Manhattan Beach Unified School District

2015-16 Annual Budget

(Proposed as of June 2015)

Prepared and Presented by
Dawnalyn Murakawa-Leopard, EdD
Assistant Superintendent, Administrative Services

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"I've heard tell that what you imagine sometimes comes true."

\- Roald Dahl, *Charlie and the Chocolate Factory*

OVERVIEW

Officially, the Great Recession has been over since June 2009. However, for public education, the clouds did not part until much more recently. In 2013, Governor Jerry Brown implemented the most significant and fundamental change in the structure of school funding in the last forty years, eliminating the previously used revenue limit system and its accompanying myriad categorical funds. School funding in California now provides a per pupil "base" grant which will be augmented through "supplemental" and "concentration" grants whose size will be determined by the unduplicated count of high need youth enrolled in the District. The total of these three amounts creates a "target" funding level, which the State hopes to fully fund by 2020-2021. In the meantime, schools are funded at a lower level, based on a "hold harmless" guarantee now referred to "minimum state aid," providing all districts with the same level of funding they received in the prior year, combined with "gap funding," which is a percentage of the remaining difference between the current and target funding levels. However, while the shift from revenue limit and categorical funds to the LCFF fundamentally reformed the system, it addresses only issues of equity (providing more funding to districts whose students have more needs) while leaving unanswered questions related to adequacy of funding. When the LCFF reaches full funding, California schools will have reached 2008 funding levels – the state's current goal is only to recapture what existed seven years ago (or 12 years ago by the time full funding is reached in 2020-21). During the first year of implementation, as the transition was made, funding felt largely the same as it had during the lean years of the recession, but hope was represented by the articulation of a higher funding goal as well as by the provision of significant one-time (non-recurring) funds designated to support Common Core State Standards implementation.

In 2014-15, the Governor continued to prioritize LCFF funding, and school finances began to see true signs of recovery. In addition to significant gap funding, the state made great strides in eliminating its debt to schools, ending almost all deferrals and providing another one-time infusion of funds, this time to partially repay debts owed to school districts for cost incurred in carrying out state-mandated procedures (mandated cost claims).

While the 2015-16 state budget is still in development, the coming year promises to be even better than the prior year. State revenues are higher than projected, and the budget proposes to cut the remaining gap between current and target funding in half, providing 53% gap funding. A third infusion of one-time funds is on the horizon, again to repay mandated cost debt, and districts are beginning to be able to restore, rebuild, and expand programs that were decimated during the deep funding cuts that schools experienced during the recession.

At the same time, though, school financing is not on completely stable ground. Current program restoration is founded upon one-time funds, with no guarantee of an ongoing revenue source. While current projections promise to bring schools back to the funding levels they were at before the recession, economists frequently point out that the current economic recovery period exceeds the average in terms of its length and that an economic contraction at some point in the future is inevitable; temporary taxes approved by voters will begin to expire in 2016, and if this happens at the same time that a contraction begins, education funding will be at risk again. This risk will be exacerbated by a new law which will require districts, in good economic times, to place a hard cap on their reserve balances, significantly limiting local districts' abilities to make local decisions regarding the best approaches to protect their own fiscal stability against future economic uncertainty.

The year ahead promises to be a prosperous one for school districts, and MBUSD is committed to utilizing this opportunity to continue to build on its success, continuing to prioritize professional development for teachers, strong classroom technology, well maintained facilities, and, most fundamentally, providing each student with rich and meaningful educational experiences facilitated by extraordinarily talented educators.

THE PURPOSE OF THE REPORT

Pursuant to Education Code § 42127, school districts are required to hold a public hearing on the budget to be adopted for the subsequent fiscal year and then, following budget adoption, filed the budget with the County Superintendent of Schools by July 1 of each year. Additionally, pursuant to Education Code § 52062, prior to budget adoption, each school district's Local Control and Accountability Plan (LCAP) must be approved following opportunities for review and comment by the LCAP Advisory C ommittee, the English Learner Parent Advisory Committee, and members of the public, including at least one public hearing.

The adoption process requires two separate Governing Board public meetings, held at least one day apart, for the school district budget hearing and budget adoption. In addition, the LCAP public hearing must occur at the same meeting as the budget public hearing and the LCAP adoption must occur at the same meeting at the budget adoption. The LCAP item must precede the budget item at each meeting. The public hearings require 72 hours public notice.

Public hearings for the purpose of taking input on the LCAP and the 2015-16 Adopted Budget are scheduled for a June 15, 2015, special meeting of the Board of Trustees. Adoption of the LCAP and 2015-16 budget is scheduled for the June 16, 2015 regular meeting of the Board of Trustees.

The budget must be developed in accordance with criteria and standards adopted by the California State Board of Education. These criteria and standards require Districts to certify that their budgetary projections are accurate within established ranges and to explain any significant variances, to certify that the budget includes sufficient facilities maintenance funding, and to certify that they are limiting deficit spending and maintaining sufficient reserves.

Based on the best available current information and budgetary assumptions, it is recommended that the Board of Trustees of the Manhattan Beach Unified School District adopt the proposed budget for 2015-16 and two subsequent years, 2016-17 and 2017-18. It is additionally recommended the Board of Trustees continue its balanced yet conservative approach to budget planning and attention to the need to limit deficit spending and ensure a strong general fund reserve in anticipation of ongoing cash flow considerations and fiscal uncertainty of the coming school years.

THE DISTRICT

The Manhattan Beach Unified School District (MBUSD) consistently ranks as one of the highest performing unified school districts in the State of California. It serves approximately 6,750 students from preschool to twelfth grade at eight school campuses—one preschool, five elementary schools, one middle school, and one high school. Robinson Elementary School was recognized as a National Blue Ribbon School in 2013. Six MBUSD schools have been honored as California Distinguished Schools: Mira Costa High School (2011), Manhattan Beach Middle School (2009), Grand View Elementary (2014), Pacific Elementary (2014), Pennekamp Elementary (2014), and Robinson Elementary (2014). In 2014-15, the state suspended the Distinguished Schools program during the transition to the new assessment and accountability system and replaced it with the California Gold Ribbon Schools program. Both Manhattan Beach Middle School and Mira Costa High School were honored with this award in 2015. In 2012, Grand View Elementary was named a National Green Ribbon School, joining just 77 other schools in the United States so honored that year; in 2015 the Manhattan Beach Unified School District was one of only five districts in the state named as a California Green Ribbon awardee, and one of only two recognized at the silver level. In both 2014 and 2015, the state of California has recognized MBUSD teachers as state teachers of the year: in 2014 Michael Hayden was one of five California Teachers of the Year, and in 2015 Maggie Mabery was selected as the state's nominee for National Teacher of the Year.

In addition to outstanding students and excellent teachers, MBUSD is extremely fortunate to have a high level of parental involvement in the schools and very strong partnerships with community partners such as the Manhattan Beach Education Foundation, PTAs and the PTSA, MBX, the City of Manhattan Beach, Chevron, Beach Cities Health District, the Manhattan Beach Chamber of Commerce, and other local organizations and businesses. These local partnerships have been and continue to be critical in providing the resources to allow MBUSD to continue to offer the outstanding educational programs that it maintained through the recession and continues to build upon as it moves forward.

Vision

The vision of the Manhattan Beach Unified School District is to prepare our students to become good citizens, parents, workers and leaders in the complex, rapidly changing world they will inherit. They will develop strong self-discipline, inter-personal skills, personal values, social and civic responsibilities and respect for nature and for others. They will be able to move beyond us, each prepared to earn a living, cultivate a dream and make a difference.

Mission

The mission of the Manhattan Beach Unified School District is to prepare all of our students to meet the challenges of a rapidly changing, highly complex, technology rich, global society. We will continually strive for excellence in all aspects of the education process. We will teach our students to understand and appreciate human and cultural diversity. We will harness the resources of the entire community, including students, parents, teachers, staff, administrators, college and business leaders and others. We will empower students to be lifelong learners, to demonstrate high achievement and to develop the skills and characteristics needed to enjoy happy and successful lives.

Goals

For the 2014-15 school year, the Manhattan Beach Unified School District Board of Trustees identified the following goals:

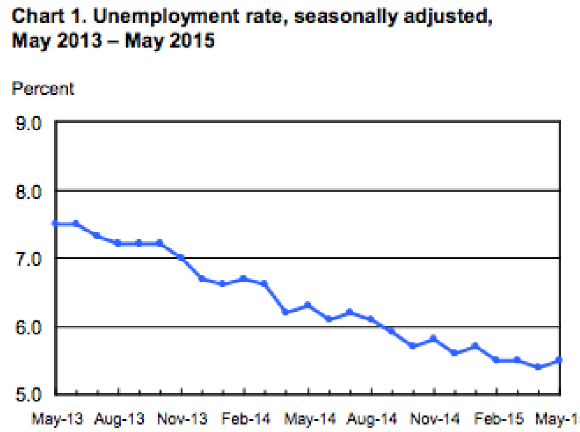
- Focus on Successful Academic Strategies
- Focus on Career Development and Continuous Learning for all Staff: Teachers, Support Staff, Counseling and Administration
- Continuous Improvement of Secondary Schools
- Maintain a Sound Budget Focused on Maximizing Student Achievement

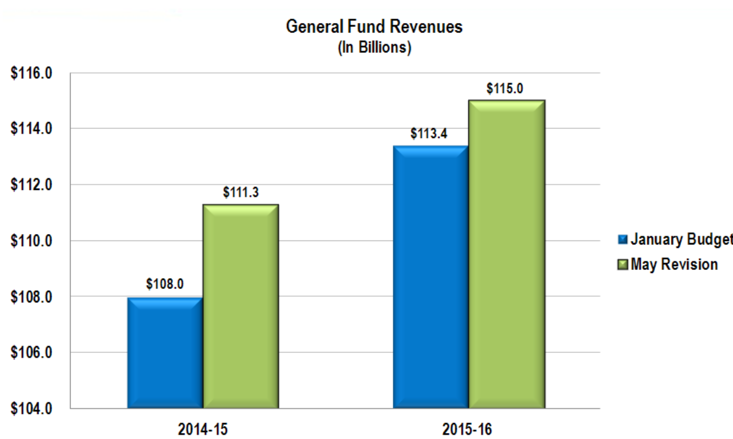
While the 2015-16 goals are still in development, they will build upon the progress made during the 2014-15 school year and will be in alignment with the goals identified in the District's 2015-16 LCAP, which are to:

- Improve student achievement through the implementation of research-based teaching and learning strategies
- Improve teaching and learning through high quality professional development
- Maximize safety and school connectedness for all students and employees.
- Improve student achievement by targeting students not meeting California state standards
- Address the needs of the "whole child" through excellence and accessibility in physical education, the arts, and career technical education.
- Maintain strong results as evidenced by indicators including high attendance rates, low dropout, suspension and expulsion rates, and the employment of educators who are all highly qualified in their area of instruction.

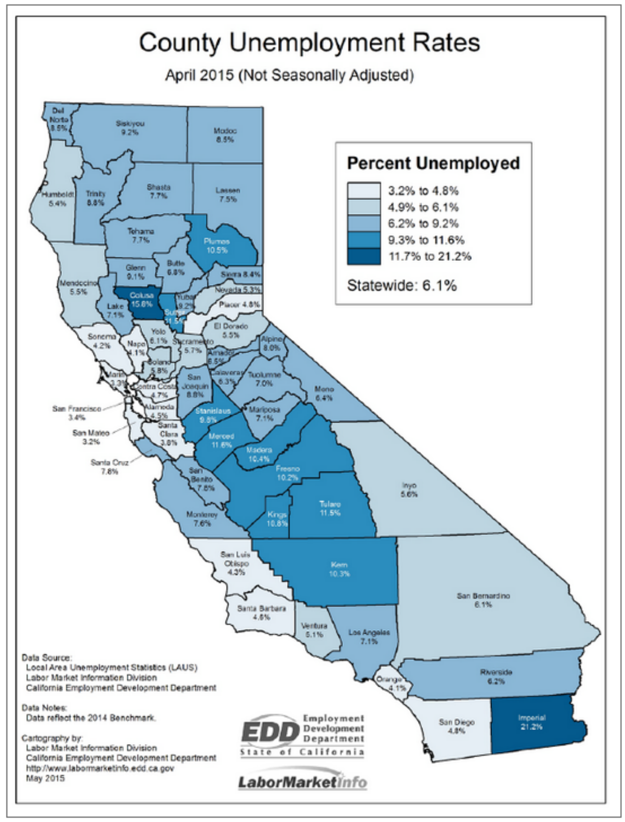
FEDERAL AND STATE BUDGET OUTLOOK

While the United States' economic recovery continues, economists and the media describe the recovery as "fragile" and "frail." The Bureau of Labor Statistics recently released information showing that jobs growth continues, with 280,000 jobs added in May 2015, and unemployment at 5.5%. However, the number of part-time workers who would prefer to work full time remains at approximately 6.4 million, a statistic that is significantly better than it was at its peak of 8.9 million in 2010 and shows improvement over last year's 7.3 million but is still worrisome to some economists. At the same time, the Bureau of Economic Analysis revised its estimate of the nation's GDP for the first quarter of 2015 and projects a declining GDP declined by 0.7%. The US trade deficit is significant, caused in part by California's port strike. On June 4, 2015, the International Monetary Fund reduced its growth projections for the United States from 3.1% to 2.5% for the year and advised the Federal Reserve not to raise interest rates "until there are more tangible signs of wage or price inflation." However, in contrast, the UCLA Anderson Forecast released on June 3, 2015, indicated that despite the first quarter GDP decline, the US would return to a 3% GDP growth rate by the third quarter, with accompanying increases in consumer spending, housing starts, and equipment spending, and that unemployment would drop below 5% by the end of the year. In contrast to the IMF recommendation, UCLA predicts an increase in federal interest rates and characterizes the US as on track for "moderate economic growth."





California's economic recovery continues to be healthy. In April 2015, California led the nation in job growth, with 29,500 new jobs. The state unemployment rate that month was 6.3%, down from 6.5% the previous month and 7.8% a year ago, but higher than the national unemployment rate of 5.4%. The UCLA Anderson forecast predicts that this gap will be closed by 2017 and that at that point, both California and the US will have an unemployment rate of 5%. Personal income growth is estimated to be 4.5% in 2015, 4.4% in 2016, and 3.5% in 2017. State revenue for the year exceed projections by $3.4 billion (3.8% higher than expected in January, 7.2% higher than anticipated last June, and 12.3% above prior year receipts), with most of the increase coming from personal income tax. The Governor's recently released May Revision to the proposed state budget anticipated strong ongoing revenues, and a significant part of the legislative debate is over whether these projections are too low; the Legislative Analyst's office estimates $2.5 billion more revenue than the Governor's estimates for the current year. The LAO attributes this difference to its projection of ongoing strong performance in the stock market, resulting in more capital gains revenues. The UCLA Anderson forecast references strong ongoing growth in "Silicon Beach," which will benefit both the California and Los Angeles economies. The Public Policy Institute of California released the results of a statewide survey on June 3 which indicated that the budget and the economy are no longer the top priority for respondents, and that most adults support Governor Brown's May Revise and the idea of paying off debt and building reserves rather than restoring social services. There are, however, impending issues that may have a negative impact on the state's economy, including the drought, which will affect not only the cost of water but also the agriculture industry and the fire season, as well as upcoming increases to the minimum wage (to $10 statewide in 2016 and $15 in Los Angeles by 2020).



The budget forecast for education funding, the projections for the immediate future are very strong, due in large part to the Governor's prioritization of statewide debt reduction. There are several components of the state's debt that impact schools. The first of these came in the form of deferred payments, when the state delayed almost 20% of education funding, meaning that schools needed to operate in the current year on 80% of their state funding and wait until the following year to receive the funds owed. Over the past three years, the state has eliminated most of these deferrals (which at their peak in 2011-12 amounted to $9.469 billion) and plans to repay the remaining $992 million in deferrals in 2015-16.

The second component of the state's obligation to schools comes as a function of Proposition 98. Proposition 98's basic premise is that education funding will grow at the same rate as the growth in attendance and growth in per capita personal income. However, In years when state revenue grows slowly or falls, the Proposition 98 increase is reduced to match growth in attendance and growth in per capita general fund revenue, an amount that is generally less than per capita personal income growth, and the state therefore saves the difference. This gap is called the maintenance factor, and while the state does not have to repay funding not provided as a result of the maintenance factor, it is obligated to restore the maintenance factor by increasing education funding at an elevated rate when the economy recovers and the state experiences normal to strong economic growth in revenue. Currently, the state is utilizing 90% of revenue growth to to restore the maintenance factor which was, in 2011-12, almost $11 billion. It is anticipated that there will be $772 million remaining in the maintenance factor at the end of 2015-16 and that it will be fully repaid in 2016-17, at which point growth in education funding will slow to approximately 40% of new revenue.

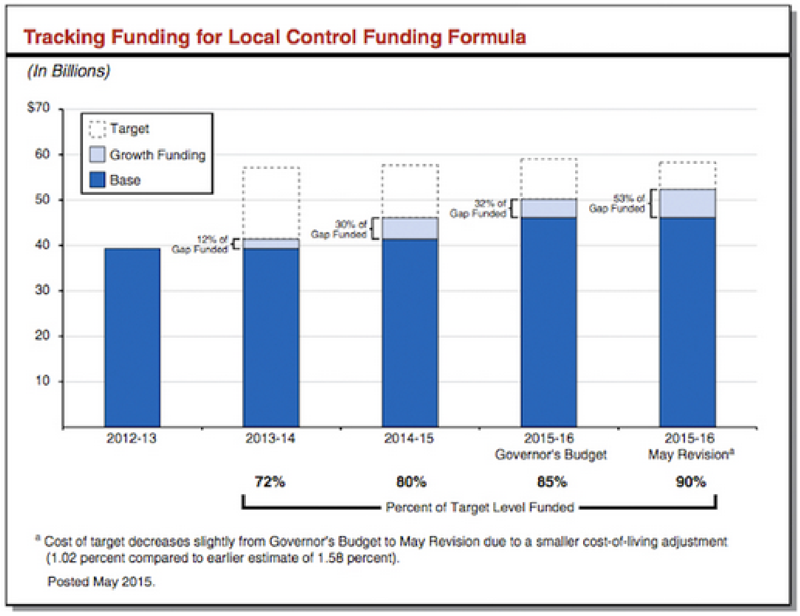
Finally, the state owes schools outstanding payments for the reimbursement of state mandates. At the end of the 2013-14 budget year, the state owed schools approximately $4.5 billion in unreimbursed mandates dating back to 2003-04. In 2014-15, the state allocated $400 million to repay a portion of this debt. The Governor's May Revision proposes an additional $3.5 billion, which will leave approximately $600 million in remaining debt. Since 2012-13, most school districts have received mandate reimbursement through the Mandate Block Grant (MBG) program, so there is very little new debt being accrued by the state in this area. The MBG program provides a per-ADA allocation rather than a direct-cost reimbursement of actual time and expenses related to state-mandated requirements imposed on districts. While claims under the traditional filing system result in higher reimbursement rates than the per-ADA rates provided through the MBG program, current year MBG funds have been provided in addition to the prior year mandated cost payments, while traditional claims have been indefinitely deferred. There has recently been some suggestion that the way that the current one-time revenue allocations are structured will allow the state to provide every district a per-ADA amount, whether or not there are prior year mandate reimbursements owed, which may provide further incentive for districts to participate in the MBG program.

While the state budget is still being finalized (the final budget approval deadline is June 30), it Is clear from the Governor's May Revision and the actions taken by the Legislature's Budget Conference Committee that there is a high degree of confidence in ongoing statewide fiscal health for at least the short term and that the education budget for 2015-16 will be strong. It should be noted, though, that the Great Recession ended in 2009. The current recovery has already lasted for a year longer than the average postwar expansion period, and budget projections for 2016-17 and beyond are based on an assumption of four more years of continuous growth. If these projections do not materialize and a recession occurs at the same time as the state sees the sunset of the temporary taxes established by Proposition 30, budget reductions may be necessary.

ASSUMPTIONS

In building its budget, the District relies upon guidance from the Los Angeles County Office of Education (LACOE), which is the body responsible for evaluating district budgets and certifying the status of the report to the state. LACOE reminds Districts that increases in funding are not guaranteed and states that the impending expiration of temporary tax increases and ongoing uncertainty regarding the continued recovery of the State's economy "results in uncertainty." Thus, while LACOE recommends that districts budget increased LCFF revenues for 2015-16, it does not state an opinion about whether or not to recognize proposed one-time revenue and does recommend that districts assign or reserve increases in revenues in 16-17 and beyond and develop contingency plans should one-time or future year LCFF revenue "fail to materialize."

LCFF Funding



2015-16 will be the third full year of implementation of the Local Control Funding Formula (LCFF). Under this structure, as described earlier, school funding in California provides a per pupil "base" grant augmented through "supplemental" and "concentration" grants whose size will be determined by the unduplicated count of high need youth enrolled in the District. The total of these three amounts creates a "target" funding level, which the State hopes to fully fund by 2020-2021. LCFF funding levels are based on a hold harmless guarantee now referred to as "minimum state aid," providing all districts at least the same amount of funding they received in 2012-2013 plus prior year "gap" funding. Districts receive this amount plus any additional gap funding needed to bring the district to the current target funding level.

In January 2015, Governor Brown introduced his Proposed 2015-16 State Budget, which included Proposition 98 funding of $65.7 billion for 2015-16, an increase of $4.1 billion over 2014-15. In May, the Governor revised these figures based on increased revenue and currently proposes $68.4 billion for 2015-16. Even so, the Legislative Analyst's Office, projecting higher stock market earnings and associated capital gains revenues, indicates that the Governor's revised revenue projections are underestimated and that the state will have approximately $3 billion more in total spending authority than what the Governor projects. At this time, pending final approval of the Budget Act, LACOE advises districts to build their budgets based on the figures proposed by the Governor, again with the caveat that future year revenue increases should be assigned with a reduction plan prepared in case the actual figures decline.

The County advises changes to Base Grant rates for 2015-16 and 2016-17 as follows:

Grade Level	2014-15 Base Grant Amount per ADA	2015-16 COLA 1.02%	2015-16 Base Grant (Target)	2016-17 COLA 1.60%	2016-17 Base Grant (Target)
K-3	$ 7,011	$ 72	$ 7,083	$113	$7,196
4-6	$ 7,116	$ 73	$ 7,189	$115	$7,304
7-8	$ 7,328	$ 75	$ 7,403	$118	$7,521
9-12	$ 8,491	$ 87	$ 8,578	$137	$8,715

This represents a second decrease in COLA for 2015-16, which has now declined from 2.19 percent to 1.58 percent to 1.02%, and a decrease for 2016-17, when COLA went up from 2.14 percent to 2.17 percent and now has decreased to 1.60%. As in the past, the County notes that the COLA affects only the calculation of the LCFF Target and does not describe the net increase in funding for each district. Thus, the base grant amount described above sets the target, and the difference between last year's actual per pupil funding amount (the "hold harmless") and the new target defines the "gap" to be filled.

County guidance regarding gap funding and the COLA is aligned with guidance from the Department of Finance (DOF). It is important to note that other financial advisors, including School Services of California (SSC), consider this to be an optimistic forecast and advise significantly more conservative revenue budgeting for future years. In addition, it is important to note that projections can fluctuate significantly as time progresses and actual revenues are collected. The chart below lists the COLA and Gap Closure projections published by the Department of Finance/LACOE and by SSC since December of 2014.

	2015-16			**2016-17**			**2017-18**		**2018-19**
	Dec.	**March**	**June**	**Dec.**	**March**	**June**	**March**	**June**	**June**
DOF/LACOE COLA	2.19%	1.58%	1.02%	2.14%	2.17%	1.60%	n/a	2.48%	2.87%
DOF/LACOE Gap Closure	20.68%	32.19%	53.08%	25.48%	23.71%	37.40%	26.43%	36.74%	20.97%
SSC Gap Closure	n/a	32.19%	53.08%	n/a	11.00%	12.62%	12.82%	18.24%	n/a

Following LACOE's guidance, the proposed budget reflects the higher (DOF) rate of gap funding along with the assignment of increased LCFF funds in future years, meaning that these funds are held aside as a component of the ending fund balance rather than being incorporated into the unassigned/ undesignated amount.

LACOE also notes that the gap funding percentages do not equate to a consistent increase for every district. Each district's increase is defined by its particular target and its particular gap. LACOE's calculations indicate that within Los Angeles County, actual increases in funding based on LCFF revenues between 2014-15 and 2015-16 will range from just over 5% to just under 19% per ADA. For Manhattan Beach, the increase is currently estimated to be 9.95%

Maintenance of Effort

For 2013-14 and 2014-15, a maintenance of effort provision was in place which required districts to continue to expend funds on ROP/C, Adult Education, and Home to School Transportation at the same rates as were in place in 2012-13. This requirement will no longer be in place in 2015-16, and each district will need to make a local determination as to the future of such programs. Districts will continue to be required to provide programs for career and technical education (and to include this component in their LCAPs). In Manhattan Beach, the Board has approved an amendment to the JPA with regards to the Southern California Regional Occupational Center (SCROC) and has agreed to contribute an amount equal to 50 percent of the 2014-15 CTE augmentation grant received by the District to support SCROC's operations in 2015-16. Any additional funding needed to support the operating budget for the coming year will be provided from adult fee revenues and existing reserves. The budget reflects this contribution, currently estimated at $310,600, along with additional funding in the amount of approximately $75,000 to support ROP teachers who will continue to teach ROP classes on the MCHS campus for the coming year. The budget does not anticipate either of these expenses continuing beyond 2015-16.

The District supports an Adult Education program run jointly with Redondo Beach Unified School District. This program includes a variety of classes made available to the adult community, including a very popular "Mommy & Me" program operating in several locations throughout the South Bay. For the 2015-16 school year, the District will contribute to this program by continuing to make facilities available for these classes. For 2015-16, these facilities will be provided at no cost to the program; RBUSD, which serves as the administrative and fiscal agent for the program, will contribute funds to support any and all other costs in excess of fee revenue collected.

The Governor's May Revision includes $500 million in new funding for an Adult Education Block Grant dedicated to funding adult education programs in 2015-16. MBUSD does not anticipate receiving any funding through this grant. In addition, beginning in 2015-16, districts will no longer receive per ADA Lottery Funding for Adult School ADA; this will result in a reduction for MBUSD, which received a proportional share of these funds received by RBUSD, but the reduction may be offset by corresponding increases in K-12 Lottery funding.

LCAP

Alongside the LCFF, as noted at the beginning of this report, the State last year implemented a requirement that each district develop a Local Control Accountability Plan (LCAP) intended to describe how the district will meet annual goals for all pupils, including high needs pupils, and how these plans tie to the District's budget. Before the budget can be formally adopted, the district is required to consult with its stakeholders to develop its plan, establish and gather input from a Parent Advisory Committee as well as its already established English Learner Advisory Committee, and hold a public hearing regarding the LCAP and its proposed budget. In reviewing a district's budget, county offices of education are required to determine whether or not the budget includes expenditures sufficient to support the actions and strategies described in the LCAP.

In September 2014 the State Board of Education (SBE) approved changes to the LCAP template and the regulations governing use of Supplemental and Concentration funds. While the LCAP developed and approved in 2013-14 was largely a reporting document, the current revisions mark the beginnings of the use of the LCAP as an accountability document.

In this transition, the State Board of Education (SBE) has reviewed draft rubrics for evaluating performance in these areas and will adopt final rubrics by October 1, 2015. Districts that do not make sufficient progress in these areas will receive advice and assistance from the new California Collaborative for Education Excellence and, if the Collaborative and the SBE determine it is necessary, will face intervention by the state superintendent.

MBUSD is in the process of has completed its LCAP review and development process and is presenting it alongside the budget for the 2015-16 fiscal year during the budget adoption process.

<u>Reserve Requirements</u>
As noted previously, Senate Bill (SB) 858 (Chapter 32/Statutes 2014) establishes new transparency requirements and contains a provision that will, under certain conditions, place a hard cap on the combined assigned and unassigned unrestricted ending fund balance. While there has been some discussion related to the challenges presented by this legislation, no changes have been made.

Therefore, beginning with budgets adopted by a school district for 2015-16, a district's public hearing for budget adoption must include the following for review and discussion:

- The minimum recommended Reserve for Economic Uncertainties (REU) for each fiscal year identified in the budget;
- The combined assigned and unassigned ending fund balances of the General Fund (Fund 01) and Special Reserve Fund (Fund 17), that are in excess of the minimum recommended REU for each fiscal year; and
- A statement of reasons that substantiates the need for an assigned and unassigned ending fund balance in excess of the minimum recommended REU for each fiscal year.

In addition, if the maintenance factor is fully repaid, the state funds Proposition 98 under Test I, there is sufficient Proposition98 funding to support enrollment growth and the statutory COLA, and a deposit has been made into the Proposition 98 reserve, the reserve cap provisions come into effect, and a school district's adopted or revised budget is prohibited from containing a combined assigned or unassigned ending fund balance in excess of either two times (for schools with 400,000 ADA or less) or three times (for schools with 400,001 ADA or more) the minimum required REU. The County Office may waive the prohibition, pursuant to specified conditions, for up to two consecutive fiscal years within a three-year period if the school district provides documentation indicating that extraordinary fiscal circumstances substantiate the need for the additional reserves. Documentation indicating extraordinary fiscal circumstances may include, but is not limited to, multi-year infrastructure or technology projects. The cap on reserves became operative on December 15, 2014.

Because the maintenance factor is not fully repaid and Proposition 98 may not be funded under Test I, it does not appear that the hard cap will be operative for 2015-16. Regardless, the public reporting requirements will be in effect beginning with the 2015-16 budget year. Given the Board's currently established reserve amount of 5%, a statement of reasons will be required. As noted previously, most financial advisers support the need for districts to maintain reserves at levels higher than the minimum recommended REU. LACOE concurs with this guidance and states

> *County Offices continue to reinforce the need for reserves over the minimum reserve requirements. The experience of the most recent recession has clearly demonstrated these minimum levels are not sufficient to protect educational programs from severe disruption in an economic downturn. The typical 3.0 percent reserve minimum represents less than two weeks of payroll for many districts. Many LEAs have established reserve policies calling for higher than minimum reserves, recognizing their duty to maintain fiscal solvency. The adequacy of a given reserve level should be assessed based on the LEA's own specific circumstances.* ***There are multiple benefits to carrying higher than minimum reserves****.* [Emphasis in original]

LACOE then goes on to list some of these benefits, including the need for financial flexibility to absorb unanticipated expenditures, protection against one-time outlays such as disasters, protection against state revenue volatility, cash flow, protection against declining enrollment and then states that this is not an exhaustive list and emphasizes the risk represented by state revenue volatility.

MBUSD's ending fund balance reflects an amount in excess of the minimum reserve requirement in all current budget years.

	2014-15 Estimated Actuals	Preliminary 2015-16 Budget	Projected 2016-17 Budget	Projected 2017-18 Budget
Minimum Reserve for Economic Uncertainties	$ 2,062,531	$ 2,058,448	$ 2,063,442	$ 2,107,385
Assigned/Unassigned Ending Fund Balance	$ 9,980,403	$ 9,564,703	$ 6,564,679	$ 4,165,730
Amount Over/Under Minimum REU	$ 7,917,872	$ 7,506,255	$ 4,501,237	$ 2,058,345

There are a number of factors that substantiate the need for MBUSD to maintain these higher balances:

- There is an ongoing structural deficit which results in declining reserves each year; even with the identified reserve balances, the District will need to develop an expenditure reduction plan for future years.
- In 2014-15 and 2015-16, the District is assigning a portion of local revenue per a joint use agreement with the City of Manhattan Beach, and in 2016-17 and 2018-19, per LACOE's guidance, the District is assigning that year's projected gap funding amount to protect itself against fiscal uncertainty and state revenue volatility.
- The Board has established a minimum reserve of 5%, 2% above the minimum REU; in the third year to the abovementioned structural deficit this reserve will need to be reduced to 3%.
- Averaging annual expenses over a 250-day work year, a 3% REU would last 7.5 days; no other expenditures were made, a 3% REU would provide for 9.5 days of payroll.

- Maintaining a healthy reserve allows the District some protection against unanticipated facilities issues, natural disasters, and other unforeseen needs.
- Maintaining a healthy reserve allows the District to avoid borrowing, and the associated costs, to meet cash flow needs.

Retirement Contributions

The Governor's budget continues to implement his plan for eliminating the estimated $74.4 billion CalSTRS outstanding liability within the next 32 years, a critical issue in ensuring that the system will be financially solvent and able to fulfill its commitments to current and future retirees. As they did in 2014-15, districts will experience an increase in employer contribution rates in 2015-16 and should plan to do so again in each of the succeeding years through at least 2020-21. In addition, the CalPERS Board continues to project increases to employer contribution rates for its retirement system as well, though through recent action CalPERS has reduced the size of the increase for 2015-16.

The table below reflects the projected increases to employer contribution rates for both CalSTRS and CalPERS. It should be noted that the rates will double over the next six years and that this increase will significantly impact the district's ability to utilize new LCFF funding to support increased and improved services. In January, School Services estimated that these increased costs will require the investment of nearly 24% of all new LCFF funds provided to districts.

	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
CalSTRS	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
CalPERS	11.77%	11.847%	13.05%	16.60%	18.20%	19.90%	20.40%

Mandated Costs

Districts have the option of participating in the Mandate Block Grant program, which provides a per-ADA allocation to offset the costs of state-mandated requirements imposed on districts. Comparing funding under the Mandate Block Grant program with the amount owed to the district under the traditional filing system, it has been determined that, while the receipt of this revenue may be indefinitely delayed, waiting for reimbursement under the traditional system will eventually result in a significantly higher amount of revenue; thus the district has opted not to participate in the Mandate Block Grant program. However, as noted previously, the District may consider participating in the future, depending upon how future one-time disbursements are made and whether district's individual claim filings are taken into account in determining the amount apportioned to each district.

The 2014-15 State Budget included $400 million in one-time funds to pay down a portion of the debt owed to districts for mandated cost reimbursement. The distribution of the mandate reimbursement was made on a per-ADA basis, and was apportioned regardless of whether or not the LEA had any prior year claims; MBUSD received $400,000 in funding through this source. In 2015-16 the Governor's May Revision includes $3.5 billion in what is now referred to as one-time unrestricted funds. These funds are unrestricted, will pay down a portion of the debt to districts for mandated cost reimbursement, and are recommended for use in supporting Common Core State Standards implementation. The Legislative

Conference Committee has recommended that this amount be reduced to $3.3 billion. This represents a reduction from $601 per ADA to approximately $567 per ADA. For MBUSD, the revenue amount represented by this range is between $3.8 million and $4.0 million. LACOE guidance is that if districts choose to recognize this as additional revenue they should have a contingency or alternative plan in place should these funds fail to materialize. MBUSD has chosen to recognize the additional revenue at the lower level of $3.8 million. If the one-time funds are provided at the higher rate, the additional revenue will be used to maintain a portion of professional development, services, and supply budgets that are currently projected to be reduced in 2016-17 and 2017-18. If the one-time funds do not materialize, the district's contingency plan will involve reductions in professional development, maintenance, technology, and materials and supply budgets as well as future reductions in staffing.

Principal Apportionment Deferrals

In his revised budget, the Governor continues to propose eliminating all remaining deferrals. LACOE reminds districts that repayment of deferrals provides one-time cash and not additional revenue.

Other Assumptions

Categorical Flexibility that was in place during the recession is now expiring. This includes the ability to reduce the number of instructional days from 180 to 175 along with the associated instructional minutes; in 2015-16 this provision sunsets. MBUSD has maintained 180 instructional days and meets all instructional minutes requirements. In addition, the flexible reduction of required contributions for routine maintenance from 3% to 1% will expire at the end of 2014-15; MBUSD already contributes at least 3% for this purpose. LACOE also notes that while deferred maintenance funding is incorporated within LCFF funding districts are still requied to maintain safe, clean and functional environments and recommends that districts "seriously consider setting aside funds in their budget for deferred maintenance activity."

Listed below are additional assumptions provided by the Los Angeles County Office of Education in their June 1, 2015 bulletin (# 4125), to be used in preparation of multiyear budget projections; the district utilizes these figures, with two exceptions. The district assumes flat funding on special education and categorical programs and assumes a higher CPI of 2.5% in 2015-16 and a lower CPI, also of 2.5%, in 2017-18, per prior Board direction.

It is also important to understand that gap funding percentages are not finalized until after the close of the fiscal year, when the state has received final ADA numbers and final revenue numbers; this information is then used to determine the actual amount of funding available and distributed to districts on a per-ADA basis.

2015-16 UPDATED BUDGET ASSUMPTION GUIDELINES
PROJECTIONS FOR FISCAL YEARS 2014-15 THROUGH 2017-18

Assumptions must be submitted to support data for the 2015-16 and two subsequent years. The guidelines indicated below are provided to assist you with projections for fiscal years 2015-16, 2016-17, and 2017-18.

LCFF REVENUE	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Statutory COLA / Net Funded COLA	0.85%	1.02%	1.60%	2.48%
Gap Funding[1]	29.15%	53.08%	37.40%	36.70%
SPECIAL EDUCATION AND CATEGORICAL PROGRAMS	**2014-15**	**2015-16**	**2016-17**	**2017-18**
COLA for Special Ed and Other Categorical Programs Outside of LCFF (on state and local share only)	0.85%	1.02%	1.60%	2.48%
LOTTERY REVENUE[2]	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Unrestricted	$128.00/ADA	$128.00/ADA	$128.00/ADA	$128.00/ADA
Restricted for Instructional Materials	34.00/ADA	34.00/ADA	34.00/ADA	34.00/ADA
Total Lottery Revenue	$162.00/ADA	$162.00/ADA	$162.00/ADA	$162.00/ADA
OTHER FACTORS	**2014-15**	**2015-16**	**2016-17**	**2017-18**
CalSTRS Employer Rates	8.88%	10.73%	12.58%	14.43%
CalPERS Employer Rates	11.771%	11.847%	13.05%	16.60%
Interest Rate for 10-year Treasuries	2.20%	2.50%	2.80%	3.00%
California Consumer Price Index (CPI)	1.80%	2.10%	2.50%	2.90%
Other Expenses (4000s – 6000s)	2013-14+CPI	2014-15+CPI	2015-16+CPI	2016-17+CPI

[1] There is no statutory requirement to provide Gap funding in any year; when projecting LCFF increases in the "out years" it is recommended that districts assign, reserve or otherwise set-aside any projected increase in LCFF revenues as a result of Gap funding or at least have a contingency plan in place if anticipated revenues do not materialize

[2] Lottery funding is based on actual ADA (e.g., excluding excused absences), multiplied by a statewide excused absence rate of 1.04446. For 2009-10 through 2014-15, 2007-08 ADA is used for Adult Education and ROC/Ps. **No additional lottery funding provided for Adult Education and ROC/P's ADA beginning in 2015-16.**

GENERAL FUND

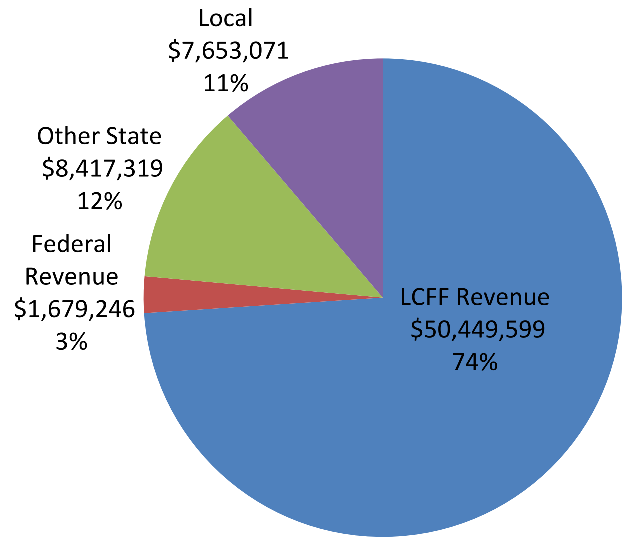
Multi-Year Projection

The district has developed an updated multi-year projection for the current and subsequent two fiscal years. This projection indicates that while the district will end the year with a significant reserve, ongoing deficit spending will result in diminishing ending fund balances and the district will go from approximately 13.5% in in its reserve and unassigned balances in the current year to 5.5% in 2016-17.

	2014-15 Estimated Actuals	Preliminary 2015-16 Budget	Projected 2016-17 Budget	Projected 2017-18 Budget
Revenues				
Revenue (LCFF)	$ 45,885,791	$ 50,449,599	$ 52,332,421	$ 54,398,273
Federal Revenue	$ 1,408,871	$ 1,679,246	$ 1,679,246	$ 1,679,246
Other State	$ 5,604,209	$ 8,417,319	$ 4,616,629	$ 4,616,629
Local	$ 11,416,931	$ 7,653,071	$ 7,153,071	$ 7,153,071
TOTAL REVENUES	**$ 64,315,802**	**$ 68,199,235**	**$ 65,781,367**	**$ 67,847,219**
Expenditures				
Certificated Salaries	$ 30,879,245	$ 31,677,981	$ 31,754,229	$ 31,760,043
Classified Salaries	$ 9,823,565	$ 10,180,615	$ 10,312,963	$ 10,447,031
Employee Benefits	$ 11,475,183	$ 12,450,053	$ 13,635,209	$ 14,890,047
Books & Supplies	$ 4,792,281	$ 2,357,680	$ 1,946,197	$ 1,765,027
Services/Other Operating Expenses	$ 10,348,027	$ 9,581,183	$ 9,298,256	$ 9,530,713
Other Outgo	$ 1,534,747	$ 1,498,608	$ 1,113,000	$ 1,113,000
Indirect	$ (102,000)	$ (102,000)	$ (102,000)	$ (102,000)
Debt Service		$ 970,815	$ 823,537	$ 842,307
TOTAL EXPENSES	**$ 68,751,048**	**$ 68,614,935**	**$ 68,781,391**	**$ 70,246,168**
Net Increase/ (decrease)	$ (4,435,246)	$ (415,700)	$ (3,000,024)	$ (2,398,949)
Fund Balance (Reserves)				
Net beginning fund balance	$ 14,445,649	$ 10,010,403	$ 9,594,703	$ 6,594,679
Ending Fund Balance	$ 10,010,403	$ 9,594,703	$ 6,594,679	$ 4,195,730
Non-Spendable				
Revolving Cash	$ (10,000)	$ (10,000)	$ (10,000)	$ (10,000)
Stores	$ (20,000)	$ (20,000)	$ (20,000)	$ (20,000)
Assigned/Designated				
3-year Escrow	$ 1,500,000	$ 1,500,000		
Gap Funding Assignment			$ 1,862,177	$ 1,409,070
REU (5%)	$ 3,437,552	$ 3,430,747	$ 3,439,070	
REU (3%)				$ 2,111,242
UNDESIGNATED ENDING BALANCE	**$ 5,042,851**	**$ 4,633,956**	**$ 1,263,432**	**$ 645,418**

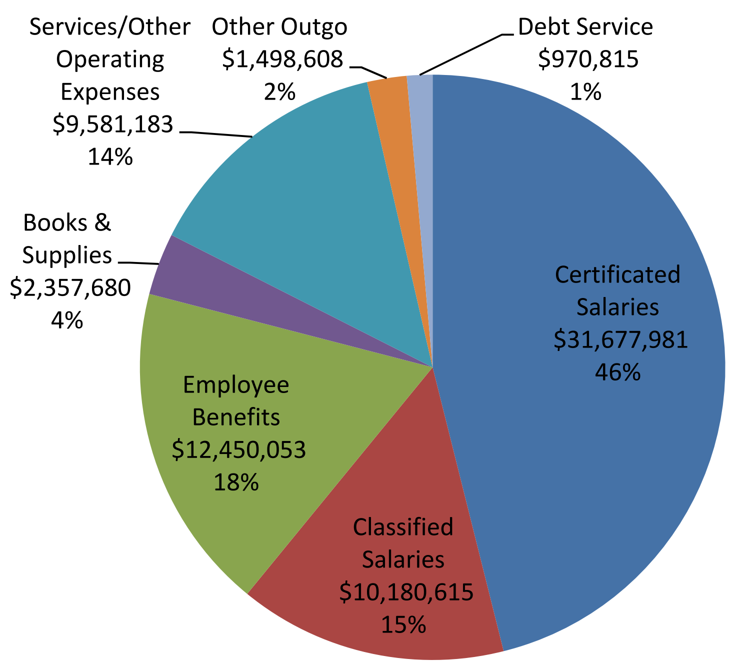
Revenue

The total projected General Fund revenue for 2015-16 is $68,199,235. This includes a gap closure percentage of 53.08% for LCFF funding, representing a total increase in this category of $4.6 million. This figure is based on an assumption of relatively stable ADA; the District currently projects an ADA figure of 6733. This number is lower than prior projections, before 2014-15 P2 attendance was certified, but still slightly higher than 2014-15 projected ADA. One-time revenue, which will also be considered mandated cost reimbursement, in the amount of $3.8 million is also recognized in the budget. Local revenue, projected at $7.65 million, is lower than the 2014-15 estimated actual revenue in this category because 2014-15 revenue includes one-time contributions from local groups including PTA's, the PTSA, and MBX. While these groups will likely continue to contribute generously in future years, their donations, and the associated expenses that their donations will fund, have not yet been defined.



Expenditures

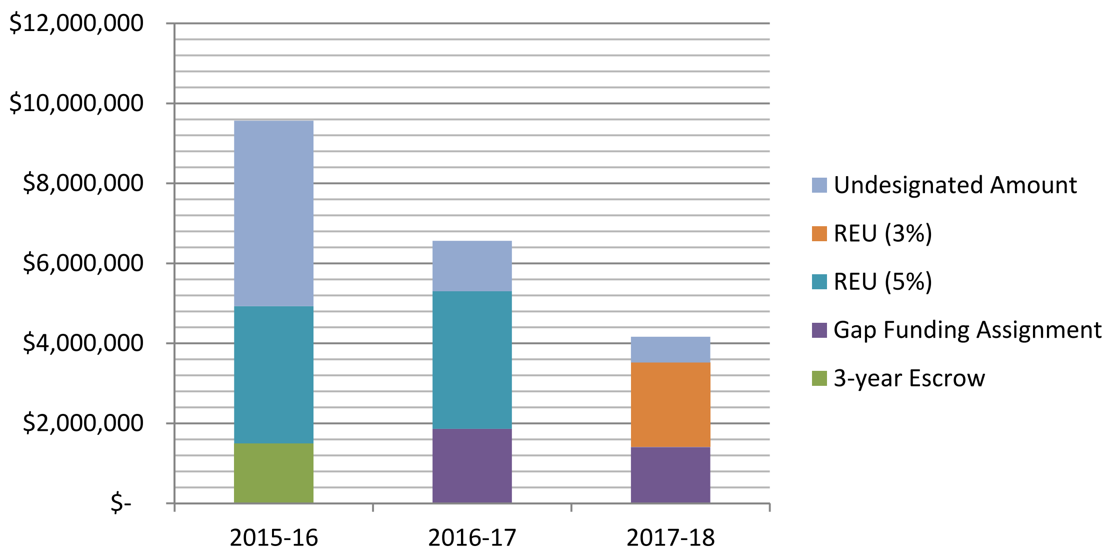
The total projected General Fund expense for 2015-16 is $68,614,935. This figure is slightly lower than projected 2014-15 expenses due to the one-time nature of some locally funded expenditures. This is offset by some increases in expenditures as well. As mentioned previously, STRS rates will increase by 1.85% and PERS rates will increase by 0.08%. In addition, health and welfare rates are increasing by an approximated overall 5.3%. In addition, the District has identified required certificated staffing



increases in order to support enrollment and student needs. The District is also planning to provide increased LCFF funding to support professional development, as Common Core Funding has now been completely expended, and to provide for the ongoing replenishment of classroom technology throughout all campuses. Due to identified facilities needs, the maintenance budget is also being replenished in order to address long deferred projects. Finally, as LCFF funding grows, including augmentation grants to support class size reduction to 24:1 at the TK-3 level, MBEF is reducing its class size grant and proposing to instead support new programs including professional development, an assessment coordinator, elementary physical education, support for the elementary orchestra program, Mind Up implementation funds, and STEM electives at MBMS.

Ending Fund Balance

As described earlier, the ending fund balance and multiyear projections reflect deficit spending in the current and subsequent two fiscal years ranging from $415,700 in 2015-16 to $3 million in 2016-17 and $2.4 million in 2017-18. This will result in declining ending fund balances, beginning with $10 million in 2014-15 to $4.2 million in 2017-18. Removing the assigned and reserved portions of this ending fund balance, the district can anticipate ending 2017-18 with a reduced REU of 3% and only $645,418 in undesignated funds.



This scenario assumes that the funds held in escrow through the district's agreement with the City of Manhattan Beach will be released in 2016-17. Uncertainty related to future funding levels suggests that ongoing fiscal prudence is advisable, and the district therefore continues to reserve higher than the minimum REU (until 2017-18 when this will no longer be possible) and to assign future gap funding increases. Further, due to the projected depletion of the ending fund balance, the district's structural deficit will need to be addressed in order to sustain current salary, staffing, and programs beyond the 2017-18 fiscal year.

Ongoing Concerns and Priorities

It should be noted that in future years, the District will need to address a number of funding and expenditure challenges both in the near and long term:

- A projected ongoing structural deficit that may jeopardize the District's ability to continue to maintain the required reserve for economic uncertainties
- The elimination of EPA (Proposition 30) funding over the years between 2016-17 and 2019-20.
- Ongoing increases to the District's contribution to benefits for STRS and PERS as these systems address their unfunded liabilities.
- Deferred maintenance needs as buildings and systems age.
- Additional staffing needs, particularly in the area of Maintenance & Operations and Security
- Other program enhancements or additions

OTHER FUNDS

In addition to the General Fund, the District receives revenues and makes expenditures in a number of other funds. Based on current projections, all funds continue to reflect a positive balance.

	Beginning Balance	Revenues	Expenditures	(Deficit)/ Increase	Ending Fund Balance
Cafeteria Fund (Fund 13)	$1,423,943	$1,987,500	$2,223,613	($236,113)	$1,187,830
Deferred Maintenance Fund (Fund 14)	$88,475	$490	$5,000	($4,510)	$83,965
Building Fund (Fund 21)	$732,309	$500	$600,000	($599,500)	$132,810
Capital Facilities Fund (Fund 25)	$577,760	$354,000	$920,090	($566,090)	$11,670
Capital Projects Fund (Fund 40)	$1,098,509	$15,000	$1,000,000	($985,000)	$113,509
Enterprise Fund (Fund 63)	$802,386	$3,888,000	$4,332,146	($444,146)	$358,240
Self Insurance Fund (Fund 67)	$103,114	$303,00	$33,472	($3,172)	$99,942
Retiree Benefit Fund (Fund 71	$344,777	$200	$67,900	($65,900)	$278,877

THE BUDGET REPORT

The following pages include the detailed budget documents. The budget format established by the State and LACOE and complies with the Standardized Account Code Structure (SACS) used throughout the state as well as any locally prescribed requirements.

Budget Forms

Each fund is reported separately in the SACS format and provides a columnar view of the adopted, current operating budget, expenditures based on the close of the prescribed reporting period, proposed budget, and the difference between proposed and approved operating budget. In addition to the columnar review of fiscal year change the budget is broken down by description of revenue, expenditures, excess (deficiency of revenue over expenditures), other financing sources, net change to fund balance for the year, and the resulting ending balance based on the beginning balance (prior year closing ending balance). Definitions are as follows:

Revenue: The primary financial source of a fund. Revenues are recognized when assets are increased without increasing liabilities or incurring an expenditures reimbursement.

Expenditures: The costs of goods delivered or services rendered, whether paid or unpaid, included expenses, provisions for debt. The expenses are to benefit the current fiscal period.

Other Financing Sources/Uses: Reporting of sources includes long-term debt proceeds, operating transfers in, and material proceeds of fixed asset dispositions. Reporting of uses includes operating transfers out.

Fund Balance: The difference between assets and liabilities. The fund equity of governmental and trust funds.

Criteria and Standards

The criteria and standards were created to develop, review, and assess school district and county office of education budgets and interim financial reports. They are intended to provide a measurement system for fiscal solvency on a periodic basis. The District's budget is measured against the stansdards, and a determination of whether the standards have been "met" or "not met" is made; this determination is intended to foster dialog, explanations and more detailed analysis on the part of the Board of Education, Staff, and the County Office in their review. The areas included are:

Standard Categories

1. Fund and Cash Balances
2. Reserves
3. Deficit Spending
4. Average Daily Attendance
5. Enrollment
6. Comparison of Enrollment to ADA
7. Local Control Funding Formula Revenue
8. Salaries and Benefits in Proportion to Expenditures
9. Changes in Other Revenues and Expenditures
10. Facilities Maintenance

Supplemental information

S-1 Contingent liabilities disclosure
S-2 Using one time revenues to fund ongoing expenses
S-3 Contingent revenues due
S-4 Contribution amounts
S-5 Long-term commitments disclosure
S-6 Unfunded liabilities
S-7 Temporary Interfund Borrowings
S-8 Status of Labor Agreements Disclosure
S-9 Status of Other Funds

Additional Fiscal Indicators

A-1 Negative Cash Flow
A-2 Independent Position Control

A-3 Declining Enrollment
A-4 Charter School Impact
A-5 Salary increases to COLA
A-6 Uncapped health benefits
A-7 Independent financial system
A-8 Fiscal distress reports
A-9 Change of CBO or Superintendent in a year

SACS Budget Report

The District's SACS Budget Report has been prepared and is presented simultaneously with the Budget Narrative; the documents are published and posted alongside each other to the Board and to the public.