



METROPOLITAN EDUCATION DISTRICT

2014-2015 Proposed Budget
June 11, 2014



Overview

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3. The LCAP
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The May Revision in Broad Strokes

School Services of California, Inc.

- In January, education was the big winner, and in May that is still true, but with few additional gains.
- The state recognizes an additional increase of \$2.4 billion in revenues, most of which are committed to:
 - Growth in the cost of Medi-Cal.
 - Establishment of a Rainy Day Fund.
- No major increases are proposed for any area of the State Budget other than Medi-Cal, as compared to January.
- The combination of higher revenues and greater local control still offers significant prospects for improvement in education – but no real gains beyond the January proposals.
- The LCFF provides widely disparate increases.
 - We expect increases to range from 0% to 20%, with an average of about 11% – that is a huge difference.

Major Proposals by the Governor

School Services of California, Inc.

- Once again, the Governor refuses most changes to the LCFF and maintains it essentially as proposed in January
- Continues the Governor's push for a Rainy Day Fund as per his negotiated compromise
- Takes on the California State Teachers' Retirement System (CalSTRS) unfunded liability immediately
- Fully funds increased Medi-Cal enrollments

What's Not in the Budget?

School Services of California, Inc.

- What the Budget does not address:
 - No proposal for a statewide school facilities bond
 - No new funding to school districts to address the increased employer costs proposed to deal with the unfunded liability in the CalSTRS fund
 - No new funding to address special education shortfalls
 - No new funding for early childhood education
 - No payments on the prior-year state mandate credit card
 - No additional funding for the Common Core State Standards (CCSS)
 - **No extension of maintenance of effort (MOE) period for adult education or regional occupational centers/programs (ROC/P)**

The Rest of the Budget

School Services of California, Inc.

- An additional \$1.2 billion is needed to fund Medi-Cal costs primarily due to implementation of the Affordable Care Act (ACA)
 - Many potential participants enrolled in Medi-Cal instead of ACA, resulting in an increase of enrollments
- **A contribution of \$1.6 billion to the Budget Stabilization Account in 2014-15, pursuant to Proposition 58**
- The non-education Budget shows only very minor changes from the Governor's January Budget proposals
- We expect heated discussion regarding demands for Budget augmentations by the courts and higher education in particular

Risks to the Budget

School Services of California, Inc.

- As always, projections are not guaranteed and sometimes they change
- Recently, we have had some positive changes
- But as in the past, we worry more about potential vulnerabilities
 - The expansionist policies of Russia could destabilize the economies of several European nations
 - North Korea continues to rattle sabers
 - Terrorism in the Third World is on the rise and could spread
- And our vulnerability could be closer to home
 - Record highs in financial markets are often followed by big corrections
 - Interest rates are rising and could slow our fragile recovery
 - The state's revenue forecasts could be affected by the drought and other factors to a greater degree than expected
- Higher forecasts in good times can lead to significant disappointment if the economy tanks later!
- The moral: ***remain conservative!***



California Economy

School Services of California, Inc.

- Slow path to recovery . . .
- The unemployment rate in California is 8.1% while the national unemployment rate is 6.3%
 - 29% higher than the national average . . . 29%!
- There isn't enough focus on getting more Californians working
 - 50% of the workers in the state don't pay personal income taxes
 - If more Californians had better paying, middle-class jobs, more stable resources would flow to school districts!

The California Economy

School Services of California, Inc.

- The 10th annual survey of chief executive officers (CEOs) ranking the best and worst states in the nation resulted in California being ranked among the worst states (again, and as usual) for business
 - This ranking reviews the following criteria:
 - Tax and regulatory climate
 - Quality of workforce
 - Quality of living environment
- Over 500 CEOs across the U.S. responded to the survey
 - In the survey, they report that California is justly famed for
 - Natural beauty
 - Exceptional universities
 - High-tech clusters

The California Economy

School Services of California, Inc.

- However, one of its best-known tech firms, Palo Alto-based Tesla, is looking elsewhere to build its \$5 billion “gigafactory” battery plant
 - California’s real estate is simply too expensive
 - Taxes are higher, general costs of living are higher
 - The state is also known for regulatory practices that are more restrictive than any other state – and sometimes more than the federal government



REXUS IMAGES

The California Economy

School Services of California, Inc.

- Chiefexecutive.net: “California likes to say that Texas can have all those low-wage jobs,” says Richard Fisher, CEO of the Dallas Federal Reserve, “but from 2000 to 2012, job growth percentage change by wage quartile was better in Texas”
 - Texas won another bragging right last February when *Site Selection* magazine reported that it surpassed California in global technology exports in 2012
- From January 2010 to December 2013, 593,000 manufacturing jobs were created in the United States; only 10,000 of them were created in California
- Nearby western states like Utah have an unemployment rate of 4.1%, and ours is double that rate at 8.1%

Reform and Adequate Funding

School Services of California, Inc.

- California's per pupil expenditures continue to lag the national average, ranking 49th in the nation in 2011-12, the most recent data comparison
 - California reported per pupil expenditures of \$8,341, comprising about 70% of the U.S. average of \$11,864
 - We can attempt to do more with less for only so long – real changes will take a commitment to the local control and accountability model and an increased and adequate level of funding

Source: Education Week Quality Counts 2014 – January 9, 2014 ¹United States average includes the District of Columbia

State	Current Expense Per Student (Adjusted for Regional Cost Differences)	Percentage of National Average
United States ¹	\$11,864	100.0%
California (Rank 49)	\$8,341	70%



The LCAP



Where students are empowered to create their futures



The LCAP Development

1. The process began in November in the Budget Advisory Meetings – business partners, staff, and community members were involved.
2. Four community meetings were held for additional public input.
3. The Website Link allows for additional questions.
4. Students met with the Superintendent to discuss.
5. Invitations to bargaining units for meetings were extended.
6. A climate survey was developed and administered.

The LCAP is a Work In Progress

- As the State and stakeholders continue to work through the process the final guidelines for county review and changes to the document are expected in the fall.
- In the meantime, we are submitting our LCAP based on the feedback and comments we've received to date and will update with each budget cycle as needed.

Good News, Bad News

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- Despite having to travel the road to LCAP adoption without so much as a road map, you will have repeated opportunities to chart and re-chart your course
- The successful implementation of the LCFF and LCAP will require a sustained commitment to a process of self-reflection, adaptation, and growth
- Year after year, LEAs will reflect on their progress, assess their changing needs, engage in meaningful ways with stakeholders, and revise their goals and actions
 - We will get better and better and, if we stay the course, we will begin to close the achievement gap

The Fiscal Picture



Where students are empowered to create their futures

Regional Occupational Centers and Programs and Career-Technical Education

School Services of California, Inc.

- No changes to ROC/Ps proposed in the May Revision
 - MOE requirement stays in play through June 30, 2015
 - Also applies to LEAs that passed through funds in 2012-13 to ROC/P Joint Powers Agencies (JPAs)



Adult Education

School Services of California, Inc.

- Governor's May Revision proposes no changes to Adult Education
 - LEAs are still required to maintain no less than the 2012-13 expenditure level for Adult Education in 2013-14 and 2014-15
 - \$25 million was appropriated in 2013-14 for two-year Adult Education Planning and Implementation Grants
 - A status report can be found at:
http://ab86.cccco.edu/portals/7/docs/AdultEducation_2014.pdf
- One of the greatest challenges cited in the report is identifying a sustainable funding source for Adult Education in future years
 - In January, the Governor indicated his intent to fund Adult Education as a “single categorical program” beginning in 2015-16

Governor's Proposal for Funding CalSTRS

School Services of California, Inc.

- The Governor's May Revision proposes to fully fund CalSTRS by 2045-46
 - Plan kicks in immediately, beginning July 1, 2014
 - Contribution rate increases proposed for all three parties:
 - State contribution rate to increase from the current rate of 3.041% to 6.3% over three years
 - In addition, the state will continue to pay 2.5% of payroll annually for a supplemental inflation protection program
 - Employer contribution rate to increase from 8.25% to 19.1% over seven years
 - Employee contribution rate to increase from 8% to 10.25% over three years

Potential CalSTRS Rate Increases

School Services of California, Inc.

- CalSTRS contribution rates and benefit levels are set in statute
 - Legislation is required to change the rates
- Accelerating the timeframe to address the shortfall from 2015-16 to 2014-15, the Governor proposes immediate contribution rate increases

			Pre-PEPRA	Post-PEPRA	
	Year	Employer	Employee		State
Current	2013-14	8.25%	8.00%	8.00%	3.041%
Proposed	2014-15	9.50%	8.15%	8.08%	3.45%
	2015-16	11.10%	9.20%	8.56%	4.89%
	2016-17	12.70%	10.25%	9.21%	6.33%
	2017-18	14.30%	10.25%	9.21%	6.33%
	2018-19	15.90%	10.25%	9.21%	6.33%
	2019-20	17.50%	10.25%	9.21%	6.33%
	2020-21	19.10%	10.25%	9.21%	6.33%



Potential CalPERS Rate Increases

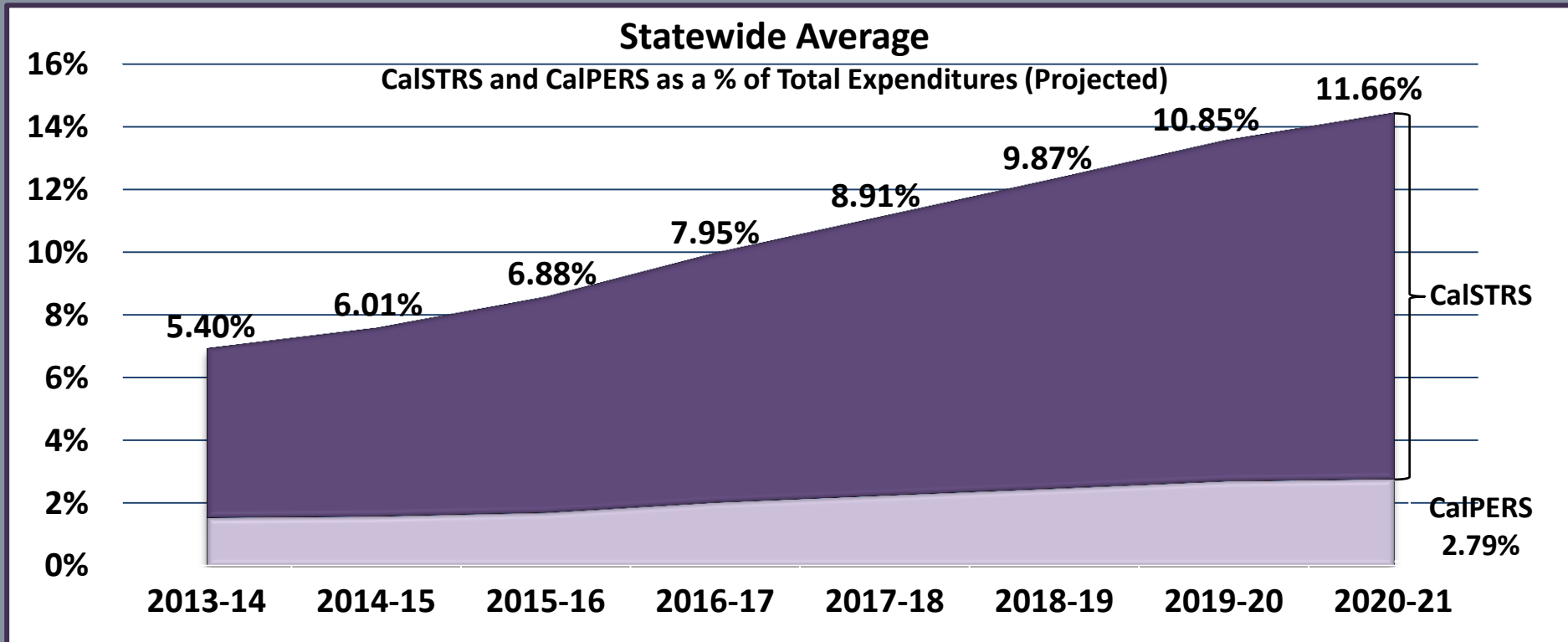
School Services of California, Inc.

- The employer contribution to the California Public Employees' Retirement System (CalPERS) for 2014-15 is 11.771%
 - “Classic” members continue to pay 7.00%
 - New members pay 6.00%, which may fluctuate from year to year
- Employers should continue to rely on the estimated rates for 2015-16 and beyond

Actual		Projected					
2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.442%	11.771%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

Multiyear Projections – CalSTRS and CalPERS

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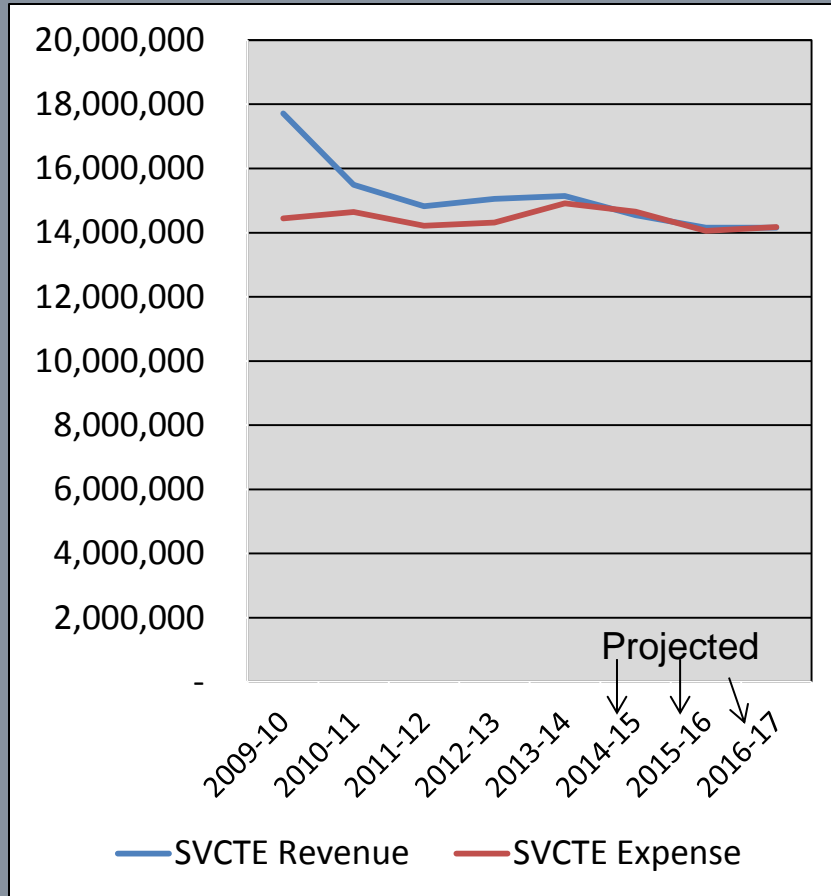


- In 2013-14, CalSTRS and CalPERS expenses are projected to be approximately 5.40% of a district's expenditure budget as a statewide average
 - That percentage is projected to double to more than 11.00% in 2020-21 based on the Governor's May Revision Proposal

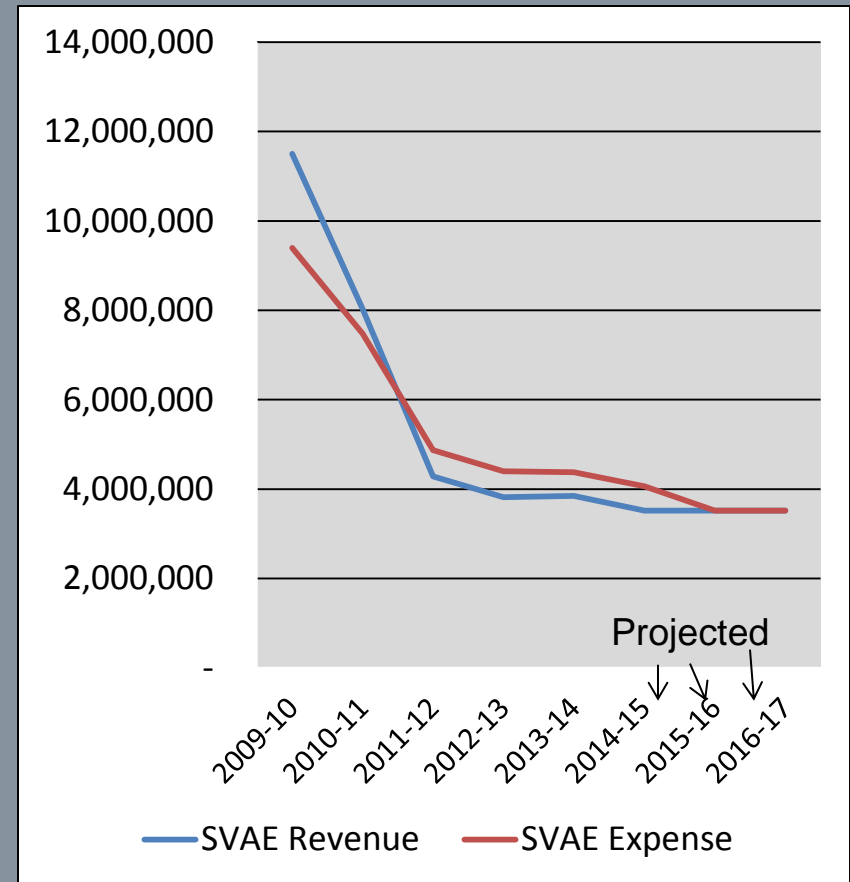


Side by Side Comparison

Silicon Valley CTE

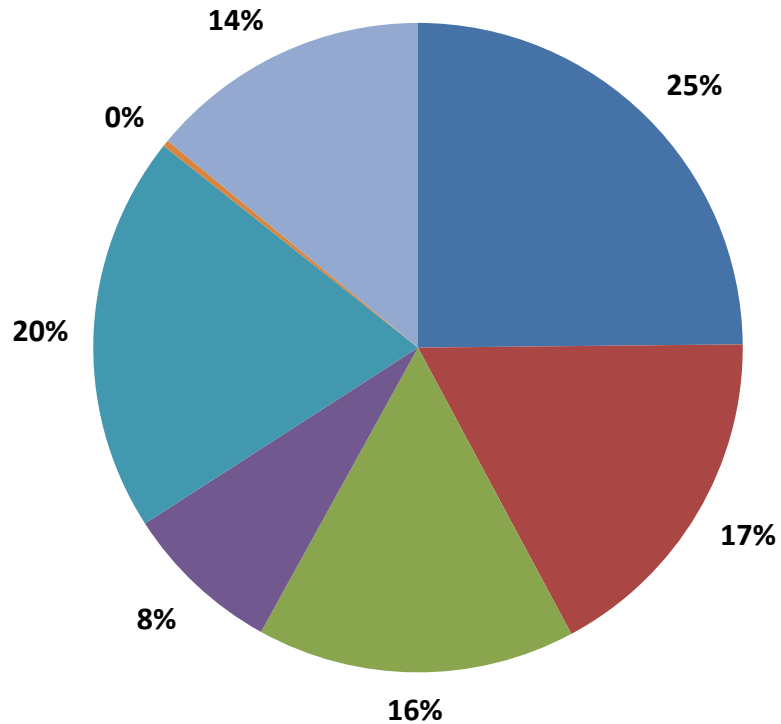


Silicon Valley Adult Ed



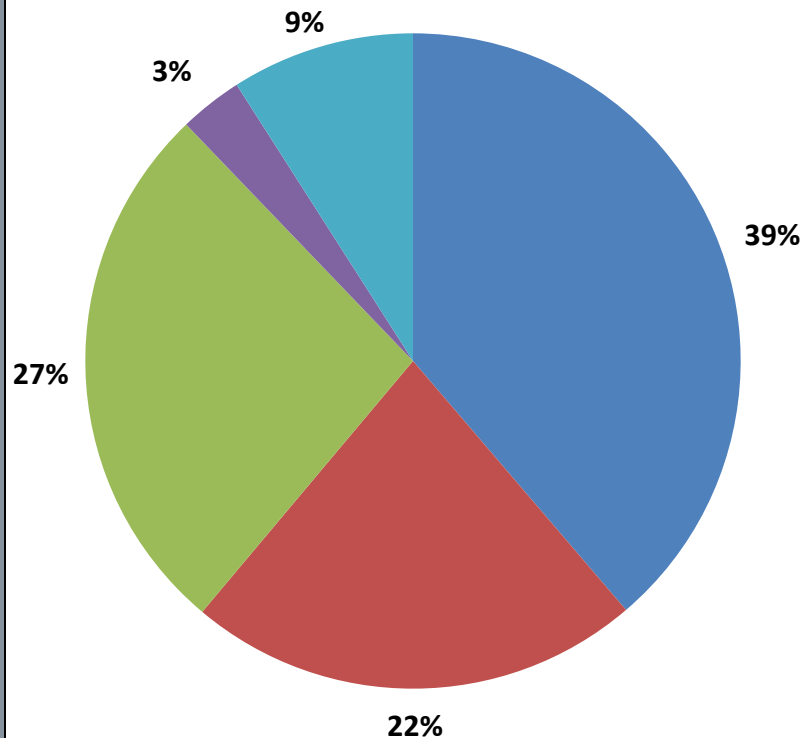
Expenditures

Fund 010 (ROP) Expenditures



- Certificated Salaries
- Classified Salaries
- Employee Benefits
- Books & Supplies
- Services & Op. Expense
- Capital Outlay
- Other Outgo

Adult Education Fund Expenditures



- Certificated Salaries
- Classified Salaries
- Employee Benefits
- Books and Supplies
- Services/Operating Exp



The Bottom Line

	ROP	Adult Ed
Revenues	\$14,543,144	\$3,518,543
Expenses	\$14,649,611	\$4,063,860
Net Change +/-	-\$106,467	-\$545,317

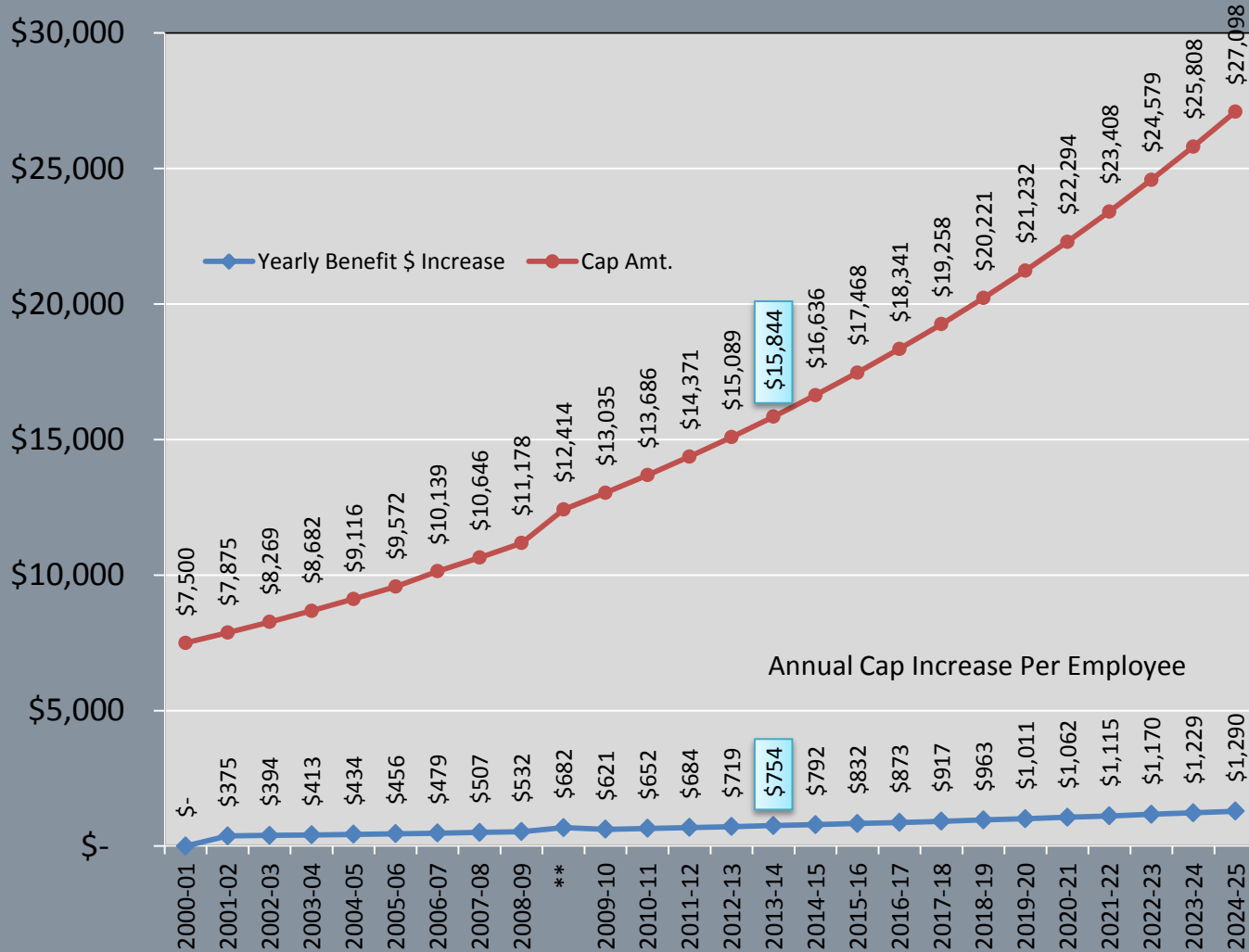


Multi-Year Projections

Fund 010 (ROP)	2014-15	2015-16	2016-17
Revenues	\$14,543,144	\$14,154,539	\$14,154,539
Expenditures	\$14,649,611	\$14,057,192	\$14,173,692
Net Change +/-	(\$106,467)	\$97,347	(\$19,153)
Projected Ending Balance	\$5,208,849	\$5,306,197	\$5,287,044
Fund 110 (Adult)			
Revenues	\$3,518,543	\$3,518,543	\$3,518,543
Expenditures	\$4,063,860	\$3,518,543	\$3,518,543
Net Change +/-	(\$545,317)	\$0	\$0
Projected Ending Balance	\$683,084	\$699,265	\$715,447

Other Obligations – Health Care Costs

Projected Per-Employee Benefit Cap and Yearly Increases



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The Affordable Care Act

School Services of California, Inc.

- With a few fits and starts, ACA continues to move forward
 - One of the collateral effects is felt this year in Medi-Cal, as the state fully funds a larger number of eligible participants
- There are many complicated provisions of ACA that the parties must analyze and understand fully before assessing and negotiating the effects of ACA
- We have been recommending that districts bring in consultants when needed to get it right
 - It is the law and there are heavy penalties for mistakes in implementation



Looking Ahead

1. No funding guarantees going beyond 2014-15.
2. Expenses will outpace revenue in both programs.
3. Rising costs for retirement plans and health and welfare are significant issues as we move in to the budget year.
4. Adult Education projects severe cuts next year of 3.0 certificated and 3.0 classified positions and corresponding benefits.
5. We are hopeful that there will be some legislation to ensure revenues for both programs.

Summary

1. The LCAP is completed for now, and will continue to be a work in progress.
2. The district can meet our obligations this year and the two subsequent years revenues remain static.
3. With the retirements of many experienced staff members there is trepidation and anxiety about doing more with fewer staff to support.
4. Cost containment and revenue generation are both focus areas to improve financial stability.

Thank you!

Questions?

