San Rafael Elementary 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 Elementary 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 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 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 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 with 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 and Cost-of-Living-Adjustment (COLA): Funding for the LCFF increased to $2.94 billion rather than to $2.98 billion as originally projected. Illustrated below is a comparison of the gap funding percentages, and COLA percentages between the proposed and enacted state budget:

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%

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 Authorities (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.

College Readiness Block Grant (not applicable to elementary district): The enacted state budget appropriates $200 million in one-time Prop. 98 funds to support access and successful transition to higher education for high school students. Each local educational agencies' (LEA) funding will be based on the number of unduplicated high school (grades 9-12) students, but will receive a minimum of no less than $75,000 provided the district has at least one unduplicated student.

Eligible activities include professional development, implementing partnerships with postsecondary institutions, and providing subsidies to cover AP exam fees and college prep coursework.

LEAs must develop a plan and discuss the plan at a public board meeting. The recipients must also report to the SPI by January 1, 2017 on how they will measure the impact of the funds received. These funds can be spent over the next three years.

Routine Restricted Maintenance Account:

Due to the passage of Proposition 51 passes, 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 (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 lesser of 2014-15 contributions or three percent of total general fund expenditures
- 2017-18 to 2019-20:
    - The greater of the following:
        - the lesser 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

Reserves:

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. 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.

<u>2016-17 San Rafael Elementary District Primary Budget Components</u>

- Average Daily Attendance (ADA) is estimated at 4,623.31 for 2016-17. While growing, the district's enrollment did not grow as much as anticipated and the district is estimating to be funded at the projected 2016-17 ADA of 4,623.31 (excludes COE ADA of 11.80).

- The District's estimated unduplicated pupil percentage for supplemental & concentration funding is estimated to be 66.63% for the ESD. The percentage will be revised based on final data.

- The District expects to receive parcel taxes in the amount of $2.93 million, which is an increase of 5% or $130,000 from 2015-16

- 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.

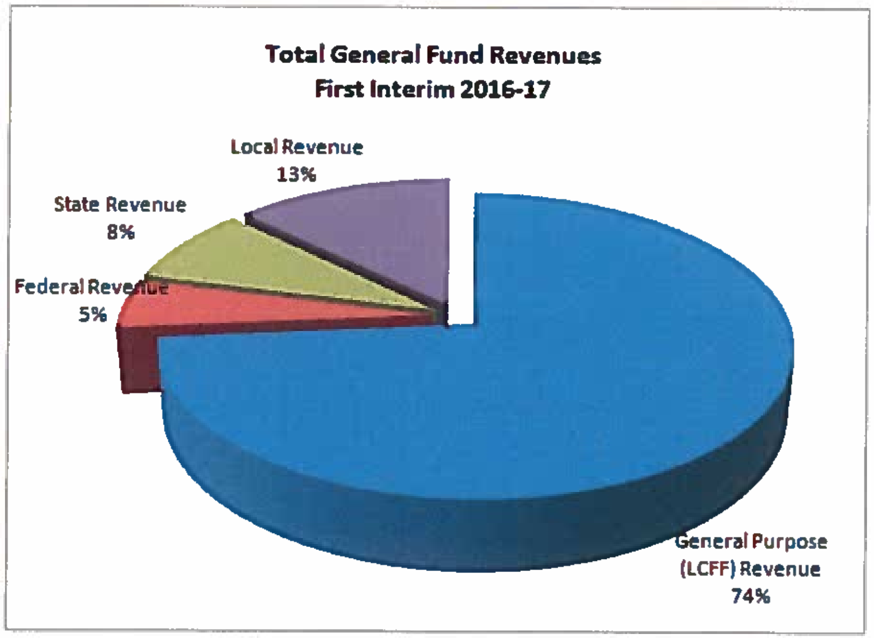
- One-Time Mandated Cost reimbursement is $214 per ADA.

- 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	$40,079,693
Federal Revenue	$2,897,812
State Revenue	$4,544,973
Local Revenue	$7,079,523
TOTAL	$54,602,001



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 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 called the Education Protection Account (EPA). The District will receive funds from the EPA based on its proportionate share of statewide general purpose funds. A corresponding reduction is made to its general purpose funds.

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 includes 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	$ 2,929,119
Actual EPA Expenditures:	
Certificated Instructional Salaries	$ 2,929,119
Total	**$ 2,929,119**

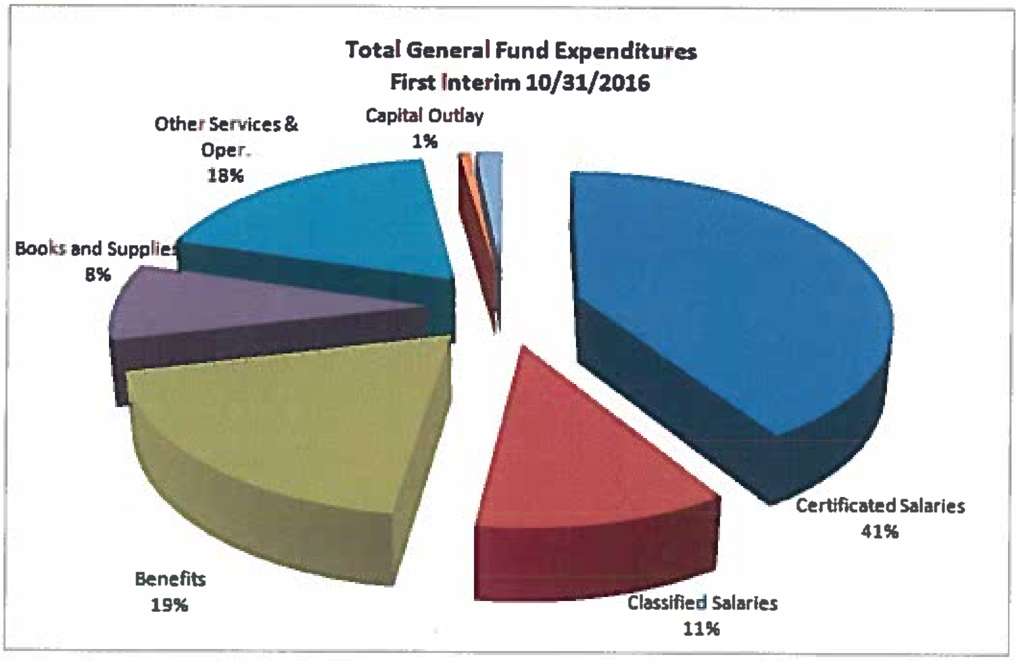
Subsequently, on November 8, 2016, the voters approved the California Children's Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore 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, the largest part of expenditures are salaries and benefits that comprise of approximately 80% of the District's unrestricted budget, and approximately 71% of the total General Fund budget.

DESCRIPTION	UNRESTRICTED	COMBINED
Certificated Salaries	17,553,019	$22,763,324
Classified Salaries	4,150,146	$6,402,562
Benefits	7,438,814	$11,036,398
Books and Supplies	2,588,679	$4,822,351
Other Services & Oper.	4,359,912	$10,488,197
Capital Outlay	101,500	$414,475
Other Outgo/Transfer	153,718	$951,887
TOTAL	36,345,788	$56,879,194

Following is a graphical description 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

Even with the infusion of one-time discretionary funds of $575,000, the District's 2016-17 Combined General Fund projects a total operating deficit of $3,239,000, resulting in an estimated ending fund balance of $11,070,000. The components of the District's fund balance are as follows: revolving cash and inventory - $2,500; assignments - $2,400,000; restricted programs - $170,388; economic uncertainty - $2,892,100; and unassigned / unappropriated of $5,605,064.

Cash Flow

The District is anticipating having positive monthly cash balances during the 2016-17 fiscal year.

Fund Summaries

As illustrated below, all Funds are anticipated to have a positive ending fund balance:

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	$14,309,541	($3,239,489)	$11,070,052
12	Child Development	$8	$0	$8
13	Cafeteria	$155,835	($6,125)	$149,710
14	Deferred Maintenance Fund *	$727,800	$9,020	$736,820
20	Special Reserve for Post Employment Benefits	$1,739,595	$761,195	$2,500,790
21	Bond	$24,723,484	($5,999,085)	$18,724,399
25	Capital Facilities	$88,795	$105,000	$193,795
40	Special Reserve for Capital Outlay	$968,862	$443,629	$1,412,491
51	Bond Interest Redemption	$6,515,897	$0	$6,515,897

* 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%
LCFF Gap Funding Percentage (DOF)	52.56%	54.18%	72.99%	40.36%
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 passage of the facilities bond measure on the November 2016 ballot, 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 Department of Finance (DOF) released the following estimated COLA percentages. Illustrated below is a comparison of the estimated gap funding factors for DOF & School Services of California (SSC):

Description	2015-16	2016-17	2017-18	2018-19
COLA (DOF & SSC)	1.02%	0.00%	1.11%	2.42%
LCFF Gap Funding Percentage (DOF)	52.56%	54.18%	72.99%	40.36%
LCFF Gap Funding Percentage (SSC)	52.56%	54.18%	19.30%	34.25%

The District anticipates enrollment to remain relatively flat through 2108-19. The District's Local Control Funding Formula (LCFF) is estimated to be adjusted per Department of Finance's recommendations and in accordance with enrollment projections.

State revenue is estimated to decrease for 2016-17 primarily due to removing one-time discretionary mandated cost revenue, and remain constant thereafter. Increase of contributions to restricted programs is primarily due to accounting for increased costs associated with salary step costs, and pension cost increases.

Expenditure Assumptions:

Salary changes from 2016-17 encompass step & column increases, as well as adding back one-time salary savings in current year due to late hiring into vacant positions.

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.

Estimated Ending Fund Balances:
During 2017-18, the District estimates that the General Fund is projected to deficit spend by $1.7M resulting in an ending General Fund balance of approximately $9.4 million. After reservations, assignments, and restrictions, the 2017-18 unassigned / unappropriated fund balance is estimated to be approximately $4.2M.

During 2018-19, the District estimates that the General Fund is projected to deficit spend by $1.4M resulting in an ending General Fund balance of approximately $8.0M. After reservations, assignments, and restrictions, the 2018-19 unassigned / unappropriated fund balance is estimated to meet the district's 5% minimum reserve by $2.7M.

Conclusion:
Even with 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. Therefore, the First Interim report is certified as Positive. Administration is confident that the District will be able to make the necessary reductions in order to maintain a minimum economic uncertainty reserve of three percent, and have the necessary cash in order to ensure that the District remains fiscally solvent.