

Date: 12/15/2022  
Memo to: Ken Geisick, Superintendent  
From: Jean Aldrete, Chief Business Officer  
Subject: 2022-23 First Interim Report

**Introduction:**

The most recent report from the Legislative Analyst's Office (LAO) reflects a slowing state and national economy as persistent high inflation remains even as the Federal Reserve has continued to increase interest rates six times so far this year (375 basis points in total to a target range of 3.75-4 percent) to slow spending and reduce the cost of goods and services. The LAO assumes inflation will continue to be a drag on the economy and result in a significant decline in state revenues, but does not forecast a recession. California is facing a \$25 billion deficit for the 2023-24 fiscal year, but has significant one-time expenses this year that will be eliminated to help cover the shortfall. The statewide Prop 98 minimum guarantee for the current year is now estimated to be over \$15 billion below the 2022-23 state budget estimates. If the economy enters a recession, then state revenues will further decline. There is a \$22 billion state rainy day fund, but the LAO recommends the state withhold attempts to utilize these funds and look at other cost savings measures. Governor Newsom is expected to release his administration's 2022-23 State Budget proposal on or before January 10, 2022.

Current year's local property taxes increased significantly this year based on home sales and new construction that occurred in the summer of 2020 and 2021. We have continued to see many homeowners making home improvements this year, which provides additional developer fee revenues for both maintenance and new construction needs for SUSD and may affect future assessment values.

While the state's deficit will not significantly impact revenues for SUSD, the economic slowdown has been felt in the local home sales market. Fewer sales and home turnover will slow increases in assessed valuations leading to a slowdown in growth of property taxes. While new construction by homeowners has continued, it will take up to 18 months to affect the property tax assessment rolls. The slowdown felt today will impact the 2023-24 fiscal year when the rolls are determined in January. Currently annual adjustments to the roll outside of home turnover and new construction are limited to the lower of CPI (Consumer Price Index) or 2%. Current projections the CPI are estimated at 2.58% for next year. Due to the slowdown, the first interim projections include property tax growth at 2% for the 2023-24 and 2024-25 fiscal years.

Inflation costs have driven up the costs of goods and services for SUSD as well and current increases are reflected in the budget projections presented in this report as they are known today. Inflation will likely continue to impact the district through the 2023 calendar year.

This First Interim Report represents our district's financial activities from the beginning of the fiscal year 2022-23 through October 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 current and two subsequent fiscal 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.

**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 \$38,383,539. Compared to the 2022-23 Adopted Budget, total revenue has increased by approximately \$532K. This increase is due to a combination of:

- Increased property tax revenues of \$1.331 million,
- Increased SELPA excess property taxes of \$89K,
- Increase in Special Education Federal Revenues of \$39K
- New one-time Special Education IDEA Alternative Dispute Resolution Grant of \$62K,
- Decrease in LCFF Sources to account for transfer of an additional \$1.5 million for facility repairs to the Deferred Maintenance Fund,
- Federal grant increases for Titles I, II and III of \$16K,
- Increase in lottery funds of \$42K,
- Increase in the one-time Expanded Learning Opportunity Program of \$123K,
- Carryover revenues for the Universal Preschool Implementation Grant of \$92K and Special Education Early Intervention Preschool Grant of \$89K,
- Increased State Mental Health Funds of \$8K,
- Decrease in revenues of \$60K from Santa Clara County Office of Education for Special Education services to the District, and
- Various miscellaneous site donations and one-time revenues of \$72K and site carryover of \$128K.

**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 November 4, 2022 by the Santa Clara County Assessor's Office, the percent growth rate was 6.92% for the Saratoga Union School District. This growth is higher than what was projected at the time of the Adopted Budget, which was estimated at 3%.

The net roll corrections for 2022-23 is estimated at \$25 million throughout the county. Assessed Roll projections for 2023-24 will 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 2.58% at this time per School Services of California. Taking this into consideration, reviewing the trends in assessed value, changes in the current housing market and looking at the growth of secured and unsecured taxes, staff are being prudent in estimating the future tax revenues at approximately 2% for the out years. Based on these factors, the 2022-23 First Interim includes the following tax revenue growth rates for the current and two subsequent fiscal years:

2022-23	6.92%
2023-24	2.00%
2024-25	2.00%

**Expenditures:** General Fund combined expenditures are projected to be at \$38,975,633, which

is an increase of \$825,794 compared to the 2022-23 Adopted Budget. The increase can be attributed to:

- Staffing adjustments based on current staffing of \$95K,
- Increase in instructional materials of \$208K for additional lottery revenues received, Science Adoptions, Lucy Calkins materials, music instruments, new furniture for Redwood Middle School Library and site carryover funds,
- Increased in services and operating costs of \$583K for increased costs of crossing guard contract, Speech Learning Pathologist services due to vacant position and employee leaves, increased professional development for Momentum and Homegrown Learning Institute training, fire panel and backflow repairs, tree services, field trip contracts, increased federal grant revenues and expenses to offset salary costs in the Enterprise Fund for child care services funded by the Expanded Learning Opportunity Grant,
- Increase in capital outlay of \$12K for the purchase of musical instruments,
- Decrease in transfers of \$73K due to a reduction out to the Basic Aid Reserve Fund per board policy of \$209K million resulting in a transfer of \$790,678 based on 2021-22 audited expenses, an elimination of a transfer of \$96K to the Cafeteria Fund due to increased revenues from the state Universal Meals legislation and increased meal counts and a new transfer of \$232K to Fund 21 to transfer prior year rental revenues to the Building Fund for repairs of facilities as needed.

**Contributions** to Restricted Programs are as follows:

Routine Restricted Maintenance:	\$ 1,547,814
Special Education	\$ 4,357,096
New Teacher Support Project	\$ 15,600
After-School Sports	\$ 60,000
After-School Music	<u>\$ 10,015</u>
<b>Total</b>	<b>\$ 5,990,525</b>

**Staffing**

Compared to the Adopted Budget, following are some of the changes to staffing as of October 31, 2022:

- The Adopted Budget 2022-23 certificated FTE counts were based on the first release of the teaching assignment list by Human Resources on May 3, 2022. The change is due to removal of the Social Worker until next year and a slight change in some hours.
- Compared to the Adopted Budget, classified positions increased by 8.9 FTE mainly due to the addition Treehouse activity leaders and the addition of 2.25 FTE for second grade instructional aides offset by the elimination of 1.875 for three clinicians that were moved to the 2023-24 fiscal year.

The costs for the above listed positions have been reflected in 2022-23 and the two subsequent years.

## Full Time Equivalent

FTEs	2022-23 Adopted	2022-23 1st Interim	2023-24 Subsequent Year	2024-25 Subsequent Year
Certificated	106.7	105.1	105.1	105.1
Certificated Management	8	8	8	8
Classified	74.4	83.3	85.175	85.175
Classified Management	5	5	5	5
Confidential	4	4	4	4

## Compensation

- The First Interim 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) settled negotiations for the 2022-23 fiscal year of 3% on schedule. Reopeners for salary, benefits and up to two articles for each site will occur early 2023 for the 2023-24 fiscal year. A 1.5% step-and-column increase is assumed for all existing employees for the two subsequent years of approximately \$388K in 2023-24 and \$388K in 2024-25. No additional salary increases were included in the 2023-24 or 2024-25 fiscal years as negotiations are pending for both 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 for 2022-23 and two subsequent years for classified, non-management staff.
  - An increase of 10% is assumed in the 2023-24 and 2024-25 fiscal years.

	2021-22 Actual	2022-23 First Interim	2023-24 First SY	2024-25 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	\$3,641,246	\$3,875,168	\$4,262,685	\$4,688,954

## Utilities

The percent increase for electricity, gas, phone, water, garbage is assumed at \$752,120 for 2022-23 and an increase of 10% is assumed for the 2023-24 and 2024-25 subsequent 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.

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

Fund – Cost Center	Description	2021-22 Prior Year	2022-23 First 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
<b>Total:</b>		<b>\$536,037</b>	<b>\$475,000</b>

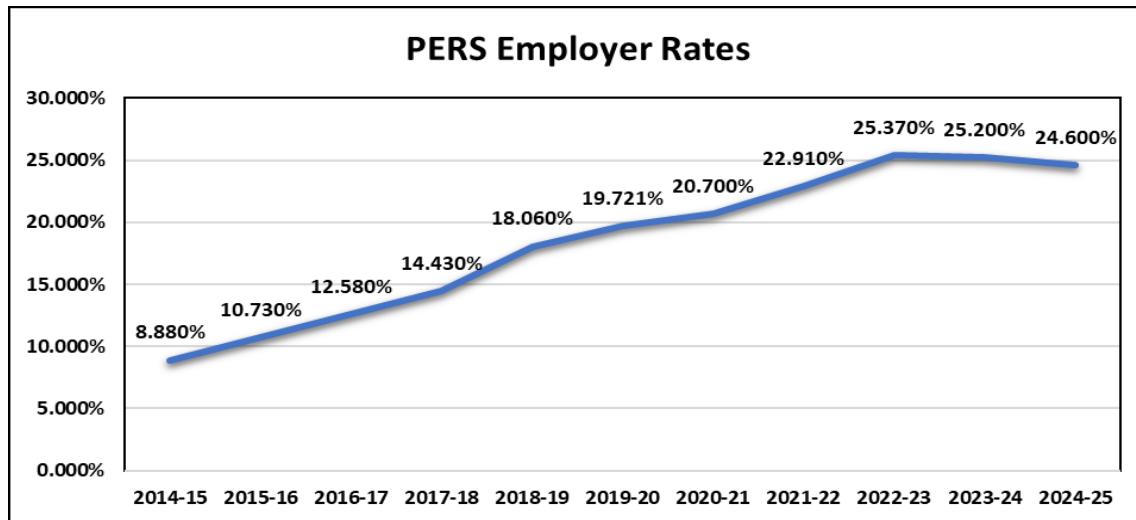
## Saratoga Education Foundation (SEF)

In the 2021-22 fiscal year, SEF had a carryover of \$36,782 and SUSD provided a General Fund contribution of \$188,464 to Saratoga Education Foundation (SEF) to cover program costs due to lower than anticipated donation revenues received by SEF. In the current year, the District absorbed the cost of the Physical Education (Rhythm and Moves) and the TK-3 Music Program into the General Fund. In January 2023, SEF is anticipating a donation of \$611,922 to the District, which is sufficient to meet program expenses in the current year. The expenditure plan below has allocated \$611,922 for various needs. The 2022-23 budget includes the 3% negotiated salary increase and step and column increases. The 2023-24 and 2024-25 budgets include step-and-column of 1.5% increases.

Fund – Cost Center	Program	2021-22 Prior Year	2022-23 First Interim
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
060-095724	Art Program TK-5	\$ 50,520	\$ -
060-095727	PLTW/Makerspace	\$169,742	\$ 178,875
<b>Total Estimates:</b>		<b>\$725,247</b>	<b>\$611,922</b>

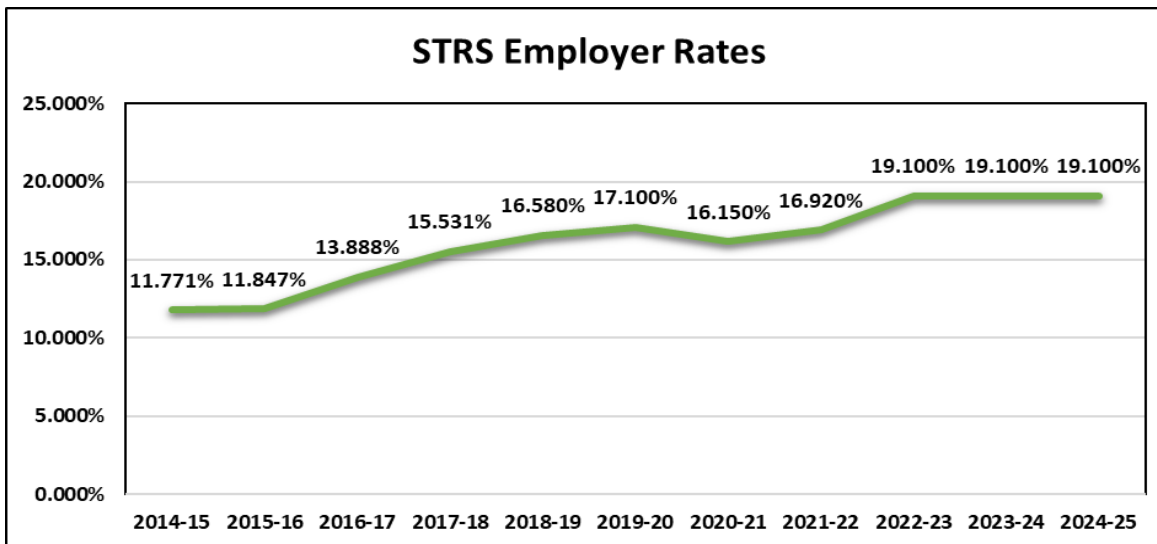
## PERS

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 the rates. The contribution rates for employer are as follows:



## Technology

Cost Center 7600, the Technology Replacement budget for 2022-23, is estimated at \$386,500. The Technology Operating Budget is in Cost Center 7700 and is estimated at \$1,206,299. 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 needs over the current budgeted expenditure level as of the First Interim is \$250,000.

**Carryover Balances:**

- Now that the books are closed for 2021-22, it is time at the First Interim reporting period to add carryover balances for categorical programs. When expenditures include carryover balances from categorical funds from the prior year, there will be deficit spending in the Restricted General Fund. Therefore, you will see the deficit spending swings between the 2021-22 Unaudited Actuals and the 2022-23 First Interim. The interim reports provide tracking of deficit spending patterns during the course of the fiscal year (for unrestricted and restricted funds) based on estimates of revenues and expenditures. The final figure will be determined at the time of closing the books when all revenues and expenditures have been reconciled.

**Other Budget Items:**

- The General Fund is contributing \$2,500,000 to the Deferred Maintenance Fund for 2022-23. Due to anticipated roofing and asphalt repairs that will be needed over the next several years. The contribution has been reduced to \$2 million in the two subsequent years. Specific projects for next summer will be discussed in a January Facility Presentation to the Governing Board.

**Assigned Reserves**

Set asides of the General Fund Balance Reserves that have not yet been budgeted as expenditures in the current or two subsequent fiscal years are as follows:

- Maintenance and Other Projects: \$500,000 has been assigned in the fund balance reserves for maintenance and other projects that can address any unknown and emergency major repairs.
- 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 payments for the next two subsequent fiscal years.

**Budget Concerns:**

- Current projections do not reflect any negotiated salary increases for 2023-24 and 2024-25. Negotiations will begin in January 2023.
- Significant deferred maintenance repairs such as asphalt and roof repairs are anticipated over the next several years, which continue to be funded from General Fund reserves.
- A slowdown in the housing market has a direct impact on the growth of property taxes for SUSD. Staff will continue to monitor projections and adjust property tax projections adequately to reflect any changes.
- Enrollment changes may have unpredictable impacts.
- Further decline in donation revenues for PTAs and SEF could continue to impact the general fund.



**Available Reserves:**

	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
<b>General Fund Reserve for Economic Uncertainties Fund 01 – 3% Mandated</b>	<i>\$1,169,269</i>	<i>\$1,148,229</i>	<i>\$1,182,303</i>
<b>General Fund Undesignated/Unappropriated Amount - Fund 01</b>	<i>\$5,666,134</i>	<i>\$6,769,268</i>	<i>\$7,915,822</i>
<b>Special Reserve Fund Reserves – Fund 17</b>	<i>\$5,498,134</i>	<i>\$5,836,345</i>	<i>\$5,856,345</i>
<b>Combined Reserves (Funds 01 &amp; 17)</b>	<b>\$12,333,537</b>	<b>\$13,753,841</b>	<b>\$14,934,411</b>
<b>Special Reserve Fund 17 Reserve % - Board Policy 15% of General Fund Expenditures</b>	<i>14.11%</i>	<i>15.25 %</i>	<i>15.08%</i>
<b>General Fund 01 Reserve %</b>	<i>17.53%</i>	<i>20.68%</i>	<i>23.38%</i>
<b>Combined Reserve % (Fund 01 &amp; 17)</b>	<b>31.64%</b>	<b>35.93%</b>	<b>38.46%</b>

**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 First 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 and two subsequent fiscal years.

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 also for fiscal years 2023-24 and 2024-25.

Based on the financial information presented, it is recommended that the Board of Trustees approve the First Interim Report for 2022-23 with a Positive Certification.