

**San Rafael Elementary School District**  
**2016-17 Second Interim Report and Multiyear Fiscal Projection**  
**As of January 31, 2017**  
Presented March 13, 2017

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 Second Interim Report is from July 1<sup>st</sup> through January 31<sup>st</sup>, and projects financial activity through June 30<sup>th</sup>. Discussed 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 School District as of the second reporting period. In addition, the Second Interim Report contains detailed budget, multi-year projections, and estimated cash flow reports.

**2017-18 Budget Outlook and Changes from 2016-17 Enacted State Budget**

Governor Brown presented his proposed state budget for 2017-18 on January 10<sup>th</sup>. The Governor's budget includes \$744 million towards the Local Control Funding Formula (LCFF), which is the amount needed to fund the statutory cost-of-living adjustment (COLA). Therefore, the Governor's proposal results in a Proposition 98 guarantee of \$73.5 billion, which is a decrease of \$953 million when compared to the 2016-17 Budget Act.

The Governor's budget also contains a decrease for 2016-17 in the amount of \$506 million from the enacted state budget due to lower-than-expected General Fund tax revenue. Therefore, the Proposition 98 guarantee is now estimated at \$71.4 billion. Further, as a result of a decrease in the 2016-17 Proposition 98 minimum funding guarantee caused by lower-than-projected state revenues, the Governor's budget includes a one-time LCFF cash deferral, which encompasses moving \$859.1 million of LCFF expenditures from June 2017 to July 2017.

Illustrated below are the major differences between the primary factors that were utilized to prepare the District's First Interim Report and the major factors contained in the Governor's proposed 2017-18 proposed budget:

**LCFF Gap Funding and Cost-of-Living-Adjustment (COLA):** Illustrated below is a comparison of the gap funding percentages, and COLA percentages between the 2016-17 enacted state budget and the Governor's 2017-18 proposed state budget:

Description	2015-16	2016-17	2017-18	2018-19
LCFF Gap Funding % – Proposed (May 2016)	52.20%	54.84%	73.96%	41.22%
LCFF Gap Funding % – Enacted (June 2016)	52.56%	54.18%	72.99%	40.36%
LCFF Gap Funding % – Revised (January 2017)	52.56%	55.28%	23.67%	53.85%
Annual COLA – Proposed (May 2016)	1.02%	0.00%	1.11%	2.42%
Annual COLA – Enacted (June 2016)	1.02%	0.00%	1.11%	2.42%
Annual COLA – Revised (January 2017)	1.02%	0.00%	1.48%	2.40%

**K-12 One-Time and Block Grant Mandate Funding:** LEAs are continued to expect to receive approximately \$214 per ADA for one-time mandate funds. The 2017-18 proposed budget encompasses approximately \$48 per ADA of funding that was not included in budget forecasts for the 2017-18. The rates for the mandate block grant are expected to remain constant.

**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, including 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 minimum 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.

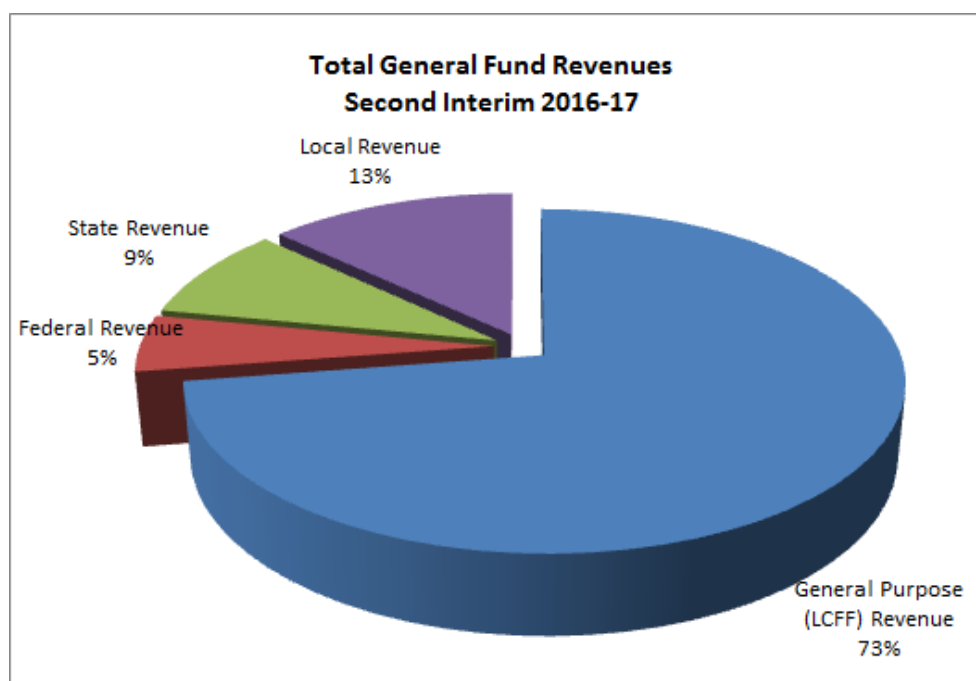
#### **2016-17 San Rafael Elementary School District Primary Budget Components**

- ❖ Average Daily Attendance (ADA) is estimated at **4,636** for 2016-17. Since the district's enrollment **increased** slightly, the district is estimating to be funded at the **current year**.
- ❖ The District's estimated unduplicated pupil percentage for supplemental & concentration funding is estimated to be 67%. The percentage will be revised based on actual data.
- ❖ The District projects to receive parcel taxes in the amount of \$2.91 million, which is an increase of 5% or \$140,000 from 2015-16.
- ❖ Lottery revenue is estimated to be \$144 per ADA for unrestricted purposes and \$45 per ADA for restricted purposes.
- ❖ Mandated Cost Block Grant remains at \$28 for K-8 ADA 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 Unrestricted 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	\$40,391,806
Federal Revenue	\$3,019,471
State Revenue	\$4,950,621
Local Revenue	\$7,273,016
TOTAL	\$55,634,914



### **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.

<b>Education Protection Account (EPA)</b>	
<b>Second Interim</b>	
<b>Fiscal Year Ending June 30, 2017</b>	
<b>Actual EPA Revenues:</b>	
Estimated EPA Funds	\$ 2,929,119
<b>Actual EPA Expenditures:</b>	
Certificated Instructional Salaries	\$ 2,929,119
<b>Total</b>	<b>\$ 2,929,119</b>

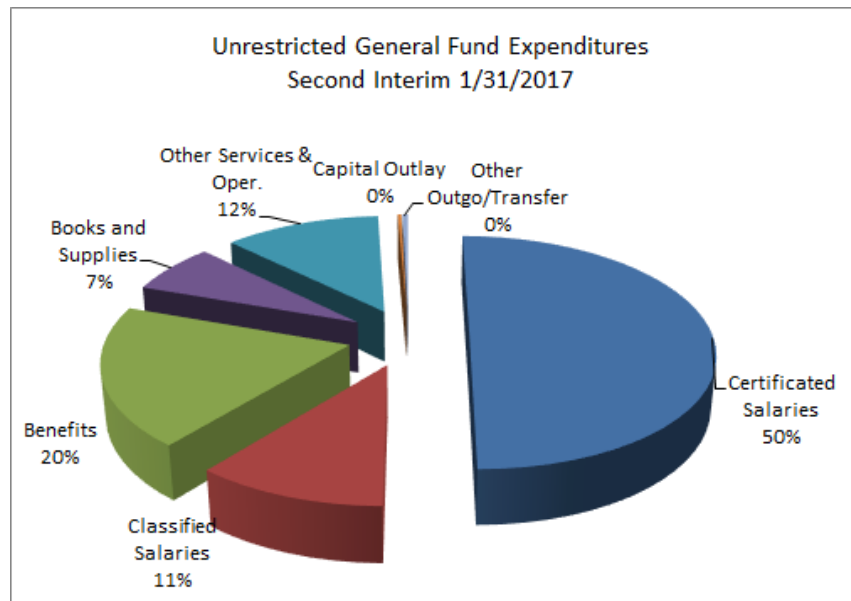
Subsequently, on November 8, 2016, the voters approved the California Children's Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore the temporary sales tax increase expired 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.

#### **Unrestricted Operating Expenditure Components**

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits encompass of approximately 71% of the District's unrestricted budget.

DESCRIPTION	UNRESTRICTED	COMBINED
Certificated Salaries	\$ 18,542,658	\$ 23,994,126
Classified Salaries	\$ 4,017,348	\$ 6,264,423
Benefits	\$ 7,191,177	\$ 11,136,049
Books and Supplies	\$ 2,573,980	\$ 4,588,612
Other Services & Oper.	\$ 4,448,944	\$ 10,645,465
Capital Outlay	\$ 101,500	\$ 414,475
Other Outgo/Transfer	\$ 153,718	\$ 965,273
<b>TOTAL</b>	<b>\$ 37,029,325</b>	<b>\$ 58,008,423</b>

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	\$234,831
Special Ed	\$4,551,249
Special Ed Mental Health	\$82,643
Local Resources/Grants/Donations	\$272,070
Routine Maintenance	\$1,575,000
<b>Total Contributions</b>	<b>\$6,715,793</b>

### **General Fund Summary**

Even with the infusion of one-time discretionary funds of approximately \$575,000, the District's 2016-17 Combined General Fund projects a total operating deficit of \$1,494,436 unrestricted and \$1,841,369 restricted funding, resulting in an estimated ending unrestricted fund balance of \$10,749,703. The components of the District's fund balance are as follows: revolving cash, stores, inventory and prepaids - \$126,412; required 3% reserve for economic uncertainty - \$1,769,200; Board reserve of 7% of unrestricted expenses for economic uncertainty - \$2,570,285; reserve for salary increases for classified, confidential and administration aligned with the SRTA - \$503,100, restricted programs - \$224,033; and unassigned / unappropriated of \$5,780,706.

The District has engaged stakeholders in Budget Advisory Committee meetings to identify programs that can be restructured and other expenditure reduction options. The Superintendent's cabinet has also brainstormed budget adjustments that will have the least

impact on students, staff and community. On 2/27/17 the Board was presented with a list of budget saving options for review and discussion. On 3/2/17, the Board had a special workshop and gave direction to staff on the approved reductions which have been incorporated into this 2nd Interim Report.

A detailed description of the fund balance components is illustrated on the last page of the narrative.

### **Cash Flow**

As described above, the Governor's State Budget proposes to implement an apportionment deferrals that moves \$859.1 million of LCFF costs from June 2017 to July 2017. Rather than reducing each month's apportionment, the entire amount is taken in June. Therefore, approximately 28% of June's expected payment will be deferred to July 2017. Despite the cash deferral, the District is anticipating having positive monthly cash balances during the 2016-17.

### **Fund Summaries**

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

<b>All Funds of the District</b>			
<b>Fund Number and Description</b>	<b>Fund Balance July 1, 2016</b>	<b>Current Year Activity</b>	<b>Fund Balance June 30, 2017</b>
01 General Fund	\$14,309,541	(\$3,335,808)	\$10,973,733
12 Child Development	\$8		\$8
13 Cafeteria	\$155,835	(\$6,125)	\$149,710
14 Deferred Maintenance Fund	\$727,800	\$9,020	\$736,820
20 Special Reserve for Other Than Capital Outlay	\$1,739,595	\$761,195	\$2,500,790
21 Bond	\$24,723,484	(\$10,390,768)	\$14,332,716
25 Capital Facilities	\$88,795	\$105,200	\$193,995
40 Special Reserve for Capital Outlay	\$968,862	\$411,176	\$1,380,038
51 Bond Interest Redemption	\$6,515,897	\$0	\$6,515,897

### **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):

<b>Planning Factor</b>	<b>Fiscal Year</b>			
	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
<b>COLA (DOF)</b>	1.02%	0.00%	1.48%	2.40%
<b>LCFF Gap Funding Percentage (DOF)</b>	52.56%	55.28%	23.67%	53.85%
<b>STRS Employer Rates</b>	10.73%	12.58%	14.43%	16.28%
<b>PERS Employer Rates (PERS Board / Actuary)</b>	11.847%	13.888%	15.80%	18.70%
<b>Lottery – unrestricted per ADA</b>	\$144	\$144	\$144	\$144
<b>Lottery – Prop. 20 per ADA</b>	\$45	\$45	\$45	\$51

<b>Mandated Cost per ADA / One Time Allocations (DOF)</b>	\$529	\$214	\$48	\$0
<b>Mandate Block Grant for Districts: 9-12 per ADA</b>	\$56	\$56	\$56	\$56
<b>Educator Effectiveness Funding</b>	\$1,466 per Cert. FTE	\$0	\$0	\$0
<b>Routine Restricted Maintenance Account</b> <i>* Percentage of total general fund expenditures</i>  <i>(Note: Due to the November 2016 facility bond proposition passing, the RRMA requirement may revert to 3% for applicable LEAs. Please refer to description noted above.)</i>	Lesser of: 3%* or 2014-15 Amount	Lesser of: 3% or 2014-15 Amount	*Greater of: Lesser of 3% / 2014-15 Amount or 2%	*Greater of: Lesser of 3% / 2014-15 Amount or 2%

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):

<i>Description</i>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
<b>COLA (DOF &amp; SSC)</b>	1.02%	0.00%	1.48%	2.40%
<b>LCFF Gap Funding Percentage (DOF)</b>	52.56%	55.28%	23.67%	53.85%
<b>LCFF Gap Funding Percentage (SSC)</b>	52.56%	55.28%	23.67%	34.42%

The District anticipates enrollment to remain relatively flat through 2018-19. 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. The District also increased its routine restricted maintenance contribution in order to contribute 3% of the General Fund budget.

#### **Expenditure Assumptions:**

Salary changes from 2016-17 encompass step & column increases of 1.5%, as well as adding back one-time salary savings in current year due to late hiring into vacant positions.

On December 21, 2016, the California Public Employees' Retirement System (CalPERS) Board took action to approve lowering what is known as the "discount rate" from 7.5% to 7.0% over three years beginning in 2018-19. This action effectively lowers what CalPERS projects will be the annual rate of return on its entire investment portfolio (i.e. investment return percentage). By reducing the current discount rate from 7.5% to 7.375% in 2018-19, 7.25% in 2019-20, and then 7.0% in 2020-21, the CalPERS Board will be scheduling higher employer contribution rates



that will significantly exceed previous projected increases. As illustrated in the table below, the District's First Interim Report estimated employer contributions at 19.8% in 2020-21 and remaining constant thereafter. However, the new projected schedule shows the 2020-21 rate moving upward to 24.9% for that year, with a top rate of 28.2% in 2023-24; essentially more than doubling the current employer rate of 13.888%. The estimated increase from 2016-17 to 2017-18 in unrestricted and restricted PERS benefit costs is \$120,000.

CalPERS Rate Comparison								
	2016-17 Actual	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected
<b>Rates @ 1<sup>st</sup> Interim</b>	13.888%	15.50%	17.10%	18.60%	19.80%	19.80%	19.80%	19.80%
<b>Updated Proposed Rates</b>	13.888%	15.80%	18.70%	21.60%	24.90%	26.40%	27.40%	28.20%
<b>Member % (Pre-PEPRA)</b>	7%	7%	7%	7%	7%	TBD	TBD	TBD
<b>Member % (Post-PEPRA)</b>	6%	6%	6%	6%	6%	TBD	TBD	TBD

Assembly Bill 1469(CalSTRS full-funding plan) increased the contribution rates that employers, employees and the State pay to support the California State Teachers' Retirement System (CalSTRS). Similar to CalPERS, the CalSTRS Board lowered its assumed rate of return on its investment portfolio from 7.5% to 7.0% and adopted new demographic assumptions on February 10<sup>th</sup>. Under Assembly Bill (AB) 1469 both state and employer contribution rates may be increased by the CalSTRS Board in order to maintain the goal of reaching full funding of the retirement system by 2046.

Current law increases contribution rates to 19.1% beginning July 1, 2020, and also gives the Board authority to increase rates to 20.1% beginning July 1, 2021, and to 20.25% beginning July 1, 2022. Further, under AB 1469, the state contribution rate can also increase above its current 8.828% of payroll. The increases are limited to a 0.5% increase annually, but has no upper boundary similar to the employer rate contribution. In addition, new CalSTRS members (hired after January 1, 2013) are required to pay at least half of the normal cost of the defined benefit (DB) program; thus, these members' contributions would increase by 0.5% effective July 1, 2017. The estimated increase from 2016-17 to 2017-18 in unrestricted and restricted STRS benefit costs is \$440,000.

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5					
Description	2016-17 Actual	2017-18 Approved	2018-19 Approved	2019-20 Approved	2020-21 Approved
<b>Employer %</b>	12.58%	14.43%	16.28%	18.13%	19.10%
<b>Member % (2% at 60)</b>	10.25%	10.25%	10.25%	10.25%	10.25%

<b>Member % (2% at 62)</b>	9.205%	9.205%	9.205%	9.205%	9.205%
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Supplies, services, and capital outlay are estimated to decrease for 2017-18 due to the removal of expenditures related to funds carried over from 2015-16 into 2016-17, and expenditures of one-time funds received during 2016-17. Other outgo is estimated to remain constant.

***Estimated Ending Fund Balances:***

During 2017-18, the District projects the General Fund to deficit spend by \$912,850 in unrestricted and \$224,033 in restricted for a total of \$1,136,883, resulting in an ending General Fund balance of approximately \$9.8 million. After reservations, assignments, and restrictions, the 2017-18 unassigned / unappropriated fund balance is estimated to be approximately \$5.1M.

During 2018-19, the District estimates that the General Fund is projected to deficit spend by \$654,449 resulting in an ending General Fund balance of approximately \$9.18M. After reservations, assignments, and restrictions, the 2018-19 unassigned / unappropriated fund balance is estimated to be \$4.29M.

<b>Revised Multi-Year Projection (Total GF)</b>			
<b>Description</b>	<b>2016-17 Revised Budget</b>	<b>Projected 2017-18</b>	<b>Projected 2018-19</b>
Total Revenues	\$55,634,914.00	\$55,947,303.68	\$57,795,303.68
Total Expenditures	\$57,920,342.00	\$56,033,809.96	\$57,399,375.46
Excess/(Deficiency)	-\$2,285,428.00	-\$86,506.28	\$395,928.22
Other Sources/Uses	-\$1,050,377.00	-\$1,050,377.00	-\$1,050,377.00
<b>Net Increase/(Decrease)</b>	<b>-\$3,335,805.00</b>	<b>-\$1,136,883.28</b>	<b>-\$654,448.78</b>
Add: Beginning Fund Balance	\$14,309,541.00	\$10,973,736.00	\$9,836,852.72
<b>Ending Fund Balance</b>	<b>\$10,973,736.00</b>	<b>\$9,836,852.72</b>	<b>\$9,182,403.94</b>

***Conclusion:***

Even with current year deficit spending, the projected budget and multi-year projections support that the District is able to meet its financial obligations for the current and subsequent two years. This projection is based on making the reductions approved by the Board of Education on February 27, 2017 per the attached Exhibit. Therefore, the First Interim report is certified as Positive.

EXHIBIT: ESD 2017-18 List of Budget Savings Options for Budget Committee Consideration  
(List Revised per Board Directive on 3/2/17)

Amount	Item
\$1,500,000	Target Ongoing Budget Savings
\$82,950	Enrollment Impact to Staffing: Sun Valley - 1 FTE, Venetia Valley - 2 FTE, Davidson +1 FTE and +1 TK
\$107,835	CSO Reduce Instructional Coaches - 1.3 FTE @ \$82,950/FTE
\$81,704	CSO - Eliminate Administrator on Special Assignment Position #130006
\$48,300	CSO - Reallocation of 7% Title 1 to pay for CSO Categorical Administration
\$86,325	CSO Reorganization of Education Services Office (additional savings above those listed in other areas of document).
\$74,850	CSO - Replace Principal on Special Assignment Position #130293 with Teacher on Special Assignment
\$(63,720)	CSO Reorganization of Business Services: Hire established Dir. Of Fiscal Services as part of CSO reorganization. Creates a traditional structure aligned with most California Schools. The entire reorganization will be net zero cost to the District.
\$26,296	CSO Eliminate Administrative Assistant .5 FTE (Business) Position #246510
\$24,760	CSO Reduce Superintendent Administrative Assistant to .5 FTE Position #246504
\$25,600	CSO Eliminate unfilled Bilingual Community Liaison (BCL) Position # 290700
\$7,434	CSO Dir. Of Communications 10% of salary to be reallocated and funded by G.O. Bond
N/A	CSO - Reassign .4 FTE Principal on Spec. Assignment for Principal Mentoring and .6 FTE Principal to 1.0 FTE Principal
\$7,736	Restructure .4 Assistant Principal on Special Assignment and .6 Coach position to an Assistant Principal at San Pedro and Bahia Vista
\$4,800	Pinnacle Educators (Marilynn) Coach for Principal
\$4,100	Change to on-line or non-NCR absence timesheets (\$0.52/NCR form x 8000/yr.)
\$14,200	Reduce Unrestricted Funded (Object 5200) Travel and Conference by 30%
\$60,000	Reduce Unrestricted Contract Services (Object 5840) by 10% to equal 2015-16 Actuals
\$163,382	Reduce Other Services (Object 5860) by 15%
\$3,092	Reduce postage by utilizing student mgmt. system to distribute 75% of all middle school progress reports and report cards.
\$50,000	Reduction of 1 FTE Classified Employee
\$809,644	Ongoing Savings
\$459,012	One-Time Savings- Open Positions not filled during 2016-17 base salary + benefit
<u>\$1,268,656</u>	Total Ongoing and one-time savings