

**San Rafael City Elementary School District
2nd 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

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 district's 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.

On January 9, 2015, the Governor released his State Budget Proposal for the 2015-16 Fiscal Year. Under his proposal, K-14 Education spending levels are increased by \$7.8 billion over three years (2013-14, 2014-15 and 2015-16) with a significant portion of this funding being one-time. However, approximately \$4 billion of his proposal is an ongoing commitment to provide LCFF gap funding with an estimated COLA of 1.58% and the percentage of gap funding at 32.19%. There are several other components of his proposal that are outlined in the Marin Common Message from the Marin County Office of Education (attached).

Although the State revenue under the LCFF is welcome news, and the State's economy is on the road to recovery, as well as the local housing market, cash continues to be a concern. To protect the district's fiscal solvency, staff recommends continuing to maintain the elementary district one-time contingency fund 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 \$1.3 million (reduced from \$1.5 million based on current year one-time CCSS expenditures) that was set aside for the implementation of CCSS knowing that the one-time 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 2nd Interim Report is the second 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 January 31, 2015. Therefore, the information and details included in the current Budget Revision #2 and the 2nd 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 CITY ELEMENTARY SCHOOL DISTRICT BUDGET ASSUPTIONS

For the 2nd Interim Report and Budget Revision #2, the following are the major assumptions used to support the numbers for both revenues and expenses:

2014-15 Budget Assumptions (Budget Revision #2)

Local Control Funding Formula:

- **Average Daily Attendance (ADA):** Estimated P-2 ADA @ 4,465.6
 - Total ADA 4,479.8 (Minimal change) Estimated MCOE ADA @ 14.20
 - Current enrollment at 4,410 + 21 NPS
- Percentage of Students who qualify for Free and Reduced Meal 67.053
- LCFF - GAP funding at 29.15%
- Cost of Living Adjustment (COLA) ~ .85%
- Education Protection Act Funds \$5,004,267 Estimate
- The budget was revised In Novmeber for current tax estimates based on information provided in the J-29B from the MCOE AND the Marin County Auditor-Controller's Office.

Other Revenues:

- Lottery Funding
 - Unrestricted (Non-Prop 20) \$128 per annual ADA
 - Restricted (Prop 20) \$34 per annual ADA
- Revenues for Mandated Cost Reimbursements Block Grant included
 - One-time funds to pay down prior year mandated claims \$267,833
- Other State revenue was adjusted based on current estimates
 - QEIA (Final year) funding \$22,727 Increase
- Other Local Revenues were increased for local site donations
 - Other locally restricted revenues were adjusted:
 - PTA donations that support programs at the schools
 - Various local grants
- The contribution to Restricted Programs:
 - Special Education was decreased based on current estimates for NPS/NPA, reductions in the Excess Cost Billback from MCOE and increases in estimated Special Education Revenues.
- The budgets for Federal and State restricted revenues have been adjusted for information in the Consolidated Application II received in January.
 - Other adjustments include changes in accounting for both State and Federal Mental Health funds
 - Federal moved from 8181 to 8182 objects
 - State moved from 8792 to 8590 objects

Expenditures & Restricted Programs:

- During the past few months, the budget for salaries and benefits have been revised to reflect staffing changes and Step & Column movement for both certificated, classified, and management. In addition, it includes changes requested by the school sites and

departments for carryover balances. The modifications include budgeting certificated and classified hourly amounts for extra duty, overtime, and/or certificated stipends for additional work such as curriculum committees.

- The majority of the changes are based on fluctuation in current staffing and the reconciling of position control based on these changes to the budget. These include adjustments for leaves of absence, open positions and substitute budgets
 - Adjustments in the area of Employee Benefits for changes in salaries as well as changes in enrollment for medical plans/coverage effective January 1 and adjustments for open positions
- The budget for Materials & Supplies and Other Operating Expenditures 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 restricted area includes \$54K of non-capital equipment for additional chromebooks (K-8) using CCSS funds and in support of the State's priority of *CCS Based Instruction, Pupil Achievement, Pupil Engagement and Basic Services* and approximately \$34K of unrestricted funds for new furniture and equipment primarily for school site students and staff based on growth and in support of the State's priority of *Basic Services*.
- In the area of Other Operating Expenditures, the most significant adjustments are related to IT support for infrastructure upgrades and field trips supported by local donations. (*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:
- Outdoor Education Contracts
 - Field Trips
 - Intervention contracts (YMCA)
 - Professional Development contracts (CCSS)
- Capital Outlay budgets were adjusted for new equipment for IT infrastructure and Internet upgrades throughout the District and some site improvements specifically at LD for the installation of a new drinking fountain and hydration system. In addition, the lease purchase of the new M&O vehicles is recorded as a capital outlay expenditure with an offset of the revenues from the proceeds of capital leases recorded on the revenue side. The actual debt service will be funded by the Routine Restricted Maintenance account and the payment for 2014-15 was included in this budget revision in the restricted area of the budget.
- In the area of Indirect/Direct Costs, the budgets for Indirect were increased based on changes in expenditures for restricted programs. In addition, with authorization from the Board, staff requested that the County establish Fund 20 (Special Reserve for Post-

employment Benefits) and a contribution from the General Fund to Fund 20 was budgeted for approximately 50% (\$335,000) of the Annual Required Contribution (ARC) under GASB 45 with the intent of increasing over the next year or so up to the full amount of the ARC.

- \$180,000 replacing the transfer to the Deferred Maintenance fund and now being transferred to the Special Reserve for Capital Improvements - Fund 40

Reserves & Ending Fund Balance:

- Reserve for Economic Uncertainty
 - Currently, the SRES D maintains the State required minimum reserve of 3% and has set aside an additional 2% reserve in order to be better prepared to respond to the potentially significant fluctuations in funding based on the State and National Budget Crisis over the next few years.
- Board Designated
 - The District has set aside in a Board Designated/Assigned account for an amount equivalent to the amount of one-time flexibility transfers of revenue for Tier III programs currently \$1.1 million (6/30/08) for *Cash Flow Contingencies*
 - In addition, \$1.3 million 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 a positive ending fund balance
- New Fund 20 established (Special Reserve for Post-employment Benefits)
- Revenue projections for both the Cafeteria Fund and the Capital Facilities fund were adjusted based on current information

Multi-year Projections:

Revenues:

- Estimated increase in ADA of 96 in both 2015-16 and 2016-17
- Local Control Funding Formula
 - Assume GAP Funding on LCFF at Department of Finance estimated levels
 - 32.19% 2015-16 (increased from 20.68% previously projected)
 - 23.71% 2016-17 (decreased from 25.48 % previously projected)
 - Assume ongoing approximately 67% FRM counts
- Assume growth on Federal and State Categorical programs at 1-2%
- Assume no change in Interest Earnings (2015-16 & 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 \$268,000
- 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 \$175,000/\$175,000 (2015-16 & 2016-17)

- ❑ Assume 3% contribution to Routine Restricted Maintenance (RRM) Account (2015-16 & 2016-17)
- ❑ Reduce State revenue budget
 - Eliminate final QEIA revenue \$276,500 (2015-16 only)
 - Add Growth 2%
- ❑ Reduce Federal Funds as follows: (2015-16 only)
 - Deferred Revenue/Carryover \$305,000
 - Add 2% growth/COLA
- ❑ Assume 5% increase in Parcel Tax Revenues (2015-16 & 2016-17)
 - Approximately \$133,000/\$140,000 per year
 - Parcel Tax renewed for eight years through 2021-22
- ❑ Assume changes in Special Education revenues
 - Growth \$30,000/\$45,000
- ❑ Other Local Revenues (not including Parcel Tax)
 - Assume no change in local revenues - unrestricted
 - Reduce Proceeds from the Sale of Bonds (2015-16 only)
 - Assume no change in restricted local grants at this time. If funding changes, or is reduced/eliminated, expenditures will be adjusted accordingly

Expenditures:

- ❑ Assume step & column for both certificated and classified personnel at approximately 1% (2015-16 & 2016-17)
- ❑ Assume additional 4.0 & 4.0 certificated FTE for growth of approximately 100 students per year K-8 (2015-16 & 2016-17)
 - 4.0 in unrestricted
- ❑ Assume no change in rates for driven costs at this time except STRS
 - Assume increases of \$350,000 (restricted and unrestricted) each per year due to rate changes
 - 10.73% 2015-16
 - 12.58% 2016-17
- ❑ Assume increase in employee benefits due to step & column & additional FTE and 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 (\$1.5 million)
 - One-time costs for Chromebooks (\$200,000) unrestricted
 - Add 2% CPI (2015-16) and 2.23% for CPI & Growth (2016-17)
 - Reduce budget for QEIA funding
 - Certificated salary/benefits \$359,000
 - Materials & Supplies \$73,000
 - Reduce budget for CCSS funding \$612,000 Restricted (2015-16 only)
 - Certificated salary/benefits \$405,000
 - Materials & Supplies \$60,000
 - Contracts \$150,000
 - Reduce budget for other materials & supplies (restricted) \$1.2 million in prior year carryover funds (2015-16 only)

- Assume increase in ongoing materials & supplies at approximately 2.5% CPI/growth (2015-16 & 2016-17)
- Reduce services & other operating expenditures supported by carryover, Federal & State deferred revenue and Parcel Tax budgets (\$500,000)
 - Reduce \$30K for one-time IT support
 - Assume increases of 2.5% CPI (2015-16) & 1.76% (2016-17) Special Ed.
- Assume ongoing capital outlay expense
 - Reduce for one-time Capital IT Equipment purchases
 - Ongoing \$85,000 combined GF
- Reduce Indirect costs due to reduction of carryover 13-14 funds budgeted in 2014-15 (2015-16 only)
- Assume increasing GASB 45 by \$335,000 & ongoing Deferred Maintenance transfers to other Funds (unrestricted)
- Assume no change in indirect cost rate (2015-16 & 2016-17)
- Assume increases of approximately 10% in Excess Cost Bill-back from MCOE (2015-16 & 2016-17).
- Assume ongoing contributions to Deferred Maintenance Fund 14 with slight increases

Ending Fund Balance & Reserves:

- Assume no change in Revolving Fund account (2015-16 & 2016-17)
- Assume ongoing 5% reserve for economic uncertainty (2015-16 & 2016-17)
- Board Assigned:
 - Continued, contingency @ \$1.1 million Cash Flow (2015-16 & 2016-17)
 - Continued, contingency @ \$1.3 million CCSS/Smarter Balanced Assessment (2015-16 & 2016-17)
- Assume continued positive ending fund balance in General Fund

NOTE: *Although the District Multi-year projections reflect a significant amount of revenues over expense, it is important to remember that the DOF estimates for funding the GAP in the 2 subsequent years is subject to change. In addition, any new spending plans will need to be developed through the Local Control Accountability plan with clear articulation on how new expenditures will meet, one or more of the eight State Priorities and how the progress toward achieving the Districts goals will be measured.*