West Contra Costa Unified School District
Office of the Superintendent

Friday Memo
December 13, 2019

Upcoming Events – Matthew Duffy
December 13 & 14: Dance Performance, El Cerrito High Theater, 7:00 PM
December 17: AASAT Meeting, DeJean Library, 6:00 PM
December 17: Pinole Valley Choir Concert, PVHS Theater, 7:00 PM
December 17: Kennedy Family Winter Band Festival, Kennedy MPR, 6:00 PM
December 18: Board of Education Meeting, DeJean, 6:30 PM
December 19: Kwanzaa Ceremony & Dinner, DeJean MS, 6:00 PM
December 19: Kwanzaa Celebration & Potluck, Hercules MS Cafeteria, 6:45 PM
December 20: Minimum Day
December 23-January 3: Winter Recess
January 6: Classes Reconvene
January 10: Dance Concert, DeAnza Theater, 7:00 PM

Upcoming Agenda Items December 18 - Matthew Duffy
Board Annual Organization Meeting
Aspire RTA Decision
John Henry HS Decision

Gateway Presentation - Matthew Duffy
Due to the recent loss of a student, the Gateway presentation will be held over until January 2020 to allow more time for preparation. Thank you.

Budget Update – Tony Wold
At the Board meeting this week the Board approved the First Interim with a qualified certification. This certification, and the promise to make necessary reductions, is the first step toward the District moving forward toward resolving the current structural deficit. As we have presented the District is actively working with the Contra Costa County Office of Education and is in consultation with the Fiscal Crisis Management & Assistance Team (FCMAT) to ensure that our process is following best practices and is manageable toward building a balanced budget in the future. In addition, the District has obtained the support of School Services of California to provide independent third-party support regarding financial information for our negotiations process. Our approach will continue to utilize five strategies: funding shifts, reserves, cuts, investments and advocacy to meet our financial obligations.

With the ability of paying the retiree benefits directly from the Other Post Employment Benefits (OPEB) trust, and the utilization of one-time funding received from the State and Fund 17 reserves the District will be able to resolve the current year deficit of $39.9 million though one-time funding shifts and reserves. This allows us to move our focus beginning in January toward the adoption of solutions to meet the necessary reductions required for the 2020-2021 school year of $47.8 million in reductions.

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As we have presented to the Board the first round of cuts will be focused on non-salary where the District will begin bringing forward groups of recommendations to the Board starting in January and at subsequent meetings until we meet a goal of significantly reducing those expenses with a minimum of $6 million in ongoing reductions. Our next area of focus will be to identify reductions in management staffing. That process follows legal notification deadlines, but the goal will be to identify approximately $4 million in ongoing reductions. In addition, the District will work to identify a reduction of discretionary budgets of an additional $2 million.

With those reductions the District will still need to work with our associations to identify an additional $36 million in ongoing reductions. Beginning in January 2020 the District and each of the associations will begin to negotiate options for those reductions. To ensure that this process fully evaluates the impact of all reductions it is anticipated that this process will take two full years to implement. As was discussed in the advocacy presentation there are several scenarios at the State level could impact the revenue received by the District which would potentially alter the targets of reductions required. Our approach will be to use a combination of negotiated cuts and the utilization of the OPEB trust to directly pay the retiree obligation in 2020-2021 to allow the negotiated cuts to be completed over this two-year process and not decimate necessary programs that serve our students and allow the advocacy portion of our solutions to provide some solutions while remaining the focus on student achievement in these trying times.

The January 15th Board meeting will include a report on the results of the survey, the annual audit and the first round of non-salary reductions presented to the Board along with a summary of the Governor's January Budget proposal. Due to the timing of the Governor's proposal, this information will be presented at the time of the meeting and will not be part of the agenda packet.

In the past several months the District has engaged multiple community groups and board committees including the DLCAP, AASAT, MDAC, Solutions Team, Retirees, Site Administrators and the DBEC. In addition, the District has obtained input from the survey and participated in the community question and answer period. Moving forward, the bulk of the reductions will require time spent in negotiations with each of the associations. The District will continue to engage with each of our stakeholder groups during this process but it must be understood the impact of this work on staff's time and balance the timelines of multiple Board meetings with the time to produce relevant information for this process. The priority of resources must be focused on completing the negotiations process. This process will require a significant time commitment from both our Business Services and Human Resources leadership in the months of January and February. For these reasons the staff is recommending, to the extent possible, that we limit the number of committee meetings over the next couple of months to focus on the deep work necessary to shore up the budget. In addition, the timing is aligned perfectly to identify some time to discuss governance and future communication strategies, possible through some Board retreats in the coming months. The District remains committed to bringing forward the required reductions for Board consideration based upon the timelines that we have outlined.

Other Post Employment Benefits (OPEB) Trust - Tony Wold

There have been several questions regarding the utilization of the Trust for the Other Post Employment Benefits (OPEB) in the current and subsequent school year. In 2017, the District contributed unallocated reserve funds to the trust to be in place for a future year when these funds may be needed to pay the ongoing requirement to pay for retiree health benefits. The District has not touched those reserve funds since making the transfer. Due to the circumstances of the budget this year and next the District will be paying the retiree liability of approximately $15.6 million from the trust and will document the accounting of this payment for all stakeholders. The District is currently in the process of obtaining an updated actuarial report and attached is the most recent report from 2018 for review. This report was also referenced in the Standard and Poors review of the District finances later in this letter.

Coalition of Adequate School Housing (CASH) and State Allocation Board (SAB) lawsuit update – Tony Wold

We wanted to provide the Board with an update on the current status of the case. On September 16, 2019, the Court issued a statement of decision finding the State Allocation Board abused its discretion in failing to provide school districts on the 2012 unfunded list Construction Cost Index (CCI) adjustments. A proposed judgement in favor of all school districts on the 2012 Unfunded list was submitted, but the SAB counsel objected on the grounds that only the 6 school districts that initiated the case were entitled to the CCI adjustment. The Court on November 22, 2019 issued an order that CASH's associational standing to represent all school districts on the Unfunded List was to be briefed for a hearing on December 20, 2019. A copy of the Court Order of November 22, 2019 is attached.

Terry Tao, on behalf of the districts that were not part of the original lawsuit (one of which is West Contra Costa Unified) has filed a brief addressing CASH's standing to represent the interests of all the 2012 Unfunded List school districts and noted that it is a waste of judicial resources to require each of the school districts that did not initiate litigation to commence a separate litigation just so the Court can issue the same ruling as the September 16, 2019 statement of decision.

The hope is that the Court will agree with our position which will secure a future SAB agenda addressing the missing CCI adjustment. Our expectation is the SAB will be required to follow the Court order and issue CCI adjustments depending on whether the Court orders CCI adjustments for the 6 school districts or all of the 2012 Unfunded List school districts.

Regardless of the Court's order, They intend on making statements during open session that the SFP regulations require the CCI adjustment for all school districts on the 2012 Unfunded List. Politically, we believe this will be compelling to the members since the history of the CCI adjustment issue before the SAB reflects efforts to keep the CCI adjustment away from the Board. In fact, appeals to the SAB to address the CCI adjustment were summarily rejected by the Chair representing only the Department of Finance. In fact, at the September 25, 2019 SAB meeting, the Chair made an announcement on how disappointed she was with the result of the CASH v. SAB case likely because the SAB members were not kept informed on the court hearing or the possibility of an adverse ruling.

Also, there may be concerns on the part of the Board that the SAB's positions were not brought before the Board, but instead, handled by the Department of Finance Chair directly.

We are pleased that Terry Tao and CASH are working to support the interests of the West Contra Costa Unified School District and will continue to update the Board as we receive more information on this process and whether the results will return additional State matching funds to the District to support our construction program in the future.

Standard and Poors Affirms the District Bond Rating – Tony Wold
We recently completed a review with Standard and Poors regarding our bond ratings and after reviewing our financials as well as having a discussion about our process of needing to make budget reductions the overall rating was maintained with a change in outlook from positive to negative. Below is the full narrative and analysis of the independent rating of our District's financial situation:

West Contra Costa Unified School District, California

S&P Global Ratings revised the outlook to negative from positive and affirmed its 'AA-' long-term rating and underlying rating (SPUR) on West Contra Costa Unified School District (USD), Calif.'s general obligation (GO) bonds outstanding.

The outlook revision reflects our view of the district's operating deficits in fiscal years 2018 and 2019, and projected deficits through 2022. In our prior review, we had anticipated that the district would maintain its strong very strong reserve position and realize its plans to eliminate projected budgetary gaps. Updated projections for fiscal 2020 reflect a deficit of $39.9 million, or nearly 10% of expenditures, primarily following increasing expenditure pressure (particularly from state-mandated cost-of-living adjustments and rising pension contributions) and revenue challenges stemming from negative enrollment trends. We understand the district will likely utilize a portion of its available reserves and accumulated other postemployment benefit (OPEB) trust assets to fill the 2020 deficit, which may have the effect of reducing available reserves to levels we consider adequate at less than 4% of expenditures. Management has highlighted plans to reduce costs with the 2021 budget to align recurring revenue and expenditures. However, the negative outlook reflects our view of the district's budgetary challenges, emphasized by the magnitude of the projected 2020 deficit. The outlook also reflects our view that reserves may fall to levels incommensurate with the current rating, combined with the district's comparatively high debt burden, anticipated difficulties in strengthening reserves given the size of the deficit, and slowing economic growth.

Revenue from unlimited ad valorem taxes levied on property within the district secures the district's GO bonds. The Contra Costa County Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment.

The rating reflects our view of the district's:

- Strong local economy with extremely strong wealth and above-average income indicators and participation in the broad and diverse San Francisco Bay Area economy;

- Additional revenue flexibility provided through the voter-approved assessment district program and parcel tax, which was recently extended for a 10-year period; and
- Good financial management policies and practices.

Partly offsetting the above strengths, in our view, are the district's projected budgetary deficits, declining reserve position, and comparatively high debt burden and debt service carrying charges.

Economy and tax base
West Contra Costa USD serves an estimated population of 249,441 in the cities of El Cerrito, Hercules, Pinole, Richmond, and San Pablo, as well as several unincorporated communities and unincorporated areas in western Contra Costa County. Given the district's location roughly 15 miles northeast of San Francisco, residents have access to the large and diverse employment base throughout the San Francisco Bay Area. The local economy is primarily residential, and includes a sizable industrial and commercial component. In our opinion, median household effective buying income is strong at 119% of the national level and per capita effective buying income is good at 105%.

The district's assessed value (AV) has grown steadily since fiscal 2014, reflective of what we believe to be a robust housing market recovery, and increased by 30.2% over the past five years to $32 billion in 2019, surpassing its pre-recession peak. At $126,367, the district's market value per capita is extremely strong, in our view.

We consider the tax base very diverse, with the 10 largest taxpayers--a mix of industrial, retail, and residential properties--accounting for nearly 13% of AV. Chevron USA Inc., the leading taxpayer, represents over 10% of total AV. Chevron's AV has exhibited some volatility in the past, which has led to fluctuations in the district's tax base. Most recently, in 2014, the district's tax base declined by 6% as a result of an assessment readjustment of Chevron stemming from a fire at the refinery and a reassessment resulting from a prior error by the county. In an effort to create more predictability in AV by minimizing swings in the AV of the large taxpayer, the county and Chevron have agreed to an annual meet-and-confer process to determine Chevron's AV, a process we believe will help reduce some of the volatility in the district's AV.

Financial profile
General purpose funding for California school districts is determined by a formula based primarily on average daily attendance (ADA), grade levels served, and share of students served that are English language learners, low- to moderate-income, or foster youth. Most school districts are funded through a combination of state general fund revenue and local property tax revenue, up to the amount determined by formula. For these districts, increases or decreases in ADA can lead to corresponding movements in general purpose funding under the formula. The district's ADA has declined 4.8% over the past five fiscal years and stood at 26,403 in fiscal 2019. Management attributed the recent gradual decline to the opening of several new charter schools within the district and a slowing birth rate. The latest enrollment projections show limited changes. Additionally, under the state funding formula (the Local Control Funding Formula), districts are projected to receive additional supplemental grant

funding for high-need populations. The district reports that about 74% of its enrollment qualifies for such funding.

The district ended fiscal 2017 with a slight surplus after budgeting for a deficit. However, state funding has not kept up with expenditure increases, and state-mandated raises--including a 3.26% cost-of-living adjustment for fiscal 2020, other increases in compensation to remain competitive, and declining enrollment--produced a tenuous financial environmental starting in fiscal 2018. In terms of revenue, with changes to CalSTRS and CalPERS employer contribution rates, approximately 70% of new LCFF revenue has gone toward pension contributions. The district realized operating deficits in 2018 and 2019, and is projecting a sizable deficit in fiscal 2020 that will be reported on its first interim report. General fund expenditures of $401.0 million are higher than the originally budgeted figure of $360.2 million.

To fill the gap of $39.9 million in 2020, the district plans to utilize as much as $15.6 million from its OPEB trust to offset a like amount of OPEB pay-as-you-go contributions and will fill the remaining balance of approximately $24.3 million from reserves.

The deficit in 2019 reduced reserves to 10% of expenditures. In fiscal 2020, the projected use of reserves will likely draw down the available reserve position to less than 4% of expenditures, after accounting for the one-time use of the OPEB trust. Without the use of the OPEB trust, the unassigned balance would likely end with a negative balance.

To balance to the 2021 budget and to attempt to restore reserves, management highlighted a strategy to reduce expenditures, including contracted services and other non-salary, general fund items. The district also plans to work with its collective bargaining units to identify personnel cost savings. However, given the size of the 2020 deficit, we believe the budgetary gap will be difficult to close. We believe the current stage of the economic cycle exacerbates this pressure. This is highlighted by S&P Global Ratings' view of an increasing odds of a recession occurring over the next 12 months, at 30% to 35% compared with 25% to 30% in the prior quarter, as reflected in our report "U.S. Business Cycle Barometer: Recession Risk Rises," published Aug. 15, 2019 on RatingsDirect.

If the district is unable to balance its budget starting with fiscal 2021, the district’s available reserves will likely be negative. The state requires minimum available reserves equal to 3% of expenditures, and failure to maintain this balance may result in a "qualified" status determination by the state. If this scenario is to occur, we could lower the rating by one or more notches.

Financial management practices
S&P Global Ratings considers the district's management practices good under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Highlights of key policies and practices include the district's robust budgeting and budget amendment practices, including the utilization of several years of historical lookback and data from external resources. Management's forecasts include an informal additional two years beyond the state requirement of the current plus two future years, and are presented to the Board for budgeting

decisions. Management monitors its budget and presents the Board with budget-to-actual performance four times annually. The district also maintains a formal facilities master plan, which identifies both cost estimates and potential funding sources for its list of prioritized capital needs through fiscal 2024 and is maintained by the district's separate facility and financing subcommittee. The district has adopted basic debt management policies and adheres to state investment policies, and the Board reviews investment holdings and earnings annually at audit adoption. In addition to the 3% state minimum reserve requirement, the district has a reserve policy of maintaining a reserve for other than capital outlay of no less than 6% of expenditures, though we note it may not meet this target in fiscal 2020.

Debt and post-employment liabilities
The district's overall net debt is high, in our opinion, at $8,063 per capita and 6.4 % of market value. We consider the district's debt service carrying charge, at 19.2% of 2018 expenditures excluding capital outlays, elevated compared with that of other districts in the state and nationally. Reduction in debt service charges is limited given the district's relatively slow amortization and utilization of capital appreciation bonds. According to management, the district has around $130 million in remaining GO authorization and may issue approximately $130 million in 2020 for various projects. Management also notes the potential to ask voters for nearly $600 million in additional GO debt authorization.

Pension and OPEB highlights:

- We view pension and OPEB liabilities as a near-term source of credit pressure for the district given lower funding levels and our expectation that costs will increase.
- While the district's pension contributions are set to increase for the next few years, the statutory funding policy for the district's larger pension plan mitigates the risk of dramatic cost escalation given that the state is required to absorb a portion of future cost increases.
- The district has recently exceeded its actuarially determined contributions toward its OPEB liability, allowing it to build a comparatively small trust. However, the district plans to spend down most of the accumulated trust assets in 2020 to finance pay-as-you-go expenditures.

West Contra Costa USD participates in the following plans:

- California State Teachers' Retirement System (CalSTRS): 71% funded with a net pension liability of $204 million;
- California Public Employees' Retirement System: 71% funded with a net pension liability of $113 million; and
- Single-employer OPEB plan with limited OPEB trust assets following their use in fiscal 2020. The 2018 OPEB liability stood at $252 million.

The district's pension and actual OPEB contributions totaled 11.4% of total governmental fund expenditures in 2018, with 4.9% representing required contributions to pension obligations and 6.5% representing OPEB payments. However, we note that OPEB expenditures for 2018 are inflated given the decision to accumulate OPEB assets. The district's actual 2018 statutorily required CalSTRS contributions fell short of both static funding and minimum funding progress, indicating that the district's pension liability is increasing each year. However, the statutory funding plan requires the state, which is responsible for about a third of districts' unfunded pension liability, as well as districts to increase contribution rates through 2021 to achieve full funding by 2046. Given that legal discretion for CalSTRS to increase rates to address any new unfunded liability caps district contributions only slightly above the 2021 level, we believe the state will absorb a portion of rate increases beyond the current schedule. This limits the risk of dramatic cost escalation to districts, but increases will occur nonetheless. If actuarial assumptions are not realized, existing authority to increase state contributions may not be sufficient to eliminate new unfunded liabilities generated before 2046 without additional increases to district contribution rates beyond the existing legal limit.

Outlook

The negative outlook reflects our view that there is a one-in-three likelihood that we could lower the rating over the outlook horizon. All else equal, should the district fail to align recurring revenue and expenditures with its 2021 or 2022 budgets and should the district realize a negative reserve position, we could lower the rating by one or more notches. We could revise the outlook to stable if the district is able to develop a structurally balanced budget in fiscal 2021 and if its multi-year projections highlight growth in available reserves.

CASBO Northern Section Holiday Meeting – Dr. Tony Wold

CASBO held their Annual Holiday Meeting December 12 at the Castlewood Country Club in Pleasanton. A highlight of this event is the “Magnificent 7 Outstanding School Employees Award”. I want to take a moment to honor Gustavo Aguilera, Principal Accountant in Business Services, as this year’s top award recipient. Gus was honored as an individual who has made an outstanding contribution in the area of school business. Gus not only works hard, he motivates staff to be better and strive to do better in the best interest of the 28k+ students they serve.

2019
MAGNIFICENT 7 WINNER

Gustavo Aguilera

Principal Accountant
West Contra Costa
Unified School District

West Contra Costa Unified School District
Office of the Superintendent

Budget Forum Engagement - Marcus Walton
The District budget forum engaged several hundred community members at the live meetings and several thousand more online. Here are a few statistics regarding the event:

We had 240 people sign the sign in sheet at the seven locations. Please note that well over 100 people were in the audience at DeJean, but only 86 signed in so there were some people missed. We received a total of 210 questions. There were 174 submitted at DeJean or at one of the satellite locations, 12 via email, and 24 from Facebook or Twitter.

On Twitter, more than 27,000 unique people saw #WCCUSDBudget and there were a total of 79 tweets using that hashtag from 46 contributors. Through Facebook, we reached 2,100 people on Monday, Dec. 9, with 1,404 watching all or some of the live stream, and about 500 more watching some of the archived video. In addition, our overall campaign publicizing the forum reached 12,581 unique people, with nearly 2,000 clicks on the content and 266 comments, likes, and shares.

We received 12 questions regarding the budget via email.

As of Friday at Noon, 1,161 survey responses had been received. Of those, 18 were on the Spanish survey.

We are unable to determine the number of people who watched the KCRT live stream or on the local cable channels.

California Dashboard Released – Marcus Walton
The California Department of Education released a new California School Dashboard in five languages this week (English, Spanish, Chinese, Tagalog, and Vietnamese). The California School Dashboard (https://www.caschooldashboard.org) is an online tool designed to help communities across the state access important information about K–12 schools and districts. The California School Dashboard reports on six state measures and five local measures.

The District improved in College/Career, Graduation Rate, and Suspension Rate. The District maintained in English Language Arts and Mathematics. Chronic absenteeism increased by 1.2%.

More detail about the District metrics (including school-by-school results) can be found at https://www.caschooldashboard.org/reports/07617960000000/2019.

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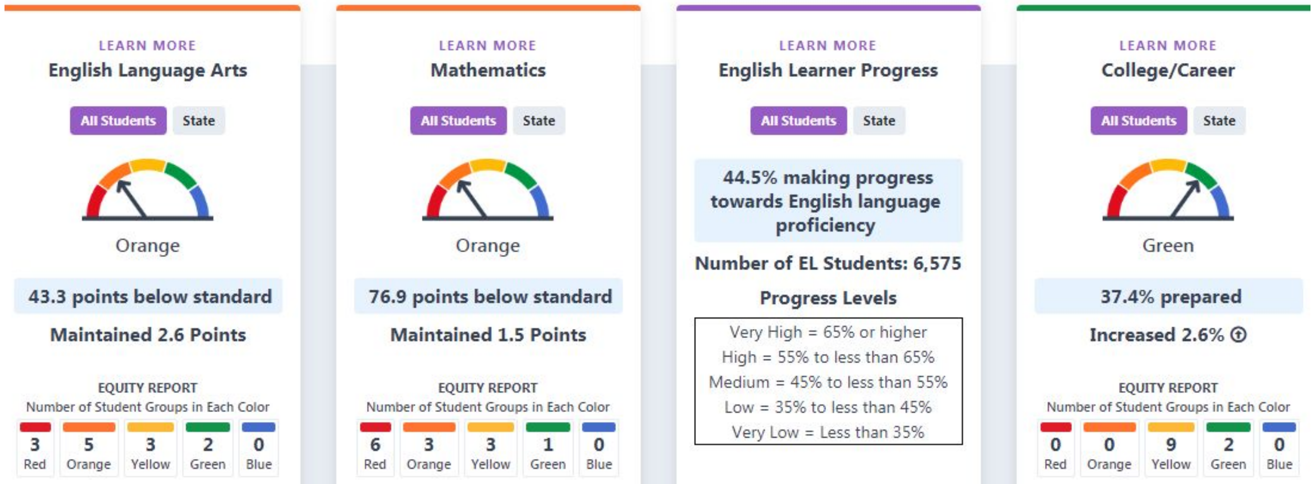
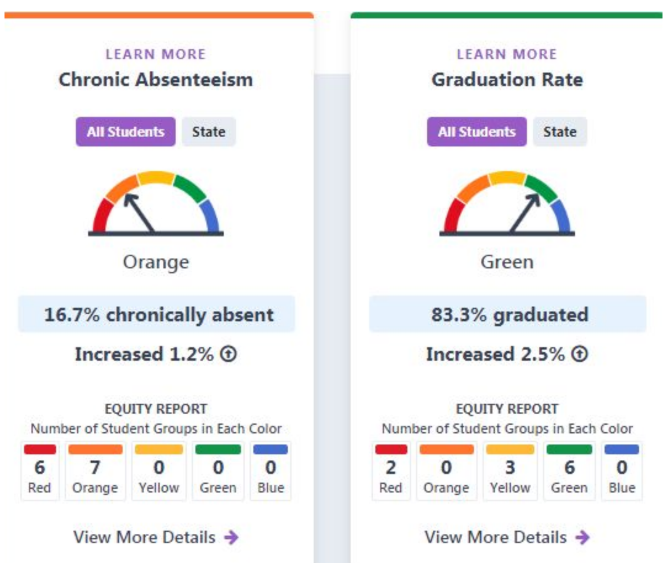
WCCUSD 2019 Performance Overview

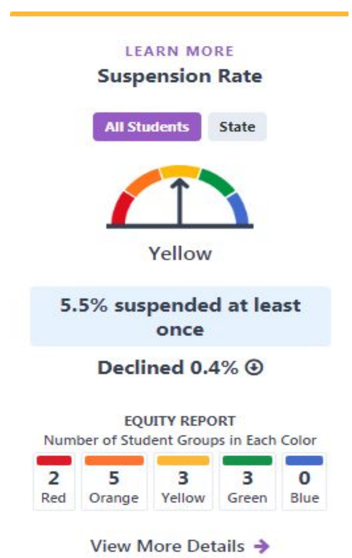
Academic Performance



Academic Engagement



Conditions & Climate



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WCCUSD 2019 Student Group Report - This report displays the performance level (color) for each student group on all the state indicators.

Student Group	Chronic Absenteeism	Suspension Rate	Graduation Rate	College/Career	English Language Arts	Mathematics
All Students	Orange	Yellow	Green	Green	Orange	Orange
English Learners	Orange	Yellow	Red	Yellow	Red	Red
Foster Youth	Red	Red	Yellow	Yellow	Orange	Orange
Homeless	Red	Red	Yellow	Yellow	Red	Red
Socioeconomically Disadvantaged	Red	Yellow	Green	Yellow	Orange	Red
Students with Disabilities	Red	Orange	Red	Yellow	Orange	Red
African American	Red	Yellow	Green	Yellow	Red	Red
American Indian or Alaska Native	Orange	Orange	None	None	Orange	Orange
Asian	Orange	Green	Green	Green	Yellow	Yellow
Filipino	Orange	Green	Green	Yellow	Green	Green
Hispanic	Orange	Orange	Yellow	Yellow	Orange	Red
Native Hawaiian or Pacific Islander	Red	Orange	None	None	Yellow	Yellow
White	Orange	Green	Green	Green	Green	Yellow
Two or More Races	Orange	Orange	Green	Yellow	Yellow	Orange