

MODESTO CITY SCHOOLS

TO:	Pamela Able, Superintendent	Regular Meeting
SUBJECT:	Public Hearing and Conditional Approval of the 2013/14 Budget for All Funds, Certification of the 2013/14 Budget and Authorization to Transmit Copies to Local and State Agencies	June 17, 2013

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 by AB1200 and AB2756. Please note that multiyear projections are not forecasts. Projections are a mathematical result of today's decisions based on a given set of assumptions. Forecasts are predictions for the future.

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. The Board has approved budget assumptions that do not include the Governor's proposed Local Control Funding Formula (LCFF) or the one-time Common Core allocation. 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 2012/13 estimated actuals and the 2013/14 proposed adopted budget. There are separate columns under each year for the unrestricted portion of the general fund budget, the restricted portion of the general fund budget, and the combined restricted and unrestricted general fund budget.

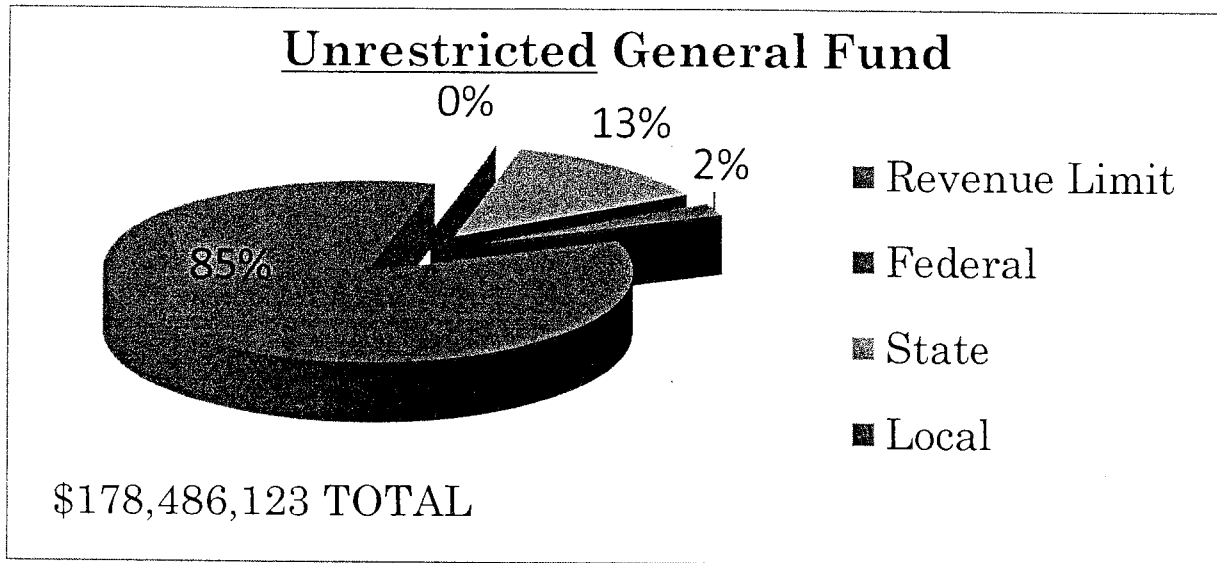
Projected year-end totals maintain the required 3% Unrestricted General Fund reserve levels and meet all mandatory obligations. Governing Board assigned reserves however, are not met in the out years. The figures also include an annual estimate of the salary and expenditure savings rather than the historical periodic reductions that have been reflected at interim reporting.

Restricted categorical resources make necessary reductions to remain fiscally solvent, thereby not encroaching on the Unrestricted General Fund. Exceptions to this assumption are the two categorical resources of Special Education and Transportation which currently encroach on the General Fund.

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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.



REVENUE

Revenue Limit

- 13/14 projected COLA of 1.565%
 - Elementary - \$101 per ADA or \$1.48 million in funding
 - High School - \$121 per ADA or \$1.72 million in funding
- 14/15 and 15/16 projected COLA of 0%
- 13/14 thru 15/16 projected Deficit Factor of 22.272%
 - Elementary - <\$21.3 million> deficit funded per year
 - High School - <\$24.9 million> deficit funded per year
- Proposition 30 - Education Protection Act (EPA) allocation estimated and reflected
- Proposed Local Control Funding Formula (LCFF) is not reflected

Federal Revenue

- Federal sequestration impact for Title I and Special Education

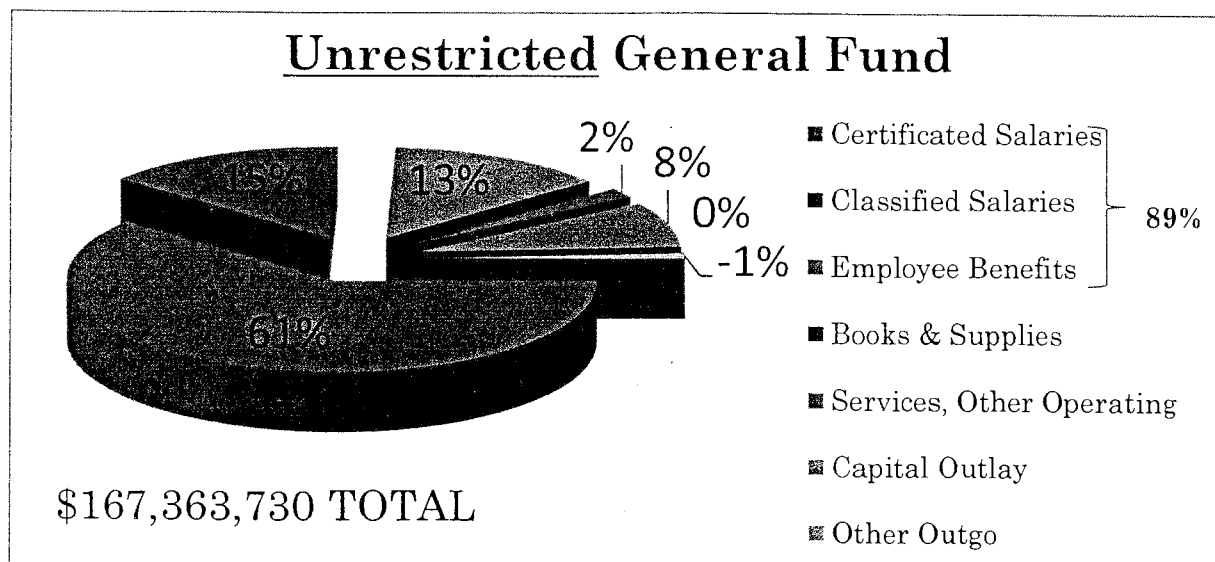
State Revenue

- Proposition 39 projected funding will be budgeted when dollars are allocated - estimated October 2013
- Proposed one-time Common Core allocation is not reflected
- State Lottery projections at \$124 per 2012/13 Annual ADA for Unrestricted, and \$30 per 2012/13 Annual ADA for Proposition 20 funds

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State Revenue (cont.)

- K-3 Class Size Reduction (CSR) funded on a sliding penalty scale
- Retaining all apportionments for CSR, Career Tech Education (CTE), Economic Impact Aid (EIA) and all Tier III Categorical Flexibility as a result of not reflecting LCFF



EXPENDITURES

- 2012/13 Estimated Actuals assumes that the remaining budget dollars will be expended. Adjustments have been made to the budget in anticipation of year-end spending. 2012/13 Restricted Estimated Actuals reflects estimated savings of <\$12.6> million in expenses and <\$2.0> million in deferred revenue
- 2013/14 Budget does not include estimated carryover or deferred revenue
- For the first time, estimated **annual** savings by major object code are reflected in all remaining fiscal years

Salaries and Benefits

- Contract negotiations with Modesto Teachers Association (MTA) and Modesto City Schools Managers group have been settled and ratified. Current contract language is reflected below:
 - Addition of one-time eight furlough day buy-back for 2013/14 for certificated and management unit members
 - Elimination of negotiated 2009/10 and 2010/11 furlough and salary reduction agreements with certificated and management unit members effective July 1, 2014
- Contract negotiations with California School Employees Association, Chapter #007 (CSEA) are in progress. Until such time that a new settlement can be reached and ratified, current contract language is reflected below:
 - Elimination of negotiated 2009/10 and 2010/11 furlough and salary reduction agreements with classified unit members effective July 1, 2013

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Salaries and Benefits (cont.)

- State Unemployment Insurance (SUI) rate decreased from 1.1% to 0.05% - estimated General Fund savings over 2012/13 = \$1.8M
- Workers' Compensation rate increase from 0.8% to 0.9% - estimated General Fund increase over 2012/13 = \$178,000

Transfers Out

- Reinstatement of vehicle replacement - \$275,000 (after 6 year suspension)
- Reinstatement of reprographics equipment replacement - \$50,000 (after 6 year suspension)

ENDING BALANCE

- 2012/13 Estimated Actuals reflect audit adjustments from prior year
 - 2011/12 Revenue Limit growth adjustment \$536,864
 - County Cash Fair Market Value \$156,776
- Economic uncertainty reserve designation will retain minimum 3% of General Fund expenditures in 2013/14
- Continue "assigned" designations as approved by the Governing Board
- New 2013/14 assigned designations approved by the Governing Board:
 - Common Core Professional Development (Phase I) - \$2,200,000
 - Common Core Technology (Phase 1) - \$2,000,000
 - Affordable Care Act (on-going) - \$5,140,000
 - Facility Maintenance (on-going) - \$5,000,000
 - Artificial Turf Replacement - \$525,000 in 2013/14; and an additional \$75,000 per year thereafter

CHANGES TO FUND BALANCE

Evaluating the "bottom line" of the budget requires looking at several factors and understanding what each includes or does not include.

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 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 2013/14 Unrestricted budget is currently projected to end the year with a net decrease in fund balance in excess of \$15 million. This number is a direct result of the District's Revenue Limit being reduced by the 22.272% deficit factor, expenditures being reinstated and/or added and no new revenue projected as a result of the passage of Proposition 30. Without future increases to State funding, the deficit spending is projected to continue in future years.

Ending Balance represents what didn't get spent in the current year. It is NOT an unobligated balance. The ending balance should cover all State-required and Board

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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.

It should be noted that a district can have a positive fund balance and still have a negative cash balance. Fund balance includes money owed to the district but not yet received. It is possible to run out of cash and still have fund balance.

The projected ending balances are not sufficient to cover all required and assigned reserves in year three.

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 salary increases.

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.

4. Other Funds

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

5. Average Daily Attendance Report

The 2012/13 P-2 Average Daily Attendance is indicated in the first column. The 2012/13 P-2 ADA is used for the funded base for 2013/14.

- Funded Average Daily Attendance (ADA)
 - Elementary – 14,634.12
 - High School – 14,188.34

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6. 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 State has adjusted the deferrals to reflect the passage of Proposition 30. At this time, approximately 37% of the principal apportionment funding is projected to be delayed until the following year.

Cash management challenges make it even more critical that reserves are met in order to meet cash flow needs that guarantee the ability to adequately meet payrolls and other obligations.

SUMMARY

In submitting the 2013/14 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 2013/14 budget is in balance with sufficient reserves for economic uncertainties, it recognizes that subsequent fiscal years do not have sufficient reserves for the assigned items and will require additional revenue and/or further reductions based on current assumptions.

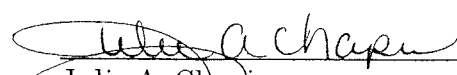
RECOMMENDATION

It is recommended that, following a public hearing, the Board of Education approve the 2013/14 budget for all funds, certify the 2013/14 budget, and authorize staff to transmit copies to local and state agencies.

Originating Department: Budget

Recommended by:

APPROVED


Julie A. Chapin

Associate Superintendent, Business Services
Chief Business Official

Approved for Recommendation
To the Governing Board by:



Pamela Able
Superintendent