

Westside Union School District

2015-16 Proposed Adopted Budget Presentation

June 2, 2015

Regina Rossall, Superintendent

Shawn Cabey, Assistant Superintendent - Administrative Services

Lisa Jehlicka, Supervisor – Fiscal Services





1-1

The Big News – 2015-16 Provides the Highest Increase in Education Funding Ever!

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- The May Revision provides an additional \$3.1 billion for education funding in 2014-15
 - This funding is for 2014-15, but treated as one-time dollars •
- That is on top of \$4.75 billion already provided in the enacted Budget for the Local Control Funding Formula (LCFF)
- The combination of a rapidly recovering California economy and Proposition 30 temporary taxes drive the increased state revenues and growth in Proposition 98 for 2014-15
- The Governor proposes adding \$2.1 billion to the \$4 billion proposed in January • for 2015-16 LCFF growth, for a total of \$6.1 billion
 - Gap closure rate goes from 32.19% to 53.08%
 - Average increase is 14.13%, or \$1,088 per average daily attendance (ADA)
- The state is making rapid progress toward full implementation of the LCFF •



The Rest of the Budget Shows Slow Growth

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- The maintenance factor still provides the lion's share of revenue growth to education
- But the level of gain for education proposed by the Governor rapidly extinguishes the maintenance factor; only \$772 million remains in 2015-16
- In future years, the noneducation side of the Budget can expect real gains – even without manipulation of Proposition 98
 - Once the maintenance factor is paid, the non-Proposition 98 side rises
- Still, in the current year and next, the needs of noneducation programs grow, and the Legislature has had limited success in funding some of its priorities
- We have not heard the last word on this topic
 - Expect vigorous negotiations before the State Budget is enacted



1-4

Still, There Are Challenges for Education

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- As we see the maintenance factor rapidly diminishing, education will have to adjust to funding based upon about 40% of new revenues, not the 90% we currently enjoy
- The dangerous cap on district reserves that proponents predicted would not take effect for many years could take effect in the next few years
- Under current law, the Governor does not meet his commitment to restore purchasing power to the 2007-08 level at full implementation of the LCFF, even with the higher funding he has proposed
 - The employer's share of California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) cost increases consumes 25% of all new dollars
 - As a result, by full implementation, \$4.5 billion is shifted from salaries and benefits to retirement costs
- Declining enrollment continues for about half of California's districts and can offset all LCFF gains and more



1-27

Political Issues

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- The Constitution requires that schools get big funding increases this year and next – can the state afford it?
- Yes!
 - Schools get the lion's share of unanticipated state revenue growth, but nothing is taken away from noneducation programs to pay for it
 - 2015-16 growth in Proposition 98 funding is wholly supported by increased local property tax revenues, not state aid
 - State General Fund spending for Proposition 98 actually drops by nearly \$200 million in 2015-16 from 2014-15
 - Proposition 98 is a complicated formula, in part because of protections built in for the state
 - Test 3, and "spike" protection, tempers Proposition 98 growth in 2015-16, freeing money for other state priorities

General Fund Budget Summary 2015-16

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	2014-15	2015-16
Prior-Year Balance	\$5,589	\$2,359
Revenues and Transfers	<u>\$111,307</u>	<u>\$115,033</u>
Total Resources Available	\$116,896	\$117,392
Non-Proposition 98 Expenditures	\$64,929	\$65,892
Proposition 98 Expenditures	<u>\$49,608</u>	<u>\$49,416</u>
Total Expenditures	\$114,537	\$115,308
Fund Balance	\$2,359	\$2,084
Reserve for Liquidation of Encumbrances	\$971	\$971
Special Fund for Economic Uncertainties	\$1,388	\$1,113
Budget Stabilization Account/Rainy Day Fund	\$1,606	\$3,460

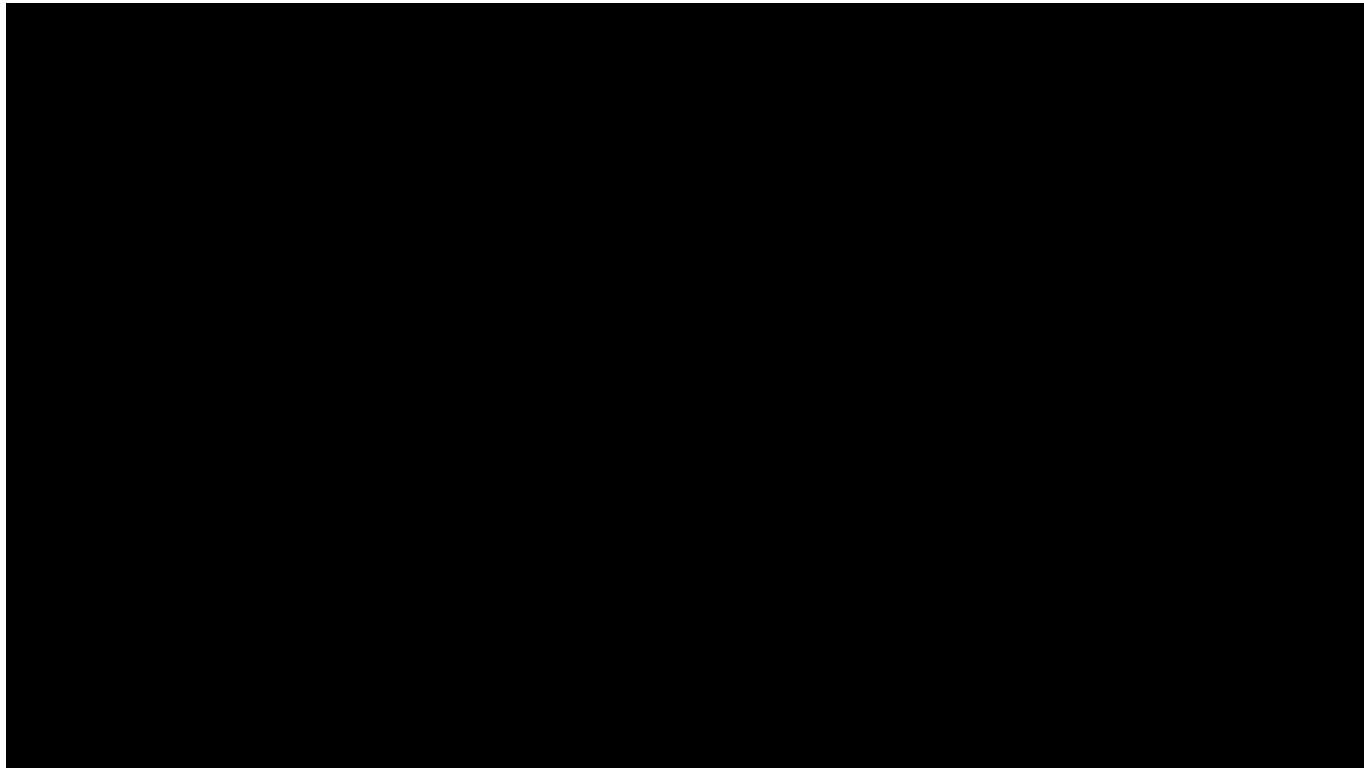
- Revenues and transfers increase 3.2%, while expenditures increase by less than 1%
- The May Revision proposes over \$3.4 billion in the Budget Stabilization Account
- The May Revision maintains over \$1.1 billion in the Reserve for Economic Uncertainties

Windfall???...



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...or Valli reality?



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Proposition 98 Funding Will Slow

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- Proposition 98 has provided major increases in funding for K-14 education as the state economy recovers and funding cuts imposed during the recession are restored
 - Compared to the 2011-12 Proposition 98 guarantee, funding in 2015-16 will have increased \$21.1 billion to \$68.4 billion under the May Revision, an average annual gain of 9.7%
- These gains are largely attributed to the repayment of the Proposition 98 maintenance factor, an amount equivalent to the loss of funds imposed on K-14 education during the recession (a restoration, not a repayment)
- According to the May Revision, \$772 million in maintenance factor payments will remain at the end of 2015-16
- Conclusion: Proposition 98 funding will slow considerably once the maintenance factor has been fully paid
 - Growth will likely be in the range of 2% to 4% annually



2-30

Discretionary Funds

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- The May Revision provides an increase of \$2.4 billion in discretionary one-time Proposition 98 funding
 - From \$1.1 billion to \$3.5 billion, equal to about \$601 per ADA
 - Of these funds, \$40 million is for COEs to assist in meeting new responsibilities associated with the LCAP
- The May Revision suggests that LEAs prioritize these funds for professional development, teacher induction, and instructional materials and technology
 - This is not a mandate and the funds can be used for “any one-time purpose, as determined by the governing board”
 - However, any funds received will offset state obligations for any LEA with outstanding mandate reimbursements, consistent with the approach used in the 2014 Budget Act

- The employer contribution costs for both CalPERS and CalSTRS are significantly increasing over the next several years
 - The 2015-16 CalPERS employer contribution rate increase is less than expected – increasing to 11.847% instead of 12.6%
 - The 2015-16 CalSTRS employer contribution rate statutorily increases to 10.73%
 - The increase in 2014-15 was made purposefully small – an 8% increase in the employer cost
 - The increase in 2015-16 is more significant – a 30% increase above the 2013-14 employer contribution rate
- The 2015-16 State Budget proposal does not address these cost increases for local educational agencies

CalSTRS Rate Increases

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- Employer rates are increasing to 10.73% in 2015-16, up from 8.88% in 2014-15
 - No specific funds are provided for this cost increase
- Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer and state contribution rates

Year	Employer	Pre-PEPRA*	Post-PEPRA*
2015-16	10.73%	9.20%	8.56%
2016-17	12.58%	10.25%	9.205%
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%

*Public Employees' Pension Reform Act

CalPERS Rate Increases

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- The employer contribution to CalPERS is increasing from 11.771% in 2014-15 to 11.847% in 2015-16
 - This is less than anticipated – welcome news!
- “Classic” members continue to pay 7.00%
 - New members pay 6.00%, which may fluctuate from year to year based on the PEPPRA requirement to pay half the normal cost rate
- Estimates of the resulting future contribution rate increases for school employers are as follows:

Actual	Projected				
2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.847%	13.05%	16.6%*	18.2%*	19.9%*	20.4%*

*CalPERS provided these estimates in 2014 and has not yet issued revised estimates

- The May Revision is conspicuously silent on school facilities, with no additional recommendations or detailed proposals for a future school facility program as was offered in the January Budget
- The May Revision does:
 - Reduce the estimated revenue generated from the single sales factor for the Proposition 39 Clean Energy Jobs Act program by \$6.7 million, reducing the total available for K-12 energy projects to \$313.4 million
 - Maintain the Governor's January proposal to retire the unfunded Emergency Repair Program project list by investing \$273.4 million in one-time Proposition 98 funds for this purpose
- Finally, in recognition of a long-standing issue for some school districts that are eligible for federal facilities assistance for schools on military sites but are having difficulty raising the local matching funds:
 - The May Revision stipulates that the Administration is looking for ways to help, including the provision of low-interest rate state loans



K-14 School Facilities Bonds on the Ballot

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- The absence of a statewide school facilities bond has put pressure on local districts to meet facilities demands with local dollars
- This was evident with the record number of local bond elections on the November 2014 ballot, with an historic 113 measures totaling \$11.6 billion
 - 89 issues succeeded – a 79% passage rate, yielding \$9.3 billion
- Much of Governor Brown's attitude toward the state's role in school facilities is shaped by the success of local bonds
 - There is the perception that local districts have greater capacity to fund their facilities needs as demonstrated through the increasing success of Proposition 39 local bonds

- The budget flexibility that reduces or waives the minimum contribution requirement expires with the 2014-15 fiscal year and the 3% Routine Restricted Maintenance Account contribution requirement returns for the 2015-16 fiscal year
- Priority 1 of the LCAP requires that school facilities be maintained in good repair as defined in the Education Code

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LEAs must consider the needs of the agency when planning General Fund expenditures

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We recommend LEAs establish staffing allocations and an expenditure budget for this critical function

3

Consider whether 3% is sufficient to meet the LEA's routine maintenance needs



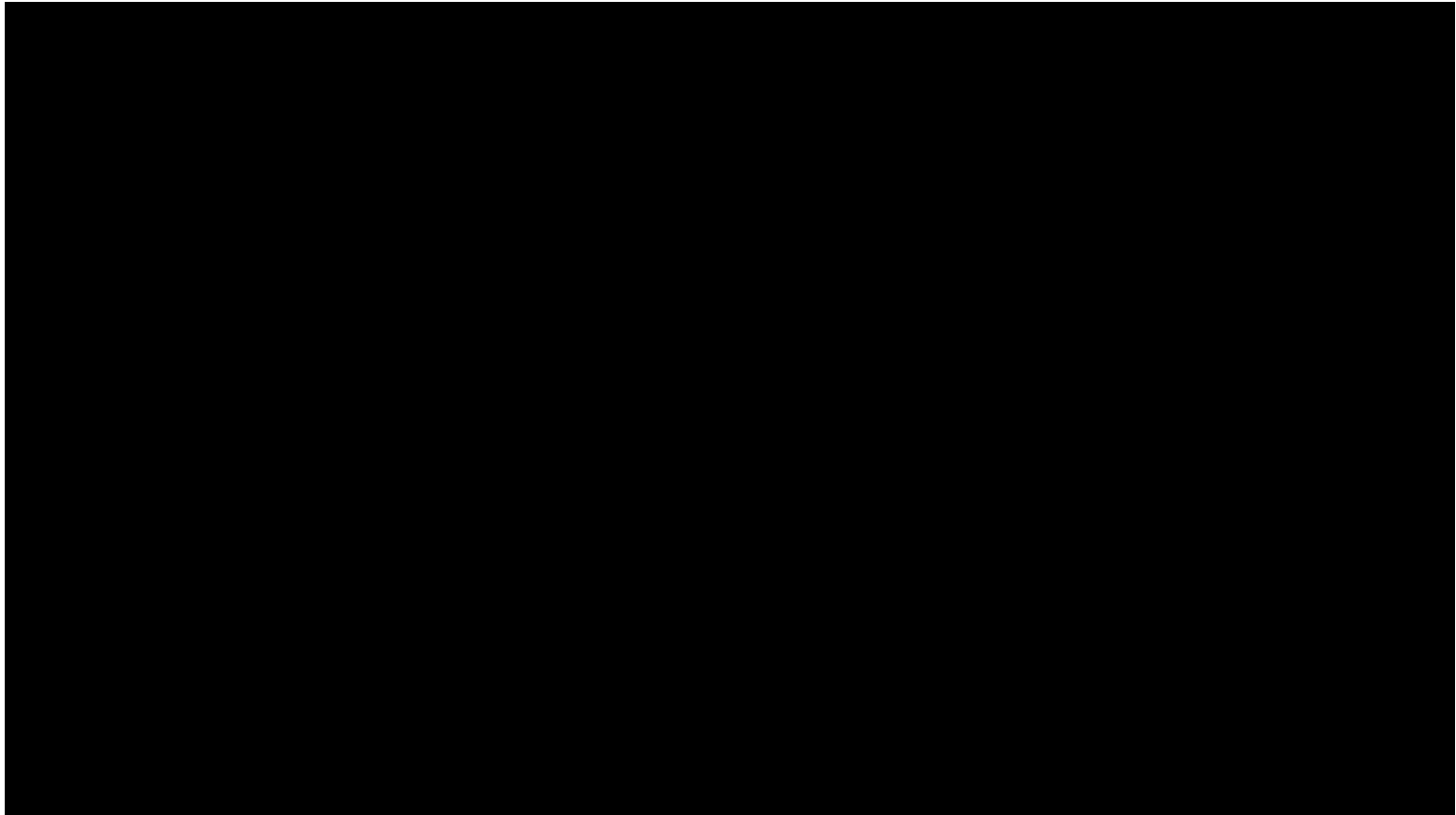
5-9

Negotiations and Increased Pension Obligations

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- While we are seeing the largest increase in school funding since the early 1970's, not all LEAs are created equal and many with declining enrollment and continued deficit spending will find it difficult to meet the salary demands of employees
- All LEAs will have to deal with the squeeze on the base grant
 - The 2015-16 CalSTRS employer contribution rate is increased by 21% from 8.88% to 10.73%
 - The rate climbs to 19.1% in 2020-21
 - The 2015-16 CalPERS employer contribution rate increases from 11.771% to 11.847% and climbs to 20.4% in 2020-21
- These significant cost increases are likely to result in a reduction in services to students at a time when expectations for those services are increasing

Those who forget history...



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5-1

Multiyear Projection Considerations

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- The cause of most school district insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the district during lean financial times, so caution is key:
 - Resist using future revenue projection dollars to justify paying for ongoing expenditures in the current year
 - A likely future recession is not forecast in any of the state's revenue projections
 - Proposition 30 temporary taxes will expire in the next few years
 - CalSTRS and CalPERS contributions will be increasing
 - Education will be receiving 40% vs. 90% of new state revenue once the maintenance factor is paid off
 - Expectations are for COLA-only years after the LCFF target reached
 - The reserve cap, if implemented, demands a balanced budget



Adopted Budget Financial Reporting

- Target statutory COLA*: 1.02% for 15-16
1.60% for 16-17 *projected*
2.48% for 17-18 *projected*

COLA affects only the calculation of the LCFF Target and does not describe the net increase in funding for each district.

- GAP Funding*: 53.08% for 15-16
37.40% for 16-17 *projected*
36.70% for 17-18 *projected*

There is no statutory guaranteed increase in any given year until full implementation is reached.

- Projected Enrollment: 8,941
Projected ADA: 8,631.29
Projected Unduplicated Pupil Percentage: 43.64%

Assumes that the enrollment, absentee rate & demographic make-up of students will remain the same as fiscal year 2014-15.

** Assumptions provided by the Department of Finance*



Adopted Budget Financial Reporting (Updates from Second Interim)

न CalSTRS Employer : 8.88% for 14-15
Contribution Rate 10.73% for 15-16

*CalSTRS Employer Contribution Rates are scheduled to increase annually,
“topping-out” at 19.1% for 2020-21.*

न CalPERS Employer: 11.771% for 14-15
Contribution Rate 11.847% for 15-16

down from the previously projected rate of 12.6%

*CalSTRS Employer Contribution Rates are scheduled to increase annually,
“topping-out” at 20.4% for 2020-21.*

न The 2015-16 Governor’s budget proposes to pay for prior-year mandate claims by providing an estimated \$601 per ADA in one-time revenues. This is an increase from the \$180 per ADA proposed and budgeted for at Second Interim.

The 2015-16 proposed Budget has the additional \$421 per ADA (\$3,631,129) held in / transferred to a Locally Restricted Resource until such time that the Board of Trustees makes a decision as to how to allocate these one-time discretionary funds.

2015-2016 Adopted Budget Multi-Year Projection



Description	2015-16			2016-17			2017-18		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
LCFF Revenue Sources	63,843,934	-	63,843,934	66,881,148	-	66,881,148	69,398,776	-	69,398,776
Federal Revenues	-	2,450,842	2,450,842	-	2,450,842	2,450,842	-	2,450,842	2,450,842
State Revenues	6,578,216	306,288	6,884,504	1,394,585	306,288	1,700,873	1,394,585	306,288	1,700,873
Other Local Revenues	778,308	4,490,135	5,268,443	513,500	4,490,135	5,003,635	513,500	4,490,135	5,003,635
Transfers In	-	3,631,129	3,631,129	-	-	-	-	-	-
Contributions	(9,910,643)	9,910,643	-	(10,330,242)	10,330,242	-	(10,502,780)	10,502,780	-
TOTAL REVENUES	61,289,815	20,789,037	82,078,852	58,458,991	17,577,507	76,036,498	60,804,081	17,750,045	78,554,126
Certificated Salaries	29,456,831	5,543,025	34,999,856	30,233,326	5,543,504	35,776,830	31,038,303	5,543,414	36,581,717
Classified Salaries	7,220,693	3,874,478	11,095,171	7,331,759	3,916,219	11,247,978	7,444,239	3,916,219	11,360,458
Employee Benefits	12,138,587	2,642,022	14,780,609	12,954,090	2,803,882	15,757,972	13,917,989	2,959,864	16,877,853
Supplies	2,912,926	716,796	3,629,722	2,909,565	715,754	3,625,319	2,944,871	714,335	3,659,206
Services	4,544,688	1,122,967	5,667,655	5,121,750	1,119,622	6,241,372	5,521,608	1,116,998	6,638,606
Capital Outlay	157,100	150,921	308,021	157,100	147,016	304,116	157,100	147,016	304,116
Other Outgo	24,248	1,908,945	2,151,433	242,488	1,908,945	2,151,433	242,488	1,908,945	2,151,433
Indirect Costs	(700,048)	605,058	(94,990)	(734,997)	639,796	(95,201)	(741,509)	645,523	(95,986)
Transfers Out	3,631,129	-	3,631,129	-	-	-	-	-	-
TOTAL EXPENDITURES	59,604,394	16,564,212	76,168,606	58,215,081	16,794,738	75,009,819	60,525,089	16,952,314	77,477,403
Surplus / (Deficit)	1,685,421	4,224,825	5,910,246	243,910	782,769	1,026,679	278,992	797,731	1,076,723
Beginning Fund Balance	8,707,577	488,055	9,195,632	10,392,998	4,712,880	15,105,878	10,636,908	5,495,649	16,132,557
Restatements/Adjustments	-	-	27,075	-	-	-	-	-	-
Ending Fund Balance (EFB)	10,392,998	4,712,880	15,105,878	10,636,908	5,495,649	16,132,557	10,915,900	6,293,380	17,209,280

Components of Ending Fund Balance

Revolving Cash Account	30,000	-	30,000	30,000	-	30,000	30,000	-	30,000
Stores	5,000	-	5,000	5,000	-	5,000	5,000	-	5,000
Economic Uncertainty Reserve (3%)	2,285,059	-	2,089,649	2,250,295	-	2,250,295	2,324,323	-	2,324,323
Legally Restricted Balance	-	4,712,880	234,869	-	5,495,649	5,495,649	-	6,293,380	6,293,380
WUTA Medigap	480,000	-	480,000	540,000	-	540,000	600,000	-	600,000
Multiyear Deficit Payroll Reserve	7,592,938	-	7,592,938	7,811,612	-	7,811,612	7,956,576	-	7,956,576
Total Components of EFB	10,392,998	4,712,880	15,105,878	10,636,908	5,495,649	16,132,557	10,915,900	6,293,380	17,209,280

2015-2016 Adopted Budget Multi-Year Projection (x 1000)

2015-16

2016-17

2017-18

Revenues

	URGF	RGF	Total	URGF	RGF	Total	URGF	RGF	Total
LCFF Revenue Sources	\$ 63,844	\$ -	\$ 63,844	\$ 66,881	\$ -	\$ 66,881	\$ 69,399	\$ -	\$ 69,399
Federal Revenues	\$ -	\$ 2,451	\$ 2,451	\$ -	\$ 2,451	\$ 2,451	\$ -	\$ 2,451	\$ 2,451
Other Revenues	\$ (2,554)	\$ 18,338	\$ 15,784	\$ (8,422)	\$ 15,127	\$ 6,705	\$ (8,595)	\$ 15,299	\$ 6,705
Total Revenues:	\$ 61,290	\$ 20,789	\$ 82,079	\$ 58,459	\$ 17,578	\$ 76,036	\$ 60,804	\$ 17,750	\$ 78,554

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Expenses

Certificated	\$ 29,457	\$ 5,543	\$ 35,000	\$ 30,233	\$ 5,544	\$ 35,777	\$ 31,038	\$ 5,543	\$ 36,582
Classified	\$ 7,221	\$ 3,874	\$ 11,095	\$ 7,332	\$ 3,916	\$ 11,248	\$ 7,444	\$ 3,916	\$ 11,360
Benefits	\$ 12,139	\$ 2,642	\$ 14,781	\$ 12,954	\$ 2,804	\$ 15,758	\$ 13,918	\$ 2,960	\$ 16,878
Supplies	\$ 2,913	\$ 717	\$ 3,630	\$ 2,910	\$ 716	\$ 3,625	\$ 2,945	\$ 714	\$ 3,659
Services	\$ 4,545	\$ 1,123	\$ 5,668	\$ 5,122	\$ 1,120	\$ 6,241	\$ 5,522	\$ 1,117	\$ 6,639
Other	\$ 3,331	\$ 2,665	\$ 5,996	\$ (335)	\$ 2,696	\$ 2,360	\$ (342)	\$ 2,701	\$ 2,360
Total Expenses:	\$ 59,604	\$ 16,564	\$ 76,169	\$ 58,215	\$ 16,795	\$ 75,010	\$ 60,525	\$ 16,952	\$ 77,477

2

Surplus / (Deficit)	\$ 1,685	\$ 4,225	\$ 5,910	\$ 244	\$ 783	\$ 1,027	\$ 279	\$ 798	\$ 1,077
Beg. Fund Balance (Adj.)	\$ 8,708	\$ 488	\$ 9,196	\$ 10,393	\$ 4,713	\$ 15,106	\$ 10,637	\$ 5,496	\$ 16,133
End. Fund Balance	\$ 10,393	\$ 4,713	\$ 15,106	\$ 10,637	\$ 5,496	\$ 16,133	\$ 10,915	\$ 6,293	\$ 17,209

* Note: These figures reflect rounding. Reference original SACS Financials for single dollar resolution.



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