

Date: March 9, 2023
Memo to: Ken Geisick, Superintendent
From: Jean Aldrete, Chief Business Officer
Subject: 2022-23 Second Interim Report

Introduction

This Second Interim Report represents our district's financial activities from the beginning of the fiscal year 2022-23 through January 31st and contains revenue and expenditure projections for the current year and two subsequent years. This is a state-mandated report, which the Board of Trustees is required to certify to the county superintendent of schools declaring SUSD's financial condition as positive, qualified, or negative for the Second Interim period as well as for the two out-years.

This report includes assumptions and recommendations by the CA Department of Finance, School Services of California, and the Santa Clara Office of Education. Revenue augmentations and expenditure adjustments included in this report are based on the latest information available to us.

There are no significant changes in the current fiscal year, but the Governor's 2023-24 January Budget proposal includes:

- The Department of Finance is estimating State-wide Cost of Living Adjustments (COLA) of 8.13% in 2023-24 and 3.54% in 2024-25
- Statutory COLA of 8.13% for select programs outside of the Local Control Funding Formula (LCFF) including Special Education
- Governor continues to protect districts from ADA funding cliff due to declining enrollment from the greater of current or prior year ADA to the greater of:
 - Current Year ADA, or
 - Prior Year ADA, or
 - Computed average ADA using prior three years' ADA
- Required deposit will be made to the Public School System Stabilization Fund per Proposition 2 in 2023-24, and continues reserve cap for most districts, but it does not apply to Basic Aid districts
- Universal TK expanded to include children who turn five years old between September 2 and April 2 at a student to adult ratio of 12:1
- Provides \$941 million for Proposition 28 Arts and Music Education in Public Schools
- A reduction of \$1.2 billion to \$2.3 billion for one-time funding for the Arts, Music and Instructional Materials Discretionary Block Grant
- Continued current funding for Expanded Learning Opportunities Program

There were no new state proposals to further reduce the employer contribution rates for CalPERS resulting in increases in 2023-24 and 2024-25 employer costs of 1.63% and 1.10%, respectively. We will make any necessary changes to the budget if any after the Governor's 2023-24 May Revise.

Overview

The following paragraphs highlight the **main components of the general fund**. These components include the revenues, expenditures, and the contributions to legally mandated programs. This report also highlights the major revenue and expenditure assumptions.

Revenue: General Fund combined revenues are projected to be \$40,625,439. Compared to the First Interim Report, revenue has increased by approximately \$2,241,900. This change

is due to a combination of increases in property taxes of \$246K, interest of \$45K, one-time rebates and STRS excess refunds, Special Education pass through tax revenues of \$199K, recognition of one-time Arts, Music and Instructional Materials Discretionary Grant of \$1.05M and Learning Recovery Grant of \$323K, site donations and programs, increase of \$58K from the Saratoga Education Foundation and recognition of new one-time MTSS Grant of \$265K.

Property tax revenues: The district will remain in community-funded status for 2022-23 and two subsequent years. Based on the latest real property roll as of February 10, 2023 by the Santa Clara County Assessor's Office, the percent growth rate for the current fiscal year is 7.68% for the Saratoga Union School District. This growth is higher than what was projected at the time of the Adopted Budget and First Interim Report, which was estimated at 3% and 6.92%, respectively.

The net roll corrections for 2022-23 has been lowered from the November 4, 2022 estimate of \$25 million to \$10 million for February 2023 throughout the county. Assessed Roll projections for 2023-24 take place in January 2023 and annual assessment growth rates are capped to the lower of the Consumer Price Index (CPI) or 2%. The current estimated CPI for next year is at 3.44% per the Assessor's Office. Taking this into consideration, reviewing the trends in assessed value, and looking at the growth of secured and unsecured taxes, staff are being prudent in estimating the future tax revenues at approximately 4% for the out years. Based on these factors, the 2022-23 Second Interim includes the following tax revenue growth rates for the current and two subsequent fiscal years:

2022-23	7.68%
2023-24	4.00%
2024-25	4.00%

Expenditures: General Fund combined expenditures are projected to be at \$39,682,771, which is an increase of \$707,138 compared to the First Interim Report. The increase can be attributed to an increase in expenses for utilities, Special Education Study, branding costs, expenditures for MTSS Grant, Learning Recovery Grant and aligning salaries and benefits based on current positions and costs.

Contributions to Restricted Programs are as follows:

Routine Restricted Maintenance:	\$ 1,559,714
Special Education	\$ 4,385,832
New Teacher Support Project	\$ 15,600
After-School Sports	\$ 60,000
After-School Music	<u>\$ 10,015</u>
Total	\$6,031,161

Staffing

Compared to the Second Budget, following are some of the changes to staffing as of January 31, 2023:

Full Time Equivalents

FTE's	2022-23 Adopted Budget	2022-23 First Interim	2022-23 Second Interim	Projected 2023-24	Projected 2024-25
Certificated	106.7	105.1	105.434	104.434	104.434
Certificated Management	8	8	8	8	8
Classified	74.4	83.3	88.3393	88.3393	88.3393
Classified Management	5	5	5	5	5
Confidential	4	4	4	4	4
Total FTEs	203.1	205.4	210.7733	209.7733	209.7733

Compensation

- The Second Interim Budget reflects the actual step-and-column costs for all employees.
- The District and its employee associations, STA (Saratoga Teachers Association) and SCA (Saratoga Classified Association) have settled negotiations for the 2022-23 fiscal year.
- A 1.5% step-and-column increase is assumed for all existing employees for the two subsequent years for an average increase of \$408K per year.
- Change in Certificated FTE from the first interim is due to two teachers temporarily increasing by .167 FTE each to cover an employee leave. Change in Classified FTE due to changes in positions needed for the Childcare (Treehouse) program.
- Negotiations started in January 2023 for the 2023-24 fiscal year and are pending board approval and unit member voting. Tentative salary increases of 7.5% for fiscal year 2023-24 and 7.5% for 2024-25 for all employees as well as other cost negotiated items per the Tentative Agreements have been included in the two subsequent fiscal years.
- Health and Welfare -
 - The cost sharing between the District and Certificated, Confidential and Management employees for 2022-23 remains a 90% and 10% split.
 - The Health and Welfare benefit is capped at Kaiser family rate plus dental and vision for 2022-23 and two subsequent years for classified, non-management staff.
 - An increase of 10% of total cost of employer paid health benefits is assumed in the 2023-24 and 2024-25 fiscal years.
 - Pending approval of the nTentative Agreements for 2023-24 and 2024-25, the certificated bargaining unit has capped health and welfare for all new certificated employees beginning July 1, 2023 at 90% of the lowest paid non-deductible HMO family health plan plus dental and vision. New management and confidential employees will also be affected by this change. No savings from this change have been incorporated into the Second Interim or two fiscal years until actual new employees have been hired. Savings will be recognized as incurred.

	2021-22 Actual	2022-23 Second Interim	2022-2 3 First SY	2023-24 Second SY
Certificated	90%/10% split between District and Employee	90%/10% split between District and Employee	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	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	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	10% increase over prior year District's payment	10% increase over prior year District's payment
Estimated Cost for the District	\$3,641,246	\$3,811,766	\$4,192,943	\$4,612,237

Utilities

Expenditures for electricity, gas, phone, water and garbage are projected at \$819K for 2022-23 and an increase of 10% is assumed for the 2023-24 and 2024-25 fiscal years.

Parcel Tax Spending Plan

The parcel tax revenue is fixed at \$68 per parcel until the Parcel Tax Measure A expires in June 2028. The annual income is estimated at \$475,000 net of senior exemptions. Revenues for the two subsequent fiscal years are assumed to remain flat using Measure A.

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

Fund – Cost Center	Description	2021-22 Actuals	2022-23 Second Interim
040-001810	Parcel Tax Funded FTEs	\$ 401,826	\$ 305,183
040-001830	Teacher Leadership Compensation	\$ 55,296	\$ 66,503
040-002130	Curriculum Development	\$ 27,620	\$ 37,814
040-007800	Site Based Technology	\$ 51,295	\$ 65,500
Total:		\$536,037	\$475,000

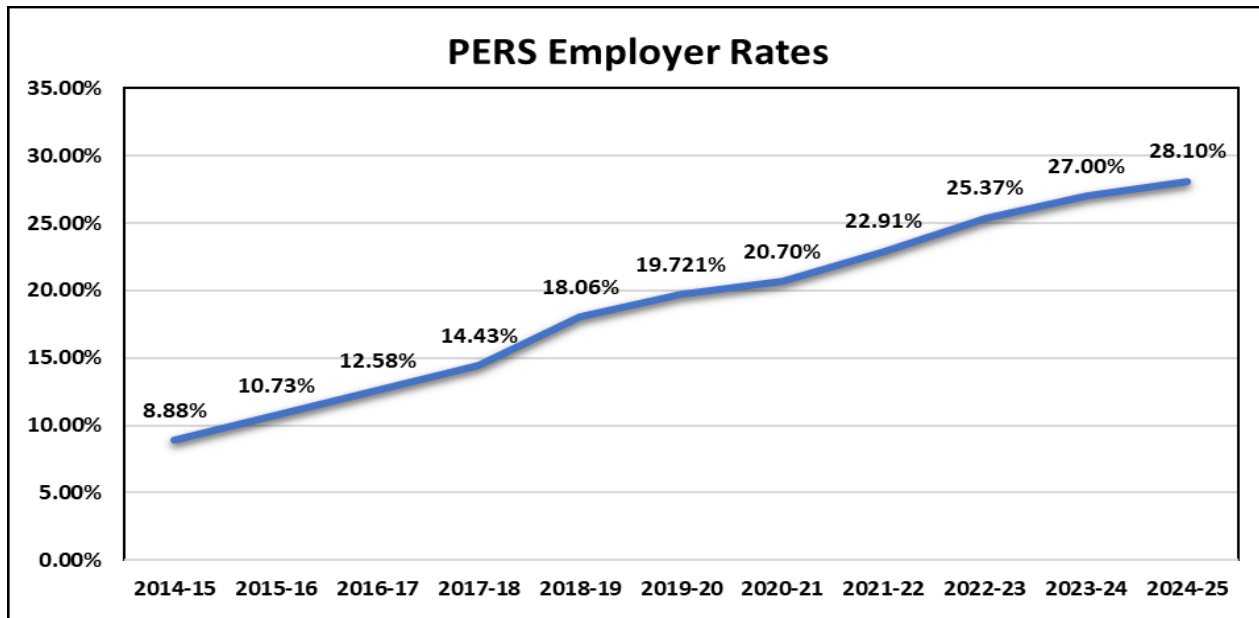
Saratoga Education Foundation

The Saratoga Education Foundation (SEF) has donated \$670,000 to cover the projected cost of SEF programs in the current fiscal year. The expenditure plan below has allocated \$611,922 for various needs. The 2022-23 budget includes step and column increases, and included a negotiated 3% salary increase. The 2023-24 and 2024-25 budgets include step-and-column only and do not include any salary increases as negotiations have not yet been finalized.

Fund – Cost Center	Program	2021-22	2022-23
060-095710	Physical Education K-5	\$116,885	\$ -
060-095713	Science Lab Aides K-5	\$ 70,891	\$ 88,648
060-095715	Art Program 6-8	\$ -	\$ -
060-095721	Music Program TK-3	\$ -	\$ -
060-095722	Music Program 4-5	\$135,653	\$149,737
060-095723	Instructional Media Spec 3-5	\$181,555	\$194,662
060-045724	Art Programs TK-5	\$ 50,520	\$ -
060-095727	PLTW/Makerspace	\$169,742	\$178,875
Total Estimates:		\$ 725,247	\$ 611,922

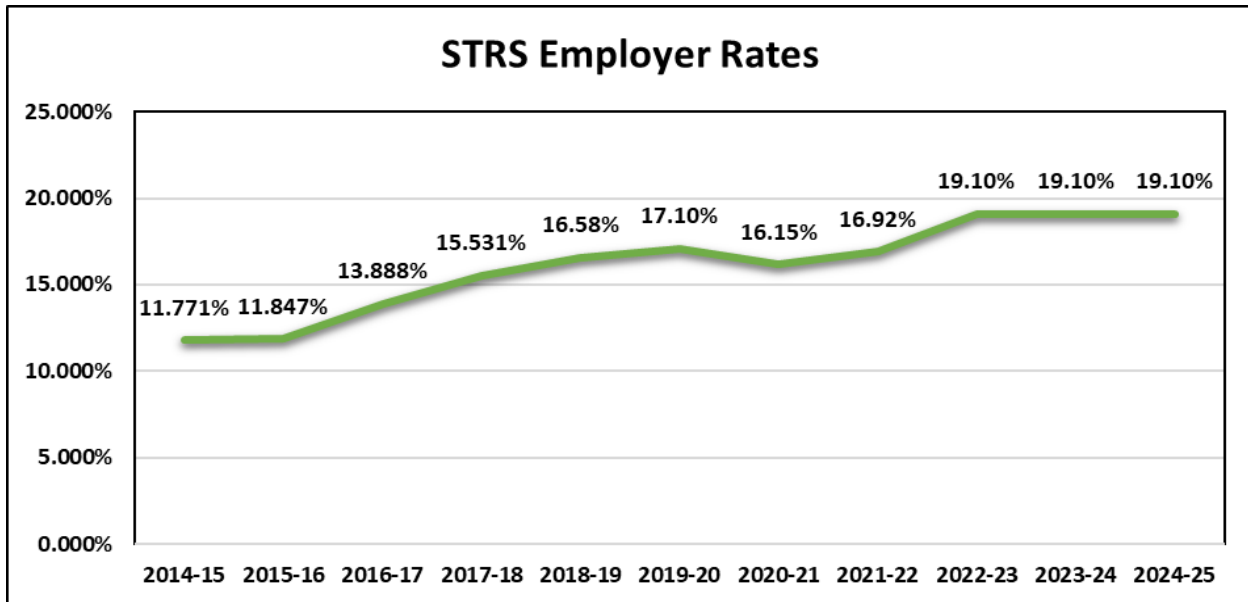
PERS

The PERS contribution rates for employer since 2014-15 are as follows:



STRS

CalSTRS contribution rates and benefit levels are set in statute. Legislation is required to change future contribution rates above 19.10%. The contribution rates for employer are as follows:



Technology:

Cost Center 7600, the Technology Replacement budget for 2022-23 is estimated at \$379,040. The Technology Operating Budget is in Cost Center 7700 and is estimated at \$1,180,215. This account is used to account for salaries and benefits of the Technology Department, software licenses, technology contracts, network expenses, materials and supplies, repairs, travel and conferences and District Office technology replacements. Subsequent year budgets assume the same level of expenses and any multi-year changes in the overall Tech Plan are set aside as Assigned Fund Balance Reserves in the General Fund. The estimated Assigned Reserves for future technology needed over the current budgeted expenditure levels as of the Second Interim Report is \$250,000.

Special Education

Governor Newsom has proposed increasing the base rates by the estimated 8.13% COLA. This increase has not yet been budgeted until the State Budget is final and has been approved to ensure the increased funding will be realized.

Other Budget Items

- The General Fund has contributed \$2,500,000 in the current year to address facility needs and will be reduced to \$2,000,000 for the two subsequent fiscal years to address roofing and asphalt repairs. In summer 2023, roofs are anticipated to be replaced at Saratoga Elementary and Argonaut Elementary, a new shade structure for Saratoga Elementary and replacement of asphalt at Foothill Elementary.

Assigned Reserves

Set asides in the General Fund Balance Reserves of \$1,401,808 are as follows:

- Maintenance and Other Projects: \$500,000 has been assigned in the fund balance reserves for maintenance and other projects that will include any unknown major repairs, roofing,

asphalt and painting projects.

- Technology Plan - \$250,000 for anticipated expenditures to be incurred per the Educational Technology Plan above the current level of expenditures.
- Supplemental Early Retirement Plan - \$651,808 for debt for the next two years.

Budget Concerns:

- Significant deferred maintenance repairs such as asphalt and roof repairs are anticipated over the next several years, which will continue to be funded from General Fund reserves.
- A slowdown in the housing market may have a direct impact on the growth of property taxes for SUSD. Staff will continue to monitor projections and adjust property tax projections to adequately reflect any changes.
- Enrollment changes may have unpredictable impacts.

Available Reserves:

	2022-23	2023-24	2024-25
General Fund Reserve for Economic Uncertainties Fund 01 – 3% Mandated	\$1,190,483	\$1,210,841	\$1,295,801
General Fund Undesignated/Unappropriated Amount - Fund 01	\$5,799,040	\$5,571,543	\$3,794,427
Special Reserve Fund Reserves – Fund 17	\$5,528,134	\$5,896,345	\$5,946,345
Combined Reserves (Funds 01 & 17)	\$12,517,657	\$12,678,729	\$11,036,573
Special Reserve Fund 17 Reserve % - Board Policy 15% of General Fund Expenditures	13.93%	14.61%	13.77%
General Fund 01 Reserve %	17.61%	16.80%	11.73%
Combined Reserve % (Fund 01 & 17)	31.54%	31.41%	25.55%

Available Reserves in Special Reserve Fund 17 are governed by Board Policy and Administrative Regulation 3100 and may only be used by majority vote of the Governing Board for temporary needs and must accompany a restoration plan.

Summary:

The Second Interim Report is submitted to the Board for approval with a ***Positive Certification*** of the district’s ability to meet its financial obligations for the current 2022-23 and two subsequent fiscal years 2023-24 and 2024-25.

The Positive Certification is recommended because the report indicates a General Fund Reserve Designated for Economic Uncertainty of 3.0% in the current fiscal year and the two subsequent fiscal years.