

BERKELEY UNIFIED SCHOOL DISTRICT

TO: Michele Lawrence, Superintendent
FROM: Eric D. Smith
Deputy Superintendent of Business and Operations (CBO)
DATE: March 15, 2004
SUBJECT: Certification of Second Interim Report

BACKGROUND

Staff has prepared the Second Interim report in compliance with Education Code requirements. The Second Interim Report covers the reporting period ending January 31, 2004. The report is required to be approved by the governing board no later than 45 days after the close of the reporting period to determine whether or not the district is able to meet its financial obligations. The following certifications may be assigned:

- **Positive:** assigned to any district, that based on current projections, will meet its financial obligations in the current fiscal year and two subsequent fiscal years.
- **Qualified:** assigned to any district, that based on current projections, may not be able meet its financial obligations in the current fiscal year and two subsequent fiscal years.
- **Negative:** assigned to any district, that based on current projections, will not be able to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year.

The County Office of Education is required to report to the State Superintendent of Public Instruction within 75 days after the close of each reporting period the district's certification status. (April 15 for the Second Interim)

The Second Interim Report includes, Part A: the General Fund Unrestricted and Restricted portions and all other funds in the State required format; and the Assumptions upon which the financial report was prepared. Part B includes various Multi-Years-Projections with assumptions.

**BERKELEY UNIFIED SCHOOL
DISTRICT**

**SECOND
INTERIM**

WITH
ASSUMPTIONS

AND

**MULTI-YEAR
PROJECTIONS**

March 15, 2004

BERKELEY UNIFIED SCHOOL DISTRICT

***SECOND
INTERIM***

WITH

ASSUMPTIONS

Part A

March 15, 2004

BERKELEY UNIFIED SCHOOL DISTRICT

***MULTI-YEAR
PROJECTIONS***

FOR

SECOND INTERIM

Part B

March 15, 2004

BERKELEY UNIFIED SCHOOL DISTRICT

PART B:

Multi-year Projections

ASSUMPTIONS FOR THE MULTI-YEAR PROJECTS (2004-05; 2005-06; and 2006-7):

Fiscal Year 2004-05:

1. Proposed annual statutory COLA of 1.84% for Revenue Limits. We held back this COLA in our Special Education budget because of the uncertainty of how the funds are going to be distributed by the SELPA.
2. A 2.10% in Revenue Limit deficit reduced from fiscal year 2003-04 deficit of 3.002%. This reduction in deficit is projected to result in \$388,194 additional income (\$46.835 per ADA @ 8,288.54 ADA).
3. A 8,288.54 (used last three year's P-2 to CBEDs enrollment data to get an average ratio of 93.73% to project 2003-04 P-2) ADA which is a projected drop of 164.95 ADA from this year's Revenue Limit ADA. Note: Because Berkeley USD is a declining enrollment district, the Revenue Limit ADA is from last year's P-2 and this year's, 2003-04, P-2 will be used for 2004-05 Revenue Limit ADA accordingly, and we are projecting this year's P-2 at 8,288.54. The drop of 164.95 ADA will cost the District \$838,540 (164.95 ADA multiplied by \$5,083.60 per ADA which includes a COLA of 1.84% and a deficit of 2.10%).
4. A 0% COLA for both State and Federal categorical programs.
5. A \$110.50 per annual ADA for Unrestricted Fund lottery and \$12.50 for proposition 20 to instructional materials.
6. An interest rate of 1.50% for 2004-05 based on current experience by County Treasurer.
7. A total enrollment of 8,843 based on October 2003 CBEDs report.
8. A ratio of 93.73% of average daily attendance (ADA) to each enrollment.

9. A California Price Index (CPI) of 2.50% increase per the dartboard provided by the SSC. This rate was applied to most materials and supplies and some contract services.
10. An equivalent estimated 10% of health and welfare cost increase.
11. Projecting a 0% salary increase for all staff members.
12. Projecting a 1.50% step and column increase for certificated employees.
13. Projecting a 1.25% step and column increase for classified employees.

Fiscal Year 2005-06:

1. Proposed annual statutory COLA of 2.40% for Revenue Limits and Special Education. But we held back the COLA in our Special Education budget.
2. A 2.10% in Revenue Limit deficit.
3. A 8,120.77 ADA, which is a projected drop of 167.77 ADA from 2004-05's Revenue Limit ADA. Note: Because Berkeley USD is a declining enrollment district, the Revenue Limit from the prior year's P-2 will be used for the following year's Revenue Limit calculations.
4. A 0% COLA for categorical programs.
5. A \$110.25 per annual ADA for Unrestricted Fund lottery and \$12.75 for proposition 20.
6. An interest rate of 2.00% for 2005-06 based on current experience by the County Treasurer.
7. A total enrollment of 8,664, based on the most current projection.
8. A ratio of 93.73% of average daily attendance (ADA) to each enrollment.
9. A California Price Index (CPI) of 2.70% increase per the dartboard provided by the SSC. This rate was applied to most materials and supplies and some contract services.
10. A projected 10% of health and welfare cost increase.

11. Projecting a 0% salary increase for all staff members.
12. Projecting a 1.50% step and column increase for certificated employees.
13. Projecting a 1.25% step and column increase for classified employees.

Fiscal Year 2006-07:

1. Proposed annual statutory COLA of 2.70% for Revenue Limits and Special Education. But we held back the COLA in our Special Education budget.
2. A 2.10% in Revenue Limit deficit.
3. A 8,120.77 ADA, same as fiscal year 2005-06.
4. A 0% COLA for categorical programs.
5. A \$110.00 per annual ADA for Unrestricted Fund lottery and \$13.00 for proposition 20.
6. An interest rate of 3.00% for 2005-06 based on current experience in County Treasurer.
7. A total enrollment of 8,664, same as fiscal year 2005-06.
8. A ratio of 93.73% of average daily attendance (ADA) to each enrollment.
9. A California Price Index (CPI) of 2.80% increase per the dartboard provided by the SSC. This rate was applied to most materials and supplies and some contract services.
10. A projected 15% of health and welfare cost increase.
11. Projecting a 0% salary increase for all staff members.
12. Projecting a 1.50% step and column increase for certificated employees.
13. Projecting a 1.25% step and column increase for classified employees.

BERKELEY UNIFIED SCHOOL DISTRICT

2003-2004 Second Interim Assumptions

PART A:

ITEMS IN THE BUDGET – General Fund

1. ENROLLMENT:

Berkeley USD is a declining enrollment district and has the option to recognize the higher of prior year's P-2 or current year's ADA (excluding Adult Ed ADA). Therefore, 2002-03's P-2 ADA will be used to project 2003-04 Revenue Limit income, i.e. 8,453.49 ADA.

A history of the District's ADA is provided.

	<u>ADA</u> <u>2000-01</u>	<u>ADA</u> <u>2001-02</u>	<u>ADA</u> <u>2002-03</u>	<u>ADA</u> <u>2003-04</u>	<u>CBEDS</u> <u>October</u> <u>2002</u>	<u>ADA 2002/03</u> <u>% OF CBEDS</u>
First Period (P-1)	9,222.55	8,998.21	8,426.67	8323.28	9,050	93.11
Second Period (P-2)	9,103.40	8,881.15	8,453.49		9,050	93.41
Annual	9,056.32	8,840.81	8,450.75		9,050	93.38
Revenue Limit	9,104.63	9,112.11	8,881.15	8453.49		

2. REVENUE:

A. Revenue Limit projections:

The District is projecting a deficit of 3.002% for the 2003-04 Revenue Limit (including Meals for Needy Pupils and BTSA) and a corresponding 1.86% cost of living adjustment to the Revenue Limit.

	<u>2002-03</u>	<u>2003-04</u>
Based Revenue Limit		
Per ADA	\$4,917.83	\$5,010.83
Inflation increase	<u>93.00</u>	<u>88.00</u>
Revenue Limit	\$5,010.83	\$5,098.83
Multiplies by:		
P-2 ADA	<u>8,884.01</u>	<u>8,453.49</u>
Equals		
Projected Revenue Limit		
	\$44,516,264	\$43,102,908
Plus: meals for needy		426,982
BTSA		<u>136,017</u>
		\$43,665,907
Deduct: 3.002% deficit		<u>(\$ 1,310,851)</u>
Equals Revenue Limit		\$42,355,056

An increase in COLA results in \$743,907 projected revenue while 3.002% deficit results in a \$1,310,851 loss of projected revenue. The net loss to the district is \$566,944.

- B. Federal Income – we have included in the 2003-04 Second Interim appropriate dollars per grant letters and deferred income from 2002-03. However, Federal Special Education has not budgeted to include any COLA increase.
- C. State Income – we have included in the 2003-04 Second Interim appropriate dollars per grant letters and deferred income from 2002-03 when applicable.
- i) State Mandated Cost
Since there is still uncertainty on the reimbursements by the State for mandated claims, we have not projected any receipts of income for 2003-04 Second Interim.
 - ii) State Lottery
We have included in the 2003-04 Second Interim \$112.00 per ADA at 10,341.56 2002-03 Annual ADA (includes Adult Education) for the Unrestricted General Fund and \$12.00 per ADA at same ADA for Proposition 20 instructional materials fund.

- iii) Targeted Instruction Improvement Program (Desegregation)
We have included \$4,363,878 in the 2003-04 Second Interim.
- iv) Staff Development Buy Back Days.
We budgeted \$436,350.
- v) K-3 Class Size Reduction.
We projected \$2,078,364 (2294 eligible pupils @ \$906 per pupil.) per our October's application less any prior year's adjustments.
- vi) Inter-agency Contracts.
Projected income from inter-agencies at \$221,994

D. Local Income

- i) Special Tax of the Berkeley Schools Excellence Project (BSEP) – increased by a percentage equal to the annual percentage increase of the Consumers Price Index of 1.9%.

BSEP *

	2000-01	2001-02	<i>% OF INCREASE (NET COLLECTIONS</i>	2002-03	<i>% OF INCREASE (NET COLLECTIONS</i>	2003-04	<i>% OF INCREASE (NET COLLECTIONS</i>
Parcel Tax	\$9254	\$9697	4.8%	\$10,174	4.9	10,364	1.9%

***IN THOUSANDS**

- ii) Measure BB – increased by a percentage equal to the inflation increase applied by the State to average Revenue Limit as defined in Education Code Section 42238.1(b).

MEASURE BB *

	2001-02	2002-03	<i>% OF INCREASE (NET COLLECTIONS</i>	2003-04	<i>% OF INCREASE (NET COLLECTIONS</i>
Parcel Tax	\$3728	\$3988	6.97	\$4,010	0.55%

Adjusted Parcel Tax	\$3918	\$3798	- 3.06	\$4,010	5.58%
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***IN THOUSANDS**

Out of the \$3.9 M (\$3,988,103) received in income for Measure BB in fiscal year 2002-03 (reference the above table), \$189,890 belongs to fiscal year 2001-02 which was not set up as receivable at closing, therefore the real receipts for 2001-02 should be about \$3,918,000 (rounded due to difficulty in retrieving data from the old MicroData system). The adjusted income for 2002-03 will be \$3,798,213 which brings the percentage change from 2002-03 to 2001-02 at minus 3.06%, and plus 5.58% for 2003-04 to 2002-03. However, the income of \$3.7 M (adjusted of \$3.9 M) for fiscal year 2001-02 could have included receivables from 2000-01 as well. It is not possible to determine at this point.

- iii) Leases and Rentals – We have budgeted \$420,000 for rental income in General Fund Unrestricted. Last fiscal year, we collected \$418,153 in actual income.

LEASES AND RENTALS

	<i>2000-01</i>	2001-02	<i>2002-03</i>	2003-04	% OF INCREASE
Rental Income		\$346,454	\$418,153	\$420,000	0.44

- iv) Interest income – We have projected \$50,000 in income because the General Fund Unrestricted will be negative in cash most of the months and will not generate much interest income. BB and BSEP budgeted the interest income appropriately.

3. EXPENDITURES:

Restricted General Fund (Categoricals):

We have \$1.4 million on entitlement carryover (Fund Balance) from the close of last fiscal year. This amount will be subject to confirmation from the

external auditors. As for current year’s funding, we estimated grant amounts based on what we received from the apportionment letters.

GENERAL FUND COMBINED:

Extensive review has been done on the District’s Unrestricted General Fund. Any savings from unfilled positions or excess of permanent position salaries over temporary hourly wages has been incorporated in this Second Interim report.

- A. Certificated Salaries (BFT):
 - No salary increases are budgeted
 - A 1.50% of step and column costs are budgeted
 - Three staff development buy-back days are included in the salary expenditures

- B. Certificated Management salaries (UBA):
 - No salary increases are budgeted
 - Appropriate step and column costs are budgeted

- C. Certificated Management (Non-represented Group)
 - No salary increases are budgeted.
 - Appropriate step and column costs are budgeted

- D. Classified Managers
 - No salary increases are budgeted.
 - Appropriate step and column costs are budgeted

- E. Classified Employees
 - No salary increase are budgeted
 - An estimated 1.25% is included for step movement.

- F. Salary-driven benefits for all employees are as follows:

Section 1.01	CERTIFICATED	
STRS		8.25%
MEDICARE		1.45%
SUI		0.30%
W/C		3.41%
RETIREES' BENEFIT RATE		4.05%

TOTAL* (for every salary dollar)	17.46%
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Section 1.02	CLASSIFIED	
PERS rate		10.42%
PERS R/L Reduction		2.60%
OASDI		6.20%
Medicare		1.45%
SUI		0.30%
W/C		3.41%
RETIREES' BENEFIT RATE		4.05%
TOTAL (for every salary dollar)		28.43%

G. Health and welfare benefits – varies according to the individual but amounts to about a 20% increase over current year. The District’s contribution is budgeted at \$10,827.84 per full-time employee annually for all certificated employees and \$10,804.56 for classified.

H. These expenditures are budgeted using the following allocations given to sites:

Books and Supplies – General Fund Unrestricted—

- K-5 \$22 per projected enrollment
- Middle Schools \$30 per projected enrollment
- High School \$50 per projected enrollment

BB and BSEP continue to fund the supply category as needed and per formula respectively.

I. Services and Other Operating Expenses Supplies — Minimal increase over last year’s expenditures, including BB and BSEP expenditures.

J. Capital Outlay

- It is assumed that there will be no equipment purchases with General Fund monies. Equipment has been purchased with interest earnings on the Bond Fund per the Bond ballot language and the BSEP Fund.
- BB and BSEP budgeted these costs based on needs

CURRENT YEAR UNRESTRICTED GENERAL FUND OPERATING DEFICIT

Based on projected unrestricted revenues (excluding Block Grants and High Achieving Awards) of \$42,205.85 and expenditures of \$44,301,943, we estimate an operating deficit of \$2,160,726 which is primarily made up of the Special Education reduction in projected income and contribution to the Cafeteria Fund.

Savings from the following major events have already been incorporated in this Second Interim report:

1. Mandatory Health and Welfare Re-Enrollment of District FTEs;
2. Self Insurance for Workers Compensation

RESERVE FOR ECONOMIC UNCERTAINTIES

In addition to eliminating the District's net operating deficit (defined as the difference between unrestricted general fund revenues and expenditures, and predicated on the assumption that to the extent possible, restricted programs and funds shall pay for themselves), the District must also restore its minimum reserve for economic uncertainties. The minimum reserve requirement for the Berkeley Unified School District is three percent of total general fund expenditures, including other outgo and transfers out. Based on the budget projected for the Second Interim Report, it estimated that the minimum reserve requirement will be \$2,753,718. However, Measures BB and BSEP shall contribute \$139,910 and \$353,320 respectively since their expenditures increase the amount that the District must carry in reserves. Therefore, the true burden on the unrestricted General Fund is \$2,260,488.

OTHER FUNDS FOR 2003-04 SECOND INTERIM REPORT:

1. Cafeteria Fund

This Fund is going to be in a deficit status because the District, beginning in 2002-03, retained the unrestricted meals for needy reimbursement (\$426,982) from the State and withdrew its contribution of \$350,000. This Fund is projected to have an operating deficit of \$600,918 plus an audit adjustment of \$75,379 for a total of

\$676,297. This \$676,297 is a contribution from the Unrestricted General Fund.

The Cafeteria Fund also reflects any Board approved position increases at the Berkeley High School due to the opening of the food court, and layoffs from other sections of the Cafeteria department.

2. Child Development Fund

This Fund has a projected deficit of \$73,189 and it's due to the operating deficit in the Vera Casey Center. In order to show a required balanced budget in this Fund, the Unrestricted General Fund contributed that exact amount to this Fund.

The other programs within this Fund show a balanced budget and it's primarily due to the additional income that was received after filing of the final reports to the State after the close of last year's books. This additional income has been projected in fiscal year 2003-04 as well.

3. Adult Education Fund

The Adult Education Fund has made the necessary budget adjustments and the budget is presently balanced for the 2003-04 fiscal year.

4. Self Insurance Fund

The General Fund continues to buy down the unfunded liability to this fund. General Fund will contribute \$722,738 for FY 2003-04 to pay for insurance costs including temporarily pay for the fire related costs at Franklin pre-school, and buy down of unfunded liability. Moreover, we have reserved an additional \$412,000 in the ending balance for the 2004-05 payment against the unfunded liability in this fund.

5. Deferred Maintenance Fund

The District's match to this fund will be provided by the interest generated in the Bond Fund. The budgeted match from the Bond interest is \$300,000 for FY 2003-04. The State Budget Act eliminated the matching State apportionment that this program generally receives.

6. Bond Fund

This Fund is anticipated to be fiscally solvent in FY 2004.

OTHER AREAS THAT NEED TO BE DETERMINED FOR 2003-04 BUDGET DEVELOPMENT:

1. State Budget

The continuing State fiscal crisis will have significant ramifications for the District. Although Propositions 57 and 58 have passed, we, like other school districts, still need to analyze our categorical funding sources.

2. Encroachment on the Unrestricted General Fund from Other Funds

The reduction in projected income for Special Education and encroachment of the Cafeteria fund (Food Service) primarily made up the Unrestricted General Fund operating deficit. These encroachments will need to be assessed and addressed further.

EXPLANATIONS on some items:

Unrestricted General Fund Operating Deficit:

1. On the last page of the General Fund Unrestricted – Comparison Report the operating deficit projected at Second Interim 2003-04 is shown as \$2,495,920 while the Multi-Year Projections shows \$1,895,651, this is because the amount of \$2,495,920 includes one-time carryovers of Block Grants and High Achieving Fund. Also, there are one-time reductions in expenditures of \$332,250 for fiscal year 2003-04 approved by the Board in the Fiscal Recovery Plan. If the one time funds are carried forward in the multi-year projection, they will overstate the operating deficit in future years. As a result, they have been removed for purposes of presentation in the subsequent two fiscal years.

Contribution to Transportation Costs:

2. On the General Fund Unrestricted — Comparison Report, contribution to Transportation has now been reported in the Restricted Fund and not on this report. The targeted Instruction Improvement Program (TIIG), formerly called Voluntary Integration fund, is used partially to pay for transportation cost but now reported as a restricted fund. Part of the funds projected to receive from TIIG has been transferred to defray the cost of transportation. As a result, the line item of contribution from Unrestricted General Fund has been eliminated.

Targeted Instruction Improvement Program (TIIG)	\$ 4,363,878
Contributed to Transportation	<u>-1,880,613</u>
Balance to go to the Unrestricted General Fund	<u>\$ 2,483,265</u>

On this presentation of the Second Interim Report there is no spreadsheet to directly display the contribution to transportation. However, the amount of (\$10,594,019) on the Multi-year projections for Unrestricted General Fund Combined (includes Measures BB and BSEP) includes the contribution to transportation. The projected contribution to Transportation is \$1,880,613.

The detail for the contribution of (\$10,594,019) from the Unrestricted General Fund includes the following:

• Contribution to Special Education	(\$9,929,352)	
• Contribution to Transportation (from TIIG)	(\$1,880,613)	
• Flexibility transfer of Classroom Materials	\$ 40,272	
• Flexibility transfer of Library Act 98	\$ 168,950	
• Flexibility transfer of Safety Grant	\$ 50,000	
(Flexibility transfers were approved by the Board on October 15, 2003 allowable under the Budget Act to Use certain carryover funds to offset the 3% reserve Requirement)		
• One-time transfer of SIP grant -	\$ 102,930	
• TIIG (Voluntary Intergration funds) – received	\$4,363,878	*
• Measure BB’s required on-going maintenance Funds	<u>(\$3,510,084)</u>	*
Total	(\$10,594,019)	

* These two transactions are technical accounting entries to recognize the receipt of the TIIG funds and the required spending of the on-going maintenance expenditures.

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FINANCIAL RECOVERY PLAN: SUBSEQUENT EVENTS

Prior to Board adoption of the Financial Recovery Plan, it appeared the current year operating deficit would be closed and the budget balanced by year end. Subsequent to the Plan's adoption, the following events have occurred that impact both the current and the 2004-05 fiscal year:

- Special education revenue was adjusted down to reflect revised estimates from the North Region SELPA.
- The General Fund budget was adjusted to reflect the contribution to the Cafeteria Fund for the current year.
- Projected health and welfare increases were adjusted downward from 18%to 10%.
- Projected Period Two (P-2) ADA for the current year was increased from 8,202 to 8,289. Since we are declining enrollment district, we will use this year's P-2 ADA number for next year's budget.
- Proposition 57 and 58 passed that resulted in a 1.84 cost of living adjustment being applied to the revenue limit and the revenue limit deficit being reduced from 3.00% to 2.10%.

As a result, the District must make additional expenditure reductions of approximately \$867,000 in the current year in order to meet the Board's stated three year objective of producing a balanced and approvable budget for the 2004-05 fiscal year.

POLICY/CODE:

Education Code Section 42100 – 42134 Et esq.

FISCAL IMPACT

Not Applicable

STAFF RECOMMENDATION

That the Board of Trustees accept the Negative Certification of the Second Interim Report, certifying that the District "will not be able to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year" without additional significant expenditure reductions and revenue enhancements.

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As a result, the District must make additional expenditure reductions of approximately \$867,000 in the current year in order to meet the Board's stated three year objective of producing a balanced and approvable budget for the 2004-05 fiscal year.

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