

MODESTO CITY SCHOOLS

TO:	Dr. Sara Noguchi	Regular Meeting
SUBJECT:	Public Hearing and Conditional Approval of the 2020/21 Budget for All Funds, Certification of the 2020/21 Budget and Authorization to Transmit Copies to Local and State Agencies	June 22, 2020

PROPOSAL

1. General Fund Summary

These reports show the 2019/20 estimated actuals and the 2020/21 proposed adopted budget. There are separate columns under each year; the Unrestricted General Fund budget, the Restricted General Fund budget, and the combined Restricted and Unrestricted General Fund budget.

Projected year-end totals maintain the required 3% Unrestricted General Fund reserve levels and meet all mandatory obligations.

Assumptions reflect Unrestricted and Restricted reductions in subsequent years to remain fiscally solvent. Restricted resources projections do not indicate a need for a contribution from the Unrestricted General Fund. Exception to this assumption is the categorical resource of Special Education which currently requires a contribution from the Unrestricted General Fund.

2. Multi-Year Financial Projection

A district's financial certification must include the two subsequent fiscal years. This forces a look at the long-term effects of current financial decisions. The three-year financial projections are based on known factors and estimates of future costs of current District operations.

Average Daily Attendance

- Enrollment in 2020/21 is projected to decrease by 335 students in Elementary and increase by an additional 134 pupils in High School.
- ADA is projected to decrease by 314.09 in Elementary and increase by an additional 125.96 in High School.
- For the remaining years, enrollment is projected as flat.

Public Hearing and Conditional of the 2020/21 Budget for All Funds, Certification of the 2020/21 Budget for All Funds and Authorization to Transmit Copies to Local and State Agencies

Revenue

LCFF

- 2020/21 -7.92% COLA
- 2021/22 0.00% COLA
- 2022/23 0.00% COLA
- 10% reduction to LCFF Add-On funding
 - Targeted Instructional Improvement Grants (TIIG)
 - Home-to-School Transportation

Federal

- Special Education federal revenue has been adjusted by the 15% required set-aside for Coordinated Early Intervening Services (CEIS) resulting from the significant disproportionality finding in the elementary district.

State

- Mandate Block Grant projections at \$32 per K-8 ADA and \$61 per 9-12 ADA, based on prior year P-2
- Lottery funding of \$52/ADA Restricted and \$148/ADA Unrestricted
- Special Education Base Rate increase - \$645 per ADA based on three-year rolling average ADA
- Elimination of 2019/20 onetime Special Education Preschool augmentation

Expenditures

- Proposed new LCAP items for 2020/21 have been placed on hold as a result Executive Order (EO) N-56-20, which extended the deadline to adopt the LCAP to December 15, 2020. Staff will revise the LCAP items as needed based on the LCAP hearing and then include those adjustments in subsequent budget adjustments.
- Supplemental and Concentration dollars that are not reflected in the proposed budget have been placed on an assigned line and will be allocated based on the adopted LCAP.
- As a result of the projected deficit in the Governor's May Revise, reductions are necessary in subsequent fiscal years. The expenditure assumptions reflect a reduction of \$10M starting in 2021/22 and an additional reduction of \$4M in 2022/23.
- Restricted categorical budget dollars allocated will be fully expended.
- Increases for step and column costs are reflected in the subsequent years.

Public Hearing and Conditional of the 2020/21 Budget for All Funds, Certification of the 2020/21 Budget for All Funds and Authorization to Transmit Copies to Local and State Agencies

- Pension assumptions reflect the Governor's May Revise proposed rate buydowns
 - Public Employees Retirement System (PERS) rates

2020/21	20.70%
2021/22	22.84%
2022/23	25.50%
 - Proposed State Teachers Retirement System (STRS) rates

2020/21	16.15%
2021/22	16.02%
2022/23	18.10%
- Transfers Out – The following transfers out to other funds are reflected for the 2020/21 year. However, as a result of the projected deficit in the Governor's May Revise, reductions are necessary in subsequent fiscal years to maintain fiscal solvency. The remaining transfers out reflected in the 2021/22 and 2022/23 years are identified in bold.
 - Auditorium Replacement Reserve - \$35,000
 - Reprographics Equipment Replacement Reserve - \$12,500
 - White Fleet Vehicle Replacement Reserve - \$275,000
 - Bus Replacement Reserve - \$150,000
 - **CSEA Retiree Reserve - \$139,000**
 - **Managers Retiree Reserve - \$130,000**
 - **Adult Career Technical Education - \$250,000**
 - Filed of Green Replacement Reserve - \$100,000
 - **Qualified School Construction Bond Sinking Fund - \$400,000**
 - Curriculum Delivery Reserve - \$2,500,000
 - Emergency Facility Needs - maintain balance of \$2,000,000
 - 9-12 Facility Improvement - \$2,000,000
 - **Deferred Maintenance LCFF Transfer - \$2,000,000**
 - **Deferred Maintenance RRM Transfer - \$2,000,000**

Fund Balance

The Net Increase/(Decrease) in Fund Balance line compares current year expenses against current year revenues without regard to the beginning balance carried forward from the prior year. Generally this line, if negative, indicates deficit spending. If the deficit results from spending the reserves that have been accumulated over a number of years, the deficit spending is not cause for concern. If it represents actual current year expenses that exceed current year revenue, then budget cuts will be necessary.

The 2020/21 Unrestricted budget is currently projected to end the year with a net decrease in fund balance of \$28.1 million. In 2021/22 and 2022/23, the District is projected to end with a net decrease of \$13.0 million and \$16.4 million respectively. This significant increase in deficit spending is a direct result of the LCFF deficit in the Governor's May Revise proposal.

Public Hearing and Conditional of the 2020/21 Budget for All Funds, Certification of the 2020/21 Budget for All Funds and Authorization to Transmit Copies to Local and State Agencies

Ending Balance represents what did not get spent in the current year. It is not an unobligated balance. The ending balance should cover all State-required and Board-assigned reserves, long-term obligations and carry-over obligations from the prior year. A trend of declining ending balance that isn't planned is cause for concern. If the ending balance in current or projected future years cannot cover the required reserve level, the District's financial adoption status is disapproved.

It is important to note the difference between Restricted and Unrestricted fund balance. The Restricted funds can only be used for specific programs.

The Board has assigned the following reserves from the Unrestricted Ending Balance:

- Appropriation for Economic Uncertainty – The state requires districts to reserve 3% of total General Fund expenditures for Economic Uncertainty. In alignment with strategic goal 4.1, on May 13, 2019 the Board approved increasing the District's reserve to a total of 6%. An increase to 6% is reflected in the multi-year projections in 2019/20 and 2020/21, but the District's current projections indicate that amount will need to drop back to the state mandated 3% level in 2021/22 and 2022/23 due to availability of fund balance.
- LCAP Supplemental and Concentration Proportionality – This amount is calculated based on the "unduplicated" population percentages and funding through the LCFF. This balance represents dollars increased through gap and COLA that have not yet been budgeted through the LCAP process.
- County Cash Fair Market Value (FMV) Adjustment – Established at the end of fiscal year by the District auditors, the line represents the book value of the District's share of an external investment fund.
- Carryover Obligation - Miscellaneous – This amount fluctuates each year based on the approved carryover. Carryover requests can include parking citations, restitution, delayed supply orders, and periodic expenditures.
- Onetime Expenditures – Replenished to \$250,000 at the beginning of each fiscal year. Funds are used to offset unexpected, non-budgeted purchases in the year. Historic expenditures have included testing chairs, small equipment and site requests.

Unassigned Balance is the amount of the ending balance that is not committed after all required and assigned reserves have been set aside. A negative unassigned balance line indicates that some assigned reserves may need to be eliminated. A continued trend of decreasing or negative unassigned balance will eventually lead to not meeting the required reserves. The unassigned balance line will also show how much is available in current and future years to cover District priorities and programs, including any negotiation settlements.

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3. Criteria and Standards

The criteria and standards software automatically compares a district's financial and enrollment data to arbitrarily calculated averages. These comparisons can alert a district to financial anomalies but can also be arbitrary and not relevant to a particular district's situation. "Not met" standards require an explanation.

The format still does not factor in fiscal anomalies that skew the three-year average calculations. These variances can result in "not met" status for items throughout the criteria and standards. Additionally, variances in comparisons of historical budgeting occur as a result of the District posting deferred revenue and carryover.

4. Other Funds

The status for all other special funds maintained by the District is shown.

5. Cash Flow Summary

Districts monitor both fund balance and actual cash balances available to pay obligations. Since many funding sources are distributed in arrears, diligent monitoring of cash on hand is required. The Governor's May Revise proposes a return of principal apportionment deferrals for both 2019/20 and 2020/21. These cash deferrals will place a strain on the cash flow of all school districts. The current cash flow projections indicate that the District will be able to maintain a positive cash balance in 2020/21 without projecting a need for Interfund borrowing.