

To: Board Members

From: Randall Booker, Superintendent
Song Chin-Bendib, Assistant Superintendent
Michelle Nguyen, Director of Fiscal Services

Subject: **REVIEW 2015-16 FIRST INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *POSITIVE* CERTIFICATION OF THE DISTRICT'S ABILITY TO MEET FINANCIAL OBLIGATIONS FOR CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; AND AUTHORIZE BUDGET TRANSFERS OF FUNDS**

I. **SUPPORT INFORMATION**

The Piedmont Unified School District, like all California public schools, is in its third year of funding under Local Control Funding Formula (LCFF). The District budget is made up of 52% LCFF, 26% of School Parcel Tax, 7% Piedmont Education Foundation & Endowment, 7% Special Ed/Other Revenues, and the balance of 8% from Federal, State lottery money, support group donations, and other miscellaneous revenues.

Governing Boards are required to certify the financial condition of each school district at two intervals during the school year, though the Board routinely reviews the budget more often.

Per the requirements of AB 1200, the District declares its ability to meet its financial obligations through one of three self-certifications:

- *Positive* Certification means that the District believes it can meet its financial obligations for the remainder of the current fiscal year and subsequent two fiscal years;
- *Qualified* Certification indicates a district may not be able to meet its financial obligations in the current and two subsequent fiscal years;
- *Negative* Certification is used when a district will not be able to meet its financial obligations for the remainder of the current year nor for the subsequent two fiscal years

Qualified or *Negative* Certifications serve as an “early warning device” and are transmitted to the County Office, California Department of Education, and the State Controller for possible intervention by these agencies.

In compliance with Education Code EC 42131(a)(1) requirements, Assembly Bill (AB) AB 1200, and AB 2756, the Piedmont USD is certifying a positive

certification for its 2015-2016 First Interim Report. The First Interim Report as presented reflects relevant information to budgets for 2015-16 through 2017-18 based on conditions as of October 31, 2015. Per guidelines established by the Alameda County Office of Education (ACOE), the First Interim report uses the Fiscal Crisis and Management Assistance Team (FCMAT) LCFF calculator for determining multi-year projections. The FCMAT/LCFF calculator assumes Cost of Living Adjustments (COLA) provided by the California State Department of Finance (DOF) as follows:

- 1.02% for 2015-16
- 1.60% for 2016-17
- 2.48% for 2017-18

The 2015-16 year shows a projected positive ending fund balance of \$2,977,637 (including a 4% reserve for economic uncertainty, plus an additional \$1,458,830 for use in 2016-17). It should be noted that revenue projections reflect a 2% increase (which has been aside in the Special Reserve Fund 17) in the school support parcel tax for the current fiscal year but NOT for the two subsequent fiscal years' budgets. The District has conducted a Public Hearing in April prior to the actual levy of the Parcel Tax for 2015-16.

The budget documents presented in this First Interim report continue to serve as a reflection of the District's goals and philosophy of providing a depth and breadth of student programs. They reflect the tremendous support of the community as expressed in revenues from the School Support Parcel Tax; annual support from the Piedmont Educational Foundation Endowment; the funding of personnel and direct per-student contributions from the Piedmont Education Foundation (PEF), including direct contributions of \$300 per student; numerous donations and grants from service organizations, youth sports clubs, and other support clubs like PRAISE, CHIME, and PAINTS; and philanthropic efforts from individuals and foundations. Finally, the First Interim report continues to incorporate budget development recommendations made at the September 9, 2015, Board meeting specifically in regards to tracking of the CalSTRS and CalPERS increases with no offsetting funding from the state.

First Interim (as of October 31, 2015) from the Working Budget as of 10/28/15 – **(budget changes from Revised Budget 9/9/15 to Working Budget 10/28/15 were presented to the Board on 10/28/15)** Revenue: +349,397

Below are the major contributing factors:

LCFF Revenues: Increase of \$37k due to increase of property tax (based on Special Ed unduplicated count);

Federal Revenues: Title I apportionment has increased by \$21k

State Revenues: Proposition 39 distribution has increased by \$83k;

Local Revenues: Piedmont Education Foundation \$62k, principal resource accounts of \$67k, Athletic program of \$65k, and other local donations \$10k

First Interim (as of October 31, 2015) – Expenditures: +554,593

Certificated Salaries: adjustments to salary calculations in October and November to reflect adjustments in personnel for specialized programs and substitute costs; Employee Benefits: reflect actual benefits encumbrances; Books & Supplies/Services & Operating expenses: booked against revenues received

First Interim (as of October 31, 2015) – Ending Fund Balance: \$2,977,638

The total ending balance on October 31, 2015, is projected to be \$2,977,638 which represents 7.94% of total expenditures. The District continues to maintain reserves through cost saving measures, including roll-over of ending fund balances where authorized, and the preservation of General Fund money through use of restricted, one-time funding (Federal, parent club funding, etc.). AB 1200 requires each district to maintain a 3% reserve for economic uncertainty. An Ending Fund Balance of \$1,458,830 (plus \$25,000 set aside for Revolving Cash operations) is what remains after the 4% reserve goal set forth by the Board has been met.

Long-term Budget Challenges: The Unfunded CalSTRS liability, CalPERS contributions, and the effects of Proposition 2 (Rainy Day Fund). The State continues not to address the unfunded CalSTRS and CalPERS liabilities.

CalSTRS liability:

Assembly Bill 1469 increased the contribution rates that employers, employees and the state pay to support the State Teachers Retirement System (STRS). Employer rates will continue to increase until 2020-21 and are expected to bring the retirement system to full funding in about 31 years. AB 1469 requires that the CalSTRS Board take action, beginning with the 2021-22 fiscal year, to increase or decrease the contribution rates for employers to reflect the contribution required to eliminate the current unfunded actuarial obligation by June 30, 2046.

This rate adjustment shall not increase by more than 1% of creditable compensation from one year to the next. The employer rates are capped at 20.25% of member creditable compensation.

What follows is a chart outlining the breakdown of increased STRS rates for the employer, employee, and the state:

CalSTRS Employer and Employee Contribution Rates per Education Code Sections 22901.7 and 22950.5							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.1%
Member - classic (2% at 60)	8.15%	9.20%	10.25%	10.25%	10.25%	10.25%	10.25%
Member - new (2% at 62)	8.15%	8.56%	9.205%	9.205%	9.205%	9.205%	9.205%

State CalSTRS Contribution Rates:

2014-2015	3.454%
2016-2017	6.328%

(Note: 2015-16 state contribution rates were not available)

The increase in CalSTRS Employer contribution rates will impact the District's budget by approximately \$326,000 to \$430,000 each fiscal year from 2015-16 through 2017-18.

CalPERS Contributions

The CalPERS Board adopted changes to the actuarial assumptions to be effective June 30, 2015. The changes result in a projected increase to the employer contribution rates for 2016-17 and for the next four years.

CalPers Actual and Projected Rates						
2014-15 Actual	2015-16 Actual	2016-17 Projected	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected
11.771%	11.847%	13.05%*	16.6%* (PUSD: applied 15%)	18.2%*	19.9%*	20.4%*

*CalPERS provided these estimates in 2014 and has not yet issued revised estimates

A CalPERS contribution rate for employers of 13.02% was built into the LCFF base grant. There is no increase in state funding for employer contribution rates in excess of 13.02%.

Increase in CalPERS cost in 2015-16 is minimal due to the negligible rate increase of 0.076% but the projected rate increase of 1.203% in 2016-17 will cost the District approximately \$65k and another \$107k in 2017-18.

Proposition 2:

Proposition 2 was approved by the voters on November 4, 2014. As an amendment to the California Constitution, Proposition 2 creates two distinct reserves – the state Budget Stabilization Account (BSA) and the K-14 “Public School System Stabilization Account” (PSSSA) which will impact school districts like Piedmont USD. For a contribution to the PSSSA reserve to occur, all of the following must be true:

1. The state must have repaid to schools the past Proposition 98 Maintenance Factor (\$6.6 billion as of 2013-14).
2. Capital gains taxes must be greater than 8% of state general fund revenue (capital gains taxes have exceeded 8% seven times in the past 16 years).
3. Proposition 98 must be calculated using Test 1 (since passage of Prop. 98 in 1988, Test 1 has been used only three times - in 1988-89, 2011-12, and 2012-13). Test 1 establishes a set percentage of state general fund revenues and serves as the minimum guarantee or funding floor for Proposition 98.
4. Proposition 98 must not be suspended (Proposition 98 has been suspended twice: in 2004-05 and 2010-11).

When the above listed conditions are met and revenues are deposited into the PSSSA, school district reserves will be capped in the following fiscal year. According to Senate Bill 858 (Chapter 32/2014), the fiscal year after a transfer is made into the PSSSA, school districts would not be able to have a “combined assigned and unassigned ending fund balances” of more than twice the minimum recommended reserve for economic uncertainties required by state regulations. County offices of education (COEs) could provide an exemption under “extraordinary fiscal circumstances,” but only for up to two consecutive fiscal years within a three-year period; in the third year, a COE would not be able to grant a waiver and a district would be required to spend down its reserves to the capped level or be out of compliance with the law.

Multi-year Projections (as of October 31, 2015) – 2016-17 Assumptions:

Revenue:

- FCMAT/LCFF calculator used to define base/grade level grants plus LCFF scheduled Economic Recovery Growth Target (year four) based on ADA of 2618. The ADA is a function of enrollment, based on October 7, 2015, CBEDs census data of 2,708 students.

- As part of the LCFF formula, the District is projected to receive \$112,122 in Supplemental & Concentration grant; it is not additional funding but is part of the base grant
- Federal funding remains at the 2015-16 level
- State funding remains at the 2015-16 level but with an increase of cost of living adjustment (COLA of 1.60%)
- NO increase on School Support Parcel Tax over 2015-16 level
- Piedmont Educational Foundation Endowment contribution of \$275k
- Piedmont Education Foundation (PEF) contributions of approximately \$2.6 million (Tier I and II funded positions and non personnel costs)

Expenditures:

- 0% increase in salary schedules for all employees
- “Step & Column” and “Longevity” salary increases of 1.5% for certificated/classified (\$263k/\$82k).
- The hold-harmless amount of Adult Education apportionment (based on 2007-08 ADA) of \$285,463 is retained by the District General Fund as part of the LCFF base; Adult Ed has another \$285,463 directly from CDE as Maintenance of Effort (MOE) funds
- \$50,000 transfer to Capital Facilities Fund for Witter Field sinking fund
- \$190,000 transfer to Deferred Maintenance Fund per historical categorical funding levels
- An increase of 1.85% of CalSTRS funding rate from 10.73% to 12.58%

Multi-year Projections (as of October 31, 2015) – 2017-18 Assumptions

Revenue:

- FCMAT/LCFF calculator used to define base/grade level grants plus LCFF scheduled Economic Recovery Growth Target (year five) based on ADA of 2,618, same as 2016-17.
- As part of the LCFF formula, the District is projected to receive \$114,822 in Supplemental & Concentration grant; it is not additional funding but part of the base grant
- Federal funding remains at the 2016-17 level
- State funding is based on the 2016-17 level with a slight increase of COLA at 2.48%
- NO Increase of 2.0% to School Support Parcel Tax over 2016-17 level
- Piedmont Educational Foundation Endowment contribution of \$275k
- Piedmont Education Foundation (PEF) contributions of approximately \$2.6 million (Tier I and II funded positions and non personnel costs)

Expenditures:

- 0% increase in salary schedules for all employees
- “Step & Column” and “Longevity” salary increases of 1.5% for certificated/classified (\$265k/\$83k).
- The hold-harmless amount of Adult Education apportionment (based on 2007-08 ADA) of \$285,463 is retained by the District General Fund as part of the LCFF base; Adult Ed has another \$285,463 directly from CDE as Maintenance of Effort (MOE) funds
- \$50,000 transfer to Capital Facilities Fund for Witter Field sinking fund
- \$190,000 transfer to Deferred Maintenance Fund per historical categorical funding levels
- An increase of 1.85% of CalSTRS funding rate from 12.58% to 14.43%

Status of Other Funds Operated by the District as of First Interim (10/31/15)

Adult Education – Fund 11

The Adult Education Funding as reported in the First Interim Report is supported under three separate sources: the first is the continuation of Maintenance of Effort (MOE) funding under the Governor’s 2015-16 Budget (\$285,463); the second source is the remaining funding PUSD will receive for serving as the fiscal agent for the Northern Alameda Consortium for Adult Education (NACAE) 2013-14 Adult Education AB86 Planning Grant; and the third source is from an allocation approved by NACAE Adult Education AB104 Block Grant to support PUSD’s efforts to identify eligible high school graduates under SB172 and curriculum development for high school diploma students (\$130,150). PUSD serves as the fiscal agent for the Adult Education Block Grant, which is responsible for distributing \$2,612,493 (minus the \$130,150 PUSD allocation) to member districts.

Cafeteria Fund – Fund 13

The Cafeteria Fund is a separate fund for which the District tracks all food services operations. Food services at the elementary sites are exclusively operated by parent volunteers. Food service at the High and Middle schools require at least 4 employees (one employee is part time) whose salaries are accounted for through this fund. This fund does not receive contributions from the District General Fund. Revenue is anticipated to increase by the cost of salary and benefits for employees in the multi-year projections. Expenses include 0% increase in salaries for 2016-17 and 2017-18 and 1.5% in longevity increases only.

Deferred Maintenance Fund – Fund 14

The source of revenue to this fund is no longer designated as a combination of State funds which require matching District funds. All funds have been rolled into the LCFF which goes directly to the District General Fund, therefore all “revenue” for this fund is from a transfer from the District General Fund as designated by the Board at the February 12, 2014 Board meeting. The amount to be transferred is budgeted at \$190,000 and will continue through 2017-18. Expenditures for this fund include 40% of the Director of Facilities’ salary compensation and other deferred maintenance expenses as needed. Excess funds are reserved for emergencies.

NODA Fund – Fund 17

The NODA Fund was established by the Board of Education to use the proceeds from the sale of a mural by artist (and former PHS student) Benjamin Hideo Noda to establish a fund from which the interest earned is used for grants to support visual arts at the secondary level. Arts grants are funded through interest earned. Interest earnings are not sufficient to match the amount of the grants found in the multi-year projections. The balance of these funds is included as part of the 6% cap on reserves that will be imposed if the Prop. 2 provisions come into effect.

SPECIAL RESERVE PARCEL TAX – Fund 17

The Parcel Tax Reserve Fund is established to account for transfers for future use to support Parcel Tax programs. The purpose of this fund is to support programs in the final years of a Parcel Tax Measure. 2015-16 was the first year that there was a transfer to this fund from Measure A, which was approved by the voters in March 2013 for eight years.

Building Fund – Fund 21

All funds will be expended on projects approved by the Board.

State School Facilities Fund – Fund 35

The Board has approved a contract for Quattrocchi Kwok Architects (QKA) at \$125,900 to develop a District Facilities Master Plan. Other expenditure in this Fund is \$46k on the shade structure at Beach Elementary School of which the expenditure was discussed and agreed at the steering committee. The balance of the expenditures of approximately \$231k has not been encumbered yet.

Capital Facilities Fund – Fund 40

The Capital Facilities Fund is a fund for capital projects as identified by the Board of Education. Changes in the multi-year projections reflect ongoing transfers of \$50,000 from the General Fund for future field replacement needs. Additionally, there is a \$30k to \$35k from the City of Piedmont as Program Preservation Fund. A likely use of the funds is the replacement of Witter Field turf when necessary. All funds for the Alan Harvey Theater will be expended by June 30, 2016.

Self Insurance Fund – Fund 67

This fund is established to account for funds spent on self-insurance activities such as deductibles for property and liability, and workers compensation. The General Fund transferred \$10,000 to this fund in 2015-16 and is projected to transfer similar amount for the two subsequent fiscal years. Adjustments can be made in the future based on expenditure needs.

Summary and Recommendation

The Budget Advisory Committee (BAC), which is a standing committee with representatives from all stakeholders in the District, is a vehicle for dissemination of information to as many parents, students, staff and community members as possible. Its purpose is to review the District's budget, share the information with constituent groups and generate recommendations for Board consideration in the budget review process. It provides frequent opportunities for the Piedmont educational community to review the District's budget and identify trends and make recommendations for Board consideration. The Committee is advisory in nature and does not have decision-making responsibilities. After the BAC has reviewed the First Interim Report, results of its discussions for budget priorities and recommendations will be presented to the Board of Education as part of the 2015-16 First Interim approval process.

Staff will continue to do outreach to all stakeholders in the District to understand the implications of the new State Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP) which is now part of every budget development process. Although LCAP is not required to be part of the interim report filing, its priorities are manifested and covered in the First Interim Report.

It is recommended that the Board of Education review and approve the 2015-16 First Interim Report as presented and that they provide a Positive Certification as to the District's ability to meet its financial obligations for the current year and subsequent two fiscal years based on the District's reserve levels and its ability to increase revenue and reduce expenses as needed and in time to respond to economic uncertainty. This recommendation is based on information that is available as of October 31, 2015. It is anticipated that the Second Interim Report presented in March 2016 will address the shortfall in the required reserve for 2017-18.

Piedmont is committed to the long-term tradition of solid fiscal responsibility in the management of the District's finances. The District Business Services staff continues to work closely with the Business Services Department at the Alameda County Office of Education and in consultation with School Services of California. The Alameda County Office of Education is dedicated to supporting Piedmont to assure all requirements of AB 1200 and the Daucher Bill are met.

II. RECOMMENDATION: APPROVE

Upon review of the 2015-16 PUSD First Interim Report, approve a *Positive* certification of the District's ability to address and meet its financial obligations for the current year and subsequent two years and make all budget transfers as required.

Attachments