

Budget Advisory Committee Meeting



East Side Union High School District

Presented by Chris Jew, Associate Superintendent of Business Services, Silvia Pelayo, Director of Finance, and Chris Funk, Superintendent

November 12, 2020



Budget Advisory Committee Meeting

- Welcome and Introduction
- Review Purpose and Expectations of Budget Advisory Committee (BAC)
- Review Budget and Fiscal Reporting Cycle
- ESUHSD Adopted 2020-21 Budget Summary
 - 45 Day Budget Update
 - Updated 2019-20 Unaudited Actuals
 - Fiscal Solvency Plan
 - Multi-Year Projection
- Break out Groups

Purpose



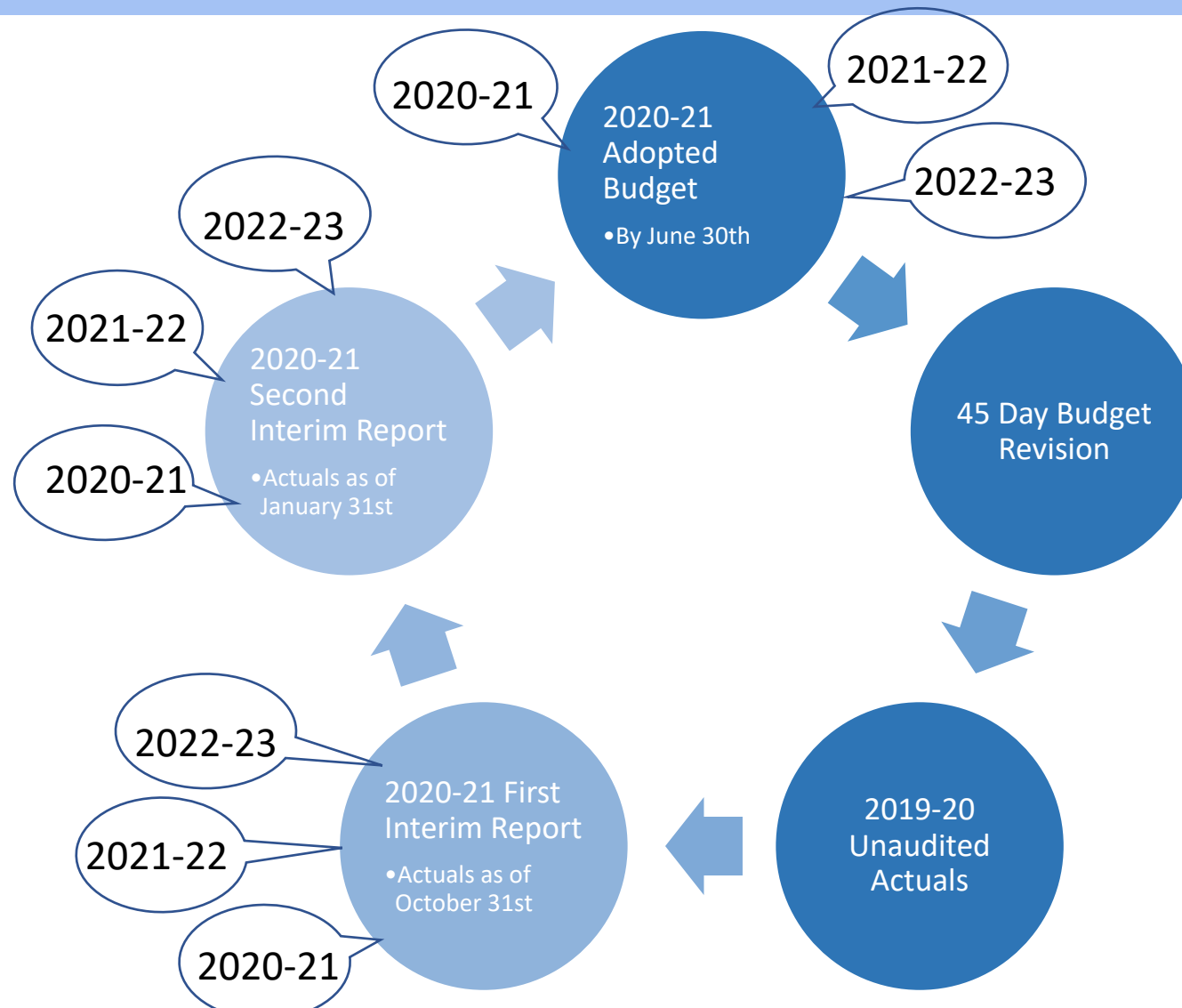
- Superintendent's Committee comprised of representatives from various District stakeholders
- To review the District's Budget
- Share the information with constituent groups
 - Disseminate information to as many parents, students, staff, and community members as possible
- Provide input or recommendations as requested by the Superintendent for consideration in the Budget development process
- The Committee is advisory in nature and will not have decision making responsibilities

An Offering:

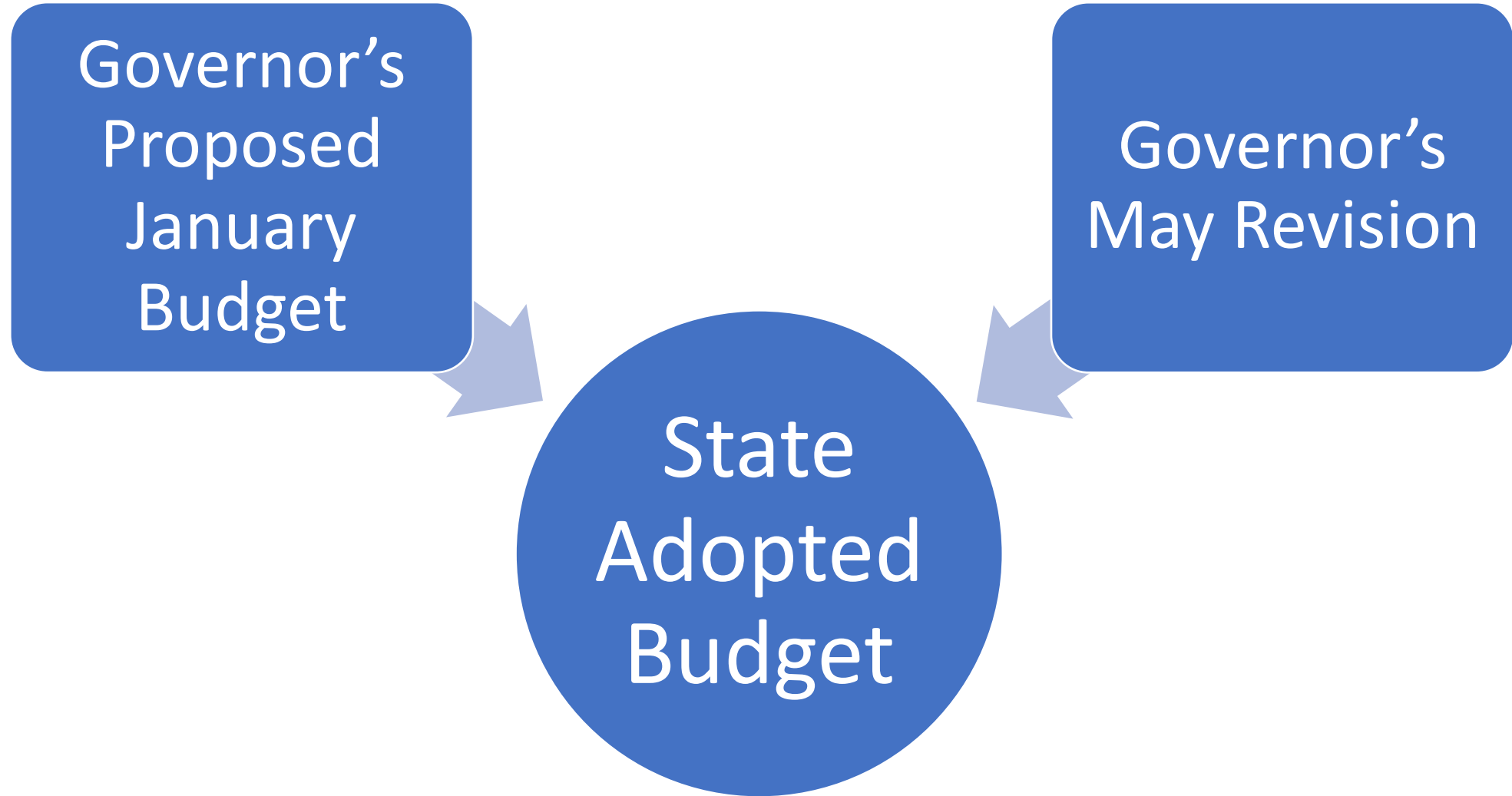


- Start and end on time
- One person talks at a time (No side conversations)
- Everyone has a “voice” and to respect each others thoughts and opinions
- Address the issues, not the people (individuals)
- Confidentiality of discussions
- Stay on task at hand, keep to items on the “floor” at time of discussion
- No implied agreements
- Represent the needs of the entire District (Not a specific site or program)
- Any recommendations are advisory

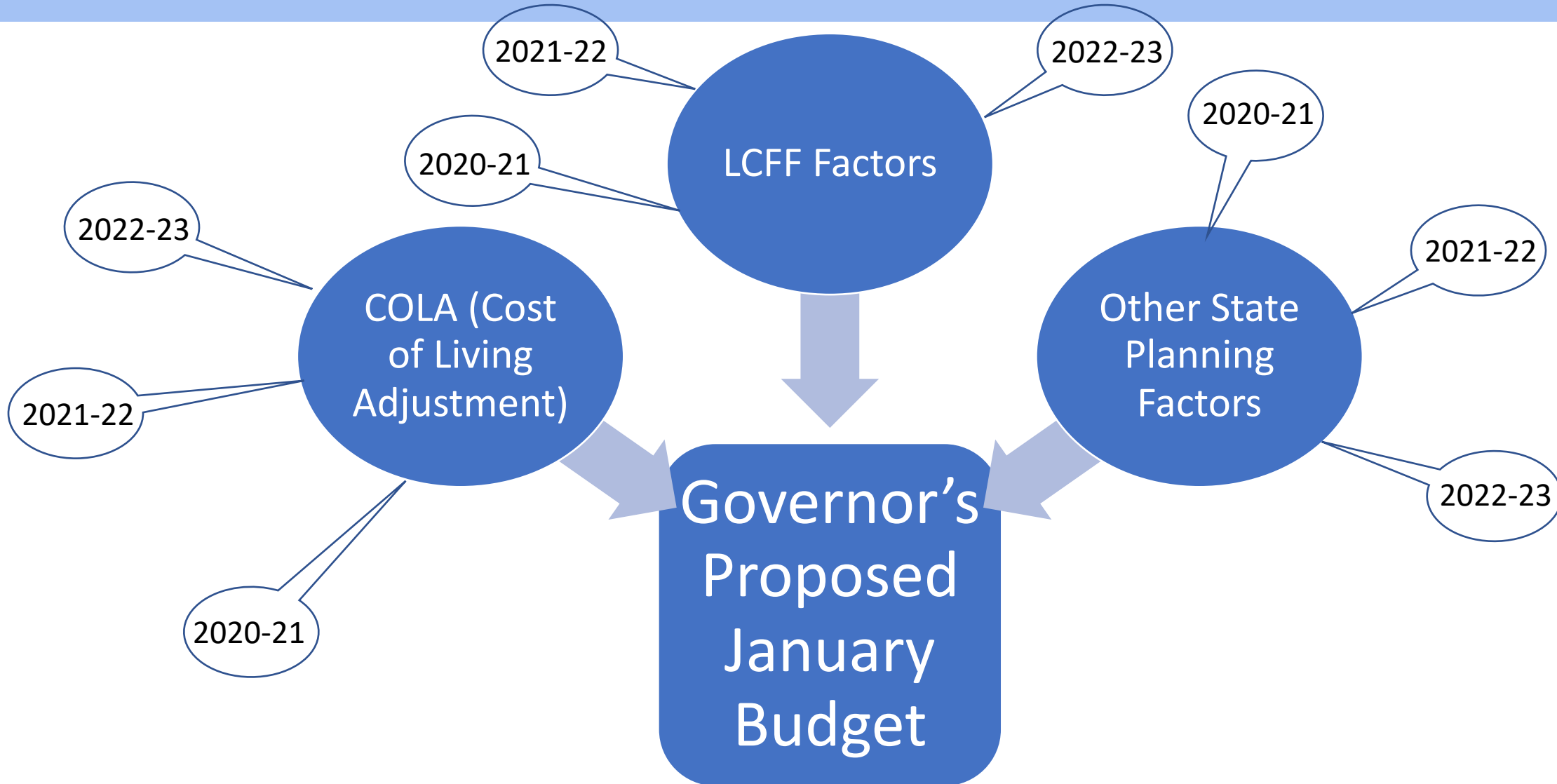
2020-21 Budget and Fiscal Reporting Cycle



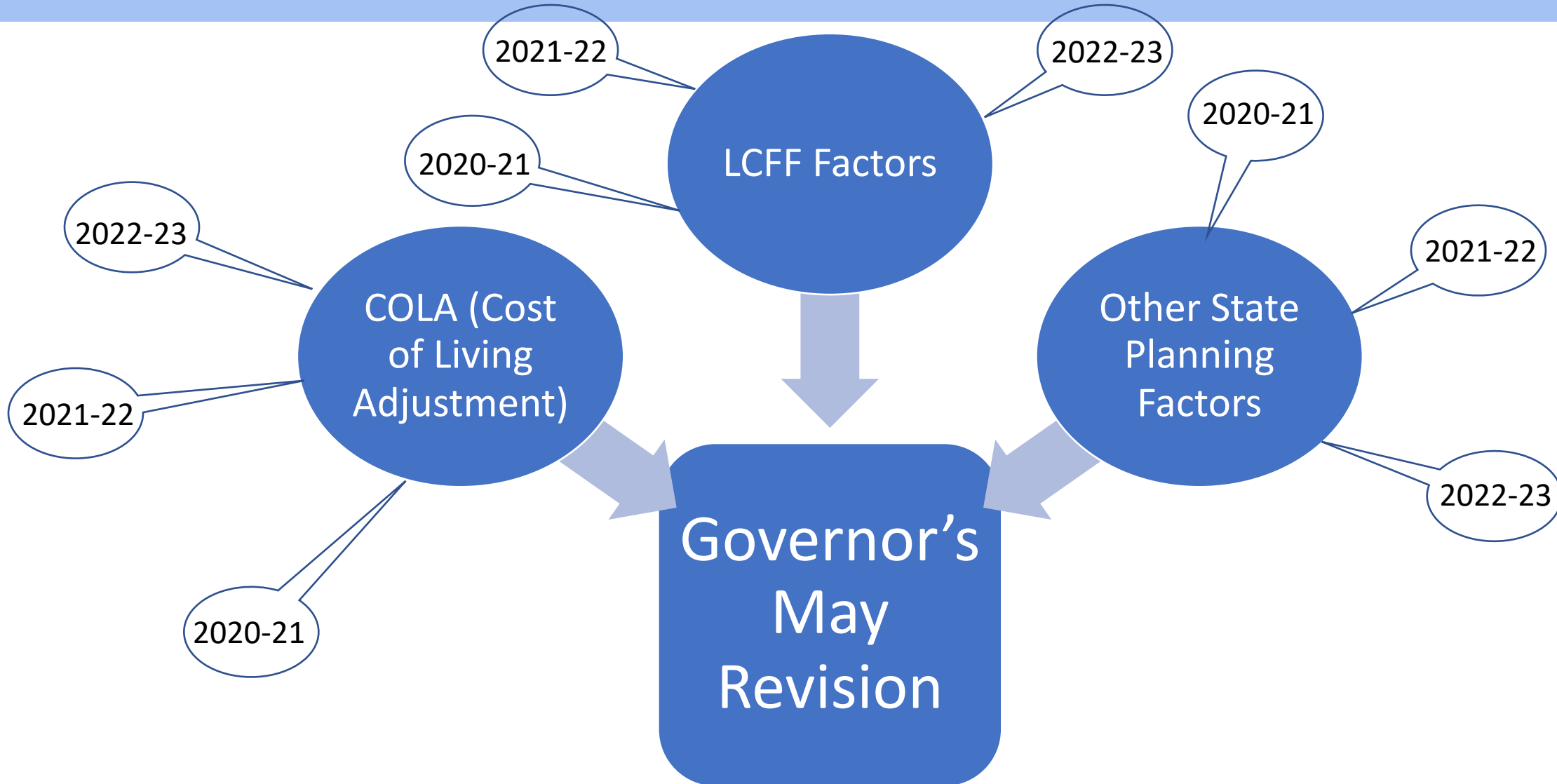
Annual State Budget Development Cycle



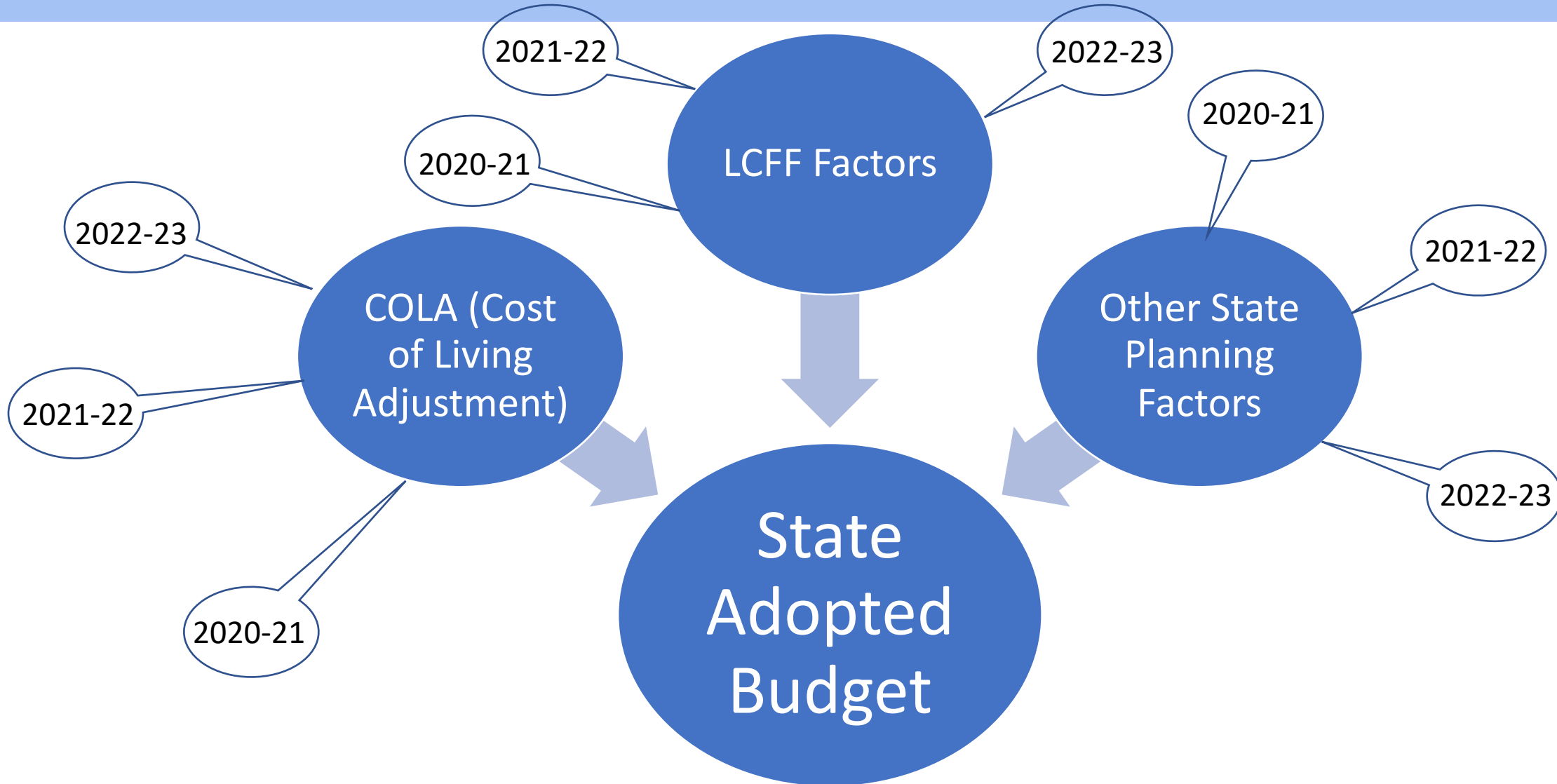
Budget Development Assumptions



Budget Development Assumptions



Budget Development Assumptions



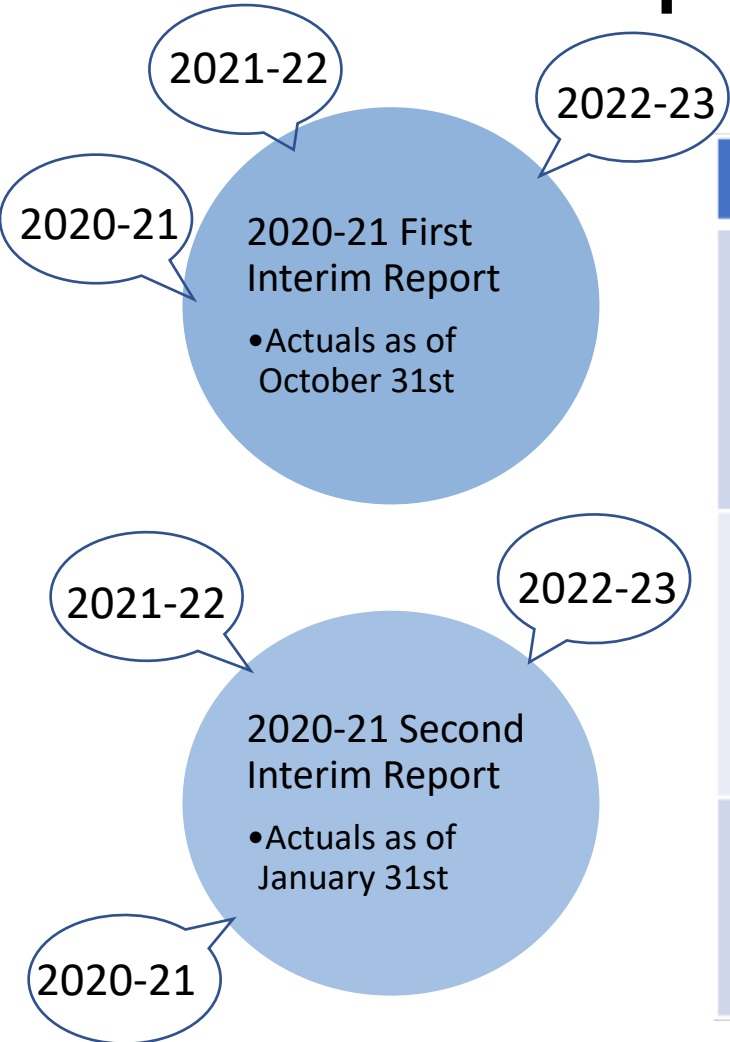
Budget Development Assumptions



	Factors	2019-20	2020-21	2021-22	2022-23	2023-24
State Adopted Budget 2019-20	COLA	3.26%	3.00%	2.80%	3.16%	Not Avail
	CalSTRS Employer Rate	17.10%	18.40%	18.10%	18.10%	Not Avail
	CalPERS Employer Rate	19.72%	22.70%	24.60%	25.40%	Not Avail
Governor's January Budget 2020-21	COLA	3.26%	2.29%	2.71%	2.82%	2.60%
	CalSTRS Employer Rate	17.10%	18.40%	18.10%	18.10%	18.10%
	CalPERS Employer Rate	19.72%	22.80%	24.90%	25.90%	26.60%
May Revision 2020-21	COLA	3.26%	-10.00%	0.00%	0.00%	0.00%
	CalSTRS Employer Rate	17.10%	16.15%	16.02%	18.10%	18.10%
	CalPERS Employer Rate	19.72%	20.70%	22.84%	25.50%	26.20%
State Adopted Budget 2020-21	Dept of Finance Est. COLA		2.31%	2.48%	3.26%	Not Avail
	Funded COLA		0.00%	Not Available		
	School Services Est. COLA		2.31%	0.60%	0.70%	1.60%
	School Services Recommended Planning COLA		0.00%	0.00%	0.00%	0.00%



Interim Report Certification



Certification	
Positive	District <u>WILL</u> meet its financial obligations for the remainder of the fiscal year and the subsequent 2 years
Qualified	District <u>MAY NOT</u> be able to meet its financial obligations either in the current year or the subsequent 2 years
Negative	District <u>WILL NOT</u> be able to meet its financial obligation for current fiscal year or subsequent year



ESUHSD Adopted 2020-21 Budget Summary

Opposing Budget Proposals



Governor's May Revision

- Overall 10% reduction to Budget
- Even with statutory COLA set at 2.31%, overall deficit to LCFF is (7.92%)
- Cuts to Categorical programs
- \$7.2 Billion in Apportionment Deferrals

“Trigger Off” trailer bill language to reduce cuts if additional Federal Funds ARE given to states

SCCOE is requiring Santa Clara County School Districts to use May Revise

Senate Budget Committee

- Rejects proposed cuts to Prop 98
- Funds the 2.31% statutory COLA
- Rejects additional cuts to Categorical programs
- Assumes the State will receive additional Federal Funds

“Trigger On” trailer bill language to implement additional Apportionment Deferrals if additional Federal Funds ARE NOT given to states

District Budget Assumptions

Changes based on Governor's 2020-21 May Revise



2020-21 Governor's Proposed Budget	2019-20	2020-21	2021-22	2022-23	2023-24
COLA	3.26%	2.29%	2.71%	2.82%	2.60%
Increase/ (Decrease)	0.12%	1.61%	1.62%	1.82%	1.62%
LCFF Funding	\$290,054	\$3,856,229	\$3,929,269	\$4,476,080	\$4,060,557
STRS	17.10%	18.40%	18.10%	18.10%	18.10%
PERS	19.721%	22.80%	24.90%	25.90%	26.60%

2020-21 Governor's May Revise Budget	2019-20	2020-21	2021-22	2022-23	2023-24
COLA	3.26%	0.00%	0.00%	0.00%	0.00%
Deficit Factor		(7.92%)	(7.92%)	(7.92%)	(7.92%)
Increase/ (Decrease)	0.19%	(8.26%)	(0.99%)	(0.85%)	(0.19%)
LCFF Funding	\$460,323	(\$19,729,993)	(\$2,164,667)	(\$1,835,144)	(\$458,547)
STRS	17.10%	16.15%	16.02%	18.40%	18.10%
PERS	19.721%	20.70%	22.84%	25.80%	26.20%

CORE VALUES: Equity Inlusiveness Commitment to Excellence Diversity Professional Capacity

Equity Policy 0105: Every student receives what he or she needs to thrive socially, emotionally, and academically.....interrupting inequitable practices and biases and creating inclusive and just conditions in our schools.

Major 2020-21 Expenditure Assumptions



- Increased costs of Salary Settlements for 2020-21
- Increased costs related to Step/Column and Longevity changes
- Slight decrease costs in STRS/PERS contributions
- Increase in Health Benefit costs
- SERP Retirement Incentive Cost
- Decrease in classroom teacher FTEs due to enrollment decline
- Total Salary and Benefits costs increased by \$11.4M
 - \$3.5M Retiree Health Benefit cost transfer from OPEB Trust

Other 2020-21 Major Expenditure Assumptions



- Total Supplies, Material, Operational/Contracted Services, and Capital Outlay has increased by \$25K
 - The budget takes into consideration a 10% reduction in most budgets in addition further reductions to reflect the District's Distance Learning Plans for 2020-21
- Contributions
 - Special Education – Increased by \$3.3M
 - Routine Repair Maintenance – Increased by \$552K
 - Transportation – Increased by \$2.1M
 - Child Nutrition Services – Increased by \$582K

Additional Expenditures Reductions 20/21 Year



- 15% Reduction in Building Utility costs = \$950,699
 - 50% Reduction in Certificated Substitute costs = \$1,077,658
 - 50% Reduction in Lunch Supervision and Security costs = \$288,098
 - 50% Reduction in Classified Substitute and Overtime costs = \$115,707
 - Additional reductions to Supplies, Materials, Conference and Travel = \$689,029
 - CARES ACT Funds to cover Unrestricted General Fund costs = \$3,389,212
- Total Unrestricted General Fund Reductions = \$6,510,403**

45 Day Update to ESUSD 2020-21 Budget



	May Revision	Enacted Budget
10% Reduction to LCFF Revenue	- \$18,996,244 (On Going)	+\$18,996,244 (On Going)
Learning Loss Mitigation Funds (Based on Students with Disabilities) – Federal CARES ACT (Coronavirus Relief Funds) and Governor’s Emergency Ed Relief Funds (GEER)		+\$4,584,221 (One-Time) – RESTRICTED Funds Coronavirus Relief Funds must be spent by Dec 30, 2020 GEER Funds must be spent by Sept 30. 2022
Learning Loss Mitigation Funds (Based on Supplemental LCAP Funding) – Federal CARES ACT (Coronavirus Relief Funds)		+\$6,251,192 (One-Time) – RESTRICTED Funds Coronavirus Relief Funds must be spent by Dec 30, 2020
Learning Loss Mitigation Funds – Prop 98 – Federal CARES ACT – Coronavirus Relief Funds and Prop 98		+\$3,657,836 (One-Time) – RESTRICTED Funds Coronavirus Relief Funds must be spent by Dec 30, 2020
State Lottery Revenue		-\$176,694 (One-Time)
Special Education Contribution from General Fund		+\$369,444 (Increased Costs)
Board Election Costs		+\$463,000 (Increased Costs)

2019-20 Fund Balance (Combined) Estimated Actuals vs. Unaudited Actuals



	Estimated Actuals	Unaudited Actuals	Difference
Beginning Balance (Fund 01)	\$40,256,224	\$40,256,224	\$0
Revenues (Fund 01)	\$290,856,539	\$290,595,035	(\$261,504)
Expenditures (Fund 01)	\$289,939,236	\$285,993,519	(\$3,945,717)
Net Increase/(Decrease) to Fund Balance	\$917,303	\$4,601,516	\$3,684,213
Other Sources/Uses/Adjustment (Fund 01)	(\$2,019,589)	(\$2,011,770)	(\$7,819)
Ending Fund Balance (Fund 01)	\$39,153,938	\$42,893,909	\$3,739,971

April 15, 2020

Lan Nguyen, Board President
East Side Union School District
830 North Capitol Avenue
San Jose, CA 95133

Dear Board President Lan Nguyen,

Subject: East Side Union School District 2019-20 Second Interim Report

In accordance with Education Code (EC) Section 42131, our staff has examined the second interim report of East Side Union School District for fiscal year 2019-20 to determine if it complies with the Criteria and Standards adopted by the State Board of Education and if it allows the district to meet its financial obligations during the current and two subsequent fiscal years. The Santa Clara County Office of Education is seriously concerned over the future fiscal solvency of the district. The district submitted a second interim report with a positive certification. Our office does not agree with a positive certification and makes a finding of qualified certification.

The second interim report approved by the district's governing board at the March 5, 2020 meeting was based on a series of assumptions, but a critical element to balancing the budget in future years was the reduction of force action taken at the February 13, 2020 board meeting that provided for 74.6 certificated FTE and 69 classified FTE reductions for the 2020-21 fiscal year.

At the March 5, 2020 meeting the board amended the February 13, 2020 reduction in certificated force action from 74.6 FTE to 39 FTE. At the March 11, 2020 board meeting, the board rescinded the certificated and classified reductions in force. As noted at the March 11, 2020 board meeting, by rescinding the reduction in force resolution, it results in the district unable to meet its financial obligations in future years.

The following statement is taken from the March 11, 2020 board meeting agenda item:

"There are major implications by rescinding the 90 employee layoffs. Based on the updated 2019-20 Second Interim Report, the District will need to find an additional \$781,000 in cuts for 2020-21 or the District's budget will show a reserve level for economic uncertainty below its 3% requirement. The greatest implication will impact the District's 2021-22 budget where, based on current information and projections, cuts totaling approximately \$22.3 million are needed and an additional \$3.5 million cuts in 2022-23 to maintain the District 3% reserve over the multi-year projection."

Pursuant to EC 42131 (3), a qualified district is required to provide a 2019-20 financial statement (third

Lan Nguyen, Board President
April 15, 2020
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interim), no later than June 1 of that fiscal year, that projects the district's fund and cash balances through June 30 for the period ending April 30. A district is not required to self-certify to a "positive," "qualified," or "negative" certification when submitting their June 1 financial statement.

EC 42127.6 provides that the County Superintendent shall do at least one of a series of actions outlined in code and all actions that are necessary to ensure that the school district meets its financial obligations. The County Superintendent will do the following:

- Assign a fiscal expert, paid for by the county superintendent. The fiscal expert will review the district prepared financial projections and budget proposal solutions (as outlined below) to determine if the district will be fiscally solvent pursuant to criteria and standards approved by the State Board of Education.
- Request FCMAT to perform a Fiscal Health Risk Analysis.

The county superintendent requires the district do the following:

- By June 1, 2020, East Side will submit a financial projection of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years.
- By June 30, 2020, the district will submit a proposal for addressing its fiscal condition as a component of the 2020-21 budget adoption.

As an additional note, a district with a qualified certification any fiscal year may not issue, in that year or in the next fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, unless the county superintendent of schools determines that the district's repayment of that indebtedness is probable [EC 42133]. A school district that has a qualified certification must allow the county office of education at least 10 working days to review and comment on any proposed agreement between the exclusive representative and the public school employer before it is ratified. The Superintendent of Public Instruction or the county superintendent of schools can revoke/suspend its approval of a district drawing warrants on the county treasury if the district has a qualified or negative interim report certification [EC 42652].

We understand these are difficult times. It is our hope that the district and county office relationship is one of support in the months ahead, as the district makes the necessary and critical decisions to achieve fiscal solvency.

Lan Nguyen, Board President
April 15, 2020
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Sincerely,



Mary Ann Dewan, Ph.D.
County Superintendent of Schools

cc: Chris D. Funk, Superintendent, East Side Union School District
Chris Jew, Associate Superintendent for Business Services, East Side Union School District
Silvia Pelayo, Director of Finance, East Side Union School District
James Novak, Ed.D., Chief Business Officer, Santa Clara County Office of Education
Rema Kumar, District Business Advisor, Santa Clara County Office of Education

November 2, 2020

Lan Nguyen, Board President
East Side Union High School District
830 North Capitol Avenue
San Jose, CA 95133

Dear President Nguyen,

On April 15, 2020, the Santa Clara County Office of Education (SCCOE) informed the East Side Union High School District Board of Trustees and Superintendent that it did not agree with the positive certification of the Second Interim Budget Report approved by the governing board and instead made a finding of a qualified certification.

The interim report qualified certification resulted in the following:

- A fiscal expert was assigned by the County Superintendent to review the district prepared financial projections and budget proposal solutions to determine if the district would be fiscally solvent pursuant to criteria and standards approved by the State Board of Education.
- The Financial Crisis Management Assistance Team performed a Fiscal Health Risk Analysis.
- The district submitted a Third Interim Report, including a projection of fund and cash balances for the current and subsequent fiscal years.

The Fiscal Crisis Management Assistance Team presented the Fiscal Health Risk Analysis to the board on June 6, 2020. The analysis indicates that East Side Union High School District is at High Risk of fiscal insolvency. The basis for this finding is noted in the FCMAT report.

The County Superintendent has reviewed the Fiscal Health Risk Analysis along with the district's fiscal solvency resolution, 45-day budget revision, and Unaudited Actuals and recognizes that the savings achieved during the pandemic shelter-in-place order and more favorable state education budget than had been assumed in June have placed the district in an improved financial position. However, the district's revised budget assumptions underscore persistent problems such as the need to reduce staffing to align with declining enrollment and using one-time general fund and other reserves for ongoing expenditures, that cause this office continued concern with the district's ability to meet its financial obligations.

Specific action by the governing board of the East Side Union High School District is necessary in order for the district to remain fiscally solvent:

- The governing board must adopt a Fiscal Stabilization Plan prior to January 30, 2021.
- This plan must recognize the amount of reductions necessary to maintain at least the minimum statutory required reserves and detail how the district will accomplish those reductions in the current and subsequent two fiscal years.

Lan Nguyen, Board President
East Side Union High School District
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It is our expectation that the 2nd interim budget report that will be approved by the board prior to March 15, 2021, and it will incorporate the fiscal stabilization plan reductions approved by the board in January 2021.

The Santa Clara County Office of Education shares your interest that the East Side Union High School District remain stable and will support the district as it addresses its financial issues. To assist with this endeavor, the SCCOE will continue to assign, at its expense, an independent Fiscal Expert team to the district to provide critical budget consultation, analysis, and validation as the administration works with stakeholders to prepare plans and recommendations for board consideration.

I would like to thank and recognize the board and leadership team for their efforts in improving the district's long-term financial outlook. We await your First Interim Report and Budget Overview for Parents, which must be filed with our office no later than December 15, 2020. If you have any questions or concerns, please contact your District Business Advisor, Rema Kumar, at (408) 453-4277.

Sincerely,



Mary Ann Dewan, Ph.D.
County Superintendent of Schools

cc: Chris D. Funk, Superintendent, East Side Union High School District
Chris Jew, Associate Superintendent for Business Services, East Side Union High School District
Eric R. Dill, Chief Business Officer, Santa Clara County Office of Education
Shanny Yam, Director-District Business Advisory Services, Santa Clara County Office of Education
Rema Kumar, District Business Advisor, Santa Clara County Office of Education



Fiscal Solvency Resolution **(Required)**

- Address 100% of Reduction in Force going into 2021/2022

School Year - ~~\$58,300,000~~ - ~~\$31,000,000~~ \$29,350,000

~~435~~ ~~231~~ 219 Total FTEs

- ESTA = ~~296~~ ~~157~~ 149 FTEs

- CSEA = ~~115~~ ~~61~~ 58 FTEs

- Admin/Management = ~~24~~ ~~13~~ 12 FTEs

Multi-Year Projection



Updated 2020-21 Multi-Year Projection (Based on 45 Day Budget Update and 2019-20 Unaudited Actuals)



Year 1: 2020/2021 - UNRESTRICTED General Fund **These figures are based on the Enacted Budget and will change in the Future.*

Savings What's left in the bank from last year?	Revenue How much is expected to come in?	Expense How much money will be spent this year?	Balance Do we have money left in the bank to meet 3% Reserve?	Required 3% We are required to have a reserve balance of \$9M+.	How much is the District Deficit Spending?
\$38,041,632	+ \$201,599,860	- \$208,881,244	= \$30,760,248	\$9,031,307	(\$7,281,384)
	Includes Liquidation of \$5.5M from OPEB Fund. Remaining \$3.5M balance to pay Retiree H&W costs directly out of OPEB Account	Includes CARES Act Expenditures that total \$3,389,212 in savings			

Year 2: 2021/2022 – UNRESTRICTED General Fund **These figures are based on the Enacted Budget and will change in the Future.*

Savings	Revenue	Expense	Balance	Required 3%	How much is the District Deficit Spending?
\$30,760,248	+ \$191,487,816	- \$195,969,846	= \$26,278,218	\$8,570,684	(\$4,482,030)
		(\$29,350,000) Based on Resolution (RIF)			
		\$3,500,000 Costs for Retiree Health Benefits			

Year 3: 2022/2023 – UNRESTRICTED General Fund **These figures are based on the Enacted Budget and will change in the Future.*

Savings	Revenue	Expense	Balance	Required 3%	How much is the District Deficit Spending?
\$26,278,218	+ \$186,503,892	- \$203,653,717	= \$9,128,393	\$8,874,74	(\$17,149,825)
		(\$29,350,000) Based on Resolution (RIF)			
		\$3,500,000 Costs for Retiree Health Benefits			

Updated 2020-21 Multi-Year Projection (Based on 45 Day Budget Update and 2019-20 Unaudited Actuals)



Year 1: 2020/2021 - **RESTRICTED** General Fund **These figures are based on the Enacted Budget and will change in the future.*

Savings What's left in the bank from last year?	Revenue How much is expected to come in?	Expense How much money will be spent this year?	Balance	Restricted Reserve Balance	How much is the District Deficit Spending?
\$4,852,278	+ \$105,429,672	- \$92,162,335	= \$18,119,615	\$18,119,615	
	\$14,493,249 in One-Time Covid-19 funding				

Year 2: 2021/2022 - **RESTRICTED** General Fund **These figures are based on the Enacted Budget and will change in the future.*

Savings	Revenue	Expense	Balance	Restricted Reserve Balance	How much is the District Deficit Spending?
\$18,119,615	+ \$87,964,870	- \$89,719,631	= \$16,364,854	\$16,364,854	(\$1,175,761)

Year 3: 2022/2023 - **RESTRICTED** General Fund **These figures are based on the Enacted Budget and will change in the future.*

Savings	Revenue	Expense	Balance	Restricted Reserve Balance	How much is the District Deficit Spending?
\$16,364,854	+ \$90,713,719	- \$92,162,074	= \$14,916,499	\$14,916,499	(\$1,448,355)

Updated 2020-21 Multi-Year Projection (Based on 45 Day Budget Update and 2019-20 Unaudited Actuals)



Year 1: 2020/2021 – Total Combined General Fund *These figures are based on the Enacted Budget and will change in the future.

Savings What's left in the bank from last year?	Revenue How much is expected to come in?	Expense How much money will be spent this year?	Balance Do we have money left in the bank to meet 3% Reserve?	Required 3% We are required to have a reserve balance of \$9M+.	How much is the District Deficit Spending?
\$42,893,909	+ \$307,029,532	- \$301,043,579	= \$48,879,862	\$9,031,307	
	Includes Liquidation of \$5.5M from OPEB Fund. Remaining \$3.5M balance to pay Retiree H&W costs directly out of OPEB Account	Includes CARES Act Expenditures that total \$3,389,212 in savings			

Year 2: 2021/2022 – Total Combined General Fund *These figures are based on the Enacted Budget and will change in the future.

Savings	Revenue	Expense	Balance	Required 3%	How much is the District Deficit Spending?
\$48,879,862	+ \$279,452,686	- \$285,689,477	= \$42,643,071	\$8,570,684	
		(\$29,350,000) Based on Resolution (RIF)			
		\$3,500,000 Costs for Retiree Health Benefits			(\$6,236,791)

Year 3: 2022/2023 – Total Combined General Fund *These figures are based on the Enacted Budget and will change in the future.

Savings	Revenue	Expense	Balance	Required 3%	How much is the District Deficit Spending?
\$42,643,071	+ \$277,217,611	- \$295,815,791	= \$24,044,891	\$8,824,974	
		(\$29,350,000) Based on Resolution (RIF)			
		\$3,500,000 Costs for Retiree Health Benefits			(\$18,598,180)

Budget Advisory Committee Meeting



Break Out Groups



Questions or Comments