

MODESTO CITY SCHOOLS

TO: Pamela Able, Superintendent Regular Meeting

SUBJECT: Approval of Second Interim Financial Report for 2015/16 and Positive Financial Certification February 29, 2016

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, 2016. 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 subsequent fiscal years based upon the following reports (copies of the complete report are available in the Business 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, actuals to date 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 and meet all mandatory obligations.

2. Average Daily Attendance Report

ADA calculations have changed since first interim. An additional 7.06 ADA is reported to reflect the realized increase of the 2014/15 annual. The official reporting of period 1 attendance took place in December and enrollment has materialized into average daily attendance.

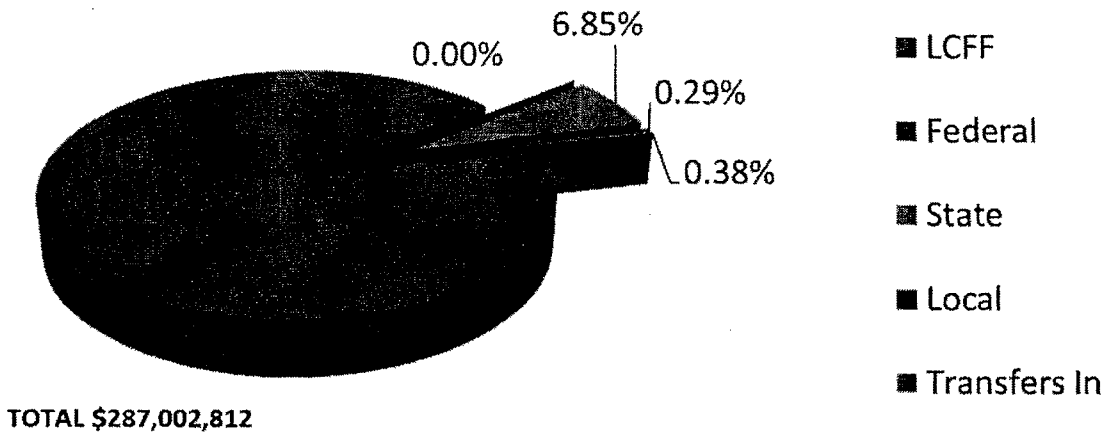
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First month enrollment changes in 2015/16 are reflected in the 2016/17 and 2017/18 years. Enrollment increased in the Elementary by 134 pupils and in the High School by 157 pupils. Enrollment for 2016/17 is projected to increase by an additional 121 pupils in the Elementary, while increasing by an additional 103 pupils in the High School.

3. Multi-Year Financial Projection

A district's financial certification must include a look forward at 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 assumptions and known factors to estimate the future costs of the District operations.

Unrestricted Revenue - General Fund



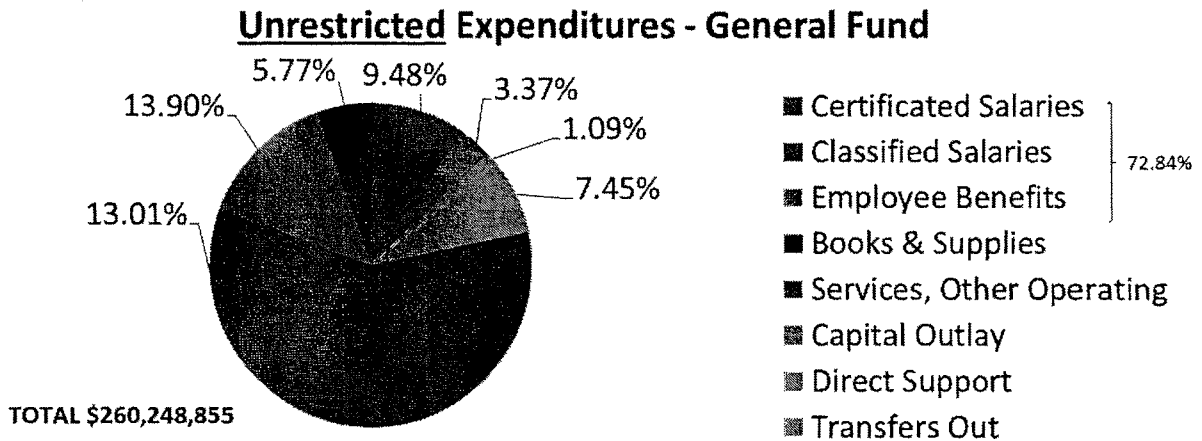
Local Control Funding Formula (LCFF)

- 2015/16 estimated COLA of 1.02% and estimated GAP funding of 51.97%
 - Elementary – \$17.7M increase from 2014/15
 - High School – \$17.9M increase from 2014/15
- Projected COLA
 - 2016/17 0.47%
 - 2017/18 2.13%
- Projected GAP funding
 - 2016/17 49.08%
 - 2017/18 45.34%

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State Revenue

- Proposition 30 quarter-cent tax increase expires end of 2016. The funding decrease is incorporated in the Governor’s GAP closure funding calculation.
- 2016/17 proposed one-time Mandated allocation of \$214 per ADA is included



Expenditures

- Public Employees Retirement System (PERS) rates
 - 2016/17 – 13.05% - Additional 1.203% over 2015/16
 - 2017/18 – 16.6% - Additional 1.6% or 4.753% over 2015/16
- Proposed State Teachers Retirement System (STRS) rate increases – Additional 1.85% annually
 - 2016/17 – 12.58% or 1.85% over 2015/16
 - 2017/18 – 14.43% or 3.70% over 2015/16
- Projected savings are reflected in current and projected years
- Workers’ Compensation Rate increase from 2.0% to 2.25% in 2016/17 and beyond
- 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. 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 for the current and projected fiscal years; therefore, transfers are not anticipated.

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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 current 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 change in revenue stream from the former Revenue Limit to LCFF and the District posting deferred revenue and carryover in current year.

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

- Criterion 3 – ADA to Enrollment
Due to continued historical growth, the District strives towards its growth target of 98%.
- Criterion 5 – Salary and Benefits
LCFF calculation requires the transfer of apportionment to the County Office of Education in lieu of the State paying directly via the Revenue Limit calculation.
- Criterion 6 – Change in Operating Revenues and Expenditures
Revenues - The District has reflected the Governor's proposed 2016/17 Mandate One Time revenue.
Expenditures – The District has allocated additional technology funding and accounted for estimated savings.
- Criterion 8 – Deficit Spending
Deficit spending is a result of spending down of one-time carryover funds.

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.

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 years. A positive certification can be filed.

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FISCAL IMPACT (cont)

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

- Modesto Teachers Association tentative agreement not reflected in current or out years
- Other unit reopeners based on the recent tentative agreement with the Modesto Teachers Association
- Future year negotiation impacts for all units
- Estimated facility needs for Kindergarten growth projected in 2017
- Recent laws regarding sick leave benefits for part-time employees
- Additional impact of the Affordable Care Act implementation
- The released balance of approximately \$12million of the 2015/16 one-time Mandated allocation to fund balance
- The approved District Office building that was placed on hold
- Future facility needs outside of potential bond capacity approval
- Future curriculum adoptions for Math and English

RECOMMENDATION


It is recommended that the Board of Education approve the Second Interim Financial Report for 2015/16 and Positive Financial Certification.

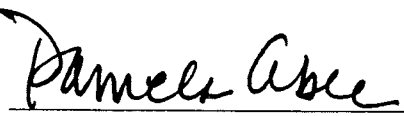
Originating Department: Financial Services

Recommended by:

APPROVED

Approved for Recommendation
to the Governing Board by:


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


Pamela Able
Superintendent