

SOUTH PASADENA UNIFIED SCHOOL DISTRICT
Business Services



TO: Members of the Board of Education

FROM: Dave Lubs, Assistant Superintendent of Business Services

PREPARED BY: Dana Smith, Director of Fiscal Services

DATE: December 13, 2016

SUBJECT: Approval, Adoption, and “Positive” Certification of the First Interim Report for the 2016-17 Fiscal Year

Background

Education Code Sections 35035 (g), 42130, and 42131 require the Governing Board of each school district to certify at least twice a year the district’s ability to meet its financial obligations for the remainder of that fiscal year and for the subsequent two fiscal years. This process is referred to as the Interim Report Process. The First Interim Report & Budget for the 2016-17 budget year is due to the Los Angeles County Office of Education by December 15, 2016.

There are three certifications possible: “positive,” “qualified,” and “negative.” A “positive” certification means that the district can meet its financial obligations in the current and subsequent two fiscal years. A “qualified” certification demonstrates that the district may have trouble meeting its obligations in the out years. A “Negative” certification indicates that the district may not meet its obligations in the current fiscal year.

Based on the 2016-17 First Interim Report’s available ending fund balance, the Board of Education should declare a “positive” certification for the Budget. This certification is based on the assumption that the District will have a 4.1% reserve by the end of 2018-19 inclusive of the submitted Fiscal Stabilization Plan.

The First Interim Report is created using guidance provided by the Los Angeles County Office of Education (LACOE). Since the Adopted Budget was approved on June 28, 2016, LACOE has updated its assumptions and guidance, all of which have been included in the First Interim Report.

Discussion

The 2016-17 Adopted State Budget and the District First Interim Report & Budget

The District budget is created using a series of assumptions in the area of revenues and expenditures. The largest percentage of District revenue comes from the state based on average daily attendance (ADA). The District must follow LACOE guidance to determine proper ADA funding levels.

The 2016-17 fiscal year is the fourth year of implementation of the Local Control Funding Formula (LCFF). The LCFF eliminated most categorical programs and rolled those programs into a base grant per student. The LCFF formula also provides a “supplemental” grant of an additional 20% of the per-student base grant for students who are economically disadvantaged, English-language learners (EL), or foster youth. A “concentration” grant will also be provided to those districts that have over 55% of their populations in one of these three categories. Approximately twenty percent of South Pasadena Unified students fit into at least one of the three targeted categories.

The LCFF eliminated “revenue limits” and established a funding target for the 2020-21 fiscal year. The LCFF target can be changed or postponed by the legislature at any time. The target amount that each district should receive per student by 2020-21 assumes a continual expansion of State revenues year-over-year. When districts’ funding target is reached, the average amount that individual districts will receive per student will differ greatly. Because of the relatively small number of economically disadvantaged, English learners, and foster youth, South Pasadena Unified will be among the lowest funded districts in Los Angeles County.

The LCFF funds districts on bands of students (elementary, middle, and high school). It also provides additional funds for class size reduction in kindergarten through 3rd grade and for career technical education (CTE) in grades 9-12.

GENERAL ASSUMPTIONS

Revenues

Revenue Limit to LCFF

As mentioned above, the revenue limit no longer forms the basis for California school funding. Rather, LCFF figures have been replaced with a “base grant” per student. The base grant differs per district based on each district’s hold harmless level and the percentage of the “gap” funded. In 2020-21 each district’s base funding level should be the same; however the average dollars that they receive per student will vary greatly based on their percentage of targeted students.

Use of a COLA (Cost of Living Adjustment) in the 2016-17 District Budget

Under the revenue limit financial structure, state revenue was estimated by a projected annual COLA. Under the LCFF, there is a percentage of the “gap” that is funded each year. The gap is the difference between the current year funding level and the 2020-21 fiscal year in which all districts will receive their “target” funding. COLA is now included as part of the calculation of the LCFF.

Projected Growth/ADA

The District is projecting an increase in enrollment of 25 for 2016-17. The District’s 2015-16, P-2 attendance was 4,593.43.

Additional ADA of 24.25 has been included in the revenue projection for 2016-17 First Interim Report and multi-year projections. If enrollment falls over the next years, the District will immediately begin to adjust revenue numbers to reflect that change.

In addition to regular ADA the District receives 23.07 ADA generated by students attending a county run school. The District has signed an MOU with the county office to pass through the revenue for these students. This cost is reflected in the budget.

Parcel Tax Revenue

Parcel tax revenues have been estimated at \$2.3 million annually and have been included in the revenue for 2016-17 and 2017-18.

Per Ed Code, a District must be able to meet its financial obligations in the current and two subsequent years in order to receive a positive certification. The 2016-17 Budget that was adopted in June 2016 includes the 2017-18 and 2018-19 years in the multi-year projections.

Revenues that are contingent in nature (subject to a vote) such as a parcel tax, cannot be included in multi-year projection planning beyond its expiration date. The District is in its fourth year of a five year parcel tax that will expire in June 2018. For this reason, the parcel tax revenues are not included in the 2016-2017 Adopted Budget Multi-Year projections for the 2018-2019 fiscal year.

The absence of the parcel tax revenue results in the County Office requiring the District to submit a fiscal stabilization plan along with the budget.

Any future one time monies should be set aside as a contingency for the 2018-19 fiscal year and beyond.

Mandate Claim Reimbursement Funds

The District has continued in the State Mandate Block Grant program which provides \$28 per K-8 student and \$56 per 9-12 grade students. Based on attendance figures, the grant will generate an estimated \$170,097 for the District.

The Enacted Budget also included \$1.28 billion in one-time funds to pay down a portion of the debt owed to LEAs for mandated cost reimbursement. The funds may be used for any purpose as determined by the District's Governing Board. The distribution of the mandate reimbursement is on a per ADA basis, estimated at \$214 per ADA. These funds will be apportioned whether or not the District had any prior year claims. However, consistent with previous years, any funds received will offset state obligations for any district with outstanding mandate reimbursements. These funds are estimated at \$1 million for SPUSD.

Class Size Reduction

The Class Size Reduction add-on is provided on a K-3 per-student basis. As part of the larger LCFF, partial class size gap funding will be provided until the LCFF target is obtained. The new Class Size Reduction program is based on an average of 24 students per class in the K-3 grade levels. In 2020-21 the Governor has outlined severe penalties for districts that do not lower their staffing ratios to 24-to-1 in these grades. SPUSD is currently at 24 to 1 for grades K-3 and has met the requirement.

College Readiness Block Grant

The College Readiness Block Grant (CRBG), included in SB 828 (Chapter 29, Statutes 2016), requires (as a condition of receiving funds) that districts report to the State Superintendent of Public Instruction, by January 1, 2017, on how LEAs will measure the impact of the funds received on their unduplicated pupils' access and successful matriculation to institutions of higher education, as identified within their plan (as required by Education Code (EC) Section 41580).

SPUSD will receive \$75,000 and will be used to increase or improve services for unduplicated students in two priority areas: Advanced Placement Exam Fees and UC/CSU A-G completion.

California Career Technical Education Incentive Grant

The Enacted Budget continues to provide "bridge funding," \$400 million in 2015-16, \$300 million for 2016-17 and \$200 million in 2017-18 for a new transitional California Career Technical Education Incentive Grant (CTEIG) Program. The local match ratio requirement will increase each year from 1:1 in 2015-16, 1.5:1 in 2016-17 and 2:1 in 2017-18. The

expectation is that LEAs will use LCFF and the 9-12 grade span adjustment (GSA) funds to support the program beginning 2018-19.

In addition, new trailer bill language allows the State Superintendent of Public Instruction to reduce the following year's grant if it is determined that the grant recipient failed to comply with the matching requirements. Any CTE programs should be included in the Districts LCAP. The 2016-17 CTEIG award for SPUSD is \$351,427. Focus of funds is on media arts exploratory class, performing arts pathway and career internship program.

Expenditures

Annual Projected Expenditure Increases

Step-and-column figures and health care costs have been projected to have standard increases. Step-and-column increases are estimated at 1.5% of certificated salaries and 1.5% of classified salaries.

The premium for District-paid employee health benefits is budgeted for a 4% increase in the 2017 calendar year.

Early Retiree Health Benefits

The District is required to perform a GASB 45 valuation every two years to determine the obligations for retirement based on the current number of active employees and retirees. The present value of future benefits (PVFB) is \$12.8 million. The District has established fund 67.0 Self Insurance Fund for Post-Employment Retiree Benefits to help fund current and future post-employment retirement benefits.

Contributions from the South Pasadena Education Foundation (SPEF)

The SPEF Contribution is estimated at \$400,000 annually. The District firmly anticipates receiving SPEF funds at these same levels in the 2016-17, 2017-18, and 2018-19 fiscal years and has incorporated those funds into our current budget projections.

CalSTRS and CalPERS Increases

The CalSTRS and CalPERS increases have been incorporated in the budget and multi-year projections.

CalSTRS Rates

AB 1469 increased the contribution rates that employers, employees and the state pay to support the State Teachers Retirement System. The rate for employers is 12.58 percent for 2016-17. Employer rates will continue to increase until 2020-21 and are expected to bring the

underfunded retirement system (currently estimated at \$74.4 billion) to full funding in 31 years.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%

CalPERS Rates

The CalPERS adjustment to district revenue limits was eliminated with the implementation of the LCFF. Therefore, any increases in the CalPERS contribution rate have a direct impact on the local agency budget. The rate for employers is 13.88 percent for 2016-17.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer	11.77%	11.84%	13.88%	15.50%	17.10%	18.60%	19.80%

Recommendation

Dave Lubs, the Assistant Superintendent of Business Services, recommends that the Board of Education approve, adopt, and declare a “positive” certification for the District’s 2016-17 First Interim Report.

The positive certification is based on the assumption that the District will have over a 4% reserve by the end of 2018-19 inclusive of the Fiscal Stabilization Plan.

The SACS First Interim Report and Budget Form with detailed information and the multi-year projection is attached to the current board item.