GRANADA HILLS CHARTER
HIGH SCHOOL

TO: Governing Board DATE: June 20, 2016

FROM: Gene Straub, Chief Business Officer

SUBJECT: Preliminary Budget for 2016-17

Background

The State's progress towards full implementation of the Local Control Funding Formula ("LCFF") will continue in 2016-17. Based on continued economic improvement at both the state and federal level, generally positive tax revenues and a conservative, yet optimistic, economic outlook, the Assembly and Senate met their constitutional obligations and forwarded a $171-billion budget package to Governor Brown for his signature on June 15th.

The budget package includes increased funding for K-12 education and a continued acceleration of LCFF implementation with a projected Gap Closure of 54.84% for 16-17. This is the percentage of the difference between full entitlement target funding and the calculated floor that is funded for all public schools.

The following table shows the Target, Floor and Gap Funding since the implementation of LCFF:

Category	13-14	14 - 15	15-16	16-17	Cumulative Change
Target	$39,761,307	$41,048,790	$42,423,262	42,916,428	**7.94%**
Floor	28,869,681	30,898,445	34,753,753	39,205,350	**35.80%**
Gap	10,891,626	10,150,345	7,669,509	3,711,078	**-65.93%**
Gap Closure (%)	12.00%	30.16%	52.20%	54.84%	**357.00%**
Gap Closure ($)	1,306,995	3,061,344	4,003,484	2,035,155	**55.71%**
Total Funding Floor + Gap Closure ($)	30,176,676	33,959,789	38,757,237	41,240,505	**36.66%**
Remaining Gap ($) (Target - Total)	9,584,631	7,089,001	3,666,025	1,675,923	**-82.51%**
Remaining Gap (%) (Remaining Gap / Target)	24.11%	17.27%	8.64%	3.91%	**-83.80%**

As this table shows, the rate of growth in Target Funding has been slow and steady, with a cumulative increase since 13-14 of 7.94%. At the same time, due to strong economic improvement, the Floor has increased nearly 36% over the same period. The Gap Closure rate has more than quadrupled since 13-14 and the Remaining Gap has dropped nearly $8 million over the same period from 24.11% of Target Funding to 3.91%.

All of these changes highlight how Targeted Funding has increased as the State's economy has improved. Through LCFF and the acceleration of its implementation, schools are now getting a greater and greater share of the total funding that they are guaranteed under Prop 98. For 16-17, we will receive 96.09% of the total funding that we should be getting under Prop 98; this is far better than the 75.89% we receive in 13-14.

At the same time, given that Gap Closure has been much faster than originally projected, there are much smaller year over year increases. Again referring the table above, with only $1.6 million of gap left, our projected revenue growth for 17-18 is about $400,000 less than the $2.4 million we saw between 15-16 and 16-17, and over $2.7 million less than the increase between 14-15 and 15-16. This is due the overall acceleration of the Gap Closure, as well as the repayment of the Maintenance Fee owed to schools from the deferral years. Now that the Maintenance Factor has been nearly repaid, the share of incremental general fund revenue going to schools has reverted back to a more traditional split; over the past few years, schools were receiving nearly 90 cents of every incremental dollar that the state was receiving above the projected budget. We will continue to see overall increases as our ADA increases.

The following table shows the projected Target, Floor and Gap Funding for the next three years:

Category	17-18	18-19	19-20	Cumulative Change
Target	$43,901,736	$44,954,551	$45,922,636	**4.60%**
Floor	41,700,239	43,273,301	43,751,334	**4.92%**
Gap	2,201,497	1,681,250	2,171,302	**-1.37%**
Gap Closure (%)	73.96%	41.22%	75.16%	**1.62%**
Gap Closure ($)	1,628,227	693,011	1,631,951	0.23%
Total Funding Floor + Gap Closure ($)	43,328,466	43,966,312	45,383,285	**4.74%**
Remaining Gap ($) (Target - Total)	573,270	988,239	539,351	-5.92%
Remaining Gap (%) (Remaining Gap / Target)	1.31%	2.20%	1.17%	-10.06%

As this table illustrates, there is very little Gap left on a year to year basis and the continued high Gap Closure rates are bringing Target and Floor Funding closer and closer each year. GHCHS will be operating on funding between 97.8% and 98.83% of the Target for the school. Due to changes in the Prop 98 guarantee calculation every year, it is assumed that there will always be a small gap between the Target and Floor rates, but the gap is forecasted to be 5% or less.

There are a number of complicated factors that are used to determine how schools in California are funded, and we are now entering an era where the schools will be receiving much smaller increases on a year over year basis. With COLAs being extremely low (16-17 COLA is 0.00%), we are projecting relatively flat revenues for the coming years, with the only increases coming from changes in enrollment, small increases in grade level funding and Gap Closure rate.

The following table shows our past, current and projected revenue for the next four years:

Category	14-15	15-16	16-17	17-18	18-19	19-20
State Funding	$33,959,805	$38,757,237	$41,240,505	$43,328,466	$43,966,316	$45,383,285
Growth vs PY ($)	3,782,944	4,797,432	2,483,268	2,087,961	637,850	1,416,969
Growth vs PY (%)	12.5%	14.1%	6.4%	5.1%	1.5%	3.2%
Funded ADA (#)	4,268.82	4,336.42	4,423.20	4,473.64	4,467.82	4,445.51
Growth vs PY (%)	2.47%	1.58%	2.00%	1.14%	-0.13%	-0.50%

As this table illustrates, year on year revenue growth as a percentage has dropped considerable, and the out year numbers may drop even further if the projected state-wide economic performance does not meet expectations. The current long-term projections do not include any allowance for economic slowdown or recession between now and 2020. If true, this would be an unprecedented economic cycle representing over 12 years of positive growth.

Finally, as part of the LCFF implementation, schools are required to calculate the Minimum Proportionality Percentage ("MPP") – this represents the resources that are to be required to be directed to improving services to the schools "Unduplicated" students. Unduplicated refers to a unique count of students who are Low Income, English Learners or Foster Youth. Students who fall in to more than one of these categories are only counted once (Unduplicated) for the purpose of determining both Supplemental and Concentration Funding. Supplemental Funding provides $1,760 per ADA multiplied by the school's Unduplicated percentage (GHCHS' Unduplicated percentage is 51.44% for FY17). Concentration funding provides additional resources to schools serving over 55% Unduplicated. AS GHCHS does not meet this threshold, no additional funding is included in the budget.

Based on the school's Unduplicated percentages and funding, the following table shows the MPP for the next four years – these amounts are included in the LCAP:

Category	16-17	17-18	18-19	19-20
MPP (%)	5.60%	7.52%	4.13%	7.72%
MPP ($)	2,186,934	3,028,874	1,745,605	3,251,455

While year over year growth continues to flatten out, statutory retirement expenditures are continuing to increase. The following table shows the past, present and future rates for STRS and PERS:

Category	14-15	15-16	16-17	17-18	18-19	19-20
STRS	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%
PERS	11.77%	11.85%	13.89%	15.50%	17.10%	18.60%

Budget Assumptions

The 16-17 and multi-year budgets have been prepared using a conservative approach to enrollment and growth. GHCHS utilizes a number of outside sources to inform decisions on budget assumption, including School Services of California (SSC), the Financial Crisis and Management Assistance Team (FCMAT) and the California Charter Schools Association (CCSA). All three of these organizations provide analyses of the state budget and projections on the various funding elements that comprise the overall funding program for schools. GHCHS uses the FCMAT LCFF Calculator to estimate General Purpose, EPA and In-Lieu Property Tax revenues and uses a combination of data from FCMAT, SSC and CCSA to project other state and federal revenues such as Special Education funding (AB 602 and IDEA), Restricted One Time Funding (such as Educator Effectiveness in 2015), Unrestricted One Time Funding, Lottery (Restricted and Unrestricted) and Mandated Costs Reimbursement. In addition, estimates are made regarding enrollment and utilization of the school's food service program, along with other revenue sources such as grants, facility leases, non-resident student fees fundraising and other donations.

The following table highlights the key assumptions for 16-17 as well as the coming years:

Category	16-17	17-18	18-19	19-20
Enrollment				
Students (#)	4560	4612	4606	4583
ADA (#)	4423.20	4473.64	4467.82	4445.51
ADA (%)	97.0%	97.0%	97.0%	97.0%
Unduplicated Students (%)	51.22%	51.44%	52.00%	52.00%
Revenue				
COLA – State (%)	0.00%	1.11%	2.42%	2.67%
COLA – Federal (%)	0.85%	0.85%	0.85%	0.85%
Base Funding 9 – 12 ($/ADA)	8,578	8,673	8,883	9,120
Grade Span Adjustment ($/ADA)	223	225	231	237
Supplemental Funding ($/ADA)	1,760	1,780	1,823	1,871
Concentration Funding > 50% ($/ADA)	---	---	---	---
In-lieu of Property Tax	1,898.95	1,898.95	1,898.95	1,898.95
Lottery – Restricted ($/ADA)	41.00	41.00	41.00	41.00
Lottery – Unrestricted ($/ADA)	140.00	140.00	140.00	140.00
Mandate Block Grant ($/ADA)	42.00	42.00	42.00	42.00
One Time Funding ($/ADA)	204.00	---	---	---
Nutrition – Federal ($/ADA)	247.08	249.18	251.30	253.44
Nutrition – State ($/ADA)	22	22.24	22.78	23.39
SpED – Federal ($/ADA)	192.85	194.49	196.14	197.81
SpED – State ($/ADA)	563.12	569.37	583.15	598.72

Category	16-17	17-18	18-19	19-20
Expenditures				
Step/Column (%)	2.00%	2.00%	2.00%	2.00%
Off-Table Adjustment – Certificated (%)	5.00%	3.50	0.00	0.00
OASDI – Classified (%)	6.20%	6.20%	6.20%	6.20%
Medicare – All (%)	1.45%	1.45%	1.45%	1.45%
Health Care Inflation – All (%)	6.00%	6.00%	6.00%	6.00%
STRS – ER Contribution (%)	12.58%	14.43%	16.28%	18.13%
PERS – ER Contribution (%)	13.89%	15.50%	17.10%	18.60%
Workers Compensation – All (%)	1.00%	1.00%	1.00%	1.00%
Unemployment (%)	0.10%	0.10%	0.10%	0.10%
Facilities Oversight (%)	1.00%	1.00%	1.00%	1.00%
SpED Fair Share [AB602 & IDEA] (%)	20.00%	20.00%	20.00%	20.00%

Other Assumptions

Non-percentage or ADA-based revenue and expenditures have been budgeted based on actual and/or projected revenues and costs for future years. The FY17 budget and multi-year projections also incorporate the salary enhancements recently negotiated with UTLA as well as the projected impact of pro rata salary enhancements for classified hourly staff and performance-based increases for classified staff (i.e. managers and iGranada advisors) and certificated and classified administrators.

Budget Summary

Fiscal Year	15-16	16-17	% Chg	17-18	18-19	19-20
Revenue						
LCFF	38,503,119	41,238,728	7.10%	43,328,000	43,966,054	45,383,218
Federal	3,158,525	3,124,895	-1.06%	3,171,975	3,193,303	3,207,009
State	6,387,045	4,472,642	-29.97%	3,867,175	3,978,763	4,160,067
Other	3,418,000	3,569,017	4.42%	3,587,152	3,605,649	3,624,516
Total Revenue	**51,466,689**	**52,405,282**	**1.82%**	**53,986,407**	**53,954,301**	**54,743,769**
Expense						
Certificated	21,187,934	22,159,596	4.59%	22,279,890	21,956,993	22,396,133
Classified	6,951,255	7,270,034	4.59%	7,309,500	7,203,565	7,347,636
Health/Welfare	8,789,323	9,888,019	12.50%	10,737,947	11,488,627	12,461,423
Books/Supplies	3,885,500	3,445,500	-11.32%	3,536,400	3,591,800	3,673,200
Other Operating	8491754	7,374,690	-13.15%	7,422,284	7,470,829	7,576,246
Capital Outlay	550,000	600,000	9.09%	600,000	600,000	600,000
Other Outgo	1,262,827	1,302,448	3.14%	1,338,027	1,357,308	1,383,327
Total Expense	**51,118,593**	**52,040,287**	**1.80%**	**53,242,670**	**53,224,048**	**53,669,122**
Net Income ($)	**348,095**	**364,995**	**4.85%**	**730,253**	**1,074,647**	**936,845**
Net Income (%)	**0.68%**	**0.70%**	**3.14%**	**1.37%**	**2.00%**	**1.69%**

Revenue Overview

Local Control Funding Formula (Basic State Aid) is comprised of three components: Basic LCFF Funding, Education Protection Account (EPA) Funding and In Lieu of Property Tax Funding. All of these are calculated using the LCFF Calculator that has been developed by the CDE. GHCHS uses a version of the calculator provided and maintained by FCMAT. The LCFF calculator factors in the per-ADA assumptions derived from the May Budget Revision (listed above) and it will be further updated based on the Final Budget Bill. Using our assumed enrollment, attendance and unduplicated pupil percentage, the calculator determines the base funding, supplemental funding and minimum proportionality percentage for the coming year. It also derives the splits between LCFF, EPA and In Lieu based on current assumptions. These revenue streams are dictated by the LCFF calculator, and other than changes in enrollment and unduplicated student assumptions, there are no discretionary assumptions in these calculations. LCFF and In Lieu funding can be used for all school-related expenses, while EPA funds can only be used for salaries and benefits per the Board's EPA Spending Resolution.

Federal Revenues includes Federal Special Education Funding (IDEA), National School Lunch Program (NSLP) Reimbursements, Title I and II Program Funding, AP/IB Test Fee Reimbursements and Career Technical Education Funding. As in 15-16, we have opted not to apply for Title III – Limited English Proficient funding as the available funding (less than $10,000 to GHCHS) does not make sense given the required reporting and program activities. The 21st CCLC Afterschool Funding continues as a pass-through grant from YPI. We are projecting a modest increase in overall NSLP reimbursements based on the growth in ADA and the addition of the Devonshire site to the food service program. For Title I – Low Achieving and Title II – Teacher Quality, we have assumed modest increases over FY16 awards due to COLA adjustments and increased ADA – overall Title I funding is lower than FY16 due to carryover funding from FY15 that was added to the FY16 budget. Preliminary awards will not be available until later this summer, but we are not expecting any significant changes. All Federally funded programs are budgeted to breakeven, and, as in past years, Title I funds will be utilized to cover co-teacher positions in the General Education program as well as targeted intervention programs for low achieving students throughout the year, Title II funds will be used for Professional Development activities, NSLP funds will offset food and labor costs in the Cafeteria, 21st CCLC funds will be used to run the After Hours Activities (AHA) program, Perkins CTE funds will be used to support the Career Technical Education Program and IDEA funds will be used to cover co-teacher positions in the Special Education program.

Other State Revenue includes all funding from the State exclusive of the funds reported in LCCC/Basic State Aid category. This group of funds includes State Special Education Funding (AB602), State Meal Reimbursements, Mandated Cost Reimbursements, Lottery (Restricted and Unrestricted) and One-Time Funding. With the exception of the Meal Reimbursements and One-Time Funding, these funding sources are all apportioned by the State based on our reported attendance. Meal Reimbursements are calculated based on actual usage, and, as we did with NSLP Funding, we have assumed a modest increase in utilization based on growth in enrollment and the addition of the Devonshire site to the program. One-Time Funding is based on FY16 P2 ADA.

As we have discussed throughout the year, there is concern about the impact of the elimination of One-time Funding and the expiration of Prop 30. Due to the way the state chose to reduce school funding during the recession, schools were owed approximately $10 billion in constitutionally-required funding (the "Maintenance Factor") that had not been paid during this period. As a result of the increased economic activity and increases in state revenues, all but $772 million of the Maintenance Factor will have been paid out by the end of 15-16 through one-time funding streams. Based on our ADA, this equals about $2.5 million in 15-16 that we do not expect to see in future years. There is approximately $200/ADA of one-time funding in the Legislatures approved budget package, but we do not yet have details as to any restrictions attached to these funds. Prop 30 – the temporary sales tax and income tax increase – are set expire over the coming years under a phase out scheme, and at this point, while there is a proposed ballot measure to extend the income tax increase, it is unclear how this will impact overall funds available for future budget consideration.

Other Local Revenue includes revenue generated through the sale of food to our non-FRL eligible students, the rental of the campus and school-owned property for filming, instruction, religious and sports activities and events, grants and fundraising proceeds, our Federal interest rebate and revenues associated with student activities run via the Associated Student Body. We have made some modest adjustments, both up and down, within the Other Local Revenue category to account for projected activity in the new fiscal year.

Also included in the revenue portion of the budget is the **Contribution from Unrestricted Sources** that covers the shortfall between our AB602 revenue and AB602 expenses. This is necessary to bring the AB602 program to breakeven and is a transfer between accounts.

Expense Overview

Certificated Salaries includes all compensation (base salary, stipends, differentials, professional learning days, coverage, summer school, summer transition academy and auxiliaries) for credentialed faculty. We have included a 7.0% increase in this category to cover the cost of Step & Column increase as well as the 5% Off-Table adjustment that was agreed to during contract negotiations. Additional increases in this category are due to the roll-forward of the 4% On-Table adjustment that was agreed for the 15-16 year. Due to the 2.5% Off-Table increase that was included in 15-16, the year over year percentage change is only reflected as 4.59%.

Classified Salaries includes all compensation (base salary and stipends) for all non-credential staff. Similar to our planning for certificated salaries, we have also included an increase in classified expenses for 16-17 to account for the final allocation of on-table, off-table and range-related increases.

We will be finalizing the headcount schedules for both Certificated and Classified employees over the summer as final enrollment numbers are confirmed.

Employee Benefits includes the statutory rates for Retirement (STRS, PERS & PARS), OASDI, Medicare and Unemployment contributions. This category also includes the costs for GHCHS-provided medical/dental/vision insurance and workers compensation insurance. A 6% annual increase has been forecasted for Health and Welfare costs.

Books and Supplies covers Instructional Materials, Office, Custodial and Maintenance Supplies, Other Supplies (including ASB activities), Non-Capitalized Equipment and Food for the school lunch program.

Other Operating Expenses includes the non-instructional costs associated with the operation of the school, including instructional contracts for the iGranada online curriculum, special education services, maintenance and repair costs for both Zelzah and Devonshire, Legal and Audit services, field trip transportation and Professional Development costs.

Capital Outlay includes our estimated Depreciation Expense which has been increased to account for additions to the Fixed Asset register as well as the capitalized costs related to the Devonshire improvements

Other Outgo includes fair share payments to LAUSD for our use of the Zelzah campus (1% of LCFF Funding) as well as for our participation in the Option 3 portion of the Charter Operated Program for Special Education (20% of IDEA and AB602 Funding). This category also includes our QSCB interest expense and the transfer of indirect costs from unrestricted programs to Federally-funded programs (Title I, Perkins, IDEA and Cafeteria).

Net Income

Based on current assumptions, Net Income for 16-17 will is projected at $365,000. This is equivalent to .70% of budgeted expenses. Net Income is forecasted to remain in the range of 1% – 2% over the next four years.

Next Steps

Between now and the September board meeting, the budget will be actualized to reflect final enrollment based on STA attendance and start of school student counts along with final staffing counts and contracts based on current open positions and evaluations.

The budget will also be updated based on the final details included in the state budget package, including final Gap Closure rate, One Time Funding (Unrestricted and Restricted), Special Program Funding and final state revenue estimates.

Finally, the LCAP, including the calculation of the MPP, will also be reviewed and revised as needed based on potential budget changes.

Recommendation

It is my recommendation that the Board approve the 2016-17 Preliminary Budget with the understanding that a revised budget will be brought to the Board in September with updated revenue and expense projections in the context of actual student enrollment.

cc: Brian Bauer, Executive Director