

**First Interim Financial  
Report as of  
October 31, 2016**

**Presented to the Board of Trustees  
December 12, 2016**

# **2016/17 First Interim Assumptions**

## **General Fund Revenue**

- **State intention to fully restore districts to “pre-recession” levels (plus COLA) by 2021**
- **“Target” entitlement per ADA is \$8,210 (average), or an additional \$1.0 million by 2021 (includes \$273,000 in Supplemental Grant funds)**
- **District is 96% funded as of 2016/17**

# 2016/17 First Interim Assumptions

## General Fund Revenue

- **Local Control Funding Formula (LCFF)**
  - **2015/16 amount per ADA = \$7,456 (average)**
  - **2016/17 amount per ADA = \$7,872 (average)**
  - **Increase of 5.6%, or \$1,121,000 (\$372,000 are “Supplemental” Funds)**
  - **“Supplemental” Funds for targeted students of approximately \$1,609,559 will grow to approximately \$1,883,000 by 2021 (estimated full funding year)**
  - **ADA (funded): 3,086.64 ( 16 ADA less than 2015/16 ADA)**
  - **ADA estimate for 2016/17 is 3,060, a decline of 26.64. This is the district’s third consecutive declining year. No decline is projected for 2017/18 due to small residential “infill” projects**

# 2016/17 Revenue

	Adopted Budget	First Interim Budget	Change
L.C.F.F.	\$ 24,416,020	\$ 24,300,945	\$ (115,075)
Federal Revenue	\$ 1,074,644	\$ 1,396,029	\$ 321,385
Other State Revenue	\$ 1,582,550	\$ 1,544,719	\$ (37,831)
Other Local Revenue	\$ 1,785,401	\$ 1,817,435	\$ 32,034
Interfund Transfer In	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 28,858,615</b>	<b>\$ 29,059,128</b>	<b>\$ 200,513</b>

# **2016/17 First Interim Assumptions**

## **General Fund Revenue – Major Changes from Adopted Budget**

- **LCFF** **-\$115,075**
  - **ADA decline in non-public school and county office educated ada. Districts are funded on current year ADA for these students. Adopted budget utilized prior year ADA since current year was not yet known.**
  
- **Federal Revenue** **+\$321,385**
  - **Title I unused 2015/16 award and current year increase**
  - **Title II unused 2015/16 award**
  - **Title III unused 2015/16 award**

# **2016/17 First Interim Assumptions**

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

- **State Revenue**                      **-\$38,000**
  - “One-time” Mandate Reimbursement declined from \$237 to \$214 per ADA
  - Lottery funding increased
- **Local Revenue**                      **+\$30,000**
  - School site donations collected

# **2016/17 First Interim Assumptions**

## **General Fund Expenditures**

- **Salary**
  - **Budgeted per Board approved salary schedules**
- **Step and Column: Actuals for 2016/17**
- **Health and Welfare: Maximum medical cap \$17,593; Dental, Vision, and Life Maximum \$1,844**
- **STRS pension rate increase 1.85% (12.58% from 10.73%)**
- **PERS pension rate increase 2.04% (13.888% from 11.847%)**

# **2016/17 First Interim Assumptions**

## **General Fund Expenditures**

- **Supplies**
  - **Elementary school site budgets remain at \$66 per student and \$106 at Rancho Intermediate per student**
  - **2015/16 Restricted Carryover, unrestricted school site/school donations carryover, and unused prior year federal awards are appropriated primarily in supply expenditure object codes**

# 2016/17 Expenses

	Adopted Budget	First Interim Budget	Change
Certificated Salaries	\$ 13,763,235	\$ 13,825,878	\$ 62,643
Classified Salaries	\$ 4,038,943	\$ 3,980,851	\$ (58,092)
Employee Benefits	\$ 6,637,442	\$ 6,497,551	\$ (139,891)
Books & Supplies	\$ 1,324,291	\$ 2,242,836	\$ 918,545
Services/Operating Exp.	\$ 2,318,737	\$ 2,243,007	\$ (75,730)
Capital Outlay	\$ 0	\$ 0	\$ 0
Other Outgoing	\$ 629,189	\$ 574,350	\$ (54,839)
Interfund Transfer Out	\$ 0		\$ 0
<b>Total</b>	<b>\$ 28,711,837</b>	<b>\$ 29,364,473</b>	<b>\$ 652,636</b>

# **2016/17 First Interim Assumptions**

## **General Fund Expenditures – Major Changes from Adopted Budget**

- **Certificated Salaries +\$63,000:**
  - **Special education consultants hired to assist with Director of Special Education vacancy/transition**
  - **Substitutes for professional development days**
- **Classified Salaries -\$58,000**
  - **Management position eliminated**

# **2016/17 First Interim Assumptions**

## **General Fund Expenditures – Major Changes from Adopted Budget**

- **Statutory and Health Benefits -\$140,000**
  - **Primarily premium savings. Actual budget increases were 6.0% instead of the projected 7%.**
- **Supplies +919,000**
  - **Legal restricted and “unearned” prior year carryover**
  - **School site carryover**
  - **Chromebook Cart Initiative expenses (from one-time reserves restricted for this purpose)**
  - **English Language Arts Adoption moved to current year from 2017/18 summer purchase**

# **2016/17 First Interim Assumptions**

## **General Fund Expenditures – Major Changes from Adopted Budget**

- **Services** **-\$86,000**
  - **Board member election not necessary**
  - **ESSA alternative services redirected to school site services**
  - **Educator Effectiveness Grant services**
  
- **Other Outgoing** **-\$55,000**
  - **County Office Educated students declined from prior year**

# 2016/17 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 Designation For Economic Uncertainties Reserve** target is at 5% effective with 2015/16 and continues in future years
- **This additional 2% is approximately \$587,000 in reserve above \$881,000 required by the state criteria**
- **One month's payroll for the district is approximately \$2,200,000**

# Multi-year Projections

## Revenue Assumptions

(Subsequent Years)

- **Local Control Funding Formula Sources:**

- **COLA and Gap**

- 1.11% in 2017/18; 72.99% of Gap Funded**

- 2.42% in 2018/19; 40.36% of Gap Funded\***

- \*Important to note the revenue increase is about 1% - well below COLA of 2.42%. This is the first year under LCFF the district has not received increases above COLA. This projected increase should improve after passage of Proposition 55 is incorporated when the Governor's Budget is released in January.**

# **Multi-year Projections**

## **Revenue Assumptions**

**(Subsequent Years)**

### **➤ ADA**

**Funded on prior year ADA while declining**

**0 ADA decrease in 2017/18 due to anticipated offset from two “infill” housing projects – will re-evaluate at Second Interim**

**0 ADA change in 2018/19**

**➤ Mandated Costs one-time reimbursement removed (\$659,604)**

**➤ All other revenues remain relatively constant (including Mandate Block Grant of \$87,000)**

# Multi-year Projections

## Expense Assumptions

(Subsequent Years)

- **2015/16 Legal and Board restricted carryover is fully spent in 2016/17**
- **2017/18 Salaries and Employee Benefits**
  - **2.0% Certificated step and column costs**
  - **1.2% Classified step and longevity costs**
  - **0.7% Non-unit step and longevity costs**
  - **6.0% Increase in employee health and welfare benefits**
  - **LJEA step/column costs assume 1 teacher retiree savings**
  - **STRS pension increase 1.85% (from 12.58% to 14.43%)**
  - **PERS pension increase 1.612% (from 13.888% to 15.50%)**
- **Expense increased by Consumer Price Index of 2.39%**

# **Multi-year Projections**

## **Expense Assumptions**

**(Subsequent Years)**

- **Special education encroachment increase \$100,000**
- **Chromebook Initiative Phase 3 (\$361,000) funded from reserve of \$1,361,000, leaving a reserve balance of \$1,030,000**

# **Multi-year Projections**

## **Expense Assumptions**

**(Subsequent Years - Continued)**

- **2018/19 Salaries and Employee Benefits**
  - **2.0% Certificated step and column costs**
  - **1.2% Classified step and longevity costs**
  - **0.7% Non-unit step and longevity costs**
  - **6.0% Increase in employee health and welfare benefits**
  - **LJEA step/column costs assume 1 teacher retiree savings**
  - **STRS pension increase 1.85% (from 14.43% to 16.28%)**
  - **PERS pension increase 1.6% (from 15.50% to 17.10%)**
- **Expense increased by Consumer Price Index of 2.46%**
- **Special education encroachment increase \$100,000**
- **Chromebook Initiative funded from reserve of \$1,030,000**

# Multi-year General Fund Summary

(5% Reserve Level)

	2016/17 First Interim	2017/18 Projected	2018/19 Projected
Total Revenue and Transfers In	\$ 29,059,128	\$ 29,150,128	\$ 29,527,128
Total Expenditures & Outgo	\$ 29,364,723	\$ 29,280,455	\$ 30,185,455
<b>Change in Fund Balance</b>	<b>\$ (305,595)</b>	<b>\$ (130,327)</b>	<b>\$ (658,327)</b>
Beginning Balance	\$ 5,114,257	\$ 4,808,662	\$ 4,678,335
<b>Ending Balance</b>	<b>\$ 4,808,662</b>	<b>\$ 4,678,335</b>	<b>\$ 4,020,008</b>
<b>Components of Fund Balance</b>			
Reserved Amounts	\$ 10,000	\$ 10,000	\$ 10,000
Board Restricted (Chromebooks)	\$ 1,360,604	\$ 1,029,604	\$ 1,029,604
Economic Uncertainties	\$ 1,468,223	\$ 1,445,709	\$ 1,509,723
Designations-Gap Funding Uncertain	\$ 0	\$ 489,000	\$ 0
Undesignated Amount	\$ 1,969,833	\$ 1,704,022	\$ 1,470,681

# Surplus/Deficit Spending

- **Minor surplus is anticipated in 2016/17 and minor deficit in 2017/18 when one-time revenue and expense are excluded**
- **Unspent Supplemental Grant funds have contributed to reduce expenditures when the books are closed. Budget is a fixed figure at Adopted Budget and can decline during the year.**
- **If Department of Finance projections (COLA plus GAP) are accurate for future years, District will deficit spend in 2017/18 and 2018/19 due to the increased supplemental grant spending that must happen (currently reserved in 17/18 fund balance)**

# Future Considerations....

- **State budget projections for 2017/18 will be released in January 2017. How much COLA and GAP will be funded in future years? Will more one-time dollars become available?**
- **Will the Governor provide ongoing funding for STRS and PERS increases passed onto districts beginning in 2014/15?**
- **Will the federal healthcare program (“Obamacare”) change and cause savings or cost increases?**

# Facilities

- **District facilities are over 50 years old with no major modernization performed**
- **Facilities maintenance expenses continue to increase as facilities age**
- **Capital Facilities Fund (developer fees) are seeing an increase from two small residential developments during the this year and next year (Olita and Meadow Green attendance areas)**

# Facilities (continued)

- **An estimated \$3 million will be spent on Olita School for reroofing and new heating and air conditioning systems**
- **State Deferred Maintenance funds were “flexed” in 2008/09 and have been rolled into the LCFF base in the General Fund along with other categoricals**
- **The routine repairs for plumbing, windows, doors, roof leaks, phones, computer cabling, clocks and bells, grounds, concrete repair are reliant on the General Fund**

# Facilities (continued)

- **Deferred Maintenance Fund reserves are exhausted; Special Reserve Fund is supporting deferred maintenance obligations**
- **Special Reserve Fund remains a funding source for capital projects**
- **Special Reserve Fund receives ongoing lease income and contains sale of property funds**
- **Ongoing annual lease income is approximately \$780,000**

# Special Reserve Fund

- **High cash reserves allows payroll loans to the General Fund (\$2 million this year and last year, avoiding costly TRANS issuance)**
- **Supports deferred maintenance responsibilities for maintaining our buildings**
- **Funds facility related projects such as facility needs analysis, property related legal expenses, small and large capital projects (Olita roofing/hvac, VOIP phone system districtwide and wireless system at Rancho Starbuck are examples)**

# Nutrition Funds

- **Director of Nutrition Services position anticipated to be filled in January 2017**
- **Planned deficit spending remains this year to reduce reserves to the federal requirement of three months operating expenses**

# Nutrition Funds (continued)

- **A new point-of-sale system and cloud-based software will be implemented during spring break (pending Board approval of contract tonight)**
- **A mural will be painted in Olita's kitchen (pending Board approval of contract tonight)**
- **A new delivery truck experienced manufacturer delays and is being re-quoted**

# 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.’