

DIXIE SCHOOL DISTRICT
Business Services Administration

Regular Meeting
March 13, 2018

TO: Jason Yamashiro, Superintendent

SUBJECT: Consideration and Approval of FY 2017-18 Second Interim Financial Report

State Budget:

The Governor's January Budget Proposal indicated an increase in proposed state funding for 2018-19 with the Governor's plan to fully fund the Local Control Funding Formula (LCFF) two years earlier than planned. This will increase the overall state funding level for K-14 education. In addition, for the fourth year in a row the Governor is proposing to provide additional one-time discretionary revenues. It is noted though that in each year the final amount of one-time revenues has been less than what was indicated in the January Proposal. As part of the Governor's message California should be preparing for the next recession and to that end he is proposing to increase the funding to the state's rainy day fund bringing it to 10%.

The 2018-19 State Budget will be the last for Governor Brown as he will be terming out of office. There is much uncertainty on what the priorities of the next administration will be. LCFF was the Governor's brainchild and was a priority for him. It is important to remember that "*full funding*" of LCFF does not mean that California Schools Districts are receiving "*adequate funding*". California continues to be in lower spectrum of state funding levels per student when compared nationwide. There is hope that the next administration will continue to keep California School Districts as a priority and will provide additional resources above the minimum that is required to fund LCFF.

Dixie School District Budget:

State revenue for 2017-18 and projections for future years are based on the LCFF calculation. Current calculation for 2017-18 indicate the District is at 97.5% of full funding of the LCFF target and with the Governor's January proposal will be at 100% in 2018-19. During the transition to full funding, school districts received a higher level of new funding through the LCFF formula. At full funding new revenues will be primarily based on state COLA and will be considerably less than what was received during the transition.

The current Parcel Tax will expire in June 2019. The Parcel Tax provides \$1.9 million in resources that funds teacher salaries, counseling, music programs and science. In May 2018 the community will have an opportunity to continue to support our school district by voting to approve a new Parcel Tax. It is critical that a new Parcel Tax be approved. Without these resources the District will have to eliminate staffing and many of the programs that make the District special.

With the concerns noted above we need to highlight that the district's budget at 2nd Interim is in much better shape than what we expected last year. Ongoing LCFF funding from the state have increased in both current year and two subsequent years of District's multi-year projections (MYP). Average Daily Attendance (ADA) has increased from last year and is projected to continue to increase. In addition starting in 2018-19 the District will realize budget savings from a teacher retirement incentive program. These changes all have a positive impact on the budget, potentially eliminating deficit spending and

moving the District closer to restoring the reserve to the board approved level of 10%. A higher reserve is very important to have in place when the next recession occurs.

The increase in revenues is welcome but it is important to consider the on-going increases in expenditures. The District's share of State Teachers Retirement (STRS) and Public Employees Retirement System (PERS) will be substantially increasing each year. Built-in costs to the budget such as step and column salary increases and the increase in the general cost of doing business will continue to put a strain on the budget. As we work to restore the reserve level the District must be prudent in planning and when making future spending commitments.

2nd Interim Report 2017-18 Fiscal Year:

Attached is the Second Interim Report for the current fiscal year. Districts are required by Education Code Section 42130 to submit this 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 LCFE 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 December 31, 2017. Similar forms for each district fund are also included. Please note Form 40 includes information on both Fund 40 and Fund 41.
- **Average Daily Attendance (ADA) Report** – shows a comparison of our estimated Funded ADA from Budget Adoption to current estimates. When comparing ADA estimates from 1st Interim to current estimates, the Estimated P-2 ADA for *District Regular ADA* increased by +5.95. *District ADA County Programs* is based on the most recent estimate from MCOE and will be updated after the Marin County Office of Education (MCOE) posts their P-2 attendance.
- **Cash Flow Worksheet** – reflects actual cash transactions through the month of February 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.
- **Every Student Succeeds Acts Maintenance of Effort** – this is a new form that replaces Form NCMOE (No Child Left Behind Maintenance of Effort). The form's intent is to determine if the Local Educational Agency (LEA) met maintenance of effort requirements under Every Student Succeeds Act.

- **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. Please note Form 40 includes information on both Fund 40 and Fund 41.
- **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: 1.56% 2017-18, 2.51% 2018-19 and 2.41% 2019-20
 - GAP funding based on DOF estimates of 44.97% 2017-18, 100.00% in both 2018-19 and 2019-20
 - ADA: +37 ADA in 2018-19 and +20 in 2019-20
 - ADA projections were based on the 2016-17 Demographic/Enrollment study.
- **Other revenues:**
 - One Time Discretionary funds budgeted at \$147ADA for 2017-18 only.
 - For 2018-19 the projections do not include \$295/ADA as outlined in the Governor's January Proposal. It is expected that the estimated amount will change or be eliminated in the May Revision. If applicable, the 2018-19 Adopted Budget will include any one-time funds that are indicated in the May Revision estimate.
 - Mandate Block Grant: \$28/ADA
 - State Lottery budgeted at \$194/ADA (\$146 Unrestricted and \$48 Restricted)
 - Parcel tax budgeted at \$352 per parcel
 - Current parcel tax will expire in June 2019. The current level of funding is assumed in 2019-20 of the multi-year projections. If a new Parcel Tax is not in place in 2019-20 then all related expenditures will be reduced from the budget.
 - Transfer from Fund 40: \$1,133,449 (\$873,449 + additional \$260,000 to help fund past salary increases) in 2017-18. The additional transfer will decrease by \$50,000 to \$1,083,449 in 2018-19 and decrease to \$873,449 in 2019-20.

Expenditures:

- Step & Column increases for all contracted employees in 2018-19 and 2019-20
- 2018-19 and 2019-20 includes projected savings from retirement incentive program.
2018-19: -\$51,878 and 2019-20 -\$231,678
- Additional 1.0 Certificated FTE in 2018-19. All staffing is budgeted at current staffing levels.
- STRS increase budgeted at +16.28% in 2018-19 and then increasing to +18.13% in 2019-20. It is estimated that STRS costs will increase annually in excess of \$220,000 through 2020-21
- Instructional Materials for state adoptions \$250,000 in 2018-19 and \$100,000 in 2019-20
- CPI Index applied to current year adopted budget for 4000 and 5000 object codes
- Transfer Out:

- Transfer to Debt Services (CREB Solar Bond payment): \$151,152
 - Estimated electricity savings from Solar panels
- Special Ed Excess Cost: \$344,208
- Special Ed ADA transfer to MCOE budgeted at \$173,030
 - This number will be revised based on P-2 county special education ADA
- Transfer to Cafeteria Fund: \$22,251
 - Based on prior year funding estimate.

Approval of the FY 2017-18 Second Interim Financial Report is recommended.

Prepared by:

Robert A. Marical
CBO

Approved for Submission to the Governing Board by:

Jason Yamashiro
Superintendent