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**DATE:** September 14, 2016

**TO:** Mr. Charles Bush, District Superintendent  
Mr. John Ulmer, Board President  
Mrs. Val Braden, Director  
Ms. Lois Shaffer, Director  
Palo Verde Unified School District

**FROM:** Kenneth M. Young, Riverside County Superintendent of Schools

**BY:** Teresa Hyden  
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**Subject: 2016-17 ADOPTED BUDGET and LCAP - APPROVAL**

The County Superintendent of Schools is required to review and approve the district's Local Control and Accountability Plan or the annual update to an existing Local Control and Accountability Plan prior to the approval of the district's Adopted Budget [Education Code Section 42127(d)(2)].

**Adopted Local Control and Accountability Plan**

In accordance with California Education Code (EC) Section 52070, our office has completed its review of the district's 2016-17 Local Control and Accountability Plan (LCAP) to determine whether it adheres to the guidelines adopted by the State Board of Education (SBE).

The district's adopted LCAP has been analyzed to determine whether:

- The plan adheres to the template adopted by the State Board of Education;
- The budget includes sufficient expenditures to implement the actions and strategies included in the plan, based on the projected costs included in the plan; and
- The plan adheres to the expenditure requirements for funds apportioned on the basis of the number and concentration of unduplicated pupils.

The district's adopted LCAP has been analyzed in the context of the guidance provided by the California County Superintendents Educational Services Association (CCSESA) and the California Department of Education (CDE). Based on our analysis, the district's Local Control and Accountability Plan for the 2016-17 fiscal year has been approved by the Riverside County Superintendent of Schools. However, following are concerns and suggestions for the implementation of the plan and the development of the *Annual Update* and the 2017-18 LCAP.

**Student Achievement**

Closing the achievement gap and ensuring all students are prepared for college and career is a priority under the Local Control Funding Formula (LCFF). As noted in the table below, significant gaps are evident between subgroups and between all students in comparison to statewide performance.

Metric	State Average	White	African American	Hispanic	English Learner	Low Income	Students w/ Disabilities
% of Palo Verde USD		21.5	7.0	67.8	10.9	71.3	9.8
% UC A-G Enrollment		94.3	100.0	96.6	93.8	95.8	79.7
% UC A-G Completion	48.6	17.6	7.7	11.3	0.0	7.7	5.7
% EAP – ELA / Math	23.0 / 11.0	7.4 / 5.7		7.4 / 2.2	0.0 / 0.0	3.3 / 3.4	0.0 / 0.0
% CAASPP – ELA / Math	44.1 / 33.8	32.3 / 21.6	11.3 / 4.5	17.3 / 15.0	3.8 / 9.4	15.1 / 13.2	7.4 / 3.4
<i>Goal 3</i>							
% Suspension	3.80	6.88	15.71	7.45	6.08	9.06	15.21

Now that baseline scores have been identified on the California Assessment of Student Performance and Progress (CAASPP), we continue to recommend differentiating the actions for all subgroups who are underperforming academically or overrepresented in suspension and expulsion data in all areas where significant gaps exist. We also continue to recommend setting aspirational and challenging targets for all outcomes and for all subgroups. In order to achieve these targets, we recommend identifying research-based actions that, when implemented with fidelity, will have a positive impact on students. In addition, we recommend the following be considered when developing the 2017-18 plan:

- Continue to disaggregate data by subgroups and look for ways to decrease achievement gaps between subgroups and the overall population.
- Consider adopting progressive language of each goal for each year throughout your plan to reflect the degree of implementation and deployment.
- Update new student achievement data (California Assessment of Student Performance and Progress (CAASPP), California English Language Development Test (CELDT), Early Assessment Program (EAP), California Standards Test (CST), district assessments) to monitor student growth.

Noted in the table below is the Title III Annual Measurable Achievement Objectives (AMAO) data. Palo Verde has a population that consists of 10.9 percent English Learners. As noted in the table below, English Learner students have not met the targets for AMAO 1, AMAO 2a, and AMAO 2b for the past two years. It is strongly recommended that the district strengthen its plan by allocating resources and implementing specific research-based actions that increase proficiency and accelerate the achievement of English Learners.

Although the 2016-17 Title III accountability data will be published after the 2016-17 LCAP is developed and approved, it is recommended that the district review data for 2015-16 performance and identify

formative measures of English Learner progress and intervene immediately if actions are not producing expected results.

Title III Annual Measurable Achievement Objectives (AMAO) Trends									
	AMAO 1			AMAO 2a (Less Than 5 Years Cohort)			AMAO 2b (5 Years or More Cohort)		
	PVUSD	Target	Met?	PVUSD	Target	Met?	PVUSD	Target	Met?
2015-2016	31.4%	62.0%	No	12.6%	25.5%	No	19.9%	52.8%	No
2014-2015	53.7%	60.5%	No	17.9%	24.2%	No	42.6%	50.9%	No
2013-2014	48.4%	59.0%	No	24.4%	22.8%	Yes	28.0%	49.0%	No
2012-2013	57.3%	57.5%	No	30.8%	21.4%	Yes	43.2%	47.0%	No

**Monitoring Progress**

In order to be responsive to those actions that are working or not working, we continue to recommend utilizing a process that continually assesses the progress of each planned action and its effectiveness in reaching the *Expected Annual Measurable Outcomes* specified in your plan. Identifying leading indicators for progress on goals that can be shared with stakeholders on a regular basis will increase the community commitment to the plan. This will also allow you to clearly articulate, in the *Annual Update* section of the plan, whether the planned actions/services were effective. The statements of effectiveness must go beyond the mere indication of whether the action was completed or not and should clearly articulate the effect the action had on achieving the desired outcomes for all students or identified student subgroups for the specified goals.

**Additional Metrics to Consider**

The purpose of the LCAP is to ensure that all students graduate from high school with the skills to be successful in both college and career. This work cannot wait until high school, nor can it be successful without more specific focus by grade level and by subgroup.

A focus group was convened by the Riverside County Office of Education in 2014-15 to review research on K – 12 college readiness indicators and identify those that would align with the LCAP and have greatest impact. As a result of the focus group research, we recommend that LEAs consider additional college readiness indicators for various grades including but not limited to:

- Score of Level 3 or Level 4, “Standard Met” or “Standard Exceeded,” as indicated on the Smarter Balanced Summative Assessment in Reading and Mathematics at grades 3, 5, 8, and 11 by subgroup. (State Priority 4)
- Chronic absentee rates by grade level and subgroup at the following grades – Kindergarten, 1, 2; last grade of elementary (5 or 6); first grade of middle school (6 or 7); first grade of high school (9 or 10). (State Priority 5)
- Percent of students earning passing grades – C or better – in English and Mathematics at the exit grades from elementary (5 or 6) and middle school (8 or 9) by subgroup and gender. (State Priority 8)
- Suspension and expulsion rates by subgroup and gender for “disproportionality.” (State Priority 6)

- Percent of students failing two or more classes at grade 9 by subgroup and gender. (State Priority 8)

### **Describing Use of Supplemental and Concentration Grant Funds and Proportionality**

The purpose of the LCAP *Section 3* is to ensure that all unduplicated and underperforming students receive increased or improved services in proportion to the increased funding received to serve those identified students in order for them to graduate from high school with the skills to be successful in both college and career.

In *Section 3A*, the justification for using funds districtwide and/or schoolwide should include a description of why this use of funds is most effective and why it is more effective than using the funds to target the students by subgroup in order to meet the district goals. Having a high population of unduplicated students is not in and of itself a justification for districtwide and/or schoolwide use. In addition, when funding is allocated to schools for schoolwide use, a description of how the district will ensure that the schools are implementing actions and that those actions are effective in meeting the district's goals in the eight state priority areas is necessary.

In *Section 3A*, the description noted above is for the dollars received for the 2016-17 school year and should reference the actions that are being implemented for the 2016-17 LCAP year in addition to those implemented in the previous year.

In *Section 3B*, the district is asked to describe how services for the unduplicated students have increased or improved as compared to services provided to all students in proportion to the increase in funding received to serve those students. This is a cumulative process of increasing services until the district is fully funded.

We recommend in *Section 3B* that the district broadly describe the services identified in the LCAP from the previous year(s), and then describe those services being added in the current LCAP year, which is 2016-17. This demonstrates that the district is maintaining and building its support for unduplicated students proportionally each year and increases the transparency of the plan for the stakeholders. This will be important as, by 2020-21, this section will need to demonstrate that the district has increased or improved services to reflect 100 percent of its supplemental and concentration funds at full implementation.

### **Adopted Budget**

In accordance with California Education Code (EC) Section 42127, our office has completed its review of the district's 2016-17 Adopted Budget to determine whether it complies with the criteria and standards adopted by the State Board of Education (SBE) and whether it allows the district to meet its financial obligations for the 2016-17 fiscal year, as well as satisfy its multi-year financial commitments.

The district's Adopted Budget has been analyzed in the context of guidance provided by our office, based on the Governor's 2016-17 May Budget Revision. Based on our analysis of the information submitted, we approve the district's budget, but note the following concerns:

- *Operating Deficit* – Multi-year financial projections indicate a General Fund operating deficit for the current fiscal year.
- *Declining Enrollment* – The district's projections indicate declining enrollment for the current and two subsequent fiscal years.

- *Long Term Commitments* – The district’s debt service payments are approximately \$1.3 million annually. The payments are made from the Special Reserve Fund for Capital Outlay (Fund 40) from redevelopment revenues of approximately \$524,000 and interfund transfers from the General Fund. The multi-year projections indicate in 2017-18, as well as 2018-19, the interfund transfer to the Special Reserve Fund will be \$765,000 which equates to 2.2 percent of the district’s total expenditures and uses.

The following pages provide further details on the district’s 2016-17 Adopted Budget. In addition to this analysis, current law as enacted through AB 2756 (Chapter 52, Statutes of 2004) also requires the County Superintendent to review and consider any studies, reports, evaluations, or audits that may contain evidence a district is showing fiscal distress. Our office did not receive any such reports for the district.

*LCFF Gap Funding* – For purposes of determining the potential gap funding increase, the district has estimated 54.84 percent for the 2016-17 fiscal year, 73.96 percent for 2017-18, and 41.22 percent for 2018-19. The district has yet to identify a contingency plan should gap funding increases not materialize. Please provide this contingency plan with the submission of the 2016-17 First Interim Report.

*Unduplicated Pupil Percentage* – The district reports an unduplicated pupil percentage of 72.46 percent for 2016-17, 72.29 percent for 2017-18, and 72.23 percent for 2018-19. The district’s unduplicated pupil percentage included in the 2015-16 P2 certification by the California Department of Education is 73.21 percent.

*Employee Negotiations* – As of the board date, June 28, 2016, the district reports salary and benefit negotiations are complete with the certificated bargaining unit for the 2016-17 fiscal year. The Palo Verde Teacher Association (PVTA) agreement provided for a 4.0 percent salary schedule increase and an additional 3.0 percent in exchange for conversion of the mid-year ½ day teacher-directed day to a full day district-directed day (for a total of a 7 percent increase to the salary schedule). Other compensation items included stipends to various positions and the extra duty rate was increased by \$3.25 per hour to \$37.75. The PVTA agreement also provided for an increase to the health and welfare benefit cap by \$200, increasing the cap to \$13,350. Both agreements with Teamsters I and Teamsters II provided for a 4.0 percent salary increase. The agreements also provided for an increase to the health and welfare benefit contribution maximum cap by \$100, increasing the cap to \$13,250 per eligible member.

As of the board date, June 28, 2016, the district reports salary and benefit negotiations continue with the classified bargaining unit for the 2016-17 fiscal year. Prior to entering into a written agreement, California Government Code (GC) Section 3547.5 requires a public school employer to publicly disclose the major provisions of a collective bargaining agreement, including but not limited to, the costs incurred in the current and subsequent fiscal years. The disclosure must include a written certification signed by the district superintendent and chief business official that the district can meet the costs incurred by the district during the term of the agreement. Therefore, please make available to the public and submit a disclosure to our office at least ten (10) working days prior to the date on which the governing board is to take action on a proposed agreement.

The district’s adopted budget was developed prior to adoption of the 2016-17 Adopted State Budget. Actual state budget data should be reviewed and incorporated into the district operating budget and multi-year projections during the First Interim Reporting process.

During our review of the district’s Local Control and Accountability Plan, we noted the following:

- The district’s LCAP included *Section 4: Expenditure Summary* which is not part of the template adopted by the State Board of Education. We recommend that the section be removed from the

district's posted LCAP and that it be disclosed to your board. In like manner, that section will not be included on the County's posting of the district's LCAP.

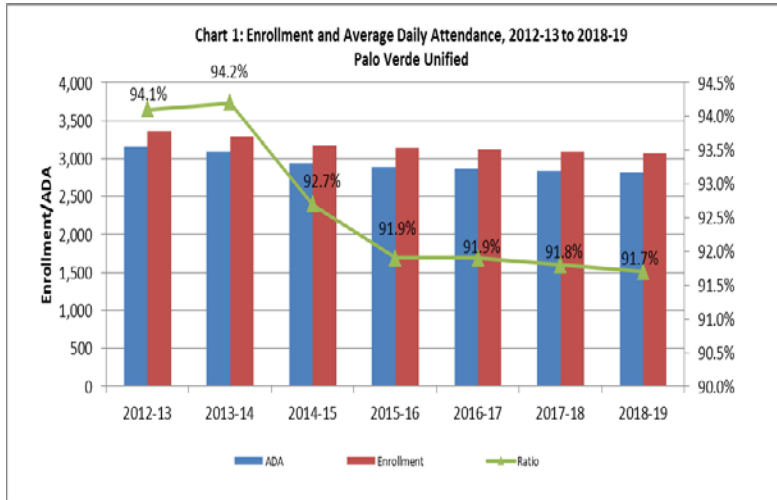
- Any difference between budgeted expenditures and estimated actual annual expenditures in the *Annual Update* section requires an explanation. We recommended that a reason for the variance be added to each action. The district implemented our recommendation.
- Supplemental and Concentration (S&C) grant funding is included in the Local Control Funding Formula to increase and/or improve services to targeted student populations. If S&C grant funds, used to serve the targeted pupil population, have been underinvested each fiscal year, it may be difficult for the district to demonstrate the minimum proportionality percentage at full implementation.

Our office commends the district for its efforts thus far to preserve its fiscal solvency and maintain a quality education program for its students. If we can be of further assistance, please do not hesitate to contact our office.

## 2016-17 Adopted Budget Report

### Palo Verde Unified School District

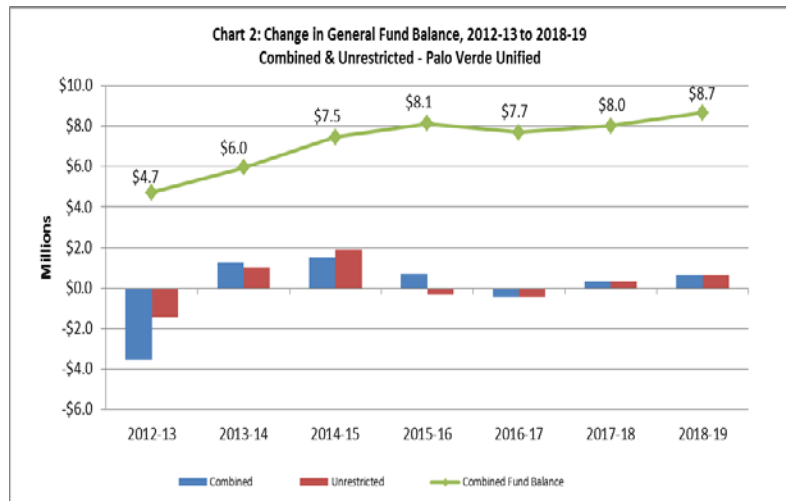
#### Enrollment and Average Daily Attendance (ADA)



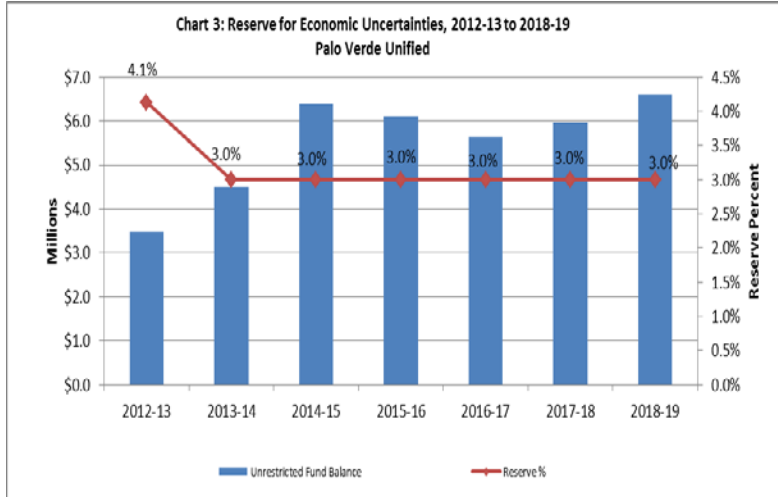
The district's projected ADA to enrollment ratio (capture rate) for 2016-17 is 91.9 percent, which is lower than the historical average ratio for the three prior fiscal years. The district estimates 2,870 ADA for the current fiscal year, or a 0.9 percent decrease from the 2015-16 P-2 ADA. For 2017-18 and 2018-19, the district projects a 0.9 percent decrease in each year.

#### Fund Balance

The district's Adopted Budget indicates a positive ending balance for all funds in the 2016-17 fiscal year. However, for the General Fund, the district anticipates expenditures and uses will exceed revenues and sources by \$459,614 in 2016-17. Chart 2 shows the district's deficit spending historical trends and projections.



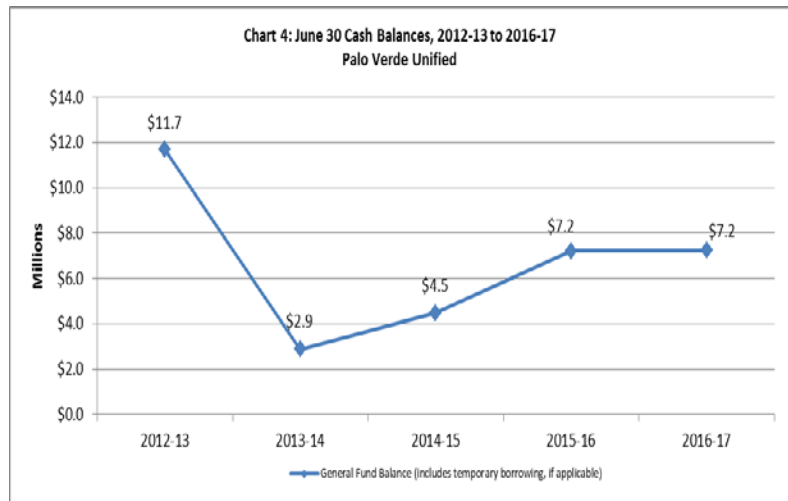
### Reserve for Economic Uncertainties



The minimum state-required reserve for a district of Palo Verde Unified's size is 3.0 percent. Chart 3 displays a summary of the district's actual and projected unrestricted General Fund balance and reserves. The district projects to meet the minimum reserve requirement in the current and subsequent fiscal years.

### Cash Management

Chart 4 provides a historical summary of the district's June 30<sup>th</sup> General Fund cash balance. Based on the budget's cash flow analysis, the district projects a positive General Fund cash balance of \$7.2 million as of June 30, 2017. This balance does not include any temporary borrowings, and the district's internal cash resources appear sufficient to address cash flow needs in the current year. Our office recommends the district continue to closely monitor cash in all funds to ensure sufficient resources are available.

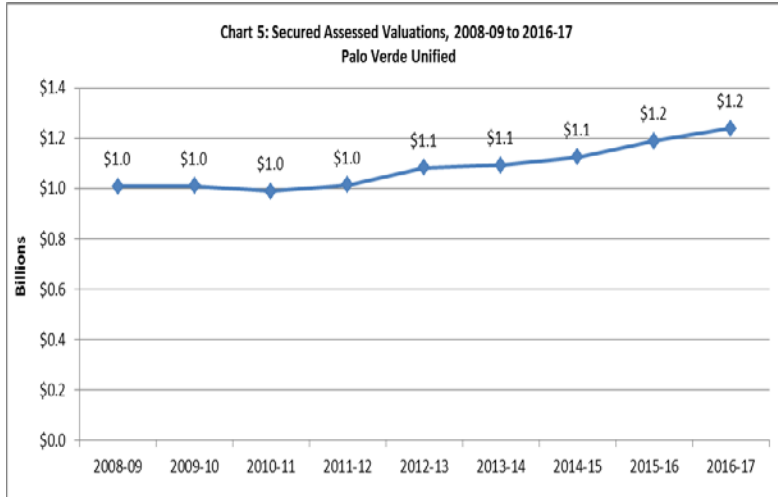


In addition, our office strongly advises districts to consult with legal counsel and independent auditors prior to using *Cafeteria Special Revenue Fund (Fund 13)* and *Building Fund (Fund 21)* for temporary interfund borrowing purposes to remedy cash shortfalls.



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## Assessed Valuations



The Riverside County Assessor's Office has estimated secured assessed valuations will increase by 5.08 percent countywide in 2016-17. Chart 5 displays a historical summary of the district's secured property tax assessed valuations.