



**School
Services
of California**
INC.
An Employee-Owned Company



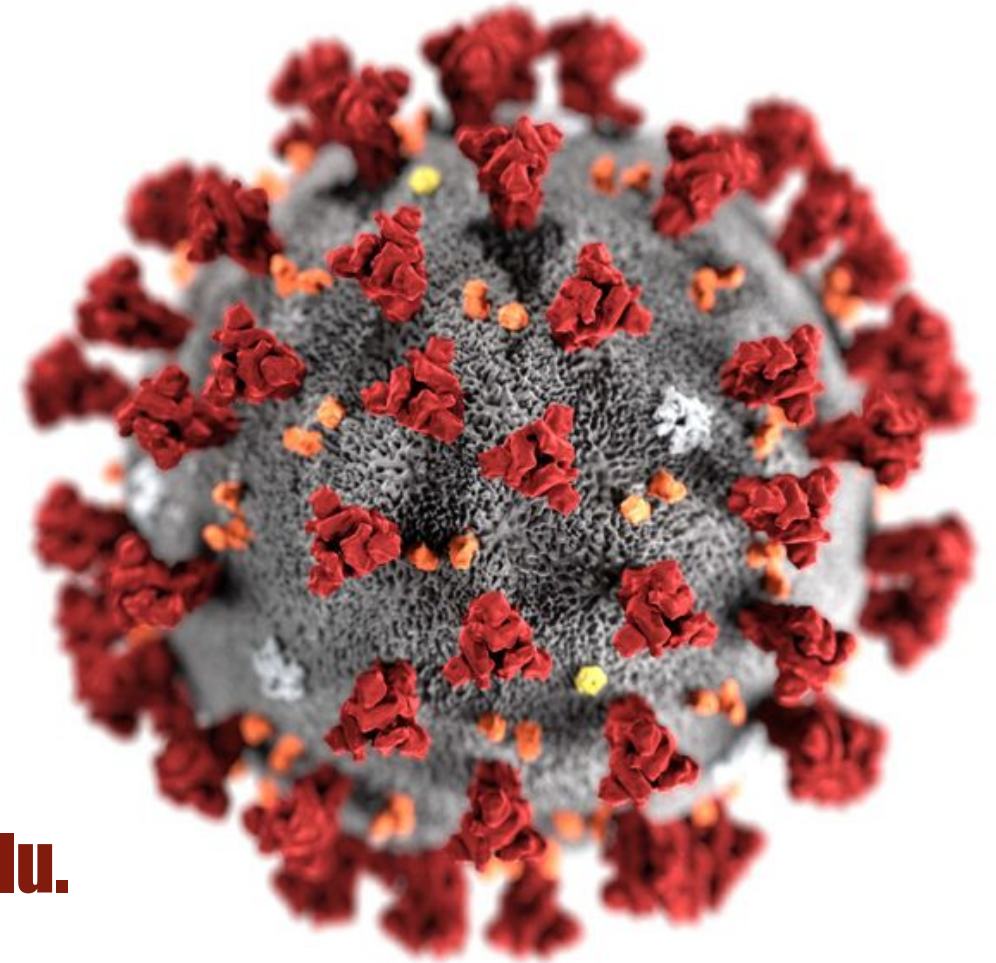
2020 California State Budget - May Revision & Third Interim

**Special Board Meeting
May 28, 2020**



California's Economy

- As the nation goes, so goes California
- California ranks 5th 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

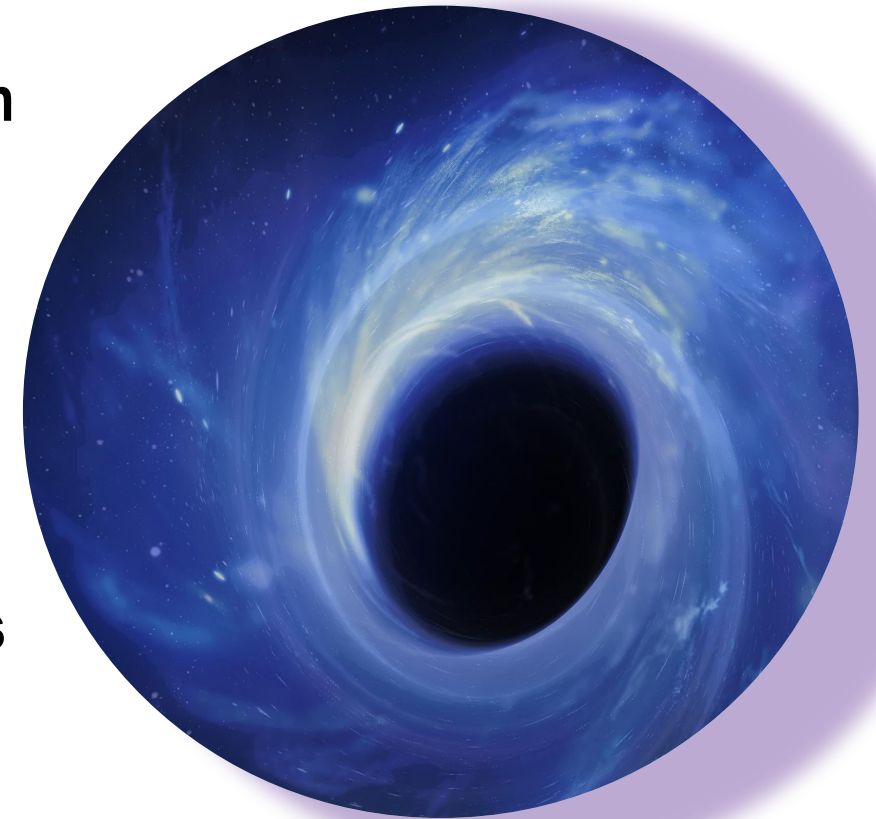


When the nation gets a cold, California gets the flu.




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 (personal income tax) revenue is the largest share of general fund revenue; tax payments deferred**
 - **Consumer confidence shaken by the current state of the economy; may be awhile 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**



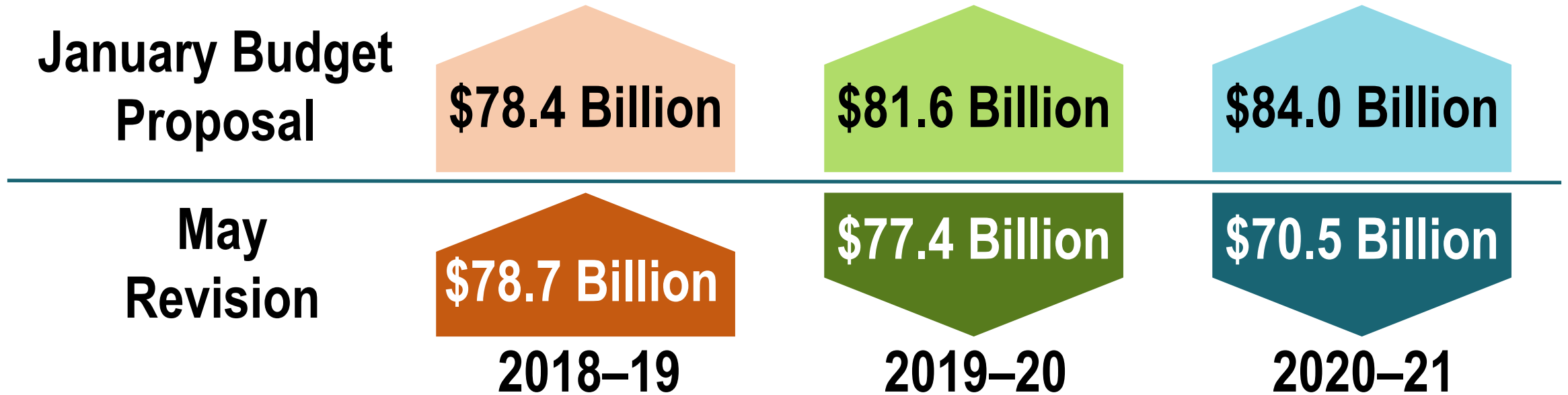


Proposition 98 and the Education Budget



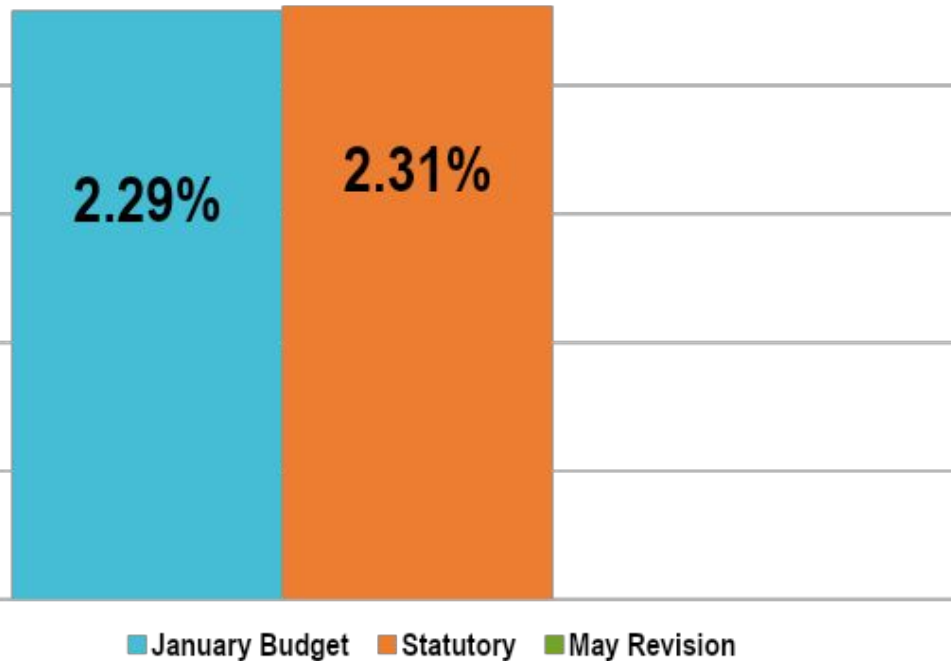
Proposition 98 Funding

- Proposition 98 funding levels have decreased significantly from the 2020–21 Governor’s State Budget for two of the three fiscal years
- The May Revision estimates that the minimum guarantee will decline approximately 23% from the 2019 State Budget Act over the three-year budget period

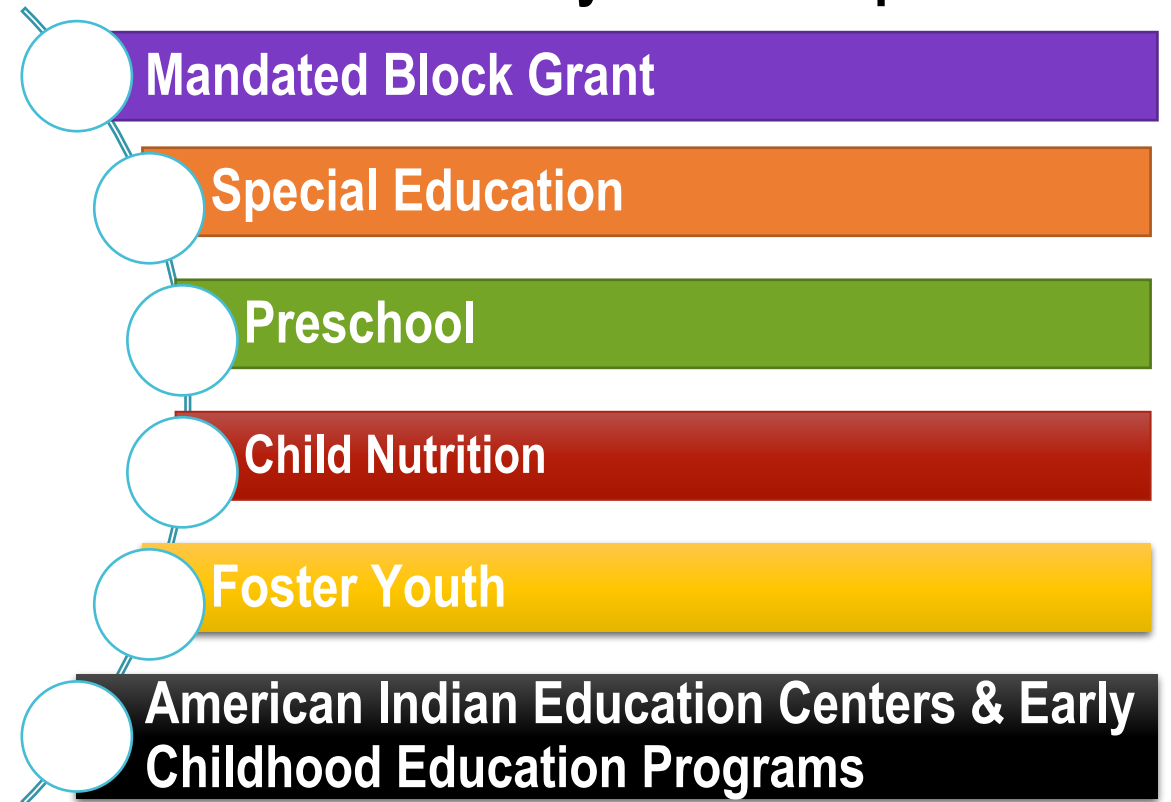


Statutory COLA

- 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

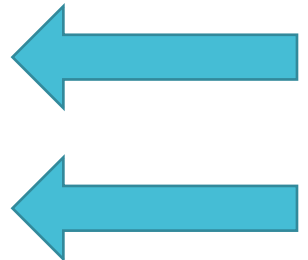


In typical years, as costs continue to rise, these programs would see adjustments for COLA only and average daily attendance (ADA) for special education



Two Ways to Calculate a Deficit Factor

Old School	
Entitlement Factors per ADA	K-3
2019-20 Base Grant	\$7,702
Statutory COLA at 2.31%	\$178
2020-21 Base Grant Before Deficit	\$7,880
Deficit Factor at -10.00%	(\$788)
2020-21 Base Grant After Deficit	\$7,092

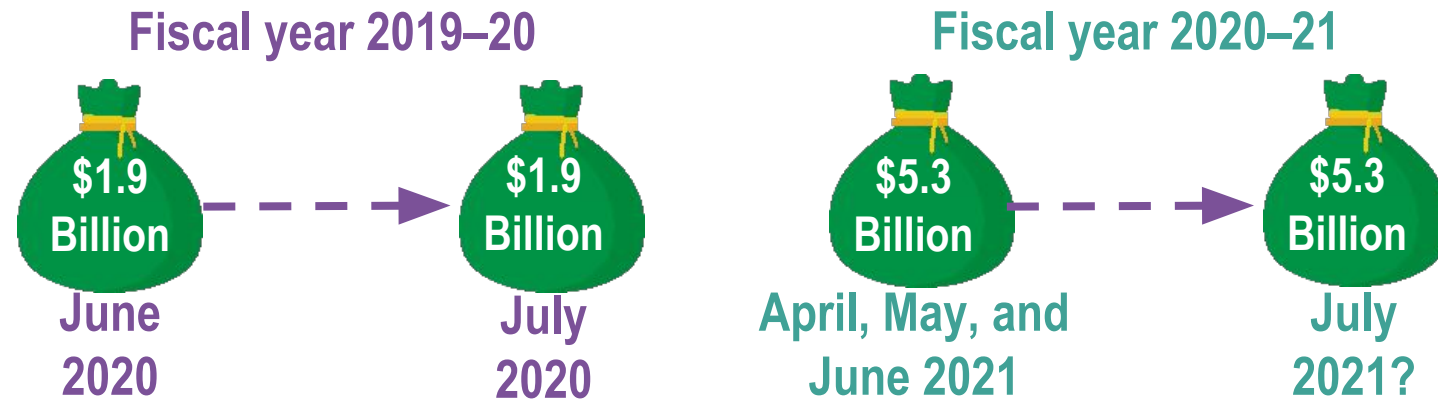


New School	
Entitlement Factors per ADA	K-3
2019-20 Base Grant	\$7,702
Effective Deficit Factor at -7.92%	(\$610)
2020-21 Base Grant After Deficit	\$7,092



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:

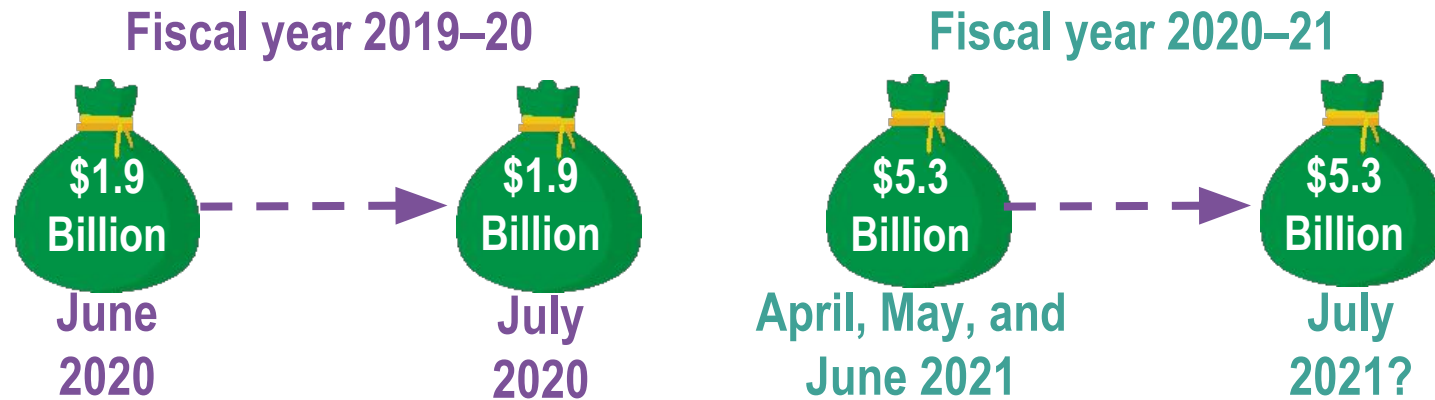


- Local school agencies may need to implement local borrowing options to ensure adequate cash to continue paying employees and vendors during these times
 - While this avoids an additional cut in state revenues to schools, it pushes the administrative and financial burden of borrowing cash to local school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



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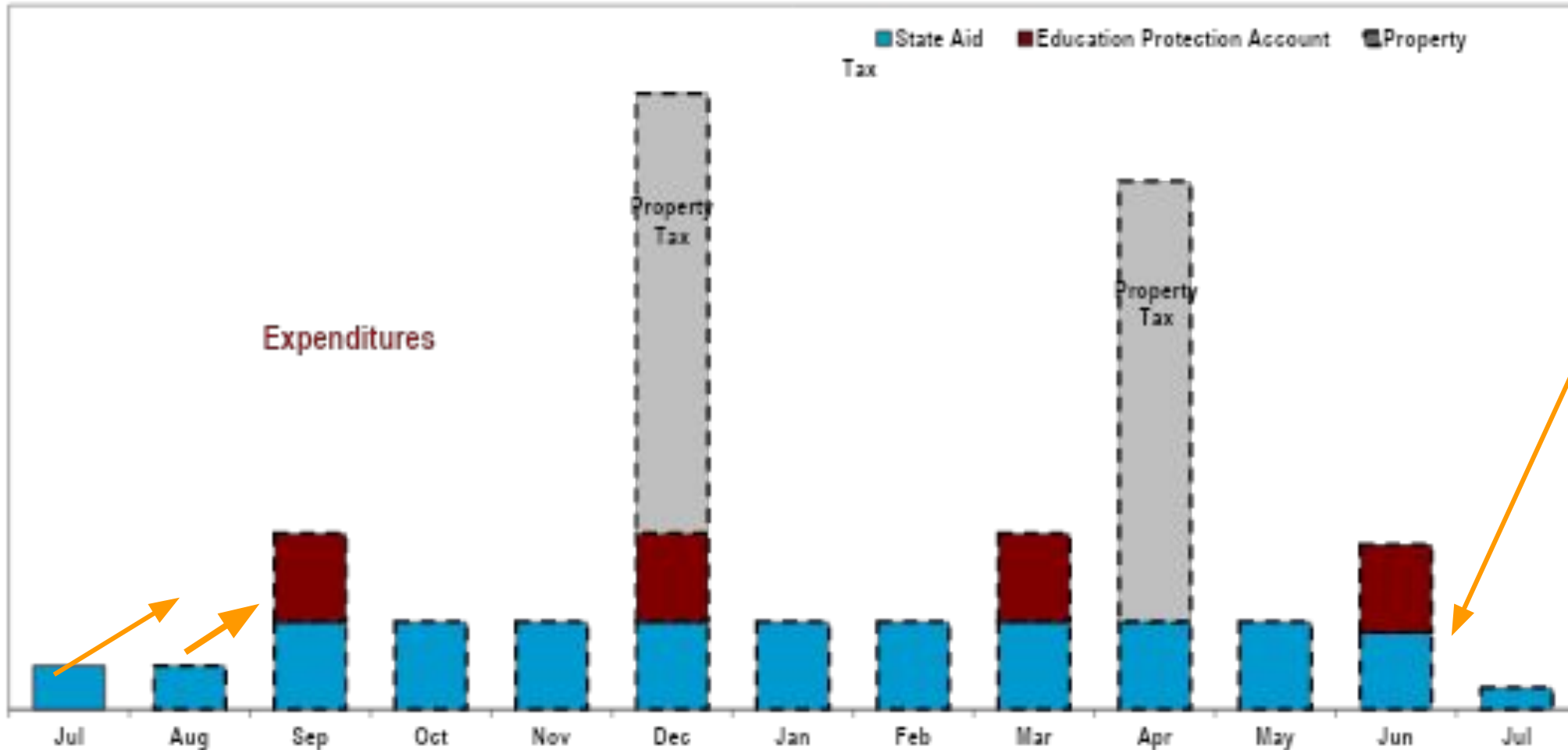


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What does “Cash Flow” mean and what are apportionments?

Monthly Cash Inflow and Outflow



Salaries are highest in June

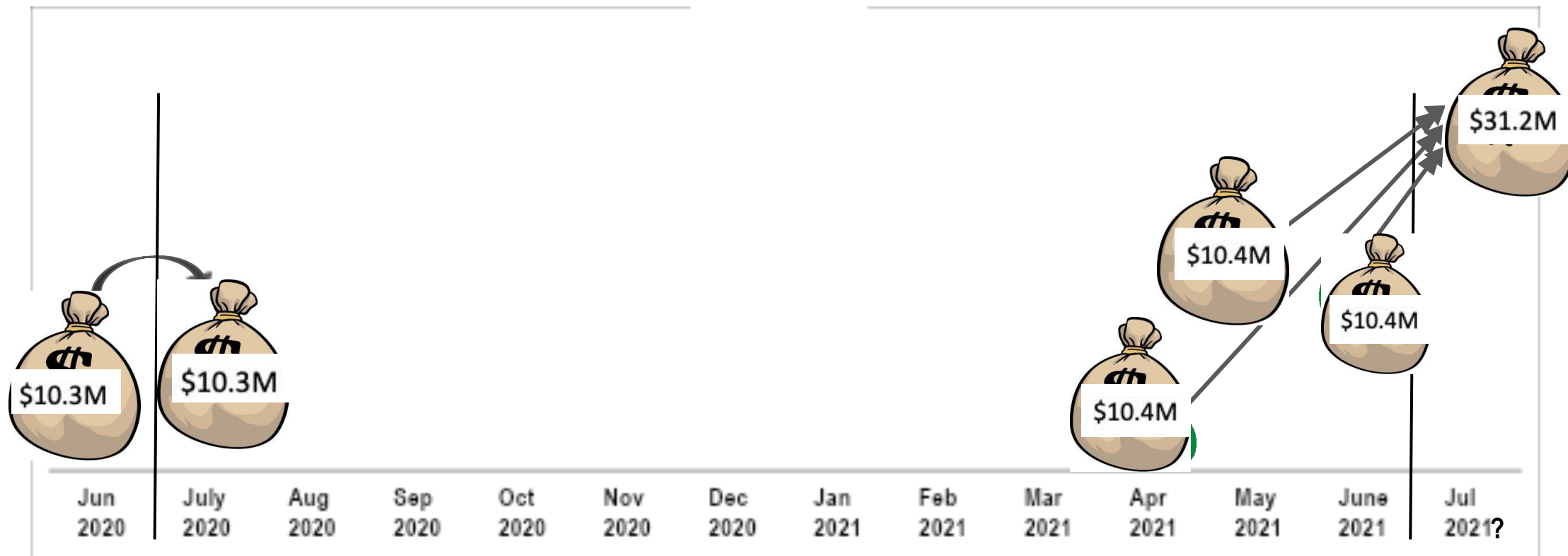
\$10.3M

Cash Flow and Deferrals - Impact with MDUSD #'s

10

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- The proposed deferrals in the May Revision are illustrated as follows:



- The May Revision proposes a process for local school agencies to apply for an exemption from any or all of the April, May, and June 2021 deferrals due to financial hardship



Estimated Cash Flow for 2020/2021

Fund 01 Cash Flow

Fiscal 2020-2021		Object	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	TOTAL	BUDGET
A. BEGINNING CASH			27,087,605	29,076,750	9,782,750	(3,129,450)	(11,042,250)	(25,469,150)	(4,407,950)	(15,289,050)	(30,950,650)	(30,492,820)	(28,710,620)	(21,915,520)			
B. RECEIPTS																	
Principal Apportionment	8010-8019		5,821,400	5,821,400	10,478,600	10,478,600	10,478,600	10,478,600	10,478,600	10,478,600	10,478,600	-	-	-	31,435,561	116,428,561	140,062,793
Property Taxes	8020-8079		148,691,600	771,500	-	4,172,000	(2,377,800)	(5,671,100)	204,600	(156,700)	(120,000)	2,443,300	36,628,300	(31,994,570)		152,591,130	152,591,130
Miscellaneous Funds	8080-8099		-	(809,200)	(1,618,400)	(1,079,000)	(1,079,000)	(1,078,900)	(1,078,900)	(1,078,900)	(1,730,900)	(1,267,400)	(1,267,400)	(1,020,392)		(13,108,392)	(13,038,900)
Federal Revenue	8100-8299		(3,761,000)	953,600	814,500	2,295,000	2,591,000	295,400	2,992,600	239,600	5,292,831	170,800	105,600	5,608,835		17,598,766	21,520,913
Other State Revenue	8300-8599		(2,190,700)	2,314,800	3,299,500	3,285,700	4,585,000	2,667,800	2,896,800	10,300	11,836,199	2,131,700	723,600	16,961,745		48,522,444	52,836,973
Other Local Revenue	8600-8799		(1,417,000)	1,101,000	662,200	1,929,000	1,016,300	1,190,700	994,500	770,600	707,100	446,600	1,423,600	4,055,076		12,879,676	15,507,868
TOTAL RECEIPTS			147,144,300	10,153,100	13,636,400	21,081,300	15,214,100	7,882,500	16,488,200	10,263,500	26,463,830	3,925,000	37,613,700	(6,389,306)	31,435,561	334,912,185	369,480,777
C. DISBURSEMENTS																	
Certificated Salaries	1000-1999		552,700	14,661,200	13,985,100	14,486,600	14,556,400	12,618,900	16,586,400	14,186,400	14,593,300	14,501,400	14,689,000	15,747,600	-	161,165,000	157,189,166
Classified Salaries	2000-2999		2,219,600	5,646,700	5,107,100	5,078,000	5,555,100	5,112,000	4,894,500	4,861,700	5,009,400	4,711,000	5,062,100	5,130,354	-	58,387,554	53,389,762
Employee Benefits	3000-3999		1,172,800	6,943,800	6,738,400	6,818,800	6,881,900	6,185,900	7,484,000	6,740,200	6,822,400	6,785,400	4,756,600	24,694,800	-	92,025,000	98,194,973
Books & Supplies	4000-4999		22,000	435,200	376,800	663,300	403,300	(618,200)	(832,800)	(83,600)	(1,736,700)	(636,400)	881,100	12,900,435	-	11,774,435	21,605,762
Services	5000-5999		1,343,800	1,891,200	1,635,700	4,231,500	2,668,400	2,613,800	2,132,200	2,561,200	1,518,600	1,963,100	4,382,600	10,175,332	-	37,117,432	44,873,393
Capital Outlay	6000-6599		(157,800)	307,400	49,700	73,500	438,500	267,800	521,200	120,300	25,200	301,900	267,100	570,451	-	2,785,251	3,650,150
Other Outgo	7000-7499		153,400	(34,000)	132,600	(4,100)	116,200	(14,100)	(56,500)	(58,100)	916,800	(41,300)	51,000	866,483	-	2,028,383	1,855,271
Interfund Transfers Out	7600-7629		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other Financing Uses	7630-7999		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS			5,306,500	29,851,500	28,025,400	31,347,600	30,619,800	26,166,100	30,729,000	28,328,100	27,149,000	27,585,100	30,089,500	70,085,455	-	365,283,055	380,758,477
TOTAL BALANCE SHEET TRANSACTIONS			(139,848,655)	404,400	1,476,800	2,353,500	978,800	39,344,800	3,359,700	2,403,000	1,143,000	25,442,300	(729,100)	64,062,855	-	391,400	-
E. NET INCREASE/DECREASE			1,989,145	(19,294,000)	(12,912,200)	(7,912,800)	(14,426,900)	21,061,200	(10,881,100)	(15,661,600)	457,830	1,782,200	6,795,100	(12,411,906)	31,435,561	(29,979,470)	(11,277,700)
F. ENDING CASH			29,076,750	9,782,750	(3,129,450)	(11,042,250)	(25,469,150)	(4,407,950)	(15,289,050)	(30,950,650)	(30,492,820)	(28,710,620)	(21,915,520)	(34,327,426)	31,435,561	(29,979,470)	(11,277,700)
G. ENDING CASH, PLUS CASH ACCRUALS & ADJ																(2,891,865)	

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

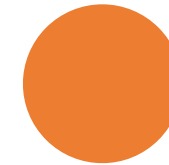
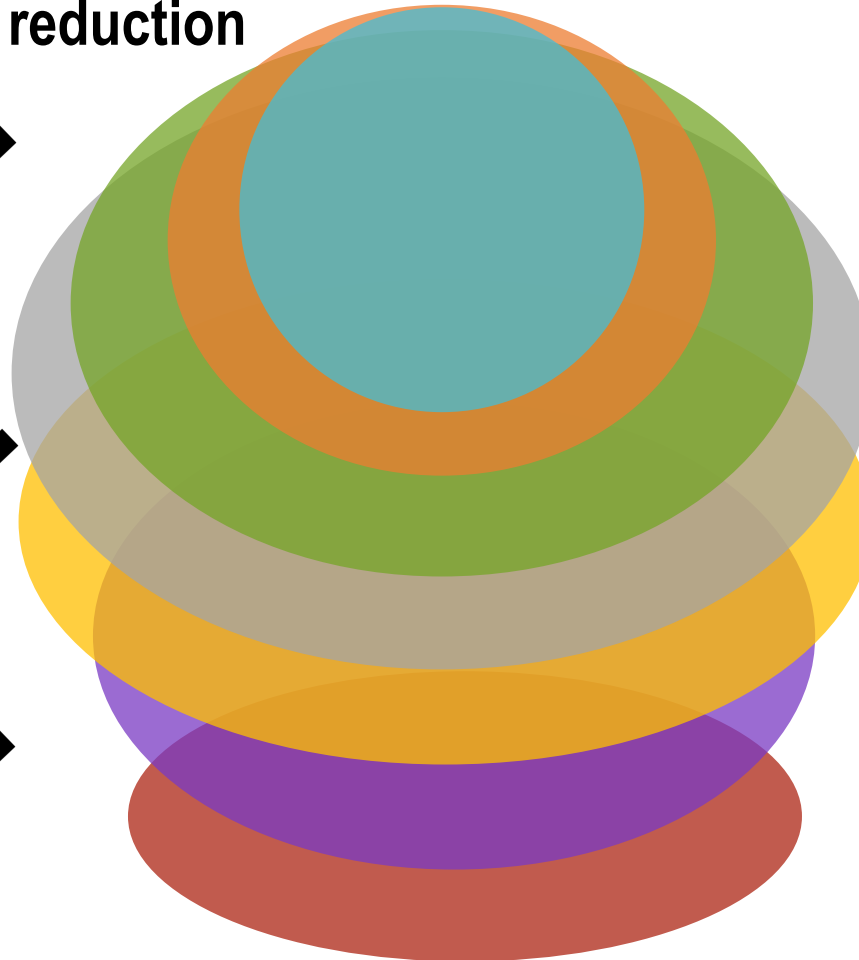
**Targeted
Instructional
Improvement Grants**
Education Code Section (EC §)
42238.02(g)



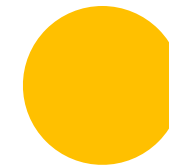
**Home-to-School
Transportation**
EC § 42238.02(h)



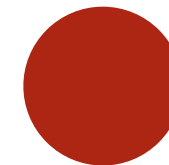
**Economic
Recovery Target**
EC § 42238.025



Minimum State Aid
EC § 41544



**Basic Aid
Supplement**
EC § 47663



District of Choice
EC § 48310



What is the LCFF funding for Mt Diablo Unified?

Mt Diablo Unified—2019-20		
2019-20 LCFF Per-ADA Funding	2019-20 Funded ADA	2019-20 LCFF Total Revenue
\$9,525	29,356	\$279,615,381

Mt Diablo Unified—2020-21		
2020-21 LCFF Per-ADA Funding	Projected 2020-21 Funded ADA	Projected 2020-21 LCFF Total Revenue
\$8,769	29,185	\$255,911,299
	Anticipated Reduction	\$23,704,082

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



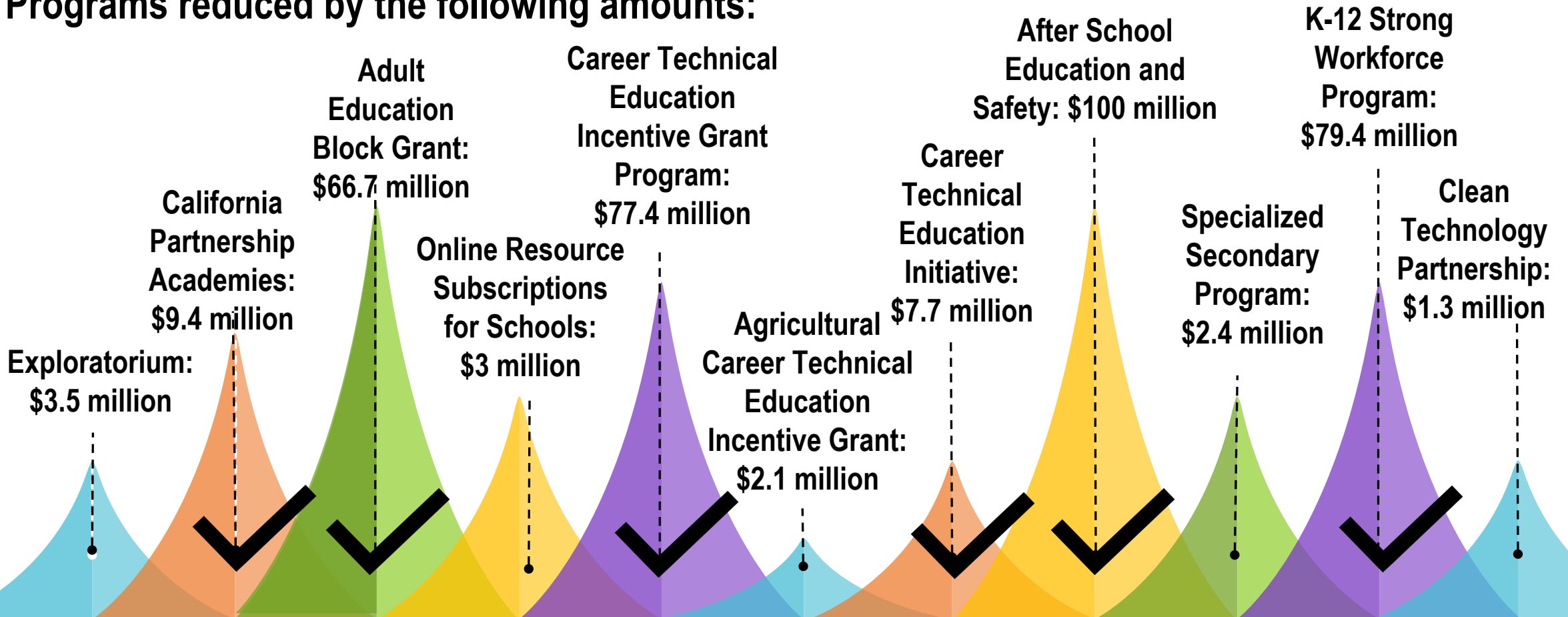
What Does the Special Education Funding Mean for Diablo Unified?

Mt Diablo Unified—2019-20		
2019-20 Per-ADA SpEd Funding	2019-20 ADA	Projected 2019-20 SpEd Revenue
\$557	29,180	\$16,253,000

Mt Diablo Unified—2020-21		
2020-21 Per-ADA Proposed Funding	2020-21 ADA	Projected 2020-21 SpEd Revenue
\$645	29,115	\$18,779,000
	Anticipated Increase	\$2,526,000

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:





What Do the Categorical Reductions Mean for Mt Diablo Unified?

Mt Diablo Unified—2020–21	
Original Estimated Categorical Allocations for 2020/2021	Revised Possible Categorical Allocations for 2020/2021
\$8,998,986	\$4,499,493
Estimated Reduction	\$4,499,493



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		
Year	Previous Rates	Revised Rates
2020–21	*22.68%	20.70%
2021–22	*24.60%	22.84%
2022–23	25.90%	25.50%
2023–24	26.60%	26.20%
2024–25	27.00%	26.50%
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 Rate Estimates

Year	Previous Rates	Revised Rates
2019-20	17.10%	
2020–21	18.40%	16.15%
2021–22	18.10%	16.02%
2022–23	18.10%	18.10%
2023–24	18.10%	18.10%





What Do the PERS/STRS Changes Mean for Mt Diablo Unified?

Mt Diablo Unified—2020–21	
PERS Estimate based on original 20/21 figures	PERS Estimate based on May Revise
\$11,674,416	\$10,629,863
STRS Estimate based on original 20/21 figures	STRS Estimate based on May Revise
\$26,062,488	\$22,926,814



Additional Federal/State Funding

Mt Diablo Unified—2020–21		
2020–21 CARES Act Fund	Based on Title I, restricted funds	\$4,494,698
2020-21 SB117 COVID-19 LEA Response Fund	Based on ADA	\$509,745



Major Changes in May Revise

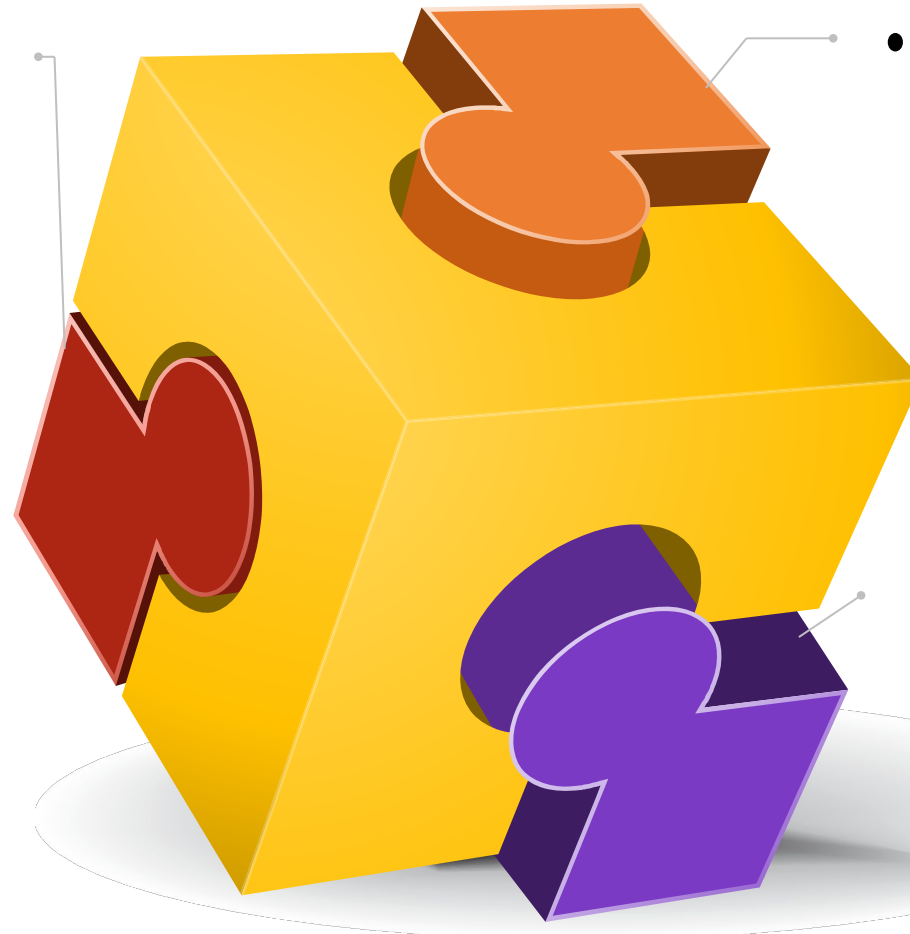
Local Control Funding Formula (LCFF) - net -7.92%	\$23,704, 082
Special Education augmentation	\$2,526,000
Categorical Reductions	\$4,499,493
STRS/PERS rate “buy down”	\$4,180,227
SB117 + CARES Act funds	\$5,004,443



MDUSD Budget

- Multi-year projections are the result of mathematical calculations for future years based on:

- Decisions that have already been made, and
- A set of reasonable assumptions



- Multi-year projections are ***not*** predictions of the future

- They are not forecasts

- They are exactly wrong . . .

- But should be approximately right



MYP with \$20.1M of reductions as of Third Interim

	2019-20 Combined 01 (Rest/Unrestricted)	2020-21 Combined 01 (Rest/Unrestricted) COLA 0%	2021-22 Combined 01 (Rest/Unrestricted) COLA 0%	2022-23 Combined 01 (Rest/Unrestricted) COLA 0%
REVENUE	369,480,778	334,912,185	330,796,318	328,655,867
EXPENDITURES	380,758,477	365,283,056	367,605,552	377,369,118
plus/minus	(11,277,699)	(30,370,871)	(36,809,235)	(48,713,251)
Beginning Fund Balance	49,490,107	38,212,408	7,841,537	(28,967,698)
Ending Fund Balance	38,212,408	7,841,537	(28,967,698)	(77,680,948)
3% reserve	11,422,754	10,958,492	11,028,167	11,321,074
Restricted	11,498,792	7,453,996	1,549,463	(3,421,845)
Unassigned	15,290,861	(10,570,951)	(41,545,327)	(85,580,177)



2019/20 Third Interim Report



California School District Financial Reporting Requirements

- **Education Code 42130 – Requires the school district to file their fiscal condition for TWO reporting periods, October 31 and January 31, including projections of the budget through June 30.**
- **Education Code 42131 – Requires the Board of Education to certify, based on current projections, whether or not the school district is able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.**
- **Education Code 33127 – Requires a district that has received a negative certification of its interim report(s) to file a third report as of April 30.**



Financial Reporting Certifications

There are three types of certification based on the multi-year projections at each reporting period.

- **Positive Certification ~ District can meet its financial obligations for the current and two subsequent years.**
- **Qualified Certification ~ Borderline, may not meet financial obligations during one of the three years of the MYP.**
- **Negative Certification ~ Cannot meet financial obligations in two or more of the three years as shown by negative fund balance, insufficient Reserves for Economic Uncertainty.**



What and Why?

- The MDUSD Second Interim showed a qualified certification, thus Third Interim is required.
- The Third Interim is **where our budget was as of April 30th, 2020** - it is a snapshot in time on that day. It included the budget solutions approved by the board on March 9th and April 27th.
- The Third Interim includes the impacts of the Governor's May Revisions of approximately \$21,000,000 and will require approximately \$10,000,000 in additional reductions. **The Third Interim report shows a qualified certification.**



Notable Changes Since 2019/20 Second Interim

- **Cost of Living Adjustment (COLA) for 20/21, 21/22 and 22/23 has decreased to statutory COLA less 10%**
- **Cash deferrals for June 2020 to July 2020 and additional cash deferrals expected for April, May, June 2021 to July 2021**
- **CalSTRS and CalPERS contribution decreases**
- **Board approved reductions, elimination of vacant positions, movement of expenses from Unrestricted to Restricted, reduction of site/department budgets - reduction of \$21,100,000**
- **COVID 19 resulting in a national and state fiscal crisis**



General Fund Ending Balances (EFB)

Estimated Combined Unrestricted and Restricted

	EFB	After 3% Reserve
○ 2019-20	\$38 million	\$27 million
○ 2020-21	\$7.8 million	<\$3.2 million>
○ 2021-22	<\$28.9 million>	<\$40 million>

