

San Rafael City High School District
1st Interim Narrative and Budget Assumptions
2014-15 Fiscal Year

California school district revenues and expenditures are subject to constant change. School district budgets are not static documents, but instead are constantly being revised to respond to decisions at the state and federal level, as well as to the expenditure needs of the local school district.

Acceptance of the constant revision in district numbers is one of the biggest challenges in understanding a school district budget. Yesterday's numbers are not today's numbers, and it almost seems as if someone is making up the statistics. But, while there is a base cost of service, school districts operate on such a narrow margin of income that even a small swing in revenues or unanticipated costs can have a major impact on a district's ending balance and on the decisions that a district makes.

At the end of June 2014, the Governor signed the State Budget Act for the 2014-15 Fiscal Year into law. The enacted State Budget continues, for the second year, sweeping changes for K-12 Education funding that began in 2013-14. To be specific, the State Budget Act includes funding for the year two (2) of implementation of the Local Control Funding Formula (LCFF) that completely restructured public school funding and essentially eliminated most State categorical programs. The LCFF, intended to correct historical inequities under the former Revenue Limit funding model, brings new challenges and new opportunities for transparency and collaboration with key stakeholders in the community during budget development. Some of the key components of the LCFF are as follows:

- Hold Harmless - A "hold harmless" provision in that no district would receive less revenue than they received in 2012-13
- Restoration of Base Revenue - Using future State revenue growth to restore district base grants to the 2012-13 statewide average undeficitated revenue limit funds
- Creation of New Grade Level Base grants for grades K-3, 4-6, 7-8, & 9-12 that are the same for all Districts in the State
- District Funding Targets - The LCFF establishes a unique funding target for every District, beginning with base grants, adjusted for growth and then augmented by a variety of other factors including supplemental and concentration grants for the number of ELD students, foster students, and students eligible for Free and Reduced meals
- Phased-in Implementation - The LCFF calls for an eight year phase-in period during which time the State would fund a percentage of the GAP in funding between the Target created by the LCFF calculations and what Districts receive in the prior year. The LCFF calls for year-to-year growth in Prop 98 State revenues to fund the gap each year until the LCFF is fully funded. The State Budget Act for 2014-15 calls for \$4.75 billion toward second year implementation which is sufficient to fund 29.56% of the GAP in 2014-15.
- Revised template for second year of the Local Control Accountability Plan (LCAP) that will need to be updated with an annual review process and further developed in conjunction with the Budget Development Process and will need to demonstrate how the District is making progress in proportion to the Supplemental and Concentration grant (LCFF) toward the Eight State Priorities:

- o State Priorities:
 1. Basic Services
 - a. Fully credentialed teachers, facilities in good repair, access to instructional materials
 2. Common Core, Standards-based Instruction
 3. Parental Involvement
 4. Pupil Achievement
 5. Pupil Engagement
 6. School Climate
 7. Student Access to Core Subjects
 8. Pupil Outcomes in Core Subjects

It is important to note that all Districts will be subject to the LCAP even if they are Basic Aid District and do not receive any additional funding under the LCFF.

The San Rafael City High School District is a "Basic-Aid" district and therefore was not as significantly impacted in the first few years by the extreme fluctuations in revenues from the State, as other districts had been. A "Basic Aid" district is a district whose revenues from local property taxes exceed the total revenue (LCFF) income due to a district based on the State formula. These districts are allowed to keep all of their property taxes but do not receive per-pupil general purpose funding from the State. In addition, the San Rafael High School District has received approval as a "District of Choice," which allows the district to receive 70% of a "district of residence" *per pupil funding* per ADA (Inter-District transfers-IDT). In 2014-15, this amount is estimated to be \$395,000.

Even with the new LCFF calculations, the San Rafael City High school District continues to be a "Basic Aid" District. As such, the San Rafael High School District is largely dependent on local property taxes. Over the course of the recession, Basic Aid Districts were impacted not only by the State reductions, but also through the decline of local property taxes. Fortunately, this year we anticipated a 5% increase in Secured Property taxes and were excited to see that the November Tax estimates from the Marin County Auditor-Controller's Office reflected an even greater increase of approximately 5.5% for Secured property tax revenues from last year. This was \$350,000 more than we had included in the Adopted budget. The housing market, especially in Marin, continues to improve although there is some vulnerability in the commercial real estate market. We are hopeful, however, that this trend may be changing based on trends we are seeing in the southern Marin area.

In addition, over the past four years, the State has imposed "fair-share" reductions to many State revenues that Basic Aid Districts historically received in order to ensure that all districts have been impacted more equitably in the State Budget Crisis. Even under the LCFF, as a Basic Aid District, we continue to be impacted by these reductions, most of which were initially considered temporary cuts. However, with the passage of Proposition 30, all Basic Aid Districts are receiving an additional \$200 per ADA in Education Protection Account funds that will continue for the next 5 years. This was welcome relief after the loss of over \$1.5 million in other State categorical program funds such as 9th grade class size reduction.

Unfortunately, this year, the State did not provide any additional one-time funds in support of Common Core State Standards implementation even though prior one-time funding is insufficient. There continue to be additional costs associated with implementation as follows:

1. Ongoing Professional Development
2. CC aligned instructional materials & textbooks
3. Integration through technology-based instruction

On the Federal side, the Sequestration or automatic across-the-board cuts from the Federal Government that began last year, continue in 2014-15, but at a much lower percentage of .0554%.

There are other significant changes ahead that will have an impact on the District as we plan for the future. Proposition 2, which was passed by the voters on November 2nd, strengthens the State's reserves and at the same time imposes a cap on a school districts reserves for economic uncertainties beginning in 2015-16.

In addition, implementation of the Affordable Care Act may have implications for each District that are still uncertain or difficult to determine at this time.

On September 10, 2014, The Governor signed AB 1522 that, effective July 1, 2015, provides up to 24 hours (3 days) of paid sick leave for previously ineligible employees who work 30 days or more in a calendar year. When you consider that each school district may employ a myriad of certificated and classified substitutes as well as hourly employees funded by PTAs and Boosters and/or Foundations, the fiscal implications and work load implications may be significant.

Although the additional State revenue is welcome news, and the State's economy is on the road to recovery, cash continues to be a concern. To protect the district's fiscal solvency, staff recommends continuing to maintain the high school district Cash Contingency of \$1.1 million which helps to ensure the District can meet its cash obligations without the need to issue a Tax Revenue Anticipation Note (TRAN), which have become very costly given current interest rates. In addition, staff is recommending maintaining the one-time contingency of \$700,000 that was set aside for the implementation of CCSS knowing that the new onetime CCSS grant is inadequate to fully fund all of the cost associated with this new program. These actions will enable the district to continue to meet their cash flow needs, and accommodate further fluctuations in revenue or unanticipated expenditures such as those costs which the district may have to absorb associated with the Special Education mandates.

The 1st Interim Report is the first of two interim reports the district is required to prepare and is intended to present information on the financial position of the District as of October 31, 2014. Therefore, the information and details included in the current Budget Revision #1 and the 1st Interim Report are based on information included in the State budget as well as any other information from Federal, State and local agencies.

SAN RAFAEL HIGH SCHOOL DISTRICT

For the 1st Interim Report and Budget Revision #1, the following are the major assumptions used to support the numbers for both revenues and expenses:

2014-15 Budget Assumptions (Budget Revision #1)

Local Control Funding Formula:

- **Average Daily Attendance (ADA):** Estimated P-2 ADA @ 2,155.14
 - Total ADA 2,202.02 Estimated MCOE ADA @ 46.88
 - Current enrollment at 2,349 + 15 NPS
- Percentage of Students who qualify for Free and Reduced Meal 48%
- LCFF - GAP funding at 29.56%
- Cost of Living Adjustment (COLA) ~ .85%
- Education Protection Act Funds \$440,404 Estimate
- "Basic Aid" District ~ LCFF Recalculated
 - The budget has been revised for current tax estimates based on information provided in the J-29B from the MCOE and the Marin County Auditor-Controller's Office with secured taxes up just over 5%
 - Secured taxes projected at 100% of j29B Tax role
 - "District of Choice" funds estimated @ \$394,800

Other Revenues:

- Ongoing Community Redevelopment Funds @ \$179,000
- Lottery Funding
 - Unrestricted (Non-Prop 20) \$125 per annual ADA
 - Restricted (Prop 20) \$31 per annual ADA
- Parcel Tax revenues - 5% COLA
- Revenues for Mandated Cost Reimbursements Block Grant included with a rate increase per ADA
 - One-time funds to pay down prior year mandated claims \$127,793
- Other State revenue was adjusted based on current estimates
 - Insignificant PY State revenue adjustments
- Slight Increases to the contribution to Special Education due to the SRFT salary increases. However, the needs of Special Education students change constantly and may necessitate modifications that create an additional increase in the overall budget at 2nd Interim
- The budgets for Federal revenues have been adjusted for 2013-14 deferred revenue
 - The current year revenues for programs included in the Consolidated Application (Part II) have not been adjusted as information is being released in January. These budgets and associated allocations will be adjusted upon confirmation of these grants and entitlements and will be included in the next budget revision.

Expenditures & Restricted Programs:

- During the past few months, the budgets for salaries and benefits have been revised to reflect staffing changes and Step & Column movement for both certificated and classified staff, as well as changes requested by the school sites and departments for carryover balances.

- This year, it also includes budgeting for the SRFT contract revisions that include 1.85% on the salary schedule, and H&W increases to medical/dental Caps
 - They include adjustments in Certificated FTE due to fluctuations in enrollment for both SRHS & TLHS.
 - Include increases in FTE in order to support a growing newcomer population
 - Adjustments include final staffing for all employees including placement for new administrators
 - The modifications include budgeting certificated and classified hourly amounts for extra duty, overtime, and/or certificated stipends for additional work such as curriculum committees.
 - They include additional Certificated ELD Sections supported by Title I funds
 - They include fluctuations in classified staffing based on Special Education student needs
- The budget for Materials & Supplies and Non-capital Equipment have been reviewed and updated for current information, as well as site requests for budget transfers. Initially, the 2013-14 carryover is posted to a 4330 object, and then the site/departments request transfers to more appropriate expenditure accounts based on the needs of the site and/or school site plans. Many of these adjustments include the addition of temporary staff to support the programs using carryover dollars and will continue throughout the year.
- This year, the budget in the area of non-capital equipment for new chromebooks and laptop carts in order to address growth primarily at SRHS in support of the State's priority of *CCS Based Instruction, Pupil Achievement, Pupil Engagement and Basic Services*
 - The budget revision also includes increases for replacement and additional furniture and equipment for schools in order to address growth as well as safety issues and ADA accessibility. The State's priority of *Pupil Achievement, Pupil Engagement and Basic Services*
- In the area of Other Operating Expenditures, the most significant adjustments are related to contracts associated with Contracts an ASB audit, the addition of a contract for an Athletic Trainer at SRHS, additional professional development for Infinite Campus implementation and IT support. It also includes adjustments in contracts related to special education specifically in the areas of NPS and NPA (*Pupil Achievement and Basic Services*). In addition, there are very minor adjustments updated for current information, as well as site requests for budget transfers. Other revisions include:
- Reduction in contract services for staff paid by the ESD, but supporting both districts
- Capital Outlay budgets were adjusted for the purchase of Water-Polo equipment at SRHS and replacement copiers

Reserves & Ending Fund Balance:

- Currently the SRHSD maintains a 10% reserve for economic uncertainty, which is above the State required minimum reserve of 3%
- Board Designated
 - The District has set aside in a Board Designated/Assigned account for *Cash Flow Contingencies*

- In addition, \$700,000 has been set aside in a Board Designated/Assigned account to enable the District to continue to fund the costs associated with the implementation of CCSS as they are known and identified

All Other Funds:

- Estimated to have positive ending fund balances
- New Fund 40 Board authorized and established to account for the Prop 39 funds
- Revenue projections for both the Cafeteria Fund and the Capital Facilities Fund will be re-evaluated and adjusted at 2nd Interim

Multi-year Projections:

Revenues:

- Assume growing enrollment with an estimated 63 additional students in 2015-16 and 57 in 2016-17.
- Local Control Funding Formula
 - Assume GAP Funding on LCFF at Department of Finance estimated levels
 - 20.68% 2015-16
 - 25.48% 2016-17
 - Assume ongoing 54% FRM counts
- Assume growth on Federal and State Categorical programs
- Assume no change in Interest Earnings (2015-16 & 2016-17)
- Assume no change in Basic Aid status
- Assume a 5.5% (\$1,140,000) increase in 2015-16 & 6% (\$1,313,000) increase in local secured property taxes for 2016-17
- Assume ongoing revenues for Mandated Block Grant at same level with growth (2015-16 & 2016-17)
 - Eliminate one-time payment on back claims \$128,000
- Assume no change in rates for Lottery funds (Non-Prop 20 & Prop 20) (2015-16 & 2016-17) with growth
- Assume increase in contribution to Special Education of approximately \$150,000/\$150,000 (2015-16 & 2016-17)
- Assume no increase in contribution to Routine Restricted Maintenance (RRM) Account (2015-16 & 2016-17)
- Reduce State revenue budget
 - No adjustments in restricted for carryover/deferred revenue
 - Add Growth 2%
- Reduce Federal Funds as follows: (2014-15 only)
 - Deferred Revenue/Carryover \$85,000
 - Add 2% growth
- Assume 5% increase in Parcel Tax revenues \$137,000/\$143,000 (2015-16 & 2016-17)
- Assume minimal changes in Special Education revenues
- Assume no change in restricted local grants at this time. If funding changes or is reduced, expenditures will be adjusted accordingly

Expenditures:

- Assume step & column for both certificated and classified personnel at approximately 1% (2015-16 & 2016-17)

- Assume additional Certificated FTE for Growth (2.0 FTE 2015-16 & 2.0 FTE 2016-17)
- Assume reductions in certificated salaries (restricted) for one-time CCSS TSA
- Assume no change in rates for driven costs at this time
 - Additional STRS increases for rate increases \$100,000 per year
- Assume 2.5% increase in employee benefits due to step & column & additional FTE and an additional \$50,000 for increases/fluctuations in H&W benefits
- Assume significant decrease in one-time Materials & Supplies expenditures supported by site carryover, Federal & State deferred revenue and Parcel Tax budgets (\$700,000)
 - Add 2% CPI (2015-16) and 2.63% for CPI & Growth (2016-17)
- Reduce Services & Other Operating Expenditures supported by one-time carryover and deferred revenue:
 - Restricted @ \$700,000
 - Assume increase 2% & 3% in both subsequent years
- Assume ongoing capital outlay expense
- Reduce Indirect costs due to reduction of carryover 13-14 funds budgeted in 2014-15 (2015-16 only)
- Assume increases of approximately 10% in Excess Cost Bill Back - MCOE (2015-16 & 2016-17)
- Assume \$500,000 GASB 45 & \$140,000 Deferred Maintenance transfers to other Funds (2015-16 & 2016-17)
- Assume no change in indirect cost rate (2015-16 & 2016-17)

Ending Fund Balance & Reserves:

- Assume no change in Revolving Fund account (2015-16 & 2016-17)
- Assume ongoing 10% reserve for economic uncertainty (2015-16 & 2016-17)
- Board Assigned:
 - Continued, contingency @ \$1.1 million Cash Flow (2015-16 & 2016-17)
 - Continued, contingency @ \$700,000 CCSS/Smarter Balanced Assessment (2015-16 & 2016-17)
- Assume continued positive ending fund balance in General Fund