Marysville Joint Unified School District
2019-20 Second Interim Report and Multiyear Fiscal Projection
As of January 31, 2020
Presented March 10, 2020

Revised Executive Summary March 9, 2020 – pgs. 4, 10, and 11

Interim budget reports provide a picture of a district's financial condition during the fiscal year. The Governing Board of a school district certifies the district's financial condition to the County Office of Education through these reports. The Second Interim Report is from July 1st through January 31st and projects financial activity through June 30th. Illustrated below is a summary of the State budget and budget guidelines as provided by the County Office of Education, as well as the financial condition of the Marysville Joint Unified School District as of the second reporting period. In addition, the Second Interim Report contains a detailed budget, multi-year projections, and estimated cash flow reports.

Governor's Proposed Budget for 2019-20

The release of the Governor's budget begins the six-month process of enacting a new state spending plan. The January release of the Governor's 2020-21 State Budget proposal continues to build reserves and promotes a more effective government that can withstand a downturn in the economy, as well as emergencies and disasters.

The state is prepared for an economic downturn with reserves of $21 billion. Nevertheless, managing a recession will be challenging, as even a moderate recession could result in revenue declines of nearly $70 billion and a budget deficit of over $40 billion over three years.

In the 2020-21 proposal as with the current year budget, most of the surplus is devoted to one-time spending. This approach enables the state to make significant investments in critical areas while maintaining reserves.

The proposals include:

- $1.2 billion in Proposition 98 funding dedicated to the statutory COLA of 2.29%;
- $900 million Proposition 98 funds for teacher training and recruitment.
- $300 million for one-time grants and technical assistance to prepare and implement improvement plans at the state's lowest-performing schools.
- $645 million increase for special education.
- $50 million in ongoing funding from the Cannabis Fund to support over 3,000 general child care slots previously funded with general fund and an additional $10.3 million Cannabis Fund for an increase of 621 general child care slots.
- $31.9 million in 2020-21 and $127 million in ongoing non-Proposition 98 general fund dollars to support and additional 10,000 state preschool slots at non-Local Educational Agencies beginning April 1, 2021.
- $75 million in Proposition 98 general funds to expand the Inclusive Early Education Expansion Program providing funds for to construct or modify preschool facilities for students with exceptional needs or disabilities.

LCFF Gap Funding and Cost-of-Living-Adjustment (COLA): Funding for the Local Control Funding Formula (LCFF) increased by $1.2 billion to fund the 2.29% statutory COLA. This brings LCFF funding to $64.2 billion (up from $63 billion in 2019-20). 2020-21 LCFF growth provides an average increase in per-pupil funding of an estimated $231 per ADA, or 2.14% (individual results will vary). Illustrated below is a comparison of the COLA percentages from last year's May Revise through the current Governor's proposal:

Description	2019-20	2020-21	2021-22	2022-23
Annual COLA – Proposed (May 2019)	3.26%	3.00%	2.80%	3.16%
Annual COLA – Enacted (June 2019)	3.26%	2.00%	2.80%	3.16%
Annual COLA – Revised (January 2020)	3.26%	2.29%	2.71%	2.82%

CalSTRS Liabilities and Employer Contribution Rates. The 2019-20 state budget included some pension relief for public education employers, specifically, a $3.15 billion non-Proposition 98 general fund payment on behalf of employers to CalSTRS and CalPERS Schools Pool. Of this amount, an estimated $850 million will buy down the employer contribution rates in 2019-20 and 2020-21.

The remaining $2.3 billion will be paid toward the employers' long-term unfunded liability for both systems. Overall, this payment is expected to save employers $6.9 billion over the next three decades.

The first part provides immediate relief of $700 million from one-time, non-Prop 98 funds to be applied over two (2) years. This will reduce the employer's *projected* rate by 1.03% in 2019-20 and by 1% in 2020-21.

The CalSTRS employer contribution rates are 17.1% in 2019-20 and 18.4% in 2020-21.

The Cal PERS School Pool employer contribution rates are 19.721% in 2019-20 and 22.8% in 2020-21.

Special Education. The Governor's budget proposals for Special Education begin by acknowledging the significant shortfall in federal funding provided for special education services. The federal government funds approximately 10% of special education costs in California, woefully short of the stated 40% goal, and only a small fraction of preschool special education costs. The Governor also expresses multiple concerns with the existing California special education funding formula including complexity, administrative burden and expense, varying SELPA funding rates and various supplemental add-ons with varying formulas and restrictions. Because of research conducted by the Administration and Legislature during 2019, which included consulting with LEAs, SELPAs, and stakeholders to determine best practices and opportunities, the Governor proposes a multiyear process to improve special education finance, services, and student outcomes.

For the 2020-21 fiscal year, the Governor proposes a revised special education base funding formula using a three-year rolling average of local educational agencies ADA, including districts, charters, and County Offices of Education, while continuing to allocate funding to SELPAs. The budget included an additional, ongoing $645 million for distribution through the new formula, which includes $152.6 million in AB 602 funding and redirecting $492.7 million in special education early intervention grant funding, both of which were provided in 2019-20. This additional, ongoing funding would further increase base funding rates for the lowest funded SELPAs to a new base funding rate. The Governor estimates most LEAs would experience an increase in base funding, and approximately 100 LEAs with current funding rates higher than the new base rate would be held harmless.

The 2020-21 budget also proposes an additional $250 million in ongoing funding for children ages three to five years with exceptional needs. One-time funding will be allocated to districts based on the number of preschool-age children with disabilities served. School districts will be required to allocate these funds to increase or improve services. For the 2020-21 fiscal year, the budget proposes that all other existing AB 602 special education categorical funding sources remain unchanged until a new funding formula is adopted in a future fiscal year. The budget also proposes $500,000 in one-time funding for a study of the current SELPA governance and accountability structure and $600,000 in one-time funding for two workgroups to study improved accountability for special education service delivery and student outcomes. Finally, the budget proposes $4 million one-time funding for dyslexia research, training, and a statewide conference.

In future phases the Administration anticipates finalizing the new special education funding formula, incorporating statutory changes based on recommendations from the governance and accountability workgroups established in the 2020-21 budget, pursuing reforms related to family and student engagement and incorporating recommendations from the Master Plan for Early Learning Care.

Reserves

County offices continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The required reserve for economic uncertainty represents only a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%. In determining an appropriate level of reserves, districts should consider multiple external and local factors, including but not limited to:

- State and federal economic forecasts and volatility including economic downturns and state-level budget cuts
- Volatility in the LCFF including COLA only funding which may not cover year-over-year expenditure increases
- Ending balance impact of various district enrollment scenarios
- Cash flow requirements and the relationship between budgeted reserves and actual cash on hand
- Savings for future one-time planned expenditures
- Protection against unanticipated/unbudgeted expenditures
- Credit ratings and long-term borrowing costs

A prudent reserve affords districts and their governing boards time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees.

The district reserve cap was not activated 2020-21. Districts are advised to manage and maintain prudent reserves regardless of the reserve cap language included in Education Code 42127.01.

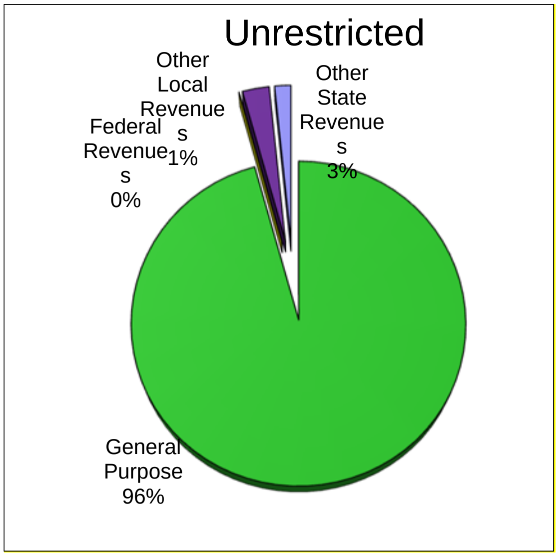
2019-20 Marysville Joint Unified School District Primary Budget Components

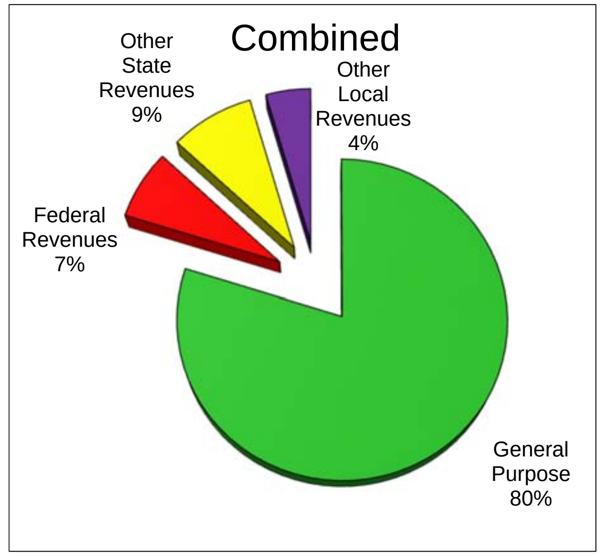
- ❖ Average Daily Attendance (ADA) is estimated at 9,137 (excludes COE ADA of 121).
  - ➢ Estimate to increase ADA by approximately 43 from 2018-19.
- ❖ The District's unduplicated pupil percentage for supplemental/ concentration funding is 81.33%.
- ❖ Lottery revenue is estimated to be $153 per ADA for unrestricted purposes and $54 per ADA for restricted purposes.
- ❖ Mandated Cost Block Grant is $32.18 for K-8 ADA and $61.94 for 9-12 ADA.
- ❖ Except as illustrated under Contributions to Restricted Programs, all federal and state restricted categorical programs are self-funded.

General Fund Revenue Components

The District receives funding for its general operations from various sources. A summary of the major funding sources is illustrated below:

Description	Unrestricted	Combined
General Purpose Revenue (LCFF)	$101,728,530	$101,728,530
Federal Revenues	$13,424	$9,061,294
Other State Revenues	$2,861,980	$10,905,396
Other Local Revenues	$1,731,176	$5,803,351
TOTAL	**$106,335,110**	**$127,498,570**





Education Protection Account

As approved by the voters on November 6, 2012, The Schools and Local Public Safety Protection Act of 2012 (Proposition 30) temporarily increased the State's sales tax rate and the personal income tax rates for taxpayers in high tax brackets.

The creation of Proposition 30 provides that a portion of K-14 general purpose funds must be utilized for instructional purposes. Revenues generated from Proposition 30 are deposited into an account called the Education Protection Account (EPA). The District will receive funds from the EPA based on its proportionate share of statewide general purpose funds. A corresponding reduction is made to its state aid funds.

K-14 local agencies have the sole authority to determine how the funds received from the EPA are spent, but with these provisions:

- The spending plan must be approved by the governing board during a public meeting;
- EPA funds cannot be used for the salaries or benefits of administrators or any other administrative costs (as determined through the account code structure);
- Each year, the local agency must publish on its website an accounting of how much money was received from the EPA and how the funds were expended.

Further, the annual financial audit includes verification that the EPA funds were used as specified by Proposition 30. If EPA funds are not expended in accordance with the requirements of Proposition 30, civil or criminal penalties could be incurred.

Illustrated below is how the District's EPA funds are appropriated for 2019-20. The amounts will be revised throughout the year based on information received from the State.

Education Protection Account (EPA) Budget *2019-20 Fiscal Year*	
Description	Amount
BEGINNING BALANCE	$0
BUDGETED EPA REVENUES:	
Estimated EPA Funds	$15,281,366
BUDGETED EPA EXPENDITURES:	
Certificated Instructional Salaries	$12,535,985
Certificated Instructional Benefits	$2,745,381
TOTAL	$15,281,366
ENDING BALANCE	$0

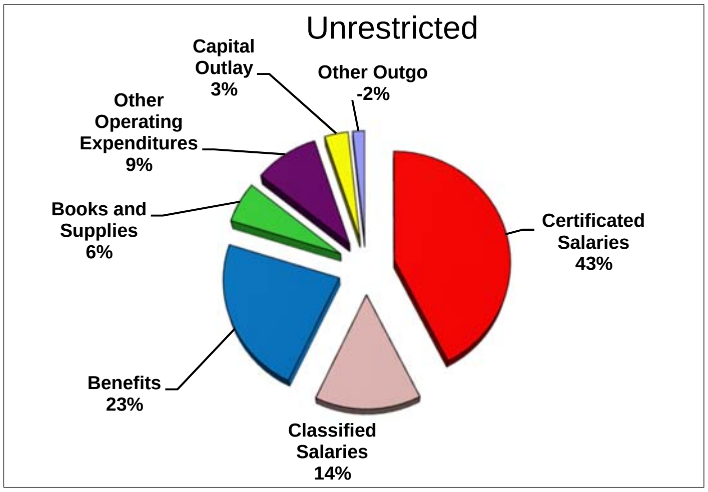
Subsequently, on November 8, 2016, the voters approved the California Children's Education and Health Care Protection Act (Proposition 55) that maintains increased personal income tax rates for taxpayers in high tax brackets through 2030. Proposition 55 did not extend the sales tax increase; therefore, the temporary sales tax increase expired at the end of calendar year 2016.

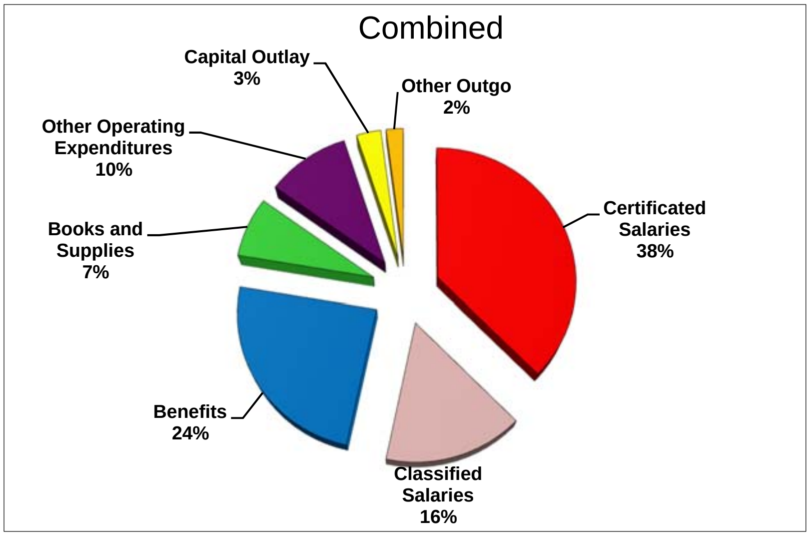
<u>Operating Expenditure Components</u>

The General Fund is used for the majority of the functions within the District. As illustrated below, salaries and benefits comprise of approximately 82% of the District's unrestricted budget, and approximately 77% of the total General Fund budget.

Description	Unrestricted	Combined
Certificated Salaries	$41,847,363	$49,358,544
Classified Salaries	$14,273,253	$20,768,740
Benefits (Payroll Taxes and Health & Welfare Contributions)	$22,407,119	$31,986,108
Books and Supplies	$5,839,516	$9,582,851
Other Operating Expenditures	$9,029,507	$13,237,346
Capital Outlay	$3,296,427	$3,856,397
Other Outgo	($1,669,767)	$2,717,283
TOTAL	**$95,023,419**	**$131,507,269**

Following is a graphical representation of expenditures by percentage:





General Fund Contributions to Restricted Programs

The following contributions and transfers of unrestricted resources to restricted programs are necessary to cover restricted program expenditures in excess of revenue:

Description	Amount
Special Education - Instruction	$11,060,952
Restricted Maintenance Account	$4,033,202
TOTAL CONTRIBUTIONS	**$15,094,154**

General Fund Summary

The District's 2019-20 Unrestricted General Fund projects a total operating deficit of $5,782,463 resulting in an estimated ending fund balance of $24,384,319 million. The components of the District's fund balance are as follows: revolving cash & other non-spendable reserves - $350,425; committed - $1,785,549; assignments - $4,530,041; and economic uncertainty - $4,010,000. In accordance with SB 858 a detail description of assigned and unassigned balances is illustrated below.

GENERAL FUND			
Description	Unrestricted	Restricted	Total
REVENUES & EXPENDITURES			
TOTAL BUDGETED REVENUES	$ 106,335,110	$ 21,163,460	$ 127,498,570
TOTAL BUDGETED EXPENDITURES	95,023,419	36,483,850	131,507,269
EXCESS (DEFICIENCY)	11,311,691	(15,320,390)	(4,008,699)
OTHER ESTIMATED SOURCES/USES	(17,094,155)	14,965,022	(2,129,133)
NET INCREASE (DECREASE)	(5,782,464)	(355,368)	(6,137,832)
ADD: BEGINNING FUND BALANCE	30,166,782	4,415,947	34,582,729
ENDING FUND BALANCE (ESTIMATED)	**$ 24,384,318**	**$ 4,060,579**	**$ 28,444,897**

Cash Flow

The District is anticipating having positive monthly cash balances during the 2019-20 school year.

Fund Summaries

Illustrated below is a summary of each Fund's fund balance and corresponding change.

FUND	2018-19	Est. Net Change	2019-20
GENERAL (UNRESTRICTED & RESTRICTED)	$34,582,729	($6,137,831)	$28,444,898
CHARTER SCHOOL	$1,065,177	($141,192)	$923,985
CHILD DEVELOPMENT	$415,752	$6,666	$422,418
CAFETERIA FUND	$1,144,912	($36,787)	$1,108,125
DEFERRED MAINTENANCE	$1,792,134	($815,957)	$976,177
SPECIAL RESERVES	$2,962,179	$2,006,149	$4,968,328
BUILDING FUND	$12,623,677	($596,725)	$12,026,952
CAPITAL FACILITIES	$4,801,989	($2,199,030)	$2,602,959
COUNTY SCHOOL FACILITIES	$150,928	$2,000	$152,928
BOND INTEREST & REDEMPTION	$4,885,370	$0	$4,885,370
BLENDED COMPONENT DEBT SERVICE	$2,971,105	$0	$2,971,105
SCHOLARSHIP TRUST FUND	$1,156,222	$422	$1,156,644
TOTAL	**$68,552,174**	($7,912,285)	**$60,639,889**

Multiyear Projection

General Planning Factors:

Illustrated below are the latest factors released by the Department of Finance (DOF) that districts are expected to utilize as planning factors:

Description	***Fiscal Year***			
Planning Factor	**2018-19**	**2019-20**	**2020-21**	**2021-22**
COLA (DOF)	3.70%	3.26%	2.29%	2.71%
LCFF Gap Funding Percentage (DOF)	100%	n/a Target	n/a - Target	n/a - Target

STRS Employer Rates	16.28%	17.10%	18.40%	18.10%
PERS Employer Rates (PERS Board / Actuary)	18.06%	18.06%	20.70%	23.40%
Lottery – Unrestricted per ADA	$151	$153	$153	$153
Lottery – Prop. 20 per ADA	$53	$54	$54	$54
Mandated Cost per ADA / One Time Allocations (DOF)	$184	$0	$0	$0
Mandate Block Grant for Districts: K-8 per ADA	$31.16	$32.18	$32.92	$33.81
Mandate Block Grant for Districts: 9-12 per ADA	$59.83	$61.94	$63.36	$65.08
Mandate Block Grant for Charters: K-8 per ADA	$16.33	$16.86	$17.25	$17.72
Mandate Block Grant for Charters: 9-12 per ADA	$45.23	$46.87	$47.94	$49.24
Routine Restricted Maintenance Account * *Percentage of total General Fund expenditures and financing uses* *(Note: LEAs receiving School Facility Program (SFP) Proposition 51 funding, the RRMA requirement reverts to 3%* after the receipt of the SFP funds.)*	3%*	3%*	3%*	3% *

Various aspects of the planning factors illustrated above will be further discussed below with the District's specific revenue and expenditure assumptions.

Revenue Assumptions:
A draft demographic study projects that enrollment will increase approximately 78 students next fiscal year added for 2020-21 left steady after. While this is generally good for Districts as the students generate more revenue and more broadly distribute overhead costs, they also generate costs in staff and facilities which are more challenging to forecast. Further, assumptions based on additional students that are not currently enrolled can quickly lead to financial ruin if enrollment begins to decline in line with state-wide averages. Consequently, we estimate the net fiscal change to be marginal and our projections are therefore based on keeping enrollment constant. The Local Control Funding Formula is estimated to be adjusted per Department of Finance's estimates of COLA and fully funded. Federal revenue is expected to remain relatively constant for subsequent years. State revenue is expected to remain constant for subsequent years. Local revenue is expected to remain constant.

Expenditure Assumptions:
Certificated step and column costs are expected to increase by 2% each year. Classified step costs are expected to increase by 2% each year.

On December 21, 2016, the California Public Employees' Retirement System (CalPERS) Board took action to approve lowering what is known as the "discount rate" from 7.5% to 7.0% over three years beginning in 2018-19. This action effectively lowers what CalPERS projects will be the annual rate of return on its entire investment portfolio (i.e. investment return percentage). Illustrated below are the actual rates through 2019-20 and projected rates through 2023-24.

CalPERS Rate Comparison

Description	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Projected	2020-21 Projected	2021-22 Projected	2022-23 Projected	2023-24 Projected
Employer Rates	13.888%	15.531%	18.062%	19.721%	22.80%	24.90%	25.90%	26.60%

Member (Pre-PEPRA)	7%	7%	7%	7%	7%	7%	7%	7%
Member (Post-PEPRA)	6%	6%	6%	6%	6%	6%	6%	6%

Assembly Bill 1469 (CalSTRS full-funding plan) increased the contribution rates that employers, employees and the State pay to support the California State Teachers' Retirement System (CalSTRS). Similar to CalPERS, the CalSTRS Board lowered its assumed rate of return on its investment portfolio from 7.5% to 7.0% and adopted new demographic assumptions. Under Assembly Bill 1469 both State and employer contribution rates may be increased by the CalSTRS Board in order to maintain the goal of reaching full funding of the retirement system by 2046.

Districts have been facing ongoing increases in pension costs for both classified and certificated staff. For 2019–20, the LAO estimates total district pension contributions will be approximately $7.9 billion, an increase of $4.7 billion over the 2013–14 level.

Illustrated below are the statutory rates through 2020-21 and maximum rates from 2021-22 through 2023-24:

CalSTRS Rates per Education Code Sections 22901.7 and 22950.5

Description	2016-17 Actual	2017-18 Actual	2018-19 Actual	2019-20 Approved	2020-21 Approved	2021-22 Projected	2022-23 Projected	2023-24 Projected
Employer Rates	12.58%	14.43%	16.28%	17.10%	18.40%	18.10%	18.10%	18.10%
Member (2% at 60)	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%	10.25%
Member (2% at 62)	9.205%	9.205%	9.205%	9.205%	9.205%	9.205%	9.205%	9.205%

Adjustments to benefits reflect the effects of salary changes noted above, and expected increases to employer pension costs.

Supplies and services are expected to decrease due to the removal of one-time expenditures; the variance in services from year-to-year is due to election appropriations. Capital outlay is estimated to decrease due to expecting to fully expend one-time mandated costs. Other outgo and indirect costs are expected to remain constant. Increase of contributions to restricted programs is primarily due to budgeting for restricted step increases, as well as for expected pension increases.

Multi-year Projected Ending Fund Balances:

For 2020-21, the District estimates that the unrestricted General Fund is projected to decrease by $4,716,202 resulting in an unrestricted ending General Fund balance of approximately $19.6 million. The addition of approximately $7 million in Fund 17 fund balance results in a combined unrestricted General Fund and Fund 17 Reserve ending fund balance of $26.6 million.

For 2021-22, the District estimates that the unrestricted General Fund is projected to decrease by $5,192,982 resulting in an unrestricted ending General Fund balance of approximately $14.5 million. The addition of approximately $9 million in Fund 17 fund balance results in a combined unrestricted General Fund and Fund 17 Reserve ending fund balance of $23.5 million.

In accordance with the disclosure requirements of Senate Bill 858, amounts over the State mandated reserve of three percent of total general fund outgo are reserved for the following activities:

Description	2019-20	2020-21	2021-22
One-Time Discretionary Mandated Costs Funds	$3,775,409	$3,775,409	$3,775,409
Supplemental & Concentration Funds	$754,632	$754,632	$754,632
Committed - OPEB	$1,785,549	$855,549	$0
Amount Disclosed per SB 858 Requirements	**$6,315,590**	**$5,385,590**	**$4,530,041**
Add: Non-Spendable Reserves	$350,425	$350,425	$350,425
Add: State Reserve for Economic Uncertainty (REU) - 3%	$4,010,000	$3,942,000	$4,043,000
Add: Restricted Fund Balance	$4,060,579	$4,060,579	$4,060,579
Add: Unallocated	$13,708,304	$9,990,102	$5,551,669
Estimated Ending Fund Balance	*$28,444,898*	*$23,728,696*	*$18,535,714*

It is important to recognize that it is highly unlikely these fund balances will fully materialize as they do not account for any increase in negotiated labor costs, programs, or levels of effort. In other words, these projections artificially add anticipated COLA to revenues without assuming a corresponding increase in expenditures. For example, simply keeping our dedicated and talented personnel compensated in line with current inflation (1.9% as of Jan 2019) would cost an additional $8.1 million over three years.

Further, while maintaining an adequate reserve is important, the district faces a tremendous backlog of facility / maintenance needs, and over $32 million in payments for Certificates of Participation that will begin to mature in 2023. Even assuming the state's economy continues to grow in spite of the Governor's warnings to the contrary, the district has many demands that are not reflected in these rosy projections which will keep the reserve lower than projected although still comfortably above minimum requirements.

Conclusion:

The multi-year projection supports that the District will be able to meet its financial obligations for the current and subsequent two years. Therefore, the Marysville Joint School District certifies that its financial condition is positive; a positive certification states that based upon current projections, a district will meet its financial obligations for the current fiscal year and two subsequent fiscal years.

Administration is confident that the district will be able to maintain a minimum reserve of three percent and have the necessary cash in order to ensure that the district remains fiscally solvent. However, the projected declining ending fund balance is concerning and Administration recommends establishing a Superintendent's budget advisory committee to review the budget and provide input and recommendations to address the declining fund balance.