

Date: 06/12/2023
To: Ken Geisick – Superintendent
From: Jean Aldrete – Chief Business Official
Subject: Assumptions for 2023-24 Adopted Budget

Introduction

State revenues have continued to decline and the May Revision reflects a \$31.5 billion shortfall. To address the shortfall while protecting Proposition 98 for Education, Governor Newsom has proposed large reductions in one-time funds in both 2022-23 and 2023-24. Some of the funds have already been allocated to schools. If state revenues continue to decline Governor Newsom has additional options such as: cash deferrals, reserve account withdrawals from the Proposition 98 Rainy Day Fund, and cost-of-living (COLA) deficits.

California's state revenues are very volatile since it relies largely on three tax revenue sources: personal income, sales, and corporate. High income earners have experienced a 20% decline in the S&P 500, which the state relies on for nearly half of its revenues. Since January the Governor has revised the state deficit from \$22.5 billion to \$31.5 billion. Personal income and corporate tax returns have been extended to October 2023 so an estimated \$42 billion will not be received until the fall. The federal reserves interest rate hikes, persistent inflation, recent bank failures, and the debt ceiling fight at the federal level affect the May Revision revenue projections.

The May Revision of the Governor's 2023-24 Budget contains the following proposals:

- Proposition 98 guarantee of \$106.8 billion (a decrease of \$2 billion over the amount in the Governor's January Budget Proposal).
- \$747 million in deposits to the Proposition 98 Reserves in 2023-24 (an increase of \$382 million over the January Proposal due to increased capital gains revenues).
- COLA of 8.22% that will be applied to LCFF entitlements for LCFF school districts costing the State \$3.4 billion adjusted for declining ADA. This will not impact SUSD's Basic Aid status. This will however change the set aside of property taxes for Supplemental Services for Unduplicated Students required for 2023-24 and reflected in the Local Control Accountability Plan (LCAP).
- \$667 million for COLA applied to state categorical programs outside of LCFF, which is a reduction of \$1.7 million over the January proposal.
- An additional \$300 million in ongoing Proposition 98 General Fund revenues to provide an Equity Multiplier intended to augment LCFF revenues for schools with 85% students or higher eligible for free federal meals.
- An increased reduction from \$1.2 billion to \$1.78 billion to the \$3.5 billion one-time Arts, Music, Instructional Materials Discretionary Block Grant.
- A new reduction of \$2.5 billion from the \$7.9 billion one-time Learning Recovery

Emergency Block Grant representing a decrease of 32%. These funds have already been received so the district will likely have to return some of the funds to the state.

- COLA will be applied to AB602 Special Education funds to increase the rate per average daily attendance (ADA) from \$820 per ADA to \$887.40 per ADA.
- New \$1 million in one-time funds for Investment in Literacy beginning in 2025-26 in which all Local Education Agencies (LEAs) will be required to annually screen pupils in grades K-2 for risk of reading difficulties, including dyslexia.
- Maintains funding for Expanded Learning Opportunities Program (ELOP) and provides an extension for 2021-21 grant carryover by one additional year.
- ELOP will be subject to annual audit in 2023-24.
- \$191 million in ongoing Proposition 98 funding for fully funded Universal Free Meals program.
- Maintains 12:1 student to teacher ratio for Transitional Kindergarten (TK).

The May Revision does not provide funding offsets for employer rate increases in PERS. While it remains to be seen if the Governor Newsom’s proposals are implemented through the legislative process over the next month, the Legislature has until June 15, 2023 to pass a budget for the 2023-24 fiscal year.

Budget Calendar

All LEAs, including community-funded districts, (aka Basic Aid Districts), are required to have the LCAP report and budget adopted and approved by their Governing Boards by July 1.

The calendar listed below includes the public inspection and hearing dates for the 2023-24 LCAP and budget:

Public inspection of the 2023-24 Budget	06/07/2023
Public hearing of the 2023-24 Budget and LCAP	06/12/2023
Governing Board approval of the 2023-24 Budget & LCAP	06/15/2023
Governing Board approval of 2022-23 Unaudited Actuals	08/24/2023
Final Audit for the year ending June 30, 2023	12/14/2023
2023-24 First Interim Report data cut off	10/31/2023
2023-24 First Interim Report due to the County Office of Education	12/15/2023
2023-24 Second Interim Report data cut off	01/31/2024
2023-24 Second Interim Report due to the County Office of Education	03/15/2024

Property tax

The District will remain in community-funded status for 2023-24 and two subsequent years. Based on the latest real property roll as of May 5, 2023 issued by the Santa Clara County Assessor's Office, the property tax growth rate is 8.03% for the 2022-23 fiscal year. The final roll total of secured and unsecured will be released by the County Assessor’s Office on June 30,

2023. Staff's assumption for property tax revenues for 2023-24 and two subsequent years are as follows:

2023-24	4%
2024-25	4%
2025-26	4%

Local Control Funding Formula (LCFF)

Although the District is community funded, several elements of the LCFF remain requirements for the District. These elements are as follows:

State Aid - Thirty-nine state 2012-13 categorical programs were consolidated in 2013-14 implementation of the LCFF formula and a Fair Share Reduction was applied during the Great Recession to Basic Aid Districts. The California Constitution under Article IX, Section 6 guarantees a minimum of \$120 per Average Daily Attendance (ADA) to be apportioned by the State School Fund. The net effect of this calculation resulted in \$324,666 in State Aid revenues.

Proposition 30 - The Education Protection Act (EPA) represents \$200 per ADA and must be spent on direct classroom support. These funds are currently used to pay for a portion of teacher salaries. The District receives \$321,266 from the State of California.

Unduplicated Students - The last element is the required set aside of community funded property taxes to serve the needs of our unduplicated student population (low income, foster youth, homeless, and English language learners). The 2023-24 Adopted Budget reflects an unduplicated pupil percentage of 9.46% (151 students) and requires a set aside amount of \$310,004. Planned goals and activities for these funds are included in the Local Control Funding Plan (LCAP).

Compensation

Salaries – Negotiations have been settled for the 2023-24 fiscal year with a 7.5% on schedule salary increase for all employee groups. These costs have been included in the 2023-24 Adopted Budget and two subsequent fiscal years. The 2024-25 fiscal year includes a 7.5% on schedule increase for all salary groups per negotiated agreements. *No additional salary increases were included in 2025-26 fiscal year since negotiations have not yet been settled.*

Health and Welfare

Plan rate changes were incorporated in the 2023-24 Adopted Budget. The District is a member of the Santa Clara County School Insurance Group (SCCSIG) for dental and vision insurance and the Self-Insured Schools of California (SISC) for medical benefits. The overall cost increase for all plans for the 2023-24 fiscal year was 5.8% over the prior year.

Cost sharing between the District and Certificated, Confidential and Management employees hired prior to July 1, 2023 for 2023-24 remains a 90% and 10% split effective July 1, 2023 and for the two subsequent fiscal years. New employees in this group hired on July 1, 2023 and

thereafter are capped at the 90% of lowest non-deductible HMO family plan (Kaiser currently) plus family dental and vision. Plan costs above the cap are borne entirely by the employee.

Saratoga Classified Association - Health and Welfare benefit is capped at Kaiser family rate for 2023-24 and two subsequent fiscal years.

	2022-23 (Estimated Actuals)	2023-24 (Adopted Budget)	2024-25 (1st Subsequent Year)	2025-26 (2nd Subsequent Year)
Certificated	90%/10% split between District and Employee	90%/10% split between District and Employee; employees hired beginning 7/1/2023 90%/10% split of lowest non-deductible HMO Plan	10% increase over prior year District's payment	10% increase over prior year District's payment
Classified	Kaiser Family Rate	Kaiser Family Rate	10% increase over prior year District's payment	10% increase over prior year District's payment
Confidential	90%/10% split between District and Employee	90%/10% split between District and Employee; employees hired beginning 7/1/2023 90%/10% split of lowest non-deductible HMO Plan	10% increase over prior year District's payment	10% increase over prior year District's payment
Certificated Management	90%/10% split between District and Employee	90%/10% split between District and Employee; employees hired beginning 7/1/2023 90%/10% split of lowest non-deductible HMO Plan	10% increase over prior year District's payment	10% increase over prior year District's payment
Classified Management	90%/10% split between District and Employee	90%/10% split between District and Employee; employees hired beginning 7/1/2023 90%/10% split of lowest non-deductible HMO Plan	10% increase over prior year District's payment	10% increase over prior year District's payment
Estimated Cost for the District	\$3,811,766	\$3,990,793	\$4,389,872	\$4,828,859

Staffing

The 2023-24 Certificated FTE counts are based on the fourth release of the teaching assignment list by Human Resources dated May 12, 2023.

A 1.5% step-and-column increase is assumed for all existing employees of \$424,388 and \$463,584 for the two subsequent years, respectively.

As noted in the compensation section, all employees received a 7.5% salary increase in 2023-24 and another 7.5% in the 2024-25 fiscal years. No additional salary increases were included in 2025-26 as negotiations for that year are not yet settled.

No attrition is assumed in the two subsequent fiscal years.

Full Time Equivalents

FTEs	2022-23	2023-24	2024-25	2025-26
Certificated	105.434	105.10	105.10	105.10
Certificated Management	8	8	8	8
Classified	88.3	80.9	80.9	80.9
Classified Management	5	5	5	5
Confidential	4	4	4	4

The reduction in classified staff from 2022-23 to 2023-24 is due to a reduction of 3 FTE for temporary second grade aides hired in 2022-23 fiscal year only and changes in staffing for Special Education and the Child Development program as student needs change.

Utilities

An average increase of 10% for electricity, gas, phone, water, and garbage is assumed for 2023-24 and 10% in each of the two subsequent fiscal years.

Parcel Tax Spending Plan

Measure A passed in May of 2019 will provide parcel tax revenues beginning in 2020-21 and continue through 2027-28. Parcel tax revenues are fixed at \$68 per parcel generating an estimated annual income of \$475,000, net of exemptions in the current and two subsequent fiscal years.

The updated parcel tax spending plan for 2022-23 and 2023-24 is as follows:

Fund – Cost Center	Description	2022-23	2023-24
040-001810	Parcel Tax Funded FTEs	\$305,183	\$322,673

040-001830	Teacher Leadership Compensation	66,503	64,827
040-002130	Curriculum Development	39,500	22,000
040-007800	Site Based Technology	65,500	65,500
Total:		475,000	475,000

Saratoga Education Foundation (SEF)

At the February 9, 2023 Board Meeting, the Saratoga Education Foundation (SEF) presented a check in the amount of \$670,000 for the current fiscal year. The 2023-24 Adopted Budget includes projected SEF revenues of \$550,000 plus projected carryover of \$58,079 and projected revenues of \$550,000 in each of the two subsequent fiscal years. The expenditure plan below has allocated \$611,921 in 2022-23 and \$608,079 in 2023-24 for various needs.

A staffing change was made to replace the Instructional Media Specialist position with three classified aides to provide support to each of the elementary schools, resulting in savings. Additionally, there will be a change in staff for the PLTW/Makerspace program resulting in salary savings.

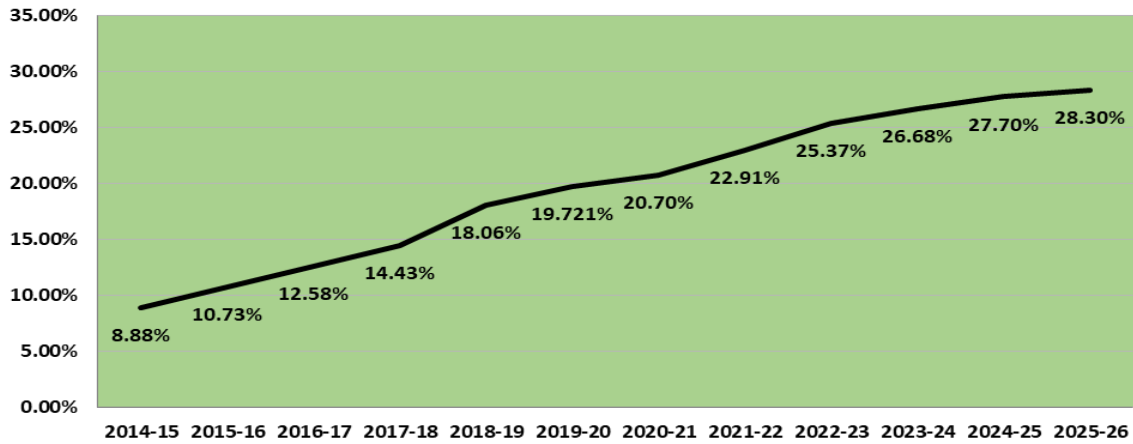
The 2023-24 projected budget includes 1.5% step-and-column salary increases and a salary schedule increase of 7.5%.

Fund – Cost Center	Program	2022-23	2023-24
060-095710	Physical Education K-5	-	\$117,197
060-095713	Science Lab Aides K-5	\$88,647	\$100,317
060-095721	Music Program K-3	-	-
060-095722	Music Program 4-5	149,737	162,068
060-095723	Instructional Media Spec 3-5	194,662	76,112
060-095724	Art Program TK-5	-	-
060-095727	PLTW/Makerspace	178,875	152,385
Total Estimates:		\$611,921	\$608,879

PERS

The PERS employer rate applied to eligible classified salaries has increased 14.833% in the last nine years representing an expenditure increase of 200%. The employer contribution rates since 2015-16 are as follows:

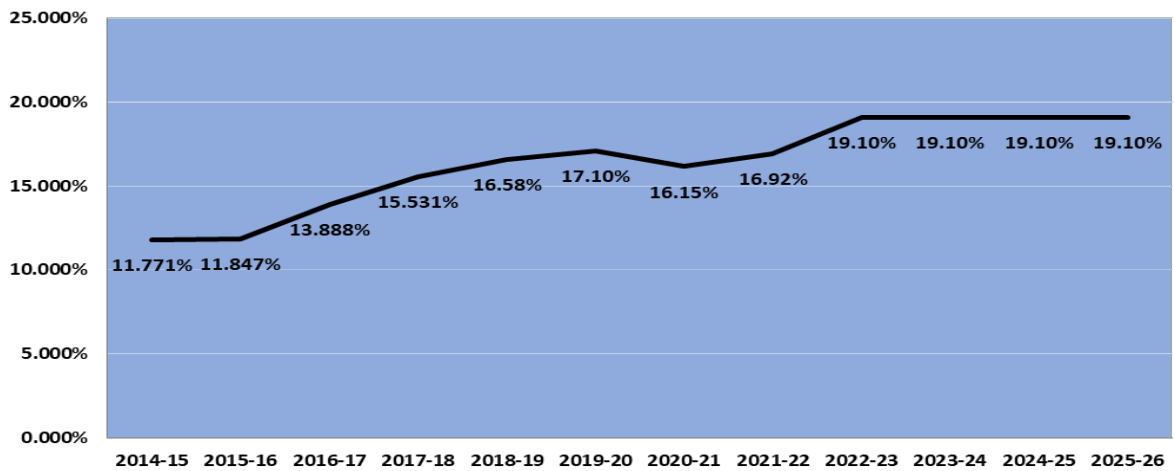
PERS Employer Rates



STRS

CalSTRS contribution rates and benefit levels are set in statute. Legislation is required to change the rates. The STRS employer rate applied to eligible certificated salaries has increased 10.3% in the last eight years representing an expenditure increase of 117%. The employer contribution rates are as follows:

STRS Employer Rates



Technology

The 2023-24 Adopted Budget includes two budgets for Technology. Cost Center 7600, the Technology Replacement budget is estimated at \$336,000 in the current and two subsequent fiscal years.

The Technology Operating Budget is in Cost Center 7700 and is estimated at \$1,123,560. This account is used to account for salaries and benefits of the Technology Department, software licenses, technology contracts, network expenses, materials and supplies and repairs. This amount continues in the two subsequent fiscal years.

2023-24 Contributions to Restricted Programs:

Routine Restricted Maintenance:	\$ 1,631,996
Special Education	\$ 4,889,723
New Teacher Support Project	\$ 15,600
After-School Sports	\$ 60,000
After-School Music	<u>\$ 6,139</u>
Total	\$ 6,603,458

Other Budget Items:

General Fund contribution to the Deferred Maintenance Fund is \$2,000,000 for each of the three years listed.

An estimated available General Fund transfer of \$139,366 to the Basic Aid Reserve Fund - (Special Reserve Fund 17) was included in 2023-24, and \$210,279 in fiscal years 2024-25 and 2025-26.

The Supplemental Early Retirement Plan debt payments for five years started in July 2020 through July 2024 at an annual cost of \$325,904. This amount was included in the 2023-24 and 2024-25 fiscal years.

A transfer of \$56,285 is reflected in the 2023-24 and two subsequent fiscal years to the Child Development Fund to support costs above revenues for the summer Jumpstart program.

Assigned Reserves

Set asides of the General Fund Balance Reserves of \$1,575,904 are as follows:

- Maintenance and Other Projects - \$500,000 has been assigned in the fund balance reserves for maintenance and other projects and major repairs.
- Technology Plan - \$250,000 for anticipated expenditures to be incurred per the Educational Technology Plan above the current level of expenditures in future years.
- Supplemental Early Retirement Plan - \$325,904 was assigned to fund the final supplemental early retirement plan debt service payment that will be incurred in July 2024.
- Instructional Materials - \$500,000 was assigned to fund the costs of new instructional materials curriculum over the next several years due to expected 51% cut to the one-time Arts, Music, Instructional Materials Discretionary Block Grant.

Budget Concerns:

- Declining Enrollment – continued decline as larger grades graduate from grades 5-8 and are replaced by lower enrollment in lower grades.
- Continuous need to fund deferred maintenance repair with General Fund reserves.
- Increasing Special Education costs and continued underfunding from both state and federal resources.
- Uncertainty of funding for the one-time Learning Recovery Block Grant (projected 50% reduction) and one-time Arts, Music and Instructional Materials Discretionary Block Grant (projected 51% reduction).
- Proposition 28 Arts & Music in Schools Funding Guarantee and Accountability Act still has not been finalized for grant amounts, compliance rules, plan guidelines, supplement versus supplant guidance and firm details are not yet available. Will not be available until spring 2024.

Available Reserves:

	2023-24	2024-25	2025-26
General Fund Reserve for Economic Uncertainties – 3% Mandated	\$1,219,629	\$1,319,159	\$1,342,495
General Fund Undesignated/Unappropriated Amount	\$5,844,651	\$4,063,940	\$2,434,917
Special Reserve Fund	\$5,777,470	\$6,098,143	\$6,595,797
Total Available Reserves	\$12,841,750	\$11,481,242	\$10,373,209
Available Reserve %	31.59%	26.11%	23.18%