



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 10.4

Meeting Date: July 17, 2014

Subject: Approve 2014-2015 District Budget Update and Revision – State Budget Approval

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: _____)
- Conference/Action
- Action
- Public Hearing

Division: Business Services

Recommendation: Approve the 2014-15 district budget update and revision displaying the changes of the final state budget approval.

Background/Rationale: Education Code Section 42127(i)(4) requires districts to revise their budget “not later than 45 days” after the Governor signs the Annual Budget Act. The 2014-15 Budget Act was signed by the Governor on June 20, 2014. As such, SCUSD has until Monday, August 4th, 2014, to submit a revised budget to the Sacramento County Office of Education. This Budget Revision reflects the impact of the Budget Act upon the district’s budget.

Financial Considerations: The proposed revisions to the adopted budget for the general fund reflect the adjustments needed to bring the District’s budget into alignment with the changes based on the Budget Act signed by the Governor on June 20, 2014, and all other expenditure and revenue data available to the District at this time, including the approval of New Joseph Bonnheim Charter School approved on June 19, 2014.

Documents Attached:

1. Executive Summary will be available 24 hours prior to the Board meeting
2. California Department of Finance regarding the 2014-15 Budget Act for K-12
3. Budget Revision will be available 24 hours prior to the Board meeting

Estimated Time of Presentation: 15 Minutes

Submitted by: Ken A. Forrest, Chief Business Officer
Gerardo Castillo, CPA, Director III, Fiscal Services

Approved by: Sara Noguchi, Ed.D., Interim Superintendent

Board of Education Executive Summary

Business Services

Approve 2014-2015 District Budget Update and Revision – State Budget Approval
July 17, 2014



I. Overview/History:

On June 20, 2014, Governor Jerry Brown signed the main state budget bill following the Legislature's passage of the budget on June 15, 2014. These bills collectively enacted how California funds education. We have presented to the Board and posted to our website, on June 5th and June 19th, the District budget with information known as of the May Revise and guidance from Sacramento County Office of Education. The information presented is the impact on our District of Senate Bill (SB) 852. In addition, attached to this Executive Summary is a summary of California Department of Finance 2014–15 Budget Act for K thru 12 Education. The education trailer bill, Senate Bill (SB) 852 includes such things as:

- **Increased Local Control Funding Formula (LCFF) Funding**

Spending above the Governor's May Revision proposal, the 2014-15 State Budget provides an additional \$250 million towards implementation of the LCFF for schools. The LCFF gap funding closure is now estimated to be at 29.56% instead of 28.05% at May Revise. For our District this is an estimated \$1,674,990 additional LCFF funds.

- **Mandates**

The 2014-15 State Budget will begin to chip away at the education mandates portion of the Wall of Debt. For K-12 districts \$400.5 million will be provided towards funding prior mandate claims on a per-average daily attendance basis of about \$66. The Budget trailer bill includes intent language that school districts prioritize these funds for implementation of the Common Core State Standards (CCSS), though a district can use these funds for "any one-time purpose, as determined by the governing board."

- **Local Reserves**

The 2014-15 State Budget contains provisions requiring districts to "substantiate" the need for an "unassigned or assigned ending fund balance" above the districts' required minimum reserve beginning with budgets adopted for the 2015-16 fiscal year. At the public hearing for budget adoption or revision, a district must substantiate the reasons for this "excess," and the COE will be required to determine whether the district complied with these requirements.

Board of Education Executive Summary

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Approve 2014-2015 District Budget Update and Revision – State Budget Approval
July 17, 2014



- **California State Teachers’ Retirement System (CalSTRS) Rates**

Selecting a path between the Governor’s proposal and the Legislature’s alternative proposal, the CalSTRS rate schedule adopted with the Budget for employers takes a smaller step in year one, but does not spike at year four as the alternative proposal would have. The employer rates after July 1 of each year is as follows:

Year	Employer
2013-14	8.25%
2014-15	8.88%
2015-16	10.73%
2016-17	12.58%
2017-18	14.43%
2018-19	16.28%
2019-20	18.13%
2020-21	19.10%

- **Career Pathways Program Trust**

The 2014-15 State Budget includes \$250 million in one-time funds to support a second cohort of competitive grants for the Career Pathways Programs.

Early Childhood Education

The 2014-15 State Budget provides additional funding for preschool and makes a few changes to the existing Transitional Kindergarten (TK) program. In total, funding was increased by \$155 million in Proposition 98 support and an additional \$100 million in non-Proposition 98 funds for the following:

- 7,500 additional full-year, part-day preschool slots
- 500 additional alternative payment slots
- 1,000 general slots
- An increase in the standard reimbursement rate of 5%
- \$50 million for quality grants to local educational agencies
- \$35 million in one-time money targeted to professional development and facilities

Staff is still reviewing the details and its effects on the Child Development Fund. These changes will be incorporated in the future.

Board of Education Executive Summary

Business Services

Approve 2014-2015 District Budget Update and Revision – State Budget Approval
July 17, 2014



II. Driving Governance:

Education Code Section 42127(i)(4) states that “Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act.”

III. Budget:

At the time of the Adopted Budget, staff included additional Revenue based on the Governor’s May Revise. The final state budget changed the General fund as described in Section I. On this Budget revision, staff is adding additional expenditures for Restorative Justice and the effect in the General Fund of New Joseph Bonnheim Charter School approved on June 19th, 2014. The general budget and proposed revisions is provided below:

Change in Revenue FY 2014-15	
Additional LCFF Revenue	\$ 1,674,990
Loss of LCFF in General Fund due to NJB - 264 Students	\$ (1,781,760)
Net (Loss) LCFF Revenue	\$ (106,770)
Mandated Cost Reimbursement	\$ 2,574,000
Charter Oversight Fees and Special Ed	\$ 217,865
Total Increased Revenue	\$ 2,685,095

Board of Education Executive Summary

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July 17, 2014



Change in Expenditures FY 2014-15		
Reductions of 6 FTE due to NJB	\$	(613,800)
CalSTRS Savings	\$	(1,054,000)
Restorative Justice/Positive Behavioral Common Core or Other One Time Expenditures	\$	200,000
	\$	2,574,000
Total Increased Expenditures	\$	1,106,200

Total Net Change in General Fund Balance	\$	1,578,895
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Board of Education Executive Summary

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July 17, 2014



IV. Goals, Objectives and Measures:

Continue to provide information to the Board and the public on a monthly basis starting July 2014, including required reporting periods such as First, Second and Third Interim reports. Develop significantly improved budget development process to comply with Local Control Accountability Plan (LCAP).

V. Major Initiatives:

- Reworking the District chart of accounts
- Fiscal stability for 2014-15 and outlying years
- Utilizing funds prudently and effectively
- Development of business processes that provide more timely, consistent, and a financial data
- New financial software

VI. Results:

Continued review and updates given to the Board, staff and community will provide information needed to make knowledgeable fiscal decisions.

VII. Lessons Learned/Next Steps:

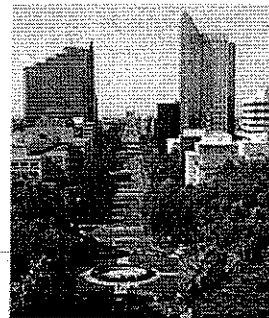
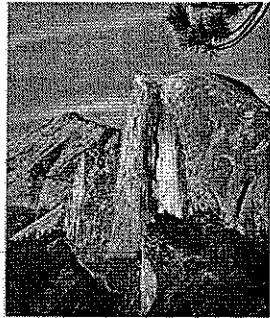
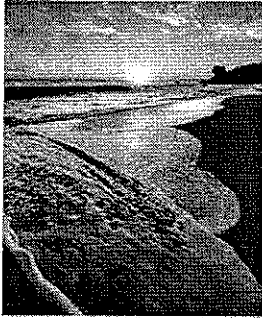
- Continue to monitor the fiscal health of the district and the state
- Work closely with the Sacramento County Office of Education and provide necessary information
- Provide a budget calendar for the 2014-15 fiscal year

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
BUDGET REVISIONS
GENERAL FUND (Changes Due to Final State Budget)**

	Adopted Budget 07/01/14 2014-15	45 Day Revised 07/17/14 2014-15	VARIANCE 07/17/14	
REVENUES				
LCFF SOURCES	316,665,340	316,558,570	-106,770	Additional \$1,674,990 due to LCFF at 29.56 % vs. 28.05% as adopted, but potential lost of 264 students due to NJB
FEDERAL REVENUE	47,850,912	47,850,912		
OTHER STATE REVENUES	43,568,653	46,142,653	2,574,000	Mandated Cost Reimbursement for Common Core or One Time Expenditures
OTHER LOCAL REVENUES	6,550,559	6,550,559		
TOTAL REVENUES	414,635,464	417,102,694	2,467,230	
EXPENDITURES				
CERTIFICATED SALARIES	171,535,936	171,072,136	-463,800	Assume reduction of 6 teachers that will move to NJB; Restorative Justice - Certificated
CLASSIFIED SALARIES	54,197,760	54,197,760		
EMPLOYEE BENEFITS	122,455,834	121,401,834	-1,054,000	One time - estimated reduction in CalSTRS - increased .63% instead of 1.25%
BOOKS AND SUPPLIES	18,489,350	21,063,350	2,574,000	Mandated Cost Reimbursement for Common Core or One Time Expenditures
SERVICES/OTHER OPERATING EXP	52,681,439	52,731,439	50,000	Add \$50,000 Contract for Restorative Justice
CAPITAL OUTLAY	748,868	748,868		
OTHER OUTGO	3,066,666	3,066,666		
INDIRECT SUPPORT	-1,311,004	-1,311,004		
TOTAL EXPENDITURES	421,864,849	422,971,049	1,106,200	
OTHER FINANCING SOURCES/USES				
INTERFUND TRANSFERS IN	1,189,639	1,407,504	217,865	Charter Oversight Fees for NJB
INTERFUND TRANSFERS OUT	-34,874	-34,874		
OTHER SOURCES	52,313,778	52,313,778		
OTHER USES	-52,313,778	-52,313,778		
TOTAL OTHER FINANCING SOURCES/USES	1,154,765	1,372,630	217,865	
NET INCREASE (DECREASE) IN FUND BALANCE	-6,074,620	-4,495,725	1,578,895	
Beginning Fund Balance, July 1	19,883,211	19,883,211		
Audit Adjustments	0	0		
Ending Fund Balance, June 30	13,808,591	15,387,486	1,578,895	
Nonspendable - Revolving and Stores	545,000	545,000		
Unassigned- Reserve for Economic Uncert.	8,763,133	8,763,133		
Restricted	1,670,131	1,670,131		
Assigned	2,000,000	2,000,000		
Unappropriated Fund Balance	830,327	2,409,222	1,578,895	



CALIFORNIA STATE BUDGET 2014-15



EDMUND G. BROWN JR. GOVERNOR STATE OF CALIFORNIA

INTRODUCTION

The 2014 Budget Act advances a multiyear plan that is balanced, pays down budgetary debt from past years, saves for a rainy day, and shores up the teacher pension system. In addition, it increases spending for education, the environment, public safety, the judiciary, public works, health care, CalWORKs, In-Home Supportive Services, and affordable housing.

SHORING UP TEACHER PENSIONS

In its 101-year history, the California State Teachers' Retirement System (CalSTRS) has rarely been adequately funded—meaning that expected contributions and investment returns have not been equal to expected pension payouts. As shown in Figure INT-01, the system was only 29 percent funded as recently as 1975. The system did reach full funding (100 percent) for a few years around 2000 because of exceptional investment returns and higher contributions in the preceding years. Yet, reduced contributions, benefit enhancements and stock market crashes have reduced the system's funding status to its current 67 percent and set it on a consistent downward trajectory. Barring state action, the system would run out of money in 33 years.

K THRU 12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide students with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

The Budget includes total funding of \$76.6 billion (\$45.3 billion General Fund and \$31.3 billion other funds) for all K-12 Education programs.

PROPOSITION 98

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

The Budget includes Proposition 98 funding of \$60.9 billion for 2014-15, an increase of \$5.6 billion over the 2013 Budget Act level. When combined with increases of \$4.4 billion in 2012-13 and 2013-14, the Budget provides a \$10 billion increased investment in K-14 education. Proposition 98 funding for K-12 education grows by more than \$12 billion

from the 2011-12 fiscal year to the 2014-15 fiscal year, representing an increase of more than \$1,900 per student.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- **Local Control Funding Formula**—An increase of \$4.75 billion Proposition 98 General Fund to continue the State’s landmark transition to the Local Control Funding Formula. This formula commits most new funding to districts serving English language learners, students from low-income families, and youth in foster care. This increase will close the remaining funding implementation gap by more the 29 percent. Additionally, the Budget addresses an administrative problem related to the collection of income eligibility forms that are used to determine student eligibility for free or reduced-price meals.
- **K-12 Deferrals**—The Budget repays nearly \$4.7 billion Proposition 98 General Fund for K-12 expenses that had been deferred from one year to the next during the Great Recession, leaving an outstanding balance of less than \$900 million in K-12 deferrals. Further, the Budget includes a trigger mechanism that will appropriate any additional funding resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the Budget for the purpose of retiring this remaining deferral balance.
- **Independent Study**—The Budget streamlines the existing independent study program, reducing administrative burdens and freeing up time for teachers to spend on student instruction and support, while making it easier for schools to offer and expand instructional opportunities available to students through non-classroom based instruction.
- **K-12 Mandates**—An increase of \$400.5 million in one-time Proposition 98 General Fund to reimburse K-12 local educational agencies for the costs of state-mandated programs. These funds will make a significant down payment on outstanding mandate debt, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.
- **K-12 High-Speed Internet Access**—An increase of \$26.7 million in one-time Proposition 98 General Fund for the K-12 High Speed Network to provide technical assistance and grants to local educational agencies to address the technology

requirements necessary for successful Common Core implementation. Based on an assessment by the K-12 High Speed Network, these funds will be targeted to those local educational agencies most in need of help with securing required internet connectivity and infrastructure to implement the new computer adaptive tests under Common Core.

- Career Technical Education Pathways Program—An increase of \$250 million in one-time Proposition 98 General Fund to support a second cohort of competitive grants for participating K-14 local educational agencies. Established in the 2013 Budget Act, the Career Pathways Trust Program provides grant awards to improve career technical programs and linkages between employers, schools, and community colleges.

CHILD CARE AND STATE PRESCHOOL

Subsidized Child Care includes a variety of programs designed to support low-income families so they may remain gainfully employed. These programs are primarily administered by the State Department of Education. Additionally, the State Preschool program is designed as an educational program to help ensure children develop the skills needed for success in school.

Significant Adjustments:

- Child Care and State Preschool Slots—The Budget includes \$57 million General Fund and \$30 million Proposition 98 General Fund for 500 slots for the Alternative Payment program, 1,000 slots for General Child Care, 7,500 part-day State Preschool slots, and 7,500 part-day wrap around care slots. The Budget also specifies that an additional 4,000 part-day State Preschool slots and 4,000 part-day wrap around care slots will be provided in 2015-16.
- Provider Rates and State Preschool Fees—The Budget includes \$24 million General Fund and \$25 million Proposition 98 General Fund to increase the standard reimbursement rate for state contracted providers by 5 percent, effective July 1, 2014, and \$19 million General Fund to update the regional market rate for voucher-based providers, effective January 1, 2015. The Budget also repeals part-day State Preschool family fees and backfills them with \$15 million Proposition 98 General Fund.

K THRU 12 EDUCATION

- Child Care and State Preschool Quality—The Budget includes \$50 million Proposition 98 General Fund for local block grants for locally driven quality improvement processes. The Budget also includes \$25 million Proposition 98 General Fund one-time for preschool and transitional kindergarten teacher training in early childhood development and \$10 million Proposition 98 General Fund one-time to provide loans for State Preschool facility expansion.

Approve 2014-15 District Budget Update and Revision – State Budget Approval Fiscal Year 2014-15 July 17, 2014 Agenda Item #10.4

Presented By
Gerardo Castillo, CPA
Director of Fiscal Services



- **Requirement for revision**
 - **Education Code 42127**
- **Governor signed Budget on June 20, 2014**
- **State Budget assumptions include passage of increase of LCFF funding, CalSTRS Employer Contribution, Mandated Cost Reimbursement**
- **Approval of New Joseph Bonnheim Charter effect on General Fund**
- **Adding Restorative Justice**
- **Local Control Funding Calculation**

* Bill signed into law.

Budget Bill LCFF Increase	(A) 2014-15 Passed Budget*	(B) 2014-15 Budget Adoption	C = (A) - (B)
Change in LCFF Funding	29.56%	28.05%	Change in LCFF Revenue
Additional Revenue	\$ 29,686,792	\$ 28,011,802	\$ 1,674,990

*** Bill signed into law.**

CalSTRS Employer Rate	(A) 2014-15 Passed Budget*	(B) 2014-15 Budget Adoption	C = (A) - (B)
Change in CalSTRS	8.88%	9.50%	-0.62%
Estimated Decrease in Expenditures	\$ 15,096,265	\$ 16,150,265	\$ (1,054,000)

Retirement Impact

CalSTRS Possible Case Scenario Of Increased Employer Contributions

Year			Employee Contribution	Current Employer Rate FY 2013-2014	Increase Over Current	Increase Over Previous Year	Percentage Increase Over Previous Year	Total Employer Contribution	Salary*	Estimated Total Cost	Increased Cost Over Previous Year	Increased Cumulative Cost
FY 2013 - 2014	8.00%	8.25%	0.00%	0.00%	0.00%	0.00%	8.25%	\$ 167,490,622.00	\$ 13,817,976.32			
FY 2014 - 2015	8.15%	8.25%	0.63%	0.63%	7.64%	8.88%	\$ 170,002,981.33	\$ 15,096,264.74	\$ 1,278,288.43	\$ 1,278,288.43		
FY 2015 - 2016	9.20%	8.25%	2.48%	1.85%	20.83%	10.73%	\$ 172,553,026.05	\$ 18,514,939.70	\$ 3,418,674.95	\$ 4,696,963.38		
FY 2016 - 2017	10.25%	8.25%	4.33%	1.85%	17.24%	12.58%	\$ 175,141,321.44	\$ 22,032,778.24	\$ 3,517,838.54	\$ 8,214,801.92		
FY 2017 - 2018	10.21%	8.25%	6.18%	1.85%	14.71%	14.43%	\$ 177,768,441.26	\$ 25,651,986.07	\$ 3,619,207.84	\$ 11,834,009.76		
FY 2018 - 2019	10.25%	8.25%	8.03%	1.85%	12.82%	16.28%	\$ 180,434,967.88	\$ 29,374,812.77	\$ 3,722,826.70	\$ 15,556,836.46		
FY 2019 - 2020	10.25%	8.25%	9.88%	1.85%	11.36%	18.13%	\$ 183,141,492.40	\$ 33,203,552.57	\$ 3,828,739.80	\$ 19,385,576.26		
FY 2020 - 2021	10.25%	8.25%	10.85%	0.97%	5.35%	19.10%	\$ 185,888,614.79	\$ 35,504,725.42	\$ 2,301,172.85	\$ 21,686,749.11		

CalPERS Possible Case Scenario Of Increased Employer Contributions

Year			Employee Contribution	Current Employer Rate FY 2013-2014	Increase Over Current	Increase Over Previous Year	Percentage Increase Over Previous Year	Total Employer Contribution	Salary**	Estimated Total Cost	Increased Cost Over Previous Year	Increased Cumulative Cost
FY 2013 - 2014	7.00%	11.442%	0.000%	0.000%	0.000%	0.000%	11.442%	\$ 49,861,101.00	\$ 5,705,107.18			
FY 2014 - 2015	7.00%	11.442%	0.258%	0.258%	2.255%	11.700%	\$ 50,235,059.26	\$ 5,877,501.93	\$ 172,394.76	\$ 172,394.76		
FY 2015 - 2016	7.00%	11.442%	1.158%	0.900%	7.692%	12.600%	\$ 50,611,822.20	\$ 6,377,089.60	\$ 499,587.66	\$ 671,982.42		
FY 2016 - 2017	7.00%	11.442%	3.558%	2.400%	19.048%	15.000%	\$ 50,991,410.87	\$ 7,648,711.63	\$ 1,271,622.03	\$ 1,943,604.45		
FY 2017 - 2018	7.00%	11.442%	5.158%	1.600%	10.667%	16.600%	\$ 51,373,846.45	\$ 8,528,058.51	\$ 879,346.88	\$ 2,822,951.33		
FY 2018 - 2019	7.00%	11.442%	6.758%	1.600%	9.639%	18.200%	\$ 51,759,150.30	\$ 9,420,165.35	\$ 892,106.84	\$ 3,715,058.18		
FY 2019 - 2020	7.00%	11.442%	8.458%	1.700%	9.341%	19.900%	\$ 52,147,343.93	\$ 10,377,321.44	\$ 957,156.09	\$ 4,672,214.26		
FY 2020 - 2021	7.00%	11.442%	8.958%	0.500%	2.513%	20.400%	\$ 52,538,449.01	\$ 10,717,843.60	\$ 340,522.16	\$ 5,012,736.42		

* Assuming 1.5% Step and Column Increase for certificated employees

** Assuming .75% Step and Column Increase for classified employees

*** Bill signed into law.**

One - Time Mandated Cost Reimbursement	(A) 2014-15 Passed Budget*	(B) 2014-15 Budget Adoption	C = (A) - (B)
Estimated Change per ADA	\$ 100.00	\$ 34.00	\$ 66.00
Additional Revenue for Common Core	\$ 4,008,039	\$ 1,434,039	\$ 2,574,000

Impact of New Joseph Bonnheim

Change in Revenue	
Estimated Loss of LCFF in General Fund due to NJB - 264 Students	\$ (1,781,760)
Charter Oversight Fees and Special Ed	\$ 217,865
Total Decrease Revenue	\$ (1,563,895)
Change in Expenditures	
Reductions of 6 FTE due to NJB	\$ (613,800)
Estimated Total Net Change in Fund Balance due to NJB	\$ (950,095)

Restorative Justice

		Additional Expenditures
Restorative Justice/Positive Behavioral Intervention Support (PBIS)		\$ 200,000
Estimated Restorative Justice		\$ 200,000

General Fund All Combined

Change in Revenue FY 2014-15	
Additional LCFF Revenue	\$ 1,674,990
Loss of LCFF in General Fund due to NJB - 264 Students	\$ (1,781,760)
Net (Loss) LCFF Revenue	\$ (106,770)
Mandated Cost Reimbursement	\$ 2,574,000
Charter Oversight Fees and Special Ed	\$ 217,865
Total Increased Revenue	\$ 2,685,095

General Fund All Combined

Change in Expenditures FY 2014-15

Reductions of 6 FTE due to NJB	\$	(613,800)
CalSTRS Savings	\$	(1,054,000)
Restorative Justice/Positive Behavioral Common Core or Other One Time Expenditures	\$	200,000
	\$	2,574,000
Total Increased Expenditures	\$	1,106,200

**Total Net Change in General Fund
Balance**

\$

1,578,895

LCFF Calculation – Minimum Proportionality Percentage

Minimum Proportionality Percentage (MPP): Summary Supplemental & Concentration Grant		2013-14	2014-15	2015-16**	2016-17**
1.	LCFF Target Supplemental & Concentration Grant Funding <i>from Calculator tab</i>		77,837,093	77,553,381	77,500,019
2.	Prior Year (estimated) Expenditures for Unduplicated Pupils above what was spent on services for all pupils		12,012,888	12,500,000	13,000,000
	Prior Year EIA expenditures	11,166,706			
	2014-15 py exp (2013-14 exp) must >= 2012-13 EIA exp	TRUE			
3.	Difference [1] less [2]		65,824,205	65,053,381	64,500,019
4.	Estimated Additional Supplemental & Concentration Grant Funding <i>[3] * GAP funding rate</i>		19,457,635	13,446,534	14,835,004
	<i>GAP funding rate</i>		29.56%	20.67%	23.00%

LCFF Calculation – Minimum Proportionality Percentage

5.	Estimated Supplemental and Concentration Grant Funding [2] plus [4] (unless [3]<0 then [1]) LCAP Section 3, Part C		31,470,523	25,946,534	27,835,004
6.	Base Funding LCFF Phase-In Entitlement less [5], excludes Targeted Instructional Improvement & Transportation		278,544,512	295,031,547	304,481,181
	LCFF Phase-In Entitlement		316,558,570	327,521,616	338,859,720
7/8.	Minimum Proportionality Percentage* [5]/[6] LCAP Section 3, Part D		11.30%	8.79%	9.14%
<p>*percentage by which services for unduplicated students must be increased or improved over services provided for all students in the LCAP year. If Step 3a <=0, then calculate the minimum proportionality percentage at Estimated Supplemental & Concentration Grant Funding, step 5. **Regulations only require an LEA to demonstrate how it is meeting the proportionality percentage in the LCAP year, not across all three years.</p>					
SUMMARY SUPPLEMENTAL & CONCENTRATION GRANT & MPP					
			2014-15	2015-16	2016-17
	Current year estimated supplemental and concentration grant funding in the LCAP year		\$ 31,470,523	\$ 25,946,534	\$ 27,835,004
	Current year Minimum Proportionality Percentage (MPP)		11.30%	8.79%	9.14%

We must **increase** our spending on Free & Reduced, Foster Youth, English Language Learners by at least this much each year.

\$3,556,169 \$2,280,700 \$2,544,119

Themes for the Conference

1-1

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- ▶ Overall budget policy decisions continue to be reflective of slow but seemingly steady economic improvement
- ▶ State revenues surge for a variety of reasons, but:
 - The Department of Finance (DOF) lowers its forecast for 2015-16 Local Control Funding Formula (LCFF) funding levels significantly
 - The revenue volatility we have been concerned about is coming into play
 - There are no statutory or constitutional guarantees for out-year LCFF funding levels
- ▶ The real story is on the expenditure and reserve side of the equation

Expenditures – Where the Action Is

1-2

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- ▶ **While LCFF funding projections take a marked turn downward in 2015-16, expenditures shoot up**
 - **California State Teachers' Retirement System (CalSTRS) contributions go up for employers, employees, and the state beginning in 2014-15**
 - **But by far the biggest impact is on the employer contribution which will increase each year and represent a total increase of 4.33% by 2016-17, the third year of the multiyear projection**
 - **Beginning in 2015-16, California Public Employees' Retirement System (CalPERS) rates also rocket upward**
 - **Salary demands and poor understanding of the LCFF create pressure at the bargaining table**

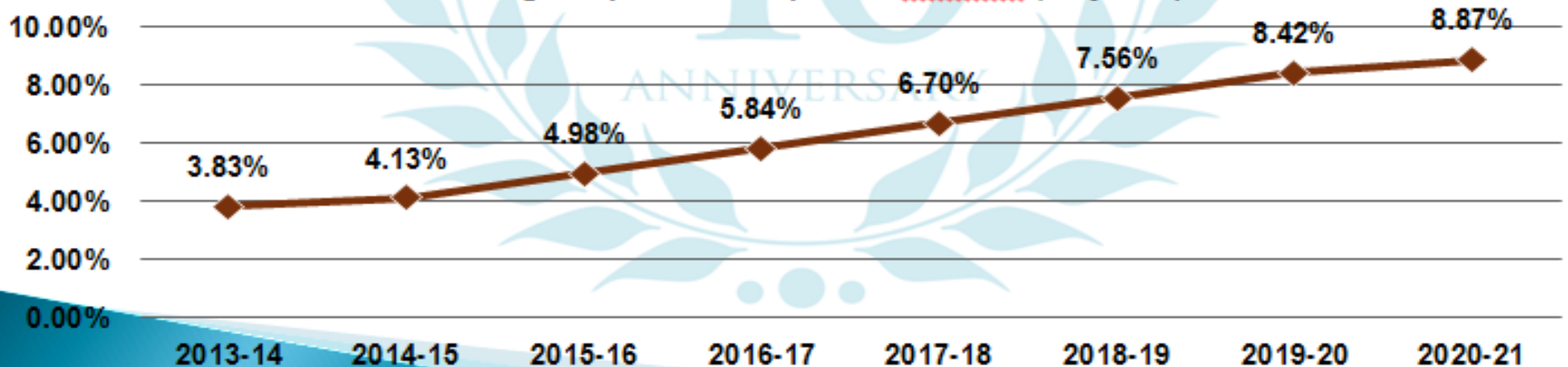
Multiyear Projections – CalSTRS

5-10

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Average Unified School District			
Year	<u>CalSTRS</u> Rate	<u>CalSTRS</u> Expense Per ADA	% of Budget Spent on <u>CalSTRS</u>
2013-14	8.25%	\$341.34	3.83%
2014-15	8.88%	\$367.41	4.13%
2015-16	10.73%	\$443.95	4.98%
2016-17	12.58%	\$520.49	5.84%

Percent of the Budget Expenditures Spent on CalSTRS (Projected)



Proposition 30 Taxes Are Temporary

2-17

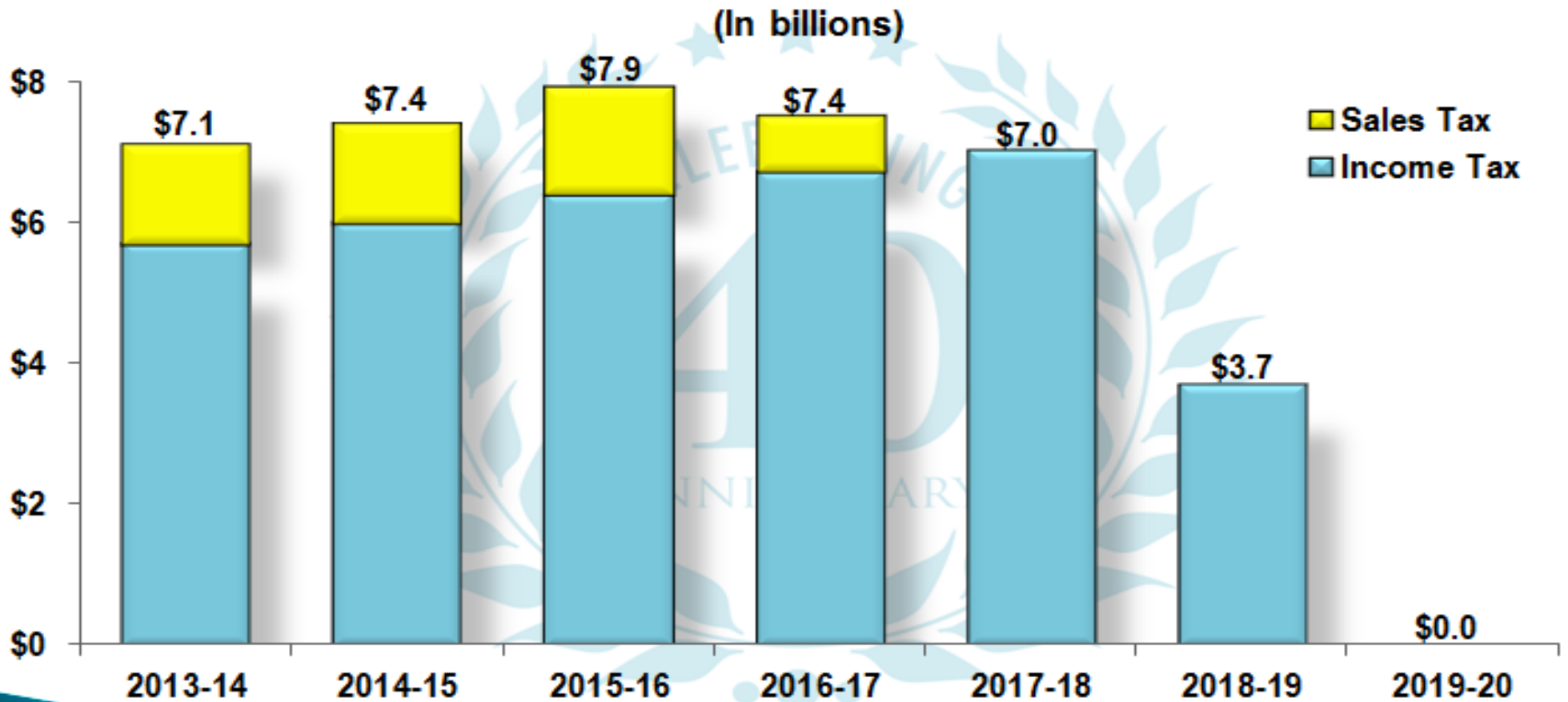
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- ▶ **Proposition 30, approved by voters in November 2012, temporarily increased the state sales tax and income tax rates for high-income earners to address state revenue shortfalls stemming from the Great Recession**
- ▶ **The higher rates boosted revenues \$7.1 billion in 2013-14 and are forecast to provide \$7.4 billion in 2014-15**
- ▶ **Unless extended by the voters, these higher taxes will expire as follows:**
 - **The 0.25% sales tax increase expires in 2016 (i.e., the 2016-17 fiscal year)**
 - **The personal income tax increase expires in 2018 (i.e., the 2018-19 fiscal year)**

Proposition 30 Revenue Gain and Loss

2-18

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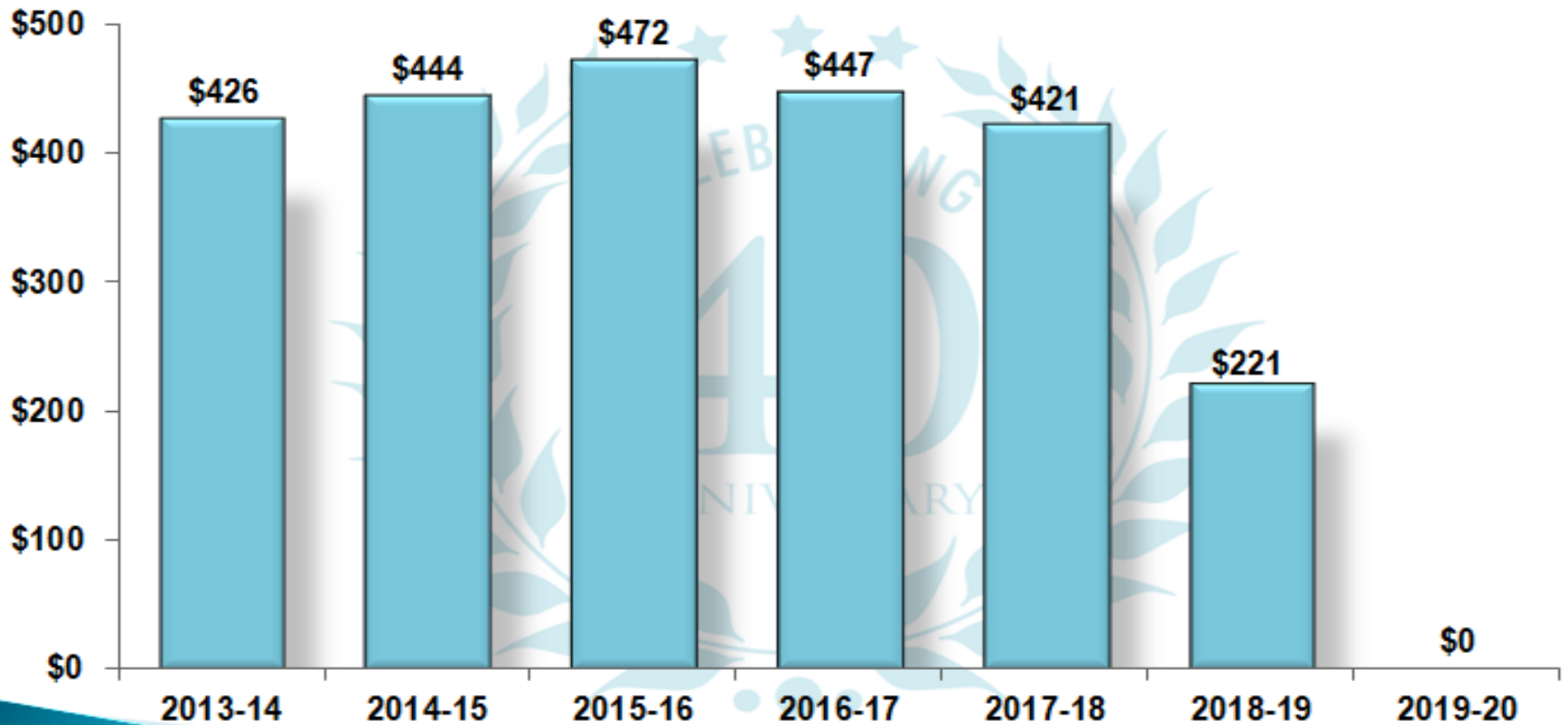


Source: 2014-15 May Revision and SSC analysis

Proposition 30 Revenues Per ADA

2-19

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Source: 2014-15 May Revision and SSC analysis

New Implications

3-21

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- ▶ **Final legislative actions and compromises with the Governor are likely to impact LCFF estimations every year**
 - **Legislature added \$250 million in the final weeks of budget hearings, increasing “gap closure” by 1.5 percentage points above May Revision**
 - **Legislature reduced deferral buy-back (one-time cost) by \$1 billion to fund LCFF increase and other K-14 spending priorities (ongoing expenses)**
- ▶ **Increased ongoing spending and reduced one-time costs in 2014-15 limited Proposition 98 funds available in 2015-16 for LCFF implementation**
 - **As a result, revised 2015-16 gap closure estimate drops by 10 percentage points, from 30.39% to 20.68%**
- ▶ **Budgeting for the future is always uncertain – especially when others have control over your revenues**

Fiscal Solvency Starts With Adequate Reserves

5-2

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- ▶ In a perfect world, nothing would ever go wrong, there would be no unpleasant surprises, and neither school districts nor the state would need big reserves
- ▶ In the real world that doesn't happen
 - Because of negative reserve levels, the state was forced to close state parks, eliminate programs for the blind, cut education funding, and the list goes on and on
 - School agencies were not well prepared for huge budget cuts, but they quickly adapted and made the changes necessary to protect students and maintain solvency
- ▶ Most of the mistakes in financial planning are made during good times, not during tough times
 - Adequate reserves are an essential part of local control

Why Do Districts Need Adequate Reserves?

5-3

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- ▶ All districts need to maintain additional reserves to protect against:
 - Economic downturns and state-level budget cuts
 - Volatility in LCFF gap closure funding
 - Declining enrollment and loss of funding
 - Unplanned expenses, for example, CalSTRS cost increases
 - Carryover balances for schools and departments
 - Cash shortages
 - Other projected needs for additional one-time funding
 - Layoffs and program reductions by providing lead time to make budget adjustments
- ▶ We advocate for spending today's dollars on today's students
 - But not at the expense of tomorrow's students

LCFF Revenues Present More Risk

5-4

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- ▶ **LCFF funding levels have no predictable anchors in statute or in the Constitution**
 - **Beyond the extremely weak protection of Proposition 98, the annual LCFF contribution is at the discretion of the state**
 - **As a result, districts that plan and make long-term commitments based upon state projections are at risk if those projections are revised**
 - ▶ **Just a few days ago, the state reduced its planned gap funding increase for 2015-16 by 33%, from 30.39% to 20.68%**
 - ▶ **Districts that based expenditures on the higher amount now face budget reductions**
- ▶ **Our advice continues to be to hold one year's worth of planned LCFF increases in reserve over and above the Reserve for Economic Uncertainties (REU)**

Negotiations – K-3 Grade Span Adjustment

7-33

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- ▶ In general, districts are required to make progress toward reducing average class sizes in grades K-3 toward 24; required annual progress is tied to the percentage of gap funding closure provided by the state
- ▶ Districts may avoid or delay implementing lower class sizes if they meet the requirements of a “collective bargaining exception”
 - Requirements are strict and you need the advice of your attorney
 - It is not in the interest of anyone for the district to incur penalties
- ▶ But if you use the “exception” to delay lower class sizes temporarily, do not use the savings for an ongoing permanent salary increase
 - If you are going to spend the savings on a permanent salary increase, we advise bargaining permanent class-size language
 - Otherwise, in some future year, a temporary “exception” could expire and the district could be faced with a huge penalty in that year

Collaboration is More Important Than Ever

7-34

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- ▶ **The collaboration process between districts and bargaining units on the LCAP is a statutory requirement**
 - **The quality of that interaction will determine, in large measure, how well the parties will move forward together**
 - **For 2014-15, we have an entire year to get it right**
 - **Both parties will do well to make the LCAP work for them**
- ▶ **Districts have many options for increasing services to students**
 - **In our opinion, our first choice should be to invest in our own professional employees**
 - **Staff development, more time with students and for collaboration, lower class sizes – these are things we have jointly wanted for years**
- ▶ **Now is the time to move forward together**

- We are asking the Board to approve the 45 day revised budget due to the passage of the state budget on June 20, 2014
- There may be additional budget adjustments resulting from continued State Budget evaluation and completion of FY 2014-15 negotiations.
- December/January
 - First Interim Report
 - 2015-16 Budget Calendar
 - Governor's Proposed 2015-16 Budget

Thank You!

Questions?