TO: Caroline Lucas
FROM: Maurice Ghysels, Superintendent
Erik Burmeister, Assistant Superintendent
Ahmad Sheikholeslami, Chief Business and Operations Officer
CC: MPCSD School Board Members
Barbara Wood, Reporter for *The Almanac*
Sherwin Chen, Community Member of Finance and Audit Committee
RE: Answers to Questions Submitted Following November 17, 2016 Board Meeting
DATE: November 28, 2016

Below you will find detailed answers to your questions that you submitted to Erik Burmeister via email on November 21, 2017 following the November 17, 2017 Board meeting where you posed a list of questions to the Board. These answers are being presented to you at a meeting involving the district's Assistant Superintendent, Chief Business and Operations Officer, Community Member of the district's Finance and Audit Committee, and a reporter from *The Almanac*. You have also asked to invite another member of the community; a copy of these answers will be provided accordingly.

District staff have devoted dozens of hours, many during the Thanksgiving holiday, in preparing the answers to your questions. It is our expressed hope that in receiving these answers you will be able to allay community members' concerns that have approached you and share the noteworthy fiscal responsibility exhibited by district staff and the Board.

We look forward to your advocacy on the behalf of the district's children upon your entrance to the Board this Friday.

What is the amount of the unfunded pension liability?
The District participates in the State Teachers' Retirement System (STRS) and Public Employees' Retirement System (PERS). These are statewide pension plans for which the District does not have the authority to set benefit levels, determine contribution levels, nor make investment decisions. These are parameters controlled by the state. The pensions are funded by contributions from the employee, the employer, and the state based on current earnings. Recent years have seen a growing disparity between the projected future costs of the pensions versus the amount of income generated from contributions and investment returns. This is termed the "unfunded pension liability."

The Governmental Accounting Standards Board (GASB) issued a statement (GASB 68) that changes the reporting requirements for pension liabilities. It prescribes that employers must include in its audit report the pro-rata share of the state's unfunded pension liability beginning in 2015 (for the 2014/15 fiscal year). Prior to this, the unfunded liability for STRS and PERS was only recorded by the respective pension plan. GASB 68 is a reporting requirement only and is only reported in the District's audit report. These audit reports can be found on the District website.

A related reporting requirement that does affect the District's budget is the recording of the state's contribution towards "STRS on behalf" of local employees. This is essentially a pass-through that is recorded as both a revenue and expenditure, with a net effect of zero. A notable consequence of recording the "on behalf" payments is that it distorts the revenues and expenditures of recent years (2014/15 and forward) when compared with those of prior years before the District was required to do so.

In its audit report for the period ending June 30, 2015, the District reported a net pension liability of $32.7 million, including $28.1 million related to CalSTRS and $4.6 million related to CalPERS. It is important to note that:

- *Even though this line item appears on the District's balance sheet, this liability belongs to the state of California, not MPCSD.*
- *The "net pension liability" is an accounting convention that does not yet reflect the 2014 Funding Plan that was passed to address the CalSTRS unfunded liabilities.*

What does "net pension liability" mean? Net pension liability is an accounting standard that calculates the difference between the total assets and total obligations of a plan:

- Total assets: all funds held to pay current benefits and invested to cover future benefits
- Total obligations: all the benefits *already earned* by employees and retirees

If assets exceed obligations, the program is "fully funded." If obligations exceed assets, there is a "net pension liability." CalSTRS unfunded liability is estimated to be approximately $70 billion.

What is the current plan to eliminate it?
The state has the responsibility to ensure the solvency of the system. CalSTRS has been in existence for over 100 years, and it has historically been underfunded. After decade-long efforts to fill the gap, lawmakers took two important actions. First, the state reformed pensions in 2013 to reduce benefits for a employees hired after January 1, 2013 (prior benefit levels were grandfathered in for all employees hired prior to that date). Second, and more significantly, lawmakers successfully included a plan to fully fund CalSTRS as part of California's 2014-15 Budget Package. The CalSTRS 2014 Funding Plan mandates significant contribution rate increases across all sources of funding--teachers, school districts, and the state.

Prior to 2014, annual CalSTRS funding from all sources totaled approximately 19.3% of total teacher payroll. The 2014 Funding Plan established a schedule to nearly double that funding rate over time, to approximately 38.2% by 2021. (Employer, or district, rates were raised from 8.25% to 19.1% over seven years, teachers' contribution rates were raised from 8% to 10.25% over three years, and the state's rates were raised from 3% to 8.8% over three years.) This near-doubling of contribution rates is projected to remain in place for over thirty years -- permanent, for all intents and purposes. Prior to the 2014 Funding Plan, CalSTRS had expected to fully exhaust its assets by the mid-2040s. After the Funding Plan, it projected itself to be fully funded in that same timeframe. Any future adjustments and changes will be the responsibility of the state.

If the 2014 Funding Plan fails to fully address CalSTRS's unfunded liability, the state has very few potential levers to pull.

All would require new legislation:

- Draw more from the state's general funds
- Raise the contribution rates of employees and/or employers
- Reform/cut the benefits package (more challenging for current employees and retirees, less challenging for future employees; already done once in 2013)

Under any circumstance, potential adverse consequences for MPCSD are unlikely to be realized until after 2021 at the earliest. If the 2014 Funding Plan fails to achieve its targets, the primary risk to MPCSD is that the state passes new legislation that increases employers' contribution rates beyond the level set by the current schedule. Because rate increases have already been mandated through 2021, any potential further increases are highly unlikely to take place until after 2021. In fact, CalSTRS has already amended its policy once in November 2015 to hold district contribution rates at higher levels *after 2021* (20.25% of payroll) in scenarios where investments underperform projections.

Furthermore, year-to-year investment performance is highly unpredictable, so it would likely take several years before the state could even determine whether long-term investment performance is meeting expectations, and, consequently, whether changes in the Funding Plan are required.

MPCSD cannot unilaterally take further action to resolve the unfunded pension liability. Unlike cities, counties, and states across the US who are wrestling with their own underfunded public pensions, MPCSD cannot renegotiate pension benefits packages. It cannot raise the level of annual contributions. It cannot alter the fund's investment strategy. The only lever the District has is to set payroll, and, as previously stated, MPCSD is somewhat constrained even there.

Just as no individual taxpayer can eliminate the federal government's debt, no single school district has either the financial resources or the legal authority to eliminate CalSTRS and CalPERS unfunded pension liabilities. That power and responsibility rests with the state alone, and the state has implemented the 2014 Funding Plan for that purpose.

If community members feel strongly that underfunded public teachers pensions are an important policy problem, then the appropriate venue for addressing those concerns is the California state legislature. There is no alternative venue that can have a meaningful impact on pension fund solvency. To state the obvious, changing school district budgets has zero impact on pension fund solvency.

The best and most important action that MPCSD can take to address the STRS/PERS unfunded pension liability is to have a multi-year financial plan in place that (1) has adequate funding to cover all projected expenses, taking into account rising pension costs, and (2) builds and maintains an *adequate reserve that provides the District with enough short-term flexibility to react to adverse financial events.* Measures A and C would have addressed that need. Similarly, current consideration of a potential parcel tax and/or budget cuts is in direct response to a structural deficit that is, in part, a result of these rising pension costs.

What information has the public been given about the amount of the unfunded pension liability?
The District fulfills its statutory obligation for both plans with the contributions to STRS and PERS made each year. These contributions are included in the District's operating expenditures and are projected to increase in future years as prescribed by the state in its effort to address the unfunded pension liability as described above. These increases are included in the District's long-range budget model and are one of the driving forces behind the District's structural deficit in future years.

Staff has been discussing the impact from STRS Pension Reform 2014 from the outset at School Board meetings, clearly identifying the financial impact to the District in the coming years. The information about the STRS and PERS unfunded pension liability is a new reporting requirement under GASB 68. It is shown and made available in the District's audit report which is discussed in a public Board meeting and at the FA Committee Meeting. The 2015 Audit Report is the first year of implementation for reporting the unfunded pension liability and it includes in it the latest accounting requirements. The data is available on the District website: http://district.mpcsd.org/Page/1599.

What venues have been used for this education?
Like all issues related to the financial management of the district, the following avenues for transparent communication and education are always available: Board meeting attendance and minutes, Finance and Audit Committee attendance and minutes, and OpenGov.org. During the current discussions to address the District's structural deficit, education and communication has also included: six special Board meetings and minutes, three regular Board meetings and minutes, paid advertisement in local newspapers for attendance at these meetings, videotaping and posting of meetings, transcription of public comment, comprehensive FAQ's site, an online input form, a special email address to address specific questions, and a community wide survey sent to 20,000 residents and district parents.

What information has been given to the public about the plan to eliminate it?
The plan to eliminate the unfunded liability is the state's plan. This plan was put into action in the 2014/15 State Budget. Staff has been discussing the implications to the District at school board meetings and various other venues. Any member of the public has access to the information provided to the public simply by accessing OpenGov.org; Board meeting minutes, videos, and presentations on the District website; community input transcription, FAQ's on district website, and input documentation presented at the November 9 Board meeting.

What feedback, if any, has been received from the public about the plan to eliminate it?
We have not received specific feedback on the state's plan, however we have received general comments about the district's responsibility and increased burden under the plan. Feedback was

submitted in writing to the Board on November 9. Any member of the public has access to the feedback in the November 9 Board meeting minutes.

Given the current parcel tax options the district is considering, please clarify if these are taxes to address the unfunded pension liability, the salary increases or just enrollment growth/measure C renewal. How?

The proposed parcel taxes and/or reductions are necessary to address the District's structural deficit and expenditures, which include all the district's liabilities including pension costs and enrollment growth. The expiration of the 2010 Measure C will further reduce the District's revenue and will need to be addressed through a new parcel tax or reductions. Increased cost related to enrollment growth and increases to the District's pension obligation will need to be addressed regardless of whether or not the Board chooses to move forward with a parcel tax. Consideration of a parcel tax can be part of the solution to address these issues.

What will be the impact of proposition 55 on MPCSD? Will it receive any of these monies? What are your assumptions on this funding source? Your budget showed approximately $1.9 million in "one-time" state funding in 2015/2016 and your 2016/2017 budget shows $768,800 in one-time funding, with ongoing state revenue of $2,485,767 With the passage of Prop. 55, does MPCSD stand to receive any of these monies?

Proposition 55 continues the $200 per ADA for community-funded districts that was allocated under Proposition 30. (State-funded districts are allotted much more than that, but the amount offsets State Aid, thereby reducing the state's overall obligation for funding education.) Our projections assumed that Prop. 30 would be extended past 2018 when the temporary taxes would have expired. We currently receive about $580K from this source. Prop. 55 does not result in additional funds under our long range model.

The district has communicated to the public that it has made $923,000 in spending cuts. Are these actual hard dollar spending cuts or are these reductions in your planned growth rate of spending? The district has communicated to the public that it has made $923,000 in spending cuts. Are these actual hard dollar spending cuts or are these reductions in your planned growth rate of spending? Is it correct that $26,000 is an actual hard dollar reduction in spending and $897,000 is a reduction in the planned growth rate of spending. If not, could you please clarify.

The $927,000 reductions in planned expenditures and reductions from 2015/16 levels were made at the 2016/17 Adopted Budget approved by the Board in June 2016. The approved Adopted Budget is posted on the website. The item referenced in the questions regarding an approximate $26,000 reduction are related to AB 1200 (Public Disclosure of Proposed Collective Bargaining) in regards to the salary increases and adjustments that occurred after the 2016/17 Adopted Budget and are unrelated to the $927,000 in reductions. See below to better understand whether the the $927,000 in reductions were planned budget reductions or actual reductions from 2015/16 levels.

Amount	Reduction Description
$320,000	Salary savings from not hiring staff as planned to address enrollment growth and the new school

	opening. This included a full time night custodian and clerical support for the new school. Not hiring these positions has had an impact to the service the District's. Included in the positions that were not hired was a Mental Health Therapist. The services needed by the Mental Health Therapist are being provided by outside services as needed.
$90,000	Reduction of the technology budget. This is an actual reduction from 2015-16 spending levels. In order to accomplish this the District extended iPad rotations at the middle school and refreshed Macbooks with Chromebooks at the elementary sites. The 5th grade plan moved from 1:1 iPad to 1:1 devices with a mix of Chromebooks and iPads.
$85,000	Reduction in instructional materials budget. This is an actual reduction in the level of purchasing of classroom books by the C+I department. As a result of a changed learning model fewer classroom textbooks were needed.
$100,000	Elimination of instructional materials set-aside into an assigned reserve, which will fund $1.5 million dollars for the next three textbook adoptions which will occur over the next six years (estimated cost of $500,000 per book adoption). Currently, the District has set aside $1.3 million for this.
$100,000	Reduction of the Student Services budget. The projected Student Services budget for 2016-17 was reduced by $100,000 based on savings in contractual services with the close of fiscal year 2015-16. This essentially held the department at the same level as actual spending in 2015-16. It is important to note that if new high-cost students come to the District, the District is mandated to provide those services needed. Having sufficient reserves for these unforeseen events will allow the District to absorb any additional costs necessary.
$70,000	Reduction of maintenance budget. General Fund maintenance budget has been reduced. These costs have been transferred to the Routine Restricted Maintenance budget.
$75,000	Reduction of General Fund contribution to Routine Restricted Maintenance (RRM), per flexibility as allowed by the state through 2019-20. (Should a school facility bond pass on the November ballot all flexibility under this account will end and school districts will be required to budget the full 3% for RRM.)
$65,000	Reduction in contracted services, overtime, and stipends. This amount includes a reduction of $25K from 2015/16 levels and $40K of planned expenditures.
$22,000	The 2015/16 budget level was increased to include the new school and then the overall level was reduced by 4%. The reduction in utility costs are to be realized through energy savings. This is a target level.
$927,000	**TOTAL ongoing reductions beginning 2016-17**

How much does it cost MPCSD to educate a student?

The expenditure per student for 2015/16 (Total Expenditure/Total Enrollment) is $14,227. This does not include the State's on behalf contribution to STRS. This information is availble on OpenGov at https://mpcsdca.OpenGov.com/transparency#/9508/query=85245EC06264BBD9A93320CE7E36F478

What is the marginal cost of each additional student?

Currently, there are 67 children of teachers/staff, who do not live within the District, attending MPCSD. These 67 students are less than 2% of the District's total enrollment. While the highest number the District has served in recent years, the number fluctuates from year to year, while the percentage of total enrollment has stayed between .5% and 2% over the last 10 years. Most school districts, MPCSD included, determine staffing and other resource allocation based on enrollment. There are a few ways one could look at costs; in the short term, the costs are probably much less than the $14,294 average. On the low end, one could consider 67 students as necessitating three (3) classroom teachers. At an estimated cost of $130,000 (the average expense for one teacher in MPCSD), the total expense would be $390,000. In the medium to long-term, however, the District would adjust its staffing and resource allocation for the lower student enrollment, thus increasing the cost savings over time. Since the 67 students are spread out among all four schools in all nine grade levels and across all teachers, determining the costs of serving the 67 students is inexact. It is fair to say that the actual cost is actually somewhere between $390,000 and $957,698, and over time, the costs are closer to the $957,698.

How many employees' students were in the district in 2010/2011 and 2011/2012?
The total number of students enrolled from outside of the Tinsley program and MPCSD boundary for 2010/11and 2011/12 was 30 and 28, respectively. These numbers may include some non-staff students allowed to attend the District for specific reasons. As a reminder, Assistant Superintendent Erik Burmeister presented detailed information to the Board in a public meeting on October 18, 2016. At that time, the following information was presented to the Board.

Staff Interdistrict Students

School Year	Total #	Certificated	Classified	Other
2012-13	**25**	14	7	4
2013-14	**34**	23	5	6
2014-15	**40**	21	10	9
2015-16	**57**	37	9	11
2016-17	**67**	46	10	11

NOTE: Interdistrict enrollment fluctuates. Between 2001 and 2012, the highest year of enrollment was **52** in 2004-05; the lowest was **23** in 2007-08.

Other (Non MPEA & CSEA) are administrators, confidential, counselors, psychologists, and occupational therapists.

Staff Interdistrict Students Compared to District Enrollment

School Year	Interdistrict #	Enrollment	% of Overall Enrollment
2012-13	25	2799	<1%
2013-14	34	2903	1%
2014-15	40	2904	1%
2015-16	57	2943	2%
2016-17	67	3000	2%