ROSS VALLEY SCHOOL DISTRICT
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The Ross Valley School District 2013-14 Second Interim Budget Report is attached for review and approval of the Board of Trustees.

Report Format

This report contains a number of components including a narrative providing analysis of Ross Valley's financial condition as of March 3, 2014. In addition, attached are the state-required Standard Account Code Structure (SACS) budget report forms that include the District's Multi Year Financial Projections (MYFP), Cash Flow Projections and Criteria and Standards analysis.

Budget Certification

The state requires each district to submit its budget report with one of the following certifications:

Positive – the district will be able to meet its financial obligations for the current and subsequent two fiscal years
Qualified – the district may not be able to meet its financial obligations for the current and subsequent two fiscal years
Negative – the district will not meet its financial obligations in the current or following fiscal year

Staff recommends this budget report be submitted to the Marin County of Education with a positive certification, as supported by the MYFP located herein.

Local Control Funding Formula (LCFF)

The Local Control Funding Formula (LCFF) has been used to calculate the District's primary source of funding for the budget year and the MYFP. Relative to the first interim budget report presented last December, public education funding levels in future years will increase significantly; we are advised we should plan on receipt of these new dollars. The state provides this assurance to allow local school districts more certainty when implementing Local Control Accountability Plans, or LCAP, a very high priority of the state. This is unusual in our experience, and although we've included these funding levels in our financial projections we urge the Board of Trustees to exercise caution relative to allocating this increased funding until such time the dollars are made available.

General Fund Budget Changes – First Interim to Second Interim

Budgets are developed with many assumptions and estimates; they will change over time.

Significant changes between the First and Second Interim are:

- Allocation of about $445,000 in one-time Common Core State Standard funds, to be utilized per a board-approved plan
- Implementation of board approved compensation adjustments for members of the Ross Valley Teachers Association
- Increase in Full Inclusion Aides for students with special needs
- Allocation of about $185,000 to implement technology in the elementary schools per approval of the Board of Trustees

These and other changes are presented in the attached document titled “Changes”.

Projected Revenues

The calculations that determine the LCFF amount a district will receive in a given year are developed via use of the “FCMAT LCFF Calculator”. This has become the State’s standard tool in projecting LCFF revenues, and we used this tool to update our budget. The calculation is rather long and technical, so a copy has not been provided here but is available in the business office for review. If interested in learning more, staff will include this calculation in future reports to the board.

Important factors in determining LCFF revenue for a school district include the enrollment (and actual student attendance driven by student enrollment, or “ADA”) and “unduplicated pupil counts” (students who are identified as English Learners, Low Income or Foster Youth). Ross Valley’s enrollment and unduplicated counts are projected as follows:

Year	*2013-14*	*2014-15*	*2015-16*
Enrollment	2,299	2,342	2,346
Unduplicated	260	260	260
Undupl. %	11.31%	11.20%	11.16%

Enrollment projections indicate a slowing of growth patterns experienced in the last decade. The District’s demographer is currently working to update and extend enrollment projections to provide us insight into future patterns. We expect these projections will be available with a budget update that will be presented to the Board of Trustees in April.

In addition to the enrollment and ADA being a driving force in the LCFF model, the “gap rate” is equally important. The rate generates an amount that is intended to restore our funding levels to the pre-economic recession of recent years (closing the “gap” of 30% funding reductions that occurred during the recession); it will take about 8 years to fully fund this restoration. A cost of living adjustment, to keep our funding level adjusted for inflation, is also part of the calculation. These two rates contribute significantly to the determination of the amount of dollars the state will fund as we move towards a fully implemented LCFF entitlement amount in 2020-2021.

The current State estimates for LCFF gap funding and cost of living adjustments (COLA) for 2013-2014 through 2015-2016 are as follows:

Year	**2013-2014**	**2014-2015**	**2015-2016**
Gap Funding	11.78%	28.05%	33.95%
COLA	1.57%	0.86%	2.12%

Projected Expenditures

Included in the MYFP is the compensation adjustment for the certificated staff bargaining unit for the 2013-14 and 2014-15 years. Employee health insurance premiums in the 2014-15 year have been projected to increase 10%, similar to the present school year. In addition to this an industry-standard 1.5% cost for salary schedule movement for certificated employees and 2.4% for classified employees has been applied in future years. Significant one-time expenditures were incurred in the 2013-14 year to provide for implementation of technology and common core standards, as well as other initiatives. These costs, totaling more than $1.6 million, have been removed from the 2014-15 budget.

Affordable Care Act ("ACA" Health Care Reform)

The Affordable Care Act has been implemented as of January 1, 2014 and penalties for non-compliance will be implemented January 1, 2015. To date, no significant costs have been incurred but we are still very early in the implementation phase. Our financial system vendor has been making strides in developing a new module to track part-time employee hours, a key component in determining how many employees will be eligible for benefits under ACA. We expect the new tool will be available in a month or so and will provide estimated cost increases with the next budget report to the Board of Trustees.

PERS/STRS Rate Adjustment Projection

The news media have been reporting on growing unfunded retirement system obligations for all public agencies in California. The two systems that serve our employees, the State Teachers Retirement System (STRS, for all certificated staff) and the Public Employees Retirement System (PERS, for all classified staff), have struggled due to increasing benefit costs and the recent economic recession reducing investment values.

Recently PERS published employer rate increases for the next several years; the rate increase in 2015-16 will increase these costs by about $35,000 per year. It has been suggested that STRS will approve similar rate increases in the near future; on the same scale as PERS, that will cost about $115,000 beginning in 2015-16.

Marin County Office of Education is recommending we create a reserve for the projected cost, assuming STRS rate increases are on par with PERS. Assuming that, staff estimates $150,916 will be necessary to provide for this risk, and such a reserve has been included with this budget.

Collective Bargaining

The District recently reached a tentative agreement for compensation adjustments with the classified bargaining unit, CSEA, and public disclosures will be presented to the Board of Trustees at their meeting of April 1, 2014. Estimated costs to implement the agreement for CSEA members, as well as provide the same adjustments for management and confidential employees, have been reserved in the budget.

Ending Fund Balance Reserves

The Ending Fund Balance has been fully allocated to provide for the PERS/STRS rate increases and collective bargaining obligations, along with existing reserves for deferred facility maintenance, special education program costs and textbook purchases. With these adjustments, we no longer have an undesignated reserve and it was necessary to lower the Board Policy 3100 recommended reserve from 7% to 6.6%. A detail of the Ending Fund Balance Reserves is attached, labeled "Reserves".

Recommendation

Staff recommends approval of this report and submission to the Marin County Office of Education.