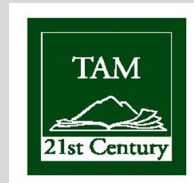




**TAMALPAIS UNION HIGH SCHOOL DISTRICT**

# **2021-22 1st Interim Budget Report**

December 14, 2021



# Why do a 1st Interim budget report?



- The 1st Interim reports:
  - Actual financial activity from July 1st through October 31st
  - Projects financial activity through June 30th
- Comparison: Adopted Budget (June) vs. 1st Interim Budget (December)
- Provides an opportunity to:
  - Revise the budget based on any significant changes since the budget adoption in June
  - Recalculate Multi Year Projections
  - Discuss any needed changes or actions
- Board must approve certification of financial condition
  - Positive – “will be able”
  - Qualified – “may not be able”
  - Negative – “unable”

# Agenda

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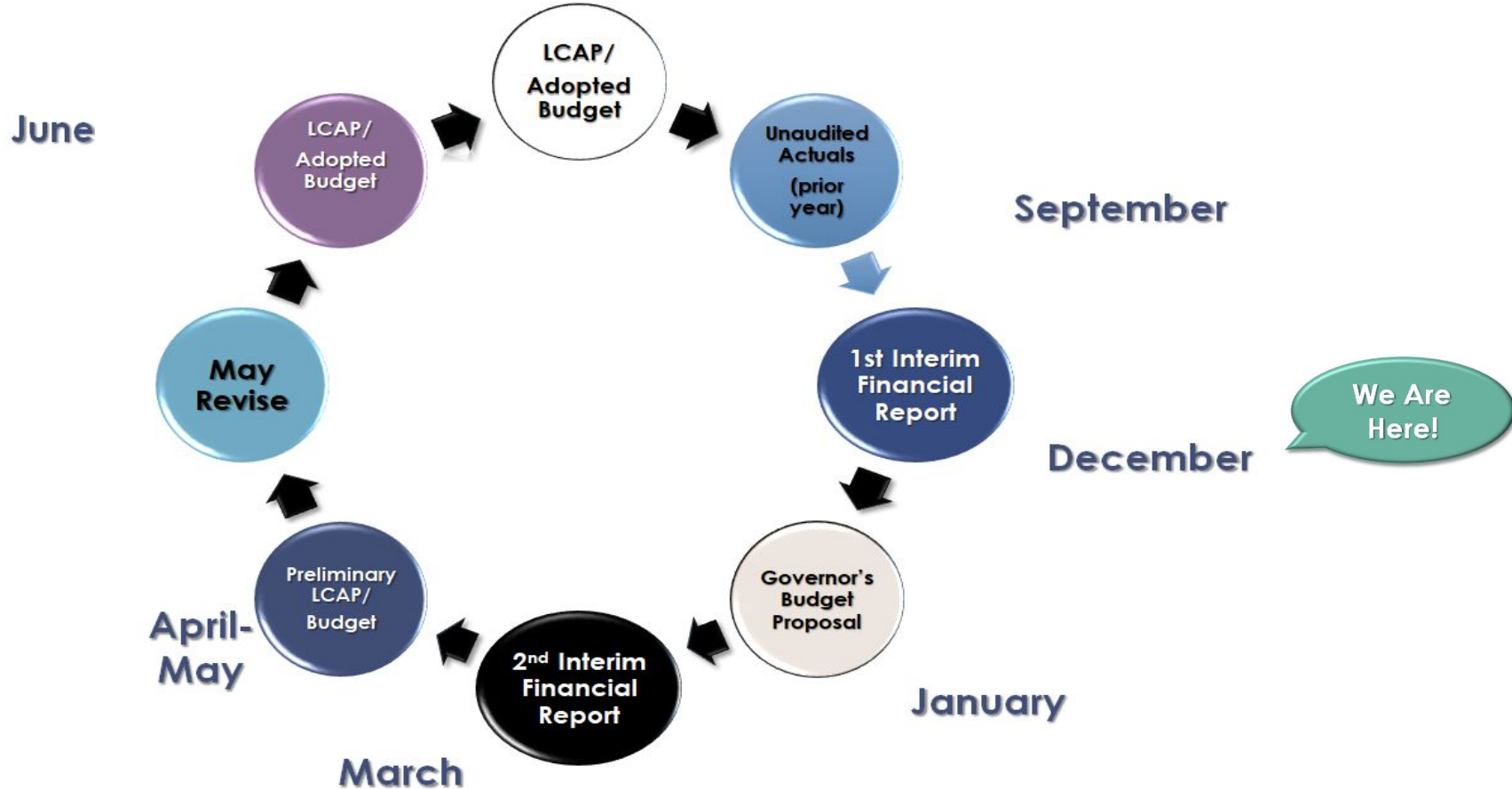
- Budget Reporting Cycle
- Context: COVID & State Economic Update
- Start with the End: Where were we in June and now in December?
- 2021-22 Budget: Revenue & Expenditures - What has changed since June?
- Multi-Year Projection - Where are we going?
- Uncertainties and Next Steps
- Questions & Comments



# Budget Reporting Cycle

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# Budget Reporting Cycle



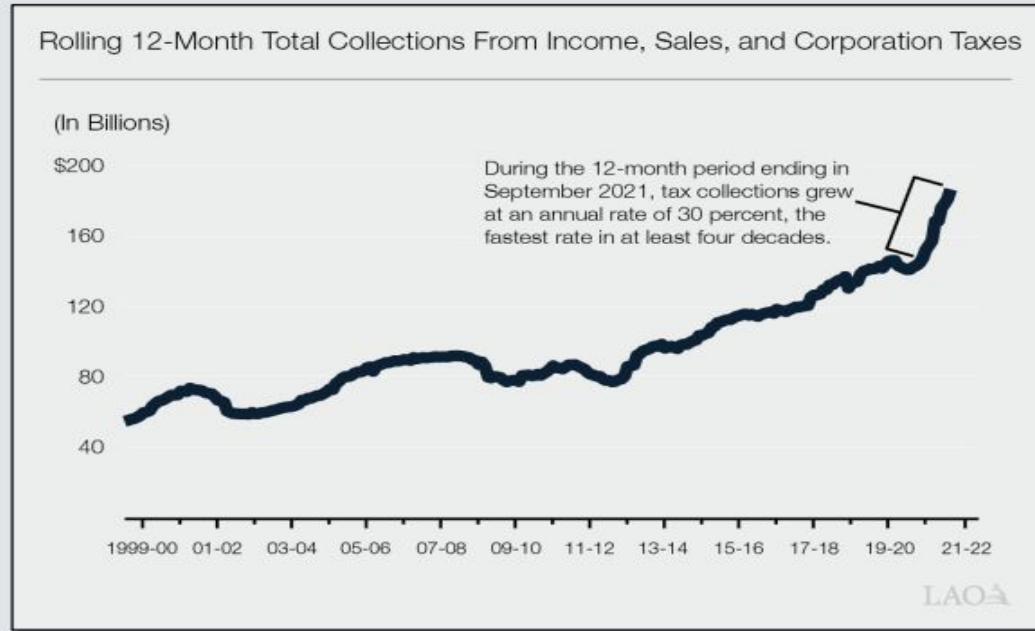
# COVID Context & State Economic Update

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## Sources:

- Legislative Analyst's Office (LAO) Fiscal Outlook report - November 2021
- Dr. Robert Kleinhenz, Economics Professor, CSU-Long Beach, CASBO presentation, November 2021

# State Revenue Collections Have Been Surging



# State Economic Forecast - November update



## Legislative Analyst's Office (LAO) report:

- Continued rebound for many parts of the economy
- Significantly higher revenues compared to June assumptions
  - November LAO update:
    - One-time State budget surplus of \$31B in 2022-23
    - Ongoing budget surplus of estimated at \$5B



# Key Areas of Economic Growth

## ➤ **Extraordinary Growth in a Few Areas:**

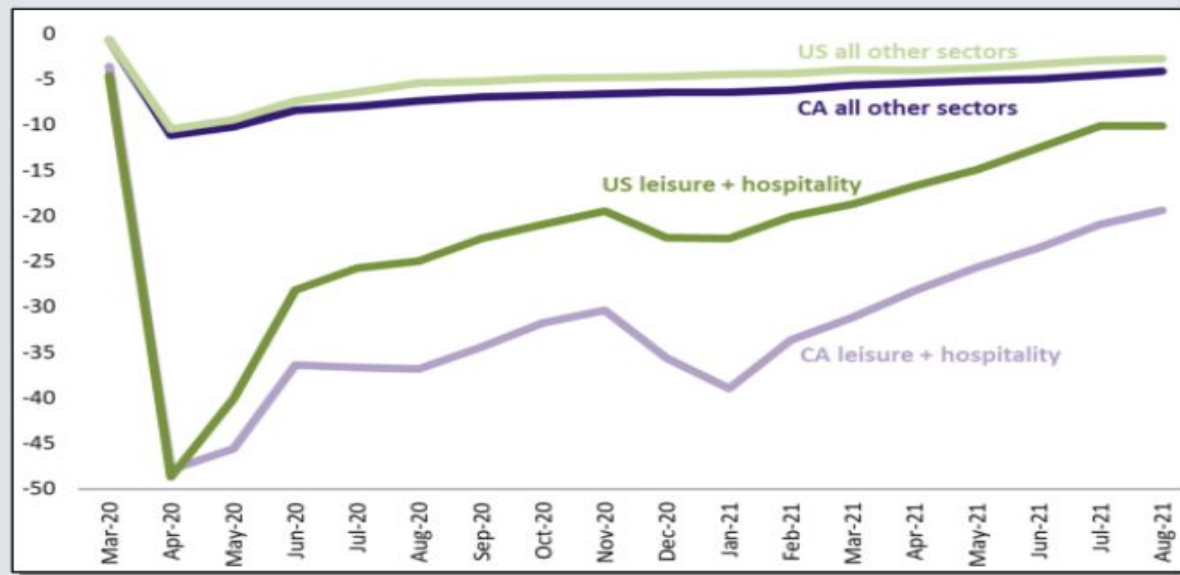
- Double digit growth in retail sales in 2021.
- Stock market has doubled since April 2020.
- Historically high earnings for several major firms.

## ➤ **Solid Growth in Some Other Areas:**

- New business creation at above average levels.
- Housing construction around average levels.

# Slower Recovery in Jobs

*Cumulative Percent Change Since February 2020*



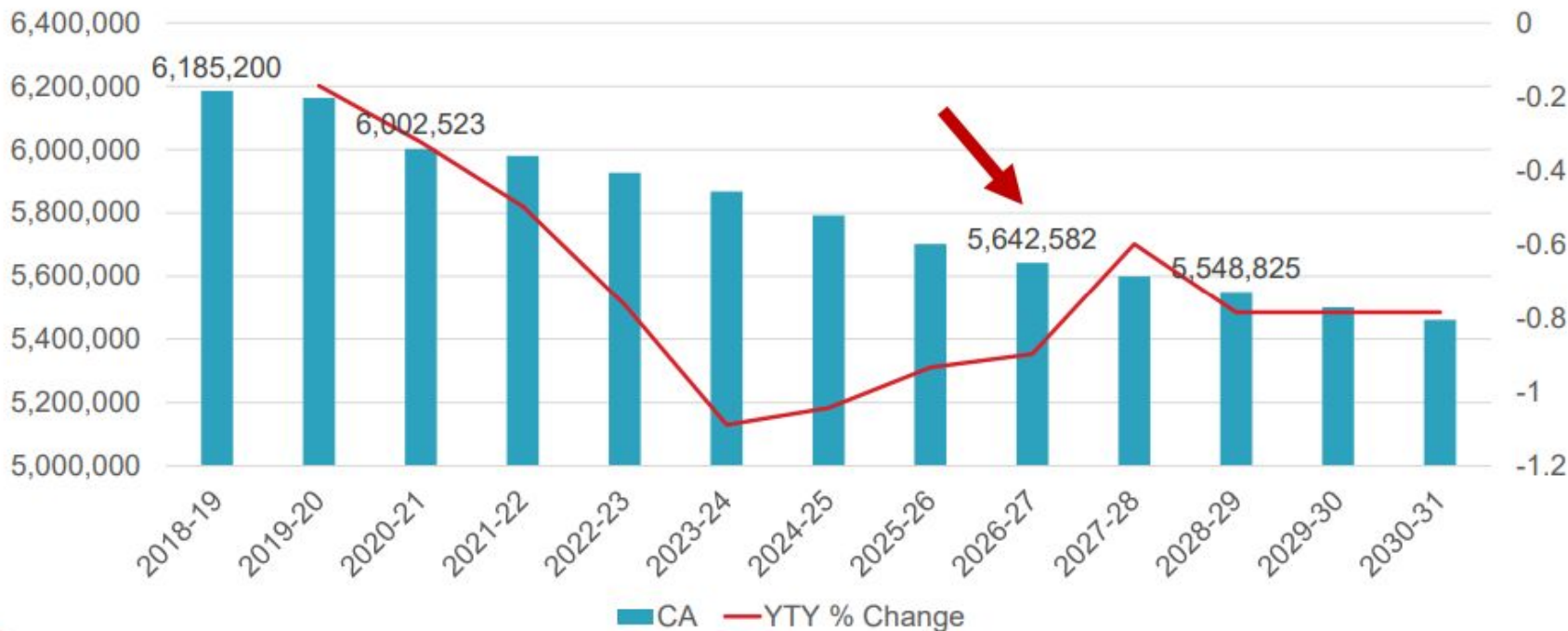


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# Most Economists Expect Inflation to Moderate Sometime Next Year



# CA K-12 Enrollment Projections (2021)



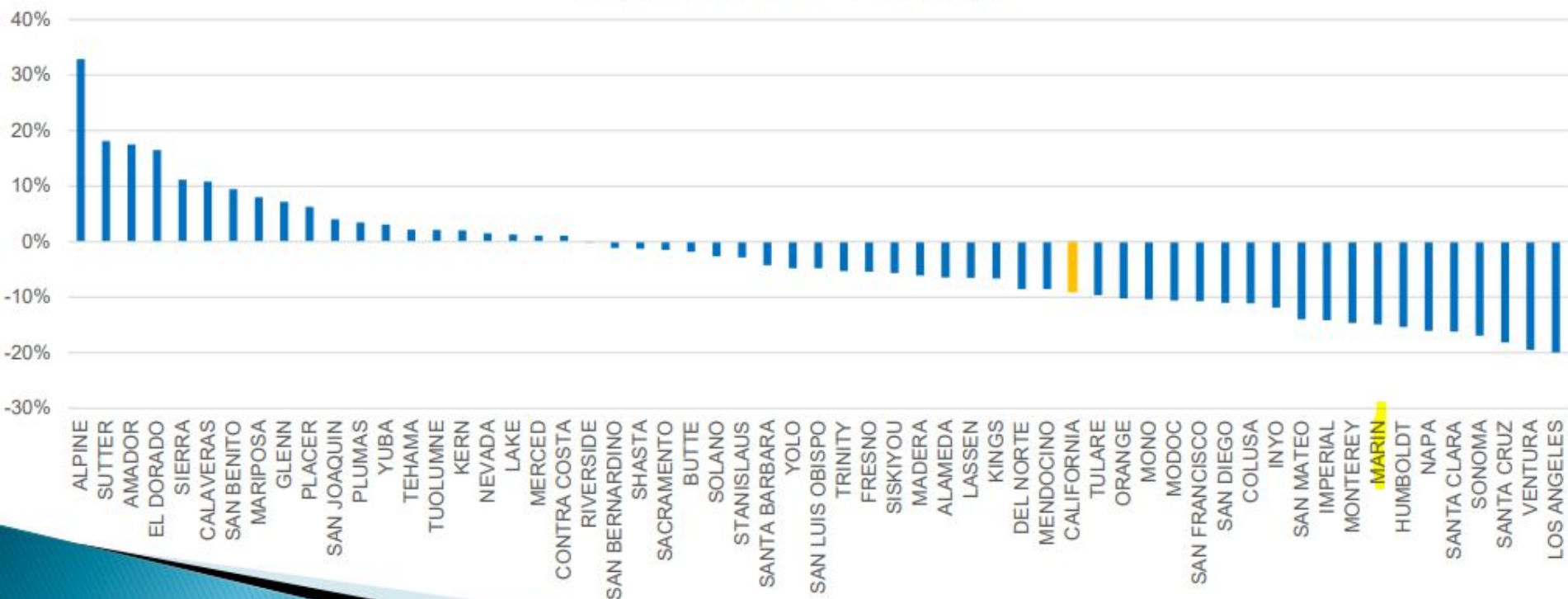
## Why?

- ▶ Slower natural growth rate: births *minus* deaths...
  - Long run age cohort effect
    - Larger: Boomers → Millennials
    - Smaller: Gen X → Gen Z
- ▶ Negative net state-to-state migration for 20 years
  - Accelerates when cost of living rises
- ▶ Immigration policy restricting this source of growth
- ▶ Covid impact: fewer births and more deaths



# Projected % Change in K-12 Enrollment, 2021-30

Projected 2021-2031 % Change



# State Economic Forecast - November update

## Legislative Analyst's Office (LAO) report:



- Significantly higher revenues compared to June assumptions
  - November LAO update:
    - One-time State budget surplus of \$31B in 2022-23
    - Ongoing budget surplus of estimated at \$5B
- Potential considerations for Governor's 2022-23 January Budget Proposal for unexpected one-time & ongoing funds:
  - Expand TK-6th grade ELO grant programs
  - Increase LCFF funding base grant
  - Build up Prop 98 reserve
  - Grants for climate resiliency and emergency preparedness
  - ***Funding for Special Education reform***
  - ***Address Pension costs & liabilities (after one-time relief expires in 2021-22)***



*Back to TUHSD...*

**Start with the End**

*Where were we in June and now in December?*

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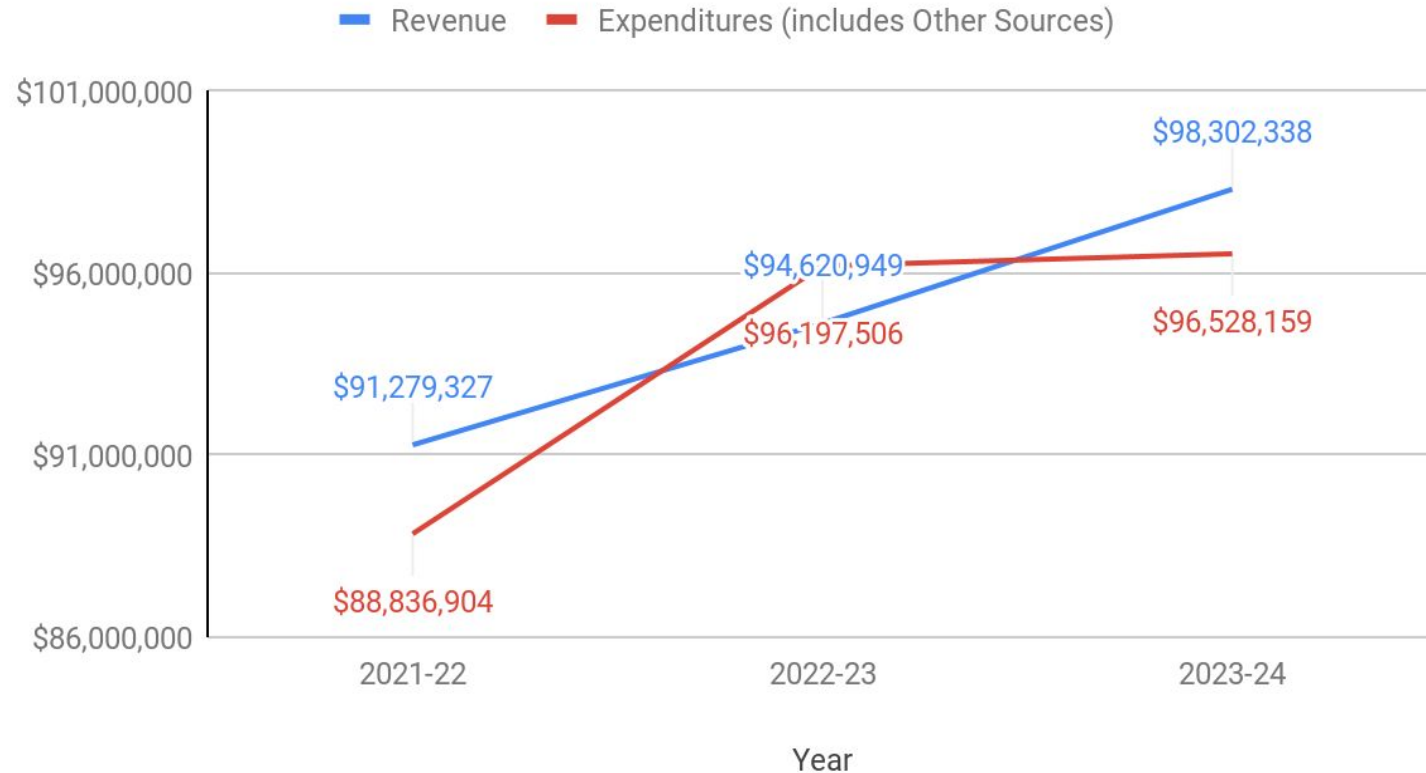
# Summary of Multi-Year Projections

	2021-22	2022-23	2023-24*
<b>Operating Surplus (Deficit)</b> (June 2021)	\$2.1M	\$(794k)	\$2.0M*
<b>Ending Fund Balance/Reserve</b> (June 2021)	\$22.0M (21.7%)	\$21.2M (20.4%)	\$23.2M (22.1%)
<b>Operating Surplus (Deficit)</b> (Dec 2021)	\$2.4M	\$(1.5M)	\$1.8M*
<b>Ending Fund Balance/Reserve</b> (Dec 2021)	\$24.4M (23.1%)	\$22.9M (21.8%)	\$24.7M (23.4%)

**Key Assumption:** \* Figures do not include any potential increase in staff compensation (cost of 1% raise = \$600k)

# Summary of Multi-Year Projections

## TUHSD Revenue and Expenditures (Unrestricted)



# Revenue

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# Basic Aid

vs.

# State-Funded (LCFF)

- District is entitled to a calculated revenue entitlement
- Comprised of both local property taxes revenue and state aid
- If property taxes exceed the calculated revenue entitlement, then the district keeps the overflow revenue and receives only basic (minimal) state aid
- Does not receive significant additional revenue for each new student in enrollment growth
- TUHSD is about \$20M over the LCFF entitlement

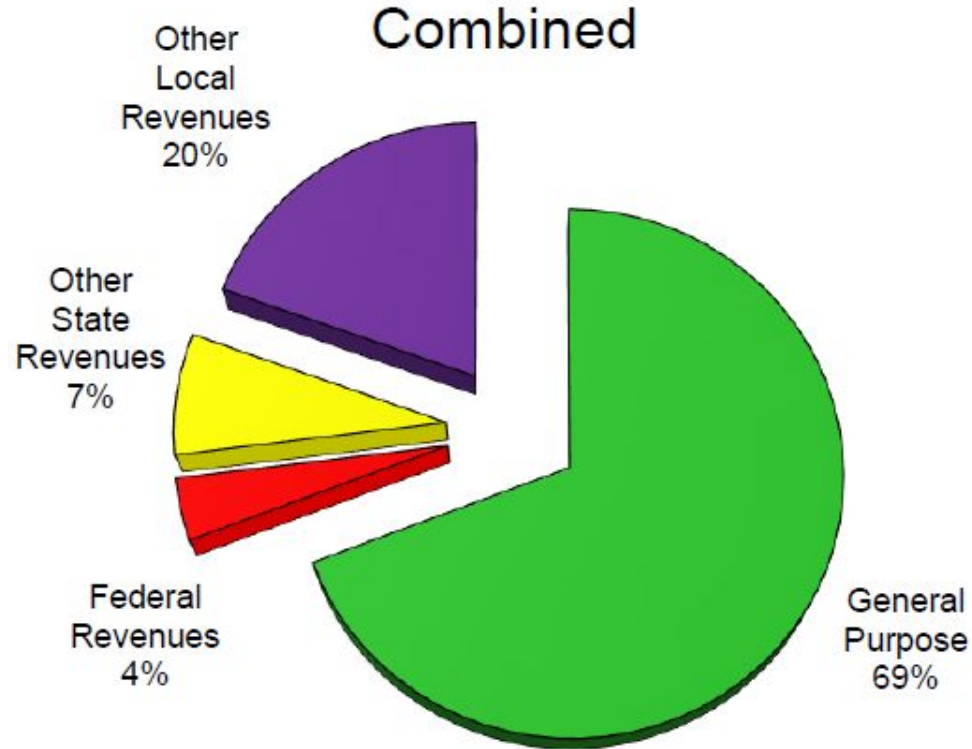
- Formerly referred to as 'Revenue Limit'
- District is entitled to a calculated revenue entitlement
- Comprised of both local property taxes and state aid
- When property taxes do not meet the calculated revenue entitlement, then the State makes up the shortfall with additional funding up to the calculated revenue entitlement



# Sources of 2021-22 General Revenue (combined)


➤	General Purpose	\$	73,339,168
	○	Property taxes, EPA, Minimum State Aid	
➤	State Funding	\$	7,874,469
	○	COVID relief, Lottery, Special Education, etc	
➤	Federal Funding	\$	4,038,865
	○	COVID relief, Title funding, IDEA, etc.	
➤	Local Revenue	\$	20,685,151
	○	Parcel tax, Foundations, facilities fees, interest	

**TOTAL: \$ 105,937,653**



# Key Budget Assumptions - Unrestricted Revenues

## Property Tax Revenue growth:



Year	2021-22 <i>(see note 2)</i>	2022-23	2023-24
Growth Rate (%)	4.07%	4.25%	4.25%

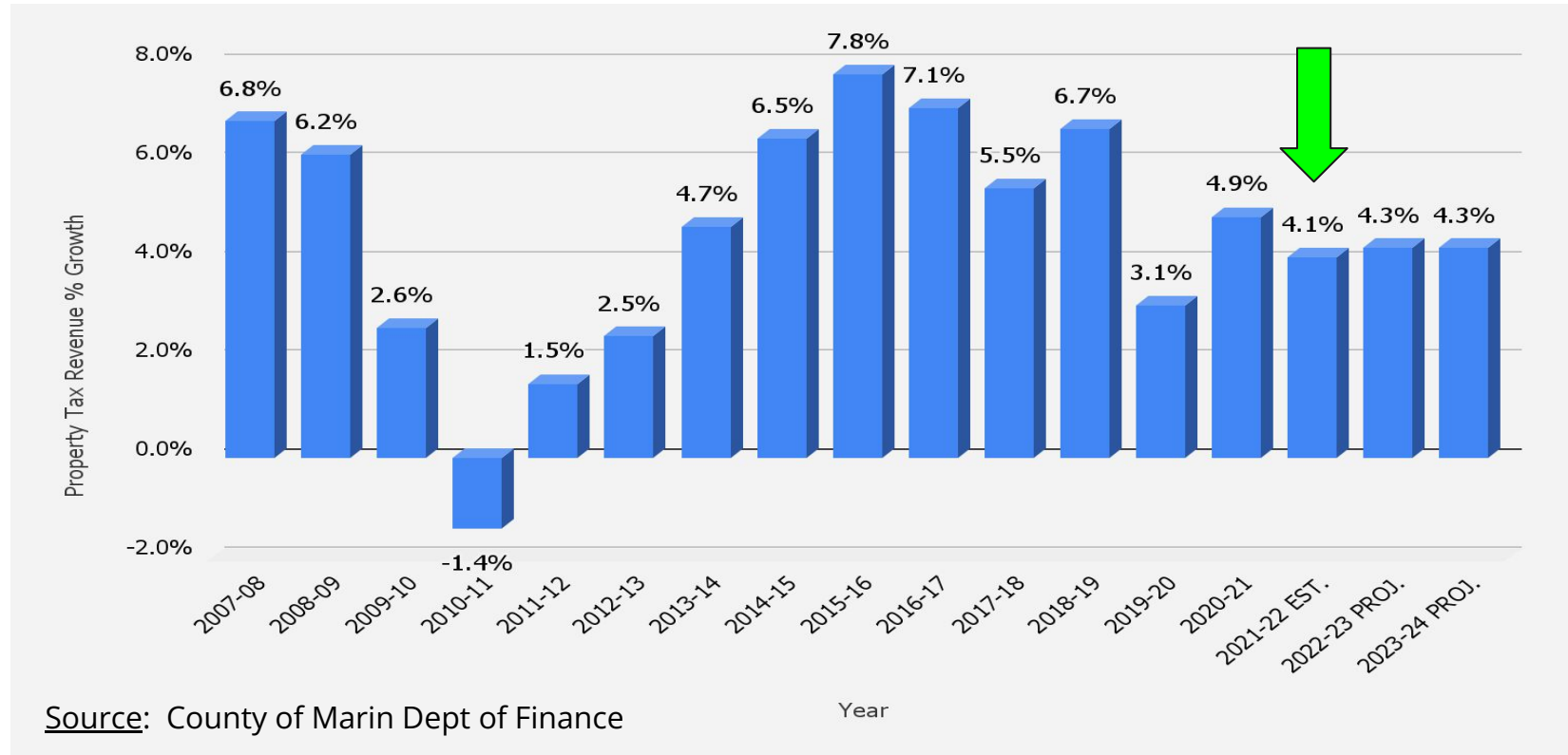
### Notes:

1. 2021-22 Property taxes now budgeted at 99.5% of total anticipated revenue, as discussed at January Budget Board Workshop
2. Per Proposition 13, State inflation was less than 2%, therefore property tax bills could not increase by the typical full 2% annual amount

### Parcel Tax Revenue

- Increase of 3% with annual inflation adjustment
  - Actual amount depends on volume of Senior Exemptions
- 2021-22 Parcel Tax revenue projected to be \$16.4M

# TUHSD Historical Secured Property Tax Revenue Growth





# Key Budget Assumptions - Other Revenues



## Parcel Tax revenue

- Passage of Measure M ('straight renewal') for 9 years through June 2029
- Increase of 3% with annual inflation adjustment for individual parcels

## COVID-19 Federal & State revenue

- One-time funding of \$1.1M in Educator Effectiveness grant
- Does not include anticipated \$503k in UC a-g grant (*accounted for at 2nd Interim in March 2022*)

## Facilities Rental revenue

- Facilities rental revenue projected to increase by about \$75k

# Expenditures

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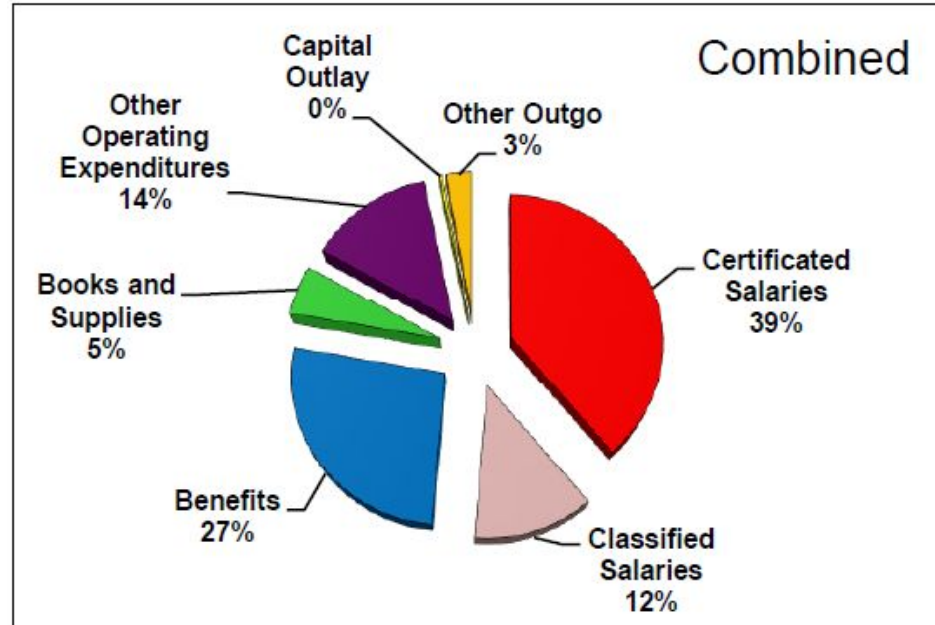
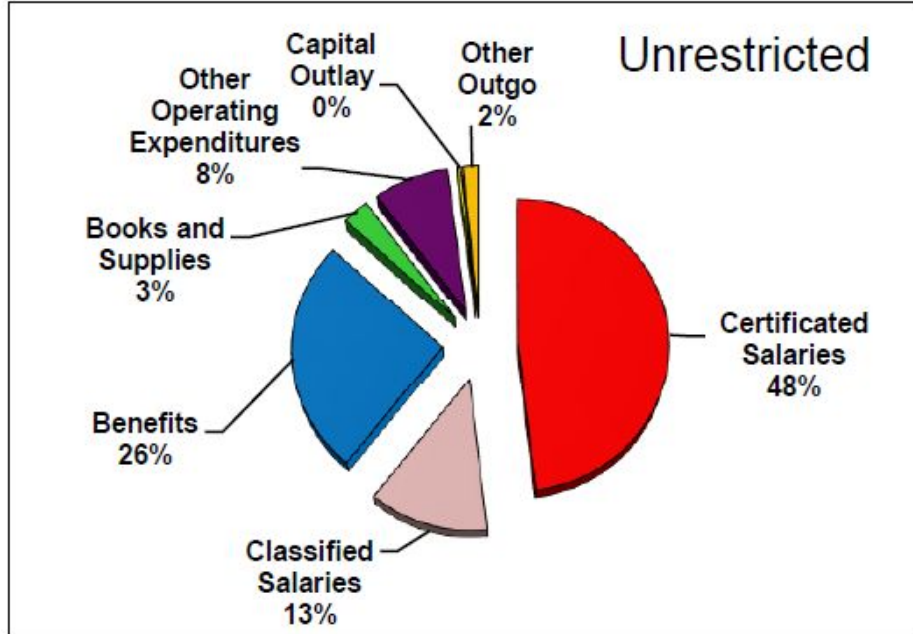
# General Fund Expenditures



Description	Unrestricted	Combined
Certificated Salaries	\$32,996,292	\$40,049,378
Classified Salaries	\$8,533,441	\$12,788,326
Benefits (Payroll Taxes and Health & Welfare Contributions)	\$17,898,148	\$27,271,807
Books and Supplies	\$1,980,692	\$5,611,715
Other Operating Expenditures	\$5,620,179	\$14,028,190
Capital Outlay	\$260,712	\$351,180
Other Outgo	\$1,145,113	\$2,945,555
<b>TOTAL</b>	<b>\$68,434,577</b>	<b>\$103,046,151</b>

Salaries and benefits comprise approximately 87% of the District's unrestricted expenditures, and approximately 78% of the combined General Fund expenditures.

# General Fund Expenditures



# Key Budget Assumptions - Expenditures

## Enrollment & Certificated Staffing projections:

Last update: June 2021

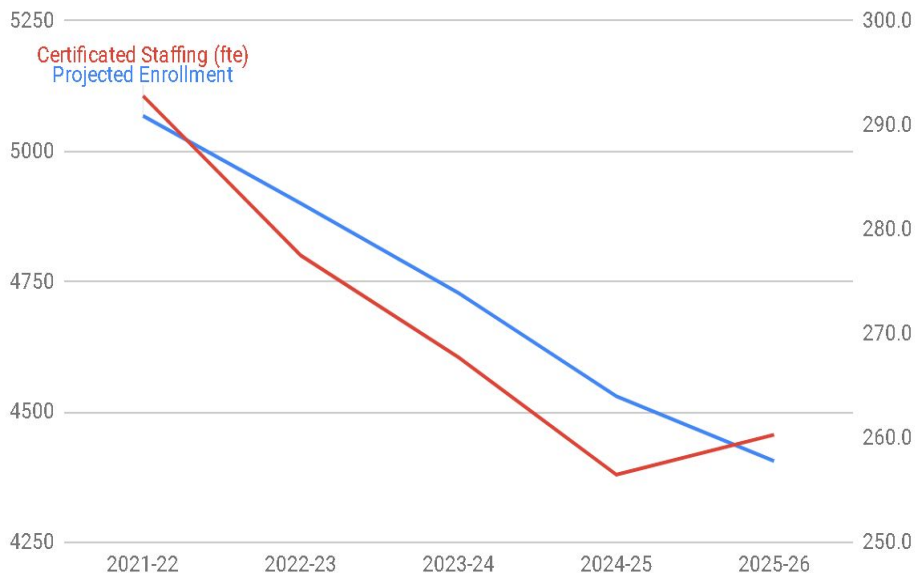
School Year	Projected Enrollment	Difference from Prior Year	Certificated Staffing (fte)	Difference from Prior Year
2021-22	5068	-16	292.8	-0.9
2022-23	4900	-168	277.5	-15.3 *
2023-24	4728	-172	267.7	-9.8
2024-25	4530	-198	256.5	-11.2
2025-26	4406	-124	260.3 *	+ 3.8 *

Notes:

\* - Does not include planned expiration of three temporary TOSA positions (using COVID relief funds) in 2021-22

\* - Expiration of extended 'Class Size increase' MOU (assumes return to lower class size ratios)

TUHSD Projected Enrollment & Certificated Staffing



# Key Budget Assumptions - Expenditures (cont'd)

- TFT- & CSEA-represented employee groups have settled on compensation with TUHSD through 2022-23, but not in 2023-24 & beyond
  - Future cost of a 1% raise in 2023-24 estimated to be approximately \$600k
- Planned expiration of three TOSA's in 2022-23 and one POSA in 2023-24
- Step & Column increases are 1.40% for Certificated and 4.38% for Classified from 2020-21
- Health & Welfare employee benefit increases up 5% annually
- STRS/PERS Pension employer rates still reduced one final year in 2021-22 given 2020-21 State pension relief
- Significant facilities project expenditures for synthetic turf replacement:
  - Red Hill in 2021-22 at estimated cost of \$850k during Summer of 2022
  - AWHHS Baseball field in 2022-23 at estimated costs of \$711k during Summer of 2023
- Utilities expenses projected to increase 4% annually (i.e. MMWD, PG&E, etc)
- Continued historic trend of Special Education costs average annual increase of \$1.1M (*later slide*)

# STRS & PERS Pension Employer Rates & Costs

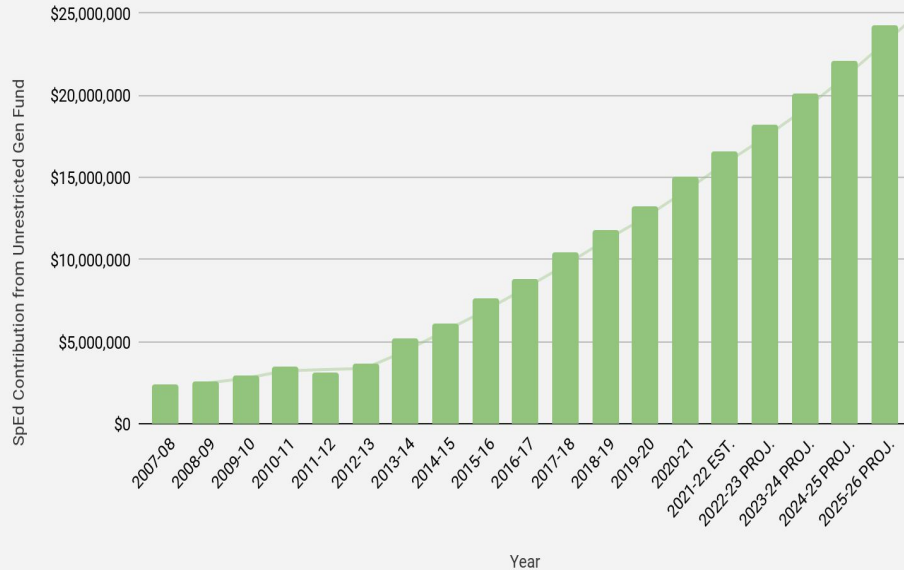
- In 2013, pension rates were re-calculated based on the Public Employee Pension Reform Act that restructured retirement age and benefits
- Compared to 2013-14, increased pension employer rates & costs have more than doubled
- 2020-21 State Budget provided pension relief in 'one-time' savings of \$1,068,000 for 2020-21 & 2021-22

CalPERS Rate Comparison									
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Employer Rates	11.85%	13.89%	15.53%	18.06%	19.72%	20.70%	22.91%	26.10%	27.10%
Change		2.04%	1.64%	2.53%	1.66%	0.98%	2.21%	3.19%	1.00%
CalSTRS Rate Comparison									
Employer Rates	10.73%	12.58%	14.43%	16.28%	17.10%	16.15%	16.92%	19.10%	19.10%
Change		1.85%	1.85%	1.85%	0.82%	-0.95%	0.77%	2.18%	0.00%

# Special Education Costs



Historic Contribution to Special Education from Unrestricted General Fund



- TUHSD SpEd contributions have increased from \$2.4M to \$15.1M in 12 years
  - Avg. of \$1.1M increase annually
- In 2012, CA law changed increasing district responsibility for funding special education (NPS, mental health)
- TUHSD currently has 5 Counseling Enriched Classrooms (CEC)
  - Estimated savings is \$560k annually per CEC
  - Total savings of about \$2.8M annually



# Reconciliation of Adopted vs. 1st Interim Budgets




<i>Description</i>	<i>Amount</i>
<b>2021-22 Budget Adoption Projected Surplus</b>	<b>\$ 2,190,721</b>
<b>Add: Variance Components (See Next Slide)</b>	<b>\$ 251,702</b>
<b>2021-22 First Interim Projected Surplus</b>	<b>\$ 2,442,423</b>

# Reconciliation of Variance Components

<i>Description of Variance Components</i>	<i>Amount</i>
Decrease in property tax revenue	\$(45k)
Increase in local revenue given increase in parcel tax revenue, one-time refund and facilities rentals	\$144k
Net increase in staffing expenditures due increased staffing, reclassifying Asst Supe of HR to classified, refinement of one-time 1% certificated off-schedule payment, and adjustment of State Unemployment Insurance (SUI) rate	\$(266k)
Increase in school-related supplies expenditures	\$(51k)
Increase in capital outlay expenditures related to Kreps Conference Room audio/visual project	\$(85k)
Decrease in 'other outgo' due to updated amounts budgeted for solar lease payments	\$216k
Decrease in restricted contributions due to additional Special Education revenue (\$188k), revised SUI rate, and staffing statutory costs	\$350k
Other net adjustments ( <i>cafeteria revenue, M&amp;O expenses, etc.</i> )	\$(11k)
<b>Total Variance</b>	<b>\$252k</b>

# Reconciliation of Adopted vs. 1st Interim Budgets



<i>Description</i>	<i>Amount</i>	<i>Ending Fund Balance (Reserve)</i>
<b>2021-22 Budget Adoption Projected Surplus</b>	<b>\$ 2,190,721</b>	<b>\$22,041,769 (21.7%)</b>
<b>Add: Variance Components</b> <i>(See Previous Slide)</i>	<b>\$ 251,702</b>	<b>\$2,401,974</b> (net change adjusted by 2019-20 Unaudited Actuals of \$2.1M & 2020-21 variance of \$252k )
<b>2021-22 First Interim Projected Surplus</b>	<b>\$ 2,442,423</b>	<b>\$24,443,743 (23.1%)</b>

*TUHSD has a target minimum reserve of at least 17%, per Board Policy.*

# Reserves & Assignments

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# Reserves & Assignments

**2021-22 Estimated Ending Fund Balance (Unrestricted) - \$24,443,743 (23.1% reserve level)**

Non-Spendable - \$12,000

Assigned - \$18,727,701

Restricted - \$3,983,130

- 2021-22 Operating Deficit (Unrestricted) - \$1,491,101
- Textbook Adoption Purchases (Next Gen Science Standards) - \$500,000
- Distance Learning materials & supplies - \$500,000
- Property Tax Uncertainty (1% of prop tax revenues) - \$700,000
- Special Education Reserve - \$750,000
- Additional 17% Reserve (less REU), per Board Policy - \$14,786,700

Unassigned - 3% minimum reserve for economic uncertainty (REU) - \$3,168,600

Unallocated (Other) - \$2,535,342


Reminder: TUHSD Board Policy (BP 3100) establishes a targeted minimum reserve level at 17% of expenditures.

# Other Funds

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# Summary of Other Funds

In addition to the general fund, other funds collect and track specific funds for restricted purposes.



FUND	2020-21	Est. Net Change	2021-22
GENERAL FUND (COMBINED)	\$28,108,510	\$318,363	\$28,426,873
ASSOCIATED STUDENT BODY FUND	\$997,938	\$0	\$997,938
ADULT EDUCATION FUND	\$753,378	(\$166,829)	\$586,549
CAFETERIA FUND	\$389,838	(\$7,192)	\$382,646
DEFERRED MAINTENANCE FUND	\$2,694,986	(\$350,000)	\$2,344,986
FOUNDATION SPECIAL RESERVE FUND	\$53,780	\$300	\$54,080
CAPITAL FACILITIES FUND	\$479,927	(\$48,192)	\$431,735
CAPITAL OUTLAY FUND	\$5,883,382	\$1,215,000	\$7,098,382
BOND INTEREST & REDEMPTION FUND	\$10,224,432	(\$370,888)	\$9,853,544
<b>TOTAL</b>	<b>\$49,586,171</b>	<b>\$590,562</b>	<b>\$50,176,733</b>

# Back to the End

*Where were we in June and now in December?*

---



# Summary of Multi-Year Projections

	2021-22	2022-23	2023-24*
<b>Operating Surplus (Deficit)</b> (June 2021)	\$2.1M	\$(794k)	\$2.0M*
<b>Ending Fund Balance/Reserve</b> (June 2021)	\$22.0M (21.7%)	\$21.2M (20.4%)	\$23.2M (22.1%)
<b>Operating Surplus (Deficit)</b> (Dec 2021)	\$2.4M	\$(1.5M)	\$1.8M*
<b>Ending Fund Balance/Reserve</b> (Dec 2021)	\$24.4M (23.1%)	\$22.9M (21.8%)	\$24.7M (23.4%)

**Key Assumption:** \* Figures do not include any potential increase in staff compensation (cost of 1% raise = \$600k)

Description	2021-22 First Interim Budget			2022-23 Projected Budget			2023-24 Projected Budget		
	Unrestricted	Restricted	Combined	Unrestricted	Restricted	Combined	Unrestricted	Restricted	Combined
<b>REVENUES</b>									
General Purpose Revenue (A)	73,339,168	-	73,339,168	76,312,839	-	76,312,839	79,401,885	-	79,401,885
Federal Revenue (B)	-	4,038,865	4,038,865	-	1,287,112	1,287,112	-	1,287,112	1,287,112
State Revenue (B)	1,032,750	6,841,719	7,874,469	1,032,750	5,019,910	6,052,660	1,032,750	5,019,910	6,052,660
Local Revenue (C)	16,907,409	3,777,742	20,685,151	17,360,816	2,538,578	19,899,394	17,867,703	2,538,578	20,406,281
<b>TOTAL REVENUES</b>	<b>91,279,327</b>	<b>14,658,326</b>	<b>105,937,653</b>	<b>94,706,405</b>	<b>8,845,600</b>	<b>103,552,005</b>	<b>98,302,338</b>	<b>8,845,600</b>	<b>107,147,938</b>
<b>EXPENDITURES</b>									
Certificated Salaries (D)	32,996,292	7,053,086	40,049,378	34,898,018	5,642,470	40,540,488	33,262,545	5,735,007	38,997,552
Classified Salaries (D)	8,533,441	4,254,885	12,788,326	9,473,306	3,822,311	13,295,617	9,734,769	3,927,807	13,662,576
Benefits (E)	17,898,148	9,373,659	27,271,807	20,165,222	9,038,894	29,204,116	20,236,740	9,279,855	29,516,595
Books and Supplies (F)	1,980,692	3,631,023	5,611,715	2,403,746	1,109,405	3,513,151	2,403,746	1,109,405	3,513,151
Other Services & Oper. Exp (G)	5,620,179	8,408,011	14,028,190	6,630,430	7,331,857	13,962,287	6,573,430	7,988,857	14,562,287
Capital Outlay (H)	260,712	90,468	351,180	260,712	26,692	287,404	260,712	26,692	287,404
Other Outgo (I)	1,213,983	1,759,896	2,973,879	1,213,983	1,935,896	3,149,879	1,213,983	2,129,896	3,343,879
Transfer of Indirect Costs	(68,870)	40,546	(28,324)	(56,705)	28,381	(28,324)	(56,705)	28,381	(28,324)
<b>TOTAL EXPENDITURES</b>	<b>68,434,577</b>	<b>34,611,574</b>	<b>103,046,151</b>	<b>74,988,712</b>	<b>28,935,906</b>	<b>103,924,618</b>	<b>73,629,220</b>	<b>30,225,900</b>	<b>103,855,120</b>
<b>EXCESS / (DEFICIENCY)</b>	<b>22,844,750</b>	<b>(19,953,248)</b>	<b>2,891,502</b>	<b>19,717,693</b>	<b>(20,090,306)</b>	<b>(372,613)</b>	<b>24,673,118</b>	<b>(21,380,300)</b>	<b>3,292,818</b>
<b>OTHER SOURCES/USES</b>									
Transfers In	-	-	-	-	-	-	-	-	-
Transfers Out (J)	(2,573,139)	-	(2,573,139)	(1,473,139)	-	(1,473,139)	(1,873,139)	-	(1,873,139)
Net Other Sources (Uses)	-	-	-	-	-	-	-	-	-
Contributions to Restricted (K)	(17,829,188)	17,829,188	-	(19,735,655)	19,735,655	-	(21,025,800)	21,025,800	-
<b>TOTAL OTHER SOURCES / USES</b>	<b>(20,402,327)</b>	<b>17,829,188</b>	<b>(2,573,139)</b>	<b>(21,208,794)</b>	<b>19,735,655</b>	<b>(1,473,139)</b>	<b>(22,898,939)</b>	<b>21,025,800</b>	<b>(1,873,139)</b>
<b>Net Increase (Decrease)</b>	<b>2,442,423</b>	<b>(2,124,060)</b>	<b>318,363</b>	<b>(1,491,101)</b>	<b>(354,651)</b>	<b>(1,845,752)</b>	<b>1,774,179</b>	<b>(354,500)</b>	<b>1,419,679</b>
<b>FUND BALANCE, RESERVES</b>									
Estimated Beginning Balance	22,001,320	6,107,190	28,108,510	24,443,743	3,983,130	28,426,873	22,952,642	3,628,479	26,581,121
Estimated Ending Balance	24,443,743	3,983,130	28,426,873	22,952,642	3,628,479	26,581,121	24,726,821	3,273,979	28,000,800
Nonspendable	12,000	-	12,000	12,000	-	12,000	12,000	-	12,000
Restricted	-	3,983,130	3,983,130	-	3,628,479	3,628,479	-	3,273,979	3,273,979
Assigned	18,727,801	-	18,727,801	17,205,700	-	17,205,700	17,252,000	-	17,252,000
Unassigned - REU @ 3%	3,168,600	-	3,168,600	3,162,000	-	3,162,000	3,171,900	-	3,171,900
Unassigned - Other	2,535,342	-	2,535,342	2,572,942	-	2,572,942	4,290,921	-	4,290,921
<b>Total - Est. Fund Balance</b>	<b>24,443,743</b>	<b>3,983,130</b>	<b>28,426,873</b>	<b>22,952,642</b>	<b>3,628,479</b>	<b>26,581,121</b>	<b>24,726,821</b>	<b>3,273,979</b>	<b>28,000,800</b>

Fund Balance Reserve Percentage  
(Combined Assigned & Unassigned)

23.13%

21.77%

23.38% 42

# Uncertainties & Prudence



- COVID-19 Omicron variant and impact on federal, state and local economic recovery
- New 'Class Size Increase' MOU expires in 2025-2026 school year
- TFT and CSEA employee groups have settled on compensation with TUHSD through 2022-23, but not beyond
  - Future cost of a 1% raise in 2023-24 estimated to be \$600k
- Concerns about future increases to STRS & PERS pension rates given statewide loss of enrollment & staff paying into pension systems
- COVID relief funding: One-time revenues = One-time expenditures (i.e. no ongoing services)
- Statewide trend of Special Education costs increases continue (unfunded mandate)
  - *How will that change given enrollment decline and possible federal and State special education reform?*
- Possible impact of federal 'Social Infrastructure' bill compounded with Governor's State budget proposal
- After 'one-time' relief (i.e. COVID funds, State pension relief, new Class Size MOU) expires, TUHSD is projecting sustainable budgets in the official 3-year MYP

# 1st Interim Certification



- Per AB 1200
- *The First Interim projection indicates that, as defined in AB 1200, “the district **will** be able to meet its financial obligations for the current fiscal year and subsequent two years.”*

***The District is self-certifying as “Positive”***

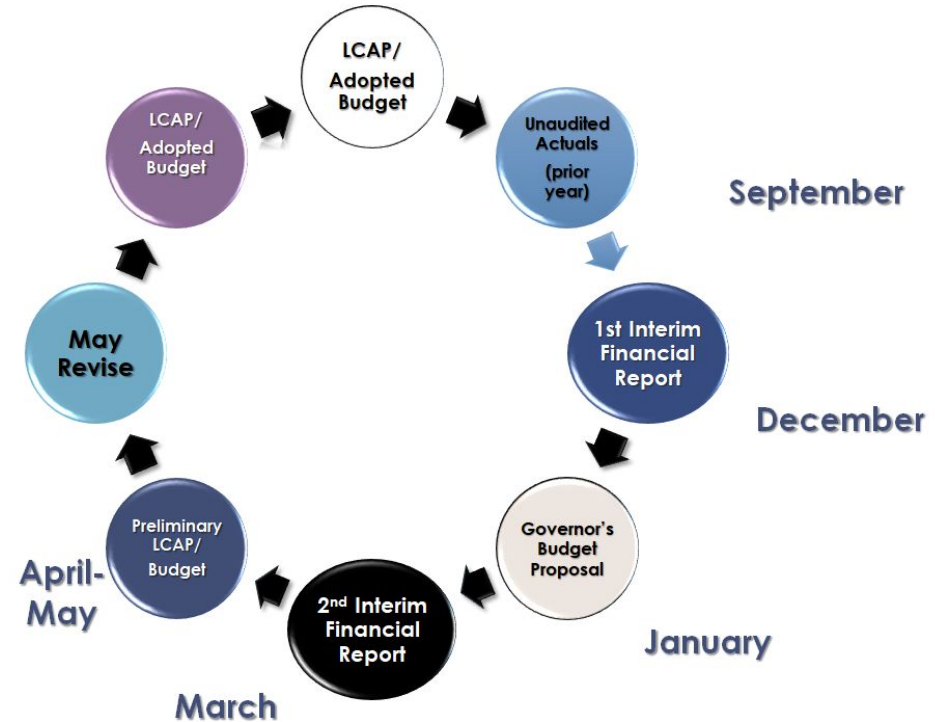
# Budget Calendar & Key Dates

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# Budget Calendar & Key Dates



January 2022	Governor's proposal for State budget
March 2022	2nd Interim Budget Report for 2021-22
May 2022	Governor's May Revise budget proposal
June 2022	Board adopts 2022-23 LCAP & Budget Enacted State Budget Act



# Questions? Comments?

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*Special thanks to our Business Office staff for  
their work to help prepare this report!*