

# Public Hearing and Conditional Approval of the 2020-21 Budget for All Funds

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# Purpose of Presentation

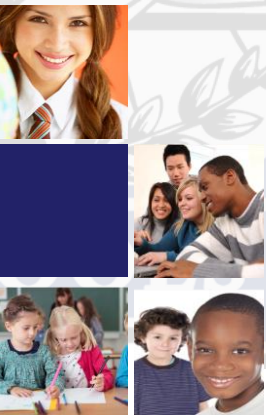
- Local Control Funding Formula
- Assumptions for Revenue and Expenditures
- Fund Balance
- Multiyear Projections (MYPs)
- Next Steps



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# Thoughts On May Revision

- The Governor's May Revision is the **last statutory** step in the State Budget process **before** the Legislature **adopts** the spending plan
  - **Until** a State Budget is **approved**, this is our **best** budgeting information
- The **May Revision** to the 2020-21 State Budget was a **sobering** event
  - Shelter-in-place-order had a **devastating** effect on the economy
    - **Ended** the longest economic expansion in history and state surplus of \$6 billion
  - The Governor provides a **glimmer of hope** with the potential of triggering **OFF LCFF** cuts
  - Assumption is dependent on **future Federal Stimulus Funding**



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# What Is A Budget?

## Goal Four - Ensure the District is Fiscally and Operationally Sound

- A policy document – to reflect the **philosophy** of the Board, administration, and the education community
- A financial **plan** – to show where we have been and where we are going
- An operations guide – to **guide** administrative decisions and actions throughout the year
- A communications device – to share **strengths** and **challenges** with the community of the instructional programs through integration with the **LCAP**



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# Budget Development

## Focus - District's Budget and Fiscal Solvency:

- Revenue Assumptions
  - Based upon the Governor's January Budget Proposal
  - Updated with the Governor's May Revision
- Expenditure Assumptions
  - Staffing levels updated for enrollment projections
  - Step and column salary increases and pension reform rate changes
  - Updated site and department budgets
  - Scheduled capital outlay and debt service obligations



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# Local Control Funding Formula (LCFF)

- The LCFF was designed to **close** the achievement gap
  - **Base** grants per pupil by grade four spans
  - Per pupil amount is the **same** for all school districts and charter schools
  - **Supplemental** and **Concentration** Grants based on the Unduplicated Pupil Percentage (UPP)
  - UPP is based upon (English Language (EL), low income, and/or foster youth)
- All funds received through the LCFF are **unrestricted**
  - Budget must contain actions/services as defined in the **LCAP**




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# 2020-21 LCFF

- The May Revision suspends the 2.31% COLA and includes an additional reduction – for a total of 10% cut to the LCFF
  - First, the 2.31% COLA is applied to arrive at the 2020/21 base grant
  - Then the 10% reduction is applied-for an effective reduction of 7.92% to the 2019/20 base grant amounts

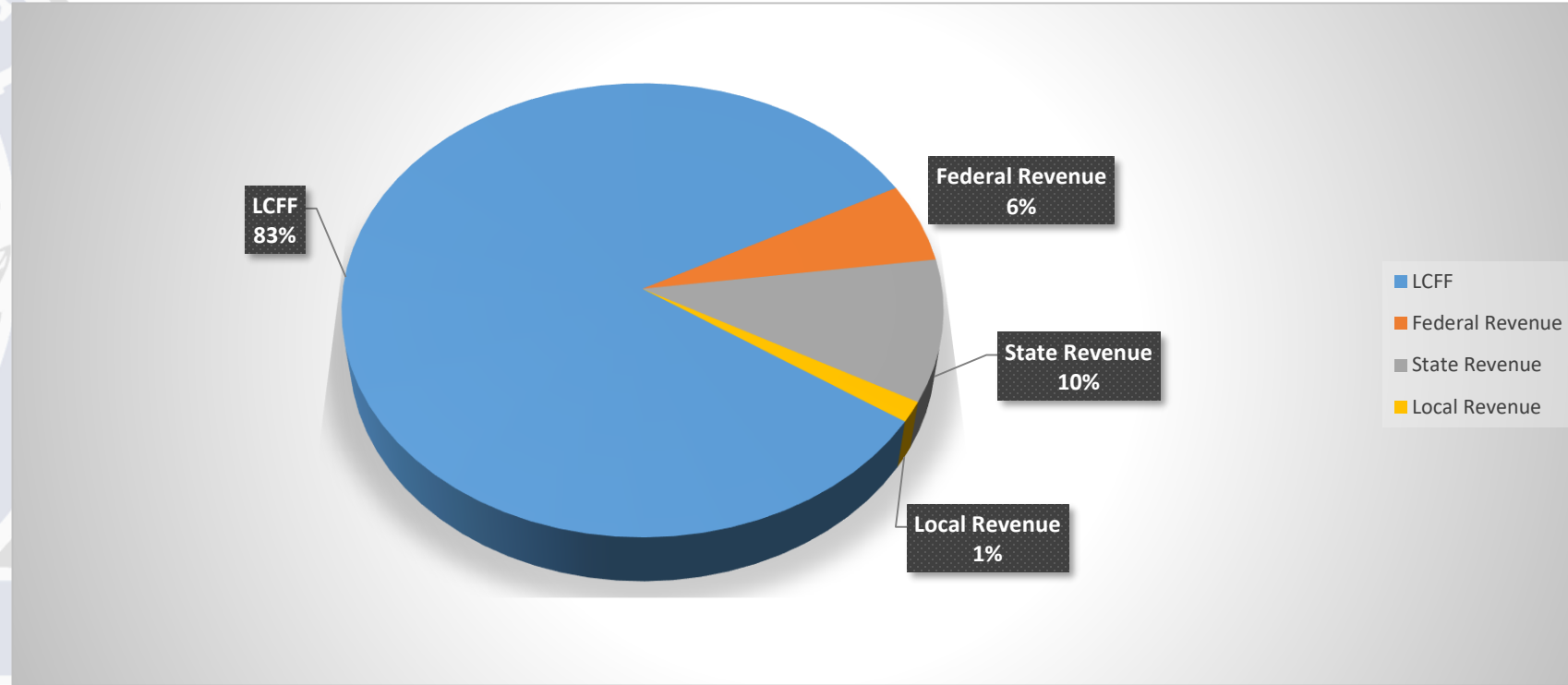


Grade Span	2019–20 Base Grant per ADA	2.31% COLA	2020–21 Base Grant per ADA	10% Reduction	Effective 2020–21 Base Grant per ADA
K–3	\$7,702	\$178	\$7,880	[-\$788]	\$7,092
4–6	\$7,818	\$181	\$7,999	[-\$800]	\$7,199
7–8	\$8,050	\$186	\$8,236	[-\$824]	\$7,412
9–12	\$9,329	\$215	\$9,544	[-\$954]	\$8,590

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# 2020-21 Total General Fund Revenue

- The majority of the District's General Fund revenue comes from the Local Control Funding Formula



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# Revenue Assumptions

- LCFF Growth
  - Base Funding decrease of **\$20.8 million**
  - Supplemental & Concentration decrease of **\$5.2 million**
- Other Revenue Assumptions
  - Federal Revenue decreased by **\$2.8 million**
    - Elimination of Deferred Revenue included in 2019-20 Estimated Actuals
  - State Revenue decreased by **\$4.5 million**
  - Local Revenue decreased by **\$0.5 million**
- Total Revenue decreased by **\$33.8 million**



# Contributions To Restricted Programs

- Contributions of Unrestricted Revenue to Restricted Programs are required when program funding is **not sufficient to cover the program costs**, or it is **required by statute** without funding
- Special Education – program **underfunded**
  - 2020-21 estimated contribution \$42.2 million
- Routine Restricted Maintenance – **statutory** requirement
  - 2020-21 estimated contribution \$11.6 million
  - Funds regular repairs on school facilities



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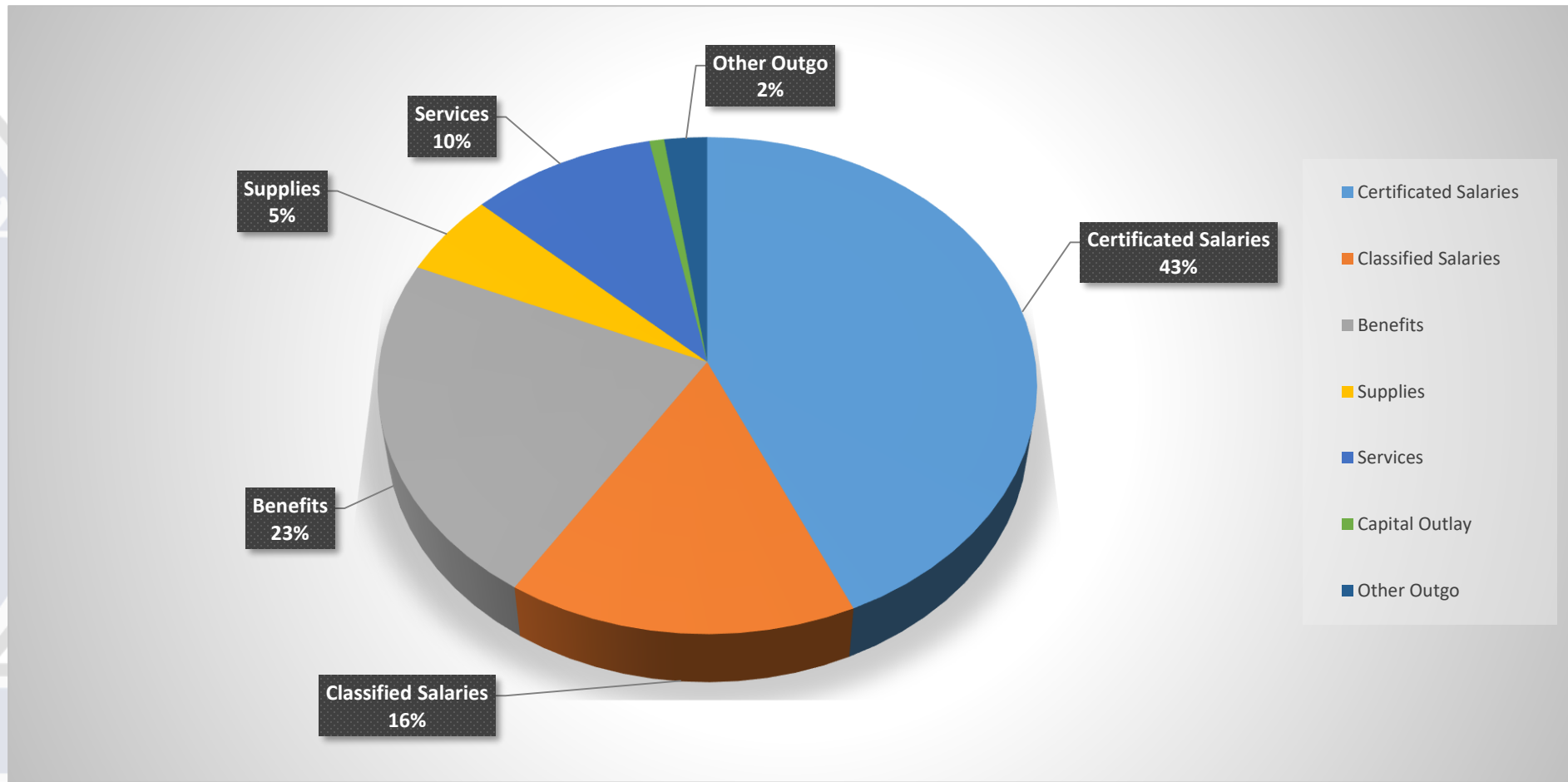
# Budget Control

- Revenues are largely controlled by the state and federal governments, and as such, most of a school district's **budget control** is on the expenditure side
- The **Board** decides how to spend the funds received
  - Organizational structure, employee compensation, instructional programs, support services, facilities, etc.
- The **majority** of the MCS budget is spent on **people**
  - 80% of total 2020-21 Proposed General Fund Budget
  - 83% of 2020-21 Proposed Unrestricted General Fund Budget



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# 2020-21 Total General Fund Expenses



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# Expenditure Assumptions

- Due to the LCAP adoption extension, **LCAP** items for 2020-21 have **NOT** been included
- Increased salaries and benefits due to step/column and pension increases - **\$4.9 million**
- Contract negotiations with all bargaining units are not settled, and **nothing** is included for potential settlements in **2019-20** or **2020-21**
- Elimination of **carryover** and **one-time expenditures** included in 2019-20 Estimated Actuals



# General Fund Transfers Out

Description of Transfer	Fund Receiving Transfer	2019-20 Estimated Actuals	2020-21 Proposed Budget
<b><u>Unrestricted</u></b>			
Adult Career Technical Education Programs	Fund 11	\$250,000	\$250,000
Auditorium Equipment Replacement Reserve	Fund 40	\$43,100	\$35,000
Bus Replacement Reserve – Per Mile BP3250.1	Fund 40	\$150,000	\$150,000
Curriculum Delivery Reserve	Fund 17	\$2,500,000	\$2,500,000
Device Insurance – 1:1 at Davis (2019/20 Final Year)	Fund 67	\$119,063	\$-0-
Emergency Facility Needs – Estimated Replenishment	Fund 40	\$500,000	\$250,000
Field of Green Replacement Reserve	Fund 40	\$-0-	\$100,000
High School Facility Improvement	Fund 40	\$2,000,000	\$2,000,000
Qualified School Construction Bond Sinking Fund	Fund 56	\$400,000	\$400,000
Reprographics Equipment Replacement Reserve	Fund 40	\$14,000	\$12,500
Retiree Medical Reserve – CSEA	Fund 17	\$289,000	\$139,000
Retiree Medical Reserve – MCS Managers Group	Fund 17	\$130,000	\$130,000
White Fleet Vehicle Replacement Reserve	Fund 40	\$275,000	\$275,000
<b>Total Unrestricted</b>		<b>\$6,670,163</b>	<b>\$6,241,500</b>
<b><u>Restricted</u></b>			
Routine Restricted Maintenance to Deferred Maintenance	Fund 14	\$2,000,000	\$2,000,000
Special Education to Child Development Program Slots	Fund 12	\$49,180	\$49,180
<b>Total Restricted</b>		<b>\$2,049,180</b>	<b>\$2,049,180</b>
<b><u>LCFF Transfer</u> to Deferred Maintenance</b>	Fund 14	<b>\$2,000,000</b>	<b>\$2,000,000</b>
<b>Total General Fund Transfers to Other Funds</b>		<b>\$10,719,343</b>	<b>\$10,290,680</b>

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# 2020-21 General Fund Summary Budget

- Proposed operational **deficit** for 2020-21
- Remains during the **MYP** period

Proposed General Fund Budget 2020-21			
Description	Unrestricted	Restricted	Total
Total Revenues	309,464,712	60,318,042	369,782,754
Total Expenditures	283,051,233	111,184,192	394,235,425
Excess/(Deficiency)	26,413,479	(50,866,150)	(24,452,671)
Other Sources/Uses	(54,562,148)	52,249,367	(2,312,781)
<b>Net Increase/(Decrease)</b>	<b>(28,148,669)</b>	<b>1,383,217</b>	<b>(26,765,452)</b>
Add: Beginning Fund Balance	88,070,478	8,043,105	96,113,583
<b>Ending Fund Balance</b>	<b>59,921,809</b>	<b>9,426,322</b>	<b>69,348,131</b>

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# Assignment of Ending Fund Balance

- **Appropriation for Economic Uncertainty**
  - Required 3% of General Fund Expenditures plus an additional Board designated 3% can be maintained in 2020-21. Based on current assumptions, the additional 3% cannot be maintained in the subsequent years.
- **County Cash Fair Market Value (FMV) Adjustment**
  - Cash on deposit with the County Treasury, and invested in a pool with other government agencies
- **LCAP Supplemental & Concentration Grant Funds**
- **Carryover – Miscellaneous**
  - Amounts fluctuate each year based upon approvals
- **One-Time Expenditures - replenished to \$250,000 annually**
  - Unexpected, non-budgeted purchases during the fiscal year



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# Modesto City Schools Fund Balance

Combined Unrestricted & Restricted	2016-17 Audited Actuals	2017-18 Audited Actuals	2018-19 Audited Actuals	2019-20 Estimated Actuals	2020-21 Proposed Budget
Ending Balance, June 30	\$93,586,551	\$81,759,827	\$91,588,925	\$96,113,583	\$69,348,131
Nonspendable: Revolving Cash, Stores, and Prepaid Expenditures	\$1,715,312	\$1,927,026	\$2,041,449	\$1,500,000	\$1,500,000
Restricted	\$19,174,886	\$12,975,234	\$8,964,653	\$8,043,105	\$9,426,322
Assigned	\$2,756,874	\$9,522,526	\$17,764,289	\$20,444,532	\$17,092,783
Reserve for Economic Uncertainties	\$11,274,812	\$11,563,364	\$12,201,996	\$24,438,465	\$24,151,566
Unassigned	\$58,664,667	\$45,771,677	\$50,616,538	\$41,687,481	\$17,177,460

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# Fund Balance - Unrestricted

- **EC 42127(d)(1)** requires districts to provide for public review and discussion of reserve balances at the public hearing

<b>Reasons for Fund Balances in Excess of Minimum Reserve for Economic Uncertainty</b>			
	<b>Description of Need</b>	<b>Statement to Substantiate Need</b>	
Fund 01	Board established Reserve for Economic Uncertainty		\$12,075,783
Fund 01	Nonspendable	Revolving Cash, Stores, Prepay	\$1,500,000
Fund 01	County Cash Fair Market Value (FMV)	Value of external investment fund	\$615,802
Fund 01	Onetime Expenditures	Reserve for unexpected purchases	\$250,000
Fund 01	Carryover Obligation	Reserve for Lost Library and Textbooks	\$3,600
Fund 01	Reserve for Future LCAP Expenditures	Reserve for Supplemental/Concentration Grant Funds	\$16,223,381
Fund 01	Reserve for Future Expenditures	Reserve for future Board priorities	\$17,177,460
Fund 11	Adult Education	Reserve for Adult CTE programs	\$3,795
Fund 14	Deferred Maintenance	Reserve for facility maintenance needs	\$509,091
Fund 17	Curriculum Delivery Reserve	Reserve for curriculum adoptions	\$2,203,058
Fund 17	Retiree Medical Reserve	Reserve for retiree medical payments	\$509,842
	<b>Total of Substantiated Need</b>		<b>\$51,071,812</b>

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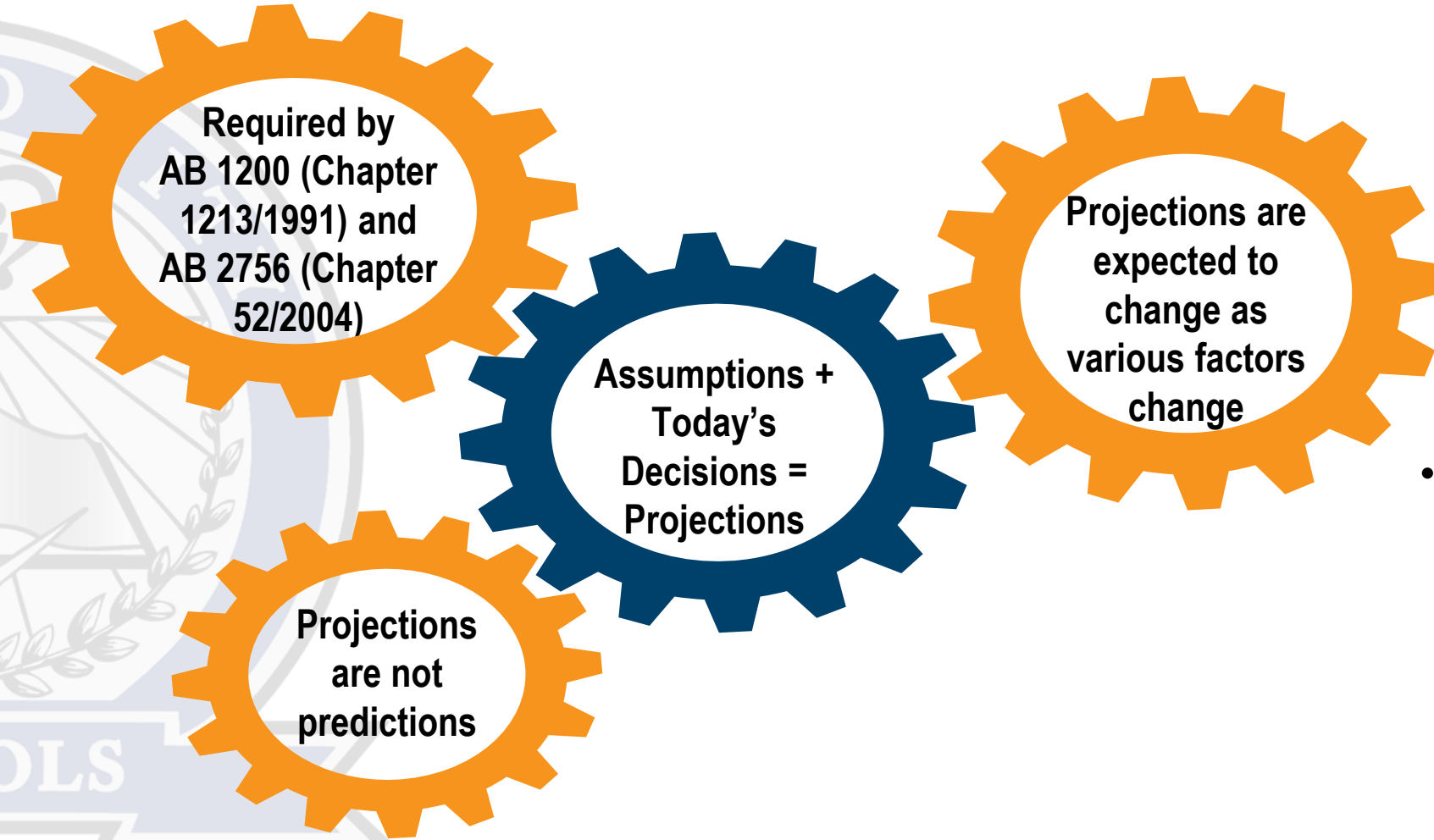
# Fund Balance – Other Funds

- **No District Funds are projected to have a negative ending fund balance**

FUND	2019-20	Estimated Net Change	2020-21
GENERAL (UNRESTRICTED & RESTRICTED)	\$96,113,583	(\$26,765,452)	\$69,348,131
ADULT EDUCATION	\$3,796	\$0	\$3,796
CHILD DEVELOPMENT FUND	\$160,266	\$0	\$160,266
CAFETERIA FUND	\$4,119,629	(\$1,674,465)	\$2,445,164
DEFERRED MAINTENANCE	\$1,468,898	(\$959,807)	\$509,091
SPECIAL RESERVE NON-CAPITAL PROJECTS	\$5,467,700	(\$2,754,800)	\$2,712,900
BUILDING FUND	\$5,692,232	(\$4,573,127)	\$1,119,105
CAPITAL FACILITIES	\$1,140,246	\$412,005	\$1,552,251
SPECIAL RESERVE CAPITAL PROJECTS	\$24,913,051	(\$3,668,513)	\$21,244,538
BOND INTEREST & REDEMPTION	\$14,866,389	\$733,400	\$15,599,789
DEBT SERVICE FUND	\$7,991,154	\$1,075,941	\$9,067,095
SELF INSURANCE FUND	\$7,967,857	(\$208,165)	\$7,759,692
<b>TOTAL</b>	<b>\$169,904,801</b>	<b>(\$38,382,983)</b>	<b>\$131,521,818</b>

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# Multiyear Projections



- A slowing economy and rising costs pose challenges in the multiyear projection



# Summary Multi Year Projection

- Deficit spending projected all three years

Proposed Budget Multi-Year Projection Unrestricted Resources			
Description	2020-21 Proposed Budget	2021-22 Projected Budget	2022-23 Projected Budget
Total Revenues	309,464,712	306,938,048	306,928,957
Total Expenditures	283,051,233	267,197,417	269,584,633
Excess/(Deficiency)	26,413,479	39,740,631	37,344,324
Other Sources/Uses	(54,562,148)	(52,713,140)	(53,710,346)
<b>Net Increase/(Decrease)</b>	<b>(28,148,669)</b>	<b>(12,972,510)</b>	<b>(16,366,022)</b>
Add: Beginning Fund Balance	88,070,478	59,921,089	46,949,300
<b>Ending Fund Balance</b>	<b>59,921,089</b>	<b>46,949,300</b>	<b>30,583,277</b>

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# Pension Rates

- In 2019-20 Governor Newsom proposed a \$3.15 billion non-Proposition 98 General Fund payment to CalSTRS and CalPERS
  - \$0.85 billion to pay down the employer contribution rates
  - \$2.3 billion designated towards the long-term underfunded liability of each system
- **The 2020-21 May Revision proposes to redirect the \$2.3 billion to further reduce employer contribution rates in 2020-21 and 2021-22**

Year	CalSTRS Rates	CalPERS Rates
2019-20	17.10%	19.721%
2020-21	18.4% down to <b>16.15%</b>	22.68% down to <b>20.70%</b>
2021-22	18.2% down to <b>16.02%</b>	24.6% down to <b>22.84%</b>
2022-23	18.10%	25.50%
2023-24	18.10%	26.20%

# Next Steps

- The Assembly and Senate **approved SB 74** – the Legislature’s version of the budget
  - 2.31% COLA added to LCFF base rates and other State funding
  - **No cuts** to LCFF and other State revenues
  - Trigger **on** reductions instead of trigger **off**
  - **Increases** payment **deferrals** instead of budget cuts
  - Allocates CARES Act funding on the **LCFF distributional** model
- The Governor has **12 days** to take one of the following actions
  - **Approve** the Budget bill as **presented** to him
  - **Approve** the Budget bill with **specific line item reductions**
  - **Veto** the Budget bill and send it back to the Legislature



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# Questions



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