



Fullerton School District Second Interim Report

Report to Board of Education
March 7, 2017

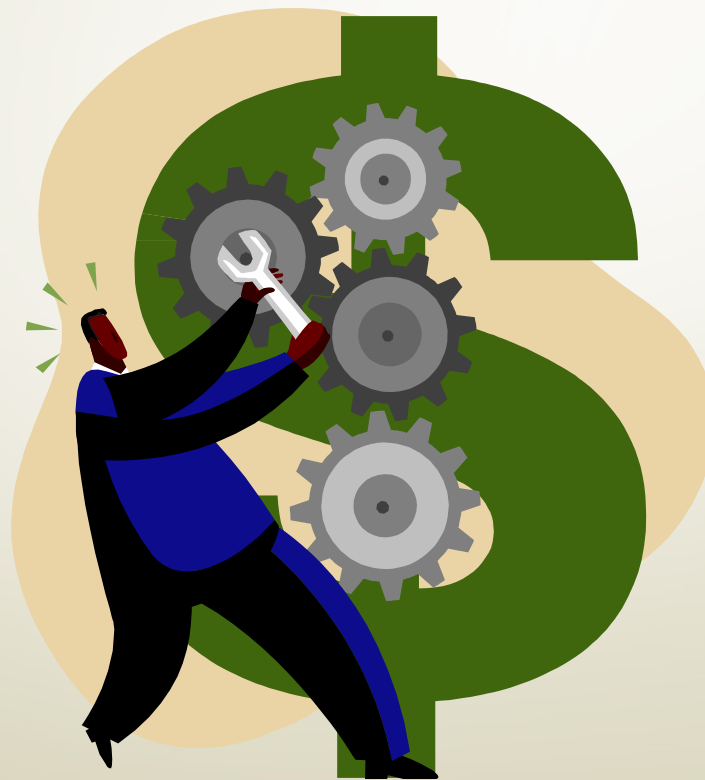


Second Interim Report

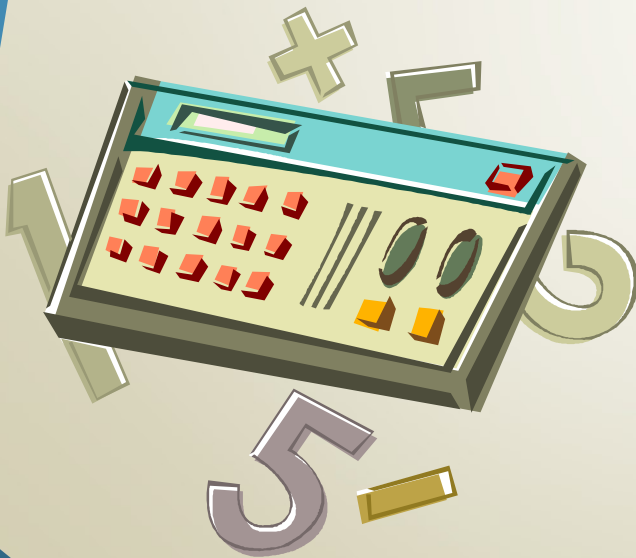
- One of three annual financial reports
- Reports actual financial results through January 31 and projections through 2018-19
- Key to determining District's fiscal viability
- Components of the Report



Updating the 2016-17 Budget



2016-17 Budget – Adjustments to First Interim



- Effect of negotiated agreement – CSEA and management
- Decrease in RRM transfer
- Ongoing budget adjustments caused by routine financial changes

Ongoing Budget Adjustments

- Current year enrollment down 132 – will be reflected in 2017-18 budget
- Categorical revenues and expenses
- Other income accounts
- Encroachment
- Salaries and benefits
- All other expenditure accounts

2016-17 Revised Budget

Projected net income (loss) –

First Interim (\$ 2,172,080)

Second Interim (\$ 858,679)



Projected Unrestricted Ending Fund Balance \$30.3 M ~

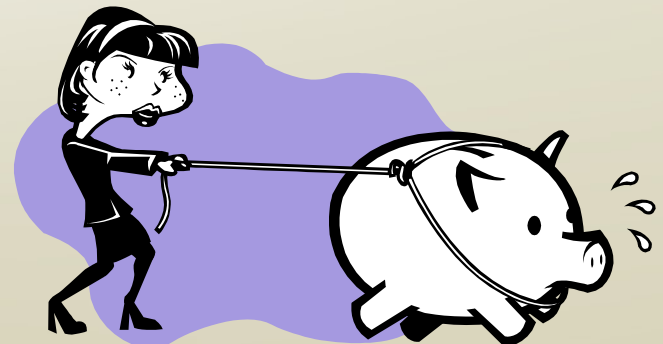
21.67%

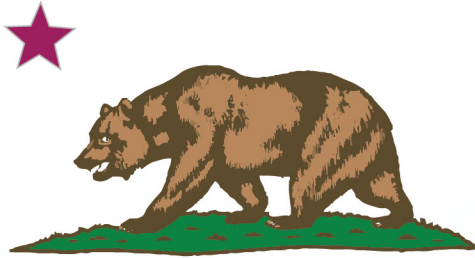
Multi-Year Projections



Governor's January Budget Proposal

- **A PROPOSAL**
- Will be revised in May, and again by Legislature for final budget
- Increase in LCFF funding
 - A decrease from the past few years
 - A decrease from First Interim Projection
- Some one-time money

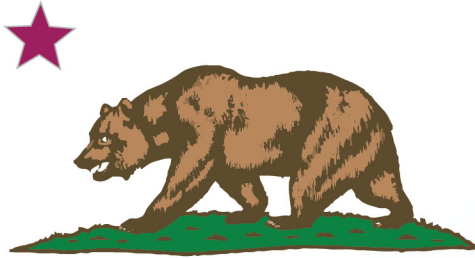




Themes for the 2017-18 Governor's Budget

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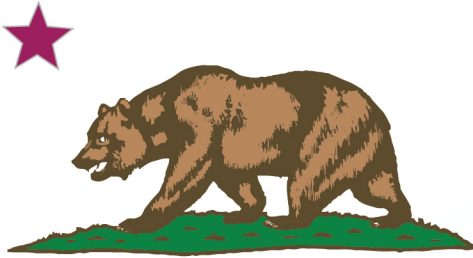
- **Economic conditions continue to define options for the state**
- **Proposition 98 still controls education funding**
- **We expect major political and legislative challenges, particularly at the federal level**
- **The Local Control and Accountability Plan (LCAP) continues to evolve**
- **Execution of the Budget will present operational issues in several areas**
- **The road behind us has been filled with highs and lows – the road ahead will be equally uncertain**



Economic Growth, Now and Later

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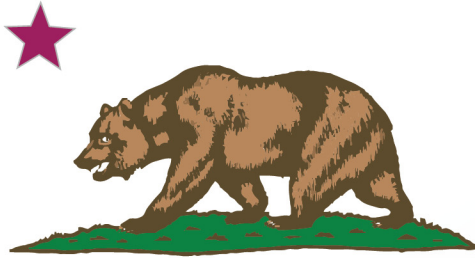
- **All year long, the Administration has been warning of slower economic growth**
 - **Lower than expected state revenues**
 - **Continued forecasts for low growth in Proposition 98**
 - **The Governor over-contributed to the state's Rainy Day Fund**
- **We have been concerned that the top 1%, who pay half of the personal income tax and all of the Proposition 30 taxes, may not be doing as well as expected**
- **The November elections appear to have provided new stimuli to the economy**
 - **The stock market has soared**
 - **State and local school facility bonds were approved and will create new jobs**
 - **Passage of Proposition 55 will continue the high-bracket income tax supporting education funding**



Proposition 98 Growth, Now and Later

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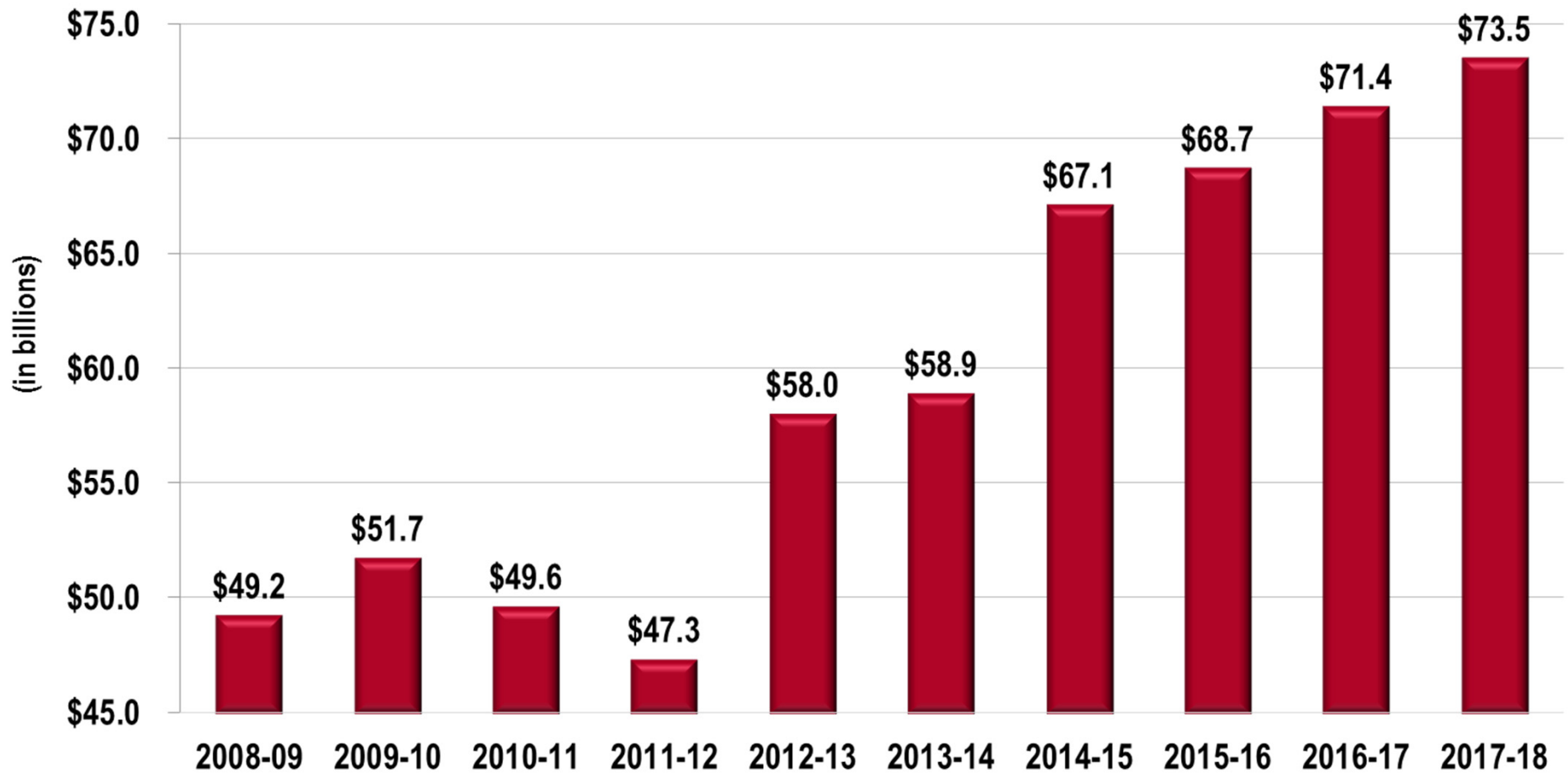
- **Stable or expanding economic conditions increase prosperity for the population – and increase tax revenues for the state**
 - **Taxes drive Proposition 98 obligations to schools**
 - **Revenue projections dictate the rate at which the state moves toward the Local Control Funding Formula (LCFF) full implementation targets**
- **Passage of Proposition 55 maintains, but does not increase, education funding above the Proposition 30 level**
 - **Proposition 55 is a replacement for Proposition 30, not an addition to it**
- **However, variability in education funding from lowered economic forecast and tax revenues more than offset the benefit of Proposition 55**
- **The state continues to meet the minimum Proposition 98 guarantee – and nothing more**

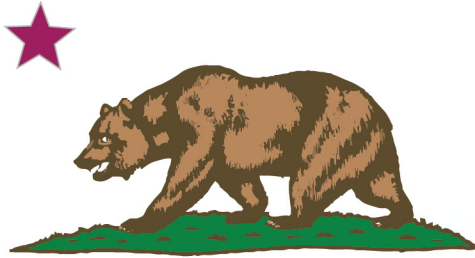


Proposition 98

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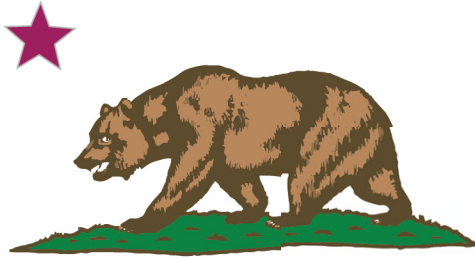
Proposition 98 Funding Over Time 2008-09 to 2017-18





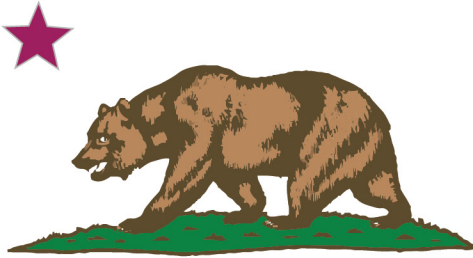
Proposition 98 and the Major K-12 Proposals

- **The Governor's Budget proposal includes:**
 - **\$744 million for LCFF gap closure**
 - **\$422.9 million for the K-12 portion of Proposition 39 (2012) – Clean Energy Jobs Act**
 - **\$287 million for discretionary one-time uses**
 - **\$200 million for the Career Technical Education Incentive Grant (CTEIG) Program**
 - **\$93 million to support projected charter school ADA growth**
 - **\$58.1 million for categorical programs' cost-of-living adjustment ([COLA] – 1.48%)**
 - **\$8.5 million for the Mandate Block Grant (MBG) to reflect the addition of the Training for School Employee Mandated Reporters program**
 - **\$2.4 million for county offices of education (COEs) to support COLA and ADA changes**



What's Not in the Budget?

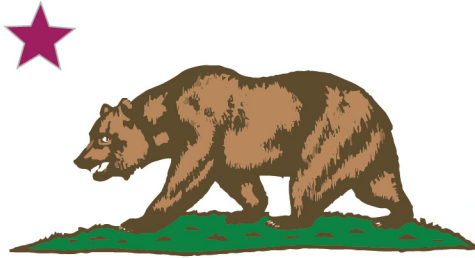
- **Given the Administration's conservative revenue estimates and the lean Education Budget due in large part to prior-year adjustments to Proposition 98, the 2017-18 Budget proposal provides no funding for critical programs and obligations, including:**
 - **No funding to address the growing local obligations for the California State Teachers' Retirement System (CalSTRS) and CalPERS unfunded liability**
 - **No cost-of-living adjustment (COLA) for Adult Education, Child Care, or State Preschool programs**
 - **No new funding for Home-to-School Transportation programs**
 - **No funding to close the LCFF "gap"**
 - **No additional investments to deal with the state's teacher shortage**



Transition From Proposition 30 to Proposition 55

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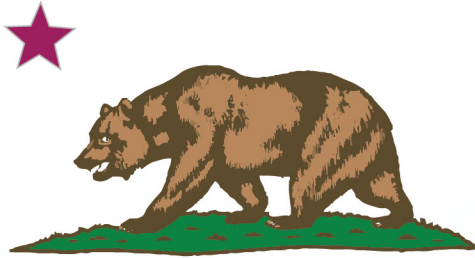
- **Does Proposition 55 increase education funding?**
 - **Whether Proposition 98 will increase or how much your LEA will receive is an unknown**
 - **What we do know is that any increase in funding to the state will positively impact school funding**
 - **An increase in state revenues will benefit Proposition 98 and elevate revenues for schools above where they would be without the tax extension**
 - **The actual amount of money received by LEAs will depend on:**
 - **Which Proposition 98 test is in effect**
 - **How much funding the Legislature appropriates for LCFF**
 - **Your LEA's unduplicated pupil percentage (UPP)**



2017-18 Local Control Funding Formula

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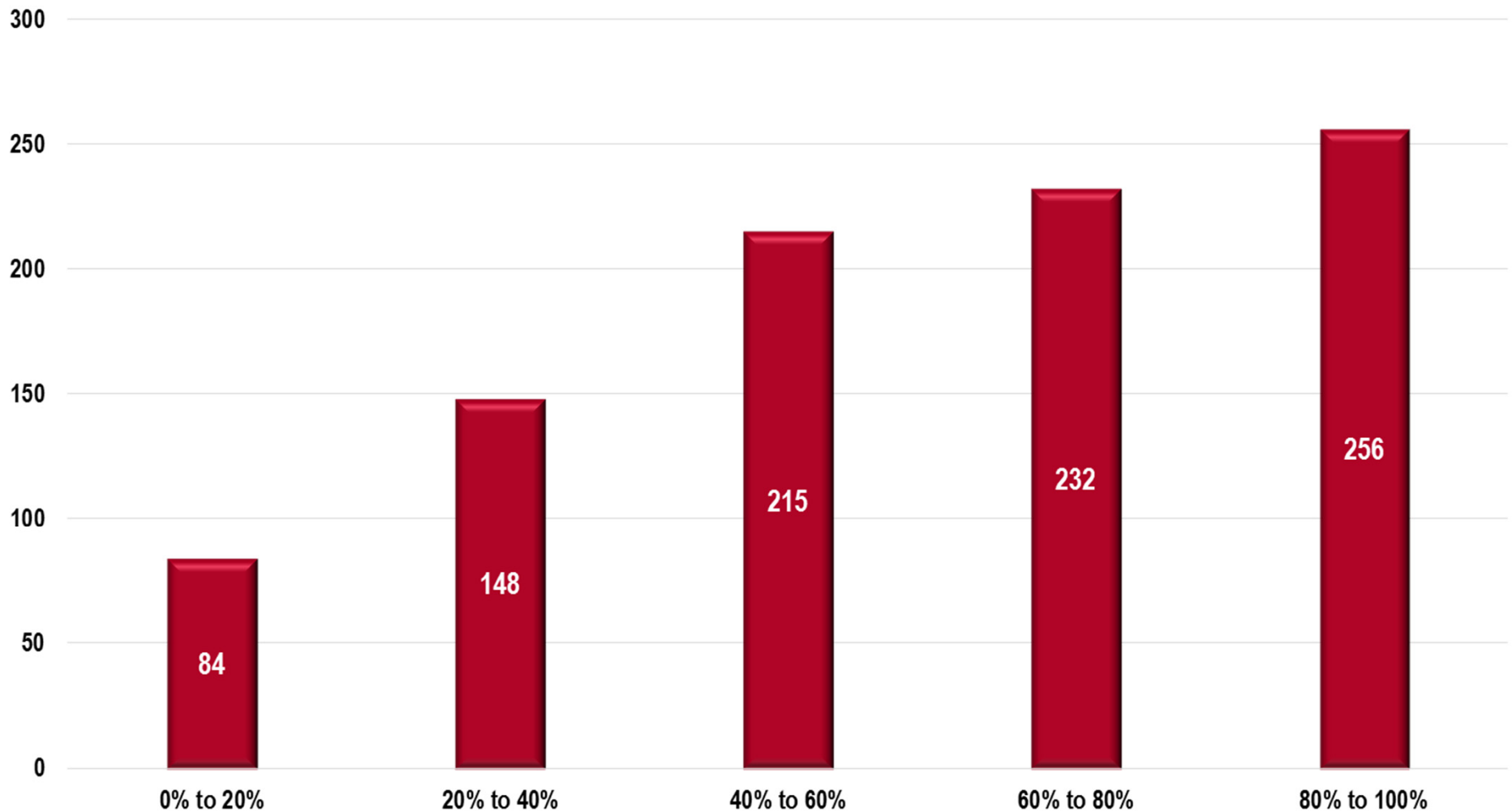
- The Budget proposes \$744 million for continued implementation of the LCFF
- New funding is estimated to close the gap between 2016-17 funding levels and LCFF full implementation targets by 23.67%
- 96% of the gap closed in the first five years, but...
 - No change from 2016-17
 - New LCFF allocation only sufficient to pay cost of the COLA increase to the grade span per-ADA rates
- The LCFF base grant targets are adjusted for an estimated 1.48% COLA in 2017-18
- 2017-18 LCFF growth provides an average increase in per-pupil funding of \$132 per ADA
 - Individual results will vary

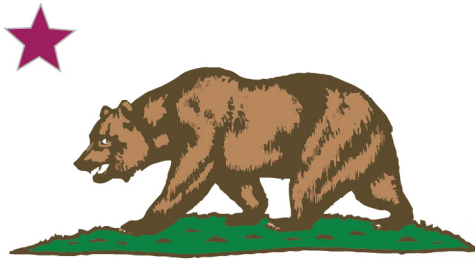


Transitioning to Full Funding of LCFF Entitlements

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Number of School Districts by Unduplicated Pupil Percentage

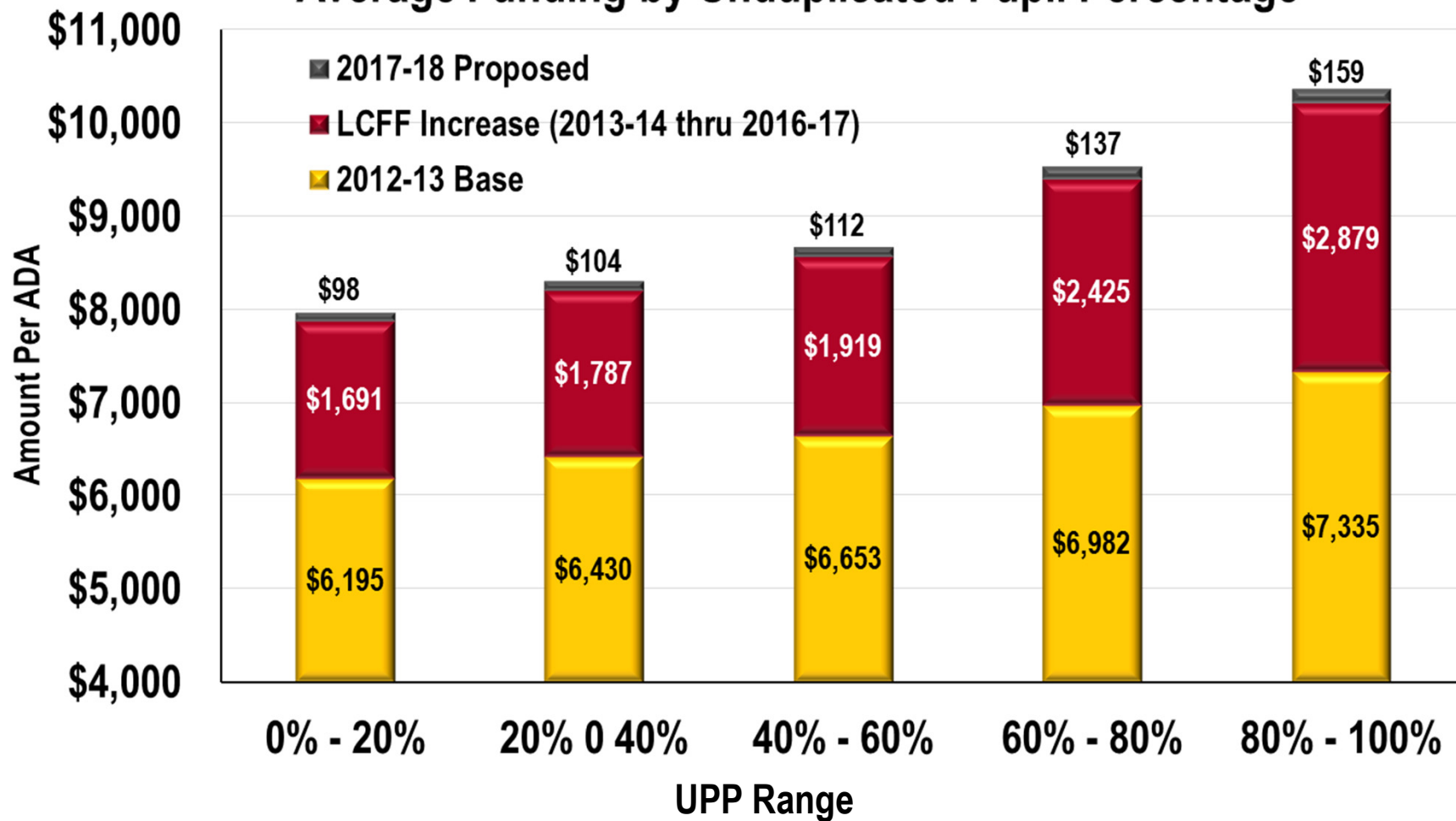


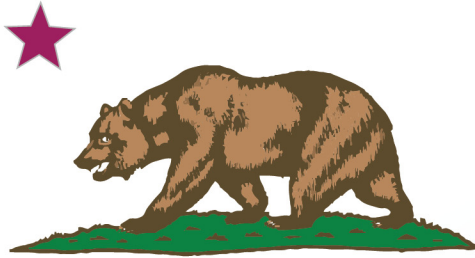


Transitioning to Full Funding of LCFF Entitlements

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Average Funding by Unduplicated Pupil Percentage



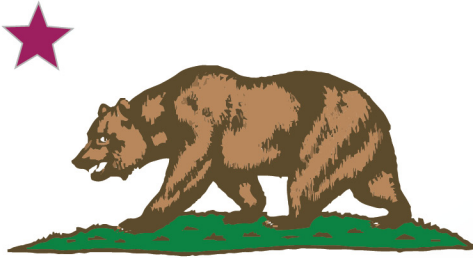


Sources of One-Time Funding

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- The Administration has consistently provided one-time funding to repay outstanding mandates, and 2017-18 is no different
- One-time funding comes to fruition for two reasons
 - Administration under projected revenues in a prior year
 - Administration does not want to commit all current-year Proposition 98 requirements to ongoing commitments
- The chart below shows the historical one-time discretionary funding per ADA

| 2014-15 | 2015-16 | 2016-17 | 2017-18 Proposed |
|---------|---------|---------|---------------------|
| \$67 | \$529 | \$214 | \$48 |



Multiyear Projections – Final Considerations

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- **CalSTRS and CalPERS employer contributions are still increasing**
- **Health and welfare contributions are increasing**
- **Contributions to restricted programs continue to increase**
- **Declining enrollment will continue to make it difficult to balance the budget**
- **Education will be receiving 40% vs. 90% of new state revenue once the Maintenance Factor is paid off**
- **Expectations are for COLA-only years after the LCFF target is reached**
- **The reserve cap, if implemented, demands a balanced budget**

**ECONOMIC
UNCERTAINTY**

FEDERAL CHANGES

FULL IMPLEMENTATION

**BUDGET
PRESSURES**

PROP 98
SLOWDOWN

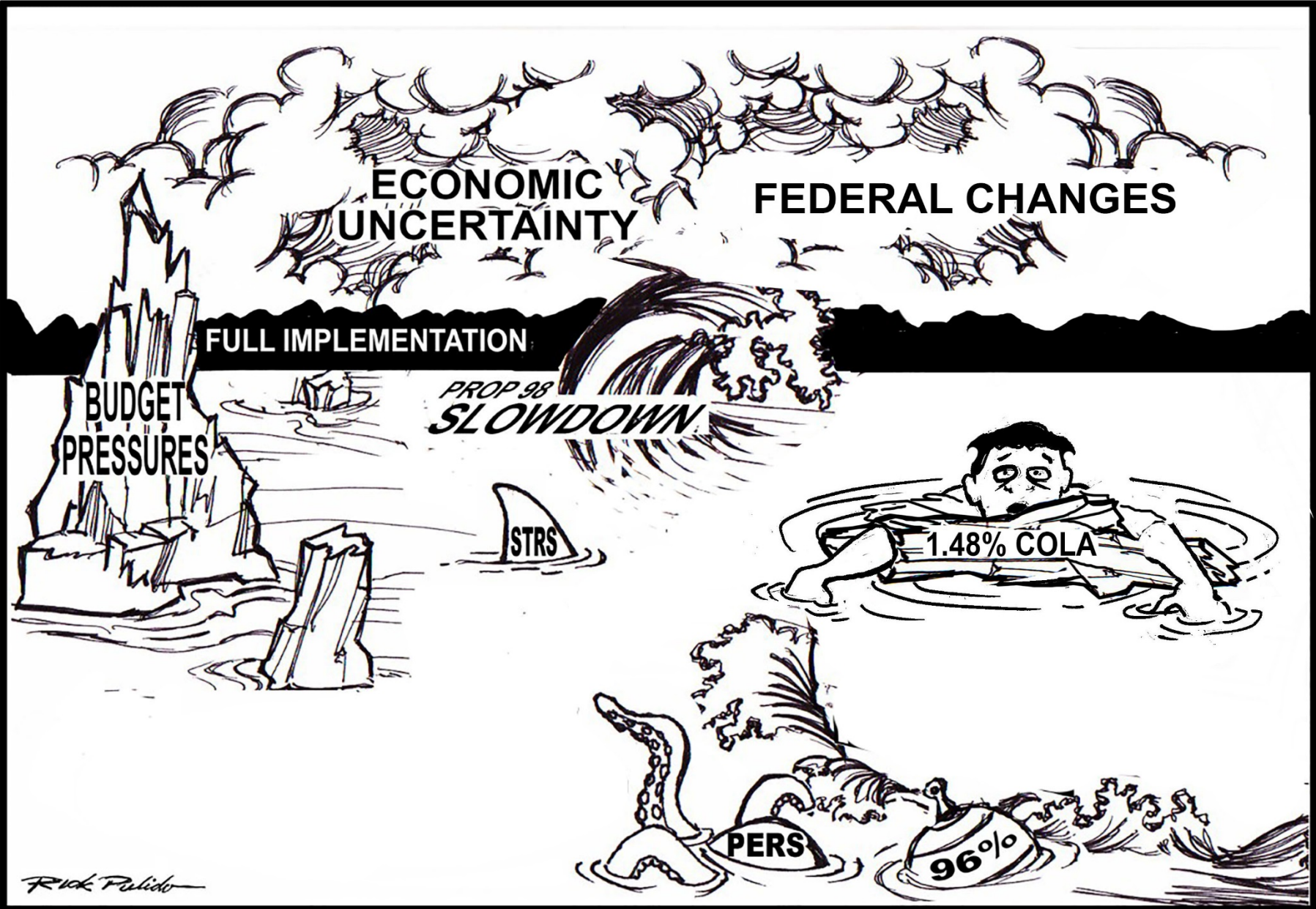
STRS

1.48% COLA

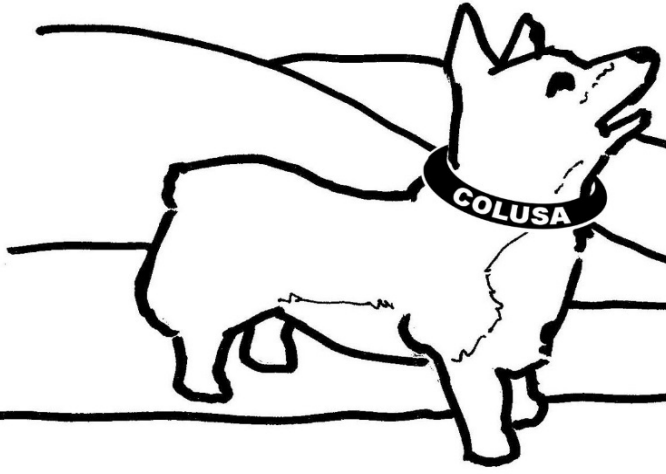
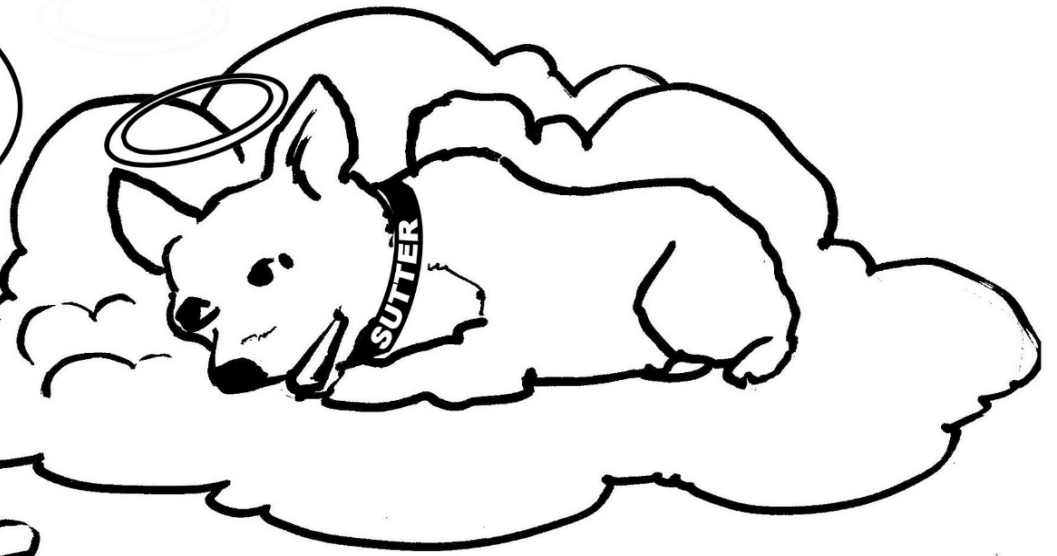
PERS

96%

Rick Fulido



Don't forget
to tell them to
save some biscuits
for a rainy day!



Rick Felido

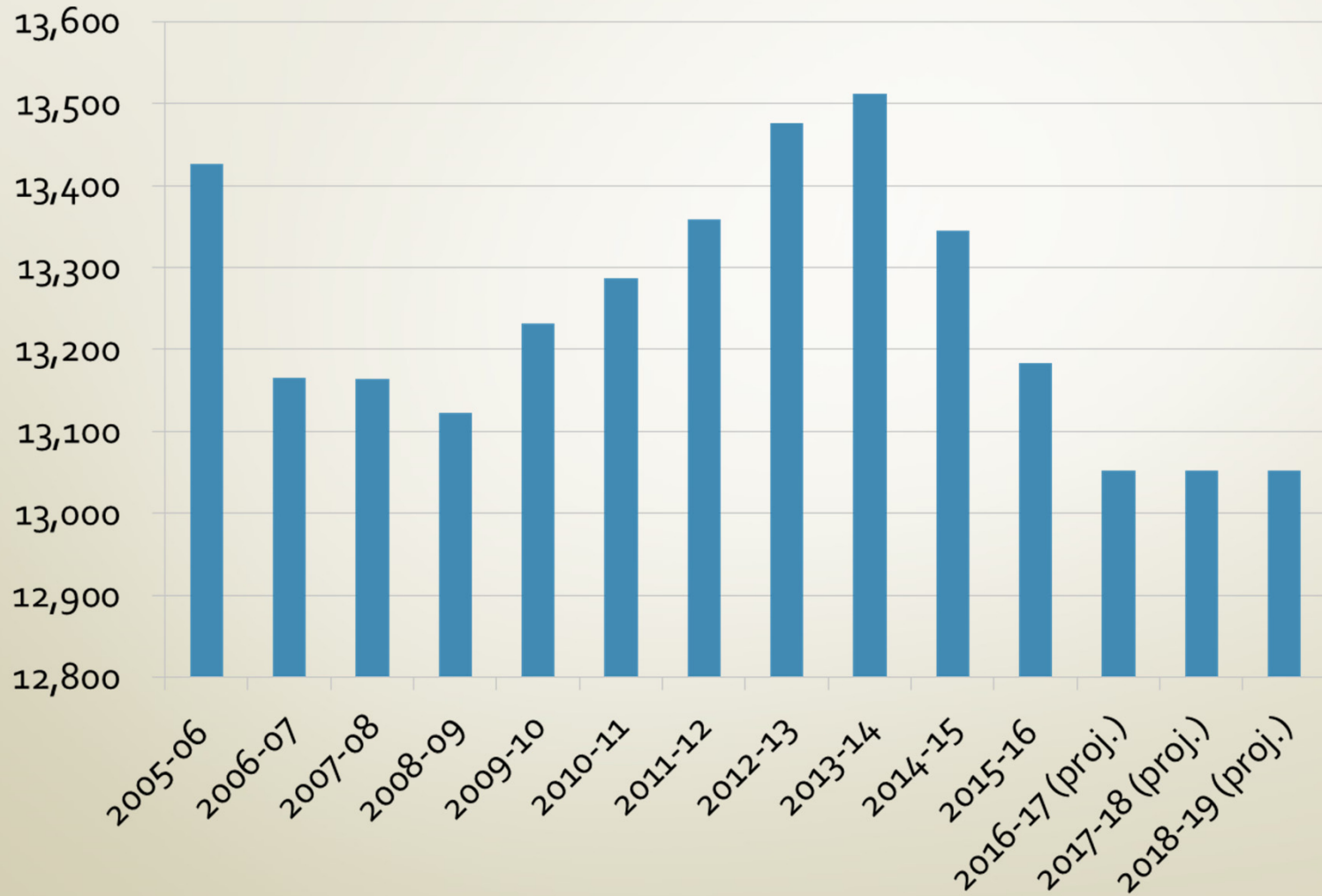


STAY! TUNED

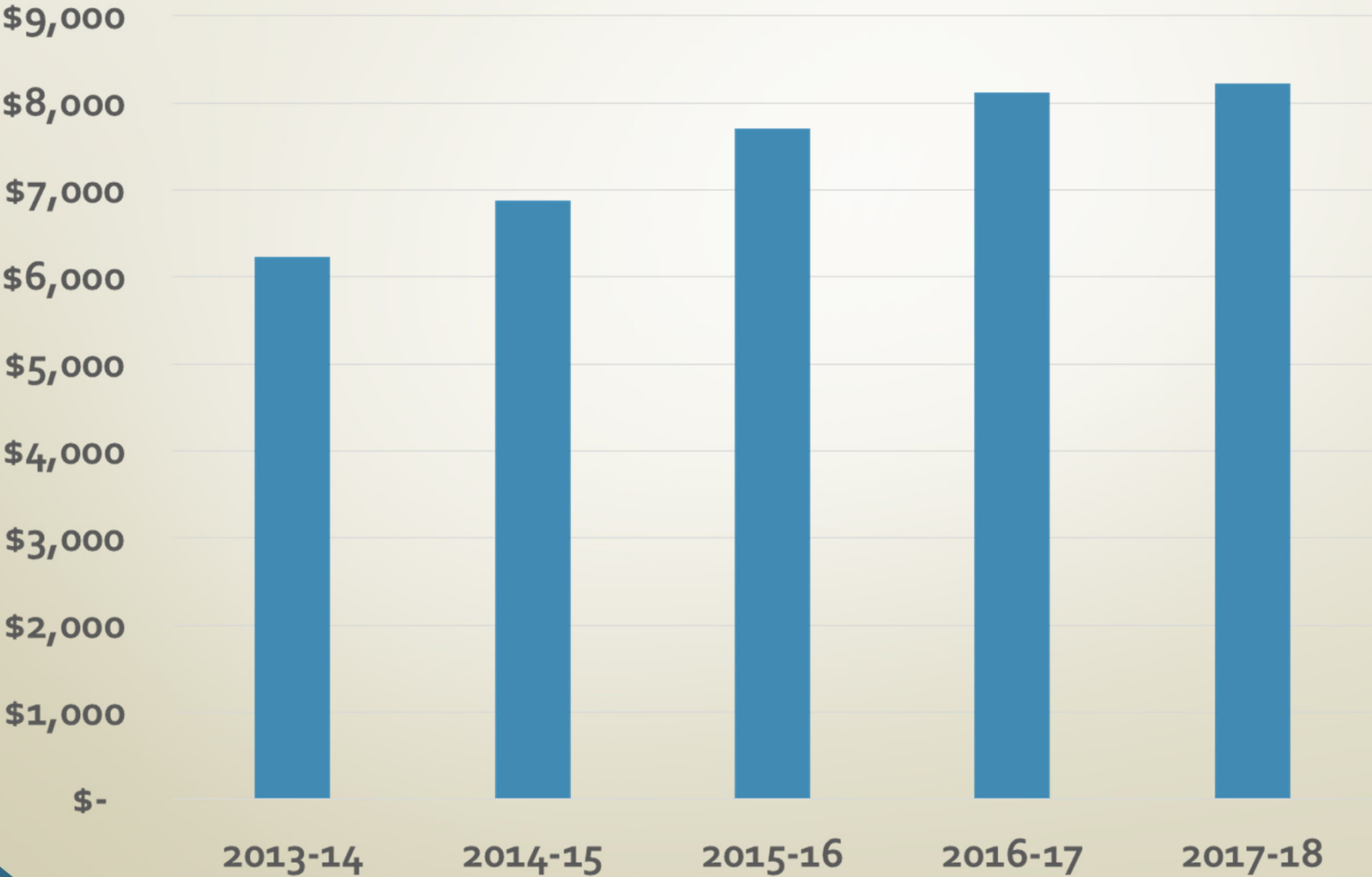
Multi-Year Projections

| | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> |
|---------------------------------|----------------|----------------|----------------|
| Funded ADA | 13,212 | 13,080 | 13,080 |
| Statutory COLA | 0.00% | 1.48% | 2.40% |
| Unduplicated Percent | 51.01% | 51.01% | 51.01% |
| LCFF Gap Funding Rate | 55.28% | 23.67% | 53.85% |
| Per ADA percent change LCFF-FSD | 5.35% | 1.38% | 3.5% |

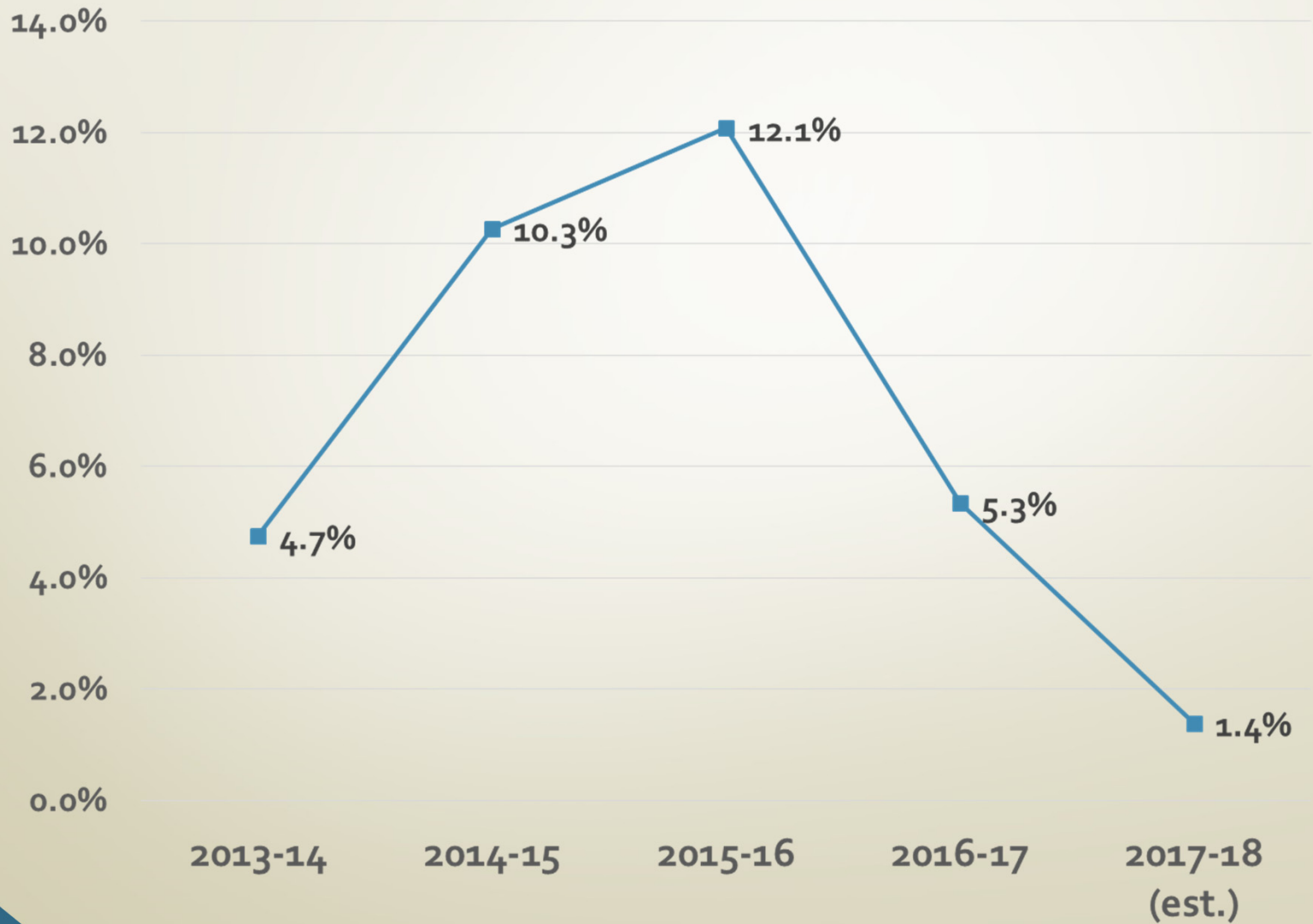
FSD P-2 ADA



FSD LCFF Per Pupil Funding



FSD LCFF Per Pupil Increase Percent



LCFF Target vs. LCFF Floor



■ Floor ■ CY Gap □ Remaining Need

LCFF Funding Sources



Local Revenue EPA State Aid

Multi-Year Projections – What's Included

- One-time revenues
 - \$634k unrestricted
- Employee compensation
 - 2% raise for CSEA and management
- STRS and PERS rate increases
- Health and welfare
- Ongoing Step & Column, inflationary increases

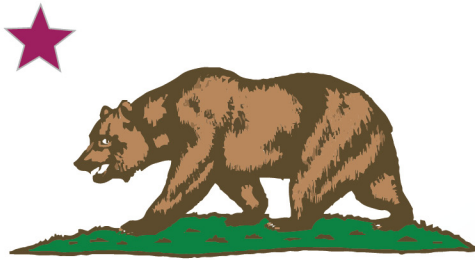


Multi-Year Projections – What's NOT Included

- Negotiations with FETA not completed (\$1.2 million each year)
- Any negotiated settlement for 2017-18
- Other discretionary/non-routine items

Projected Unrestricted Reserve – 3-year Projection

| FYE | 2017 | 2018 | 2019 |
|--|-----------|-----------|----------|
| | | | |
| Projected Unrestricted Gain/ (Loss) | (\$859 K) | (\$1.9 M) | (\$2.4M) |
| Projected Unrestricted Ending Fund Balance | \$30.3 M | \$28.7 M | \$26.2 M |
| Fund Balance Percent | 21.67% | 21.54% | 19.18% |



Unrestricted Fund Balance – Statewide Averages

F-8

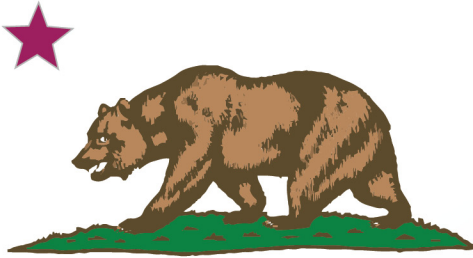
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| 2014-15 Average Unrestricted General Fund, Plus Fund 17, Net Ending Balances as a Percentage of Total General Fund Expenditures, Transfers, and Other Uses | | Change from Prior Year* |
|--|--------|-------------------------|
| Unified School Districts | 13.09% | -0.04% |
| Elementary School Districts | 18.96% | -2.17% |
| High School Districts | 14.86% | -1.96% |

Source: Statewide Certified Data

*Decrease relative to the reserve levels of 2013-14

- 2014-15 represents the third consecutive year of a decline in unrestricted fund balances



Cap on District Reserves

C-10

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- **The four conditions that could ultimately trigger the cap on district reserves are:**
 - **Fully pay outstanding Maintenance Factor of \$6.2 billion from 2014-15**
 - **Not met: \$543 million outstanding at the end of 2017-18**
 - **Proposition 98 funding based on Test 1**
 - **Not met: Funding based on Test 3 in 2017-18**
 - **Fully fund ADA growth/decline and statutory COLA**
 - **Met: ADA decline of 0.01% and statutory COLA of 1.48% fully funded**
 - **Capital gains tax revenues account for more than 8% of tax revenues**
 - **Met: Capital gains revenues account for 8.8% of tax revenues in 2017-18**
- **While the cap on district reserves will not be imposed in the near future, this remains a looming threat to district budgets and should be repealed or significantly amended**

District Certification

- The District shows above required 3% reserve as of June 30, 2019
- The District is certifying **“Positive”**
- A positive certification indicates that the District **will** be able to meet its financial obligations for the current and subsequent two fiscal years



Next Steps

- Second Interim Report filed with OCDE for review
- P-2 Attendance Report
- LCAP
- May Revise
- District Budget – June 6th AND 20th
- State Budget



QUESTIONS?

