

**First Interim Financial
Report as of
October 31, 2014**

**Presented to the Board of Trustees
December 8, 2014**

First Interim 2014/15

- **This isn't a routine First Interim presentation because the District has experienced revenue decline and "expenditure creep" since the budget was adopted in mid-June**
 - **Revenue decline:**
 - **GAP funding (state funds)**
 - **Declining enrollment**
 - **Special education**
 - **Expenditure increase:**
 - **Classroom teachers**
 - **Speech and language pathologist**
 - **Special education**

These changes contribute to a Qualified certification of our ability to meet our financial obligations for the current and subsequent two years

A Little Bit of History.....

- **In April 2014, the Board approved a 5% salary raise retroactive to July 1, 2014**
- **Based upon the assumptions at that time, the District met its 5% reserve in the third year of the multi-year projection**
- **Planned deficit spending was occurring until future state revenues were received to minimize or mitigate this deficit spending**
- **In June 2014, the Board adopted the LCAP and Adopted Budget**
- **Within the LCAP, “base program” increased by restoring three custodial positions, adding a needed CALPADS position, and increasing school site allocations**
- **Also within the LCAP, a “supplemental program” was established adding a third bilingual aide, increasing counselor work year by one month, adding a TOSA, and adding a summer school program**

A Little Bit of History..... (cont'd)

- **Again, based upon the assumptions at the time, these additions to the adopted budget were within reason in the multi-year projection**
- **A last minute addition to the state budget in late June added STRS pension increases to the District Adopted budget beginning in 2014/15**
- **It was primarily this increased expense in each year that resulted in increased deficit spending in years two and three of the multi-year projection (\$468,000 and \$700,000 respectively)**
- **Subsequent to the budget adoption and incorporated in this First Interim, the state revised its GAP funding projections for all three years, resulting in reduced revenues in years two and three**

And Current Impact.....

- **The District added an additional CSR teacher not included in the Adopted Budget as students arrived in August 2014**
- **Enrollment declined overall by 14 students**
- **Seat attendance is slightly below the same period last year**
- **Special education revenue declined \$66,000 due to the state formula change in July (retroactive to 2013/14) and reduced ADA**
- **Special education expenses have increased approximately \$200,000 since the Adopted Budget**
- **These negative changes to the District's financial projections have eroded reserves to the point where a qualified certification is warranted and a fiscal solvency plan is required by LACOE at the Second Interim reporting period**

Now for the Details....

2014/15 First Interim Assumptions

General Fund Revenue

- **Local Control Funding Formula (LCFF)**
 - **2013/14 amount per ADA = \$6,013 (average)**
 - **2014/15 amount per ADA = \$6,632 (average)**
 - **Increase of 10.28%, or \$1,900,000 (\$650,000 are “Supplemental” Funds)**
 - **Includes CSR add-on of approximately \$951,000**
 - **Must reach 24:1 in TK-3 at each site by 2021, unless collectively bargained alternative language exists. The District does not have this language.**
 - **“Supplemental” Funds for targeted students of approximately \$650,000 will grow to approximately \$1.8 million by 2021**

2014/15 First Interim Assumptions

General Fund Revenue (continued)

- Intention to fully restore districts to “pre-recession” levels (plus COLA) by 2021
- “Target” entitlement per ADA is \$8,105 (average), or an additional \$4.6 million by 2021
- ADA: 3,105.56 (20 ADA decrease below 2013/14)
- Most state categoricals rolled into LCFF
 - Restricted Lottery, unrestricted lottery, and special education remain
 - Transportation M.O.E. for two years (must maintain expense)
- Mandated Costs Reimbursement:
 - Block Grant
 - One time Mandate Reimbursement

2014/15 Revenue

	Adopted Budget	First Interim Budget	Change
L.C.F.F.	\$ 20,607,915	\$ 20,791,261	\$ 183,346
Federal Revenue	\$ 1,161,420	\$ 1,214,975	\$ 53,555
Other State Revenue	\$ 724,331	\$ 992,790	\$ 268,459
Other Local Revenue	\$ 1,729,172	\$ 1,776,521	\$ 47,349
Interfund Transfer In	\$ 0	\$ 0	\$ 0
Total	\$ 24,222,838	\$ 24,775,547	\$ 552,709

2014/15 First Interim Assumptions

General Fund Revenue – Major Changes from Adopted Budget

➤ LCFF

+\$183,000 LCFF GAP funding increase

**Note: Reduction of 20 ADA (loss of \$140,000) is effective
in 2015/16**

➤ Federal Revenue

+\$67,000 Title I increase

-\$10,000 MAA reimbursement reduction

2014/15 First Interim Assumptions

General Fund Revenue – Major Changes from Adopted Budget (continued)

➤ State Revenue

+\$207,000 “One-time” Mandate Reimbursement

+\$51,000 Career Pathways Grant (3 year grant)

➤ Local Revenue

**+\$105,000 SELPA Reimbursement for Foster Student
NPS Costs**

**-\$66,000 State Special Education Formula Change and
20 ADA reduction**

2014/15 First Interim Assumptions

General Fund Expenditures

- **Salary**
 - **Budgeted per Board approved salary schedules**
- **Step and Column: Actuals for 2014/15**
- **Health and Welfare: Maximum medical cap \$16,422; Dental, Vision, and Life Maximum \$1,917**
- **STRS pension rate increase to 8.88% from 8.25%**
- **PERS pension rate increase to 11.77% from 11.44%**

2014/15 First Interim Assumptions

General Fund Expenditures

➤ Supplies

- Elementary school site budgets increased 20% to \$66 (from \$55) and \$106 (from \$85) per student**
- 2013/14 Restricted Carryover (\$251,143 – primarily Lottery and Common Core funds) and unrestricted school site and school donations carryover (\$200,890) are appropriated in supply and services expenditure objects**

2014/15 First Interim Assumptions

General Fund Expenditures

- **Services and Other Outgo (projected)**
 - **Special education services for additional students in non-public schools and agencies (including transportation)**
 - **Legal fees and due process settlements**
 - **Utilities**

2014/15 Expenses

	Adopted Budget	First Interim Budget	Change
Certificated Salaries	\$ 12,549,900	\$ 12,710,369	\$ 160,469
Classified Salaries	\$ 3,553,667	\$ 3,593,234	\$ 39,567
Employee Benefits	\$ 5,597,420	\$ 5,401,265	\$ (196,155)
Books & Supplies	\$ 858,456	\$ 1,393,420	\$ 534,964
Services/Operating Exp.	\$ 2,190,242	\$ 2,528,768	\$ 338,526
Capital Outlay	\$ 0	\$ 0	\$ 0
Other Outgoing	\$ 487,200	\$ 611,100	\$ 123,900
Interfund Transfer Out	\$ (38,905)	\$ (31,876)	\$ 7,029
Total	\$ 25,197,980	\$ 26,206,280	\$ 1,008,300

2014/15 First Interim Assumptions

General Fund Expenditures – Major Changes from Adopted Budget

➤ Certificated Salaries

➤ +\$192,000:

+ 1.0 FTE for K-3 class size ratios

+ 0.3 FTE at Rancho Starbuck Career Pathways Grant)

+ 0.4 Speech and Language Pathologist

**(note 0.6 FTE unfilled speech & language position covered
through contracted services until filled)**

-\$32,000 Certificated administrative savings

➤ Classified Salaries

+\$38,000 Additional special ed aide support

2014/15 First Interim Assumptions

General Fund Expenditures – Major Changes from Adopted Budget

➤ Benefits

-\$175,000 premium savings. Adopted budget projected 7% premium increase due to historical trends, plus full benefits for 8.5 FTE positions for a total of 12%. Actual premium increases were -1.4% to 4.3%, and total overall increase was 7%.

➤ Supplies

- + \$142,000 Legal restricted carryover**
- + \$152,000 School site carryover**
- + \$80,000 Textbook adoption balance (restricted lottery to pay \$200,000)**

2014/15 First Interim Assumptions

General Fund Expenditures – Major Changes from Adopted Budget

➤ Services

- + \$209,000 Increase of two special education students in non-public schools, and contracted speech services due to partially unfilled speech and language position**
- + \$42,000 School site carryover budgeted for music and art consultants**
- + \$27,000 Increased utility costs**

➤ Other Outgoing

- + \$124,000 for two additional students to OCDE and Fullerton School District**

2014/15 First Interim Assumptions

General Fund Reserve

- **Board Policy 3105 requires an additional 2% above the State minimum reserve level, when two years of stable state funding exists, to provide a buffer for cash-flow needs and if financial difficulties arise and commitments cannot be reduced**
- **The District is projecting slight enrollment decline in 2014/15 and stable enrollment in 2015/16 and 2016/17**
- **The Designation For Economic Uncertainties Reserve target remains at 3% through 2014/15. The Reserve target increases to the previous target of 5% beginning in 2015/16 in the multi-year projection.**

Multi-year Projections

Revenue Assumptions

(Subsequent Years)

- **Local Control Funding Formula Sources:**
 - **COLA**
 - **2.19% in 2015/16**
 - **2.14% in 2016/17**
 - **Gap Funding (statewide)**
 - **20.68% in 2015/16 (was 30.39% at AB)**
 - **25.48% in 2016/17 (was 19.5% at AB)**
 - **ADA**
 - **-20 ADA decrease from 2014/15 (-\$140,000) begins in 2015/16**
 - **0 ADA increase in 2015/16**
 - **0 ADA increase in 2016/17**
- **Class size ratios continue to reach toward 24:1 goal per site by 2021**
- **Mandated Costs one-time reimbursement removed (\$207,000)**
- **All other revenues remain relatively constant (including Mandate Block Grant of \$87,000)**

Multi-year Projections

Expense Assumptions

(Subsequent Years)

- **2013/14 Legal and Board restricted carryover is fully spent in 2014/15**
- **2015/16 Salaries and Employee Benefits**
 - **1.3% Certificated step and column costs**
 - **1.2% Classified step and longevity costs**
 - **0.7% Non-unit step and longevity costs**
 - **7.0% Increase in employee health and welfare benefits**
 - **LJEA step/column costs assume 1 teacher retiree savings**
 - **Increase of 1.0 teacher due to CSR goal of 24:1 by 2021**
 - **STRS pension increase from 8.8% to 10.73%**
 - **PERS pension increase from 11.77% to 12.60%**
- **No additional textbook adoption (14/15 Math)**
- **Expense increased by Consumer Price Index of 2.3%**
- **Special education encroachment increase \$100,000**

Multi-year Projections

Expense Assumptions

(Subsequent Years - Continued)

- **2016/17 Salaries and Employee Benefits**
 - **1.3% Certificated step and column costs**
 - **1.2% Classified step and longevity costs**
 - **0.7% Non-unit step and longevity costs**
 - **7.0% Increase in employee health and welfare benefits**
 - **STRS pension increase from 10.73% to 12.58%**
 - **PERS pension increase from 12.60% to 15.00%**
- **No new textbook adoption**
- **Purchase ELA (K-2) workbooks annually - \$67,000**
- **Expense increased by Consumer Price Index of 2.5%**
- **Special education encroachment increase \$100,000**
- **Technology replacement program begins \$150,000 annually**

Multi-year General Fund Summary

(3%, 5%, 5% Reserve Levels)

	2014/15 First Interim	2015/16 Projected	2016/17 Projected
Total Revenue and Transfers In	\$ 24,775,547	\$ 25,363,108	\$ 26,528,359
Total Expenditures & Outgo	\$ 26,206,280	\$ 26,578,139	\$ 27,935,139
Change in Fund Balance	\$ (1,430,733)	\$ (1,215,031)	\$ (1,406,780)
Beginning Balance	\$ 3,568,274	\$ 2,137,541	\$ 922,510
Ending Balance	\$ 2,137,541	\$ 922,510	\$ (484,270)
Components of Fund Balance			
Reserved Amounts	\$ 10,000	\$ 10,000	\$ 10,000
Legally Restricted	\$ 0	\$ 0	\$ 0
Economic Uncertainties	\$ 786,188	\$ 1,333,000	\$ 1,390,000
Designations-Gap Funding Uncertain	\$ 0	\$ 490,000	\$ 700,000
Undesignated Amount	\$ 1,341,353	\$ (910,490)	\$ (2,584,270)

Multi-year General Fund Summary

(carryover removed from 2014/15)
(3%, 5%, 5% Reserve Levels)

	2014/15 First Interim	2015/16 Projected	2016/17 Projected
Total Revenue and Transfers In	\$ 24,775,547	\$ 25,363,108	\$ 26,528,359
Total Expenditures & Outgo	\$ 25,674,247	\$ 26,578,139	\$ 27,935,139
Change in Fund Balance	\$ (898,700)	\$ (1,215,031)	\$ (1,406,780)
Beginning Balance	\$ 3,568,274	\$ 2,669,574	\$ 1,454,543
Ending Balance	\$ 2,669,574	\$ 1,454,543	\$ 47,763
Components of Fund Balance			
Reserved Amounts	\$ 10,000	\$ 10,000	\$ 10,000
Legally Restricted	\$ 532,033	\$ 0	\$ 0
Economic Uncertainties	\$ 786,188	\$ 1,333,000	\$ 1,390,000
Designations-Gap Funding Uncertain	\$ 0	\$ 490,000	\$ 700,000
Undesignated Amount	\$ 1,341,353	\$ (378,457)	\$ (2,052,237)

Deficit Spending

- **Only 2014/15 funding is reliable at First Interim**
- **District is deficit spending 5.6% unrestricted reserves in 2014/15**
- **If LACOE projections (COLA plus GAP) are accurate for future years, District will deficit spend 5.6% again in 2015/16, and deficit spend 6.1% in 2016/17**
- **The District does not have sufficient reserves to support this level of deficit spending**
- **If LACOE projections are overstated for future years, District will increase deficit spending accordingly**

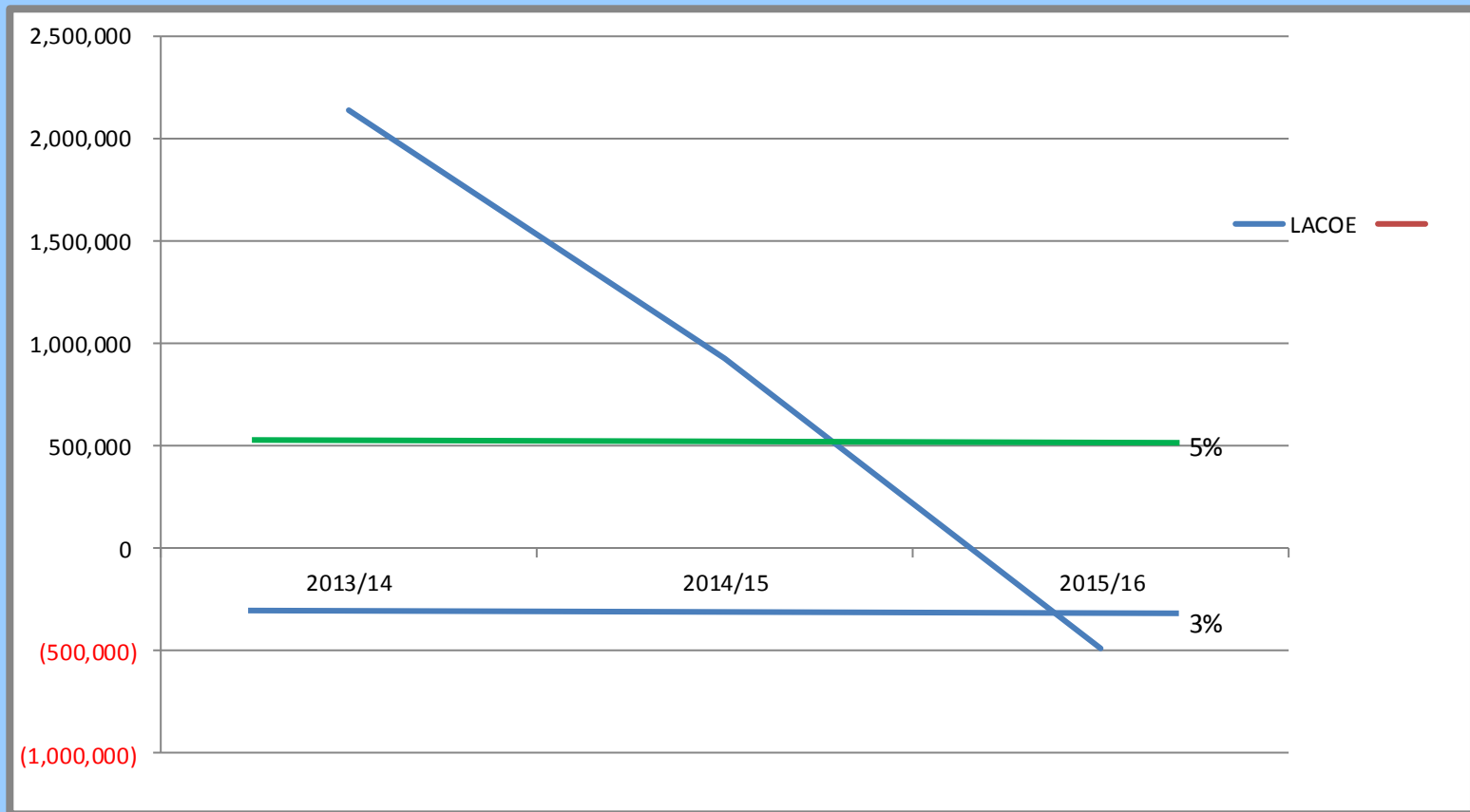
Cashflow Considerations

- **The last time the General Fund borrowed cash from the Special Reserve Fund to cover payroll was in 2012/13. The reserves were high (20%) - but we were experiencing deferrals from the state.**
- **The District's reserve level is projected to end this year at 8% and we have borrowed \$2 million to meet December payroll due to the timing of property tax receipts anticipated in January. There are no longer deferrals. Monthly payroll outflow exceeds monthly apportionment receipts and continued cash borrowing is anticipated. When reserves decline further more borrowing will be necessary.**

Cashflow Need

Cashflow Needs						
<u>2014/15</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>
State Apportionment-Monthly	986,000	986,000	986,000	986,000	986,000	986,000
Payroll-Monthly	(2,300,000)	(2,300,000)	(2,300,000)	(2,300,000)	(2,300,000)	(2,300,000)
Difference-Monthly	(1,314,000)	(1,314,000)	(1,314,000)	(1,314,000)	(1,314,000)	(1,314,000)
State Education Protection Account (Quarterly)		869,712			869,712	
Property Taxes (January and April)						2,900,000
Cash Need (Cumulative)	(1,314,000)	(1,758,288)	(3,072,288)	(4,386,288)	(4,830,576)	(3,244,576)
5% Reserve Target	1,300,000					
Fund 40 beginning balance/cash	7,400,000	6,666,667	(Minimum Cash Balance Required to borrow \$5 million)			
75% allowed for borrowing	5,550,000					

Multi-year General Fund Summary – Ending Balances



Recommendations

- **Financial consultant to review three year projection for confirmation of reasonableness**
- **If State budget projections don't include increased revenue for 2015/16, organize a Budget Committee to meet in January and February to generate prioritized expenditure reductions to the Superintendent in late February**

Recommendations – (cont'd)

- **Superintendent to present prioritized budget reductions to the Board at a special Board meeting prior to March 9, 2015**
- **Board to approve agreed upon budget reductions at the March 9, 2015, Board meeting prior to the approval of the Second Interim Financial Report**

Future Considerations....

- **We know current year state budget has \$2 billion excess. How and when will it be distributed?**
- **We will see state budget projections for 2015/16 in January 2015. How much COLA and GAP will be funded? Will more deferrals be funded? Will more one-time dollars become available?**
- **Will federal healthcare program cause cost increases? (not yet seen in premiums)**

Facilities Funds

- **District facilities are over 50 years old with no major modernization performed**
- **Facilities maintenance expenses are increasing while revenue sources to fund them are decreasing:**
 - **Capital Facilities (developer fees) are dwindling due to limited development within District attendance boundaries**
 - **Carryover of \$113,000 remains**

Nutrition Funds

- **Planned deficit spending remains this year to reduce reserves to the federal requirement of three months operating expenses**
- **Kitchens have received new equipment and/or counter tops**
- **A new delivery truck has been ordered and is expected in February**

Facilities Funds (continued)

- **Deferred Maintenance funds were “flexed” in 2008/09 and have been rolled into the LCFF base along with other categoricals**
- **Deferred Maintenance reserves are exhausted; Special Reserve Fund is supporting these projects**
- **Special Reserve for Capital Outlay Fund remains a funding source for capital projects**
- **Special Reserve receives ongoing lease income and contains sale of property funds**
- **The routine repairs for plumbing, windows, doors, roof leaks, phones, computer cabling, clocks and bells, grounds, concrete repair are reliant on the General Fund**

2014/15 Special Reserve Fund

Revenue	Adopted Budget	First Interim Budget	Change
Lease and Interest Income	\$ 583,000	\$ 852,500	\$ 269,500
Proposition 39 Funds	\$ 0	\$ 135,000	\$ 135,000
Total	\$ 583,000	\$ 987,500	\$ 404,500
Expenses			
Supplies	\$ 10,000	\$ 10,000	\$ 0
Services	\$ 101,000	\$ 106,000	\$ 5,000
Capital Outlay	\$ 250,000	\$ 250,000	\$ 0
Total	\$ 361,000	\$ 366,000	\$ 5,000
Transfers Out	\$ 174,000	\$ 174,000	\$ 0
Beginning Balance	\$ 7,343,963	\$ 7,343,963	\$ 0
Ending Balance	\$ 7,391,963	\$ 7,791,463	\$ 399,500

Special Reserve Fund

- **Renegotiated leases will generate revenues each year for many years**
- **High cash reserves allows payroll loans to the General Fund (\$2 million this year and last year due to state deferrals), avoiding costly TRANS issue**
- **Supports Deferred Maintenance Fund expenses for maintaining our buildings**
- **Funds facility related projects such as facility needs analysis, property related legal expenses, small and large capital projects (VOIP phone system districtwide and wireless system at Rancho Starbuck are examples)**

First Interim Financial Report Certification of Financial Condition

Positive Certification

‘As president of the governing board of this school district, I certify that this district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.’

☒ Qualified Certification

‘As president of the governing board of this school district, I certify that this district may not meet its financial obligations for the current fiscal year and subsequent two fiscal years.’

Negative Certification

‘As president of the governing board of this school district, I certify that based upon current projections this district will be unable to meet its financial obligations for the remainder of the fiscal year or for the subsequent fiscal year.’