San Rafael High 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 1st through January 31st, and projects financial activity through June 30th. 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 High 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 10th. 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' 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. Please note that due to the District being community funded (i.e. basic aide) only the annual COLA has a minimal effect with regard to the District's funding.

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

Revised

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 High School District Primary Budget Components

- Estimated property taxes of approximately $24.76 million

- The community renewed parcel tax is estimated to be $2,950,000 which is a 5% increase of approximately $139,000.

- 2016-17 Enrollment is estimated at 2522, which is 40 less than 1st Interim and 102 more than 2015-16

- 2017-18 Enrollment is estimated at 2679, which is 157 more than 2016-17

- The District's estimated unduplicated pupil percentage for supplemental & concentration funding is estimated to be 48%. 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 ADA and $56 for 9-12 ADA.

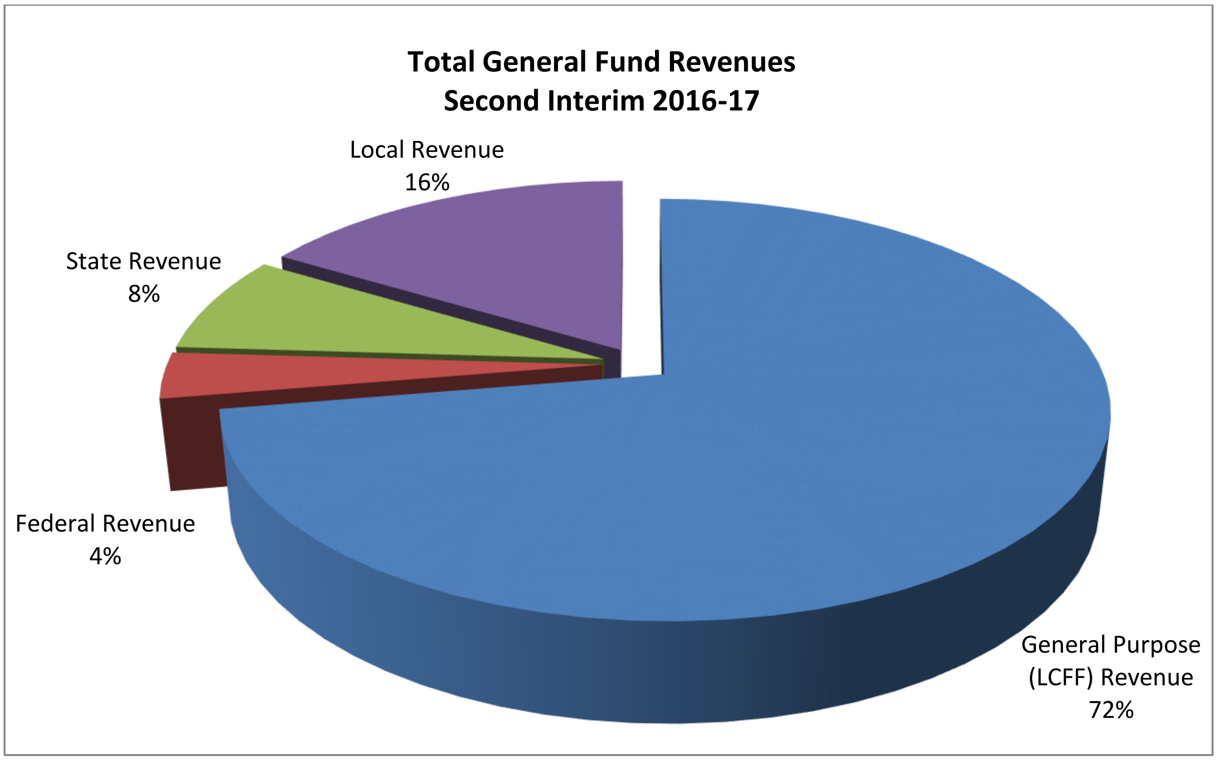
- One-Time Mandated Cost reimbursement is $214 per ADA.

- 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	$24,929,127
Federal Revenue	$1,238,451
State Revenue	$2,626,562
Local Revenue	$5,651,946
TOTAL	$34,446,086



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 San Rafael High 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 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	$ 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 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.

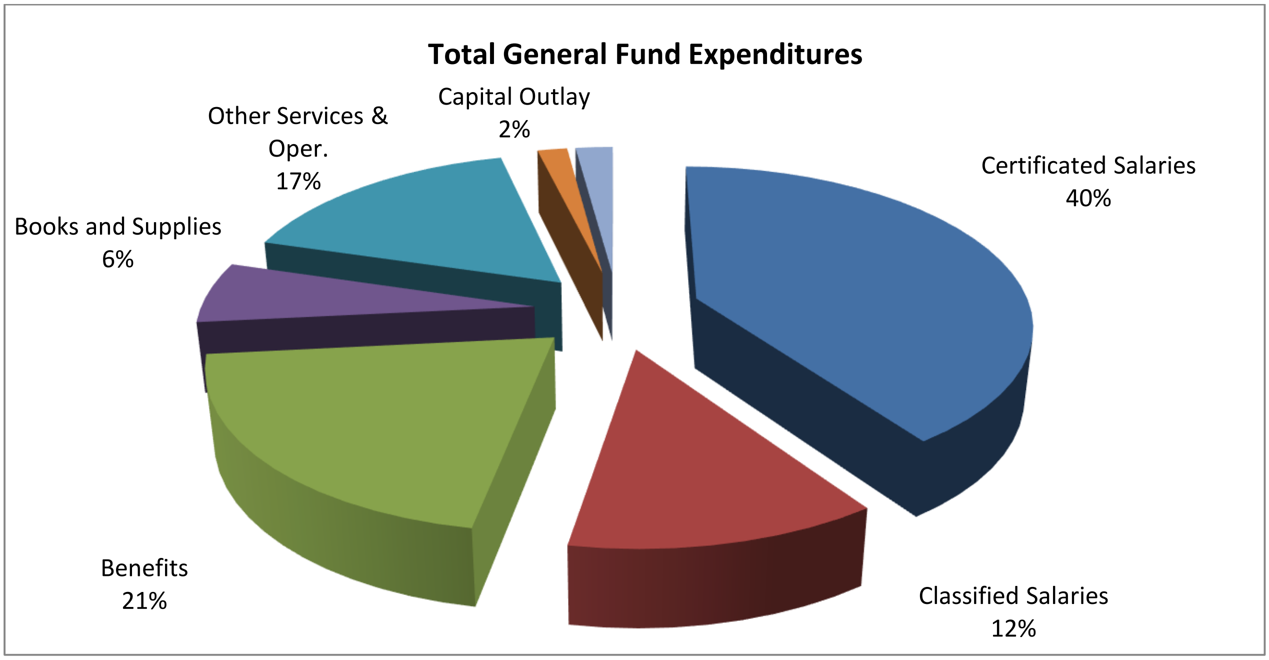
Operating Expenditure Components

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits encompass of approximately 81% of the District's unrestricted budget.

Total General Fund

DESCRIPTION	UNRESTRICTED	COMBINED
Certificated Salaries	$11,196,356	$15,254,945
Classified Salaries	$3,026,922	$4,718,958
Benefits	$4,750,851	$7,798,215
Books and Supplies	$1,266,252	$2,342,259
Other Services & Oper.	$2,641,007	$6,270,778
Capital Outlay	$545,900	$643,623
Other Outgo/Transfer	$33,082	$802,074
TOTAL	$23,460,370	$37,830,852

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	$ 4,740,261
Local Resources, Grants and Donations	$ 299,512
Routine Maintenance	$ 1,025,000
Total Contributions	$ 6,078,617

General Fund Summary

The District's 2016-17 general fund projects a deficit of $3.38M ($2.27 unrestricted portion) resulting in an estimated ending fund balance of $5M. The components of the District's fund balance are as follows: State required 3% reserve for economic uncertainty $1,132,000, Board 7% reserve (unrestricted expenses) for economic uncertainty $1,630,704, stores, revolving cash and prepaids $5,500, local site donations $375,000 and restricted programs $334,842. Therefore, the undesignated fund balance is $1,550,534.

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:

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	$8,312,843	($3,284,241)	$5,028,602
11	Adult Ed	$11,103		$11,103
13	Cafeteria	$71,411	($13,422)	$57,989
14	Deferred Maintenance Fund *	$265,312	$126,247	$391,559
20	Special Reserve for Other Than Capital Outlay	$2,003,522	$2,500	$2,006,022
21	Bond	$34,917,311	($17,304,884)	$17,612,427
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	$6,434,651		$6,434,651

* 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) – *Minimal Effect*	1.02%	0.00%	1.48%	2.40%
LCFF Gap Funding Percentage (DOF) – *No Effect*	52.56%	55.28%	23.67%	53.85%
STRS Employer Rates	10.73%	12.58%	14.43%	16.28%
PERS Employer Rates (PERS Board / Actuary)	11.847%	13.888%	15.80%	18.70%
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	$48	$0
Mandate Block Grant for Districts: 9-12 per ADA	$56	$56	$56	$56
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 November 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%	*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 changes to general purpose revenues are primarily due to estimated changes in property tax revenues based on a 5% growth rate. State aid is projected to remain unchanged since the District will only receive District of Choice (DOC) and EPA state funding. DOC is scheduled to sunset on 6/30/17 and only fund current DOC students enrolled in SRHSD as of 6/30/17. These students will be funded through

6/30/18. Funding for DOC students is estimated to be $351,000 in 2016-17 and will decrease to $250,000 in 2017-18. Per enrollment trends, the District anticipates enrollment to increase through 2017-18, decrease in 2018-19 by 63 and then level off. EPA 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. The increase of contributions to restricted programs is primarily due to budgeting for restricted step & column increases, a 1% budget set-aside for salary increase (per CBA language), as well as for expected pension increases. The District also increased its routine restricted maintenance contribution in order to contribute 3% of the General Fund budget.

Expenditure Assumptions:

Increases in salaries are primarily due to certificated and classified step & column increases of approximately 1.5%. Due to language in the SRFT collective bargaining agreement, a 1% salary increase has been budgeted in the current and 2 subsequent years for all employees.

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%.

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
Rates @ 1st Interim	13.888%	15.50%	17.10%	18.60%	19.80%	19.80%	19.80%	19.80%
Updated Proposed Rates	13.888%	15.80%	18.70%	21.60%	24.90%	26.40%	27.40%	28.20%
Member % (Pre-PEPRA)	7%	7%	7%	7%	7%	TBD	TBD	TBD
Member % (Post-PEPRA)	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 10th. 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.

Please note that projected rate increases are not known at this time. Therefore, illustrated below are the rates that are currently known.

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**
Employer %	12.58%	14.43%	16.28%	18.13%	19.10%
Member % (2% at 60)	10.25%	10.25%	10.25%	10.25%	10.25%
Member % (2% at 62)	9.205%	9.205%	9.205%	9.205%	9.205%

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 projects the General Fund will deficit spend by $467,167 in unrestricted and $334,862 in restricted for a total of $802,029, resulting in an ending General Fund balance of approximately $4.22M. After reservations, assignments, and restrictions, the 2017-18 unassigned / unappropriated fund balance is estimated to be approximately $1.62M.

During 2018-19, the District estimates that the General Fund is projected to deficit spend by $528,162 resulting in an ending General Fund balance of approximately $3.7M. After reservations, assignments, and restrictions, the 2018-19 unassigned / unappropriated fund balance is estimated to be $1M.

Illustrated below are the components of the estimated ending General Fund balance:

Revised Multi-Year Projection (Total GF)			
Description	**2016-17 Revised Budget**	**Projected 2017-18**	**Projected 2018-19**
Total Revenues	$ 34,446,086	$ 34,974,738	$ 35,947,743
Total Expenditures	$ 37,800,327	$ 35,846,767	$ 36,545,905
Excess/(Deficiency)	$ (3,354,241)	$ (872,029)	$ (598,162)
Other Sources/Uses	$ 70,000	$ 70,000	$ 70,000
Net Increase/(Decrease)	**$ (3,284,241)**	**$ (802,029)**	**$ (528,162)**
Add: Beginning Fund Balance	$ 8,312,841	$ 5,028,600	$ 4,226,571
Ending Fund Balance	**$ 5,028,600**	**$ 4,226,571**	**$ 3,698,409**

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 March 2, 2017 per the attached Exhibit. Therefore, the Second Interim report is certified as Positive.

Exhibit: HSD 2017-18 List of Budget Savings Options for Budget Committee Consideration (List Revised per Board Direction 3/2/17)	
Amount	**Item**
$ 1,250,000	**Target Ongoing Budget Savings**
$ 809,200	Staffing Reductions (Allocation based on SRFT Contract Target) SR @ 4.2 FTE and TL @ 3.7 FTE = 7.9 (8.0 @ $85,000 + Benefits)
$ 77,446	Retirement Incentive/Administrative Restructure: 2 Administrators and 4 Teachers. Restructure of Administration is included in additional savings calculation.
$ 110,000	Librarian (vacant) .5 FTE @ each sites = 1 FTE, existing split of Librarian between 2 sites is maintained.
$ 87,939	Reorganization of Education Services Office (additional savings are above those listed in other areas of this document).
$ (67,158)	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.
$ 7,434	CSO Dir. Of Communications 10% of salary to be reallocated and funded by G.O. Bond
$ 17,500	CSO - Reallocation of 7% Title 1 to pay for CSO Categorical Administration
$ -	Discontinue non-tuition international students (4/yr.) Non-material budget savings with minimal impact on class size
$ 20,942	Eliminate Vacant and Unfilled District Community Liaison Position #3290700
$ 19,435	Eliminate Vacant and Unfilled Open Secretary II #246511 (Technology)
$ 4,100	Change to on-line or non-NCR absence timesheets ($0.52/NCR form x 8000/yr.)
	Unrestricted Books, Supplies and Materials in 16-17 are $17,153 lower than prior year
$ 21,500	Reduce Unrestricted Funded (Object 5200)Travel and Conference by 30%
$ 50,000	Reduce Unrestricted Contract Services (Object 5840) by 15% to equal 2015-16 Actuals
$ 44,000	Eliminate / Reduce .4 FTE Literacy Coach Release Periods
$ 5,742	Reduce postage by utilizing student mgmt. system to distribute 75% of all progress reports and report cards.
$ 50,000	Reduction of 1 FTE Classified Employee
$ 1,258,080	**Ongoing Savings**
$ 434,671	One-Time Savings- Open Positions not filled during 2016-17 base salary + benefit
$ 1,692,751	**Total Ongoing and one-time savings**