Woodville Elementary School District
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To: Woodville Union School District Board of Trustees,

From: Steve Beecher, Business Manager

Date: August 4, 2014

RE: 45-day Revision of the District Budget. Report of Effect on the District Budget due to Adoption of the State Budget after approval of the District Budget

When a local school district prepares its local budget, it does so with the best information available (usually the Governor's May Revision to his original January budget proposal). Sometimes the resulting approved state budget and supporting bills are not exactly what was proposed. One of the requirements for a school district is to report changes to the local district budget due to the passage of a final state budget 45 days after the Governor signs the budget. We are meeting that requirement through this report which is also posted on our website.

Below is the summary of changes which are due to the state budget adoption. Only areas affected by the state adoption are noted. These adjustments will be included for approval in the budget revisions at the next Board meeting, August 11, 2014.

Deferrals

The state has been deferring district revenue from one year to the next for a number of years. Originally, the Governor had proposed paying back all deferrals in the coming year, essentially ending the process with the current year. When the budget was adopted, about $1 billion was left in the deferral process at the end of this year. Since Woodville has maintained a reasonable reserve, this Cash Flow deferral will not reduce our ability to pay our bills or result in a cash shortage in the deferred months at the end of the year.

LCFF Gap Funding

As the implementation of the LCFF and LCAP continues, there is a gap in funding between what the district would be eligible for and what is available from the state under the new formula. This difference between what we should receive when the LCFF is fully implemented and what the state can afford currently is called the "gap."

The Governor proposed funding 28.05% of the gap for the current year. The final approval was for 29.56%, which is an ***increase of about $25,700*** in our gap funding for the current year. This change in gap funding is all generated by our targeted students, so the funds will become part of the LCAP programs and services designated for targeted students.

State Teacher Retirement System

Both of the retirement systems (STRS and PERS) have significant unfunded liabilities (they would go broke in the future without changes). The significant changes approved to fix these unfunded liabilities is mostly supported by a significant increase in contributions from the employer (the district). The STRS contribution rate will go from 8.25% (last year) to 19.10% (2020-21). The adopted budget reduced the increase in the current year from the proposed amount but increased future years to compensate for the reduction now. In 2014-15, the rate was reduced from the May revise amount of 9.5% to 8.88%. This is a current year **savings of $7,300**, but accelerated increases in the next three years erase this savings.

Local Reserves

The most problematic change in the adopted budget relates to a cap on local reserves at twice the minimum statutory reserve (so for Woodville, Reserves capped at 8%). While this new regulation is some years out from implementation and has some strategic triggers, it will no doubt create significant cash flow issues for districts as the economy fluctuates. There is no current effect on this today.

Multi-year Considerations

Recently the Department of Finance also changed the anticipated gap funding for the next two years. For **2015-16**, the gap funding estimate was reduced from 30.39% to 20.68%, or a **loss of about $125,000** in LCFF gap revenue for that year. For **2016-17**, the gap funding estimate was raised from 19.50% to 25.48%, or an **increase of about $65,000.**

Retirement costs are going to increase significantly. Based on our current group of employees, this will increase benefit costs about 1.4% in 2015-16 and 2.0% in 2016-17 for all salaries. Even with a projected COLA of about 2.1%, most of this increased revenue is offset by the increased cost to fund the retirement liability.

Employer Contribution Rates	Actual		Projected					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CalSTRS	8.25%	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
CalPERS	11.442%	11.771%	12.60%	15.00%	16.60%	18.20%	19.90%	20.40%