

MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of First Interim Financial Report for 2017/18 and Positive Financial Certification December 11, 2017

BACKGROUND

Education Code Section 42130 *et seq* requires that districts prepare two interim financial reports and projections during the fiscal year. The Board of Education is required to file one of three certifications with the County Office of Education for each interim report.

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|--------------|--|
| 1. Positive | The District <u>will be able</u> to meet its financial obligations for the current and two subsequent fiscal years. |
| 2. Qualified | The District <u>may not</u> meet its financial obligations for the current and two subsequent fiscal years. |
| 3. Negative | The District <u>will not be able</u> to meet its financial obligations for the current and two subsequent fiscal years. |

ISSUE

The first interim report, based on October 31 financial data, is due to the Stanislaus County Office of Education by December 15, 2017. The report requires Board approval to be finalized.

PROPOSAL

The Board of Education can make a **positive certification** that the District **will be able** to meet its financial commitments for the current and two subsequent fiscal years based upon the following reports (copies of the complete report are available in the Business Services Office). All current year assumptions are based on known factors at the time of this report.

1. General Fund Summary

These reports show the originally adopted budget, adjusted operating budget, actual expenditures through October 31, projected year-end totals, and differences. There are three separate reports for the combined Restricted and Unrestricted General Fund, the Unrestricted portion of the General Fund budget, and the Restricted portion of the General Fund budget.

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

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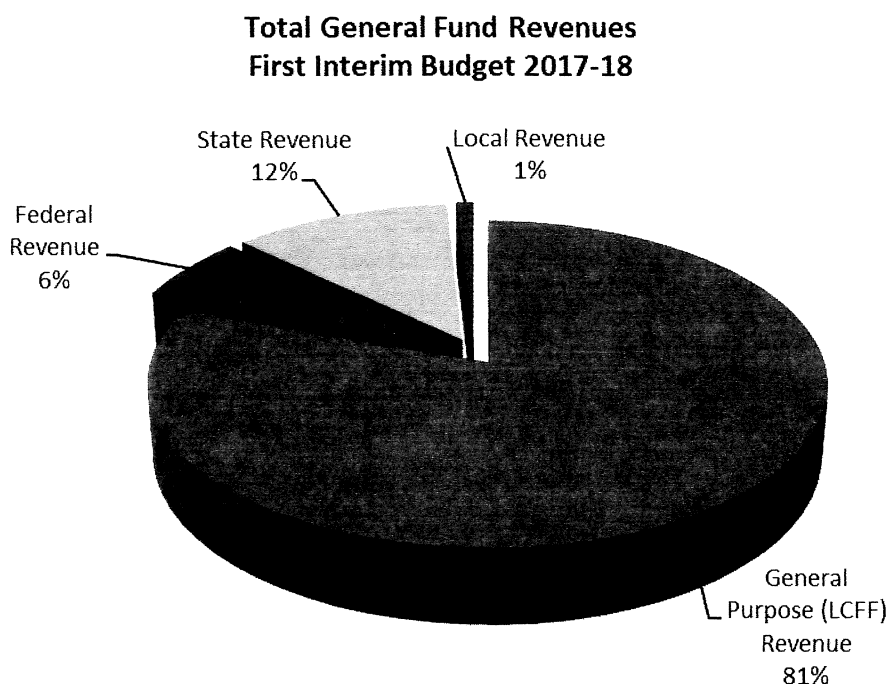
2. Average Daily Attendance Report

ADA calculations have changed since budget adoption. A decrease of 153.11 in funded ADA is reflected to account for the realized changes from 2016/17 Annual ADA and projected impacts from 2017/18 first month enrollment counts. At first month, enrollment decreased in the Elementary by 225 pupils and increased in the High School by 136 pupils.

The official reporting of Period 1 attendance takes place in December and any changes will be incorporated at the second interim reporting period.

3. Multi-Year Financial Projection

A district's financial certification must include a look forward for 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.

Revenue FactorsLocal Control Funding Formula (LCFF)

- 2017/18 estimated COLA of 1.56% and estimated Gap funding of 43.19%
 - Elementary – \$4.4M increase over 2016/17
 - High School – \$5.6M increase over 2016/17
- Projected COLA
 - 2018/19 2.15%
 - 2019/20 2.35%
- Projected Gap funding
 - 2018/19 66.12%
 - 2019/20 64.92%

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Federal Revenue

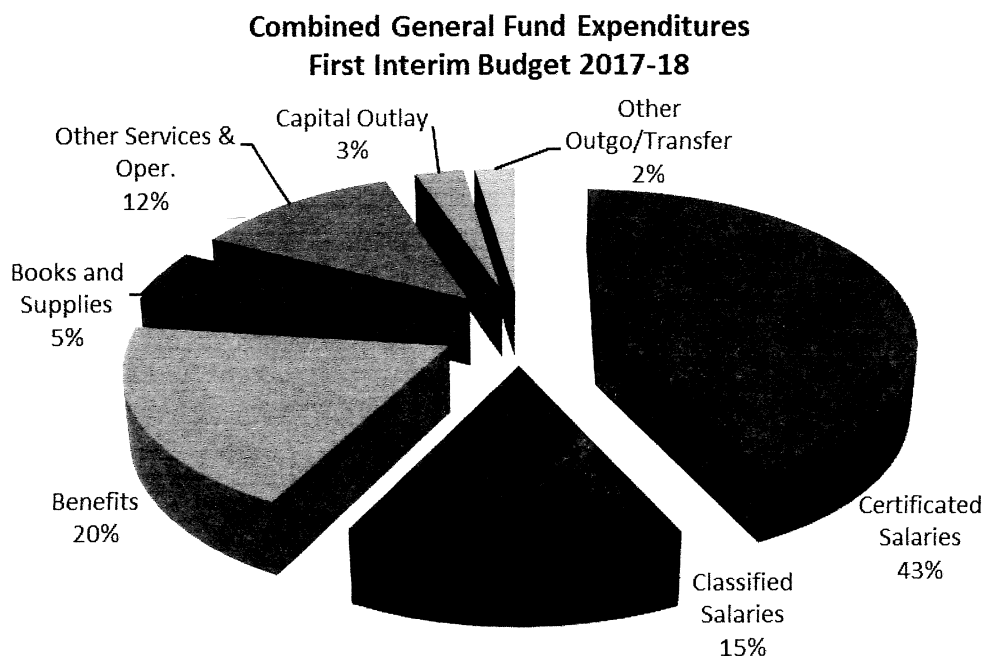
- Increase 2017/18 Title I Entitlement \$1.8M
- Posting of Deferred and Prior Year Revenue \$400K

State Revenue

- Implementation of GASB68 estimates \$12.1M
- Addition of Onetime Mandate Funding \$4.2M
- Posting of Career Technical Education Incentive Grant Carryover \$4.5M
- Increased After School Education and Safety Grant \$270K
- Established California Partnership Grants \$525K

Local Revenue

- Established remaining Johansen High School fire insurance claim \$800K
- Established Tobacco Use Prevention Education Grants \$46K
- Established onetime Microsoft Voucher reimbursements \$65K



Expenditure Factors

- Estimated budget savings of \$12M are incorporated into the multi-year projection for current and subsequent two years
- Implementation of GASB68 estimates \$12.1M
- Implementation of collective bargaining agreements settlement for all units
- Public Employees Retirement System (PERS) rates
 - 2018/19 – 18.10% - Additional 2.569% or \$1.4M over 2017/18
 - 2019/20 – 20.80% - Additional 5.269% or \$2.7M over 2017/18

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Expenditure Factors (cont.)

- Proposed State Teachers Retirement System (STRS) rate increases – Additional 1.85% annually
 - 2018/19 – 16.28% - Additional 1.85% or \$3.1M over 2017/18
 - 2019/20 – 18.13% - Additional 3.70% or \$6.2M over 2017/18
- First month staffing adjustments for 2017/18
- First month site allocation adjustments for 2017/18
- Posting of 2016/17 carryover and deferred revenue into 2017/18
- Onetime approved expenditures are reflected in 2017/18 but removed from subsequent years
- Restricted categorical resources will make the necessary reductions to remain fiscally solvent

4. 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. Current projections show the District in a positive cash flow position for the current and projected fiscal years; therefore, transfers are not anticipated.

5. 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 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.

Four categories reflect a "not met" status at this time:

- Criterion 3 – ADA to Enrollment
Due to continued historical growth in ADA to Enrollment, the District strives towards its growth target of 98%.
- Criterion 6 – Change in Operating Revenues and Expenditures
The District does not reflect deferrals or carryover at adoption. Additionally, the District has recorded increases in multiple revenue sources. The additional revenues have been reflected within the expenditure budgets, as well as the collective bargaining agreements settlement impact.
- Criterion 8 – Deficit Spending
Deficit spending is a result of spending onetime carryover funds and the impacts of pension reform.
- Criterion S5 – Contributions, Transfers and Capital Projects
The Routine Restricted Maintenance contribution decreased from 3% to the minimum requirement. Additional transfer in from the Curriculum Reserve Fund for the purchase of 7-8 ELA Curriculum. The addition of a \$2M transfer out of Routine Restricted Maintenance to fund a portion of the \$5M annual allocation to Deferred Maintenance Fund.

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The status as of October 31 for all other special funds maintained by the District is shown.

- The Cafeteria Fund is intentionally decreasing the fund balance as prescribed in the Federal Spending Plan.
- The Self-Insurance Fund Property & Liability continues to be monitored closely for potential increases in contribution from the General Fund.

ADDITIONAL BUDGETARY CONSIDERATIONS

The following items are not reflected in the first interim report but may have a future impact on the existing fund balance:

- Facility Needs Assessment
- Multi-Year Curriculum Adoption Increase

FISCAL IMPACT

The first interim report and multi-year projection show that the District will be able to meet all of its financial obligations for the current and subsequent two years. A positive certification can be filed.

RECOMMENDATION

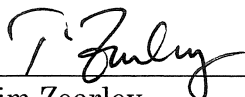
It is recommended that the Board of Education approve the First Interim Financial Report for 2017/18 and Positive Financial Certification.

APPROVED

Originating Department: Financial Services

Reviewed and Recommended by:

Approved for Recommendation
to the Governing Board by:



Tim Zearley
Associate Superintendent, Business Services
Chief Business Official



Pamela Able
Superintendent

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