Sacramento
City Unified
School District

Business Services Division
Fiscal Update

January 9, 2014

Volume 1

Disclaimer

Sacramento City Unified School District operates in an ever changing fiscal environment. Information presented within this Fiscal Update is current or represents forecasts based on information available at the time of publication.

This is the first in a series of periodic reports that the Business Services Division will produce to inform the Board of Education, senior staff, and the public about the District's continually changing financial condition.

Refinancing & *Fitch Ratings* Service District Rating

Fitch Ratings released on December 26, 2013 their rating of the District related to our upcoming sale of General Obligation Bonds (January 15th) and Lease Revenue Obligations (January 16th). This rating is part of the process that will allow the District to refinance our existing Certificates of Participation (COPs) and a portion of our General Obligation debt. The District is refinancing our existing Certificates of Participation to avoid an automatic interest rate increase to approximately 9% on March 1, 2014. We are refinancing some of our General Obligation Bonds to take advantage of lower interest rates. These refinancing actions will save both the taxpayers and the District money. The refinancing actions will not provide any additional discretionary dollars to the District.

Fitch affirmed our rating as 'A'. However, they revised our Rating Outlook to Negative from Stable.

Fitch cited several significant factors for their rating change:

- Poor Financial Performance:
  - "Failure to return to structural budget balance in fiscal year 2014" (current fiscal year).
  - "Financial oversight is weak."
  - "Failure to control spending."
  - "The district's financial position remains surprisingly weak in the face of a much improved revenue environment."
- Weak Reserve Position:
  - "The district's reserves are very weak…"
- Challenging Budget Environment:
  - "The district…has no meaningful revenue raising flexibility because of state law, forcing budget adjustments to be made primarily through expenditure reductions."
- Significant Long-Term Liabilities:
  - "… a poorly funded teachers' pension plan, and a large unfunded liability for other post-employment benefits (OPEB)."
  - "The district's unfunded accrued actuarial OPEB liability is particularly high at $632.7 million, or 2.5% of assessed valuation (AV).
- Management Weakness:
  - "The governing board has shown a willingness to spend down reserves to an inadequate level."
- Failure to Resolve Structural Imbalance:
  - "Fitch expects to downgrade the ratings if the district does not convincingly restore structural balance in the near term."

- Inadequate Reserves:
  - “The minimum reserve is inadequate to maintain the current ratings given the volatility in state funding the district routinely faces.”
  - “Fitch lacks confidence in the district’s ability and willingness to control expenditures to the degree necessary to return to structural balance as forecast.”
  - “Policymakers have allowed the district to run persistent budget deficits, failed to make available spending adjustments that would have restored balanced budgets, and have drawn reserves to a level that leaves the district vulnerable to falling below the state’s minimum fund balance requirement in the event of an economic shock or unanticipated expenditures.”
  - “The district also lacks official board policies that would support a return to a higher level of reserves over time.
  - “…revenue gains are unlikely to provide the robust surplus operations needed to rebuild reserves in the near term.”

Prior to the release of the rating, numerous banks declined to consider the purchase of Sacramento City Unified School District financial paper based on our current financial condition.

Our Bond sale is progressing with $30 million already committed through a “Direct Placement” providing the District with a lower interest cost. Placement is with the Western Alliance Bank of Phoenix, Arizona.

After the sale of our securities next week, we will make an effort to determine the impact of the “Negative” outlook on our interest cost so that we may estimate the cost of our weak financial condition.

This rating and our need to refinance our Certificates of Participation have a direct impact on the General Fund and, subsequently, negotiations because these Certificates are a direct obligation of the General Fund.

Enrollment and Enrollment Forecast

Contained within the Board of Education Meeting Packet for January 9, 2014, within the Enrollment and Attendance report, is the news that the District’s enrollment is already 753 students less than last year. Our budgeted forecast for this fiscal year was a loss of approximately 362 students. Given the trend for enrollment decline throughout the year we are now forecasting that we will lose 1,218 students this fiscal year.

To improve the accuracy of our enrollment forecasting we hired SCI Consulting Group, founded in 1985, to provide an enrollment forecast for the next fiscal year at the school level. SCI is familiar with the District and has been providing long range forecasts for use in District facilities master planning.

Using the data supplied by SCI, our own forecasting methodology, and standard trend analysis we have developed a new forecast of enrollment based on the latest enrollment and attendance data. The tables below provide a 12 year review of our enrollment and Average Daily Attendance (ADA) data. The yellow columns provide you with our current forecasted information.

Enrollment Analysis 2001-2002 Through 2015-2016 Projected

Description	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Projected 2013-2014	Projected 2014-2015	Projected 2015-2016
Enrollment	53,418	52,850	52,103	51,420	50,408	49,355	48,446	48,155	47,890	47,896	47,939	47,616	47,517	47,117	47,117
# Charter Schools	1	1	10	12	12	12	12	12	10	11	12	13	13	13	13
Charter Enrollment	988	971	3,951	5,020	4,735	4,253	3,978	4,115	3,652	4,142	4,513	4,993	5,368	5,368	5,368
Charter Enrollment As A % of Total Enrollment	1.85%	1.84%	7.58%	9.76%	9.39%	8.62%	8.21%	8.55%	7.63%	8.65%	9.41%	10.49%	11.30%	11.39%	11.39%
Net Enrollment Less Charters	52,430	51,879	48,152	46,400	45,673	45,102	44,468	44,040	44,238	43,754	43,426	42,623	41,405	40,205	39,005
Special Education	6322	6,460	6,387	6,262	6,017	5,620	5,333	5,257	5,365	5,397	5,654	5,792	5,590	5,428	5,266
Special Education As A % of Net Enrollment	12.06%	12.45%	13.26%	13.50%	13.17%	12.46%	11.99%	11.94%	12.13%	12.33%	13.02%	13.59%	13.50%	13.50%	13.50%
P2 ADA Count	52530	51,948	48,180	46,538	45,198	44,229	44,023	41,758	41,653	41,347	41,131	40,449	39,177	38,042	36,907
ADA As A % of Net Enrollment	100.19%	100.13%	100.06%	100.30%	98.96%	98.06%	99.00%	94.82%	94.16%	94.50%	94.72%	94.90%	94.62%	94.62%	94.62%

Description	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Projected 2013-2014	Projected 2014-2015	Projected 2015-2016
Enrollment Difference	(551)	(3,727)	(1,752)	(727)	(571)	(634)	(428)	198	(484)	(328)	(803)	(1,218)	(1,200)	(1,200)
ADA Differnce	(582)	(3,768)	(1,642)	(1,340)	(969)	(206)	(2,265)	(105)	(306)	(216)	(682)	(1,272)	(1,135)	(1,135)

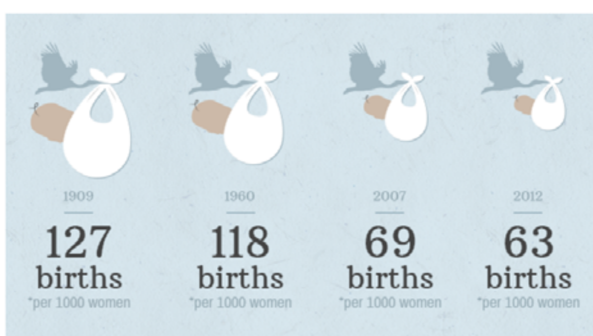
Obviously the forecasted reductions of approximately 1,200 students per year will have a significant impact on our projected funding (approximately $8.2 million) and questions related to the cause of the decline will arise.

One significant factor in declining enrollment is the recession that has driven live birth rates dramatically lower, nationally, statewide, and locally.

Baby bust: U.S. births at record low

CNNMoney

By Annalyn Kurtz @AnnalynKurtz September 6, 2013: 10:59 AM ET



NEW YORK (CNNMoney)

The Great Recession and the slow recovery have been quite the romantic buzzkill.

The U.S. fertility rate fell to another record low in 2012, with 63.0 births per 1,000 women ages 15 to 44 years old, according to the Centers for Disease Control and Prevention. That's down slightly from the previous low of 63.2 in 2011.

The Governor's Budget, released today, acknowledges that estimated statewide ADA is flat in 2013-2014, and declines by 7,000 ADA in 2014-2015. Our updated enrollment forecast takes into account the impact of the recession and the decline in local live birth rates.

A review of our recent history of the number of students who leave the District each year and go to another educational institution also helps explain our enrollment trend.

Historical Percentage of Students Leaving The District

2010-2011	2011-2012	2012-2013
10.4%	11.0%	9.9%

Of particular interest when doing an analysis of changes in enrollment may be the approximate impact that the school closures may have had on our enrollment decline.

2012-2013 Closed School Analysis	
Number of Student Enrolled In Closed Schools	2,243
As of November 18, 2013 Number of Closed School Students Who Left The District	319
Percentage of Closed School Students Who Left The District	14.2%
Estimated Percentage Who Left Above Expected Districtwide Departures	3.8%
Estimated Departures Due To School Closures	12
Average State Revenue Per Pupil 2013-2014	$ 6,869
Estimated Revenue Loss Due To School Closures	$ 82,428

We believe that it is a combination of many factors – lower birth rates, charter school enrollment, private school enrollment, and movement out of the District – that have combined to accelerate the declining enrollment trend. In looking at future real estate development within our District it is apparent that several larger developments are in the early stages. We will be following the progress of residential developments to determine what impact new construction will have on increasing our enrollment in the future. Presently we do not anticipate any increased enrollment due to residential developments until the 2016-2017 fiscal year.

The small amount of declining enrollment was partially accounted for in the estimated savings with an anticipated incremental reduction of 7%, the incremental reduction is in fact calculated to be only 3.8%.

Because the majority of our revenue is derived through the Local Control Funding Formula which is driven by our ADA, decreases in enrollment have a significant impact on our revenue. Significant changes in revenue obviously should be the subject of negotiation.

Pending Employee Retirement System Issue

A recent study has highlighted the significant funding shortfall within the teacher retirement system, CalSTRS. As reported by School Services of California the Governor's Budget notes that CalSTRS faces a growing unfunded liability of $80.4 billion and may exhaust its assets within 30 years. Stabilizing the system could cost more than $4.5 billion per year over the next 30 years. While not proposing a solution as part of this budget, the Governor is committing his administration to working with stakeholders on a "plan of shared responsibility" to achieve a fully funded system within 30 years which will be included in the 2015-2016 Budget proposal.

The Governor's CalSTRS budget summary closes with the following statement:

> "A new funding strategy should phase-in contribution increases for employees, employers, and the state to allow parties to prepare for cost increases. Because retirement benefits are part of total compensation costs, school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement. The state's long-term role as a direct contributor to the plan should be evaluated."

While not an immediate concern for our District, the highlighted area points out that the District must begin to prepare to see higher teacher retirement system costs. Obviously this will require coordination with our labor partner SCTA through the negotiations process.

Brief Budget Update

Key points pulled from the Governor's Budget with the assistance of School Services of California:

- The proposed budget eliminates all remaining education funding deferrals.
- The Budget proposes $4.5 billion of additional funding allocated through the Local Control Funding Formula (LCFF), an average increase of 10.9% or $755 per pupil.
    - To put this into perspective we calculated that this fiscal year our increase was $334 per pupil which was a 4.81% increase for our District.
- Reminder: LCFF is designed to distribute additional funds to all school districts over time, but with particular emphasis on improving the level of support for English Learners, Foster Youth, and students in poverty. Therefore, the results for our district may be significantly different than the average increase above.
- The Department of Finance staff estimates that the additional funding proposed in the budget will eliminate more than 28% of the remaining gap between the 2013-2014 funding level and the LCFF funding target for each school district.
- The Governor's Budget contains $363 million for energy efficiency project grants from Proposition 39.

- Budget proposes a cost-of-living adjustment (COLA) of 0.86% for categorical programs outside the LCFF, including Special education, child nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- In addition to the spending proposals, the Governor makes several other policy proposals, including:
  - Legislation to create a continuous appropriation for LCFF funding, to ensure that it is "implemented on schedule".
  - Legislation to streamline and expand instructional opportunities available through non-classroom based independent study.
- Absent from the proposal is any mention of expanding Transitional Kindergarten, as has been introduced by legislative Democrats.
  - Should Transitional Kindergarten be funded by the Legislature, it is probable that the LCFF per pupil increase will be reduced.
- The Governor also does not propose additional funding for the implementation of the Common Core State Standards.

The District wishes to acknowledge the expert and rapid interpretation provided by School Services of California that significantly aided Business Services in providing this summary.

The impact of the Governor's Budget and the subsequent changes through the legislative process obviously are subject to interpretation during the negotiations process.

Business Services Division
Fiscal Update

January 9, 2014 Volume 1

Inadequate Reserve Clarification

Provided below is a history of our ending fund balances. We used only a 4.5% increase in funding to illustrate some possible outcomes for future fund balances.

Sacramento City Unified General Fund Revenue / Expenditure / Ending Fund Balance Analysis

Fiscal Year	Funded Average Daily Attendance	Revenue	Expenditures	Excess (Deficiency) Of Revenues Over Expenditures	Other Financing Sources	Ending Fund Balance	Ending Fund Balance As A % Of Expenditures
1999-00	50,223	$ 320,821,412	$ 317,485,562	$ 3,335,850	$ (4,910,235)		
2000-01	51,253	$ 370,008,605	$ 353,410,279	$ 16,598,326	$ (4,952,640)		
2001-02	52,530	$ 378,733,395	$ 376,989,436	$ 1,743,959	$ (5,459,977)		
2002-03	51,948	$ 386,504,867	$ 384,777,142	$ 1,727,725	$ 3,111,338		
2003-04	48,181	$ 370,874,078	$ 380,704,516	$ (9,830,438)	$ 1,962,040	$ 19,970,998	5.25%
2004-05	46,539	$ 383,478,608	$ 382,196,844	$ 1,281,764	$ 894,914	$ 22,147,676	5.79%
2005-06	45,198	$ 386,961,308	$ 382,805,406	$ 4,155,902	$ 1,213,710	$ 27,517,289	7.19%
2006-07	44,230	$ 408,859,700	$ 402,137,965	$ 6,721,735	$ 566,894	$ 34,805,917	8.66%
2007-08	44,024	$ 414,691,669	$ 412,900,869	$ 1,790,800	$ (954,831)	$ 35,641,886	8.63%
2008-09	41,758	$ 413,081,928	$ 408,003,168	$ 5,078,760	$ 4,793,081	$ 45,513,727	11.16%
2009-10	41,653	$ 387,307,431	$ 395,081,555	$ (7,774,124)	$ (13,379,013)	$ 24,360,591	6.17%
2010-11	41,347	$ 412,911,347	$ 404,032,147	$ 8,879,200	$ 1,159,632	$ 34,399,424	8.51%
2011-12	41,131	$ 389,906,122	$ 406,281,495	$ (16,375,373)	$ 3,089,445	$ 21,113,495	5.20%
2012-13	40,638	$ 379,896,678	$ 383,940,424	$ (4,043,746)	$ 2,339,596	$ 19,409,345	5.06%
2013-14	40,449	$ 404,601,185	$ 413,422,723	$ (8,821,538)	$ 1,381,423	$ 9,206,383	2.23%
2014-15	39,177	$ 408,813,282	$ 407,805,377	$ 1,007,905	$ (533,015)	$ 10,214,289	2.50%
2015-16	38,042	$ 411,230,186	$ 411,184,755	$ 45,431	$ 310,320	$ 10,259,719	2.50%
2013-14	State Required Minimum>>		$ 8,007,454	Amount Above Minimum>>		$ 1,198,929	0.29%
State Average For California Unified School Districts 2011-2012>>						$ 63,832,468	15.44%
GFOA Recommended Reserve TWO Months of Operating Capital>>						$ 70,901,997	17.15%

In an effort to address the concerns of the financial industry and the County Office of Education, and to instill fiscal responsibility into District budgeting, we will be recommending that the Board of Education consider the adoption of a Fund Balance Policy that will, over time, rebuild our ending fund balance to 7.5% of anticipated expenditures, including the 2% state required reserve.

As you will note we are forecasting only having 0.23% above the state required minimum at the end of this fiscal year. As Fitch pointed out, this is well below what is normally considered a reasonable reserve for a school district of our size.

We will be providing the Board with a recommended Fund Balance Policy that will encourage the Board to rebuild the fund balance as mentioned above. Rebuilding the fund balance has implications during the negotiations process and will require coordination with our labor partners.

Estimated Impact – Remember Numbers Will Change As The Budget Process Continues!

Below we present two of multi-year projections. Each projection represents our best estimates at the moment in time they were or are presented.

This was the status of our multi-year forecast reconciled to our 1st Interim report.

Multi-Year Forecast - No Use of Reserve 4.5% Annual Increase					
	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	42,149	41,749		41,749	
Funded Average Daily Attendance	40,449	39,539		39,539	
Revenue Description	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
All Revenue Objects and Transfers In	$ 404,601,185	$ 410,985,282	1.6%	$ 420,212,186	2.2%
Beginning Fund Balance	$ 19,409,345	$ 9,206,383	-52.6%	$ 8,886,289	-3.5%
Total Anticipated Revenue & Beginning Fund Balance	**$ 424,010,530**	**$ 420,191,666**	**-0.9%**	**$ 429,098,474**	**2.1%**
Expenditure Description	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
Certificated Salaries	$ 173,799,059	$ 175,355,854	0.9%	$ 174,951,153	-0.2%
Classified Salaries	$ 49,884,204	$ 50,141,394	0.5%	$ 50,165,904	0.0%
Employee Benefits	$ 110,514,985	$ 115,120,810	4.2%	$ 118,797,015	3.2%
Books & Supplies	$ 26,038,469	$ 17,176,470	-34.0%	$ 17,405,810	1.3%
Services & Other Operating Expenses	$ 52,898,353	$ 53,756,210	1.6%	$ 53,186,234	-1.1%
Capital Outlay	$ 287,655	$ 287,655	0.0%	$ 287,655	0.0%
Other Outgo/Indirect Costs/Other Adjustments	$ 1,381,423	$ (533,015)	-138.6%	$ 310,320	-158.2%
Amount Available To Address Expenditure Requirements				$ 3,528,319	
Total Adopted Budget Expenditures	**$ 414,804,146**	**$ 411,305,377**	**-0.8%**	**$ 418,632,411**	**1.8%**
Anticipated Ending Fund Balance	**$ 9,206,383**	**$ 8,886,289**	-3.5%	**$ 10,466,064**	17.8%
Required Reserves	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
Reserve For Economic Uncertainties	$ 8,296,082	$ 8,242,928	-0.6%	$ 8,622,648	4.6%
Revolving Cash	$ 225,000	$ 225,000	0.0%	$ 225,000	0.0%
Stores Inventory	$ 320,000	$ 320,000	0.0%	$ 320,000	0.0%
Reserve For Other Post Employment Benefits (OPEB)	$ -	$ -		$ 1,000,000	0.0%
Total Required Reserves	**$ 8,841,082**	**$ 8,787,928**	**-0.6%**	**$ 10,167,648**	**15.7%**
Anticipated Unreserved Ending Fund Balance	**$ 685,301**	**$ 418,361**	**-39.0%**	**$ 618,415**	**47.8%**

Salaries include step and column increase for FY 2014-15 and FY 2015-16

Health Benefits are projected to increases by 10% for FY 2014-15 and FY 2015-16.

Utilities increase by 10% for FY 2014-15.

Possible Sequestration Reductions for FY 2014-2015 & 2015-16 have not be factored into above forecast.

Note the forecast on this page had higher anticipated enrollment forecasts, no reductions in the current fiscal year or next fiscal year, and was predicted to have $3.5 million available in fiscal year 2015-2016.

Business Services Division
Fiscal Update

January 9, 2014 Volume 1

The forecast presented below is our first forecast attempt using the extremely preliminary information we have found within the Governor's Budget and taking into account our most recent enrollment projections.

Multi-Year Forecast - No Use of Reserve 8% Annual Increase FY 2014-15 and 4.5% FY 2015-16					
	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	**41,405**	**40,205**		**39,005**	
Funded* Average Daily Attendance	**40,449**	**39,177**		**38,042**	
Revenue Description	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
All Revenue Objects and Transfers In	$ 404,601,185	$ 411,273,056	1.6%	$ 411,714,206	0.1%
Beginning Fund Balance	$ 19,409,345	$ 9,206,383	-52.6%	$ 10,174,062	10.5%
Total Anticipated Revenue & Beginning Fund Balance	**$ 424,010,530**	**$ 420,479,439**	**-0.8%**	**$ 421,888,268**	**0.3%**
Expenditure Description	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
Certificated Salaries	$ 173,799,059	$ 172,730,854	-0.6%	$ 173,136,650	0.2%
Classified Salaries	$ 49,884,204	$ 50,141,394	0.5%	$ 50,165,904	0.0%
Employee Benefits	$ 110,514,985	$ 114,245,810	3.4%	$ 118,192,181	3.5%
Books & Supplies	$ 26,038,469	$ 17,176,470	-34.0%	$ 17,360,628	1.1%
Services & Other Operating Expenses	$ 52,898,353	$ 53,756,210	1.6%	$ 53,187,120	-1.1%
Capital Outlay	$ 287,655	$ 287,655	0.0%	$ 287,655	0.0%
Other Outgo/Indirect Costs/Other Adjustments	$ 1,381,423	$ (533,015)	-138.6%	$ 310,320	-158.2%
Dedicated Amount Towards Operating Reserve	$ -	$ 1,000,000		$ 1,000,000	0.0%
Excess or (Deficit)	**$ -**	$ 1,500,000		**$ (2,000,000)**	
Total Adopted Budget Expenditures	**$ 414,804,146**	**$ 410,305,377**	**-1.1%**	**$ 411,640,459**	**0.3%**
Anticipated Ending Fund Balance	**$ 9,206,383**	**$ 10,174,062**	10.5%	**$ 10,247,809**	0.7%
Required Reserves	**Amount**	**Amount**	**% Change**	**Amount**	**% Change**
Reserve For Economic Uncertainties	$ 8,296,082	$ 8,242,928	-0.6%	$ 8,482,809	2.9%
Revolving Cash	$ 225,000	$ 225,000	0.0%	$ 225,000	0.0%
Stores Inventory	$ 320,000	$ 320,000	0.0%	$ 320,000	0.0%
Reserve For Other Post Employment Benefits (OPEB)	$ -	$ 1,000,000		$ 1,000,000	0.0%
Total Required Reserves	**$ 8,841,082**	**$ 9,787,928**	**10.7%**	**$ 10,027,809**	**2.5%**
Anticipated Unreserved Ending Fund Balance	**$ 685,301**	**$ 706,135**	**3.0%**	**$ 540,000**	**-23.5%**
Cumulative Increase In Ending Fund Balance	**$ -**	**$ 1,000,000**		**$ 2,000,000**	
Total Ending Fund Balance	**$ 9,206,383**	**$ 11,174,062**	**2.7%**	**$ 12,247,809**	**3.0%**

Salaries include step and column increase for FY 2014-15 and FY 2015-16

Health Benefits are projected to increases by 10% for FY 2014-15 and FY 2015-16.

Utilities increase by 10% for FY 2014-15.

***In accordance with existing statute declining enrollment districts may use previous year ADA if it is higher.**

There is certainly a long way to go in the budget process and of course this is the first year for full implementation of the Local Control Funding Formula (LCFF) and Local Control Accountability Plan (LCAP).

When the LCFF and LCAP regulations and rules are provided, it may alter the requirements of how the budget is allocated.

We expect significant changes before the budget is finally passed by the Legislature and signed by the Governor. With this in mind, while the Governor is proposing a 10.9% increase in LCFF funding, the details of what we will actually receive are yet to be provided. Therefore, we have elected to provide our projection using an 8% increase in funding ($549.48 per ADA) for next year which we believe is appropriately conservative. As more accurate numbers become available we will adjust our forecast and coordinate with the County Office of Education to ensure that forecasts are within their comfort level.

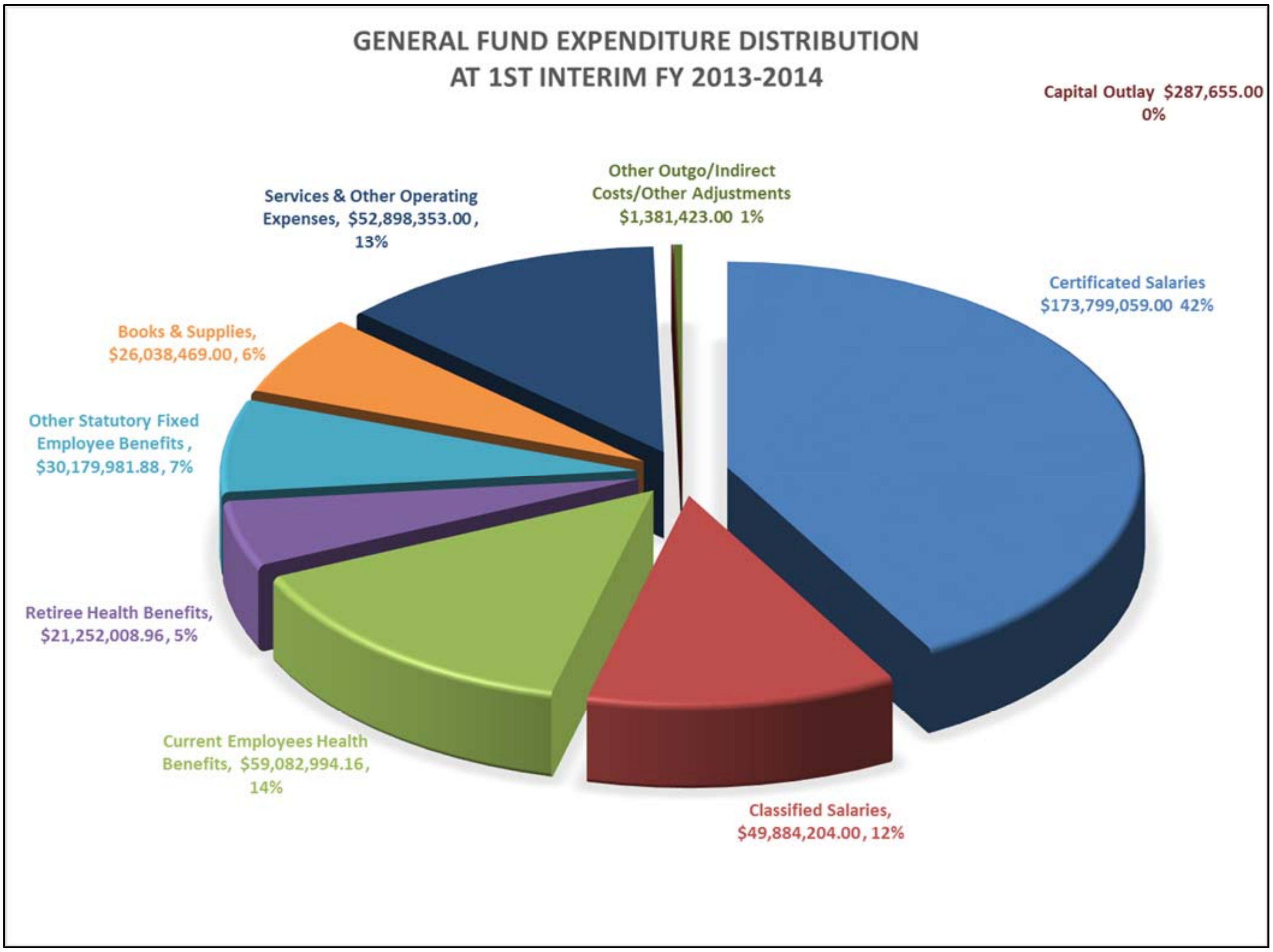
Comments related to our projection:

- No reduction of expenditures required in current fiscal year.
- Projection eliminates furlough days.
- Projection proposes returning a budgeted line item for funding Other Post Employee Benefits (OPEB) of $1 million per year starting next fiscal year. This directly addresses one of the major Fitch and County Office of Education concerns.
- Projection proposes initiating a budgeted line item of $1 million per year starting next fiscal year to rebuild the fund balance as discussed above. This also directly addresses another of the major Fitch and County Office of Education concerns.
- This projection indicates that there would be approximately $1.5 million available to address critical budget needs during the next fiscal year 2014-2015. However, due to the declining enrollment projections, $2 million in reductions would be required in fiscal year 2015-2016.
  - By utilizing the funds available in fiscal year 2014-2015 in a one-time manner, we could mitigate the amount of reductions necessary in fiscal year 2015-2016.

It is important to remember that under LCFF all provisions contained within existing negotiated agreements must be honored by the District which may severely restrict what amount of new funds may be allocated through the LCAP process. As you can see from the chart on the next page large portions of our budget are committed through our negotiated agreements.

Next steps:

- Continue with the LCAP process.
- Continue with our "One-Stop" budget planning process.
- Cabinet will continue to work on evaluating District priorities compared to existing programs to ensure that ongoing expenditures are reduced below revenues.
- Obtain priorities from the Board of Education.
- Continuously monitor the State budget process.



Ken A. Forrest

Ken A. Forrest
Chief Business Officer
January 9, 2014

finance update volume 1 20140109 v10