

THE EAST SIDE BUDGET COMMUNICATOR



Newsletter for Budget and Finance News and Updates

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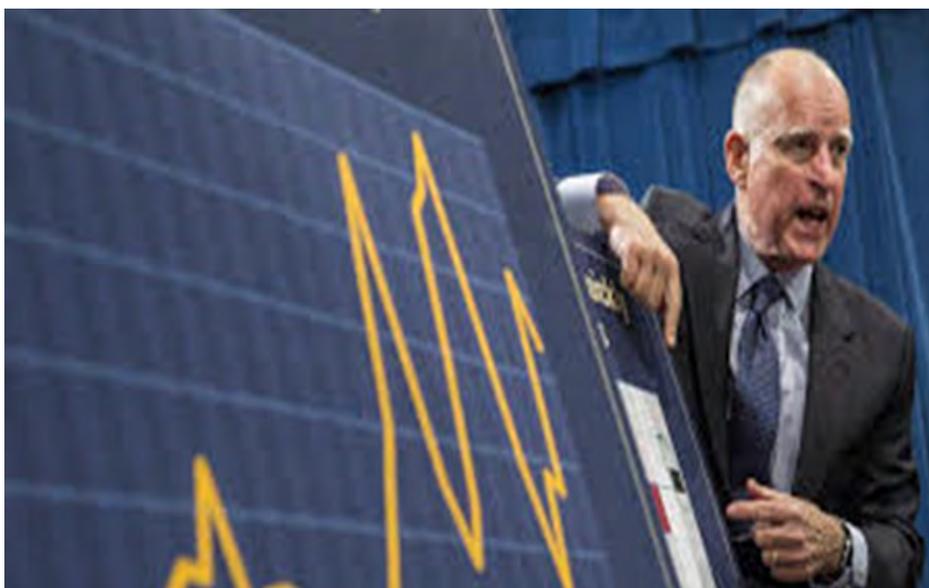
HIGHLIGHTS OF THE GOVERNOR'S BUDGET PROPOSAL FOR Fiscal Year 2015-16

The Governor's Budget Proposal for 2015-16 continues the positive theme that has existed over the past two years for public education. As the economy has improved, and been aided by the additional \$7 billion in annual revenues provided by Proposition 30, Governor Jerry Brown has been able to advance his agenda for public education.

The Governor's Budget presents a more promising picture for the U.S. and California economies, far better than the early years of the recovery which officially began in 2009. Just last year, the outlook was for a slow economic recovery but recent developments point to growing strength. As evidence of this strength, the Governor's Department of Finance points to an improving jobs market, increases in business investment, and a stronger outlook for housing.

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Although the Governor has provided significant increases to K-12 education, the impact from pension reform has had a crippling effect on the ESUHSD budget



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- Second Interim Update for FY 2014-15
- Cadillac Tax—What is it and who pays it?
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FY 2014-15 Second Interim Update

ESUHSD 2014-15 Fiscal Overview

The District's Second Interim budget for fiscal year (FY) 2014-15 reflects estimated deficit spending increasing from \$7.7 million to \$13.3 million representing an increase of \$5.5 million. The increase is primarily related to negotiated settlements with the District's bargaining units. The settlement provides all bargaining units and managers with a 5% salary increase retroactive to July 1, 2014 and another 1.5% contingent upon additions to the Governor's Local Control Fund Formula (LCFF) budget for FY 2014-15. In addition, the increase in current year deficit spending is also reflective of a projected decline of 95 Average Daily Attendance (ADA) which represents an estimated loss of \$800k in LCFF revenue.

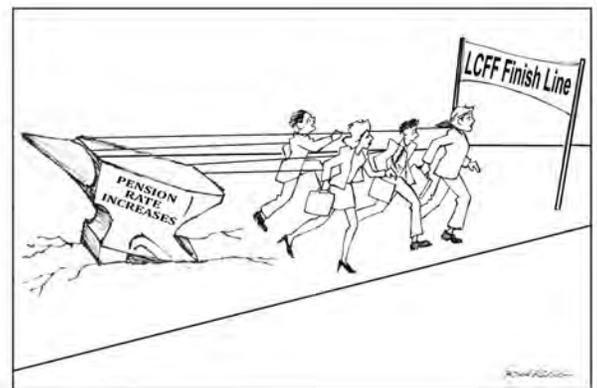
Although the District is projecting increased revenues from an improved economy, the District's deficit spending is expected to continue given the demands on the budget which include higher pension costs for employees, increasing health and benefit cost, declining enrollment, higher special education and food services costs which all continue to adversely impact the District's budget. The District's reserves have been critical and have allowed the District to mitigate projected budget shortfalls and State revenue take-backs.

At Second Interim, unrestricted reserves total \$32.4 million and represents undesignated reserves of 13.4%. Undesignated reserves for ESUHSD represent unrestricted and uncommitted reserves (including Fund 17) that could be used for any purpose to fund district operations.

Governor's Budget Cont.

Proposition 98 and Major K-12 Proposals:

- ◆ \$4 billion for LCFF gap closure
- ◆ \$1.1 billion for discretionary one-time uses, including Common Core implementation (one-time)
- ◆ \$1 billion to eliminate the remaining K-14 apportionment deferrals
- ◆ \$500 million for an Adult Education Block Grant
- ◆ \$273 million for the Emergency Repair Program (one-time)
- ◆ \$250 million for one-time Career Technical Education (CTE) incentive grants (each of the next three years)
- ◆ \$198 million additional ADA growth in the current year and a \$6.9 million decrease for ADA decline in 2015-16
- ◆ \$100 million for internet connectivity and infrastructure



Pension Reform

Employer Projected CALSTRS Increases

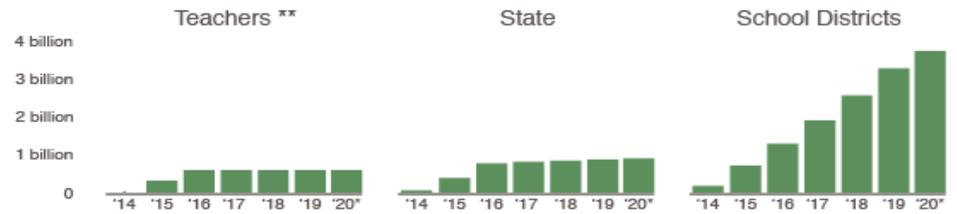
Year	Employer
2014-15	8.88%
2015-16	10.73%
2016-17	12.58%
2017-18	14.43%
2018-19	16.28%
2019-20	18.13%
2020-21	19.10%

East Side Union High School District CALSTRS rates are expected to more than DOUBLE over the next 4 years from \$9.8 million in FY 2014-15 to \$19.2 million by FY 2018-19

Employer Projected CalPers Rate Increases

PERS is also projected to almost double from \$3.3 mil. in the current fiscal year to an estimated \$6 mil. by FY 2018-19

Contributors' payments toward CalSTRS' \$74 billion unfunded liability



Source: Assembly Bill 1469

* Annual payments from all contributors from 2020 to 2046 will remain constant at the 2020 level.

** Only applies to teachers who were hired prior to January 1, 2013

School districts will absorb 70% of the increase, rising from several hundred million dollars this year to nearly \$3.7 billion annually in 2020-21.

Pension Reform and what it Represents for Negotiations Statewide

In June 2014, Governor Brown proposed and the Legislature adopted substantial increases in contributions to the California State Teachers' Retirement System. Teachers, the State and districts will pay increasing amounts over seven years. The higher rates will bring the pension program to full funding in 30 years, wiping out a \$74 billion deficit caused by plummeting stock values and investment returns in the 2008 recession. As an education community, we understand the importance of sustaining CalStrs, however, the manner in which the Governor chose to address this problem appears to be disingenuous to the goals of restoring district funding.

Last year, school districts across the State had been preparing for long-awaited revenue increases only to have the Governor at the last minute introduce his pension proposal which basically eliminated \$10 million dollars from East Side's budget. Those funds were planned to address salaries and restore class sizes. School districts across California are now wrestling with how to meet the needs of their staff and are increasingly utilizing the term "total compensation" in relation to bargaining.

When most of us hear the term "compensation" we typically only think of the money we receive in our paycheck each payday. However, "Total Compensation" goes beyond salary, it is the complete pay package for employees. At ESUHSD, this includes all forms of money, benefits, and services, employees are eligible to receive. Since East Side is one of only a few employers left in California who still provide fully paid benefits, we must, like similar California school districts, begin to view salaries and compensation from a totally different lens.

The Cadillac Tax—What is it and who pays it?

The Cadillac Tax is an excise tax scheduled to take effect in 2018 to reduce health care usage and costs by encouraging employers to offer plans that are cost-effective and engage employees in sharing in the cost of care. It is a 40% tax on employers that provide high-cost health benefits to their employees.

A “Cadillac Plan” is determined based on the cost of the coverage provided. The cost of a plan with single coverage that exceeds \$10,200 annually, or family coverage that exceeds \$27,500 annually, will be deemed a Cadillac plan. At that time, coverage with a cost that exceeds those amounts will be subject to a 40% excise tax on the value of coverage that exceeds the above amounts.

East Side currently offers 3 health plans which include Kaiser, Anthem Blue Cross, and UAS. The UAS plan currently exceeds the Cadillac Tax limit under the family plan with Kaiser and Anthem family plans projected to exceed the limit by 2017. All plans are projected to be over the “Cadillac Tax” limits by 2018.

If the district does not bring these plans under the “Cadillac Tax” limits by January 2018, it is projected that the District will begin paying an annual tax between \$1.5 to \$2 million per year which will take away resources which could be used for salaries, class size reduction, and other initiatives. The District has initiated discussions and collaboration with the bargaining unions to map a strategy to address this impending issue.

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

NOTEWORTHY

No Audit Findings

Once again, the district’s Business Services Division has exceeded standards of fiscal excellence by achieving a clean audit in collaboration with our sites and Internal Auditor.

Special thanks is extended to Internal Auditor Kelly Kwong; and the Attendance, ASB, and Finance Clerks at Mt. Pleasant, Foothill, Evergreen Valley, and James Lick High Schools. Great job and thanks.

Workers Comp. Excellence

East Side was selected and recognized as the “Most Improved Member” by the Santa Clara County Schools Insurance Group. Between FY 2008-09 to 2014-15, the District’s workers comp premiums declined by \$2.4 million. This decline was mostly attributable to the District’s Workers Comp. Administrator, Vida Branner, who was instrumental in starting the “Return to Work” Program in the District and “Company Nurse.” Great job and kudos to Vida.

National School Lunch Program - Admin. Review

During the week of March 23, the District was visited by State audit officials to examine our School Lunch Program. The auditors examined 600 lunch applications and visited 3 sites including Piedmont Hills, Yerba Buena, and Overfelt High Schools during their lunch period. At the exit conference, State auditors informed the District that there were no findings and this is one of the best audits they have seen in recent memory. Great job to Julie Kasberger and her staff.