

EXECUTIVE SUMMARY

To: Los Gatos Union Board of trustees
From: Terese McNamee, Chief Business Official
CC: Paul Johnson, Superintendent
RE: Adopted Budget Presentation - Fiscal Year 2020-21
Date: June 9, 2020

BUDGET REQUIREMENTS

Adopted Budget is required to be approved by the Board no later than June 15th. Once the budget is approved, the Board reviews two interim projections to monitor and certify the ongoing financial condition of the District.

First interim budget report is required to be approved by the District's Board of Trustees, no later than December 15th.

Second interim budget report is required to be approved by the District's Board of Trustees, no later than March 15th.

GENERAL FUND OVERVIEW:

Revenue: Overall revenue has increased by \$644,033 primarily from the increase in property taxes. In the past, growth in revenue has generally exceeded 5% annually and has occasionally exceeded 10% due to one-time revenue sources. Moving forward, general fund revenue is expected to continue to increase through 20-22 but at a significantly slower pace than in the past due to a slow down on real estate transactions and anticipated decline in assessed business and property tax values. With this in mind, the District is reviewing more stable revenue sources including parcel tax, foundation donations and facilities fees.

- **PROPERTY TAX AND STATE APPORTIONMENT**

- With the anticipated property tax increases, LCFF revenue is expected to increase by 3.18% for a total increase of \$1. Million from 18-19. While this is lower than our recent history, The budget projects a 4 year slow down on property taxes. For 20-21 the 3.18% is derived from the 2% annual increase and an approximate 2% increase for transfer of ownership through January 2020 that we have received from the tax assessors office. This is offset by an approximate 1% decline anticipated from tax appeals and lower values over the next 12 months. Community funded Districts are fortunate, in that their revenues decline more slowly than State funded Districts. Property taxes adjust more slowly than PIT

and sales tax that generate most of the State revenue. While property taxes can swing significantly from projections, our 10 year average increases have been at 5% and seem to additionally justify the current assumptions of 3.18%, 0%, 1.5%, 4% and 5% over the multi year projections.

- The State has proposed a net 10% revenue reduction for State funded Districts. This is also impacting community funded districts through a fair share allocation. As we receive such small State apportionment funding, This reduction has been anticipated in the proposed budget and multi year projections and is totaling less than \$100K cumulative reduction.
- FY20-21 the Property Tax payments may be delayed. The County Assessor operates on a Teeter payment plan, whereby the County pays the assessment in full on the due date regardless of the collections of the taxes. For 20-21 the Governor approved a waiver of all late payment penalties on property taxes. This waiver has caused the County to reconsider whether it will continue to pay the taxes in full on the due date. If the collections are less than 97% the County Board of Trustees can waive the Teeter plan and pay on collections rather than assessed values. We will have a clearer picture in November when the property taxes become due and may need to temporarily borrow in order to meet our cash flow needs. We will present a borrowing resolution in November if needed to help us temporarily bridge the gap in funding.

- **FEDERAL & STATE REVENUE**

- Federal programs including Title I and Title III funds are anticipated to remain relatively flat due to stabilizing enrollment figures.
- Federal CARES act provided two sources of funding for California school districts. The first was allocated on a per ADA basis and LGUSD received approximately \$50K. These funds were used for Covid 19 related expenses including remote learning materials and personal protective equipment. The second source of CARES funding is the Emergency Education Relief Fund. These funds are being allocated according to the Title I allocation and LGUSD is not eligible for these funds and will not receive any allocation.
- Federal Disaster Relief Funds are also available and are anticipated to cover personal protective devices and sanitizing equipment of approximately \$100K.
- State Special Education funding is stable and has the potential to increase in two ways. Through the May Revision, the Governor has proposed additional Special Education funding to raise all Selpas to a minimum of \$645 per student funding. While this is above what we are currently collecting, there is question as to whether this will be in the final approved budget and secondly whether our Selpa will be eligible for the funding. The second potential funding source is from the CARES Stimulus funding. The Governor has discretionary funds, that are being proposed to fund Special Education and unduplicated students across the

State. There is considerable disagreement between the Governor and the State Senate and Assembly and therefore it is not clear whether we will be eligible for any of these funds. Based on this no increase has been budgeted.

- The District did receive two State grants in 18-19 and 19-20 for innovation and professional development of approximately \$250K. These funds are being carried over into 20-21 and will be used to fund additional professional development and materials in the upcoming year. The larger grant is for low performing students and will be used on a one-time basis to fund supplemental materials for struggling students. Generally supplemental materials are selected and purchased by sites using site discretionary funding or HSC funds. However, based on the unique nature of these funds we are anticipating that we will be able to support some materials for a few years until we are able to adopt more permanent curriculum.
- State Lottery and the Education Protection Account funds are decreasing slightly due to declining enrollment. It is also expected over time that Lottery may decrease as the economy worsens. During the last recession Lottery revenue dropped by nearly 50%. This has not been calculated in the long term projections but may impact both technology and curriculum funding in the future. The Education Protection Account funds are a temporary State sales tax that provides additional funding for K-14 schools. The revenue generated from these funds are separated from general funds and the spending plan must be approved by the governing board during a public meeting and is prohibited from being used for the salaries or benefits of administrators or any other administrative costs. Below is the proposed use of the 2020-21 EPA funds.

Education Protection Account (EPA) Adopted Budget Fiscal Year Ending June 30, 2021
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REVENUE	
Estimated EPA Revenue	\$ 625,271
EXPENSE	
Certificated Instructional Salaries & Benefits	\$ 625,271
TOTAL	\$ 625,271

- LOCAL REVENUE

- H&SC grants continue to provide over \$1M of annual income to the sites. These funds are used to pay for student computers, teacher grants, office supplies, professional development and wish list items. H&SC grants are restricted for school use and are fully budgeted to be expensed each year regardless of whether there are carry over funds. H&SC is anticipating to fully fund a flat budget for the upcoming years by implementing a one-ask campaign, utilizing reserves and increasing participation. Regardless of any changes in grant revenue, the income and expense net to zero in the District budget and will not have an impact on the overall District budget if revenue varies slightly over the next few years.
- Foundation grant has increased by \$25K for a total grant of \$925K. The foundation had a very successful year in 19-20 and has agreed to expand their efforts and their grant to the District with a long-term objective of fully funding the positions that are outlined in the strategic plan while maintaining their funding for current positions. Currently they support Art, Counseling, Health Clerks, Library, Literacy, Math, MS Electives, Music, Noontime Sports and PE. With their current donation they are only able to support about 50%. For FY 20-21, they are increasing their grant by \$25K to fund opportunity grants for teacher projects. In addition, the Foundation applied for a grant through El Camino Hospital to fund additional counselors for the District. We anticipate hearing about the grant in June and have not budgeted for the revenue or expenses until we hear about the grant. Long term the foundation is looking to partner with the H&SC in the one-ask campaign. Joining forces to prioritize both site and District wide strategic objectives. In this campaign the Foundation hopes to raise additional funds to support the strategic plan.
- Community Reinvestment Funding (RDA). These funds were originally property taxes that were used for Redevelopment purposes and have been redirected to the local agencies that should have received the original property taxes. By law, 57% of these funds are restricted for facilities use and 43% are unrestricted for discretionary purposes. However, Los Gatos negotiated a more restrictive agreement with the Redevelopment Agency of Los Gatos that restricts 100% of these funds for facilities purposes. This equates to \$2.53M of which over \$1M is being additionally restricted because of this agreement. We are working with the County to determine whether the agreement can be renegotiated and anticipate some resolution over the 20-21 fiscal year.

Expenses: Expenses continue to grow faster than our current revenue creating an ongoing deficit of \$29K in 20-21 and dramatically increasing over \$2M+in subsequent years. Prior to this recession, we have been able to address these deficits by limiting expense growth in controllable areas like supplies and contracts and reviewing

enrollment and staffing decisions judiciously. Overall we are running efficiently and have robust program offerings. Without a renewed parcel tax in 2022, The District would have difficulty maintaining these programs and would need to consider dramatic cuts in expenses in order to maintain the required minimum reserves long term. Currently we are holding expenses steady unless there is an assigned revenue source to fund changes.

- **SALARIES & BENEFITS**

- Salary includes a 2% COLA adjustment in addition to the 1.5% for contracted step and column increases. This reflects the District's prioritization of supporting and retaining high caliber staff through an annual salary COLA. The current projections show this across 20-21 and 21-22 and minimized in 22 and beyond in order to address the parcel tax expiration. These projections are placeholders only, and the final adjustments are subject to negotiations and board approval and will be reviewed within the context of the changing economic environment.
- Custodial priorities have been evaluated in light of the new requirements to maintain small groups and clean in between any changes of students and cleaning of high contact areas. In order to address these concerns, we are moving all of our custodial staff to day time positions starting in 20-21. We do not anticipate needing additional staff to cover our needs, but believe having all of our staffing on hand during the hours that teachers and students are present, we give us more ability to clean these high touch areas and maintain a safe environment during any changes of students and staff. This change will
- Benefits have been increasing substantially over the past five years primarily from the 2% adjustment from PERS and STRS retirement programs. Both the governor and the legislature are proposing relief budget solutions to buy down the pension costs for 20-21 and 21-22. While these adjustments do not prevent future costs increases that are anticipated beginning in 21-22, it does delay the cumulative impact for an additional 2 years. This also provides some immediate budgetary relief during our planning year to help us determine which expenses can be adjusted to support these additional salary and benefit expenses long term.

- **BOOKS & SUPPLIES**

- Books and supplies overall have decreased by \$300K from the 19-20 budget. This is primarily associated with the deferred adoption of the science curriculum. 19-20 had anticipated that the K-8 science curriculum would be adopted. The pilot has been successful and we anticipate purchasing the materials in 20-21 so the budgeted \$550K of funds will be set aside from reserves to allow the purchase to happen in 20-21.
- Additionally, under books and supplies the District has budgeted to purchase new teacher laptops in order to replace the current devices that

are at the end of their useful lives and not able to utilize some of the software tools that we are using for distance learning. This has been budgeted annually and will continue with a portion of all devices being retired each summer.

- To also highlight, the District is planning on spending additional funding from FEMA to purchase PPE, protective furniture dividers to support social distancing and sanitation equipment to help our existing staff better handle the additional sanitation needs under the new requirements.

- **SERVICES**

- Overall services have decreased by over \$200K. This is primarily from the completion of one time lighting efficiency upgrades in 19-20 that are not anticipated to continue in 20-21. Contracted services also includes expenses such as maintenance contracts & repairs, utilities, insurance, professional development and transportation that generally increase 5%-15% per year. In order to offset these increases, we are continuing to review energy efficiency upgrades including solar retrofits that should help reduce utility costs up to \$100K per year. In addition, the capital improvements and ongoing preventative maintenance have been helping to stabilize our ongoing maintenance repair costs.

- **CAPITAL IMPROVEMENTS**

- Capital improvements are primarily considered through our deferred maintenance plan outlined below. These are funded through Deferred Maintenance Fund and are not considering within the general fund operating expense.

Transfers: Transfers include debt service, deferred maintenance, special education tuition to NPS and transfers to other funds including child nutrition. The main transfers are to child nutrition for \$150K and deferred maintenance of \$550K. Our ongoing objective is to reduce the deficit in child nutrition and have a revised child nutrition program for next year to increase participation in the meal program. This has been put on hold until we are able to determine how the meal program will be able to operate when reopening the campuses. Additionally, the deferred maintenance priorities have been established and have been reviewed quarterly by the facilities subcommittee. With these transfers, we anticipate fully funding the long term needs for deferred maintenance.

Overall expenses have increased by nearly \$600K with revenue increasing to cover these expenses. Despite these increases in revenue, and decreased expenses, long term the District is facing a structural deficit that needs a joint revenue and expense solution to resolve.

MULTI YEAR PROJECTIONS

The District has three key priorities that must be rebalanced annually in order to sustain our high-quality education.

- Program
- Staffing (Including Salaries, Benefits and Class Sizes)
- Reserves

LGUSD Multi Year Projections 20-21 Adopted Budget

	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25
REVENUE	Budget					
PROPERTY TAX %	4.75%	3.18%	0.0%	2%	4%	5%
PROPERTY TAX-LCFF	\$31,640,756	\$32,636,882	\$32,625,947	\$33,091,418	\$34,415,075	\$36,135,828
FEDERAL	\$629,167	\$637,338	\$637,338	\$637,338	\$637,338	\$637,338
OTHER STATE REVENUE	\$2,608,930	\$2,376,694	\$2,426,572	\$2,486,868	\$2,518,713	\$2,659,601
OTHER LOCAL REVENUE	\$3,174,076	\$3,100,711	\$3,093,638	\$3,213,738	\$3,635,732	\$3,635,732
FOUNDATION	\$900,000	\$925,000	\$925,000	\$925,000	\$925,000	\$925,000
H&SC	\$1,244,221	\$1,164,558	\$1,164,558	\$1,164,558	\$1,164,558	\$1,164,558
PARCEL TAX	\$2,750,000	\$2,750,000	\$2,750,000	\$0	\$0	\$0
TRANSFERS IN	\$0	\$0	\$82,073	\$0	\$0	\$0
TOTAL REVENUE	\$42,947,150	\$43,591,183	\$43,705,126	\$41,518,920	\$43,296,416	\$45,158,057
EXPENSES						
COLA % (In addition to Step & Column)	2%	2%	2%	0%	0%	0%
SALARIES	\$25,000,162	\$25,962,347	\$26,871,030	\$27,274,096	\$27,683,203	\$28,652,117
BENEFITS	\$9,579,799	\$9,678,305	\$10,026,002	\$10,382,246	\$10,625,677	\$11,323,739
BOOKS & SUPPLIES	\$2,280,839	\$2,061,440	\$2,546,442	\$2,546,442	\$2,546,445	\$2,546,445
PROFESSIONAL SERVICES	\$5,083,291	\$4,852,221	\$4,663,505	\$4,679,931	\$4,733,316	\$4,794,714
CAPITAL	\$178,053	\$144,540	\$144,540	\$144,540	\$144,539	\$144,539
OTHER OUTGO	\$215,000	\$221,751	\$221,751	\$221,751	\$221,751	\$221,751
TRANSFERS OUT (CAFETERIA AND	\$680,000	\$700,000	\$700,000	\$700,000	\$700,000	\$700,000
TOTAL EXPENSES	\$43,017,144	\$43,620,604	\$45,173,270	\$45,949,006	\$46,654,931	\$48,383,305
REVENUE OVER (UNDER) EXPENSES	-\$69,994	-\$29,421	-\$1,468,144	-\$4,430,086	-\$3,358,515	-\$3,225,248
ENDING BALANCE	\$10,179,622	\$10,150,201	\$8,682,057	\$4,251,971	\$893,456	(\$2,331,792)
RESTRICTED RESERVES (1)	\$1,933,379	\$1,663,674	\$1,698,048	\$1,698,048	\$1,698,048	\$0
ASSIGNED RESERVES	\$632,000	\$832,000	\$100,000	\$100,000	\$100,000	\$0
UNRESTRICTED RESERVES	\$7,614,243	\$7,654,527	\$6,884,009	\$2,453,923	(\$904,592)	(\$2,331,792)

Over the past few years, the District has been able to use increased revenue, both one-time funds and property taxes, to balance these items. In 19-20 the District has adjusted some program expenses including staffing and services to stabilize reserves and maintain program and salaries but is expected to end the next few years with a deficit. With the parcel tax expiring in 2022 the District also faces a substantial financial liability that is not easily addressed through moderate cost cutting.

Reserves:

Education Code Section 42127 (a)(2)(B) requires a statement of the reasons that substantiates the need for assigned and unassigned ending fund balances in excess of the minimum reserve standards for economic uncertainties for each fiscal year identified in the budget.

District: Los Gatos Union School District
 CDS #: 69526
 Date of Public Hearing: 6/9/20

Adopted Budget
 2020-21 Projection Attachment
 Balances in Excess of Minimum Reserve Requirements

Reasons for Assigned and Unassigned Ending Fund Balances in Excess of Minimum Recommended Reserves

Education Code Section 42127(a)(2)(B) requires a statement of the reasons that substantiates the need for assigned and unassigned ending fund balances in excess of the minimum reserve standard for economic uncertainties for each fiscal year identified in the budget.

Combined Assigned and Unassigned/unappropriated Fund Balances		2020-21 Projection	2021-22 Projection	2022-23 Projection
Form	Fund			
01	General Fund/County School Service Fund	\$7,856,486.66	\$6,698,209.66	\$2,715,899.66
	Total Assigned and Unassigned Ending Fund Balances	\$7,856,486.66	\$6,698,209.66	\$2,715,899.66
	District Standard Reserve Level 15%	\$6,543,090.50	\$6,775,990.43	\$6,892,350.90
	Less District Minimum Reserve for Economic Uncertainties 3%	\$1,308,618.10	\$1,355,198.09	\$1,378,470.18
	Remaining Balance to Substantiate Need	\$6,547,868.56	\$5,343,011.57	\$1,337,429.48

Reasons for Fund Balances in Excess of Minimum Reserve for Economic Uncertainties		2020-21 Projection	2021-22 Projection	2022-23 Projection
Form	Fund			
01	General Fund/Teacher Computers	\$132,000.00	\$132,000.00	
01	General Fund/Science Curriculum	\$350,000.00	\$350,000.00	
01	General Fund/Social Studies Curriculum		\$250,000.00	
01	General Fund/Low Incidence Supplemental Materials & PD	\$150,000.00	\$100,000.00	
01	General Fund/Reserve for fluctuation in property taxes	\$5,915,868.56	\$4,511,011.57	
01	General Fund/Reserve for loss of Parcel Tax			\$2,750,000.00
	Total of Substantiated Needs	\$6,547,868.56	\$5,343,011.57	\$2,750,000.00

Balance needed to maintain programs with the State minimum guaranty	\$0.00	\$0.00	(\$1,412,570.52)
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Despite the State requirement of reserving 3% of general fund expenses for economic uncertainty, the District has a policy of maintaining a 15% reserve. The reserve is derived from the difference between the property taxes and the State minimum guarantee. For LGUSD the State guarantee is roughly \$7M annually and is slightly above the 15% board policy. By following this guideline, the District should be able to balance program and teacher retention and have adequate time to respond to this negative economic environment. In addition with the expiring parcel tax, the District has adequate reserves, equivalent to two years of parcel tax, to seek a parcel tax election in advance of the expiration. However, if the election were unsuccessful expenses would need to be substantially reduced.

OTHER FUND BALANCES

The District has a number of other funds that have special funding sources and are used for special purposes. These include the funds and balances outlined below.

- Child Nutrition
- Deferred Maintenance
- Other Reserves
- Developer fees

- Special Capital Reserves

OTHER FUND BALANCES				
OTHER FUNDS	2019-20	2020-21	2021-22	2021-22
Fund 13 Child Nutrition	212	552	(1,229)	29,158
Income	589,319	618,785	649,724	682,210
Transfers In	150,000	150,000	150,000	150,000
Expenses	738,979	770,566	769,337	769,337
ENDING BALANCE	552	(1,229)	29,158	92,032
Fund 14 Deferred Maintenance	1,397,733	1,954,733	2,410,811	2,127,811
Income	7,000	7,000	7,000	7,000
Transfers In	550,000	550,000	550,000	550,000
Transfers Out				
Expenses		100,922	840,000	380,000
ENDING BALANCE	1,954,733	2,410,811	2,127,811	2,304,811
Fund 17 Other Reserves (STRS/PERS)	13,106	14,606	16,106	17,606
Income	1,500	1,500	1,500	1,500
Transfers Out				
ENDING BALANCE	14,606	16,106	17,606	19,106
Fund 25 Developer Fees	443,650	693,650	1,842,650	4,568,650
Income	250,000	1,149,000	2,726,000	2,000,000
Expenses				
ENDING BALANCE	693,650	1,842,650	4,568,650	6,568,650
Fund 40 Special Capital Reserve	2,909,242	2,944,242	2,979,242	3,014,242
Income	35,000	35,000	35,000	35,000
Transfers In				
Expenses				
ENDING BALANCE	2,944,242	2,979,242	3,014,242	3,049,242
Total	\$ 4,763,943	\$ 5,607,783	\$ 7,247,580	\$ 9,757,467

Two of these funds have an impact on operations that should be considered. The main transfers are to child nutrition for \$150K and deferred maintenance of \$550K.

The Child Nutrition fund has been operating at a deficit for a number of years and will take increased participation, higher meal prices and adjusted staffing allocations in order to address the ongoing deficit. The District is working with the Wellness Committee to develop a plan to address and has reached a tentative revised menu and meal plan to improve the participation and meal pricing. This will be reviewed and presented in the fall to the Board for approval.

The District has identified a number of ongoing deferred maintenance items including HVAC, safety, technology infrastructure, playground upgrades, paving and field maintenance. In addition, we anticipate a significant increase in developer fees over the next few years. There are adequate funds between the deferred maintenance funds special capital reserves and developer fees to fully fund our plan.

Los Gatos Union School District Deferred Maintenance Projects (15 Year Projection) Deferred Maintenance - Fund 14								
Priority	1-5 Years	Fisher Middle	Van Meter	Blossom Hill	Daves Avenue	Lexington	District Office	Total
2	Heating and Cooling Systems	\$50,000	\$375,000	60,000	-	-		\$485,000
3	Scrape and Repave Blacktop Playground	\$65,000	45,000	7,500	7,500	-		\$125,000
4	Field Renovations/Irrigation	\$200,000	\$200,000	\$200,000	\$200,000			\$800,000
4	Field Renovations/Artificial Turf		\$800,000	\$800,000	\$800,000			\$2,400,000
3	Tech Infrastructure/AV	\$240,000	\$100,000	\$150,000	\$100,000	30,000	175,000	\$815,000
6	Painting	\$200,000	\$125,000	\$150,000	\$125,000			\$600,000
5	Playground Equipment		\$25,000	\$7,500	\$7,500			\$40,000
1	Safety Upgrades	\$30,000	\$30,000	\$30,000	\$30,000		\$30,000	\$150,000
4	Solar Upgrades	Feasibility analysis moving forward 20-21					\$10,000	\$10,000
	Sub-Total	\$785,000	\$1,700,000	\$1,405,000	\$1,270,000	\$50,000	\$215,000	\$5,425,000
6-15 Years								
	Heating and Cooling Systems	450,000	-	\$250,000	\$250,000	-		\$950,000
	Parking Lots and Asphalt	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$180,000
	Roofs	\$2,700,000	-	-	-	-		\$2,700,000
	Total Projected Cost	\$3,965,000	\$1,730,000	\$1,685,000	\$1,550,000	\$80,000	\$245,000	\$9,255,000

Deferred Maintenance - Fund 14						
	2020-21	2021-22	2022-23	2023-24	2023-24	2020-35
Fund 14 - Beginning Balance	\$350,000	\$659,000	\$3,005,000	\$4,290,000	\$3,485,000	\$3,485,000
General Fund Transfers	\$0	\$0	\$0	\$0	\$0	\$0
Developer Fees Transfers	\$1,149,000	\$2,726,000	\$2,000,000			\$5,875,000
P1 - Safety Upgrades	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)	(\$30,000)	(\$150,000)
P2 - RJF VM & BH HVAC	(\$125,000)	(\$125,000)	(\$85,000)	(\$30,000)	(\$100,000)	(\$485,000)
P3 - Tech Infrastructure	(\$300,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$815,000)
P4 - Fields	(\$125,000)		(\$375,000)	(\$300,000)	(\$300,000)	(\$3,200,000)
P4 - Solar Upgrades	(\$10,000)					(\$10,000)
P5 - Playground Equipment & Blacktop	(\$125,000)					(\$125,000)
P6 - Painting	(\$125,000)	(\$125,000)	(\$125,000)	(\$125,000)	(\$125,000)	(\$625,000)
P10 - Years 6 to 15						(\$3,830,000)
Ending Balance	\$659,000	\$3,005,000	\$4,290,000	\$3,485,000	\$2,630,000	\$120,000

Notes:

- (1) Blossom Hill - Steel roofs, minimal maintenance. Boiler system will require on-going maintenance, major component replacement in 10-15 years.
- (3) Lexington, no deferred maintenance in next 15 years, school is new.
- (4) GF transfer equals lost State funding plus District match and identified need