August 13, 2014

TO: Santa Clara County Board of Education
FROM: Micaela Ochoa
Chief Business Officer

Ted O
Director, Internal Business Services

VIA: Jon R. Gundry
County Superintendent of Schools

SUBJECT: 2014-15 Budget Update

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**Associated Goal**

**GOAL 1:** Improve student equity and reduce access discrepancies to high quality education

**Background**


**Current**

On Friday, June 20, 2014, Governor Jerry Brown signed the 2014-15 State Budget Act and related trailer bills. The final budget included some changes from his Proposed Budget and his more recent May Revise Budget.

On June 11, 2014, the Santa Clara County Office of Education (SCCOE) Administration held a public hearing on the SCCOE’s Preliminary Budget for 2014-15. On June 18, 2014, the SCCOE’s 2014-15 Budget was adopted by the Board of Education. The SCCOE Budget was adopted prior to the State Budget Adoption. Therefore, on August 13, 2014, the Administration will provide an update on the 2014-15 State Adopted Budget and the Santa Clara County Office of Education Budget. All other changes in the SCCOE’s budget since adoption will be reported at the 1st Interim reporting period.

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Presentation Items

1. Overview
2. 2014-15 Enacted State Budget Highlights
3. 2014-15 SCCOE Budget Update
4. Next Steps
Overview

- On Friday, June 20, 2014, Governor Jerry Brown signed the 2014-15 State Budget Act and related trailer bills
- The 2014 Budget Act reflects a continued improvement in the state’s finances
- The K-12 Proposition 98 funding is budgeted at $51.9B, an increase of $2.7B over the prior year’s budget
- The State’s budget spending plan continues to:
  - Reduce the “wall of debt” the state has accumulated after years of deficits
  - Reinvests in educational services
  - Promote savings through a rainy day fund
  - Address the STRS Liability

Local Control Funding Formula

- The Governor’s 2014-15 Budget continues implementation of the LCFF with an infusion of $4.75B of additional Proposition 98 revenues
- Full implementation of LCFF for school districts and charter schools is still estimated at eight years (2013-14 to 2020-21)
- The proposed funding increase to LCFF in 2014-15 is expected to close the funding gap for each school district and charter school by approximately 29.56% (per the DOF)
- Combined with the elimination of 12% of the funding gap in 2013-14, the new formula will be over one-third of the way to full implementation after the first two years
Local Control Funding Formula

- Unlike school districts and charter schools, which are estimated to be fully funded by 2020-21, LCFF for County Offices of Education (COEs) is fully-implemented in 2014-15
  - The 2013-14 gap closure percentage for COEs is 63.3%
  - The 2014-15 gap closure percentage for COEs is 36.7%

Cash Deferrals

- The Governor proposes to buy back all K-14 deferrals at a cost of $6.1B
- However, in the enacted State Budget, the Legislature reduced the deferral buy back by approximately $1B, expending these funds instead on one-time and ongoing programs, including:
  - $250M above the May Revision amount on LCFF to further reduce the funding gap in 2014-15
  - $400.5M in one-time funds to pay prior year mandate claims
  - $250M in one-time funds to support a second cohort of competitive grants to K-12 and community colleges
Cash Deferrals

- The 2014-15 State Budget includes a trigger provision tied to General Fund revenues that directs revenue collections in excess of the forecast level to be used to buy back the remaining deferrals ($900M for K-12 and $94M for community colleges)
- Dollars used to buy back deferrals count toward Proposition 98 expenditures for the State's purposes, but do not provide more spending authority to schools

CalSTRS Unfunded Liability

- The Final State Budget includes a 7-year implementation schedule to address the $73.7B California State Teachers' Retirement System (CalSTRS) shortfall
- Proposes a plan that would provide full funding in about 30 years
- Plan includes contributions from the State, Employers and Employee
  - State rate increases 4.311% over three years
  - Employer rate increases from 8.25% to 19.1% over seven years
  - Employee rate increases from 8% to 10.25% over three years
CalSTRS Unfunded Liability

New Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer</th>
<th>Pre-PEPRA Employees</th>
<th>Post-PEPRA Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>8.25%</td>
<td>8.00%</td>
<td>8.00%</td>
</tr>
<tr>
<td>2014-15</td>
<td>8.88%</td>
<td>8.15%</td>
<td>8.15%</td>
</tr>
<tr>
<td>2015-16</td>
<td>10.73%</td>
<td>9.20%</td>
<td>8.56%</td>
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<tr>
<td>2016-17</td>
<td>12.58%</td>
<td>10.25%</td>
<td>9.205%</td>
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<tr>
<td>2017-18</td>
<td>14.43%</td>
<td>10.25%</td>
<td>9.205%</td>
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<tr>
<td>2018-19</td>
<td>16.28%</td>
<td>10.25%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2019-20</td>
<td>18.13%</td>
<td>10.25%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2020-21 to 2045-46</td>
<td>19.10%</td>
<td>10.25%</td>
<td>9.205%</td>
</tr>
</tbody>
</table>

Rainy Day Fund

- In conjunction with the 2014-15 Budget Act, the Legislature and the Governor agreed to place Proposition 44 before state voters in November 2014 to amend the existing Budget Stabilization Account (BSA) – “Rainy Day Fund”

- BSA was enacted by Proposition 58 under Governor Schwarzenegger
Rainy Day Fund

• Proposition 44 would amend the existing requirements as follows:
  ▪ Reduce annual contributions to the Fund from 3% to 1.5% of General Fund revenues
  ▪ To address revenue volatility, it would require contributions to the Fund equal to the amount of capital gains revenue in excess of 8% of General Fund revenue
  ▪ Limit the Fund to 1% of General Fund revenue
  ▪ Require 50% of contributions to the Fund be used to repay prior years’ obligations
  ▪ Require legislation to suspend contributions to the Fund
  ▪ Effective beginning in 2015-16 if approved by the voters
Cap on Local Educational Agencies Reserves

• In a controversial, last-minute proposal advanced by the Governor, the Legislature adopted severe limits on LEAs’ local reserves

• Senate Bill (SB) 858 requires the following:
  – If a district adopts a budget with an ending fund balance in excess of the minimum reserve specified in SBE regulations (1% to 5%, based on district size), the district must:
    • Identify the minimum reserve level applicable to the district
    • Identify the amount in excess of the minimum
    • Prepare a statement that substantiates the need for the excess

Cap on Local Educational Agencies Reserves

• Provided that (1) state voters enact Proposition 44, the proposed “Rainy Day Fund” in November 2014 and (2) the state makes a contribution to the Proposition 98 Reserve created by the proposition, in the year following:
  ▪ District reserves would be limited to two times the SBE minimum, and three times for Los Angeles Unified School District (i.e., 3%)
  ▪ County Offices of Education (COEs) are authorized to provide an exemption to the reserve limit under “extraordinary fiscal circumstances”
    – This exemption is limited to two consecutive fiscal years in a three-year period
    – COEs are exempt from the cap on reserves
2014-15 SCCOE Budget Update

- The SCCOE’s 2014-15 expenditures were adjusted from Adopted Budget by $2.8 million as noted in the following table.

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>June 18, 2014</th>
<th>August 2014</th>
<th>Change in Adopted Budget</th>
</tr>
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<tbody>
<tr>
<td>Total Certificated</td>
<td>44,253,286</td>
<td>46,084,940</td>
<td>1,831,654</td>
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<tr>
<td>Total Classified</td>
<td>52,233,666</td>
<td>52,233,666</td>
<td>0</td>
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<tr>
<td>Total Benefits</td>
<td>39,311,230</td>
<td>40,051,461</td>
<td>740,231</td>
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<tr>
<td>Books and Supplies</td>
<td>4,630,200</td>
<td>4,630,200</td>
<td>0</td>
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<tr>
<td>Total Services &amp; Oper. Expenditures</td>
<td>37,670,422</td>
<td>37,670,422</td>
<td>0</td>
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<td>Capital Outlay</td>
<td>4,876,755</td>
<td>4,876,755</td>
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<td>Other Outgo</td>
<td>3,798,584</td>
<td>4,017,940</td>
<td>219,356</td>
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<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>186,774,143</strong></td>
<td><strong>189,565,384</strong></td>
<td><strong>2,791,241</strong></td>
</tr>
</tbody>
</table>

2014-15 SCCOE Budget Update

Key Changes in Expenditure Budgets

- Bargaining agreement with CTA and Psychologist $2.15M
  - Contribution to restricted programs to reduce the impact due to CTA and Psychologist Bargaining Agreement $359K

- CalSTRS rate increase from 8.25% to 8.88% $283K
Next Steps

- 2013-14 Unaudited Actual
  - September 2014

- 2014-15 First Interim Report
  - December 2014