



NEWHALL SCHOOL DISTRICT

First Interim Budget Report FY-17/18

Budget Narrative and Assumptions

Prepared By

Business Services Division

First Interim Budget Report - FY 17/18

NARRATIVE AND ASSUMPTIONS

PURPOSE

This budget narrative and assumptions provides the District with an infrastructure for preparing the proposed 2017-18 1st Interim Budget Report. The predominant influences in the assumptions are the State budget and information provided by the Los Angeles County Office of Education (LACOE). The District is filing a **Positive** Budget Certification for the 1st Interim Budget Report.

EXECUTIVE SUMMARY – CHANGES FROM 45 DAY REVISION

	45 Day Revision	1st Interim	Difference
Revenues	65,070,467	65,429,564	359,097
Expenditures	65,346,314	66,877,812	1,531,498
Net Increase /Decrease in Fund Balance	(275,847)	(1,448,248)	(1,172,401)
Beginning Balance	9,698,895	10,070,745	371,850
Ending Balance, 6/30/ (Projected)	9,423,048	8,622,497	(800,551)
COMPONENTS OF ENDING BALANCE			0
Non-spendable (Restricted, Stores, etc.)	429,360	667,166	237,806
Assigned (Extra-Ordinary Legal Costs)	151,249	40,000	(111,249)
Reserve for Econ. Uncertainty (6%)	3,919,609	4,554,949	635,340
Unassigned	4,922,830	3,360,382	(1,562,448)
Total Available Reserves - By Dollars	8,842,439	7,915,331	(927,108)
Total Available Reserves - By Percentage	13.53%	11.83%	-1.70%

Major Changes to REVENUES (Since the 45 Days Budget Revision)

Description of Changes	1 st . Interim
LCFF Revenue Adjustments <i>(update LCFF calculators)</i>	69,412
Federal Revenues Adjustments <i>(Title I C/O is about 62% of total; and other Title Program Carryovers, Medi-Cal)</i> <i>(We project at Budget Development and adjust for actuals throughout the year)</i>	594,295
Other State Revenues: Update Miscellaneous Allocations	1,057
Other Local Revenues Adjustments <i>(Facilities Rental Income, Interest Income, donations, etc.)</i>	(305,667)
TOTALS (Net of Changes)	359,097

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Major Changes to EXPENDITURES (Since the 45 Days Revision)

Description of Changes	1 st . Interim
1000- Certificated Salaries (filling vacancies, new positions, salary schedule placements, training)	\$145,532
2000- Classified Salaries (new positions -3 new BSS, SDC aides and Carryover dollars)	\$192,704
3000- Benefits (benefit increases follow salary increases)	\$64,812
4000- Books, Material & Supplies (Includes 16/17 Carryovers (74%), training, software licenses, etc.)	\$551,098
5000- Services & Other Operating Expenses (C/O of \$397K or 48%), (SPED Contracts & NPA & Speech= 42%)	\$809,359
6000- Capital Outlay – (site improvement projects)	\$30,097
7000- Other Financing Uses & Transfers Out (Capital Use- Energy Projects)	(\$262,104)
TOTALS (Net of changes)	\$1,531,498

OVERALL ASSUMPTIONS

- Enrollment projections for the purpose of calculating state funding are as follows:

The District is projecting a decrease of 177 students from the 2017-18 Adopted Budget. At the Adopted Budget the district projected a 140 student decrease for 2017-18. The total decrease for the 2017-18 year is projected at 177.

Utilizing a 97% attendance rate, this equates to a decrease of 172 ADA (funded attendance of 6,369 ADA). In declining years, the State funds either a school district's prior year P2 ADA (6,501) or budget year projected P2 ADA (6,369).

Since our 2017-18 projected ADA is lower than the 2016-17 P2 ADA, our budget is based on 6,501 P2 ADA.

Enrollment at 16/17 P2	6,702
Projected Enrollment, 17/18	6,525
Decrease in Enrollment from 16/17	177
Budgeted Attendance Rate, 16-17	97%
Projected ADA, 17/18	6,329
P2 ADA, 16/17	6,501
Budgeted ADA for 17/18	6,501

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

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

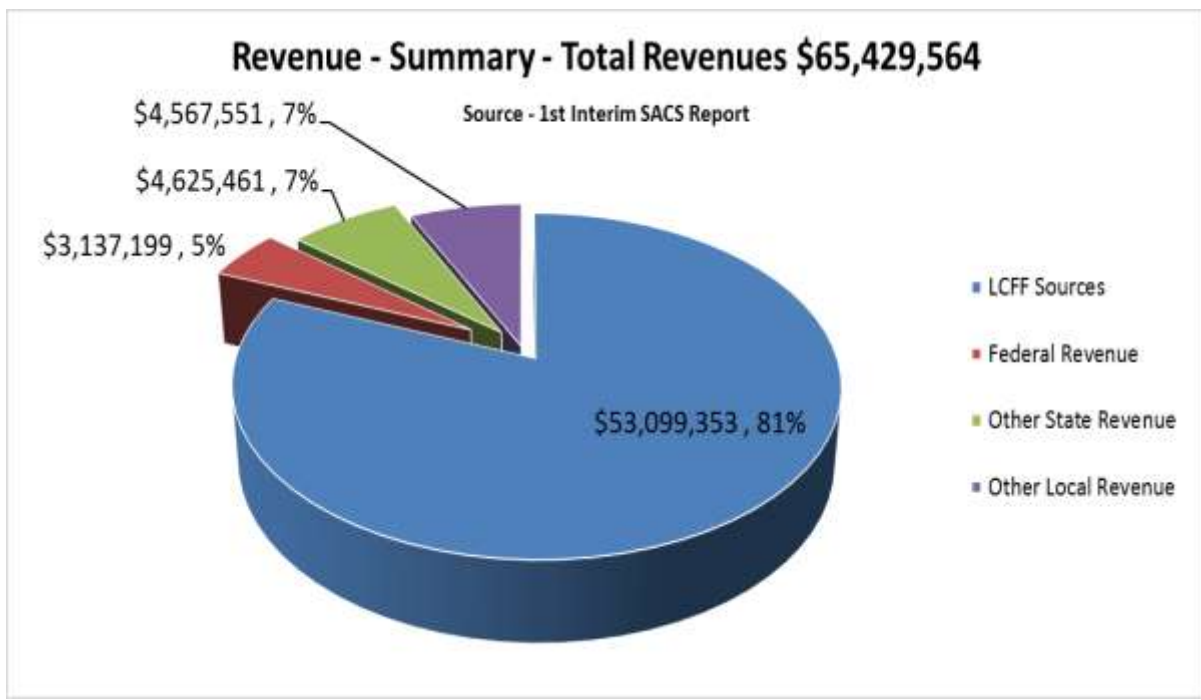
Staffing for teaching is based on:

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

FUND BALANCE

3. The General Fund Beginning balance for the 2017-18 fiscal year is **\$10,070,745**. This is an increase of **\$371,850** from the Adopted Budget. This increase is due to more Unrestricted budgets spending of **\$74,759** offset by less Restricted budgets spending of **\$446,609** than what was budgeted in the 2016-17 fiscal year.

REVENUE



LOCAL CONTROL FUNDING FORMULA

4. The Local Control Funding Formula (LCFF) is in the fifth year of implementation with full funding to state target levels anticipated by 2020-21. Each year the state legislature will determine what increased level of funding is available to fund the gap between current funding and full implementation in 2020-21. In 2015-16 and 2016-17, the gap percentages funded were 52.2% and 55.03%, respectively. The

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The Adopted Budget for 2017-18 shows an estimate for the gap percentage at **43.19%**. The current Department of Finance (DOF) percentage estimates for 2018-19 and 2019-20 are **66.12%** and **64.92%**, respectively.

LCFF for 2017-18 is estimated to be **\$8,168** per ADA for Base and Supplemental grants. The Supplemental funding estimate is **\$4,130,807**. 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 count pupils). The improvement of and increase in services must be greater than the 2016-17 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, Mandated Cost Reimbursement through the Mandate Block Grant.

- **ASES funding has increased to \$240,295 in the 2017-18 year. This is an increase of \$20,245 from the Adopted Budget estimate of \$220,050.**

- Special Education funding is estimated to receive a 1.56% cost of living adjustment (COLA) on state funding. The **1st Interim Budget** estimate is **\$3,428,224** based on current Special Education Local Plan Area (SELPA) calculations. **The estimate in the Adopted Budget was \$3,794,590.** Starting with the 2017-18 year the SELPA is using a different calculation agreed upon by the districts. **This results in an decrease of funding of \$366,366** for the 2017/18 school year.

- Lottery funding is estimated at **\$194** per ADA multiplied by a factor of 1.04446. **The 1st Interim Budget estimate is \$1,371,703. This is an increase of \$30,345 from the Adopted Budget estimate of \$1,341,358.**

- Mandated Costs Reimbursement is received through the Mandated Block Grant with funding of **\$30.34** per ADA. **The 1st Interim Budget estimate is \$197,240. The Adopted Budget estimate was \$183,929 based on \$28 per ADA.**

- One Time Mandated Costs Reimbursement is included in the **1st Interim Budget with an estimate of \$955,647, \$147 per ADA. The Adopted Budget did not include an estimate of this funding because its receipt was uncertain for the 2017-18 fiscal year.**

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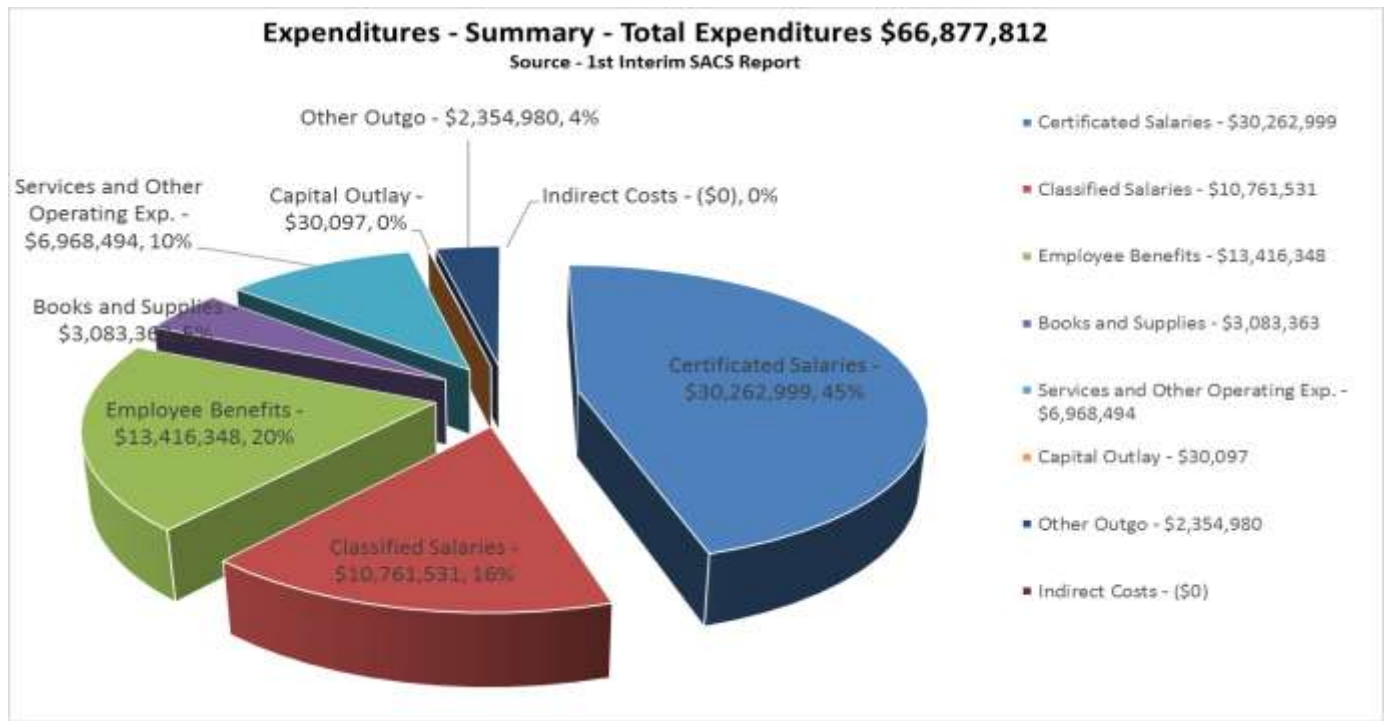
FEDERAL REVENUE

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

<u>Funding Source</u>	<u>Adopted Budget</u>	<u>1st Interim Budget</u>	<u>Change</u>
Title I	\$871,391	\$1,224,245	\$352,854
IDEA Local Assistance	\$924,056	\$ 924,056	\$ 0
IDEA Loc.Assist-Priv Schools	\$ 3,525	\$ 3,525	\$ 0
IDEA Federal Preschool	\$ 49,983	\$ 49,983	\$ 0
IDEA Preschool Local	\$189,300	\$ 189,300	\$ 0
IDEA Preschool Staff Dev	\$ 512	\$ 512	\$ 0
Title II	\$107,243	\$ 176,677	\$ 69,434
Title III	\$171,894	\$ 343,901	\$172,007
Medi-Cal	\$225,000	\$ 225,000	\$ 0

The Title I, Title II and Title III budgets have been updated based on award letters received and also include funding deferred from the 2016-17 fiscal year. The IDEA budgets are based on estimates from the SCV SELPA. The Medi-Cal budget is based on estimated receipts in the 2017-18 year. All other estimates are based on prior year awards adjusted for decrease in enrollment.

EXPENDITURES



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Increase/Decrease in Fund Balance

7. The 2017-18 Adopted Budget projected a fund balance decrease (revenue less expenditures) of \$270,873. **The fund balance is decreased by \$1,448,248 in the 1st Interim Budget to \$8,622,497.** The multi-year projection indicates a fund balance **decrease of \$893,280** in 2018-19 and a fund balance **decrease of \$948,740** in 2019-20. The 2018-19 and 2019-20 fiscal year projections include increases in Supplemental Expenses for additional costs included in the budget due to the increase in LCFF Supplemental funding.

The fund balance increases/decreases reflected in the multi-year projections are a result of employee salary and related benefit (STRS/PERS) cost increases. The budgets for the 2018-19 and 2019-20 years are built with the assumption that additional LCFF funding will be received. The multi-year Reserve for Economic Uncertainties percentages are **6.81% for 2017-18; 7.1% for 2018-19 and 6.57% for 2019-20.** In addition the district has unassigned available fund balance percentages of **5.02% for 2017-18, 3.5% for 2018-19 and 3.02% for 2019-20.**

SALARIES

8. All salaries have decreased over the prior year, reflecting the 2% bonus paid in 2016-17 that is not an ongoing expense. Less staff is projected for the expected decline in enrollment. **Certificated staff has increased for an additional SDC class, but decreased for less SLP teachers, and two Intervention teachers. Classified staff has increased for a Theater Manager and additional Behavioral Support Supervisors.**

STEP & COLUMN

9. Based on updated 2017-18 salary projections, the value of a 1% increase for all employees would be **\$464,963.** Step and column raises for 2016-17 totaled \$764,413 which was equivalent to a 2.16% for all employees. The estimate for step and column in the 2017-18 Adopted Budget was \$880,425, 1.85% for all employees. **The 2017-18 1st Interim Budget estimate is \$828,549, representing a 1.78% salary increase for all employees.** Salary increases reflect longevity of employment and can vary from year to year.

Step and Column History

2013-14	\$728,216
2014-15	\$643,321
2015-16	\$854,035
2016-17	\$764,413
2017-18 estimate	\$828,549

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STATUTORY BENEFITS

10. Statutory benefit rates are budgeted as follows:

STRS	14.43% (was 12.58% in 2016-17)
PERS	15.531% (was 13.888% in 2016-17)
OASDI	6.20%
Medicare	1.45%
Workers Comp	1.915%
Unemployment	0.05%

STRS and PERS benefits are projected to increase each year. The State Budget for 2017-18 shows these percentages for STRS and PERS:

	<u>Actual 2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
STRS	12.58%	14.43%	16.28%	18.13
PERS	13.888%	15.531%	18.1%	20.8

11. GASB 68 states the district must include STRS On-Half Pension Contribution estimates in the district financials. The current income estimate is \$1,818,643 to be included in the budget. This is off-set by an equal amount of expenditure of \$1,818,643 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 2017-18 all budgets continue to reflect this “cap” for employees covered by collective bargaining agreements (Newhall Teachers Association and Newhall Educational Support Personnel).

Health, dental and vision premium increases are not yet known for the 2018 calendar year and will take effect on January 1, 2018.

Based on current employee enrollment information, health benefit costs up to the District cap level in 2017-18 are projected to be **\$3,451,794**.

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.

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RETIREES

The District estimate for providing retiree health benefits in the 2017-18 Adopted Budget was \$373,700. **There is no change in the 1st Interim Budget.** The estimate is based on projected retiree enrollment in health benefit plans information, including additional retirees for the 2017-18 year.

NSD Cost - Retiree Health Benefits History

2013-14	\$318,200
2014-15	\$277,916
2015-16	\$318,467
2016-17	\$374,978
2017-18 estimate	\$373,700

NEGOTIATIONS

13. Negotiations have not been settled for 2017-18 with the Newhall Teachers Association (NTA) and Newhall Educational Support Personnel (NESP).

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. **The 1st Interim Budget contribution estimate is \$6,313,473, which is an \$883,724 increase. The increase is made of: additional classroom staff costs \$96,932, additional contract costs \$348,216, and less AB602 funding of \$438,585.**

Special Education Contribution

2013-14	\$3,806,699
2014-15	\$3,622,164
2015-16	\$4,822,022
2016-17	\$5,465,602
2017-18 estimate	\$6,313,473

PRESCHOOL

15. The District preschool programs continue to encroach into the General Fund. The estimated shortage included in the 2017-18 Adopted Budget was \$53,043. The 1st Interim Budget estimate is **\$25,500. There is a decrease due to less Special Education students being served in the district preschool programs.**

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Preschool Encroachment

2013-14	\$104,998
2014-15	\$53,618
2015-16	\$42,000
2016-17	\$142,695
2017-18 estimate	\$25,500

PROPERTY & LIABILITY INSURANCE

16. The property and liability insurance premiums **were** estimated to be \$348,988 in the 2017-18 Adopted Budget. **The updated estimate is \$349,842 in the 1st Interim Budget, an increase of \$854.**

UTILITIES

17. The District included the following utility increases in the 2017-18 Adopted Budget for utilities based on current staff inquiries of utility companies:

Natural Gas	0%
Electricity	1.8%
Water	9%
Waste Disposal	1.6%
Telecommunications	0%
Gas / Diesel	0%

The 2017-18 Adopted Budget estimate was \$1,443,689. **The 1st Interim Budget estimate is \$1,503,018, net of expected energy savings of \$238,361, and with other utility estimate increases of \$59,329. The 2016-17 actual utility costs were \$1,568,654, and in 2015-16 were \$1,629,040.**

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. The capital lease will be paid using utility cost savings in the 2017-18 fiscal year.

TRANSPORTATION

19. Transportation costs for 2017-18 were projected in the 2017-18 Adopted budget at \$1,603,168. **This estimate has not changed in the 1st Interim Budget.**

Transportation

Expenditures

Encroachment/Underfunding

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2013-14	\$1,595,475	\$1,436,189
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 estimate	\$1,603,168	\$1,443,882

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

20. This funding has been rolled into the LCFF funding plan beginning with the 2013-14 year and is no longer separately funded. The District continues to budget a transfer to the Deferred Maintenance Fund of \$265,000 in the 2017-18 Adopted Budget. **This transfer amount is the same in the 1st Interim Budget.** Transfers are needed to be able to properly maintain school facilities.

LEGAL FEES

21. Legal fees were budgeted at \$246,000 in the 2017-18 Adopted Budget. **Legal fees estimate in 1st Interim Budget is \$254,000. Legal fees paid in 2016-17 were \$231,398,** in 2015-16 were \$244,924, and in 2014-15 were \$188,577.

INDIRECT COSTS

22. Inter-program indirect costs will be calculated at the maximum allowable rate per program. The District approved indirect cost rate for 2017-18 is 8.25%.

FOOD SERVICES

23. The Newhall School District is a member of the Santa Clarita Valley School Food Services Agency (SCVSFSA), which provides breakfast and lunch 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 Adopted Budget estimate for the 2017-2018 fiscal year, the SCVSFSA projected a reimbursement to the district, of \$116,960. **This budget estimate has decreased to \$108,644 in the 1st Interim Budget.**

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LACOE SERVICES

24. Based on preliminary information from LACOE, staff, will budget \$137,148 for services in the 2017-18 Adopted Budget. **This estimate has not changed in the 1st 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. 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 was included in the 2017-18 Adopted Budget for site loss due to theft and vandalism. **There is no change in the 1st Interim Budget.** Actual costs were \$6,814 in 2016-17, \$9,178 in 2015-16 and \$11,690 in 2014-15.

TRANSFERS OUT

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

	<u>2017-18 Adopted</u>	<u>2017-18 1st Interim</u>
State Preschool	\$25,500	\$0
District Preschools	\$27,543	\$25,500
Deferred Maintenance	\$265,000	\$265,000
Spec. Res. Capital Outlay	\$0	\$789,840

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 **1st Interim Budget** reflects a reserve of **6.81%** for the 2017-18 fiscal year, **7.1%** for the 2018-19 fiscal year and **6.57%** for the 2019-20 fiscal year (assumes COLA of 1.56% is funded in 2017-18, 2.15% is funded in 2018-19 2.35% is funded in 2019-20, and additional LCFF funds will be received in 2018-19 and 2019-20.) 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 (greater than 3%) will be used to maintain positive cash flow and to ensure funding for more teachers if a decline in enrollment doesn't materialize.

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ROUTINE REPAIR & RESTRICTED MAINTENANCE

28. For the 2017-18 through 2019-20 years, the District is required to use 3% of the general fund expenditures. The 2017-18 Adopted Budget 3% estimate was \$1,934,028. The 1st Interim Budget is \$1,975,042.

MULTI-YEAR PROJECTION

29. The District is required as part of the Adopted Budget to include a multi-year budget projection that includes the budget year plus the next two fiscal years. The district continues to support Curriculum Specialists for Science and PE, an additional Art teacher and Teachers On Special Assignments for staff training, **and additional teachers, as needed for Music and SDC classes.** The State DOF projects additional LCFF funding of the gap between full implementation and the current level of funding of **66.12%** for 2018-19 and **64.92%** for 2019-20. Certificated and Classified salaries and benefits are adjusted for declining enrollment projections. Enrollment is projected to decline in 2018-19 and 2019-20. The projections for 2018-19 include **(less 8 FTE)** and for 2019-20 include **(less 4 FTE)**. Step and column increase projections are included. STRS and PERS cost increases are included in the 2018-19 and 2019-20 projections. Cost reductions of 1% in the supplies and other operating budgets are included in the 2018-19 and 2019-20 budgets. Increases in Supplemental grant funding estimates are included in 2018-19 and 2019-20 projections. If additional LCFF funding is not received, the reserve percentage will decrease.

First Interim FY 17/18 Multi-Year Projection (MYP)

	FY 17/18	FY 18/19	FY 19/20
REVENUE	65,429,564	64,435,524	64,171,827
EXPENDITURES	66,877,812	65,328,803	65,120,566
Net Increase /Decrease in Fund Balance	(1,448,248)	(893,280)	(948,740)
Beginning Balance	10,070,745	8,622,497	7,729,217
Ending Balance, 6/30/ (Projected)	8,622,497	7,729,217	6,780,478
COMPONENTS OF ENDING BALANCE			
Non-spendable (Restricted, Stores,etc.)	667,166	549,103	492,977
Assigned (Extra-Legal Costs)	40,000	40,000	40,000
Reserve for Economic Uncertainty (6%)	4,554,949	4,635,816	4,279,182
Unassigned	3,360,382	2,285,473	1,968,318
Total Available Reserves - By Dollars	7,915,331	6,921,289	6,247,500
Total Available Reserves - By Percentage	11.83%	10.59%	9.59%

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CONCLUSION

The Newhall School District **1st Interim** Financial Report LCFF budget assumptions are based upon information provided by LACOE. Expenditure assumptions are based upon our best estimate of program expenditures, operating costs for the current fiscal year and the priorities for spending contained in the District's Local Control Accountability Plan. The District is filing a **Positive** Budget Certification for the 1st Interim Budget Report.