

What to Expect in Your First Term

School Finance 2018

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May 7, 2018



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Notes

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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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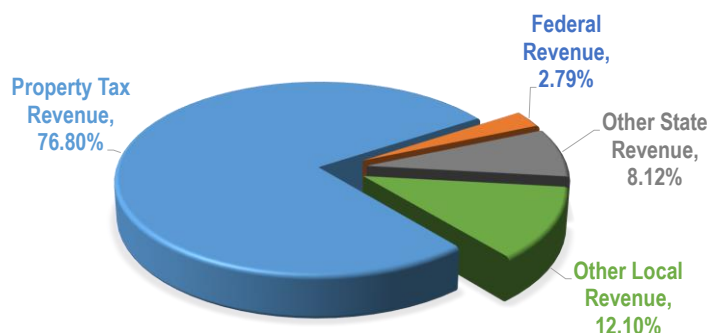
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- SMFC is required to build a budget in accordance with Education Code Section 41010
 - Basis is the California School Accounting Manual (CSAM)
 - CSAM applies principles as directed by the Governmental Accounting Standards Board (GASB)
- SMFC is required 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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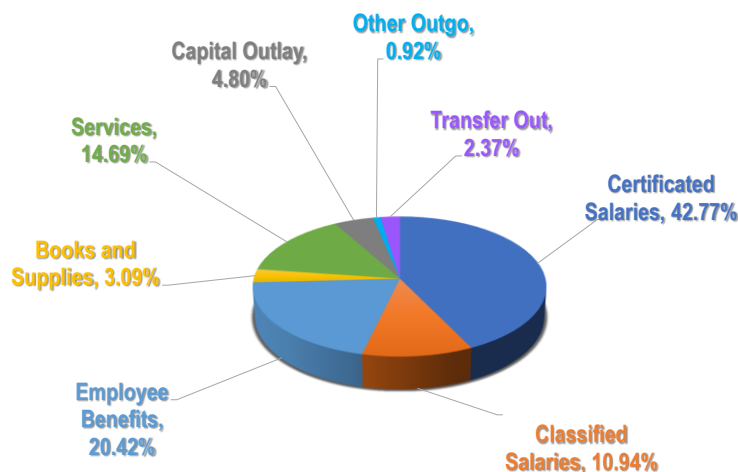
2016-17 Revenues	\$	% of Total
Property Tax Revenue	\$100,950,048	76.80%
Federal Revenue	\$3,663,507	2.79%
Other State Revenue	\$10,675,292	8.12%
Other Local Revenue	\$15,900,935	12.10%
Subtotal	\$131,189,781	99.81%
Transfers In	\$250,000	0.19%
Total Resources	\$131,439,781	100.00%

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	<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	<input type="checkbox"/> Resolution reducing/discontinuing particular kinds of services (if needed)*
March	<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	<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	<input type="checkbox"/> Final notice of certificated layoff* <input type="checkbox"/> Update state revenue estimates
June	<input type="checkbox"/> Public hearings on LCAP and budget* <input type="checkbox"/> Presentation and adoption of final LCAP and budget*
August	<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

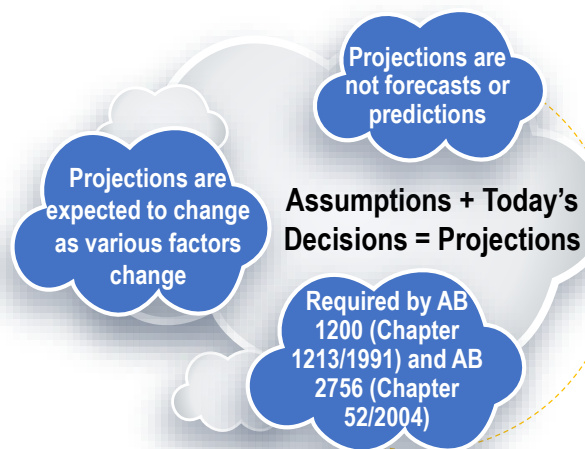


Source: Chapter 52/04 (AB 2756). FCMAT has published a handy ringed binder summarizing the provisions of the legislation (see www.fcmat.org)

Multiyear Projections

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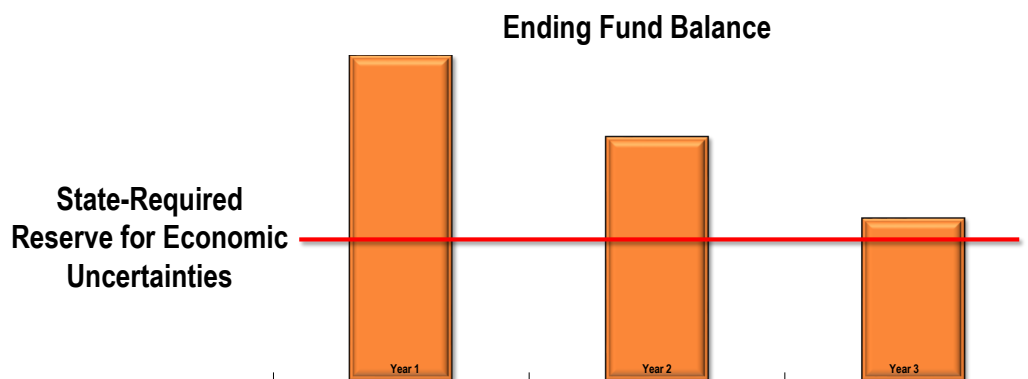
❑ The cause of most LEA insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the LEA during lean financial times, so caution is key

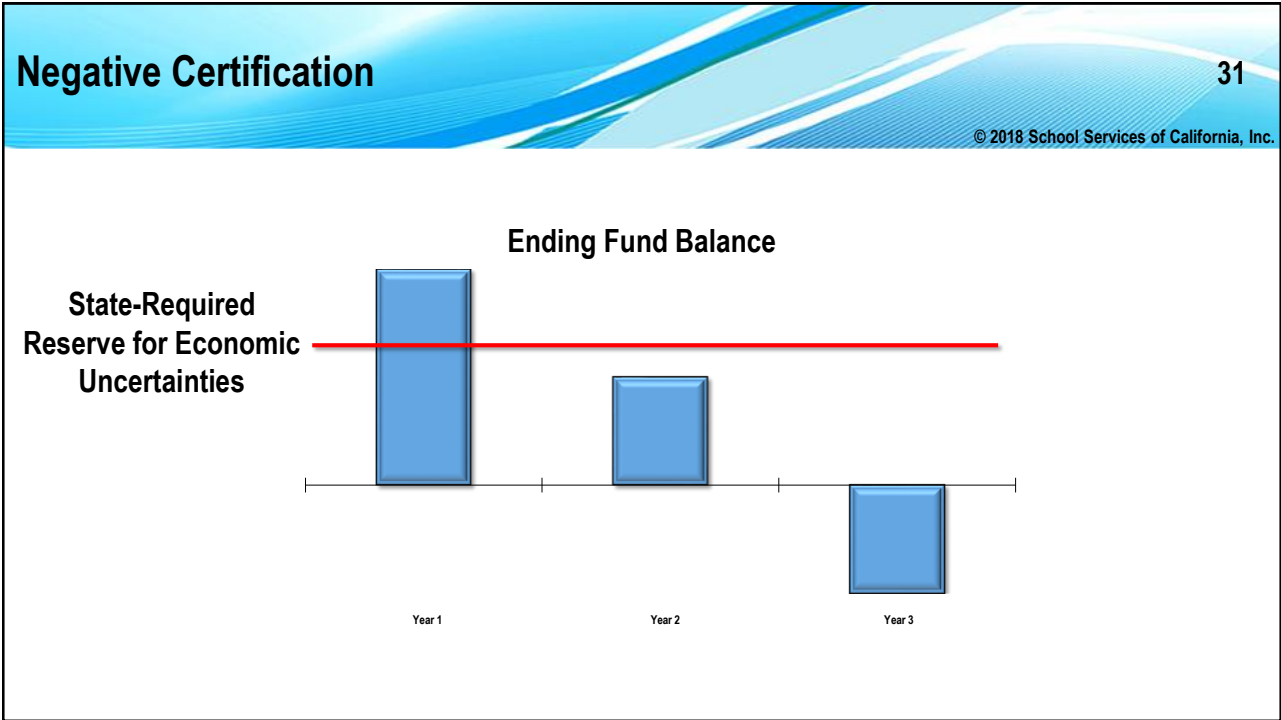
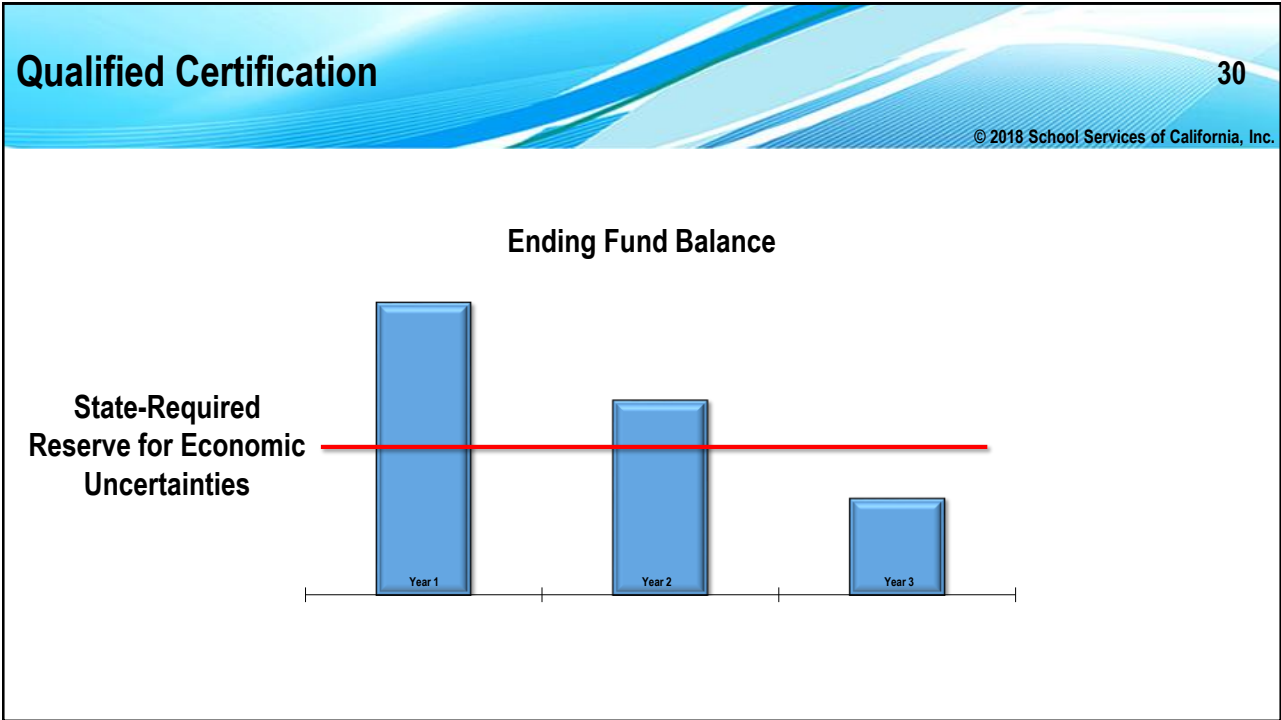
- Resist using future projected dollars or one-time dollars to justify paying for ongoing expenditures in the current year
- A future recession is predicted – the timing is unknown
- Low-COLA environment on programs that require contributions
- Increasing retirement/pension obligations

Positive Certification

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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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