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# LASD

## CACF Annual Report 2016-2017

— Citizens Advisory Committee on —  
Finance - 5 June 2017

Revised June 12 2017

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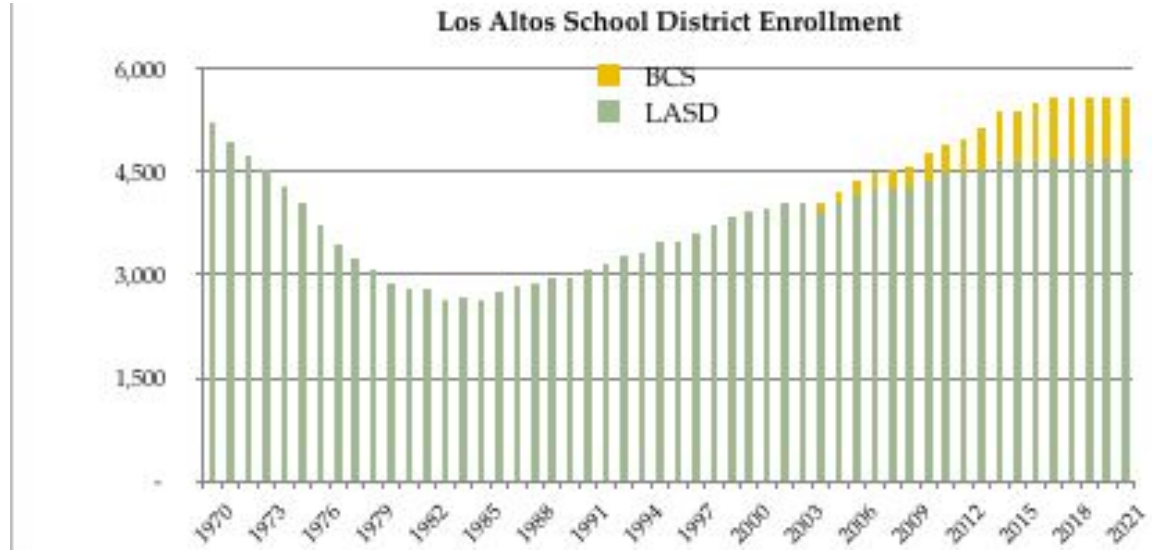
# Agenda

Congratulations on the Parcel Tax Renewal  
Continue to think: Slowly flashing yellow light

- Enrollment
- Revenue
- Capital Assets
- Legislative Watch
- Summary Recommendations



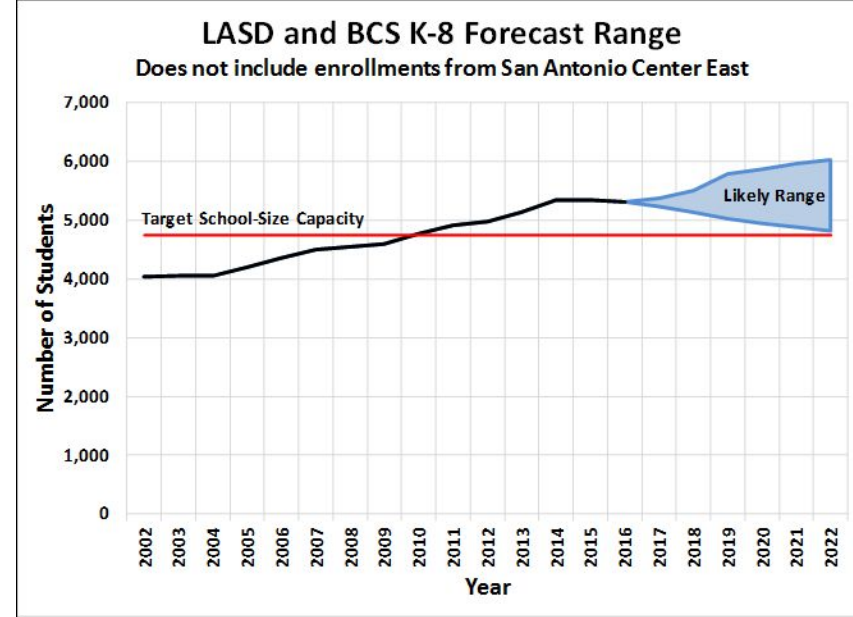
# Enrollment



- A number of changes to enrollment dynamics in the district
- Enrollments declined during the last two years due to smaller kindergarten classes and fewer students moving into district
- Enrollment may stabilize or even increase due to other factors including: recent kindergarten registrations have increased, BCS is near capacity and more housing growth is expected

# Enrollment - Recommendation

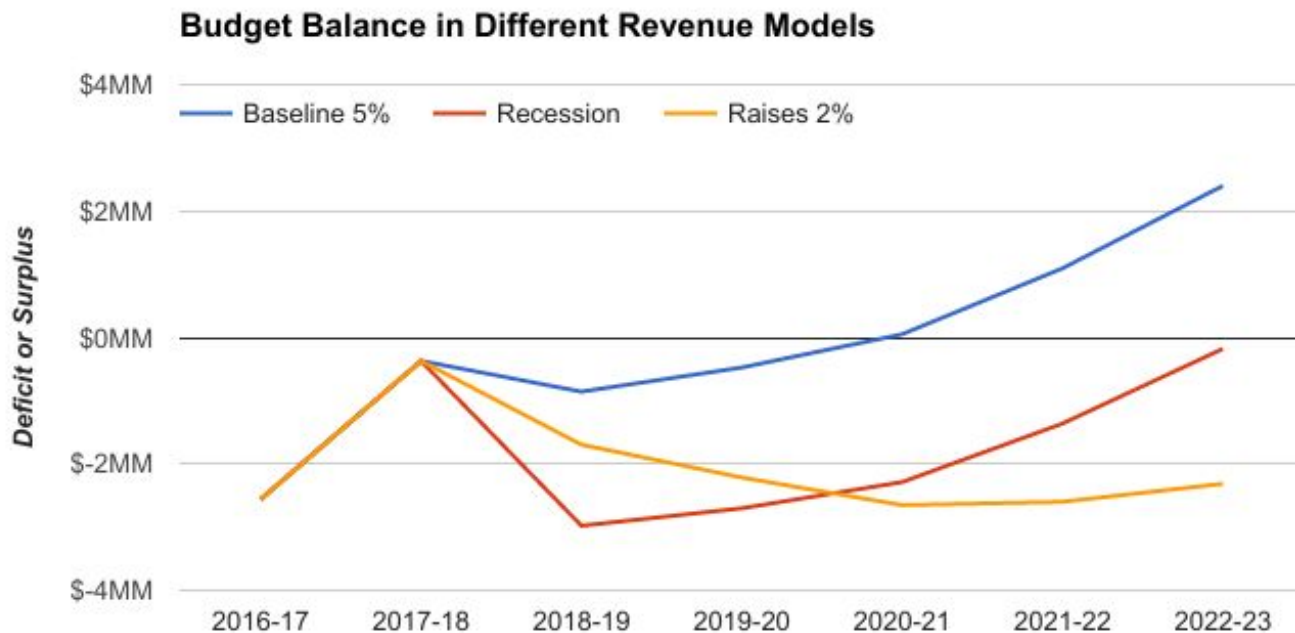
- Vigilance on San Antonio Center East and other housing developments:
  - More than 31 acres
  - Estimated to add hundreds of students
  - Beyond the current forecast period of 6 years
- Projections about the future are uncertain:
  - 5-8 years out, enrollment projections are +/- 10% or +/- one entire school
  - 5-8 years there is still a need for one more site on top of current search
  - [Unaffordable school site mirrors unaffordable staff living locally]
- Recommend: demographer every year.



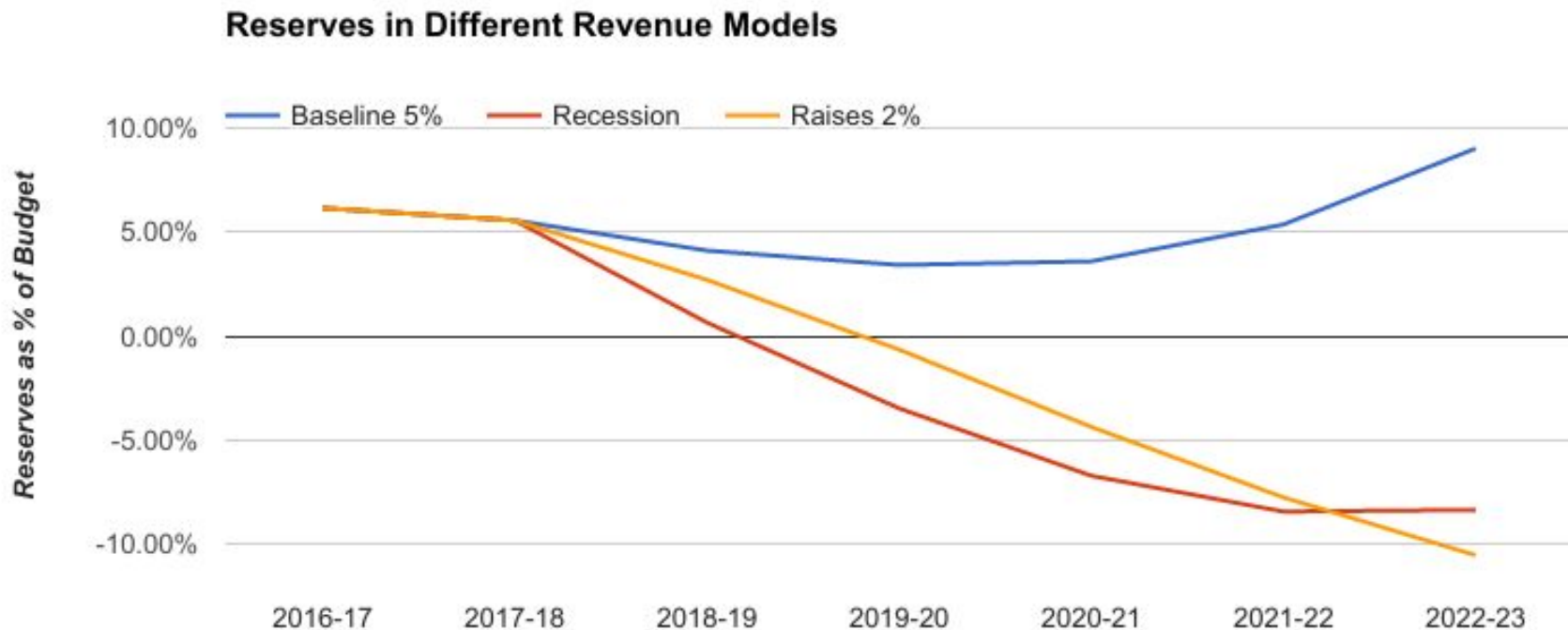
# Revenue Scenarios

- Baseline - Tax Collections 6.5% then 5% in out years - (average case)
    - Incorporates negotiate pay raise
  - Recession of 1 year 0%, then 5% in out years
  - 2% raises every year across step/column
- 
- The last two scenarios are built on the base case

# Budget Balance



# Reserve Level



# Encroachments/Risks

Unfunded mandates/programs or unexpected costs Define and scale each

- SpEd
- PERS/STRS
- Federal & State ed funding policy chgs
- Bldg maintenance & replacement
- IT
- Demographic: Low SES, EL
- Health care premium increase
- Staffing incentives
- Earthquake

Relate to reserves the top four items





# Recruit, Train, Retain Staff

- Turnover spiked last 2 years, esp. Competitive losses
- Enrollments in teacher training programs are down
- LCFF disrupted comparative funding levels between districts
- LASD salaries not competitive, esp. in low end of S&C table
- Half of LASD teachers have no salary head room
- Benefits packages competitive—but they don't pay the rent
- Non-cash ideas like community housing assistance are great
- Recommend: Admin focus and better competitive & market data
- Recommend: Pro review of S&C Table based on district priorities

# Capital Assets Management

We studied two significant classes of capital assets:

- Buildings and improvements, are worth about \$90 million -- 375,000 square feet at 9 locations. Last year, “plant services” costs were \$7.4 million (10% of total expense for the year).
- Instructional technology, including under “equipment” in District financial statements. Originally valued in excess of \$6 million, on a depreciated basis last year these were valued at less than \$1 million.

# Capital Needs

## Findings regarding buildings and improvements

- There is no mechanism in place to reduce or limit the use of operating funds for building maintenance, and the Deferred Maintenance Fund is not adequate for this purpose.
- There is no mechanism to finance the eventual future need to replace the buildings which the District uses to provide instructional services to its students.

# Capital Needs

## Recommendations concerning Buildings and Improvements

- Regularly monitor plant services expenditures as a percentage of operating budget, and take action when the figure exceeds 10 %.
- Establish a sinking fund, or bolster the Deferred Maintenance Fund, using a portion of Measure N funds or other sources to limit and even out the impact of maintenance on the operating budget.
- Review priorities for repairs, replacement, and renewal in the 2013 Asset Reserve Analysis and the 2014 Facilities Master Plan
- Consider long term impacts such as altering developer fees
- Consider long term financing by periodic bond measures or parcel taxes

# Capital Needs

## Findings regarding Instructional Technology

- There is no separate reporting of the nature and extent of these assets. “Equipment” encompasses all items originally purchased for \$5000 or less.
- The primary source of funding for purchase of instructional technology is individual school PTAs, providing \$500,000-750,000 annually for this purpose.
- The estimated expense of refreshing these assets on a 4 to 6 year cycle is \$1.5–2 million annually ( per the 2014 Facilities Master Plan), but there is no articulated plan to do so.

# Capital Needs

## Recommendations concerning Instructional Technology

- Generate and publish data to describe and monitor “instructional technology.”
- Determine whether current levels of replacement funding for instructional technology are adequate and likely to remain so.
- Allocate a portion of Measure N funds to upgrade instructional technology.
- Identify additional sources of supplemental funding for this category of capital assets.



# Summary

- Track enrollment trends and implications
  - Continue to engage demographers to track future development
  - Engage Mountain View and Los Altos cities in planning future development and infrastructure such as school sites - San Antonio East
  - Demographer every year until future less uncertain
  - Investigate impact of enrollment shift to North end of the district
  - Refine assumptions and identify impacts of future housing projects
- Beware of recession
  - A recession in any 6 year window is common
  - The reserve policy enables us to weather the recession EXC RISKS/ENCROACHMENTS

# Guidance for CACF 2017-2018

Guidance for projects:

- Comp-benefits:
  - analyze staff retention for patterns and identify some mitigations
  - investigate and evaluate housing affordability mitigations
  - evaluate competitiveness
  - Explore salary adjustments outside of step-column
- Reserves
  - Capital needs plan - developed and funded
  - Revisit reserves - has the board policy achieved its aim?
  - Long term financing of operations and adequate reserves



# Guidance for CACF 2017-2018

Guidance for projects:

- Continue developing a dashboard for long-term trend status with stop-loss trigger-action tools
  - Enrollment and new housing
  - Risk mitigation scenarios for a \$2M increase in encroachment or risk
  - Review trends on historical Balance Sheets
- If requested by the board
  - Review Middle-School Financial Impacts
  - Review Operating Impact of a new or reconfigured school site

# Backup Slides

# Data for Revenue Models

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Net Change	baseline	\$ (284,578)	\$ 662,566	\$ 738,459	\$ 1,149,847	\$ 1,700,812	\$ 2,626,596	\$ 3,916,233
Net Change	recession2	(284,578)	662,566	(1,373,220)	(1,067,416)	(627,314)	182,064	1,349,474
Net Change	Raises 2% 2017-23	(284,578)	(105,430)	(851,807)	(1,324,201)	(1,711,699)	(1,752,301)	(1,449,682)
Net Change	Raise 5% 2016-17	(2,134,578)	(1,187,434)	(1,111,541)	(700,153)	(149,188)	776,596	2,066,233

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
% of Expense	baseline	10.3%	11.5%	12.6%	14.3%	16.8%	20.6%	26.3%
% of Expense	recession2	10.29%	11.52%	9.07%	7.27%	6.29%	6.63%	8.75%
% of Expense	Raises 2% 2017-23	10.29%	10.07%	8.43%	6.21%	3.60%	1.14%	-0.72%

# Revenue Scenario Conclusions

Perhaps drop this slide and voice over

- A recession in the 5 year time frame is almost certain - this (weak) recovery is nearly 10 years old.
- A recession takes 2-3 years to recover back to balance.
- We can't afford to raise the entire salary table every year.
- Deficit budgets prohibit expense growth opportunities

# Capital Needs

- Findings regarding buildings and improvements
  - The District spends an appropriate amount on maintenance as measured by the pre-2008 state requirement (minimum 3% of annual budget), as measured on a per pupil basis among all districts in the state as of 2011, and in comparison to national standards for public buildings (2–4% of current replacement value). We can therefore expect LASD buildings to be serviceable for another 35 to 45 years. Structures at all 9 current sites were originally built between 1949 and 1961, and were renovated substantially between 2000 and 2008.

# Capital Needs

- Findings regarding buildings and improvements
  - Expenditures for maintenance, which includes both routine care and replacement of elements such as HVAC systems, roofs, plumbing, and so forth which are not expected to last the entire “life” of the structure itself, consume a substantial and growing percentage of the LASD operating budget. For the fiscal period ended June 30, 2016, these costs – categorized as “plant services” – were \$7.4 million, or about 10% of the District’s total expenses for the year.

# Capital Needs

- Recommendations concerning Buildings and Improvements
  - Regularly monitor plant services expenditures as a percentage of operating budget, and take action when the figure exceeds 10 %.
  - Establish a sinking fund, or bolster the Deferred Maintenance Fund, using a portion of Measure N funds or other sources to limit and even out the impact of maintenance on the operating budget.

# Capital Needs

- Recommendations concerning Buildings and Improvements
  - Review priorities for repairs, replacement, and renewal in the 2013 Asset Reserve Analysis and the 2014 Facilities Master Plan, and determine to how to most effectively spend monies likely to be obtained within the next several years as a result of the state school construction bond initiative (Proposition 51).



# Capital Needs

- Recommendations concerning Buildings and Improvements
  - Consider ways to better assure continued existence of a building infrastructure on a long term basis, such as altering developer fee arrangements and addressing whether future re-construction of existing schools should be financed by periodic bond measures or by one or more parcel tax initiatives.

# Legislative Watch

(do we want this topic) DUPLICATE

- Pressure on basic-aid districts
- Pressure on pensions
- Changes in ACA health care