

LCAP AND BUDGET



2016-2017 FISCAL YEAR



PUBLIC HEARING – JUNE 9, 2016
ADOPTION – JUNE 23, 2016

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TO OUR COMMUNITY

June 3, 2016

San José Unified continues to move forward together. Students, teachers, staff, parents, and community partners are moving forward together to eliminate the opportunity gap and provide every student with the finest 21st century education.

Anchored by the board of education's policy on equity and driven by the district's strategic plan, San José Unified is committed to ensuring that all students are inspired and prepared to succeed in a global society.

The accompanying Local Control and Accountability Plan (LCAP) and budget reflect that commitment. More specifically, they reflect the district's continuous efforts to:

- provide a high-quality and comprehensive instructional program;
- ensure students, staff, parents, and the community are both satisfied and engaged;
- demonstrate effective, efficient, and exemplary practices in all divisions, departments, and schools;
- attract, recruit, support, and retain a highly-effective and diverse workforce; and
- align resources to the strategic plan and equity policy and demonstrate cost-effective budget management.

Pursuant to California Education Code paragraph (1) of subdivision (b) of section 52062 and as required by paragraph (1) of subdivision (a) of section 42127, the San José Unified School District Board of Education shall hold a public hearing on Thursday, June 9, 2016 to solicit the recommendations and comments of members of the public on the accompanying Local Control and Accountability Plan and budget.

Further, and pursuant to California Education Code paragraph (2) of subdivision (b) of section 52062 and as required by paragraph (2) of subdivision (a) of section 42127, the San José Unified School District Board of Education shall adopt a Local Control and Accountability Plan and a budget on Thursday, June 23, 2016 and subsequently file that LCAP and budget with the county superintendent of schools.

On behalf of our colleagues throughout SJUSD, we are pleased to share the following information with you; we look forward to seeing you and hearing from you on June 9th and June 23rd; and we thank you for your ongoing support as we continue to move forward together.



Nancy Albarrán
Superintendent



Stephen McMahon
Chief Business Officer

EXECUTIVE SUMMARY

CONTEXT

Buoyed by the passage of California Proposition 30 in November 2012 and a revitalized state economy, the most drastic cuts to public education funding in California history are in the past. The San José Unified School District has embraced the opportunities that come with restored revenues by strategically investing in services to students and in the district's workforce. While revenues have changed dramatically in a relatively short period of time, California remains near the bottom of funding per pupil nationally. Further, the multiple millions in one-time funding from the state that the district has received will not support the escalating and on-going expenditures that are being mandated for the district by the state. While the last few years have been good for San José Unified, maximizing the educational experiences for students will necessitate the district continuing its prudent stewardship of the investments the community makes in our schools, with each investment based on San José Unified's 2012-2017 strategic plan, OPPORTUNITY21.

OPPORTUNITY21

San José Unified's 2012–2017 Strategic Plan, OPPORTUNITY21, builds on the district's past progress while offering many dramatic changes that are driven by rationality, research on effective practices, and a relentless focus on fulfilling the district's mission and realizing its vision. OPPORTUNITY21 includes five strategic objectives, key performance measures for accountability, and, more importantly, is anchored by the district's commitment to equity and providing a 21st century educational experience for all students. For the 2016-2017 fiscal year, the workforce will continue to be the priority strategy, with a particular focus on having each and every classroom staffed with a teacher on the first day of school.



LOCAL CONTROL FUNDING FORMULA (LCFF) AND LOCAL CONTROL AND ACCOUNTABILITY PLAN (LCAP)

The Local Control Funding Formula (LCFF) was enacted in 2013-2014. It replaced the previous kindergarten through grade 12 (K-12) finance system that had been in existence for 40 years. For school districts, the LCFF established base, supplemental, and concentration grants in place of the myriad of previously existing K-12 funding streams, including revenue limits, general purpose block grants, and most of the 50-plus state categorical programs that previously existed. The LCFF was originally projected to take eight years to fully implement, but implementation has been accelerated due to the current strength of California's economy. For the 2015-2016 fiscal year, the LCFF included the following components for school districts:

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- a base grant per average daily attendance (ADA) of \$7,083 for grades K-3, \$7,189 for grades 4-6, \$7,403 for grades 7-8, and \$8,578 for grades 9-12;
- an adjustment of 10.4%, or \$737, on the base grant amount for grades K-3, with SJUSD having a collectively bargained agreement for an annual average class enrollment to ensure receipt of these funds;
- an adjustment of 2.6%, or \$223, on the base grant amount for grades 9-12;
- a supplemental grant equal to 20% of the adjusted base grant for targeted disadvantaged students, with targeted students those classified as English learners (EL), eligible to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these three factors, this combination is referred to as the unduplicated count; and
- a concentration grant equal to 50% of the adjusted base grant for targeted students exceeding 55% of enrollment; based on its district-wide enrollment of 48% targeted students, SJUSD does not qualify for a concentration grant.

San José Unified works with the County Office of Education and School Services of California to develop multi-year LCFF revenue assumptions. The table below captures current projections.

LCFF	2015-2016	2016-2017	2017-2018	2018-2019
cost-of-living adjustment	1.02%	0.00%	1.11%	2.42%
funded average daily attendance (students)	31,070	30,442	30,137	29,747
percentage change in funded average daily attendance	–	(2.02%)	(1.00%)	(1.29%)
funding per average daily attendance	\$9,043	\$9,462	\$9,559	\$9,759
percentage change in funding per average daily attendance	–	4.63%	1.03%	2.09%

At the time of publication, the State of California has not adopted its 2016-2017 fiscal year budget. The preceding numbers will be revised if necessary based on the actual state budget. Complete information on San José Unified’s budget can be found in Appendix B and Appendix C of this document.

The Local Control and Accountability Plan (LCAP) is the annual process and document by which stakeholders are engaged in order to incorporate feedback and refine the implementation of the district’s strategic plan, making their input an integral part of the district’s effort to fulfill its mission and realize its vision. OPPORTUNITY21, San José Unified’s strategic plan, is at the heart of the LCAP. It was developed over a full year and included input from over 3,500 stakeholders during a series of staff, parent, and community meetings at every school site.

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The development of the 2016-2017 LCAP started with the five objectives of the strategic plan and used community feedback to refine the work on those objectives. SJUSD hosted approximately 30 sessions to collect input from staff, parents, students, and community members. This year, the engagement process began several months earlier than in prior years. This enabled members of SJUSD's District Advisory Committee (DAC) and District English Learners Advisory Committee (DELAC) more time and options to ask questions and provide input. In December, the district hosted a session that provided each DAC and DELAC member an opportunity to discuss with their site principal how the district's strategic objectives were being implemented at the individual school level. It was a beneficial experience that empowered parents to understand how the district-level strategies were changing actions, resources, and outcomes at school sites. The entire 2016-2017 LCAP can be found in Appendix A of this document.

BUDGET OVERVIEW

San José Unified continues to invest heavily in the priority objectives identified by the community – high-quality academics delivered and supported by high-quality staff. The district's most valuable resource, other than the students the district serves, is its workforce. The value of the district's 3,000 employees is emphasized in the 2016-2017 budget. Since the 2013-2014 fiscal year, the state has provided districts with a combination of ongoing funding and one-time funding. San José Unified has accordingly invested this funding in attracting, recruiting, supporting, and retaining a highly effective and diverse workforce. Total compensation to employees is projected to be \$59,179,971 more during the 2016-2017 fiscal year than it actually was for the 2013-2014 fiscal year, as shown in the table below.

EMPLOYEE COMPENSATION	2013-2014 ACTUALS	2016-2017 BUDGETED	PERCENTAGE INCREASE
Certificated Salaries	\$140,340,731	\$161,235,102	14.89%
Classified Salaries	\$44,912,739	\$54,719,363	21.83%
Benefits	\$60,381,944	\$88,860,920	47.16%
Total Compensation	\$245,635,414	\$304,815,385	24.09%

The 24.09% increase in total compensation is comprised of ongoing salary increases, one-time payments, health and welfare benefits, and statutory benefits. Given (a) San José Unified's commitment to and belief in a highly-effective and diverse workforce in order to achieve transformational outcomes for students, (b) the challenges facing a public-sector employer amid one of the world's most expensive places to live, and (c) a shortage of eligible employees, particularly teachers, San José Unified budgets will continue to prioritize investments in the workforce whenever and however possible. The district has competitive salaries and a strong health and welfare benefits system, see next section. Unfortunately, mandated and unfunded statutory benefits are straining the district's financial future, see CalSTRS and CalPERS below.

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EMPLOYEE BENEFITS

Each full-time employee in 2016-2017 will be allocated \$15,462 for health and welfare benefits. This amount automatically adjusts to reflect increases or decreases in state funding. The Health and Welfare Benefits Board (HWBB), which is comprised of up to three representatives from the district and up to three representatives from each of the exclusive unions/associations, oversees these funds. The HWBB is charged with designing health and welfare benefit plans and setting employee contribution rates for all employees at a total cost that is within the annually allocated amount. For the 2016-2017 fiscal year, the HWBB will offer employees a choice of a Health Maintenance Organization (HMO) medical plan, Kaiser, or a Preferred Provider Organization (PPO) medical plan, Foundation. In addition, employees receive dental coverage and life insurance. The cost of health and welfare benefits to a full-time employee remains the same as the prior year: \$0 annually for just the employee; \$1,200 annually for the employee and a dependent; \$2,400 annually for family coverage.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CALSTRS) AND CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

San José Unified's almost 2,000 certificated employees are members of the California State Teachers' Retirement System (CalSTRS). CalSTRS, the nation's second largest public pension fund with assets totaling approximately \$187.4 billion as of April 30, 2016, provides retirement, disability and survivor benefits for nearly 1 million pre-kindergarten through community college educators and their families. CalSTRS is funded through member contributions, contributions from the state, and contributions from employers like San José Unified, with all three rates determined at the state level. Facing a \$73.7 billion funding gap, Assembly Bill 1469 was signed into law by Governor Brown as part of the 2014-2015 budget. Under the CalSTRS 2014 Funding Plan, employer contributions will increase from the historic 8.25% rate every year for the next seven years, up to 19.1% in 2020–2021.

Similarly, the district's over 1,000 classified employees are members of the California Public Employees' Retirement System (CalPERS). The largest public pension fund in the United States at \$300 billion, CalPERS provides retirement and benefits to California state, school, and public agency members. CalPERS retirement benefits are funded through contributions paid by members, earnings from CalPERS investments, and contracting employers like San José Unified. San José Unified's contribution rates are determined at the state level by periodic actuarial valuations. For years, the employer contribution rate for CalPERS was under 10%. Beginning with the 2015-2016 fiscal year, CalPERS started to collect significantly increased employer contributions to address the system's over \$60 billion unfunded liability. This action is dramatically increasing the cost to employers such as San José Unified.

San José Unified has budgeted over \$31 million of general fund expenditures for CalSTRS and CalPERS in 2016-2017. San José Unified has no ability to mitigate the continually increasing employer costs of these statutory retirement systems without increased funding from the state.

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As shown in the table below, there is no Cost of Living Adjustment (COLA) projected from the state for 2016-2017 and the projected COLAs in future years will not keep pace with the increased employer contribution rates for CalSTRS and CalPERS. These mandated and unfunded costs will preclude the district from making other expenditures.

STATUTORY RATES	2015-2016	2016-2017	2017-2018	2018-2019
cost-of-living adjustment	1.02%	0.00%	1.11%	2.42%
CalSTRS rate	10.73%	12.58%	14.43%	16.28%
CalPERS rate	11.85%	13.89%	15.50%	17.10%

RESERVES

Districts with more than 30,000 students are required to maintain a reserve for economic uncertainties equal to at least 2% of the general fund and 3% when enrollment is fewer than 30,000 students. Beginning with the 2014-2015 fiscal year, the district began projecting for a 3% reserve based on projected enrollment declines. With the state's economic crisis having passed, San José Unified strategically invested reserves. However, the district's prudence and the state's accelerated investment in California's public education system allowed the district to maintain healthy reserves. While the district's prudence remains, the increased investments in public education from the state do not. Decreased funding projections from the state coupled with increased mandated and unfunded statutory benefits, see above, have dramatically impacted the district's reserves in future years. The district remains above the required minimum through the 2018-2019 fiscal year, as shown in the table below. However, these reserves are lower than desired and the district will be working to reduce ongoing obligations absent improved and ongoing funding from the state. As of the writing of this document, the Legislature continues to debate potential changes to the cap on school district reserves. The potential of the reserve cap being triggered, much like the CalSTRS and CalPERS increases, challenges the district's ability to locally plan for its financial future.

FUND 171	2015-2016	2016-2017	2017-2018	2018-2019
Total General Fund Expenditures (GF)	\$370,919,702	\$383,060,889	\$365,886,832	\$372,978,117
Minimum Required Reserve as a % of GF	3%	3%	3%	3%
Minimum Required Reserve in Total Dollars	\$11,127,591	\$11,491,827	\$10,976,605	\$11,189,344
Total Projected Special Reserves	\$71,580,539	\$45,875,364	\$25,974,126	\$12,526,473
Projected Reserves as a % of General Fund	19.30%	11.98%	7.10%	3.36%
Reserves Above the Minimum Required	\$60,452,948	\$34,383,537	\$14,997,521	\$1,337,129

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The district also maintains fund balances for specific purposes. Those balances and the need for them can be found in the table below. Additional information on each of these funds, including revenue totals, expense totals, and changes in fund balance, can be found on pages 131 through 145.

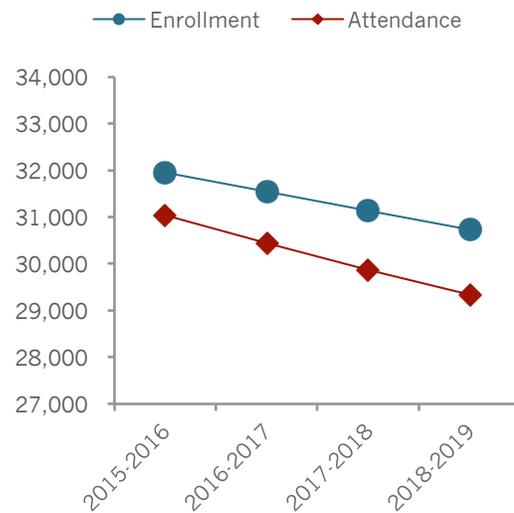
CATEGORY AND FUND	PROJECTED 2016-2017 FUND BALANCE	NEED
Unrestricted General Fund [03]	\$15,737,238	for the purchase of adopted textbooks
Local Grants [06]	\$330,546	local grant funds that are yet to be expended per the grant
Routine Repair and Maintenance [06]	\$7,854,989	for needed repairs and maintenance of district facilities
State Categorical [06]	\$1,974,510	state categorical funds that are yet to be expended per the categorical program
Special Education [06]	\$1,544	miscellaneous amount
Cafeteria [131]	\$1,658,062	for operating expenses to ensure no meal service disruptions
Building Fund [211]	\$2,872,869	for necessary construction of district facilities
Certificates of Participation (COPS) [214]	\$6,252,380	for final payment on quality zone academy bond (QZAB) for facility improvement projects
Measure H [215]	\$44,288,604	for Measure H projects
Developer Fees [251]	\$11,632,002	for improvement and expansion of district facilities due to enrollment growth
Workers' Compensation [671]	\$23,021	for workers' compensation needs
Health and Welfare [672]	\$3,729,643	for the self insured health and welfare benefit programs

In total, the district's projected \$140 million in reserves and fund balances for the 2016-2017 fiscal year leave San José Unified well positioned in the short-term. However, this total includes well over \$40 million in Measure H general obligations bonds and, as previously stated, future reserves are not as healthy as desired. Absent an improved situation at the state level that yields additional funding for school districts, San José Unified will need to continue to make prudent and strategic investments as well as address ongoing obligations in order to maintain its current strong position over the long-term.

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ENROLLMENT

Following several years of enrollment declines, San José Unified experienced a 2,000-student enrollment increase between the 2006-2007 and 2011-2012 school years. The district once again began experiencing enrollment declines beginning with the 2012-2013 school year and has seen those declines continue. The high cost of living in San José has disproportionately impacted enrollment in the district's northern schools as it has become prohibitively expensive for low-income families to stay in San José. As shown to the right and below, the declines are moderate, but they are projected to continue through the 2018-2019 school year.



SJUSD STUDENTS	2015-2016	2016-2017	2017-2018	2018-2019
total enrollment and change from prior year	31,951 38	31,539 (412)	31,132 (407)	30,730 (402)
average daily attendance and change from prior year	31,040 (27)	30,444 (596)	29,875 (569)	29,333 (542)
average daily attendance as a percentage of enrollment	97.15%	96.53%	95.96%	95.45%

STAFFING AND CLASS SIZE

Consistent with the Local Control Funding Formula (LCFF) and the district's strategic plan, there will be more counselors to support students in 2016-2017, resulting in a slight increase in overall certificated positions. Additionally, the district is transitioning from an external contractor to an internal service to support the transportation of students with special needs, producing an increase in classified positions. Total positions are projected to decline following these changes, commensurate with enrollment declines. The table below summarizes total full-time equivalent (FTE) positions:

FTE POSITIONS	2015-2016	2016-2017	2017-2018	2018-2019
certificated	1,905.47	1,914.00	1,905.00	1,895.70
classified	1,180.71	1,208.39	1,208.39	1,208.39
Total positions	3,086.18	3,122.39	3,113.39	3,104.09

Sites received staffing allocations for the 2016-2017 fiscal year driven by the LCFF and the district's strategic plan. Most notable are dedicated teaching and administrative positions

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based on a site's population of low-income students, English learners, and foster youth. Also of note is the continued investment in the Teacher Quality Panel (TQP) and other supports.

Teacher-to-student regular classroom ratios are set as follows for 2016-2017:

- transitional kindergarten = 26 to 1
- kindergarten through third = 30 to 1
- fourth through eighth = 31 to 1
- ninth through twelfth = 33 to 1

CHARTER SCHOOLS

The district continually monitors enrollment patterns at charter schools as charter school enrollment directly impacts the overall student enrollment patterns for San José Unified and, therefore, the district's revenue and expenses. Excluding Bachrodt Elementary School, the district's own charter, there are three district-authorized charter schools: Downtown College Prep High, Downtown College Prep Middle, and ACE Middle School. The enrollment of San José Unified students in these three charters totaled approximately 600 during the 2015-2016 school year. Charter schools authorized by the Santa Clara County Office of Education and operating within San José Unified boundaries are projected to have steady enrollment, with no additional schools opening in 2016-2017. The district is seeking ways to identify all boundary-resident students as the Santa Clara County Office of Education does not have a system for monitoring the enrollment of students by home district across the 23 charter schools it has authorized within Santa Clara County.

1% STATISTICS

The following table highlights a selection of measures that reflect the impact of a 1% change.

DESCRIPTION	2015-2016	2016-2017	2017-2018	2018-2019
revenue from a 1% cost-of-living adjustment (COLA)	\$2,809,581	\$2,880,375	\$2,880,713	\$2,903,028
1% increase in average daily attendance (ADA)	310 students	304 students	299 students	293 students
LCFF change for 1% increase in ADA	\$2,806,936	\$2,880,593	\$2,855,734	\$2,862,568
LCFF change per ADA from 1% COLA increase	\$90.43	\$94.62	\$95.59	\$97.59
1% general fund salary increase	\$2,117,261	\$2,171,904	\$2,233,023	\$2,264,626
1% of the general fund for special reserve	\$3,521,395	\$3,676,591	\$3,489,245	\$3,490,291