Association of Chief Business Officials

Fall Conference – October 25, 2011

What Happens Next Year . . . and Beyond?

Presented by:

John Gray, Vice President

Sheila Vickers, Vice President

School Services of California INC.

Multiyear Projections

- Multiyear projections (MYPs) are key to maintaining fiscal solvency
  - The district may look okay at the end of this year . . .
    - But as revenue and expenditure trends go forward, how do next year and the year after look?
    - The earlier the district is aware of a budget problem, the easier it is to solve
      - If left unabated, the problem will grow
      - Bad news does not get better with time!

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Educational Employment Relations Act

- Factfinders shall consider Educational Employment Relations Act 3548.2:
  1. State and federal laws applicable to the employer.
  2. Stipulations of the parties.
  3. Interest and welfare of the public, and the financial ability of the public school employer.
  4. Comparison of the wages, hours, and conditions of employment with other employees generally in public school employment in comparable communities.

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Educational Employment Relations Act

5. The Consumer Price Index (CPI) for goods and services, commonly known as the cost of living.
6. Overall compensation, including wages, vacations, holidays, insurance, pension, medical, and hospitalization benefits received.
7. Any other facts not included in 1 to 6 above that normally are taken in to consideration in making findings and recommendations.

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Multiyear Effect of Expense Decisions

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Beginning Balance	0	1	2	3	1	-1
Revenues	+10	+10	+10	+10	+10	+10
Expenditures	-9	-9	-9	-12	-12	-12
Ending Balance	1	2	3	1	-1	-3

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Multiyear Projections

- This year ends with a projected healthy 10% ending balance:

	2011-12
Beginning Balance	$3,100,000
Revenues	$20,000,000
Expenditures	$21,000,000
Surplus/(Deficit)	($1,000,000)
Ending Balance	$2,100,000
Percentage	10.0%

- What if revenues stay flat and costs increase a mere 3% per year?

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Multiyear Projections

	2011-12	2012-13	2013-14
Beginning Balance	$3,100,000	$2,100,000	$470,000
Revenues	$20,000,000	$20,000,000	$20,000,000
Expenditures	$21,000,000	$21,630,000	$22,278,900
Surplus/(Deficit)	($1,000,000)	($1,630,000)	($2,278,900)
Ending Balance	$2,100,000	$470,000	($1,808,900)
Percentage	10.0%	2.2%	-8.1%

- Reserves fall way below the prudent level next year, and the following year they are negative!

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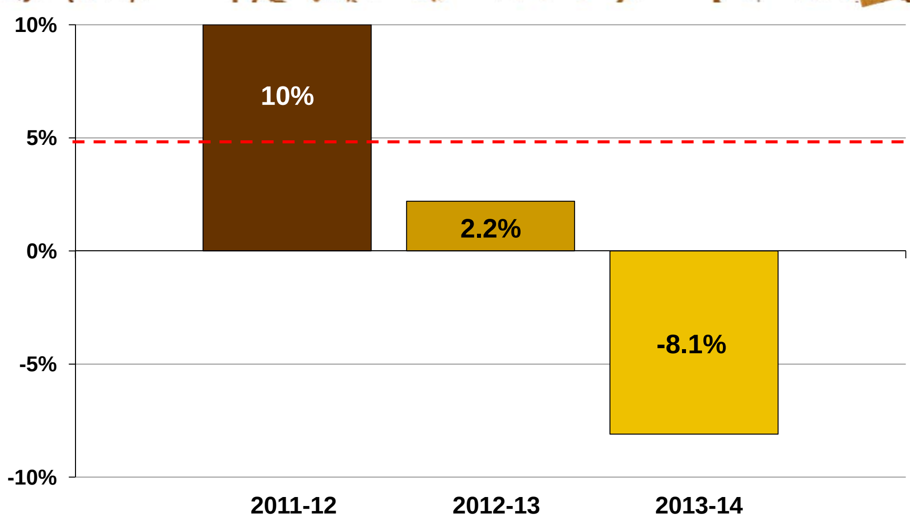
Unrestricted General Fund Reserves



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Multiyear Projections

- Multiyear projections are projections – not forecasts
  - Projections are the mathematical result of today's decisions based on a given set of assumptions
  - Forecasts, however, are predictions for the future – there is a higher implied reliability factor than for projections
  - Projections are expected to change as various factors change – they are not predictions
- Projections will change any time the underlying factors change – plan accordingly, but do plan!
  - Prepare multiyear financial projections for three to five years out

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Factors for Multiyear Projections

- Determine the key factors that affect revenues
  - In a normal year:
    - Enrollment and full-time equivalent students (FTES)
    - Growth factor
    - Funded cost-of-living adjustment (COLA) on apportionment and categorical funds
    - Enrollment fees – relatively stable

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Factors for Multiyear Projections

- In the current environment:
  - Enrollment and FTES
  - No growth
  - Unfunded COLAs
  - Workload reductions/cuts in apportionment and categorical funds
  - Enrollment fees significantly increased
  - Possible midyear cuts and an additional fee increase

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Factors for Multiyear Projections

- What revenue assumptions should be used for future years?
- Chancellor’s Office Budget Change Proposal for 2011-12:
  - Restore all cuts to categorical programs
  - Restore lost prior- year COLAs
  - Fund 2011-12 statutory COLA
  - Restoration of prior-year workload reductions/cuts
  - One-time funds for deferred maintenance, instructional equipment, and state mandate reimbursements
- These are things that we would hope for . . .
  - But hope is not a plan

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SSC Financial Projection Dartboard

Factor		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Statutory COLA for Apportionments		-0.39%	2.24%	3.10%[2]	2.80%	3.00%	3.20%
Funded COLA		**0%**	**0.00%**	**3.10%**	**2.80%**	**3.00%**	**3.20%**
Growth Funding		2.2%	0.00%	0.00%	3.0%	3.0%	3.0%
Workload Reduction[3]		**-3.34%**	**Additional -6.2%, Total 9.54%**	**Ongoing**	**Ongoing**	**Ongoing**	**Ongoing**
"Protected" State Categorical Programs		Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
"Unprotected" State Categorical Programs		Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
California CPI		1.80%	3.20%	2.80%	3.00%	3.10%	3.30%
California Lottery	Base	$111.75	$111.75	$111.75	$111.75	$111.75	$111.75
	Prop 20	$17.00	$17.00	$17.00	$17.00	$17.00	$17.00
Public Employees' Retirement System (PERS) Employer Rate		10.707%	10.923%	12.0%	12.0%	12.0%	12.0%
Interest Rate for Ten-Year Treasuries		3.10%	3.50%	4.00%	4.10%	4.20%	4.40%

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SSC Financial Projection Dartboard

[2] While a positive statutory COLA is projected for 2012-13, the state's ability to fund it is suspect. Districts should have a contingency plan if the state decides not to fund the COLA.

[3] The Budget Act includes trigger language for midyear cuts if state revenues are falling short of projections in December, as follows: (a) If revenues for the year are estimated to be less than $1 billion below the forecast, then no changes are required; (b) If revenues fall between $1 billion and $2 billion lower, then a series of additional cuts are triggered, including a $23 million across-the-board cut to child care and an additional $30 million reduction to community college apportionments (applied as a one-time 0.63% general deficit), accompanied by another $10 increase to student enrollment fees (to $46/unit, delayed to summer 2012 per ABX1 32); (c) If revenues fall more than $2 billion, then the state will impose additional cuts to public education of up to $1.9 billion—an additional $72 million reduction to community college apportionments (applied as a 1.52% workload reduction) and the rest would be cuts to K-12 education.

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Factors for Multiyear Projections

- Develop revenue assumptions for the next three to five years:
  - Enrollment and FTES (locally determined)
  - Growth, COLA, deficits/workload reductions (see SSC Dartboard)
  - Possible midyear cuts in 2011-12 . . . would they be ongoing?
  - Other state revenues:
    - Lottery funding (see SSC Dartboard)
    - State mandated costs (zero until cash received)
  - Federal funds – Forest Reserve, Student Financial Aid, etc.
  - Other local revenues – interest earnings, donations, parcel tax proceeds, student fees, etc.

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Factors for Multiyear Projections

- Develop expenditure assumptions for the next three to five years:
  - Staffing plan for projected enrollment and FTES
  - Any other staffing increases or reductions planned
  - Step and column movement
  - Savings from natural attrition
  - Expected savings from vacancies
  - Payoff of early retirement incentives
  - Negotiated agreements: concessions, furlough days, health benefit caps?
  - Expiration of negotiated agreements: temporary furlough days or other concessions?

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Factors for Multiyear Projections

- Increase in medical, dental, vision, life premiums – district contribution (for uncapped or soft capped plans)
- Increase in pay-as-you-go or set aside for retiree health benefits
- Board election costs
- PERS employer rate changes (see SSC Dartboard)
- Other inflationary cost increases – fuel, utilities, etc. (see SSC Dartboard)
- Transfers/contributions to/from other funds
- Required match for grant programs

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Reserve Levels

2009-10 Unrestricted General Fund Net Ending Balance as a Percentage of Unrestricted General Fund Expenditures	
Average Statewide	**16.2%**
Lowest	**5.6%**
Highest	**36.8%**

- Statewide, the average reserve was significantly higher than the 5% prudent level
  - Due to one-time federal funds, one-time state mandated cost funds, and local actions to reduce costs (reduced course sections, staffing cuts, etc.)

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Reserve Levels and Cash

- This is likely to be short lived
  - A seemingly high ending fund balance is unlikely to carry a district through a multiyear problem
- The 5% prudent level of reserves is only about seven to eight days of payroll
  - But how much of reserves are actually cash?
    - A diminishing portion because of deferrals

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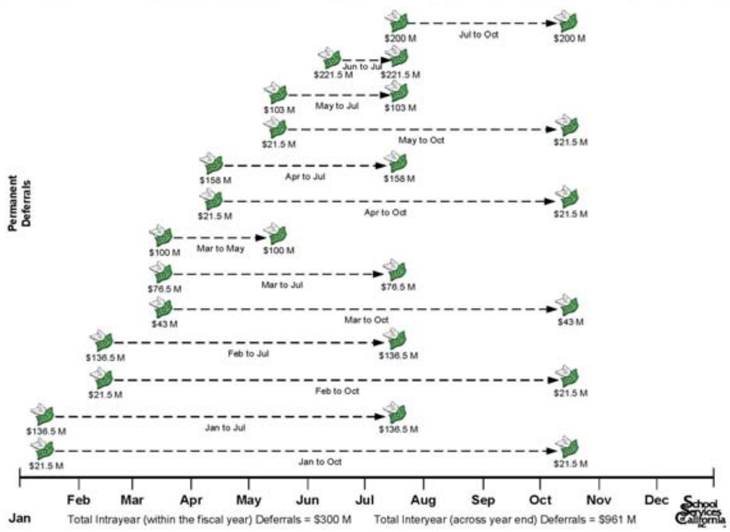
2011-12 Apportionment Deferrals



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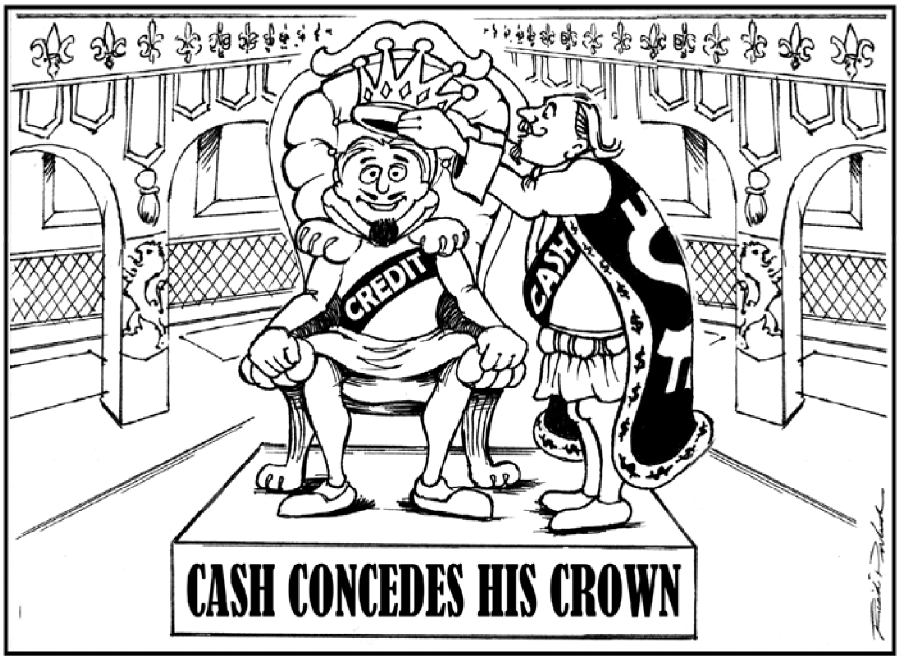

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Cash and Credit

- On the natural, higher ending balances are needed for the cash cushion as deferrals increase for 2011-12 and beyond
  - If you run out of cash, there are several options for borrowing cash
    - Unfortunately, temporary borrowing for cash flow purposes has become a normal routine
    - And it is short term – it has to be paid back typically within a year
  - What if you can't borrow because you can't prove you can pay it back?
    - It's game over – the state takes over and you lose local control

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Cash and Credit

- Do multiyear budget projections
  - And take early action to maintain adequate reserves
- Do cash projections as well to plan for:
  - When you need to borrow
  - How much you need to borrow
  - How long you need to borrow
  - What your borrowing options are
    - And prepare ahead for the best borrowing options available to you

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Using Multiyear Projections to Communicate

- Prepare a page that lists the assumptions for each year:

Item	2011-12	2012-13	2013-14
Revenues			
Credit FTES	14,200	14,200	14,200
Apportionment COLA	0	0	0
Expenditures			
Net Step and Column Movement	1.5%	1.5%	1.5%
Health Benefits Premium Increase (District Cost)	8.0%	10.0%	10.0%
Utilities Cost Increase	3.0%	3.0%	3.0%

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Using Multiyear Projections to Communicate

- Prepare separate pages of numbers for the General Fund: unrestricted, restricted, and total

Unrestricted General Fund			
Item	2011-12	2012-13	2013-14
Revenues			
Federal Revenues	$200,000	$200,000	$200,000
State Revenues	$48,000,000	$48,000,000	$48,000,000
Expenditures			
Academic Salaries	$25,000,000	$25,375,000	$25,756,000
Classified Salaries	$15,000,000	$15,225,000	$15,454,000
Employee Benefits	$12,000,000	$13,200,000	$14,520,000

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Using Multiyear Projections to Communicate

- Communicate to employees, the Board, and the community the impact of the State Budget and local issues on projected revenues for your district's budget in the short and long term
  - Start by preparing a multiyear projection now
  - Update it when we know more about the midyear trigger reductions
  - Update it with the Governor's January Budget Proposal for the next year
  - Revise it whenever assumptions change significantly

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Using Multiyear Projections to Communicate

- Use the multiyear projections as a tool for collective bargaining
  - Provides a more comprehensive look at where the district is headed financially
- Prepare a revised multiyear projection before making any proposals at the table that would have a financial impact
  - And prepare a revised projection to measure the impact of the union's financial proposals
- Use these projections to communicate with both the union and the Board during negotiations
  - To help ensure that a settlement is affordable for the life of the agreement

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