

BUENA PARK SCHOOL DISTRICT
Buena Park, California 90620

June 26, 2017

TO: Governing Board

FROM: Kelvin Tsuneczumi, Assistant Superintendent, Administrative Services

SUBJECT: **APPROVAL OF THE 2017-18 BUENA PARK SCHOOL DISTRICT
BUDGET**

BACKGROUND:

Pursuant to Education Code 42127, the Governing Board is required to approve and adopt an annual budget for the upcoming fiscal year on or before July 1. The following document is presented for your approval as an action item. This document has been reviewed in accordance with State adopted criteria and standards to certify that the District will be able to meet its financial obligations for the budget year and for two subsequent years.

As is the District's practice, staff prepares the District's budget taking cues from the Governor's State budget proposals for general and categorical revenues, education budget policy changes which may reduce or increase District costs, as well as any new initiatives for educational programs. On May 11, 2017, Governor Brown released a "May Revision" of the January Budget Proposal of which specific information has been incorporated into the District's budget development process. Further, the proposed 2017-18 District budget incorporates local factors related to projected enrollment and attendance, program and operational cost changes, and interest rate changes.

CURRENT INFORMATION:

The proposed 2017-18 Budget and 2016-17 Estimated Actuals are based upon the most current information available from the California Department of Education, the Orange County Department of Education (OCDE), School Services of California, Inc. (SSC), and Buena Park School District sources.

The following sections and tables identify other primary budget assumptions / key factors used in developing the District's 2017-18 General Fund Budget.

INCOME

Governor Brown's May Revision paints a somewhat brighter fiscal picture than what he offered in his January Budget proposal. Throughout the current year, state revenues have been soft, falling below projections through April. However, even though the May Revision acknowledges a current-year shortfall of \$225 million, budget-year revenues are expected to exceed the January

forecast by almost \$1.9 billion. This revenue gain allows for increased spending next year compared to what districts were bracing for just four months ago.

The Governor continues to warn of an all but inevitable eventual recession. The Governor points out that the current economic recovery is the third longest in the post-war period. He warns that a recession of even “moderate intensity” would result in a state revenue shortfall of \$55 billion spread over a three-year period. It is important to note that despite the Governor’s warning, State revenue projections for the May Revision does not assume a recession.

For 2017-18, the Proposition 98 guarantee is estimated at \$74.6 billion, up \$1.1 billion from the January Proposal. Of concern however is that for 2018-19 through 2020-21, the May Revision proposes to lower Proposition 98 funding by not paying a supplemental Proposition 98 appropriation. “Test 3B” requires Proposition 98 spending increases to be no less than non-Proposition 98 spending increases. The proposed suspension would lower the funding guarantee by an estimated \$867 million or \$289 million per year for those 3 years. While the dollar amounts may not be significant, there is concern that this action will set a precedent and be repeated in future years. Please note that the suspended payment would accrue to the maintenance factor.

The Local Control Funding Formula (LCFF) funding rate for 2017-18 is revised to 43.97%, up from the 23.67% proposed in January. Total LCFF funding is estimated at 97% of the full implementation goal. COLA for 2017-187 is projected at 1.56% for K-12 educational programs.

Proposed are discretionary, one-time funding estimated at \$170 per ADA or approximately \$784,000 for BPSD. (The January Governor’s Proposal called for \$48 per ADA.) The use of these funds are completely discretionary. Dollars received would repay a portion of prior years’ mandated cost reimbursement claims. It is important to note that the proposal calls for these funds to be held and not disbursed till May 2019 (i.e., close to the end of 2018-19). Given this stipulation, both School Services of California and Orange County Department of Education recommend that districts not include this revenue in either the 2017-18 Budget or in the Multi-Year Projection (MYP). BPSD will follow this guidance.

The Budget assumes an enrollment decline in 2017-18 (vs. 2016-17) of 150 students as projected by our demographers. Federal revenues are assumed to decline 16% vs. 2016-17 funding levels. As stipulated by GASB 68, the estimated actuals and budget presented recognizes the State of California’s on-behalf STRS annual contributions totaling \$1.9 million and \$2.0 million in 2016-17 and 2017-18 respectively. Contributions from the State are recorded on the District’s financial report as restricted State revenues and the expenditures as restricted benefit expenses. Net impact on the District’s Excess/(Shortfall) is zero but these additional “expenditures” inflates the District’s reserve requirement for each year by approximately \$60,000.

Special Education costs are projected to continue to increase due primarily to the acuity level of services required by these students. Contributions to Special Education are projected to increase from \$5.6 million in 2016-17 to \$5.7 million in the budgetary year.

Please refer to the tables below for additional revenue and one-time transfer assumptions.

Budget Item	Estimated Actuals 2016-17	Proposed Budget 2017-18
LCFF Funding Rate	55.03%	43.97%
Revenue Limit ADA	Total: 4,739 ADA	Total: 4,642 ADA
COLA	0.00%	1.56%
Lottery (\$/ ADA)	\$144.00 unrestricted \$45.00 restricted	\$144.00 unrestricted \$45.00 restricted
Special Education Transfer	\$5,572,237	\$5,710,867
Interest Income	\$118,000	\$136,000
Mandated Costs	\$133,547 (Block Grant)	\$131,100 (Block Grant)

ONE-TIME TRANSFERS IN BPSD 2016-17 BUDGET

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

EXPENDITURES

A student teacher ratio of 24.2:1 is assumed for Grades TK-3, 29.0:1 for Grades 4-6, and 28.0:1 for Grades 7-8. BPSD has a negotiated agreement with our teachers' association on class sizes ratios for Grades TK-3 and as a result, State mandated class size improvement requirements for these grades do not apply.

All approved and occupied positions have been budgeted at each employee's current salary. Unoccupied positions have been budgeted at step two on the respective salary schedule. Contractual certificated/classified step and column increases have been budgeted in anticipation of actual movement in 2017-18.

Per the May Revision, the CalSTRS statutory benefit rate paid by employers has been increased from 12.58% in 2016-17 to 14.43%. The CalPERS rate will increase from 13.888% to 15.531%. Health & Welfare benefits reflect an additional 6.5% increase for 2017-18 and 7.6% increase for 2018-19 forward.

At 2016-17 Second Interim, based on the January Governor's Proposal, on-going budget reductions of \$400,000 was required effective 2017-18 forward. Given some relief from the May Revision, BPSD will implement \$200K in reductions. These reductions are included in the 2017-18 Budget and comprises of the following:

- Eliminate payout of unused vacation by stipulating that employees must take time-off during their normally scheduled work year. (\$70K in savings)
- Elimination of one Special Ed teacher (\$100K in savings)

- Defer hiring of Special Ed Coordinator position for 3 months (\$30K in savings)

DEFICIT SPENDING AND ENDING BALANCE

For 2017-18, a General Fund operating deficit of \$1,758,611 is projected. This deficit is attributable to the unrestricted portion of the fund with a deficit of \$1,343,595 primarily due to the District's declining enrollment trend, cost escalations related to CalSTRS, CalPERS, Health & Welfare benefit costs, as well as planned expenditures of discretionary, one-time funds received in the prior year. Restricted categorical programs are slated to have a deficit of \$415,016 as carryovers from previous years are spent down. The 2017-18 projected General Fund ending balance is estimated at \$5,627,745 and consists of the following:

Revolving Cash	\$ 55,000
Stores	\$ 37,436
Restricted Ending Fund Balance	\$ 661,609
Assigned/Unassigned Ending Fund Balance	\$ 3,055,397
Designation for Economic Uncertainties	\$ 1,818,303
Total	\$ 5,627,745

The breakdown of the Assigned/Unassigned Ending Fund Balance and the purpose/reason for these balances are as follows:

<u>Purpose/Reason</u>	<u>Amount</u>
Kid Connection program surplus	\$ 79,632
Other Post Employment Benefits	\$ 592,092
IMFRP (textbook funds)	\$ 1,122,490
2015-16 One-time Discretionary	
Unspent 2015-16 allocations *	\$ 253,000
2016-17 One-time Discretionary	\$ 1,008,183
Total	\$ 3,055,397

Please refer to Attachment "A" for additional details related to Assigned and Unassigned Ending Fund Balances.

MULTI-YEAR PROJECTION (MYP) CONSIDERATIONS

The MYP covers the period 2017-18 through 2019-20. The following assumptions are incorporated into the MYP:

- LCFF Funding Rates:

	2017-18	2018-19	2019-20
SSC Recommended	43.97%	39.03%	41.51%
Department of Finance (DOF)	43.97%	71.35%	73.51%
BPSD Utilized	43.97%	71.35%	73.51%

The District assumes the more aggressive DOF funding rate in the years covered by the MYP.

- The MYP assumes, consistent with the demographer's projections, a continuing declining enrollment trend with a 150 student loss in 2017-18 followed by enrollment losses of 120 and 140 students in 2018-19 and 2019-20 respectively.
- Class size is assumed at 24.2:1 (Grades TK-3), 29.0:1 (Grades 4-6) and 28.0:1 (Grades 7-8) for all years
- Teacher staffing is reduced commensurate with enrollment decline 2017-18 forward
- Health & Welfare Benefit Premiums assumed to increase 6.5% per year for 2017-18 and by 7.6% 2018-19 forward
- CalSTRS & CalPERS rates will increase as follows:

	2016-17	2017-18	2018-19	2019-20
CalSTRS Rate	12.58%	14.43%	16.28%	18.13%
CalPERS Rate	13.888%	15.531%	18.10%	20.80%

In support of out-year cost escalations and to meet reserve requirements in subsequent years, it is assumed that unspecified budget reductions of \$250K and \$2,175.0K will be implemented in 2018-19 and 2019-20 respectively.

Building off of the assumptions above, coupled with our 2017-18 projections, we anticipate General Fund deficits of \$1,758,611, \$1,710,372, and \$65,536 for 2017-18 through 2019-20 respectively. District reserves (i.e. Designation for Economic Uncertainties) for 2017-18 through 2019-20 are projected as follows: 3.2%, 3.1% and 3.1%.

The District will continue to monitor the State Budget and will update the MYP accordingly.

STAFF RECOMMENDATIONS:

The Administration recommends that the Governing Board approve and adopt the 2017-18 budgets for all District funds including: General Fund, Cafeteria Special Revenue Fund, Deferred Maintenance Fund, Capital Facilities, Special Reserve Fund, Building Fund, County School Facilities Fund, the Bond Interest and Redemption Fund, and the Assigned and Unassigned Ending Fund Balances and their stated purposes.

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

2016-17 Adopted Budget

Reasons for Assigned and Unassigned Ending Fund Balances Above the State Recommended Minimum Level

Education Code Section 42127(a)(2)(B) requires a statement of the reasons that substantiates the need for assigned and unassigned ending fund balances in excess of the minimum reserve standard for economic uncertainties for the budget.

District: Buena Park School District

Combined Assigned and Unassigned Fund Balances		2017-18
Fund	Fund Description	
01	General Fund/County School Service Fund	\$4,873,700.00 Fund 01, Objects 9780/9789/9790
17	Special Reserve Fund for Other Than Capital Outlay Projects	\$0.00 Fund 17 Objects 9780/9789/9790
Total Assigned and Unassigned Fund Balance		\$4,873,700.00
District Standard Reserve Level		3.0% Form 01CS Line 10B-4
Less: Reserve for Economic Uncertainties		\$1,818,303.00 Form 01CS Line 10B-7
Fund Balance that Requires a Statement of Reasons		\$3,055,397.00

Reasons for Assigned and Unassigned Ending Fund Balances Above the State Recommended Minimum Level		2017-18 Reasons
Form	Fund	
01	General Fund/County School Service Fund	\$ 79,632.00 Kid Connection - Child Care Carryover Balance
01	General Fund/County School Service Fund	\$ 1,122,490.00 IMFRP - Future Textbook Adoptions
01	General Fund/County School Service Fund	\$ 592,092.00 Other Post-Employment Benefits (Retiree Health)
01	General Fund/County School Service Fund	\$ 1,008,183.00 2016-17 One-Time Funds Set Aside to Support Out-Year Cost Escalations
01	General Fund/County School Service Fund	\$ 253,000.00 2015-16 One-Time Funds Set Aside for Program Restoration & Enhancement (unspent, budgeted one-time \$s)
17	Special Reserve Fund for Other Than Capital Outlay Projects (Insert Lines above as needed)	\$0.00
Total of Substantiated Needs		\$ 3,055,397.00