Pleasanton Unified School District

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Communication

2019/20 Second Interim Budget Report

March 10, 2019

Board of Trustees Meeting

Pleasanton Unified School District

Business Services Memorandum

To: Board of Trustees

From: Ahmad Sheikholeslami, Assistant Superintendent of Business Service
Thomas Gray, Executive Director of Fiscal Services

Date: 3/10/2020

Re: 2019/20 Second Interim Budget Report

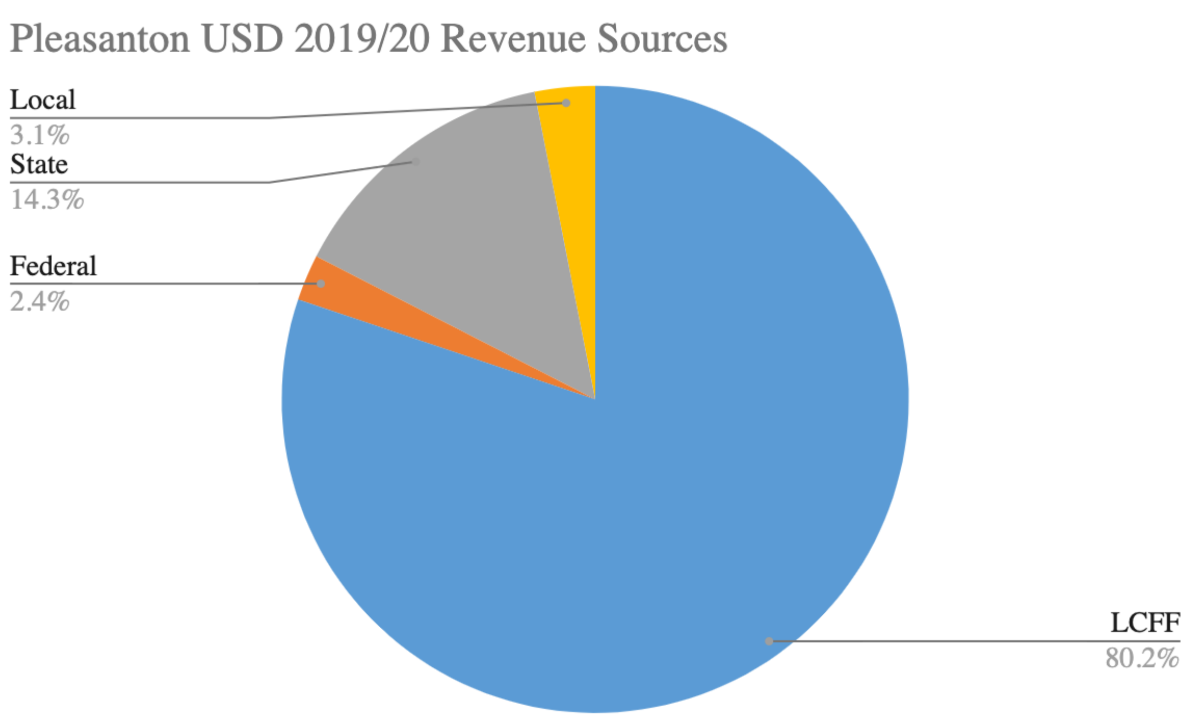
Executive Summary

The Second Interim Report is the latest update to the 2019/20 Budget. The Board of Trustees is required to certify the financial condition of the District for the current and two subsequent fiscal years when the budget is adopted (June) and at the two interim reporting periods during the school year (December and March).

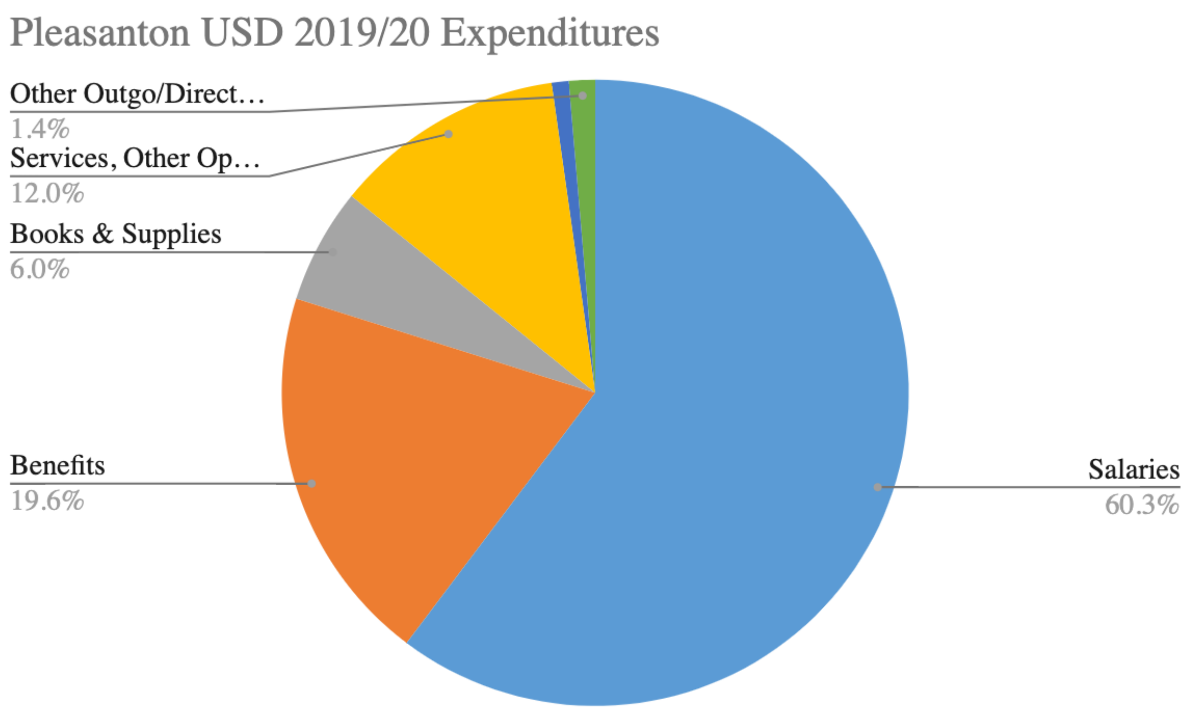
The Second Interim Report is the last budget update for the 2019/20 cycle. Along with the adoption of the 2020/21 Budget in June the staff will also include an Estimated Actual Budget for 2019/20. The Second Interim Budget includes revenue increases of about $620,000 mainly driven by local donations and expenditures increases of $2.7M which includes compensations increases negotiated with Association of Pleasanton Teachers (APT), expenditures as a result of donations, and increased special education costs.

The Second Interim Report indicates that the District can maintain the required 3% reserves for economic uncertainties for the current fiscal year and through 2021/22 meeting the required budget certification requirement. The Second Interim Budget included the negotiated compensation increase for 2019/20 with APT and placeholder amount for CSEA and Management. The Undesignated/Unappropriated General Fund balance will be 3.42% above the minimum 3% for economic uncertainty, for a total of 6.42%.   However, in the out years the balance will be spent down with only about 0.13% above the minimum 3% (total 3.13%) for economic uncertainty in 2021/22.

The District's total Second Interim General Fund revenue is $169,992,282 of which $26,259,358 is restricted. The District is heavily dependent on State funding with the Local Control Funding Formula (LCFF) / Property Tax making up 80.2% of the funding. It is important to note that while our local property tax base is strong it does not translate to additional monies to PUSD because local property tax only provides 54% of the LCFF with the State contributing the remaining portion.



The District's General Fund expenditures is projected to be $180,678,564 with 80% of District expenditures allocated to District personnel. There is a net $10,686,281 deficit spending which is partially a result of carryover from 2018/19 that has increased the expenditures in Books and Supplies and Services by $2.6M. The total expenditures in the Second Interim includes the negotiated compensation increase for 2019/20 with APT. It does not include the compensation increases for CSEA and Management as they are currently in negotiations.



Summary of Second Interim Budget Adjustments

The Second Interim Budget includes the following changes from the First Interim Report. Key changes are highlighted below (amounts are rounded):

- $0.620 million net increase in revenue
    - Approximately $40K reduction in LCFF funding due to lower enrollment/ADA
    - Approximately $450 reduction in State Funding mainly due to changes in SPED funding (District impact $150K, SELPA impact $160K)
    - Approximately $950K increase in Local Revenue from donations

- $2.74 million net increase in expenditures
    - Changes in staffing costs from the continued work in position control.
    - Negotiated compensation increase with APT.
    - Increase the expense budget by the amount received from the donations
    - Increase contracted services to meet the needs of students with an IEP.

Not included in the Second Interim Budget is the cost associated with the possible negotiated compensation increases with CSEA and Management. The potential additional compensation has been calculated outside of the budget in Multi-Year Projection to ensure the minimum Economic Reserve rate of 3% is met through 2021/22.

Budget Model and Multi-Year Projection

While the annual budget and updates provide important information for the current year planning it is also extremely important to evaluate the District's multi-year budget planning to be able to assess the fiscal health of the District. The multi-year budgets are also part of the State budget submission requirement. The budget model includes the following key assumptions:

- **Enrollment and Average Daily Attendance (ADA)**
  The LCFF formula is driven by the average daily attendance (ADA). The District historically has about a 97% attendance ratio to enrollment. The Second Interim Report ADA for 2019/20 is 14,271 and has not significantly changed since First

Interim. However, based on our latest enrollment projection study (March 2020) from Davis Demographics, the ADA has been updated in the multi-year projection. The new study shows a slight increase in 2020/21 and flat enrollment for the next several years. The projections are lower from our 2019/20 Adopted Budget and First Interim. The enrollment is projected to be lower by about 200 students (approximately $7.8M in LCFF revenue) for 2020/21 and 2021/22. Enrollment is projected to grow by 100 students from current numbers next year and more in the out years as new housing projects come online.

- **Local Control Funding Formula Factors (LCFF)**
  The chart below shows the key LCFF assumption that drives funding. Critical to the estimated revenues are the projected Cost of Living Adjustment (COLA). The LCFF formula is fully funded so any additional funds will come from the COLA or changes to the DIstrict's supplemental funding. The LCFF is sensitive to the State's economy. Any economic downturn that might result in State cuts may result in a reduction to the LCFF. The Governor's Proposed 2020/21 Budget revised the COLA assumption downward from First Interim from 3.0% to 2.29%, which is a significant reduction and impact to our multi-year budget planning. The combined impact of lower ADA in 2020/21 and reduced COLA have reduced our LCFF revenue projections by $3.9M or 2.3% of our total projected revenues.

Local Control Funding Formula Assumptions			
	FY 19/20 (current)	**FY 20/21**	**FY 21/22**
Enrollment	14,891	15,003	15,035
ADA	14,271	14,395	14,443
COLA	3.26%	2.29%	2.71%
Unduplicated as % Enrollment	16.92%	17.36%	17.04%
Grades K-3 $/per Student	$7,702	$7,878	$8,091
Grades 4-6 $/per Student	$7,818	$7,997	$8,214
Grades 7-8 $/per Student	$8,050	$8,234	$8,457
Grades 9-12 $/per Student	$9,329	$9,543	$9,802
K-3 Grade Span Adj $/per Student	$801	$819	$841
9-12 Grade Span Adj $/per Student	$243	$248	$255
Supplemental Grants	20%	20%	20%

Gap Funding Percentage	100%	100%	100%

- **Other State Funding**

  The District receives minimal additional State funding. The two main sources of funding are Lottery and the Mandated Block Grant. For the Lottery, the estimated revenue is $207 per ADA. For the Mandated Block Grant the current rate is $32 per ADA for grades TK-8 and $62 per ADA per grades 9-12.

  Since Budget Adoption, the District has received an additional $42 per ADA from the Tri-Valley SELPA to bring us to the Statewide average in per pupil funding. Also, the District received $730K in one-time funding from the Early Intervention Preschool Grant for 2019/20.

  The additional SELPA funding is included in the multi-year adjustments. The Governor's Proposed 2020/21 Budget does include a proposal to further increase the Statewide average for special education but the details of this have not been clearly defined and are therefore not included in the multi year budget assumption at this time.

- **Staffing**

  The budget includes staffing adjustments to the 2020/21 school year to align enrollment and staffing. The District increased staffing in 2019/20 for anticipated enrollment growth that did not materialize as a result adjustments are needed in 2020/21. Further refinements will be made as the 2020/21 Budget is developed..

  Salaries

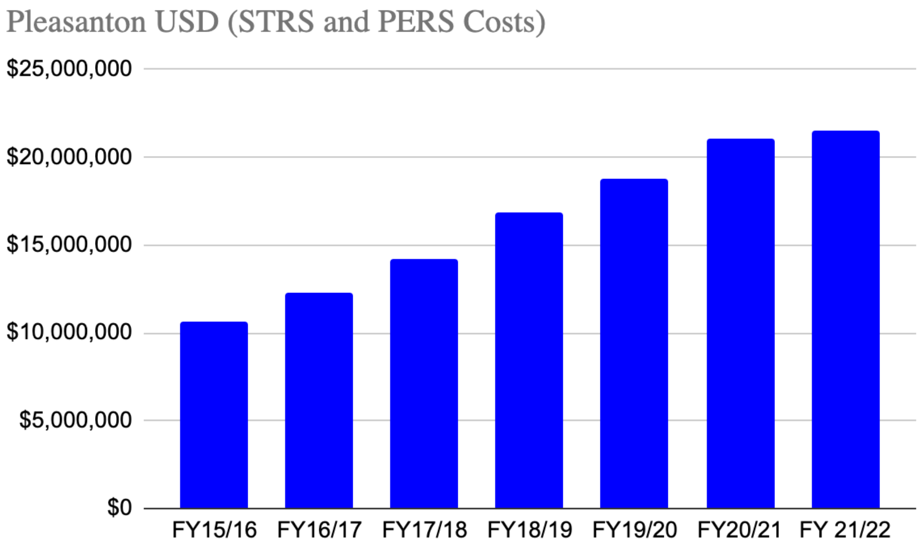
  Salaries and benefits typically make up approximately 80-85% of operating expenses. Compensation increases include several components. The first component is employee movement on the salary schedule. When hired, staff are placed on a salary schedule depending on their experience and education. Certificated staff (teachers) can move on this schedule both in experience (steps) and increased education (columns). There are 20 steps and 5 columns. Column movements are based on earned education credits. The classified salary schedule has annual step increases until step 5, after which longevity increases occur every five years. Based on historical data the District has budgeted 1.5% in salary increases for step/column movement. As part of this update, staff has also included in the model savings from retirements (about 10 annually). Retirees usually retire at the top of the salary schedule and new staff are hired at the beginning of the salary schedule netting the District some savings.

The second component is negotiated compensation increases. The current budget model includes the negotiated compensation increase for APT for 2019/20 and placeholder for CSEA and Management. No other placeholder has been included in the model for the out years compensation increases.

- **Pension Increases**
  One of the driving forces of the District's budget is the mandated increase in State pension costs. The District participates in two State pensions: the State Teachers' Retirement System (STRS) for credentialed personnel and the Public Employees' Retirement System (PERS) for non-credentialed personnel. Certificated salaries, which are subject to STRS, make up approximately half of total District expenditures and almost 80% of total salaries. Increases in STRS rates have a more significant impact on the budget than PERS.

  In 2014, the State legislated STRS pension reform which increased employer contributions for the first time in over 40 years. The employer contribution for STRS had previously been held steady at 8.25% of certificated salaries. With Assembly Bill 1469, the employer contribution is raised from 8.0% to 19.1% over the course of seven years, beginning in fiscal year 2014/15. Last year, legislation was signed by Governor Newsom to provide State dollars to provide relief to Districts by bringing the STRS unfunded liability down. As a result, the STRS employer rate for 2019/20 is 17.1%. For 2020/21, the rates are planned to increase 1.3% to total of 18.1%.

  PERS employer rates are projected to increase from the current rate of 19.72%. They are projected to increase to 22.8% and 24.9% in 2020/21 and 2021/22, respectively. PERS rates are adjusted annually and they will be updated as the PERS Board takes action.



- **Other Post Benefit Employment (OPEB) Costs and Retirement Incentive Cost**
  In addition to retirement benefits employees will receive through STRS and PERS, the District's provides OPEB benefits for employees that meet certain requirements of work years and age. The District pays these obligations on a pay as you go basis from the general fund about $1M annually. The District has also set aside about $6.7M towards this ongoing obligation. Annually, the District prepares an Actuarial Report (GASB 75) on these obligations. The District should explore transferring the OPEB set aside funds to a specialized OPEB fund like the CalPERS CERBT fund to reduce its obligations. It should further explore ways to reduce its long term commitments as well. The District also provides an Retirement Incentive that annually cost the District from the general fund about $400,000 to $500,000. The District should explore ways to reduce this annual expense as well.

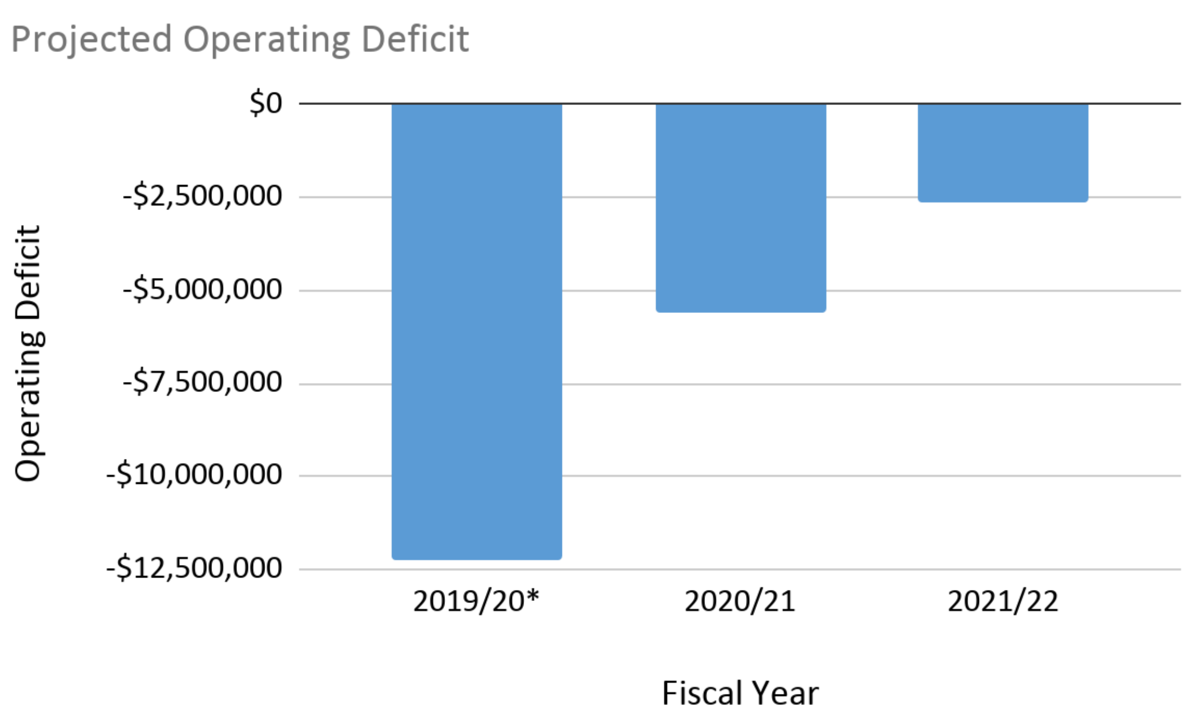
- **One-time Monies**
  The budget assumes that expenditures on programs and salaries that are coming from one-time source funding and allocations do not continue and end once the funds are depleted.

Multi-Year Projection Reserves

General Fund: Economic Uncertainty and Undesignated/Unapportioned

Fiscal Year	2019/20	2020/21	2021/22
Reserves, % of Expense	6.42%	4.00%	3.13%
Projected Reserve Totals	$11.62 million	$6.91 million	$5.43 million

While the District does meet its required 3% reserve level in 2021/22, there is significant deficit spending that will need to be addressed by the District in the coming fiscal years.



The 2019/20* Fiscal Year includes carryover spending from 2018/19 and therefore increasing the current years deficit spending. Out year projections indicated reductions in the deficit spending but they are still significant and can not be sustained beyond 2021/22.

Other Funds Key First Interim Adjustments

All other funds will end the year with a positive fund balance. The Bond Measure funds are in Fund 21. As the Bond projects pick up work this funds will see more expenditures and changes.

Conclusion

While the 2019/20 First Interim Budget has the required minimum 3% economic uncertainty reserve balance and there is additional undesignated/unappropriated balance to meet expenditures needs for the current and subsequent years, the District is deficit spending in 2019/20 and 2020/21. Based on the Legislative Analyst Office 2015 report on School District Reserves, districts of our size have about a 10 - 15% reserve level. Reserves are important because they allow the District to weather economic downturns and manage its cash flow. It is also important to note reserves are one-time in nature and that no level of reserve can manage continued deficit spending.

The staff has made significant progress on position control and budget accuracy in the last few months. Further work is required in this area. While the District is projected to grow in enrollment it is significantly less than the previous projection. Additionally, the projected COLA adjustment for 2020/21 is lower than previously expected. These two adjustments have significantly decreased our projected LCFF revenue in the out years by about $3.9M. Revenue increases from COLA adjustments in the LCFF are unable to meet the growth in expenditures. Expenditure growth is mainly driven by increases in salaries and benefits/pensions.

The Governor has released his Budget for 2020/21 and it will be updated in May 2020 and approved in June 2020. The current Budget does not include significant new sources of revenue. It includes a reduced COLA for 2020/21 and some additional funding around special education and grant funds. Staff will be turning their attention to budget development for the 2020/21 Fiscal Year. In the next few months staff will finalize staffing allocations and develop department and school site budgets based on enrollment projections, program needs, and educational goals. Staff will also be meeting with the Budget Subcommittee during the budget development process.The goal for this process is to improve accuracy and transparency to assist the

Superintendent, Board of Trustees, and all stakeholders to better understand the budget and help drive informed decision making.

The 2020/21 Budget along with the Local Control Accountability Plan (LCAP) will be presented for a Public Hearing at the June 10, 2020 Board meeting and be brought back for approval at the June 24, 2020 Board meeting.

Attachments

Multi Year Budget - Attachment C
General Fund Variance Report - Attachment D
All Funds Report - Attachment E
SACS Reports - Attachment F