



Superintendent: Rick E. Bagley, Ed.D. Board of Trustees: Annelise Bauer - Anne Capron - Hadley Dettmer - Wesley Pratt - Amy Stock

The Ross Valley School District 2014-15 First Interim Budget Report is attached for review and approval of the Board of Trustees. This report includes two primary components:

- This narrative providing discussion and analysis of the district’s financial condition as of December 5, 2014, the date of the reports as well as assumptions used for the multi-year projections and the financial outlook of California.
- The state-required Standardized Account Code Structure (SACS) budget report forms, which include a variety of financial facts, figures and analyses including the following significant components:
 - Multi Year Financial Projection (MYFP)
 - Cash Flow Projection
 - Criteria and Standards Report

Budget Certification

The state requires each district to submit its budget report with one of the following certifications:

Positive – The district will be able to meet its financial obligations for the current and subsequent two fiscal years.

Qualified – The district may not be able to meet its financial obligations for the current and subsequent two fiscal years

Negative – The district will not meet its financial obligations in the current or following fiscal year

Staff recommends this budget report be submitted to the Marin County Office of Education with a **Positive Certification**, as supported by the multi-year projection (MYP) included herein.

Local Control Funding Formula

This budget includes current estimates of the funds the District will receive as a result of the Local Control Funding Formula (LCFF) implemented beginning in 2013-14. Revenues are estimated as follows, including the two prior years for longitudinal purposes:

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Total LCFF Revenues	\$12,926,332	\$13,766,454	\$14,978,684	\$15,561,822	\$16,209,179

In looking at the data in a more refined manner, below are some additional breakdowns of revenue changes since 2012-13:

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Total Increase over PY		\$ 840,122	\$ 1,212,230	\$ 583,138	\$ 647,358
Per ADA average	\$ 6,059.40	\$ 6,188.31	\$ 6,610.77	\$ 6,859.05	\$ 7,144.38
Per ADA increase over PY	\$ 36.40	\$ 128.91	\$ 422.46	\$ 248.28	\$ 285.33
Per cent increase over PY	0.6043%	2.1275%	6.8267%	3.7557%	4.1599%

And finally, below is a comparison of the phase-in revenues expected versus the ‘target’ LCFF amounts the District would receive if fully implemented:

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Phase In LCFF	\$ 13,766,454	\$ 14,978,684	\$ 15,561,822	\$ 16,209,179
Target LCFF	\$ 16,907,384	\$ 17,333,368	\$ 17,730,912	\$ 18,102,471
Difference	(\$3,140,930)	(\$2,354,684)	(\$2,169,090)	(\$1,893,292)

Average Daily Attendance projections, the basis for most of our General Fund dollars, have been updated to reflect a decrease of 17 from the previous budget revision on August 6th, 2013. The Average Daily Attendance numbers have been updated as follows:

	<u>Adopted Budget</u>	<u>First Interim</u>
Total K-8	2,252.58	2,265.80

This increase of just over 13 ADA is mostly comprised of students enrolled in special education programs operated by the county. Prior to the implementation of the LCFF, enrollment and ADA revenues for students attending Marin County Office of Education (MCOE) programs were reported and collected by MCOE. Beginning in 2013-14, this shifted to the District. Upon investigation, it has been determined the students have not been entered in the AERIES student information system database and enrollment is currently understated and underreported to the State. So, what does this mean to the District? Not very much.

- Until the enrollment is corrected, our ratio of ADA to enrollment looks slightly inflated (hence the standard not being met in Section 3B of the Criteria and Standards).
- The MCOE is still getting their per ADA amount, it just comes out of a different account (under object code 7142 – Other Outgo) rather than a deduction from District revenue.

To be conservative and ensure that all data is correctly accounted for, we have not recognized the full LCFF amount of \$14,978,684. Instead, the District has budgeted \$14,894,166 (a difference of \$84,518). This will be updated for the Second Interim report in March 2015.

Fiscal Outlook – State of California

On November 19th, the Legislative Analyst’s Office (LAO) released their annual outlook for the 2015-16 budget.

- The **2013-14** (prior year) guarantee is about \$177 million higher than budgeted – Prop 98 share is approximately \$63 million. One-time expenditures are likely to be targeted in the dissemination of these funds.
- The **2014-15** (current year) guarantee is projected to be about \$2.3 billion higher than expected. First call on these funds will be to extinguish the remaining deferrals. Other priorities, such as furthering the LCFF implementation, STRS and PERS unfunded liabilities, common core implementation and repayment of mandated cost reimbursement, will be topics of discussion as part of the Governor’s January Budget Proposal.
- The **2015-16** (budget year) Prop 98 guarantee is projected to be about \$2.6 billion higher (4.1%) than the adjusted guarantee for 2014-15.
- The difference between where the Proposition 98 guarantee is currently budgeted and where it is projected to be in 2015-16 is about \$6.4 billion.

General Fund Budget Changes – Adopted Budget to First Interim

Budgets are developed with many assumptions and estimates. A budget is a ‘living’ document and they will change over time. Below is a table that identifies the changes by major object code since budget adoption.

Budget Changes

Adopted Budget to First Interim

<u>Revenues</u>	<u>Adopted</u>	<u>1st Interim</u>	<u>Change to Fund Balance</u>
LCFF	\$ 14,783,587	\$ 14,894,166	\$110,579
Federal	\$ 558,497	\$ 653,885	\$95,388
Other State	\$ 631,598	\$ 768,983	\$137,385
Local	\$ 6,039,912	\$ 6,166,735	\$126,823
		A	\$470,175
<u>Expenses</u>			
Certificated	\$ 11,220,481	\$ 11,517,650	(\$297,169)
Classified	\$ 3,456,348	\$ 3,407,526	\$48,822
Benefits	\$ 3,964,775	\$ 3,693,007	\$271,768
Books/Supplies	\$ 806,330	\$ 1,262,825	(\$456,495)
Services	\$ 2,505,882	\$ 3,294,065	(\$788,183)
Equipment	\$ -	\$ -	\$0
Other Outgo	\$ 516,753	\$ 305,074	\$211,679
Contributions	\$ 3,003,349	\$ 3,152,804	(\$149,455)
		B	(\$1,159,033)
		Net Change (A + B)	(\$688,858)
		Surplus / (Deficit) at Adoption	(\$434,377)
		One-time Restricted Carryover	\$709,420
		One-time Tech Infrastructure Expenses	\$569,107
		Net Operational Increase / (Decrease)	\$155,292

Proposition 2

On November 4th, the voters of the State of California elected to approve Proposition 2 (State Budget: Budget Stabilization Account - Legislative Constitutional Amendment). The measure will alter the existing requirements for the Budget Stabilization Account (BSA) that was originally established under Proposition 58 in 2004. Prop 2 is set to create a distinct budget stabilization fund know as the **Proposition 98 Reserve** or **Public School System Stabilization Account (PSSSA)**. Proposition 2 also includes a provision that will limit the amount that many school districts may hold in reserves (6% maximum) in future years if certain economic conditions are met. Since ‘assigned’ amounts in the ending fund balance technically count towards available and unappropriated, we will likely need to change the additional 7% Board reserve (over and above the legally required 3%) as ‘committed.’ This change will require a formal board action with criteria established when the reserve would be used and replenished.

STRS / PERS

The unfunded liability of the teacher (STRS) and classified (PERS) retirement systems is another component of the wall of debt the Governor has on his radar. His goal is to close this funding gap within 30 years. At the May Revise in 2014, Cal STRS is underfunded by over \$74 billion. Although returns were significantly above the 7% average mark (about 15%), it was not enough to put a significant dent in the liability. Below is a chart that shows the specific impact to Ross Valley School District. In addition to this, the employee portion will increase from the historic amount of 8% to up to 10.25% over the same time period (this will vary according to an individual employees’ entry into STRS).

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
STRS Rate	8.250%	8.880%	10.730%	12.580%	14.430%	16.280%	18.13%	19.100%
Estimated Expenses	\$ 883,651	\$ 960,641	\$1,172,382	\$1,388,262	\$1,608,343	\$1,832,686	\$2,061,355	\$2,193,359
Increase over PY		\$ 76,990	\$ 211,741	\$ 215,880	\$ 220,080	\$ 224,343	\$ 228,669	\$ 132,004
PERS Rate	11.442%	11.771%	12.600%	15.000%	16.600%	18.200%	19.900%	20.400%
Estimated Expenses	\$ 297,511	\$ 312,187	\$ 340,856	\$ 413,897	\$ 467,207	\$ 522,484	\$ 582,713	\$ 609,301
Increase over PY		\$ 14,676	\$ 28,670	\$ 73,041	\$ 53,310	\$ 55,277	\$ 60,229	\$ 26,588
Combined Increase over PY		\$ 91,666	\$ 240,411	\$ 288,921	\$ 273,390	\$ 279,620	\$ 217,268	\$ 230,222

To put the STRS and PERS increased amounts in perspective (highlighted above in yellow) for the current and two subsequent years, it represents just over a 4% salary increase for *all district employees*. If carried out for all of the years shown (yellow and green highlighted amounts), it equates to over 10.6% salary increase for all.

Multi-Year Projections

Below are assumptions used to build the multi-year projections (MYP).

- *LCFF revenues are based on the FCMAT LCFF calculator; percent increase estimated to be 3.7557% for 2015-16 and 4.1599% for 2016-17*
- *Federal revenues are estimated to be flat*
- *1% increase in Special Education and other state revenues*
- *3.5% increase for parcel tax (4% less .5% for exemptions or non-collectable amounts)*
- *No FTE change for Certificated or Classified staffing*
- *Step and column increases for each year (1% for Certificated; 2% for Classified)*
- *No 'proposed' salary increases for negotiations built in or assumed*
- *No change in health benefits cap paid by District*
- *Books and supplies are estimated to be flat in 2015-16 and an approximate 4% increase in 2016-17*
- *Elimination of \$1,278,527 in one-time expenses (\$569K unrestricted and \$709K restricted) and prior year revenues/expenses deferred (\$62K) to 2014-15*
- *All years meet the 3% required reserve for economic uncertainties and the additional 7% Board reserve*
- *No funds are projected to be negative*

Other items that will impact multi-year projections include the loss of Prop 30 (also known as Education Protection Account or EPA) funds as temporary taxes expire:

- A 0.25% increase in the sales and use tax for four years: 2013 through 2016
- An increase in the income tax rate for taxable incomes of over \$250,000 for seven years: 2012 through 2018

The EPA funds total \$2,122,537 or 14.25% of the LCFF revenues. The question that remains to be seen is whether 1) the tax increases are extended; or 2) the economy recovers enough to restore the expired tax revenues; 3) there's political will to make education a priority or a combination of any/all of these.

The MYP estimates unrestricted, unappropriated reserves as follows:

2014-15	\$ 759,689
2015-16	\$1,168,722
2016-17	\$1,690,158

With these resources identified, the District will need to consider the costs of the following:

- Employee compensation (including health and retirement)
- Implementation of common core state standards
- Professional development
- Adoption and purchase of textbooks
- Funding of deferred maintenance needs
- Other yet-to-be identified needs/priorities

The Governor's Proposed Budget is right around the corner in January which will shed light on how Prop 98 settle up owed to K-12 may be distributed and a preview of 2015-16. The next budget update will incorporate this information.

Should you have any questions regarding the information contained in this report, please feel free to contact me at 415-451-4075 or via e-mail at mhoffman@rossvalleyschools.org.

Respectfully submitted,

Midge Hoffman, Chief Business Official