Date:	12/14/2023
Memo to:	Ken Geisick, Superintendent
From:	Jean Aldrete, Chief Business Officer
Subject:	2023-24 First Interim Report

Introduction:
Governor Newsom signed an on-time budget on June 27, 2023 and signed SB141, The Education Omnibus Trailer Bill on September 13, 2023 with slight changes from the May Revise. Most of the assumptions used in the district's 2023-24 Adopted Budget align with the State Adopted Budget. The Adopted State Budget included some minor changes from the May Revise.

The trailer bill added new language for "new early enrollment" for the Transitional Kindergarten (TK) classroom program. The student-to-adult ratio threshold will now apply to an individual class rather than a school site average unlike Kindergarten. LEA's that choose to expand enrollment to children whose birthday falls between September 1st and June 3rd must maintain a class size ratio of 10:1 and a maximum class size of 20 for classes that include an early enrollment student. Beginning in 2025-26, all TK classrooms must maintain a student-to-adult ratio of 10:1 regardless of whether or not the state legislature provides additional funding. This may impact staffing next year if TK enrollment increases.

Another change relates to the Expanded Learning Opportunities Program. If a school closure affects the district's after school program, the LEA will have to adopt a board resolution that outlines the facts substantiating the need for the emergency closure and complete a Request for Allowance of Attendance Due to Emergency Conditions (J-13 A) and seek approval from the State of California.

The state budget also implemented a reduction of 6% to the one-time Arts, Music, and Instructional Materials Block grant and a 14% reduction to the Learning Recovery Emergency Block Grant. The first is a permanent reduction, while the later will be restored in equal increments in the 2025-26, 2026-27, and 2027-28 fiscal years.

Inflation in October was 3.2%, which is higher than the Federal Reserve's goal of 2% so it is likely that current interest rates will continue to remain. Rising costs for services, energy, and goods continue to impact the expenses of the district. While Inflation will likely continue to impact the district through the 2023 calendar year, economists predict it will continue to decline throughout 2024.

The State Enacted Budget estimated the Cost-of-Living Adjustment (COLA) for next year at 3.94%. The Legislative Analyst Office (LAO) last week indicated that the COLA is likely to drop to 1% as the economy has significantly slowed. The COLA rate is based on a federal price deflator and all of the factors will not be fully known until May 2024, but five of the eight data points that determine the COLA rate are available. Although the district is not funded based on COLA, the housing market has slowed. Due to these changes, property tax growth has been lowered for the current and two subsequent fiscal years to 3%.

The federal government has been unable to adopt a budget for the 2024 fiscal year over the last couple of months and President Biden has approved two continuing resolutions because of Congress's inability to reach an agreement. The current resolution contains two new deadlines.

One expires January 19, 2024 and will include spending for military construction, veterans' affairs, transportation, housing, and the Energy Department. The other expires February 2, 2024 for the Labor, Health and Human Services, Education, and Related Agencies (LHHS). Without an agreement, the government will face a shutdown. A government shutdown will not have a substantial impact for the district as federal funds are not a significant source of revenue. Most federal programs are funded on a forward-funding basis and are largely based on last year's amounts. Funds will be available for several months following a shutdown.

State revenue collections are still below the state's forecast and while prior year taxes were delayed until November, actual revenues will not be known until late November. State revenues are beginning to stabilize, but the state still faces a $10 billion deficit in 2024-25. Along with a lower than anticipated COLA, there is still some significant risk and long-term challenges for education throughout the state. Declining enrollment across the state is still a major factor and birth rates are lower than they were during the Great Depression. The United States population is declining and there are significantly more people of retirement age than there are entering the workforce. Cost pressures such as pension costs will also affect each LEA differently.

This First Interim Report represents our district's financial activities from the beginning of the fiscal year 2023-24 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 $39,546,118. Compared to the 2023-24 Adopted Budget, total revenue has decreased by approximately $558,501. This decrease is due to a combination of:

- Increased property tax revenues of $368K,
- Decrease in LCFF Sources to account for transfer of an additional $1.5 million for facility repairs to the Deferred Maintenance Fund,
- Decreased SELPA excess property taxes of $75K,
- Increase in Special Education Federal Revenues of $42K,
- Decrease in federal Title I, II and III of $6K,
- Decrease in one-time state Child Nutrition Funds of $186K,
- Increase in state lottery revenues of $35K,
- Increase of $185K for Proposition 28 Arts Education funds,
- Increase in state mental health revenues of $15K,
- Increase in Special Education Early Intervention Preschool Grant of $15K,
- Decrease in Expanded Learning Opportunity Program grant of $10K,
- Increase for transfer in from unrestricted building funds for purchase of new

Kindergarten and First Grade classroom furniture of $224K,
- Various miscellaneous site donations and one-time revenues of $175K and site carryover of $160K.

Property tax revenues: The district will remain in community-funded status for 2023-24 and two subsequent years. Based on the latest real property roll as of November 3, 2023 by the Santa Clara County Assessor's Office, the percent growth rate was 4.67% 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 4%.

The net roll corrections for 2023-24 is estimated at $15 million throughout the county. Assessed Roll projections for 2024-25 will take place in January 2024 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 3.03% 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 3% for the out years. Based on these factors, the 2023-24 First Interim includes the following tax revenue growth rates for the current and two subsequent fiscal years:

2023-24	4.67%
2024-25	3.00%
2025-26	3.00%

Expenditures: General Fund combined expenditures are projected to be at $41,170,132, which is an increase of $515,844 compared to the 2023-24 Adopted Budget. The increase can be attributed to:

- Decrease in staffing and related mandatory and benefit costs based on current staffing of $349K,
- Increase in instructional materials of $392K for textbooks, music equipment, instructional supplies and technology, new Kindergarten and First Grade classroom furniture, and site carryover funds,
- Increased in services and operating costs of $374K for Rhythm and Moves physical education services, contracted services due to employee leaves, services for Special Education ABA services and physical therapy, and utility costs,
- Increase in capital outlay of $166K for purchase of a maintenance truck from last year's budget that was not received prior to June 30th and for the purchase of cafeteria equipment anticipated for the Redwood Middle School cafeteria remodel,
- Decrease in transfers out of $67K due to a reduction out to the Basic Aid Reserve Fund per board policy of $11K resulting in a transfer of $127,970 based on 2022-23 audited expenses and the elimination of a transfer of $56K to the Enterprise Fund for the After-School Child Care Program.

Contributions to Restricted Programs are as follows:

Routine Restricted Maintenance:	$ 1,714,033
Special Education	$ 5,099,898
New Teacher Support Project	$ 15,600
Saratoga Education Foundation	$ 39,292

After-School Sports	$ 60,000
After-School Music	$ 6,124
Total	**$6,934,947**

Staffing

Compared to the Adopted Budget, following are some of the changes to staffing as of October 31, 2023:

- Certificated positions decreased by 0.6 FTE at the middle school due to less staff needed to teach extra class periods.
- Classified positions increased by 4.3 FTE mainly due to the addition of Treehouse activity leaders.
- Classified Management FTE increased to add the new Director of Child Nutrition.

The costs for the above listed positions have been reflected in 2023-24 and the two subsequent years.

Full Time Equivalents

FTEs	2023-24 Adopted	2023-24 1st Interim	2023-24 Subsequent Year	2023-24 Subsequent Year
Certificated	105.1	104.5	104.5	104.5
Certificated Management	8	8	8	8
Classified	80.9	85.2	85.2	85.2
Classified Management	5	6	6	6
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 2023-24 fiscal year of 7.5% on schedule and 7.5% on schedule for the 2024-25 fiscal year. A 1.5% step-and-column increase is assumed for all existing employees for the two subsequent years of approximately $422K in 2024-25 and $457K in 2025-26. No additional salary increases were included in the 2025-26 fiscal year as negotiations are pending for that year.

- Health and Welfare -
    - The cost sharing between the District and Certificated, Confidential and Management employees hired prior to July 1, 2023 for 2023-24 and two subsequent fiscal years remains a 90% and 10% split. New employees in this group hired on July 1, 2023 and thereafter are capped at 90% of the lowest non-deductible HMO family plan (currently Kaiser), plus family dental and vision. Plan costs above the cap are borne entirely by the employee.
    - The Health and Welfare benefit is capped at Kaiser family rate for 2023-24 and two subsequent years for classified non-management staff.
    - An increase of 10% is assumed in the 2024-25 and 2025-26 fiscal years.

	2022-23 Actual	2023-24 First Interim	2024-25 First SY	2025-26 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	$3,934,620	$4,060,141	$4,466,155	$4,912,771

Utilities

The percent increase for electricity, gas, phone, water, garbage is assumed at $973,060 for 2023-24 and an increase of 10% is assumed for the 2024-25 and 2025-26 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 2023-24 is as follows:

Fund – Cost Center	Description	2022-23 Prior Year	2023-24 First Interim
040-001810	Parcel Tax Funded FTEs	$330,727	$322,840
040-001830	Teacher Leadership Compensation	$60,562	$64,660
040-002130	Curriculum Development	$18,596	$22,000
040-007800	Site Based Technology	$62,287	$65,500
Total:		**$472,172**	**$475,000**

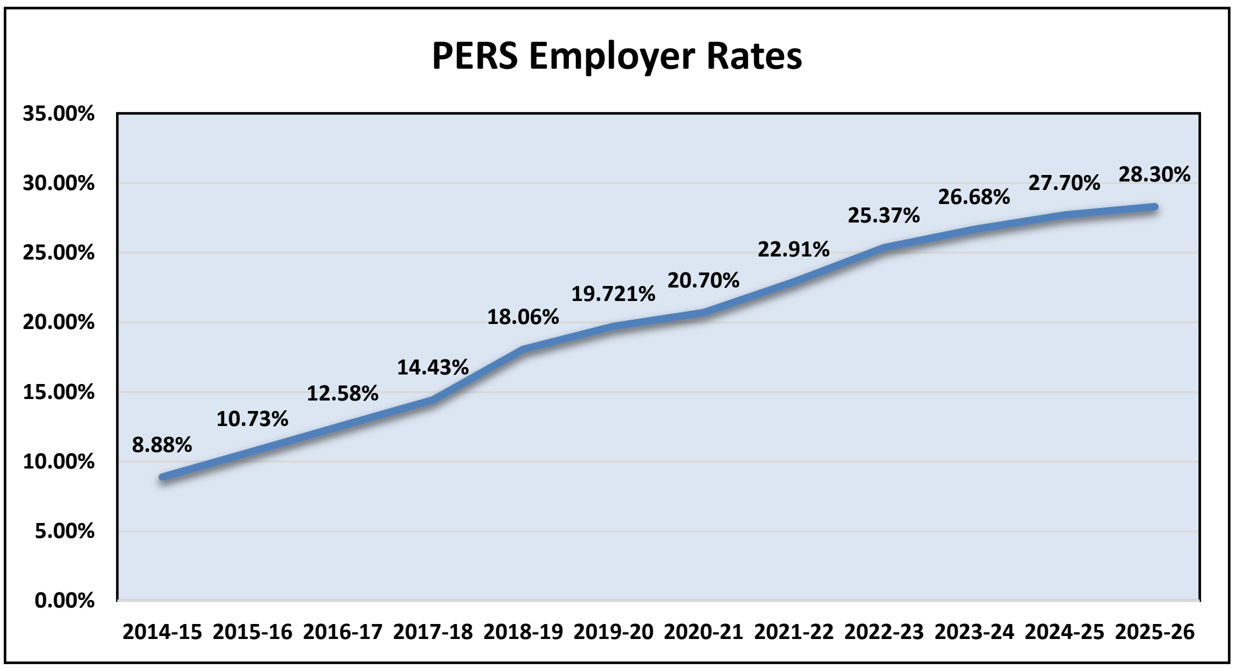
Saratoga Education Foundation (SEF)

In the 2022-23 fiscal year, the Saratoga Education Foundation (SEF) provided a contribution of $670K to cover program costs. In the 2023-24 year, SEF anticipates a contribution of $600K due to lower donations received, which is not sufficient to cover the costs of the programs offered. The First Interim assumes a contribution of $39K to cover costs for the provided programs. The expenditure plan below has allocated $705,302 for various needs. The 2023-24 and 2024-25 budgets include step-and-column of 1.5% increases and negotiated salary increases of 7.5%. The 2025-26 fiscal year budget includes step-and-column increases of 1.5%.

Fund – Cost Center	Program	2022-23 Prior Year	2023-24 First Interim
060-095710	Physical Education K-5	$ -	$168,134
060-095713	Science Lab Aides K-5	$ 84,743	$106,141
060-095715	Art Program 6-8	$ -	$ -
060-095721	Music Program TK-3	$ -	$ 9,700
060-095722	Music Program 4-5	$148,065	$161,649
060-095723	Instructional Media Spec 3-5	$192,616	$107,658
060-095724	Art Program TK-5	$ -	$ -
060-095727	PLTW/Makerspace	$178,566	$152,020
Total Estimates:		**$603,990**	**$705,302**

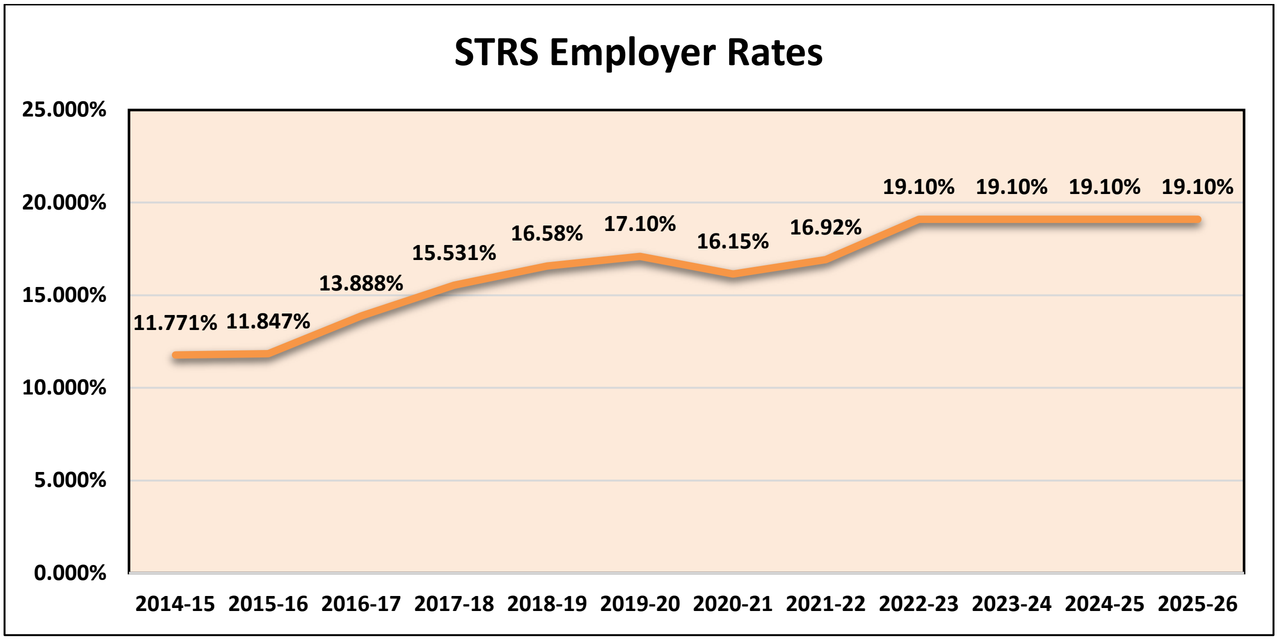
PERS

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 2023-24, is estimated at $341,500. The Technology Operating Budget is in Cost Center 7700 and is estimated at $1,128,778. 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 2022-23, 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 2022-23 Unaudited Actuals and the 2023-24 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 $3,500,000 to the Deferred Maintenance Fund for 2023-24 and the two subsequent fiscal years due to anticipated roofing, asphalt, and other maintenance repairs that will be needed over the next several years. Specific projects for next summer will be discussed in a January Facility Presentation to the Governing Board. In February, the Governing Board will receive staff input to update the facility master plan.

Assigned Reserves

Set asides of the General Fund Balance Reserves in the amount of $1,574,904 in the current and 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.
- Textbook Adoptions - $500,000 for textbook adoptions has been set aside to offset the state reduction in the one-time Arts, Music, and Instructional Materials Block Grant.
- Supplemental Early Retirement Plan - $324,904 for the final debt payment in the 2024-25 fiscal year. This set aside has been removed in the 2024-25 projected budget.

Budget Concerns:

- Current projections do not reflect any negotiated salary increases for 2025-26 fiscal year. Salary and benefit negotiations will begin in January 2025.
- 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:

	2023-24	2024-25	2025-26
General Fund Reserve for Economic Uncertainties Fund 01 – 3% Mandated	*$1,235,104*	*$1,299,254*	*$1,315,715*
General Fund Undesignated/Unappropriated Amount - Fund 01	*$6,245,969*	*$3,343,699*	*$245,558*
Special Reserve Fund Reserves – Fund 17	*$5,805,259*	*$6,008,229*	*$6,211,199*
Combined Reserves (Funds 01 & 17)	**$13,286,332**	**$10,651,182**	**$7,772,472**
Special Reserve Fund 17 Reserve % - Board Policy 15% of General Fund Expenditures	*14.10%*	*13.87%*	*14.16%*
General Fund 01 Reserve %	*18.17%*	*10.72%*	*3.56%*
Combined Reserve % (Fund 01 & 17)	**32.27%**	**24.59%**	**17.72%**

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 2024-25 and 2025-26.

Based on the financial information presented, it is recommended that the Board of Trustees approve the First Interim Report for 2023-24 with a Positive Certification.