

FULLERTON JOINT UNION HIGH SCHOOL DISTRICT  
June 9, 2015

To: President Kilponen and Members, Board of Trustees

From: Ken Stichter

Subject: 2015/16 Fiscal Year Budget Presentation and  
Public Hearing

PUBLIC HEARING/  
INFORMATION

Background Information

On January 8, 2015, in accordance with Article IV, Section 12, of the California Constitution, the Governor released the 2015/16 fiscal year budget proposal. On May 14, 2015, Governor Brown released the May Budget Revision. The Governor's 2015 May Budget Revision provided significant positive changes to funding for local education agencies. These changes included both one-time and ongoing funding and will positively impact both current and ongoing operations and expenditures. Listed below are a few of the major themes with respect to K-12 education included in the May Budget Revision.

- Continue implementation of the Local Control Funding Formula (LCFF)
- Increased education funding of \$3.1 billion statewide
- Accelerated gap closure rate from 32.19% to 53.08%
- Statewide average increase per student of 14.13%, or \$1,088/ADA
- Increased STRS and PERS rates – 2015/16 rates: 10.73% and 11.847% respectively
- Proposition 98 funding will slow in the out-years once the maintenance factor has been repaid, increased funding for 2015/16 will not be sustained
- Discretionary one-time funding of \$601/ADA for mandate buy-down

School districts are required to adopt a budget prior to June 30, 2015, for the fiscal year beginning July 1, 2015.

Current Considerations

This agenda item presents the 2015/16 District Budget, which reflects the Local Control Accountability Plan (LCAP) and incorporates the budget guidelines and assumptions that were presented in draft form to Board Members at the February 10, 2015, Board meeting. The budget guidelines and assumptions have been updated, where appropriate, to reflect the May Budget Revision.

As required by law, the Board will conduct a Public Hearing on the 2015/16 LCAP and Fiscal Year Budget on June 9, 2015. The 2015/16 Fiscal Year Budget has been available for public inspection at the Education Center and on the District Web site since Thursday, June 4, 2015. In

addition, the Public Hearing for both the LCAP and 2015/16 Fiscal Year Budget was duly noticed in the *Orange County Register* on May 6, 2015.

### Budget Overview

The 2015/16 Budget, as submitted to the Orange County Department of Education, includes twelve components:

1. Revenues and Expenditures by Object and Function (broken down by fund)
2. Average Daily Attendance
3. Cash Flow Worksheets (2015/16 and 2016/17)
4. School District Budget Certification
5. Workers' Compensation Certification
6. Schedule of Long-Term Liabilities
7. Indirect Cost Rate Worksheet
8. Lottery Report
9. Multi-year Projections – General Fund
10. No Child Left Behind Maintenance of Effort
11. Summary of Interfund Activities (Actuals + Budget)
12. Criteria and Standards Review

Of the twelve components, five items are of primary interest and have been included in the Board agenda. The five primary components, which will be reviewed in summary form at the Board meeting, are listed below:

- Item 1. General Fund Revenues and Expenditures by Object (Combined)
- Item 3. Cash Flow Worksheets
- Item 4. School District Budget Certification
- Item 5. Workers' Compensation Certification
- Item 9. Multi-year Projections (Combined Summary – Unrestricted/Restricted)

The complete Budget (all twelve components) can be viewed at the District's Web site on the Business Services Division page under the Budget and Financial Resources link (provided below). A printed copy is also available for review at the District office.

[www.fjuhsd.net/agendaattachments](http://www.fjuhsd.net/agendaattachments)

In addition to the Budget, there are several supporting documents that highlight the information and data contained in the Budget. The following six items have been included in the Board agenda, which will be reviewed at the June 9, 2015, Board meeting:

1. 2015/16 Budget Guidelines
2. 2015/16 Budget Assumptions
3. 2015/16 Budget Calendar
4. 2015/16 Budget Summary and Comparison to 2014/15 Estimated Actuals
5. 2015/16 – 2017/18 Multiple Year Projection
6. 2015/16 Education Code Section 42127(a)(2)(B) Disclosure – Statement of Reasons for Unassigned Ending Fund Balances above the State Recommended Minimum Level (see “New Requirements for 2015/16” below)

As with the Budget, the information referenced herein will be posted on the District's Web site on the Business Services Division page under the Budget and Financial Resources link shown above on or before Thursday, June 4, 2015. Printed copies are also available for review at the District office.

#### New Requirements for 2015/16 – Reserve Cap Calculation

Senate Bill (SB) 858 included trigger language for a reserves cap limiting District reserves to no more than twice the State established minimum level. For the Fullerton Joint Union High School District the minimum reserve level is three percent of General Fund expenditures. In very simple terms this new requirement will cap the District's assigned and unassigned ending fund balance at six percent of General Fund expenditures. Prior to SB 858 there was no reserve cap. The reserve cap is not currently in effect. The earliest it appears that the reserve cap could be triggered is 2016/17. Meanwhile, there is a new provision of law related to the reserves that takes effect with the adoption of the 2015/16 fiscal year budget. Starting with the 2015/16 adopted budget, the District must add additional steps to the budget and public hearing process with respect to calculating and disclosing the reserves and ending fund balance information; they are as follows:

1. School districts must determine the total amount of assigned and unassigned ending fund balances for the budget year and the two subsequent years for object codes:
  - 9770-9788 Assigned
  - 9789-9790 Unassigned

2. Each district must then subtract the Reserve for Economic Uncertainty, which for the Fullerton Joint Union High School District is three percent as stated previously, from the total amount of General Fund unrestricted reserves (both assigned and unassigned) plus any available reserves in the Special Reserves for Other than Capital Outlay Projects (Fund 17), less any negative balance in the restricted General Fund. The difference is the amount of ending fund balance in excess of the District's 3% Reserve for Economic Uncertainty. The formula is represented as follows:

$$\begin{array}{r} \text{Total General Fund Unrestricted Reserves (assigned and unassigned)} \\ + \\ \text{Special Reserves for Other than Capital Outlay Projects (Fund 17)} \\ - \\ \text{Any Restricted General Fund Negative Balance}^1 \\ - \\ \text{3\% Reserve for Economic Uncertainty} \\ = \\ \text{Ending Fund Balance in excess of the 3\% Reserve for Economic Uncertainty} \end{array}$$

3. Districts are required to provide the following information with respect to the District's reserves at the Public Hearing for the 2015/16 budget adoption:
  1. The minimum reserve level amount (3% Reserve for Economic Uncertainty)
  2. The amount of assigned and unassigned ending fund balance that exceeds the 3% minimum reserve level
  3. The reasons for the reserve being greater than the minimum

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<sup>1</sup> The District has no negative balances in any restricted General Fund accounts.

For the 2015/16 fiscal year budget adoption, unrestricted reserve amounts included in the budget are as follows:

Unrestricted Ending Fund Balances	
Fund 01 – General Fund	\$30,377,501
Fund 17 – Special Reserve	<u>\$4,378,292</u>
Total Unrestricted Fund Balance (Assigned and Unassigned)	\$34,755,793
Less 3% Reserve for Economic Uncertainty	– <u>\$4,367,750</u>
Fund Balance in Excess of 3% Reserve	\$30,388,043

The primary reasons for carrying reserves in excess of the 3% Reserve for Economic Uncertainty is as follows:

1. The May Budget Revision provided considerable increases in both ongoing and one-time revenues. While these revenues have been recognized in the budget and multi-year projection, staff members have not yet had time to develop or identify a spending plan with respect to these new revenues. Therefore, neither the LCAP nor the budget reflects expenditures related to these revenues. As a result, the General Fund ending fund balance is inflated. Reserve balances in excess of the 3% Reserve for Economic Uncertainty are expected to decline once spending plans are developed and appropriate expenditures are identified within the context of the LCAP.
2. The balance in Fund 17 has been allocated exclusively to provide support to the General Fund. An annual transfer of \$805,177 has been made annually from Fund 17 to the General Fund in order to backfill deficit spending and support educational programs. The current balance remaining in Fund 17 (\$4,378,292) will be drawn down over the next 5-1/2 years until it is exhausted.
3. As has been done in recent years, amounts have been assigned, or set aside, within the ending fund balance for planned or anticipated expenditures in the budget year. These amounts have been assigned within the unrestricted ending fund balance, as opposed to being budgeted in expenditure lines, in order to provide transparency, reflect Board priorities and budget assumptions, and to ensure that appropriate amounts are set aside to meet the both the fiscal and programmatic needs of the District.

Staff members will review the District's reserves information and assignments, or set aside amounts, during the budget presentation on June 9, 2015. Following the presentation, the Board of Trustees can receive public comments on the District's budget as well as the reserves during the Public Hearing portion of the budget presentation. For more information and a breakdown of the unrestricted ending fund balance, please see the attached document titled *Education Code §42127(a)(2)(B) Disclosure Statement of Reasons for Unassigned Ending Fund Balances above the State Recommended Minimum Level*.

### Budget Highlights

**Enrollment and Average Daily Attendance (ADA)** – Enrollment – The enrollment projection for the budget year assumes that enrollment will remain flat as compared to current year enrollment. The projected enrollment for October 2015, CBEDS is 14,396.

P-2 ADA (excluding students in county-operated special education programs) is projected to be 13,849. The approximate attendance rate is 95.7 percent. The out-year projections assume flat enrollment.

**Revenues** – The 2015/16 Fiscal Year Budget has been prepared based upon the revenue assumptions contained in the Governor’s May Budget Revision. The Budget assumes a 1.02 percent statutory cost of living (COLA) revenue adjustment over 2014/15 and an LCFF gap funding rate of 53.08 percent. LCFF base grant funding per student is projected to be \$8,801 per unit of ADA. Total LCFF funding is budgeted at \$125.2 million, an increase of approximately \$10.9 million over 2014/15.

Federal revenue is budgeted at \$7.6 million, other State revenue (primarily unrestricted categorical funding) is budgeted at \$13.7 million, and other revenue is budgeted at \$11.1 million. Total revenue from all sources is budgeted at \$158 million, an increase of approximately \$19.3 million over 2014/15.

**Expenditures** – Budgeted expenditures for 2015/16 are projected at \$145.6 million. Employee compensation figures contain the cost of automatic step and column salary increases and projected health and welfare benefit premium increases, as applicable to the various bargaining units. Increases for statutory benefits and operational costs, as outlined in the budget assumptions, are also included.

**Ending Fund Balance** – The 2015/16 General Fund ending balance is projected to be \$31.2 million, an increase of approximately \$12.7 million over the 2014/15 General Fund ending balance of \$18.5 million. This increase is a reflection of the approximate \$8.2 million received in one-time funds for the State mandate cost reimbursement obligation buy-down.

The reserve for economic uncertainties (three percent of total expenditures) is projected to be \$4.4 million. The General Fund unrestricted/unassigned/unappropriated reserve, over and above the three percent reserve, is projected to be \$13.7 million.

**Multiple-Year Projection** – In addition to adopting a budget for the coming fiscal year, districts are required under AB 1200 to demonstrate multiple-year fiscal solvency for the budget year (2015/16) and two subsequent years (2016/17 and 2017/18). As previously stated, ADA is projected to remain flat in 2015/16, 2016/17, and 2017/18. The gap funding percentage is projected to be 53.08 percent in 2015/16, 12.62 percent in 2016/17, and 18.24 percent in 2017/18 (School Services of California projections).

For 2015/16, the District is projecting an excess of revenues over expenditures of approximately \$12.7 million. This excess is due primarily to an increase in LCFF base grant and supplemental funding of \$10.5 million and one-time funding of \$601/ADA, or approximately \$8.3 million as mentioned previously. Projected unrestricted/unassigned/unappropriated ending balances are projected as follows:

2015/16	\$31.2 million
2016/17	\$32.2 million
2017/18	\$31.0 million

It is important to keep in mind that multi-year assumptions and projections are based on current year revenue and expenditure projections rolled forward. Assumptions often change throughout the year and districts are ultimately dependent on funding decisions made at the State level.

**Reserves** – Although it is not anticipated in 2015/16, mid-term (3-5 years) revenue and expenditure projections indicate the District has not yet fully resolved its deficit spending imbalance. In order to balance the budget and meet multiple-year projection solvency requirements, the Board of Trustees will drawdown unallocated reserves, if necessary. Shortfalls, if any, over the next several years will likely require a combination of budget reductions and reserves draw-down in order to maintain fiscal solvency.

**Fiscal Solvency Statement** – In submitting the 2015/16 Budget, the Board of Trustees understands its fiduciary responsibility to maintain fiscal solvency for the current and subsequent two fiscal years.

In conjunction with adoption of the 2014/15 (prior year) Budget, a deficit elimination plan was approved by the Board of Trustees. This plan addresses the spending imbalance through a combination of ongoing budget reductions, streamlining and efficiency measures, and potential revenue transfers. These measures have not yet been fully recognized in the budget and multi-year projection. In order to maintain multi-year fiscal solvency, the District may need to make expenditure reductions in 2015/16, 2016/17, and/or 2017/18.

**Revised Final Budget** – As required by law, District staff members shall make available for public review any revisions in revenues and expenditures that are made to the Budget to reflect the funding made available by the Budget Act within 45 days after the adoption of the State budget.

### Conclusion

Integration of the funding outlined in the Governor’s May Budget Revision into the District’s budget will require careful planning in order to balance increased one-time revenues and accelerated appropriation of funding under the Local Control Funding Formula with ongoing issues such as deficit spending, multi-year fiscal solvency, and staffing in excess of what is

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needed to maintain authorized programs. Needs identified in the District's Local Control Accountability Plan (LCAP) will need to be reviewed in light of these funding changes.

Changes to funding will also require staff time to appropriately plan for and integrate into the Budget. It is anticipated that these changes will be reflected in the Budget beginning at the First Interim Report, October 31, 2015.

#### Recommendation

The June 9, 2015, Board meeting discussion will involve a presentation of the 2015/16 Fiscal Year Budget and a brief review of the District's financial picture and multiple year projection. Following the presentation, it is recommended that the Board President conduct a Public Hearing on the District's 2015/16 Fiscal Year Budget.

On June 23, 2015, the Board of Trustees will be asked to approve the budget guidelines, budget assumptions, and budget calendar, and adopt the 2015/16 Fiscal Year Budget, inclusive of the Multi-year Projections, Cash Flow Worksheets, Criteria & Standards, District Certification, Workers' Compensation Certification, and Reserves Disclosure, and authorize the Superintendent or designee to file the requisite documents with the Orange County Department of Education.

RL/wd

Attachments