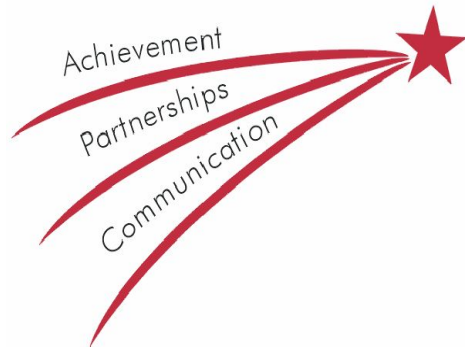


Pleasanton Unified School District



2019/20 First Interim Budget Report

December 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, Director of Fiscal Services

Date: 12/10/2019

Re: 2019/20 First Interim Budget Report

Executive Summary

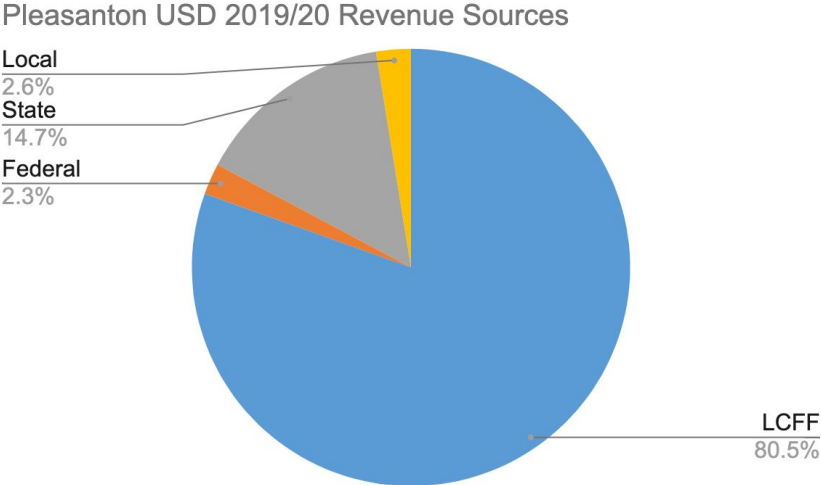
The First Interim Report is the first of two updates to the 2019/20 Adopted Budget. The Board of Trustees is required to certify the financial condition of the District for the current and two subsequent fiscal years when the budget is adopted (June) and at the two interim reporting periods during the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

The First Interim Report typically reflects the most changes of the two interim reports. Since the budget was adopted in June, the State enacted its 2019/20 budget, the District's financials for the prior fiscal year were closed and balances carried forward into the current year, and enrollment and staffing were finalized with the start of school. These changes are highlighted below and details are included in the attached reports.

The First Interim Report also reflects the District's larger ending fund balance from the 2018/19 unaudited actuals which resulted in increased expenditures for 2019/20.

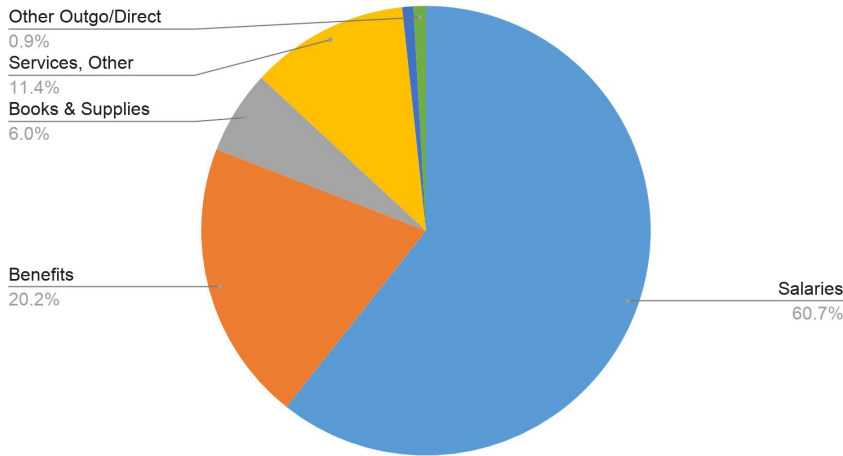
The Interim Report indicates that the District can maintain the required 3% reserves for economic uncertainties for the current fiscal year and through 2021/22 meeting the required budget certification requirement. The First Interim Budget further indicates that pending ratification and approval of the negotiated compensation increases with APT, the Undesignated/Unappropriated General Fund balance will be 3.07% above the minimum 3% for economic uncertainty, for a total of 6.07%. However, in the out years the balance will be spent down with only about 0.20% above the minimum 3% (total 3.20%) for economic uncertainty in 2021/22.

The District's total First Interim General Fund revenue is \$169,372,213 of which \$25,814,227 is restricted. The District is heavily dependent on State funding with the Local Control Funding Formula (LCFF) / Property Tax making up 80.5% of the funding.



The District's General Fund expenditures is \$177,942,044 with 81% of District expenditures allocated to District personnel. There is a net \$8,569,831 deficit spending which is partially a result of carryover from 2018/19 that has increased the expenditures in Books and Supplies and Services. The total expenditures in the First Interim do not include the estimated \$3.6M for potential compensation increases for all staff.

Pleasanton USD 2019/20 Expenditures



Summary of First Interim Budget Adjustments

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

- \$3.56 million net increase in revenue
 - Approximately \$550,000 reduction in LCFF funding due to lower enrollment/ADA
 - Approximately \$200,000 increase in interest earnings
 - \$700,000 increase as a result of not transferring that amount into the Deferred Maintenance Fund 14 (District to use increased funding to routine restricted maintenance to offset needed ongoing maintenance work)
 - Approximately \$700,000 of one-time unrestricted State funding for Special Education Preschool
 - Approximately \$700,000 increase in restricted Special Education funding
 - Approximately \$1,500,000 increase in local funding for donations
- \$6.13 million net increase in expenditures
 - Approximately \$780,000 reduction in salaries and benefits as a result of actual hiring placements and position control work
 - Approximately \$4,200,000 increase in Books and Supplies primarily as a result of carryover from 2018/19 and increased local donation

- Approximately \$1,790,000 increase in Services primarily as a result of carryover from 2018/19 and increased local donation
- Approximately \$930,000 in Capital expenditures as a result of cost associated with the Harvest Park library rebuild (cost covered by insurance)

Not included in the First Interim Budget is the cost associated with the possible negotiated compensation increases with the District's bargaining units. The increase 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 2019/20 enrollment is about 180 students lower than projected in the Adopted Budget. The projected enrollment was 15,069 students and current enrollment, as of October 2019, is 14,891 students. This lower ADA/Enrollment is reflected in the 2019/20 First Interim with reduced revenues of about \$400,000. The District is closely monitoring enrollment data and working with the demographer on an update to the projection. The current Multi-Year Projection includes the assumption from the Adopted Budget.

Average Daily Attendance				
	FY 19/20	FY 19/20	FY 20/21	FY 21/22
Grades	Adopted Budget	First Interim	Projected	Projected
TK-3	3995	3901	4044	4044
4-6	3314	3222	3403	3403
7-8	2430	2337	2451	2451
9-12	4878	4985	4865	4865
Total	14617	14445	14763	14763

- **Local Control Funding Formula Factors (LCFF)**

The chart below shows the key LCFF assumption that drive 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. Current economic projections indicate continued but slowed economic growth into 2020/21.

Local Control Funding Formula Assumptions			
	FY 19/20 (current)	FY 20/21	FY 21/22
Enrollment	14,891	15,219	15,219
ADA	14,445	14,623	14,623
COLA	3.26%	3.00%	2.80%
Unduplicated as % Enrollment	17.24%	18.01%	18.02%
Grades K-3 \$/per Student	\$7,702	\$7,933	\$8,155
Grades 4-6 \$/per Student	\$7,818	\$8,053	\$8,278
Grades 7-8 \$/per Student	\$8,050	\$8,292	\$8,524
Grades 9-12 \$/per Student	\$9,329	\$9,609	\$9,878
K-3 Grade Span Adj \$/per Student	\$801	\$825	\$848
9-12 Grade Span Adj \$/per Student	\$243	\$250	\$257
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 \$204 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 will receive an additional estimated \$42.00 per ADA from the Tri-Valley SELPA to bring us to the statewide average in per pupil funding. Also, the District will receive an estimated \$700K in one-time funding from the Early Intervention Preschool Grant.

- **Staffing**

Based upon an analysis of the current staffing, there is adequate space available to maintain current staffing in the Multi-Year Projection. The District continues to monitor Position Control and anticipates additional savings from unfilled positions.

- **Salaries**

Salaries and benefits make up approximately 81% 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.

The second component is negotiated compensation increases. The current budget model only has a placeholder for the current 2019/20 increase based on the negotiated Tentative Agreement with the APT at 2.75%. No other placeholder has been included in the model for the out years compensation increases.

- **Pension Increases**

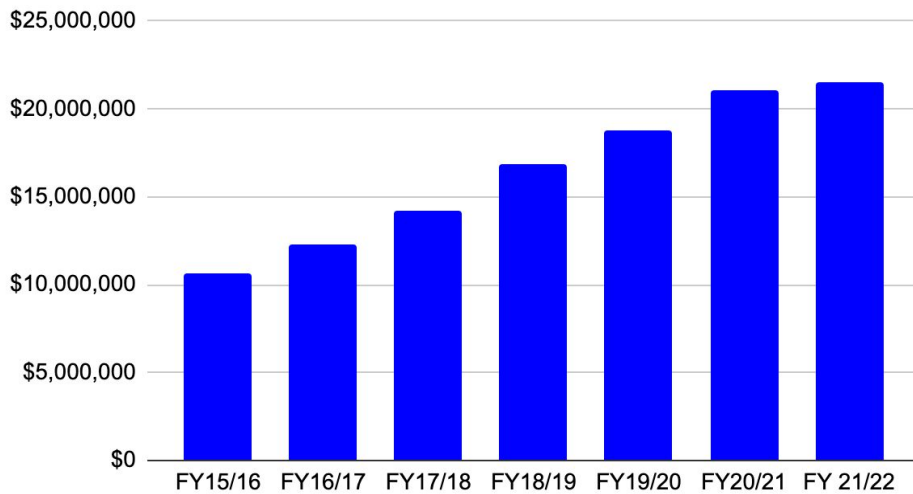
One of the driving forces of the District's budget is the mandated increase in State pension costs. The District participates in two State pensions: the State Teachers' Retirement System (STRS) for credentialed personnel and the Public Employees' Retirement System (PERS) for non-credentialed personnel. 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%. It is expected to peak next year at 18.4% and then settle to a flat 18.1% in the out years.

PERS employer rates are projected to increase from the current rate of 19.72% to 24.6% in 2021/22. These added costs are included in the multi-year budget. PERS rates are adjusted annually and they will be updated as PERS takes action.

Pleasanton USD (STRS and PERS Costs)



- **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 adjusted for Possible TA with Bargaining Units)

Fiscal Year	2019/20	2020/21	2021/22
Reserves, % of Expense	6.07%	3.83%	3.2%
Projected Reserve Totals	\$10.82 million	\$6.66 million	\$5.58 million

Other Funds Key First Interim Adjustments

All other funds will end the year with a positive fund balance. The biggest changes are that the contribution of \$700K to Deferred Maintenance and \$690K to Other Post Employment Benefits (OPEB) will not be made this year.

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 reserve are one-time in nature and that no level of reserve can manage continued deficit spending.

Going forward the District will need to tighten its budgeting process to ensure greater budget accuracy. Work needs to be done in position control and staffing norms to ensure proper resource allocation. This will be additionally critical with fluctuations with enrollment growth and decline. LCFF funding is driven by our enrollment/ADA and this will need to be monitored carefully as many local districts are seeing declining enrollment. The current projected COLA rates in the LCFF are unable to meet the growth in expenditures. Expenditure growth is mainly driven by increases in salaries and benefits/pensions. Staff will also need to analyze its various programs and expenditures to ensure alignment with District goals and their effectiveness.

The next budget update is scheduled for March 2020 with the 2019/20 Second Interim Report. Beginning in January with the Governor's Budget, staff will also begin work on the 2020/21 budget. Staff will be looking for any indications about any new funding from the State around Special Education, relief from the STRS/PERS rates and projected

COLA rates. Based on enrollment projections, program needs, and educational goals, staff will develop the 2020/21 Budget. Staff will also be meeting with the Budget Subcommittee during the budget development process.

The goal for this budget 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 in June 2020 for approval.

Attachments

Multi Year Budget - Attachment C

General Fund Variance Report - Attachment D

All Funds Report - Attachment E

SACS Reports - Attachment F