Mountain View Whisman School District

Agenda Item for Board Meeting of December 11, 2014

Agenda Category: Review and Action

Agenda Item Title: Approval of First Interim Budget for 2014-15-Certification of the Financial Condition of the Mountain View Whisman School District, Resolution No. 1549.12/14

Estimated Time: 20 minutes

Person Responsible: Terese McNamee, Chief Business Officer

Background:

As required by AB 1366, Chapter 741 as amended September 17, 1985, the Governing Board of each school district shall certify in writing whether or not the school district is able to meet its financial obligations for the remainder of the fiscal year and that the Board intends to maintain a balanced budget with State-required reserves in the next two years, as shown on the Multi-Year Projection Disclosure Report. Additionally, the interim report is reviewed in accordance with the State-adopted Criteria and Standards "SACS". The attached Resolution No. 1549.12/14 delineates the changes from the Board approved operating budget and provides the certifications required by the State.
A copy of the SACS report has been provided under separate cover to the Board and will be available for the public at the Board meeting. (Copies are available on line at mvwsd.org or upon request from the Business Services Office).

Fiscal Implication:

Financial Highlights for 1st Interim Budget

- Total General Fund Revenue is projected at $50,144,689 including:
  - $35,638,980 (71%) LCFF State Revenue
  - $1,575,910 (3%) Federal Revenue
  - $2,150,576 (4%) Other State Revenue
  - $10,779,223 (22%) Local Revenue
- Total General Fund Expenses are projected at $50,984,260
  - Certificated Salaries $23,073,547
  - Classified Salaries $7,713,325
- Total General Fund Ending Balance is projected at $22,763,334
  - Net decrease in fund balance of $1,944,049 from year end 2013-14
  - Total Unassigned Reserves of $11,484,018
- Other Fund Balances are projected at $44,936,748

General Overview: In June 2013, for the first time in 40 years, the State of California changed the school funding model by establishing the Local Control Funding Formula, or LCFF. While Proposition 98 still governs the minimum percentage of the State budget spending for education, how that funding is calculated for each District is now determined by the local control funding formula.

Important LCFF Facts

- LCFF replaces revenue limits and most State categorical programs
- All State aid received through LCFF is unrestricted and moves from a compliance model to a performance model of spending
- LCFF is estimated to take 8 years to reach full funding
- LCFF is a formula that provides a weighted student funding methodology
    - Every Student generates the same amount of base funding
    - Adjustments for Grade Level and Demographics (Low Income, English Learners and Foster Youth)
- LCFF Supplemental Funding is designed to improve student outcomes and must reflect those outcomes through the Local Control Accountability Plan. The budget should show the resources benefiting and improving services to students.
    - Local flexibility to meet student needs
    - Local decision making and stakeholder involvement
    - Simplicity to aid in transparency
    - Equity through student-focused formula-Additional resources for students with greater needs
    - Performance through aligned program and budget plans
- Accountability is measured through performance as outlined in the LCAP

As the State economy grows, the Proposition 98 minimum guarantee for schools has been growing. These funds have initially been used to fund the LCFF gap payments and fund one time expenses including: CCSS, mandated costs and deferrals. The Legislative Analyst Office (LAO) forecast is for steady, though not spectacular, growth due to improvements in the housing market, the Stock Market and unemployment rates. Continued expansion of the U.S. and California economies is expected through 2019-20. The LAO forecasts State revenue to grow at 3.7% in 2015-16 and slow to 2.3% by 2019-20. For Proposition 98 funding, LAO forecasts a 4.1% increase in the guaranty or $2.6 billion in 2015-16. This increase is fully funded by the increase in local property taxes rather than from the State General Fund. As local property taxes increase, the State aid portion of the guaranty falls and provides General Fund revenue growth outside of school funding. These increased funds will be used to fund additional gap payments and potentially one time expenses including paying down additional mandated costs, funding facilities needs and funding another round of the Common Core State Standards.

Long term, the LAO forecasts that the State will not reach the full implementation of the Local Control Funding Formula (LCFF) by 2019-20 as initially projected. The LAO estimates that the LCFF will be at 91% funded by the target date and will require additional LCFF gap funding to meet the target. In addition, with Proposition 30 taxes fully expired in 2018, it is unlikely that the State will be able to meet and maintain the fully targeted funding without extending the taxes. Governor Brown has gone on record stating that Proposition 30 is a temporary tax and he will not be looking to extend those taxes which makes the funding of the LCFF target elusive in a reasonable timeline. In addition, with escalating employer contributions to State pensions, over 33% of all additional funding will be used to fund these increases.

LCFF and MVWSD: In our second year of LCFF funding, our State revenue is increasing by $285,830 from $35,353,150 adopted budget to $35,638,980. The increase is from additional State revenue from 2013-14 that was allocated as one time payment for mandated cost reimbursements.

Other revenue, including federal and local, decreased slightly from original budget as El Camino Hospital adjusted our grant to meet current expenses and the special education fund was adjusted in federal revenue due to ongoing sequestration cuts being enforced.

In calculating LCFF, despite increased gap funding from the State, MVWSD, has not received any additional funding under LCFF for 2014-15. This is due to the hold harmless provisions of the LCFF formula. In 2012-13, the minimum State aid was calculated at $3,714,457 ($4,901,565 of Categoricals minus $1,187,108 of fair share payments). Since 2012, the entitlement calculation has shown the LCFF State aid ($790,275 for 2013-14 and $3,677,651 for 2014-15) is less than the minimum State aid and we have been receiving the higher amount of $3,714,457 without any increase. As we work toward full implementation of LCFF, we expect our State revenue to annually increase toward our full target LCFF of $40,279,813 for 2014-15.

In addition, the LCFF has consolidated most of our categorical funding, including Economic Impact Aid, into unrestricted general fund revenue. The unrestricted general fund revenue under LCFF is further broken down into base grant and supplemental funding. Our supplemental funding is determined by multiplying the percentage of unduplicated English language learners and low socio-economic status students times 20% of the base grant. For MVWSD, the supplemental funding has increased the amount spent on our most needy students and we expect this amount to grown annually. However, due to our unique calculations on the LCFF, these supplemental funds are being generated as a reduction to our base grant. This leaves fewer resources available to fund ongoing operational expenses and is causing an operating deficit.

All Districts are expected to present a plan to support increased performance and improved outcomes by providing additional services, spending more on existing services and, or, achieving more on the State priorities including: William's Act compliance, implementation of performance standards, parental involvement, pupil achievement, pupil engagement, school climate, programs and access for students with exceptional needs. During 2014-15, we have begun implementing programmatic changes and expansion to align with the State priorities including: hiring Community Engagement Facilitators, expanded summer school, including incoming kindergarten students, expanding instructional coaches, purchasing assessment management software, expanding our student laptop carts at each site, developing additional math pathways for middle school students and providing professional development for teachers of English language learners. We expect to continue to expand on these programs and build upon feedback and input from our parent and community organizations to assess our local control accountability plan for 2014-15 and refine our plan for 2015-16.

General Fund:

The General Fund revenues projected for 2014-15 are $50,144,689. This is an increase of $599,246 compared to the adopted budget of $49,545,443. The General Fund revenue for 2014-15 includes projected revenues of $2,800,000 from the Parcel Tax and $553,695 from the Mountain View Educational Foundation and $139,000 from the CA Clean Energy Job Act. Total Outgo (including transfers and expenditures) in the General Fund is projected at $50,984,260 for 2014-15. This increase of $1,200,409 includes an increase to instructional materials, due to the increased State funding, an increase for environmental science for the 8th grade Yosemite trip, increase to discretionary spending for Castro restructuring as well as increased costs from salary negotiations with certificated, superintendent, management, supervisors and preschool teachers. Lastly, expenditures include proposed COLA increase for classified (this will be modified based on negotiations) and approved increases in salaries for all other groups, increased contributions to STRS and PERS and a 5.3% increase in health benefits (Kaiser increased 5.1% and ABC increased 9.5%) beginning in January 2015.

The estimated Ending Balance of the 2014-15 General Fund Budget is $22,763,334. The estimated Ending Balance includes the following:

- $793,852 for Parcel Tax Reserves, and
- $31,856 for Revolving Cash and Prepaid Expense and
- $9,065,182 in Assigned and Restricted Categorical Funds (Including $4.9M assigned to Innovation Centers)

The 3% required reserve for the district is $1,529,528 of General Fund Unrestricted. Additional undesignated reserves above the 3% are $11,484,011 or 22.52%. Given the elimination of annual COLA adjustments to revenue as well as the eight year implementation timeline for the LCFF, we anticipate continued volatility in annual revenue. Revenue may potentially fluctuate between 10%-15% annually and therefore, the recommended undesignated reserves should be at a minimum of 10%-15% and substantially higher than the State recommended 3%. It is expected that our current undesignated reserves will be required to address our projected operating deficit. Based on current projections, the District has adequate reserves to meet the 3% reserve for economic uncertainties.

The Multi-Year Projection indicates that the District will meet the required 3% reserve for all three years. However, based on the projections below, the District will utilize much of these reserves to pay for current operations and will not have available resources to make programmatic changes or expand expenses without cutting current programs. Examples of programmatic changes are outlined below for discussion purposes only. The intent is to make clear that any additional expenses must be considered in relationship to the overall operations of the District.

Reserves:

In November 2014, voters passed Proposition 2 which imposes new requirements on school reserves. 1) School districts are required to provide additional disclosure and a public hearing related to reserve levels for the 2015-16 budget. 2) School districts must justify reserve levels to the County Office of Education. In addition, under certain circumstances, the State would require imposition hard caps of 6% on reserves. While each district has different risks and resources, factors including enrollment, union negotiations, volatility in revenue and shifting expense priorities influence recommended reserves. The COE recommends at least a 17% reserve in order to cover 2 months of payroll. With all of these variables, a recommended reserve is one that provides adequate coverage for any unexpected downturn that does not result in immediate reductions to student programs, reduction of staff, reductions of employee compensation or layoff of employees.

While many experts believe the reserve cap will be modified, and may never take effect because of the conditions precedent to cap reserves, this does not mean that we should not have appropriate reserves to offset our risk factors. For MVWSD, the largest risks include increasing employee compensation including the pension costs that exceed our revenue increases, potential loss of parcel tax revenue, shifting priorities on expenses to potentially fund new school sites, decreasing class sizes, expansion of programs and additional funding needed for Common Core state standards. While using reserves to fund one time expenses is appropriate, funding ongoing expenses is causing the District to have an operating deficit and to erode our reserves in a non-sustainable manner.

Other Funds:

The District maintains funds outside of the general fund for Child Development, Child Nutrition, Deferred Maintenance, Special Reserve Fund, OPEB, Building Fund, Capital Facilities Fund and Whisman Sports Center. These funds have a combined balance of $44,936,748 at the end of 2014-15 and are used to fund capital improvements and deficits related to these areas. The 1st Interim Budget has increased the projected budgeted expenses to $ 15,356,988 for Fund 211 GO Bond Fund to reflect the anticipated construction schedule. The remaining bond funds are anticipated to be spent in 2015-16 for the two middle school projects. Additionally, the Child Nutrition budget has increased the projected deficit by $25,115 to $(52,368). Cash reserves will be used to fund the deficit. While expenses are stable, we have experienced a slight decrease in meal counts for the first few months of 2014-15. Staff has seen a positive trend over the past four weeks and expects to make up the revenue as new menu items are introduced throughout the District.

Recommended Action:

The Board adopt Resolution No. 1549.12/14 and certify that the District is able to meet its financial obligations for the remainder of the fiscal year and that the Board intends to maintain a balanced budget with State required reserves in the next two fiscal years.