

GLENDALE UNIFIED SCHOOL DISTRICT

August 12, 2014

ACTION REPORT NO. 1

TO: Board of Education

FROM: Richard M. Sheehan, Superintendent

SUBMITTED BY: Eva Rae Lueck, Chief Business and Financial Officer

PREPARED BY: Mike Lee, Controller
Craig Larimer, Financial Analyst

SUBJECT: Final State Budget and 2014-15 Initial Budget Adjustments

The Superintendent recommends that the Board of Education approve the District's initial budget adjustments to reflect changes in the State's Final Budget.

The Final State Budget contains several significant changes covering LCFF, STRS, Mandated Costs and district reserve requirements. As a result, the District's Adopted Budget will be adjusted to reflect several of these changes with Board of Education approval.

Local Control Funding Formula (LCFF)

The final 2014-15 State Budget provides an additional \$250 million to the Governor's May Revise for the LCFF, bringing the total LCFF funding up by \$4.75 billion. This additional LCFF funding results in closing the "gap" toward the funding target by 29.56% compared to 28.05% at adoption. The projected "gap" for 2015-16 and 2016-17 changed from 33.95% to 20.68% and 21.6% to 25.48%, respectively. The impact of GAP, COLA, and ADA changes to District Budget LCFF Total funding is as follows:

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Adopted Budget Funding	\$180.7 M	\$195.9 M	\$202.7 M
Revised Funding	\$182.4 M	\$190.7 M	\$200.3 M
Change	\$ +1.7 M	\$ -5.2 M	\$ -2.4 M

California State Teachers' Retirement System (CALSTRS)

The final State Budget includes a 7-year implementation schedule to retire the \$73.7 billion CalSTRS shortfall. The final deal includes a 0.63% employer increase effective 2014-15, which increases by 1.85% annually in 2015-16 through 2019-20, and by 0.97% in 2020-21, resulting in a contribution rate of 19.1% in 2020-21, up from 8.25% in 2013-14. The impact of CalSTRS employer rate increase on the District budget are cost increases of \$0.7 million for 2014-15, \$2.6 million for 2015-16 and \$4.5 million for 2016-17.

The employee contribution rate will increase from 8.0% to 10.25% over 3 years for pre-pension reform CalSTRS members. For members enrolling after pension reform, the rate will be capped at 9.205%.

Mandates

For K-12 districts, the State will provide one-time \$400.5 million towards funding prior mandate claims. Trailer bill language intends that school districts prioritize these funds for implementation of the Common Core State Standards, though a district can use these funds for any one-time purpose. Glendale USD will use this \$1.6 million to cover a portion of the I-Ready cost.

Reserves

The 2014-15 State Budget included a last minute agreement to place new restrictions on the level of reserves school districts can maintain under certain circumstances. Starting in 2015-16, school districts will be required at the public hearing for budget adoption or revision, to "substantiate" assigned and unassigned ending balances that are "in excess" of the minimum reserve required by State regulation. If Proposition 44, the State Rainy Day Fund, is approved by voters this November, then a second provision would establish a hard cap on ending balances when the State makes contributions to the Proposition 98 reserve. The 11th hour change allowing the State to greatly control district reserve levels is inconsistent with the "local control" concept implemented in other parts of the State Budget.

Budget Revisions

Attachment A contains a recap of the revised, Multi-Year Budget Assumptions, and Attachment B lists the budget adjustment impact on the Unrestricted General Fund resulting from the Final State Budget provisions. District administration recommends the Board of Education approve these adjustments to the District Budget.

To Support 2014-15 Board Priority No. 2 - "Use Board adopted budgetary principles to maintain District fiscal integrity and stability of instruction and programs."

Multi-Year Budget Assumptions

Category	2012-13 Actual	2013-14	2014-15	2015-16	2016-17
LCFF / REVENUE LIMIT					
- Projected Net District LCFF Revenue Increase	n/a	\$7,257,521	\$17,428,154	\$8,347,992	\$9,559,941
- Revenue Net Percentage Increase	1.08%	5.08%	10.87%	5.44%	5.76%
- Projected Increase In Funding Per ADA	\$56	\$316	\$709	\$393	\$439
- Total LCFF Funding Per ADA	n/a	\$6,525	\$7,234	\$7,627	\$8,066
- Factors Utilized In Revenue Calculations					
Cost of Living Adjustment (COLA)	3.24%	1.570%	0.85%	2.19%	2.14%
Gap Funding	n/a	12.002%	29.56%	20.68%	25.48%
Revenue ADA	25,371	25,278	25,209	25,003	24,826
Enrollment	26,194	26,084	25,936	25,752	25,630
EMPLOYEE BENEFITS					
- Adopted Budget STRS Rates	8.250%	8.250%	8.250%	8.250%	8.250%
Revised STRS Rates (Final State Budget)	8.250%	8.250%	8.880%	10.730%	12.580%
- PERS	11.417%	11.442%	11.771%	12.600%	15.000%
- Workers Comp	2.919%	3.210%	3.338%	3.338%	3.338%
- Retiree Benefits	1.88%	0.909%	0.470%	2.170%	2.170%
Utilizing Fund #67.1 Balance		See Below	See Below	---	---
- Health Insurance Increase	\$950,000	\$694,000	\$0	\$950,000	\$950,000
"SOLVENCY" TRANSFERS					
- Special Ed. Reserve (Depleted by end of 2012-13)	\$1,110,000	\$0	\$0	\$0	\$0
- Post-Employment Benefits Fund #20.0 (Depleted by end of 2012-13)	\$2,750,000	\$0	\$0	\$0	\$0
- Restricted Major Maintenance Reserve	\$1,000,000	\$700,000	\$0	\$0	\$0
- No Deferred Maintenance Transfer	\$1,238,000	n/a	n/a	n/a	n/a
- Early Retirement Benefit Fund #67.2	\$0	\$1,600,000	\$2,400,000	\$0	\$0
- Deferred Maintenance Fund #14.0 (Depleted by end of 2014-15)	\$0	\$0	\$0	\$0	\$3,000,000
- Debt Service Fund #56.0 (Depleted by end of 2014-15)	\$0	\$0	\$0	\$0	\$0
- Deferred Maintenance Fund Revenue to General Fund	\$945,873	n/a	n/a	n/a	n/a

**2014-15 Initial Budget Adjustment Impact on Unrestricted General Fund Ending Balance
8/12/2014 Board Meeting**

Major Changes	2013-14	2014-15	2015-16	2016-17
Adopted Budget 2014-15 Ending Balance	\$ 26,173,867	\$ 23,757,606	\$ 31,656,585	\$ 47,562,629
Adjustment For Actual 2013-14 Ending Balance (pending)	\$ -	\$ -	\$ -	\$ -
Revised 2014-15 Ending Balance Reflecting Actuals Adjustment	\$ 26,173,867	\$ 23,757,606	\$ 31,656,585	\$ 47,562,629
Initial August Adjustments				
Revised LCFF Funding Variables	\$ 264,384	\$ 1,649,525	\$ (5,221,564)	\$ (2,405,876)
LCFF Payment To LACOE For County Schools - LACOE will invoice GUSD (GUSD received revenue via LCFF but owes LACOE)	\$ (182,695)	\$ (202,553)	\$ (213,570)	\$ (225,875)
STRS Rate Increase		\$ (655,733)	\$ (2,597,598)	\$ (4,524,178)
I READY		\$ (1,617,303)		
Additional Mandated Cost Revenue		\$ 1,617,303		
Current Year Impact	\$ 81,689	\$ 791,239	\$ (8,032,732)	\$ (7,155,929)
Cumulative Impact to Ending Balance	\$ 81,689	\$ 872,928	\$ (7,159,804)	\$ (14,315,733)
Adjusted Ending Balance Projection	\$ 26,255,556	\$ 24,630,534	\$ 24,496,781	\$ 33,246,896
Designated and Restricted Portion:				
Revolving Cash	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000
Stores	\$ 126,879	\$ 126,879	\$ 126,879	\$ 126,879
3% Mandated Reserve for Economic Uncertainties	\$ 7,164,295	\$ 6,993,015	\$ 7,145,679	\$ 7,252,944
Reserve for Furlough Days	\$ -	\$ -	\$ -	\$ 1,286,000
Reserve for LCFF Net Income Growth (Cumulative)	\$ -	\$ -	\$ 8,347,992	\$ 26,255,925
Fund Carry-Over Assignment Remaining*	\$ 2,502,790	\$ 2,152,198	\$ 1,878,606	\$ 1,605,014
Adjusted Balance in Excess of Assigned And 3% Reserve	\$ 16,391,592	\$ 15,288,442	\$ 6,927,625	\$ (3,349,866)