,270,000	\$1,270,000	\$0
Economic Uncertainty (2%)	\$5,598,567	\$6,653,072	\$1,054,505
Other Designations	\$28,262,705	\$30,586,982	\$2,324,277

Multi-Year Budget Projection First Interim Financial Report 2011-12*

	2011-12	2012-13	2013-14
REVENUE			
Revenue Limit	\$167,852,756	\$166,538,482	\$161,368,630
Other Revenue	\$35,067,984	\$34,004,279	\$33,915,750
Contributions	(\$26,678,296)	(\$26,515,167)	(\$26,911,642)
Total Revenue	\$176,242,444	\$174,027,594	\$168,372,739
EXPENDITURES			
Salaries, Benefits, Books/Supplies, Services, Capital	\$172,199,819	\$174,501,154	\$175,049,820
Total Expenditures	\$172,199,819	\$174,501,154	\$175,049,820
Net Increase/(Decrease)	\$4,042,625	(\$473,560)	(\$6,677,081)
FUND BALANCE			
Beginning Fund Balance	\$34,467,429	\$38,510,054	\$38,036,494
Ending Fund Balance	\$38,510,054	\$38,036,494	\$31,359,412
COMPONENTS OF ENDING			
Revolving Cash & Stores	\$1,270,000	\$1,270,000	\$1,270,000
Economic Uncertainty (2%)	\$6,653,072	\$5,615,628	\$5,636,576
Other Designations	\$30,586,982	\$31,150,866	\$24,452,836

*Note: After CORE and Assuming Flat Funding- Without "Trigger." As of today reduction for transportation and revenue limit are *not* included. Second Interim will include reductions

Next Steps – Where are we heading?

Action	Date
Release of Governor's Proposed 2012-13 Budget	January 2012
March 15 th Notices	March 2012
Submission of Second Financial Interim Report	March 2012
Recommendations on Restructuring Small Schools	March 2012
Recommendations on Contributions	March 2012
Release of Governor's "May Revise" and Proposed 2012-13 Budget	May 2012
Relocation of Profession Development Center	July 2012
Watch Governor's Tax Initiative Proposal	November 2012