

Los Altos School District
December 10, 2018 Board Meeting

1st Interim Financial Report (2018-19)

Introduction

- Reflects actual data (revenue & expenses) through Oct. 31
- First formal update of current year projections since Adopted Budget
- Action item – presented for review and approval
- Positive certification – we can meet our financial obligations for current and two future years
- But....we still face many challenges

Challenges

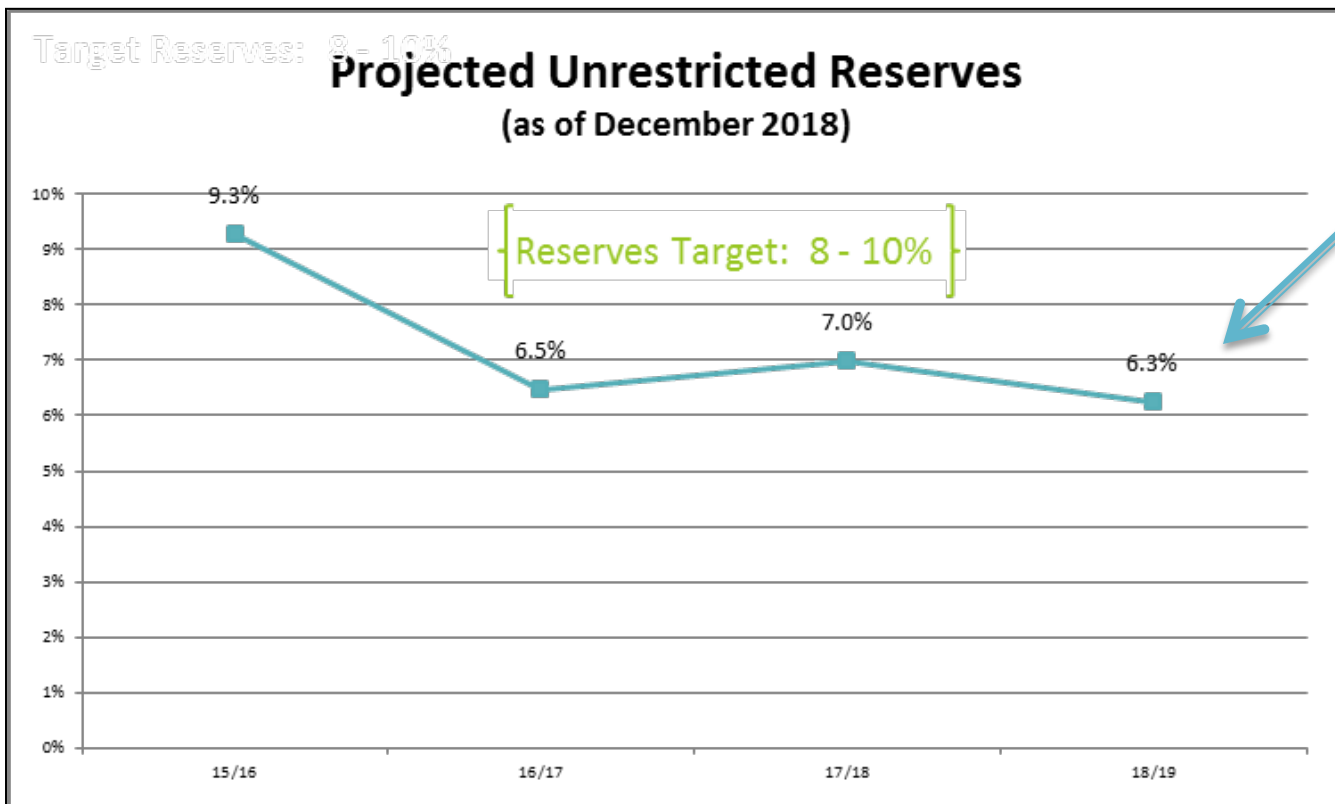
- **Deficit spending:** our reserves have dropped from 9% to 6% over the last 3 years
- **Economy:** still chugging along but is a recession around the corner?
- **Competition for teachers:** our entry level salaries still are below average and some nearby districts continue raising salaries faster than us
- **Capital Needs:** aging facilities causing us to spend more and more operating funds on upkeep

Challenges

- **Enrollment:**
 - BCS enrollment growth puts a strain on our budget
 - Declining LASD enrollment requires fewer teachers but difficult to implement without combination classes or moving students from one school to another
- **Program enhancement:** limited resources may restrict our ability to continue professional development opportunities and provide coaching for our teachers

Deficit Spending

Drawdown of Reserves



No raises included in the 18/19 projection at this time

Economy

The Economy

- UCLA economic forecast predicts the start of an economic slowdown (not recession) in 2019—with growth down from 3% to 2% in 2019 and possibly down to 1% in 2020
- After 4 months of data, state revenues for current year up \$1.7B over state budget projection
- Locally we expect continued AV growth and thus likely 7% or higher property tax growth for next year and more modest growth in future years

UCLA Forecast

- “After growing at a 3.1% pace on fourth quarter to fourth quarter basis, the growth in real GDP is downshifting to 2.1% in 2019 and 1% in 2020. This is consistent with our prior forecasts characterizing a 3-2-1 growth path for the economy. The downshift in growth is based upon our view that above-trend growth is difficult to achieve for an economy operating at full employment given the sub-1% growth rate in the labor force and productivity gains just above 1%.” So unless we witness surprising gains in productivity, the speed limit for the economy is around 2%.”

Employee Compensation

Employee Compensation

- The “baseline” financial projections do NOT include an across-the-board salary increase in the current year as well as all future years
- One of the challenges is remaining competitive in attracting and retaining teachers and other staff members, especially with some neighboring districts giving healthy raises

Teacher Salaries Comparison

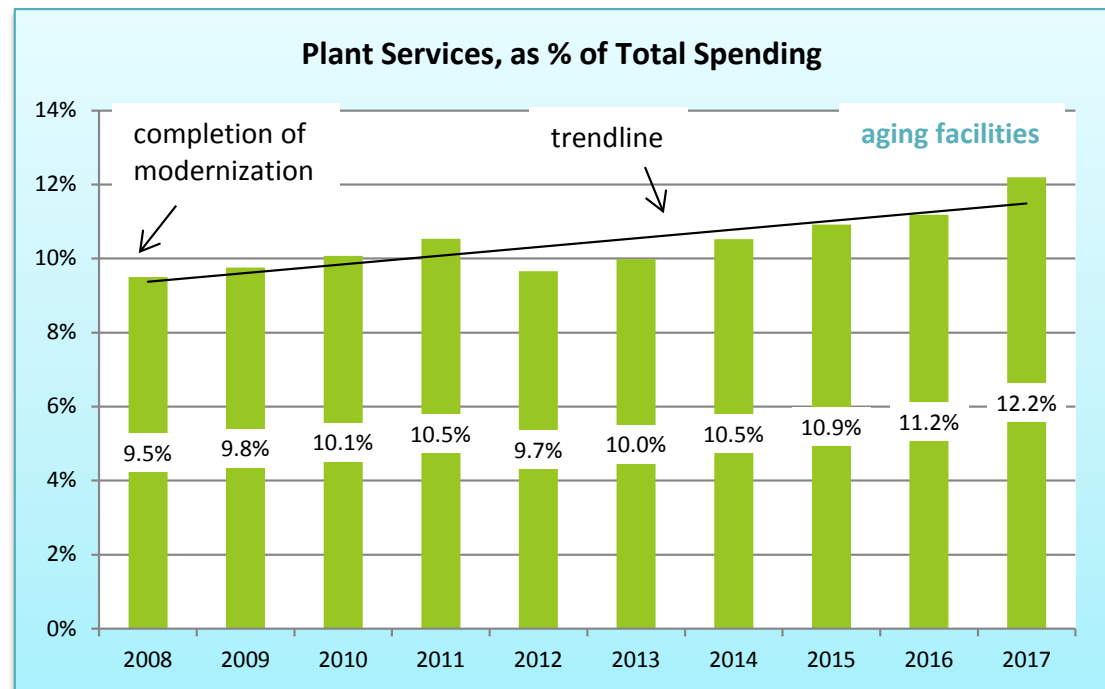
Note: Data is most recent comparison data available.
LASD's current beginning salary is \$57,000.

	Beginning Teacher Salary	Average Salary	Salary at 10 Years	Highest Teacher Salary
Los Altos School District	\$54,035	\$84,417	\$82,396	\$103,044
Rank in County (Out of 19 Elementary Districts)	14	6	11	12
Ave Elementary District, County	\$54,563	\$82,590	\$82,114	\$103,678
Ave All Districts, State	\$45,964	\$79,128	\$68,564	\$91,164
<i>All data is from 2016-17.</i>				

Capital Needs

Capital Needs

- As our facilities age we are spending more and more on upkeep, draining our operating fund resources
- Bond funds can be used to create a sinking fund for future upkeep



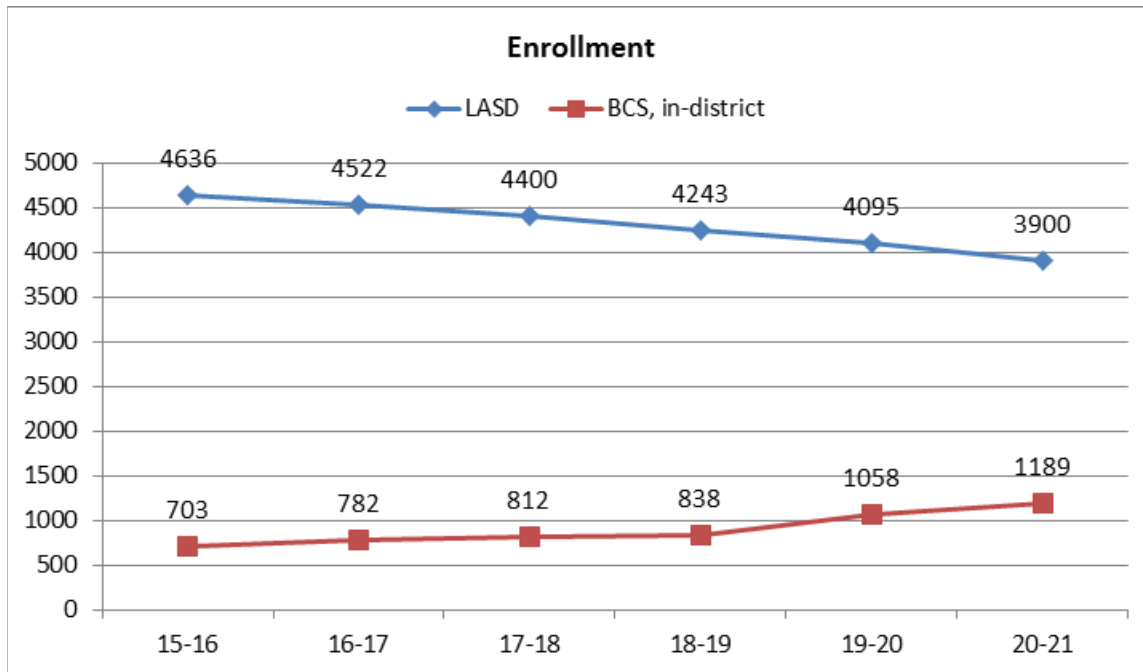
Enrollment

Enrollment

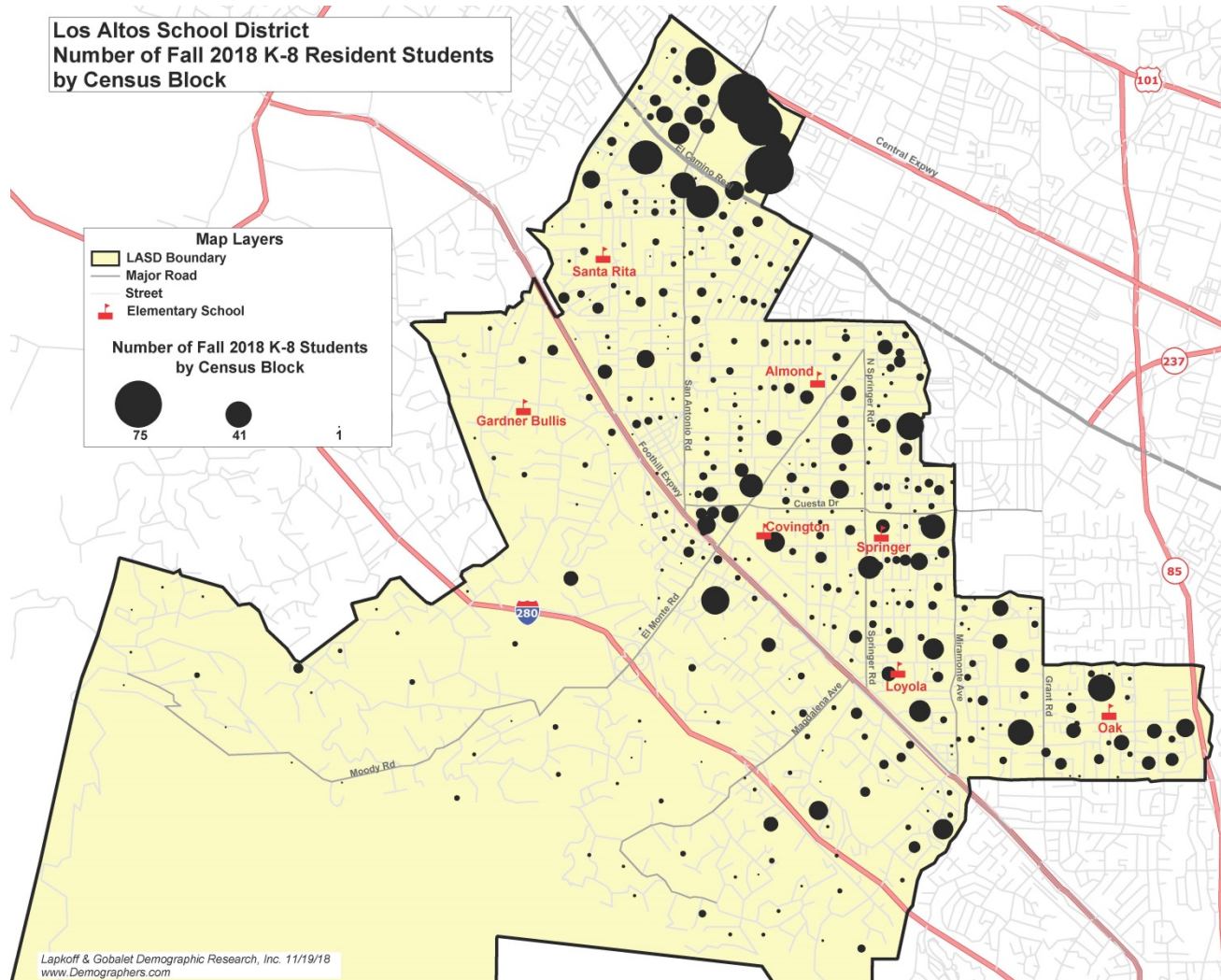
- Enrollment decline means fewer teachers are needed
 - 12 fewer teachers built into the projection for next year; 8 fewer the year after
- But the reality of reducing staff may require combination classes or moving students across schools
- Even without declining enrollment we need to consider slightly increased class sizes

Enrollment

- Combined enrollments still above 5,000 students (10 schools on 9 sites)
- Impact of current trends:
 - More \$ transferred to BCS
 - Fewer teachers needed at LASD



Where Our Students Live



Transfer to BCS, per state law

- We provide funding to BCS for each and every student enrolled
 - In comparison, we are required to provide facilities only for their in-district students
 - Currently the per pupil funding we transfer is approximately \$7,700 (based on state law)
- For out-of-district students attending BCS, we are reimbursed by the state at 70% of the per pupil amount (\$5,390 of the \$7,700) if the students come from an LCFF district
 - *We receive no reimbursement for out-of-district students coming from a basic aid district, except for those from PAUSD since we have a reciprocal agreement with that district*

Transfer of \$ to BCS

- As BCS enrollment increases we owe them an increasing share of property tax revenues and an increasing share of the \$223 parcel tax

Note: the 18/19 property tax transfer includes a payable from 17/18

Fiscal Year	Property Taxes	Parcel Tax	Parcel Tax \$ per parcel	Total, Property + Parcel Tax
15/16	4,944,410	n/a		4,944,410
16/17	5,721,552	n/a		5,721,552
17/18	6,163,456	447,648	35	6,611,139
18/19	7,700,676	463,944	37	8,164,657
19/20	8,892,049	497,858	40	9,389,947
20/21	10,211,769	596,390	48	10,808,207

Transfer to BCS, property tax \$

	BCS Students (Oct 2018)	Est ADA (@ 98% of Enrollment)	Cost of Transfer (est @ \$7,700 per pupil)
In-district	839	822.22	\$6,331,094
Out-of-district	76	74.48	\$573,496
Total	915	896.70	\$6,904,590

	Est ADA (@ 98% of Enrollment)	Cost of Transfer (est @ \$7,700 per pupil)	18/19 reimbursement , \$ per student	18/19 reimbursement, total \$	Net Cost to LASD
Out-of-district Students					
LCFF district	24.5	\$188,650	\$5,390	\$132,055	\$56,595
Basic Aid district	41.16	\$316,932	0	\$0	\$316,932
PAUSD	8.82	\$67,914	\$7,700	\$67,914	\$0
Total	74.48	\$573,496		\$199,969	\$373,527

Programs

Programs

- Without sufficient resources, our recent professional development work through training and coaching is at risk
- New initiatives require an investment of time and money

Options to Address the Challenges

- Taking budget-balancing steps are needed to ensure we can keep pace with other districts in teacher salaries
- Options for board consideration
 - Increase class size
 - Eliminate or reduce literacy ISTs
 - Use bond funds to cover facilities upkeep
 - Saves 300k annually out of our operating budget
 - Combination classes, where appropriate
 - Other program reductions, away from the classroom
- Staff recommends a budget study session in January

The Numbers

Overview

General Fund	Adopted Budget	1 st Interim
Revenues	62.9 M	63.5 M
Expenditures (incl. transfers)	63.4 M	65.2 M
Net Change	<0.5 >M	<1.7> M
Fund Balance	0.9 M	0.3 M
Unrestricted Fund Balance	0.9 M	0.3M
Reserves	7.34%	6.25%

General Fund Projections

- **Total Revenues – 63.5 M**
 - Compared to 62.9 M projected in Adopted Budget (June)
- Variances primarily due to
 - Higher property tax revenues, offset by increased transfer of tax dollars to BCS (<190k>)
 - Increase in one-time discretionary allocation from state (365k)
 - Increase in expected lottery revenues (66k)
 - Increase in STRS on-behalf contribution (245k)

General Fund Projections

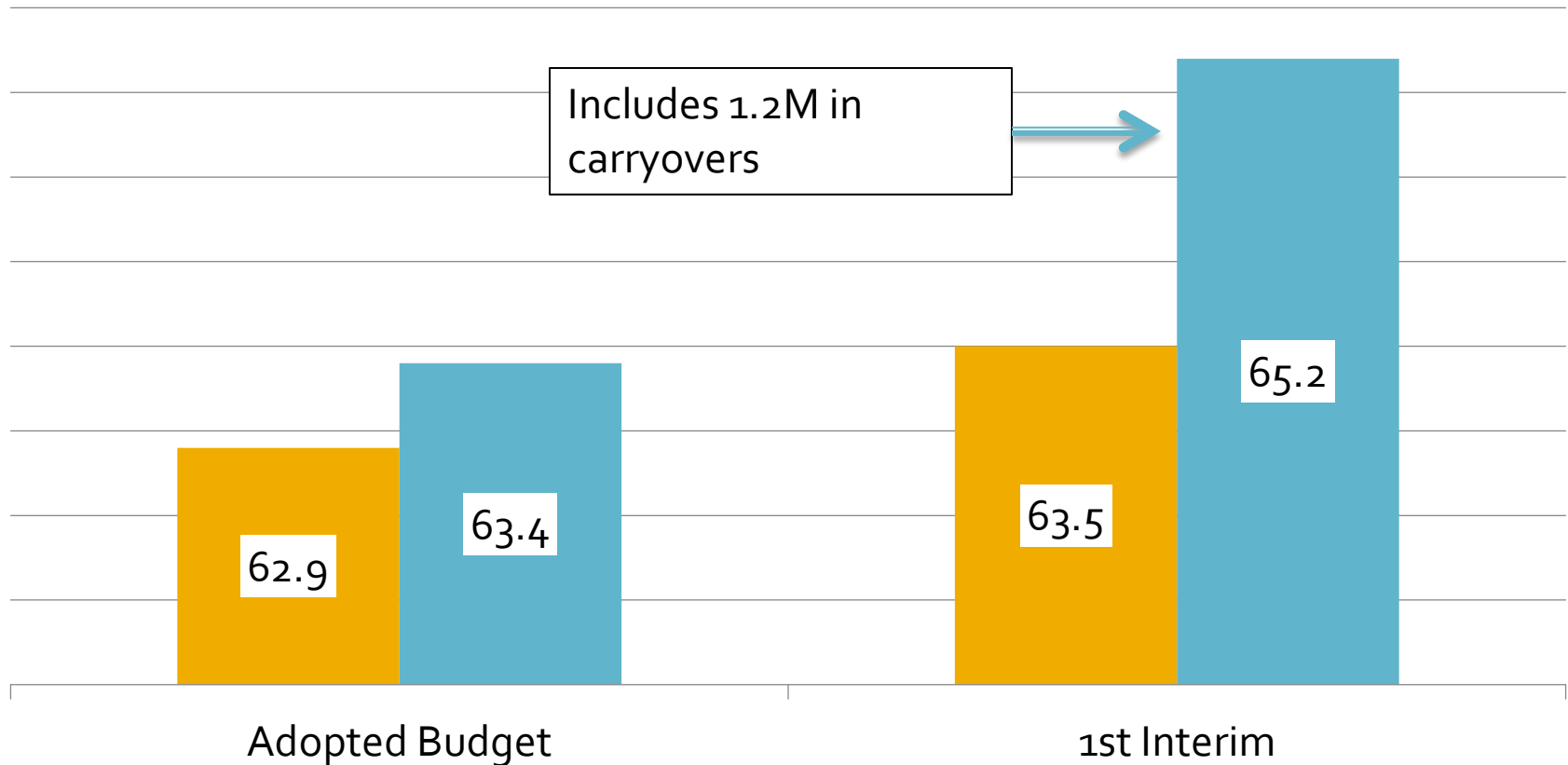
- **Total Expenditures – 65.2 M**
 - Compared to 63.4 M projected in June
- Variances primarily due to
 - 1.2M of unspent program manager monies carried forward into current year
 - Cost of new teachers less than those who left
 - Increased special education staffing and transportation costs
 - Increased costs for legal services, facilities upkeep, and substitute custodial staffing

Ending Balance/Reserves

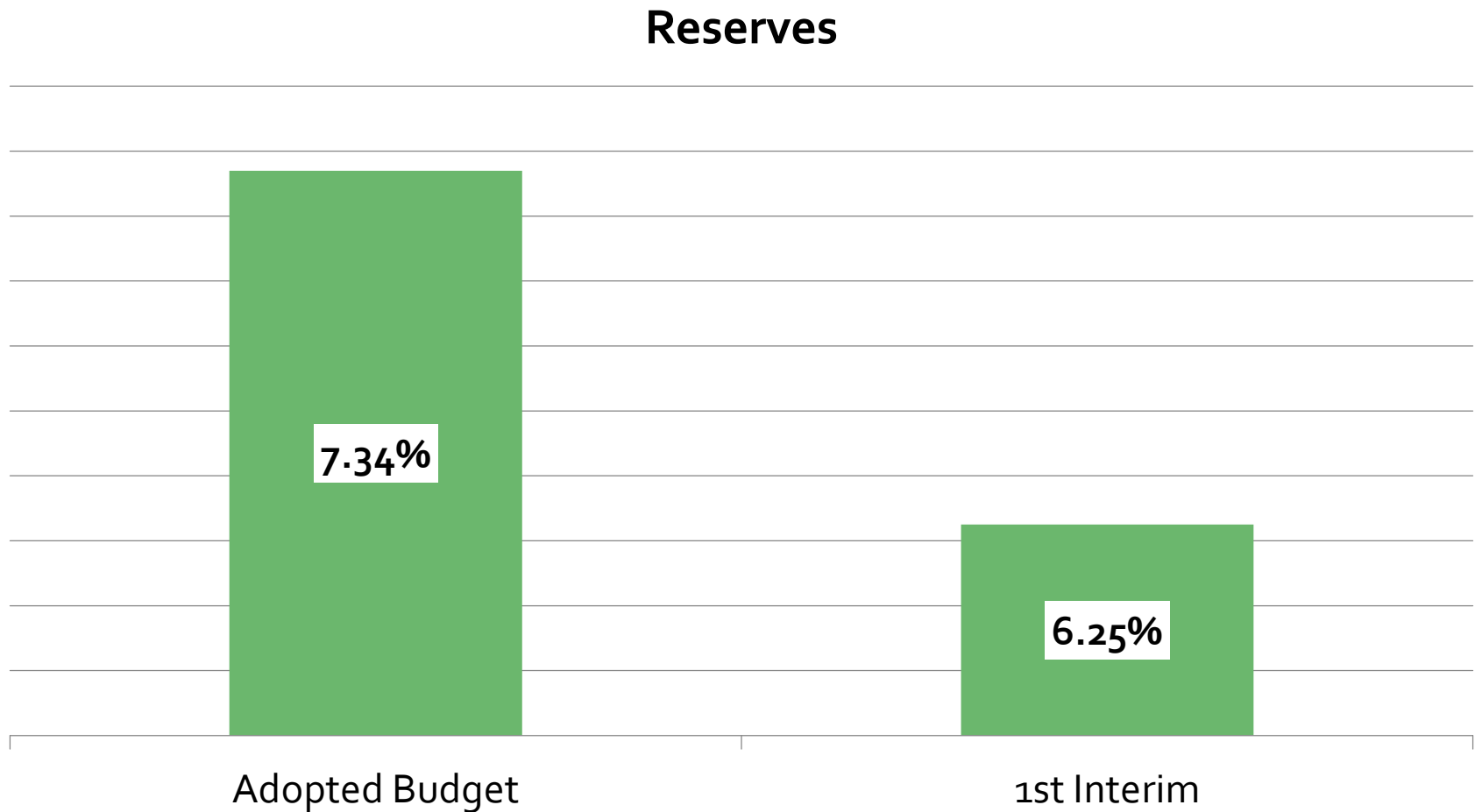
- **General Fund ending balance now projected at 0.3 M**
 - Compared to June projection of 0.9 M
 - Expenditures/Transfers exceed Revenues by 1.7 M
- **Reserves**
 - Non-spendable Ending Balance – 5,000 (revolving cash)
 - Unassigned/Unappropriated Ending Balance
 - **Unassigned/Unappropriated – 300k**
 - 600k lower than projected in June
 - **When Special Reserve Fund added, total reserves are 6.25%**

General Fund (\$ in millions)

■ Revenues ■ Expenditures



Reserves undergoing slight decline



1st Interim v. Adopted Budget (Other Funds)

- **Deferred Maintenance Fund**
 - 60k decline; fund balance at 127K
- **Special Reserve Fund**
 - 20k change; fund balance at 3.8M
- **Special Reserve Fund for Post-employment Benefits**
 - Funds transferred to Special Reserve Fund; no longer needed in this fund
 - Small remaining fund balance (13k)
- **Building Fund**
 - Fund balance projected at 3.58M (compared to 3.6M in June)
- **Capital Facilities Fund**
 - Fund balance down from 844K to 622K
 - Decrease due to cost of moving and returning portables

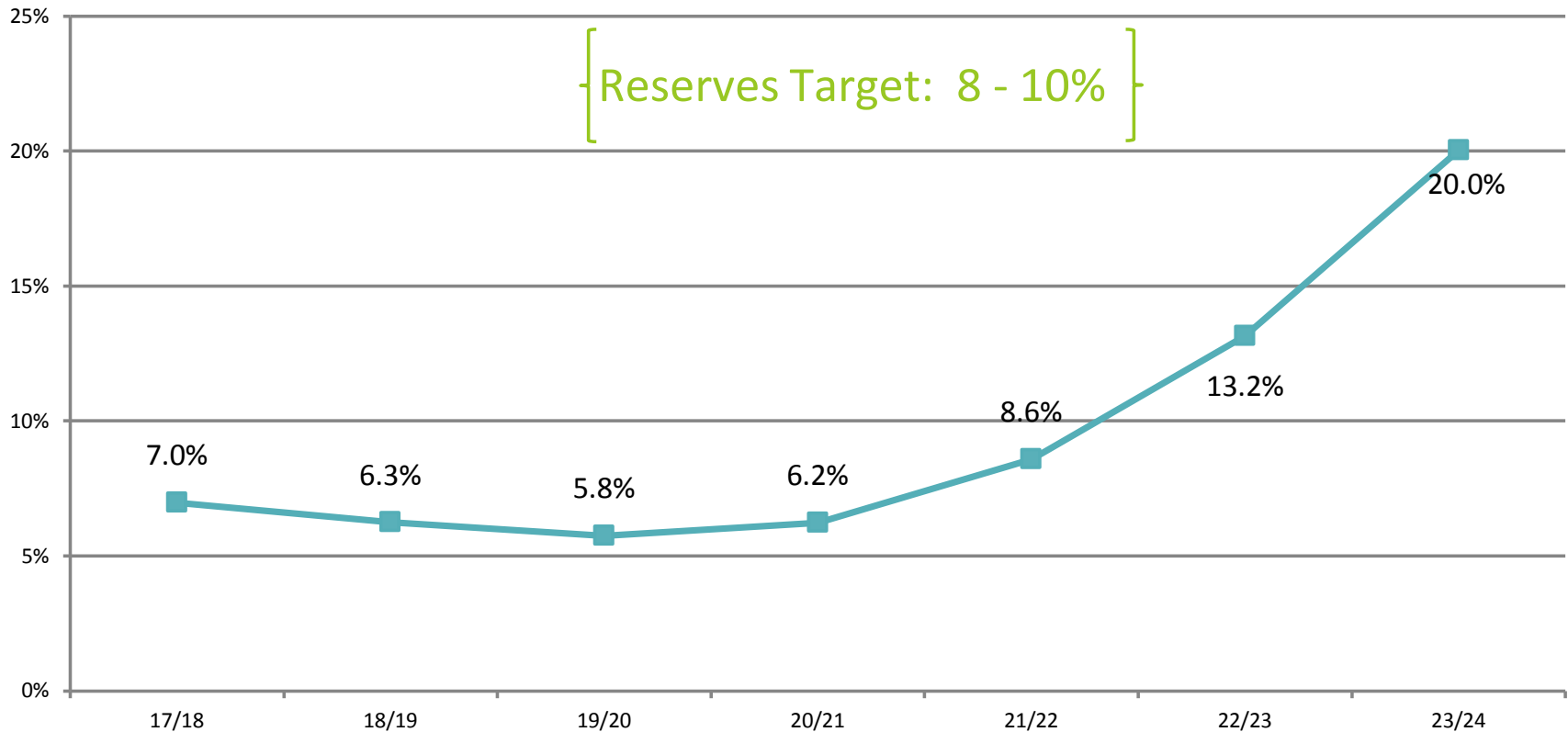
Multi-Year Projections (MYP)

- 3 Year Forecast (required by state)
 - 2018/19 through 2020/21
 - **Reserves remain approximately the same throughout the 3 year period**
- 6 Year Forecast
 - 2018/19 through 2023/24
 - **Under baseline forecast, reserves continue growing to 20%**
 - **With annual cost-of-living salary increases, reserves drop below 3% state requirement as early as next year**

1st Interim Projection (baseline)

Target Reserves: 8 - 10%

Projected Unrestricted Reserves (as of December 2018)



Key Assumptions - MYP

- 2019-20 Assumptions
 - Property Tax growth rate of 6.5% next year
 - Enrollment & Staffing
 - LASD drop to 4,095; BCS up to 1,230
 - 12 fewer teachers due to enrollment decline
 - Baseline projection assumes literacy ISTs return to classroom
 - No across-the-board raises
 - Health insurance costs projected to increase by 5%, but uncertainty due to some changes in plans offered by CalPERS

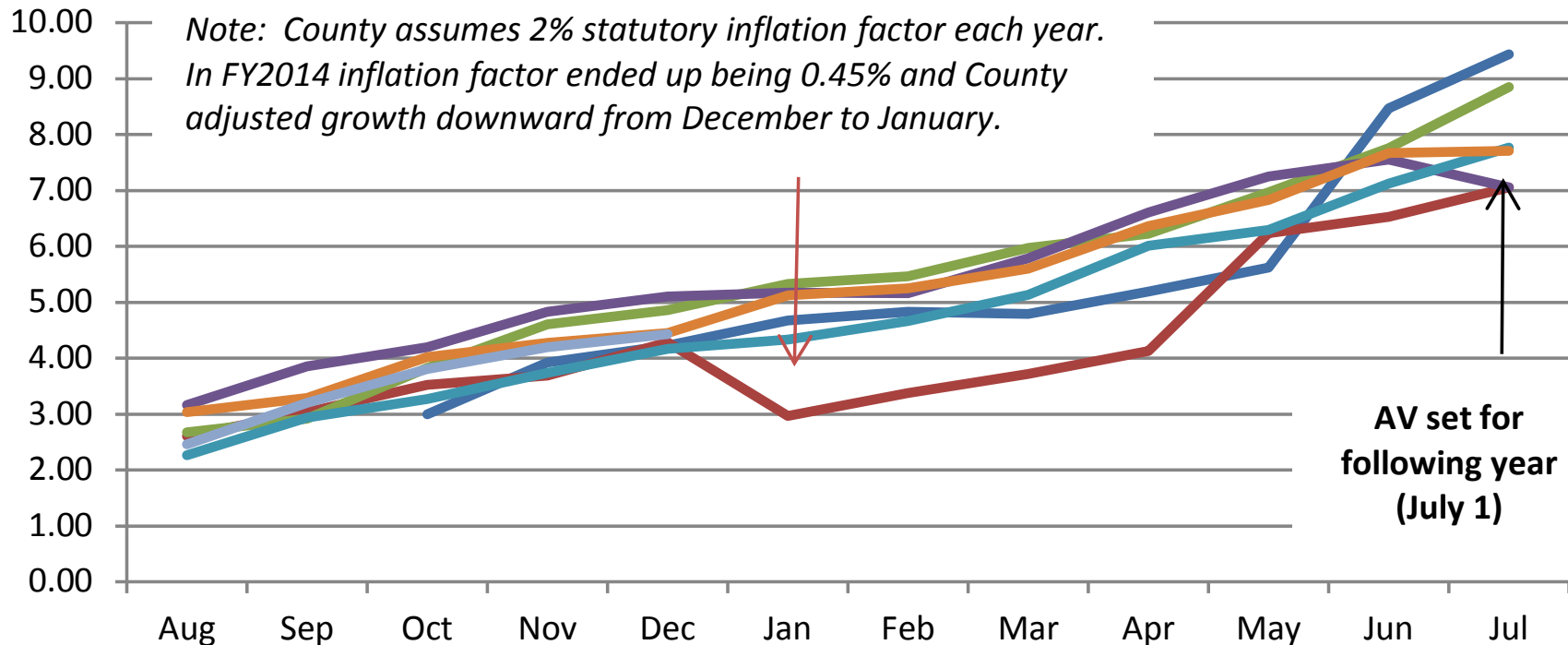
Key Assumptions - MYP

- Property Tax growth rate of 7.5% in current year, 6.5% next year and 5% thereafter
- Enrollment & Staffing
 - Significant (8%) decline over 6 year period, in part due to BCS expansion
 - 20 fewer teachers needed due to decline
 - BCS enrollment growth to 1,230, per their forecast
- No across-the-board raise in 18/19 and future years, in baseline forecast
- Health Benefit rate increases at 5% per year
- **All of these assumptions to be vetted by CACF**

History of AV Growth

Month to Month % Growth in AV (LASD)

FY2013 FY2014 FY2015 FY2016
FY2017 FY2018 FY2019



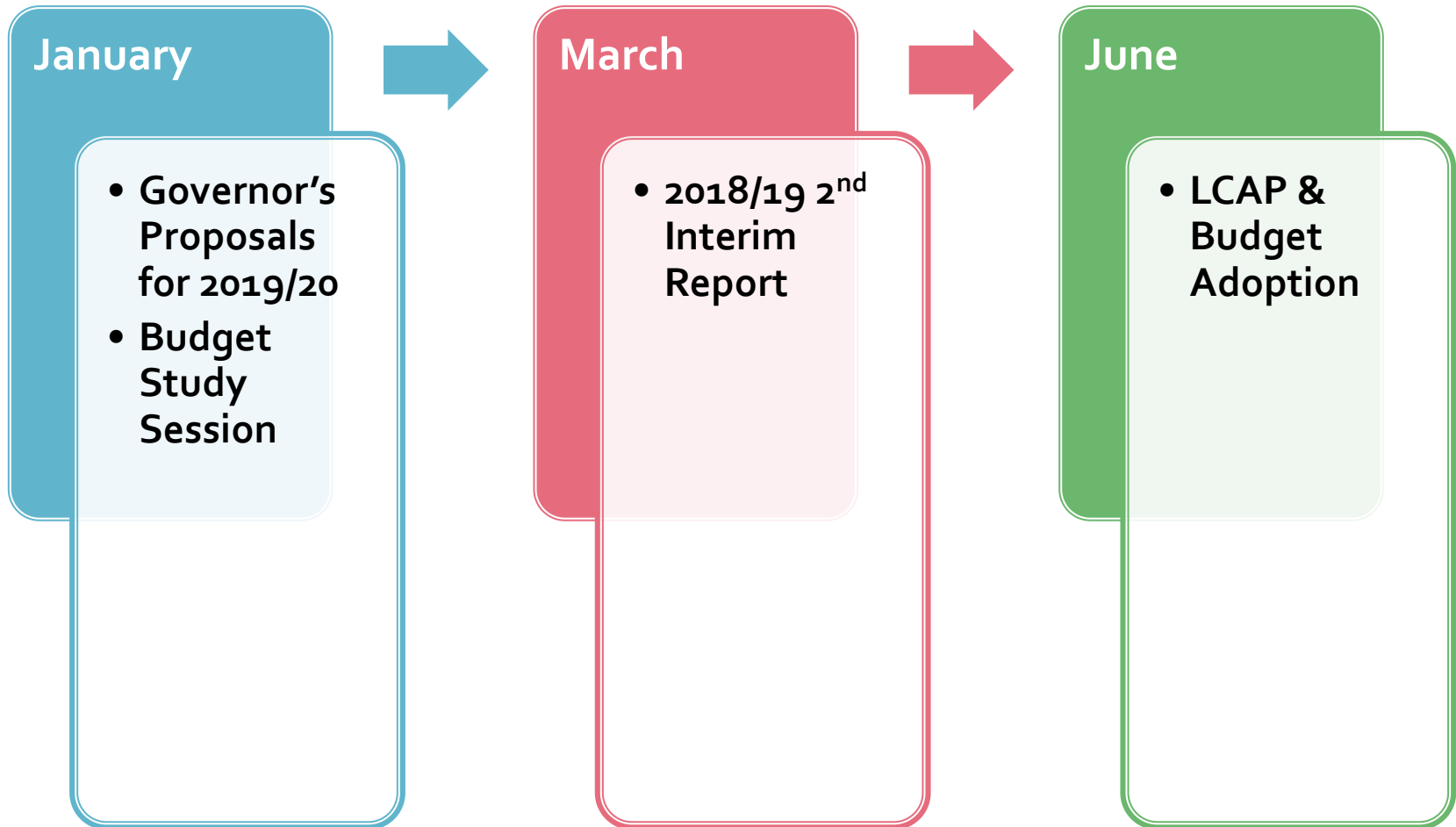
Conclusion

- 1st Interim Report shows that we have adequate reserves in the current and two subsequent years
- Staff recommends approval of the 1st Interim Financial Report
- But...challenges still need to be addressed (see next slide)

Options to Address the Challenges

- Taking budget-balancing steps are needed to ensure we can keep pace with other districts in teacher salaries
- Options for board consideration
 - Increase class size
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 - Saves 300k annually out of our operating budget
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Timeline – What's Next



Appendix

- Next Page – Multi-Year Projection
 - The multi-year projection rolls current year revenue streams and current year program expenses forward—with some exceptions
 - Carryovers are one-time expenses and thus not carried forward
 - Other one-time revenues or expenses not carried forward
 - The multi-year projection has not yet been vetted by our Citizens Advisory Committee for Finance

Multi-Year
Projection:
2018-19
1st Interim
Financial
Report
"Baseline"

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
% Change in Prop Tax Collections	7.14%	7.54%	6.50%	5.00%	5.00%	5.00%	5.00%
Enrollment	4,400	4,243	4,094	3,900	3,900	3,900	3,900
In-district students @ charter school	812	838	1058	1183	1183	1183	1183
<i>Total Enrollment, LASD + BCS</i>	<i>5,212</i>	<i>5,081</i>	<i>5,152</i>	<i>5,083</i>	<i>5,083</i>	<i>5,083</i>	<i>5,083</i>
Transfer of Prop Tax to BCS	6,163,456	7,700,676	8,892,049	10,211,769	10,597,790	10,917,329	11,246,997
Cost-of-Living Adjustment (COLA)	1.56%	3.70%	2.57%	2.67%	3.17%	3.17%	3.17%
Foundation Funding, base	2,795,000	2,595,000	2,595,000	2,595,000	2,595,000	2,595,000	2,595,000
Foundation Funding, one-time	505,000	505,000	505,000	505,000	505,000	505,000	505,000
Parcel Tax	820	820	820	820	820	820	820
Class Size, K-3	22	23	24	24	24	24	24
Class Size, 4-6	25	24	27	27	27	27	27
Class Size, 7-8	24	25	26	26	26	26	26
Teachers, FTE	256	250	238	230	230	230	230
Raises (across-the-board)	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Step/Column Movement	533,822	522,785	501,095	487,747	487,747	487,747	487,747
Step/Col (converted to % salary inc.)	1.8%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%
Health Benefit rate increases	0.0%	7.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Health Benefits (converted to % salary inc.)	0.0%	1.4%	0.9%	0.9%	0.9%	1.0%	1.0%
STRS rate increases	1.9%	1.9%	1.9%	1.0%	0.0%	0.0%	0.0%
Total Comp (as % of salary)	5.6%	5.0%	4.5%	3.5%	2.6%	2.6%	2.6%
LCFF/Revenue Limit	35,480,791	37,373,303	35,687,333	35,028,126	36,141,184	37,289,386	38,473,843
<i>Basic Aid Benefit</i>	<i>4,541,109</i>	<i>4,519,287</i>	<i>8,004,318</i>	<i>9,822,240</i>	<i>10,965,011</i>	<i>12,269,654</i>	<i>13,664,929</i>
Federal Sources	1,102,424	1,124,244	1,153,137	1,183,926	1,221,456	1,260,176	1,300,124
Other State Sources	4,966,563	4,288,942	3,381,411	3,351,971	3,313,640	3,313,640	3,313,640
Other Local Sources	17,861,565	16,172,014	16,050,600	16,109,099	16,174,222	16,241,491	16,310,827
Transfers In	2,000,000	-	500,000	-	-	-	-
Total Revenues	65,952,452	63,477,790	64,776,799	65,495,363	67,815,514	70,374,348	73,063,362
Certificated Salaries	27,457,334	27,017,545	26,259,200	25,862,709	26,050,377	26,242,854	26,436,651
Classified Salaries	9,967,796	10,285,703	10,377,800	10,488,874	10,601,315	10,716,969	10,832,993
Employee Benefits	14,952,330	15,590,200	16,656,898	17,307,280	17,796,740	18,251,764	18,699,178
Retiree Benefits	963,288	948,443	988,752	1,030,774	1,074,582	1,120,251	1,167,862
Books & Supplies	2,829,074	2,036,794	1,813,028	1,795,303	1,837,551	1,882,184	1,928,159
Contract Services	9,193,877	8,741,450	8,091,315	8,202,797	8,356,271	8,515,589	8,679,675
Capital Outlay	138,154	229,036	228,051	234,355	241,119	248,554	256,215
Other	339,870	341,064	341,064	341,064	341,064	341,064	341,064
Transfers Out	228,521	-	-	-	-	-	-
Total Expenses	66,070,244	65,190,235	64,756,108	65,263,156	66,299,019	67,319,229	68,341,796
Net Change	(117,792)	(1,712,445)	20,691	232,208	1,516,495	3,055,119	4,721,567
Unaudited Beginning Balance	2,147,462	2,029,670	317,226	337,917	570,124	2,086,620	5,141,738
Ending Balance	2,029,670	317,226	337,917	570,124	2,086,620	5,141,738	9,863,305
Encumbrances	1,154,263	5,000	5,000	5,000	5,000	5,000	5,000
General Fund Reserves	871,488	312,226	332,917	565,124	2,081,620	5,136,738	9,858,305
Reserves, Special Reserve Funds	3,735,866	3,762,409	3,391,030	3,499,543	3,608,029	3,719,878	3,835,194
Total Reserves	4,607,354	4,074,635	3,723,947	4,064,667	5,689,648	8,856,616	13,693,499
% of Expense	6.97%	6.25%	5.75%	6.23%	8.58%	13.16%	20.04%