

HUNTINGTON BEACH UNION HIGH SCHOOL DISTRICT

MEMORANDUM

TO: Dr. Gregory Plutko, Superintendent
FROM: Dawn Ahlers, Director Fiscal Services
SUBJECT: 2013-14 Adopted Budget
DATE: June 25, 2013

The proposed budget for 2013-14 is presented for review and approval. This budget is based on the assumptions outlined in the Governor's May Revision and information available to date. It was developed using the Standardized Account Code Structure (SACS) and the process prescribed by the Orange County Department of Education, Integrated Fund Accounting System (IFAS). Estimated actuals for 2012-13 have been projected.

Action is required at this time to permit schools and offices to authorize expenditures beginning July 1, 2013.

The adopted budget will be revised to include changes resulting from the adoption of the 2013-14 state budget, subsequent revisions, and the closing of the books for fiscal year 2012-13.

The budget is based on a number of assumptions. The most significant of these assumptions are set forth below:

GENERAL FUND

2012-13 Estimated Actuals

The unrestricted general fund projected ending balance in the amount of \$23,033,039 has increased in the amount of \$307,743 from the second interim reporting period. Components of this balance include a \$76,000 reserve for revolving cash, \$4,404,411 representing the mandated 3% reserve designated for economic uncertainties, and an assigned amount of \$18,095,366, which in total represent a 15.33% reserve level.

2013-14 Budget

The Governor's proposal to overhaul the school finance system remains. The Local Control Funding Formula (LCFF) would replace revenue limits and most categorical program funding

with base grants per pupil, plus supplemental funding provided via percentage “weights” for students who are English Learners (EL), from low-income families, or in foster care.

Governor Brown’s May Revision continues to propose a target base grant. This amount, which will not be reached until the formula is fully implemented in 2020-21, is equivalent to the 2012-13 undeficit average revenue limit for all school districts. This base grant amount is further adjusted by grade level, with increases added for K-3 Class-Size Reduction and Career-Technical Education.

In addition to the base grant, school districts would be entitled to supplemental increases of the base grant equal to 35% of the base grant for each enrolled student who is an EL, eligible for the Free and Reduced-Price Meals Program, or in foster care, and a concentration grant for each eligible student enrolled that exceeds 50% of total enrollment.

The May Revision increases the total funding allocated to implement the LCFF in 2013-14 by \$240 million, from \$1.6 billion to \$1.9 billion.

COST-OF-LIVING ADJUSTMENT (COLA) – The May Revision updates the cost-of-living adjustment (COLA) to reflect the official statutory COLA for 2013-14 of 1.565%, a decrease from the 1.65% estimated in the January Governor’s Proposed Budget. However, the Administration proposes to eliminate the COLA through an adjustment in the deficit factor.

DEFICIT FACTORS – In January, the Governor proposed a revenue limit deficit factor of 22.272% to eliminate the estimated COLA and provide flat funding; the May Revision revises this factor to 18.997%.

APPORTIONMENT DEFERRALS – The May Revision includes an additional \$1.6 billion (for a total of \$3.4 billion) in one-time Proposition 98 funding applied in the current year, 2012-13, to buy back deferrals. The May Revision reduces the \$1.8 billion in January proposed for deferral buy back in 2013-14 by \$909.1 million.

Revenue Limit Income

There is a 1.565% statutory Cost of Living Adjustment (COLA) included in the base revenue limit for 2013-14 with a 18.997% deficit factor applied. Enrollment is projected to decline by 163 students based on the district’s annual enrollment projection. The revenue limit calculation is based on an ADA figure of 15,645.96. In periods of declining enrollment this number is derived from the greater of projected current year ADA or actual prior year ADA. In this instance, prior year ADA has been used.

Revenues

Revenues are projected using the most recently proposed version of the Local Control Funding Formula (LCFF).

Expenditures

Budgeted expenditures include staffing for projected enrollment, step and longevity increases, and current health and welfare plan costs through October 2013. Workers' Compensation contributions remain at 2.00% of gross salaries in 2013-14. The PERS employer contribution rate has increased from 11.417% in 2012-13 to 12.50% in 2013-14, with a corresponding offset to the PERS reduction component of the revenue limit. The STRS employer contribution rate remains at 8.25%. Appropriations do not include categorical carry-over funds from the 2012-13 fiscal year.

Fund Balance and Reserves

As shown in (Column F), the projected ending fund balance in 2013-14 is \$21,069,202. The projected Reserve for Economic Uncertainties in the General Fund is \$4,252,149, the mandated 3% required by the state for this size of district. The reserve for revolving cash is \$76,000, legally restricted balances total \$172,933, and other assigned amounts total \$16,570,620.

OTHER FUNDS

Adult Education Fund

For 2013-14 the categorical portion of funding for Adult Education is part of the LCFF. The Adult Education program will receive revenue equal to funding received in the 2012-13 fiscal year. \$3,500,000 will be recorded in the Adult Education fund to support this program, and the remaining \$3,224,829 will be reported in the unrestricted general fund to support general fund operations.

Cafeteria Fund

The 2013-14 projected ending balance reflects an increase in the amount of \$117,835 when compared to the 2012-13 estimated fund balance, primarily due to an increase in other local revenues.

Deferred Maintenance Fund

For 2013-14 the May Revision proposal includes funding for the state portion of the Deferred Maintenance Program within the LCFF. This apportionment in the amount of \$651,518 will be used to support the Deferred Maintenance Program.

Building Fund

This fund exists primarily to account separately for proceeds from the sale of bonds. The principal revenue accounts in this fund are Interest and Proceeds from the Sale of Bonds.

Resources are to be used for the acquisition and construction/modernization of major capital facilities. The “Series 2004,” “Series 2005,” and “Series 2007” bonds, in the aggregate principal amount of \$178,960,074.30, \$29,998,720, and \$29,041,203.50 respectively, represent the entire series of authorized bonds issued by the district. Expenditure appropriations have been made in accordance with contracts approved by the Board. The projected balance of funds available for expenditure in the adopted budget is \$848,348. The district is nearing completion on all its bond funded projects.

Capital Facilities Fund

This fund is used primarily to account separately for monies received from fees levied on developers as a condition for approving a development and for the receipt and disbursement of redevelopment monies from redevelopment agencies. Revenues from redevelopment projects are “pledged” to repay the district’s 2007 and 2012 Certificate of Participation (COP) obligations. Revenues from developer fees are to be used for the construction/reconstruction of school facilities. The projected balance of funds available for expenditure in the adopted budget is \$8,480,038.

County School Facilities Fund

This fund is used to account for receipt and expenditure of bond funds from the State and related district matching funds. Typical expenditures in this fund include items charged to Capital Outlay, i.e. Buildings, and Improvement of Buildings. The district, when eligible, continues to apply for state grants. The projected balance of funds available for expenditure in the adopted budget is \$1,012,617.

Special Reserve Fund for Capital Outlay Projects

The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of moneys for capital outlay purposes. Projected revenues are derived from interest earnings on the existing cash balance in the fund and the Home Depot lease revenue transferred from the General Fund. In 2013-14, the Home Depot lease revenue will be retained in the unrestricted General Fund to be used in support of the Routine Restricted Maintenance Account. Additionally, deposits and expenditures related to the District’s 2007 Certificate of Participation (COP) are recorded in this fund. The projected balance of funds available for expenditure in the adopted budget is \$3,536,584.

Self Insurance Fund

Self Insurance funds are used to separate moneys received for self insurance activities from other operating funds of the district. The district currently maintains four self insurance funds.

- Workers' Compensation Self Insurance Fund

In-district premiums account for the majority of revenue received in this fund. For the 2013-14 fiscal year the workers' compensation contribution rate remains at 2.00% of gross payroll. The projected net liabilities as of June 30, 2014 are \$724,698.

- Health & Welfare Self Insurance Fund

In-district premiums account for the majority of revenue received in this fund. The projected net assets as of June 30, 2014 are \$2,905,807.

- Property Loss Self Insurance Fund

Projected revenues for 2013-14 are derived from interest earnings on the existing cash balance in the fund. Estimated expenses are for deductible property loss. The projected net assets as of June 30, 2014 are \$109,859.

- Comprehensive Liability Self Insurance Fund

Projected revenues for 2013-14 are derived from interest earnings on the existing cash balance in the fund, and an unrestricted general fund contribution. Estimated expenses are for comprehensive liability claims. The projected net assets as of June 30, 2014 are \$0.

Foundation Private-Purpose Trust Fund

This fund is used to account separately for moneys received from gifts or bequests under which both principal and income benefit students (scholarships) and under which neither principal nor income may be used for purposes that support the district's own programs. Projected revenues are derived from interest earnings on the existing cash balances in each individual trust account. The projected net assets as of June 30, 2014 are \$358,485.

REVISIONS

When the state adopts, or revises, its 2013-14 budget, revisions to revenues and expenditures will be made accordingly. These revisions will also include adjustments as a result of closing the 2012-13 fiscal year.

As a single adoption district, revisions will be presented to the Board of Trustees at each regularly scheduled meeting, incorporated as part of the district's current operating budget, and reported to oversight agencies as of the First Interim (October 31, 2013) and Second Interim (January 31, 2014) reporting periods.

CRITERIA AND STANDARDS REVIEW

LEAs are required (EC Section 33129 and 42130) to use the Criteria and Standards adopted by the State Board of Education (SBE) pursuant to EC Section 33127 in developing their budgets and managing their expenditures. In addition, Criteria and Standards are used to monitor the fiscal stability of LEAs.

At budget time, the budget certification indicates that the budget was developed using the state-adopted Criteria and Standards. The certification and a copy of the complete Criteria and Standards Review form must accompany the budget when it is submitted to the school district's governing board for adoption. After the budget has been adopted, the county superintendent of schools will conduct a review of each budget as follows:

- Examine the adopted budget to determine whether it complies with the Criteria and Standards. The county superintendent of schools shall identify, if necessary, any technical corrections that must be made to bring the budget into compliance with the Criteria and Standards.
- Determine whether the adopted budget will allow the school district to meet its financial obligations during the fiscal year, and is consistent with a financial plan that will enable the school district to satisfy its multi-year financial commitments.

The SBE adopted revised Criteria and Standards in July 2005 pursuant to EC Section 33127(b) and, as a result, the Criteria and Standards Review form in the SACS Financial Reporting Software has been revised to reflect those changes.

MULTI-YEAR PROJECTION

The district has prepared a multi-year projection of its General Fund as required by State law. The district uses software developed by Fiscal Crisis & Management Assistance Team (FCMAT) for this purpose. The following significant assumptions are used in the preparation of this projection:

- Enrollment is based on CalPADS enrollment steps in grades, incoming freshman student trends, and Inter/Intra district trends. Data was also reviewed from projections prepared by DecisionInsite, LLC, the district's demographers. Enrollment is projected to decrease by 163 in 2013-14, 89 in 2014-15, and 294 in 2015-16.

- Cost of living adjustments (COLAs) to revenues are based on projections prepared by School Services of California, Inc. A 1.565% COLA has been applied to 2013-14, and COLAs of 1.80% and 2.20% have been applied to 2014-15 and 2015-16 respectively.
- Adjustments have been made to expenditures for one-time items.
- Step and longevity increases are included in the projection.
- No adjustment for the potential increase in the cost of Health and Welfare benefits has been included in the projection.
- Negotiations are unsettled for the 2013-14 fiscal year.
- No provision has been made to fund the OPEB liability/”ARC” above the “pay-as-you-go” amount in either the budget or projection years.