

Ross Valley School District
Second Interim Budget Report, 2012-13

Narrative

The Ross Valley School District 2012-13 Second Interim Budget Report is attached for review and approval of the Board of Trustees. This is the second 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 January 31, 2013, 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 – First Interim to Second 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 revised with the First Interim Budget Report presented to the Board of Trustees in December 2012.

Budget Changes 1st Interim to 2nd Interim Budget 2012-13

	1st Interim	2nd Interim	Change
Significant Changes, 1st Interim to 2nd Interim Budget Reports:			
<u>Revenue:</u>			
Insurance Claim, White Hill	\$0	\$399,367	\$399,367
Prior Year Adjustment, Lottery Revenue	\$334,069	\$366,986	\$32,917
All Other Revenue	\$19,205,697	\$19,227,224	\$21,527
Total Revenue	\$19,539,766	\$19,993,577	\$453,811
<u>Expenditure:</u>			
Insurance Claim, White Hill	\$0	\$414,067	\$414,067
Salaries and Benefits	\$15,581,616	\$15,969,422	\$387,806
All Other Expenditures	\$4,194,836	\$4,227,672	\$32,836
Total Expenditure	\$19,776,452	\$20,611,161	\$834,709
Budget Deficit	-\$236,686	-\$617,584	-\$380,898
Beginning Fund Balance	\$4,252,194	\$4,252,194	\$0
Audit Adjustments	\$0	\$81,658	\$81,658
Ending Fund Balance	\$4,015,508	\$3,716,268	-\$299,240

The revenue changes reflect updated or new information since the budget was revised in December:

- Proceeds of insurance claim for the White Hill flood = \$399,367
- Additional Lottery revenues from prior year adjustments = \$32,917

The expenditure changes reflect allocations of these new revenues, as well as other costs incurred:

- Contracts and other expenses to repair damage of the White Hill flood = \$414,067
- Salary and benefit costs of recent settlement with bargaining units = \$372,298

The Ending Fund Balance for the 2012-13 year has been allocated per the following table.

**Ending Fund Balance
2nd Interim Budget
2012-13**

ENDING FUND BALANCE, 2012-13 \$3,716,268

COMPONENTS OF ENDING FUND BALANCE:

Non-Spendable Reserve - Revolving Cash Fund	\$3,000
Restricted - Categorical Programs/Grants	\$17,544

Assigned:

Board Policy 3100 = 7% (A)	\$1,442,781
Textbook Adoptions	\$200,000
Technology Plan	\$800,000
Deferred Maintenance - Facilities	\$200,000
Food Service Workers	\$10,800
Special Education NPS Placements	\$100,000
Elementary PE Teachers	\$16,000

Unassigned:

Reserve for Economic Uncertainty = 3% (A)	\$618,335
Unassigned/Unappropriated	<u>\$307,808</u>

ENDING FUND BALANCE, 2012-13 \$3,716,268

(A) Board Policy 3100 Reserve:

Board Policy 3100 = 7%	\$1,442,781
Reserve for Economic Uncertainty = 3%	<u>\$618,335</u>

Total Board Policy 3100 = 10% \$2,061,116

Budget Assumptions – General Fund

The 2012-13 school District General Fund first interim budget report 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 the second interim budget and with this update.

Assumption	First Interim Budget	Second Interim Budget
Revenues:		
Enrollment/ADA Growth	20/19	21/20
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	\$1.042m	\$1.042m
Federal ARRA/Spec Education Funding Decrease	-\$0.475m	-\$0.475m
Mandated Cost Reimbursements	\$60k	\$60k
Expenditures:		
Staffing changes over prior year – Certificated	+2.4 FTE	+2.4 FTE
Staffing changes over prior year – Classified	+2.4 FTE	+2.6 FTE
Salary Schedule Cost of Living Adjustment	As per agreements	As per agreements
Step & Column Movement - Certificated	Actual Cost	Actual Cost
Step & Column Movement – Classified	Actual Cost	Actual Cost
Health & Welfare Benefits Cap	As per agreements	As per agreements
One-Time Expenditures	\$572k	\$499k
Reserves:		
Economic Uncertainties – State Required	3%	3%
Additional Reserves:		
Board Policy 3100 – Additional Amount	7%	7%

Enrollment grew by 21 pupils over the prior year, which staff estimates will yield an additional Average Daily Attendance (ADA) of 20. 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 all salary schedules as per a collective bargaining agreement reached in October. The districts contribution to the health and welfare benefits program was also changed to provide for premium increases that take effect this year.

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

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 in November, the California education funding measure, 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*".

Local Control Funding Formula

As a result, the Governor proposed new funding for schools beginning with the 2013-14 year. Along with these new funds, the Governor has proposed a new formula for distributing state funds to school districts, a reform in school finance he says is long overdue.

Reforming school finance is a topic that the Governor proposed for 2012-13, with his "Weighted Student Funding" formula, but it was rejected by the legislature. The Governor has again proposed reform, this time for 2013-14, in virtually the same format he proposed last year but with a new name: the "Local Control Funding Formula" (LCFF). This new title focuses on what the reform is intended to accomplish, not how it works...but it works is virtually the same.

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. This new proposal also contains such a provision such that no district will experience a funding decrease...rather, some will get more than others, but nobody will lose. Capital insider's question whether this will succeed given the exact a similar proposal was defeated last year. However, this year the proposal appears to be gaining steam and at this time it's an odd-on favorite to pass.

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 and transportation. In particular, the new formula would drive funds to those districts whose English Language Learner and Free and Reduced Meal student populations, with concentration grants for those districts with exceptionally high populations.

For purposes of developing multi-year financial projections with this Second Interim Budget Report, the district assumed the LCFF will not be approved, and standard funding allocations for enrollment growth and cost-of-living adjustments (COLA's) will be applied throughout the projection period. Staff will adjust to the funding formula when it is clear it will be approved. In any case, preliminary estimates

indicate Ross Valley School District will receive about the same funding increase in 2013-14 regardless of the funding formula.

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	92	56
Revenue Limit Cost of Living Adjustment (COLA)	1.65%	2.20%
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	\$102k	\$102k
Expenditures:		
Staffing changes over prior year – Certificated	+4.6FTE	+2.1FTE
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.

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.

Recently the state announced plans to eliminate some of the intra-year cash deferrals as their cash flow is improving, and the Governor has proposed to reduce the inter-year deferrals beginning in 2013-14. This is welcome news; however, there are still tens of billions of cash deferrals that remain unfunded and thus cash flow management will continue to be an area of particular scrutiny by staff.

Other Funds

Cafeteria, Fund 13 – the contribution from the General Fund has been increased to cover the full projected program financial deficit to allow the fund balance to remain intact.

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; this year receipts have dropped to about \$5k. Staff has reduced the fee revenue budget to reflect this trend, which has resulted in a significantly reduced projected 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 Second Interim Budget Report as presented.