Regular Board Meeting
June 26, 2018 6:45 PM
Twin Rivers Unified School District
5115 Dudley Boulevard, Bay A
McClellan, CA 95652

Agenda Item: **K.3. PRESENT and ADOPT 2018/2019 Adopted Budget**

Speaker: Kate Ingersoll, Executive Director Fiscal Services

Rationale: Prior to July 1st of each fiscal year, the Board of Trustees must approve an operating budget.

The public hearing was held at the June 19, 2018 Board meeting.

Attached is the 2018/2019 Adopted Budget utilizing the State required forms. The District's internal budget documents are also included. The following forms and documents are included for review:

1. Executive Summary
2. Internal Budget Documents for all Funds
3. 2018/2019 Budget Adoption Reserves
4. School District Certification
5. Workers' Compensation Certification
6. General Fund
7. Average Daily Attendance
8. Cash Flow Projection
9. Multiyear Projections - General Fund
10. Summary of Interfund Activities - 2018/2019 Budget
11. Schedule of Capital Assets - 2017/2018 Estimated Actuals
12. Schedule of Long-Term Liabilities - 2017/2018 Estimated Actuals
13. All "Other" funds
14. Criteria & Standards Review - General Fund

Contact person: Mrs. Kate Ingersoll, telephone number (916) 566-1600 ext. 50124.

Recommended Motion: Administration recommends that the Board of Trustees move to adopt the District's 2018/2019 Budget.

Quick Summary / Abstract: Prior to July 1st of each fiscal year, the Board of Trustees must approve an operating budget. The public hearing was held at the June 19, 2018 Board meeting. Attached is the 2018/2019 Adopted Budget, utilizing the State required forms along with the District's internal budget documents. The Superintendent recommends that the Board of Trustees adopt the 2018/2019 Adopted Budget. Contact person: Bill McGuire, telephone number: (916) 566-1600 ext. 50138 or Kate Ingersoll ext. 50124

Attachments:
2018-2019 Adopted Budget SACS Document
2018-2019 TRUSD Adopted Budget PPT Presentation

2018/2019
Adopted Budget
EXECUTIVE SUMMARY

The District is required to adopt a budget prior to July 1 of each year in order to authorize the expenditure of funds. Since the preparation of this budget occurs before the Legislature's final action, and before actual expenditures are known for the current year, estimates of proposed revenues and expenditures are based on the most reasonable assumptions and recent information available at the time of the preparation. The budget is a dynamic statement which will change as the assumptions and estimates used to develop it change.

Governor Brown's May Revision 2018/19 budget proposal confirms that General Fund revenue assumptions have increased since the release of the Governor's January budget proposal. The administration attributes these gains primarily to the short-term personal and corporate income gains stemming from the 2017 stock market rally and the federal tax cut enacted last December.

Because of the strong revenues from January to May, the May Revision maintains full funding of the Local Control Funding Formula (LCFF). As with the January proposed budgeted, the Governor warns that California will soon face an economic downturn, noting that California's economic recovery has lasted four years longer than average and that "now is a time to save; not a time to make pricey new promises we can't keep."

The 2013 Budget Act established the Local Control Funding Formula (LCFF) which expands local control, reduces state bureaucracy, and ensures that students needs drive the allocation of resources. The funding also includes increased transparency and accountability by the use of the Local Control Accountability Plan (LCAP). School districts are required to develop, adopt, and annually update a three-year LCAP, using the California State Board of Education's adopted template. The LCAP is required to identify goals and measure progress for student subgroups across multiple performance indicators. Additionally, the regulations require school districts "to increase and improve" services for targeted students (by way of supplemental and concentration grant funding within the LCFF). With our high percentage of targeted students, the regulations provide authority for school districts to spend funds "school-wide" when significant populations of those students attend a school. The budget is aligned with our LCAPs.

The General Fund revenues are greater than the expenditures by $109 thousand. However, once the on-going special education salary program costs are added to the budget (currently in the ending fund balance reserve), we will be deficit spending $641 thousand. The 2017/2018 on-going deficit spending of $7.4 million is alleviated in 2018/2019 with the use of all the new LCFF funding, school site and department budget reductions. We have enough of an ending fund balance for the required 3% State reserve for economic uncertainties, but fall short $2.1 million to meet our Board Policy intent to maintain a minimum reserve of economic uncertainties equal to at least one month of the general fund payroll expenditures ($19 million) or 6% of the general fund expenditures and other financing sources ($21 million).

A budget trailer bill, Assembly Bill 1808, was released on June 12, 2018. If passed, the bill would set the cost-of-living adjustment (COLA) for the LCFF base rates at 3.7%, slightly higher than what had been previously estimated and used in the Adopted Budget. The Adopted Budget LCFF base funding would increase $1.8 million with the use of the 3.7% COLA. If approved by the Governor, $1 million will be set aside for future consideration to augment the certificated and classified student support personnel (i.e. counselors, psychologists, vice principals, guidance learning specialists).

LONG TERM FINANCIAL COMMITMENTS

In November 2016, the District refunded bonds and issued new bonds which allowed for a prepayment of $48.3 million of the 2007 Certificate of Participation (COP) debt. The use of bond funds and the one-time District funds ($15 million) towards prepayment of debt liability reduces the amount and time from which the General Fund will burden the remainder of the unfunded 2007 COP debt liability. The District has reserves in the Building Fund to cover the debt interest payments through 2021/2022. Thereafter, debt interest payments of $1.5 million will start in 2022/2023 from the General Fund; interest and principal of $8.8 million in 2036/2037 and an average of $10.8 million each of the last 4 years of the COP debt.

GENERAL FUND – BUDGET ASSUMPTIONS

BEGINNING FUND BALANCE

The beginning fund balance is estimated to be $34,892,563 ($29,092,562 unrestricted and $5,800,001 restricted for categorical programs). We have estimated a majority of the unrestricted funds that will not be spent in 2017/2018 and carryover to be spent in 2018/2019. However, with the close of the 2017/2018 fiscal year the actual ending fund balance will increase from additional program carryover funds and unspent departmental budgets. The actual 2018/2019 beginning fund balance will be updated at First Interim (after the 2017/2018 financial records are closed).

REVENUE ASSUMPTIONS

The Local Control Funding Formula (LCFF) consists of base, supplemental, concentration and add-on funds that primarily focus resources based on a district's student demographics. Each school district receives the same per pupil base amount by grade span: K-3, 4-6, 7-8, and 9-12. Supplemental and concentration funds are based on the unduplicated number of English Learners, students eligible for free and reduced meals, and foster youth students.

- The LCFF Sources (major assumptions):
  - Average Daily Attendance (ADA) is 22,732 (2017/2018 estimated revised P2 ADA of 22,619 + 113 for SCOE special day classes).
  - District Charter ADA is estimated at 2,075 (2017/2018 P2 ADA - 12 ADA).
  - Estimated Unduplicated pupil count:
    - Twin Rivers – 87.57%
    - Creative Connections Arts Academy – 68.18%
    - Smythe Academy of Arts & Science – 91.54%
    - Westside Preparatory – 75.42%
  - Add-ons for transportation and TIIBG 2012/2013 awards = $9,932,217
  - Cost of Living Adjustment (COLA) of 2.71% and .029% for 100% GAP funding.
  - Property taxes are estimated at 2017/2018 P2 levels.
  - Education Protection Account (EPA) is estimated at $33 million (the LCFF revenue is reduced by this amount). The EPA funds will be used on salaries and benefits for instruction.
  - A budget trailer bill, AB 1808, was released on June 12, 2018. If passed, the bill would set the cost of living adjustment (COLA) for the LCFF base rates at 3.7%, slightly higher than what had been previously estimated and used in the Adopted Budget. The Adopted Budget LCFF base funding would increase $1.8 million with the use of the 3.7% COLA. If approved by the Governor, $1 million will be set aside for future consideration to augment the certificated and classified student support personnel (i.e. counselors, psychologists, vice principals, guidance learning specialists).

- Federal Revenue includes the reduction of one-time grants and prior year carryover funds ($7.6 million). Title I, III (LEP) and Special Education grants increase $540 thousand and the remaining grants are at or close to their 2017/2018 grant award level. There are no prior year unearned revenue budgeted at this time. We anticipate $4 million in unearned revenue to carryover; expenditures will be budgeted on the First Interim after the 2017/2018 financial records are closed and the actual amounts are known.

- Other State Revenue includes the reduction of $300 thousand of prior year carryover funds and $6 million for one-time grants. The significant one-time grant reductions are Discretionary funds of $3.6 million and Career Tech Ed Incentive Grant of $1.9 million. There are no one-time Mandated Cost/Discretionary funds projected; the Governor's May revision is estimating $344 per ADA allocation which equates to $8.5 million for Twin Rivers USD. The on-behalf STRS contribution is estimated to be $8 million and will be reflected in First Interim report. All other grants are at or close to their 2017/2018 grant award levels. Lottery income is an increase of $45 thousand; budgeted at School Services of California's (SSC) projected student rate of $194 ($146 unrestricted and $48 restricted).

- Other Local revenue includes the reduction of one-time donations and grant; the largest being a $1.1 million for an insurance claim, $2.1 million for the Cornell Grant GEO Garden and $460 thousand for Charter oversight fees due to reduction in ADA at one of the charters. The State Special Education program is budgeted with no change from 2017/2018.

- Under Other Financing Sources, Contributions from unrestricted to restricted programs is $36.8 million ($1 million increase to support programs) and are for the Special Education and Routine Restricted Maintenance programs.

EXPENDITURE ASSUMPTIONS

- Certificated salaries and benefits reflect current position control. Position control includes a 1.30% increase for step/column. A salary increase is not included on certificated salaries. The unrestricted certificated salaries net decrease of $2.7 million compared to the 2017/2018 Second Interim is due to:
    - Two years of compensation increases recorded in 2017/2018
    - 37 Teacher On Special Assignment positions closed
    - Nine new Lab Teacher positions
    - Step/column increases

- Classified salaries and benefits reflect current position control. Position control includes a 2.3% increase for step. A salary increase is not included on classified salaries. The unrestricted classified salaries net decrease of $200 thousand compared 2017/2018 Second Interim is due to:
    - Two years of compensation increases in 2017/2018 (for police, management and confidential)
    - Step/column increases

- Payroll driven benefit expenditures are budgeted at the following rates:
    - STRS – 16.28% (+1.85%)
    - PERS – 18.062% (+2.531%)
    - UI – 0.05%
    - OASDI – 6.20%
    - MC – 1.45%
    - WC – 1.718% (+0.018%)

- District health benefit caps remain the same as prior year.

- We did not include 2017/2018 categorical carryover expenditures. We balanced the categorical entitlements so that the current year revenues equal the expenditures.

- Department and District support budgets were individually analyzed and include an overall 5% reduction totally $459 thousand.

- The Routine Restricted Maintenance Account (RRMA) is at $9,400,000; 2.87% of the current total General Fund expenditures. AB 104 includes a phase-in of the RRMA contribution back to 3%. For 2018/2019 and 2019/2020 the minimum amount required to be deposited into the RRMA account is the greater of:

  - Lesser of 3% of total general fund expenditures for the fiscal year or the amount the district deposited into the account for 2014/2015 ($6,808,061)
  - Two percent of the total general fund expenditures for the fiscal year

  However, the year a district receives State school facility bond funds from the November 2016 ballot passage, the RRMA requirement will revert to 3%.

- Encumbrance carryovers and one-time budgets are eliminated.

- Books and Supplies significantly decrease in both unrestricted and restricted programs due to the elimination of one-time carryover budgets.

- Services and Other Operating Expenditures significantly decrease due to the elimination of one-time carryover budgets within the restricted programs.

- Capital Outlay significantly decreases within the restricted programs due to the elimination of one-time carryover budgets.

- Interfund Transfers Out are budgeted at $10 million from Supplemental/Concentration to Fund 14 for high needs facility projects.

- The budget includes the expenditures necessary to implement the 2018/2019 LCAP.

- We have estimated and reserved in the ending fund balance a majority of the unrestricted funds that will not be spent in 2017/2018 and carryover to be spent in 2018/2019. However, with the close of the 2017/2018 fiscal year the actual ending fund balance will increase from additional program carryover funds and unspent departmental budgets. We will budget the actual carryover and restricted ending fund balance amounts toward expenditures on the First Interim budget after the actual amounts are known.

ENDING FUND BALANCE

The ending fund balance of $35,001,265 is reported within the following classifications:

- Nonspendable - revolving cash and stores inventory is estimated at $618,639.

- Restricted – legally restricted categorical programs is $5,670,818.

- Assigned – $11,970,433
  - $5,463,441 – Instructional Materials carryover
  - $1,491,402 – Supplemental/Concentration – summer programs carryover
  - $1,271,282 – Various program carryovers
  - $750,000 – Additional Special Education positions
  - $727,296 – Supplemental/Concentration – EL carryover
  - $500,000 – Supplemental/Concentration - CTE
  - $580,362 – Supplemental/Concentration - Charter carryover
  - $558,891 – Site Base Allocation carryover
  - $465,057 – Insurance Claim; Vineland fire carryover
  - $162,702 – Site Base Allocation – no 5% reduction

- Unassigned –
    - $16,741,376 Reserve for Economic Uncertainty ($19 million is one month of the District's payroll)
    - $0 Unappropriated

ON-BEHALF STRS CONTRIBUTION

The Governmental Accounting Standards Board (GASB) Statement No. 68 significantly changes how state and local governments account for their long-term obligations and costs related to employee pensions. In prior years, information on long-term pension liability was disclosed in the note disclosure and required supplementary information of the financial audit report. Effective with the close of the books for 2014/15 the net pension liability is reported on the face of the Statement of Net Position, effectively reducing the overall net position.

In addition to accounting for the liability in the government-wide financial statements of the audit report, the state's contribution to CalSTRS on-behalf of district employees must be recorded in the district's SACS financial records. The entry to recognize the State's on-behalf pension contribution accounts for both the revenue and expenditure of the financial assistance represented by the state's contribution; thus there is no impact to the bottom line. The on-behalf STRS contribution is estimated to be $8 million and will be reflected in First Interim report.

OTHER FUNDS – BUDGET ASSUMPTIONS

ADULT EDUCATION FUND

The beginning fund balance is projected at $956,438; $377,735 more than the 2017/2018 Second Interim Report.

Revenue from Federal categorical programs are budgeted at approximately 70% of the prior years' awards. Actual award and carryover amounts will be known and reflected at First Interim.

Other State Revenue represents the Adult Education Block Grant (AEBG) in the amount of $2.8 million to run the Adult Education programs for English as a Second Language (ESL), high school completion, pre-apprenticeship and Career Technical Education (CTE) classes.

There is no Other Local Revenue for student fees; fees for adult education classes have not been charged since January 1, 2016.

Certificated and classified salaries and benefits reflect current position control which includes step/column increases. Salaries and benefits have been budgeted for staff needed to teach fee based courses not budgeted through position control.

Books and Supplies and Services and Other Operating expenditures include all amounts needed to operate the program as well as IT technology fees, rent for facilities and indirect costs.

The ending fund balance is projected at $219,967.

CHILD DEVELOPMENT FUND

The beginning fund balance is estimated from the 2017/2018 Second Interim Report at $480,582.

Federal Revenue is projected as follows: Head Start Basic is budgeted at $2.1 million, Head Start Training & Technical Assistance is budgeted at $13,352 and General Child Care and Development program (CCTR) is budgeted at $20,815.

Other State Revenue includes CCTR, the California State Preschool program (CSPP) and the Pre-

Kindergarten Family Literacy program (CPKS). Projected revenues total $5.4 million. Actual award amounts will be known and reflected at First Interim.
Other Local Revenue includes the First Five program (funded at $824 thousand) and parent paid fees.
Certificated and classified salaries and benefits reflect current position control which includes step/column increases.
Books and Supplies and Services and Other Operating Expenditures include all amounts needed to operate the program and have been adjusted to reflect the changes in appropriations of Federal and State funded programs.

The ending fund balance of $480,582 is Restricted and can only be used with State approval.

CAFETERIA FUND

The beginning fund balance is estimated from the 2017/2018 Second Interim Report at $2,462,182.

Federal, State, and Non-Program (Child Nutrition School Program) meal sales are estimated at $19.3 million, representing a 1.70% increase over 2017/2018 Second Interim. The projected increase is based on the implementation of the Community Eligibility Provisions program. CEP is a federally funded program that allows low income schools and districts to serve breakfast and lunch at no cost to all students.

Salaries and benefits reflect current position control which includes annual step increases. Open positions, hiring restrictions, lack of substitutes, and shift in positions to fill open site needs were evaluated and charged accordingly within variable salaries.

The food, supply and other operating budgets reflect minimal adjustments and include all amounts needed to operate the programs. Cost adjustments through competitive bid pricing, improved menu development, increase in training of kitchen staff and better accurate food production estimates allow for an overall slight decrease in costs.

The total ending fund balance of $2,674,354 is Restricted for the use of nutritional services. None of the programs are deficit spending. The ending fund balance by restricted program are:

Breakfast/Lunch School Program = $1,386,184
Supper Program = $992,082
Summer Program = $282,990
Summer Program Support = $13,098
Fresh Fruits & Vegetable Program = $0

DEFERRED MAINTENANCE FUND

The beginning fund balance is projected at $346,346.

LCFF Sources represent a transfer from the General Fund in the amount of $1,896,380 to be used for facility maintenance projects.

Other Local Revenue represents interest income.

Interfund Transfers In are budgeted at $10,000,000 from Supplemental/Concentration funds (in the General Fund) for high needs facility projects.

Expenditures are budgeted based on the District's Facility Master plan. All funds are budgeted to be spent and thus there is no ending fund balance.

The ending fund balance is projected at zero.

SPECIAL RESERVE FUND FOR POSTEMPLOYMENT BENEFITS

The beginning fund balance is estimated from the 2017/2018 Second Interim Report at $1,483,853. Interest income is budgeted under Other Local Revenue.

The ending fund balance of $1,499,853 is Assigned for future postemployment benefits.

BUILDING FUND

The beginning fund balance is projected at $7,999,492.

Other Local Revenue includes rental income for leases of our cell towers and interest income.

Interfund Transfers In reflects sources to be used towards the COP 2007 debt payments.

Expenditures reflect projects from cell tower revenue and debt service interest expense for the 2007 COP liability.

The ending fund balance of $5,348,221 is made up of $5.3 million Restricted funds to be used towards 2007 COP debt repayments through 2021/2022 (after such time the General Fund will have the burden of a $1.5 million annual debt payment through 2035/2036 and then about a $10 million annual payment for the next 5 years) and $30 thousand Assigned for future GO Bond and QZAB outside administrative fees.

CAPITAL FACILITIES - DEVELOPER FEE FUND

The beginning fund balance is estimated at $3,459,645.

Other Local Revenue includes estimated calculations for redevelopment and developer fees.

Expenditures are budgeted to utilize the beginning fund balance and all new revenue.

The ending fund balance is projected at zero.

COUNTY SCHOOL FACILITIES FUND

The beginning fund balance is estimated at $6,100,000.

Other Local Revenue is for interest income.

Expenditures are budgeted based on the Modernization projects which are included in the District's Facility Master Plan. All funds are budgeted to be spent and thus there is no ending fund balance.

The ending fund balance is projected at zero.

SPECIAL RESERVE FUND FOR CAPITAL OUTLAY PROJECTS

The beginning fund balance is estimated at $14,107,716.

Other Local Revenue includes interest income from QZAB funds and MOU with Gateway Community Charter (GCC) for maintenance of Ben Ali site location.

Other Outgo reflects the $5 million QZAB debt payment due in November 2018. Two QZABs remain at a total of $6 million.

Expenditures are budgeted for facility projects utilizing a portion of the beginning fund balance.

The ending fund balance of $8,729,732 is Restricted for repayment towards the two remaining QZABs and Assigned to future facility projects.