Buckeye Union School District
2017-18 FIRST INTERIM REPORT
Financial Report as of October 31, 2017
Presented: December 13, 2017

Background

The California Education Code, as updated by AB1200 and AB2756, requires school districts to report on their financial condition at the time of budget adoption and after closing the books with the unaudited actuals. Two interim reports are also required during the Fiscal Year. The First Interim report illustrates a district's financial condition and projections as of October 31st as well as budget revisions based on expenditure and revenue trends and other available information. The following is a summary of the financial position of the Buckeye Union School District as of October 31, 2017. The Governing Board of a school district certifies the district's financial condition to the County Office of Education through these reports. Based on the information contained in the enacted 2017-18 California State budget and the financial information provided in the interim reports, the Buckeye Union School District certifies the District's financial position is positive; the District will meet its financial obligations in the current and subsequent two fiscal years.

For ease and clarity, I have summarized within this report the activities and position of each fund and included detailed analysis of items of particular interest. Original state reports are available in the district office and can be forwarded to you upon request.

Local Control Funding Formula and Proposition 98

Proposition 98 establishes the minimum funding level for K-14 education. The Legislature and Governor decide annually at what level to fund various educational programs. The Local Control Funding Formula is the model by which state funds are allocated to Local Educational Agencies (LEAs)

LCFF's goal is to: 1) increase transparency and reduce complexity; 2) reduce administrative burden; 3) improve funding equity across school district; and 4) improve local accountability.

Comparison of the State's Proposed and Enacted Budget

During the preparation of the Enacted State Budget, there were various components of the May Revision Budget that were either changed, removed, or not included in the Enacted State Budget.

Since the districts' budgets are prepared based on the May Revision, the First Interim incorporates such changes. Illustrated below are the primary provisions and how the Enacted State Budget compares to the May Revise.

Proposition 98 Funding: The Enacted State Budget set Proposition 98 funding for 2017-18 at $74.5 billion, which was relatively close to the May Revise estimate of $74.6 billion.

LCFF Gap Funding and Cost-of-Living-Adjustment (COLA): Funding for the Local Control Funding Formula (LCFF) increased by $1.36 billion rather than by $1.38 billion as projected in May. The increase in funding is still expected to bring the formula to 97% of full implementation.

Illustrated below is a comparison of the gap funding percentages and COLA percentages between the proposed and Enacted State Budget.

Description	2016-17	2017-18	2018-19	2019-20
LCFF Gap Funding % – Proposed	55.03%	43.97%	71.53%	73.51%
LCFF Gap Funding % – Enacted	56.08%	43.19%	66.12%	64.92%
Annual COLA – Proposed	0.00%	1.56%	2.15%	2.35%
Annual COLA – Enacted	0.00%	1.56%	2.15%	2.35%

K-12 One-Time and Block Grant Mandate Funding: The Governor's May Revision included approximately $1.01 billion of one-time discretionary funds for districts, which equaled approximately $170 per student. However, it was recommended that districts not budget for the funds since the funds were being held in abeyance until a recertification of the 2017-18 funding was finalized, which meant districts would not get the contingent funds until 2018-19. Fortunately, the Enacted State Budget does not contain the same conditions, which enables districts to budget the funds in 2017-18; however, it contained an apportionment of $877 million ($147 per ADA) instead of $1.01 billion ($170 per ADA).

In terms of the Mandate Block Grant, the Enacted State Budget includes the California Assessment of Student Performance and Progress (CAASPP) mandate as proposed in the May Revision. It also includes mandated reporter training with an additional $7.9 million to cover the inclusion of the mandate. Lastly, the Enacted State Budget provides an additional $3.5 million relating to a COLA for the program. The sum of the additions amounts to an increase of approximately $2 per ADA.

California Clean Energy Job (Proposition 39): The Enacted State Budget allocated $376.2 million in funding to Proposition 39 for the 2017-18 fiscal year, which remains unchanged from what was proposed in May. This brings the five-year total to $1.75 billion. In addition, the newly adopted Senate Bill (SB) 110 establishes an ongoing but modified version of the Clean Energy Job Creation Program that would be operative only if funds are appropriated for this purpose. SB 110 also appropriates any unallocated funding that is not claimed by LEAs to support the following priorities:

- The first $75 million would support school bus retrofit or replacement. Priority shall be to school districts and county offices operating the oldest school buses or school buses operating in disadvantaged communities
- The next $100 million would support a competitive program that provides low interest and no-interest loans for eligible projects and technical assistance to improve energy efficiency and expand clean energy generation.

Any remaining funds would support the ongoing, but modified, version of the Clean Energy Job Creation Program.

Reserves

District Reserve Requirements (Senate Bill 858): The 2014 State Budget Act and the passage of Proposition 2 in November 2014 established a hard cap on district reserves, if all of the following conditions are met:

- The Proposition 98 maintenance factor must be fully repaid; and
- Proposition 98 must be funded based on Test 1; and
- Proposition 98 provides sufficient funds to support enrollment growth and the statutory COLA; and
- A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues.

Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned or unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

On October 11, 2017, Governor Jerry Brown signed Senate Bill (SB) 751 (effective January 1, 2018), which makes changes to the existing school district reserve cap law in the following manner:

- It requires that the reserve cap is triggered in a fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts and allocated local proceeds of taxes (Proposition 98 funding), as specified, for that fiscal year.
- Adjusts the reserve cap from a combined assigned and unassigned ending fund balance based on the size of the district to a combined assigned or unassigned ending balance, in the General Fund (01) and the Special Reserve Fund for Other Than Capital Outlay (17), of 10% of those Funds for all districts (pending clarifying legislation).
- Reserves would be capped at 10% as long as the amount in the Public School System Stabilization Account remained at 3% or greater of the Proposition 98 amount in each preceding year.
    - The State must notify local educational agencies when the conditions are and are no longer applicable.
- Basic aid school districts and districts with fewer than 2,501 average daily attendance are exempt from the reserve cap requirement

Currently, the cap is not expected to be in effect for fiscal year 2017-18 since Proposition 98 funding is expected to be based on Test 2 instead of Test 1. However, the Legislative Analyst Office (LAO) indicated that under a mild recession scenario, Proposition 98 could be funded based on Test 1 in 2019-20.

Senate Bill (SB) 858 continues to require that school districts, starting with the 2015-16 adopted budgets, must add new procedures to the public hearing. The new required procedure consists of providing the following disclosures at the public hearing beginning with the 2015-16 budget adoption:

- The minimum reserve level required in each year; and
- The amount of assigned and unassigned ending fund balance that exceeds the minimum in each year; and
- Reasons for the reserve being greater than the minimum.

Although the State's administration of the LCFF anticipates full funding of the LCFF target in 2020-21 or earlier, it is important to remember that until then, increases in funding will be as the State budget appropriates funding for that purpose. There is no statutorily guaranteed increase in any given year until full implementation is reached. It is also significant to note that while the annual gap-closure percentage estimates may seem large, the remaining gap to fill has shrunk significantly. This means that gap-closure percentages while increasing, will result in significantly smaller actual funding increases for school districts and by 2018-2019, is projected to not be in a sufficient amount to cover the pension cost increases.

Furthermore uncertainty over state revenues, the implementation of Affordable Care Act penalty regimes, costs associated with AB 1522 (expanded sick leave), AB 2393 requirements for classified differential pay, ongoing increases in the state minimum wage, ongoing increases to employee retirement systems, and future facility needs, et cetera, are example of issues the District needs to vigilantly monitor and build in contingencies for these types of expenditure obligations. It is also important to maintain fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth and to maintain adequate reserves to allow for unanticipated circumstances.

In summary, the LCFF is intended to provide a funding mechanism that is simple and transparent while allowing local educational agencies (LEAs) maximum flexibility in allocating resources to meet local needs. While in theory it is relatively straightforward, it is not in application due to significant unanticipated expenditures being passed on to school districts to cover increased costs such as STRS and PERS, which has adversely affected the financial flexibility that was the cornerstone of the transition from revenue limit funding to the LCFF funding model. Maintaining fiscal flexibility and sufficient reserves will be key to operating in the LCFF funding environment.

Cash Management

Even though the LCFF is projected to bring fiscal relief to LEAs, cash management is also still essential. To date, the District has borrowed only internally for cash, relying on other funds in the District that have cash balances to wait out the time when the EPA funds will be received. Staff is closely watching cash balances and is taking the necessary steps to ensure that the District is able to meet its financial obligations.

Positive Certification

While the district certifies itself as positive, it is important to remember that there are many unpredictable factors affecting revenues and expenditures and the First Interim Report is based on the best information available at the time the financial reports are approved. The First Interim Report, therefore, should be considered a "snapshot in time" of the financial plan of the District on the date it is adopted. As the school year progresses, variables change which may require the District to make revisions to its current and multi-year projections. Staff closely monitors these variables throughout the fiscal year to ensure fiscal solvency.

Financial Analysis of the General Fund
Unrestricted & Restricted Revenue and Expense

REVENUE

The District receives funding for its general operations from various sources. A summary of the major funding sources for 2017-2018 is illustrated below:

Description	Unrestricted	Combined
LCFF Revenue	$37,197,995	$37,197,995
Federal Revenues	$62,455	$855,721
Other State Revenues	$1,566,791	$3,516,390
Other Local Revenues	$424,813	$2,137,289
TOTAL	$33,961,893	$43,707,395

CHART 1: UNRESTRICTED

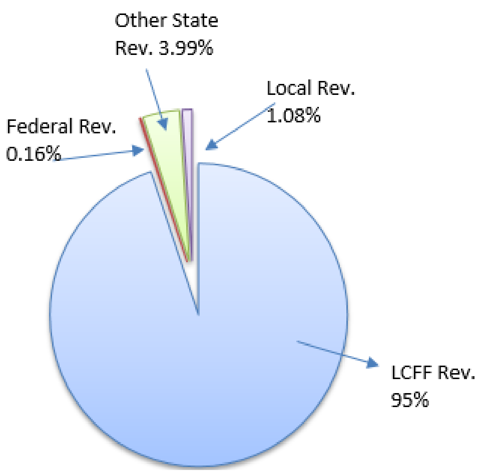
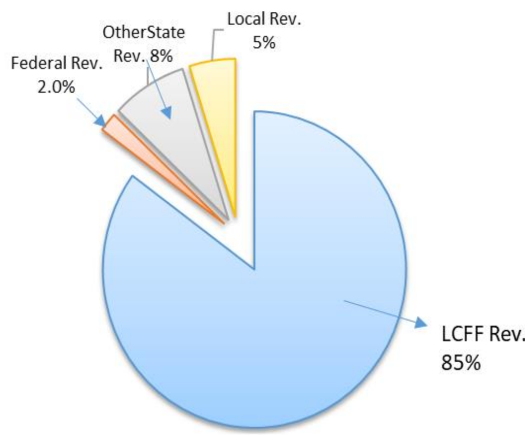


CHART 2: COMBINED



Revenue: Revenue has been revised to include full funding under the Local Control Funding Formula in the current and subsequent years. For Fiscal Year 2017-18 the total funded LCFF Revenue is approximately $37,197,995. Projected LCFF funding for Fiscal Year 2018-19 and Fiscal Year 2019-20 is $37,352,904 and $38,270,413, respectively.

Summary of Unrestricted Revenue Changes:

LCFF Revenue	$571,042	Reflects recalculation of LCFF Entitlement based on increased enrollment
Federal	0	No Adjustment
Other State	$68,676	Lottery Funding Increase and Increase In One Time Funds
Local Revenues	0	No Adjustment
Contributions to Restricted Programs	($41,207)	Increased General Fund support and reallocated to restricted revenue
TOTAL	*$598,510*	

Summary of Restricted Revenue Changes:

LCFF Revenue	0	No Adjustment
Federal	($46,264)	Adjustment in Federal Revenue
Other State	$56,099	Increase in Lottery Funding
Local Revenue	($14,822)	Minor Adjustment in SELPA/Contract Fees
Contributions to Restricted Programs	$41,207	Increased General Fund support and reallocated to restricted revenue
TOTAL	*($36,220)*	

Multi-Year Combined Revenue Projections:

	2017-2018	2018-2019	2019-2020
Description	**Combined**	**Combined**	**Combined**
LCFF Revenue	$37,197,995	$37,352,904	$38,270,413
Federal Revenues	$855,721	$901,985	$865,721
Other State Revenues	$3,516,390	$2,724,615	$2,780,714
Other Local Revenues	$2,137,289	$2,152,111	$2,160,470
TOTAL	$43,707,395	$43,131,615	$44,023,318

EXPENSES

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits comprise approximately 86% of the District's unrestricted budget.

Adjustments were made to salaries and benefits to reflect changes in position control since Budget Adoption. The other major change to expenditures is the appropriation of unrestricted site carryovers and the appropriation of the designated curriculum funds.

Description	Unrestricted	Combined
Certificated Salaries	$16,953,730	$18,808,449
Classified Salaries	$4,222,943	$6,290,586
Employee Benefits (H&W; Taxes; STRS/PERS)	$7,558,376	$10,648,930
Books and Supplies	$3,446,206	$4,837,885
Other Operating Expenditures	$1,020,523	$2,768,841
Capital Outlay	$50,298	$50,298
Other Outgo	-	$131,612
TOTAL	$33,516,515	$44,133,838

Summary of Unrestricted Expenditure Changes:

Certificated Salaries	$92,560	Alignment of Budget; Certificated Staffing Increase in Position Control Since May
Classified Salaries	($12,496)	Alignment of Budget; Classified Staffing Adjustment in Position Control Since May
Benefits	($299,833)	Adjustment in Benefits based on use trends and changes in position control since May
Books & Supplies	$1,657,043	Posting of Site carryover/SLBG/Technology/CCSS Curriculum
Operating Exp.	($7,053)	Reallocation of Site carryover to restricted 4000 and 5000 once expenditures are identified; insurance adjustment
Capital Outlay	($24,702)	Decrease in cost of Vans
Other Outgo	$140,673	Posting of Deferred Maintenance Contribution
TOTAL	*$1,546,191*	

Summary of Restricted Expenditure Changes:

Certificated Salaries	$39,994	Alignment of Budget; Certificated Staffing Increase in Position Control Since May
Classified Salaries	($197,819)	Alignment of CBA Settlement With Budget; Classified Staffing decrease in Position Control Since May
Benefits	0	
Books & Supplies	$847,922	Posting of Site carryover/SLBG/Technology/CCSS Curriculum
Operating Exp.	$126,609	Reallocation of Site carryover
Capital Outlay	0	
Other Outgo	$91,338	Transfer of carryover restricted dollars
TOTAL	*$2,454,235*	

Multi-Year Combined Expenditure Projections:

Description	2017-2018 Combined	2018-2019 Combined	2019-2020 Combined
Certificated Salaries	$18,808,449	$18,978,449	$19,148,449
Classified Salaries	$6,290,586	$6,365,586	$6,440,586
Employee Benefits (H&W; Taxes; STRS/PERS)	$10,648,930	$11,212,646	$11,914,501
Books and Supplies	$4,837,885	$2,327,885	$2,317,790
Other Operating Expenditures	$2,768,841	$2,880,356	$2,754,285
Capital Outlay	$50,298	$75,000	$75,000
Other Outgo	$131,612	$728,849	$588,176
TOTAL	$44,133,838	$42,568,772	$43,238,788

ASSUMPTIONS

Gap Funding & COLA: The growth factors and COLA applied to reaching the Local Control Funding Formula target funding are as follows:

Fiscal Year	2017-18	2018-19	2019-20
% Gap Growth	43.19%	86.12%	64.92%
COLA	1.56%	2.15%	2.35%

ADA: Enrollment figures to date show an *overall* increase in ADA from prior year and it is projected the district's P-2 ADA will be approximately 4622, reflecting a small decline in the traditional schools. As a result, for the 2017-2018 school year, the District is being funded on the 2016-2017 ADA calculations for its traditional program and on the current year ADA calculations for its dependent charter school. Assuming this trend holds through the year, the District will feel the impact of the decline in ADA in the 2018-2019 budget year, which is anticipated to be offset by the charter school enrollment.

One-Time Funding (Approx. $147): One-time funding was included in Fiscal Year 2017-18.
Lottery Revenue: Unrestricted lottery funding is included in 2017-18 at $146/ADA in the current and subsequent fiscal years. Restricted lottery funding is included in 2017-18 at $48 in the current and subsequent fiscal years.

*Forest Reserve***:** While steps are being taken for a long-term reauthorization of Forest Reserve, the authorization is uncertain and as a result is excluded from the 2017-2018 budget and subsequent fiscal years.

Mandated Costs: The District will receive $30.34 per ADA for grades K-8, and Charter schools will receive $15.90 per ADA for grades K-8.

STRS Employer Rates: The District contribution for STRS rates is included in the 2017-18 budget at 14.43%; in 2018-19 at 16.28% and in 2019-20 at 18.13%.

PERS Employer Rates: The District contribution for PERS rates is included in the 2017-18 budget at 15.531%; in 2018-19 at 18.10% and in 2019-20 at 20.80%.

Multi-Year Financial Projections

In order to truly understand the financial picture of the district, the current year's budget needs to be projected into the future. The projections for 2018-19 and 2019-20 include the following assumptions:

- Revenue has been revised to include full funding under the Local Control Funding Formula;
- The growth factors and COLA applied to reaching the Local Control Funding Formula target funding are as follows:

Fiscal Year	2017-18	2018-19	2019-20
% Gap Growth	43.19%	86.12%	64.92%
COLA	1.56%	2.15%	2.35%

- One-time revenues and expenses removed;
- Step/column costs;
- Reasonable increases to supply and operating expense accounts;
- Reasonable increases to technology expense accounts
- Changes to the number of staff to support students in special programs, CCSS transition and class sizes; and curriculum adoptions;
- No COLA Adjustments, with exception of programs outside of LCFF (Transportation and TIG Add-ons receive no COLA)
- Programs outside LCFF assumes COLA as follows: 2.15% for 2018-19 and 2.35% for 2019-20.

Given these assumptions, it is projected that the district will have excess revenues of $445.379 in 2017-2018, however, it should be noted that no labor settlements have been reached with any represented or unrepresented bargaining groups/individuals and as a result, the District is planning for deficit spending in its General Fund for 2017-18 when labor settlements have been reached. It is projected that the district will have an operating deficit in its Restricted Funds of approximately $871,824. However, it should be noted that at Budget Adoption "carry over" was not included in the revenue available to balance the restricted resources. We have since closed the books and the restricted resources balance, with a projected ending balance at first interim of $434,407.

Financial Analysis of the Cafeteria Fund

The Cafeteria Fund is not self-supporting and is expected to require an approximately $80,504 contribution from the General Fund in the current and subsequent two years.

Other Funds

The only major changes to other funds in the district were to building funds. Staff is adjusting income and expenditure budgets as contracts are encumbered and finished. Total expenditures are expected to both increase and decrease as the district moves through its various projects.