San Rafael High School District
2017-18 First Interim Report and Multiyear Fiscal Projection
As of October 31, 2017
Presented December 18, 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 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, School Services of California, and other professional organizations. In addition, the First Interim Report contains summarized and detailed budget information, multi-year projections, and estimated cash flow reports.

Comparison of the State's Proposed and Enacted Budget

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 State Budget. Since the districts' budgets are prepared based on the May Revision, the First Interim incorporates such changes. Illustrated below are the primary provisions and how the Enacted State Budget compares to the May Revise.

Proposition 98 Funding: The Enacted State Budget set Proposition 98 funding for 2017-18 at $74.5 billion, which was relatively close to the May Revise estimate of $74.6 billion.

LCFF Gap Funding and Cost-of-Living-Adjustment (COLA): Funding for the LCFF increased by $1.36 billion rather than by $1.38 billion as projected in May. The increase in funding is still expected to bring the formula to 97% of full implementation. Illustrated below is a comparison of the gap funding percentages and COLA percentages between the proposed and Enacted State Budget. Please note that due to the District being community funded (i.e. basic aid), only the annual COLA has a minimal effect with regard to the District's funding.

Description	2016-17	2017-18	2018-19	2019-20
LCFF Gap Funding % – Proposed	55.03%	43.97%	71.53%	73.51%
LCFF Gap Funding % – Enacted	56.08%	43.19%	66.12%	64.92%
Annual COLA – Proposed	0.00%	1.56%	2.15%	2.35%
Annual COLA – Enacted	0.00%	1.56%	2.15%	2.35%

K-12 One-Time and Block Grant Mandate Funding: The Governor's May Revision included approximately $1.01 billion in one-time discretionary funds for districts, which equaled approximately $170 per student. However, it was recommended that districts, not budget for the funds since the funds were being held in abeyance until a recertification of the 2017-18 funding was finalized which meant districts would not get the contingent funds until 2018-19. Fortunately, the Enacted State Budget does not contain the same conditions, which enables districts to budget the funds in 2017-18; however, it contained an apportionment of $877 million ($147 per ADA) instead of $1.01 billion ($170 per ADA).

In terms of the Mandate Block Grant, the Enacted State Budget includes the California Assessment of Student Performance and Progress (CAASPP) mandate as proposed in the May Revision. It also includes mandated reporter training with an additional $7.9 million to cover the inclusion of the mandate. Lastly, the Enacted State Budget provides an additional $3.5 million relating to a COLA for the program. The sum of the additions amounts to an increase of approximately $2 per ADA.

California Clean Energy Job (Proposition 39): The Enacted State Budget allocated $376.2 million in funding to Proposition 39 for the 2017-18 fiscal year, which remains unchanged from what was proposed in May. This brings the five-year total to $1.75 billion.

In addition, the newly adopted Senate Bill (SB) 110 establishes an ongoing but modified version of the Clean Energy Job Creation Program that would be operative only if funds are appropriated for this purpose. SB 110 also appropriates any unallocated funding that is not claimed by LEAs to support the following priorities:

- The first $75 million would support school bus retrofit or replacement. Priority shall be to school districts and county offices operating the oldest school buses or school buses operating in disadvantaged communities
- The next $100 million would support a competitive program that provides low-interest and no-interest loans for eligible projects and technical assistance to improve energy efficiency and expand clean energy generation

Any remaining funds would support the ongoing, but modified, version of the Clean Energy Job Creation Program.

<u>Routine Restricted Maintenance Account</u>

Due to the passage of Proposition 51, any local educational agency that applies for state bond funds and receives a Proposition 51 apportionment from 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:

- 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

Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned or unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

On October 11, 2017, Governor Jerry Brown signed Senate Bill (SB) 751 (effective January 1, 2018), which makes changes to the existing school district reserve cap law in the following manner:

- It requires that the reserve cap is triggered in a fiscal year immediately after a fiscal year in which the amount of money in the Public School System Stabilization Account is equal to or exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts and allocated local proceeds of taxes (Proposition 98 funding), as specified, for that fiscal year
- Adjusts the reserve cap from a combined assigned and unassigned ending fund balance based on the size of the district to a combined assigned or unassigned ending balance, in the General Fund (01) and the Special Reserve Fund for Other Than Capital Outlay (17), of 10% of those Funds for all districts (pending clarifying legislation)
- Reserves would be capped at 10% as long as the amount in the Public School System Stabilization Account remained at 3% or greater of the Proposition 98 amount in each preceding year
    - The State must notify local educational agencies when the conditions are and are no longer applicable
- Basic Aid school districts and districts with fewer than 2,501 average daily attendance are exempt from the reserve cap requirement

Currently, the cap is not expected to be in effect for the fiscal year 2017-18 since Proposition 98 funding is expected to be based on Test 2 instead of Test 1. However, the Legislative Analyst Office (LAO) indicated that under a mild recession scenario, Proposition 98 <u>could be</u> funded based on Test 1 in 2019-20.

Senate Bill (SB) 858 continues to require 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 beginning with 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

2017-18 San Rafael High School District Primary Budget Components

❖ Property taxes are estimated at approximately $25,737,000.

❖ Average Daily Attendance (ADA) is estimated at 2,518.

❖ The District's estimated unduplicated pupil percentage for supplemental & concentration funding is estimated to be 50%. The percentage will be revised based on actual data.

❖ Lottery revenue is estimated to be $146 per ADA for unrestricted purposes and $48 per ADA for restricted purposes.

❖ Mandated Cost Block Grant is $58 for 9-12 ADA.

❖ One-Time Mandate Funds are estimated at $147 for K-12 ADA.

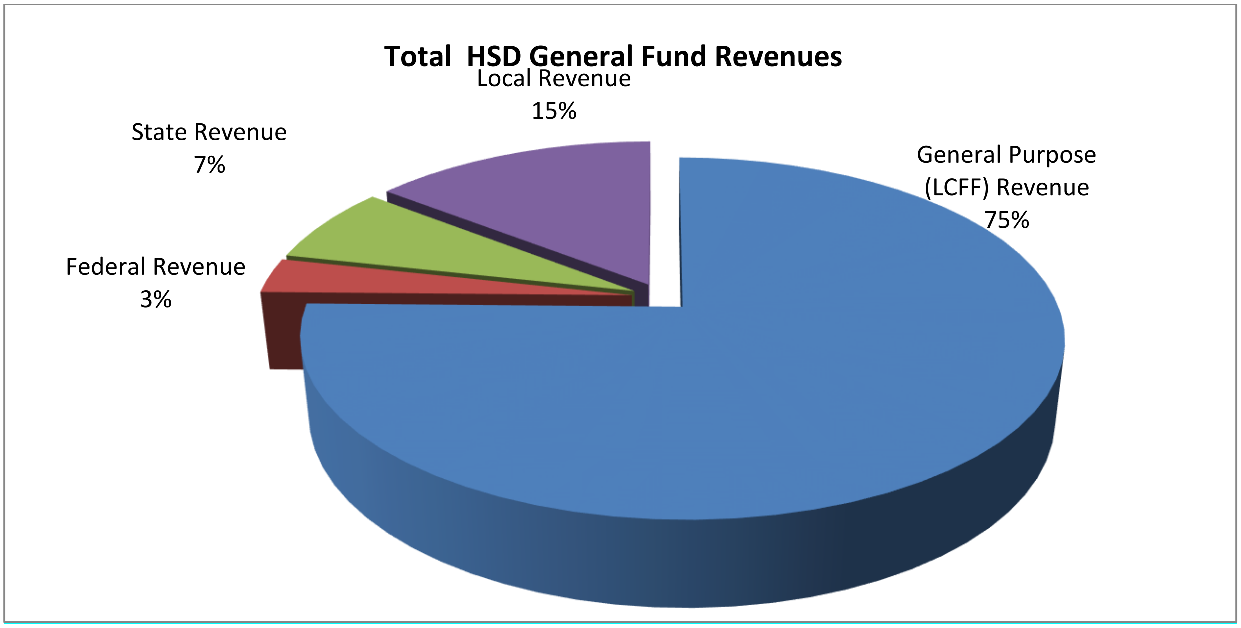
❖ Except as illustrated under Contributions to Restricted Programs, all federal and state restricted categorical programs are self-funded.

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:

HSD DESCRIPTION	AMOUNT
General Purpose (LCFF) Revenue	$26,304,280
Federal Revenue	$1,112,123
State Revenue	$2,460,586
Local Revenue	$5,055,141
TOTAL	$34,932,130

The key component of general purpose revenue is local property tax since the District receives property tax revenues that exceed the allocated state per-ADA income guarantee; thus, the District is considered a "Basic Aid" district. Due to the fact that the District is "Basic Aid", the change in ADA from 2016-17 does not significantly impact operating revenues.



<u>Education Protection Account</u>

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 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 an account called the Education Protection Account (EPA). For the majority of districts, EPA dollars are part of and not in addition to state aid; thus, a corresponding reduction is made to its general purpose funds. However, the EPA funding is additional state aid for the 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 2017-18. The amounts will be revised throughout the year based on information received from the state.

HSD Education Protection Account (EPA) First Interim Fiscal Year Ending June 30, 2018	
EPA Revenues:	
Estimated EPA Funds	$ 503,608
EPA Expenditures:	
Certificated Instructional Salaries	$ 503,608
Total	**$ 503,608**

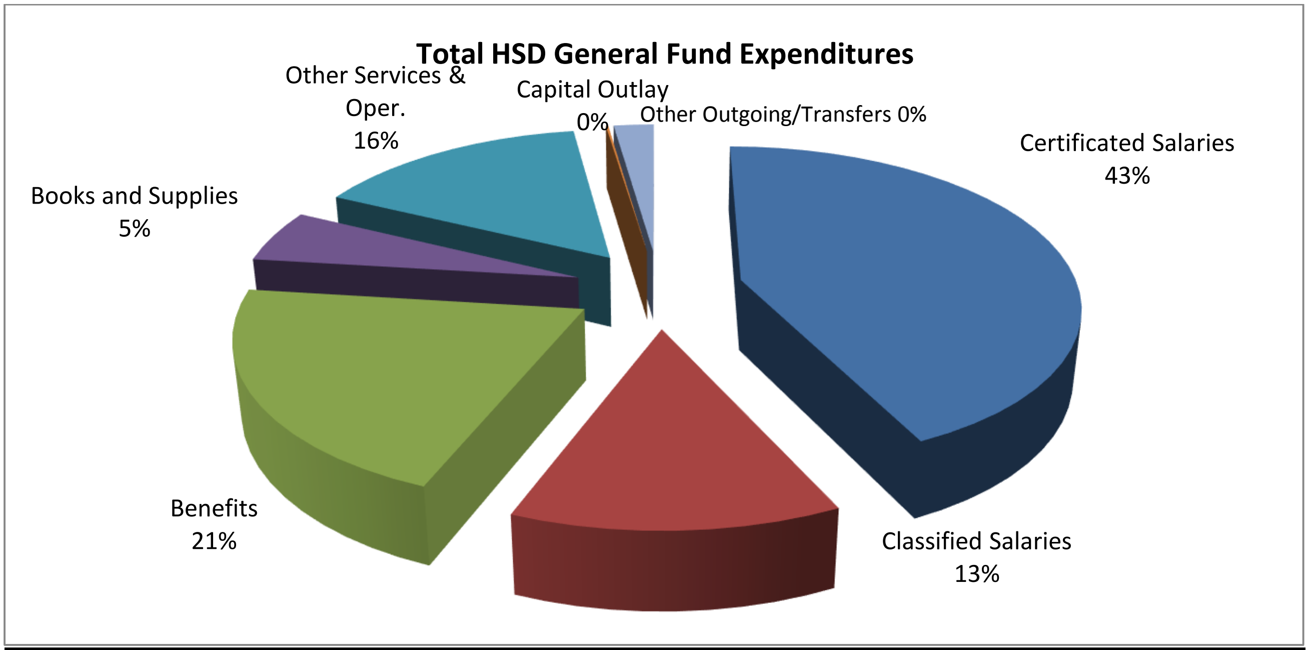
Subsequently, on November 8, 2016, the voters approved the California Children's Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore,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

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 86% of the District's unrestricted budget, and approximately 77% of the total General Fund budget.

HSD DESCRIPTION	UNRESTRICTED	RESTRICTED	COMBINED
Certificated Salaries	$ 12,089,110	$ 3,929,241	$ 16,018,351
Classified Salaries	$ 3,150,845	$ 1,697,256	$ 4,848,101
Benefits	$ 4,849,018	$ 2,973,146	$ 7,822,164
Books and Supplies	$ 988,865	$ 991,630	$ 1,980,495
Other Services & Oper.	$ 2,500,128	$ 3,228,501	$ 5,728,629
Capital Outlay	$ 31,433	$ 20,135	$ 51,568
Other Outgo/Transfer	$ (269,304)	$ 1,108,867	$ 839,563
TOTAL	$ 23,340,095	$ 13,948,776	$ 37,288,871

Following is a graphical representation of expenditures by percentage:



General Fund Contributions to Restricted Programs

The following contributions and transfers of unrestricted resources to restricted programs are necessary to cover restricted program expenditures in excess of revenue:

Description	Amount
Special Ed IDEA	$ 3,580,401
Special Ed	$ 1,287,069
Special Ed Mental Health	$ 98,072
Routine Maintenance	$ 1,025,000
District ROP Programs	$ 217,395
Total Contributions	$ 6,207,937

General Fund Summary

The District's 2017-18 Unrestricted General Fund projects a total operating deficit of $1,765,309 resulting in an estimated unrestricted ending fund balance of $5,087,919. The components of the District's fund balance are as follows: Assignments - reserve for compensation - $1,125,000: reserve for economic uncertainty above 3% - $2,215,036; unassigned - $629,217; and state required 3% reserve for economic uncertainty - $1,118,666. In accordance with SB 858, a detail description of assigned and unassigned balances is illustrated below.

Description	2017-18 HSD 1st Interim Unrestricted	Restricted	Combined
ASSIGNED			
Economic Uncertainty above 3%	2,215,036		2,215,036
ASB	-		-
EPA	-		-
Reserve for compensation	1,125,000		
Total - Assigned	**$ 3,340,036**	**$ -**	**$ 2,215,036**
UNASSIGNED			
Economic Uncertainty Reserve (3% State)	1,118,666		1,118,666
Add'l Reserve for Economic Uncertainty (7%)	-		
Unappropriated	629,217		629,217
TOTAL - UNASSIGNED	$ 1,747,883	$ -	$ 1,747,883
TOTAL - FUND BALANCE	**$ 5,087,919**	**$ 675,741**	**$ 5,763,660**

Cash Flow

Per the enclosed cash flow schedule, the District is anticipating the need to borrow $4.3 million from its other Funds until the District receives its property taxes in December. This is needed to maintain positive monthly cash balances during the fiscal year. Cash will be closely monitored to ensure the District is liquid in order to satisfy its obligations.

Fund Summaries

Illustrated below is a summary of each Fund's fund balance and corresponding change. Activity for the Capital Project Funds will be budgeted during 2017-18 once project scopes are known. Debt Service activity will be budgeted based on information provided by the County. Fund 40, which is comprised of General Fund contributions and facility use fees, shall be used for the replacement of the athletic turf field at TLHS (Estimated cost = $850,000).

All Funds of the District				
	Fund Number and Description	Fund Balance July 1, 2017	Current Year Activity	Fund Balance June 30, 2018
01	General Fund	$8,050,401	($2,286,741)	$5,763,660
11	Adult Ed Fund	$113,320	($102,163)	$11,157
13	Cafeteria	$43,990	$28	$44,018
14	Deferred Maintenance Fund *	$410,078	$72,182	$482,260
20	Special Reserve for OPEB**	$2,013,008	$2,500	$2,015,508
21	Building Funds	$32,190,913	($28,136,765)	$4,054,148
25	Capital Facilities Fund	$176,226	($24,600)	$151,626
40	Special Reserve for Capital Outlay	$1,703,247	$166,511	$1,869,758
51	Bond Interest Redemption	$9,863,252	$0	$9,863,252

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

** OPEB = Other Post Employee Benefits

Multiyear Projection

General Planning Factors:

Illustrated below are the latest factors released by the Department of Finance (DOF) that districts are expected to utilize as planning factors:

	Fiscal Year			
Planning Factor	**2016-17**	**2017-18**	**2018-19**	**2019-20**
COLA (DOF) – *Minimal Effect*	0.00%	1.56%	2.15%	2.35%
Est. Property Tax % Increase to Prior Year	4.73%	4.80%	4.81%	4.82%
STRS Employer Rates	12.58%	14.43%	16.28%	18.13%
PERS Employer Rates (PERS Board / Actuary)	13.888%	15.531%	18.10%	20.80%
Lottery – unrestricted per ADA	$144	$146	$146	$146
Lottery – Prop. 20 per ADA*	$45	$48	$48	$48
Mandated Cost per ADA / One Time Allocations (DOF)	$214	$147	$0	$0
Mandate Block Grant for Districts: K-8 per ADA	$28	$30	$30	$30
Mandate Block Grant for Districts: 9-12 per ADA	$56	$58	$58	$58
Mandate Block Grant for Charters: K-8 per ADA	$14	$16	$16	$16
Mandate Block Grant for Charters: 9-12 per ADA	$42	$44	$44	$44
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	Greater of: Lesser of 3%* / 2014-15 Amount or 2%*	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:

Per enrollment data and trends at the elementary schools, the District anticipates enrollment to remain relatively flat over the next three years. The Local Control Funding Formula is estimated to be adjusted per Department of Finance's estimates of COLA and funding percentages towards the District's LCFF Target. Federal revenue is expected to remain relatively constant for subsequent years. State revenue is expected to remain constant for subsequent years. Local revenue is expected to remain constant.

Expenditure Assumptions:

Certificated and Classified step and column costs are expected to increase by 1.5% each year.

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 to 7.0% in 2020-21, the CalPERS Board will be scheduling higher employer contribution rates that will significantly exceed previously projected increases. Illustrated below are the actual rates through 2017-18 and projected rates through 2023-24.

CalPERS Rate Comparison

Description	2016-17 Actual	2017-18 Projected	2018-19 Projected	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected
Employer Rates	13.888%	15.531%	18.10%	20.80%	23.80%	25.20%	26.10%	26.80%
Member (Pre-PEPRA)	7%	7%	7%	7%	7%	7%	7%	7%
Member (Post-PEPRA)	6%	6%	6%	6%	6%	6%	6%	6%

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. Under Assembly Bill 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.

The current law increases STRS contribution rates to 19.1% beginning July 1, 2020. Further, under Education Code Section 22950.5, CalSTRS will have the authority to increase or decrease the employer and State contribution rates. However, the rates may not be increased by more than one percent in a year and cannot exceed 12% overall until the remaining unfunded actuarial obligation is eliminated. In addition, new CalSTRS members (hired after January 1, 2013) are required to pay at least half of the normal cost of the DB program; thus, these members' contributions will increase by 0.5% effective July 1, 2017.

Illustrated below are the statutory rates through 2020-21 and maximum rates from 2021-22 through 2023-24:

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5

Description	2016-17 Actual	2017-18 Actual	2018-19 Approved	2019-20 Approved	2020-21 Approved	2021-22 Projected	2022-23 Projected	2023-24 Projected
Employer Rates	12.58%	14.43%	16.28%	18.13%	19.10%	20.10% (Max.)	21.10% (Max.)	22.10% (Max.)
Member (2% at 60)	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	9.205%	9.205%	9.205%	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 in employer pension costs.

Supplies and services are expected to remain relatively constant for subsequent years; the variance in services in 2018-19 is due to spending carry-over funds in 2017-18 and variance in 2019-20 is due to COLA increases. The unrestricted capital outlay is estimated to decrease in subsequent years. The increase of contributions to restricted programs is primarily due to budgeting for restricted step increases, as well as for expected pension increases.

Estimated Ending Fund Balances:

During 2018-19, the District projects the unrestricted General Fund to deficit spend by $1,381,060 resulting in an unrestricted ending General Fund balance of approximately $3.7 million.

During 2019-20, the District projects the unrestricted General Fund to deficit spend by $1,051,869 resulting in an unrestricted ending General Fund balance of approximately $2.65 million.

In accordance with the disclosure requirements of Senate Bill 858, amounts over the State mandated reserve of three percent of total general fund outgo are reserved for the following activities:

Revised HSD Multi-Year Projection (Total GF)						
Description		**2017-18 Revised Budget**		**Projected 2018-19**		**Projected 2019-20**
Total Revenues	$	34,932,130	$	35,312,953	$	36,610,625
Total Expenditures	$	37,288,871	$	36,968,085	$	38,032,357
Excess/(Deficiency)	$	(2,356,741)	$	(1,655,132)	$	(1,421,732)
Other Sources/Uses	$	70,000	$	70,000	$	70,000
Net Increase/(Decrease)	**$**	**(2,286,741)**	**$**	**(1,585,132)**	**$**	**(1,351,732)**
Add: Beginning Fund Balance	$	8,050,401	$	5,763,660	$	4,178,528
Ending Fund Balance	**$**	**5,763,660**	**$**	**4,178,528**	**$**	**2,826,796**
Reserve for Econ Uncertainty (3%)	$	1,118,766	$	1,107,000	$	1,138,900
Assigned for potential compensation*	$	1,125,000	$	1,125,000	$	1,125,000
Assigned Econ Uncertainty above 3%	**$**	**2,215,036**	**$**	**1,474,859**	**$**	**391,090**
Restricted Programs	$	675,741	$	471,669	$	171,806
Unappropriated Fund Balance	**$**	**629,117**	**$**	**(0)**	**$**	**(0)**
Unappropriated Percent	$	0	$	(0)	$	(0)

* Set aside for pending 2017-18 tentative agreement with CSEA and projected cost for unrepresented groups plus ongoing impact future years.

Conclusion:

The multi-year projection supports that the District will be able to meet its financial obligations for the current and two subsequent fiscal years. Due to multi-year deficit spending, Administration is examining the budget and corresponding programs in greater detail with the purpose of proposing a plan to reduce expenditures in order to maintain conservative economic uncertainty reserve levels, and have the necessary cash in order to ensure that the District remains fiscally solvent. Therefore, staff recommend the Board approve a positive certification of the financial condition of the District.