

Beverly Hills USD Board Presentation

Presented by:

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An Employee-Owned Company

Overview

- **The objective of the review included three components:**
 - **Analyze the salary formula including the current collective bargaining agreement (CBA) and project the long-term impact of the language in each of the four agreements**
 - **Analyze school configurations, provide projections for current configurations, and suggest changes, as applicable, with cost savings or decreases**
 - **Review current budget information, including the multiyear projection (MYP), and provide a recommendation for an adequate reserve level**

Methodology

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- **School Services of California, Inc., (SSC) conducted on-site interviews with administrators and support staff in various departments in order to understand the current staffing configurations and formulas, as well as the application of the current CBA language**
- **SSC also reviewed documents provided by the Beverly Hills Unified School District (District) to augment this analysis including budget documents, current MYP, CBAs, enrollment projections, staffing allocations, etc.**

Salary Formula Analysis

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- **The District has implemented a salary formula for all employee groups, whereby a percentage of the increase in secured property taxes from two prior years is allocated to its employees' salaries and statutory benefits**
 - **70% in 2014-15**
 - **65% in 2015-16**
 - **55% permanent implementation in 2016-17**
- **The formula uses prior-year salary and benefits data and does not include any increases for other employee costs outside of salary and statutory benefits defined as Medicare, State Unemployment Insurance, California State Teachers' Retirement System (CalSTRS), and Workers' Compensation Insurance**

Salary Formula Analysis

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- **Challenges of the formula:**
 - **Using prior-year data does not allow for an accurate cost projection of current-year salaries and statutory benefits**
 - **The formula also excludes cost increases from step and column movement, rising employer contributions for employees in CalSTRS and the California Public Employees' Retirement System, and the District's contributions to health and welfare benefits which are funded outside the formula**
 - **The formula does not allow for negotiation if property taxes decrease, thereby requiring the District to continue a level of compensation that may not be sustainable under falling revenues and would require contributions from the fund balance**

School Configuration Analysis

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- **The current K-8 neighborhood school model has been in place for the life of the District since the 1920s**
- **As the District evaluates the lifespan of the current K-8 model, it should consider:**
 - **Cost associated with current offering**
 - **Diversity of educational program offered (i.e., types of courses)**
 - **Level of courses offered (i.e., honors or advanced courses)**
 - **Available school facility space and configuration**
 - **Social/emotional benefits for students**
 - **Community input**

School Configuration Analysis

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- **Financial Considerations**
 - The most recent budget adoption for 2016-17 shows that the District has a significant structural deficit in its current-year budget, as well as the two out years projected in the MYP through 2018-19
 - This budget scenario will require contributions from fund balance and Fund 17 Special Reserve for Economic Uncertainties

2016-17 Budget and MYP			
	2016-17	2017-18	2018-19
Total Revenues	\$63,766,003	\$64,577,669	\$68,926,256 ¹
Expenditures	\$66,633,382	\$67,331,433	\$69,671,115
Net Increase/(Decrease)	(\$2,867,379)	(\$2,753,764)	(\$744,859)
¹ Includes contribution from Fund 17 of \$3,270,662			

School Configuration Analysis

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- **Financial Considerations**
 - **Two significant issues affecting the expenditures and thereby influence the structural deficit are:**
 - **Automatic salary increases included in the CBAs for all employee groups which are triggered by property tax growth, and**
 - **Low class sizes staffed below the contractually allowable maximum class size and declining enrollment**
 - **Both of these elements restrict the District in how it can attempt to reduce expenditures as personnel costs are the largest percent of the District's expenditures at almost 80% in 2014-15**

School Configuration Analysis

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- Financial Considerations

Scenario 1: No Change to School Configuration or Staffing – Current MYP				
	2016-17	2017-18	2018-19	2019-20
Unrestricted Beginning Fund Balance	\$15,991,498	\$13,080,054	\$10,282,231	\$6,221,247
Unrestricted Ending Fund Balance	\$13,080,054	\$10,282,231	\$6,221,247	\$1,088,369
Fund Balance as Percentage of Expense	19.63%	15.27%	8.93%	1.50%

School Configuration Analysis

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- Financial Considerations

Scenario 2: No Change to School Configuration or Staffing – 7% Historical Property Tax Growth				
	2016-17	2017-18	2018-19	2019-20
Unrestricted Beginning Fund Balance	\$15,991,498	\$13,840,856	\$12,258,365	\$10,122,821
Unrestricted Ending Fund Balance	\$13,840,856	\$12,258,365	\$10,122,821	\$7,807,580
Fund Balance as Percentage of Expense	20.77%	18.09%	14.34%	10.56%

School Configuration Analysis

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- Financial Considerations

Scenario 3: No Change to School Configuration or Staffing – 10% Property Tax Growth				
	2016-17	2017-18	2018-19	2019-20
Unrestricted Beginning Fund Balance	\$15,991,498	\$15,011,322	\$15,324,984	\$15,926,454
Unrestricted Ending Fund Balance	\$15,011,322	\$15,324,984	\$15,926,454	\$17,318,766
Fund Balance as Percentage of Expense	22.53%	22.41%	22.13%	22.72%

School Configuration Analysis

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- **Establishing a parcel tax would allow the community to directly invest back into its local schools and support the programs it has identified as priorities, such as maintaining the K-8 neighborhood school configuration**
- **The District could consider alternative school configuration models that would allow for course consolidation and higher staffing ratios, and may allow the District to diversify course offerings available to students**
 - **Detail provided in report:**
 - **Stand-alone middle school and retaining three K-5 schools**
 - **Consolidating into two K-8 schools**

School Configuration Analysis

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- **K-8 model pros and cons**

Pros

- **Smaller class sizes**
- **Supported by community**
- **Neighborhood school**
- **Extended “age of innocence”**



Cons

- **More expensive per student**
- **Less elective offerings**
- **No economy of scale (inability to staff to contract)**
- **Travelling employees**

School Configuration Analysis

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- **Alternative model pros and cons**

Pros

- **Economy of scale (ability to staff to contract)**
- **More elective options**
- **Less expensive per student**
- **Fewer travelling employees**



Cons

- **Less support from community**
- **Facilities (footprint)**
- **No neighborhood school**
- **Students mature more quickly**

School Configuration Analysis

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- **The District's ability to continue the K-8 school model depends on the available revenues**
 - **If property taxes exceed projections, the District will have the financial resources available to sustain the current school configuration**
 - **If revenues remain flat or at projection, the District must explore other options to continue to operate the K-8 school model**
- **Consolidating or eliminating some classes to allow higher class loading would provide cost savings by reducing the number of teachers required to staff the course offerings**
 - **This may result in fewer electives or honors courses offered**

Budget Reserve Analysis

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- **Budget reserve policy is based on the District's revenue and expenditure analysis and the features that are specific to the District**
 - **The District is a basic aid district**
 - **Property taxes are the primary source of revenue in the District's budget**
 - **The District receives supplemental funds from city facilities use agreements and other limited foundation support**

Budget Reserve Analysis

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- **A reserve in excess of the required state reserve of 3% provides the District time to modify its educational program to minimize the impact on student programs and adjust its operational expenditures to manage the potential loss of its revenue in the event of:**
 - **Unforeseen circumstances such as revenue shortfalls, changes to state laws related to basic aid districts, and the potential for unanticipated expenditures**

Budget Reserve Analysis

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- **Best practice recommendations**
 - **Schools for Sound Finance – Excess reserve should comprise a minimum of one-third the difference between the District's Local Control Funding Formula funding level and its basic aid funding level (approximately 7% reserve for the District)**
 - **California Department of Education and Government Finance Officers Association both recommend that the total unrestricted reserve should at a minimum, regardless of a local educational agency's size, be no less than two months of General Fund expenditures, which is 17%**
 - **In 2014-15, basic aid unified school districts in California held an average of 24.76% unrestricted ending fund balance, including Fund 17**

Budget Reserve Analysis

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District Actual Reserve Percentages

	2014-15 Unaudited Actuals	2015-16 Unaudited Actuals	2016-17 Projected	2017-18 Projected	2018-19 Projected
Fund 01 Unrestricted Fund Balance	\$3,750,806	\$6,695,361	\$3,827,982	\$1,074,218	\$329,359
Fund 17 Fund Balance	\$9,226,431	\$9,296,137	\$9,296,137	\$9,296,137	\$6,025,475
Total Fund Balance Reserves	\$12,977,737	\$15,991,498	\$13,124,119	\$10,370,355	\$6,354,834
General Fund Expenditures	\$59,792,564	\$62,051,528	\$66,633,382	\$67,331,433	\$69,671,115
Fund Balance as Percentage of Expenditures	21.70%	25.77%	19.70%	15.40%	9.12%

Budget Reserve Analysis

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- **Recommendations:**
 - **Three-tiered reserve level policy to protect against unanticipated changes in student enrollment, property tax volatility, and changes in state school finance policy**
 - **Level 1 Minimum Reserve of 10% of total expenditures**
 - **Level 2 Reserve of 17% of total expenditures**
 - **Level 3 Reserve of 25% of total expenditures**
 - **The reserve policy should be set at a level that is sustainable and considers the current level of deficit spending that is facing the District**



Thank you!

