

The Ross Valley School District 2012-13 First Interim Budget Report is attached for review and approval of the Board of Trustees. This is the first of two interim budget reports required each year by state law.

Report Format

This report includes two major components:

- A narrative providing discussion and analysis of the district's financial condition as of October 31, 2012, the date of the report (this document);
- The state-required Standardized Account Code Structure (SACS) budget report forms, which include a variety of financial facts, figures and analyses including the following significant components:
 - Multi Year Financial Projection (MYFP)
 - Cash Flow Projection
 - Criteria and Standards Report

Narrative to explain and interpret the above documents follows, along with significant budget assumptions utilized to develop the budget as well as the financial outlook of the state of California.

Budget Certification

The state requires each district to submit its budget report with one of the following certifications:

Positive – the district will be able to meet its financial obligations for the current and subsequent two fiscal years

Qualified – the district may not be able to meet its financial obligations for the current and subsequent two fiscal years

Negative – the district will not meet its financial obligations in the current or following fiscal year

Staff recommends this budget report be submitted to the Marin County Office of Education with a positive certification, as supported by the Multi Year Financial Projection included herein.

General Fund Budget Changes – Adopted Budget to First Interim

Budgets are developed with many assumptions and estimates; they will change over time. Below is a table that identifies the changes made since the budget was adopted in June.

Budget Changes
Adopted Budget to First Interim

Surplus from 2012-13 Adopted Budget:

Parcel Tax - New Revenue	\$1,045,533
Federal ARRA Funds - terminated	-\$392,550
Federal Special Education Funds - reduced	-\$82,393
Other	<u>-\$23,282</u>

Surplus - Adopted Budget \$547,308

Changes Since Budget Adoption:

	Revenue	Expenditure	
Enrollment Growth Revenue	\$90,378		
Mandated Cost Revenue - new program	\$59,576		
Lottery Revenue	\$27,828		
Special Education Mental Health - new funds	\$52,999	\$52,999	
One-Time Deferred Revenue from 2011-12	\$56,297	\$56,297	*
One-Time Restricted Ending Balance from 2011-12:			
Lottery - Instructional Materials		\$113,369	*
Parcel Tax - Maintenance & Operations		\$335,739	*
Other One-Time Allocations:			
White Hill Solar Panels - Electricity		\$50,000	*
Technology and Furniture		\$36,209	
Service Contracts		\$15,000	*
Actual vs. Projected Staffing Costs		\$285,115	
Positions Contracted Out in 2011-12/Filled in 2012-13		\$195,000	
Contracts Transferred to Positions		-\$215,000	
Special Education Transportation Costs		\$29,844	
Special Education Excess Costs, MCOE programs		\$23,295	
Teacher Subs - GLAD		\$30,967	
1:1 Aides		\$31,148	
CSEA Increase		\$88,626	
Other	<u>\$31,518</u>	<u>-\$26,018</u>	
 Total Changes	 <u>\$318,596</u>	 <u>\$1,102,590</u>	 <u>\$783,994</u>

Budget Deficit, 1st Interim \$(236,686)

*Add Back One-Time Expenditures \$571,884

Budget Surplus, 1st Interim - On-Going \$335,198

The revenue changes reflect updated or new information since the budget was adopted in June. The expenditure changes reflect allocations of these new revenues, we well as carryover of unspent funds from 2011-12 and identified unfunded new expenditures.

Budget Assumptions – General Fund

The 2012-13 school district General Fund budget was developed and approved with a number of assumptions. With the passage of time and Proposition 30 some of these assumptions have changed. The table below identifies the most significant assumptions utilized with budget adoption in June and with this update.

Assumption	Adopted Budget	First Interim Budget
Revenues:		
Enrollment/ADA Growth	0/0	20/19
Revenue Limit Cost of Living Adjustment (COLA)	0%	0%
Revenue Limit Deficit	22.272%	22.272%
Categorical Program Flexibility	Expires 6.30.15	Expires 6.30.15
K-3 CSR Program Flexibility	Expires 6.30.14	Expires 6.30.14
Parcel Tax Revenue Increase	\$1.045m	\$1.042m
Federal ARRA/Spec Education Funding Decrease	-\$0.475m	-\$0.475m
Mandated Cost Reimbursements	\$0k	\$60k
Expenditures:		
Staffing changes over prior year – Certificated	+2.4 FTE	+2.4 FTE
Staffing changes over prior year – Classified	+1.6 FTE	+2.4 FTE
Salary Schedule Cost of Living Adjustment	0%	1.5% (CSEA only)
Step & Column Movement - Certificated	1.5%	Actual Cost
Step & Column Movement – Classified	2.4%	Actual Cost
Health & Welfare Benefits Cap	No increase	Increase for CSEA staff
One-Time Expenditures	\$0k	\$572k
Reserves:		
Economic Uncertainties – State Required	3%	3%
Additional Reserves:		
State Apportionment Cash Deferrals	\$2.1m	\$0
Proposition 30 Mid-Year Cuts	\$1.0m	\$0
Other Reserves (see narrative that follows)	\$.2m	\$1.9m
Undesignated	\$.0m	\$1.5m

Enrollment grew by 20 pupils over the prior year, which staff estimates will yield an additional Average Daily Attendance (ADA) of 19. Mandated Cost Reimbursement revenue has been added as a result of the district opting into the new per-ADA reimbursement program.

Classified staffing increased to provide for additional instructional aides for special education services as required by the students Individualized Education Plan (IEP).

A cost of living adjustment was applied to the California School Employees Association (CSEA) salary schedule as per a collective bargaining agreement reached in October. The districts contribution to the CSEA health and welfare benefits program was also changed to provide for premium increases that take effect this year. Negotiations are continuing with the Ross Valley Teachers Association.

Step and Column movement across the salary schedules are included at actual cost, net of savings from resignations and retirements.

Unspent funds from 2011-12 were identified through closing of the books in September. This carryover has been allocated in this budget as follows:

Funding Source	Purpose	Amount
Lottery – Restricted	Instructional Materials	\$113,369
Parcel Tax –Restricted	Maintenance & Operations	\$335,739
Federal Categoricals	Various Programs	\$56,297

Allocations of General Fund reserves have changed significantly as a result of a vastly improved economic outlook recently published by the state. Narrative regarding reserve levels follows.

Fiscal Outlook - State of California

The financial condition of the school district is linked very closely to the State of California, which in turn is linked to the state of the economy. The entire globe has been mired in a significant economic recession since 2008, resulting in funding reductions for the state and thus for Ross Valley School District.

However, for the first time since 2008, a positive fiscal outlook has been presented by the state. One week after the passage of Proposition 30, the California education funding measure approved by voters in November, the state Legislative Analyst Office (LAO) issued their annual fiscal outlook report and stated “...the state economic recovery, prior budget cuts, and the additional temporary taxes provided by Proposition 30 have *combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges*”.

As a result, the LAO estimates significant new funds will be available for public education beginning with the 2013-14 year. Among the possible allocations of this new revenue are the following:

- 1.66% Cost of Living Adjustment
- Reduction of cash deferrals
- Education mandate reimbursements unfunded backlog
- Reforming school finance in California via a new Weighted Student Formula (WSF)

The outlook comes with the usual cautionary statements; namely, the economy must grow at projected rates and the federal “Fiscal Cliff” issue must be resolved. Only time will validate the outcome of these two identified risks.

Weighted Student Formula

Reforming school finance is a topic that the Governor proposed for 2012-13, but was not approved by the legislature. The Governor has announced intentions to again propose reform, in virtually the same

form he proposed last year: a new Weighted Student Formula. Such a formula is intended to correct perceived inequities in California public education funding among the various school districts.

The source of funding for the formula would be virtually all state funding for education, including both revenue limits and categorical funds, except those designated for special education. In particular, the new formula would drive funds to those districts whose English Language Learner and disadvantaged student populations were higher than certain thresholds.

Last year’s proposal included a hold-harmless provision for those districts who would experience a funding decrease as a result of application of the new formula...including Ross Valley School District. The hold-harmless would have yielded a sliding scale of funding shifts over a five year period until full implementation in 2017-18.

It appears this will be the same general model for the new proposal. Capital insiders question whether this will succeed given the exact same proposal was defeated last year. The first glimpse of the Governors plan will be included with his 2013-14 budget proposal to be issued in January 2013.

Multi Year Financial Projection

Staff prepared a Multi Year Financial Projection (MYFP) through the 2014-15 year as required by state law. The projection was developed utilizing assumptions that are derived from a variety of sources. Below is a table that identifies the more significant assumptions.

Assumption	2013-14	2014-15
Revenues:		
Enrollment Growth	71	96
Revenue Limit Cost of Living Adjustment (COLA)	0%	2.3%
Revenue Limit Deficit	22.272%	22.272%
Categorical Program Flexibility	Expires 6.30.14	Expires 6.30.14
K-3 CSR Program Flexibility	Expires 6.30.15	Expires 6.30.15
Parcel Tax Revenue Increase	4%	4%
Mandated Cost Reimbursements	\$60k	\$60k
Expenditures:		
Staffing changes over prior year – Certificated	+3FTE	+4FTE
Staffing changes over prior year – Classified	0 FTE	0 FTE
Salary Schedule Cost of Living Adjustment	0%	0%
Step & Column Movement - Certificated	1.5%	1.5%
Step & Column Movement – Classified	2.4%	2.4%
Health & Welfare Benefits Cap	No increase	No increase

The MYFP indicates the district will be able to meet its current financial obligations through the 2014-15 fiscal year while maintaining at least a 3% Reserve for Economic Uncertainties.

District Reserves

As a result of the improved state fiscal outlook, it appears the need for substantially larger budget reserves is not as prevalent as in recent years. Staff recommends evaluating the existing reserve practices of the district to reflect reduced levels of financial risk inherent in the economy. To that end, staff developed a new list of recommended reserves as noted in the following table.

Components of Ending Fund Balance:

Non-Expendable - Revolving Fund	\$3,000	\$3,000	\$3,000
Restricted Programs	\$69,323	\$81,856	\$94,748
<u>Assignments:</u>	\$0	\$0	\$0
Board Policy 3100 Reserve - 7%*	\$1,384,352	\$1,380,083	\$1,422,076
Textbook Adoptions	\$0	\$200,000	\$200,000
Technology Plan	\$200,000	\$400,000	\$520,489
Reading Specialists	\$60,000	\$180,000	\$300,000
Food Service Workers	\$3,600	\$10,800	\$18,000
Special Education NPS Placements	\$50,000	\$50,000	\$50,000
K-3 CSR Flexibility terminated - restore 20:1 in Grade 3	\$0	\$0	\$280,000
All other Flexibility terminated - restore in 2015-16	\$0	\$0	\$0
Elementary PE	\$172,500	\$517,500	\$862,500
Growth Revenue, net of New Positions*	\$0	\$334,510	\$489,522
<u>Undesignated:</u>	\$0	\$0	\$0
Reserve for Economic Uncertainties - 3%*	\$593,294	\$591,464	\$609,461
Undesignated*	\$1,479,441	\$522,932	\$0
Total	\$4,015,509	\$4,272,145	\$4,849,796
Board Policy 3100 Reserve (noted by *)	\$3,457,086	\$2,828,989	\$2,521,059
Board Policy 3100 Reserve Percentage	17.48%	14.35%	12.41%
Board Policy 3100 Reserve Target	17.00%	17.00%	17.00%

Assignments of Reserves

The reserve assignments noted below represent implementation of measures to address matters where the school district is out of compliance with state and/or federal mandates:

- Reading Specialists
- Food Service Workers
- Elementary PE

The assignments noted in this list represent allocations to address significant needs identified by staff:

- Textbook Adoptions
- Technology Plan
- Special Education NPS Placements

There are also assignments to assure the district is properly addressing risk posed externally, namely the statutory “sunsetting” of categorical program flexibility:

- K-3 CSR Flexibility
- All Other Flexibility

Finally, these assignments are recommended by staff as prudent measures to protect the district should budget assumptions prove inaccurate or the state economy does not recover as projected:

- Board Policy 3100 Reserve
- Growth Revenue, net of New Positions

Additional requests for allocations of reserve funds were identified by staff; these are noted in the table below but are not included in this budget:

- 7 period day \$416,000
- Custodians & Maintenance Workers 3.1 fte \$179,000
- Paving/HVAC/Painting/Lighting/Window Covering \$550,000
- Restroom Renovations \$650,000
- Phone System Replacement \$1,000,000
- Academic Counselor at White Hill .2 fte \$16,000
- Coordinator Educational Services 1.0 fte \$110,000
- Instructional Coaches, GLAD (\$ to be determined)

Cash Flow Projection

Staff prepared a cash flow projection for the 2012-13 fiscal year as required for the interim budget report. The projection indicates the district will maintain a positive cash balance throughout the 2012-13 year, and thus no temporary cash borrowing will be necessary.

In recent days, the state announced it plans to eliminate some of the intra-year cash deferrals as their cash flow is improving. This is welcome news; however, there are still tens of billions of cash deferrals that remain unfunded.

Other Funds

Cafeteria, Fund 13 – the budget includes a slight increase in the staffing at White Hill school, and a slightly lowered contribution from the General Fund.

Deferred Maintenance, Fund 14 – this fund accounts for the residual after all deferred maintenance funds were “flexed” to the General Fund.

Bond Fund, Fund 21 – this budget accounts for the proceeds of bonds sold for the districts facility construction and modernization program.

Capital Facilities, Fund 25 – this fund is where all development fees are deposited. Fee collections have slowed significantly in recent years. Staff has reduced the fee revenue budget to reflect this trend, which when coupled with costs of installing a new portable building this year has resulted in a reduced projection of ending fund balance. This fund will likely be sufficient to finance only the cost of existing facility leases in future years, until fee collections return to past levels.

Bond Interest and Redemption, Fund 51 – this fund accounts for proceeds of tax collections for the districts school bonds, as well as debt service on same. The increased budget reflects increasing tax rates and debt service relative to recent Measure A bond sales in 2011 and 2012.

Recommendation

Staff recommends the Board of Trustees approve the Ross Valley School District 2012-13 First Interim Budget Report as presented.