

EUREKA UNION SCHOOL DISTRICT  
2016-17 Adopted Budget  
Narrative

**OVERVIEW:**

**State Budget.** The process of building school budgets begins in the prior year when the Governor first releases the January Governor's Budget Proposal, then revises it according to actual tax revenues with the May Revise. The final State Budget is then scheduled to be passed by the Legislature by June 15, with final enactment by Governor's signature by June 30. Minor budget adjustments may be necessary after final enactment and clarification through budget trailer bills, and any substantial budget impacts to school budgets will then require a 45-day budget revision.

This year's Adopted Budget is now based on a proposed state budget that reflects continued restoration of funds to education and commitment by the Legislature to make progress on fully funding the LCFF to levels of funding provided in 2007-08 prior to the state budget crisis. The proposed (May Revise) 2016-17 State Budget includes 54.84% of the remaining Local Control Funding Formula (LCFF) gap which represents approximately \$909,000 for Eureka USD, and additional payoff of Mandated Costs liability which results in approximately \$758,000 in one-time unrestricted funds for Eureka USD. Although the increased State revenue is promising news for 2016-17 year, it is important to remember that a substantial portion of the state revenue is due to the temporary increase on taxes, and is still dependent upon volatile capital gains taxes. As full restoration nears completion, and with no substantial COLAs to increase the LCFF target funding, increases are beginning to be less substantial, particularly since the State experienced lower revenue than projected for 2015-16.

The LCFF restoration poses continued challenges for school districts, as repair of deep cuts made in support services and staffing during the budget crisis are still continuing to compete with new services for students as determined through the ongoing LCAP process. Districts must also be cautious to balance the need to use restored funding to appropriately serve today's students with making financially sound decisions to provide flexibility in the event of another economic downturn or additional requirements folded into the Prop 98 model (e.g., requiring districts to assume substantial costs and liabilities associated with the CalSTRS and CalPERS unfunded liabilities). These issues are also in center stage at the state level, as the Legislature wrangles with the pressures to restore funding to various social service needs, the prudence of a state "Rainy Day Fund" while requiring school districts to "cap and justify" local district reserves, and continued focus to ensure that all students receive improved services. This particularly includes the students who generate supplemental funding intended to serve socio-economically disadvantaged students eligible for Free/Reduced lunches (F/R), Foster Youth (F/Y), and English Learners (E/L). To add to these challenges, there is currently a statewide shortage of highly qualified teachers as districts continue to implement the Common Core State Standards, so the State is finding it necessary to devote substantial dollars to a task force to address recruitment and induction on a statewide basis.

**The Eureka USD Budget.** The Eureka USD has committed to appropriately serve all students to ensure their opportunity for success, and through the LCAP stakeholder process, has solicited an unprecedented level of input for engaging staff and parents in helping to determine how to best help improve services for students. Multiple meetings were held with many stakeholder groups throughout the year to review data, determine needs, and develop themes for how to improve services. In addition, the Board held two additional public hearings for the LCAP prior to the required public hearing held concurrently with the Budget public hearing. The Adopted Budget and MYP include appropriate allocations to support the LCAP, and with the ongoing support of the Eureka Schools Foundation, individual schools' Parent Teacher Clubs, parents and community members, the EUSD is situated for a successful implementation of the LCAP.

The concurrent LCAP and budget development timelines are not conducive to reconciling the exact Adopted Budget figures to the LCAP, with the exception of the expenses related to the Supplemental services. For this reason, most other program expenses reflected in the 2016-17 LCAP are based on the 2015-16 2nd Interim budget figures for LCAP Years 1-3. In addition, factors such as salary step/column increases, STRS/PERS rate increases, negotiated increases, adjustments for one-time expenses, state funding adjustments, etc. are reflected in the Adopted Budget and Multi-Year Projections (MYP) as normal, but not necessarily updated/reflected in the LCAP at this point. LCAP will be updated with 2016-17 Adopted Budget figures in August for PCOE final review.

The initial years of the LCAP process focused on restored or new program services as funding was gradually restored by the State through the Local Control Funding Formula (LCFF). The 2015-16 LCAP included an expansion of the goals to reflect the entire General Fund budget so that all EUSD programs are represented to give a broader perspective of the ongoing and successful programs and operations. This

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was in response to stakeholder input and is in excess of the State requirement to primarily reflect the services provided to students who generate the Supplemental funds. The District LCAP now reflects five ongoing goals which are always relevant to a successful educational program and also reflective of the entire General Fund budget:

Core Instructional Program  
Intervention and Student Services  
Enrichment Programs  
Support Services  
Learning Environment & Facilities

The District has been successful in efforts to maintain high quality educational programs with the comparatively lowest LCFF/Supplemental funding rates in Placer County, as well as declining enrollment. However, the staffing costs for these programs include substantial ongoing increases, due to STRS and PERS retirement contribution rate increases resulting from pension reform, and salary schedule step/column increases. State revenue for 2015-16 was well under projections, and future COLA adjustments to the target LCFF funding are not projected to be sufficient to support these built-in cost increases. Consequently, the District continues to experience deficit spending which must be corrected. Ongoing obligations, without the assurance of adequate ongoing funding increases, will require further scrutiny to determine where reductions may be made to solve the structural deficit while preserving highest priority programs. The LCAP process now needs to shift focus to the opportunity to re-evaluate performance data and program effectiveness to achieve most targeted use of reduced resources.

During the 2016-17 LCAP development process, there was substantial stakeholder input that the highest priority should be to maintain and compensate quality staff. As shared during the presentation of the AB1200 disclosure of settlement costs, this priority can only temporarily be supported by the reserve, and absent substantial ongoing funding increases, will result in the need to reduce expenses. The 2016-17 Adopted Budget includes the impact of the two-year agreements negotiated with all EUSD employee groups, including the associated first round of reductions necessary to support the ongoing salary increases. The Multi-Year Projection (MYP) reflects the need for continued identification of reductions for 2017-18 and 2018-19, in order to maintain minimal reserve requirements.

**REVENUE:** Historically, school districts have used the SSC “dartboard” for the standardized source of COLA and CPI factors for district multi-year projections. Although SSC continues to provide this source of assumptions, they caution that the application is now “situational” per district. The COLA is now applied to the overall statewide apportionment to the LCFF “target”, which raises the standardized “base grants” for various grade levels, and is then supplemented by 20% for each unduplicated F/R, F/Y and EL. (Although it does not apply to EUSD, an additional 50% supplemental funding is generated by every student over the 55% concentration threshold.) The basic method of the LCFF is to determine, for each district, the gap between the 2012-13 “baseline” funding (including the old Revenue Limit and Categorical funding), including the cumulative state deficit, and the new “target” funding. The “gap” is then funded over an eight year period and intended to restore to at least the 2007-08 level of funding plus the minimal COLAs applied each year. Each district’s individual current year increase in funding is determined by applying the state’s “gap funding” percentage to each district’s unique “gap”. This cycle continues each year until the “gap” is closed and all funding reaches the target restoration. As the target is approached, larger percentages of gap funding represent smaller amounts of funding.

**LCFF Funding.** The 2016-17 Adopted Budget is based on the May Revise allocation of 54.84% gap funding, providing an additional estimated \$909,000 in LCFF funding, for a total LCFF source funding of \$24,908,303. As with the Revenue Limit, LCFF funding allows the use of previous year ADA for districts with declining enrollment. Funding was based on the 2015-16 P2 ADA (including PCOE add-ins and Annual ADA adjusts) of 3208. The LCFF includes \$12,428,772 estimated local property tax revenues and \$ 3,745,605 Prop 30 “Educational Protection Act” (EPA) funded by the temporary tax increases, and a state aid portion of \$8,342,671.

**Minimum Proportionality Percentage (MPP).** A proportional amount of the LCFF must be used to serve the students who generate the Supplemental funding. The proportional amount is determined by comparing the updated 20% “target” supplemental funding (\$648,261) to the previous year funding (\$596,228)

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and applying the gap percentage (54.84%) to the \$52,033 “gap”. The additional amount of \$28,535 is then added to the base and to be used to improve or increase for actions which best serve the educational needs of these students. Use of these funds has been identified in the LCAP and is primarily used for specific instructional intervention. The resulting new Supplemental base for 2016-17 is \$624,763 which represents approximately 2.69% of the LCFF funding.

**State Categoricals (LCFF Transfers).** Most state categorical funding was rolled into the LCFF model and reallocated as total base & supplemental funding. This included Tier III Categorical funding, K-3 CSR (now called GSA – Grade Span Adjustment), EIA, etc. Targeted Instructional Innovation Grant (TIIG) and Transportation (both Home to School and Special Ed) were protected as a separate “add-on” sources of funding, with the requirement to spend at least the base amount of state Transportation funding on Transportation services. Unfortunately, there have been no COLA increases to these remaining categorical funds, although program costs continue to increase. The Adopted Budget includes transfers of LCFF revenue to locally defined “resources” that represent the previous categorical programs, in the approximate amounts previously allocated directly by the State to these programs. Until the LCAP process is refined over time, this will allow proper monitoring and historical comparison of these program costs. The change in how the funding is allocated to programs also reflects a change in “restricted v. unrestricted” funding, since all LCFF funding is virtually considered to be “unrestricted”, including the Supplemental MPP funding.

**Other State Funding.** Some state funds remain separate from the LCFF, such as Lottery, AB602 Special Ed, and Prop 39 Energy. In addition, there is a new trend set by the Governor to provide a portion of the required Prop 98 funding to education in the form of unrestricted one-time funds, used to satisfy the legal requirement to reimburse districts for past Mandated Costs claims and provide a (suggested) source of funding for continued CCSS implementation, increased costs of STRS/PERS, etc. This year, districts will receive approximately \$237 per ADA in one-time funding which equates to \$757,000 for EUSD. When compared to the one-time funding provided last year, approximately \$601 per student and \$1.97 million (Mandated Costs and Educator Effectiveness Funds), the decrease of \$1.2 million in one-time funding is an example of the substantial fluctuations that can occur with one-time funding. Also included in this section is an increase of \$265,000 in the STRS On-Behalf revenue “match” which coincides with the updated STRS On-Behalf expenses, driven by rates not within the control of the District. The STRS On-Behalf activity is merely a journal entry that recognizes the District “share” of the State’s current year STRS contribution for the benefit of District members – it does not involve an exchange of cash or impact the bottom line, but does cause wide fluctuations within both the revenue and expense sections of the budget. The net result of these adjustments is an approximate decrease of \$956,000.

**Federal Categoricals.** The \$87,000 reduction in Federal funds is primarily due to loss of two funding streams within Title I due to national census demographic adjustments impacting the District’s eligibility for these funds, representing a loss of \$74,191. The District is now again participating in Title III (Limited English Proficiency and Immigrant Education) which is expected to generate approximately \$15,000. Also reflected in the reduction is a loss of approximately \$20,000 in Federal Special ED IDEA funding from various sources, and a reduction of approximately \$7,000 in Medi-cal/MAA funding.

**Local Revenue.** Local revenue is primarily comprised of the transfer of Special Ed funding from the County SELPA, and revenue from facility leases/daily rentals, and local fees/donations. The net \$36,000 decrease is primarily due to of \$110,000 additional facility lease/rental income according to existing lease agreement terms and \$48,000 decrease in AB602 Special Ed funding according to recent estimates from the SELPA, \$20,000 approved grant for the Bus Engine Retrofit program, and \$46,000 reversal of local donation budgets recorded during the year as they occurred.

## **EXPENDITURES**

The expenditure portion of the 2016-17 Adopted Budget incorporates goals, action items, and related expenses reflected in Year 1 of the 2016-17 LCAP. It is important to note that the expenses included in the LCAP are a combination of existing programs/expenditures (based on 15-16 2<sup>nd</sup> Interim/Estimated Actuals), additional (new) expenditures, and budgeted 2016-17 Supplemental expenditures. By nature of the timelines involved in the LCAP and Budget development, there is not a direct reconciliation of expenses between the LCAP and the Budget. The Budget and LCAP review to be conducted by PCOE will include an analysis of the Adopted Budget to ensure that resources have been allocated to support the services and actions defined in the LCAP, with the understanding that each dollar used may serve more than one purpose or goal. The MPP Supplemental expenditures have been coded in a standardized format at PCOE’s request, to make identification of these

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services straightforward. Expenses related to the old categorical funds that have been rolled into the new LCFF model are continuing to be entered into the separate categorical accounts, similar to the revenue, as described earlier.

**Salaries & Benefits.** Salaries and related benefit costs have been updated according to the actual assignments currently in place for 2016-17, including known vacancies expected to be filled to meet approved class size ratios and existing staffing formulas. The 2015-16 negotiated salary increases for 2016-17 and estimated "step" advancements are included, but "column" movements will not be recognized until 1<sup>st</sup> Interim, after the September deadline for staff to submit additional units for compensation. Current estimated rate of 0.5% for step/column increases is used in the MYP with plans to update at 1<sup>st</sup> Interim after the September adjustments for additional units. Salary budgets are now based on the 3% 2015-16 (effective April 2016) and 3% 2016-17 increases (2% effective July 2016 and 1% effective January 2017) negotiated as a two year agreement.

The 2016-17 certificated salary budget also reflects the LCAP adjustments to staffing, including additional .6 FTE Nurse coverage, and elimination of the Coordinator of Enrichment position. Stipends are now based on the new simplified schedule also negotiated as part of the two year agreement. Potential reductions in teacher staffing due to projected declining enrollment was substantially offset by teacher retirements. The salary adjustment and step/column adjustments represent the bulk of the \$862,000 net increase to certificated salary expense.

The classified budget also reflects additional staffing including a full time Behaviorist and three new Special Ed Paraprofessionals, as well as reduction of the Reading Lab Aid positions due to reconfiguration of the Intervention Programs and loss of Title I funds. The salary adjustment and step/column adjustments represent approximately \$270,000 of the \$430,000 overall increase to classified salary expense, with the additional staffing positions and reductions resulting in an additional net increase of approximately \$158,000.

Statutory payroll benefits applied to certificated salaries are 16.1% plus 8.6% STRS On-Behalf and classified are 23.6%. PERS and STRS contribution rates will continue to substantially increase according to the implementation schedules related to pension reform, and will result in benefit cost increases of approximately \$350,000 per year based on current staffing. The health and welfare expense is based on current participation and the contribution cap of \$7,000 per FTE. Changes in benefits are related to the changes in salaries and benefit rates as disclosed.

**Books, Materials & Supplies.** The net \$1,879,000 decrease in the materials budget is primarily due to reversal of one-time and carryover budgets totaling \$1.53 million, most of which is restricted/assigned carryover which will be re-budgeted at 1<sup>st</sup> Interim. Some of the notable carryover items include \$278,000 2014-15 LCAP Technology budget for student end-user devices, which was repurposed for site "Instructional Needs" grants, \$309,000 IMFRP Textbooks funds, \$337,000 Prop 30 Lottery carryover, and \$578,000 ERMH (Mental Health) carryover, and \$28,000 in Medi-Cal carryover. Also contributing to the decrease in materials budget was the \$50,000 reduction to the Tech Replacement Plan (per LCAP) and the 30% materials/supplies reduction of \$241,000 applied district-wide to help correct the structural deficit, and repurposing of the \$47,000 2015-16 Supplemental "discretionary" budget placeholder in the Materials section to the new intervention plan (Salaries section). Finally, budgets that were entered during the year to track expenditures related to local resources and donations were reversed (\$21,000) as they are only budgeted as received/expensed.

**Services.** The net decrease of \$456,000 is a combination of reversal of \$259,000 Prop 39 Energy Efficiency Fund carryover, \$144,000 reduction in Spec Ed contracted services (including reallocation of PCOE-contracted Behaviorist to Salaries), \$35,000 various contract reductions, and \$18,000 in Professional Development conference/contracted services budget reductions.

**Capital Outlay.** The current budget does not yet reflect expenses (or grant revenue) that will be incurred when the Bus Replacement Grant is officially approved by the granting agency. The 2015-16 LCAP item for Transportation bus replacement was re-categorized to an annual \$50,000 contribution and assignment of Ending Fund Balance, and will be reflected as an expense only when a purchase is actually made.

**Other Outgo.** This budget section represents the estimated \$777,184 bill-back from PCOE for the district's Special Ed students who are served in county programs, based on PCOE's Estimated Actuals Bill-Back for 2015-16, reflecting a decrease of \$13,000 from 2<sup>nd</sup> Interim. As always, the bill-back could change dramatically any time students with special needs move into or out of the District. Staff is continuing to look at options for bringing back whatever services may be appropriately provided by the District, and budget reductions at the county level may necessitate additional services at the district level. Also, LCFF requires that the revenue generated by Eureka students served by county programs be allocated to the district of residence, which has also resulted in a related increase to the bill-back over past years.

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**Inter-fund Transfers (out).** The District continues to enjoy an Inter-Agency Agreement for Food Service with the RJUHSD, so a contribution to Fund 13 is not required with the exception of minimal charges related to the program per the contract.

**Inter-fund Transfers (in).** There were no changes or transfers budgeted.

**ENDING FUND BALANCE / RESERVE:**

Estimated Actuals EFB for 2015-16 is used as the beginning balance for the 2016-17 Adopted Budget. Typically, the EUSD uses 2<sup>nd</sup> Interim for the Estimated Actuals source. Based upon the 2015-16 Estimated Actuals, the District's General Fund Ending Fund Balance (EFB) is projected to be \$6,659,505 (20.6%) assuming the full budget is spent. However, because the 2015-16 portion of the negotiated salary increases was not included in 2<sup>nd</sup> Interim, an additional salary/benefit expense of approximately \$212,000 will be incurred in excess of the budget, based on the AB1200 estimates. Unused IMFRP and Lottery textbook budgets, ERMH Mental Health, Educator Effectiveness (EEF) budgets will be a likely result in substantial carryover for the 2015-16 year. Although unused budgets from restricted accounts will temporarily increase the EFB, the expenses are to be re-budgeted in the following year, to be covered by reserve, which also temporarily increases deficit spending.

The proposed Adopted Budget for 2016-17, complete with LCAP additional expenditures, and negotiated increases to 2016-17 compensation, is expected to reflect a decrease in the reserve to \$5,606,993 (17.5%), primarily due to the salary increases, STRS/PERS contribution increases, smaller LCFF gap funding increases, and reduction of one-time Mandated Costs funding. Absent the \$757,857 one-time Mandated Costs funding, the EFB would be \$4,849,136 (15%) and more reflective of the true structural deficit spending. As projected in the MYP, and absent any new substantial funding to cover the structural deficit, the long range status of the EFB would be reduced to (0.9%) by 2018-19, which will require budget reductions of at least \$641,000 to maintain the required minimum 3% Reserve for Economic Uncertainty (REU) for 2018-19. Since the reductions have not yet been specifically identified, it is possible that PCOE, during its review and approval of the Adopted Budget, will recommend the positive status of the Budget be reduced to a "qualified" status until the corrections are identified.

Components of the budgeted 2016-17 EFB of \$5,606,993 include a total of \$4,158,896 assignments for one year average LCFF funding, Deferred Maintenance, Site Staff Accounts, and future textbook adoptions, technology equipment replacement plan, bus replacement savings, and future implementation of World Language as a school day program. The required 3% Reserve for Economic Uncertainty in the amount of \$960,832 is also assigned, leaving an unassigned General Fund EFB of \$300,596 – less than one year of STRS/PERS increases.

Absent new sources of ongoing revenue, the District should anticipate the need to identify and implement substantial ongoing expense reductions to correct deficit spending, as shared during the presentation of the AB1200 Disclosure. Any estimated "recapture" of unspent budget, or additional **one-time funds** will help to **delay** necessary cuts, but only substantial **ongoing (LCFF) revenue increases** will **solve** the need for ongoing corrections. In general, EUSD, like other districts with low levels of Supplemental funding, will shift concerns about a state "equitability" funding model to the need for an "adequacy" model. Restoration of funding to levels in place during 2007-08, with no substantial COLA increases, while experiencing very large cost increases (step/column and STRS/PERS) can only be successful for as long as reserves are available.