San Rafael High School District

2016-17 First Interim Report and Multiyear Fiscal Projection

As of October 31, 2016

Presented December 12, 2016

Interim budget reports provide a picture of a district's financial condition during the fiscal year. The Governing Board of a school district certifies the district's financial condition to the county office of education through these reports. The First Interim Report is from July 1st through October 31st, and projects financial activity through June 30th. Illustrated below is a summary of the State budget and budget guidelines as provided by the county office of education, as well as the financial condition of the San Rafael High School District as of the first reporting period. In addition, the First Interim Report contains detailed budget, multi-year projections, and estimated cash flow reports.

Comparison of the State's Proposed and Enacted Budget

The Governor released his revised 2016-17 budget proposal on May 13, 2016 (May Revision), which contained $626 million of new revenues to K-12 above what was provided for in the January proposed budget. $338 million is in the form of one time funding, and $288 million is provided on an ongoing basis. Although projected revenues declined overall in the latest budget projections for 2015-16, districts were insulated from the changes due to Proposition 98 minimum guarantee being based on growth in per-capita personal income (i.e. Test 2 year). However, for 2016-17, the Proposition 98 guarantee will be based on the growth in per-capita General Fund revenues plus five percent (i.e. Test 3 year), which means that the associated funding will be very sensitive to any changes in 2016-17 state revenue. On June 27, 2016, Governor Jerry Brown signed the State Budget. Further, the Governor did not line-item veto any spending items; thus demonstrating consistent priorities between the Administration and the Legislature.

During the preparation of the enacted state budget, there were various components of the May Revision budget that were either changed, removed, or not included in the enacted budget Since the districts' budgets are prepared based on the May Revision, the First Interim incorporates such changes. Illustrated below are the major differences between the Governor's proposed budget and the state's enacted budget:

LCFF Gap Funding Change: No significant effect since San Rafael High School District is primarily funded through property taxes.

K-12 Mandate Funding: One-time mandate repayments changed from a total of $1.4 billion to $1.28 billion, which continues to be intended as a down payment on outstanding mandate debt, while providing Local Educational Agencies (LEA) (i.e. school districts, county offices of education, and charter schools) with discretionary resources to support essential investments in education. As a result of the enacted state budget, LEAs are expected to receive approximately $214 per ADA instead of $237 per ADA.

Routine Restricted Maintenance Account:

Due to the passage of Proposition 51, any local educational agency that applies for state bond funds and receives a Proposition 51 apportionment by the State Allocation Board (SAB) would be subject to conditions set forth by the bond measure. The Proposition 51 ballot initiative contained language that the School Facility Program (SFP) is administered as it existed on January 1, 2015 which includes the provision of contributing the full three percent of general fund expenditures into the routine restricted maintenance account (RRMA). This requirement, however, does not apply to projects funded by Propositions 1A, 47, and 55 as those bond measures did not contain similar language. Therefore, districts would either be required to contribute the three percent if participating in Proposition 51 funding (timing of contribution yet to be determined), or continue to follow the guidance of AB 104 and gradually increase their contributions as follows:

- 2015-16 & 2016-17:
  - The minimum contribution shall be the <u>lesser</u> of 2014-15 contributions or three percent of total general fund expenditures
- 2017-18 to 2019-20:
  - The <u>greater</u> of the following:
    - the <u>lesser</u> of 2014-15 contributions or three percent of total general fund expenditures

      or

      two percent of the total general fund expenditures for that year
- 2020-21:
  - Three percent of general fund expenditures

<u>Reserves:</u>

District Reserve Requirements (Senate Bill 858): The 2014 State Budget Act and the passage of Proposition 2 in November 2014 established a hard cap on district reserves, if all of the following conditions are met:

- The Proposition 98 maintenance factor must be fully repaid
- Proposition 98 must be funded based on Test 1
- Proposition 98 provides sufficient funds to support enrollment growth and the statutory COLA
- A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues

Currently, the cap is not expected to be in effect for fiscal years 2016-17 and 2017-18.

Senate Bill (SB) 858 also requires that school districts, starting with the 2015-16 adopted budgets, must add new procedures to the public hearing for adopting budgets. The new required procedure consists of providing the following disclosures at the public hearing for the 2015-16 budget adoption:

- The minimum reserve level required in each year
- The amount of assigned and unassigned ending fund balance that exceeds the minimum in each year
- Reasons for the reserve being greater than the minimum

On January 21, 2015, the Legislative Analyst's Office (LAO) released a report regarding Senate Bill 858, which illustrated the rationale behind school district reserve levels, the benefits of prudent reserves, and the risks of reduced reserves. The report details five main reasons that school districts maintain adequate reserves:

- Managing cash flow
- Mitigating volatility in funding or expenditures
- Saving for larger purchases
- Addressing unexpected costs
- Reducing costs of borrowing

Further, the LAO described specific risks to school districts that lower their reserves in accordance with the SB 858 cap, including:

- The cap would allow most districts to maintain only a few weeks of payroll
- Emergency facility repairs and other unexpected costs would place districts with low reserves in a precarious position
- Districts with reserves below the caps have been about twice as likely to be flagged for fiscal

intervention

- Districts with lower reserves could have their credit ratings reduced, increasing the cost of borrowing money

The experience of the most recent recession has clearly demonstrated the minimum levels are insufficient to protect educational programs from severe disruption in an economic downturn. The typical 3% reserve minimum represents less than two weeks of payroll for many districts.

2016-17 San Rafael High School District Primary Budget Components

- Estimate property taxes of approximately $24.35 million

- The community renewed a parcel tax with a $139,000 or 5% increase for a total program improvement of $2,950,000.

- Average Daily Attendance (ADA) is estimated at 2,406
  - An increase of 30 ADA from 2015-16

- The District's estimated unduplicated pupil percentage for supplemental funding is estimated to be approximately 47%. The percentage will be revised based on actual data.

- Lottery revenue is estimated to be $141 per ADA for unrestricted purposes and $45 per ADA for restricted purposes.

- Mandated Cost Block Grant remains at $28 for K-8, and $56 for 9-12 ADA.

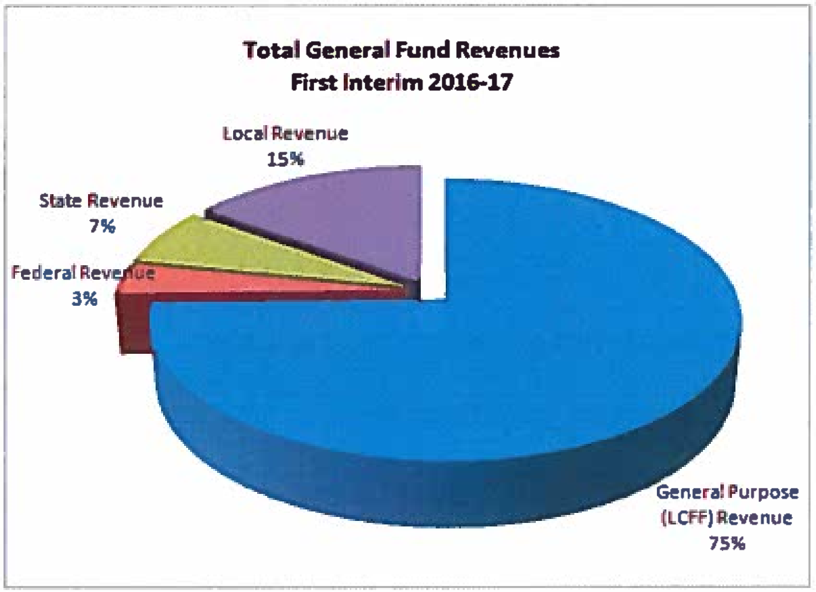
- One-Time Mandated Cost reimbursement is $214 per ADA.

- Except as illustrated under Contributions to Restricted Programs, all federal and state restricted categorical programs are self-funded.

General Fund Revenue Components

The District receives funding for its general operations from various sources. A summary of the major funding sources is illustrated below:

DESCRIPTION	AMOUNT
General Purpose (LCFF) Revenue	$25,046,897
Federal Revenue	$1,205,596
State Revenue	$2,272,255
Local Revenue	$5,017,228
TOTAL	$33,541,976



Education Protection Account

As approved by the voters on November 6, 2012, The Schools and Local Public Safety Protection Act of 2012 (Proposition 30) temporarily increased the state's sales tax rate and the personal income tax rates for taxpayers in high tax brackets.

The creation of the Education Protection Account (EPA) by Proposition 30 provides that a portion of K-14 general purpose funds must be utilized for instructional purposes. Revenues generated from Proposition 30 are deposited into a state account. For the majority of districts, EPA dollars are part of and not in addition to state aid; a corresponding reduction is made to its general purpose funds. However the EPA funding is additional state aid for Bolinas-Stinson School District and other basic aid districts. K-14 local agencies have the sole authority to determine how the funds received from the EPA are spent, but with these provisions:

- The spending plan must be approved by the governing board during a public meeting
- EPA funds cannot be used for the salaries or benefits of administrators or any other administrative costs (as determined through the account code structure)
- Each year, the local agency must publish on its website an accounting of how much money was received from the EPA and how the funds were expended

Further, the annual financial audit procedures include verification that the EPA funds were used as specified by Proposition 30. If EPA funds are not expended in accordance with the requirements of Proposition 30, civil or criminal penalties could be incurred.

Illustrated below is how the District's EPA funds are appropriated for 2016-17. The amounts will be revised throughout the year based on information received from the state.

Education Protection Account (EPA) First Interim Fiscal Year Ending June 30, 2017	
Actual EPA Revenues:	
Estimated EPA Funds	$ 484,054
Actual EPA Expenditures:	
Certificated Instructional Salaries	$ 484,054
Total	**$ 484,054**

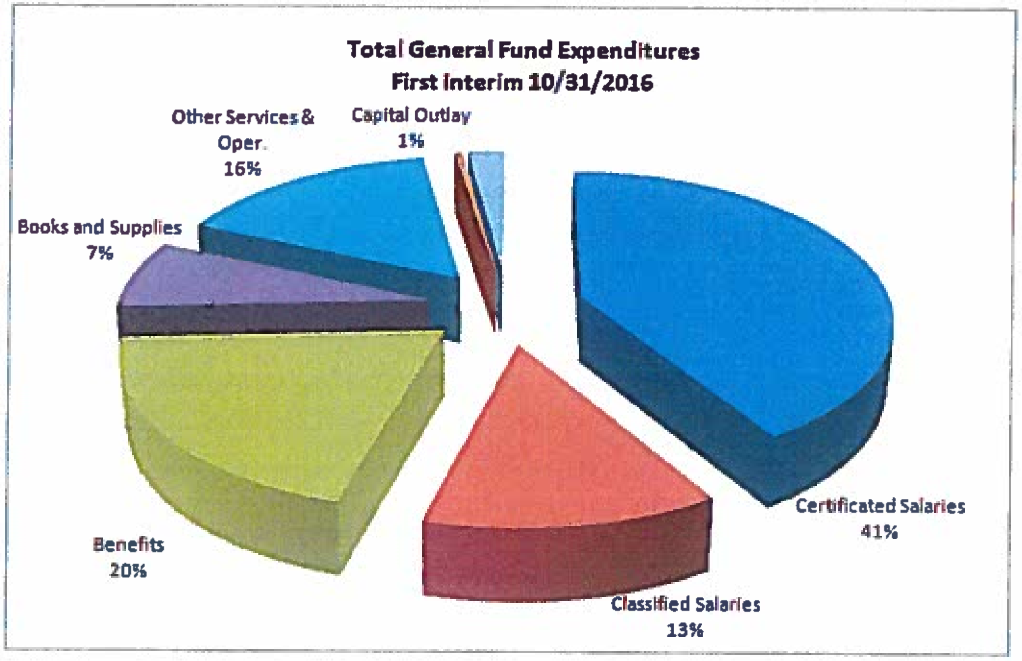
Subsequently, on November 8, 2016, the voters approved the California Children's Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore the temporary sales tax increase will expire at the end of calendar year 2016. Due to the improved state of the economy, the sales tax expiration is not expected to have an impact on the EPA revenues received by LEAs.

Operating Expenditure Components

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits comprise of approximately 84% of the District's unrestricted budget, and approximately 74% of the total General Fund budget.

DESCRIPTION	UNRESTRICTED	COMBINED
Certificated Salaries	11,507,081	$15,304,658
Classified Salaries	3,090,833	$4,801,685
Benefits	4,769,352	$7,443,577
Books and Supplies	1,188,658	$2,746,180
Other Services & Oper.	2,517,593	$5,904,768
Capital Outlay	75,000	$172,723
Other Outgo/Transfer	33,082	$802,074
TOTAL	23,181,599	$37,175,665

Following is a graphical representation of expenditures by percentage:



Contributions to/from Restricted Programs

The budget includes the following transfers of unrestricted resources to restricted programs to cover restricted program expenditures in excess of revenue:

Description	Amount
Special Ed IDEA	13,844
Special Ed	4,529,911
Special Ed Mental Health	-
Routine Maintenance	1,025,000
Other Local	299,512
Total Contributions	5,868,267

General Fund Summary

The District's 2016-17 general fund projects a deficit of \$3.6M (\$2.4M unrestricted portion) resulting in an estimated ending fund balance of \$4.8M. The components of the District's fund balance are as follows: revolving cash - \$5,500; assignments - \$375,000; restricted programs - \$144,448; and economic uncertainty - \$1.85M. Therefore, the undesignated fund balance is \$2.4M. A detailed description of the fund balance components is illustrated on the last page of the narrative.

Cash Flow

The District is anticipating having a negative cash balances in November requiring dry period financing from the County Office of Education during the 2016-17 school year.

Fund Summaries

As illustrated below, all Funds are anticipated to have a positive ending fund balance at June 30, 2017.

All Funds of the District

	Fund Number and Description	Fund Balance July 1, 2016	Current Year Activity	Fund Balance June 30, 2017
01	General Fund	$8,312,841	($3,534,820)	$4,778,021
11	Adult Ed	$11,102	$0	$11,102
13	Cafeteria	$71,410	($13,422)	$57,988
14	Deferred Maintenance Fund *	$265,312	$126,247	$391,559
20	Special Reserve for Post Employment Benefits	$2,003,522	$2,500	$2,006,022
21	Bond	$34,917,311	($16,079,922)	$18,837,389
25	Capital Facilities	$120,346	($24,800)	$95,546
40	Special Reserve for Capital Outlay	$1,485,048	$108,647	$1,593,695
51	Bond Interest Redemption	$6,434,551	$0	$6,434,551

* District is assumed to continue funding Deferred Maintenance at the current level.

Multiyear Projection
General Planning Factors:

Illustrated below are the latest factors released by the Department of Finance (DOF) for Districts to utilize (2015-16 is illustrated for comparison purposes):

	Fiscal Year			
Planning Factor	**2015-16**	**2016-17**	**2017-18**	**2018-19**
COLA (DOF)	1.02%	0.00%	1.11%	2.42%
STRS Employer Rates	10.73%	12.58%	14.43%	16.28%
PERS Employer Rates (PERS Board / Actuary)	11.847%	13.888%	15.50%	17.10%
Lottery – unrestricted per ADA*	$144	$144	$144	$144
Lottery – Prop. 20 per ADA*	$45	$45	$45	$51
Mandated Cost per ADA / One Time Allocations (DOF)	$529	$214	$0	$0
Mandate Block Grant for Districts: K-8 per ADA	$28	$28	$28	$28
Mandate Block Grant for Districts: 9-12 per ADA	$56	$56	$56	$56
Mandate Block Grant for Charters: K-8 per ADA	$14	$14	$14	$14
Mandate Block Grant for Charters: 9-12 per ADA	$42	$42	$42	$42
Educator Effectiveness Funding	$1,466 per Cert. FTE	$0	$0	$0

Routine Restricted Maintenance Account * *Percentage of total general fund expenditures* *(Note: due to the Nov 2016 facility bond proposition passing, the RRMA requirement may revert to 3% for applicable LEAs. Please refer to description noted above)*	Lesser of: 3%* or 2014-15 Amount	Lesser of: 3% or 2014-15 Amount	*Greater of: Lesser of 3% / 2014-15 Amount or 2%	At Least: 3%
Lottery funding will no longer include the 2007-08 ROP and Adult Education ADA in 2015-16 and beyond.				

Various aspects of the planning factors illustrated above will be further discussed below with the District's specific revenue and expenditure assumptions.

Revenue Assumptions:
The changes to general purpose revenues are primarily due to estimated increases in property tax revenue of approximately 6%. State aid is estimated to remain unchanged since the District will only receive district of choice and EPA state aid. Education Protection Account and special education tax revenue is estimated to remain relatively constant. Federal revenue is expected to remain constant for subsequent years. State revenue is expected to decrease from 2016-17 due to the loss of one-time mandate funds. Local revenue is expected to remain relatively constant for subsequent years. Increase of contributions to restricted programs is primarily due to budgeting for restricted step & column increases, as well as for expected pension increases.

Expenditure Assumptions:
Increases in salaries are primarily due to certificated step & column increases of approximately 1.5%, and classified step increases of approximately 1.5%.

Assembly Bill 1469 increased the contribution rates that employers, employees and the State pay to support the State Teachers Retirement System. As illustrated below, employer rates will continue to increase until 2020-21 and are expected to bring the retirement system to full funding in about 31 years.

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5							
	2014-15 Actual	**2015-16 Actual**	**2016-17 Actual**	**2017-18 Approved**	**2018-19 Approved**	**2019-20 Approved**	**2020-21 Approved**
Employer	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.1%
Member (2% at 60)	8.15%	9.20%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	8.15%	8.56%	9.205%	9.205%	9.205%	9.205%	9.205%

Illustrated below are the actual CalPERs rates through 2016-17, and subsequent year projections:

CalPERS Actual and Projected Rates							
	2014-15 Actual	**2015-16 Actual**	**2016-17 Actual**	**2017-18 Proposed**	**2018-19 Projected**	**2019-20 Projected**	**2020-21 Projected**
Employer	11.771%	11.847%	13.888%	15.50%	17.10%	18.60%	19.80%

Member (Pre-PEPRA)	7%	7%	7%	7%	7%	7%	7%
Member (Post-PEPRA)	6%	6%	6%	6%	6%	6%	6%

Therefore, adjustments to benefits reflect the effects of salary changes noted above, and expected increases to employer pension costs. In addition, H&W benefit costs were increased for 2017-18 in the event the District experiences greater participation in health plans during subsequent years.

Supplies, services, and capital outlay are estimated to decrease due to the removal of one-time expenditures that are estimated to occur during 2016-17. Other outgo is expected to remain constant for subsequent years.

Estimated Ending Fund Balances:

During 2017-18, the District estimates that the General Fund is projected to deficit spend by $1.6M resulting in an ending General Fund balance of approximately $3.2M.

During 2018-19, the District estimates that the General Fund is projected to deficit spend by $1.6M resulting in an ending General Fund balance of approximately $1.6M before reserves and assignments, without changes to the budget before then. Reductions will be needed before 2018-19 in order to meet the board's 5% reserve minimum.

Conclusion:

Despite significant current year and subsequent year projected deficit spending, the projected budget and multi-year projections support that the District is projecting to be able to meet its financial obligations for the current and subsequent two years with some reductions in expenditures over the next two years. The District is certifying a Positive First Interim report. Administration is confident that the District will be able to make the necessary reductions in order to maintain a minimum economic uncertainty reserve of four percent, and have the necessary cash in order to ensure that the District remains fiscally solvent.