

Date: 12/11/2020
Memo to: Ken Geisick, Superintendent
From: Jean Aldrete, Chief Business Officer
Subject: 2020-21 Second Interim Report

Introduction:

The impact of COVID-19 on the overall economy has been significant for some across California. Many counties have returned to the purple tier and COVID-19 cases have been on the rise as winter arrives. Last June, Governor Newsom implemented a 10% reduction in state funding for K-12 school districts, which included an elimination of the Cost of Living Adjustment (COLA) of 2.31% and a 7.92% reduction in Proposition 98 school funding. As a Basic Aid district (community funded), Saratoga USD is not reliant on state funding and the projected reduction in funding did not materialize for Basic Aid school districts. Based on property taxes received to date and projections by the Santa Clara County Assessor's Office, the district has not seen a significant decline in property taxes and receipts have been relatively stable. The district also received federal and state funding under the CARES Act, which helped offset the costs of the distance learning program, sanitizing equipment, and COVID-19 supplies. By the end of the calendar year the district will have depleted funds received under the CARES Act and additional COVID-19 related expenses will require additional General Fund support.

This First Interim Report represents our district's financial activities from the beginning of the fiscal year 2020-21 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 First Interim period as well as for the two out-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 \$36,016,411. Compared to the 2020-21 Adopted Budget, revenue has increased by approximately \$1.4 million. This increase is due to a combination of increases in tax revenues of \$387,520, federal carryover funds for Title III and Title IV of \$5,886, CARES Act funds of \$646K, various miscellaneous site donations and one-time revenues and site carryover of \$151K.

Property tax revenues: The district will remain in community-funded status for 2020-21 and two subsequent years. Based on the latest real property roll as of November 6, 2020 by the Santa Clara County Assessor's Office, the percent growth rate was 3.07% 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 2%.

The net roll corrections for 2020-21 is estimated at \$55 million throughout the county. Assessed Roll projections for 2021-22 will take place in January 2021 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 1% at this time per the Assessor's Office. Taking this into consideration, reviewing the trends in assessed value, 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 2020-21 First Interim includes the following tax revenue growth rates for the current and two subsequent fiscal years:

| | |
|---------|-------|
| 2019-20 | 3.07% |
| 2020-21 | 2.00% |
| 2021-22 | 2.00% |

Expenditures: General Fund combined expenditures are projected to be at \$34,689,750, which is an increase of \$235,886 compared to the 2020-21 Adopted Budget. The increase can be attributed to an increase in expenses for the CARES Act funds received and increases in transfers out to the Basic Aid Reserve Fund per board policy, Child Nutrition and Child Care Funds. A decrease in expected expenses has occurred due to unfilled positions as schools have remained closed for on-campus instruction such as library media techs, custodians, a Dean at Redwood Middle School, crossing guards, noon duty and reduced costs for substitutes. Additional savings occurred due to a delay in filling school secretary positions at the elementary sites that have been recently filled.

Contributions to Restricted Programs are as follows:

| | |
|---------------------------------|---------------------|
| Routine Restricted Maintenance: | \$ 1,486,980 |
| Special Education | \$ 4,658,412 |
| New Teacher Support Project | \$ 15,600 |
| After-School Sports | \$ 8,000 |
| After-School Music | \$ 9,568 |
| Student-to-Student Conference | \$ 2,000 |
| Total | \$ 6,180,560 |

Staffing

Compared to the Adopted Budget, following are some of the changes to staffing as of October 31, 2012:

- The Adopted Budget 2020-21 Certificated FTE counts were based on the first release

of the teaching assignment list by Human Resources in April 2020. Compared to last fiscal year, four Certificated staff (teachers) were not replaced due to attrition and declining enrollment. The additional difference is due to some slight changes in employee hours.

- Compared to last fiscal year Classified positions decreased by 8.0 FTE mainly due to temporary vacancies in custodial staff and Treehouse activity leaders due to school campus closures. Classified Management decreased by 1.0 FTE due to temporary vacancy of a Dean position at Redwood Middle School that will not be filled while the school is closed.

The costs for the above listed positions have been reflected in 2020-21 and the two subsequent years.

Full Time Equivalent

| FTEs | 2020-21 Adopted | 2020-21 1st Interim | 2021-22 SY | 2022-23 SY |
|----------------------------|--------------------|------------------------|---------------|---------------|
| Certificated | 108.43 | 108.17 | 108.17 | 108.17 |
| Certificated Management | 8 | 8 | 9 | 9 |
| Classified | 72.6 | 69 | 69 | 69 |
| Classified Management | 4 | 4 | 4 | 4 |
| Confidential | 6 | 6 | 6 | 6 |

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) have not yet settled negotiations for the 2020-21 fiscal year and have recently re-started negotiations in November 2020. A 1.5% step-and-column increase is assumed for all existing employees for the two subsequent years of approximately \$276K per year. No additional salary increases were included in the two subsequent fiscal years.
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- Health and Welfare -
 - The cost sharing between the District and Certificated, Confidential and Management employees for 2020-21 remains a 90% and 10% split.
 - The Health and Welfare benefit is capped at Kaiser family rate for 2020-21 and two subsequent years for classified, non-management staff.

| | 2019-20 | 2020-21 | 2021-22 (1 st Subsequent Year) | 2022-23 (2 nd Subsequent Year) |
|---------------------------------|---|---|---|---|
| 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 for the District | \$3,465,879 | \$3,581,711 | \$3,939,882 | \$4,333,870 |

Utilities

The percent increase for electricity, gas, phone, water, garbage is assumed at \$733K for 2020-21 and an increase of 10% is assumed for the 2021-22 and 2022-23 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 2030. 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 2020-21 is as follows:

| Fund – Cost Center | Description | 2019-20 | 2020-21 |
|--------------------|---------------------------------|-----------|-----------|
| 040-001810 | Parcel Tax Funded FTEs | \$375,030 | \$287,539 |
| 040-001830 | Teacher Leadership Compensation | \$42,011 | \$82,461 |
| 040-002130 | Curriculum Development | \$29,792 | \$39,500 |

| | | | |
|---------------|--------------------------|------------------|------------------|
| 040-007800 | Site Based Technology | \$28,177 | \$65,500 |
| Total: | | \$475,010 | \$475,000 |

Saratoga Education Foundation

Saratoga Education Foundation (SEF) carryover revenues of \$89,275 were available for programs in the current year. In January 2021, SEF is anticipating a donation sufficient to meet program expenses in the current year. The expenditure plan below has allocated \$653,376 for various needs. The 2020-21 budget includes COLA and step and column increases. The 2020-21 and 2021-22 budgets include step-and-column of 1.5% increases. Several changes were made this year in the SEF programs as follows:

- The Art program at Redwood Middle School has been suspended during the school closure.
- The Music Program for TK-3 is now through Rhythm and Moves.
- A full FTE has been moved from the Music Program in TK-3 to support the upper grade Music Program at the elementary schools.
- Project Lead the Way (PLTW) staff has been partially reallocated to support the Distance Learning Program during the school closure and will be paid from CARES Act funds instead of SEF in the current year only.

| Fund – Cost Center | Program | 2019-20 | 2020-21 |
|-------------------------|------------------------------|------------------|------------------|
| 060-095710 | Physical Education K-5 | \$126,192 | \$121,800 |
| 060-095713 | Science Lab Aides K-5 | \$ 74,776 | \$ 63,883 |
| 060-095715 | Art Program 6-8 | \$ 15,919 | \$ - |
| 060-095721 | Music Program TK-3 | \$148,822 | \$20,800 |
| 060-095722 | Music Program 4-5 | \$ 59,395 | \$123,503 |
| 060-095723 | Instructional Media Spec 3-5 | \$162,876 | \$172,045 |
| 060-045724 | Art Program TK-5 | \$ 52,866 | \$ 55,530 |
| 060-095727 | PLTW/Makerspace | \$157,404 | \$ 95,815 |
| Total Estimates: | | \$798,251 | \$653,376 |

PERS

The PERS contribution rates for employer since 2014-15 are as follows:

| | |
|---------|---------|
| 2014-15 | 8.88% |
| 2015-16 | 10.73% |
| 2016-17 | 12.58% |
| 2017-18 | 14.43% |
| 2018-19 | 18.06% |
| 2019-20 | 19.721% |
| 2020-21 | 20.70% |
| 2021-22 | 23.00% |
| 2022-23 | 26.30% |

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:

| | |
|---------|---------|
| 2014-15 | 11.771% |
| 2015-16 | 11.847% |
| 2016-17 | 13.888% |
| 2017-18 | 15.531% |
| 2018-19 | 16.28% |
| 2019-20 | 17.10% |
| 2020-21 | 16.15% |
| 2021-22 | 16.00% |
| 2022-23 | 18.10% |

Technology

Cost Center 7600, the Technology Replacement budget for 2020-21, is estimated at \$297,755. The Technology Operating Budget is in Cost Center 7700 and is estimated at \$877,597. 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 2019-20, 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. Therefore, you will see the deficit spending swings between the 2019-20 Unaudited Actuals and the 2020-21 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 has been contributing \$400,000 to the Deferred Maintenance Fund for 2019-20 and two subsequent years.
- COVID19 expenses of \$250,000 are included in the General Fund to support needs beyond those funded by the CARES Act.
- The reserve cap was amended by SB 751 and signed by Governor Brown on October 11, 2017. It took effect on January 1, 2018. However, it exempts basic aid school districts

and districts with fewer than 2,501 average daily attendance from the reserve cap requirement. SUSD meets both criteria.

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: \$300,000 has been assigned in the fund balance reserves for maintenance and other projects that will include painting of the schools and other major repairs.
- Technology Plan - \$250,000 for anticipated expenditures to be incurred per the Educational Technology Plan above the current level of expenditures.
- K-8 Textbook Adoptions and Staff Development - \$1,000,000 for expected K-8 textbook adoptions, supplemental materials, and related staff development and curriculum support over the next three fiscal years.
- Supplemental Early Retirement Plan - \$1,303,616 for debt payments for the next four years.

Budget Concerns:

- Employee Compensation: There is no cost of living adjustment built into salaries in the current or two subsequent fiscal years.

Available Reserves:

| | 2020-21 | 2021-22 | 2022-23 |
|--|-------------|-------------|-------------|
| General Fund Reserve for Economic Uncertainties – 3% Mandated | \$1,040,645 | \$1,036,031 | \$1,082,666 |
| General Fund Undesignated/Unappropriated Amount | \$2,365,757 | \$3,938,059 | \$4,199,448 |
| Special Reserve Fund | \$3,254,748 | \$3,750,566 | \$4,883,262 |
| Available Reserve % | 19.20% | 25.26% | 28.17% |

Summary:

The Second 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 2021-22 and 2022-23.

Based on the financial information presented, it is recommended that the Board of Trustees approve the First Interim Report for 2020-21 with a Positive Certification.