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
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
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
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.
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

<table>
<thead>
<tr>
<th>Income Loss</th>
<th>Proportional Layoff</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 114 ADA decline at $8,000 each – yields marginal revenue loss</td>
<td>• 120 students requires 5 teachers at 24:1</td>
</tr>
<tr>
<td></td>
<td>• Five teachers times cost per novice teacher yields savings of: $350,000</td>
</tr>
<tr>
<td></td>
<td>($70,000 per teacher, including benefits, x 5 teachers)</td>
</tr>
<tr>
<td>Lost Revenue: $912,000</td>
<td>• Miscellaneous savings ($400/ADA) $48,000</td>
</tr>
<tr>
<td></td>
<td>Total proportional savings: $398,000</td>
</tr>
</tbody>
</table>

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

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

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

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