

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

DATE: June 26, 2019

RE: **CONDUCT FINAL PUBLIC HEARING ON THE 2019-20 DISTRICT GENERAL FUND BUDGET AND ALL OTHER BUDGETS OPERATED BY THE DISTRICT; APPROVE 2019-20 BUDGET AND ADOPT RESOLUTION 22-2018-19 “AUTHORIZING BUDGET TRANSFERS FOR THE 2019-20 SCHOOL YEAR” AND ADOPT RESOLUTION 23-2018-19 “AUTHORIZING YEAR-END BUDGET TRANSFERS FOLLOWING THE CLOSE OF THE DISTRICT’S LEDGERS FOR THE 2018-19 SCHOOL YEAR”**

I. SUMMARY

The 2019-20 Budget is presented tonight for a final public hearing and for formal adoption.

Based on the assumptions presented below, the District will maintain the require 3% reserve for 2019-20. The budget also includes the 1% equity raise for classified staff and administrators, and maintains the equivalent of a 1% raise for teachers in the fund balance.

The multiyear picture assumes a continued decline in enrollment, which is reflected in the revenue projections. The expenditures are not right-sized for the enrollment decline, however a placeholder for future reductions is included in each year. The District will need to make budget adjustments of **\$335,000** in 2020-21 and **\$370,000** in 2021-22 to maintain the required reserve of 3% in those years.

The background information presented below is similar to the background presented at the first public hearing on June 12, 2019. Numbers have been updated based on refinements to the budget, but none of the changes are substantive.

The final budget adopted by the State includes additional resources that will have a positive impact on Piedmont’s budget, but are not reflected in this version. In August a revised budget will be presented to the board with the additional resources. An estimate at this time is that the additional funds for Special Education Pre-School will generate an additional \$9,340 per student, which is about \$93,400 for Piedmont; and the State’s additional contribution towards PERS reduces our rate from 20.733% to

19.721%, which is a savings of \$59,600. The total expected additional resources is **\$163,000**.

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. With the introduction of the Local Control Accountability Plan (LCAP), Governing Boards must hold at least one public hearing to solicit recommendations and comments from the public prior to adoption of the District's LCAP. Per Education Code (EC 42127 and 52062), the public hearing must take place in advance of, and at a meeting separate from, the Board meeting to adopt the LCAP and the District's Adopted Budget for FY 2019-20. The initial public hearing was held on June 12, 2019. The 2019-20 Adopted Budget and LCAP are now presented, inclusive of updates, based on public input and Board direction. The Adopted Budget includes the expenditures as reflected in the LCAP. Staff will submit all required documentation to the Alameda County Office of Education (ACOE) by the statutory deadline of July 1, 2019.

A requirement of the public hearing is for the District to provide the projected reserve levels for the budget year and two subsequent years. If the reserve is expected to exceed 3%, the District is required to provide an explanation. In our case, we will not meet the required reserve without future budget adjustments.

III. 2019-20 BUDGET INFORMATION

The budget documents presented for this Public Hearing 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 School Support Parcel Tax; 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 information available on the State budget from the May Revise, employee-related costs and all other anticipated obligations, the net difference in the General Fund between revenues and expenditures for 2019-20 is **\$293,538**.

The Ending Fund Balance is projected to be **\$1,640,083**, which will leave the reserve at just over the required 3%. (It will be **3.5%**.)

Revenues: The State determines approximately 60% 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 increase by 3.26%. Because the District is experiencing declining enrollment, the revenues received will only increase by 2.43%
- Other State Revenues – the 2018-19 budget included one-time funding that is not available in 2019-20.
- Parcel Tax Revenues – Measure A has a maximum annual escalator of 2%, if recommended by the School Support Tax Subcommittee and approved by the Board. The budget assumes the 2% increase.
- Other Local Revenues – Between the donations from the Piedmont Education Foundation and the consistent fundraising efforts of parents, the anticipated revenues from local sources is budgeted to increase.

Expenditures: The District has been spending more than it has received in on-going revenues over the past several years. This deficit spending was possible because of one-time revenues and available reserves. Knowing that this was not sustainable, the District took action this spring to right-size expenditures in line with the student population and available revenues. The net results of that effort are as following:

- Certificated salaries will **decrease by \$345K** due to retirements and other personnel movements.
- Classified salaries will **increase by \$132K** due to the inclusion of the 2019-20 Equity Raise (\$686 per employee), natural salary progressions, and the re-calibration of a few classified positions.
- Employer contributions to employee retirement pensions will **increase by \$598K**. *This amount may be reduced by \$60K, based on the final State Budget.*
- The budget for Books and Supplies will **decrease by \$460K**. A portion of the expenditures are based on parent and student fundraising during the year. When those funds are raised, the expenditures will increase. In addition, a 10% cut was made to supplies budgets funded by LCFF (school sites receive funding for supplies from parent club donations – this was not reduced).
- The budget for Professional Services will **decrease by \$819K**. This is primarily the result of specific contractual obligations ending (mostly in Special Education). In addition, we have reduced the budget for professional development by \$60,000 for District-led professional development.
- The contribution to Capital Facilities and Deferred Maintenance were combined for a total of \$50,000 to be transferred outside the General Fund for facilities maintenance (see discussion of RRMA and Deferred Maintenance Fund below).
- 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.

Routine Restricted Maintenance Account (RRMA). As a condition of the state matching funds that the District received for the Seismic Bond program, the District is required to set aside 3% of its general fund budget every year into a restricted account that can only be used for regular maintenance and routine repair of school buildings. The 3% requirement was lifted during the recession, but has been brought back gradually. It is

2% in 2018-19 and will be back at 3% starting in 2019-20. The District has spent from 1.5% to 1.8% a year on maintenance, and is building up to the required 3% level. The RRMA expenditures can be made from the General Fund and the Deferred Maintenance (Fund 14) but not from the Special Reserve for Capital Projects (Fund 40). Currently we include the cost of our maintenance and grounds staff and the supplies and contracts that are needed for their work in RRMA. If we were to include the funds spent on Witter Field maintenance and other maintenance projects funded from the Facilities Fund (Fund 40), we may be closer to 3%.

For 2019-20, the RRMA is partially in the General Fund and partially in the Deferred Maintenance (Fund 14) fund. To fully fund the RRMA, the District may need to make additional reductions in other areas. In the meantime, we continue to look for current expenditures that may qualify.

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 **\$1,640,083**. This balance includes the 3% reserve of \$1,234,428, a revolving cash reserve of \$25,000, a balance of \$159,518 from restricted grants that have not been fully spent, and a set-aside for a future settlement with certificated employees of \$172,600.

IV. MULTIYEAR PROJECTIONS (MYP)

The multiyear projections (MYP) are included with the budget to provide a picture of the revenue and expenditure trend for 2019-20, 2020-21 and 2021-22. 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	2019-20	2020-21	2021-22
Enrollment	2,539	2,510	2,438
Cost of Living Increase (COLA) for LCFF per pupil funding	3.26%	3.00%	2.80%
COLA for increase in other State revenues and various costs	3.26%	3.00%	2.80%
Natural progression (Step & Column) in Employee Salaries	1.00%	1.00%	1.00%
STRS Rate	16.70%	18.10%	17.80%
PERS Rate	20.733%	23.60%	24.90%

In line with the decline in enrollment, the District will need to make \$335,000 in budget adjustments in 2020-21 and \$370,000 in budget adjustments in 2021-22 to end the year with the required 3% reserve.

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. Reports are provided for each of the funds in summary form. The larger funds are described below.

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 Speaker Series, bringing education-focused speakers throughout the year for the community, is also run through the Adult Ed Fund. The sources of revenue are State funds through the Adult Education Block Grant, and local funds through fees and donations. Adult Education has been contributing direct support/indirect costs of \$120,000 to the General Fund each fiscal year.

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 will charge certain direct costs of running the lunch programs that have not previously been charged to the program. 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, the recommendation starting in 2019-20 is to transfer the funds that were going to the Capital Facilities Fund (Fund 40) for Witter Field maintenance expenses to the Deferred Maintenance fund instead.

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 2015-16, funds were transferred to this fund from Measure A, which was approved by the voters in March

2013 for eight years. This amount will be transferred back to the General Fund in FY 2018-19. Only the NODA funds will remain.

Building Fund – Fund 21

Bond revenues are deposited to the Building Fund and are restricted for bond measure-authorized expenses only. The STEAM building is expected to be built in 2019-20, with the bulk of expenses paid during the 2019-20 year. To ensure sufficient cash for the payments due to Overaa, the General Contractor, the District will need to issue the next series of bonds in the Fall. Bond documents will be brought to the Board in August for the bond issuance.

VII. RECOMMENDATION

Conduct public hearing on the District General Fund budget for 2019-20 and all other budgets operated by the District; approve the 2019-20 Budget and adopt Resolution 22-2018-19 “Authorizing Budget Transfers for the 2019-20 School Year” and Adopt Resolution 23-2018-19 “Authorizing Year-End Budget Transfers Following the Close of the District’s Ledgers for the 2018-19 School Year”.

Attachments