

What to Expect in Your First Term School Finance 2018

Presented by:

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California School Finance: The History

Major Events in California School Finance History

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- ❑ **Serrano v. Priest, 1971 to 1983**
 - Required that the yield per dollar invested by the taxpayer will result in a return per pupil that is “wealth neutral”
- ❑ **Senate Bill (SB) 90, 1972**
 - Required that schools will be funded on dollar amounts per pupil – a revenue limit per average daily attendance (ADA)
- ❑ **Proposition 13, 1978**
 - Imposed a property tax rate control (1%) and forced a shifting of school funding onto the state – from 40% state funded to more than 80%
- ❑ **SB 813, 1983**
 - Established numerous program reforms, including \$600 million added annual funding for extending student instructional time – longer day and longer year

Major Events in California School Finance History

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- **Proposition 98, 1988**
 - Established a constitutionally determined minimum allocation for K-14 education
- **The recession years of 1992-93 through 1994-95**
 - Left school districts reeling from no or low cost-of-living adjustments (COLA)
- **The K-3 class-size reduction (CSR) initiative, 1995-96**
 - Provides the state's second largest categorical – \$1.5 billion
- **The boom years: 1996-97 through 2000-01**
 - Significant equalization funding and funding of revenue limit deficits
 - Positive attendance system
 - Major categorical growth

Major Events in California School Finance History

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- **The crisis years: 2001-02 through 2003-04 and beginning midyear 2007-08 through 2012-13**
- **In 2008-09, significant cash deferrals imposed on school agencies**
 - State categorical program balances swept into unrestricted General Fund
- **In 2009-10, almost 20% reduction to revenue limit and state categorical program**



Major Events in California School Finance History

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- In 2011-12, midyear “trigger” cuts to:
 - Revenue limit and transportation
- In 2012-13, proposal for additional reductions
 - Reductions not implemented due to the passage of Proposition 30
- In 2013-14, a new funding formula is implemented
 - 2017-18 is the fifth year for the Local Control Funding Formula (LCFF)

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What Is a Budget?

What Is a Budget?

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- **A projection based on assumptions anchored in current conditions**
 - **In simplest form: a proposed plan for revenues and expenditures for the following fiscal year**
 - **In typical form: a proposed plan for revenues and expenditure in a format that meets county and state requirements**
 - **In optimum form: a policy document to reflect the philosophy of the board, the administration, and the education community**
 - ◆ **Integrated with the Local Control and Accountability Plan (LCAP)**
 - ◆ **Together the budget and LCAP function as a communications device: to share with the community the strengths and challenges of the instructional program**

The Budget Should Be a . . .

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□ Financial plan

➤ The local school agency must ensure the budget:

- ◆ Reflects the revenues and expenditures of the prior two years
- ◆ Estimates revenues and expenses of the present
- ◆ Projects revenues and expenses for two years
- ◆ Provides revenues and expenses in both program and object code format

The Budget Should Be a . . .

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□ Communication document

➤ The local school agency must ensure the display is:

- ◆ User friendly
- ◆ Graphic
- ◆ Organized
- ◆ Interesting
- ◆ Speaks of successes
 - » But also challenges

Budget Structure

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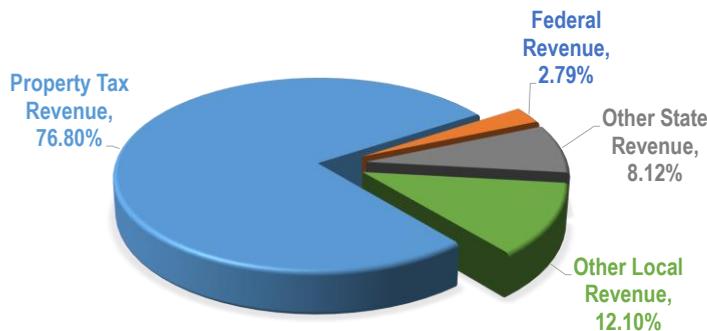
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- SMFC is required to build a budget in accordance with Education Code Section 41010
 - Basis is the California School Accounting Manual (CSAM)
 - CSAM applies principles as directed by the Governmental Accounting Standards Board (GASB)
- SMFC is required to codify activity based on the Standardized Account Code Structure (SACS)
 - Uniform coding that is used in school district, county offices and charter schools in the state of CA
 - Contains as many as 27 digits representing 10 different components

The Cocktail Napkin Version of the SMFC General Fund Revenue Budget

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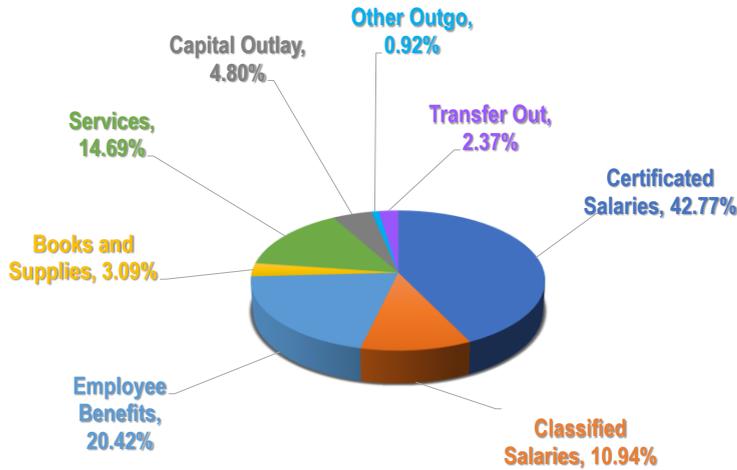
| 2016-17 Revenues | \$ | % of Total |
|----------------------|---------------|------------|
| Property Tax Revenue | \$100,950,048 | 76.80% |
| Federal Revenue | \$3,663,507 | 2.79% |
| Other State Revenue | \$10,675,292 | 8.12% |
| Other Local Revenue | \$15,900,935 | 12.10% |
| Subtotal | \$131,189,781 | 99.81% |
| Transfers In | \$250,000 | 0.19% |
| Total Resources | \$131,439,781 | 100.00% |

Source: 2016-17 District provided Unaudited Actuals SACS report.

The Cocktail Napkin Version of the SMFC General Fund Expenditure Budget

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| Total Expenditures by Object (2016-17) | |
|---|----------------------|
| Certificated Salaries | \$55,743,155 |
| Classified Salaries | \$14,261,067 |
| Employee Benefits | \$26,611,456 |
| Books and Services | \$4,021,191 |
| Services | \$19,147,526 |
| Capital Outlay | \$6,252,218 |
| Other Outgo | \$1,200,146 |
| Transfers Out | \$3,085,333 |
| Total Expenditures | \$130,322,092 |

Source: 2016-17 District provided Unaudited Actuals SACS report.

Limited Flexibility in Revenues

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Examples of revenue areas that can be influenced by the local agency:

- Federal Revenues
 - ◆ Application for programs and grants
- Other State/Local Revenues
 - ◆ Application for programs and grants
 - ◆ Other local revenues and financing sources
 - ◆ Interest income
 - ◆ Voter-approved parcel taxes (operating funds)



Flexibility in Allocating Expenditures

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- Expenditure areas that you control:
 - Organizational Structure
 - Compensation of staff
 - ◆ Salary level and method of compensation
 - ◆ Benefit support and types offered
 - Range of programs offered
 - ◆ Special program offerings
 - ◆ Preschool, community schools, opportunity schools

Flexibility in Allocating Expenditures

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- Design of instructional programs
 - ◆ Flexibility for delivery is very significant
- Class size for instructional programs
 - ◆ Class size by grade levels and programs
- Curriculum and instructional methods
 - ◆ Course offerings and program emphasis
- Caveat: must spend LCFF supplemental grant funds primarily for the benefit of the students that generated them
 - ◆ Including any unspent supplemental grant funds from previous years

Flexibility in Allocating Expenditures

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- Staffing levels for support programs
 - Health, psychological, counseling, etc.
- Level and type of support services
 - Custodial, maintenance, clerical support
- Maintenance and grounds
- Non-profits that serve our students
 - Use of facilities – when, where, costs
- Conclusion:
 - Determination of expenditures is local and historical – not state controlled
 - Local school agencies are revenue dependent and expenditure independent

Manage a Total Budget and Not Just a General Fund

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Funds Other than the General Fund

- The General Fund is the primary operating fund of a school agency, but is not the only fund. Effective management requires an analysis of all funds, all revenues, and all expenses.

Other SMFC Funds

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> □ Special Revenue Funds <ul style="list-style-type: none"> ➤ Cafeteria ➤ Child Development ➤ Special Reserve □ Deferred Maintenance | <ul style="list-style-type: none"> □ Capital Projects Funds <ul style="list-style-type: none"> ➤ Building ➤ State School Building ➤ Capital Facilities □ Debt Service Funds <ul style="list-style-type: none"> ➤ Bond Interest & Redemption | <ul style="list-style-type: none"> □ Internal Service Funds <ul style="list-style-type: none"> ➤ Self-insurance □ Trust and Agency Funds <ul style="list-style-type: none"> ➤ Retiree Benefit ➤ Student Body |
|--|---|---|

Board of Education Budget Responsibilities

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- Interacts for establishment of school agency goals and prioritization of expenditures, including LCAP initiatives
- Establishes budget calendar
- Approves budget guides for budget development
- Holds public hearings for LCAP and budget*
- Approves LCAP and final budget*
- Approves budget amendments* to ensure budget remains current
- Receives and certifies two interim financial reports*
- Selects auditor and receives audit report*
- Uses budget document as a citizen communication device
- In general, assumes policy approval and oversight roles

*Legal requirement

Budget Development Principles

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- Build a budget based on board-adopted goals and objectives
 - Requires clear, specific written goals and a good strategic plan
 - ◆ LCAP development and update should also embody these principles
- Recognize and ensure others understand that revenues are finite and priority setting is essential
 - Requires a priority setting process and getting to “no”
- Build the process on a solid foundation of “confidence in the numbers”
 - Requires a skilled fiscal office using well-developed guidelines and budget formulas or ratios and constant budget amendments
- Administrators must reflect a skilled ability to economically administer with a commitment to analyses, evaluation, and accountability
 - Requires a skilled superintendent and staff

**Calendar of Important Events –
 Budget Development Process**

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| | |
|----------|--|
| January | <ul style="list-style-type: none"> <input type="checkbox"/> Board approval of Budget Development Calendar <input type="checkbox"/> Presentation of estimated enrollment, ADA, income and expenditures for subsequent fiscal year – possible cuts listed if necessary |
| February | <ul style="list-style-type: none"> <input type="checkbox"/> Resolution reducing/discontinuing particular kinds of services (if needed)* |
| March | <ul style="list-style-type: none"> <input type="checkbox"/> Ensure LCAP initiatives are tied to budget <input type="checkbox"/> March 15 for release of certificated personnel and return of principal to a classroom* |
| April | <ul style="list-style-type: none"> <input type="checkbox"/> Board approval of budget guidelines <input type="checkbox"/> Update projected enrollments and ADA <input type="checkbox"/> Business office projects revenues and expenses of subsequent fiscal year <input type="checkbox"/> Possible board workshop/study session |
| May | <ul style="list-style-type: none"> <input type="checkbox"/> Final notice of certificated layoff* <input type="checkbox"/> Update state revenue estimates |
| June | <ul style="list-style-type: none"> <input type="checkbox"/> Public hearings on LCAP and budget* <input type="checkbox"/> Presentation and adoption of final LCAP and budget* |
| August | <ul style="list-style-type: none"> <input type="checkbox"/> Receive comments of county superintendents, if any* |

*Legal deadlines and/or requirements

Notes

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Understanding a Multi-Year Projection

**“Long-range planning does not deal with future
decisions, but with the future of present decisions.”**

– Peter Drucker

Multiyear Projections

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- AB 1200 (1991) requires that the major provisions of the final agreement including, but not limited to, the costs incurred for current and subsequent years be disclosed at a public meeting
 - Use the process of sunshine to ensure:
 - ◆ A public understanding
 - ◆ The budget impact is understood
 - Use the process to moderate runaway agreements



Citation: See Section 3547.5, California Government Code

State's Goal – No More Education Loans – Legislature Expands State Oversight

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- AB 2756 (2004) expanded AB 1200 provisions
 - Major new fiscal oversight authority given to the State Superintendent of Public Instruction and COEs
 - Major fiscal checks and controls imposed at each level
 - Broader authority for FCMAT
 - More reports and updates to the State Legislature

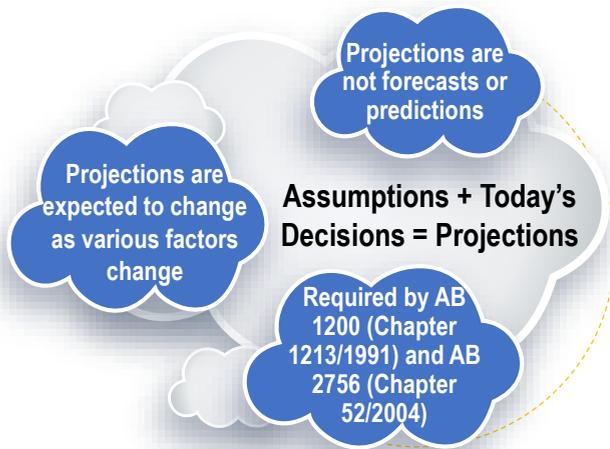


Source: Chapter 52/04 (AB 2756). FCMAT has published a handy ringed binder summarizing the provisions of the legislation (see www.fcmat.org)

Multiyear Projections

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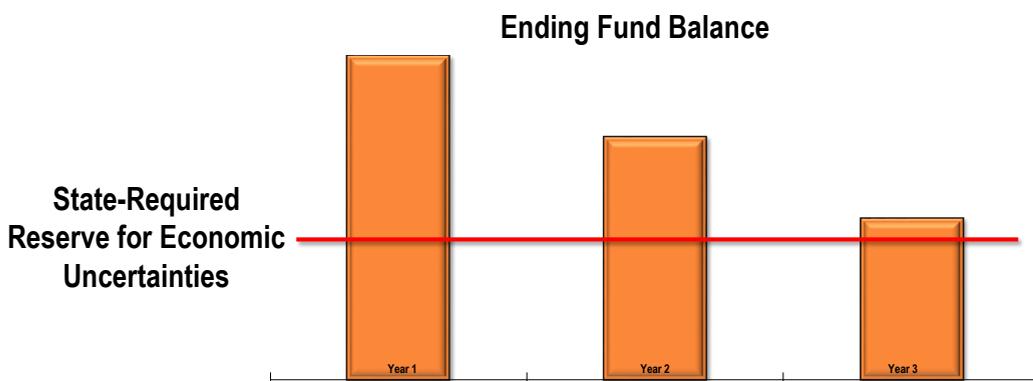


- ❑ The cause of most LEA insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the LEA during lean financial times, so caution is key
 - Resist using future projected dollars or one-time dollars to justify paying for ongoing expenditures in the current year
 - A future recession is predicted – the timing is unknown
 - Low-COLA environment on programs that require contributions
 - Increasing retirement/pension obligations

Positive Certification

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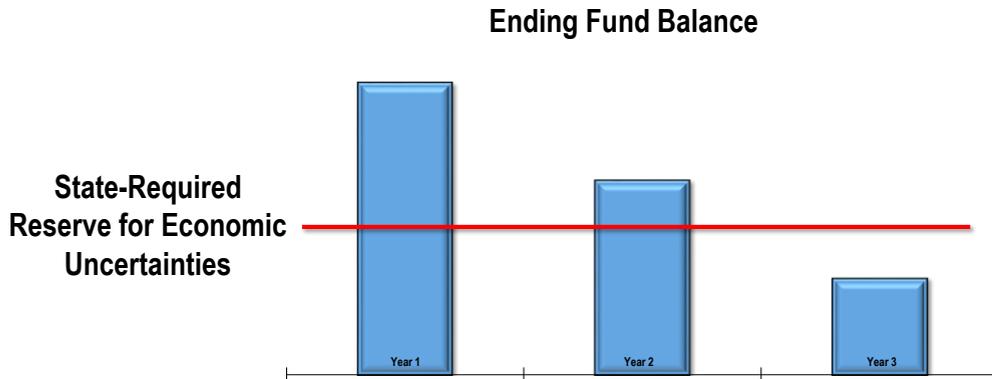
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Qualified Certification

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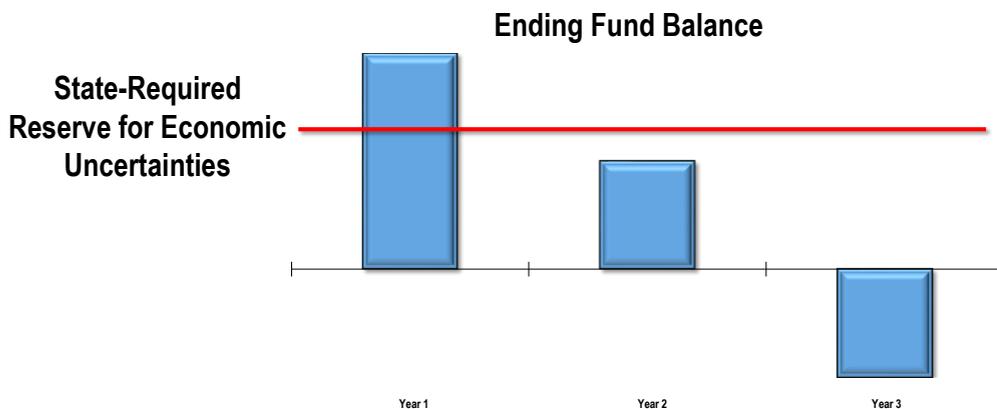
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Negative Certification

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Reserves Are Important

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- ❑ Commonly understood that the 3% minimum requirement is not sufficient
- ❑ Reserves allow districts to be flexible when faced with unexpected increases in expenditures or decrease in revenues
 - Such as loss of parcel tax
- ❑ Reserves also provide relief for cash flow purposes
 - SMFC receives very little cash in July through October because of the heavy reliance on property taxes
 - Sufficient reserves prevent the need for short term cash borrowings which incur additional costs
- ❑ Reserves are especially important for basic aid districts because there is no safety net of prior-year funding

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