

BUENA PARK SCHOOL DISTRICT  
Buena Park, California 90620

March 14, 2016

TO: Governing Board

FROM: Kelvin Tsunezumi, Assistant Superintendent, Administrative Services

SUBJECT: **SECOND INTERIM BUDGET REPORT, 2015-16**

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**BACKGROUND:**

Pursuant to Education Code 42130, the Governing Board is required to certify within 45 days of the close of the period ending January 31 (second interim reporting period) that the District will be able to meet its financial obligations for the budget year and for two subsequent years. The Second Interim Report updates the District's Board approved General Fund budget with the most current information available. The following report is presented for your approval as an action item. The report has been reviewed in accordance with the State Board of Education Criteria & Standards.

**CURRENT CONSIDERATIONS:**

**The State**

The 2016-17 Governor's Proposal was released on January 7<sup>th</sup> and assumptions from this proposal are incorporated as part of the Second Interim Report.

The Governor's Budget recognizes that the economy, both locally and nationally, continues to recover from the recession. However, the Governor continues to stress the need for "cautious optimism" given that the average economic upturn, post-recession is 5 years and California is currently at 6.5 years. School Services of California indicates that consistent with prior years, the Governor's Budget reflects continued conservative estimates of State revenues. The proposed budget also factors in the expiration of Proposition 30 temporary taxes in upcoming years and a less vigorous stock market. Projected capital gains in 2016-17 are expected to decrease by \$1.0 billion from the high watermark of \$13.4 billion in 2015-16. Overall, General Fund revenues are proposed at \$120.6 billion (a 2.6% increase) compared to expenditures of \$122.6 billion (a 5.6% increase). With California's improving economic conditions and the passage of Proposition 2, which revised the State's Rainy Day Fund, the Governor's Budget proposes an additional \$2 billion deposit in the State's reserve beyond the State's constitutionally required deposit, leaving the rainy Day Fund balance at \$8 billion by the end of the year.

Specific to Education, the Governor's budget proposal assumes the following:

- Proposition 98. For 2016-17, the Proposition 98 guarantee is estimated at \$71.6 billion in 2016-17, up \$2.4 billion (3.5%) from the 2015-16 level.

- Local Control Funding Formula (LCFF). Continues implementation of LCFF with an infusion of \$2.825 billion in additional Proposition 98 revenues. Proposes to increase the gap funding rate for 2016-17 to 49.08%, up from 35.55%. Total LCFF funding is estimated at 95% of the full implementation goal.
- The Maintenance Factor is fully repaid in 2015-16 with a payment of \$810 million, although a new maintenance Factor obligation of \$548 million is created in 2016-17.
- Local Control Accountability Plan (LCAP). LCFF changed the State's accountability system; moving from a system of rule compliance measured by audits and enforced through penalties to a system of accountability based upon local needs and measured by progress towards annual goals. The cornerstone of the accountability system, the LCAP continues.
- Proposes one-time discretionary funds of \$209 per ADA or approximately \$1.0 million for BPSD. While the Governor's intent is to utilize this funding to further investments in content standards implementation, technology, professional development, and deferred maintenance, the use of these funds are completely discretionary. Dollars received would repay a portion of prior years' mandated cost reimbursement claims.
- Mandate Block Grant. Districts will again have the opportunity to either file new mandate claims or automatically be reimbursed via a Mandate Block Grant. Mandate Block Grant funding is proposed to remain at \$28/ADA for Grades K-8.
- Special Education Funding. Offers no significant funding increases for special education programs and provides only a minimal 0.47% COLA.
- Proposition 98 Reserve. In addition to creating a State Rainy Day Fund, Proposition 2 also established a State reserve specifically for Education, the Proposition 98 Reserve that, among other things, institutes a cap on local school districts' reserve at specified levels in any fiscal year following a deposit into the Proposition 98 reserve. The 2016-17 Budget assumes no contributions to the Proposition 98 reserve fund.
- Not included in the Governor's Proposal are the following:
  - Facilities Bond. The Governor continues to oppose a State facilities bond and thus there is no proposal for a state-wide school facilities bond or program
  - CalSTRS & CalPERS. Employer costs for retirement benefits for CalSTRS and CalPERS will increase significantly over the next several years. The Governor's Proposal does not provide any additional funding to address these costs increases.

In late 2015, Congress and the President reached agreement on a federal education package. The package includes moderate funding increases for Title I and Special Education but most other federal programs receive negligible funding increases.

Please keep in mind that the Governor's plan is only a proposal. Legislature approval is required for the proposal to be enacted into law.

### **Buena Park School District**

The District has made the following key budget changes for Second Interim Reporting purposes:

- As a whole, revenues did not increase dramatically. Total revenues increased by \$292,510 (vs. First Interim) with Unrestricted revenues increasing \$35,338 and Restricted by \$257,172.
- The Unrestricted revenue increase is attributable to:
  - An increase in Local Control Funding Formula (LCFF) revenue of \$97.1K due to a combination of increases from the LCFF funding rate, revenue limit average daily attendance (ADA), and unduplicated student percentage.
  - Local revenue increased by \$56.0K due to an increase in Interest Income and Leases & Rentals.
  - The above increases were partially offset by Federal Unrestricted revenues which declined by \$117.8K due to reclassification of School Medi-Cal Administrative Activities (SMAA) revenues, previously classified as unrestricted, but moved to Restricted for consistency with prior years' financials.
- The Restricted revenue increase is attributable to:
  - Federal revenues which increased by \$190.2K due to the previously noted reclassification of SMAA revenues to Restricted combined with receipt of additional SMAA dollars received since First Interim.
  - Other State revenues increased by \$67.0K due to an increase in State categorical funding levels.
- Total General Fund Combined expenditures did not change materially with total expenditures reduced by \$108,245 (+0.2%) vs. First Interim. However, there were major swings between the Unrestricted and Restricted categories.
- General Fund Unrestricted expenditures decreased vs. First Interim by \$464,215 while Restricted expenditures increased by \$355,970.
  - The decrease in General Fund Unrestricted expenditures is driven primarily in Classified Salaries, Employee Benefits, and Services & Other Operating expenditures.
    - Classified salaries were decreased by \$199.3K and Employee Benefits decreased by \$103.7K due to a reclassification of \$127K in SMAA expenditures that were previously categorized as Unrestricted expenditures but should be classified as a Restricted expense to be consistent with prior years' handling of this expense. In addition, approximately \$50K in classified salaries was reduced given delayed hiring of the additional custodial and Maintenance & Operations personnel.
    - Services & Other Operating expenditures were decreased by \$247.9K based on a review of year-to-date expenditure trends. Specific areas of reduction include Travel & Conferences (\$106.6K) and Professional/Consulting Services (\$134.1K).
  - The increase in General Fund Restricted expenditures is driven primarily by an increase in categorical award funding,
- Contributions increased by \$168,121 due to higher than anticipated Special Education needs for non-public school and non-public agency placement (\$100K) and encroachments in the Title I and ASES categorical programs for adjustments related to Federal Program Monitoring Reviews.

The following table provides additional information about income, one-time transfers and one-time dollars.

## INCOME

Budget Item	First Interim Report 2015-16	Second Interim Report 2015-16
LCFF Funding Rate	51.52%	51.97%
Revenue Limit ADA	4,875.78 ADA (Despite projected student enrollment loss, given protection afforded to school districts, still funded at previous year's ADA.)	4,876.52 ADA (Despite projected student enrollment loss, given protection afforded to school districts, still funded at previous year's ADA.)
Unduplicated Student Percentage	79.85%	80.18%
Lottery (\$/ ADA)	\$128.00 unrestricted \$34.00 restricted	\$128.00 unrestricted \$30.00 restricted
Special Education Transfer	\$3,929,626	\$4,029,641
Interest Income	\$31,5000	\$73,000
Deferred Maintenance	\$250,000 Contribution	\$250,000 Contribution
Mandated Costs	\$141,538 (Block Grant) \$0 (One-time)	\$141,538 (Block Grant) \$338,494 (One-time)

## ONE-TIME TRANSFERS IN BPSD 2015-16 BUDGET

The enacted State Budget eliminated most State categorical program funding as well as categorical flexibility provisions related to these programs. As a result, most one-time transfers are eliminated and only the following transfers remain.

Category	From	To
Federal Categorical Transfer	Title 2 Teacher Quality: \$200,000	Class Size Reduction: \$200,000
Interfund Transfer	General Fund: \$250,000	Deferred Maintenance Fund: \$250,000

## DEFICIT SPENDING AND ENDING BALANCE

At Second Interim the District reports an overall General Fund (Unrestricted & Restricted combined) operating surplus of \$876,293. The surplus is a result of an unrestricted surplus of \$2,002,761 which is partially offset by an restricted deficit of \$1,126,468. Please note that this restricted deficit spending is attributable to funding carryovers that were credited as revenues in the prior year, but are budgeted only as expenditures in the current year. In comparison to First Interim, the surplus for the General Fund Combined increased by \$400,755. The Unrestricted surplus improved by \$331,432 while the deficit for Restricted was reduced by \$69,333.

The projected Unrestricted General Fund ending balance of \$6,441,741 is comprised of \$1,638,371 in Designation for Economic Uncertainties to provide sufficient funding to allow for a 3% economic reserve for uncertainty, revolving cash of \$55,000, and \$4,748,370 for designated amounts including reserves for: IMFRP, Kid Connection program surplus, provisions for Other Post Employment Benefits (OPEB), and Program Restoration & Enhancement.

## **MULTI-YEAR PROJECTION (MYP) CONSIDERATIONS**

The MYP covers the period 2015-16 through 2017-18. The following assumptions are incorporated into the MYP:

- LCFF Funding Rate:

	2015-16	2016-17	2017-18
Department of Finance (DOF)	51.97%	49.08%	45.34%
School Services of California (SSC)	51.97%	49.08%	27.56%
BPSD (at Second Interim)	51.97%	49.08%	27.56%
BPSD (at First Interim)	51.52%	35.55%	18.11%

- Unduplicated Student Percentage Assumption. The MYP assumes a slight decline in the unduplicated student percentage over the three year period.

	2015-16	2016-17	2017-18
Unduplicated Students as a Percentage of Total Enrollment	80.18%	79.79%	79.55%

- Enrollment. Enrollment projections have been updated with the recently completed analysis by Decision Insite, the District's demographers. The MYP assumes the District's declining enrollment trend to continue. Following our 241 and 117 student enrollment loss in 2014-15 and 2015-16 respectively, our demographers projects a 100 student loss in 2016-17 followed by an additional 120 student loss in 2017-18. Enrollment projections vs. First Interim are shown in the below table:

	At First Interim	At Second Interim	Change
2015-16	4,866	4,868	+2
2016-17	4,816	4,768	<48>
2017-18	4,766	4,648	<118>

- One-time Funding.
  - In 2015-16, one-time funding was/will be received for One-time Discretionary funds (\$2,563.1K) and Educator Effectiveness grant (\$337.3K). Plans call for funds from both programs to be spent over a 3 year period.
  - For 2016-17, the Governor proposes an additional one-time revenue allocation of \$209/ADA or approximately \$1 million. For 2016-17, dollars are currently set aside in unrestricted reserves under "Program Restoration & Enhancements."

- Unrestricted Reserves. Unrestricted reserves are set aside for Kid Connection (\$267.5K), Instructional Materials (\$1,070.7K), OPEB or Other Post-Employment Benefits (\$592.1K), and for program restoration/enhancement (\$2.82 million).

Building off of the assumptions above coupled with our 2015-16 projections, we anticipate the unrestricted General Fund to have a surplus (revenues vs. expenditures) of \$2,002,761 but deficits in subsequent years of \$394,623 and \$1,923,423 in 2016-17 and 2017-18 respectively. We further estimate District reserves (i.e. Designation for Economic Uncertainties) for 2015-16 through 2017-18 as follows: 3.1%, 3.9% and 3.3%.

### **STAFF RECOMMENDATIONS:**

Administration recommends that the Governing Board approve the District's 2015-16 Second Interim Report with a positive certification.

**\*\*STRATEGIC PLAN:** Provide a Safe and Positive Learning Environment