

MODESTO CITY SCHOOLS

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| TO: | Pamela Able, Superintendent | Regular Meeting |
| SUBJECT: | Certification of the 2016/17 Budget for All Funds and Authorization to Transmit Copies to Local and State Agencies | June 20, 2016 |

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.

Multi-year projections are required by AB1200 and AB2756. Please note that multi-year projections are not forecasts. Forecasts are predictions for the future; whereas projections are a mathematical result of today's decisions based on a given set of assumptions.

A public hearing was held on May 31, 2016 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 2015/16 estimated actuals and the 2016/17 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

- Enrollment in 2016/17 is projected to increase by an additional 121 students in Elementary and an additional 103 pupils in High School.
- For the remaining years, it is projected to remain stable.

Revenue

LCFF

- 2016/17 – 0.00% COLA and 54.84% gap closure funding
- 2017/18 – 1.11% COLA and 73.96% gap closure funding
- 2018/19 – 2.42% COLA and 41.22% gap closure funding

State

- One-time Mandate funding of \$237 per ADA.
- Proposition 30 quarter-cent tax increase expires end of 2016. The funding decrease is incorporated in the Governor's GAP closure funding calculation.

Expenditures

- Proposed LCAP items for 2016/17 have been included in the proposed budget.
- Supplemental and Concentration budget dollars allocated will be fully expended.
- Restricted categorical budget dollars allocated will be fully expended.
- Contract negotiations with California School Employees Association, Chapter #007 (CSEA) are underway.
- Contract negotiations with Modesto Teachers Association (MTA) have sunshined; however, no sessions have been held to date.
- Pension reform factors:
 - 2016/17 STRS increase of 1.85% (12.58% total) and PERS increase of 2.041% (13.888% total)
 - 2017/18 STRS increase of 1.85% (14.43% total) and PERS increase of 1.612% (15.50% total) – an additional \$3.7 million above 2016/17
 - 2018/19 STRS increase of 1.85% (16.28% total) and PERS increase of 1.60% (17.10% total) – an additional \$3.7 million above 2017/18
- Workers' Compensation Increase from 2.0% to 2.25%
- Transfers Out are maintained.

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 undesignated population percentages and funding through the LCFF. This balance is the dollars not yet allocated 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.

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- Carryover Obligation - Miscellaneous – This amount fluctuates each year based on the approved carryover. Carryover requests can include parking citations, restitution, delayed supply orders and unfinished maintenance projects and periodic expenditures.
- Carryover Obligation - Lost Textbooks – A separate resource was established to track the revenue and expenditures of lost textbooks within the 7-12 grade levels. Reimbursement for lost textbooks is deposited and replacement books are purchased from these dollars.
- 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.

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 2016/17 Unrestricted budget is currently projected to end the year with a net decrease in fund balance in excess of \$9.6 million.

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.

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

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.

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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.

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 2016/17 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 2016/17 budget is in balance with sufficient reserves for economic uncertainties, it recognizes that subsequent fiscal years are dependent upon a certain level of gap funding and will need to be closely monitored to ensure fiscal solvency with the proposed Local Control Accountability Plan.

RECOMMENDATION

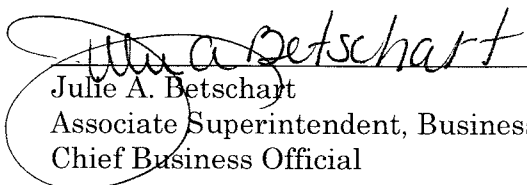
It is recommended that the Board of Education approve the 2016/17 budget for all funds, certify the 2016/17 budget, and authorize staff to transmit copies to local and state agencies.

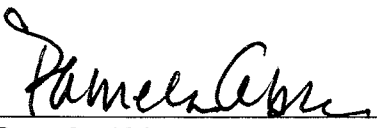
APPROVED

Originating Department: Financial Services

Reviewed and Recommended by:

Approved for Recommendation
to the Governing Board by:


Julie A. Betschart
Associate Superintendent, Business Services
Chief Business Official


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Superintendent