

PIEDMONT UNIFIED SCHOOL DISTRICT

M E M O R A N D U M

TO: Board of Education

FROM: Randall Booker, Superintendent
Song Chin-Bendib, Assistant Superintendent, Business Services
Michelle Nguyen, Director of Fiscal Services

DATE: June 27, 2018

RE: **CONDUCT FINAL PUBLIC HEARING ON THE 2018-19 DISTRICT GENERAL FUND BUDGET AND ALL OTHER BUDGETS OPERATED BY THE DISTRICT; APPROVE 2018-19 BUDGET AND ADOPT RESOLUTION 16-2017-18 “AUTHORIZING BUDGET TRANSFERS FOR THE 2018-19 SCHOOL YEAR” AND ADOPT RESOLUTION 17-2017-18 “AUTHORIZING YEAR-END BUDGET TRANSFERS FOLLOWING THE CLOSE OF THE DISTRICT’S LEDGERS FOR THE 2017-18 SCHOOL YEAR”**

I. SUPPORT INFORMATION

Districts are required to adopt their budgets prior to June 30 of each year for the next fiscal year whether or not the State has adopted its Budget. With the introduction of the Local Control Accountability Plan (LCAP), Governing Boards must hold at least one public hearing to solicit recommendations and comments from the public prior to adoption of the District’s LCAP. Per Education Code (EC 42127 and 52062), the public hearing must take place in advance of, and at a meeting separate from, the Board meeting to adopt the LCAP and the District’s Adopted Budget for FY 2018-19. The Piedmont Unified School District held its first public hearing on June 13, 2018.

The 2018-19 Adopted Budget and LCAP are now presented, inclusive of updates, based on public input and Board direction. The Adopted Budget includes the expenditures as reflected in the LCAP. Staff will submit all required documentation to the Alameda County Office of Education (ACOE) by the statutory deadline of July 1, 2018.

Attached is the background information about revenue, expenditures, and enrollment projections. For each fund operated by the District, there is a “user friendly” excel summary sheet that lists the current year projected ending fund balance and the recommended 2018-19 budget. Also, included is a multi-year projection for the General Fund. Under separate attachment is the budget information with details in the Standardized Account Code Structure (SACS) format as required by the State and County.

The Governor’s May Revision

On May 11, Governor Brown released his May Revision. The May Revision includes an assessment of the 2017-18 State receipts as well as projections for 2018-19. Given the Proposition 98 tests that are in play, although the May Revision revenue forecast

through 2018-19 is increased by \$8 billion, as expected, the impact to the Proposition 98 minimum guarantee is minor.

The revised 2018-19 State Budget includes Proposition 98 funding of \$78.4 billion for 2018-19, practically unchanged from January's proposal of \$78.3 billion. The Governor's intent of fully funding the Local Control Funding Formula (LCFF), the sixth year after its implementation will have an increase of approximately \$3.2 billion, up almost \$320 million from the January State Budget proposal. This brings implementation of the LCFF to 100% implemented (two years ahead of schedule) and reflects the increased statutory cost-of-living adjustment of 2.71% in 2018-19. The Governor added 0.29% to the LCFF funding for a total increase of 3.0% COLA.

With 100% of the LCFF implemented by 2018-19, the increased revenue year over year is getting slimmer. For Piedmont USD, the increase in LCFF dollars for 2018-19 is \$663,688, however, the projected cost increases in CalSTRS and CalPERS are \$486,929. The balance of the increased LCFF revenue is not enough to cover the annual step and column movements (Certificated and Classified) which are estimated at \$362,702 and other increased operation costs due to inflation.

The Governor's May Revision included an additional \$286 million in one-time discretionary funds. Like prior years, these funds offset local educational agencies' (LEAs) outstanding mandate debt to \$972 million. The impact to Piedmont USD is an additional \$124,359 from the January Budget Proposal. Per School Services of California (SSC), with Senate Democrats eyeing \$1 billion for the LCFF from the Governor's discretionary one-time funding proposal, there is great uncertainty of these funds. However, the District proceeded with including these funds in its 2018-19 Adoption Budget.

At the preparation of the Piedmont USD Adopted Budget, the Governor has not signed the 2018-19 State Budget into law yet, thus, our budget assumptions are based on the Governor's May Revision.

The Governor's Budget, unfunded CalSTRS Liability, CalPERS contributions, and PUSD reserves

The Piedmont Unified School District 2018-19 Adopted Budget reflects the Governor's May Revise data. The Adoption Budget contains the increase in LCFF revenue but correspondingly shows the increase in California State Teachers Retirement System (CalSTRS) and California Public Employees Retirement System (CalPERS) costs as well. A continuing challenge for District multi-year budget planning purposes is addressing the CalSTRS and CalPERS unfunded liabilities with increased employer contributions.

This continuing challenge, perhaps dire outlook, is a common phenomenon for most school districts throughout the State of California.

In his May Revise, the Governor did not address the issue of CalSTRS and CalPERS cost relief. This immense challenge faced by school districts is now part of the budget process until year 2020-21.

A summary of the Employer Contribution rates for CalSTRS and CalPERS is as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
2013-14	8.25%	11.417%
2014-15	8.88%	11.771%
2015-16	10.73%	11.847%
2016-17	12.58%	13.888%
2017-18	14.43%	15.531%
2018-19	16.28%	18.062%
2019-20	18.13%	20.8%
2020-21	19.10%	23.5%

In addition to CalSTRS and CalPERS cost increases, there is also a Reserve cap requirement which would be triggered by the “Rainy Day Fund” where the state makes a deposit into the Proposition 98 portion of the “Rainy Day Fund”. Senate Bill 751 modifies the reserve cap from a combined assigned and unassigned ending fund balances based on the size of the district to a “combined assigned or unassigned ending fund balance, in the General Fund (01) and the Special Reserve Fund for Other Than Capital Outlay (17), of 10% of those funds for all districts”. SB 751 takes effect on January 1, 2018.

One of the conditions for the state to deposit into the Proposition 98 “Rainy Day Fund” is that the minimum guarantee is determined by Test 1. The May Revision states that the operative test for 2018-19 is Test 2. Therefore, school districts are not required to comply with the reserve cap for 2018-19.

However, school districts are required to substantiate the need for an “assigned or unassigned ending fund balance” above the required minimum reserve. As part of the Public Hearing, staff states the amounts above the 3% reserve in 2018-19 are needed to maintain required reserve at subsequent fiscal years.

The Local Control Accountability Plan (LCAP)

The LCAP represents a fundamental shift in how Local Educational Agencies (LEAs) plan for – and are held accountable for – LCFF funding for all pupils in the District. Accordingly, the District budget must align with identified needs for 2018-19 and reflect LCFF funding and structures. The District LCAP template is intended to guide expenditure plans according to locally defined goals and actions for all students, with particular emphasis on English learner, low income and foster youth pupils. Further, the District’s LCAP must demonstrate how services are provided to meet the needs and improve the performance of all pupils. The District’s 2018-19 Adopted Budget has incorporated expenditures necessary to implement the LCAP goals, actions, and services.

The General Fund

The General Fund is the most significant of the funds managed by the District because it represents the day-to-day operations of the District. It is the only fund that is not entirely restricted as to expenditures of funds received from all sources.

Included are excel charts that depict the General Fund sources of revenue and expenditures for the current fiscal year (2017-18), 2018-19 Adopted Budget & the multi-year projections for 2019-20 and 2020-21, enrollment projections, and all other fund budgets. The summary forms recap the information that is included in the Standardized Account Code Structure (SACS) format which is required by the State and the County Office.

The General Fund includes all Federal, State and locally funded programs such as those funded by the Parcel Tax and Parent Education Foundation (PEF). All income and expenditures are projected, based on the assumptions listed.

ASSUMPTIONS FOR 2018-19 ADOPTED BUDGET:

General:

- Programs included as essential by the PUSD Board of Education for Piedmont students' educational experience are maintained within the 2018-19 Budget.
- LCFF information is based on the 2018 May Revise
- A new collective bargaining agreement (CBA) with the Association of Piedmont Teachers (APT) has been voted by the APT members and approved by the Board on June 13, 2018. A 3% salary increase in the 2018-19 school year has been incorporated into the 2018-19 Adopted Budget.
- Maintain minimum 3% reserve requirement with reserves held for use in subsequent years
- The State is projecting a 2.71% statutory Cost of Living Adjustments (COLAs) and additional LCFF funding for a total of 3.0% for 2018-19, 2.57% COLAs for 2019-20 and 2.67 % for 2020-21. All have been incorporated into the District's multi-year projections.
- The Fiscal Crisis and Management Assistance Team (FCMAT) LCFF calculator with DOF Gap Funding Rates continues to be used to provide multi-year projections. Gap Funding rate is 100% for the budget and subsequent fiscal years due to fully funding of LCFF by the state.
- The District has been able to maintain its educational program for students through the generous support of the Piedmont community through the School Support Tax and additional donations and contributions from parent clubs and the Piedmont Education Foundation (PEF).
- Funds raised by the Piedmont Education Foundation (\$2,708,421) and Parent Clubs/Support Groups (\$303,770) to support programs remain an integral part of the District's budget. These funds are \$276k or a 10% increase over last year.
- The Budget Advisory Committee consisting of representatives from all stakeholders in the District meets regularly to discuss the District Budget and provide recommendations to the Board of Education in the budget development process. The BAC members also report information on the budget back to their constituent groups.

Revenues:

- Parcel Tax support has been an essential component of the District's revenue for the maintenance of programs for students. It has grown from being approximately 11% of the District's total revenue in 1985 to 26% in 2018-19 from Measure A as approved by voters in March, 2013 for eight years (expires June 30, 2021).

- Parcel tax revenue of \$10,414,490 , an increase of 2% or \$204,206 from 2017-18
- District enrollment is projected at 2,623, 69 students fewer than 2017-18; the 2017-18 P-2 ADA of 2,537.93 has been applied to the LCFF base for 2018-19 unless the 2018-19 P-2 ADA is higher and that will not be known until April 2019.
- The Piedmont Educational Foundation Endowment Fund support is provided at \$290,000.
- Contribution of \$40,500 by the Booster to pay for the Athletics trainer.

Expenditures:

- Reduction of \$687k in personnel costs due to declining enrollment, attrition and program needs
 - 4.30 FTEs from Certificated
 - 7.43 FTEs from Classified
- Reduction of \$53,000 in contract services
- Transfers \$20k from the General Fund to the Deferred Maintenance Fund
- Maintains the transfer of \$30k from the General Fund to the Capital Facilities Fund which comprises the capital direct cost portion of rental fees per Civic Center Act plus additional revenues

Revenues: 2019-20

- Projected enrollment of 2,580 and ADA of 2,537.93 (higher of current or prior fiscal year)
- Parcel tax revenue increase of 2%/\$208,289 at \$10,622,779
- Transfer in of the Parcel Tax reserve of \$196,763 including interest earnings, from Fund 17 to the General Fund (this reserve was from the 2015-16 2% increase)
- PEF and other parent club donations at the same level as in 2018-19
- LCFF Gap Funding rate as provided by the DOF
- Minimum Reserve is over by \$12,904 to be applied toward 2020-21 Fund Balance

Expenditures: 2019-20

- Includes step & column increases of 1.5% for certificated and classified salaries (\$280k/\$89k)
- Maintains transfer from the General Fund to the Deferred Maintenance Fund at \$20k
- Maintains the transfer of \$30k from the General Fund to the Capital Facilities Fund which comprises the capital direct cost portion of rental fees per Civic Center Act plus additional revenues
- A reduction of \$50,000 each in “Books and Supplies” and “Services/Operating Expenditures” has been included in the multi-year projections (MYP)

Revenues: 2020-21

- Projected enrollment of 2,553 and ADA of 2,495.38
- Parcel tax revenue increase of 2%/\$212,456 at \$10,835,235
- PEF and other parent club donations at the same level as in 2019-20

- LCFF Gap Funding rate as provided by the DOF
- Minimum reserve at \$750,496 or 1.81%, 1.19%/\$490,692 short of the 3% Reserve requirement

Expenditures: 2020-21

- Includes step & column increases of 1.5% for certificated and classified salaries (\$284k/90k)
- Maintains transfer from the General Fund to the Deferred Maintenance Fund at \$20k
- Maintains the transfer of \$30k from the General Fund to the Capital Facilities Fund which comprises the capital direct cost portion of rental fees per Civic Center Act plus additional revenues
- A reduction of \$50,000 each in “Books and Supplies” and “Services/Operating Expenditures” has been included in the multi-year projections (MYP)
- Additional \$490,692 budget reductions are needed to meet the 3% Reserve requirement

II. RECOMMENDATION: ACTION

Conduct final public hearing on the District General Fund budget for 2018-19 and all other budgets operated by the District; approve 2018-19 Budget and adopt Resolution 16-2017-18 “Authorizing budget transfers for the 2018-19 school year” and adopt Resolution 17-2017-18 “Authorizing year-end budget transfers following the close of the District’s ledgers for the 2017-18 school year”.

Budget: Under Separate Cover