

Chico Unified School District

2014-15 1st INTERIM BUDGET NARRATIVE

December 17, 2014



OVERVIEW

The 2014-15 1st Interim Budget is the updated financial report for the district including revised budget estimates and actual revenues and expenditures through October 31, 2014. As a reminder, the district adopted its Original Budget in June before the state budget was approved. The 1st Interim Report will show changes from Original Budget. These changes are based on the state adopted budget, updated revenue information, updated position control representing actual staff hired and vacancies expected to be filled, and expenditure projections based on meetings with school principals and program directors.

Chico Unified School District (CUSD) also self-certifies whether the 1st Interim Report shows the district **will**, **may not**, or **will not** meet its financial obligations in the current and subsequent two years. A positive certification means the district **will** meet its financial obligations in the current and subsequent two years. A qualified certification means the district **may not** meet its financial obligations in the current or subsequent years. A negative certification means the district **will not** meet its financial obligation in the current or subsequent year.

1st INTERIM BUDGET ASSUMPTIONS

Revenues

- Unrestricted Revenue based on Local Control Funding Formula (LCFF)
 - Prior year Average Daily Attendance (ADA) used since CUSD is a declining enrollment district
 - Gap funding percentage equal to the state adopted budget of 29.56%
 - Unduplicated student count percentage average equal to 48.9968%
- Restricted Revenues Budgeted as follows:
 - Federal program revenue tied to apportionment letters and/or grant awards
 - State program revenue tied to apportionment letters and/or grant awards

Expenditures

- Salaries and benefit costs generated from position control
 - Reviewed and verified all open or vacant positions will be filled
 - Budget increased for step & column costs
 - Budget decreased related to retirees or changes in staffing
 - Benefits estimated at payroll percentage rates and contractual health & welfare district contribution amounts
 - District contribution for health and welfare has been raised from \$950 to \$964 per month
 - District contribution for State Teachers Retirement System (STRS) and Public Employee Retirement System (PERS) estimated at 8.88% and 11.771% respectively
- Supplies and equipment expense budgeted based on meetings with Directors, School Principals, trend analysis, and balancing restricted program budgets
- Services expense based on meetings with Directors, School Principals, trend analysis, and balancing restricted program budgets
- Capital outlay expenditures estimated based on planned equipment purchases over \$5,000
- Transfers In equal to amount of former Re-Development Area (RDA) pass-through dollars
- Transfers Out represents the contribution from the General Fund to support the Nutrition Services Fund
- Contributions to Restricted Programs represent contributions to the Special Education program and the Routine Restricted Maintenance Account (RRMA)

CHANGES SINCE ORIGINAL BUDGET

2014-15 is the second year of the Local Control Funding Formula (LCFF). The following are some of the major changes in the LCFF calculation since the Original Budget adoption:

- Gap funding percentage increased from 28.06% to 29.56% based on the final state adopted budget
- Average Daily Attendance (ADA) in 2013-14 increased by 31.87 based on annual independent audit
- TK-3 Gradespan adjustment did not calculate at Original Budget

The following are some of the other major changes since the Original Budget adoption:

- One-time mandated costs reimbursement payment received for claims prior to 2011
- Reduction in financial support to the Special Education program
- Increase in contribution amount to Nutrition Services Fund
- Changes in position control for certificated and classified salary and benefit expenses
- STRS cost estimated at 9.5% at Original and adjusted to 8.88% with state budget adoption
- Indirect costs increased due to budgeting of prior year restricted programs carryover dollars

CHICO UNIFIED SCHOOL DISTRICT'S FINANCIAL REPORT

The CUSD 1st Interim budget reports a positive change in fund balance in unrestricted programs of \$1,296,003 and a negative change in fund balance in restricted programs of (\$3,049,343). The total change in fund balance for all programs is a negative (\$1,753,340). This represents an improved financial outlook from the Original Budget. The current Multi-Year Projection (MYP) shows the district will maintain reserves above the 3% state requirement in all three years.

FINAL THOUGHTS

The 1st Interim Budget report shows an improved financial projection from Original Budget. Some of the adjustments are related to changes in the state budget which was adopted after the CUSD Original Budget was approved. Other changes are related to one-time revenues received that were not foreseeable such as the mandated costs one-time payment. Typical changes at 1st Interim are related to updated position control information and the addition of carryover dollars from the prior year. It should be noted the 1st Interim budget will usually improve from the Original Budget since the Original Budget is created and approved before the start of the school year and represents a somewhat conservative projection of revenues and expenditures. The 1st Interim report provides an opportunity to refine and update the assumptions which the CUSD budget is built upon.

Based on the 1st Interim report, CUSD notes a positive certification of the budget. This means the district will be able to meet its financial obligations in the current and subsequent two fiscal years.

Even with the improved financial outlook in the 1st Interim report, the Multi-Year Projection (MYP) shows deficit spending in 2015-16 and 2016-17. This projection does not include compensation increases currently offered by CUSD to all bargaining units. By adding in the estimated costs of the current CUSD compensation proposal, the change in fund balance in the current year changes from a positive \$1,296,002 to a negative (\$375,108) and deficits in 2015-16 and 2016-17 increase correspondingly. Ultimately, the ending fund balance in 2016-17 ends below the 5% currently required per CUSD board policy. The fact remains, the district will need to make expenditure reductions and/or see increases in the LCFF gap funding percentages to balance the budget.

K-12 education continues to change and evolve with a new funding formula (LCFF), the implementation of the new Common Core Standards, and with the development of the Local Control Accountability Plan (LCAP). It is through the efforts and dedication of the excellent teachers, administrators, and support staff at CUSD that we will meet these challenges.



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