



NEWHALL SCHOOL DISTRICT

Second Interim Budget Report FY-18/19

Budget Narrative and Assumptions

Prepared By

Business Services Division

March 12, 2019

Second Interim Budget Report - FY 18/19

NARRATIVE AND ASSUMPTIONS

PURPOSE

The Second Interim Budget Report is the second mandated review of the District's Financial Status during the fiscal year. This reporting period provides districts the opportunity to update their Adopted Budgets for actuals through January 31. Revenue projections are updated based on new award letters, enrollment changes and revenues received to date. Expenditure projections are updated for changes in staffing, step and column calculations, and other operating expense changes since the 1st Interim Budget. Districts present their Second Interim Budget Report to their Board of Education and then submit to the County Office of Education with either a Positive, Qualified, or Negative Certification. The District is filing a **Positive** Budget Certification for the Second Interim Budget Report.

This budget narrative and assumptions provides the Newhall School District with an infrastructure for preparing the proposed FY 2018-19 Second Interim Budget Report. The predominant influences in the assumptions are the State budget, information provided by the Los Angeles County Office of Education (LACOE) and internal documents such as the Local Control Accountability Plan (LCAP).

EXECUTIVE SUMMARY – CHANGES FROM FIRST INTERIM BUDGET

	First Interim	Second Interim	Difference
REVENUE	68,609,275	68,958,289	349,014
EXPENDITURES	72,813,625	73,665,700	852,075
Net Increase/Decrease in Fund Balance	(4,204,350)	(4,707,411)	(503,061)
Beginning Balance	10,321,968	10,321,968	0
Ending Balance, 6/30/19 (Proj.)	6,117,618	5,614,557	(503,061)
Non-spendable (Restricted, stores, etc.)	1,093,138	1,111,118	17,980
Assigned (Technology Refresh, etc.)	250,000	0	(250,000)
Reserve for Econ. Uncert. (6%)	4,368,817	4,419,942	51,125
Unassigned	405,663	83,497	(322,166)
<i>Total Available Reserves - By Dollars</i>	4,774,480	4,503,439	(271,041)
<i>Total Available Reserves - By Percentage</i>	6.56%	6.11%	-0.45%

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Major Changes to REVENUES (Since the First Interim Budget)

Description of Changes	Second Interim
LCFF Revenue Adjustments <i>(Update LCFF calculations– Enrollment Increase Adjustments)</i>	33,068
Federal Revenues Adjustments <i>(MAA Funding increase, budgeted as received, offset by Medi-Cal estimate decrease)</i>	-37,800
Other State Revenues: <i>(New: Low Performing Students Grant & Classified School Employees PD Grant; Update CELDT and STAR – recognized when received)</i>	193,087
Other Local Revenues Adjustments <i>(New: Arts & Education Grant Facilities Rental Income, Donations, Excess Costs, etc.)</i>	160,659
TOTALS (Net of Changes)	349,014

Major Changes to EXPENDITURES (Since the First Interim Budget)

Description of Changes	Second Interim
1000-Certificated Salaries <i>(Increase in Classroom costs and New Administrative Position)</i>	\$161,250
3000- Benefits <i>(Benefits follow salary adjustments, Prior Year H&W Reconciliation)</i>	\$61,528
5000- Services & Other Operating Expenses <i>(Conferences, repairs, field trips, service contracts, Special Ed. contracts etc.)</i>	\$75,875
7000-Other Financing Uses & Transfers Out <i>(Reinstate Fund 14 & 20 transfers)</i>	\$447,176
TOTALS (Net of changes)	\$852,075

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OVERALL ASSUMPTIONS

1. Enrollment projections for the **purpose of calculating State funding** are as follows:

Based on the Demographer's Report the District is projecting **an enrollment of 6,536 for FY 2018-19, an increase of 4 students from the 1st Interim Budget enrollment projection of 6,532.** The State funds school districts based on their Average Daily Attendance (ADA) rather than enrollment. The State will use the greater of a school district's prior year P2 ADA or current year projected P2 ADA. The District utilizes a historical average 97% attendance rate to project the ADA for the school year. This equates to a projected ADA of 6,339 for FY 2018-19. Since our FY 2018-19 projected ADA is higher than the FY 2017-18 P2 ADA, **our budget is based on 2018-19 P2 ADA, 6,339. An increase of only 3 from what was used at the First Interim Budget.**

2. Both site and staffing budget allocations are by formulas as follows:

Site budget formula = \$75 per enrolled student for LCFF Base funding.

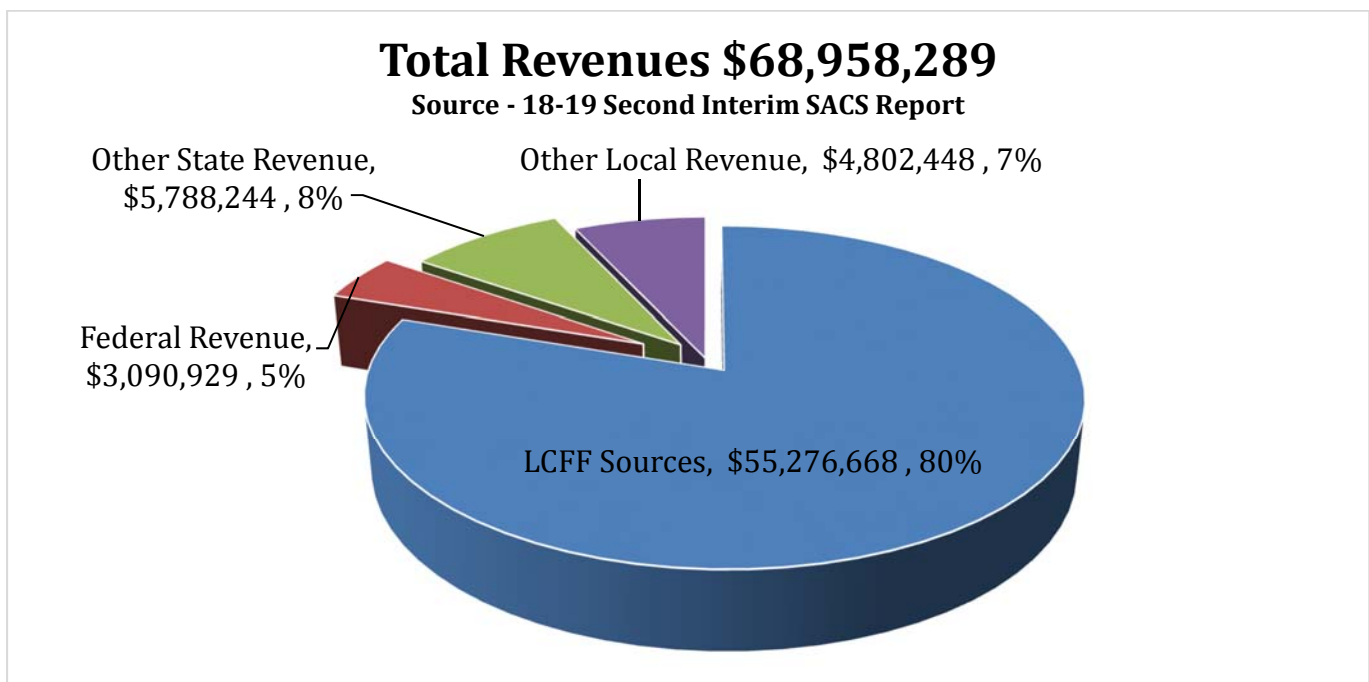
Staffing for teaching is based on:

- Transitional Kindergarten/Kindergarten – 3rd 24:1
- Grades 4, 5, 6 30:1

BEGINNING FUND BALANCE

3. At FY 18-19 Second Interim reporting period the General Fund Beginning Balance is \$10,321,968. **This is unchanged from the First Interim Budget.**

REVENUE



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LOCAL CONTROL FUNDING FORMULA

4. Local Control Funding Formula (LCFF) was originally projected to be implemented over an 8-year span. However, in FY 2018-19 the State Budget brought LCFF to full funding, two years earlier than projected. Therefore, the gap percentage in FY 2018-19 is 100%. Since LCFF is at full funding, only Cost of Living Adjustments (COLAs) will increase funding, unless the State increases the target funding levels in the future.

LCFF for FY 2018-19 is estimated to be an average of \$8,719 per ADA for Base and Supplemental grants. The Supplemental funding estimate is **\$4,482,010**. The Supplemental Grant is intended to be used for the improvement of, or increase in, services for English Language Learners, Economically Disadvantaged and Foster students (unduplicated pupils). The improvement of, and increase in services must be greater than the 2017-18 year. Staff will be tracking use of the funding based on the District's Local Control Accountability Plan (LCAP).

The LCAP has been revised to encompass the 2017-18 through 2019-20 years. This plan describes the District's use of funding that addresses state and local priorities. This plan also describes how the Supplemental Grant funding will be used to improve or increase services for the unduplicated eligible pupils.

STATE REVENUE

5. The District has state funding, outside of the LCFF, for After School Education & Safety Program (ASES), Special Education, Lottery, and Mandated Cost Reimbursement through the Mandate Block Grant.

- ASES funding remains at \$240,295 in the 2018-19 year.
- Special Education funding received a 2.71% cost of living adjustment (COLA) on state funding. The **Second Interim Budget** estimate is **\$3,315,937** based on current Special Education Local Plan Area (SELPA) calculations. **This is a decrease of \$44,814.**
- Lottery funding is estimated at \$204 per ADA multiplied by a factor of 1.04446. The Second Interim Budget estimate is \$1,459,355. **This is the same as the First Interim Budget estimate.**
- Mandated Costs Reimbursement is received through the Mandated Block Grant with funding of \$31.16 per ADA. **The Second Interim Budget estimate is \$197,212, which is the same as the First Interim Budget.**
- One Time Mandated Costs Reimbursement is included in the **Second Interim Budget estimate of \$1,164,724 (\$184) per ADA is the same as the First Interim Budget.**

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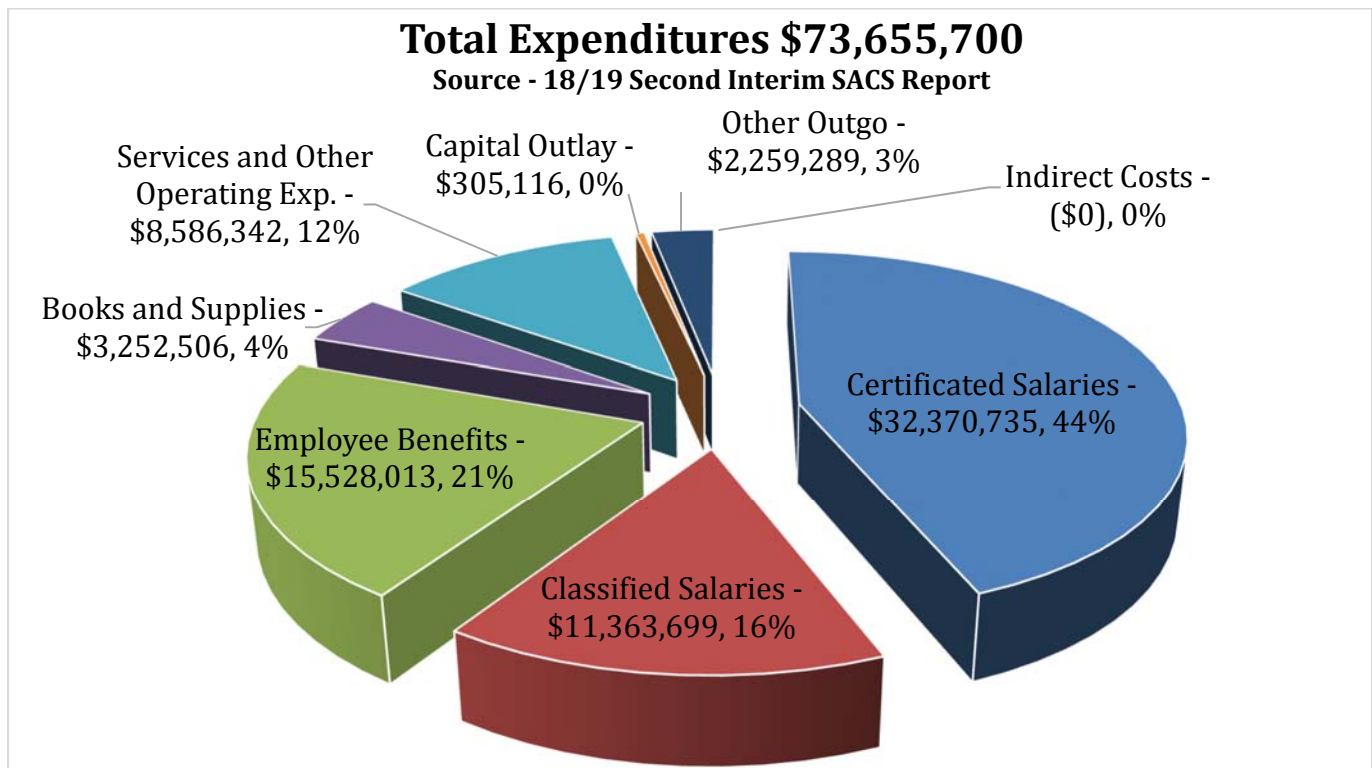
FEDERAL REVENUE

6. The Federal Revenue estimates are adjusted as shown below:

<u>Funding Source</u>	<u>1st Interim</u>	<u>2nd Interim</u>	<u>Change</u>
Title I	\$974,421	\$974,421	\$0
IDEA Local Assistance	\$1,076,912	\$1,076,912	\$0
IDEA Local Assist – Private Schools	\$2,265	\$2,265	\$0
IDEA Federal Preschool	\$51,139	\$51,139	\$0
IDEA Preschool Staff Dev	\$590	\$590	\$0
Title II	\$320,228	\$320,228	\$0
Title III	\$334,788	\$334,788	\$0
Title IV	\$56,321	\$56,321	\$0
Medi-Cal	\$225,000	\$165,000	(\$60,000)

The Title I, Title II, Title III, and Title IV budgets are based on award letters received and also include funding deferred from the 2017-18 fiscal year. The IDEA budgets are based on estimates from the SCV SELPA. The Medi-Cal budget is based on estimated receipts in the 2018-19 year, **which has declined. All other estimates are based on current year awards adjusted for enrollment.**

EXPENDITURES



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PROJECTED ENDING FUND BALANCE

7. At FY 18-19 Second Interim reporting period the General Fund Ending Balance is projected to be \$5,614,557. **This is a decrease of \$503,061 from the First Interim Budget.**

SALARIES

8. As of the Second Interim Budget salaries for FY 2018-19 have not changed significantly from the First Interim Budget. The major change was in First Interim due to 2017-18 negotiations settlements being finalized in FY 2018-19 (2% on schedule and 2% off schedule). Salary estimates include one new position for a BCBA position, not yet filled. **Negotiations for FY 18-19 have not been completed.**

Based on updated FY 2018-19 salary projections, the value of a 1% increase for all employees would be **\$488,769.**

STEP & COLUMN

9. Step and Column increases reflect longevity of employment and can vary from year to year. As shown in the table below. **The FY 2018-19 Second Interim Budget estimate is \$764,074, equivalent to a 1.56% salary increase for all employees.**

<u>Step and Column History</u>		<u>% of Increase</u>
2014-15	\$643,321	1.71%
2015-16	\$854,035	1.38%
2016-17	\$764,413	2.16%
2017-18	\$661,690	2.16%
2018-19 estimate	\$764,074	1.56%

STATUTORY BENEFITS

10. Statutory benefit rates are budgeted as follows:

STRS	16.28% (was 14.43% in 2017-18)
PERS	18.062% (was 15.531% in 2017-18)
OASDI	6.20%
Medicare	1.45%
Workers Comp	1.869%
Unemployment	0.05%

STRS and PERS benefits are projected to increase each year. The State Budget for FY2018-19 shows these percentages for STRS and PERS:

	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
STRS	16.28%	18.13%*	19.1%*
PERS	18.1%	20.8%	23.5%

* - The Governor's Budget proposal included an estimated 1% reduction in STRS employer rates. LACOE has advised districts to either include the reduction along with a contingency

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plan or not include the reduction in their Second Interim Budget. NSD has chosen to not include the proposed reduction in STRS at the Second Interim Budget.

11. GASB 68/85 states the district must include STRS On-Behalf Pension Contribution estimates in the district financials. The current income estimate is \$2,490,571 to be included in the budget. This is offset by an equal amount of expenditure of \$2,490,571 included in the budget.

HEALTH BENEFITS

12. ACTIVE EMPLOYEES

The health insurance premium “cap” currently negotiated is \$8,054 per year for full time employees who are covered by employee representative master agreements. For FY 2018-19, all budgets continue to reflect this “cap” for employees covered by collective bargaining agreements (Newhall Teachers Association and Newhall Educational Support Personnel).

Based on current employee enrollment information, health benefit costs up to the District cap level in FY 2018-19 are projected to be **\$3,118,621**. **This estimate is \$151,669 higher than the estimate in the First Interim Budget, and is based on actual enrollment in health benefit plans.**

It should be noted that employee health benefits are negotiable. Actual health premium projections are based on projected premium rates and current employees eligible to receive health benefit plans.

The health insurance premium for management and confidential employees is based on a 3-tier cap. All employees in these classifications contribute out of pocket to benefit costs that exceed the cap. The District does not pay for premium cost increases above the cap.

RETIREEES

The District estimate for providing retiree health benefits at the **FY 2018-19 Second Interim is \$377,850**. **This is an increase of \$625 from the First Interim Budget.** The estimate is based on projected retiree enrollment in health benefit plans information.

NSD Cost - Retiree Health Benefits History

2014-15	\$277,916
2015-16	\$318,467
2016-17	\$374,978
2017-18	\$369,431
2018-19 estimate	\$377,850 (based on actuarial report, 6/30/2018)

NEGOTIATIONS

13. Negotiations for FY 2018-19 are not yet completed. As a result, the MYP at Second Interim does not include the cost of any settlements, which would increase expenditures in the future.

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SPECIAL EDUCATION

14. Special education expenditure budgets will be reduced where possible, however special education budgets are developed based on the needs of the students and therefore cannot be reduced to match revenue. Below is a historical table of the General Fund Special Education Contribution. **The Second Interim Budget estimate is \$7,895,984, which is a \$311,231 increase from First Interim.**

<u>Special Education Contribution</u>		<u>% of General Fund</u>
2014-15	\$3,622,164	6.6%
2015-16	\$4,822,022	7.5%
2016-17	\$5,465,602	8.5%
2017-18	\$6,669,821	10.2%
2018-19	\$7,895,984	11.5%

The increase is primarily due to:

1. **Additional staffing costs \$148,478,**
2. **Additional contract costs \$162,753.**

PRESCHOOL

15. The General Fund continues to contribute to the District preschool. The General Fund Contribution at **Second Interim Budget is \$79,257, a decrease of \$17,824 from First Interim. This is due to increased tuition revenue received.**

<u>Preschool General Fund Contribution</u>	
2014-15	\$53,618
2015-16	\$42,000
2016-17	\$142,695
2017-18	\$25,500
2018-19 estimate	\$79,257

PROPERTY & LIABILITY INSURANCE

16. The FY 2018-19 Property and Liability insurance premiums are based on actual costs of \$373,668.

UTILITIES

17. **The Second Interim Budget estimate is \$1,610,003, which represents an increase of \$89,444 from First Interim.**

<u>Utility Costs</u>	
2014-15	\$1,435,058
2015-16	\$1,629,040
2016-17	\$1,568,654
2017-18	\$1,657,135
2018-19 estimate	\$1,610,003

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LONG TERM DEBT

18. The District entered into a long-term energy savings contract in 2014-15 for energy efficiency projects. A capital lease was issued in March 2015 to cover the cost of the improvements needed to realize energy savings.

TRANSPORTATION

19. Transportation costs were projected in the FY 2018-19 First Interim Budget to be \$1,603,168. **The Second Interim Budget estimate is \$1,716,668, which is an increase of \$113,500 from First Interim.**

<u>Transportation</u>	<u>Expenditures</u>	<u>General Fund Contribution</u>
2014-15	\$1,589,873	\$1,362,758
2015-16	\$1,522,044	\$1,434,371
2016-17	\$1,547,247	\$1,387,961
2017-18	\$1,574,243	\$1,414,957
2018-19 estimated	\$1,716,668	\$1,557,382

Transportation funding has not changed since 2008-09. The funding is unrestricted and part of the LCFF but the district must use this funding for Transportation purposes.

DEFERRED MAINTENANCE (Fund 14)

20. This funding has been rolled into the LCFF funding plan beginning with the 2013-14 year and is no longer separately funded. Transfers to Fund 14.0 are needed to be able to properly maintain school facilities. **The FY 2018-19 Second Interim Budget includes an estimate of \$265,000 for this transfer.**

LEGAL FEES

21. **The Second Interim Budget estimate is \$425,000, which is a \$5,000 increase from First Interim. This increase is due to an expected increase in district litigation costs.**

<u>Legal Fees History</u>	
2014-15	\$188,577
2015-16	\$244,924
2016-17	\$231,398
2017-18	\$220,973
2018-19 estimated	\$425,000

INDIRECT COSTS

22. Inter-program indirect costs will be calculated at the maximum allowable rate per program. The District approved indirect cost rate for FY 2018-19 is 6.81%.

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FOOD SERVICES

23. The Newhall School District is a member of the Santa Clarita Valley School Food Services Agency (SCVSFSA), which provides meals to all schools in the Newhall School District, Castaic Union School District, Saugus Union School District and Sulphur Springs School District.

The SCVSFSA reimburses member districts a portion of “direct costs” associated with food service operations at each school. Direct costs include utilities, waste disposal, custodial, supervision, supplies and other related costs. The First Interim Budget estimate for FY 2018-19, the SCVSFSA projected a reimbursement to the district of \$102,340. **This estimate is the same in the Second Interim Budget.**

LACOE SERVICES

24. Based on preliminary information from LACOE, staff will budget **\$141,850** for services in the FY 2018-19 **Second Interim Budget**. The services provided by LACOE include Information Systems, Accounting, Payroll and Budget. Included in the amount above is an additional payment of **\$74,814** for a new accounting system (BEST). This additional payment will be made for five years, starting with the 2017-18 fiscal year. The District will be paying for both accounting systems during the five-year implementation period.

THEFT and VANDALISM

25. **\$10,000 is included in the FY 2018-19 Second Interim Budget** for site loss due to theft and vandalism. There is no change from the First Interim Budget. Actual costs were \$4,379 in FY 2017-18, \$6,814 in FY 2016-17, \$9,178 in FY 2015-16.

TRANSFERS OUT

26. The transfers out are budgeted as shown in the detail below:

	<u>2018-19 First Interim</u>	<u>2018-19 Second Interim</u>
State Preschool	\$0	\$0
District Preschools	\$97,081	\$79,257
Deferred Maintenance (Fund 14)	\$0	\$265,000
Spec. Res. Retiree Benefits (Fund 20)	\$0	\$200,000
Spec. Res. Capital Outlay	\$0	\$0

RESERVE FOR ECONOMIC UNCERTAINTIES

27. The Governing Board has adopted a Reserve for Economic Uncertainty policy that calls for a reserve of 6% plus an additional reserve amount for declining enrollment. The **Second Interim Budget** reflects a reserve of **6.11%** for FY 2018-19, **6.59%** for FY 2019-20, and **6.28%** for FY 2020-21 (assumes COLA of **3.46%** is funded in FY 2019-20, and **2.68%** is funded in FY 2020-21). Beginning with the 2015-16 Adopted Budget the District must describe the amount of unassigned and assigned fund balances in excess of the state minimum reserve of 3% and how the excess will be used. The District's excess reserve

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(greater than 3%) will be used to maintain positive cash flow and to ensure funding for more teachers if a decline in enrollment does not materialize.

ROUTINE REPAIR & RESTRICTED MAINTENANCE

28. For 2018-19 through 2020-21 years, the District is required to use 3% of the General Fund expenditures. **The FY 2018-19 Second Interim Budget 3% estimate is \$2,206,014, an increase of \$21,605 from First Interim Budget.**

MULTI-YEAR PROJECTION (MYP)

29. The District is required as part of the Second Interim Budget to include a multi-year budget projection that includes the current budget year plus the next two fiscal years (out years).

The Multi-Year Projections are built using the latest information from a variety of sources such as the School Services of California, Los Angeles County Office of Education, California Department of Education and other Newhall School District planning documents such as the Local Control Accountability Plan. Revenues are based mainly on Average Daily Attendance and are adjusted for projected Cost of Living Adjustments (COLA). **The District is still projected to be in a declining enrollment state, which limits the amount of new revenue.** Enrollment projections have been updated in the Second Interim Budget Report with data from our February 2019 Demographer's report.

Expenditure projections for out years are based on a variety of factors including enrollment levels and Consumer Price Index (CPI) changes. Staffing and salary projections are based on enrollment levels and have been decreased accordingly due to the projected declining enrollment. Step and Column increase projections are included. STRS and PERS cost increases are included in the FY 2019-20 and FY 2020-21 projections. **Staff is using STRS rates approved by LACOE for FY 2019-20 and 2020-21.** Supplies and other operating budgets have also been adjusted based on declining enrollment and changing CPI rates.

The Ending Fund Balance decreases reflected in the multi-year projections are a result of employee salary and related benefit (STRS/PERS) cost increases, additional personnel hired in FY 2018-19 and the increasing cost of Special Education. The unassigned available fund balance percentages in FY 2018-19, FY 2019-20 and FY 2020-21 are **6.11%, 6.59% and 6.28%, respectively.**

In viewing the Multi-Year Projections, an important consideration is that the data is always changing and the projections represent only a snapshot in time, (January 31, 2019).

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First Interim FY 18/19 Multi-Year Projection (MYP)

	FY 18/19	FY 19/20	FY 20/21
REVENUE	68,958,289	69,311,571	70,049,935
EXPENDITURES	73,665,700	69,574,805	70,296,712
Net Increase/Decrease in Fund Balance	(4,707,411)	(263,234)	(246,777)
Beginning Balance	10,321,968	5,614,557	5,351,323
Ending Balance, 6/30 (Proj.)	5,614,557	5,351,323	5,104,546
COMPONENTS OF ENDING BALANCE			
Non-spendable (Restricted, Stores, etc.)	1,111,118	767,258	689,260
Assigned (Technology)	0	0	0
Reserve for Econ. Uncert. (6%)	4,419,942	4,536,008	4,217,803
Unassigned	83,497	48,058	197,483
Total Available Reserves - By Dollars	4,503,439	4,584,066	4,415,286
Total Available Reserves - By Percentage	6.11%	6.59%	6.28%

Final Thoughts

The above assumptions provide the infrastructure for preparing the proposed FY 2018-19 Second Interim Budget Report. The predominant influences in the assumptions are actual expenditure and revenue information through January 31, 2019, the State budget, information provided by LACOE and internal documents such as the LCAP. Revenues have been updated with actual enrollment data, Federal revenues and award letters received. Expenditures have been updated for actual staffing changes, program expenditures, and the priorities for spending contained in the District's Local Control Accountability Plan. The District is filing a **Positive** Budget Certification for the Second Interim Budget Report period.