



# PETALUMA CITY SCHOOLS

Update on May Revise  
and Preliminary Budget  
Assumptions

2020-21 Fiscal Year



# Economic Effects of COVID-19

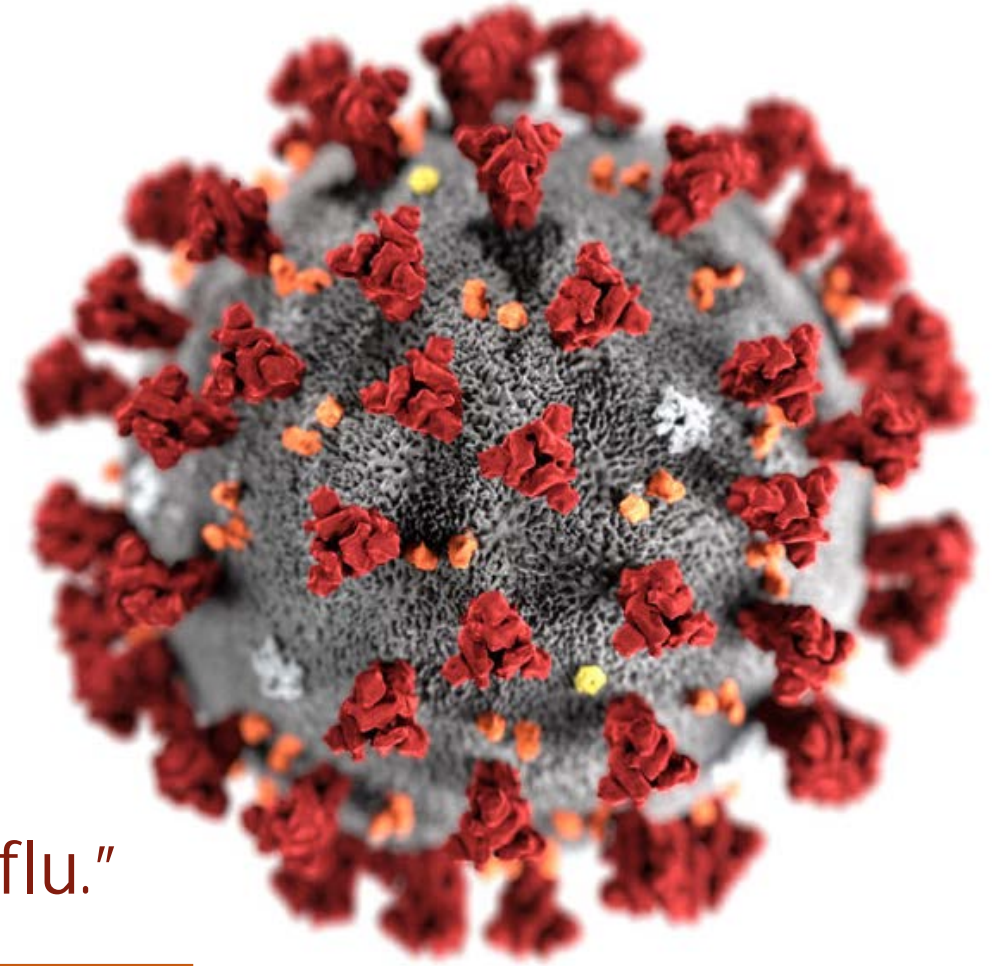
- Eleven years of economic expansion came to a screeching halt this year
  - ◆ As former Governor Jerry Brown always warned us, a recession was coming, but even he could not have foreseen this
- No aspect of the national or state economy seems to be unscathed by the virus and the path to recovery is unknown
  - ◆ There are no models for how a world recovers from a near total shutdown of economies around the globe
    - Initial recovery projections were optimistic, but along with the number of cases of COVID-19, have become more and more grim
- The actual economic effects will not be known for months and years, but nonetheless, the Administration must make some assumptions as to how far California will fall and how it will make its eventual comeback





# California's Economy

- As the nation goes, so goes California
- California ranks 5<sup>th</sup> among the world's largest economies including the United States, China, Japan, and Germany
  - ◆ This makes the state highly susceptible to national and global economic shocks
  - ◆ Given its coastal geography, the state is home to three of the largest trade ports—making California's economy reliant on international commerce



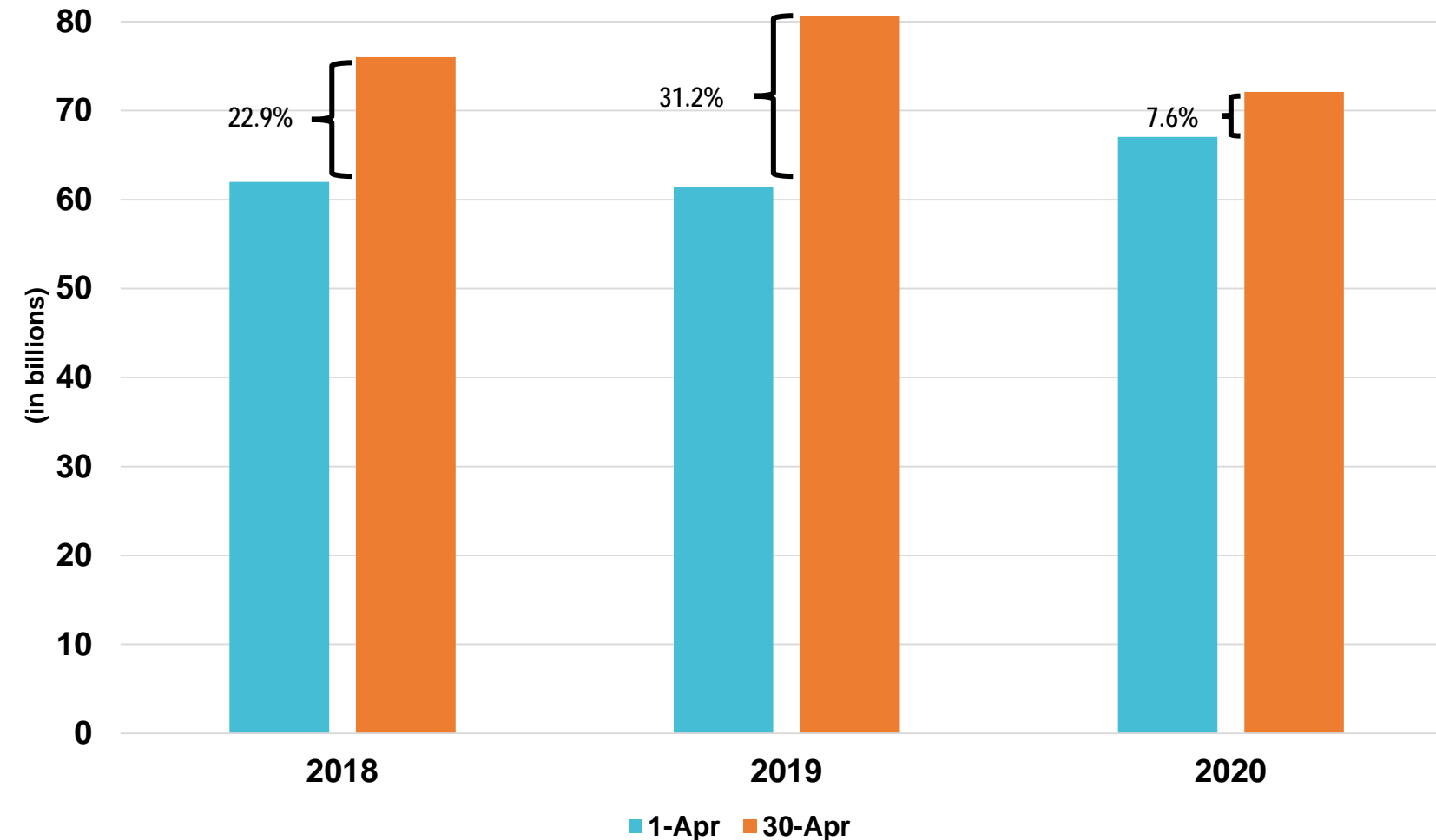
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“When the nation gets a cold, California gets the flu.”

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# Impact of Shifting the Tax Deadline

### April Personal Income Tax Collections



- Both federal and state governments shifted the annual income tax deadline from April 15 to July 15 as a result of the COVID-19 outbreak
- This shift has caused a significant decline personal income tax (PIT) revenues in the biggest PIT revenue month, making it difficult to develop the state's on-time Budget
- Given recent unemployment figures, we may not fully recover the lost revenue



# California Revenues

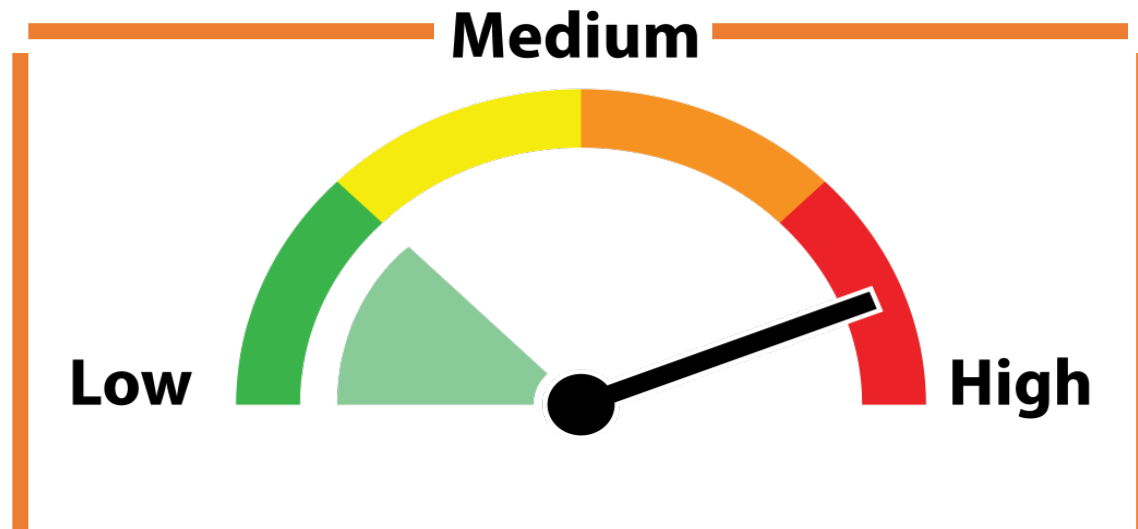
- The May Revision assumes that the state will suffer from a \$41.2 billion loss in revenues compared to January estimates in 2019–20 and 2020–21 combined
  - ◆ -\$9.1 billion for 2019–20
  - ◆ -\$32.2 billion for 2020–21
- Revenue losses are compounded by the growing number of Californians who need access to state safety net services, bringing the state's total shortfall to \$54 billion





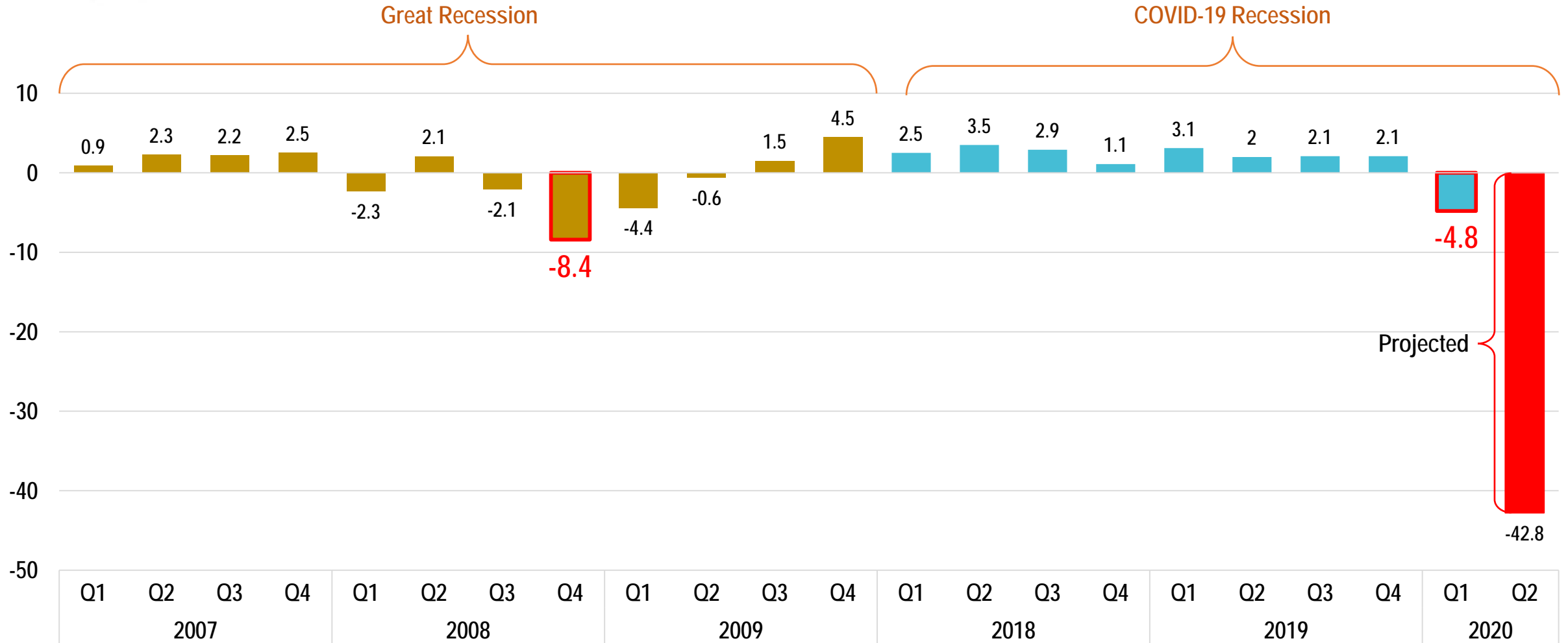
# Risks to the State Budget

- Biological risks
  - ◆ Epidemiology of the coronavirus
  - ◆ Lack of widespread testing, tracing, effective therapies, and a vaccine
  - ◆ Viral rebound in the fall or winter
- Fiscal risks
  - ◆ Expiration of federal unemployment benefits
  - ◆ Lack of federal stimulus measures that meet need
- Performance of the international economy
  - ◆ Worldwide reductions of gross domestic product
  - ◆ Continuing distortions of supply and demand
- Increasing Sino-U.S. tensions
  - ◆ Pandemic finger pointing
  - ◆ Potential trade “Cold War”





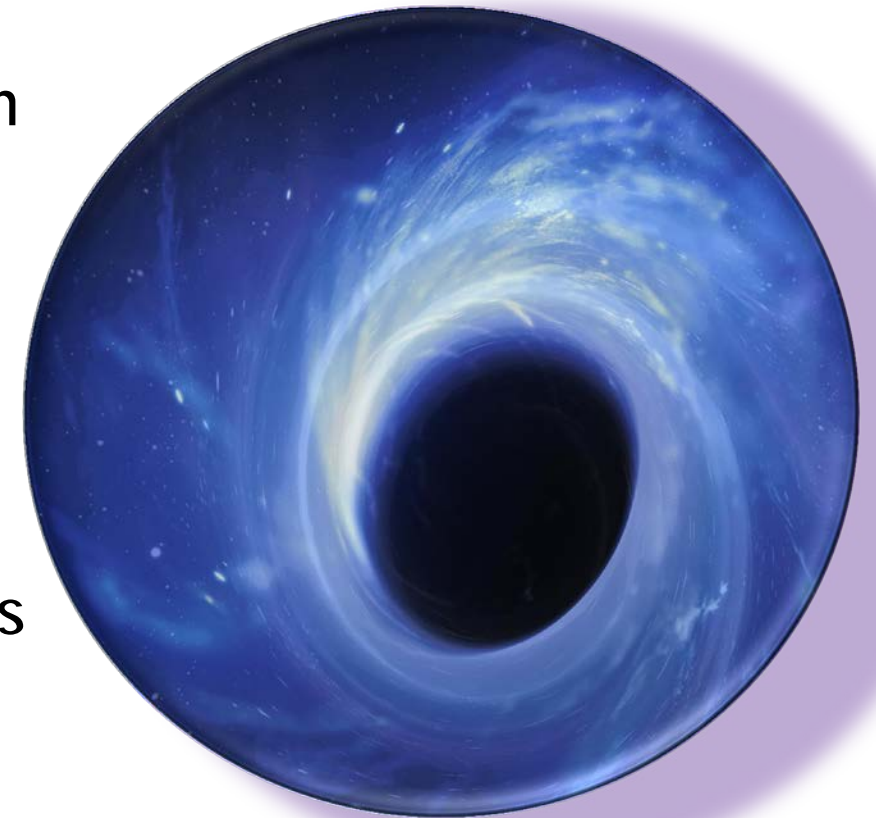
# U.S. Real GDP—Great Recession vs. COVID-19





# Will There Be a Revised Budget?

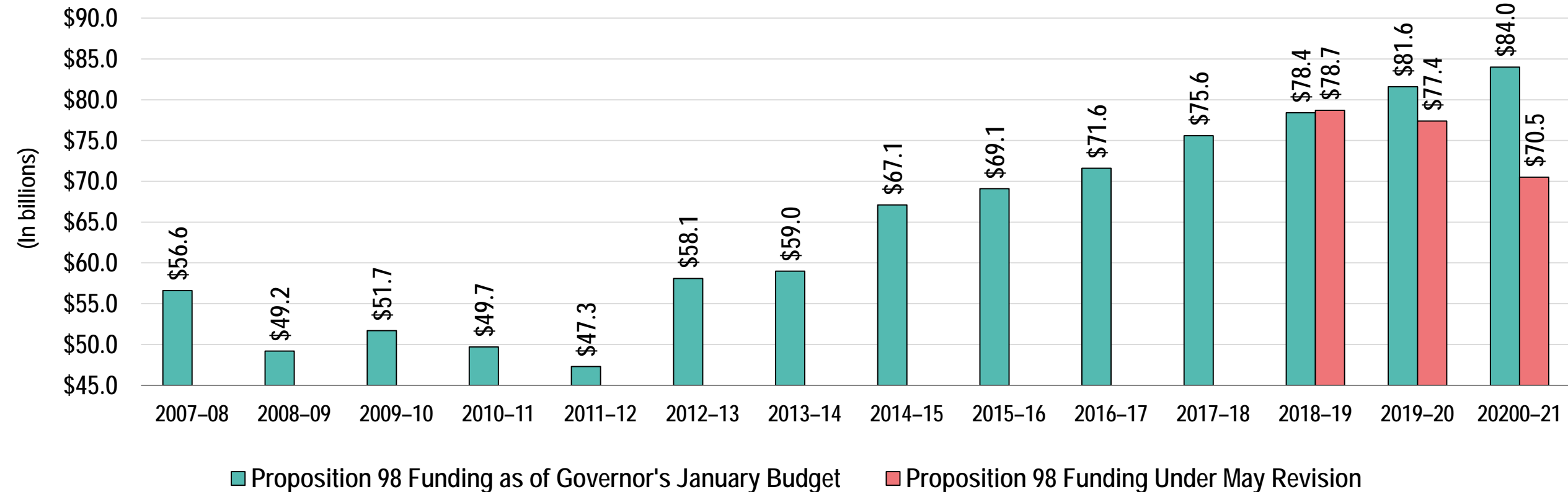
- While the May Revision gives us important anchors for state and local budgets that must be adopted by July 1, 2020, there continues to be a gaping hole of information that we need in order to build more accurate budgets
  - ◆ Unemployment rates change
  - ◆ PIT revenue is the largest share of general fund revenue; tax payments deferred
  - ◆ Consumer confidence shaken by the current state of the economy; may be a while before confidence rebuilds
  - ◆ Small, as well as large, businesses may not be able to withstand COVID-19
- The state will likely need to revise its Budget when more information becomes available later this summer





# Proposition 98 Funding

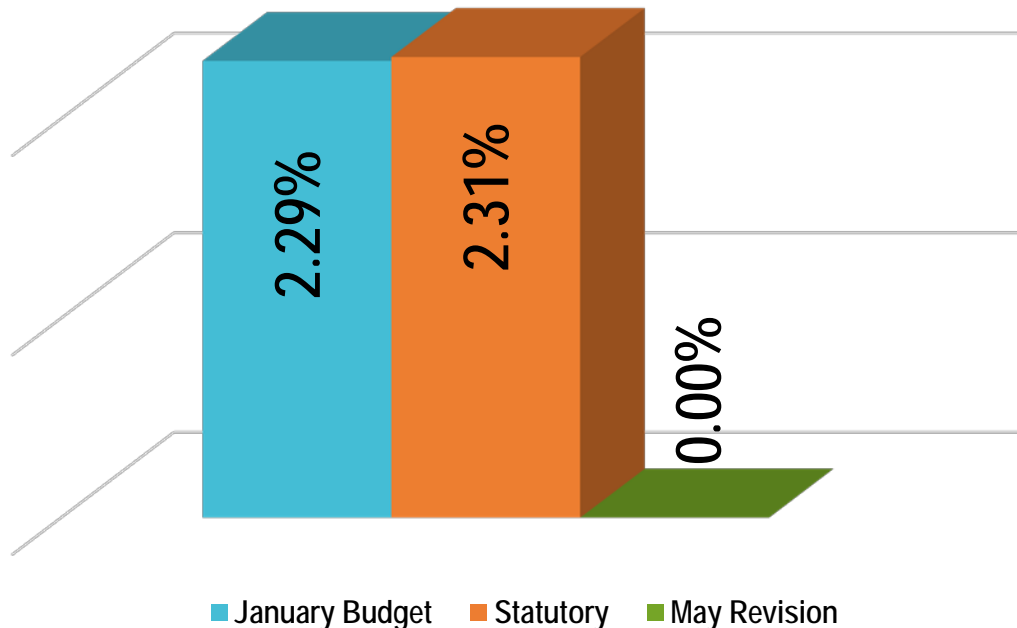
## Proposition 98 Funding 2007-08 to 2020-21



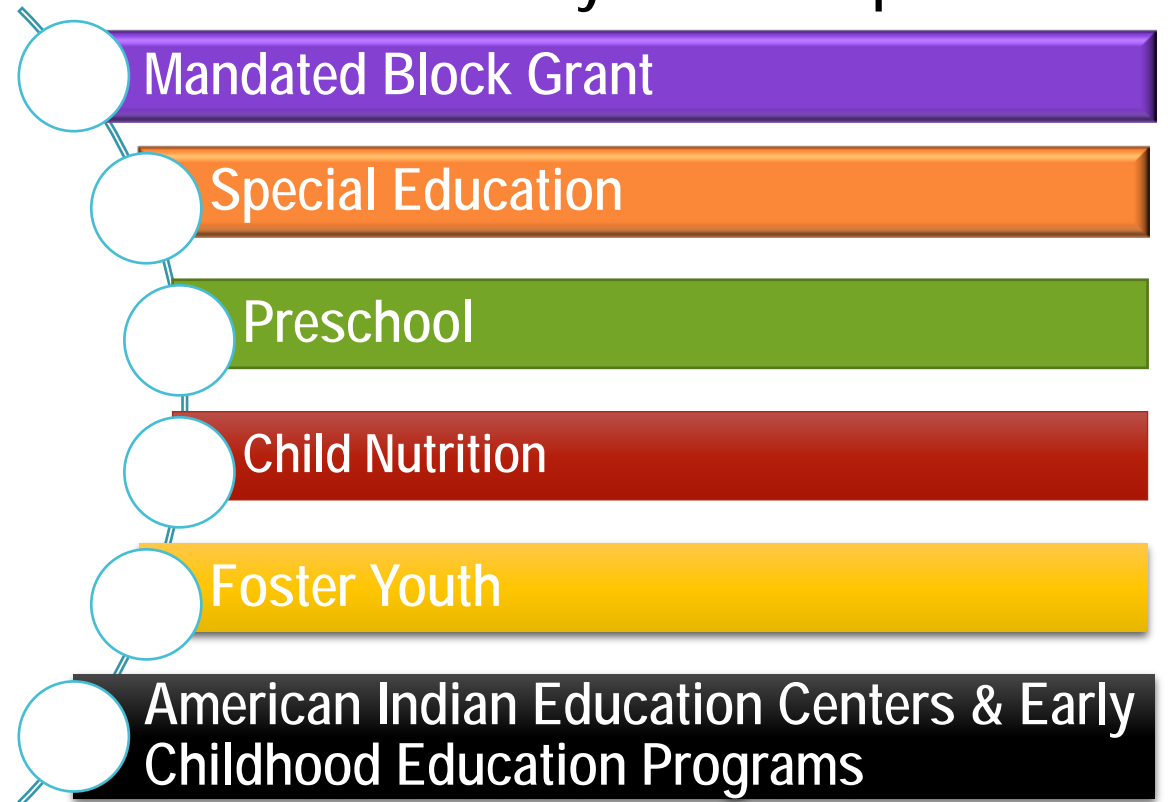
Source: 2020-21 Governor's Budget, pg. 68 and data provided by the DOF

# Statutory COLA

- While the May Revision acknowledges a 2.31% statutory cost-of-living adjustment (COLA) (up slightly from the 2.29% estimated COLA in January), it suspends the COLA for 2020–21



- Categorical programs outside of the LCFF will also have the statutory COLA suspended

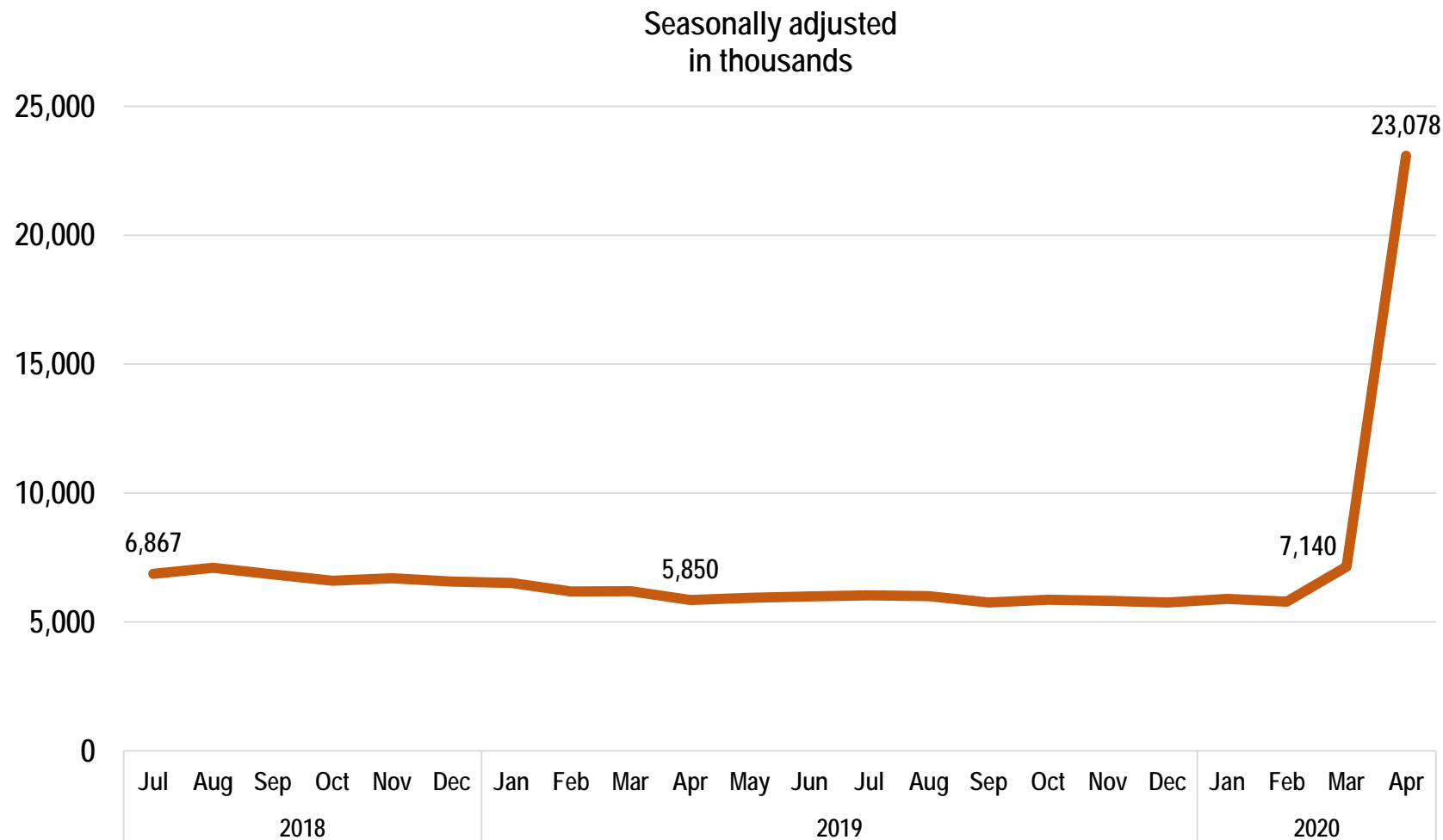


In typical years, as costs continue to rise, these programs would see adjustments for COLA only and average daily attendance (ADA) for special education



# U.S. Unemployment Numbers

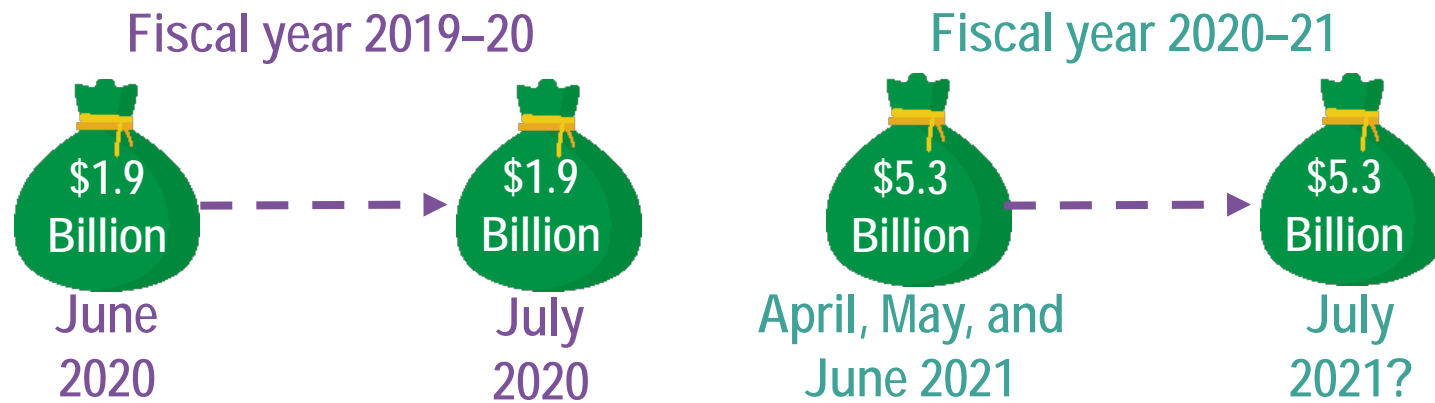
- Before the public health crisis, the U.S. economy was enjoying full employment
- The national unemployment rate was at historic lows, and no one predicted that things would change so suddenly
- Some economists forecast that the unemployment rate could reach upwards of 20% in the third quarter of the year





# Deferrals: Here We Go Again

- Cash deferrals were used during the Great Recession to implement state-level budget cuts and/or improve the state's cash position
- The Governor's May Revision takes a page from the same playbook and proposes the following cash deferrals:



- Local school agencies may need to implement local borrowing options to ensure adequate cash to continue paying employees and vendors during these times
  - ◆ While this avoids an additional cut in state revenues to schools, it pushes the administrative and financial burden of borrowing cash to local school agencies

# 2020–21 LCFF Funding Factors

- The May Revision suspends the 2.31% COLA and includes an additional reduction—for a total of 10% cut to the Local Control Funding Formula (LCFF)
  - ◆ First, the 2.31% COLA is applied to arrive at the 2020–21 base grants
  - ◆ Then the 10% reduction is applied—for an effective reduction of 7.92% to the 2019–20 base grant amounts

These reductions would be “triggered off” if the federal government provides sufficient funding to backfill the cuts

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





# 2020–21 LCFF Funding Factors

- Two grade span adjustments (GSAs) are applied as percentage increases against the effective base grant amounts
  - ◆ Grades K–3 receive a 10.4% increase for smaller average class sizes
  - ◆ Grades 9–12 receive a 2.6% increase in recognition of the costs of career technical education coursework

Grade Span	Effective 2020–21 Base Grant per ADA	GSA	2020–21 Adjusted Base Grant per ADA
K–3	\$7,092	\$738	\$7,830
4–6	\$7,199	-	\$7,199
7–8	\$7,412	-	\$7,412
9–12	\$8,590	\$223	\$8,813



# 2020–21 LCFF Funding Factors

- The cuts are meant to reduce the LCFF with the reduction taken from the base grant, which lowers the amount upon which supplemental and concentration grant funding is calculated

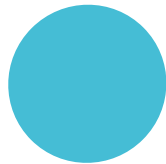
Grade Span	2020–21 Adjusted Base Grant per ADA	20% Supplemental Grant* per ADA—Total UPP after 10% base grant reduction	50% Concentration Grant* per ADA—UPP Above 55% after 10% base grant reduction
K–3	\$7,830	\$1,566	\$3,915
4–6	\$7,199	\$1,440	\$3,600
7–8	\$7,412	\$1,482	\$3,706
9–12	\$8,813	\$1,763	\$4,406

\*Calculated based on the percentage of a local educational agency’s (LEA’s) enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth—the unduplicated pupil percentage (UPP)

# 2020–21 LCFF Add-On Reductions

- In addition to the base, supplemental, and concentration grants, all of the following LCFF add-on funding will also receive a 10% reduction

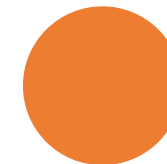
**Targeted  
Instructional  
Improvement Grants**  
Education Code Section (EC §)  
42238.02(g)



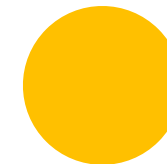
**Home-to-School  
Transportation**  
EC § 42238.02(h)



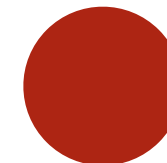
**Economic  
Recovery Target**  
EC § 42238.025



**Minimum State Aid**  
EC § 41544



**Basic Aid  
Supplement**  
EC § 47663



**District of Choice**  
EC § 48310



# Historical Lottery Funding Reductions

- During the great recession Lottery funding was also reduced due to the economical distress felt by so many Californians
- Between 2006–07 through 2009–10 the biggest loss was to the restricted Lottery (instructional materials) portion of the Lottery funding from \$27.90 per ADA down to \$13 per ADA (53%) in that period of time
- Full restoration of pre-recession funding did not occur until 2012–13
- Prudent Lottery projections should include a reduction in expected funding as part of the multiyear projection based upon historical trends

Base Rates increased to \$645 per ADA based on three-year rolling average ADA



Reflects a 15% increase over the amount provided in 2019–20 budget

Reflects suspension of 2.31% COLA

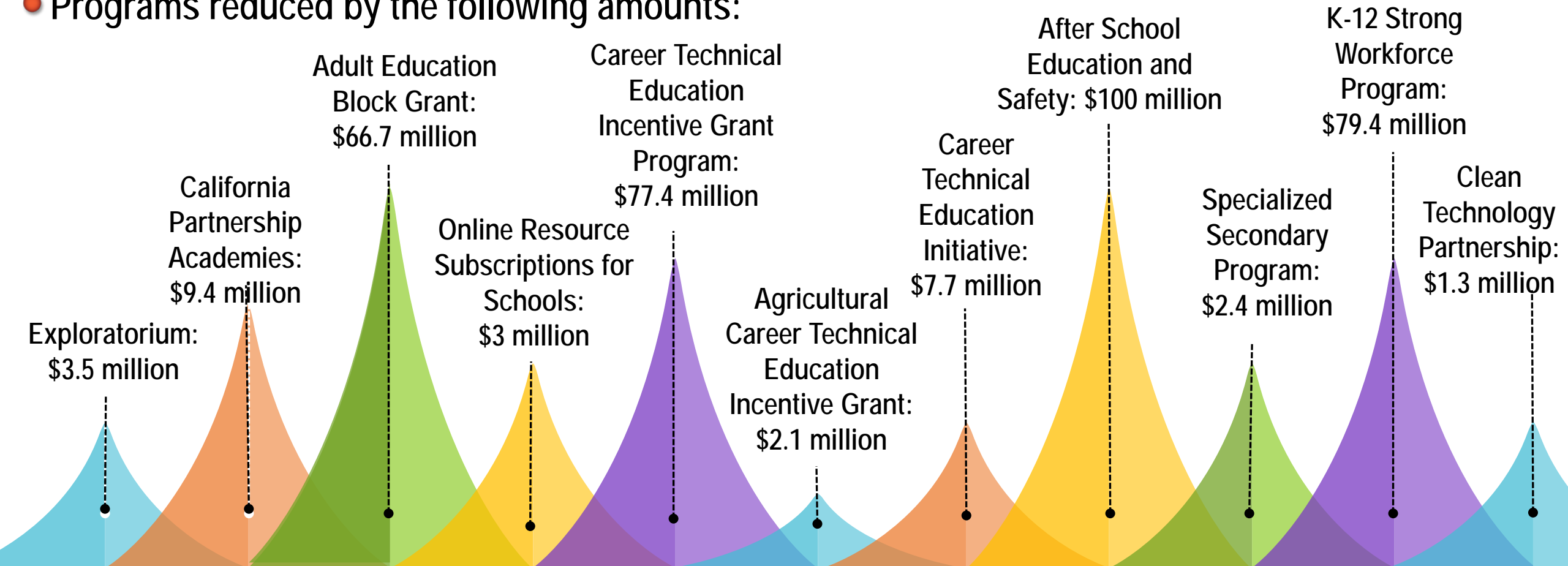
Maintains all other existing categorical programs in the Assembly Bill 602 formula until a finalized formula is adopted

Maintains Special Education Local Plan Area Governance and Accountability Structure



# Categorical Program Cuts

- Total savings of \$352.9 million by cutting categorical programs roughly in half
- Cuts may be reversed if additional federal funds materialize
- Programs reduced by the following amounts:





# CalPERS Future Rate Implications

- To provide increased fiscal relief, the May Revision revised the California Public Employees' Retirement System (CalPERS) 2020–21 employer contribution rate to 20.70%
- CalPERS investment losses will cause pressure to increase employer contribution rates in the future

CalPERS Employer Contribution Rate Estimates			PCS Fiscal Impact
Year	Previous Rates	Revised Rates	Annual Est. Cost
2019-20		19.721%	
2020-21	*22.68%	20.70%	\$132,000
2021-22	*24.60%	22.84%	\$289,000
2022-23	25.90%	25.50%	\$358,600
2023-24	26.60%	26.20%	\$95,000
2024-25	27.00%	26.50%	\$40,000
2025-26	26.80%	26.40%	
2026-27	26.70%	26.20%	

\*CalPERS Board approved 2020-21 contribution rate as of April 21, 2020



# CalSTRS Future Rate Implications

- The May Revision revised the California State Teachers' Retirement System (CalSTRS) employer contribution rate in 2020–21 **from 18.40% to 16.15%**
- Beginning in 2021–22 the CalSTRS Board will have some authority to increase or decrease employer contribution rates by a maximum of 1% annually—not to exceed 20.25%
- Any investment returns below the CalSTRS target of 7% will likely reduce the funded status of the plan and potentially increase employer contributions in the future

CalSTRS Employer Contribution Rates		PCS Impact
Year	Rate	Annual Est. Savings/Cost
2019–20	17.10%	
2020–21	16.15%	<\$364,000>
2021–22	16.02%	<\$50,000>
2022–23	18.10%	\$800,000
2023–24	18.10%	\$0



# Additional Federal Funding?

California is slated to receive billions of dollars from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but the funding only puts a small dent in the state's \$54 billion budget deficit

Governor Newsom has been aggressively lobbying the federal government for an additional \$1 trillion in aid

House Democrats introduced the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) Act, a \$3 trillion package that gives \$60 billion for K-12 school districts nationally

Resistance from the White House and Senate Majority Leader Mitch McConnell (R-Kentucky) in giving states and local governments additional federal funding

- In order to help LEAs absorb the reductions, the Governor offers a suite of relief measures

- Exemption from deferrals for hardship reasons

- Ability to exclude state's on-behalf-of-employer payments in the Routine Restricted Maintenance Account calculation

- Subject to public hearing, the ability to increase internal inter-fund borrowing limits

- Authority for special education staff to use technology-based options to serve students

- Use proceeds from property sales for one-time general fund purposes

- Extend the transitional kindergarten teacher credential requirement from August 1, 2020 to August 1, 2021





# Changes to the 2020–21 LCAP

The Local Control and Accountability Plan (LCAP) template adopted by the State Board of Education (SBE) in January will not be used for 2020–21

The templates to be used for the 2020–21 LCAP and the 2019–20 Annual Update require a change in statute, and few details currently are available

The California Department of Education will develop the new templates for 2020–21 in consultation with the SBE and stakeholders

Expected to be available in late summer of 2020

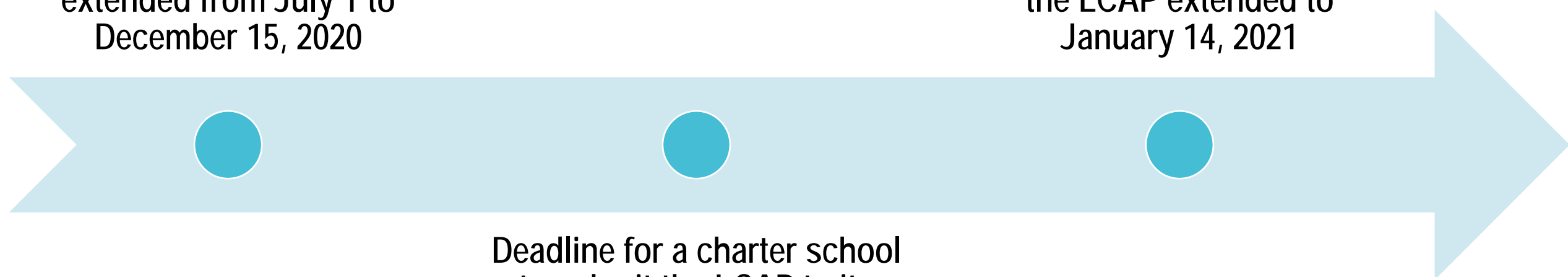


# 2020–21 LCAP Deadlines Extended

Deadline for LCAP, Annual Update, and Budget Overview for Parents extended from July 1 to December 15, 2020

Deadline for county superintendent or state superintendent of public instruction to approve the LCAP extended to January 14, 2021

Deadline for a charter school to submit the LCAP to its authorizer and the county superintendent extended to December 15, 2020



# What we know....



- We will have an on-time State Budget  
Legislators want to get paid!
- We are planning on a 7.92% Deficit to LCFF  
Per May Revise \$6.8 million cut  
Transportation reduction TBD
- The LCAP timeline has shifted (Dec 2020)
- We will need to make budget reductions to maintain a balance budget
- Our Budget Deadlines have not changed
- We can use prior year ADA if enrollment drops  
This does not include our Charters-They are not protected!
- There will not be a "V" shaped recovery
- We must plan for various scenarios
- We need flexibility to be able to respond to a very volatile fiscal and COVID 19 environment



# What we know...

The District has taken the following action:	Estimated \$ Impacts
Close Rise Academy	<\$225,000>
Close 6 <sup>th</sup> Grade Academy (Lack of enrollment)	<\$170,000>
Close Gateway to College (Request/Mutual Agreement SRJS)	\$0
Eliminate Central Services positions (4.0 FTE)	<\$238,000>
Reduce Admin positions (.80 FTE)	<\$104,000>
Flexibility in RRM contributions from State	<\$160,000>
Transition Program Transfer (Savings)	<\$300,000>
PFT Retirement Incentive (Still finalizing staffing)	TBD ??
CSEA Step & Column estimated at 1%	\$143,000
Workers Comp Rate from 2.22% to 2.12%	<\$50,000>
Property & Liability Increases estimated at 30%	\$214,000



# What we know...

Information in the May Revise :	Estimated \$ Impacts
Reduce STRS Rate to 16.15%	<\$360,000>
Adult Ed Grant Revenue reduction 12.27%	<\$165,000>
ASES Grant Revenue Reduction 18.46% to minimum Prop 49 levels	<\$47,000>
Reductions in Home-to-School Transportation Base grants	<\$80,000>
	<\$>
	<\$>
	<\$>



## Context What is \$6.8 M equivalent to??

- Examples of \$6.8 Million cost for PCS is equivalent to:
  - ◆ 90 Teachers with an average cost of \$75,000
  - ◆ Schools
    - Penngrove total Expenditures: \$4.1 million
    - Cherry Valley total Expenditures \$3.7 million
    - Kenilworth \$7.2 million



## What we *don't* know....



- What will the final State Budget look like in June?  
How will the State Budget be revised in July? August?
- How quickly will the State economy recover?
- When will schools reopen for on-site instruction?  
What will the restrictions be? And, at what cost?  
Will we have to open with Distance Learning?
- How will our enrollment be impacted? Our ADA??
- Will we receive Federal Funding support/relief?
- What are the ongoing impacts of COVID-19?
- As we reopen as a State, will the “curve” continue to flatten or will there be another spike?



# Summary of potential impacts for Petaluma City Schools?

LCFF estimated reduction in 2020-21:	\$6.8 Million	7.92% (10% Deficit)
10% reduction in Transportation	\$ 81,000	
Adult Education funds:	\$165,000	12.27% Reduction
Lottery Funding	\$ 71,800	5.5% Reductions
ASES Grant	\$ 24,600	18.46% Reduction
Mandated Block Grant	\$ 31,000	10% Reduction
Special Education	\$ 0	No change



# Summary of potential Budget Reductions for Petaluma City Schools?

## Reductions/Savings currently identified: Estimated Total \$2.57 M

Reduce STRS Rate 16.15%	\$360,000	
Workers Comp rate reduction	\$ 50,000	
Eliminate Central Service Positions	\$368,000	4.0 FTE Reduction
Eliminate Site Position (PJHS)	\$ 56,700	0.9375 FTE
Reduce Admin Positions	\$104,000	0.80 FTE
Close Rise Academy	\$225,000	
Close 6 <sup>th</sup> Grade Academy	\$170,000	
Flexibility in RRM Contribution	\$160,000	
Transition Program Transfer	\$300,000	
Transfer Reading Specials Program to Parcel Tax	\$300,000	(\$170K in one-time carryover)
Reduce Sub-Budgets (Classified positions)	\$ 60,000	
Reduce Central Services budgets	\$175,000	
Reduce secondary Parcel Tax Allocations	\$ 39,000	
Home-to-School Transportation restructure	\$200,000	
PFT Retirement Incentive	TBD	(Staffing not finalized)



# General Fund Reserves!



# General Fund Reserves

- As of 2<sup>nd</sup> Interim, General Fund Reserves \$9.9 million
  - ◆ 5% is \$5.2 million (State requires 3% minimum)
  - ◆ \$820K is SOCC reserves (cannot use)
  - ◆ \$400,000 in Board Designated (Curriculum adoptions)
  - ◆ \$3.5 million available over reserves and designated
  - ◆ The greater the reserves, the greater the liquidity for meeting cash flow needs (monthly payroll, benefits, etc.)
  - ◆ Create opportunity for more conversations and planning for longer-term cuts
- Multi-year Projections will be challenging
  - ◆ 2021-22 and 2022-23
    - Increasing costs (Step & Column, P&L increases, utilities, etc.) and zero COLAs projected
    - Reserves help flatten out the needs for reductions and buy time for the economy to recover



# Enrollment Projections!





# Enrollment Projections!

## Current Year - 2019-20

- Total Month 7 Enrollment 7,445 (TK -12)
  - ◆ Elementary SD 1689
  - ◆ Secondary SD 4775
  - ◆ Penngrove 443
  - ◆ MCCV 410
  - ◆ PACS 112
  - ◆ 6<sup>th</sup> Grade Academy 27
  - ◆ Gateway to College 54

- Total P-2 ADA 7137.87 (As of 02/28/20)

## Preliminary Projections 2020-21

- Total Projected Enrollment 7,438 (TK-12)
  - ◆ Elementary SD 1652 (Declining)
  - ◆ Secondary SD 4787 (*Slight* growth/flat)
  - ◆ Penngrove 467 (Growing)
  - ◆ MCCV 418 (Growing/flat)
  - ◆ PACS 114 (Flat)
  - ◆ 6<sup>th</sup> Grade Academy 0 (Close)
  - ◆ Gateway to College 0 (Close)

- Total Preliminary Proj. P-2 ADA 7120



Next Steps!



## Next steps...

- Continue to gather information related to Budget Development
  - ◆ Finalize Staffing
  - ◆ Monitor Enrollment and make adjustments to staffing
  - ◆ Reconcile Positions Control
  - ◆ Project ADA and complete LCFF Calculations
- Prepare for \$6.8 million in Reductions
  - ◆ Hiring Freeze
    - Review every open position to determine next steps
    - Identify critical positions
    - Prepare for possibility of August Layoff window
  - ◆ Spending Freeze
    - Only essential items supported by GF
  - ◆ May hold off until final State budget and reductions are known



## Next steps...

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- **Process, process, process!**
  - ◆ **Fortunately we have a strong financial foundation!**
    - Our reserves are one-time, but we will need to use some of our reserves given the level of cuts we are facing.
    - Less reserves mean less liquidity which creates other cash flow challenges
      - ◆ State deferrals complicate the cash needs
  - ◆ **Limited time to prepare!**
    - During the 2008 recession, we had months to prepare. This crisis gives us days/weeks!
  - ◆ **Reconvene Budget Advisory Committee**
    - Review Data and provide feedback once we have a final State Budget and understand the scope and scale of budget reductions and fiscal impacts (both short and long-term)



## Next steps...

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- Prepare for August Certificated Layoff window
  - ◆ May need in response to enrollment fluctuations
  - ◆ May need to consider depending on final State budget
  
- Prepare for further reductions in classified positions (60 day noticing requirements)
  - ◆ Additional layoffs will need to be considered to address the \$6.8 million reduction in LCFF
  - ◆ Layoff process can create flexibility
    - Needed for response to impacts of COVID 19
    - Potential for more restrictive Shelter-in-place orders if additional “spikes” in COVID 19 cases occur
    - Drops in enrollment and /or impacts of ongoing “Distance Learning”
    - Positions can be restored if information improves



# Questions and feedback