THE EAST SIDE BUDGET COMMUNICATOR

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CHANGES IN THE FINAL STATE BUDGET FOR EDUCATION FOR 2015-16 ADVERSELY IMPACTS ESUHSD

The Governor's Final Budget for 2015-16 was signed in late June and despite actions by the Legislature to increase the overall budget, the Governor's original May revision estimate of $68.4 billion for public education remains. The Legislature was able to secure additional funding for some of their own key priorities including additional slots for child care and preschool, career and technical education grants, and the education effectiveness block grant. These initiatives did not come without a price or consequences to other parts of the education budget (i.e. LCFF gap funding, and one-time discretionary funding).

The initiatives advocated by the Legislature increased the education budget by almost $600 million. In order to maintain the Governor's estimate, the Dept. of Finance (DOF) reduced the LCFF Gap funding from $6.1 billion to $5.9 billion in FY 2015-16 and made additional reductions in both FY 2016-17 and FY 2017-18. The DOF also reduced one-time discretionary funding from $601 per ADA to $530 per ADA. As a result of these late changes to the State budget, the unrestricted portion of the District's adopted budget is projected to decline by $2.6 mil. between FY 15-16 through FY 17-18.

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"This is a sound, well thought-out budget," said Governor Brown. "Yet, the work never ends and in the coming months we'll have to manage our resources with the utmost prudence and find more adequate funding for our roads and health care programs."

In This Issue

FY 2015-16 Adopted Budgets

Highlights of the 2015-16 Adopted Budget

The District's 2015-16 Budget reflects increased funding by the State and the strategic restoration of district programs and services. The District has committed almost $4 million in ongoing revenue to hire 72.8 new staff to support the District's Local Control Accountability Plan (LCAP) and strategic restoration efforts. The majority of the positions or 66.8 FTEs are new certificated staff positions, such as, counselors, librarians, and teachers to support common core and class size restoration. ***The District in negotiation with ESTA has committed $19.1 million over a 3 year period to support class size restoration.*** In relation to classified CSEA positions, the district has added 13.6 additional FTEs, such as support services technicians, maintenance staff, and custodians to provide additional support to the sites. There were also 2 administrative positions added at the district office to support transportation operations and district marketing and communications.

The District is anticipating increased revenues from an improved economy and a budget surplus in FY 2015-16 from the injection of one-time revenues, however, deficit spending is expected to continue in FY 2016-17 and FY 17-18 totaling $22 mil. The district's budget continues to be impacted by the unpredictability of State funding, increased pension costs, health and benefits costs, declining enrollment, and special education delivery costs. The District's reserves are critical in mitigating projected budget shortfalls and State revenue take-backs.

Overall, the district's undesignated reserves are projected to decline from 17.86% in FY 2015-16 to 7.81% by FY 17-18. At 7.81%, this only provides the district with an estimated $13 million in today's dollars to provide for the costs impacts described above.

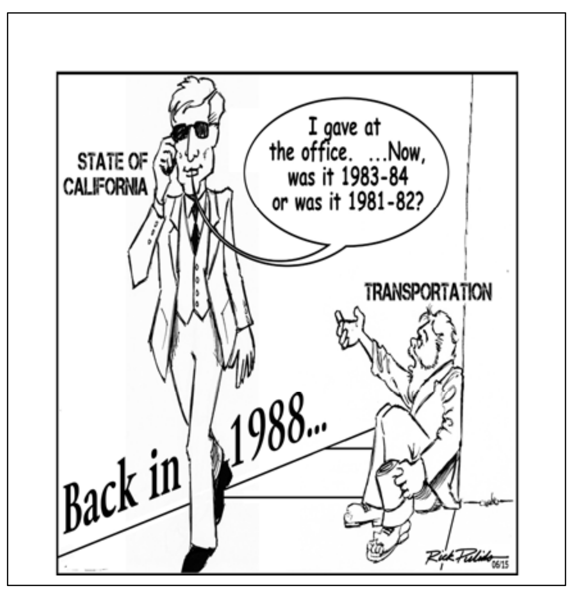
Governor's Budget
Cont.

Key Proposition 98 and K-12 Proposals:

- $5.99 billion for LCFF gap closure
- $3.20 billion for discretionary one-time uses
- $3.8 billion for Mandated Repayments
- $500 million for an Adult Education Block Grant
- $500 million Teacher Effectiveness Block Grant (one-time/Restricted)
- $400 million for one-time Career Technical Education (CTE) incentive grants
- $265 million to fund 7,000 additional pre school slots and 6,800 child care slots

Federal Advocacy for Special Education Heating Up

A national effort is underway to urge Congress and the President to provide a major funding increase for IDEA. The effort is led by the Coalition for Adequate Special Education Funding. They are requesting that the per-pupil allocation for Special Education increase by 40% an increase of almost $5,000 per student nationally.

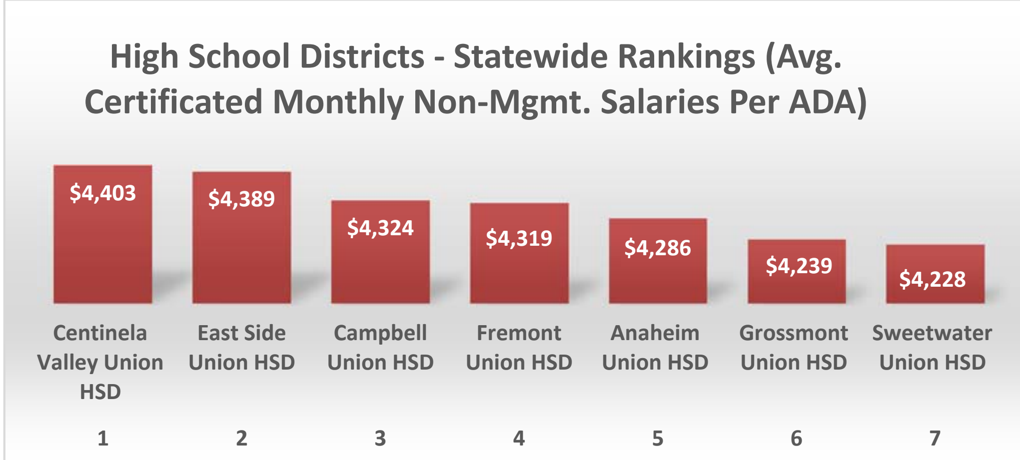


Local Rankings - Avg. Cert. Non-Mgmt. Salaries Per ADA

Rank	District	Salary
1	Los Gatos-Saratoga	$5,628
2	Santa Clara Unified	$4,433
#3	East Side Union HSD	**$4,389**
4	Campbell Union HSD	$4,324
5	Fremont Union HSD	$4,319
6	San Jose Unified	$4,074
7	Milpitas Unified	$3,970
8	Gilroy Unified	$3,773
9	Morgan Hill Unified	$3,322

ESUHSD Ranks # 2 for all High Sch. Districts Statewide for Avg. Cert. Monthly Non-Mgmt. Salaries and #3 Locally

Source: 2013-14 School Services CADIE Report



East Side Union High School District Ranks #2 Statewide When Compared to all High School Districts Avg. Monthly Cert. Non-management Salaries Per ADA

When Considering Salary Increases, How Does the District Decide What is Appropriate?

There are numerous factors that are analyzed when considering an increase in salaries, however, the number one factor is the District's fiscal capacity. The District is required by law to maintain a minimum reserve of 3% over a 3 year period. The District must ensure that any recommended salary increase will not lower the District's reserves below the 3% threshold.

In addition to fiscal capacity, the compensation provided by neighboring districts with which we compete for employees is also an important factor and—most importantly—ensuring that we take into consideration total compensation and not simply the salary reflected on the salary schedule. Total compensation encompasses all additional compensation (e.g., health and welfare benefits, stipends, and other allowances) that would factor into an employee's possible earning potential.

Here's an example: District A pays a classified employee $60,000 salary per year while District B, located nearby, offers its employee $75,000 in salary for the same position. If you simply look at the salary, District A would conclude that it needs to increase its salary by at least $15,000 to retain its employee. However, if you look at the total compensation a different picture emerges. District A pays all health and welfare benefits for the employee, provides a mileage stipend, and pays for a life insurance policy—a total of $15,000 in additional benefits. District B, on the other hand, contributes 50% of the health and welfare benefits costs and provides no mileage stipend or life insurance policy. Therefore, the additional benefits offered by District B total only $5,000. If you now consider the total compensation for both districts, you will see that District A offers its employee $75,000 per year, while District B offers $80,000, a $5,000 difference.

Based on that analysis, District A now has a better idea of what its neighboring district is offering and what compensation—whether in the form of salary and/or benefits—it needs to provide in order to attract or retain its employees.

Why Does the District Prepare Multi-Year Financial Projections?

According to School Services, most local school district insolvencies can be traced to bad financial decisions made during prosperous times—a decision that the district could no longer afford during lean times. When our District is preparing multiyear financial projections in the current environment, we pay close attention to the following major external factors listed below during the forecast period:

- Upcoming expiration of Proposition 30 temporary taxes
- Lower percentage of state revenues counting toward Proposition 98 when the maintenance factor is paid off (40% vs. 90%)
- Increasing pension contributions required from all K-12
- Economy (i.e. California and U.S.)
- Affordable Care Act (ACA) (i.e. Cadillac Tax)
- Local Control Funding Formula (LCFF) Gap funding

There are other concerns that we have on our radar, such as the impact on the delivery of special education services, projected enrollment and ADA, charter school impacts, health and welfare costs, and inflation as it relates to the cost of services. The bottom line is: caution is key. Multiyear financial projections can give the District an early "heads up" about looming financial problems. The earlier we are able to take action in addressing an upcoming problem, the less the budget cuts need to be in the subsequent years. Multi-year forecasting allows us the ability to look beyond the current year when making decisions that can affect the District's financial health.

For K-12 districts, multiyear projections are required by law. The County Office of Education (COE) is required to review those projections as part of the Assembly Bill (AB) 1200 oversight process. Yet another important reason to prepare multiyear financial projections is for negotiations. ***In instances during negotiations where a district may be headed to impasse because of the district's inability to pay for the union's proposal, a multiyear financial projection can help provide clarity. The bottom line is, while a district's current-year budget may indicate that the district could afford what the union is proposing, the out-year projections may show a very different picture.***

To Report Fraud, Waste, or Abuse Anonymously Call 1-855-247-3156

NOTEWORTHY

Bond Refinancing is Saving Taxpayers Millions

The Business Services Division in collaboration with our fiscal advisor Dale Scott & Co. recently completed the refinancing of our General Obligation Bonds 2008 Election, Series A totaling $41.4 million. The bond refunding will produce $5 million in gross savings to district tax payers in the form of lower property taxes. Over the past several years, it is estimated that the district's bond refinancing efforts have saved taxpayers over $15 million since 2012.

Summer Work Completion

The Business Services Division has been very busy this summer. The IT Department has been especially busy and some of the activities completed include the following:

- 340 teachers received Google training
- 90 teachers became Google Certified
- Border to Border Wireless completed on all campuses
- Cleaned and Refurbished all lab carts and machines
- Cleaned 10,000 Staff computers

Kudos to IT and the entire Business Services Division Team.

Lunch Applications

The Food Services Dept. is actively processing meal applications for the 2015-16 school year. The application process began July 11th with the mailing of application to all District households. To date, over 4,000 applications have been processed with a goal of making sure that every deserving student is signed-up.