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**DATE:** October 7, 2016

**TO:** Mr. Tim Ritter, District Superintendent  
Dr. Kristi Rutz-Robbins, Board President  
Mrs. Lori Ordway-Peck, Assistant Superintendent  
Ms. Jodi McClay, Assistant Superintendent  
Temecula Valley Unified School District

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

**BY:** Teresa Hyden Chief Business Official (951) 826-6790  
Cynthia Glover Woods Chief Academic Officer (951) 826-6648

**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.

We commend Temecula Valley Unified School District (TVUSD) for its continuing leadership and support of students. TVUSD is among the highest performing districts in Riverside County. Our goal is to further enhance the performance of students by offering commendations and suggestions for the implementation of the plan and the development of the *Annual Update* and the 2017-18 LCAP.

**2015-16 Plan Implementation**

In a review of the *Stakeholder Engagement* section, we noted the plan provided a very clear description of stakeholder engagement and impact on the *Annual Update*. In a review of the *Annual Update*, we noted that while the plan addresses what the district did concerning last year’s actions and clearly states the district’s next steps for a given action, it does not clearly include assessments of the **effectiveness** of a specific action. The effectiveness of a specific action should be judged on the evidence collected in order to help the district determine the next steps. We recommend that Temecula Valley include effectiveness statements which are reasonable, specific, transparent, and include metrics.

**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 TVUSD		45.2	3.6	32.5	6.1	22.6	12.6
<i>Goal 2</i>							
% UC A-G Enrollment		97.0	95.3	95.5	87.6	94.6	87.1
% UC A-G Completion	48.6	67.5	54.5	58.6	18.2	57.2	18.4
% EAP– ELA /Math	23.0 / 11.0	30.0 / 13.1	19.3 / 3.4	21.1 / 8.1	3.1 / 3.1	20.1 / 8.1	4.2 / 1.4
% CAASPP – ELA /Math	44.1 / 33.8	66.0 / 54.0	47.4 / 27.1	51.9 / 37.1	20.4 / 17.7	46.8 / 33.9	19.0 / 14.0
% Suspension	3.80	1.35	4.54	1.74	1.63	2.55	3.41

The district is to be commended for **differentiating outcomes and actions for significant subgroups** who are underperforming academically or overrepresented in suspension and expulsion data when significant gaps exist. In addition, the district is to be commended for providing targeted support and resources for Foster Youth and English Learners. We continue to recommend setting aspirational and challenging targets for all outcomes and for all subgroups. In addition, identifying and implementing additional research-based actions that will accelerate the performance of English Learners and other subgroups to close the gap.

Noted in the table below is the Title III Annual Measurable Achievement Objectives (AMAO) data. The district is commended for implementing actions that have allowed English Learners to meet AMAO 1, AMAO 2a, and AMAO 2b for the past three years. 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)		
	TVUSD	Target	Met?	TVUSD	Target	Met?	TVUSD	Target	Met?
2015-2016	63.7%	62.0%	Yes	35.1%	25.5%	Yes	60.2%	52.8%	Yes
2014-2015	61.7%	60.5%	Yes	38.3%	24.2%	Yes	52.8%	50.9%	Yes
2013-2014	61.8%	59.0%	Yes	32.5%	22.8%	Yes	53.9%	49.0%	Yes
2012-2013	54.8%	57.5%	No	32.7%	21.4%	Yes	47.9%	47.0%	Yes

**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. For a district such as Temecula Valley, the additional standard requires identifying the research and/or educational practice which supports that using the funds districtwide and/or schoolwide is the most effective. While the description in *3A* references research, we recommend being more explicit in the description about why this is the most effective use and identifying specific research and/or theory to support this use for specific areas. For example, there is a large body of research supporting AVID and PBIS; both of these must be implemented schoolwide and/or districtwide in order to have the effect identified in the research.

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.

Temecula Valley provides a detailed description of the services for each of the focus areas that will increase or improve services for unduplicated students. 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 or expanded 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**

On August 23, 2016, our office conditionally approved the district's 2016-17 Adopted Budget and required the district close the prior fiscal year, certify 2015-16 Unaudited Actuals, and submit the following to our office by September 15, 2016:

- *2015-16 Unaudited Actuals* – Close prior year accounts, and certify 2015-16 Unaudited Actuals.
- *2016-17 Revised Budget & Multi-Year Financial Projections* – Revise and provide our office with a budget, multi-year financial projections, and an updated LCFF calculator to account for changes resulting from the district's 2015-16 Unaudited Actuals, the enacted 2016-17 Budget Act, and up-to-date ADA and enrollment estimates.

- *Cash Flow* – Provide our office with updated 2016-17 General Fund cash flow projections with actuals through August 31, 2016.

The following pages provide further details on the district's 2016-17 Revised Budget.

After an analysis of the information submitted, the County Superintendent approves the district's Revised Budget, but notes the following remaining concerns:

- *2018-19 Budget Shortfall* – Assuming no mitigating measures, the district projects a \$14.1 million budget shortfall in 2018-19 (4.67 percent of 2018-19 total operating expenditures).
- *Operating Deficit* – Multi-year financial projections indicate a substantial General Fund operating deficit for the current and two subsequent fiscal years.
- *Declining Enrollment* – The district's projections indicate declining enrollment for the current and two subsequent fiscal years.
- *Cash* – Absent temporary borrowing, the district's General Fund cash balance is not sufficient to cover cash flow needs throughout the 2016-17 fiscal year.

*LCFF Gap Funding* – For purposes of determining the potential gap funding increase, the district has estimated 54.18 percent for the 2016-17 fiscal year, 72.99 percent for 2017-18, and 40.36 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 25.44 percent for 2016-17 and 26.26 percent for both 2017-18 and 2018-19. The district's unduplicated pupil percentage included in the 2015-16 P2 certification by the California Department of Education is 24.63 percent.

*Employee Negotiations* – The district reports salary and benefit negotiations are complete with the certificated bargaining unit for the 2016-17 fiscal year. The agreement provided for a longevity stipend compensated at the rate of 3.25 percent above the previous step. Additionally, the agreement provided all bargaining unit members with an \$800 health and welfare benefit cap increase (from \$9,520 to \$10,320) beginning July 1, 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.

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

- The budgeted expenditures for each action/service for each school year requires the district to reference all funding sources for each proposed expenditure which must be classified using the California School Accounting Manual (CSAM) as required by Education Code sections 52061,

52067, and 47606.5. We recommended a funding source be added for each action. The district implemented our recommendation.

- The percentage in *3B*, by which services for unduplicated pupils must be increased and/or improved as compared to the services provided to all pupils for 2016-17, did not correspond with the district's Local Control Funding Formula Minimum Proportionality calculation. It was our recommendation that *Section 3B* be modified to 4.56 percent. The district implemented our recommendation.
- Supplemental grant funding is included in the Local Control Funding Formula to increase and/or improve services to targeted student populations. If supplemental 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.

### Next Steps

In November, our office will provide the district with a detailed guidance letter regarding the preparation of the 2016-17 First Interim Financial Report. In addition to the requirements noted in that guidance letter, please provide our office with the following:

By **December 15, 2016**:

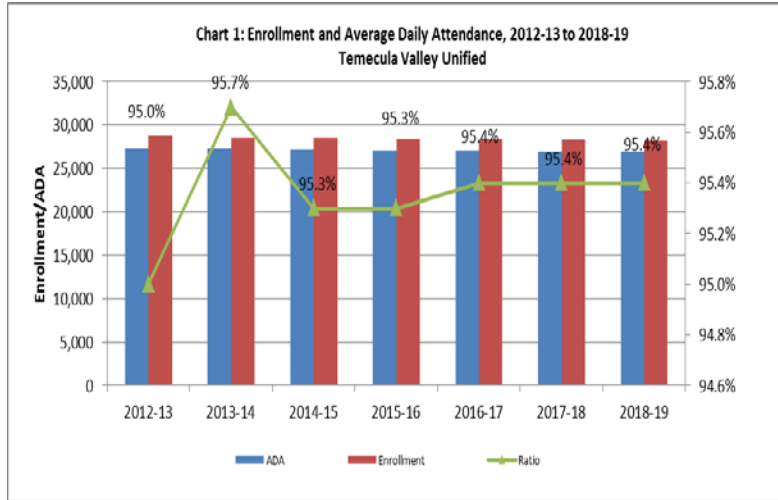
- *Fiscal Stabilization Plan* – Provide our office with a detailed plan on how the district plans to address the \$14.1 million budget shortfall in 2018-19. This plan, at a minimum, should include a review of all expenditures, in particular certificated and classified salaries, employee benefit costs, staffing ratios, and review and analyze in detail the special education program and the increasing encroachment on the district's unrestricted general fund. **Our office recommends that the board issue, at a minimum, a qualified certification for the First Interim Financial Report if the district's interim report does not indicate a state required minimum three percent reserve in the current or subsequent fiscal years.**
- *Multi-Year Financial Projections* – Submit revised board approved multi-year financial projections, reflecting up-to-date ADA and enrollment estimates, and accurate revenue and expenditure projections that include only final, board-approved, budget solutions. Include a contingency plan in the multi-year financial projections should gap funding not materialize as planned for the two subsequent fiscal years. In addition, please include detailed multi-year assumptions, showing the budget adjustments from one year to the next.

Our office acknowledges the difficult financial decisions the district is facing in the near future, and looks forward to continue working closely and collaboratively with the district to strengthen its financial position. If we can be of further assistance, please do not hesitate to contact me or the District Fiscal Services staff with any questions or concerns at (951) 826-6429.

## 2016-17 Adopted Budget Report

### Temecula Valley Unified School District

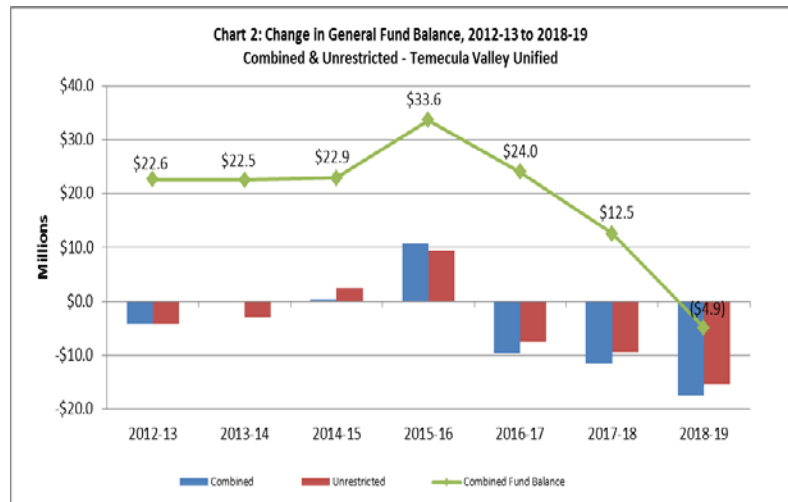
#### Enrollment and Average Daily Attendance (ADA)



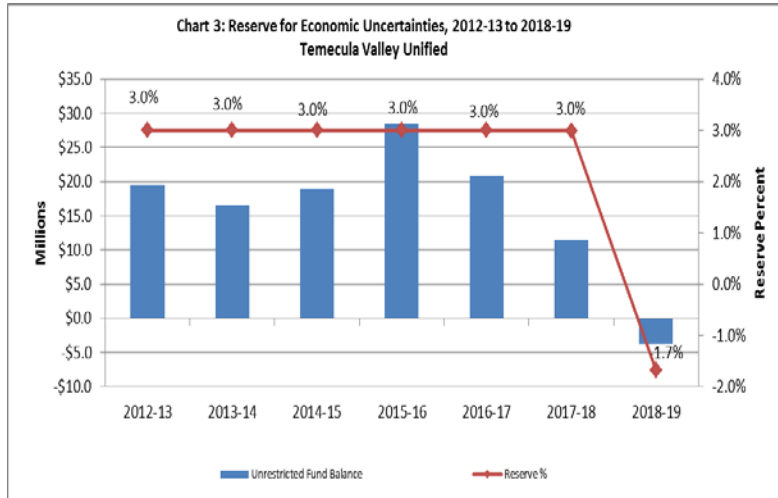
The district's projected ADA to enrollment ratio (capture rate) for 2016-17 is 95.4 percent, which is within the historical average ratio for the three prior fiscal years. The district estimates 27,050 ADA for the current fiscal year, or a 0.14 percent decrease from the 2015-16 P-2 ADA. For 2017-18 and 2018-19, the district projects a 0.2 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 \$9.6 million in 2016-17, \$11.5 million in 2017-18, and \$17.4 million in 2018-19 resulting in a negative ending fund balance of \$4.9 million in 2018-19. Chart 2 shows the district's deficit spending historical trends and projections. The district cannot sustain deficit spending into future fiscal years. The district's deficit spending is due to declining enrollment trends, increasing employer contributions for the California State Teachers' Retirement System and California Public Employees' Retirement System, and increasing encroachment from the Special Education Local Plan Area (SELPA).



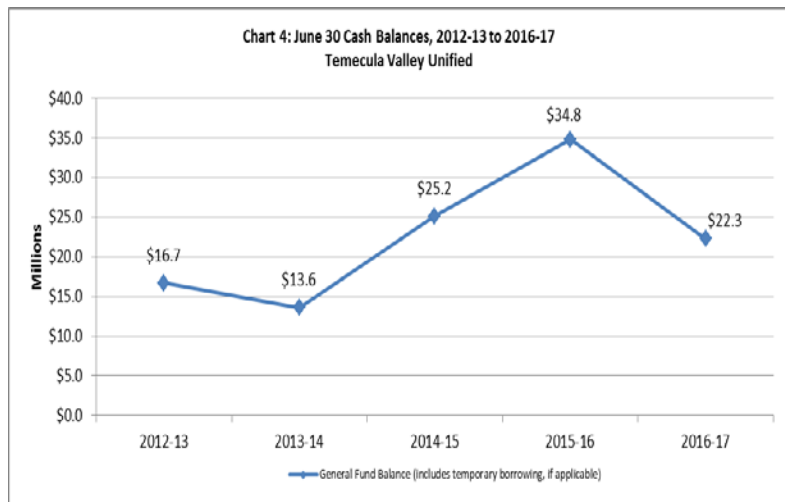
### Reserve for Economic Uncertainties



The minimum state-required reserve for a district of Temecula Valley 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 does not meet the minimum reserve requirement in the second subsequent fiscal year.

### Cash Management

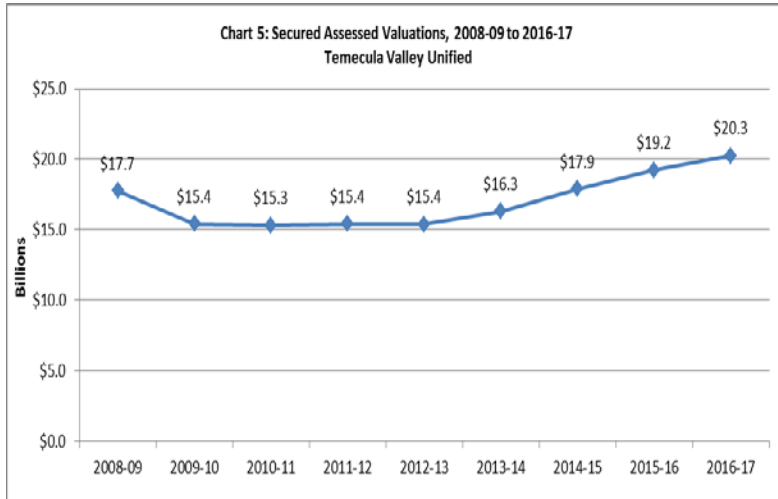
The district currently has a \$14.8 million 2016-17 tax and revenue anticipation note (TRAN) with repayments scheduled for January and April 2017. Chart 4 provides a historical summary of the district's June 30<sup>th</sup> General Fund cash balance. Based on the budget's cash flow analysis, the district projects a positive General Fund cash balance of \$22.3 million as of June 30, 2017. This balance does not include any temporary borrowings, but does not appear sufficient to cover July 2017 expenditures (estimated at \$22.3 million). 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.