

Newcastle Elementary School District
2018-19 First Interim Report and Multiyear Fiscal Projection
As of October 31, 2018
Presented December 12, 2018

Interim budget reports provide a picture of a district’s financial condition during the fiscal year. The Governing Board of a school district certifies the district’s financial condition to the county office of education through these reports. The First Interim Report is from July 1st through October 31st, and projects financial activity through June 30th. Illustrated below is a summary of the State budget and budget guidelines as provided by the county office of education, School Services of California, and other professional organizations. In addition, the First Interim Report contains summarized and detailed budget information, multi-year projections, and estimated cash flow reports.

Comparison of the State’s Proposed and Enacted Budget

During the preparation of the Enacted State Budget, there were various components of the May Revision budget that were either changed, removed, or not included in the Enacted State Budget. Since districts’ budgets are prepared based on the May Revision, the First Interim incorporates such changes. Illustrated below are the primary provisions and how the Enacted State Budget compares to the May Revision.

Proposition 98 Funding: The Enacted State Budget set Proposition 98 funding for 2018-19 at \$78.4 billion, which represents no change from the May Revision estimate.

LCFF Gap Funding and Cost-of-Living-Adjustment (COLA): The enacted State Budget fully implements the LCFF in 2018-19 (two years earlier than originally scheduled), with \$3.7 billion provided in new funding for the LCFF, up approximately \$500 million from the May Revision, and provides an additional \$570 million above the COLA as an ongoing increase to the formula. Illustrated below is a comparison of the gap funding percentages and COLA percentages between the proposed and Enacted State Budget.

Description	2017-18	2018-19	2019-20	2020-21
LCFF Gap Funding % – Proposed	43.97%	100.00%	100.00%	100.00%
LCFF Gap Funding % – Enacted	42.97	100.00%	100.00%	100.00%
Annual COLA (LCFF) – Proposed	1.56%	3.00%	2.57%	2.67%
Annual COLA (LCFF) – Enacted	1.56%	3.70%*	2.57%	2.67%

**Enacted COLA of 3.70% includes statutory COLA of 2.71% plus an augmentation of 0.99%.*

K-12 One-Time and Block Grant Mandate Funding: The Governor’s May Revision included over \$2.0 billion in one-time discretionary funds for districts, which equaled approximately \$344 per student. This amount was reduced to \$1.1 billion, or, \$184 per ADA in the enacted State Budget.

There was no change to the Mandate Block Grant from the May Revision, with the COLA resulting in a slight increase per ADA over 2017-18.

Other Programs

Low-Performing Schools Block Grant: One-time grant to help address the achievement gap for all students. Funding is estimated to be \$1,976 per eligible pupil. To estimate eligibility, districts can subtract low-income, EL, foster youth and special education students from their low-performing population (based on the 2016-17 CAASP test). CDE will determine the eligible pupil count and automatically apportion the block grant. Funds may be expended through 2020-21 and shall be used for evidenced-based services that directly support pupil academic achievement. The amount Newcastle Elementary is estimated to receive \$15,808 and Newcastle Charter is \$29,640.

Classified School Employees Professional Development Block Grant Program: Provides \$45 million to LEAs with a one-time grant based on their classified employee FTE. The first priority for the funds is the implementation of school safety plans. Districts can expect to receive \$177 per classified FTE. The amount Newcastle Elementary is estimated to receive \$2,038 and Newcastle Charter is \$1,683.

Local Solutions Grant Program: The Budget contains \$50 million for competitive grants to LEAs for the recruitment, preparation and support of new Special Education teachers. Grants of up to \$20,000 per teacher participant are available and require a local match.

Teacher Residency Grant Program: Apportions \$25 million to the CTC to provide one-time competitive grants to develop new, or expand existing, teacher residency programs that recruit and support the preparation of bilingual education, science, technology, engineering or mathematics teachers.

Routine Restricted Maintenance Account

Due to the passage of Proposition 51, any local educational agency that applies for state bond funds and receives a Proposition 51 apportionment from the State Allocation Board (SAB) would be subject to conditions set forth by the bond measure. The Proposition 51 ballot initiative contained language that the School Facility Program (SFP) is administered as it existed on January 1, 2015 which includes the provision of contributing the full three percent of General Fund expenditures into the routine restricted maintenance account (RRMA). This requirement, however, does not apply to projects funded by Propositions 1A, 47, and 55 as those bond measures did not contain similar language. Therefore, districts would either be required to contribute the three percent if participating in Proposition 51 (timing of contribution yet to be determined), or continue to follow the guidance of AB 104 and gradually increase their contributions as follows:

- All LEAs that received ANY School Facility Program funding are required to deposit 3% into their Routine Restricted Maintenance Account in the year in which the LCFF is fully implemented, which is 2019-20.
- If district received Prop. 51 funds in 2017-18 or 2018-19, the minimum 3% RRMA contribution is required in 2018-19.

Reserves

District Reserve Requirements (Senate Bill 858): The 2014 State Budget Act and the passage of Proposition 2 in November 2014 established a hard cap on district reserves, if all of the following conditions are met:

- The Proposition 98 maintenance factor must be fully repaid
- Proposition 98 must be funded based on Test 1
- Proposition 98 provides sufficient funds to support enrollment growth and the statutory COLA
- A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues

Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned or unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

Senate Bill (SB) 751 became effective January 1, 2018. It made changes to the school district reserve cap law in the following manner:

- It requires that the reserve cap is triggered in a fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts and allocated local proceeds of taxes (Proposition 98 funding), as specified, for that fiscal year
- Adjusts the reserve cap from a combined assigned and unassigned ending fund balance based on the size of the district to a combined assigned or unassigned ending balance, in the General Fund (01) and the Special Reserve Fund for Other Than Capital Outlay (17), of 10% of those Funds for all districts (pending clarifying legislation)
- Reserves would be capped at 10% as long as the amount in the Public School System Stabilization Account remained at 3% or greater of the Proposition 98 amount in each preceding year
 - The State must notify local educational agencies when the conditions are and are no longer applicable
- Basic aid school districts and districts with fewer than 2,501 average daily attendance are exempt from the reserve cap requirement

The district reserve cap is not activated in 2018-19 and is not expected to be activated in 2019-20. The likelihood of the reserve cap being activated in future years remains low, but if it is activated districts have the option to request a waiver from the county superintendent of schools for up to two consecutive years in a three-year period.

2018-19 Newcastle Elementary School District Primary Budget Components

- ❖ Average Daily Attendance (ADA) is estimated at 447
 - Newcastle Elementary 174
 - Newcastle Charter 273

- ❖ The District’s unduplicated pupil percentage for supplemental/ concentration funding is
 - Newcastle Elementary 42%
 - Newcastle Charter 18%

- ❖ Lottery revenue is estimated to be \$151 per ADA for unrestricted purposes and \$53 per ADA for restricted purposes.

- ❖ Mandated Cost Block Grant is
 - Newcastle Elementary \$31.16 for K-8 ADA
 - Newcastle Charter \$16.33 for K-8 ADA

- ❖ One-Time Mandate Funds are estimated at \$184 for K-12 ADA.

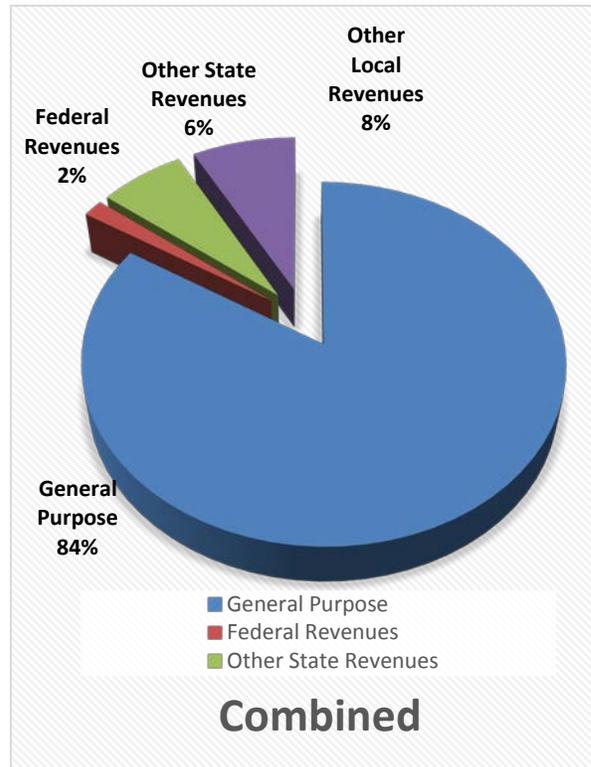
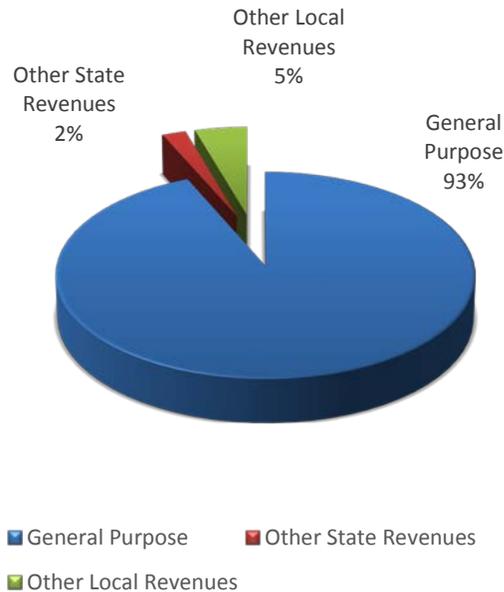
- ❖ Except as illustrated under Contributions to Restricted Programs, all federal and state restricted categorical programs are self-funded.

General Fund Revenue Components~ Newcastle Elementary and Charter Schools

The District receives funding for its general operations from various sources. A summary of the major funding sources is illustrated below:

Description	Unrestricted	Combined
General Purpose Revenue (LCFF)	\$7,583,709	\$7,655,558
Federal Revenues	\$0	\$142,174
Other State Revenues	\$164,907	\$595,530
Other Local Revenues	\$365,486	\$718,604
TOTAL	\$8,114,102	\$9,111,866

Unrestricted



Education Protection Account

As approved by the voters on November 6, 2012, The Schools and Local Public Safety Protection Act of 2012 (Proposition 30) temporarily increased the State's sales tax rate and the personal income tax rates for taxpayers in high tax brackets.

The creation of Proposition 30 provides that a portion of K-14 general purpose funds must be utilized for instructional purposes. Revenues generated from Proposition 30 are deposited into an account called the Education Protection Account (EPA). The District will receive funds from the EPA based on its proportionate share of statewide general purpose funds. A corresponding reduction is made to its state aid funds.

K-14 local agencies have the sole authority to determine how the funds received from the EPA are spent, but with these provisions:

- The spending plan must be approved by the governing board during a public meeting
- EPA funds cannot be used for the salaries or benefits of administrators or any other administrative costs (as determined through the account code structure)

- Each year, the local agency must publish on its website an accounting of how much money was received from the EPA and how the funds were expended

Further, the annual financial audit includes verification that the EPA funds were used as specified by Proposition 30. If EPA funds are not expended in accordance with the requirements of Proposition 30, civil or criminal penalties could be incurred.

Illustrated below is how the District’s EPA funds are appropriated for 2018-19. The amounts will be revised throughout the year based on information received from the state.

Education Protection Account (EPA) Budget		
2018-19 Fiscal Year		
Description	Newcastle Elementary	Newcastle Charter
BEGINNING BALANCE	\$0	\$0
BUDGETED EPA REVENUES:		
<i>Estimated EPA Funds</i>	\$227,413	\$366,837
BUDGETED EPA EXPENDITURES:		
<i>Certificated Instructional Salaries and Benefits</i>	\$227,413	\$366,837
	\$0	\$0
TOTAL	\$227,413	\$366,837
ENDING BALANCE	\$0	\$0

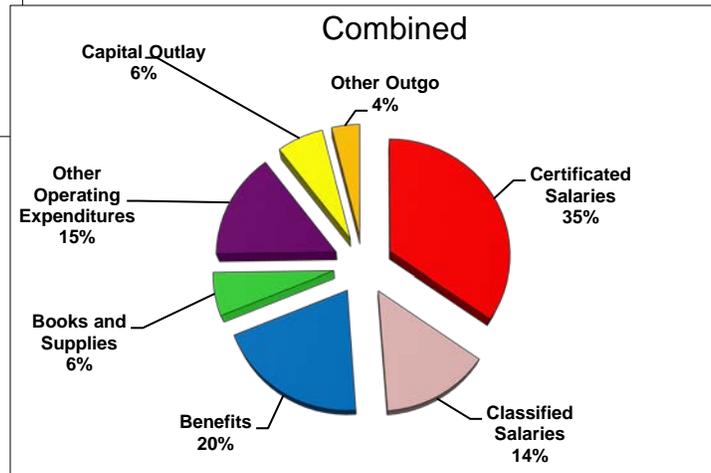
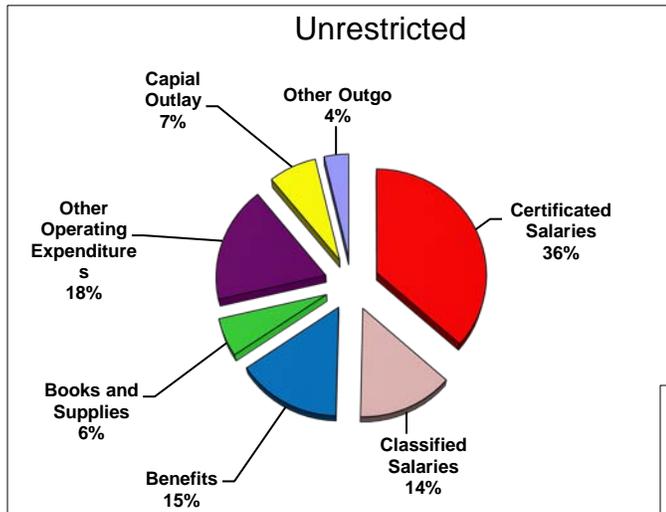
Subsequently, on November 8, 2016, the voters approved the California Children’s Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore, the temporary sales tax increase expired at the end of calendar year 2016.

Operating Expenditure Components~ Newcastle Elementary and Charter Schools

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits comprise approximately 65% of the District’s unrestricted budget, and approximately 69% of the total General Fund budget.

Description	Unrestricted	Combined
Certificated Salaries	\$1,970,343	\$2,352,931
Classified Salaries	\$746,433	\$956,017
Benefits (Payroll Taxes and Health & Welfare Contributions)	\$815,734	\$1,352,268
Books and Supplies	\$316,264	\$402,006
Other Operating Expenditures	\$957,353	\$1,006,434
Capital Outlay	\$388,200	\$440,628
Other Outgo	\$198,099	\$263,449
TOTAL	\$5,392,426	\$6,773,733

Following is a graphical representation of expenditures by percentage:



General Fund Contributions to Restricted Programs

The following contributions and transfers of unrestricted resources to restricted programs are necessary to cover restricted program expenditures in excess of revenue:

Description	Amount
Special Education - Instruction	\$167,227
Prop 39 Project	\$15,568
Title I Contribution	\$9,000
Restricted Maintenance Account	\$99,692
TOTAL CONTRIBUTIONS	\$291,487

General Fund Summary –

The District’s 2018-19 Unrestricted General Fund projects a total operating deficit of \$904,242 resulting in an estimated ending fund balance of \$2.5 million. The components of the District’s fund balance are as follows: revolving cash & other nonspendables - \$700; committed funds - \$706,176 assignments - \$1,497,078 which includes an additional 10% for REU; and State

Mandated reserve for economic uncertainty 5% - \$338,687. In accordance with SB 858 a detail description of assigned and unassigned balances is illustrated below.

Cash Flow

The majority of Newcastle Elementary School District’s property tax revenue is funded by the Educational Revenue Augmentation Fund (ERAF). This category of revenue is typically paid in the 13th month of the fiscal year which is July and then is back dated to June 30th. The District, is required, by education code to disburse in lieu property tax revenue to its charter schools by the 15th of each month throughout the school year. Occasionally this requires the District to utilize Placer County Treasurer’s dry period financing which allows NESD’s general fund to have positive cash flow. The District anticipates having a positive monthly cash balance during 2018-19.

Fund Summaries

Illustrated below is a summary of each Fund’s fund balance and corresponding change.

FUND	2017-18	Est. Net Change	2018-19
NEWCASTLE ELEMENTARY	\$3,795,902	(\$994,307)	\$2,801,595
NEWCASTLE CHARTER SCHOOL	\$208,595	(\$142,560)	\$66,035
FOOD SERVICE	\$32,838	(\$1,818)	\$31,020
DEFERRED MAINTENANCE	\$385,774	\$11,600	\$397,374
CAPITAL FACILITIES	\$14,078	(\$1,402)	\$12,676
CAPITAL OUTLAY	\$3,840,568	(\$3,840,568)	\$0

Multiyear Projection

General Planning Factors:

Illustrated below are the latest factors released by the Department of Finance (DOF) that districts are expected to utilize as planning factors:

<i>Planning Factor</i>	<i>Fiscal Year</i>			
	2017-18	2018-19	2019-20	2020-21
COLA (DOF)	1.56%	3.7%	2.57%	2.67%
STRS Employer Rates	14.43%	16.28%	18.13%	19.1%
PERS Employer Rates (PERS Board / Actuary)	15.531%	18.062%	20.70%	23.4%
Lottery – unrestricted per ADA	\$156	\$151	\$151	\$151
Lottery – Prop. 20 per ADA*	\$59.88	\$53	\$53	\$53
Mandated Cost per ADA / One Time Allocations (DOF)	\$147	\$184	\$0	\$0
Mandate Block Grant for Districts: K-8 per ADA	\$30.34	\$31.16	\$31.96	\$32.81
Mandate Block Grant for Districts: 9-12 per ADA	\$58.25	\$59.83	\$61.37	\$63.01
Mandate Block Grant for Charters: K-8 per ADA	\$15.90	\$16.33	\$16.75	\$17.20
Mandate Block Grant for Charters: 9-12 per ADA	\$44.04	\$45.23	\$46.39	\$47.63

Routine Restricted Maintenance Account * <i>Percentage of total general fund expenditures</i>	Lesser of: 3%*	Greater of: Lesser of 3%* /	Greater of: Lesser of 3%* /	Greater of: Lesser of 3%* /
<i>(Note: Due to the November 2016 facility bond proposition passing, the RRMA requirement may revert to 3% for applicable LEAs. Please refer to description noted above.)</i>	2014-15 Amount	2014-15 Amount	2014-15 Amount	2014-15 Amount
	or	or	or	or
	2%*	2%*	2%*	2%*

NOTE: 2018-19 COLA of 3.7% includes statutory COLA of 2.71% plus an augmentation of 0.99% represented by an additional \$570 million for school districts and charter schools.

Revenue Assumptions:

Per past enrollment trends Newcastle Elementary School has declined in ADA and Newcastle Charter School ADA has increased. However, when analyzing the current enrollment data it appears the opposite has happened. Newcastle Elementary average daily attendance (ADA) has increased while Newcastle Charter’s has decreased. This is primarily due to a reallocation of students who were enrolled in the charter school but lived in our district.

The Local Control Funding Formula is estimated to be adjusted per Department of Finance's estimates of COLA. Federal revenue is expected to remain relatively constant for subsequent years. The State has announced two new grants and the first one is called the Low Performing Student Block Grant. These funds are intended for students that need extra help but do not fall under Special Education or are identified as EL, low income or foster. The second grant is the Classified School Employee Professional Development Block Grant. This grant can be used for Classified professional development is the first priority being school safety plan training. Local revenue, for Newcastle Elementary, decreased slightly over 2017-18 due to losing back office fees from Placer Academy Charter School that is now being chartered by Rocklin Unified.

Expenditure Assumptions:

Certificated step and column costs are expected to increase by 1.9% each year.

Classified step costs are expected to increase by 3.0% each year.

On December 21, 2016, the California Public Employees’ Retirement System (CalPERS) Board took action to approve lowering what is known as the “discount rate” from 7.5% to 7.0% over three years beginning in 2018-19. This action effectively lowers what CalPERS projects will be the annual rate of return on its entire investment portfolio (i.e. investment return percentage). By reducing the current discount rate from 7.5% to 7.375% in 2018-19, 7.25% in 2019-20, and then 7.0% in 2020-21, the CalPERS Board will be scheduling higher employer contribution rates that will significantly exceed previous projected increases. Illustrated below are the actual rates through 2018-19 and projected rates through 2024-25.

Description	2017-18 Actual	2018-19 Projected	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected	2024-25 Projected
Employer Rates	15.531%	18.062%	20.7%	23.4%	24.5%	25.0%	25.5%	25.7%
Member (Pre-PEPRA)	7%	7%	7%	7%	7%	7%	7%	7%
Member (Post-PEPRA)	6%	6%	6%	6%	6%	6%	6%	6%

Assembly Bill 1469 (CalSTRS full-funding plan) increased the contribution rates that employers, employees and the State pay to support the California State Teachers' Retirement System (CalSTRS). Similar to CalPERS, the CalSTRS Board lowered its assumed rate of return on its investment portfolio from 7.5% to 7.0% and adopted new demographic assumptions. Under Assembly Bill 1469 both State and employer contribution rates may be increased by the CalSTRS Board in order to maintain the goal of reaching full funding of the retirement system by 2046.

Current law increases STRS contribution rates to 19.1% beginning July 1, 2020. Further, under Education Code Section 22950.5, CalSTRS will have the authority to increase or decrease the employer and State contribution rates. However, the rates may not be increased by more than one percent in a year and cannot exceed 12% overall until the remaining unfunded actuarial obligation is eliminated. In addition, new CalSTRS members (hired after January 1, 2013) are required to pay at least half of the normal cost of the DB program; thus, these members' contributions will increase by 0.5% effective July 1, 2017.

Illustrated below are the statutory rates through 2020-21 and projected rates from 2022-23 through 2024-25:

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5								
Description	2017-18 Actual	2018-19 Actual	2019-20 Approved	2020-21 Approved	2021-22 Projected	2022-23 Projected	2023-24 Projected	2024-25 Projected
Employer Rates	14.43%	16.28%	18.13%	19.10%	18.60% (20.10% Max.)	18.10% (20.25% Max.)	18.10% (20.25% Max.)	18.10% (20.25% Max.)
Member (2% at 60)	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	9.205%	10.205%	10.205%	10.205%	10.205%	10.205%	10.205%	10.205%

Therefore, adjustments to benefits reflect the effects of salary changes noted above, and expected increases to employer pension costs.

Books, supplies, operating and service expenses were reduced in 2019-20 by one time purchases that were made in 2018-19. In 2019-20 a larger percentage of other services and operating expenses have been allocated to Newcastle Elementary School.

Estimated Ending Fund Balances:

During 2019-20, the District estimates that the unrestricted General Fund is projected to deficit spend by \$1,014,942 resulting in an unrestricted ending General Fund balance of approximately \$1.5 million.

During 2020-21, the District estimates that the unrestricted General Fund is projected to deficit spend by \$1,010,874 resulting in an unrestricted ending General Fund balance of approximately \$516,825

In accordance with the disclosure requirements of Senate Bill 858, amounts over the State mandated reserve of three percent of total general fund outgo are reserved for the following activities:

Description	2018-19	2019-20	2020-21
19--20 Projected Deficit	\$302,072		
20-21 Projected Deficit		\$342,346	\$0
Reserve Transition Year - No Basic Aid Sup Fund	\$500,000	\$0	
Awning Fund	\$8,107	\$8,107	\$0
Wellness Fund	\$170	\$170	\$0
STEM Donation Account	\$230	\$230	\$0
Music Donation Account	\$3,396	\$3,396	\$0
Library Author Fund	\$800	\$800	\$0
Library Book Fair	\$4,930	\$4,930	\$0
Committed Funds	\$706,176	\$197,092	\$192,550
PrePaid Expenses	\$0	\$0	\$0
Add: Additional 10% Reserve - BP3100.2	\$632,426	\$646,620	\$0
Amount Disclosed per SB 858 Requirements	\$2,158,307	\$1,203,691	\$192,550
Add: Nonspendable Reserves	\$700	\$700	\$700
Add: State Reserve for Economic Uncertainty (REU) - 5%	\$383,634	\$323,308	\$323,575
Add: Restricted Fund Balance	\$258,954	\$146,908	\$17,671
Add: Unallocated	\$0	\$0	\$0
<i>Estimated Ending Fund Balance</i>	<i>\$2,801,595</i>	<i>\$1,674,607</i>	<i>\$534,496</i>

Conclusion:

Newcastle Elementary School District (NESD) has experienced exciting improvements and changes over the last two school years. The summer of 2017 started with Phase I of the modernizations plan. In addition to adding a turnabout to the newly renovated parking lot we were able to make the front of the upper campus Americans with Disability Act (ADA) compliant. The summer of 2018 brought the ambitious Phase II which was renovation of most of upper campus interior plus adding classrooms and new bathrooms to the lower campus 600 building.

Deficit spending is expected due to expansion of various education programs and increased expenses with PERS and STRS contributions. The Local Control Funding model has been fully funded starting with the 2018-19 school year. This will bring districts to the funding level we had in 2007-08 before the Great Recession. Going forward, the only LCFF increases to revenue

will be cost of living adjustments. NESD administration and school board has maintained sufficient reserves anticipating upcoming changes. Prudent reserve affords the district and the governing board time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees. We will closely monitor our budget and work proactively to support the wonderful programs NESD offers.

NESD has received additional State Aid from the School District Basic Aid Supplement Charter School Adjustment in 2016-17, 2017-18 and 2018-19. Due to the unpredictable nature of this revenue it is considered one time funding and has not been included in the 2019-20 or 2020-21 multiyear projections. The 2018-19 School District Basic Aid Supplement Charter School Adjustment funds are being reserved for Phase III of the modernization plan which will begin in the summer of 2019. Phase III will include renovations to the exterior of the buildings and campus. It is important that NESD remain diligent on using these funds on one-time expenses.

NESD continues business partnerships with our 4 independent charter schools. NESD provides back office, special education services and oversight to Harvest Ridge Cooperative Charter School. Placer Academy, now sponsored by Rocklin Unified School District still uses NESD for Special Education services. We will continue to provide oversight to Rocklin Academy-Gateway, Creekside Charter School and Golden Valley, our newest independent charter school. NESD also continues to partner with PCOE for our landscaping services in exchange for housing their maintenance and operations department at the lower campus. PCOE also leases Onorato School, on Kentucky Greens, to run their severe special education program.

The 2018/2019 First Interim budget report supports that the District will be able to meet its financial obligations for the current and two subsequent years, while maintaining reserves in excess of the minimum state requirement in 2018-19 and 2019-20 only. The 2020-21 reserves are projected to meet the State mandated 5% but not the extra 10% request by the NESD Board of Trustees. The multi-year projection exercise allows us to prepare for what may happen two years based on the information we have now. Administration is working on an analyzing the operating budget to find way to curb the deficit spending.

Thank you to our Board of Trustees and all of our staff who work so hard, directly and indirectly, for our students. Each one of you are an integral part of educating the children of our district.

Please contact me with any questions.

In your service,

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