

Ocean View School District of Orange County

Unaudited Actuals Budget Update

Based on 2019-20 Budget Adoption June 25, 2019
and 2018-19 Unaudited Actuals
Presented September 3, 2019



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Presentation Themes

- ❖ No major changes to the Governor's Signed Budget
- ❖ No significant changes to the District's Operational Budget
- ❖ Increase to Ending Fund Balance
- ❖ 5 Significant Budget Challenges

Combined Budget Comparisons

GF Combined	2018-19 Estimated Actuals May-21-2018	2019-20 Budget Adoption June-25-2019	2018-19 Unaudited Actuals Sept-3-2019	2019-20 Adjusted Budget Sept-3-2019
Revenues	\$90,618,456	\$87,565,199	\$91,386,995	\$87,565,199
Expenditures (including transfers out)	\$89,257,048	\$89,288,336	\$88,704,609	\$89,288,336
Surplus/((Structural Deficit))	\$1,111,408	(\$1,973,137)	\$2,432,386 +\$1,320,978	(\$1,973,137)
Beginning Fund Balance	\$11,270,514	\$12,381,921	\$11,270,514	\$13,702,900
Ending Fund Balance	\$12,381,921	\$10,408,784	\$13,702,900	+\$1,320,978 \$11,729,763

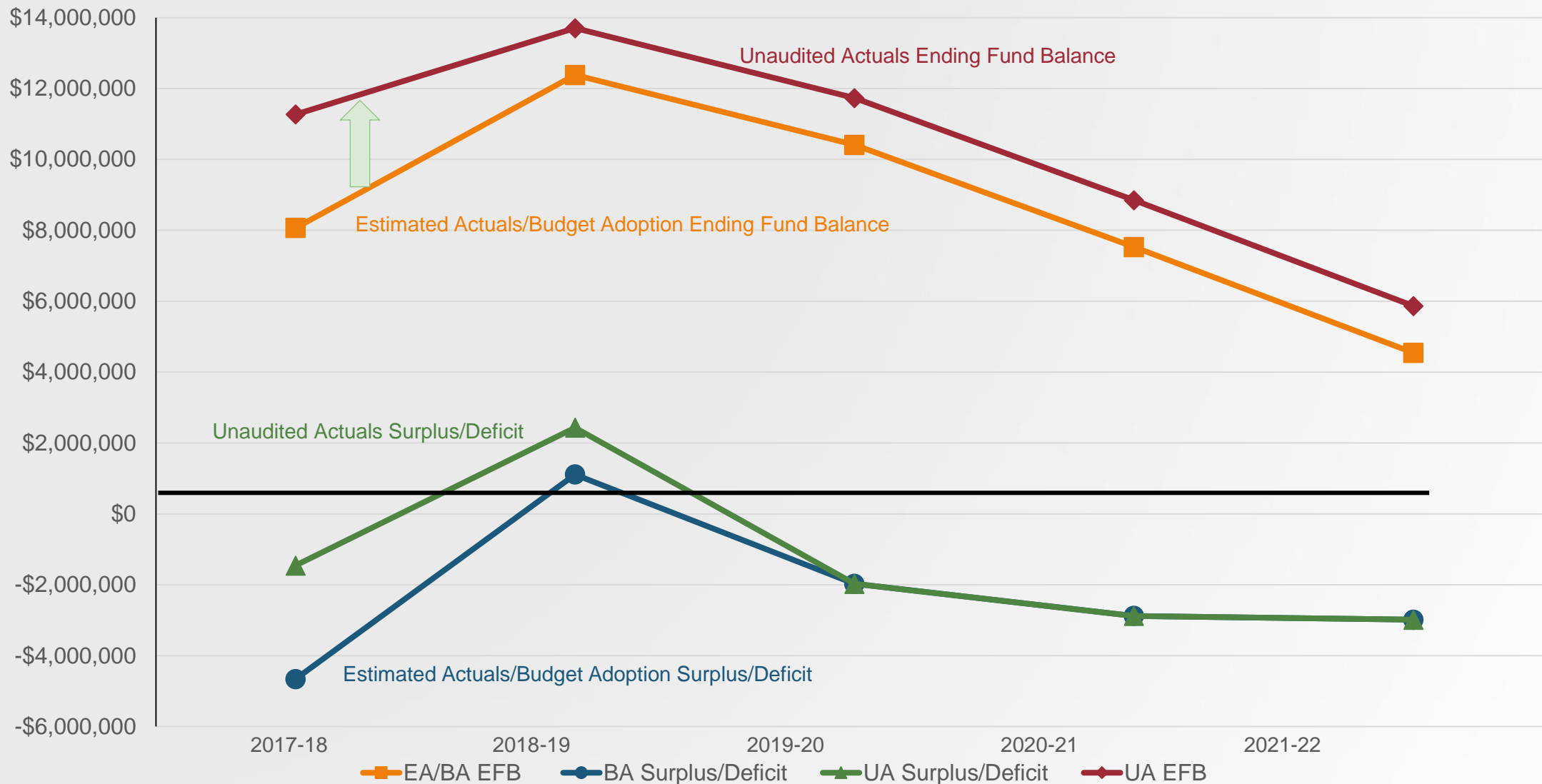
Impact of Unaudited Actuals Combined General Fund

GF Combined	Adjusted 2019-20 Budget
Revenues	\$87,565,199
Expenditures	\$89,288,336
Surplus / (Structural Deficit)	(\$1,973,137)
Beginning Fund Balance <i>(increases by \$1,320,978)</i>	\$13,702,900
Ending Fund Balance	\$11,729,763
Revolving Cash	\$47,000
Stores/Warehouse	\$55,000
Legally Restricted Balance	\$1,638,820
Assigned	\$7,297,793
Reserve for Economic Uncertainties	\$2,691,150

Impact of Unaudited Actuals Combined General Fund

GF Combined	Adjusted 2019-20 Budget
Assigned	\$7,297,793
<i>BTSA</i>	<i>\$61,600</i>
<i>OVTA Negotiations</i>	<i>\$230,000</i>
<i>School Site/Donations/Depts Carryover</i>	<i>\$680,000</i>
<i>One Time Discretionary Transportation</i>	<i>\$90,000</i>
<i>Emergency Reserve</i>	<i>\$4,683,252</i>
<i>Lottery Unrestricted</i>	<i>\$1,552,941</i>

Ending Fund Balance - Deficit Spending Projected Comparisons



Encroachment to the General Fund

2 Types of Encroachment Categories

1. Contributions to RESTRICTED PROGRAMS

- General Fund contributions to restricted programs (Restricted General Fund) that do not support themselves.

2. Contributions to LOCAL PROGRAMS

- General Fund contributions caused by deficated dynamics* or local decisions to allocate general-purpose funds to special purpose programs.

Contributions to District Programs

Encroachment to the General Fund	2018-19 Unaudited Actuals	2019-20 Adopted Budget	Difference
Category 1 Encroachment			
Special Education	\$11,043,486	\$11,772,742	\$729,256
Routine Maintenance	\$2,668,526	\$2,691,150	\$22,624
Federal Programs (i.e. Preschool)	\$84,667	\$180,170	\$95,503
SUBTOTAL	\$13,796,679	\$14,644,062	\$847,383

Contributions to District Programs

Encroachment to the General Fund	2018-19 Unaudited Actuals	2019-20 Adopted Budget	Difference
Category 2 Encroachment			
Special Education Transportation	\$546,834	\$505,175	(\$41,659)
Home-to-School Transportation	\$1,726,893	\$1,833,805	\$106,912
Fee-Based Preschool	\$336,267	\$336,837	\$570
Kindergarten Instructional Aide	\$272,258	\$274,765	\$2,507
Deferred Maintenance	\$250,000	\$250,000	\$0
Subtotal Category 2 Encroachment	\$3,132,252	\$3,200,582	\$68,330
Subtotal Category 1 Encroachment	\$13,796,679	\$14,644,062	\$847,383
TOTAL ENCROACHMENT	\$16,678,931	\$17,844,644	\$1,165,713

5 Significant OVSD Budget Challenges

Challenge 1

➤ Declining Enrollment

OVSD has declined in enrollment by 1,459 students since the 2013-14 school year. This equates to one elementary school and one middle school. Enrollment reports indicate that the District will decline by over 200 students for the new school year. Future projections beyond 2019-20 shows enrollment will continue to decline.

Year	CBEDS Enrollment	Decrease from prior year
2019-20	7,764 Projected	(222)
2018-19	7,986	(277)
2017-18	8,263	(204)
2016-17	8,467	(258)
2015-16	8,725	(285)
2014-15	9,010	(213)
2013-14	9,223	- - -

5 Significant OVSD Budget Challenges

Challenge 2

➤ Low School Enrollments

As schools grow smaller, it is increasingly difficult to provide teaching staff efficiently. A small middle school may not have enough students for elective classes or an advanced math/science class. Small elementary schools may experience small classes or as in the District's case – increased combo classes.

School	Year	CBEDS Enroll.	Year	CBEDS Enroll.	Diff. 2014-15 to 18-19	Year	*CBEDS Enroll.	Diff. 2018-19 to 19-20
Golden	14-15	485	18-19	321	(164)	19-20	312	(9)
Spring	14-15	798	18-19	670	(128)	19-20	651	(19)
Oak	14-15	709	18-19	618	(91)	19-20	601	(17)
Lake	14-15	312	18-19	423	111	19-20	411	(12)
Marine	14-15	813	18-19	730	(83)	19-20	710	(20)
College	14-15	461	18-19	391	(70)	19-20	380	(11)
Vista	14-15	698	18-19	602	(96)	19-20	585	(17)

Class sizes begin to decrease because the staff is not reduced as enrollment declines. Staffing reductions lag behind declining enrollment. The result is an increase in per pupil costs.

Buildings are not fully utilized, but the overhead costs continue at the same or higher levels. The result is that a larger portion of a district's per pupil income is diverted away from the instructional program.

5 Significant OVSD Budget Challenges

Challenge 3

➤ Encroachment

General Fund encroachment means the District does not have the funds to spend on employees (lower comparable salaries and district contributions to H&W), instructional programs, student support programs, etc. In the case of Special Education, the District is disproportionately using more general fund dollars to fund the mandated services required to meet the needs for students in special education. There is a need to reexamine the District policy toward transportation, ridership zones vs. walking zones, charging for ridership, etc. The fee-based preschool program should be self – supporting. It should not be reliant on the support of the General Fund.

	Year	Encroach Amount	Year	Encroach Amount	Increase in District support
Special Education w/ Transportation	2013-14	(\$6.66 M.)	2018-19	(\$11.59 M.)	(\$4,915,301)
Home-to-School Transportation	2013-14	(\$1.46 M.)	2018-19	(\$1.73 M.)	(\$262,550)
Fee-Based Preschool	2013-14	Positive Balance \$17,415	2018-19	(\$336,267)	(\$336,269)

5 Significant OVSD Budget Challenges

Challenge 4

➤ Personnel related budget (92% Unrestricted)

Typically, about 85% of a district’s General Fund is spent for staff salaries and benefits—of which teacher compensation is about two-thirds—making it crucial that districts project staffing costs accurately. Three things affect those costs: the number of employees needed, the salaries they will receive, and the cost of employee benefits.

OVSD’s 2019-20 personnel related budget is 92% of the Unrestricted Budget. The District has low comparable salary schedules, yet spends over 90% of its budget on personnel costs. As a percentage of 2017-18 General Fund dollars spent on Certificated salaries, OVSD is the 5th highest in Orange County; Classified salaries are the highest.

COMPARISON OC SALARIES RANKINGS	Total Classified	Classified (w/o Mgmt.)	Class. Mgmt.	Teacher	Cert. Mgmt.
2015-16	#1	#1	#14	#5	#2
2016-17	#1	#1	#16	#6	#2
2017-18	#1	#1	#15	#5	#4

5 Significant OVSD Budget Challenges

Challenge 5

➤ **Slowing of the economy**

The Legislative Analyst's Office (LAO) posted a recent blog update, *State Fiscal Health Index: June 2019* (Index), stating that the underlying indices signal that a slowdown is on the horizon. The LAO created the Index to track the strength of economic conditions relevant to the state's fiscal health.

Of the eight indices where positive growth is expected, seven have declined over the past few months, while the eighth, home prices, has stagnated after years of continued growth. The LAO also states that the magnitude of these declines over the past few months rivals those experienced just before the previous recession.

Why is this important? The District is declining in enrollment, the statutory COLAs are declining each of the next three years, and the District is facing some serious budget encroachment issues that negatively influence the District's structural deficit spending. If we are not prepared for the next recession, the District faces even more serious fiscal challenges.

The OVSD Predicament

- Economic cycles drive a need for sustainable systems, including substantial reserves and the ability to reduce programs in the event the District receives less state and local funding.
- UCLA Anderson Forecast projected a slowdown in national economic growth, 3% growth in gross domestic product (GDP) in 2018, 2% growth in 2019, and 1% growth in 2020.
- Decrease in projected statutory COLA, 3.26% in 2019-20, 3.00% in 2020-21, and 2.80% in 2021-22.
- Declining enrollment continues.
- Projected ADA has decreased by almost 1,500 since 2013-14 - 2019-20, \approx 17% decrease.
- Continued encroachment to the Unrestricted General Fund.
- No revenue funding source for District required STRS and PERS cost increases.
- The District's 2019-20 total personnel costs are 89.2%. The Unrestricted personnel costs are 91.8%.
- The District will have difficulty sustaining commitments, made in prior years, in the face of state revenue projections, declining enrollment, and high personnel costs unless action is taken. We can no longer “kick the can down the road.”

Staff is proposing to explore and analyze the following areas and then bring recommendations to the Board:

1. Educate district employees and stakeholders on budget realities
2. Investigate solutions to reduce and manage high personnel related costs, for example, but not limited to:
 - a. Pre-School
 - b. Instructional Assistants
 - c. Staffing ratios
3. Examine opportunities to decrease transportation costs
4. Explore options to reduce Special Education encroachment

