EUREKA UNION SCHOOL DISTRICT
2015-16 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 with the May Revise. The final State Budget is then scheduled to be passed by the Legislature by 6/15, 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 state budget was passed by the Legislature on 6/15/15, and has been sent to the Governor for signature.

This year's Adopted Budget is now based on a state budget that reflects substantial restoration of funds to education and continued 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 2015-16 State Budget includes a significant investment in California students, with $6 billion to continue funding LCFF (at 53% of the remaining gap), $3.8 billion in payoff of Mandated Costs liability, and $1.9 billion in Rainy Day Fund contributions. Although the increased State revenue is promising news for 2015-16 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.

The funding restoration poses new challenges for school districts, as restoration of deep cuts made in services and staffing during the budget crisis are still continuing to be contrasted 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). The Placer County Office of Education (PCOE) Common Message is a comprehensive resource that details the challenges during transition to the new model, and makes recommendations for preserving the fiscal health of districts as funding is restored and programs are assessed. These issues are also in center stage at the state level, as the Legislature wrangles with the pressures to restore funding to various social services needs and the prudence for a "Rainy Day Fund", proposals to "cap and justify" local district reserves (assigned and unassigned), and continued focus to ensure that all students receive improved services, including the students who generate supplemental funding intended to serve Free/Reduced lunch eligible students, Foster Youth, and English Learners (F/R, F/Y, EL).

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. This process resulted in an LCAP that serves the Eight State Priorities (defined in the LCAP) and in the EUSD ongoing priority areas:

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

This is exemplified by the theme developed by the Eureka Schools Foundation – "Every Student, Every School, Every Day". 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 most notable change in the 2015-16 EUSD LCAP is the expansion of the goals to reflect entire General Fund budget so that <u>all</u> EUSD programs are represented in the LCAP to give a broader perspective of ongoing and successful district programs and operations. This is in response to stakeholder input and in addition to the State requirement to reflect the services funded through the Supplemental funds generated by F/R, EL and F/Y students. However, it should be noted that the concurrent timelines and development of the budget and LCAP are not currently 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 2015-16 LCAP are based on the 2014-15 2nd Interim budget figures for LCAP Years 1-3. Factors such as step/column, STRS/PERS rate increases, negotiated increases, adjustments for one-time expenses, increases in state funding, etc. are reflected in the budget and Multi-Year Projections (MYP) as normal, but not necessarily updated/reflected in the LCAP.

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 2012-13 "baseline" funding (including 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 current year increase in funding is determined by applying the current state budget LCFF restoration 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.

PCOE has recommended that the LCFF Funding Calculator endorsed by FCMAT be used by districts to attain the most accurate method of estimating the funding. Ultimately, the final funding is determined at the state level. In the past, determination of Revenue Limit funding included various adjustments designed to protect school districts from unanticipated costs, such as the adjustments for PERS reduction, State Unemployment Insurance, etc. – which now leaves districts vulnerable to substantial fluctuating costs related to pension reform and not within their direct control.

LCFF Funding. The 2015-16 Adopted Budget is based on the May Revise allocation of 53.08% gap funding, providing an additional estimated $1.6 million in LCFF funding, for a total LCFF source funding of $23,993,098. As with the Revenue Limit, LCFF funding allows the use of previous year ADA for districts with declining enrollment. Funding was based on the 2014-15 P2 ADA (including PCOE add-ins and Annual ADA adjusts) of 3235.60. The LCFF includes $10,844,209 estimated local property tax revenues and $3,752,709 Prop 30 "Educational Protection Act" (EPA) funded by the temporary tax increases, resulting in a state aid portion of $9,079,604.

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 20% additional "target" supplemental funding ($631,723) to the 2013-14 baseline spending ($335,284) previously used to serve the F/R,F/Y,EL students, from state EIA and other sources of funds. The current state LCFF percentage funding (53.08%) is then applied to the $206,616 "gap", requiring the new funding in the amount of $109,672 to be added to the base as new for services which best serve the educational needs of these students. Use of these funds has been identified in the LCAP. The resulting new Supplemental base for 2015-16 is $534,779, which represents approximately 2.4% 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) was protected as a separate "add-on" source of funding, with the requirement to spend at least the base amount of state Transportation funding on Transportation services. 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 the programs. Until the LCAP process is refined over time, this will allow identification of programs, and allow comparisons of spending. 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".

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 CCCSS implementation, increased costs of STRS/PERS, etc. This year, districts will receive approximately $601 per ADA in this one-time funding, which equates to $1.94 million for EUSD. The net increase of $1.74 million in Other State Revenue represents this new allocation less reversal of the 2014-15 one-time funds of approximately $224,000, plus a $15,000 increase to Lottery funding.

Federal Categoricals. The $89,890 reduction in Federal funds is primarily due to reversal of one-time Medi-Cal Administrative Activities (MAA) funding received in payment of past claims for services. It is not anticipated that future payments will be received, and EUSD is not continuing to participate in this portion of the Medi-Cal program.

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 $42,445 increase is the combination of $20,000 in facility lease/rental income according to existing lease agreement terms and $21,000 increase in AB602 Special Ed funding according to recent estimates from the SELPA.

EXPENDITURES

The expenditure portion of the 2015-16 Adopted Budget incorporates goals, action items, and related expenses reflected in Year 1 of the 2015-16 LCAP. It is important to note that the expenses included in the LCAP are a combination of existing programs/expenditures (based on 14-15 2nd Interim/Estimated Actuals), additional (new) expenditures, Supplemental expenditures, and restored services. By nature of the timelines involved in the concurrent LCAP and budget processes, there is not a penny for penny 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 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 services straightforward. Expenses related to the old categorical funds that have been rolled into the new LCFF model are currently entered into the separate categorical accounts, similar to the revenue, as described earlier. As the process is clarified by the State, there are likely to be many adjustments to how expenses are coded in the future.

Salaries & Benefits. Salaries and related benefit costs have been updated according to the actual assignments currently in place for 2015-16, including known vacancies expected to be filled to meet approved class size ratios and existing staffing formulas. The 2014-15 negotiated salary increases and estimated "step" advancements are included, but "column" movements will not be recognized until 1st Interim, after the September deadline for staff to submit additional units for compensation. Current estimated rate of .5% for step/column increases is used in the MYP and will be updated accordingly for the 1st Interim after the September adjustments for additional units. No salary adjustments for 2015-16 negotiations are estimated in the budget, but the salaries are now based on the 4% 2014-15 and 1.5% 2015-16 increases negotiated in 2014-15.

The 2015-16 certificated salary budget also reflects the LCAP additional staffing, including the 1.0 Director of Curriculum, Instruction, Assessment and Professional Development, 1.0 EL Teacher, and continued additional Counselor and Nurse coverage, and Coordinator stipends. Potential reductions in teacher staffing due to projected declining enrollment was substantially offset by teacher retirements.

The classified budget also reflects the additional/restored staffing included in the LCAP, including additional School Clerk ("bell to bell") time, as well as restoration of the District Office Clerk position. Also included is restored staffing for M&O positions (1 Night Custodian), and additional Technology Technician time to provide 12 month service.

Statutory payroll benefits applied to certificated salaries are 13.49% and classified are 20.81%. 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 $300,000 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 as disclosed.

Books, Materials & Supplies. The net $1,588,263 decrease in the materials budget is a combination of reversal of one-time budgets including $315,000 Mandated Costs, $382,000 LCAP Technology budget for initial purchase of student end-user devices for CCCSS implementation, $265,000 Prop 30 Lottery carryover, $386,000 ERMH (Mental Health) carryover, and $229,000 CCCSS carryover. Any unspent ERMH, Lottery, and Mandated Costs carryover are expected to be re-budgeted at 1st Interim. I should be noted that, although the 2014-15 Mandated Costs one-time funds were budgeted to materials expense during 2014-15, the new 2015-16 $1.94 million Mandated Costs funds were not budgeted to expenses, which allows the unrestricted funds to drop to the

Reserve and help to *temporarily* cover deficit spending related to new LCAP provisions and negotiated salary increases.

Services. The net decrease of $363,290 is a combination of reversal of $280,000 one-time CCCSS allocated to services for the wireless infrastructure project, $60,000 in MAA expenses, and net $20,000 decrease in various other services

Capital Outlay. The $13,282 decrease represents reversal of a one time M&O equipment purchase. It should be noted that the previous LCAP expense budget item for Transportation bus replacement has been recategorized to an annual $50,000 contribution and assignment of Ending Fund Balance, and will be reflected as an expense only during years when a purchase is actually made.

Other Outgo. This budget section represents the estimated $487,978 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 2014-15. 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. Depending upon other variables, this could result in an increased bill-back, as PCOE would have reduced revenue sources.

Inter-fund Transfers (out). With return of the Inter-Agency Agreement for Food Service with the RJUHSD, there is no longer a contribution to Fund 13 required, except for minimal charges related to the program, most of which will be more appropriate to be reflected in the General Fund.

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

ENDING FUND BALANCE / RESERVE:

Estimated Actuals EFB for 2014-15 is used as the beginning balance for the 2015-16 Adopted Budget. Typically, the EUSD uses 2nd Interim for the Estimated Actuals source. This year, a revised Estimated Actuals was updated to reflect the estimated $725,000 cost of the 2014-15 negotiated 4% salary increase effective for 2014-15, as detailed on the AB1200 Disclosure presented to the Board at the 6/2/15 Board meeting. Based upon the 2014-15 Estimated Actuals, the District's General Fund Ending Fund Balance (EFB) is projected to be $5,210,927 (17%) assuming the full budget is spent. Unused IMFRP textbook budgets, Mandated Costs, and Mental Health budgets will be a likely source of carryover for the 2014-15 year. Although unused budgets from restricted accounts will temporarily increase the EFB, the expenses are to be budgeted in the following year, to be covered by reserve.

The proposed Adopted Budget for 2015-16, complete with LCAP additional expenditures, and increased compensation due to 2014-15 negotiations, is expected to reflect a temporary increase in the reserve to $6,384,890 (22%), due to the LCFF increased gap funding and the substantial one-time Mandated Costs funding. Absent the one-time funding, the EFB would be $4,440,890 (15%) and 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 will be reduced to 3.8% by 2018-19. Absent new sources of ongoing revenue, the District should anticipate the need to identify and implement substantial expense reductions prior to 2018-19, as shared during the presentation of the AB1200 Disclosure.

Components of the $6,384,890 EFB include a total of $4,580,671 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 $869,652 is also assigned, leaving an unassigned General Fund EFB of $920,000 to help cover current deficit spending.