

Redwood City School District Board Study Session on Budget

May 30, 2018

Executive Summary

- RCSD faces insolvency in the near future if strong corrective measures are not taken
- The greatest negative impact on the budget has been the loss of students to the three charters
- District enrollment has declined from 9136 students (2012-13) to 7737 students (2017-18) with further projected declines in the out years
- District revenue is based on enrollment; expenditures have continued to rise
- The Board will need to adopt a three year plan to bring the district into financial balance; the plan will need to combine budget reductions with the strategic use of one time funds

LCFF

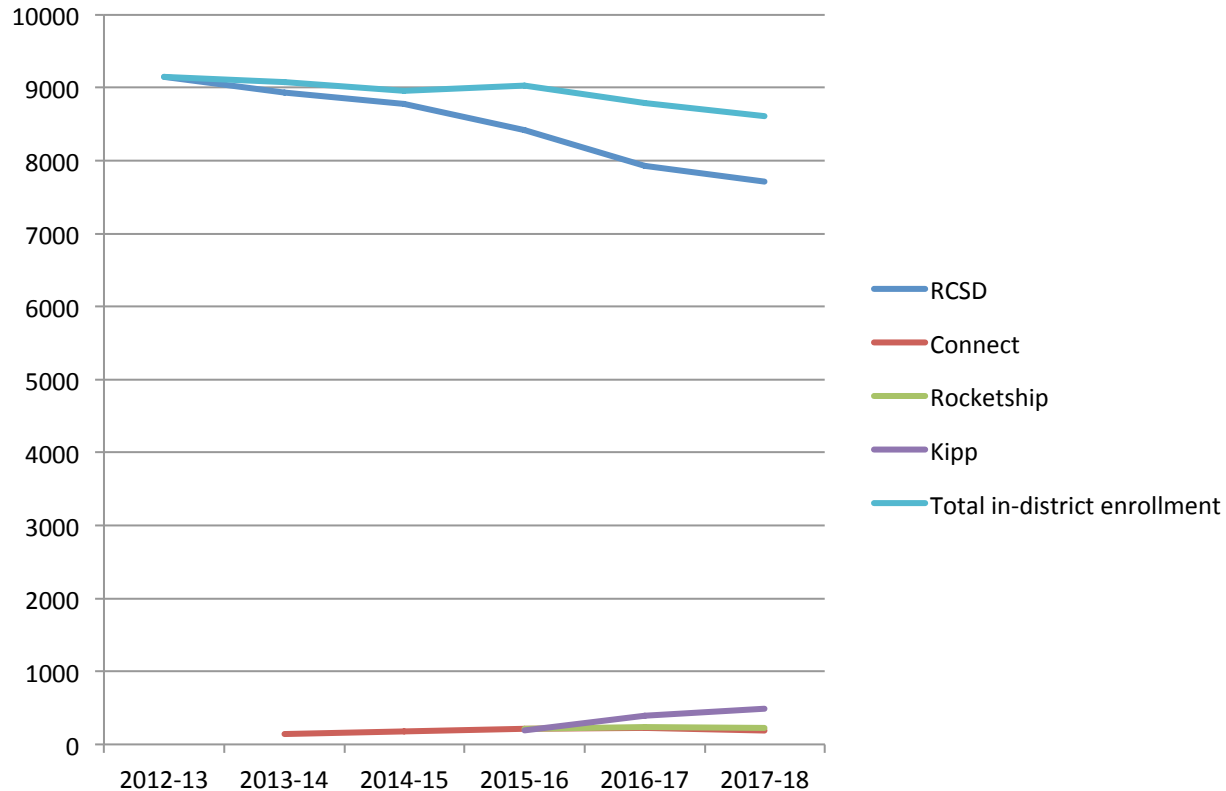
- 90% of school districts statewide are funded through LCFF (combination of property tax and state aid)
- The majority of San Mateo County school districts are community funded (basic aid) due to their high property tax base and lower density of student generation; these districts have greater revenue than LCFF districts due to their share of property tax exceeding the LCFF per student funding formula
- In determining whether a district can transition into being community funded, students attending local charters are included in the calculation

Factors Impacting the RCSD Budget

1) Declining Enrollment

RCSD Enrollment	
2012-13	9,136
2013-14	8,913
2014-15	8,764
2015-16	8,301
2016-17	7,917
2017-18	7,737
2018-19 (projected)	7,557

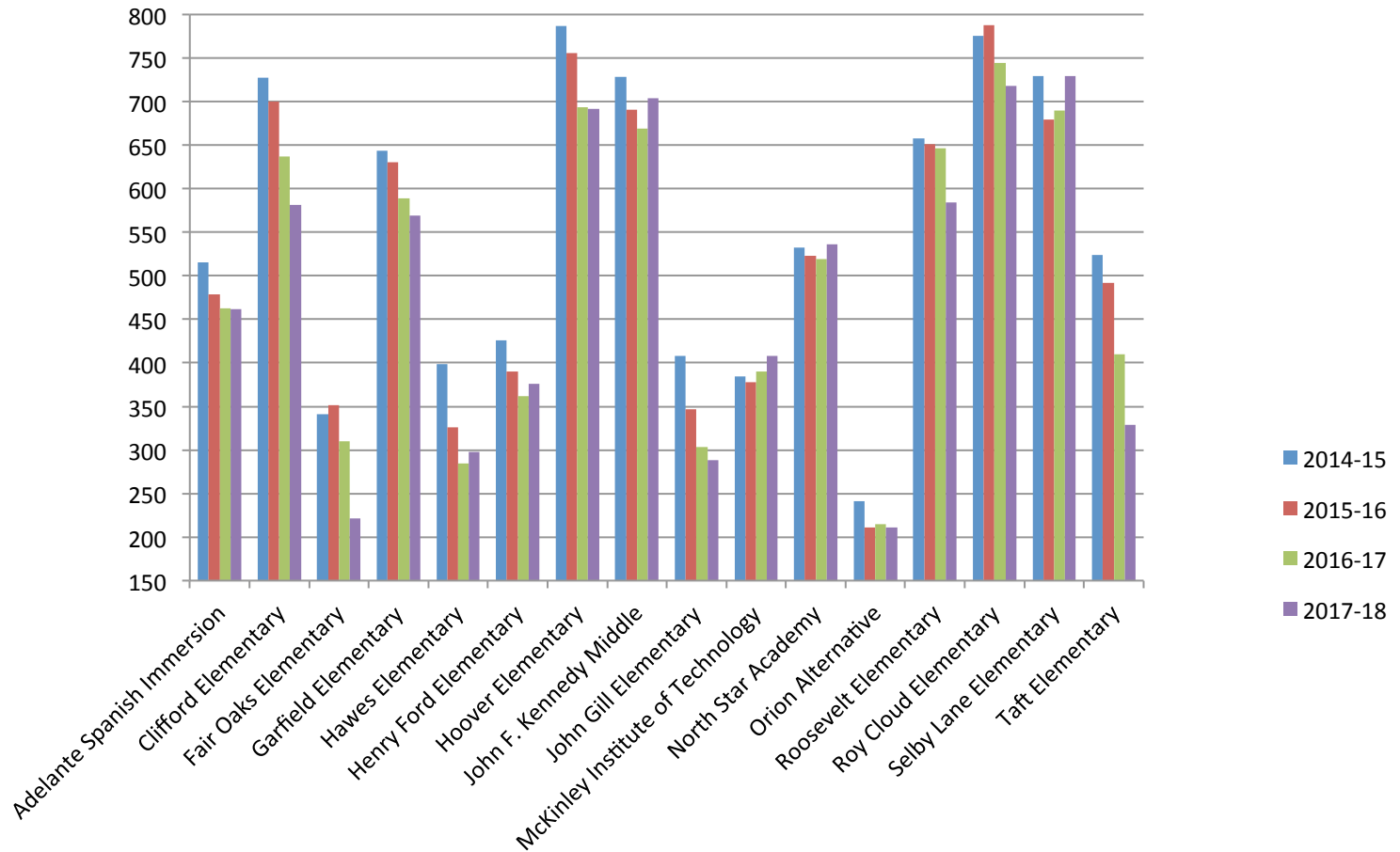
In-district Enrollment Trends 2012-13 to 2017-18



District enrollment has decreased by 16% since 2012-13, however inclusive of in-district charter students, the combined RCSD / charter in-district enrollment has declined by only 6%.

(14% of charter enrollment is out of district – 156 / 1101)

Site by Site Impact of Declining Enrollment



Fair Oaks, Hawes, John Gill, and Taft have seen 25% or greater declines; Orion's enrollment is stable, but small.

Enrollment Trends and Observations

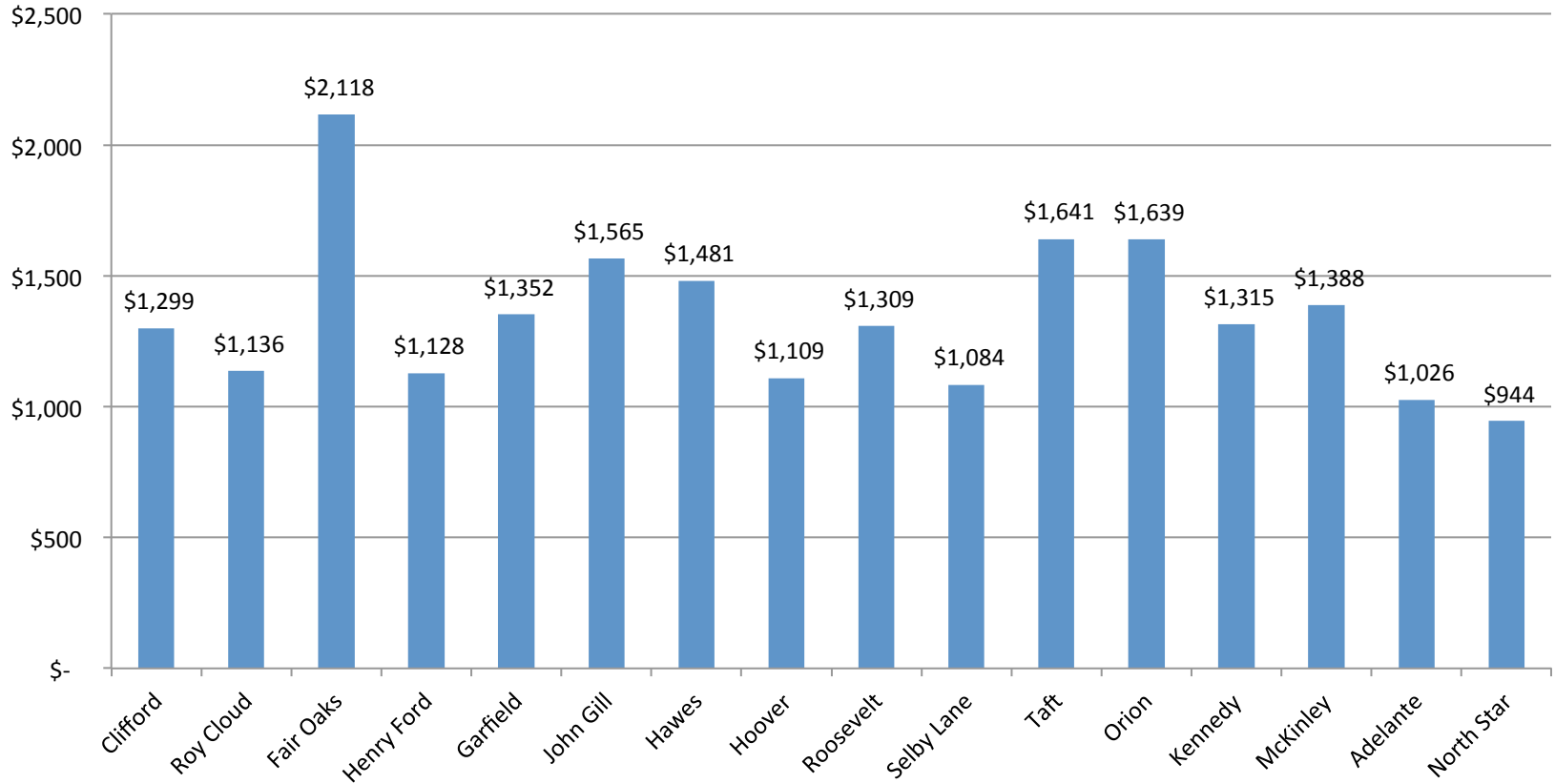
- The high cost of housing is also a contributing factor to enrollment loss, but to a far lesser extent than the loss due to charters. The high cost of housing may be a more significant source of enrollment decline at schools serving 94061 students as it has been in SUHSD
- Enrollment projections (2018-19 = 7,557, 2019-20 = 7,411, 2020-21 = 7,288) assume a slowing down of enrollment loss from prior years as the charters will soon reach capacity in terms of grade levels served. However, this could change if charters begin to grow laterally by serving more students at existing grade levels.
- Given the rapidly changing enrollment in RCSD and the critical nature of accurate projections for budget development, the district would greatly benefit by more in-depth, localized data and trend analysis to inform staffing and programmatic decisions
- The loss of students is not temporary, but a new reality to which the district needs to adjust

Unrestricted Overhead Costs per School

- Schools regardless of size have similar non classroom expenses (administration, office support, custodians, etc.)
- On a per student basis these costs vary significantly site to site with school size being the major factor.
- A secondary factor is that certain staffing allocations at sites are based on historical enrollment and have not been updated with changing enrollment
- The graph that follows shows 2017-18 unrestricted costs per school on a per student basis excluding classroom teachers. (Teacher staffing is more closely aligned with enrollment). The graph also excludes special education expenditures, parent, parcel tax, and donor contributions

Unrestricted non-classroom cost per site / enrollment

District average = \$1346



Additional Factors Impacting RCSD Budget

2) Rising Workers Compensation Costs

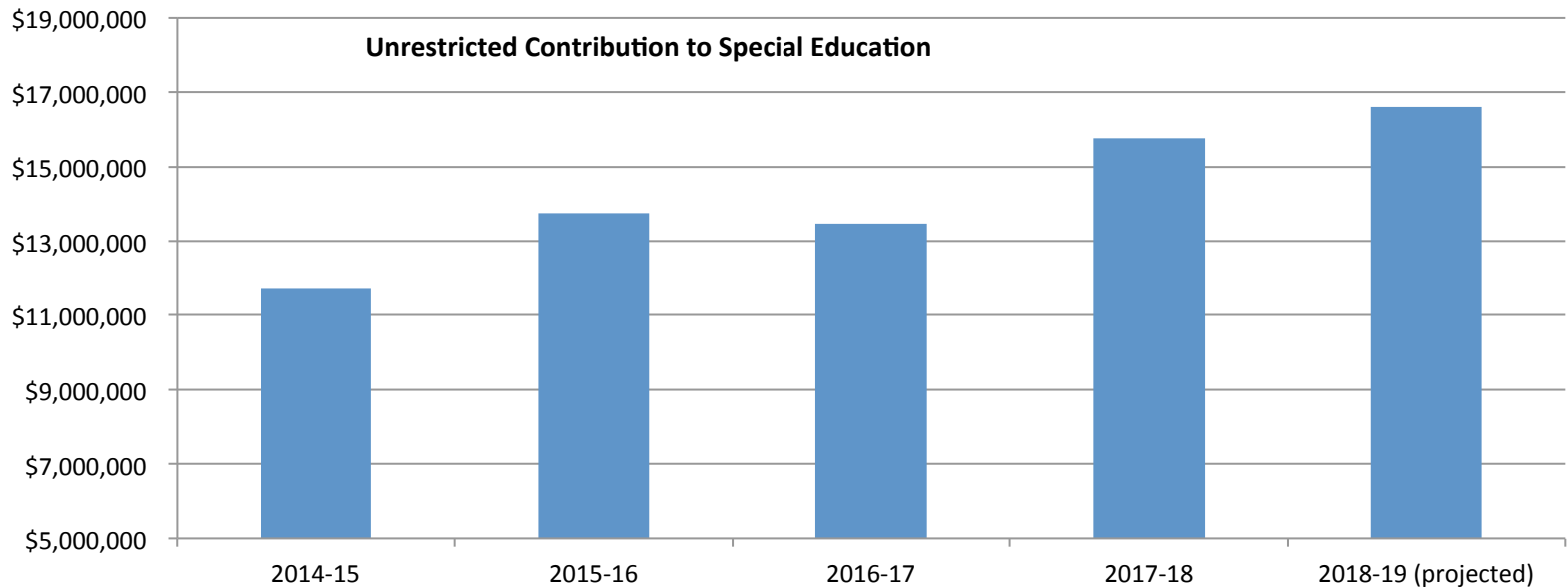
- For 2018-19 the workers compensation rate for RCSD will rise to 4% of payroll; this is an increase of 0.8% from 2017-18; this will mean \$435,000 of new expense to the budget
- Average S.M. County rate for school districts for 2018-19 will be 2.6%
- Rates are based experience factors of new claims and the on-going costs of existing claims
- A careful review and monitoring of claims and safe work practices is warranted.

3) Rising Employee Pension Obligations

	Employer Contribution Rates							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-02
PERS	11.77%	11.85%	13.05%	15.53%	18.06%	20.80%	23.50%	24.60%
STRS	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%	19.10%

- A 1% increase for certificated personnel (STRS) costs \$385,000; a 1% increase for classified personnel (PERS) costs \$170,000
- The cost to the district to pay for the increased costs of STRS and PERS from 2017-18 to 2018-19 is \$1.14 million
- The 2017-18 total cost to the district for STRS and PERS is \$8.2 million

4) Rising Special Education Costs



- While the district receives state and federal funds through the SELPA to partially offset costs, the funding is based on total district enrollment, not the number of special education students. District enrollment has been declining

Rising Special Education Costs (cont.)

- The shortage of qualified special education teachers has forced the district to contract on a more frequent basis with outside agencies for staff and services. This is more costly
- There has been an increase in the number of students that require a one on one instructional aide in class for support
- While overall district enrollment has declined, the number of special education students has not
- For 2017-18 the district is serving 1159 special education students out of a total enrollment of 7737. This represents 15% of the district enrollment, which is above the norm for school districts

Pending RCSD Financial Situation

(assumes continuation of status quo)

	Total Unrestricted Revenue	Total Unrestricted Expenditures	Difference	Ending Unrestricted Fund Balance
2015-16	\$ 79,827,501	\$ 74,821,373	\$ 5,006,128	\$ 9,897,921
2016-17	\$ 78,460,016	\$ 77,927,460	\$ 532,556	\$ 10,430,477
2017-18 (estimated)	\$ 75,244,033	\$ 79,911,740	\$ (4,667,707)	\$ 5,762,770
2018-19 (projected)	\$ 75,728,247	\$ 80,624,052	\$ (4,895,805)	\$ 866,965
2019-20 (projected)	\$ 75,351,913	\$ 85,022,134	\$ (9,670,221)	\$ (8,803,256)
2020-21 (projected)	\$ 75,803,088	\$ 88,122,134	\$ (12,319,046)	\$ (21,122,302)

Assumptions

- District reduces ongoing expenditures by \$1.6 million beginning 2018-19. No further reductions in out years. Teacher staffing levels remain at current levels into future years.
- Workers compensation rate goes to 4% beginning 2018-19. Special education contribution continues to rise as per recent year to year trends
- District enrollment will continue to decline per the following projections:
17-18 – 7737, 18-19 – 7523, 19-20 – 7354, 20-21 -- 7232
- Staff negotiated cost of living increases are built into 18-19 (3.5%) and 19-20 (3.5%). No increase is assumed for 20-21.
- **No transfer of existing RDA funds from Capital Facilities into the unrestricted general fund. The estimated \$2.2 million of new yearly RDA funds is not built into the projections.**

Redevelopment Agency Funds

- Downtown Redwood City was a redevelopment agency until all RDAs were dissolved by the State of California
- The property taxes collected on their behalf are now being used to pay down long term RDA obligations and increasing left over amounts are being distributed to taxing agencies yearly
- Part of the former RDA proceeds received by RCSD goes into the LCFF calculation and part is distributed as a restricted resource to RCSD. The district has been placing these funds into Capital Facilities
- While the county office has no position on their use, a number of school districts keep them in their general fund
- RCSD will need to treat them as general fund revenues as it moves forward
- There is currently \$7.4 million of RDA funds in Capital Facilities and the district will receive approximately \$2.2 million of new funds in 2018-19 and in future years

Moving Forward

- The use of on-going and one time RDA funds coupled with budget reductions will be necessary to move RCSD toward a stable balanced budget over the next several years. The district will need to utilize \$1 million of its RDA funds for the 2018-19 budget to meet the 3% general fund reserve requirement
- Staff has prepared three scenarios of a combination of cuts and use of one time RDA funds (\$7.4 million) for the Board to consider
- In all three scenarios the on-going \$2.2 million of RDA funds will be converted to unrestricted general fund revenues
- The Board and district staff will conduct a process this Fall to identify the 2019-20 first round of cuts. This plan will be presented to the Board in November.
- The scenarios are all based on unrestricted revenue and expenditures; they do not include restricted funds, parent, donor, or parcel tax revenues and expenditures

Scenario 1

Scenario 1						
	Beginning Unrestricted Balance	Total Unrestricted Revenue	Total Unrestricted Expenditures	Unrestricted General Fund budget reduction	Transfer of RDA funds from Fund 25	Ending Unrestricted Fund Balance
2017-18 (estimated)		\$ 75,244,033	\$ (79,911,740)			\$ 5,762,770
2018-19 (projected)	\$ 5,762,770	\$ 77,928,247	\$ (80,624,052)		\$ 1,000,000	\$ 4,066,965
2019-20 (projected)	\$ 4,066,965	\$ 77,551,913	\$ (85,022,134)	\$ 5,000,000	\$ 2,500,000	\$ 4,096,744
2020-21 (projected)	\$ 4,096,744	\$ 78,003,088	\$ (83,122,134)	\$ 3,000,000	\$ 1,900,000	\$ 3,877,698

In Scenario 1 the district would frontload the majority of its cuts in 2019-20. It would leave an approximately a \$1.5 million structural deficit (the minimum 3% reserve is approximately \$3.3 million) at the end of 2020-21 with \$2 million of one time RDA funds still available. It would likely allow the district to avoid any reductions in 2021-22 by using the remaining RDA funds to cover the deficit.

Scenario 2

Scenario 2						
	Beginning Unrestricted Balance	Total Unrestricted Revenue	Total Unrestricted Expenditures	Unrestricted General Fund budget reduction	Transfer of RDA funds from Fund 25	Ending Unrestricted Fund Balance
2017-18 (estimated)		\$ 75,244,033	\$ (79,911,740)			\$ 5,762,770
2018-19 (projected)	\$ 5,762,770	\$ 77,928,247	\$ (80,624,052)		\$ 1,000,000	\$ 4,066,965
2019-20 (projected)	\$ 4,066,965	\$ 77,551,913	\$ (85,022,134)	\$ 4,000,000	\$ 3,500,000	\$ 4,096,744
2020-21 (projected)	\$ 4,096,744	\$ 78,003,088	\$ (84,122,134)	\$ 4,000,000	\$ 1,900,000	\$ 3,877,698

In Scenario 2 the budget reductions are equally spaced between 2019-20 and 2020-21. The district would still need to address the approximate \$1.5 million structural deficit. There would be \$1 million of one time RDA funds available at the end of 2020-21, which will likely result in an additional small budget reduction in 2021-22.

Scenario 3

Scenario 3						
	Beginning Unrestricted Balance	Total Unrestricted Revenue	Total Unrestricted Expenditures	Unrestricted General Fund budget reduction	Transfer of RDA funds from Fund 25	Ending Unrestricted Fund Balance
2017-18 (estimated)		\$ 75,244,033	\$ (79,911,740)			\$ 5,762,770
2018-19 (projected)	\$ 5,762,770	\$ 77,928,247	\$ (80,624,052)		\$ 1,000,000	\$ 4,066,965
2019-20 (projected)	\$ 4,066,965	\$ 77,551,913	\$ (85,022,134)	\$ 3,000,000	\$ 4,500,000	\$ 4,096,744
2020-21 (projected)	\$ 4,096,744	\$ 78,003,088	\$ (85,122,134)	\$ 5,000,000	\$ 1,900,000	\$ 3,877,698

In Scenario 3 the budget reductions are backloaded and there would be no one time RDA funds available to address the \$1.5 million structural deficit in 2021-22, thus additional reductions will be necessary in 2021-22.

For Consideration

- Budget projections are estimates based on current information and trends. During the course of a budget year unexpected events can change the picture in either direction
- The scenarios are reflective of the big picture and serve as a guide
- All three scenarios predict the district will be close to a balanced budget in 2020-21, but not entirely there
- No matter how optimistic one chooses to be, the budget cuts proposed in 2019-20 are not close to being sufficient and additional reductions will be required in 2020-21.
- The Board needs to adopt a plan and hold to it for 2019-20. If circumstances improve, it will make 2020-21 easier.