

Beverly Hills Unified School District 2014-15 Adopted Budget Narrative

The Beverly Hills Unified School District is presenting its 2014-2015 Adopted Budget as required pursuant to Education Code Sections 35035(g), 42130, and 42131. These code sections require that the Governing Board certify the district's ability to meet its financial obligations for the current fiscal year and two subsequent years based on the most current assumptions and financial picture of the District. This certification must occur by June 30, 2014, and the District must submit the approved budget document with original signatures to the Los Angeles County Office of Education with five days of the adoption or no later than the 1st of July 2014.

The budget report forms used are required by the state. They are identified by the budget period/fund name in the top center title of each page.

INTRODUCTION

As the state moves into its second year of the Local Control Funding Formula (LCFF), the implementation of the new system of education funding in California has taken shape and become much clearer. The LCFF provides a flat per-ADA amount for all students in all districts, called a Base Grant. This base grant is allocated for grade span (K-3, 4-6, 7-8, and 9-12) and adjusted to support K-3 smaller class size (to replace the previous Class Size Reduction program) and High School Career and Technical Education. Base grants are enhanced through supplemental grants and concentration grants – additional funding provided based on the number of “high need” pupils in a district (defined as low-income, English Learner, and foster youth). Almost all categorical funding sources, with the exception of Special Education, Home to School Transportation, and Targeted Instructional Improvement Grants, have been eliminated.

The base funding and supplemental and concentration grants are used to establish a “target” funding level, which the state hopes to adjust through annual COLA's and fully fund by the 2021-22 fiscal year. For 2013-14, the state enacted a “hold harmless” guaranteeing all districts at least the same amount of funding they received in 2012-13. For 2014-15 and beyond, the state will contribute additional funds to the education budget in order to advance districts closer to their target level, until full funding is achieved.

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For the Beverly Hills Unified School District, the LCFF Base Funding level for 2014-15 is \$29,696,433, which, combined with Supplemental Grant Funding of \$616,586 (the District is not eligible for Concentration Grant Funding) provides total estimated LCFF Funds in the amount of \$30,313,019. This funding level represents a closure of the gap between current funding and target funding by 28.05%.

As a Community Funded (basic aid) district, it is anticipated that BHUSD will receive more funding than is provided by the LCFF through property tax revenue. Property tax revenues for 2014-15 are anticipated to be \$37,039,169, meaning that the District will receive approximately \$5,583,398 more than it would have received under LCFF funding alone. In addition, the District continues to anticipate receiving significant additional funding through federal, other state, and local resources, bringing its anticipated total revenue to \$57,758,145.

Regardless of its Community Funded status, accountability requirements built into the LCFF will continue to apply to the District. This primarily revolves around the adoption of the Local Control Accountability Plan, presented in conjunction with the District budget. This plan has been developed in consultation with a wide variety of District stakeholders and is aligned with the State's eight priorities identified as Student Achievement, Student Engagement, School Climate, Implementation of Common Core State Standards, Course Access, Parental Involvement, Other Student Outcomes, and Basic Services. Supplemental and concentration grant funds must be shown to primarily benefit the students who generated the funding.

GENERAL FUND BUDGET ASSUMPTIONS and BUDGET INFORMATION

REVENUE

Property Tax

In April 2014, the District received updated tax revenue projections for the current fiscal year which reduced the amount of anticipated revenue from prior year tax payments by approximately \$2,000,000. In multiple discussions with the Los Angeles County Office

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of Education, with the Assessor's office, and with the Auditor-Controller's office, staff has been informed that this reduction in revenue is due largely to the fact that there was a significantly lower delinquency rate last year. The district has historically seen fluctuation in this number in May and June (sometimes seeing negative adjustments and sometimes seeing additional revenue), so we will continue to watch this portion of our revenue closely through the close of the fiscal year. For the Adopted Budget, the District is utilizing an assumption of flat funding for prior year delinquency.

This decrease in prior year tax revenue will be partially offset due to higher than anticipated secured property tax collections. The District has recently received updated tax revenue information reflecting that this category will be higher than previous projections by approximately \$1,000,000. This brings the net difference in total property tax revenue to a decrease from prior projections by an amount of \$964,814.

The District has also recently received information from the Assessor's office indicating a projected 2014 assessment roll increase of approximately 5.05%. As with prior years, the District adjusts its property tax revenue assumptions to match the projections of the County Assessor and is therefore using an assumption of a 5% increase in secured property tax revenue for 2014-15, 2015-16, and 2016-17, along with an assumption of a 0.46% decrease in unsecured property tax revenue for the same years. (Last year, the Assessor's office projected a 4.23% increase, and current projections suggest that the actual increase will be 4.68%.)

Other Revenue Assumptions

The District has incorporated a number of additional revenue assumptions into the 2014-15 Adopted Budget.

1. Enrollment is projected to continue to decline. This will negatively impact the District's LCFF funding levels in the future and will widen the gap by which the District remains a Community Funded district. It will not have an impact on actual unrestricted revenue levels, as property tax revenue is not connected to enrollment.

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2. The Fair Share Reduction for Community Funded Districts was enacted under AB X4 2 to provide for revenue reductions to Community Funded districts commensurate to the reductions being imposed on Revenue Limit school districts and remains in place under the LCFF. The reduction was originally taken from categorical revenues to the extent the categorical revenues were available. This contribution equates to 8.92% of non-property tax state funding, which for BHUSD, this represents a loss of approximately \$3,088,332. Because the reduction was initiated to equalize the loss in funding experienced by revenue limit districts throughout the state, once education funding reaches pre-recession levels, the Fair Share Reduction should theoretically be eliminated, but there is currently no sunset mechanism written into the law. The District anticipates that this reduction will therefore be ongoing at least through the 2016-17 fiscal year.
3. The District anticipates receiving nearly \$900,000 less in 2014-15 in other state and federal funding due to declining enrollment, a reduction in carry over amounts, and the non-renewal of one-time funding opportunities (e.g., common core funding).
4. The District will continue to apply for the Mandated Block Grant.
5. Lottery dollars will continue to be funded on an annual ADA basis. The allocation per year includes both unrestricted and Prop. 20 (instructional materials) funding.
 - a. 2013-14: Unrestricted at \$124 and Prop. 20 at \$30 per ADA
 - b. 2014-15: Unrestricted at \$126 and Prop. 20 at \$30 per ADA
 - c. 2015-16: Unrestricted at \$126 and Prop. 20 at \$30 per ADA
 - d. 2016-17: Unrestricted at \$126 and Prop. 20 at \$30 per ADA
6. Special Education funds passed through to the District from the SELPA have been adjusted to reflect a reduction by \$92,255 in 2013-14 and an additional \$10,351 in 2014-15 based upon information recently provided by the SELPA.
7. Adult Education is included in the budget as a Maintenance of Effort requirement that LEAs shall maintain 2012-13 expenditure levels on adult education programs through 2015-16. These two years are a transition period until, in 2015/16, Adult Education providers would be expected to join a regional Adult Education

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consortium, which would consist of at least one community college district and one school district within the boundaries of the community college district. The District meets its funding requirements through in-kind contributions of facility resources to support Adult Education programs offered through the City.

8. ROP funding is also included in the budget as a Maintenance of Effort requirement through 2015-16. The Los Angeles County Office of Education has committed to maintain its level of contribution to the District to support this program through 2015-16 and then to implement a graduated reduction in revenue keeping pace with progress towards target funding levels and the full funding of the LCFF.
9. Local revenue from the City of Beverly Hills, rental revenue received through facilities usage, and PTA contributions (less a multi-year commitment to contributions for professional development that is coming to an end) are projected to continue at 2013-14 levels through 2016-17.
10. Local revenue provided by oil well revenue is projected to continue at 2013-14 levels through 2015-16. In 2016-17, based upon the lease's scheduled expiration at the end of December 2016, revenue is expected to decline by 50% to \$287,500. While 2017-18 is not included in the Adopted Budget, it is anticipated that this revenue source will be completely eliminated at that time.
11. The District anticipates receiving an additional \$600K in local revenue in 2014-15 through donations from the Foundation.

EXPENDITURES

Retirement Incentive/Staffing Projections

In the spring of 2014, the District offered an early retirement incentive to certificated teachers. 21 teachers took advantage of this offer and retired at the end of 2013-14. A preliminary analysis suggests that if the district were to replace every teacher who participated in the program, the savings would be over \$200,000 in year 1, over \$500,000 over three years, and over \$700,000 over five years. The district will realize

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these savings after making its annual payment of approximately \$315,000 to cover annuity costs and plan fees.

In addition, the District has incorporated a reduction in expenditures of approximately \$200,000 in 2015-16 due to the expiration of a previous retirement incentive, which will eliminate what has been a separate ongoing annuity payment over the past several years.

As a result of declining enrollment and Board direction to staff more closely to contract ratios, the District is currently anticipating reducing overall staff by as many as 10 certificated FTE's in 14-15 through attrition; this will result in a reduction in expenditures of approximately \$1M.

Retirement Plan Contributions

The Governor's May Revise proposes significant increases in contributions towards the State Teachers' Retirement System (STRS) and the Public Employees' Retirement System (PERS) in order to address the significant long-term liability that has arisen as a result of underfunding as identified through actuarial analysis. Both of these systems are funded through a combination of state funding, employer contributions, and employee contributions, and all three entities will bear a share of the increases being proposed by the governor. Although there is ongoing dialogue at the state level about potential modifications to the Governor's proposed increases in employer contributions, the District's Adopted Budget incorporates the increases as proposed by the Governor at the following rates:

Rates in %	2013/2014	2014/2015	2015/2016	2016/2017
STRS	8.25	9.5	11.10	12.7
PERS	11.442	11.771	12.6	15

These rate increases will result in increased expenditures of approximately \$334,000 in 2014-15, another \$457,000 in 2015-16, and an additional \$532,000 in 2016-17.

Other Expenditure Assumptions

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The District has incorporated a number of additional expenditure assumptions into the 2014-15 Adopted Budget.

1. The proposed budget includes increased expenditures to accommodate the implementation of the second year of the district's STEM program, increased resources for school libraries, and the restoration of 1.5 FTE of support positions in the administrative services department at the district office.
2. The proposed budget also includes an assumption of the resumption of textbook adoption requirements beginning in 2015-16, and a corresponding increase in expenditures of approximately \$350,000 annually to support the acquisition of textbooks at the rate of one subject area per year.
3. The District anticipates ongoing implementation of the state mandated Transitional Kindergarten (TK) program for students whose fifth birthday falls between September 1 and December 2 of the enrollment year with no additional funding provided by the state. The District anticipates continuing to operate two (2) TK classes annually based on enrollment. However, the state legislature is currently considering legislation to expand TK eligibility, and should such legislation be enacted the District would anticipate a need for additional classes.
4. The District continues to maintain an ongoing contribution of 3.5% of the General fund budget for Routine Maintenance. These funds will be utilized to address maintenance items such as lighting, roofing, painting, plumbing, carpet/flooring, and asphalt repair/slurry work.
5. Continued debt service payments for energy equipment leasing and residential investment property are included.
6. Ongoing contributions to support the food services program continue at a level of \$207,000 per year.
7. The district is also anticipating increased costs of goods and services, including utilities, corresponding with a CPI increase of 2.1%..

ENDING BALANCE

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During the 2013-14 fiscal year, the Board took action to establish Fund 17 as an Endowment Fund and to transfer available one-time funds from its 2012-13 Ending Balance into this fund. The proposed budget maintains a balance in the Endowment Fund of \$10,000,000 plus interest accrued for the current and two subsequent fiscal years. Incorporated within this amount is the District's required Reserve for Economic Uncertainty of approximately \$1,700,000.

The proposed budget assumes that this amount will continue to be held in Fund 17. Not including the amount held in the Endowment Fund, the proposed budget reflects a positive ending fund balance in the current and two subsequent fiscal years growing from \$4,664,429 in 2014-15 to \$10,905,106 in 2016-17.

ACTUARIAL LIABILITY

In accord with Government Accounting Standards Board (GASB) Statement Number 45, the District has received an updated actuarial valuation for Other Post Employment Benefit liabilities and will include a statement of this liability in its financial reports. The district currently contributes OPEB costs on a pay-as-you-go basis, with no pre-funding. This currently involves a yearly cash contribution, which was \$278,105 last year and is projected to be \$362,070 for the current year. The district has established an irrevocable trust for OPEB costs, but this trust, held in Fund 71 and invested conservatively through the County pool, holds only \$20,000 to date. On a pay-as-you-go basis, the actuarial present value of projected benefits for active and retired employees will be \$24,926,096 as of 6/30/14, as opposed to a projection of \$14,546,873 if the District moved to a prefunding basis. The actuarial valuation indicates a net annual OPEB obligation of \$1,868,141. The District Finance Committee, in reviewing this information, has recommended that the District transition to prefunding and begin to budget for the net OPEB obligation.

It is also noted that GASB Statement Number 68 will require districts to report pension liabilities in their financial statements for fiscal years beginning after June 15, 2014. STRS and PERS will be providing this liability amount to each District, and it is anticipated that this reporting requirement will significantly increase BHUSD's total

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reported liability.

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CAFETERIA BUDGET ASSUMPTIONS

On June 2, 2014, the Board of Education approved the Cafeteria Business Plan and appointed a Director to run the program. This plan includes expenditures for the purchase of equipment for food delivery and the expansion of software used for tracking food production, inventory, and nutritional analysis information on meals served. It also includes an assumption that the District will transition back into the National School Lunch Program, which will generate an anticipated \$120,000 in revenue for the District and a reduction in expenditures resulting from the conclusion of the District's current agreement with ChoiceLunch at the conclusion of the 2013-14 school year. The plan assumes that ongoing general fund contributions to the food services program will be controlled and limited through a focus on ensuring that the meals served per hour are at a level that will maintain fiscal solvency with a general fund contribution not to exceed \$207,000. All expenditures and revenue incorporated into the Adopted Budget are estimates based on the adoption of the Cafeteria Business Plan.

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SPECIAL RESERVE FUND ASSUMPTIONS

1. As reported above, the Board of Education has established Fund 17 as an Endowment Fund which will maintain a balance of \$10,000,000 for the current and subsequent two fiscal years.
2. A very conservative estimate was used for interest.

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BOND FUND (MEASURE E) ASSUMPTIONS

1. Interest is projected at 1% based on County Treasury report
2. The building projects approved by the Board are currently for Horace Mann at this time. With the completion of the Mechanical, Electrical, Plumbing, Communication systems review to determine the needs as well as the seismic investigations completed, the Board is prepared to allocate funds in a realistic and effective manner. The line item budgets for each project include the following components:
 - a. Legal fees (contractual type)
 - b. Supplies/Equipment
 - c. Mailing/Reproduction
 - d. Bid advertisements
 - e. Environmental
 - f. Hazardous Materials Investigation
 - g. Geotechnical Investigation
 - h. Department of State Architect Fees
 - i. Dept. of Toxic Substance Control Fees
 - j. California Environmental Quality Act Fees
 - k. Utility fees by telephone, water, gas, sewer, storm drain, electrical, and cable/television
 - l. Consultants include administrative/clerical, Architects, Engineers, program and construction management and financial with a separate line item for reimbursement costs
 - m. Project Inspector
 - n. Material Testing
 - o. Soils Testing and Inspection
 - p. Hazardous materials Testing
 - q. SWPPS Inspections
 - r. Contractor costs and separate line item for change orders
 - s. Sew-Up Insurance premiums

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- t. District/purchase costs
- u. Moving Expenses
- v. Data and Telephone
- w. Hazardous Material Remediation
- x. Furniture and Equipment
- y. Telephone Installation and Fire Alarm
- z. Maintenance Department Purchase orders
- aa. Contingency for construction and for project

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CAPITAL FACILITIES FUND ASSUMPTION

The City of Beverly Hills collects all fees and submits them to the District for building permits on a semiannual basis. The District has taken a very conservative approach to the estimation of these fees and reflects a decrease of 59.1% in local revenue.

No expenditures have been made, but the budget allows for appropriation limits to be established in should for the Board of Education authorize an appropriate project that addresses student housing needs in a specific area.

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COUNTY SCHOOLS FACILITIES FUND

The District applied for state school building funds and has a balance left. The district may use these funds for building improvement when the final audit has been completed by the Office of Public School Construction. Until this time, the funds continue to earn interest.

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RETIREE BENEFIT FUND

An Other Pension Employee Benefits (OPEB) fund was previously established to set aside money to begin prefunding the retiree liability for medical costs. These funds provided seed money in the 2012-13 year in the form of a \$20,000 deposit and currently has a projected ending balance of \$34,633. This fund is irrevocable and will continue to receive contributions as negotiated to build up enough principal to address our OPEB liability.