

General Fund Narrative

The Second Interim budget report is a snapshot in time of the District's revenue and expenditure forecasts for the current fiscal year as well as a projection of the two subsequent fiscal years. It includes adjustments to the budget based upon the proposed January State Budget and subsequent trailer bills, changes from the First Interim report, adjusted revenues and expenditures, and ending fund balance projections. The basis for the actuals-to-date financial information presented is the income and expenditure data from July 1, 2022, through January 31, 2023.

Key Guidance Based on Governor's Budget Proposal

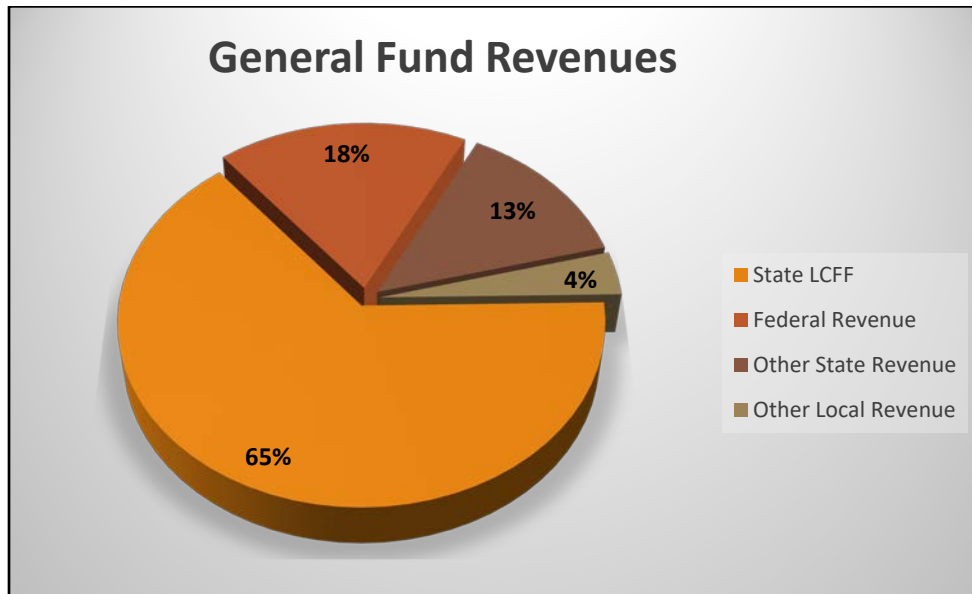
The Governor's Budget Proposal for 2023-24 included an 8.13% Cost of Living Adjustment (COLA) to the Local Control Funding Formula (LCFF), as well as special education and several other categorical programs outside the LCFF. Although the Budget fully funds the estimated COLA and avoids cuts to ongoing education programs, Local Educational Agencies (LEAs) are cautioned to be aware of the estimated \$22.5 billion state budget deficit for the 2023-24 fiscal year. The Budget proposes to address this deficit through funding delays, reductions and pullbacks, fund shifts, trigger reductions, and borrowing, which, aside from the school facilities funding delay and the Arts, Music, and Instructional Materials Discretionary Block grant pullback, do not affect TK-12 education programs. The current state revenue forecast assumes only slower economic growth; however, many economists believe that a mild recession will occur in 2023 or 2024. As a result, there is a risk of further state revenue shortfalls that could result in additional cuts to education spending and/or withdrawals from the Public School System Stabilization Account (PSSSA).

Moreover, many LEAs, including TUSD, continue to experience student absences and increased costs because of COVID-19 and long-term declining enrollment. While the Average Daily Attendance (ADA) Loss Mitigation adjustment included in last year's budget trailer bill permitted the 2019-2020 attendance yield to be used to amend reported ADA in 2021-22, LEAs will not be able to amend reported ADA for 2022-23 or future years. Additionally, most COVID-19 fiscal relief funding will expire on or before September 30, 2024, with ESSER II and GEER II funding set to expire on September 30, 2023.

Current Year Revenue Update

General fund revenue comes from three major sources: State government, Federal government, and local sources:

General Fund Revenues	Second Interim
State LCFF	\$168,838,968
Federal Revenue	\$47,838,659
Other State Revenue	\$35,236,990
Other Local Revenue	<u>\$9,947,797</u>
Total	\$261,862,414



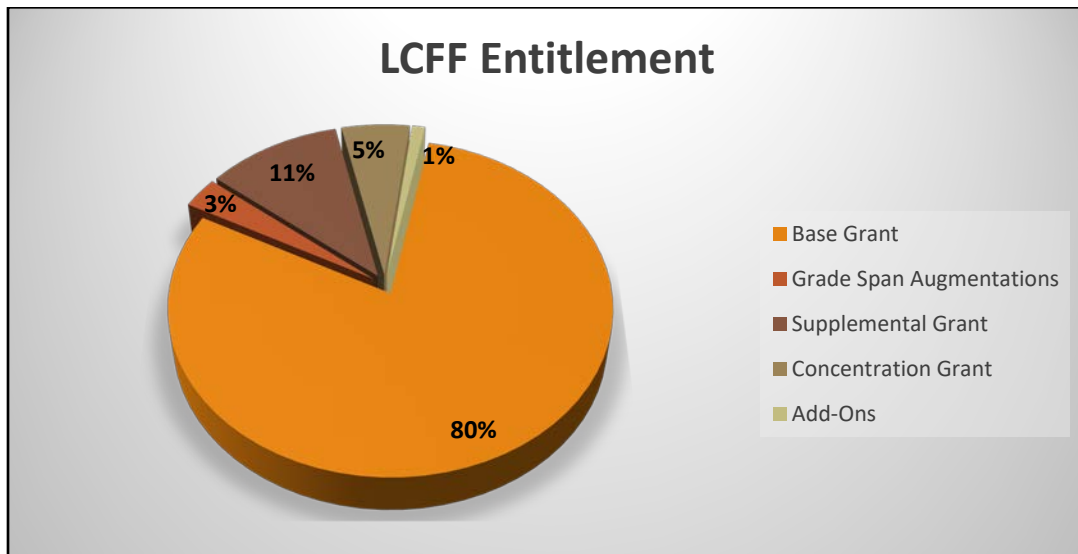
Local Control Funding Formula (LCFF)

The LCFF accounts for approximately 65% of TUSD's General Fund revenue. In the past, this percentage has been approximately 80-85% but has been skewed because of additional federal and other state revenue allocated due to the COVID pandemic and Enacted Budget. The LCFF provides grade span-specific base grants based on Average Daily Attendance (ADA) that reflect adjustments for grades TK-3 class sizes and 9-12 education as well as a new Transitional Kindergarten (TK) Add-On. Additionally,

supplemental and concentration grants are awarded based on the District's unduplicated pupil count who are English learners, socioeconomically disadvantaged, or foster youth. The District projects an unduplicated pupil percentage of 70.60% for 2022-23 based on recently certified CALPADS reports. For LCFF calculations, the District is required to use a three-year rolling average which is projected to be 65.11%.

The District's total LCFF entitlement is summarized below with dollar amounts, including the combined entitlement for both TUSD and eCademy Charter School:

Unrestricted Components of LCFF Entitlement	
Base Grant	\$132,872,857
Grade Span Augmentations	\$4,955,966
Supplemental Grant	\$17,959,246
Concentration Grant	\$9,057,420
Add-Ons	<u>\$1,723,523</u>
Total	\$166,569,012



Other Revenue

Federal Revenue and Other State Revenue are funds received from the State and Federal government for special purposes or targeted for specific student groups. These are mostly restricted funds and may only be used for the purpose for which they are awarded.

The final source of revenue is from local sources, which are primarily restricted grants and programs, and interest income.

In addition to General Education, the District receives General Fund revenue in the following resources:

- *Federal funding* – Special Education, Title I, Title II, Title III, Title IV, Carl Perkins Vocational & Technical Education Act Grant, Comprehensive Support & Improvement (CSI) Grant, Elementary and Secondary School Emergency Relief (ESSER) II, & III, Governor’s Emergency Education Relief (GEER), CalWell
- *State funding* – Special Education, Lottery, Lottery Instructional Materials, Career Technical Incentive Grant, Agriculture Incentive Grant, Teacher Residency Grant, Mental Health, Educator Effectiveness Grant, Classified Employee Professional Development Block Grant, A-G Completion Improvement Grant, Expanded Learning Opportunities Program, Prekindergarten Planning & Implementation Grant, Kitchen Infrastructure Upgrades, Special Education Dispute Resolution Grant, Special Education Learning Recovery Supports, Special Education Early Intervention Preschool Grant, Arts, Music, & Instructional Materials Discretionary Block Grant, Learning Recovery Emergency Block Grant
- *Local funding* – After School Education (ASES), Tobacco Use Prevention Education (TUPE), Special Ed reimbursements (fee for service), National Alliance on Mental Illness (NAMI), Medi-Cal, School-Based Medi-Cal Administrative Activities (SMAA), Strong Workforce

Changes in the General Fund Budget at Second Interim (unrestricted and restricted) include:

General Fund Revenues	First Interim	Second Interim	Difference
State LCFF	\$165,348,034	\$168,838,968	\$3,490,934
Federal Revenue	\$47,767,756	\$47,838,659	\$70,903
Other State Revenue	\$30,089,509	\$35,236,990	\$5,147,481
Other Local Revenue	<u>\$9,815,781</u>	<u>\$9,947,797</u>	<u>\$132,016</u>
Total	\$253,021,080	\$261,862,414	\$8,841,334

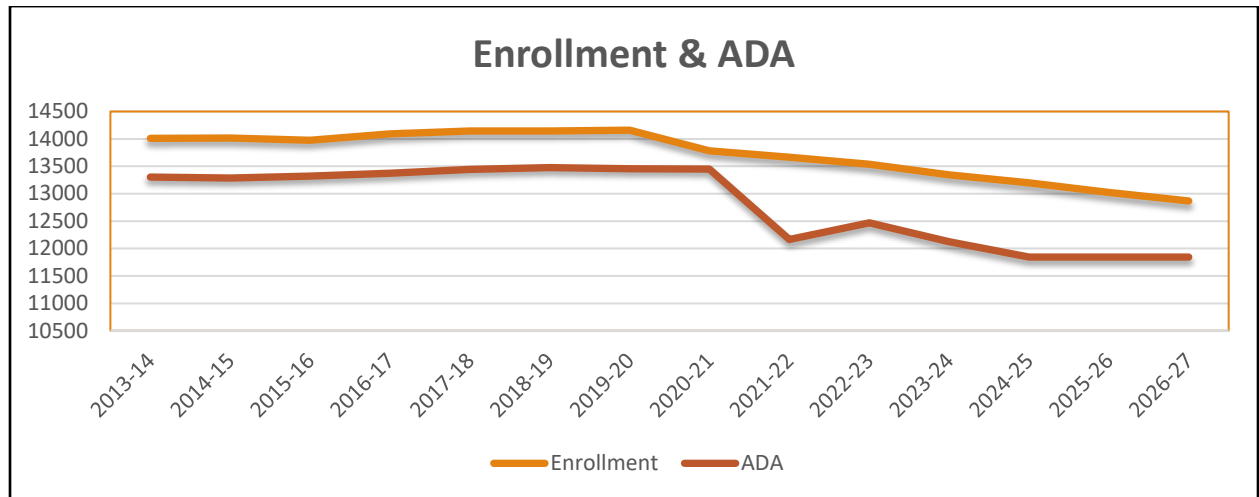
The current operating budget has been revised since First Interim to reflect P-1 ADA, adjusted unduplicated pupil count, revised Expanded Learning Opportunity Program allocations, and interest.

Enrollment and Attendance

The District certified enrollment of 13,377 students and 161 charter students for a total of 13,538 students for 2022-23. This represents a decrease of 190 non-charter students, and an increase of 65 charter students from the previous year. Enrollment numbers and projections were updated using data from the first Wednesday in October (the date on which school census data is recorded for reporting). The District uses a 5-year rolling average cohort projection template to project enrollment. Maintaining inter-district transfers are included in the projections.

The 2022-23 Enacted State Budget included two significant changes to how Average Daily Attendance (ADA) is applied for funding purposes. The first change allowed school districts to adjust their 2021-22 ADA to reflect their 2019-20 attendance rate. For TUSD, this resulted in an increase of approximately 820 ADA (for funding purposes). The second change amended the LCFF calculation to utilize the greater of current year, prior year, or the average of the most recent three prior years' ADA. Additionally, the one-time adjustment to the 2021-22 ADA is considered in this calculation. These changes, in combination with the 2020-2021 hold-harmless for ADA, have assisted with the immediate harsh impact on funding caused by declining enrollment & ADA. TUSD uses a 3-year cohort average (excluding 2020-21) to project average daily attendance for future years.

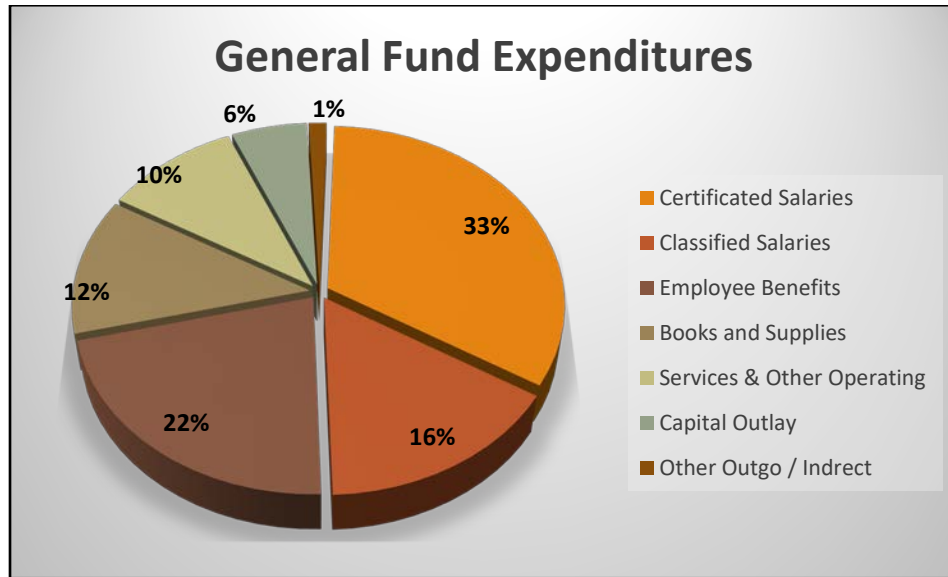
The District's enrollment and ADA, including eCademy, are projected below:



Current Year Expenditure Update

The District spends the majority of its funds on personnel costs – salary and benefits. Approximately 71% of the District’s total expenditures are committed to employee costs. This percentage normally is approximately 80-85% but is skewed because of the additional one-time federal and other state revenue allocated due to the COVID pandemic and Enacted Budget, which increased budgeted expenditures in supplies, services, & capital outlay. Below are the General Fund expenditures at Second Interim:

General Fund Expenditures	Second Interim
Certificated Salaries	\$91,564,172
Classified Salaries	\$43,357,412
Employee Benefits	\$59,741,706
Books and Supplies	\$34,045,112
Services & Other Operating Exp.	\$27,830,623
Capital Outlay	\$15,500,955
Other Outgo / Indirect	<u>\$3,659,655</u>
Total Expenditures	\$275,699,635



Expenditure Classifications

Certificated Salaries are salaries paid to employees in positions requiring a credential such as teachers, counselors, nurses, psychologists, and site and District administrators.

Classified Salaries are salaries paid to support personnel such as paraprofessionals, clerical staff, library staff, custodians, groundskeepers, maintenance staff, food service workers, bus drivers, and classified managers.

Employee Benefits include statutory benefits costs such as retirement, social security, Medicare, unemployment and workers compensation, and health benefit costs including medical, dental, and vision insurance for employees. Additionally, the District contributes to the Other Post-Employment Benefits (OPEB) liability through a payroll set-a-side.

Books and Supplies include costs for all books, including textbooks and library books, and supply costs. Supply costs include supplies for instructional materials, office supplies, custodial supplies, and any other materials costs incurred by the District.

Services and Other Operating Expenditures include costs for any contracted services, property and liability expenditures, utilities, telephone, internet, postage, travel, and other miscellaneous operating costs.

Capital Outlay costs are for large capital items. In the General Fund, these costs are normally related to equipment purchases, repairs, and renovations.

Other Outgo costs are charges paid to outside agencies for bus transportation for special needs students and non-public school costs, and indirect costs.

Changes in General Fund expenditures at Second Interim (unrestricted and restricted) are listed below:

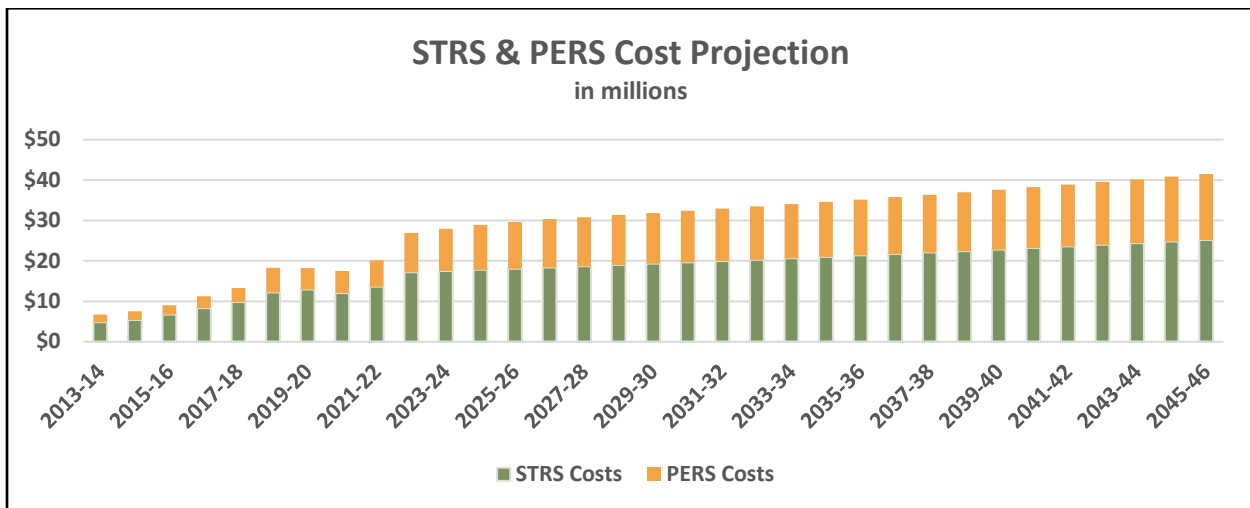
General Fund Expenditures	First Interim	Second Interim	Difference
Certificated Salaries	\$85,291,304	\$91,564,172	\$6,272,868
Classified Salaries	\$40,329,844	\$43,357,412	\$3,027,568
Employee Benefits	\$55,036,025	\$59,741,706	\$4,705,681
Books and Supplies	\$35,825,003	\$34,045,112	(\$1,779,891)
Services & Other Operating Exp.	\$26,646,652	\$27,830,623	\$1,183,971
Capital Outlay	\$14,459,797	\$15,500,955	\$1,041,158
Other Outgo / Indirect	<u>\$3,762,549</u>	<u>\$3,659,655</u>	<u>(\$102,894)</u>
Total Expenditures	\$261,351,174	\$275,699,635	\$14,348,461

Salaries and benefits have been updated to include adjustments for new staff placements and 2022-23 negotiated compensation packages. One-time expenditures due to specific grants have been budgeted at Second Interim, including a reduction in books in supplies.

STRS & PERS Pension Projections

Employer contribution rates to the State Teachers Retirement System (STRS) and Public Employees Retirement System (PERS) have increased significantly over the past ten years. In 2019-20, the Governor bought down the employer's contribution to the pension programs which resulted in a lower employer contribution rate for 2020-2021 and 2021-22. However, no additional contributions were proposed in the 2022-23 State Enacted Budget, and, as a result, rates increased in 2022-23. At First Interim, employers received news that CalPERS rates were peaking in 2022-23; however, based on the most recent actuarial study, CalPERS rates for employers are projected to continue climbing. The final rate for 2023-24 will be approved by the CalPERS Board in the spring. The current and projected rates are shown below:

Pension	2021-22	2022-23	2023-24	2024-25
CalSTRS Employer Rate	16.92%	19.10%	19.10%	19.10%
CalPERS Employer Rate	22.91%	25.37%	27.00%	28.10%



Additionally, this budget includes the recognition of the state's ongoing contribution to STRS on behalf of the TK-12 education. For 2022-2023, \$9,289,054 is included as an expense to pension contribution and corresponding credit to revenue.

Status of Negotiations

All bargaining groups reached settlements for 2022-23. TTA & CSEA were approved on November 15, 2022, and TFCE was approved on February 27, 2023. Projected changes resulting from the negotiation process are included in the budget at Second Interim, while actuals-to-date only include payments through January 31, 2023. Annual step/column adjustments, including approved advancement for units earned, are a part of this budget.

Budget Summary

The 2022-2023 General Fund budget at Second Interim is summarized as follows:

2022-23 General Fund Budget			
	Unrestricted	Restricted	Total
Total Revenues	\$ 171,040,506	\$ 90,821,908	\$ 261,862,414
Total Expenditures	\$ (140,501,526)	\$ (135,198,109)	\$ (275,699,635)
Other Sources/Uses	\$ (46,610,940)	\$ 44,435,940	\$ (2,175,000)
*Net Increase (Decrease) in Fund Balance	\$ (16,071,960)	\$ 59,739	\$ (16,012,221)
Beginning Balance	\$ 50,638,058	\$ 16,940,423	\$ 67,578,481
Ending Balance	\$ 34,566,098	\$ 17,000,162	\$ 51,566,260
Components of Ending Fund Balance			
Revolving Cash	\$ 20,000		
Stores and Prepaid Expense	\$ 380,000		
Other Designations*	\$13,078,792		
*Textbook & Instructional Materials \$13,078,792			
Unassigned Ending Balance	\$ 21,087,306		
Percent Reserves	7.59%		

Components of Ending Fund Balance

Components of the ending fund balance include revolving cash and stores totaling \$400,000 approved for on-going operational needs. Additionally, administration has assigned \$13,078,792 in lottery funds for textbooks and related instructional materials for 2022-2023.

Reserves

School district reserves are traditionally viewed as a percentage and a dollar amount. The percentage of reserves is calculated as the unrestricted amount in the Unassigned / Unappropriated fund balance divided by the sum of Total General Fund Expenditures and other Financing Uses.

Existing law imposes a 10% cap on the amount local school districts can maintain in their reserves in fiscal years immediately succeeding those in which the education rainy day fund balance is at least 3% of TK-12 Proposition 98 funding. This condition was met with the 2021-22 deposit amount, triggering the local reserve cap for the 2022-23 fiscal year. It appears the reserve cap law will be in effect at least through 2024-25. The state requires at least a 3% reserve level for a district of our size. Reserves are one-time funds that cannot support on-going expenditures. As such, LEAs have always been encouraged to maintain sufficient reserves to meet their LEA-specific needs, which are invariably higher than the state-required minimum. A 3% reserve represents less than two weeks of payroll for TUSD. Board policy states the District's minimum reserve level is 5%, and the Board has recommended to maintain a 10% reserve. The District's 2022-23 Unrestricted General Fund reserves are projected to be \$21,087,306, equating to 7.59%.

Cash Position

Currently, TUSD has sufficient cash reserves to meet its obligations. A cash-flow analysis projecting cash balances through the end of the fiscal year has been prepared and is included in this report. It is anticipated that the District will have a positive cash position throughout the remainder of the year.

Multi-Year Projections

The District is required to prepare a multi-year projection (MYP) for the budget year and two subsequent fiscal years. The multi-year projections were prepared using the factors provided by the Stanislaus County Office of Education in the *2022-23 Second Interim Common Message Report*, School Services of California's *Dartboard*, and FCMAT *LCFF Calculator*. Detailed assumptions used in the projection are outlined following the narrative section.

MYP's are projections and, as such, demonstrate the future effects of current economic conditions and financial decisions. MYP's are not financial forecasts, and they are not meant to predict what reserve levels will be in three years. Financial forecasts would attempt to predict future financial decisions in order to predict reserve levels. The MYP should be used to assist in the understanding of future effects of current economic conditions and financial decisions.

The MYP assumptions include the following factors:

	2022-23	2023-24	2024-25
Cost of Living Adjustment (COLA)	6.56%	8.13%	3.54%
Recommended Funded COLA	6.56%	8.13%	3.54%
Unduplicated Pupil Percentage	65.11%	66.93%	67.56%
State Unemployment Insurance	0.50%	0.20%	0.20%

The summary projection for 2023-24 and 2024-25 is illustrated below:

	Projected 2023-24			Projected 2024-25		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Total Revenues	\$ 182,829,516	\$ 48,672,072	\$ 231,501,588	\$ 182,185,082	\$ 48,672,072	\$ 230,857,154
Total Expenditures	\$ (143,319,737)	\$ (92,962,929)	\$ (236,282,666)	\$ (145,928,973)	\$ (90,281,372)	\$ (236,210,345)
Other Sources/Uses	\$ (47,353,020)	\$ 45,178,020	\$ (2,175,000)	\$ (48,107,493)	\$ 45,932,493	\$ (2,175,000)
*Net Increase (Decrease) in Fund Balance	\$ (7,843,241)	\$ 887,163	\$ (6,956,078)	\$ (11,851,384)	\$ 4,323,193	\$ (7,528,191)
Beginning Balance	\$ 34,566,098	\$ 17,000,162	\$ 51,566,260	\$ 26,722,857	\$ 17,887,325	\$ 44,610,182
Ending Balance	\$ 26,722,857	\$ 17,887,325	\$ 44,610,182	\$ 14,871,473	\$ 22,210,518	\$ 37,081,991
Components of Ending Fund Balance						
Revolving Cash	\$ 20,000			\$ 20,000		
Stores and Prepaid Expense	\$ 380,000			\$ 380,000		
Other Designations	\$6,000,000			\$2,000,000		
*Textbook & Instructional Materials \$6,000,000				*Textbook & Instructional Materials \$2,000,000		
Unassigned Ending Balance	\$ 20,322,857			\$ 12,471,473		
Percent Reserves	8.52%			5.23%		

Other Funds

The District maintains a total of 14 different State-approved funds to record its financial transactions:

FUND 01 General Fund, the general operating fund for the District

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a certain purpose. The District maintains six such funds:

FUND 08 Student Activity Special Revenue Fund

FUND 11 Adult Education Fund

FUND 12 Child Development Fund

FUND 13 Cafeteria Fund

FUND 15 Pupil Transportation Equipment Fund

FUND 20 Special Reserve Fund for Post-Employment Benefits

Capital Projects Funds are used to account for the acquisition and/or construction of capital facilities. The District's Capital Project funds are the following:

FUND 21 Building Fund (Bonds)

FUND 25 Capital Facilities Fund / Developer Fees

FUND 40 Special Reserve Fund for Capital Projects

FUND 49 Capital Project Fund for Blended Component Units (Mello-Roos)

Other District funds:

FUND 51 Bond Interest and Redemption Fund - used for payment of General Obligation Bonds

FUND 61 Cafeteria Enterprise Fund - vending operations

FUND 67 Self Insurance Fund - used to cover insurance claims under the deductible

Financial reports are included for each of these funds as part of the interim report. No funds are expected to have negative ending balances.

Summary

At this point in the fiscal year, the District is in sound financial condition. Some of the assumptions used in this report may change in the coming months with the release of the Governor's May Revise and any updates to the LCFF calculation assumptions. Financial projections will be updated as new information is released.

Based on this Second Interim Report, it is recommended the Board of Trustees approve a **positive** certification that TUSD will be able to meet its financial obligations for the current year and subsequent two years.

TURLOCK UNIFIED SCHOOL DISTRICT
2022-2023
Second Interim
Assumptions

These assumptions are used in the preparation of the District's 2022-2023 Second Interim Report.

Local Control Funding Formula (LCFF): The Governor's January 2023-2024 projections are used in these assumptions.

Student Enrollment :	2022-23	2023-24	2024-25
District Enrollment for LCFF calculations*	13,410	13,216	13,071
Charter Enrollment for LCFF calculations	161	161	161
*Enrollment includes TUSD students in SCOE programs			

Student Enrollment by Grade Span	2022-23	2023-24	2024-25
TK - 3	3,801	3,796	3,760
4 - 6	2,848	2,809	2,776
7 - 8	1,956	1,956	1,884
9 - 12	4,772	4,621	4,614
District Subtotal	13,377	13,182	13,034
Other Enrollment for LCFF calculations:			
<i>TUSD Students in County Operated & NPS Schools</i>	33	34	37
LCFF Reporting District Enrollment	13,410	13,216	13,071
Charter	161	161	161
Total Enrollment	13,571	13,377	13,232
<i>Percent change from prior year</i>	-0.67%	-1.43%	-1.08%

ADA (Average Daily Attendance):	2022-23	2023-24	2024-25
District ADA for LCFF calculations*	12,426.63	12,086.13	11,803.56
Charter ADA for LCFF calculations	106.92	106.92	106.92
*ADA includes TUSD students in SCOE programs; projections on 3-year average			

Projected ADA (Average Daily Attendance):	2022-23	2023-24	2024-25
TK - 3	3,493.48	3,438.16	3,368.13
4 - 6	2,661.98	2,594.66	2,529.14
7 - 8	1,800.86	1,793.05	1,706.31
9 - 12	4,404.13	4,194.08	4,133.80
Subtotal - District ADA	12,360.45	12,019.95	11,737.38
County reported ADA	66.18	66.18	66.18
LCFF Reporting District ADA	12,426.63	12,086.13	11,803.56
Charter ADA	106.92	106.92	106.92

Revenue:	2022-23	2023-24	2024-25
LCFF Factors			
Estimated Statutory COLA percent:	6.56%	8.13%	3.54%
Recommended Planning COLA:	6.56%	8.13%	3.54%
Unduplicated pupil percentage - 3 year average:	65.11%	66.93%	67.56%
Estimated LCFF Entitlement per ADA*	\$12,453	\$13,646	\$14,198

*FCMAT LCFF Calculator used in this projection

2022-23 Budget Assumptions

LOCAL CONTROL FUNDING FORMULA:

	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
	DISTRICT		
Base Funding	131,728,632	139,233,615	139,302,824
Grade Span Adjustments	4,923,840	5,194,628	5,195,797
Supplemental Grant	17,794,885	19,333,164	19,524,654
Concentration Grant	8,980,116	11,199,688	11,796,868
Add-on: Targetd Instruction Improvement Block Grant	676,332	676,332	676,332
Add-on: Home-to-School Transportation	447,516	483,899	501,029
Add-on: Transitional Kindergarten	599,675	648,429	671,383
LCFF ENTITLEMENT	<u>165,150,996</u>	<u>176,769,755</u>	<u>177,668,887</u>
	CHARTER		
Base Funding	1,144,225	1,237,281	1,281,088
Grade Span Adjustments	32,126	34,703	35,923
Supplemental Grant	164,361	187,440	199,607
Concentration Grant	77,304	98,637	107,522
Add-on: Targetd Instruction Improvement Block Grant	-	-	-
Add-on: Home-to-School Transportation	-	-	-
Add-on: Transitional Kindergarten	-	-	-
LCFF ENTITLEMENT	<u>1,418,016</u>	<u>1,558,061</u>	<u>1,624,140</u>
TOTAL LCFF ENTITLEMENT	<u>166,569,012</u>	<u>178,327,816</u>	<u>179,293,027</u>

Salary related costs:

	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Step/Column:	1.67%	1.67%	1.67%
Negotiated Salary Adjustment Included:	7.19%-7.3%	0.0%	0.0%
Proposed Health Benefit Cap Adjustment Included:	\$12,000	No Change	No Change

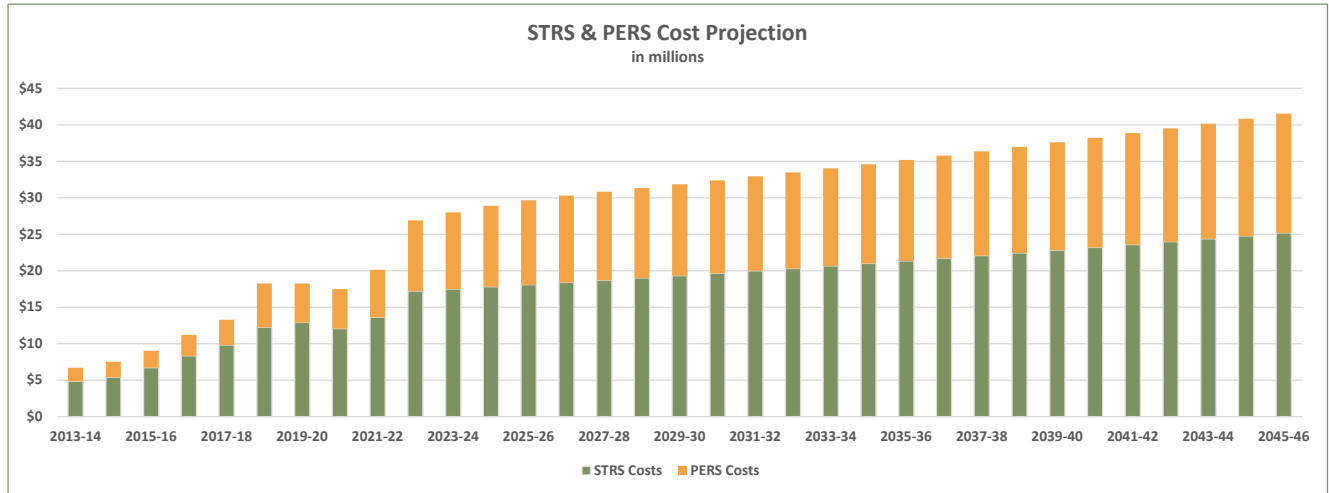
State Unemployment Insurance Rate:

	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
SUI:	0.50%	0.20%	0.20%

Annual Pension Rate:

	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Employer STRS rate:	19.10%	19.10%	19.10%
Employer PERS rate:	25.37%	27.00%	28.10%
Additional Annual Cost General Fund:	\$ 6,760,000	\$ 1,080,000	\$ 900,000
Accumulated Cost General Fund (since 13-14):	\$ 20,200,000	\$ 21,280,000	\$ 22,180,000

2022-23 Budget Assumptions



Total FTEs by Group

	2022-23	2023-24	2024-25
Certificated	773.64	778.64	778.64
Classified	750.90	775.90	775.90
Management/Confidential	101	101	101

Utilities & Insurance:

	2022-23	2023-24	2024-25
Increase	5%	5%	5%

Transfers

	2022-23	2023-24	2024-25
On-going transfer to Special Reserve Fund for Capital Projects	\$1,000,000	\$1,000,000	\$1,000,000
On-going transfer to Special Reserve for OPEB	\$1,200,000	\$1,200,000	\$1,200,000

Assignment of Unrestricted General Fund Resources:

	2022-23	2023-24	2024-25
Textbook Adoptions/Instructional Materials	\$13,078,792	\$6,000,000	\$2,000,000