

Evergreen School District Budget Review

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Presented by

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School
Services
of California
INC. TM

Scope and Methodology



- The Evergreen School District (District) requested School Services of California, Inc., (SSC) to perform a Budget Review:
 - Includes the General Fund and all other funds of the District
 - Focus is on the unrestricted General Fund for fiscal solvency purposes



Scope and Methodology



- The Budget Review involved analysis of District records including, but not limited to:
 - Standardized Account Code Structure (SACS) files for the 2013-14 and 2014-15 fiscal years
 - Adopted Budget, First Interim, Second Interim, Estimated Actuals, Unaudited Actuals
 - SACS file for Adopted Budget in the 2015-16 fiscal year
 - Multiyear projection (MYP) included with the 2015-16 Adopted Budget
 - Local Control Funding Formula (LCFF) revenue calculations
 - Projected enrollment and average daily attendance (ADA) estimates
 - Detailed assumptions affecting revenues and expenditures
 - One-time revenues and expenditures

Scope and Methodology



- The Budget Review also involved preparing comparisons on employee compensation and financial information to the following elementary school districts in the geographical area:
 - Franklin-McKinley Elementary School District (ESD)
 - Lakeside Joint ESD
 - Loma Prieta Joint Union ESD
 - Los Altos ESD
 - Los Gatos Union ESD
 - Luther Burbank ESD
 - Moreland ESD
 - Mountain View Whisman ESD
 - Mt. Pleasant ESD
 - Oak Grove ESD
 - Orchard ESD
 - Saratoga Union ESD
 - Sunnyvale ESD
 - Union ESD

Budget Review Findings



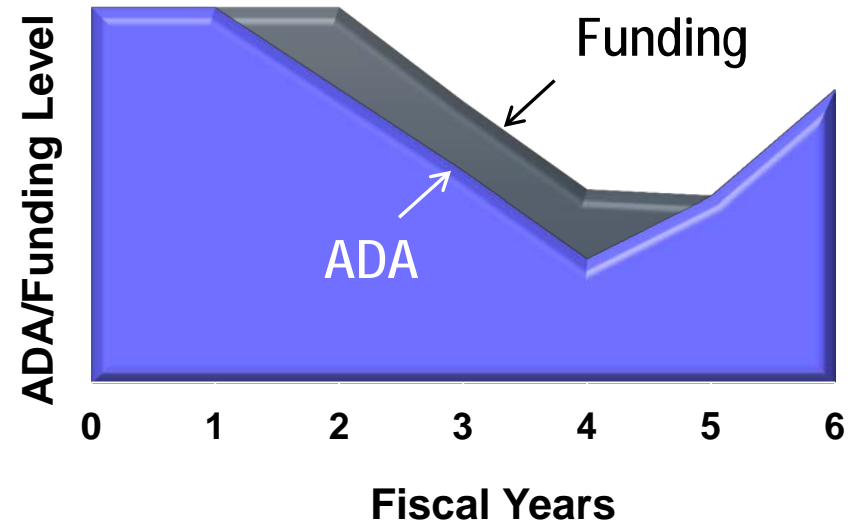
- The District has been declining in enrollment for the last decade, with the most significant declines since 2012-13
 - Districts in declining enrollment are funded based on prior-year ADA
 - Declining enrollment districts lose revenue more quickly than they can cut expenditures to manage the loss
 - This puts additional pressure on existing programs
- Accurate projections are even more important for declining enrollment districts

Budget Review Findings



- Declining enrollment funding only delays – it doesn't relieve – the need for budget reductions
- Revenue is lost faster than costs can be reduced
 - Even though the state helps for one year
- Declining enrollment districts must make budget cuts EVERY year

Impact of ADA Decline



Budget Review Findings



Impact of ADA Decline

Income Loss	
<ul style="list-style-type: none"> 114 ADA decline at \$8,000 each – yields marginal revenue loss 	
Lost Revenue:	\$912,000

Proportional Layoff	
<ul style="list-style-type: none"> 120 students requires 5 teachers at 24:1 	
<ul style="list-style-type: none"> Five teachers times cost per novice teacher yields savings of: (\$70,000 per teacher, including benefits, x 5 teachers) 	\$350,000
<ul style="list-style-type: none"> Miscellaneous savings (\$400/ADA) 	<u>\$48,000</u>
Total proportional savings:	\$398,000

Proportional layoff leaves a \$514,000 deficit. In this example, eight more teachers would need to be laid off to cover the decline. Program cuts would be required.

Budget Review Findings



- Based upon the latest statewide certified teacher compensation data – for the 2013-14 fiscal year – the District compared favorably in total compensation for teachers:
 - Ranking first or second out of the 19 districts for total compensation (salary at different points on the schedule plus the District’s contribution to health and welfare benefits)
 - Plus the District had almost ten times more teachers in the highest range of the salary schedule than the average of the other districts
 - The District’s ADA per full-time teacher was the 13th highest out of the 19 districts
 - In California, most districts can afford to be very competitive in compensation or in staffing ratios, but not both

Budget Review Findings



- In looking at the latest statewide certified SACS financial data – for the 2013-14 fiscal year:
 - The District received low unrestricted General Fund revenues per ADA as compared with the other districts – ranking 18th out of 20
 - The District committed the highest percentage of its unrestricted General Fund budget for personnel salaries and benefits out of the 20 districts, at 94.66%
 - Leaving very little for other areas of the budget (instructional supplies, technology, utilities, etc.)
 - Even with relatively high ADA per staff member ratios
- This data illustrates prioritization of attracting and retaining staff with the compensation package

Budget Review Findings



- In looking at the District's financial reports for the last couple of years, we can see that the District's budget is not a static document
 - Changes are made to both revenues and expenditures throughout the fiscal year, which is the best practice
- Revenues in the District's 2015-16 Adopted Budget are projected based on the most current information known
 - LCFF calculations for the 2015-16 fiscal year are appropriate
 - District used Department of Finance (DOF) estimates for funding gap percentages
 - Estimates for other revenues reflect the latest information available from state and federal sources at the time the budget was adopted

Budget Review Findings



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- The District's assumptions for expenditures appear reasonable based on the prior-year actuals and known changes since that time
 - The District projects to spend 93% of its unrestricted General Fund resources on personnel salaries and benefits
 - Leaving 7% for the rest of the budget
 - Contributions to restricted programs are growing due mainly to increased special education costs
 - Personnel costs are a significant driver of this as well

Budget Review Findings



- The MYP prepared with the District’s 2015-16 Adopted Budget indicates a deficit spending trend in the unrestricted General Fund:

	2015-16	2016-17	2017-18
Total Revenues	\$95,330,981	\$89,545,487	\$89,799,097
Total Expenditures	\$88,077,493	\$90,398,648	\$92,547,030
Surplus/(Deficit)	\$7,253,488	(\$853,161)	(\$2,747,933)

- Deficit spending is readily apparent in the two out years, but the estimated surplus for 2015-16 includes approximately \$7.3 million in one-time discretionary funds
- The out year expenditure assumptions assume staffing reductions related to declining enrollment – the District may need to take these actions in the future

Budget Review Findings



- The Reserve for Economic Uncertainties and Unassigned amounts in the General Fund ending balance are as follows:

	2015-16	2016-17	2017-18
Reserve for Economic Uncertainties	\$3,225,367	\$3,281,390	\$3,355,961
Unassigned	\$9,304,611	\$8,395,426	\$5,573,923
Combined Reserve and Unassigned	\$12,529,978	\$11,676,816	\$8,928,884
Total General Fund Expenditures	\$107,512,217	\$109,379,662	\$111,865,377
% of Total Expenditures	12%	11%	8%

Moving Forward



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- The District should continue to stay on top of the latest information on its enrollment and ADA
 - As well as developments from the state and federal government
- Be prepared to continue to deal with declining enrollment for the foreseeable future
- The deficit spending trend should be addressed in order to maintain a prudent level of reserves
 - Formulating the Budget Advisory Committee is a critical step toward making recommendations to the Superintendent

Moving Forward



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- The District should consider adopting a formal board policy for a minimum reserve level that is above the meager requirement of the state
 - Because of the volatility of LCFF gap funding, declining enrollment, the cyclical state economy and funding, etc.
- Revisions to District projections will change, especially for the subsequent years, as Governor Jerry Brown proposes his 2016-17 budget in two days
 - Soon after that the DOF will revise its estimates for LCFF gap funding in the out years
- The District should continue its work to balance funding realities with the needs of its student educational programs and other needs

Questions?



Thank you!