

BONITA UNIFIED SCHOOL DISTRICT
BUSINESS SERVICES DIVISION

DATE: June 12, 2019
TO: Board of Education
Carl Coles, Superintendent
FROM: Susan Cross Hume, CPA, CIA, CGMA
Assistant Superintendent, Business Services
SUBJECT: PROPOSED BUDGET FOR 2019-2020 AND MULTI-YEAR FINANCIAL PROJECTIONS

The estimated ending balances for the 2018-2019 fiscal year and our initial budget for the 2019-2020 fiscal year are presented here for your review and approval. The District is required by Education Code 42127 to adopt a budget for all District funds for the subsequent fiscal year by June 30 of each year. At the same time, the District presents its estimated actual financial results for the current fiscal year. This memo provides a summary of the assumptions used in the preparation of the budget, as well as an analysis of current multi-year financial projections for the District.

2018-2019 Estimated Unaudited Actuals

The estimated unaudited actuals consist of the District's current budget adjusted to reflect projected and known changes through the end of the fiscal year. These adjustments include:

- Updating the final estimated Local Control Funding Formula (LCFF) projection to our California Department of Finance projection. Change to LCFF revenue was immaterial.
- Updating all other revenue sources to the most current estimated year-end projection. Net change to all other revenues was minimal.
- Updating categorical revenue accounts to reflect actual grant and entitlement amounts as apportioned by the state and federal governments.

Various minor changes to categorical programs have been incorporated into the budget for the Estimated Actuals.

- Analysis and revision of General Fund expense accounts.
Fiscal staff have reviewed line item expenditure budgets, budget vs. actual, for all General Fund programs and accounts. Based upon this analysis, there are no material changes between the budget as presented at Second Interim and the Estimated Actuals, for any one account or program.
- All other 2018-2019 budget amounts are not expected to be materially different from the Second Interim budget and thus are carried forward to the year-end projection.

Based upon a review of current actual financial data (as of month-end April 30, 2019) and the adjustments noted above, the Estimated Actuals show a total net decrease to the fund balance of (\$1,037,973). This consists of a net decrease in the Unrestricted Fund of (\$975,986) combined with a net decrease in the Restricted Fund of (\$61,987). This deficit spending primarily reflects a spending down of prior year fund balance carryovers. This change in total net decrease reflects an improvement (positive variance) of the total net decrease in the General Fund reported at Second Interim of \$519,749.

The estimated total Ending General Fund balance at June 30, 2019, is \$26,227,037. The Unrestricted Ending Fund balance (Unassigned and Reserve for Economic Uncertainties) is estimated at \$23,413,827 which is 21.1% of total General Fund expenditures. (The state requirement is 3%.)

These projections constitute our best estimate at this time of how the District will finish the 2018-2019 fiscal year. Final results will not be known until we close our books and prepare our year-end financial statements (Unaudited Actuals) in August. Results will be presented to the Board in early September.

2019-2020 Budget

State Budget Outlook

On January 10, 2019, Governor Gavin Newsom introduced his proposed 2019-2020 state budget, beginning the legislative process for the upcoming fiscal year. On May 9, 2019, he released his May Revision to his January budget. The May Revision outlines the Governor's expectations for the budget, which the Legislature then has until June 15 to revise and pass.

Governor Newsom's May Revise budget builds off of his "California for All" vision from January. Continuing strong tax revenues means the Governor was able to keep all of his proposals from January, and invest in other programs that are a priority for him. The Governor has kept the LCFF funding formula intact. With the formula fully implemented, Districts are slated to receive COLA increases only, as former Governor Brown had planned. The new Governor does not forecast an impending recession, but all the same, his state spending plan is based on conservative economic and revenue assumptions which continue to place a priority on saving for a rainy day.

The Governor's budget proposal includes increased funding for all categories of K-14 revenues. K-14 Proposition 98 funding increased above the January budget to \$75.6 billion in 2017-2018, \$78.1 billion in 2018-2019, and \$81.1 billion in 2019-20. The 2019-2020 increase is \$389.3 million over the 2019-2020 January proposed budget, and \$3.0 billion over the 2018-2019 adopted budget.

The statutory COLA for 2019-20 decreased slightly from the January estimate of 3.46% to 3.26%. Estimated COLAs for 2020-2021 and 2021-2022 are 3.0% and 2.8%, respectively.

The other material changes proposed by the Governor for LEAs concern employer contribution rates paid for CalSTRS retirement, and Special Education Funding:

- The Governor's January budget proposed funding to reduce Local Education Agency (LEA) employer contributions to CalSTRS from 18.13 percent to 17.1 percent in 2019-2020. The May Revision adds \$150 million one-time, non-Proposition 98 General Fund to further reduce that rate to 16.7 percent in 2019-20.
- The Governor's May Revision proposed to allocate \$696.2 million ongoing Proposition 98 General Fund for Special Education. This is \$119.2 million more than was proposed in the January budget—a 21% increase over the previous year. However, the Governor's proposed method of allocation would exclude about three quarters of the school districts in the state from receiving the funding, meaning only about 9% of all students with disabilities in the state would qualify for the funding. The administration has received considerable feedback on this proposal and as of this writing it is being overhauled by the legislative budget committees.

BUSD 2019-2020 Budget

At the time of this writing, the Legislature is still in session, working with the Governor to determine the final budget. The District budget presented here has been adjusted for the Governor's May Revise proposal for LCFF revenues, as well as the application of the COLA to state categorical programs. The Governor's proposal to reduce the employer contribution rate for CalSTRS from 18.13% to 16.7% has also been reflected. Other proposals, including changes to Special Education funding, and additional increases to LCFF funding beyond the statutory COLA, have not been included at this time. The total budget will be reviewed and adjusted once the state passes its final budget, and then continually throughout the year as new information is received.

When building its budget, the District utilizes the most up-to-date information and forecasts that it has received from the California Department of Education (CDE), and the Los Angeles County Department of Education (LACOE). The District is required to present its proposed budget for the ensuing fiscal year twice before the June 30 statutory deadline for passage by the Board of Trustees. Given that the Legislature is not required to pass the state budget until June 15, the District will usually not be able to incorporate the effects of the state's June budget in its own June budget. Further revisions to update the District's budget will then be made after the Governor signs the state budget.

Revenue accounts are estimated based upon the CDE's and LACOE's projections, as well as the District's 2019-20 reported P-2 ADA. The District has estimated state LCFF revenue using the assumptions as projected by the Department of Finance for the May Revise. A COLA of 3.26% has been applied to other state programs, including Special Education. The District has not added any new state-funded programs to its budget.

Expenditures are forecast taking into account all known and projected increases and decreases in expenditures, including changes due to our negotiated salary agreements, step and column, changes in staffing and benefits, changes in contracts and leases, and projected inflationary increases. The compensation and health benefits increases agreed to by the District's employee associations in tentative agreements in May 2019 have been added.

The District's budget is required by law to be reviewed and approved by LACOE. Our LACOE consultant reviews all of our detailed assumptions for both our 2019-2020 budget and our three-year projection. A budget built on assumptions that cannot be verified and justified by LACOE will not be approved.

The following provides more details on the budget.

Revenues

The 2019-2020 General Fund budget projects total revenues of \$108.7 million, for a net decrease (from 2018-2019 estimated revenues) of \$1.6 million. Material changes in revenues are in the LCFF, one-time state revenues, and donation accounts (included in other local revenues).

LCFF income is projected to increase due to the COLA increase of 3.26%. The District's unduplicated count percent remains stable at around 40%. This results in a per-ADA increase to LCFF funding of 3.39%.

This increase is offset by a decline in net LCFF revenue due to a decrease in the District's apportionment earning ADA. The District's P-2 ADA declined in fiscal 2018-2019 by 67. The state allows a one-year "hold harmless"; thus this drop is reflected in the 2019-2020 LCFF revenue.

Federal revenues are projected with decreases resulting from the exclusion of carryover balances. State categorical programs are budgeted with a 3.26% COLA. One time revenues of \$1,790,721 received from the state in 2018-2019 are removed from the 2019-2020 budget.

The budget for other Local Revenues shows a decrease, as revenues for donations are not budgeted until received. Other revenues are based upon historical trends and estimated actuals.

Expenditures

For 2019-2020, total General Fund expenditures are projected at \$113.9 million for a projected increase of \$2.6 million over 2018-2019 estimated actuals. The budget reflects routine annual increases required by step and column movement, rate increases for health insurance and for STRS and PERS retirement plans, and other cost of living increases. Additionally, the budget reflects compensation additions agreed to by the District and its employee associations in May 2019. These increases include:

- For all bargaining units and management – 2.5% ongoing added to the salary schedule starting July 1, 2019
- For all benefit-eligible employees - Increase to the total annual employer contribution to health and welfare of \$500 a year to \$11,000 starting January 1, 2020.

In addition to these increases in wages and benefits, the other material increase to the District's budget is for eight new mental health positions.

Change in Fund Balance

Based upon these assumptions, the estimated total ending General Fund balance for the 2019-2020 fiscal year shows a net decrease of (\$5,185,297). This consists of a (\$5,203,111) decrease to the Unrestricted Fund, combined with a \$17,814 increase to the Restricted Fund.

The estimated total Ending General Fund balance for the 2019-2020 fiscal year is \$21,041,740. The Unrestricted Ending Fund balance (Unassigned and Reserve for Economic Uncertainties) is estimated at \$18,210,716, which is 16.0% of total General Fund expenditures.

Three-Year Projection

The District is required to submit a three-year financial projection for the General Fund at the time of budget submission. However, unlike at First and Second Interim, the District is not required to certify the District's financial status at this time. Detailed assumptions for the preparation of the three-year projection are attached.

The most significant factors in the projection are the state-funded LCFF and the District's projected ADA.

LCFF: The District is utilizing the Department of Finance's estimated COLAs and LCFF Funding Rate percentages as of the Governor's May Revise budget proposal. The District is projecting that its Unduplicated Percentage of enrollment will remain stable at approximately 40%.

ADA: The District is projecting no change to ADA in either the 2020-2021 or 2021-2022 fiscal years.

All other revenues are projected to remain constant. All expenditures are estimated to reflect normal inflationary increases. Compensation costs reflect step and column increases, as well as additional costs the District will incur due to increases in STRS and PERS rates. No increases to salaries or to employee benefit caps are projected other than what has been previously negotiated with the District's employee associations. No new programs or major construction projects are projected to be funded from Unrestricted funds.

The District's three-year projection shows Unrestricted General Fund ending fund balance amounts as follows:

	<u>Percent</u>	<u>Amount Above 3%</u>
June 30, 2020	16.0%	\$ 14,794,376
June 30, 2021	12.3%	\$ 10,779,780
June 30, 2022	9.6%	\$ 7,767,380

Required Disclosure under Education Code Section 42127(a)(2)(b) regarding reasons for Ending Fund Balances above the state-recommended minimum level

Education Code section 42127(a)(2)(b) requires a statement of reason that substantiates the need for assigned and unassigned ending fund balances in excess of the minimum reserve standard for economic uncertainties for each fiscal year be identified in the budget.

The Board of Education of the Bonita Unified School District currently maintains a prudent reserve which provides for anticipated future expenditures for technology, instructional materials, and other necessary instructional expenditures. The District must also have funds available to mitigate the costs to the District of declining enrollment. Additionally, the reserve is maintained to provide for unplanned or emergency expenditures that might occur in the future. The District must also plan for future facility needs. Finally, the District must plan for future downturns in the state economy which could negatively affect the District's budget.

Projected Unrestricted Ending Fund Balance:

	<u>Assigned</u>	<u>Unassigned</u>	<u>3% Minimum</u>	<u>Amount Above 3% Minimum</u>
June 30, 2020	\$0	\$ 18,210,716	\$ 3,416,340	\$ 14,794,376
June 30, 2021	\$0	\$ 14,243,970	\$ 3,464,190	\$ 10,779,780
June 30, 2022	\$0	\$ 11,282,365	\$ 3,514,985	\$ 7,767,380

OTHER FUNDS

Child Development Fund: The Child Development Fund records the financial activities from the District's parent-paid before and after school care program. Financial results project surpluses for the current and budget fiscal years.

Cafeteria Fund: The Cafeteria Fund projects a slight decrease for 2018-2019, and a break even for 2019-2020.

Bond Building Fund: This fund accounts for amounts remaining from the District's prior year general obligation bonds proceeds. In 2018-2019 the District spent down the remaining funds on the District Office and Bonita High School Stadium projects. Once all expenditures properly allocated to 2018-2019 are recorded, the remaining funds will be budgeted for 2019-2020.

Capital Facilities Fund: The Capital Facilities Fund accounts for the collection and expenditure of developer fees. Approximately \$395,000 in fees was collected in 2018-2019. Revenues for the budget year are projected and budgeted as cash is received. Expenditures from this fund are for capital projects related to growth in student enrollment.

Capital Projects Fund-Blended Components: This fund records revenue received from the District's Recreation Assessment District (RAD) and the related expenditures. Expenditures consist of salaries, utilities, contracts, and payments to the cities of La Verne and San Dimas related to the maintenance and improvement of shared community sports facilities and play fields.

BONITA UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGET 2019-2020
BUDGET HIGHLIGHTS
REVENUES

LOCAL CONTROL FUNDING FORMULA	
Statutory Cost of Living Adjustment (COLA)	3.26%
District Unduplicated Percent (Three-year average)	40.45%
Per ADA Allocation	\$9,509.16
Increase in per ADA funding	\$311.55
Net effect change in per pupil funding	3.39%
AVERAGE DAILY ATTENDANCE (ADA)	
ADA Used in Calculation of 2019-2020 LCFF	9,687
Change from 2018-2019 LCFF ADA	(67)
STATE REVENUES	
COLA applied to Special Education	3.26%
COLA applied to all other state categorical programs	3.26%
Lottery projected at \$194 per ADA (\$146 Unrestricted, \$48 Restricted)	\$1,959,594
Mandated Cost Revenues-Block Grant (\$32.18 per K-12 ADA, \$61.94 per 9-12 ADA)	\$398,098
One-time Mandate Reimbursement Funding	\$0

BONITA UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGET 2019-2020
BUDGET HIGHLIGHTS
EXPENDITURES

Major Changes to Expenditure Accounts (Unrestricted General Fund)

Salary and Benefits	
Step and Column increase	\$ 881,668
Raise	\$ 1,265,606
Provision for increase in Health Insurance costs	\$ 410,426
STRS and PERS rate changes	\$ 639,962
Increase in General Fund Contributions	
Special Education	\$ 735,227

BONITA UNIFIED SCHOOL DISTRICT
2019-2020 BUDGET PROJECTION ASSUMPTIONS
Fiscal Years ending June 30, 2019, 2020, 2021, 2022

	2018-19	2019-2020	2020-2021	2021-2022
LCFF				
Statutory COLA	2.71%	3.26%	3.0%	2.8%
Gap funding rate	100%	100%	100%	100%
Unduplicated Count Percent 3-year rolling average	39.07%	40.45%	40.47%	40.47%
Net per ADA change to LCFF	7.09%	3.39%	2.95%	2.75%
Dollars per ADA	\$9,197.61	\$9,509.16	\$9,789.82	\$10,058.97
Change from prior years	\$605.30	\$311.55	\$280.66	\$269.15
Funded ADA	9,754	9,687	9,687	9,687
Change in Funded P-2 ADA	(129)	(67)	-0-	-0-
Federal Programs	0%	0%	0%	0%
State Programs	2.71%	3.26%	3.0%	2.8%
Special Education	2.71%	3.26%	3.0%	2.8%
Lottery (per ADA)	\$204	\$204	\$204	\$204
One-time discretionary	\$1,790,721	-0-	-0-	-0-
Mandated Costs	\$398,098	\$398,098	\$398,098	\$398,098
District General Fund Contribution to Special Education	Based on current income estimates from SELPA and current expenditure projections	Based on current income estimates from SELPA and current expenditure projections	5%	5%
STRS & PERS increase due to rate increases	\$1,013,984	\$809,369	\$1,088,463	\$43,795
Estimated increase for health insurance increase by employer contribution	\$700,000	\$410,000	\$0	\$0
Supplies and Services	Current year projected expenditures	Current year projected expenditures adjusted by CPI (3.38%) and known changes	Adjusted by CPI (3.16%)	Adjusted by CPI (3.05%)