

**San Rafael City High 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

It is important to note that all Districts will be subject to the LCAP even if they are a 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 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). As a "Basic Aid" District, most of the new money coming from the State will have very little impact.

Although the State's economy is on the road to recovery, and the local housing market continues to improve, 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 \$550,000 (reduced from \$700,000 based on current year one-time CCSS expenditures) 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 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 HIGH SCHOOL DISTRICT

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 @ 2,157.87
 - Total ADA 2,202.82 Estimated MCOE ADA @ 44.95
 - Current enrollment at 2,349 + 15 NPS
- Percentage of Students who qualify for Free and Reduced Meal 46.9%
- LCFF - GAP funding at 29.15%
- Cost of Living Adjustment (COLA) ~ .85%
- Education Protection Act Funds \$440,564 Estimate
- "Basic Aid" District ~ LCFF Recalculated
 - The budget was revised for current tax estimates based on information provided in the J-29B from the MCOE and the Marin County Auditor-Controller's Office in November with secured taxes up just over 5%
 - Secured taxes projected at 100% of J29B Tax role
 - "District of Choice" funds estimated @ \$394,800 (no change)

Other Revenues:

- Ongoing Community Redevelopment Funds @ \$179,000
- Lottery Funding
 - Unrestricted (Non-Prop 20) \$128 per annual ADA
 - Restricted (Prop 20) \$34 per annual ADA
- Parcel Tax revenues - 5% COLA
- Revenues for Mandated Cost Reimbursements Block Grant included 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
- Increases to Special Education Revenue under the AB602 FAP (change in FAP methodology)
- 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 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.
 - 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 1 additional Certificated newcomer Section for TL-second semester
 - Changes in staffing for classified staff based on growth at school sites
 - 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 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 carts 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 related to special education specifically in the areas of legal fees, settlement agreements and NPS and NPA (*Pupil Achievement and Basic Services*). In addition, there are adjustments related to IT support for infrastructure upgrades and field trips supported by local donations . There are also very minor adjustments updated for current information, as well as site requests for budget transfers. Other revisions include:
 - Increases in contracts related to Supplemental Educational Services required by Title I
- Capital Outlay budgets were adjusted for new equipment for IT infrastructure and Internet upgrades throughout the District and some site improvements, specifically mechanical systems replacement that is covered by Boiler Insurance. In addition, the lease purchase of the new M&O vehicles and scissor lift 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.

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 of \$1.1 million for *Cash Flow Contingencies*
 - In addition, \$550,000 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 were adjusted based on current information

Multi-year Projections:

Revenues:

- ❑ Assume growing enrollment with an estimated 64 additional students in 2015-16 and 53 in 2016-17.
- ❑ Local Control Funding Formula
 - Assume GAP Funding on LCFF at Department of Finance estimated levels
 - 32.19% 2015-16
 - 23.71% 2016-17
 - Assume ongoing 46.9% 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 6% (\$1,237,000) increase in 2015-16 & 6% (\$1,320,000) 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)
 - In 2015-16 reduce other contributions to restricted programs by \$97,000 for net increase of \$53K
- ❑ 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: (2015-16 only)
 - Deferred Revenue/Carryover \$92,000

- Add 2% growth/COLA
- 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)
- Reduce one-time restricted salaries related to CCSS \$160,000
- 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 \$250,000 per year split between Unrestricted and Restricted.
- Assume 1.6% increase in employee benefits due to step & column & additional FTE and an additional \$40,000 for increases/fluctuations in H&W benefits + STRS increases
- Assume significant decrease in one-time Materials & Supplies expenditures supported by site carryover, Federal & State deferred revenue and Parcel Tax budgets
 - (\$100,000) unrestricted one-time
 - Add \$40,000 growth needs
 - Add 2% CPI (2015-16) and 2.63% for CPI & Growth (2016-17)
 - Restricted \$575,000 in one-time reduction + CPI at 2%
- Reduce Services & Other Operating Expenditures supported by one-time carryover and deferred revenue:
 - Unrestricted-reduce \$60K in one-time + 2% CPI/3% CPI
 - Restricted @ \$875,000 reduce for one-time
 - Assume increase 2% & 3% in both subsequent years
- Assume ongoing capital outlay expense
 - Unrestricted reduce one-time \$260,000 IT equipment upgrades
- Reduce Indirect costs due to reduction of carryover 13-14 funds budgeted in 2014-15 (2015-16 only)
- Assume increases of approximately 9% in Excess Cost Bill Back - MCOE (2015-16 & 2016-17)
- Assume \$360,000 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 @ \$550,000 CCSS/Smarter Balanced Assessment (2015-16)
- Assume continued positive ending fund balance in General Fund