

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 28, 2017

SUBJECT: CONDUCT PUBLIC HEARING ON THE 2017-18 DISTRICT GENERAL FUND BUDGET AND ALL OTHER BUDGETS OPERATED BY THE DISTRICT; ADOPT RESOLUTION 17-2016-17 “AUTHORIZING YEAR-END BUDGET TRANSFERS FOLLOWING THE CLOSE OF THE DISTRICT’S LEDGERS FOR THE 2016-17 SCHOOL YEAR” AND ADOPT RESOLUTION 18-2016-17 “AUTHORIZING BUDGET TRANSFERS 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 2017-18. The Piedmont Unified School District held its first public hearing on June 14, 2017.

The Adopted Budget and LCAP are now presented, inclusive of updates, and as amended, 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, 2017.

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 2017-18 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 12, Governor Brown released his May Revision. The May Revision includes an assessment of the 2016-17 State receipts as well as projections for 2017-18. Bucking expectations built on year-to-date lackluster revenue collections, Governor Jerry Brown's revision to his 2017-18 State Budget proposal reflected a modestly improved fiscal outlook compared to his January State Budget proposal.

Reflecting this modest improvement, the Proposition 98 guarantee increased slightly in the 2017-18 budget year by \$1.1 billion to \$74.6 billion. The May Revision proposes to fully eliminate the current-year, one-time deferral that was proposed at the January State Budget.

Local Control Funding Formula (LCFF), the fifth year after its implementation will have \$1.4 billion, an additional \$661 million on top of the \$770 million proposed in January. This brings implementation of the LCFF to 97% implemented and reflects the increased cost-of-living adjustment in 2017-18 of 1.56%.

With 97% of the LCFF implemented by 2017-18, the increased revenue year over year is getting slimmer. For Piedmont USD, the increase in LCFF dollars for 2017-18 is \$393,902, yet the projected cost increases in CalSTRS and CalPERS are \$428,485. The increased LCFF revenue is not enough to cover increased pension costs let alone the annual step and column movements (Certificated and Classified) which are estimated at \$357,059 and other increased operation costs due to inflation.

The Governor's May Revision included an additional \$750 million in one-time discretionary funds. Like prior years, these funds offset local educational agencies' (LEAs) outstanding mandate claims. However, for 2017-18, these funds come with a catch: they are not scheduled to be disbursed until **May 2019**. The Governor's intent of holding onto the funds is to ensure that Proposition 98 is not over appropriated as a result of lower-than-expected revenues in the 2017-18 fiscal year. As a result of the lack of receipt in the 2017-18 fiscal year, and some uncertainty around receipt during the 2018-19 fiscal year, School Services of California, Inc., (SSC) is recommending that LEAs exclude this revenue from their upcoming budget, as well as their multiyear projection. The loss to Piedmont USD of this one-time money is \$444,327.

At the preparation of the Piedmont USD Adopted Budget, the Governor has not signed the 2017-18 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 2017-18 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 issues of CalSTRS and CalPERS cost relief and repeal of the reserve cap. These challenges faced by school districts are 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%	18.1%
2019-20	18.13%	20.8%
2020-21	19.10%	23.8%

Reserve cap would be triggered by the “Rainy Day Fund” in which the state makes a deposit into the Proposition 98 portion of the “Rainy Day Fund”. In the year following a deposit, school districts would not be able to have reserves more than twice the minimum required by state regulation, which for the Piedmont Unified School District would amount to 6 percent (twice the 3% minimum).

However, based on the Governor’s proposal for 2017-18, Proposition 98 funding will be based on Test 3, and therefore will not trigger the hard cap reserve to happen. In addition, the May Revision estimates that \$543 million in maintenance factor (another condition for the reserve cap to be triggered) will remain outstanding at the close of 2016-17 fiscal year.

As a result of the two conditions above, school districts including Piedmont USD will propose its 2017-18 budget reserve conditions as in the past, without any necessary actions to reduce the reserves below prudent levels.

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 2017-18 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 2017-18 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 2017-18 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 (2016-17), 2017-18 Adopted Budget & the multi-year projections for 2018-19 and 2019-20, 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 2017-18 ADOPTED BUDGET:

General:

- Programs included as essential by the PUSD Board of Education for Piedmont students’ educational experience are maintained within the 2017-18 Budget.
- LCFF information is based on the 2017 May Revise
- A new collective bargaining agreement (CBA) with the Association of Piedmont Teachers (APT) has been voted by the APT members and

approving by the Board on June 28, 2017. No salary increase in the 2017-18 school year. Additional stipends amounted to \$9,441 inclusive of salary-driven costs are included in the 2017-18 budget.

- Maintain minimum 3% reserve requirement with reserves held for use in subsequent years
- The State is projecting a 1.56% Cost of Living Adjustments (COLAs) for 2017-18, 2.15% COLAs for 2018-19 and 2.35% for 2019-20. 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 rates applied are as follows:

2017-18	43.97%
2018-19	71.53%
2019-20	73.51%

SSC has provided much lower Gap Funding Rates but the District has been applying DOF rates per the FCMAT LCFF calculator since the inception of LCFF in 2013-14. Thus, the District will continue with the DOF Gap Funding Rates.

- 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 (\$2,399,940) and Parent Clubs/Support Groups (\$336,007) to support programs remain an integral part of the District's budget.
- 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 2017-18 from Measure A as approved by voters in March, 2013 for eight years (expires June 30, 2021).
- Parcel tax revenue of \$10,190,785 , an increase of 2% or \$199,819 from 2016-17
- Transfer in of the Parcel Tax reserve of \$193,588 from Fund 17 to the General Fund (this reserve was from the 2015-16 2% increase)
- District enrollment is projected to be 7 more students than 2016-17 (2,697 in 2016-17 vs. 2,704 in 2017-18); the 2016-17 P-2 ADA of 2,613.69 has been applied to the LCFF base for 2017-18 unless the 2017-18 P-2 ADA is higher and that will not be known until April 2018.

- The Piedmont Educational Foundation Endowment Fund support is provided at \$290,000.

Expenditures:

- Reduction of \$200k includes:
 - 90% (.90 FTE) of the Director of Alternative (16%), Adult Education (55%) and Program Coordinator of Bond (29%) to 100% (1.0 FTE) to Program Coordinator of Bond;
 - 60% General Fund/40% Deferred Maintenance of the Director of Facilities to 80% Bond/20% General Fund as the Construction Manager & Director of Facilities;
 - Communications contract from 100% for part of 2016-17 to 40% General Fund/60% Bond
 - 100% General Fund Millennium High School Principal to 60% General Fund as MHS Principal and 40% Adult Ed as Adult Education Principal
 - Special Education contract realignments
- Includes actual step and column increases
- Reduces transfer from the General Fund to the Deferred Maintenance Fund by \$170k, from \$190k to \$20k
- Maintains the transfer of \$50k 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: 2018-19

- Projected enrollment of 2,705 and ADA of 2,613.69
- Parcel tax revenue increase of 2%/\$203,816 at \$10,394,601
- PEF and other parent club/support group donations at the same level as in 2017-18
- LCFF Gap Funding rate as provided by the DOF
- Minimum Reserve is short by \$360,796 or at 2.10% of the 3% required Reserve

Expenditures: 2018-19

- Includes steps & column increases of 1.5% for certificated and classified salaries (\$275k/\$87k)
- Reduces transfer from the General Fund to the Deferred Maintenance Fund by \$170k, from \$190k to \$20k
- Maintains the transfer of \$50k 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 total of \$360,796 budget reductions is needed to meet the 3% Reserve requirement
 - A Board Resolution for these budget reductions will be provided on the June 28 Board meeting
- Plan to address budget shortfall: The District will come up with a comprehensive plan to address the budget shortfall prior to the 2017-18 First Interim filing period. This timeline will allow the District to include the final

2017-18 State Budget approved by the Governor which may include one-time funds; final hiring and placements of employees in the Fall; and close of the 2016-17 books. If necessary, the District will look into expenditure reductions in the certificated and classified categories as well.

Revenues: 2019-20

- Projected enrollment of 2,680 and ADA of 2,613.68
- Parcel tax revenue increase of 2%/\$207,892 at \$10,602,493
- PEF and other parent club/support group donations at the same level as in 2018-19
- LCFF Gap Funding rate as provided by the DOF
- Minimum reserve at 1.07% or 1.93%/\$793,205 short of the 3% Reserve requirement

Expenditures: 2019-20

- Includes steps & column increases of 1.5% for certificated and classified salaries (\$279k/89k)
- Reduces transfer from the General Fund to the Deferred Maintenance Fund by \$170k, from \$190k to \$20k
- Maintains the transfer of \$50k 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 total of \$793,205 budget reductions is needed to meet the 3% Reserve requirement
- See above “Plan to address budget shortfall” under 2018-19 which will include options to address budget shortfall

II. RECOMMENDATION: ACTION

Conduct public hearing on the District General Fund budget for 2017-18 and all other budgets operated by the District; adopt Resolution 17-2016-17 “Authorizing year-end budget transfers following the close of the District’s ledgers for the 2016-17 school year” and adopt Resolution 18-2016-17 “Authorizing budget transfers for the 2017-18 school year”.

Budget: Under Separate Cover