

December 12, 2018

TO: Contra Costa County Board of Education

FROM: Bill Clark, Associate Superintendent, Business Services

SUBJECT: 2018-19 First Period Interim Financial Report

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The 2018-19 County Office of Education budget was adopted by the County Board of Education on June 27, 2018. The First Interim Report details budget changes through October 31, 2018, and projected year-end totals. The First Interim Report presents a review of the financial condition of the County Office of Education, four months into the fiscal year, in order to determine if appropriate funds are available to meet expenditure obligations for the current and the two subsequent fiscal years.

The 2018-19 First Interim report includes for the first time in many years negative trend indicators that give cause for closer evaluation and monitoring. The First Interim budget features a \$1.8 million decline in revenues and a \$2.0 million reduction in expenditures to accommodate for this revenue loss. The decline in revenues continues into the 2019-20 fiscal year with another revenue reduction estimated to total approximately \$14.8 million or a decline of more than 19 percent bringing total revenues to \$62.4 million from the current year adopted budget of \$79.1 million. This dramatic decline in revenues is due largely to the loss of the California Department of Correction and Rehabilitation program resulting in the loss of 52 full-time equivalent positions. Losses of state and special education revenues contribute to the decline due to changes in state law and declining enrollment.

With these impacts, the CCCOE 2018-19 unrestricted general fund adopted budget operating surplus declined from \$907,000 (surplus) to a negative (\$233,000) deficit. The unrestricted operating deficit continues in the two subsequent fiscal years as the agency seeks to reduce costs due to declining revenues. The fiscal picture is further complicated by what appears to be developing negative trends in the leading economic indicators most notably



housing construction starts. As the chart above indicates, contraction in housing starts is one of the clearest early indicators of recession (marked by the shaded gray bars). Recent Department of Finance and other publications have reported significant housing start declines in recent months. Additionally, the generally negative trend in the stock market is also a very important indicator especially for California as the majority of state revenues are derived from personal income tax earnings tied to stock market performance.

Components of the First Interim Report are highlighted below.

1. Certification and Criteria and Standards Review Summary

At First Interim, the County Office reports a positive certification. This certification indicates that based on current projections, the County Office will meet its financial obligations for the current and subsequent two fiscal years. The Agency’s reserve for Economic Uncertainties meets the State reserve requirements. The Criteria and Standards Review Summary indicates items “met” and “not met” for areas of potential concern. The Form Criteria and Standards Review provide in-depth details and explanations as required.

2. Form AI – Attendance Detail

The following chart shows the changes in ADA for county schools by program. ADA is reviewed and adjusted as necessary following the spring P-2 ADA reporting period.

Note: Special Education revenues are determined based on student enrollment and are calculated on a quarterly and annual basis.

<b>Program</b>	<b>2017-18 Annual ADA</b>	<b>2018-19 Budget ADA</b>	<b>First Interim ADA Projection</b>	<b>Change From Budget</b>
Court Schools	188	175	175	-
Adult Correctional Education	301	348	348	0
Special Education	289	280	268	(12)
<b>Totals</b>	<b>778</b>	<b>803</b>	<b>791</b>	<b>(12)</b>
Community Schools	83	77	100	23

Summary

It is recommended that the County Board of Education approve the 2018-19 First Interim Report with “A positive certification that the Contra Costa County Office of Education will meet its financial obligations for the current fiscal year and subsequent two fiscal years.”

BC:JL:bf

Attachment