

SOUTH PASADENA UNIFIED SCHOOL DISTRICT  
OFFICE OF THE SUPERINTENDENT  
Mr. Joel Shapiro, Superintendent of Schools

---

DISTRICT BUDGET UPDATE – APRIL 16, 2010

The Los Angeles County Office of Education has changed South Pasadena Unified School District's Second Interim budget certification from "positive" to "qualified". This "qualified" certification indicates that SPUSD may have difficulty meeting its financial obligations as early as the 2011-12 year.

**What does it mean to have a "qualified" budget?**

School districts certify their budgets with their respective county offices in December (First Interim Report) and March (Second Interim Report) for a three-year time period. The District submitted a "positive" budget certification in March indicating that we can meet our financial obligations during the current and next two fiscal years. Within that multi-year budget, SPUSD outlined anticipated revenues and the necessary reductions in expenditures to leave the district with a positive ending fund balance in the 2012-13 fiscal year. Many of the cuts in this multiyear budget are dependent on reductions that must be negotiated with employee groups. In addition, there are reductions for the next school year that have not yet been made. These include elimination of counselors and classified support positions. Although these cuts do not have to be negotiated, the County Office considers them to be proposals since they have not yet been implemented.

The Los Angeles County Office of Education (LACOE) will not recognize reductions that have not yet been made or that need to be negotiated. Therefore, LACOE has returned the District's budget changing the certification to "qualified," meaning that the District may have difficulties meeting its financial obligations in 2011-12 and beyond. The county office will work with the District to do what is necessary to keep our financial situation stable; however, it is imperative that the District and its employee groups make the reductions that were outlined in the March budget sent to LACOE. If not, the District's financial situation will quickly deteriorate, leaving the possibility of the district running out of funds as early as in the 2011-12 fiscal year.

**What is the school district's primary source of revenue? What has happened to this primary source of revenue over the past years?**

School districts rely on the State as their primary source of revenue. Because of the State's financial crisis, the State has severely cut revenues to our district and districts statewide. Since mid-2008, the State has disregarded its own funding formulas and sent fewer funds to school districts per student than what is outlined in the law. In the coming 2010-11 school year, the shortfall between the statutory level of funding that SPUSD should receive and what our district will receive totals approximately \$6 million.

Schools districts are people-intensive enterprises, and almost 90% of our total expenditures are salary and benefits for employees. Over the years, costs associated with employees have naturally risen. For example, since 2004, the district contribution per employee for health and welfare benefits has risen over 35%. Salary levels for teachers over that same time period have increased approximately 15%. However, because of reduced funding levels from the State over the last three years, our primary revenue source has only increased 2.6% since 2004. If the District would have been funded at the levels provided by State law, our primary revenue source shown in the chart below (red line)

would have increased 32%. In effect, we are funding a 2010 enterprise with revenues that are close to 2004 levels.

### Chart 1

Top Non-Management Certificated Salary (without longevity),  
District Health Contribution, & Revenue Limit per Student

#### Increases Over Time



8

#### Why does the District have a structural deficit?

A structural deficit occurs when an organization consistently, over time, spends more dollars than it receives. Because of the rapid reductions in revenues from the State over the last three years, the District now has a structural deficit that we are working to contain. Through the use of one-time funds, State flexibility options, and contributions from other district specialized funds, the District will only spend about \$760,000 more this year than it receives. At projected State funding levels and with one-time funds having been spent, the structural deficit will rise to \$2.5 million dollars in the 2010-11 fiscal year. By 2012-13, if revenues continue to remain flat, that structural budget deficit will rise to \$3.7 million annually.

#### What is the District doing about its structural deficit?

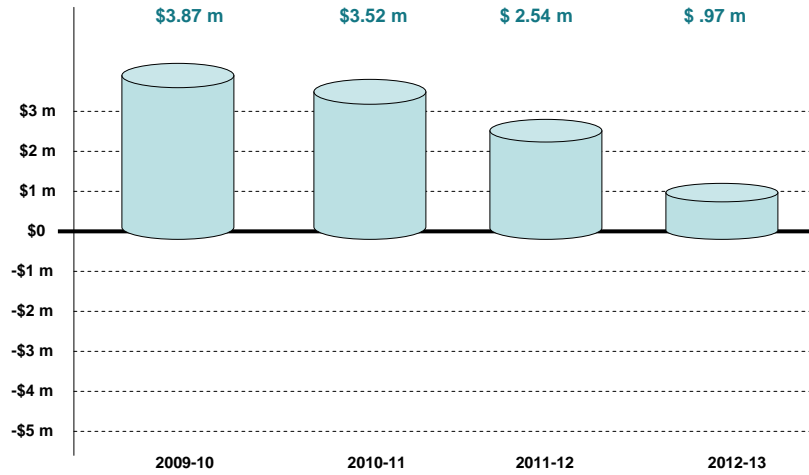
To contain the structural deficit, the district has proposed making ongoing reductions of \$2.1 million. Of these ongoing reductions, nine hundred and forty thousand dollars (\$940,000) will come primarily from making personnel reductions in our counseling and support staff. The District is asking all employees to help find the other \$1.2 million through a combination of furlough days, salary rollbacks, increased class-size ratios, and other reductions.

If the \$2.15 million of ongoing reductions are made, the District projects it could end the 2012-13 fiscal year with approximately \$2 million (6%) [Chart 2 below] as a reserve (one month of payroll for SPUSD, when school is in session, is approximately \$2.8 million). If none of the \$2.1 in ongoing reductions is made then the District will run out of funds early in the 2011-12 school year. If the District makes the promised reductions in staff, but fails to achieve the \$1.2 million in cuts through negotiations, we will run out of funds in early 2012-13 [Chart 3 below].

**Chart 2**

Ending Fund Balance (in excess of 3%)  
with \$2.15 m of On-going Reductions (2010-13)

*2<sup>nd</sup> Interim -- Multiyear Projection +1*

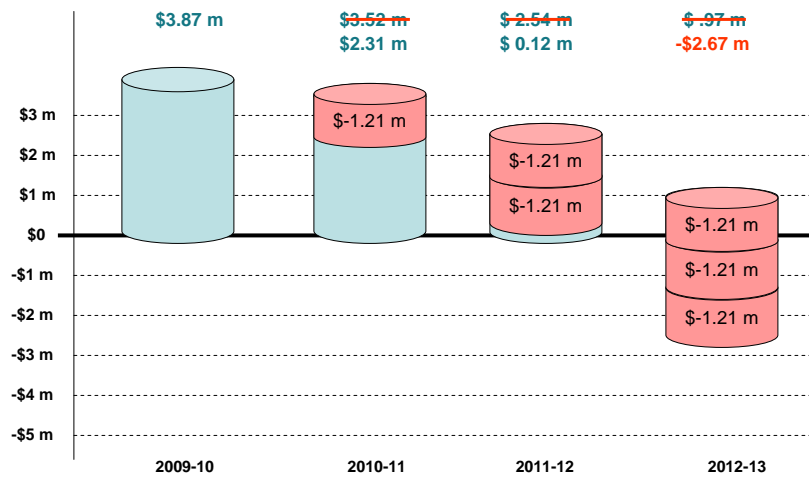


16

**Chart 3**

Ending Fund Balance (in excess of 3%)  
with \$.94 m in On-Going Reductions

*2<sup>nd</sup> Interim -- Multiyear Projection +1*



17

**How is the district handling cash flow?**

When examining the budget and its projections, the District appears to have adequate cash to meet its obligations in the current year. At the end of this fiscal year (June 30), we will have a reserve of just under \$5 million (\$3.87 million above the 3% required by the State). However, this projected reserve figure contains “receivables,” or monies that have been promised to the District but we have not yet received. One of the “receivables” is \$1.8 million in parcel tax funding which is falling short because many residents have yet to pay the tax. Another receivable is \$3.47 million in State payments have been “deferred” or delayed until sometime in the next fiscal year. These income deferrals and others will leave the District in a difficult cash situation at the end of this fiscal year despite the fact that “on the books” there is a \$5 million reserve.