

MODESTO CITY SCHOOLS

TO: Craig Rydquist, Interim Superintendent Regular Meeting  
SUBJECT: Approval of Second Interim Financial Report for 2017/18 and Positive Financial Certification March 12, 2018

---

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.

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

ISSUE

The Second Interim report, based on January 31 financial data, is due to the Stanislaus County Office of Education by March 15, 2018. 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 January 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.

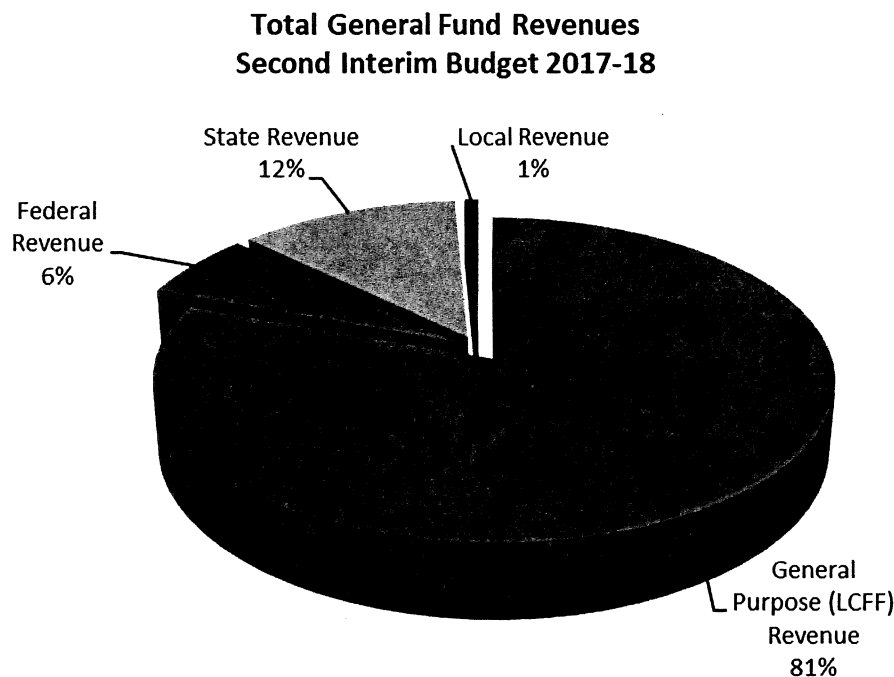
Approval of Second Interim Financial Report for 2017/18 and  
Positive Financial Certification

2. Average Daily Attendance Report

ADA calculations have changed since budget adoption. The official reporting of Period 1 attendance took place in December and enrollment has materialized into Average Daily Attendance. A decrease of 91.98 in funded ADA has been reflected to account for the impacts from 2017/18 first month enrollment counts and Period 1 attendance.

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 Factors

Local Control Funding Formula (LCFF)

In the January Budget Proposal, Governor Brown proposed a gap closure rate of 100% for 2018/19. This proposal would fully fund LCFF two years earlier than originally projected. Once fully funded, LCFF will only receive COLA adjustments in future years.

- Projected COLA
  - 2017/18      1.56%
  - 2018/19      2.51%
  - 2019/20      2.41%
- Projected Gap funding
  - 2017/18      44.97%
  - 2018/19      100%

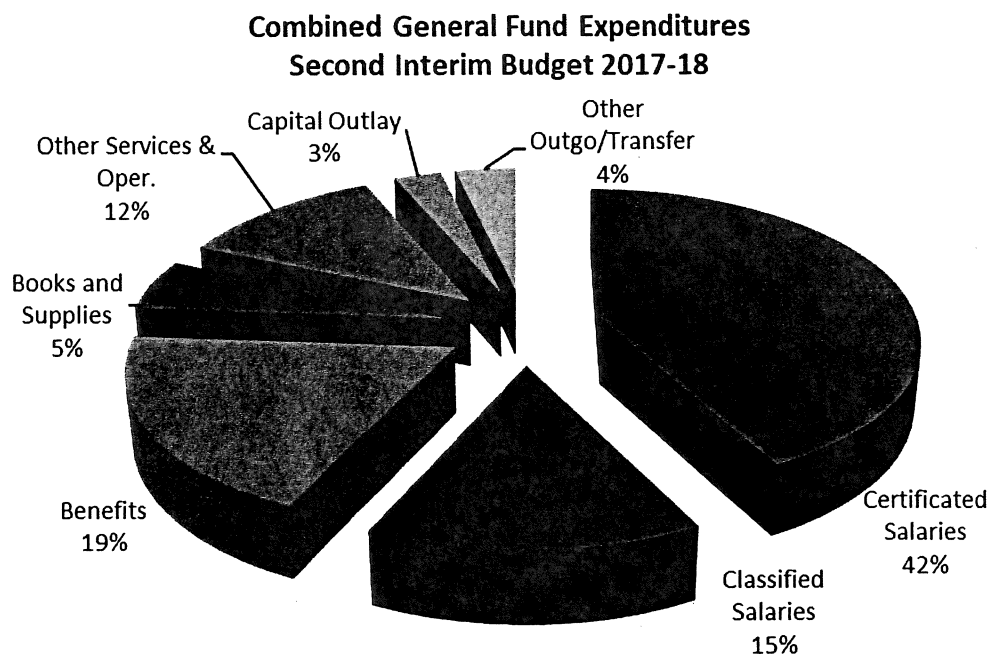
## Approval of Second Interim Financial Report for 2017/18 and Positive Financial Certification

### State Revenue

- Addition of State Testing Reimbursements \$65K
- Establish California Partnership Grants \$375K
- Establish Agriculture Incentive Grants \$117K
- Addition of Governor's Proposed Onetime Mandate Funding of \$295/ADA in 2018/19

### Local Revenue

- Removal of Johansen High School fire insurance claim <\$800>
- Establish Career Technical Education Consortia funding \$160K



### Expenditures

- Estimated budget savings of \$12M are incorporated into the multi-year projection for current and subsequent two years
- Public Employees Retirement System (PERS) rates
  - 2018/19 – 17.70% - Additional 2.169% or \$1.3M over 2017/18
  - 2019/20 – 20.00% - Additional 2.300% or \$2.3M over 2017/18
- Proposed State Teachers Retirement System (STRS) rate increases – Additional 1.85% annually
  - 2018/19 – 16.28% - Additional 1.85% or \$3.2M over 2017/18
  - 2019/20 – 18.13% - Additional 3.70% or \$6.4M over 2017/18
- Restricted categorical resources will make the necessary reductions to remain fiscally solvent.

Approval of Second Interim Financial Report for 2017/18 and  
Positive Financial Certification

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. The Board has already authorized inter-fund borrowing and County fund borrowing to address any potential cash shortages, if the need were to arise. 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 4 – Local Control Funding Formula – LCFF  
Due to the Governor's proposed gap reduction in subsequent years, there was a significant change in LCFF revenue from First to Second Interim.
- Criterion 6 – Change in Operating Revenues and Expenditures  
Increases since First Interim are a result of current year reductions to insurance claim revenue and increases to state testing reimbursements, California Partnership Grants, Agriculture Incentive Grants and Career Technical Education Consortia funding.
- Criterion 8 – Deficit Spending  
Deficit spending is a result of retroactive salary settlement costs for 2016/17, spending down onetime carryover funds and pension reform impacts.
- Criterion S5 – Contributions, Transfers and Capital Projects  
The 2019/20 increase in contributions is a result of the Routine Restricted Maintenance mandatory contribution returning to 3%.  
The noted increase in transfers out in subsequent years is a result of the Board approved increase to the Curriculum Reserve fund.

6. Other Funds

The status as of January 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.

Approval of Second Interim Financial Report for 2017/18 and  
Positive Financial Certification

ADDITIONAL BUDGETARY CONSIDERATIONS

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

- Facility Needs Assessment

FISCAL IMPACT

The Second 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 Second Interim Financial Report for 2017/18 and Positive Financial Certification.

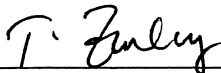
---

Originating Department: Financial Services

Reviewed and Recommended by:

Approved for Recommendation  
to the Governing Board by:

**APPROVED**



\_\_\_\_\_  
Tim Zearley  
Associate Superintendent, Business Services  
Chief Business Official



\_\_\_\_\_  
Craig Rydquist  
Interim Superintendent