BUCKEYE UNION SCHOOL DISTRICT

Second Interim Report

Financial Report as of January 31, 2020
Presented: March 18, 2020

Background

The California Education Code, as updated by AB1200 and AB2756, requires school districts to report on their financial condition at the time of budget adoption and after closing the books with the unaudited actuals. Two interim reports are also required during the Fiscal Year. The Second Interim report illustrates a district's financial condition and projections as of January 31st as well as budget revisions based on expenditure and revenue trends and other available information. Current year actual financial data has been updated to reflect state and federal apportionments and expenditures as well as local funding sources. As a result of the update, the budget estimates provided should be closer aligned to data presented later in the year at year-end close.

The following is a summary of the financial position of the Buckeye Union School District as of January 31, 2020. The Governing Board of a school district certifies the district's financial condition to the County Office of Education through these reports. Based on the information contained in the enacted 2019-20 California State budget and the financial information provided in the interim reports, the Buckeye Union School District certifies the District's financial position is positive; the District will meet its financial obligations in the current and subsequent two fiscal years.

For ease and clarity, I have summarized within this report the activities and position of each fund and included detailed analysis of items of particular interest. Original state reports are available in the district office and can be forwarded to you upon request.

2019-2020 Enacted State Budget & 2020-2021 Proposed State Budget

Governor Gavin Newsom's budget proposal for 2020-21 continues to build reserves and promotes a more effective government that can withstand a downturn in the economy, as well as emergencies and disasters. The State is prepared for an economic downturn with reserves of $21 billion. Nevertheless, managing a recession will be challenging, as the State estimates even a moderate recession could result in revenue declines of nearly $70 billion, and a budget deficit of over $40 billion over three years.

The release of the Governor's budget begins the six-month process of enacting a new state spending plan. The Governor's 2020-21 budget proposal will require LEAs to adjust the 2020-21 cost of living adjustment (COLA) downward from prior projections to 2.29% and the 2021-22 COLA downward to 2.71%. Special education funding consolidates 2019-20 funding into 2020-21 base rates pursuant to a new funding formula, while adding restrictive language into the additional 2020-21 one-time funding for early intervention activities. Access for LEAs to one-time funding for professional development, community schools, and opportunity grants requires evaluation. The majority of the surplus in the 2020-21 budget proposal is devoted to one-time spending. This approach enables the State to make significant investments in critical areas while also maintaining reserves.

Proposition 98 Funding: The Governor's proposal set Proposition 98 funding for 2020-21 at $84 billion, which represents an increase of $2.9 billion or 3.6% from the 2019-20 budget.

LCFF Cost-of-Living-Adjustment (COLA): The budget proposal contains an additional $1.2 billion of Proposition 98 funding for the LCFF, which reflects a 2.29% COLA and brings total LCFF funding to $64.2 billion. Illustrated below is a comparison of the COLA percentages between the proposed budget and previous estimates provided by the State at first interim.

Description	2019-20	2020-21	2021-22
Annual COLA (LCFF) – Estimates – 1st Interim	3.26%	3.00%	2.80%
Annual COLA (LCFF) – Proposed Budget	3.26%	2.29%	2.71%

Other Governor Budget Proposals: Illustrated below is a summary of other components of the Governor's budget proposal:

Budget Component	Description
Recruitment and Professional Development	• $900M for teacher training and recruitment relating to working in a high-needs field at a priority school; classroom educator training and resources; and professional learning opportunities
Expanded Supports and Services for the State's Neediest Schools	• $300M for one-time grants and technical assistance to prepare and implement improvement plans at the State's lowest-performing schools
Community School Grants	• $300M of one-time funds for competitive grants to develop community school models with innovative partnerships that support mental health and the whole child (separate from County Operated Court and Community Schools)
Special Education	• $645M of ongoing funding towards a revised special education base funding formula using a three-year rolling average of the LEA's ADA, including districts, charters and COEs, while continuing to allocate funding to SELPAs. May yield between $640 and $680 per ADA. • $250M of additional ongoing funding for children ages 3 to 5 years with exceptional needs, for a per-pupil rate of $4,570, towards increased or improved services • $500,000 in one-time funding for a study of the current SELPA governance and accountability structure, and $600,000 in one-time funding for two workgroups to study improved accountability for special education service delivery and student outcomes • $4M in one-time funding for dyslexia research and training
Early Childhood Education	• Creation of the Department of Early Childhood Development under the Health and Human Services agency, effective July 1, 2021 • 2.29% increase for State reimbursement rates for child-care and preschool • $50M of ongoing funding from the Cannabis Fund to support over 3,000 general child-care slots previously funded with general fund sources • $10.3M from Cannabis funding to increase general child-care slots by 621 • $75M in Proposition 98 general funds to expand the Inclusive Early Education Expansion Program, which provides funding to LEAs to construct or modify preschool facilities to serve students with exceptional needs or severe disabilities
Computer Science Education Access	• $15M for grants to LEAs to help 10,000 teachers earn a supplementary computer science authorization on their credential • $2.5M for a COE to act as a repository of computer science resources, and $1.6M to create a new UC Subject matter Project in computer science and fund one cohort of 1,200 educators to participate
School Nutrition	• $60M of ongoing funds and $10 million in one-time funds to train food service workers to promote healthier meals

K-12 One-Time and Block Grant Mandate Funding

Similar to 2019-20, the Governor's proposal for 2020-21 does not include any one-time mandate funding. While the Mandate Block Grant funding remains unchanged in 2019-20 at $32.18 (K-8) and $61.94 (9-12) per ADA, the reduced COLA for the 2020-21 and 2021-22 years impacted the grant relative to estimates provided at First Interim. Funding for those years is now estimated at $32.92 and $33.81 per K-8 ADA.

Federal Funding

The federal government passed a $1.4 trillion federal spending package that includes increased funding for educational programs; bringing education funding nationally to $72.8 billion. California receives approximately 10% of this funding. This package sets federal funding levels through September 2020 (the end of the federal fiscal year), and impacts school district awards for the 2020-21 fiscal year. Among the largest increases are spending levels for Title I, the Individuals with Disabilities Education Act (IDEA), and investments in various early childhood programs including Head Start and the Child Care and Development Block Grant. The actual impact to districts will be determined at a future date.

The current administration recently released its budget proposal for fiscal year 2021-22, which includes an overall spending reduction of $6.1 billion or an 8.4% cut to the US Department of Education from last year. The K12 area of the budget proposal would consolidate 29 programs including Title I, II-A, III English Learners and IV-A into one block grant to states called the Elementary and Secondary Education for the Disadvantaged (ESED) Block Grant. The new block grant represents an almost 20% cut in K-12 spending. The proposal would consolidate nearly all existing K-12 formula and competitive grants programs into a single $19.4 billion fund. The total appropriations for these individual programs last year was over $24 billion. Specific details on the exact funding formulas, allowable uses of the funds, existing set asides, and fiscal requirements that would be applicable to the prosed block grant were not outlined in the budget proposal.

Pension Contribution Rates

The 2019-20 State budget included some pension relief for public education employers; specifically, a $3.15 billion non-Prop. 98 general fund payment on behalf of employers to CalSTRS and the CalPERS Schools Pool. Of this amount, approximately $850 million will buy down the employer contribution rates in 2019-20 and 2020-21.

The remaining $2.3 billion will be paid toward the employers' long-term unfunded liability for both systems. Overall, this payment is expected to save employers $6.9 billion over the next three decades. The CalSTRS employer contribution rates are 17.1% in 2019-20, 18.4% in 2020-21 and 18.1% in 2021-22. The CalPERS Schools Pool employer contribution rates are 19.721% in 2019-20, 22.8% in 2020-21 and 24.9% in 2021-22. These rates are very similar to those estimated at first interim.

Routine Second Interim Budget Adjustments

In addition to the non-routine items noted above, the District reviews all of its accounts and has adjusted its Second Interim budget projections to reflect the following:

- Based upon current enrollment data, the District adjusted its revenue accounts that are based on Average Data Attendance (ADA). Start-of-school enrollment is materially different from budget projections, so revenues have been recalculated based upon updated ADA projections.

DESCRIPTION	TRADITIONAL AND CHARTER
2019-2020 Budgeted ADA	Average Daily Attendance (ADA) is estimated at 4,535.65 (3,748.10 Traditional, 755.64 Charter, and 31.91 County Program ADA), which is lower than BUSD's 2018-19 ADA. Due to a decline in enrollment the funded ADA will be based on the prior year adjusted ADA of 4,697.59 (3,910.04 Traditional, 755.64 Charter, and 31.91 County Program ADA)
2019-2020 SECOND INTERIM ADA ADJUSTMENT	As of 12/10/19 ADA is estimated at 4,552.80 (3,764.12 Traditional, 756.80 Charter, and 31.88 County), which is lower than 2018-2019. As a result, the funded ADA for the traditional program will be based on prior year adjusted ADA in the 2019-2020 budget. Revenues have been recalculated based upon updated ADA projections.

- Categorical revenue accounts are updated to most recent information received from the state and federal governments. Corresponding expenditure accounts are also adjusted accordingly.
- Indirect costs are updated to reflect changes in total estimated expenditures.
- Other income accounts are analyzed and adjusted to reflect year-to-date receipts and estimated year-end amounts.
- Revenues and expenditures of programs that supported by contributions from the General Fund are updated to current projections and adjusted accordingly.
- Salary and benefit accounts are adjusted to reflect updated staffing levels and changes to benefit costs. All budgets reflect the most current negotiated agreements with employee bargaining units.
- All expenditure accounts analyzed and adjusted to reflect year-to-date expenditures and estimated expenditures to finish the year.
- Carryovers from prior year budgets are adjusted accordingly.

Pension Costs

Pensions have been one of the fastest-rising costs in school budgets. Before passage of the new rates, districts statewide paid $2.8 billion in 2013-14 to CalSTRS and CalPERS. Four years later, those costs had nearly doubled. Districts, the State and certificated and classified employees share pension costs, although districts are responsible for the largest portion. Contribution rates are calculated as a percentage of total employee payroll. Illustrated below are the projected STRS and PERS Employer Rates:

Planning Factor	2019-20	2020-21	2021-22
STRS Employer Rate	17.10%	18.40%	18.10%
PERS Employer Rate	19.72%	22.80%	24.90%

Reserves

District Reserve Requirements (Senate Bill 858): The 2014 State Budget Act and the passage of Proposition 2 in November 2014 established a hard cap on district reserves, if all of the following conditions are met:

- The Proposition 98 maintenance factor must be fully repaid; and
- Proposition 98 must be funded based on Test 1; and
- Proposition 98 provides sufficient funds to support enrollment growth and the statutory COLA; and
- A deposit must be made into the Proposition 98 reserve when capital gains revenues exceed 8% of General Fund revenues.

Existing law specifies that in any fiscal year immediately following a year in which a transfer of any amount is made to the Public School System Stabilization Account, a district's assigned or unassigned fund balance (including Fund 01 and Fund 17) may not exceed two times the reserve for economic uncertainty (three times the reserve for economic uncertainty for districts with more than 400,000 ADA).

Currently, the District reserve cap is not activated in 2019-20 and is not expected to be activated in 2020-21. The likelihood of the reserve cap being activated in future years remains low. The required reserve for economic uncertainty represents only a few weeks of payroll for most districts. Prudent reserves afford districts and their governing boards time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption to student programs and employees. As a result, County offices as well as District staff continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty.

Cash Management

Even though the LCFF is projected to bring fiscal relief to LEAs, cash management is also still essential. To date, the District has only borrowed internally for cash, relying on other funds in the District that have cash balances to wait out the time when the EPA funds will be received. Staff is closely watching cash balances and is taking the necessary steps to ensure that the District is able to meet its financial obligations.

Education Protection Account (EPA) Funds

As a reminder, Proposition 30 provides for a personal income tax increase for California residents with an annual income over $250,000, including capital gains revenue. Capitol gains revenues are the state's most volatile revenue source, and even absent a recession, a stock market correction or extended decline could significantly reduce the state's revenue and thus reduce Prop. 30 funding to school districts.

Proposition 30, requires a special accounting for Education Protection Account ("EPA") funds. Basically, these funds are deposited and distributed from a special account established by the initiative. Expenditure determination of these funds shall be made in open session of a public meeting of the district or charter school governing board or body and shall not include the use any of the funds for salaries or benefits of administrators or any other administrative costs. Each school district is required to annually publish on its web site an accounting of how much money was received from the Education Protection Account and how that money was spent. The District has adopted its EPA Expenditure Resolution and has posted an accounting for these funds on its website.

Positive Certification

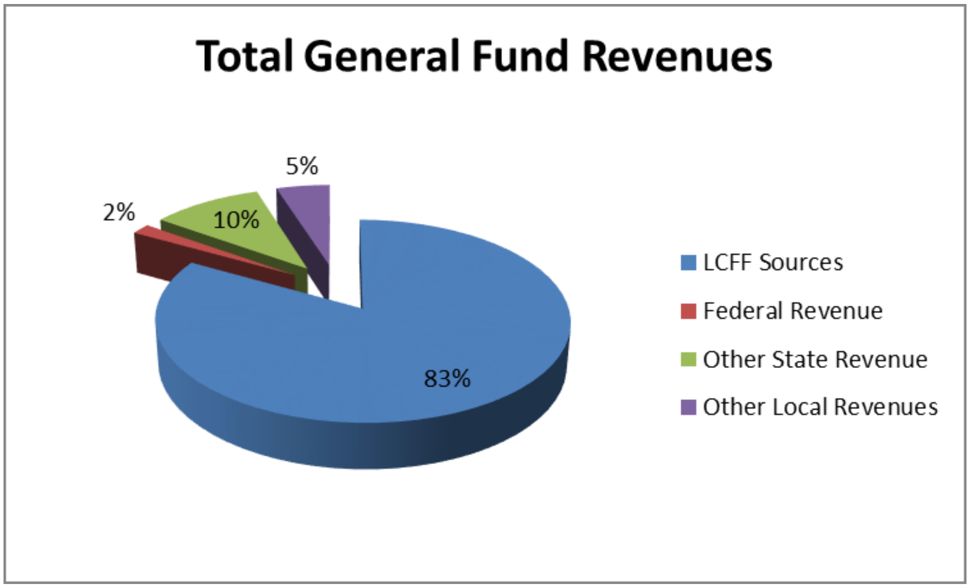
While the District certifies itself as positive, it is important to remember that there are many unpredictable factors affecting revenues and expenditures and the Second Interim Report is based on the best information available at the time the financial reports are approved. The Second Interim Report, therefore, should be considered a "snapshot in time" of the financial plan of the District on the date it is adopted. As the school year progresses, variables change which may require the District to make revisions to its current and multi-year projections. Staff closely monitors these variables throughout the fiscal year to ensure fiscal solvency.

Financial Analysis of the General Fund
Unrestricted & Restricted Revenue and Expense

REVENUE

The District receives funding for its general operations from various sources. A summary of the major funding sources for 2019-2020 is illustrated below:

Description	Unrestricted	Combined
LCFF Revenue	$40,229,224	$40,229,224
Federal Revenues	$50,000	$855,173
Other State Revenues	$1,289,619	$4,935,498
Other Local Revenues	$514,814	$2,387,118
Transfers In	$0	$130,000
TOTAL	$42,083,657*	$48,407,013



Revenue: Revenue has been revised to include full funding under the Local Control Funding Formula in the current and subsequent years. For Fiscal Year 2019-20 the total funded LCFF Revenue is approximately $40,229,224. Projected LCFF funding for Fiscal Year 2020-21 and Fiscal Year 2021-22 is $39,853,659 and $40,897,311, respectively.

Summary of Unrestricted Revenue Changes:

	Amount	Explanation
LCFF Revenue	($181,792)	Reflects recalculation of LCFF Entitlement based on current enrollment
Federal	(12,455)	Reflects projected decrease to Medical Billing revenues
Other State	$393,666	Reflects increase of Mental Health One-Time funds $402,024, Mandated Costs $3,807 and a decrease to Unrestricted Lottery Projection ($12,165)
Local Revenues	30,000	Reflects increased projection of interest income
TOTAL	*$229,419*	

Summary of Restricted Revenue Changes:

	Amount	Explanation
LCFF Revenue	-	No Adjustment
Federal	$12,457	Reflects recalculation of Title I, II, III and IV entitlements; Reflects recalculation of Federal Special Education entitlement
Other State	$1,683,344	Reflects adjustment for Prop. 20 Lottery ($12,165) and the adjustment of Other State Revenue for STRS On-behalf Contributions $1,488,866, Mental Health Allocation $217,886 and other small programs ($2,466)
Local Revenue	$301,801	Reflects adjustment for Special Ed Shared Risk Pool $20,319, Donations $225,000 and CTE Grant $56,482
TOTAL	*$1,997,602*	

Multi-Year Financial Projections

One of the most important elements of the Second Interim Report is the three-year projection for the General Fund. In this forecast, the District projects its financial prognosis for the current and subsequent two years. The purpose of the projection is to report to its stakeholders on the continued fiscal viability of the District. The projection provides the rationale for the District's choice of certification options (Positive, Qualified, or Negative) on its Certification of Financial Condition.

Multi-Year Combined Revenue Projections:

	2019-2020	2020-2021	2021-2022
Description	Combined	Combined	Combined
LCFF Revenue	$40,229,224	$39,853,659	$40,897,311
Federal Revenues	$855,173	$812,414	$771,793
Other State Revenues	$4,935,498	$4,496,440	$4,496,440
Other Local Revenues	$2,387,118	$2,387,118	$2,387,118
Transfers In	$130,000		
TOTAL	$48,537,013	$47,549,631	$48,552,662

EXPENSES

The General Fund is used for the majority of the functions within the District. At Second Interim, adjustments were made to salaries and benefits to reflect changes in position control since Budget Adoption. The other major change to expenditures is the appropriation of unrestricted site carryovers and the appropriation of the designated curriculum funds. As illustrated below, salaries and benefits comprise approximately 86% of the District's current budget.

Description	Unrestricted	Combined
Certificated Salaries	$19,107,397	$21,082,769
Classified Salaries	$4,760,607	$7,415,393
Employee Benefits (H&W; Taxes; STRS/PERS)	$8,827,988	$12,216,166
Books and Supplies	$1,736,739	$2,497,796
Other Operating Expenditures	$1,624,747	$3,989,850
Capital Outlay	$ 0	$ 0
Other Outgo	$238,675	$312,224
TOTAL	$36,296,153	$47,514,198

Summary of Unrestricted Expenditure Changes:

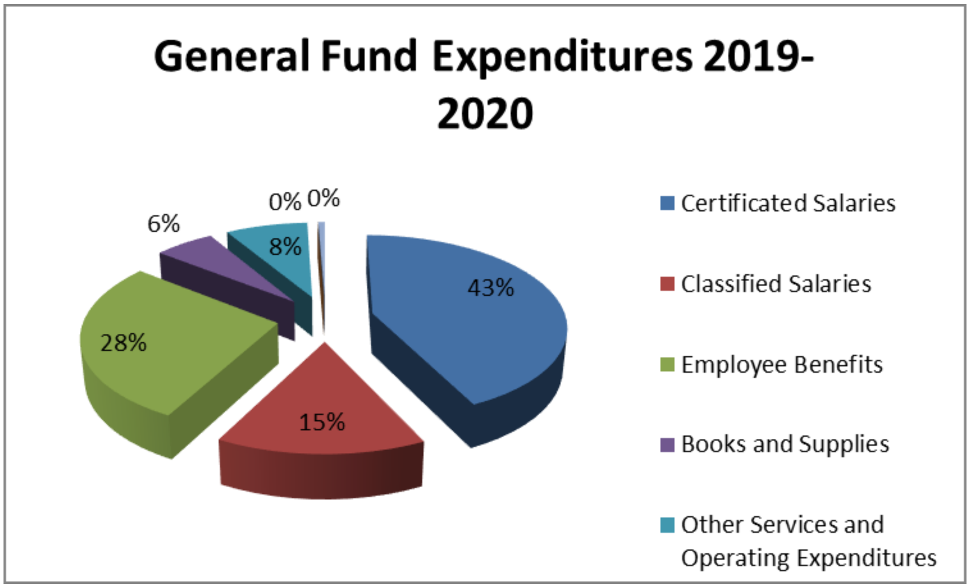
	Amount	Explanation
Certificated Salaries	$573,609	Alignment of Budget; Certificated Staffing Adjustment in Position Control Since October
Classified Salaries	($207,686)	Alignment of Budget; Classified Staffing Adjustment in Position Control Since October
Benefits	$111,384	Adjustment in Benefits based on use trends and changes in position control since budget adoption
Books & Supplies	$422,040	Adjustment to technology budget
Operating Exp.	$320,787	Adjustment for insurance premium
Capital Outlay	-	
Other Outgo	122,070	
TOTAL	*$1,342,204*	

Summary of Restricted Expenditure Changes:

	Amount	Explanation
Certificated Salaries	($6,114)	Alignment of Budget; Certificated Staffing Adjustment in Position Control Since December
Classified Salaries	$124,192	Alignment of Budget; Classified Staffing Adjustment in Position Control Since December
Benefits	$1,761,190	Adjustment in Benefits based on use trends and changes in position control since budget adoption and the adjustment of the STRS On-behalf contributions $1,488,866
Books & Supplies	$221,514	Posting of expenses for Title I, Prop. 20, special programs and McKinney-Vento and site carryover balances
Operating Exp.	$497,505	Posting of prior year site level carryover balances
Capital Outlay	-	
Other Outgo	($122,070)	Reduction of indirect costs
TOTAL	*$2,476,217*	

Multi-Year Combined Expenditure Projections:

	2019-2020	2020-2021	2021-2022
Description	**Combined**	**Combined**	**Combined**
Certificated Salaries	$21,493,040	$21,946,888	$22,411,445
Classified Salaries	$7,415,936	$7,528,284	$7,642,317
Employee Benefits (H&W; Taxes; STRS/PERS)	$14,013,162	$14,609,950	$14,810,907
Books and Supplies	$2,911,806	$2,045,248	$2,096,498
Other Operating Expenditures	$3,989,850	$3,289,850	$3,289,850
Capital Outlay	$0	$0	$0
Other Outgo	$312,224	$312,224	$312,224
TOTAL	$50,136,018	$49,732,444	$50,563,241



As illustrated above, salaries and benefits comprise approximately 86% of the District's budget in the current year projection and 88% of the District's budget in the multi-year projection. Labor settlement agreements have been reached for 2019-2020 and 2020-2021 with the Buckeye Teachers' Association and Unrepresented Groups. CSEA and the District will be commencing negotiations in the near future. No labor settlement agreements have been reached for 2021-2022.

The following discusses the most significant items in the three-year projection:

- LCFF: The District is utilizing the Department of Finance's estimated COLAs, gap funding percent, and resulting LCFF Funding Rate percentages.

- The Legislature has fully funded LCFF in the 2019-20 fiscal year.

- BUSD Unduplicated Percentage of enrollment for 2019-20 through 2021-22 ranges from 17.85% to 18.51%, based on a rolling three-year average.

- ADA: The District's LCFF funding is based primarily on the ADA in the 2018-19 fiscal year. The LCFF calculation allows a one year "hold harmless" on the loss of revenues due to ADA decline. Therefore, the decrease in ADA is reflected in the LCFF calculation for 2020-21. At First Interim, the District projected no change in enrollment in 2020-2021. At Second Interim, the District has not projected in its multi-year any change in enrollment in 2020-2021, but it is significant to note that since opening enrollment, the District currently estimates that it has approximately 229 students less registered for next school year than is currently enrolled in the District in 2019-2020. We expect this number to improve by the start of the 2020-2021 school year; however, it would suggest some further decline will materialize.

- Mandated Cost Reimbursement One-time Revenues: One-time revenues are adjusted for in the three-year projection. No additional one-time revenues are projected after the 2019-20 budget year.

- Employee Compensation: Normal ongoing step and column increases are included in the three-year projection. Additional expense to the District caused by the increase in the STRS and PERS rates is also included.

- Reasonable increases to supply and operating expense accounts;

- Reasonable increases to technology expense accounts

- Changes to the number of staff to support students in general education, special programs, class sizes, and curriculum adoptions;

- No COLA Adjustments, with exception of programs outside of LCFF (Transportation and TIG Add-ons receive no COLA)

Given these assumptions, it is projected that the district will have an operating deficit of approximately (-$1,367,338) in fiscal 2019-2020 in its Unrestricted Funds. It is also projected that the district will have an operating deficit in its Restricted Funds of approximately (-$231,667).

<u>Summary of Reserves</u>

School finance experts, including the El Dorado County Office of Education, continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. Prudent reserves afford districts and their governing boards' time to thoughtfully identify and implement budget adjustments over time. The District's multiyear projection anticipates the District's Reserves for Economic Uncertainty over the next three budget years to be as follows: 2019-2020 – 13.2%;
2020-2021 – 8.9%;
2021-2022 – 4.8%

Other Funds

The only major changes to other funds in the District were to building funds. Staff is adjusting income and expenditure budgets as contracts are encumbered and finished with respect to the Blue Oak Elementary Modernization Project. Total expenditures are expected to both increase and decrease as the district moves through its various projects.

Conclusion

The Second Interim Report is an important document in the District's ongoing communications to its stakeholders. The report and certification provide accountability and evidence of stewardship to our community. The Buckeye Union School District certifies the District's financial position is positive; the District will meet its financial obligations in the current and subsequent two fiscal years.