



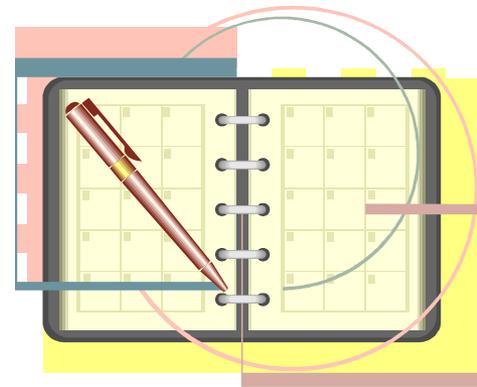
First Interim Report December 14, 2016

Ryland | SCHOOL BUSINESS
CONSULTING

- ▶ Santa Rosa City Schools

Agenda

- ▶ State Budget Process
- ▶ Key Assumptions
- ▶ Enrollment and Attendance
- ▶ LCFF, Budget and MYP
- ▶ Prudence and Next Steps



State Budget Process

- ▶ January
 - ▶ Governor's proposed budget for budget year
- ▶ February
 - ▶ Legislative Analyst review with comments
- ▶ April
 - ▶ Statutory COLA recalculated
- ▶ May
 - ▶ "May Revise" reflects tax adjustments
- ▶ June 15 (or later)
 - ▶ Final adopted State budget
 - ▶ COLAs, "gap" funding
 - ▶ Potential additional programs, or funding changes
- ▶ November
 - ▶ Legislative Analyst Report (LAO Report)
 - ▶ Projections for next year based on tax collections and economic predictors
- ▶ January
 - ▶ Governor's proposed budget for next budget year...



Local Control Funding Formula (no more RL)

- ▶ Beginning fiscal year 2013-14, K-12 finance system was replaced with a new Local Control Funding Formula (LCFF).
 - ▶ For school districts and charter schools, the LCFF creates base, supplemental, and concentration grants in place of most previously existing K-12 revenues, including revenue limits and most state categorical programs.
- ▶ Santa Rosa City Schools no longer receives state revenues such as Class Size Reduction (CSR), Economic Impact Aid (EIA), Tier III programs and Transportation.
 - ▶ Funding for these programs is now contained within the unrestricted LCFF funding source

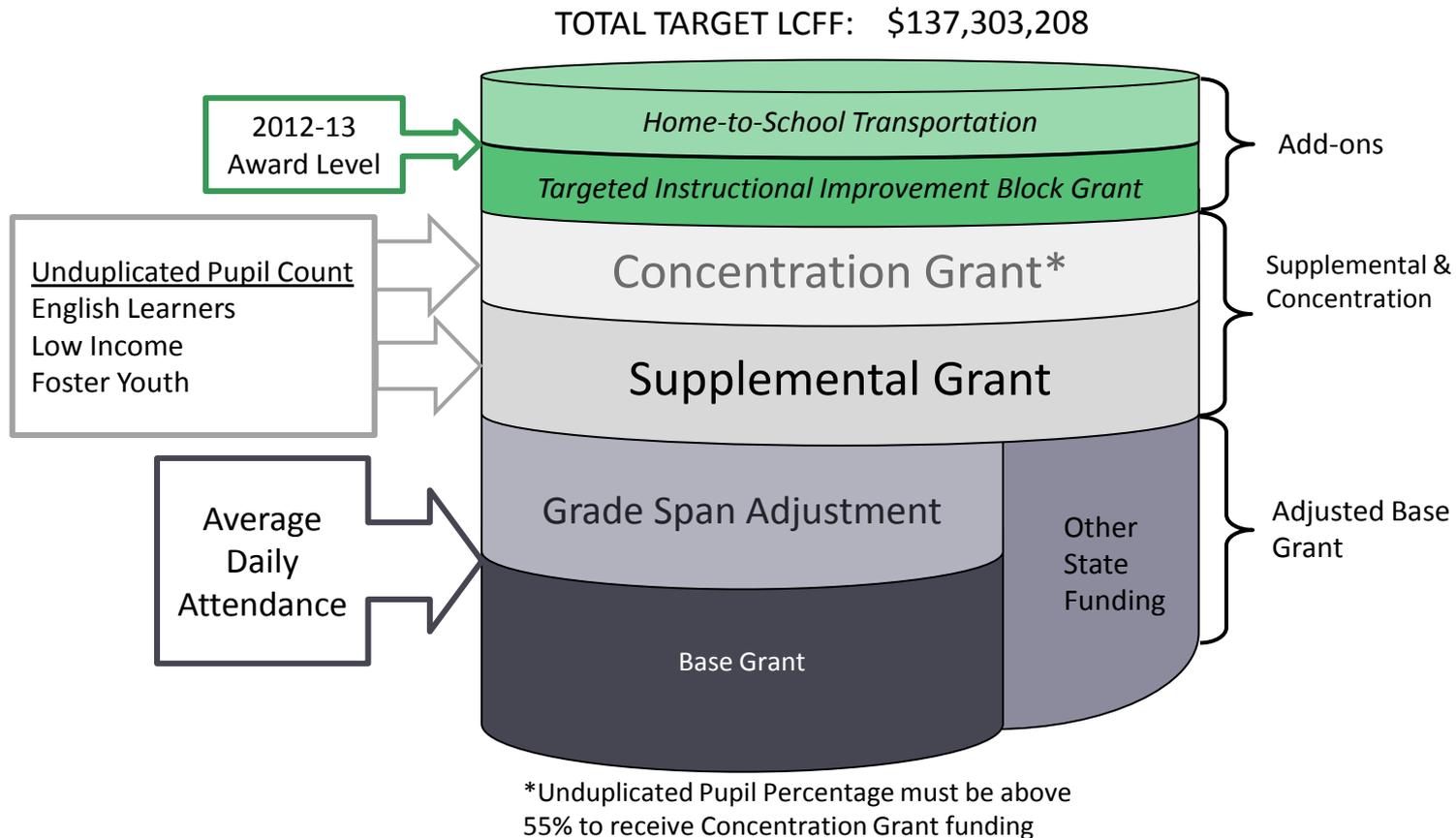
LCFF Components



- ▶ Grade span base grants (by K-3, 4-6, 7-8, 9-12)
- ▶ Add-ons for K-3 Class Size Reduction (CSR) and Career Tech Ed (CTE), called Grade Span Adjustments (GSA)
- ▶ Supplemental grants – 20% additional
- ▶ Concentration grants – 50% additional of unduplicated count above 55%; we get this funding for the ESD
 - ▶ Our unduplicated percent is estimated 76.35% for the ESD and 46.3% for the HSD for 2016-17

Simplification is Complicated

► Funding components of LCFF



Key Budget Assumptions

- ▶ All step and column adjustments, vacancies and late hires reflected in budget
- ▶ Using Local Control Funding Formula (LCFF), including 0% 2016-17 Cost of Living Adjustment (COLA) and 54.18% “gap” funding toward target for current year
- ▶ Using prior year P-2 Average Daily Attendance (ADA) due to decline in enrollment;
 - ▶ One year “protection” provided districts in decline –
 - ▶ Get funded on the higher of current year or prior year ADA
 - ▶ LCFF revenue decreased by approximately \$500K since adopted budget
- ▶ Increased STRS and PERS rates reflected

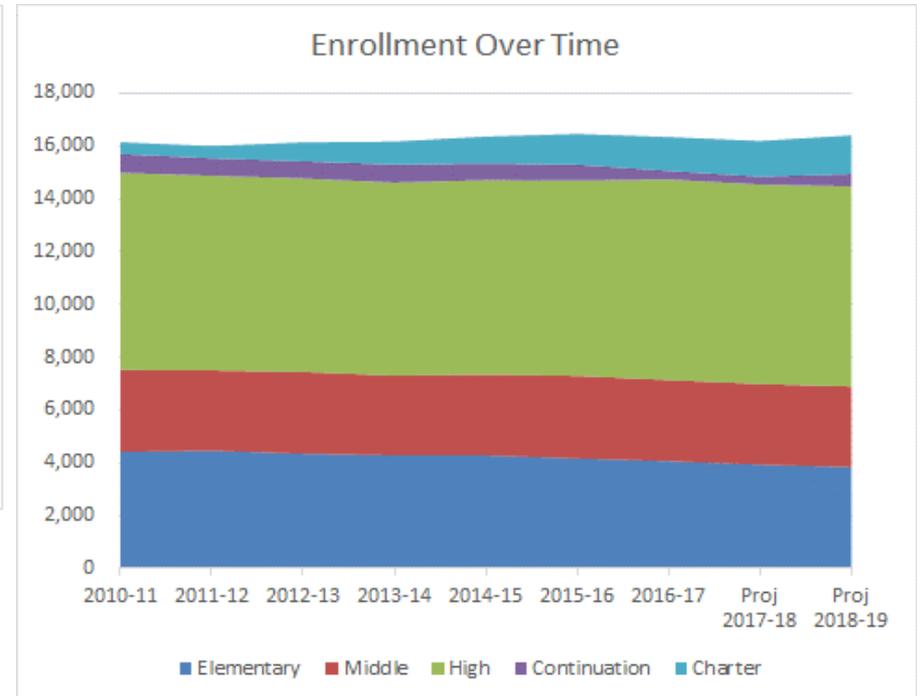
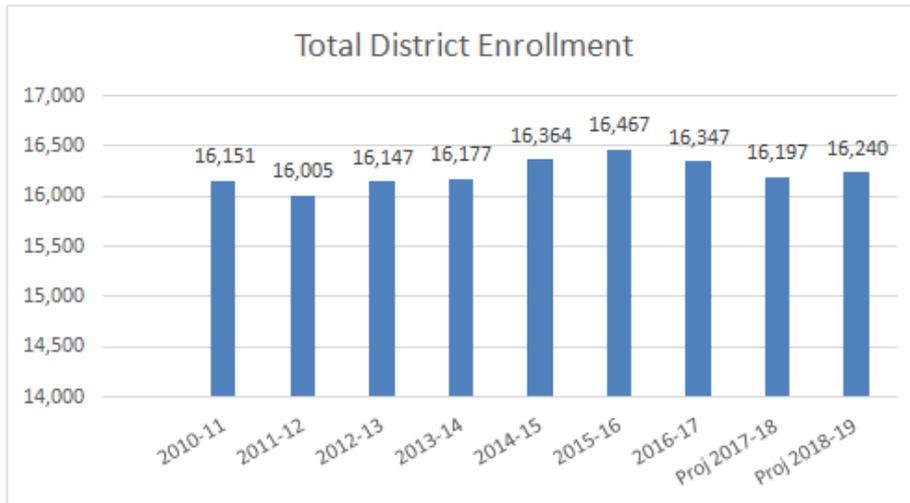
LCFF Funding Components

- ▶ In 2016-17, the District is projected to receive \$5.8M of “gap” funding, or progress toward the LCFF target funding level
 - ▶ LCFF funding decreased since Adopted Budget due to slight change in gap % and less ADA than projected

Summary of Funding							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Target	\$ 138,191,560	\$ 138,867,330	\$ 137,303,208	\$ 137,237,993	\$ 140,668,936	\$ 144,365,529	\$ 144,365,529
Floor	\$ 104,504,925	\$ 114,628,758	\$ 126,523,959	\$ 131,343,107	\$ 135,645,761	\$ 137,673,129	\$ 142,624,206
Applied Formula: Target or Floor	FLOOR	FLOOR	FLOOR	FLOOR	FLOOR	FLOOR	FLOOR
Remaining Need after Gap (informational only)	33,686,635	24,238,572	10,779,249	5,894,886	5,023,175	6,692,400	1,741,323
Current Year Gap Funding	10,159,944	12,739,216	5,931,197	4,302,677	2,027,353	4,951,038	-
Economic Recovery Target	-	-	-	-	-	-	-
Additional State Aid	-	-	-	-	-	-	-
Total Phase-In Entitlement First Interim	\$ 114,664,869	\$ 127,367,974	\$ 132,455,156	\$ 135,645,784	\$ 137,673,114	\$ 142,624,167	\$ 142,624,206
Total Phase-In Entitlement - Adopted Bud	\$ 114,674,647	\$ 127,357,001	\$ 132,963,710	\$ 136,372,615	\$ 139,082,523	\$ 144,216,127	\$ 144,397,324
diff	\$ (9,778)	\$ 10,972	\$ (508,554)	\$ (726,830)	\$ (1,409,408)	\$ (1,591,961)	\$ (1,773,118)
Components of LCFF By Object Code							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
8011 - State Aid	\$ 29,203,934	\$ 41,737,191	\$ 47,523,234	\$ 51,528,857	\$ 54,225,650	\$ 67,559,655	\$ 67,559,695
8011 - Fair Share	-	-	-	-	-	-	-
8311 & 8590 - Categoricals	-	-	-	-	-	-	-
EPA (for LCFF Calculation purposes)	16,606,216	5,303,765	9,714,726	9,052,416	8,382,953	-	-
<i>Local Revenue Sources:</i>	-	-	-	-	-	-	-
8021 to 8089 - Property Taxes	73,859,709	86,297,825	81,437,063	81,437,063	81,437,063	81,437,063	81,437,063
8096 - In-Lieu of Property Taxes	(5,004,990)	(5,970,807)	(6,310,867)	(6,372,552)	(6,372,552)	(6,372,552)	(6,372,552)
<i>Property Taxes net of in-lieu</i>	<i>68,854,719</i>	<i>80,327,018</i>	<i>75,126,196</i>	<i>75,064,511</i>	<i>75,064,511</i>	<i>75,064,511</i>	<i>75,064,511</i>
TOTAL FUNDING	\$ 114,664,869	\$ 127,367,974	\$ 132,364,156	\$ 135,645,784	\$ 137,673,114	\$ 142,624,167	\$ 142,624,206
<i>Less: Excess Taxes</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Less: EPA in Excess to LCFF Funding</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Phase-In Entitlement	\$ 114,664,869	\$ 127,367,974	\$ 132,455,156	\$ 135,645,784	\$ 137,673,114	\$ 142,624,167	\$ 142,624,206
8012 - EPA Receipts (for budget & cashflow)	\$ 16,606,216	\$ 5,303,765	\$ 9,714,726	\$ 9,052,416	\$ 8,382,953	\$ -	\$ -

Enrollment Projections

- ▶ ADA in current year is lower than projected
 - ▶ Enrollment determines ADA – the “yield” is the percent of students enrolled who attend school over the course of the year
- ▶ Projections updated for future and remains relatively flat



First Interim Budget Summary

- ▶ The General Fund is comprised of Unrestricted and Restricted dollars
 - ▶ Unrestricted is LCFF, most of Lottery, one-time dollars
 - ▶ Restricted is Title I, Special Ed, Prop 20 Lottery among others

First Interim General Fund Budget 2016-17			
Description	Unrestricted	Restricted	Total
Total Revenues	141,708,338	27,143,522	168,851,860
Total Expenditures	125,522,078	54,551,558	180,073,636
Excess/(Deficiency)	16,186,260	(27,408,036)	(11,221,776)
Other Sources/Uses	(25,650,561)	26,149,771	499,210
Net Increase/(Decrease)	(9,464,301)	(1,258,265)	(10,722,566)
Add: Beginning Fund Balance	23,218,844	2,571,527	25,790,371
Ending Fund Balance	13,754,543	1,313,262	15,067,805



Changes Since Adopted Budget

Unrestricted Changes Since Adopted Budget			Impact on Fund Balance 2016-17
Excess of Expenditures over Revenues at Adopted Budget			(9,963,048)
Revenue Changes			
LCFF Funding - ADA and gap funding changes ¹	(508,913)		
Other Local Revenue	(2,396)		
Transfers In/(Out) ⁴	733,000		
Contributions to Restricted Programs ⁵	(335,023)		
Total Revenue Changes	(113,332)		(113,332)
Expenditure Changes			
Certificated Salaries - vacancies, subs, extra duty ²	1,046,305		
Classified Salaries - vacancies, subs, OT ²	(832,045)		
Benefits - to reflect above salary changes ²	(809,063)		
Books and Supplies	(288,818)		
Professional Services, Operations ³	684,380		
Indirect Costs Charged to Charters ⁶	(426,185)		
Total Expenditure Changes	(625,426)		625,426
Revised Excess of Expenditures over Revenues First Interim			(9,450,954)

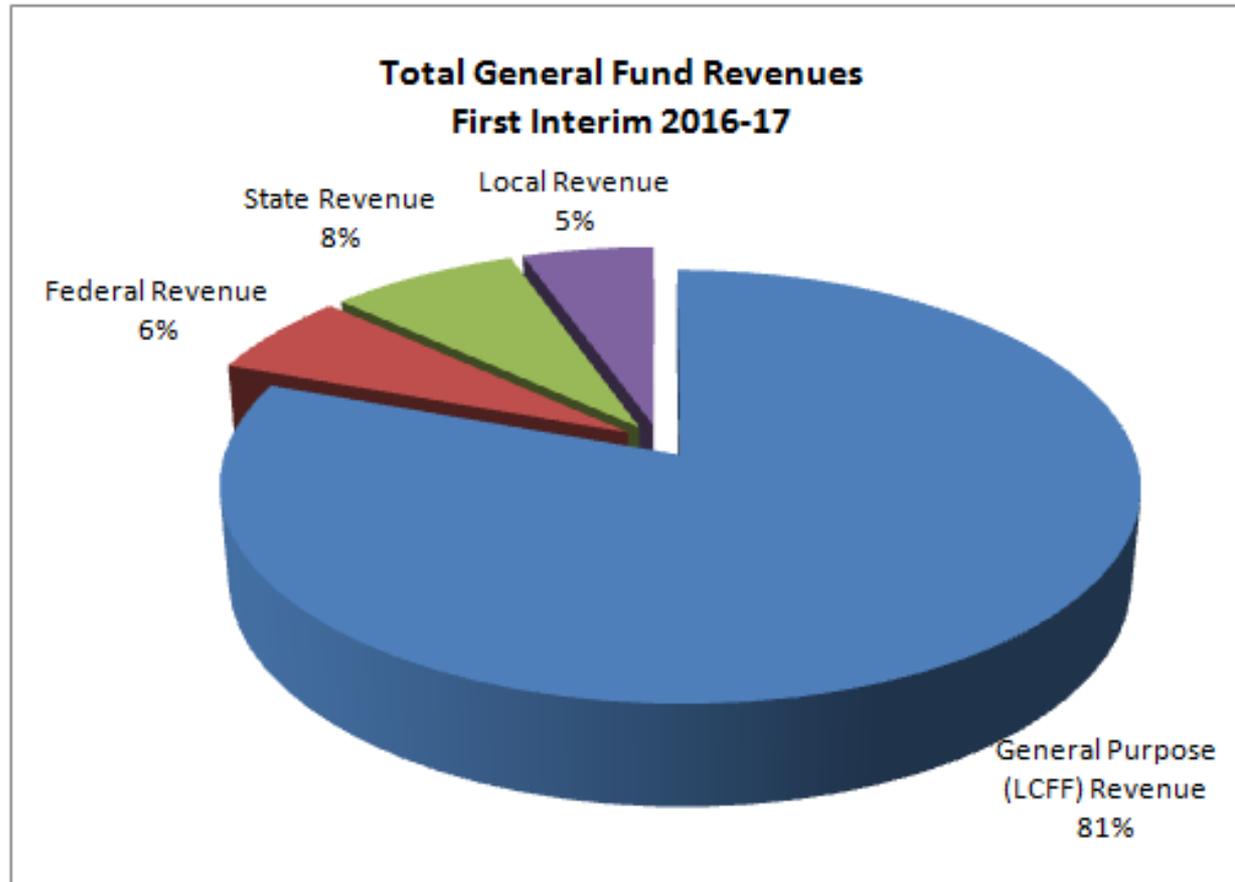


What Were the Changes to the Budget?



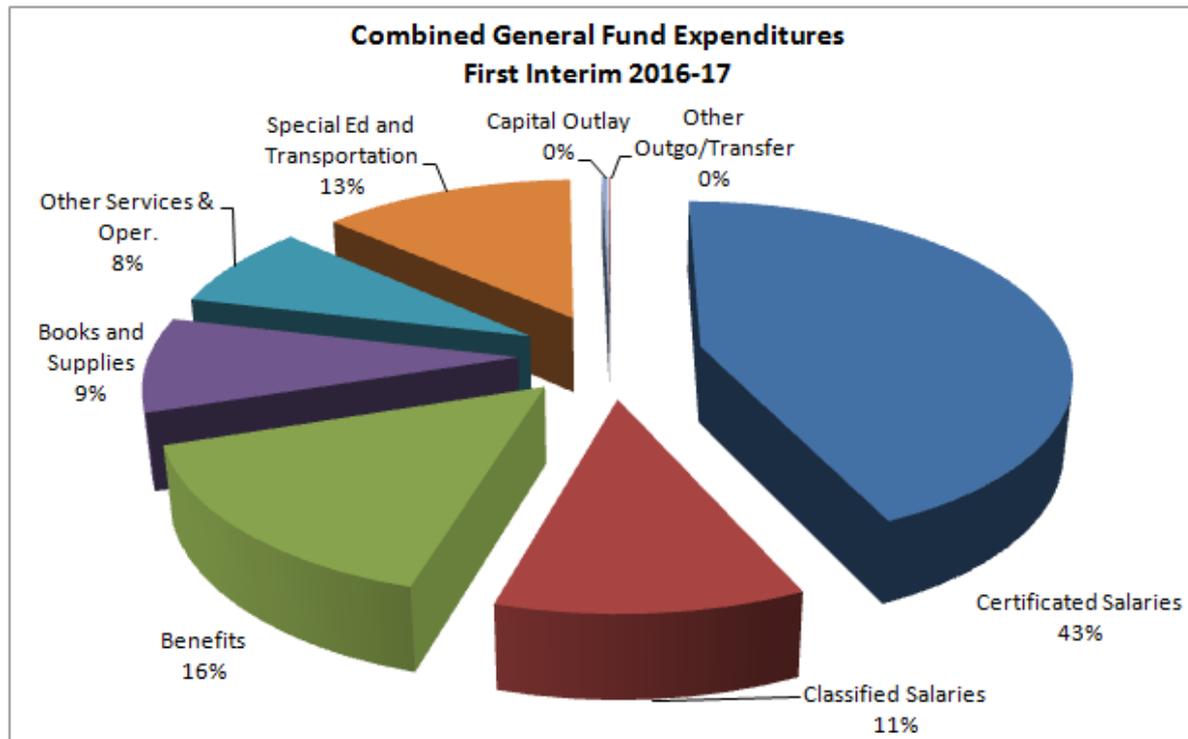
- ▶ Changes due to State budget act:
 - ▶ Adjusted one-time Mandated Cost funding
 - ▶ Slight change in gap funding; ADA did not meet projections
- ▶ Posted carryover
- ▶ Adjusted Special Ed contribution due to reduction of Non-Public Agencies and Schools (NPA/S)
- ▶ Removed one-time budget savings due to unfilled positions, but added in sub and OT costs not budgeted
- ▶ Transferred in from charter funds to cover indirects and services not collected in prior years
- ▶ Posted indirect costs for charters for the current year

Total General Fund Revenues



Total General Fund Expenditures

- ▶ Salaries and Benefits Total 70% of Total Expenditures and
 - ▶ 77% of Unrestricted Expenditures
 - ▶ But, personnel costs for SELPA and NPAs are included in Other Services (5000s)
 - ▶ \$17M of \$38M of the 5000s is for special education, and \$6.5M is transportation services
 - ▶ Combining these personnel costs with the salaries and benefits of the Districts comprises 83% of the Combined GF





Multi-Year Assumptions

- ▶ Assumed flat enrollment and Dept of Finance (DOF) gap funding assumptions
- ▶ Removed one-time Mandated Cost revenues
- ▶ Step and Column cost increases included
- ▶ Added back one-time vacancy savings from current year
- ▶ Increased STRS costs by 1.85% and PERS costs by 3.55% and 1.6% of salaries, each year
- ▶ Increased contribution to Routine Restricted Maintenance Account (RRMA) to 3%, based on passage of Prop 51
- ▶ Removed one-time costs in current budget, including \$7M textbook adoption
- ▶ Assumed \$500K savings in transportation costs for 2017-18

Expenditures: STRS and PERS

- ▶ Recent legislation requires ever increasing contributions to the retirement systems for both the employer and the employee
- ▶ By far the biggest increases are for the employer

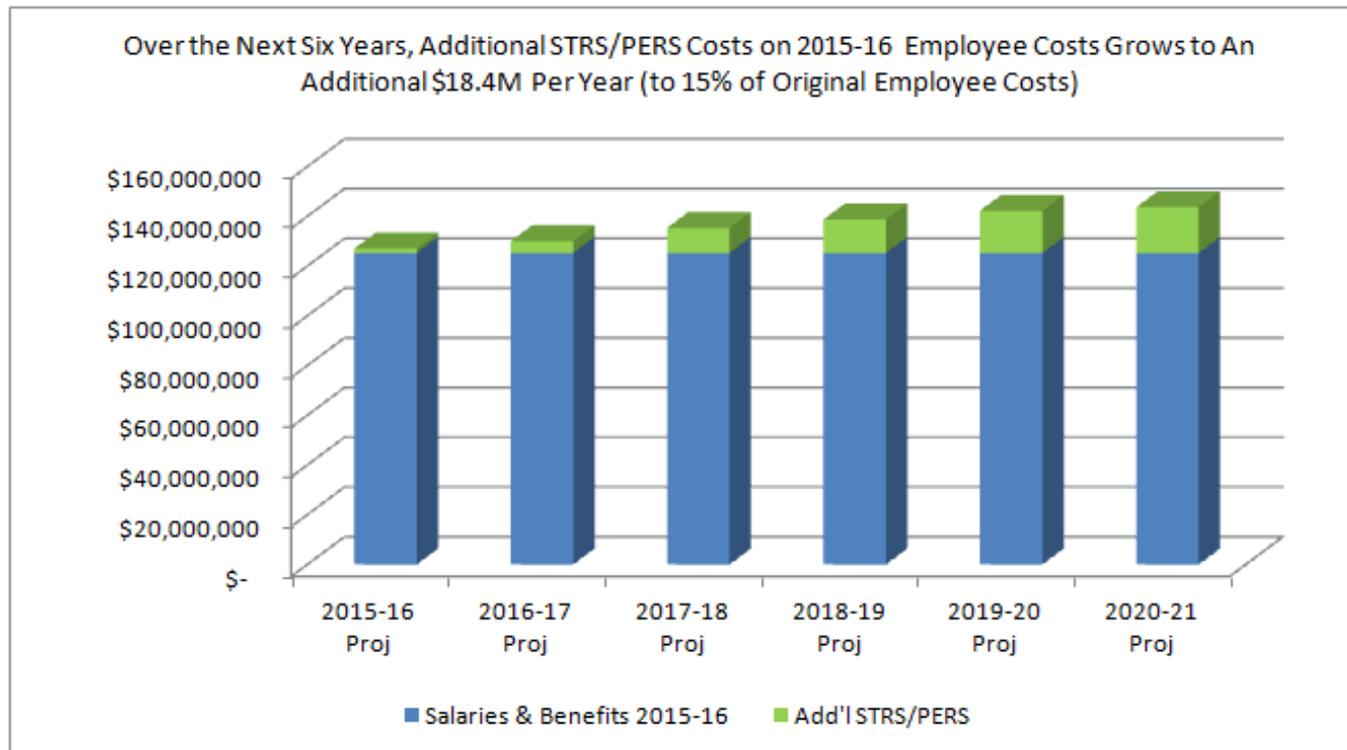
CalSTRS Rates per EC§ 22901.7 and 22950.5							
	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected
Employer	8.880%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
Member (2% at 60)	8.150%	9.20%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	8.150%	8.56%	9.205%	9.205%	9.205%	9.205%	9.205%
	increase	1.85%	1.85%	1.85%	1.85%	0.97%	0.97%

CalPERS Actual and Projected Rates							
	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected
Employer	11.771%	11.85%	13.05%	16.60%	18.20%	19.90%	20.40%
	increase	0.079%	1.200%	3.550%	1.600%	1.700%	0.500%



STRS and PERS Grow Exponentially

- ▶ By 2020-21, **additional** STRS/PERS employer costs will add **\$18.4M** to the 2015-16 salary base, or an additional **15%** of 2015-16 employee costs



MYP at First Interim

	First Interim 2016-17			Projection 2017-18			Projection 2018-19				
	Unrestricted	Restricted	Combined	Unrestricted	Restricted	Combined	Unrestricted	Restricted	Combined		
Revenue											
General Purpose	132,360,374	3,699,603	136,059,977	1	135,541,374	3,699,603	139,240,977	1	137,568,374	3,699,603	141,267,977
Federal Revenue	125,000	10,465,795	10,590,795		125,000	10,465,795	10,590,795		125,000	10,465,795	10,590,795
State Revenue	5,905,333	7,197,155	13,102,488	2	2,759,333	7,197,155	9,956,488	2	2,759,333	7,197,155	9,956,488
Local Revenue	3,317,631	5,780,969	9,098,600	3	3,317,631	5,780,969	9,098,600	3	3,317,631	5,780,969	9,098,600
Total Revenue	141,708,338	27,143,522	168,851,860		141,743,338	27,143,522	168,886,860		143,770,338	27,143,522	170,913,860
Expenditures											
Certificated Salaries	9 63,254,265	14,893,600	78,147,865	4	64,576,165	15,094,700	79,670,865	4	65,447,965	15,295,800	80,743,765
Classified Salaries	9 15,253,097	5,132,414	20,385,511	4	16,268,997	5,230,914	21,499,911	4	16,581,397	5,329,414	21,910,811
Benefits	9 19,157,199	8,751,099	27,908,298	4,5	21,583,899	9,088,715	30,672,614	4,5	23,272,899	9,512,432	32,785,331
Books and Supplies	6 12,056,574	3,902,561	15,959,135	6	4,581,574	3,902,561	8,484,135		4,581,574	3,902,561	8,484,135
Other Services & Oper. Expenses		16,729,633	21,006,131		15,279,633	21,061,128	36,340,761		15,279,633	22,547,858	37,827,491
Capital Outlay		85,520	446,228		85,520	446,228	531,748		85,520	446,228	531,748
Other Outgo 7xxx		173,970	0		173,970	0	173,970		173,970	0	173,970
Transfer of Indirect 73xx		(1,188,180)	419,525		(1,188,180)	419,529	(768,651)		(1,188,180)	419,529	(768,651)
On-going Budget Cuts 2017-18			0		(4,000,000)		(4,000,000)	11	(4,000,000)		(4,000,000)
On-going Budget Cuts 2018-19			0		0	0	0	11	(2,500,000)		(2,500,000)
Total Expenditures with Cuts	125,522,078	54,551,558	180,073,636		117,361,578	55,243,775	172,605,353		117,734,778	57,453,822	175,188,600
Deficit/Surplus	16,186,260	(27,408,036)	(11,221,776)		24,381,760	(28,100,253)	(3,718,493)		26,035,560	(30,310,300)	(4,274,740)
Other Sources/(uses)	0	0	0		0	0	0		0	0	0
Transfers in/(out)	638,000	(138,790)	499,210		(95,000)	(138,790)	(233,790)		(95,000)	(138,790)	(233,790)
Contributions to Restricted	(26,288,561)	26,288,561	0	7	(28,325,777)	28,325,777	0	7	(29,049,094)	29,049,094	0
Net increase (decrease) in Fund Balance	(9,464,301)	(1,258,265)	(10,722,566)		(4,039,017)	86,734	(3,952,283)		(3,108,534)	(1,399,996)	(4,508,530)
Beginning Balance	23,218,844	2,571,527	25,790,371		13,754,543	1,313,262	15,067,805		9,715,526	1,399,996	11,115,522
Ending Balance	13,754,543	1,313,262	15,067,805		9,715,526	1,399,996	11,115,522		6,606,992	(0)	6,606,992
Revolving/Stores/Prepays	126,412		126,412		126,412		126,412		126,412		126,412
Reserve for Econ Uncertainty (3%)	5,387,300		5,387,300		5,185,200		5,185,200		5,262,700		5,262,700
Assigned for Supp/Conc	1,925,140		1,925,140		0		0		0		0
Assigned for Other Programs/Cover Deficit	588,205		588,205		0		0		0		0
Restricted Programs	0	1,313,262	1,313,262		0	1,399,996	1,399,996		0	(0)	(0)
Unappropriated Fund Balance	5,727,486	0	5,727,486	8	4,403,914	0	4,403,914	8	1,217,880	0	1,217,880
<i>Unappropriated Percent</i>			3.2%				2.6%				0.7%



MYP Assumption Footnotes

¹ LCFF funding continues to increase, but at a slower pace as district approaches Target funding level. Enrollment projected to remain relatively flat.

² Reduced One-Time Mandated revenues from \$528/ADA in 2015-16 to \$215/ADA in 2016-17 Budget. Eliminated One-Time Mandated revenues of \$215/ADA in 2017-18.

³ Decrease of other local revenue due to not budgeting local grants and donations until received.

⁴ Projections include step and column movement of 1.35% certificated and 1.92% classified, increased budgets for currently vacant positions. One-time audit adjustment of \$880,000 of classified salaries in 2015-16 artificially lowers 2015-16 total salaries.

⁵ Projection includes estimated increases in state pension percentages for both STRS & PERS, as well as increased statutory benefits for increased salary costs.

⁶ Textbook budget increased by \$7M for 2016-17 only; funds were set aside out of fund balance as of June 30, 2016. Budget reduced in 2017-18 going forward.

⁷ Additional contributions primarily relate to the increase of the following: step & column costs, and pension (STRS & PERS) In 2017-18, increased contribution to Routine Maintenance by \$1.4M to get to state mandated 3% contribution level, offset by a reduction of transportation costs of \$500K.

⁸ This amount represents level of fund balance above or (below) the required level. The Budget will need to be balanced so that this amount is a positive number.

⁹ Salaries and Benefits increased by \$3M to cover unbudgeted subs, overtime and extra duty costs. Also, vacancies for late hires and eliminated positions removed from budget

¹¹ Budget adjustments needed to meet minimum reserve levels.



Summary MYP, Without Budget Reductions

- ✓ Without progress toward eliminating the deficit, the District's Total General Fund budget becomes unsustainable

First Interim Multi-Year Projection (Total GF)			
Description	2016-17 Revised Budget	Projected 2017-18	Projected 2018-19
Total Revenues	168,851,860	168,886,860	170,913,860
Total Expenditures	180,073,636	176,605,353	181,688,600
Excess/(Deficiency)	(11,221,776)	(7,718,493)	(10,774,740)
Other Sources/Uses	499,210	(233,790)	(233,790)
Net Increase/(Decrease)	(10,722,566)	(7,952,283)	(11,008,530)
Add: Beginning Fund Balance	25,790,371	15,067,805	7,115,522
Ending Fund Balance	15,067,805	7,115,522	(3,893,008)

Necessary Budget Reductions

- ▶ Staff has identified as much budget savings in the current year budget as possible, and removed it as of 10/31
- ▶ The Fiscal Recovery Committee is tasked with making recommendations to identify approximately \$4M of on-going, attainable, specific budget reductions for 2017-18
 - ▶ This would improve the fiscal picture dramatically

First Interim Multi-Year Projection (Total GF)			
Description	2016-17 Revised Budget	Projected 2017-18	Projected 2018-19
Total Revenues	168,851,860	168,886,860	170,913,860
Total Expenditures	180,073,636	176,605,353	181,688,600
Excess/(Deficiency)	(11,221,776)	(7,718,493)	(10,774,740)
Other Sources/Uses	499,210	(233,790)	(233,790)
Net Increase/(Decrease)	(10,722,566)	(7,952,283)	(11,008,530)
Cuts To Be Identified by 2nd Interim	0	4,000,000	6,500,000
Add: Beginning Fund Balance	25,790,371	15,067,805	11,115,522
Ending Fund Balance	15,067,805	11,115,522	6,606,992

New LCFF Funding Not Enough to Cover New Costs

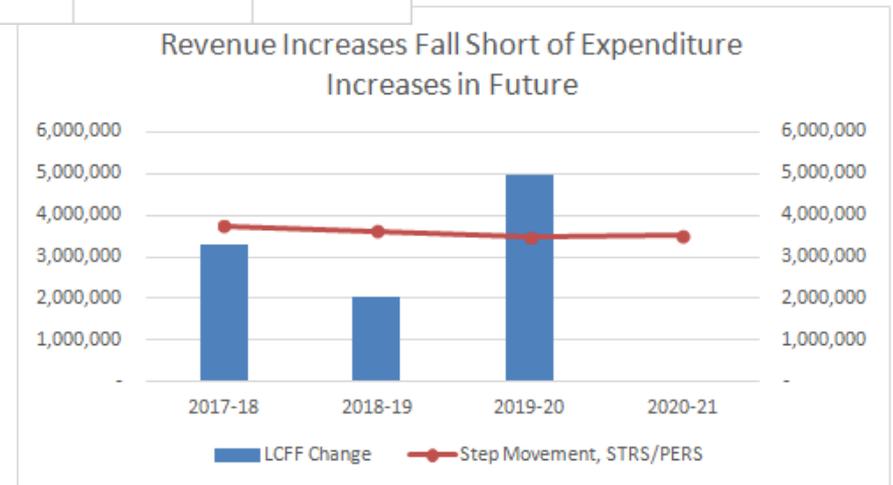
- ▶ After this year, the annual increases in LCFF dollars are not going to be enough to cover the on-going increases in salaries and benefits
- ▶ Estimated COLA and gap funding is projected to be less than the 1.6% to 2% annual increases in STRS & PERS, plus step costs

Description	2015-16	2016-17	2017-18	2018-19
LCFF Gap Funding % – Proposed	52.20%	54.84%	73.96%	41.22%
LCFF Gap Funding % – Enacted	52.56%	54.18%	72.99%	40.36%
Annual COLA – Proposed	1.02%	0.00%	1.11%	2.42%
Annual COLA – Enacted	1.02%	0.00%	1.11%	2.42%

LCFF Revenue Less Than Step, STRS and PERS

- ▶ Even the recently passed Prop 55, which extended a portion of Prop 30 taxes, may not help

Multi-Year Projection (MYP) Adjustments				
	2017-18	2018-19	2019-20	2020-21
LCFF Change	3,281,000	2,027,000	4,951,000	0
Step Movement (1.35%, 1.92%)	(1,733,000)	(1,779,000)	(1,511,000)	(1,532,000)
STRS/PERS Increase	(1,989,000)	(1,818,000)	(1,899,000)	(1,926,000)
<i>Annual Change in Rev/Salaries/Benefits</i>	<i>(441,000)</i>	<i>(1,570,000)</i>	<i>1,541,000</i>	<i>(3,458,000)</i>
Remove One-Time Revenue in 2016-17	(3,879,000)			
Remove One-Time Expenditures in 2016-17	5,795,000			
On-going Other Adj (RRM, Def Maint)	(50,000)			
Net Change to FB in MYP	1,425,000	(1,570,000)	1,541,000	(3,458,000)





Cash Flow

- ▶ As a result of deficit spending and dwindling reserves, there will be months where the general fund reflects negative cash balances (districts pay their bills faster than property taxes come in)
 - ▶ This is why districts, especially those that are deficit spending, must maintain larger fund balances than the meager state 3% minimum. Larger reserves lead to larger cash balances.
- ▶ The June 30, 2017 cash balance is projected to be approximately \$16M, however, the “dry period” of October through December, before property taxes are received, indicates significant cash shortfalls
 - ▶ The District can cover short-term borrowing from bond funds for the current year; other short term options (County, COE, TRAN) will be explored for next year with similar shortfalls.

Uncertainties and Prudence



- ▶ Enrollment and ADA are fairly flat going forward
- ▶ Retiree benefits continue to escalate
- ▶ Eventual downturn in the economy (every 8-10 years) based on past trends
 - ▶ CA is in month 90 of a recovery when the average CA recovery is 59 months
- ▶ STRS and PERS annual increases look to be above funding increases
- ▶ Deficit spending erodes fund balance in next two years
- ✓ In the absence of revenue increases, on-going expenditure reductions must be made for next year's budget

First Interim Certification

- ▶ Per AB 1200
- ▶ *The First Interim projection indicates that, as defined in AB 1200, “the district **may not** be able to meet its financial obligations for the current fiscal year and subsequent two years.”*
- ✓ ***The District is self-certifying as “Qualified”***





Next Steps

- ▶ While the District is self-certifying “Qualified” for now, unless \$4+M of reduced expenditures or sources of revenue are identified by January 31, 2017, Second Interim could be “Negative”
- ▶ The Governor’s January budget proposal will impact the District’s budget through COLAs, gap funding, and program changes
 - ▶ Second Interim (as of January 31) update to Board in March

Questions

