

PIEDMONT UNIFIED SCHOOL DISTRICT

M E M O R A N D U M

TO: Board of Education

FROM: Randall Booker, Superintendent
Ruth Alahydoian, Chief Financial Officer
Cheryl Kaiser, Fiscal Services Manager

DATE: June 24, 2020

RE: **APPROVE 2020-21 BUDGET AND ADOPT RESOLUTION 24-2019-20
“AUTHORIZING YEAR-END BUDGET TRANSFERS FOLLOWING THE
CLOSE OF THE DISTRICT’S LEDGERS FOR THE 2019-20 SCHOOL
YEAR AND BUDGET TRANSFERS FOR THE 2020-21 SCHOOL YEAR”**

I. SUMMARY

The 2020-21 Budget is presented tonight for a second reading and formal adoption. Based on the assumptions presented below, the District will maintain the require 3% reserve for 2020-21. The proposed budget also sets aside \$1.3 million of the anticipated Measure H revenues of \$2.6 million for employee salary increases as tentatively agreed to with the District’s labor partners. The District will also have a set-aside of \$300,000 for unknown costs related to COVID-19.

This version of the 2020-21 budget differs from the draft budget presented on June 10, 2020, at the first reading and public hearing in the following ways. (1) A portion of the anticipated Measure H funds, \$1.25 million, was used to reduce the proposed reductions to staff as stipulated in the tentative labor agreements; (2) approximately \$190,000 was identified in unspent budgets for substitutes and unfilled vacant positions in 2019-20 due to the Closure. This increased the ending balance by \$190,000, increasing the funds available for the COVID reserve in 2020-21. (This type of “deep cleaning” of budgets usually happens when the District closes its books and submits unaudited actuals). As a result of these changes, the proposed Tier 2 reductions were not necessary and the COVID reserve is partially funded.

The multiyear projections (MYP) assume a continued decline in enrollment, which is reflected in the revenue projections. Rightsizing staff will be necessary to keep expenses in line with reduced enrollment. Also, the additional funds that the Piedmont Education Fund (PEF) was able to commit in 2020-21 were reduced by \$660,000 back to the \$2.7 million of PEF’s ongoing commitment. The treatment of Measure H in the MYP requires an explanation: First, because the tentative agreement for salaries is not yet incorporated into the budget, the \$1.3 million of Measure H set-aside in 2020-21 continues to stay unspent over the three years. Also, Measure

H funds received in 2021-22 and 2022-23 also remain unspent and are part of the Measure H set-aside. At the same time, the \$1.25 M of Measure H used in 2020-21 to retain positions is for one year only and would not be available for those positions in the subsequent years. Thus, the reductions to staff that were avoided in 2020-21 will be back and will increase due to the other budgetary pressures.

This preliminary projection for the next two years includes a placeholder of \$500,000 for rightsizing that would be ongoing, and a placeholder of \$2.15 million for additional budget adjustments needed for 2021-22. In 2022-23, the \$500,000 for rightsizing continues, and the additional budget adjustments increase to \$3.6 million.

Although the California State Legislature has passed the State's 2020-21 budget, it is considerably different from the Governor's proposed budget (May Revision). The Legislature's adopted budget would generate an additional \$2.2 million for the District. The Governor has twelve days from receiving the Legislature's budget to sign it, veto some or all of it, or to negotiate a compromise. Any significant changes to the District's budget that result from the final budget signed by the Governor will be brought back to the board within 45 days (by August 12). Any additional resources will be allocated as follows:

1. To fully fund the COVID-19 reserve of \$600,000.
2. To the extent State funding exceeds the amount projected in the Governor's May Revision, return up to \$1.25 million to the Measure H retention fund to be negotiated with labor partners.

II. BACKGROUND

Districts are required to adopt their budgets prior to June 30 of each year for the next fiscal year whether or not the State has adopted its Budget. The initial public hearing and first reading was held on June 10, 2020. The 2020-21 Adopted Budget is now presented, inclusive of updates, based on public input and Board direction. After adoption, the budget and all required documentation will be submitted to the Alameda County Office of Education (ACOE) by the statutory deadline of July 1, 2020.

A requirement of public disclosure is for the District to provide the projected reserve levels for the budget year and two subsequent years. At this time, the District does not expect to have undesignated reserve levels above 3% in the current or two subsequent years. In the current year, reserves are available for COVID related expenses and for a salary settlement that is pending board approval. In the two subsequent years, the salary settlement is held as a designated reserve, as is the portion of Measure H that was allocated to job retention in 2020-21.

III. 2020-21 BUDGET INFORMATION

The budget documents presented in this package continue to serve as a reflection of the District's goals and philosophy of providing a high-quality educational experience to the

students of Piedmont. They reflect the tremendous support of the community by way of the Measure G and Measure H School Support Parcel Taxes; the Piedmont Educational Foundation; and parent and community donations through various fundraising efforts.

The General Fund is the primary fund for the District, from which most expenses are paid. Based on the most current information available (see assumptions below), employee-related costs and all other anticipated obligations, the net difference in the General Fund between revenues and expenditures for 2020-21 is **\$1,192,766**.

The Ending Fund Balance includes Measure H funds set-aside for the tentative settlement agreements with labor partners. With Measure H, the ending balance is projected to be **\$2,925,587**, which is 6.93% of expenditures. Excluding Measure H, the ending balance is projected to be **\$1,588,188**, which is **3.8%** of expenditures.

Assumptions:

Factor	Per May Revision
LCFF – Change to base rates	-7.92%
STRS Employer Rate	16.15%
PERS Employer Rate	20.70%
Lottery (same as 19-20)	\$153 per ADA Unrestricted \$54 per ADA Restricted
Mandated Costs reimbursements (same as 19-20)	\$1,626 per K-8 ADA \$904 per 9-12 ADA
Special Education	\$645 per ADA as passed through SELPA

Revenues: The State determines approximately 52% of the District’s budget. Until the legislature adopts and the Governor signs the final budget, the District cannot be certain of its revenue. The budget is built and adjusted over time as more information becomes available. The revenue projections that are included in this budget are based on the information available at the “May Revise”. Key components of revenue projections are as follows:

- Local Control Funding Formula (LCFF) – the base amount per student (average daily attendance) will decrease by 7.92%. In addition, the District is experiencing declining enrollment, resulting in **a total decrease of 9.4%, or \$2.1 million from current year levels**.
- Other State Revenues – other state revenues are **\$136,000 less** than 2019-20 because the pre-school grant of \$90K and the SB117 COVID Gear grant of \$44K were one-time in 2019-20 only.
- Parcel Tax Revenues – Measure G and Measure H were approved by voters in November 2019. The Measure G rate is \$2,763 per parcel for a total of **\$10.8 million**. The Measure H

rate is \$0.25 per square foot of building improvements on each taxable parcel, for an estimated total of **\$2.6 million**.

- Other Local Revenues – PEF. The Piedmont Education Foundation has committed a grant of \$3 million from their annual fundraising, plus an **additional \$360,000** from their reserves. This is \$660,000 more than we were expecting during initial budget planning.
- Other Local Revenues – All Others. This category includes revenue from the rental of district facilities and fields. During the COVID related closure, we returned deposits for rentals from March through July. For 2020-21, we **reduced our estimate of rental revenues by \$130,000**. We also **reduced our estimate of parent contributions by \$200,000**. These reductions are related to COVID and are in addition to the State revenue reductions.

Expenditures: Due to declining enrollment and the 2% salary increase for all employee groups adopted in 2019-20, the District has had to identify rightsizing reductions as well as other budget adjustments to keep expenditures in line with revenues. The additional challenge presented by the Governor’s cut to LCFF funding has required additional reductions throughout the District.

- Certificated salaries will **decrease by \$204 K**. This is the net result of natural step and column increases for existing employees, offset by rightsizing reductions due to fewer students.
- Classified salaries will **decrease by \$219 K** due to retirements and reductions. The reductions include .4 FTE administrator and 1.0 FTE classified positions in facilities rentals and athletics.
- Benefits will **increase slightly by \$58 K** due to the increase in salary driven rates for the District contribution to PERS.
 - Within the benefits category is the STRS On-behalf budget item. Accounting standards require school districts to represent the State’s contribution to the STRS pension fund as a pass-through. The revenue is included in State Revenues and the equal expense is included in Benefits. The amount is calculated every year based on the prior year State contribution. For 2020-21, the amount is \$2,296,780
- The budget for Books and Supplies will **decrease by \$718 K**. The portion of the PEF grant that was allocated for classroom supplies has been shifted into supporting positions. Also, a one-time purchase of textbooks in 2019-20 is not included in the 2020-21 budget.
- The budget for Professional Services will **decrease by \$982K**. There were one-time expenditures in 2019-20 that are not included. The District budget for professional development was reduced, including the portion of the PEF grant designated for professional development. The reductions do not completely eliminate professional development; they reduce the travel, conference and lodging costs.
- The transfers to other funds are from the routine restricted maintenance account (RRMA). The **\$50 K contribution** to the Deferred Maintenance fund is for fields maintenance, and the **\$31.5 K transfer** to the Cafeteria Fund is year one of the repayment for the VRF loan.
- The Adult Education Fund and the Cafeteria Fund continue to pay the General Fund for indirect costs that are captured in the General Fund, such as payroll, accounting, etc. The

amount contributed from the Adult Ed fund was **reduced by \$53 K** anticipating reduced program and revenues due to COVID closures.

Fund Balance: The Ending Fund Balance, which is the bottom line of what is left in the District’s General Fund at the end of the year, is projected to be **\$2,925,587**. This balance includes the 3% reserve of **\$1,252,855**, a revolving cash reserve of \$25,000, the set-aside of Measure H funds for the 3.5% salary increase in the tentative agreements, and an initial set-aside for possible COVID related expenses of **\$300,000**. As we close the books and identify savings from budgets that were not fully spent, we expect to increase this set-aside.

IV. MULTIYEAR PROJECTIONS (MYP)

The multiyear projections (MYP) are included with the budget to provide a picture of the revenue and expenditure trend for 2020-21, 2021-22 and 2021-23. The MYP is a model built on the current year budget, with adjustments for any known changes, including increases to pension costs. The following assumptions were used:

Assumption	2020-21	2021-22	2022-23
Enrollment	2,539	2,477	2,399
Cost of Living Increase (COLA) for LCFF per pupil funding	-7.92%	0%	0%
COLA for increase in other State revenues and various costs	0%	0%	0%
Certificated - Natural progression (Step & Column)	Based on people in positions	1.25%	1.25%
Certificated - Natural progression (Step & Column)	Based on people in positions	1.00%	1.00%
STRS Rate	16.15%	16.02%	18.10%
PERS Rate	20.70%	22.84%	25.50%

In line with the decline in enrollment and the static funding from the State, the District will need to make **\$2,650,000** in budget adjustments in 2021-22 and **\$4,200,000** in budget adjustments in 2022-23 to end the year with the required 3% reserve and leave Measure H available for negotiations.

V. STATUS OF OTHER FUNDS

In addition to the General Fund, the District also maintains nine other funds to track restricted revenues and the associated expenses. Attached to this report are summaries for each of the funds. The following table provides a quick summary of the other funds. Brief descriptions of the larger funds are described below.

Fund #	Fund Name	Beginning Balance	Revenues	Expenditures	Ending Fund Balance
11	Adult Education	\$ 273,260	\$ 462,894	\$ 564,503	\$ 171,651
13	Cafeteria	310,890	425,654	612,477	124,067
14	Deferred Maintenance	100,303	52,000	50,000	102,303
17	Special Reserve-Noda	107,460	3,500	-	110,960
21	Building Fund	10,636,454	10,500,000	6,162,640	14,973,814
35	State School Fac	255	77	-	332
40	Reserve-Cap Facilities	421,343	5,000	-	426,343
51	Bond Repayment	9,591,597	9,290,425	8,440,425	10,441,597
67	Self Insurance	3,533	-	-	3,533
		\$21,445,095	\$ 20,739,550	\$ 15,830,045	\$ 26,354,600

Adult Education – Fund 11

The Adult Education Fund is used to account separately for state and local revenues for adult education programs. Money in this fund is to be expended for adult education purposes only. Piedmont USD’s Adult Ed program offers both State-funded courses such as diploma completion, and fee-based classes, such as cooking. The sources of revenue were State funds through the Adult Education Block Grant, and local funds through fees and donations. Adult Education is budgeted to contribute direct support/indirect cost of \$67,000 to the General Fund in 2020-21.

Cafeteria Fund – Fund 13

The Cafeteria Fund receives revenues from the sale of lunch at all schools. In addition, the District applies for and receives federal funding to subsidize milk sales. In line with the requirements for revenues generated from food sales, the District charges certain direct costs of running the lunch programs. These direct costs include part of the time of a custodian at the high school, part of the time of para-educators who serve as noon supervisors during lunch at elementary schools, and part of the time of food service workers who will help serve the contractor-provided lunches at the elementary schools. In addition, the Cafeteria fund will pay an indirect cost charge to the General Fund.

Deferred Maintenance – Fund 14

The Deferred Maintenance fund allows the district to set-aside funds regularly to be used for facilities maintenance. Because expenditures from the Deferred Maintenance fund can be applied toward the district’s RRMA requirement, a portion of the RRMA is transferred to this fund for the expenses of maintaining the fields.

Special Reserve Fund – Fund 17

The Special Reserve Fund is split into two funds – one holds the Noda grant funds and the other holds parcel tax funds set aside in the early years of a parcel tax measure to support programs that have increased in cost in the final years. In 2019-20, only the NODA funds are left. How or if Measure G and Measure H funds will be set-aside has not been determined yet.

Building Fund – Fund 21

Bond revenues are deposited to the Building Fund and are restricted for bond measure-authorized expenses only. The STEAM building will be completed before the start of school in 2020-21. Construction on the performing art center will begin in 2020-21. The last \$10 million of Measure H-1 bond funds are expected to be issued in January 2021. Bond documents will be brought to the Board in the fall for the bond issuance.

VII. RECOMMENDATION

Conduct public hearing on the District General Fund budget for 2020-21 and all other budgets operated by the District; approve the 2020-21 Budget and adopt Resolution 24-2019-20 “Authorizing Year-End Budget Transfers Following the Close of the District’s Ledgers 2019-20 School Year and Budget Transfers for 2020-21 School Year”.

Attachments