

DIXIE SCHOOL DISTRICT
Business Services Administration

Regular Meeting
March 14, 2017

TO: Thomas J. Lohwasser, Superintendent

SUBJECT: Consideration of Approval of FY 2016-17 Second Interim Financial Report

State Budget:

On January 13, 2017 Governor Brown released information on the January Budget Proposal for 2017-18. The Governor is expecting an economic slowdown and as a result lowered expectations over the next few years. This resulted in a change to Proposition 98 funding decreasing the funding guarantee by -\$953 million from what was provided for in June 2016. In addition the proposal substantially decreased funding for the Local Control Funding Formula (LCFF) in 2017-18. The level of new funding is determined by the GAP percentage which in turn determines each school district's unique level of funding. In the proposal the Governor did substantially decrease the GAP funding percentage for 2017-18.

The next key date in the state budget cycle is the May Revision scheduled to be released May 10, 2017. This information will be used to prepare and finalize the District's proposed budget for 2017-18.

Dixie School District Budget and Financial Challenges:

After several years of state budget cuts the state budget for both 2015-16 and 2016-17 both provided an increase in state funding through the Local Control Funding Formula (LCFF) and with additional one-time discretionary funds. This allowed the Dixie School District to close the books for 2015-16 with a surplus in the general fund for first time in five years.

For 2016-17 the expected enrollment growth has not materialized and higher than expected increases in overall costs including on-going the State Teacher Retirement System (STRS) and Public Employees Retirement System (PERS) has put additional strain on the district's budget and the general fund reserve level. To further complicate the issue, the Governor's January budget information decreased expected on-going revenues for 2017-18 fiscal year.

These issues will continue to be a challenge to the overall financial health of the District. There are four major areas of concern on the District's financial health that the board needs to be aware of:

- Dixie School District's comparison of state funding
- Decrease in GAP funding as the district moves toward full funding of LCFF
- Continued deficit spending
- General Fund Reserve Levels

Dixie School District's comparison of state funding:

It is important to understand the Local Control Funding Formula (LCFF) and how it provides different level of funding to each school district. The LCFF formula is designed to provide additional resources to school that have higher populations of students who are English learners, low income students and foster youth. The assumption is that these students will require additional support and they should receive additional funding.

Under LCFF each school district receives a base grant that is adjusted annually by state COLA. In addition there are two additional grants in LCFF (Supplemental and Concentration grants) with funding based on the percentage of a district's English learners, lower income students and foster youth. In addition to the based grant each school district receives funding under the Supplemental grant with the level of funding in proportion of the percentage of the targeted students. This percentage is called your Unduplicated Pupil Percentage (UPP). Those with higher UPP receive more funding than those with lower populations. In addition school districts with a UPP over 55% will receive even more funding under the Concentration grant. The difference in state funding from a school district with a low UPP and that of a high UPP could be as much as \$2,400 per student.

Dixie School District's UPP percentage in 2016-17 is 18.21% which puts us in the lower spectrum in when comparing to school districts statewide. While receiving the same base grant as everyone else, the level of additional money under the Supplemental grant is less than those districts with higher populations. Also, the Dixie does not meet the threshold of 55% UPP to get the additional funding under the Concentration grant.

Current estimates from School Services of California show that approximately 84 (9%) of all school districts have a UPP that is 20% or less. Dixie has a UPP of 18.21% which puts our state funding levels in the lower 9% of the state. In Marin County, Dixie competes with many Basic Aid Schools Districts who funding exceeds that of a state funded district under LCFF.

In summary, Dixie School District's level of state funding is far below most Marin School Districts and in the lower 9% of the state. We are now trying to do more than other school districts with less funding.

GAP Funding:

State revenue for 2016-17 and projections for future years are based on the LCFF calculation. The LCFF calculation will produce your target level of funding which the state currently cannot fully fund. Based on the current year calculation the District is at 96% of full funding of the LCFF target, which is the same level that the state expects to fund in 2017-18.

A major concern is that as we move closer to full funding the GAP (difference between target and current funding) becomes smaller and will result in lower level of new revenues over the next few years. For 2017-18 the level of new funding is projected to be only \$53,218 or +0.35%. This will not sufficiently cover built-in costs to the budget such as step and column and STRS/PERS increases. This will further impact the general fund reserve.

We have also seen the fluctuation of the estimated GAP funding levels. The GAP funding percentage estimate for 2017-18 decreased from 72.99% in June to current estimate of 23.67%. With these large fluctuations it makes it difficult to plan and to count on these revenues in the future.

The other concern is that once the District is fully funded at the target level, new revenues will be driven strictly by state COLA and any growth or decline in Average Daily Attendance (ADA).

In summary, GAP funding will continue to be driving new state funding levels for the district. LCFF is

expected to be fully funded in 2020-21 and school districts will again be only funded by COLA adjustments. It is expected that new revenues will be minimal and may not be sufficient to cover increased costs.

Deficit Spending:

During the state recession in reaction to state budget cuts school districts throughout the state were making major cuts to their budget, including programs and staff. Dixie School District made the decision to make some preliminary budget cuts and instead of eliminating programs and reducing staff chose to spend down the general fund reserve. Starting in 2010-11 the District had five consecutive years of deficit spending before ending 2015-16 with a budget surplus of \$227,735. During those five years the District moved from a Basic Aid district to state funding which further reduced revenues.

The 2nd Interim is projecting deficits over the next three years. Obviously, we cannot continue to spend down the reserve level and maintain fiscally solvent. Unless our financial situation improves it will be extremely difficult to maintain our current programs.

We also need to consider that many of the agreements, programs and compensations goals were put into place prior to the state recession (i.e. state budget cuts) and when the District was Basic Aid. We need to be cautious in regards to spending and future financial commitments.

General Fund Reserves:

School districts have very little control of their revenues as they are mainly controlled by state government. And, while school districts have much more control over expenditures, we live in an environment of uncontrollable cost increases. Some of these increases can be planned for and budgeted, but others cannot be anticipated. A reserve fund allows an LEA to continue to meet its obligations even when hit with unexpected expenses.

Based on recent comparisons Dixie School District has the lowest reserve level in Marin County school districts. The importance of a strong reserve level was evident that during the past recession Dixie was able to maintain the programs and staff that make us special. With our low reserve we have very little room for any unanticipated expenditures.

The District needs to find a way to build up the general fund reserve again. This is imperative to the long term financial health of the district. Set-backs with declining enrollment, lower state funding and increase costs have made it difficult to restore the reserve. School Services is recommending that school districts follow the Governor's lead and build reserves, just as the state is building the Rainy Day Fund.

Other Items:

Fund 40:

The Dixie School District is fortunate to have unused school sites that are a source of income for the District. There are 11 current lease tenants which are spread out over four locations. All tenants are related to education and include various preschools and two operating private schools. The District uses the lease income to first pay for costs related to the maintenance and upkeep of the sites and then annually transfers a minimum of \$873,449 to General fund. More recently the transfer has been

\$998,449, to include an additional \$125,000 to fund past salary increase agreements. These additional resources provided by the lease revenues has allowed the district to provide rich programs and to stay competitive in teacher and classified salaries.

With the ownership of the lease properties also comes the upkeep of the properties. Over the past several years the District has invested very little in major maintenance projects and we are now at a point that we have urgent needs which will require use of the Fund 40 reserve. For 2016-17 we had major roofing repairs that cost \$205,000. Upcoming projects includes a Fire Alarm upgrade (Est. \$183,000) and two more roofing projects (estimated combined cost of \$347,000). In addition, an adequate reserve level in Fund 40 needs to be maintained to prevent the cost of large projects from impacting the General Fund.

Recent Salary Settlement:

The District recently settled negotiation with the Dixie Teachers Association for 2016-17. The AB1200 Public Disclosure form will be presented tonight for Board approval.

In May 2016 the District's initial offer was based on current information and projections for 2016-17, 2017-18 and 2018-19. However, expected enrollment growth did not materialize, estimated costs were higher than anticipated and state funding estimates from GAP were substantially lower in 2017-18. In order to honor the agreement the District made adjustments to the current year budget and future year assumptions that are included in the 2nd Interim (additional Fund 40 transfer will be on future budget revision). This included reallocating a portion of certain Classified position from the General Fund to charge to the Bond fund (\$101,246); additional \$135,000 transfer from Fund 40 for 3 years; review of entire budget to capture savings; adjustment of Certificated staffing (-1.2 FTE) in 2017-18 multi-year projections (due to projected enrollment growth +1.0 FTE is added back in 2018-19).

2nd Interim Report 2016-17 Fiscal Year:

In anticipation of funding the recent salary settlement with the Dixie Teachers Association and District Management, the District has made several adjustments to the current budget as well as to future year assumptions. These changes are reflected and will be highlighted in Budget Revision #3, the 2nd Interim report and the AB1200 Public Disclosure Form that will be presented for approval at tonight's meeting. Please note that the costs for recent salary settlement with the Dixie Teachers Association (DTA) are not included in this 2nd Interim report. They will be reflected in the AB1200 Public Disclosure Form that will be presented for approval at tonight's meeting.

Attached is the Second Interim Report for the current fiscal year. Districts are required by Education Code Section 42130 to submit an interim report, which covers their financial and budgetary status as of December 31st to the Governing Board of the District.

The District has used FCMAT's LCFF calculator for our multi-year revenue projections. Major factors in the calculation include Average Daily Attendance (ADA), COLA and GAP funding levels. Our Multi-Year Projection (MYP) indicates that we will remain fiscally solvent under AB1200 guidelines.

- **District Certification of Interim Report** – states whether or not the District is able to meet its financial obligations in the current and two subsequent years and must be signed by the Governing Board President. Our financial statements indicate we will have a positive certification.
- **Revenues, Expenditures and Changes in Fund Balance** – this is a summary of the General Fund Budget, including reports for unrestricted, restricted and combined General Fund. This form compares the Original Adopted Budget, the Board Approved Operating Budget and the Projected Year Budget along with detailing the current expenditures as of January 31, 2017. Similar forms for each district fund are also included.
- **Average Daily Attendance (ADA) Report** – shows a comparison of our estimated ADA from Budget Adoption to current estimates. When comparing ADA estimates from Budget Adoption to current estimates, the Estimated P-2 ADA for *District Regular ADA* decreased by -16.26. When considering *the District ADA County Programs*, the total drop in ADA is -27.19 from prior year. However the District is able to use the higher of current year or prior year ADA for *District Regular ADA* for the Funded ADA. Please note that *District ADA County Programs* is based on current year ADA only.
- **Cash Flow Worksheet** – reflects actual cash transactions through the month of November and estimates for the remaining months of the fiscal year. The Cash Flow worksheet indicates that the District will maintain a positive cash balance at the end of the fiscal year.
- **Multiyear Projections** – This form shows the unrestricted and restricted resources followed by a summary report for current year and the subsequent two fiscal years. Similar forms for each district fund are also included.
- **Criteria and Standards Summary Review** – verifies the financial condition of the District by analyzing areas of the budget and comparing them to historical and standard criteria. Explanations must be provided for areas that deviate from the standards.

A separate attachment includes the General Fund budget assumptions for current year and the two subsequent years. Key budget assumptions include:

Revenues:

- **LCFF Sources:** FCMAT's LCFF calculator used for state revenue assumptions.
- Key factors are
 - Target COLA: 0.0% 2016-17, 1.48% 2017-18 and 2.40% 2018-19
 - GAP funding based on DOF estimates of 55.28% 2016-17, 23.67% in 2017-18 and 53.85% in 2018-19
 - ADA:
 - 2017-18 Actual 1,908.24 Funded 1,941.24
 - 2018-19 Actual 1, 945.24 funded 1,945.24
 - While enrollment is expected to drop next year by 33 students, the District is able to use the higher of current year or prior year ADA for funding. However, the impact for the decrease of ADA in 17-18 will be result in less funding for 18-19
- **Other revenues:**

- Mandate Block Grant: \$28/ADA
- State Lottery budgeted at \$185/ADA (\$144 Unrestricted and \$45 Restricted)
- Parcel tax budgeted at \$352 per parcel
- One Time Discretionary funds budgeted at \$214/ADA for 2016-17 and \$48/ADA for 2017-18
- Transfer from Fund 40: \$998,449 (\$873,449 + additional \$125,000 to help fund past salary increases) in 2016-17, 2017-18. The additional transfer will decrease by \$50,000 in 2018-19.

Expenditures:

- Step & Column increases for all contracted employees in 2017-18 and 2018-19
- 2017-18 Certificated staffing levels: -1.2 FTE
- 2018-19 Certificated staffing levels: +1.0
- STRS increase budgeted at +14.43% in 2017-18 and then increasing to +16.28% in 2018-19. It is estimated that STRS costs will increase annually by \$200,000 through 2020-21
- Instructional Materials for state adoptions \$50,000 in 2017-18 and \$250,000 in 2018-19
- CPI Index applied to current year adopted budget for 4000 and 5000 object codes
- Special Ed ADA transfer to MCOE budgeted at \$129,873
 - This number may be revised based on final county special education ADA
- Transfer Out:
 - Transfer to Debt Services (CREB Solar Bond payment): \$144,645
 - Estimated electricity savings from Solar panels
 - Special Ed Excess Cost: \$350,257
 - Special Ed ADA transfer to MCOE budgeted at \$129,873
- Special Ed ADA transfer to MCOE budgeted at \$129,873
 - This number may be revised based on final county special education ADA
 - Transfer to Cafeteria Fund: \$22,501
 - This is new in 2016-17. Previously accounted for as part of general fund encroachment

The Second Interim Financial Report will be prepared showing our financial condition as of January 31, 2017, and will be presented to the Board in March.

Approval of the FY 2016-17 Second Interim Financial Report is recommended.

Prepared by:

Robert A. Marical
Business Manager

Approved for Submission to the Governing Board by:

Thomas J. Lohwasser, Ed.D.
Superintendent