

MODESTO CITY SCHOOLS

TO: Craig Rydquist, Interim Superintendent Regular Meeting

SUBJECT: Approval of Certification of the 2018/19 Budget for June 25, 2018
All Funds and Authorization to Transmit
Copies to Local and State Agencies

BACKGROUND

The District is required to adopt its annual budget by June 30 of each year and to transmit the adopted budget to the Stanislaus County Office of Education and the California Department of Education.

Multiyear projections are required to be included with the budget by AB1200 and AB2756 and are not to be considered forecasts, but rather projections based on mathematical calculations as a result of today's decision based on a given set of assumptions.

A public hearing was held on June 4, 2018 to allow input for the proposed budget.

ISSUE

A budget has been prepared for Board approval that incorporates State funding levels based on the Governor's January and revised May budget proposal. Potential revisions will be brought to the Board when the impact of the final State budget is known.

PROPOSAL

1. General Fund Summary

These reports show the 2017/18 estimated actuals and the 2018/19 proposed adopted budget. There are separate columns under each year; the Unrestricted General Fund budget, the Restricted General Fund budget, and the combined Restricted and Unrestricted General Fund budget.

Projected year-end totals maintain the required 3% Unrestricted General Fund reserve levels and meet all mandatory obligations.

Restricted categorical resources make necessary reductions to remain fiscally solvent, thereby not requiring a contribution from the Unrestricted General Fund. Exception to this assumption is the categorical resource of Special Education which currently requires a contribution from the Unrestricted General Fund.

2. Multi-Year Financial Projection

A district's financial certification must include the two subsequent fiscal years. This forces a look at the long-term effects of current financial decisions. The three-year financial projections are based on known factors and estimates of future costs of current District operations.

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Average Daily Attendance

- 2018/19 enrollment projected to decrease by 98 students in Elementary and increase by an additional 74 pupils in High School.
- 2018/19 ADA is projected to decrease by 92.71 in Elementary and increase by an additional 70 in High School.
- The out years are projected as flat.

Revenue

LCFF

- 2018/19 – 3.00% COLA and 100% gap closure funding
- 2019/20 – 2.57% COLA
- 2020/21 – 2.67% COLA

Federal

- Coordinated Early Intervening Services (CEIS) 15% assignment of Federal Special Education is no longer required.
- Federal funding in Title I, Title II and Title III is anticipated to drop by approximately 10% in 2018/19, and the budgets have been adjusted accordingly.

State

- Mandate Block Grant projections at \$31 per K-8 ADA and \$59 per 9-12 ADA, based on prior year P-2
- Discretionary Onetime Mandate Funding of \$344/ADA
- Lottery funding of \$48/ADA – Restricted and \$146/ADA – Unrestricted

Expenditures

- Proposed LCAP items for 2018/19 have been included in the draft budget. Staff will revise the LCAP items as needed based on the LCAP hearing and then include those adjustments in the adopted budget.
- Estimated budget savings of \$12 million have been incorporated into the multi-year projection for the budget and subsequent two years.
- Supplemental and Concentration budget dollars allocated will be fully expended.
- Restricted categorical budget dollars allocated will be fully expended.
- Salary and Benefits
 - The final impact from the multi-year collective bargaining agreements for all units is reflected in the 2018/19 budget. No potential impacts from future contract negotiations are included.
- Public Employees Retirement System (PERS) rates
 - 2018/19 – 18.062% – Additional 2.531% over 2017/18
 - 2019/20 – 20.80% – Additional 5.269% over 2017/18
 - 2020/21 – 23.50% – Additional 7.969% over 2017/18

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- Proposed State Teachers Retirement System (STRS) rates
 - 2018/19 – 16.28% - Additional 1.85% over 2017/18
 - 2019/20 – 18.13% - Additional 3.70% over 2017/18
 - 2020/21 – 19.10% - Additional 4.67% over 2017/18
- Transfers Out
 - Auditorium Replacement Reserve - \$42,500
 - Reprographics Equipment Replacement Reserve - \$14,000
 - White Fleet Vehicle Replacement Reserve - \$275,000
 - Bus Replacement Reserve - \$690,000
 - CSEA Retiree Reserve - \$139,000
 - Managers Retiree Reserve - \$130,000
 - Adult Career Technical Education - \$250,000
 - Qualified School Construction Bond Sinking Fund - \$400,000
 - Curriculum Delivery Reserve - \$2,500,000
 - Emergency Facility Needs – maintain balance of \$2,000,000
 - Deferred Maintenance LCFF Transfer - \$3,000,000
 - Deferred Maintenance RRM Transfer - \$2,000,000
 - 9-12 Facility Improvement - \$2,000,000

Fund Balance

The Net Increase/(Decrease) in Fund Balance line compares current year expenses against current year revenues without regard to the beginning balance carried forward from the prior year. Generally this line, if negative, indicates deficit spending. If the deficit results from spending the reserves that have been accumulated over a number of years, the deficit spending is not cause for concern. If it represents actual current year expenses that exceed current year revenue, then budget cuts will be necessary.

The 2018/19 Unrestricted budget is currently projected to end the year with a net increase in fund balance of \$1.1 million. This is a direct result of the Governor's proposal to fully fund the LCFF gap in 2018/19. In 2019/20 and 2020/21, the District is projected to end with a net decrease of \$9.6 million and \$15.2 million respectively.

Ending Balance represents what did not get spent in the current year. It is not an unobligated balance. The ending balance should cover all State-required and Board-assigned reserves, long-term obligations and carry-over obligations from the prior year. A trend of declining ending balance that isn't planned is cause for concern. If the ending balance in current or projected future years cannot cover the required reserve level, the District's financial adoption status is disapproved.

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It is important to note the difference between Restricted and Unrestricted fund balance. The Restricted funds can only be used for specific programs.

The Board has assigned the following reserves from the Unrestricted Ending Balance:

- Appropriation for Economic Uncertainty – The District reserves 3% of total General Fund expenditures for Economic Uncertainty. This amount fluctuates each time the budgeted expenditures are increased or decreased.
- LCAP Supplemental and Concentration Proportionality – This amount is calculated based on the “unduplicated” population percentages and funding through the LCFF. This balance represents the dollars not yet budgeted through the LCAP process.
- County Cash Fair Market Value (FMV) Adjustment – Established at the end of fiscal year 2011/12 by the District auditors, the line represents the book value of the District’s share of an external investment fund.
- Carryover Obligation - Miscellaneous – This amount fluctuates each year based on the approved carryover. Carryover requests can include parking citations, restitution, delayed supply orders, and periodic expenditures.
- One Time Expenditures – Replenished to \$250,000 at the beginning of each fiscal year. Funds are used to offset unexpected, non-budgeted purchases in the year. Historic expenditures have included testing chairs, small equipment and site requests.

Unassigned Balance is the amount of the ending balance that is not committed after all required and assigned reserves have been set aside. A negative unassigned balance line indicates that some assigned reserves may need to be eliminated. A continued trend of decreasing or negative unassigned balance will eventually lead to not meeting the required reserves. The unassigned balance line will also show how much is available in current and future years to cover District priorities and programs, including any negotiation settlements.

3. Criteria and Standards

The criteria and standards software automatically compares a district’s financial and enrollment data to arbitrarily calculated averages. These comparisons can alert a district to financial anomalies but can also be arbitrary and not relevant to a particular district’s situation. “Not met” standards require an explanation.

The format still does not factor in fiscal anomalies that skew the three-year average calculations. These variances can result in “not met” status for items throughout the criteria and standards. Variances occur as a result of the District posting deferred revenue and carryover.

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4. Other Funds

The status for all other special funds maintained by the District is shown.

5. Cash Flow Summary

Districts monitor both fund balance and actual cash balances available to pay obligations. Since many funding sources are distributed in arrears, diligent monitoring of cash on hand is required. With recent funding from the State, the District anticipates a positive cash flow for a minimum two-year projection.

SUMMARY

In submitting the 2018/19 Adopted Budget, the Board understands its fiduciary responsibility to maintain fiscal solvency for the current and subsequent two fiscal years.

FISCAL IMPACT

While the District's proposed 2018/19 budget is in balance with sufficient reserves for economic uncertainties, it recognizes that subsequent fiscal years are dependent upon a certain level of continued Local Control Funding Formula and will need to be monitored closely to ensure fiscal solvency and alignment with the proposed Local Control and Accountability Plan.

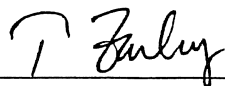
RECOMMENDATION

It is recommended that the Governing Board approve the 2018/19 budget for all funds, certify the 2018/19 budget, and authorize staff to transmit copies to local and state agencies.

Recommended by:

APPROVED

Approved for Recommendation to
the Governing Board by:



Tim Zearley
Associate Superintendent, Business Services
Chief Business Official



Craig Rydquist
Interim Superintendent