



Business Services Division
Fiscal Update
January 9, 2014
Volume 1

Disclaimer

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This is the first in a series of periodic reports that the Business Services Division will produce to inform the Board of Education, senior staff, and the public about the District's continually changing financial condition.

Refinancing &

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Inadequate Reserves:

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Pending Employee Retirement System Issue

A recent study has highlighted the significant funding shortfall within the teacher retirement system, CalSTRS. As reported by School Services of California the Governor's Budget notes that CalSTRS faces a growing unfunded liability of \$80.4 billion and may exhaust its assets within 30 years. Stabilizing the system could cost more than \$4.5 billion per year over the next 30 years. While not proposing a solution as part of this budget, the Governor is committing his administration to working with stakeholders on a "plan of shared responsibility" to achieve a fully funded system within 30 years which will be included in the 2015-2016 Budget proposal.

The Governor's CalSTRS budget summary closes with the following statement:

"A new funding strategy should phase-in contribution increases for employees, employers, and the state to allow parties to prepare for cost increases. **Because retirement benefits are part of total compensation costs, school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement.** The state's long-term role as a direct contributor to the plan should be evaluated."

While not an immediate concern for our District, the highlighted area points out that the District must begin to prepare to see higher teacher retirement system costs. Obviously this will require coordination with our labor partner SCTA through the negotiations process.

Brief Budget Update

Key points pulled from the Governor's Budget with the assistance of School Services of California:

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Inadequate Reserve Clarification

Provided below is a history of our ending fund balances. We used only a 4.5% increase in funding to illustrate some possible outcomes for future fund balances.

Fiscal Year	Funded Average Daily Attendance	Revenue	Expenditures	Excess (Deficiency) Of Revenues Over Expenditures	Other Financing Sources	Ending Fund Balance	Ending Fund Balance As A % Of Expenditures
1999-00	50,223	\$ 320,821,412	\$ 317,485,562	\$ 3,335,850	\$ (4,910,235)		
2000-01	51,253	\$ 370,008,605	\$ 353,410,279	\$ 16,598,326	\$ (4,952,640)		
2001-02	52,530	\$ 378,733,395	\$ 376,989,436	\$ 1,743,959	\$ (5,459,977)		
2002-03	51,948	\$ 386,504,867	\$ 384,777,142	\$ 1,727,725	\$ 3,111,338		
2003-04	48,181	\$ 370,874,078	\$ 380,704,516	\$ (9,830,438)	\$ 1,962,040	\$ 19,970,998	5.25%
2004-05	46,539	\$ 383,478,608	\$ 382,196,844	\$ 1,281,764	\$ 894,914	\$ 22,147,676	5.79%
2005-06	45,198	\$ 386,961,308	\$ 382,805,406	\$ 4,155,902	\$ 1,213,710	\$ 27,517,289	7.19%
2006-07	44,230	\$ 408,859,700	\$ 402,137,965	\$ 6,721,735	\$ 566,894	\$ 34,805,917	8.66%
2007-08	44,024	\$ 414,691,669	\$ 412,900,869	\$ 1,790,800	\$ (954,831)	\$ 35,641,886	8.63%
2008-09	41,758	\$ 413,081,928	\$ 408,003,168	\$ 5,078,760	\$ 4,793,081	\$ 45,513,727	11.16%
2009-10	41,653	\$ 387,307,431	\$ 395,081,555	\$ (7,774,124)	\$ (13,379,013)	\$ 24,360,591	6.17%
2010-11	41,347	\$ 412,911,347	\$ 404,032,147	\$ 8,879,200	\$ 1,159,632	\$ 34,399,424	8.51%
2011-12	41,131	\$ 389,906,122	\$ 406,281,495	\$ (16,375,373)	\$ 3,089,445	\$ 21,113,495	5.20%
2012-13	40,638	\$ 379,896,678	\$ 383,940,424	\$ (4,043,746)	\$ 2,339,596	\$ 19,409,345	5.06%
2013-14	40,449	\$ 404,601,185	\$ 413,422,723	\$ (8,821,538)	\$ 1,381,423	\$ 9,206,383	2.23%
2014-15	39,177	\$ 408,813,282	\$ 407,805,377	1,007,905			

In an effort to address the concerns of the financial industry and the County Office of Education, and to instill fiscal responsibility into District budgeting, we will be recommending that the Board of Education consider the adoption of a Fund Balance Policy that will, over time, rebuild our ending fund balance to 7.5% of anticipated expenditures, including the 2% state required reserve.

As you will note we are forecasting only having 0.23% above the state required minimum at the end of this fiscal year. As Fitch pointed out, this is well below what is normally considered a reasonable reserve for a school district of our size.

We will be providing the Board with a recommended Fund Balance Policy that will encourage the Board to rebuild the fund balance as mentioned above. Rebuilding the fund balance has implications during the negotiations process and will require coordination with our labor partners.

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The forecast presented below is our first forecast attempt using the extremely preliminary information we have found within the Governor's Budget and taking into account our most recent enrollment projections.

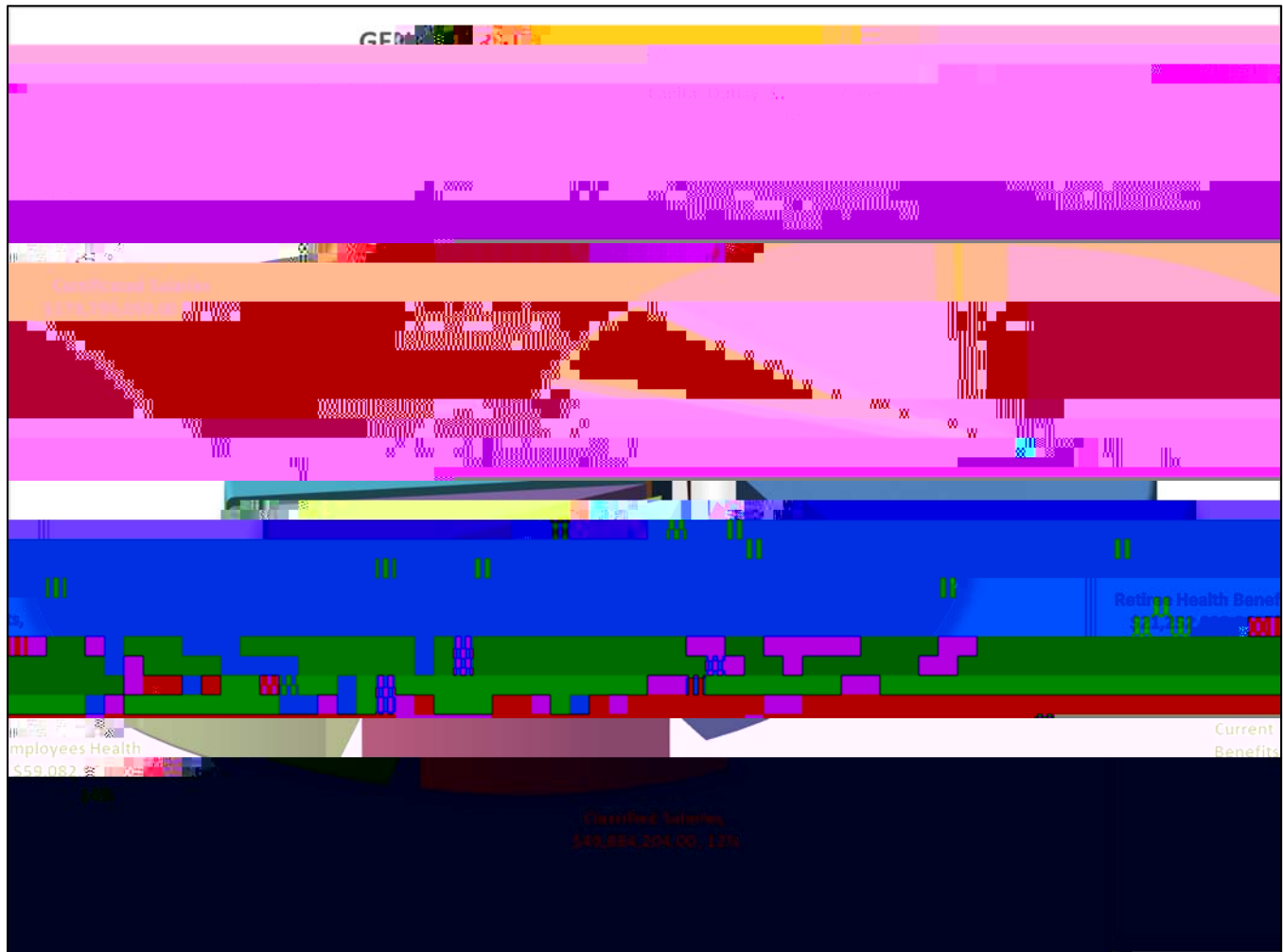
	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	41,405	40,205		39,005	
Funded* Average Daily Attendance	40,449	39,177		38,042	
Revenue Description	Amount	Amount	% Change	Amount	% Change
All Revenue Objects and Transfers In	\$ 404,601,185	\$ 411,273,056	4 1.6%	411,735,811	
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Ken A. Forrest
Chief Business Officer
January 9, 2014

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