

# PIEDMONT UNIFIED SCHOOL DISTRICT

2020-21 Preliminary Budget

Budget Advisory Committee

5/21/2020



# Agenda



- May Revisions to Governor's Proposed Budget
- 2020-21 Proposed Budget for PUSD
- Planning for 2020-21 in the COVID-19 Environment



# Purpose of BAC

- o The Budget Advisory Committee is a standing committee with representatives from all stakeholders in the District.
- o Its purpose is to:
  - o review the District's Budget,
  - o share the information with constituent groups, and
  - o generate recommendations for Board consideration in the budget development process.
- o The BAC is a vehicle to disseminate information to as many parents, students, staff and community members as possible.



# Headlines

- o The State of California is experiencing an economic downturn due to the efforts to slow the spread of the COVID-19 virus. As a result, the State anticipates a \$54.3 Billion budget shortfall for the 2019-20 and 2020-21 fiscal years.
- o Public education in California will experience a significant cut to funding for at least 2020-21, and possibly longer.
- o For Piedmont USD, this translates to a gap in funding of over \$2 million that must be addressed.





# 2020 May Revision Workshop

**Excerpts  
Presented to**

**Budget Advisory Committee of  
Piedmont USD**





## California Revenues

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- The May Revision assumes that the state will suffer from a \$41.2 billion loss in revenues compared to January estimates in 2019–20 and 2020–21 combined
  - ◆ -\$9.1 billion for 2019–20
  - ◆ -\$32.2 billion for 2020–21
- Revenue losses are compounded by the growing number of Californians who need access to state safety net services, bringing the state's total shortfall to \$54 billion



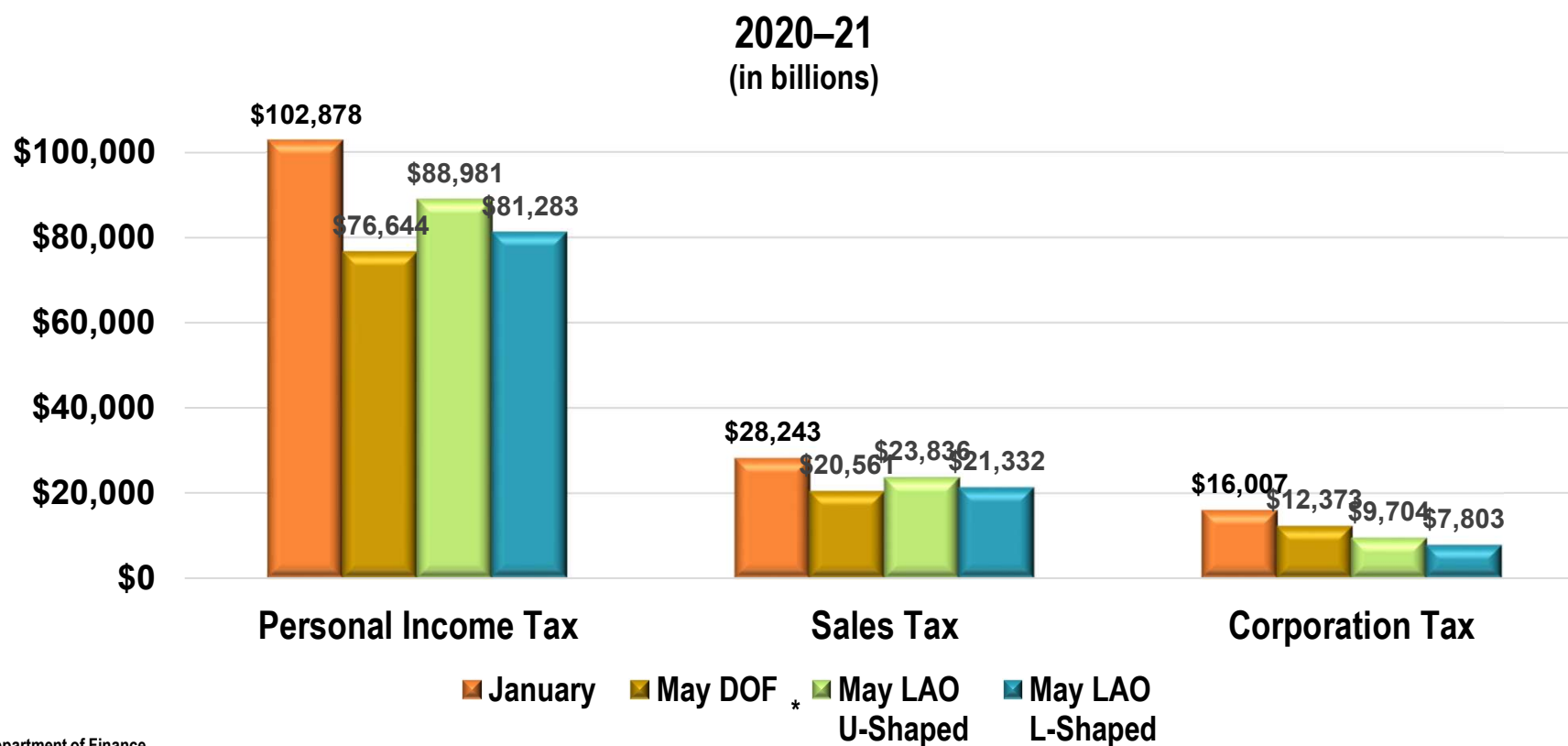




# Big Three Tax Revenues

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\*Department of Finance



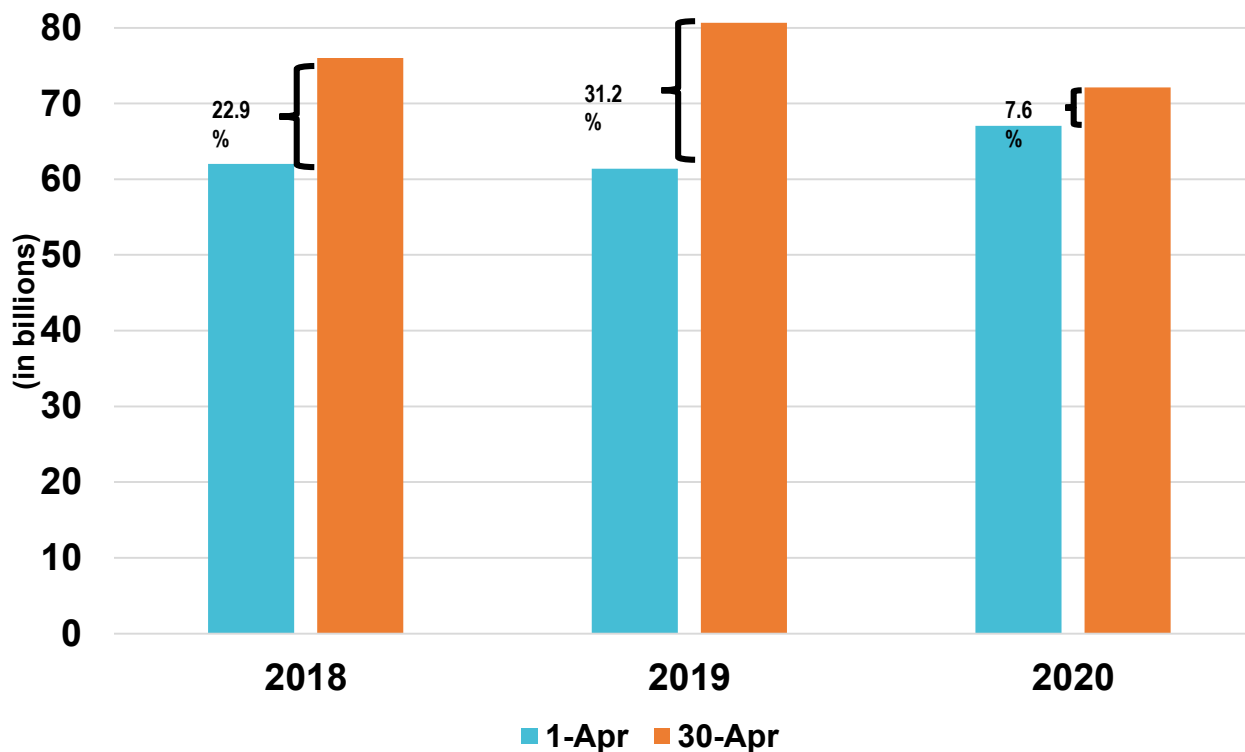


# Impact of Shifting the Tax Deadline

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April Personal Income Tax Collections



- Both federal and state governments shifted the annual income tax deadline from April 15 to July 15 as a result of the COVID-19 outbreak
- This shift has caused a significant decline in personal income tax (PIT) revenues in the biggest PIT revenue month, making it difficult to develop the state's on-time Budget
- Given recent unemployment figures, we may not fully recover the lost revenue



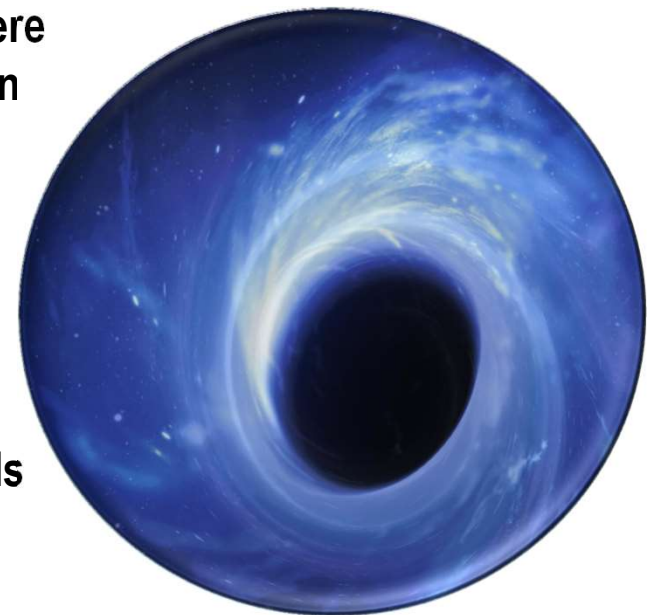


## Will There Be a Revised Budget?

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- While the May Revision gives us important anchors for state and local budgets that must be adopted by July 1, 2020, there continues to be a gaping hole of information that we need in order to build more accurate budgets
  - ◆ Unemployment rates change
  - ◆ PIT revenue is the largest share of general fund revenue; tax payments deferred
  - ◆ Consumer confidence shaken by the current state of the economy; may be a while before confidence rebuilds
  - ◆ Small, as well as large, businesses may not be able to withstand COVID-19
- The state will likely need to revise its Budget when more information becomes available later this summer





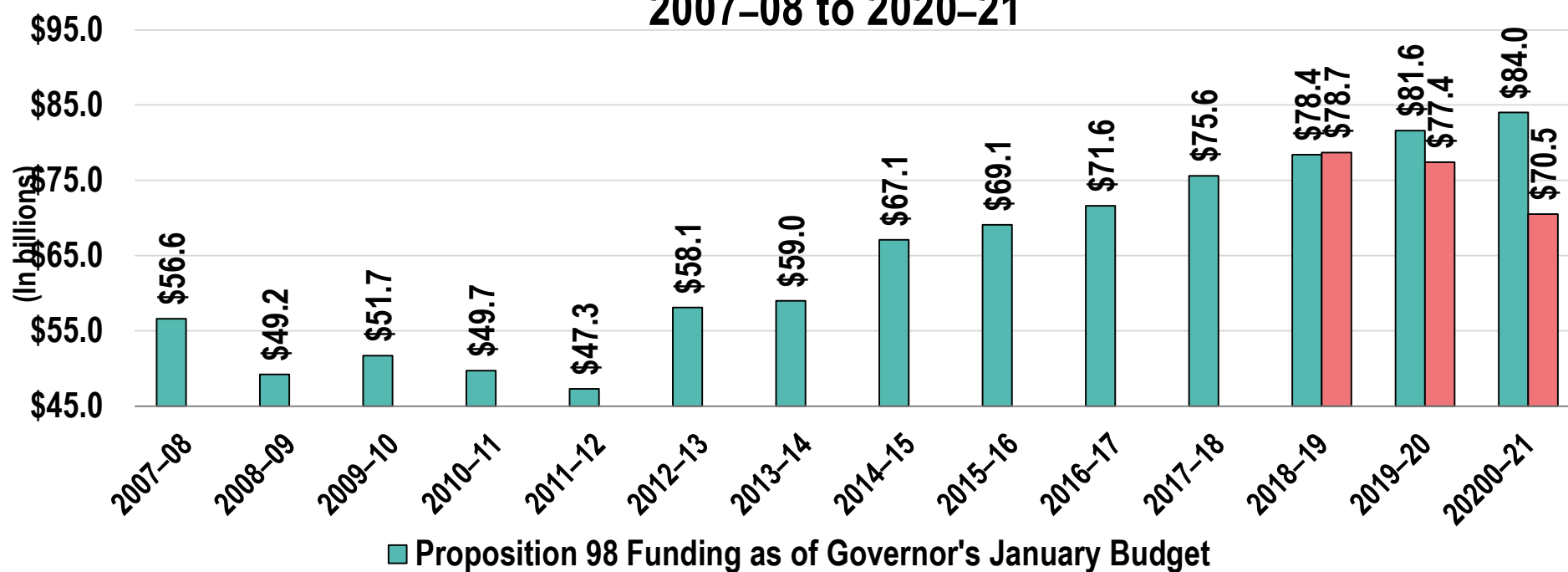


# Proposition 98 Funding

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## Proposition 98 Funding 2007-08 to 2020-21



Source: 2020-21 Governor's Budget, pg. 68 and data provided by the DOF



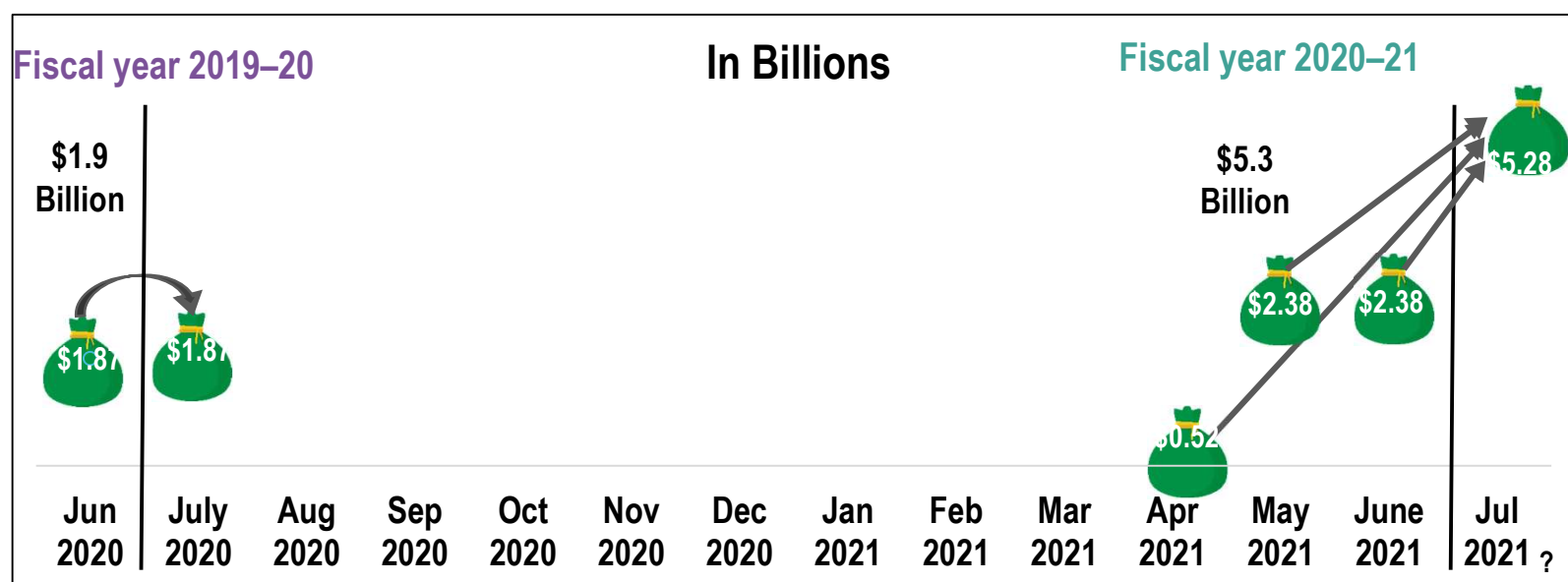


## Cash Flow and Deferrals

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- Cash deferrals were used during the Great Recession to implement state-level budget cuts and/or improve the state's cash position. The proposed deferrals in the May Revision are illustrated as follows:



- Local school agencies may need to implement local borrowing options to ensure adequate cash to continue paying employees and vendors during these times
  - ◆ While this avoids an additional cut in state revenues to schools, it pushes the administrative and financial burden of borrowing cash to local school agencies



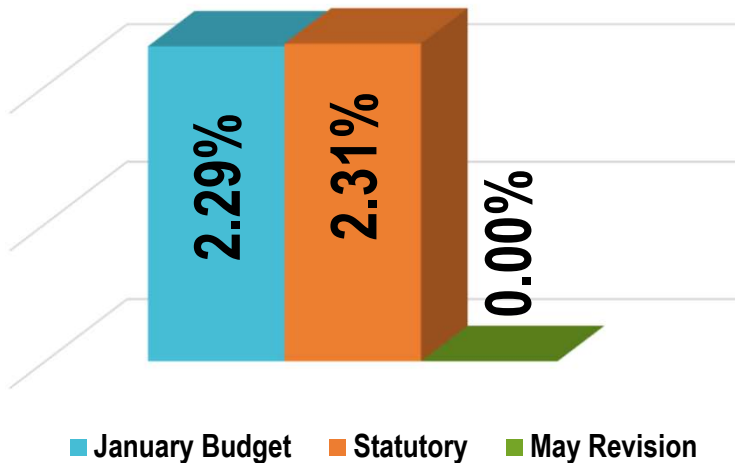


## Statutory COLA

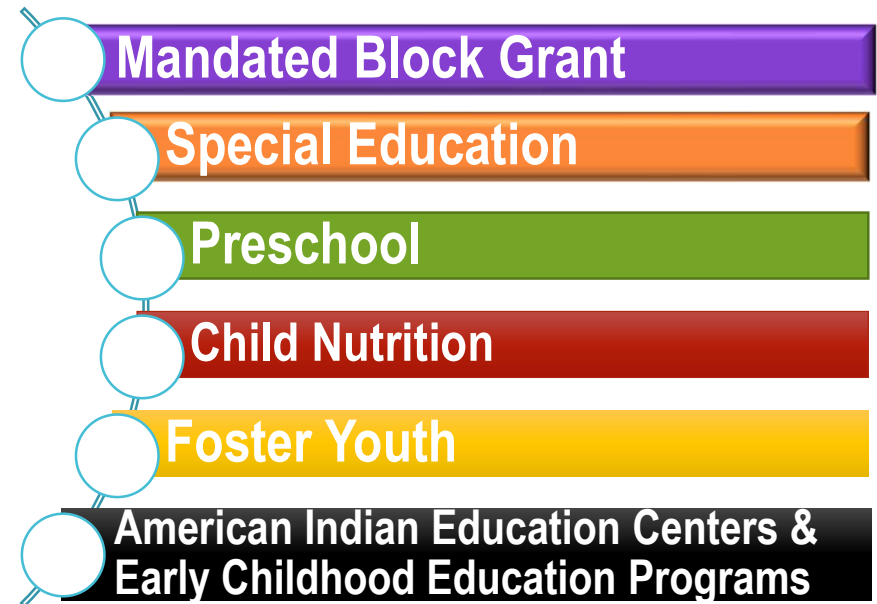
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- While the May Revision acknowledges a 2.31% statutory cost-of-living adjustment (COLA) (up slightly from the 2.29% estimated COLA in January), it suspends the COLA for 2020–21



- Categorical programs outside of the LCFF will also have the statutory COLA suspended



In typical years, as costs continue to rise, these programs would see adjustments for COLA only and average daily attendance (ADA) for special education





## 2020–21 LCFF Funding Factors

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- The May Revision suspends the 2.31% COLA and includes an additional reduction—for a total of 10% cut to the Local Control Funding Formula (LCFF)
  - ◆ First, the 2.31% COLA is applied to arrive at the 2020–21 base grants
  - ◆ Then the 10% reduction is applied—for an effective reduction of 7.92% to the 2019–20 base grant amounts

These reductions would be “triggered off” if the federal government provides sufficient funding to backfill the cuts

Grade Span	2019–20 Base Grant per ADA	2.31% COLA	2020–21 Base Grant per ADA	10% Reduction	Effective 2020–21 Base Grant per ADA	GSA	2020–21 Adjusted Base Grant per ADA
K–3	\$7,702	\$178	\$7,880	[-\$788]	\$7,092	\$738	\$7,830
4–6	\$7,818	\$181	\$7,999	[-\$800]	\$7,199	-	\$7,199
7–8	\$8,050	\$186	\$8,236	[-\$824]	\$7,412	-	\$7,412
9–12	\$9,329	\$215	\$9,544	[-\$954]	\$8,590	\$223	\$8,813





# What Does the LCFF Mean for Piedmont USD?

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Piedmont USD			
Year	LCFF Per-ADA Funding	Funded ADA (higher of current or prior year)	Projected LCFF Total Revenue
2019-20	\$8,703	2,523.95	\$21,964,737
2020-21	\$8,015	2,493.25	\$19,983,707
Difference	-\$688	-30.72	-\$1,981,030
Difference from 2 <sup>nd</sup> Interim	-\$885	-21.16	-\$2,468,920





## Special Education

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**Base Rates increased  
to \$645 per ADA based  
on three-year rolling  
average ADA**



### **For Piedmont USD:**

**Approximately \$185,000  
additional revenue.**

**(Had assumed \$205,000  
in 2<sup>nd</sup> Interim)**



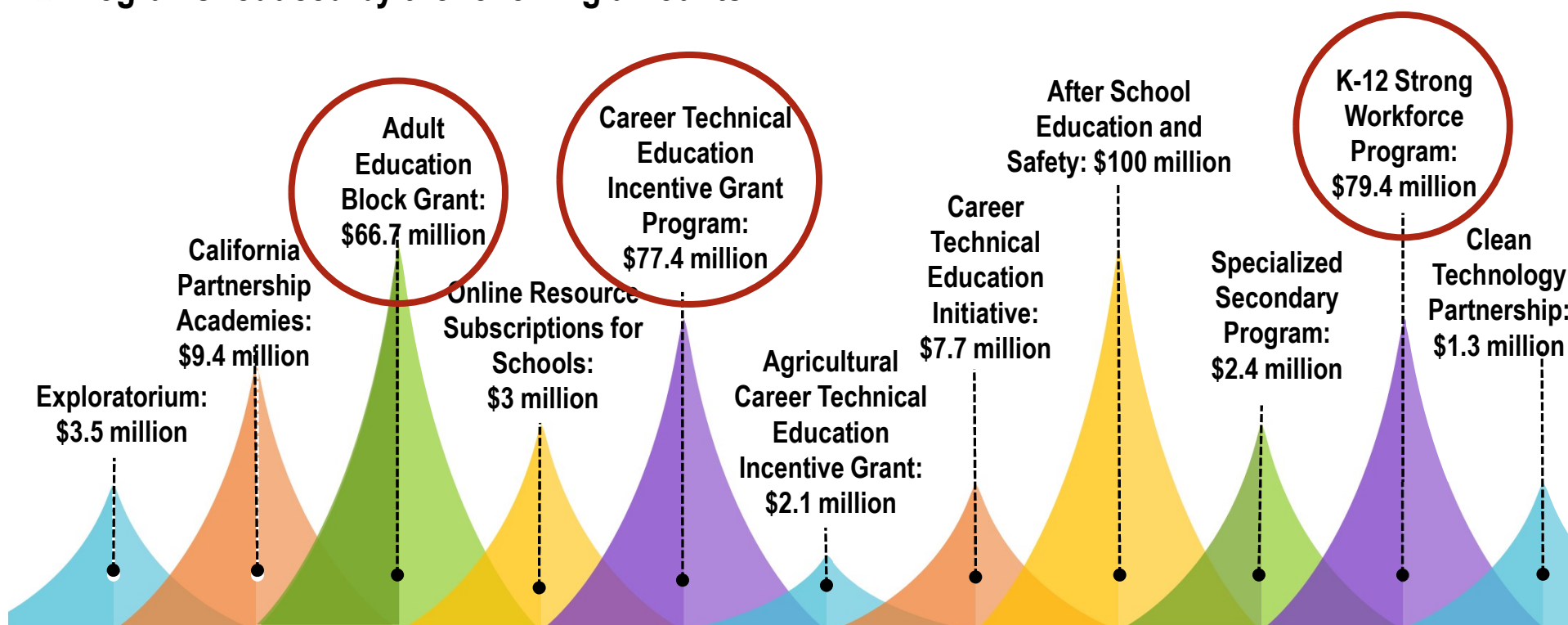


## Categorical Program Cuts

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- Total savings of \$352.9 million by cutting categorical programs roughly in half
- Cuts may be reversed if additional federal funds materialize
- Programs reduced by the following amounts:







# CalPERS/CalSTRS Rate Buydowns

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Portion of payment was to pay down CalSTRS<sup>1</sup> and CalPERS<sup>2</sup> employer contribution rates in 2019–20 and 2020–21

**2019–20 State Budget**

**2020–21 May  
Revision**

**Governor Newsom now proposes to redirect the \$2.3 billion to further reduce employer contribution rates in 2020–21 and 2021–22**

Based on 2019–  
20 State Budget

**\$3.15 billion**

Non-Proposition 98  
General Fund Payment on  
K–14 employers' behalf to  
CalSTRS and CalPERS  
Schools Pool

**Remaining \$2.3 billion  
was intended to go towards  
the long-term unfunded  
liability of each system**

**2019–20 State Budget**

**2020–21 May  
Revision**

**CalSTRS Employer Rate**  
2020–21: ↓ 18.4% to 16.15%  
2021–22: ↓ 18.2% to 16.02%

**CalPERS Employer Rate**  
2020–21: ↓ 22.68% to 20.7%  
2021–22: ↓ 24.6% to 22.84%

<sup>1</sup>California State Teachers' Retirement System (CalSTRS)

<sup>2</sup>California Public Employees' Retirement System (CalPERS)





# CalPERS & CalSTRS Future Rate Implications

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- Employer (school district) rates will still increase, but not as much as had been anticipated.

CalPERS Employer Contribution Rate Estimates		
Year	Previous Rates	Revised Rates
2019-20	19.721%	
2020-21	22.68%	20.70%
2021-22	24.60%	22.84%
2022-23	25.90%	25.50%
2023-24	26.60%	26.20%
2024-25	27.00%	26.50%
2025-26	26.80%	26.40%
2026-27	26.70%	26.20%

\*CalPERS Board approved 2020-21 contribution rate as of April 21, 2020

CalSTRS Employer Contribution Rates		
Year	Previous Rates	Revised Rates
2019-20	17.10%	
2020-21	18.40%	16.15%
2021-22	18.10%	16.02%
2022-23	18.10%	18.10%
2023-24	18.10%	18.10%

For Piedmont USD:

Difference between previous and revised rates is approximately **\$544,000 in reduced costs.**





# Flexibility Options Absent in the May Revision

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During the Great Recession, the state provided flexibility that was meant to help LEAs weather the financial storm

While the May Revision provides some welcomed flexibility, it falls short of providing LEAs what they need



- Flexibility to reduce the instructional year and minutes without penalty
- Extend the ADA hold harmless provided for in 2019–20 through 2020–21
- Reduce or suspend the required contribution to Routine Restricted Maintenance
- Flexibility in the use of supplemental and concentration grant funds
- Ability to sweep ending balances from categorical programs and restricted funds to the unrestricted General Fund

See “Strategies for Weathering the Storm” in the *Fiscal Report*



# Piedmont USD's 2020-21 Budget

- o At the Second Interim Report, reviewed by BAC and the Board in March, the District used the January Governor's Budget projections to develop a budget baseline for 2020-21.
- o The May Revision has had a significant impact on the 2020-21 Budget.
- o The District's 2020-21 Budget must be adopted by the end of June with many puzzle pieces still unknown.





# May Revision Revenue Changes

- o The following compares the 2020-21 revenue projections at 2<sup>nd</sup> Interim to the revised projections:

2020-21 Revenue (in \$ Millions)	2 <sup>nd</sup> Interim	May Revision	Difference
LCFF	\$22.45	\$20.17	-\$2.28
Federal Revenues	0.67	0.67	0.00
Other State	1.25	1.20	-0.05
Local	5.56	6.16	+0.60
Measures G & H	13.41	13.41	0.00
Total	\$43.34	\$41.61	-\$1.73

\*

\* PEF Board has approved a total grant of \$3.3 M, which is \$.6 M more than anticipated! Thank you PEF!



# Expenditures

- o The following compares the 2020-21 projected expenditures at 2<sup>nd</sup> Interim to the revised projections:

2020-21 Expenses (in \$ Millions)	2 <sup>nd</sup> Interim	May Revision	Difference
Certificated Salaries	\$18.84	\$18.84	\$0
Classified Salaries	6.04	6.04	0
Benefits	10.61	9.93	-0.68
Books & Supplies	1.17	1.17	0
Services & Operating	5.27	5.33	0.06
Reductions TBD	-0.34	-0.34	0
Other	-0.09	-0.09	0
Total	\$41.50	\$40.88	-\$0.62



# Net Deficit

- To preserve all of Measure H for negotiations, the \$2.6 M was taken out of available revenues at 2<sup>nd</sup> Interim, resulting in a deficit of \$485,000 to be resolved.
- With the revised information, the net deficit is now \$2.0 M.



# Net Deficit Comparison

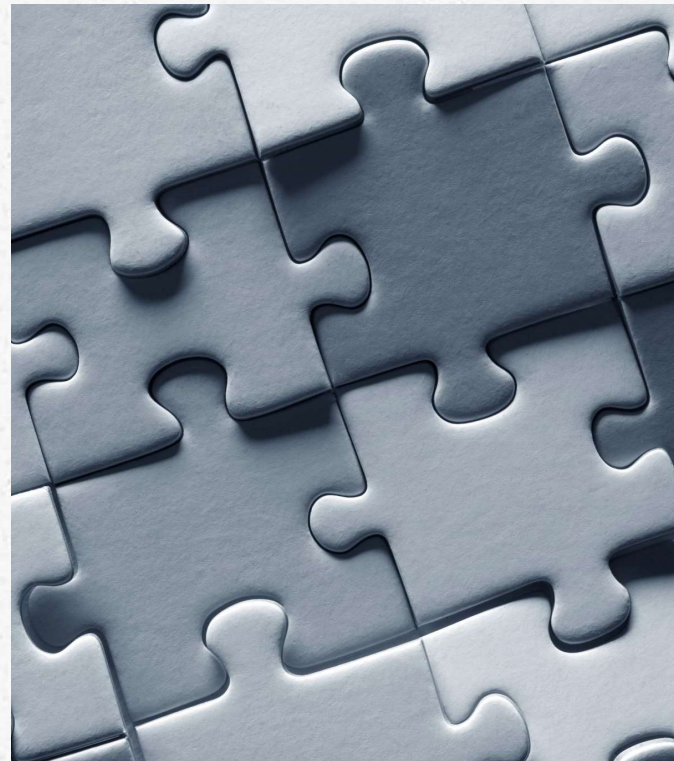
(\$ in Millions)

2020-21	2 <sup>nd</sup> Interim	May Revise	Difference
Beginning Balance	\$1.60	\$1.60	0
Revenues	\$43.34	\$41.61	-\$1.73
Expenditures	<u>-\$41.50</u>	<u>-\$40.88</u>	<u>-\$0.62</u>
Surplus (Deficit)	3.44	2.33	-1.11
Less Measure H Reserve	-2.60	-2.60	
Less 3% Reserve	-1.29	-1.28	0.01
Less COVID Reserve	<u>0</u>	<u>-0.50</u>	<u>-0.50</u>
Net Deficit	-\$0.45	-\$2.05	-\$1.60



# How Will Reductions be Achieved?

- Because of the timing, not all options are available, however:
  - Review open positions – freeze on new hires
  - Consider new educational landscape.





# Next Steps

- May 27: Board reviews May Revision adjustments and potential reductions for 2020-21 Budget. Provide guidance/priorities.
- Week of June 1: Board provides priorities on how to determine budget reductions
- June 10: Public Hearing on Proposed 2020-21 Budget
- June 24: Board adopts 2020-21 Budget



# Planning for COVID-19

- o Still many unknowns at this time.
- o District has set out some parameters and questions for discussions.
- o Teams will tackle Elementary and Secondary return to school options.
- o Thought Exchange is one of many ways to participate in the discussion.
- o Plan(s) to be ready for Board discussion by June 24.



# Appendix

Additional slides from SSC presentation





# National Economic Outlook

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- The COVID-19 pandemic has shut down economies across the globe
- The U.S. is the largest economy in the world and its health relies on a healthy international economy
  - ◆ China's Gross Domestic Product (GDP) shrank by 6.8% in the first three months of 2020—its first economic contraction in 40 years and the European Union's economy is expected to contract by 7.5% in 2020
- National unemployment is projected to reach historic levels—akin to the Great Depression era
- Personal income nationwide dropped by 2% in March while consumption fell by 7.5%
- Aside from the coronavirus itself and the ability to combat it with effective therapies or a vaccine, there are other risks to the national economy
  - ◆ Trade “cold war” with China
  - ◆ Sluggish global demand for U.S. goods
  - ◆ Small and large business bankruptcies that forestall an employment rebound and the confidence consumers need to start spending again

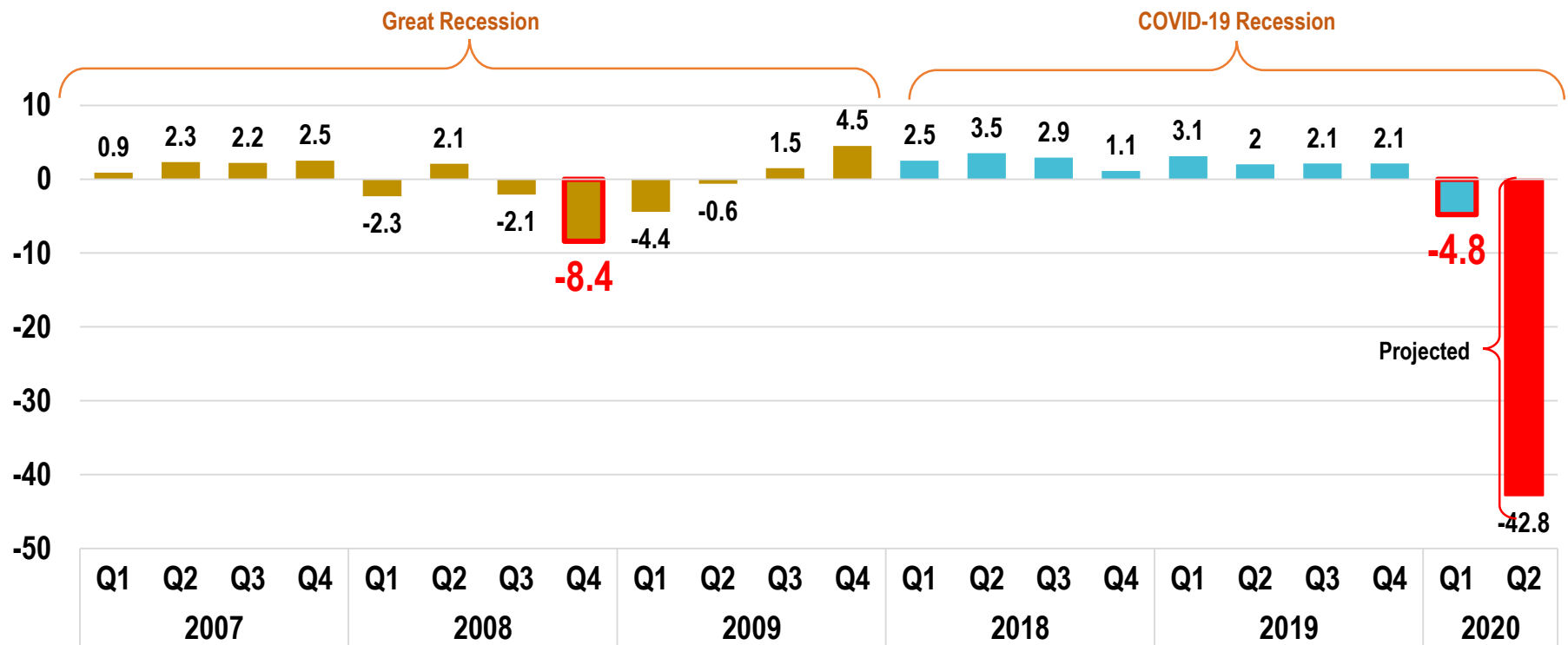




# U.S. Real GDP—Great Recession vs. COVID-19

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Source: U.S. Bureau of Economic Statistics

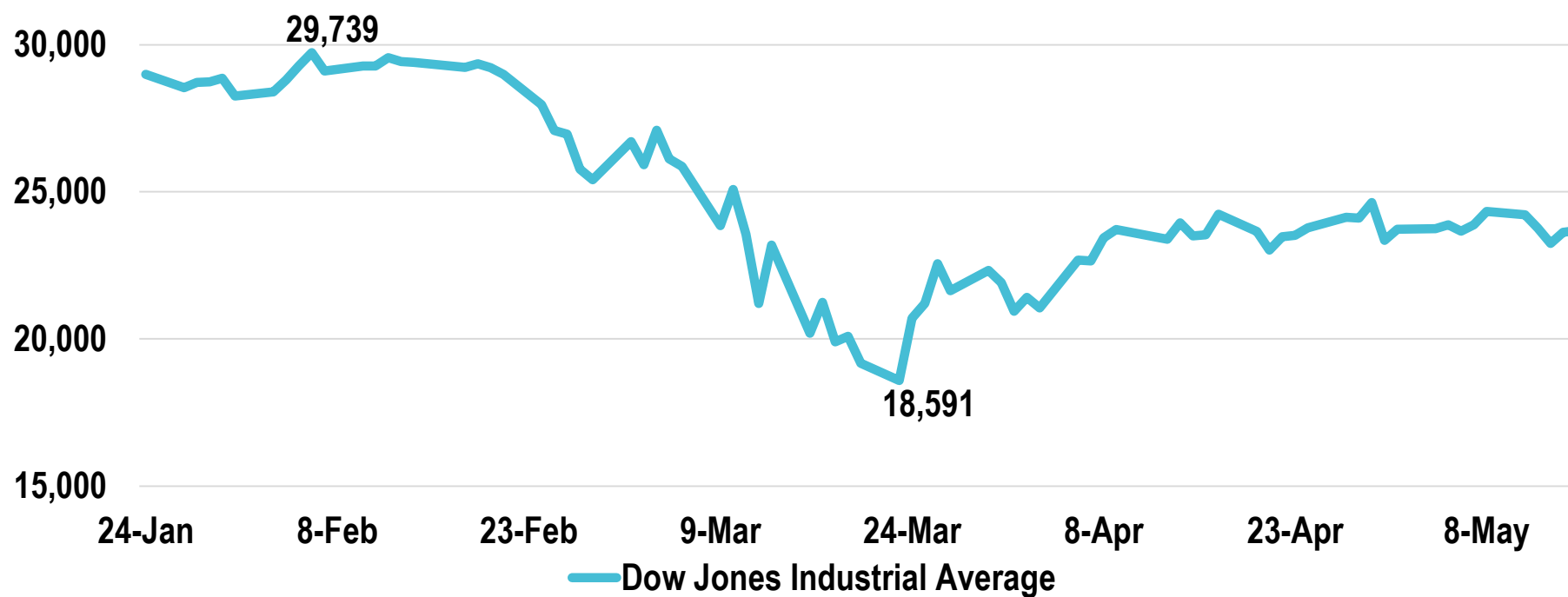




# Dow Jones Industrial Average

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Source: Dow Jones Industrial Average Market Watch—<https://www.marketwatch.com>



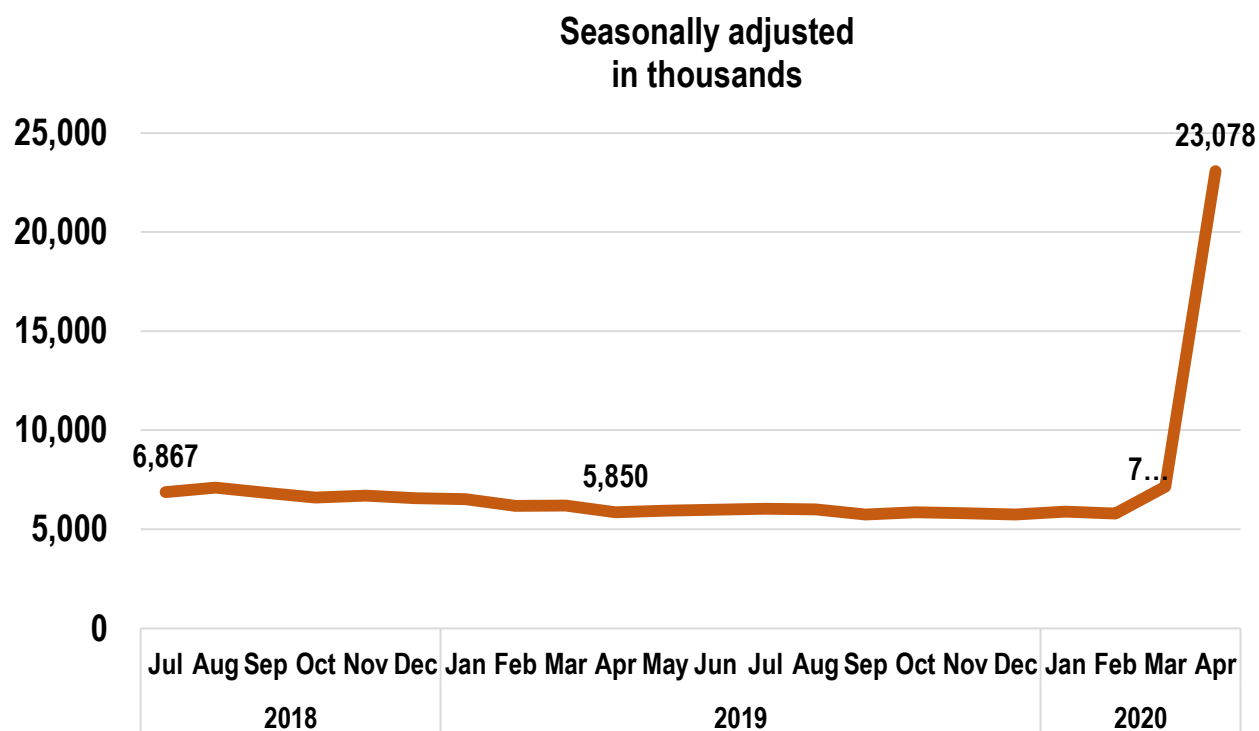


# U.S. Unemployment Numbers

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- Before the public health crisis, the U.S. economy was enjoying full employment
- The national unemployment rate was at historic lows, and no one predicted that things would change so suddenly
- Some economists forecast that the unemployment rate could reach upwards of 20% in the third quarter of the year



Source: U.S. Bureau of Labor Statistics



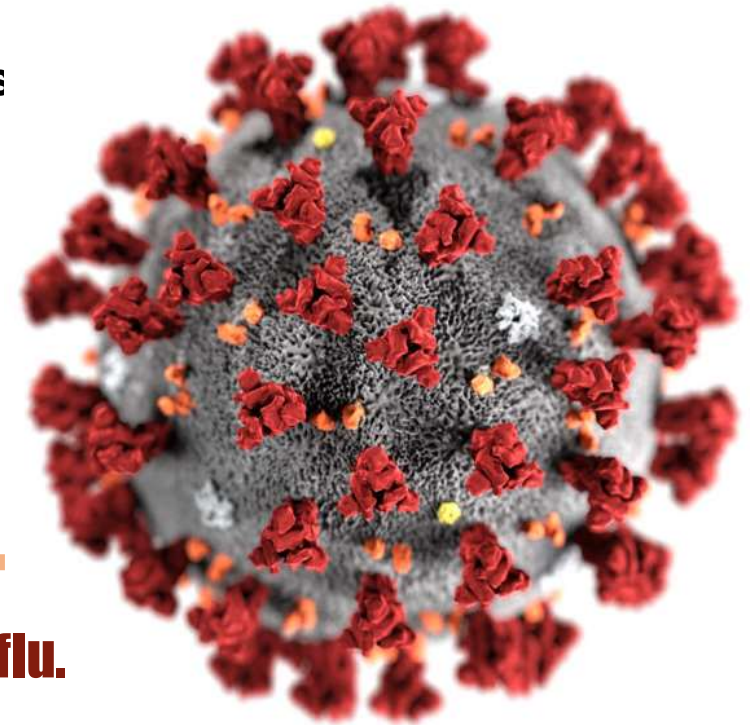


# California's Economy

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- As the nation goes, so goes California
- California ranks 5<sup>th</sup> among the world's largest economies including the United States, China, Japan, and Germany
  - ◆ This makes the state highly susceptible to national and global economic shocks
  - ◆ Given its coastal geography, the state is home to three of the largest trade ports—making California's economy reliant on international commerce



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**When the nation gets a cold, California gets the flu.**

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# Big Three Tax Revenues

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- The “Big Three” taxes make up nearly 77% of state general fund revenue
- Personal income tax (PIT) alone accounts for two-thirds of general fund revenues—making it the largest source of state revenue
  - ◆ California’s income tax structure is extremely progressive
  - ◆ 40–50% of PIT revenue is generated from the 1% of California taxpayers—residents who earn over \$1 million annually<sup>1</sup>
- California’s dependency on the state’s top income earners creates extreme volatility for general fund revenues
- We are seeing the evidence of that now



<sup>1</sup> Legislative Analyst’s Office (LAO) (2015), *California’s Tax System: A Visual Guide*





## Capital Gains

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- **Earnings from stock market investments makes up a sizable share of the revenue from the state's highest earners**
- **The Governor's January Budget assumed that 3,200 points on the S&P 500 would yield \$30 billion in capital gains revenue**
- **The LAO 's optimistic projection assumes that Wall Street would return to pre-recession levels in 2022**





# General Fund Budget Summary

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## 2020–21 General Fund Budget Summary (in millions)

	2019–20	2020–21
Prior-Year Balance	\$11,280	\$1,619
Revenues and Transfers	\$136,836	\$137,417
Total Resources Available	\$148,116	\$139,036
Non-Proposition 98 Expenditures	\$94,145	\$89,030
Proposition 98 Expenditures	\$52,352	\$44,871
Total Expenditures	\$146,497	\$133,901
Fund Balance	\$1,619	\$5,135
Reserve for Liquidation of Encumbrances	\$3,175	\$3,175
Special Fund for Economic Uncertainties	[-\$1,556]	\$1,960
Public School System Stabilization Account	\$524	\$0
Safety Net Reserve	\$900	\$450
Budget Stabilization Account/Rainy Day Fund	\$16,156	\$8,350

### Revenues & Expenses

Revenues and transfers increase 0.4% in 2020–21, while expenditures decrease 8.6%

### Reserves

The entire \$16.2 billion in the Rainy Day Fund will be drawn down over three years

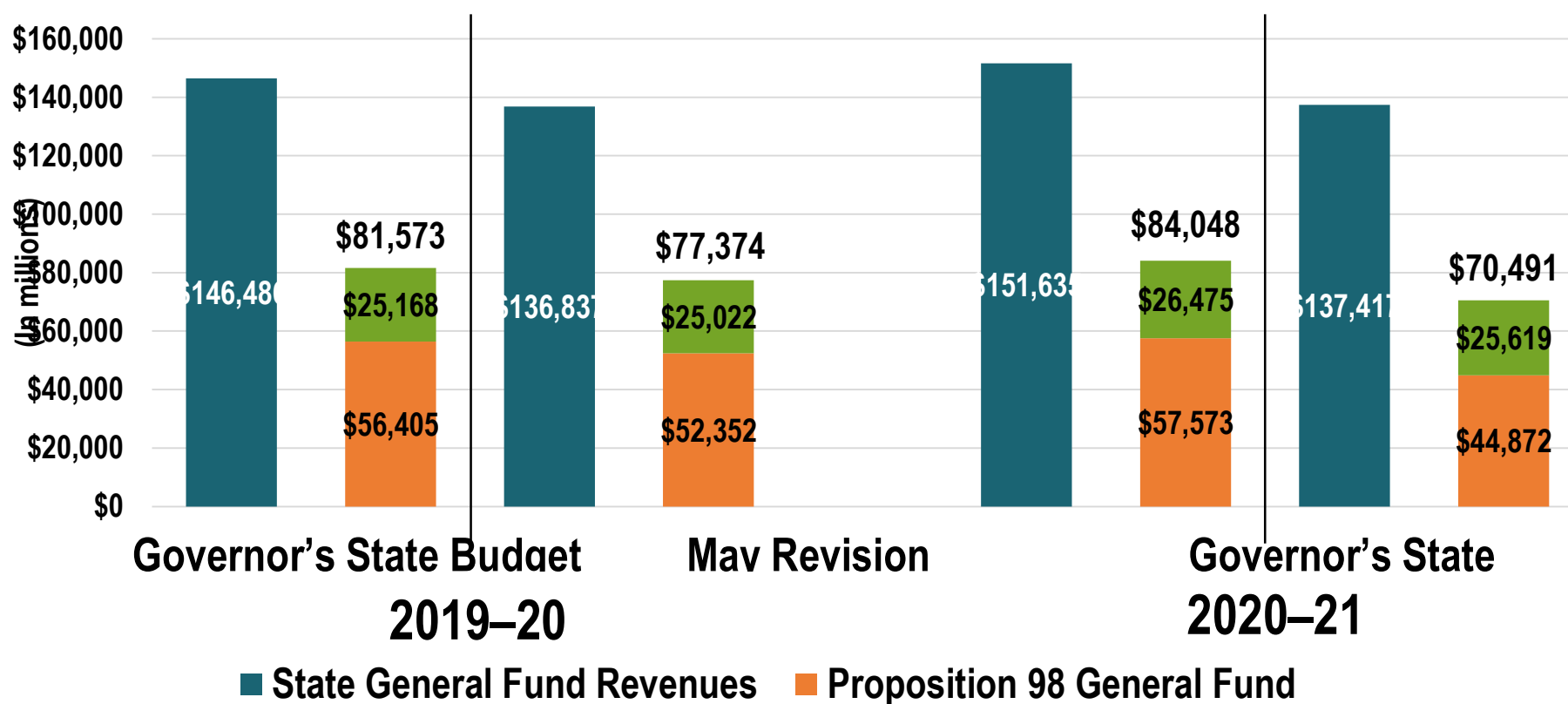




## Proposition 98 and State Revenues

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## Rainy Day Fund—Budget Stabilization Account

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- The Budget Stabilization Account (BSA) currently has about \$16.2 billion
- Proposition 2 (2014) stipulates that a withdrawal may not exceed half of the BSA balance in the first year of a budget emergency
- The May Revision proposes to draw down the entirety of the \$16.2 billion over three years
  - ◆ This includes \$7.8 billion for 2020–21







## The CARES Act—California's K–12 share

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**\$355 million in Governor's  
Emergency Education  
Relief (GEER) funds**

**\$1.65 billion in Elementary  
and Secondary School  
Emergency Relief  
(ESSER) funds**

**At least 90% distributed to  
LEAs based on their Title  
I, Part A allocation, and  
broad discretion for use of  
funds**

**State may set aside up to  
10% for state-level  
activities**





## The CARES Act—One-Time Investments

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**\$165 million  
for ESSER  
state set-  
aside**



and coordinate health, mental health, and social services support for



**\$63.2 million for educator training and professional development focused on barriers to learning**



**\$1.5 million to CDE for state operations associated with COVID-19**





## The CARES Act – One-time Investments

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**\$4.4 billion for LEAs to mitigate learning loss**

**\$355 million GEER funds**

**\$4 billion from Coronavirus Relief Fund**



**Allocated to LEAs using formula that considers state's most vulnerable students**

**\$1.5 billion distributed per pupil based on number of students with a disability**

**\$2.855 billion to concentration grant districts on a per ADA basis**

- **SSC estimates to be \$1,900 per student**

- **SSC estimates to be \$735 per ADA**



**Funds shall be expended by December 30, 2020 on the following activities:**

**Extending the instructional school year**

**Additional academic services**

**Learning supports**

**Wrap around services**





## Additional Federal Funding?

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California is slated to receive billions of dollars from the CARES Act, but the funding only puts a small dent in the state's \$54 billion budget deficit

Governor Newsom has been aggressively lobbying the federal government for an additional \$1 trillion in aid

House Democrats introduced the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) Act, a \$3 trillion package that gives \$60 billion for K-12 school districts nationally

Resistance from the White House and Senate Majority Leader Mitch McConnell (R-Kentucky) in giving states and local governments additional federal funding