

## 2014-2015 Second Interim Report

### Executive Summary

10 March 2015

The Second Interim budget update covers changes made to the district budget from July 1, 2014, to January 31, 2015.

The projected revenue for 2014-15 dropped by \$200 thousand from First to the Second Interim. The District realized savings of approximately \$800 thousand due to vacancies and reduction in supplies and services budget, however these savings were more than offset by \$1.3 million payout related to Measure H parcel tax settlement. As a result, projected expenditures increased by approximately \$700 thousand from the First to the Second Interim. Contributions to Special Education and Maintenance Account stayed flat at \$15.5 million.

The District transferred \$1.3 million from Fund 17 reserve to Fund 1 to pay for the Measure H settlement. As required by Board Policy 3100, the replenishment of these funds, back to Fund 17 reserve, has been budgeted to maintain a reserve equal to one month's salary. This reserve is in addition to 3% statutory reserve. Statutory and Board required reserves, combined, are approximately 6 weeks' worth of payroll or about 9% of the budgeted expenditures.

The Second Interim budget update also covers projections for 2015-16 and 2016-17, based on Governor's budget proposal for 2015-16. The Governor released his 2015-16 budget proposal on January 9, 2015. Under the Governor's proposal, funding for AUSD will increase in 2015-16 by approximately \$4.3 Million. This includes \$1.6 Million in one time funds intended for common core implementation. These funds will offset mandate claim debt for AUSD. It is the recommendation of the staff to set aside these funds for textbook purchases related to implementation of Common Core State standards.

The surge in funding also serves to highlight the volatility of State Revenues. Under the new revenue distribution mechanism (LCFF), such rapid growth can create expenditure challenges, such as increasing competition for a limited pool of qualified teaching candidates and increasing STRS and PERS costs borne by the District.

Maintaining adequate reserves to allow for volatility of State Revenues is a key component of AUSD's budgeting philosophy. In addition we must maintain fiscal flexibility by limiting commitments to future increased expenditures based on proposals of future revenue growth.

The Governor's proposal does not include any separate funding for facilities maintenance. Contributions to Maintenance Fund (14) were stopped during Tier III flexibility. The Second Interim Multiyear budget includes a contribution equal to one percent of the budgeted expenditures in 2015-16, increasing to 2% in 2016-17 and to 3% of the expenditures in 2017-18 and thereafter.

It is recommended the Board of Education of the Alameda Unified School District accept the 2014-2015 Second Interim budget update.