



PARAMOUNT UNIFIED SCHOOL DISTRICT

GREAT THINGS ARE HAPPENING IN PARAMOUNT SCHOOLS



May Revision Update for Fiscal Year 2020-21

Dr. Ruth Pérez, Superintendent
Ruben Frutos, Assistant Superintendent of Business Services

May 27, 2020

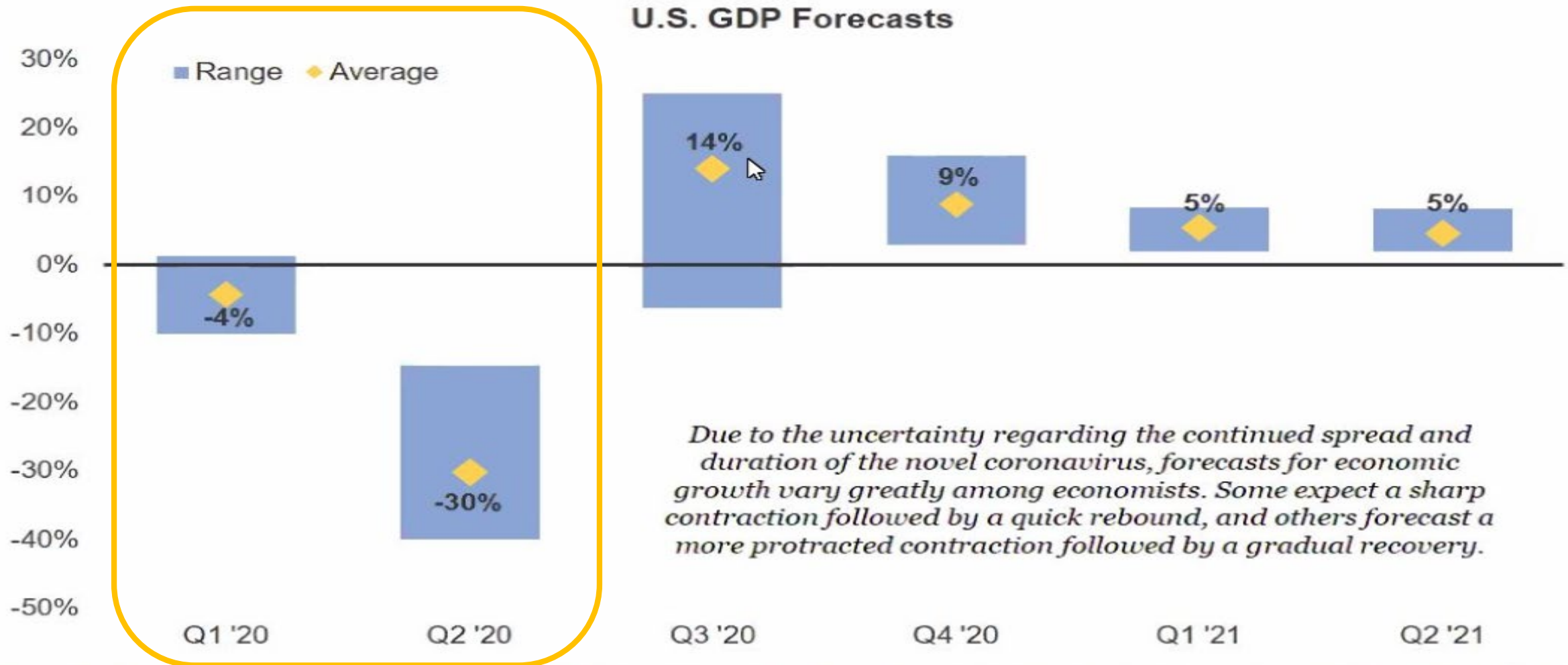
May Revision Update - AGENDA

- **US Economic Data**
 - Implications – Interest rates
- **State May Revision Information**
 - Economic Data
 - Education Budget
- **District Financial Information**
 - Implications
 - Expenses/Revenues
 - Unknowns



Economists Expect a Significant, Immediate Downturn in the U.S. Economy

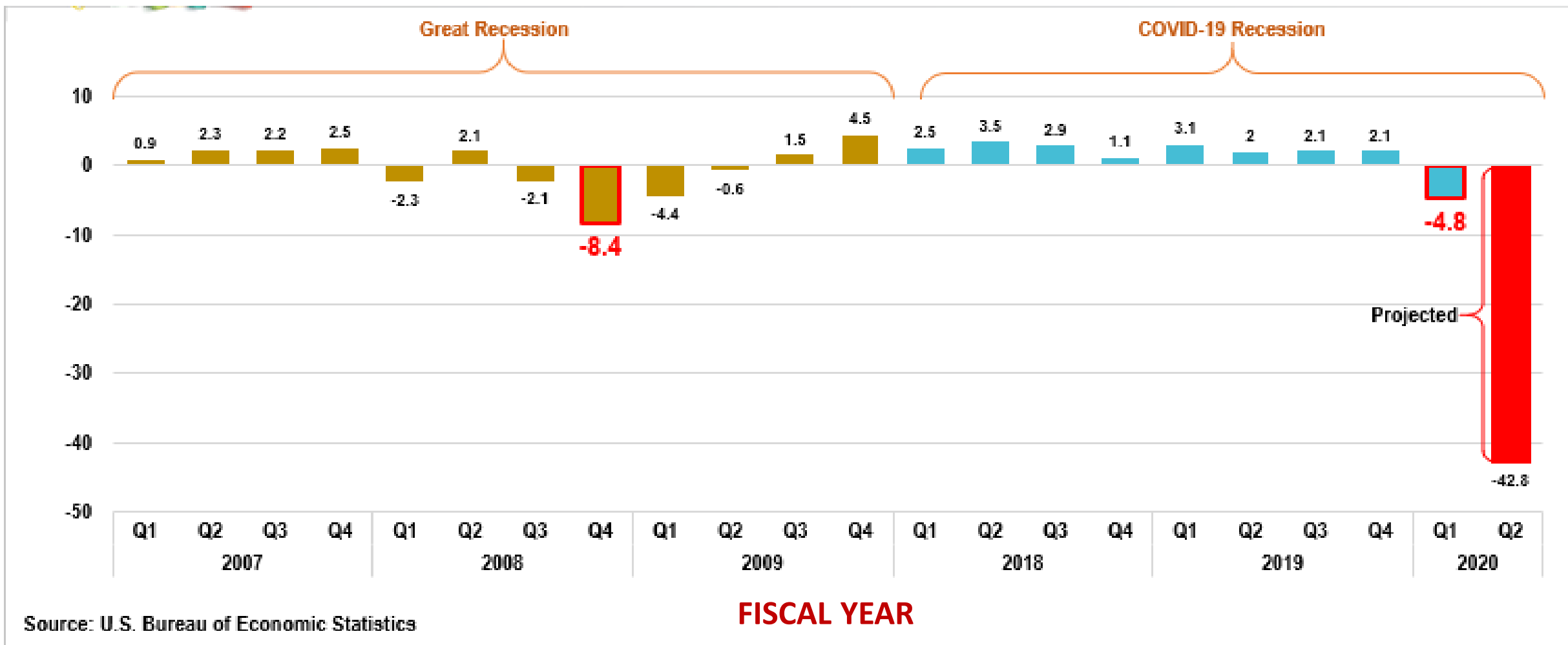
US



Source: Bloomberg. Forecasts made from 3/25/2020 through 4/3/2020 by ING Group, Morgan Stanley, Deutsche Bank, Goldman Sachs Group, Barclays, JPMorgan Chase, UBS, TD Bank, and Wells Fargo.

GDP or Gross Domestic Product = Broadest measure of a nation's total economic activity. More specifically, GDP represents the monetary value of all goods and services produced in the US for a year.

Economics – GDP = Great Recession vs. COVID-19

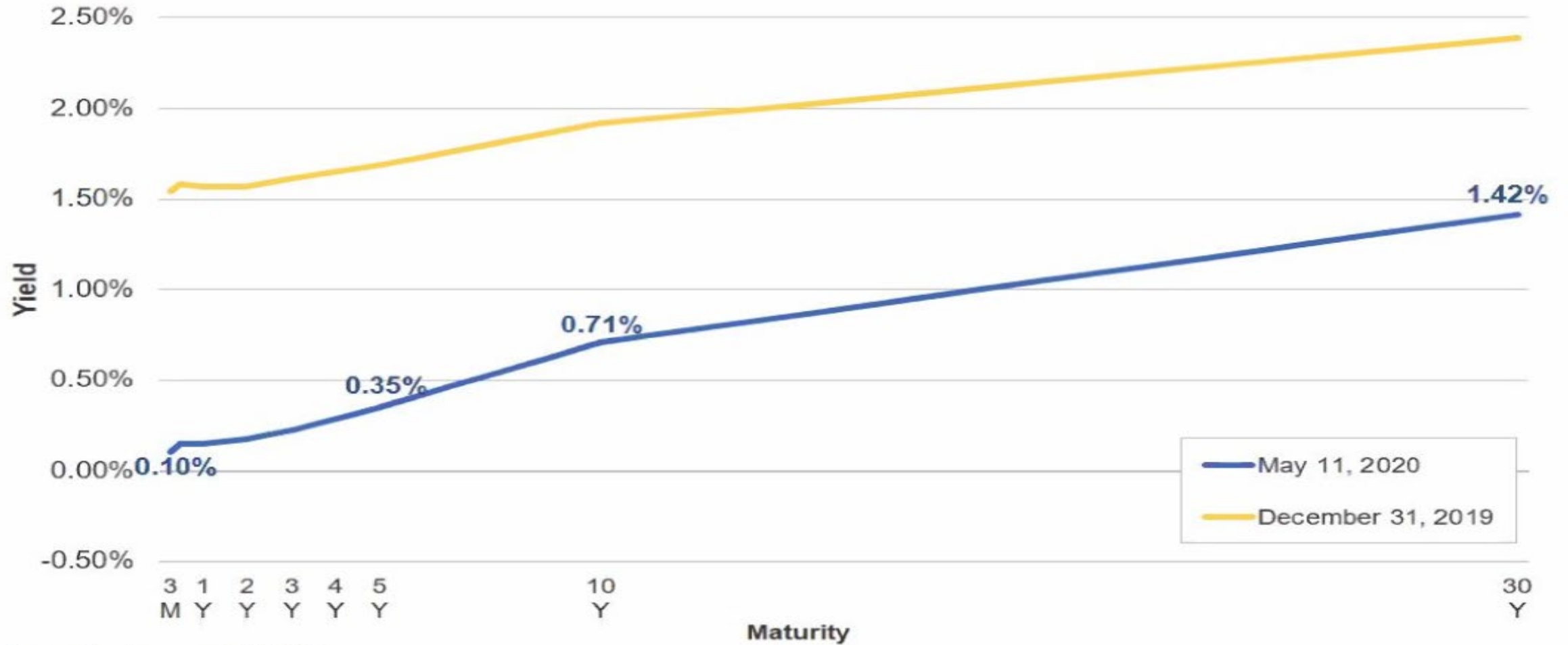


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Yield Curve Remains Sharply Lower

US

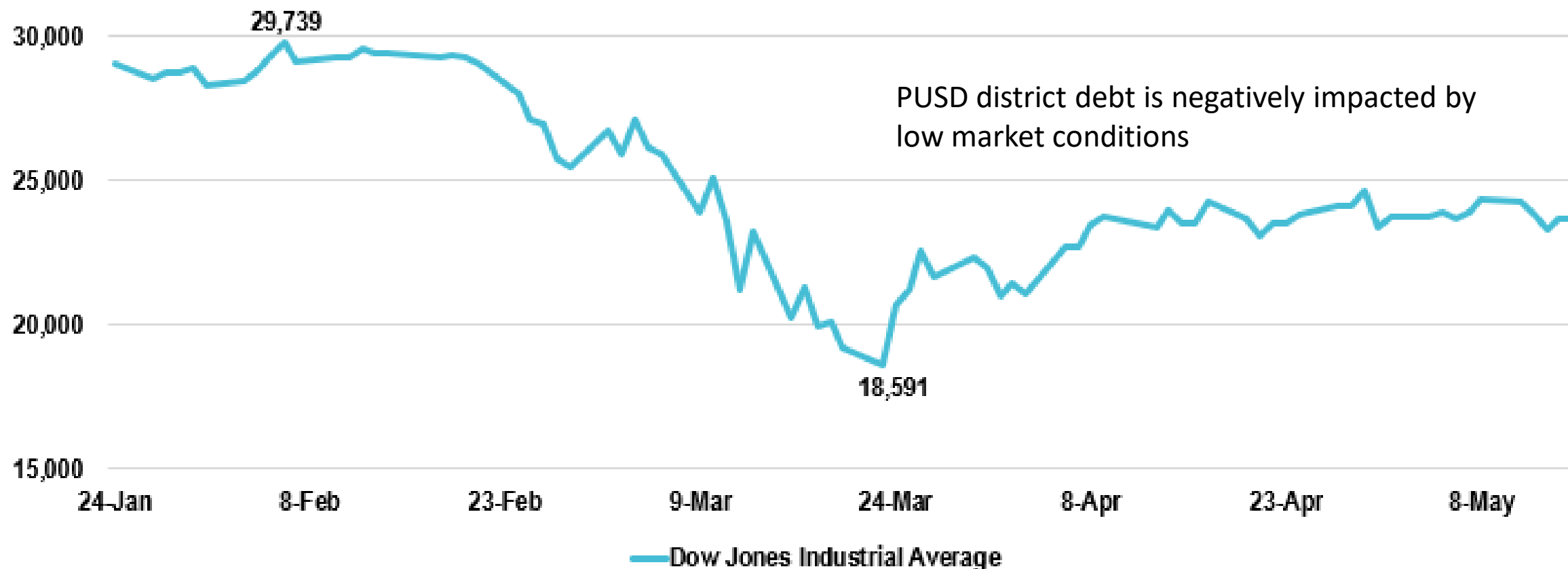
U.S. Treasury Yield Curve



Source: Bloomberg, as of 5/11/2020.

Yield curve = Shows the interest rates at different times, with maturity being the time (duration) to get the funds plus interest.

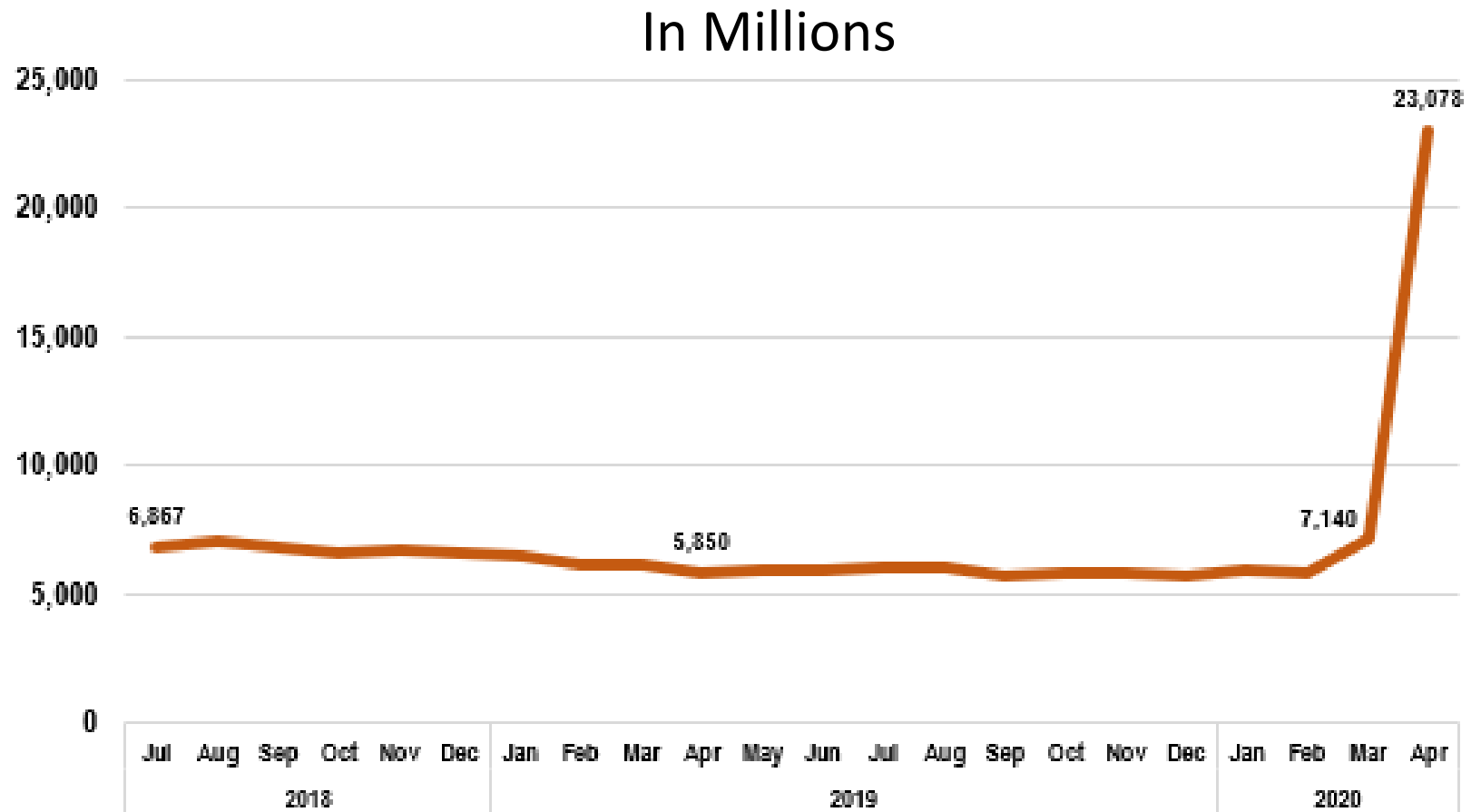
The Market Conditions – Impact on rates



Dow Jones Industrial Average is a stock market index that measures the stock performance of large companies, and it is one of the most commonly followed representations of the overall U.S. stock market.

US Unemployment Data

- 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



Source: U.S. Bureau of Labor Statistics

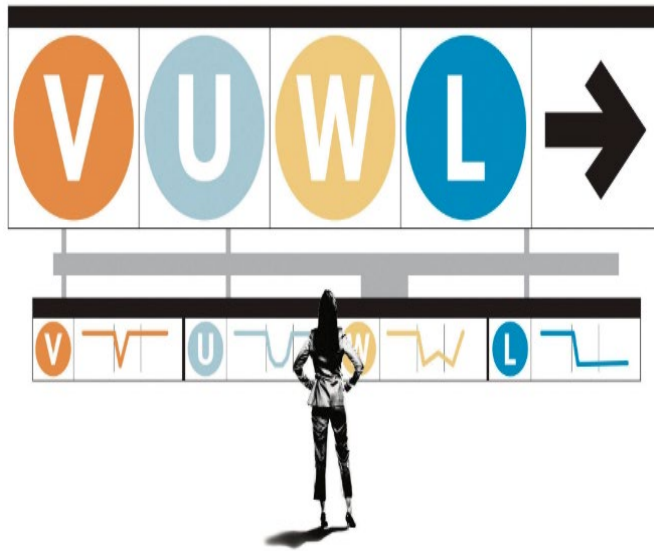
State Economic Impact of COVID-19

- **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**



Recession & Recovery Shapes

STATE



V shaped Recession

Recession where instantaneous recovery is expected after initial recession

W shaped Recession

A double dip recession where economy goes into recession immediately after recovering from 1st one

Recession

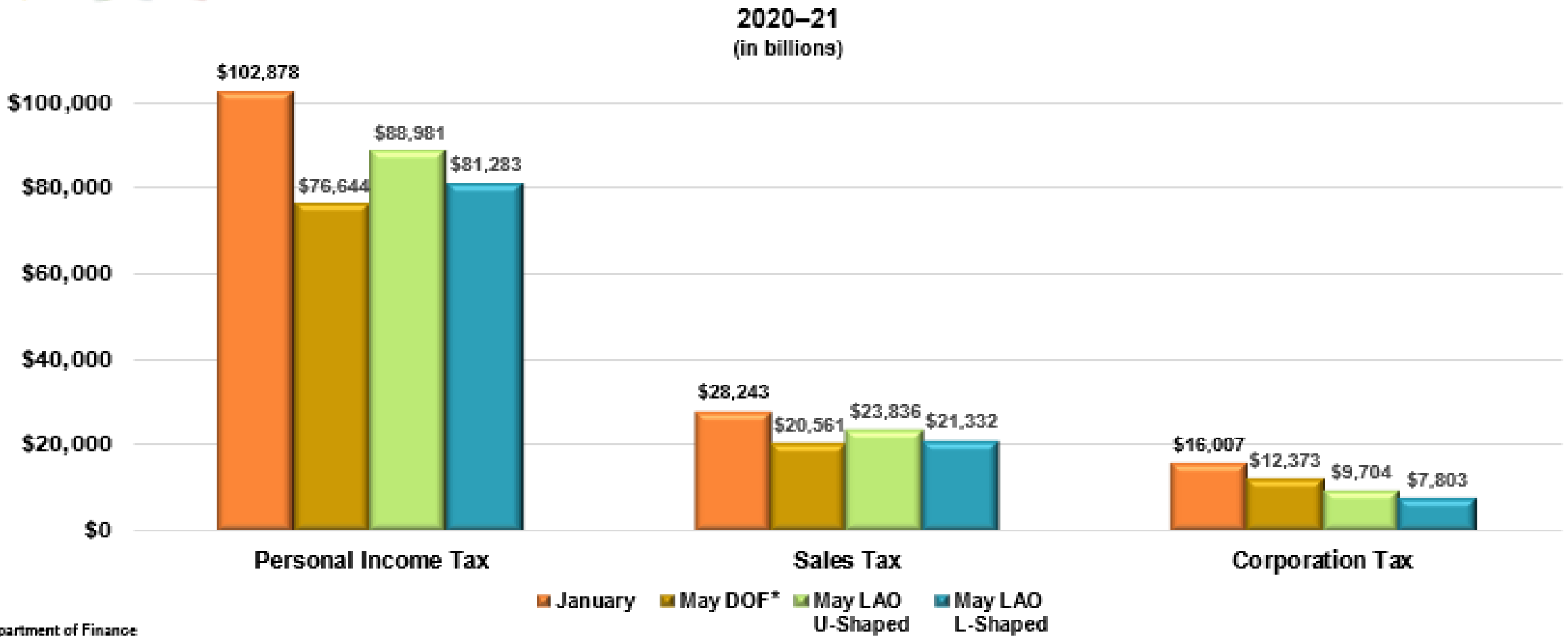
L shaped Recession

Recession after which recovery is very slow and unemployment still remains high

U shaped Recession

A bathtub shape of recession which is longer than V shaped one

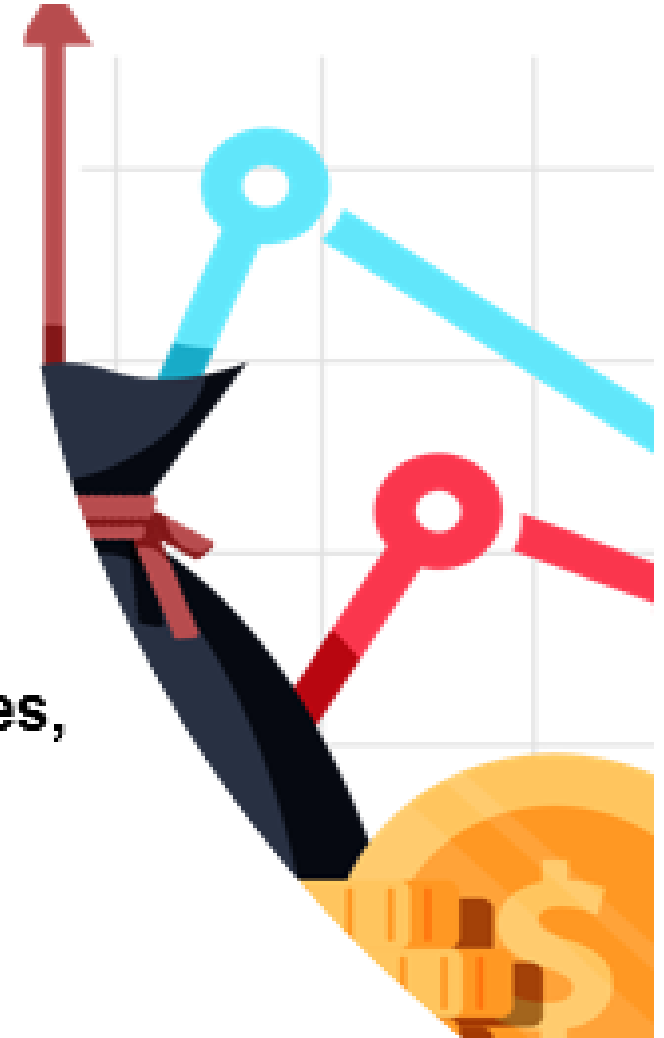
California's Three Tax Revenues



Legislative Analyst's Office (LAO) and Dept. of Finance provided various estimates of post Covid-19 financial scenarios.

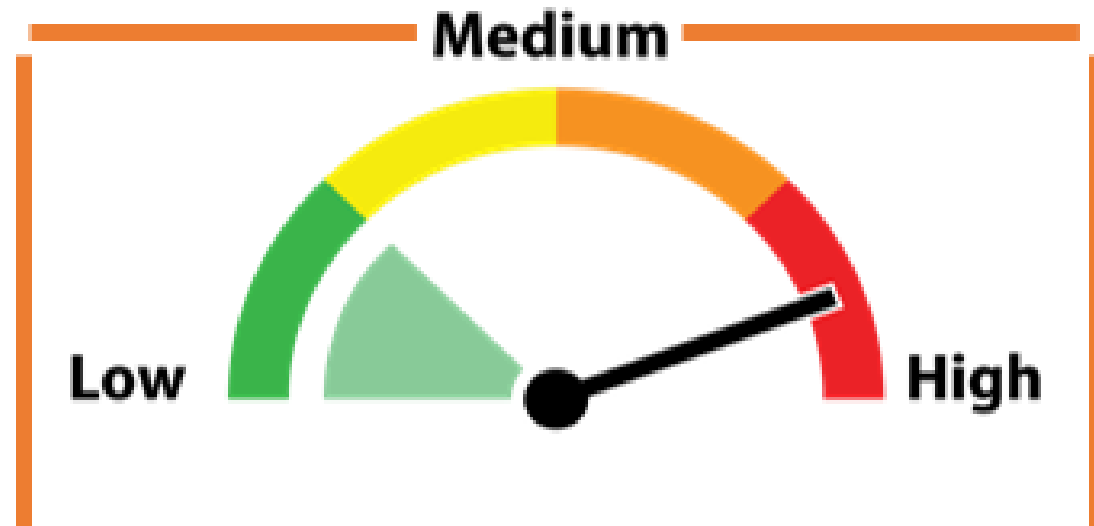
California Revenues and Shortfall

- **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**



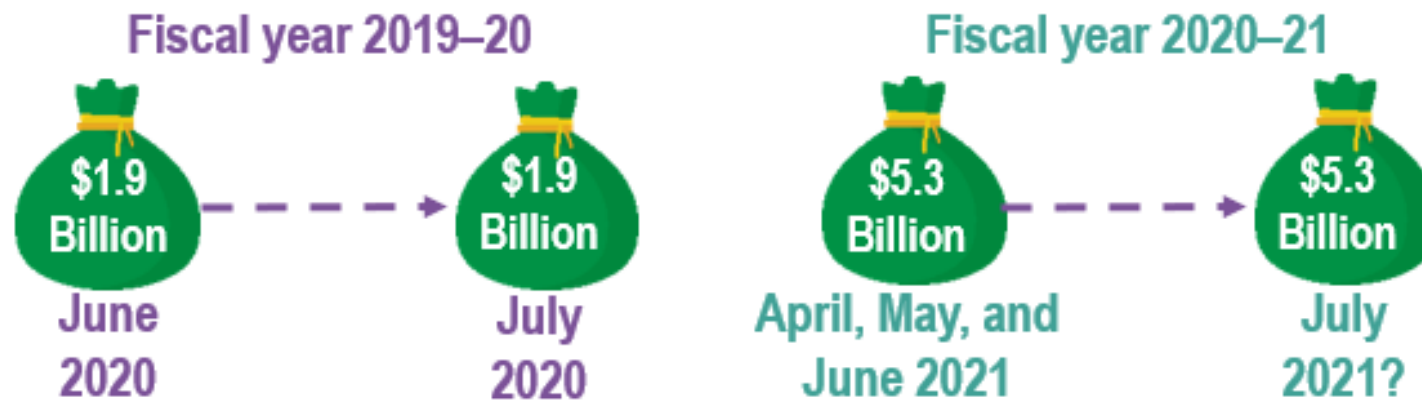
State Economic Risks

- **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”



State Cash Deferrals

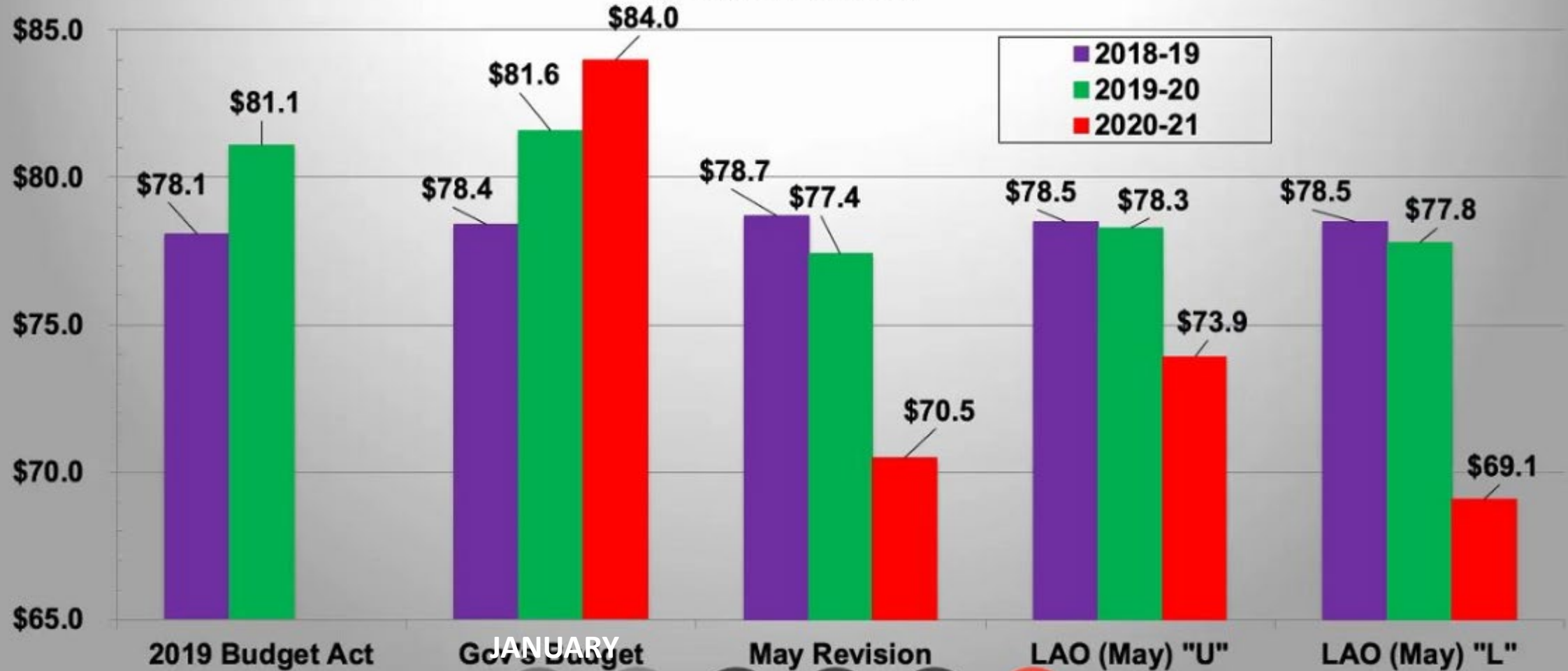
- Cash deferrals were used during the Great Recession to implement state-level budget cuts and/or improve the state's cash position
- The Governor's May Revision takes a page from the same playbook and proposes the following cash deferrals:



- 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

Prop 98 Changes

(Dollars in Billions)



Proposition 98 is the State formula for setting the annual funding level for school districts as a portion of the State budget.

CALIFORNIA BUDGET

- ▶ \$6 Billion Surplus
Before COVID-19
- ▶ \$21 Billion Reserve
Before COVID-19
- ▶ \$54 Billion Deficit
Since COVID-19



CALIFORNIA

State Cuts to School Districts

DISTRICT

- The May Revision suspends the 2.31% COLA and includes an additional reduction—for a total of 10% cut to the 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

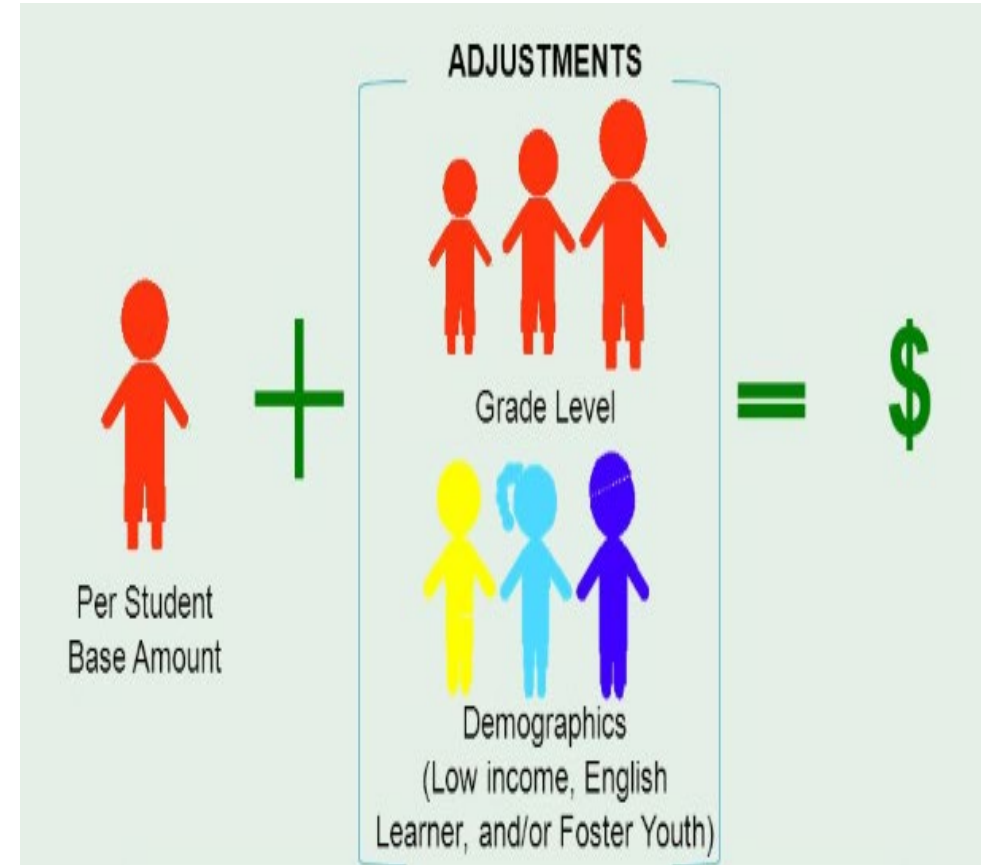
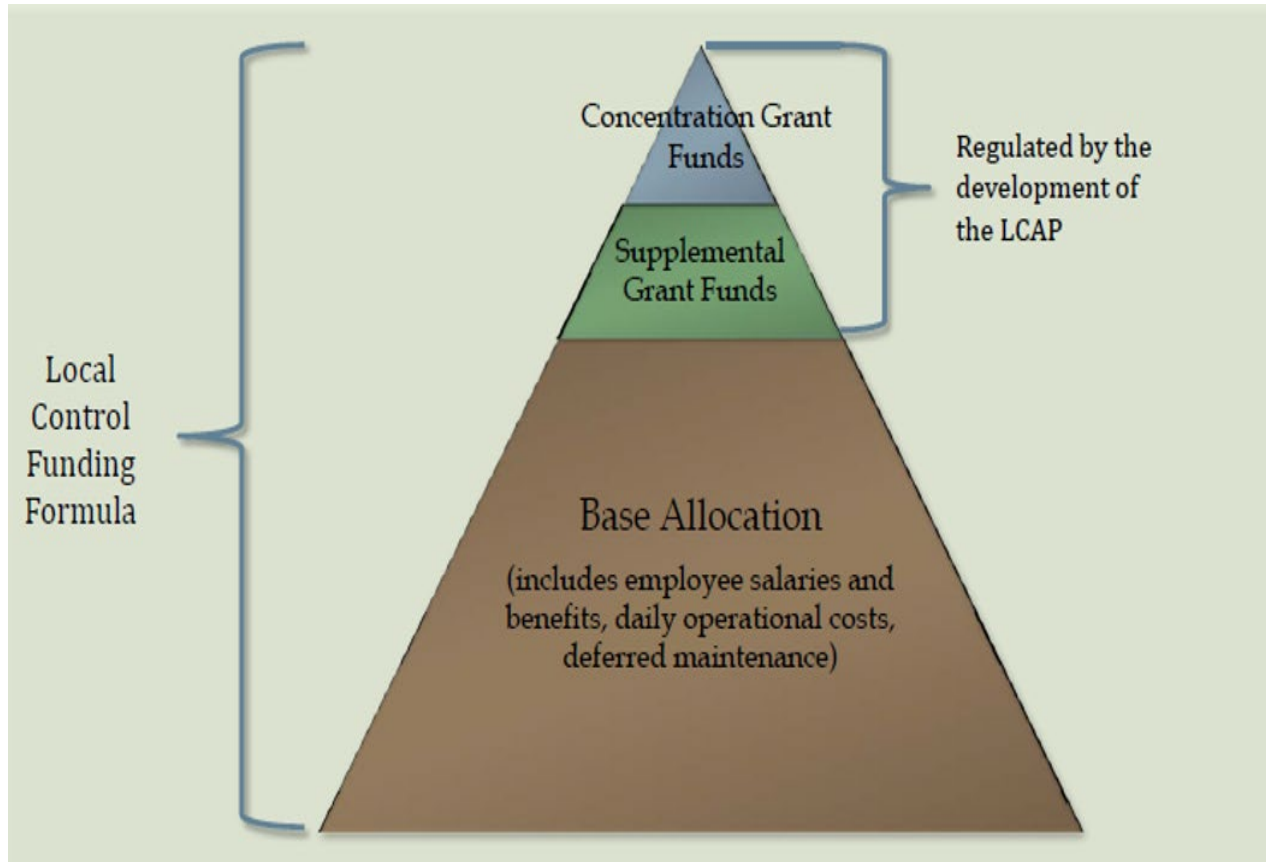
- The cuts are meant to reduce the LCFF with the reduction taken from the base grant, which lowers the amount upon which supplemental and concentration grant funding is calculated

COLA = Cost of Living Allowance – Annual percent factor that can increase/decrease funding based on inflation, based on State economic indicators.

LCFF = Local Control Funding Formula = State funding mechanism based on per student funding under various student categories.

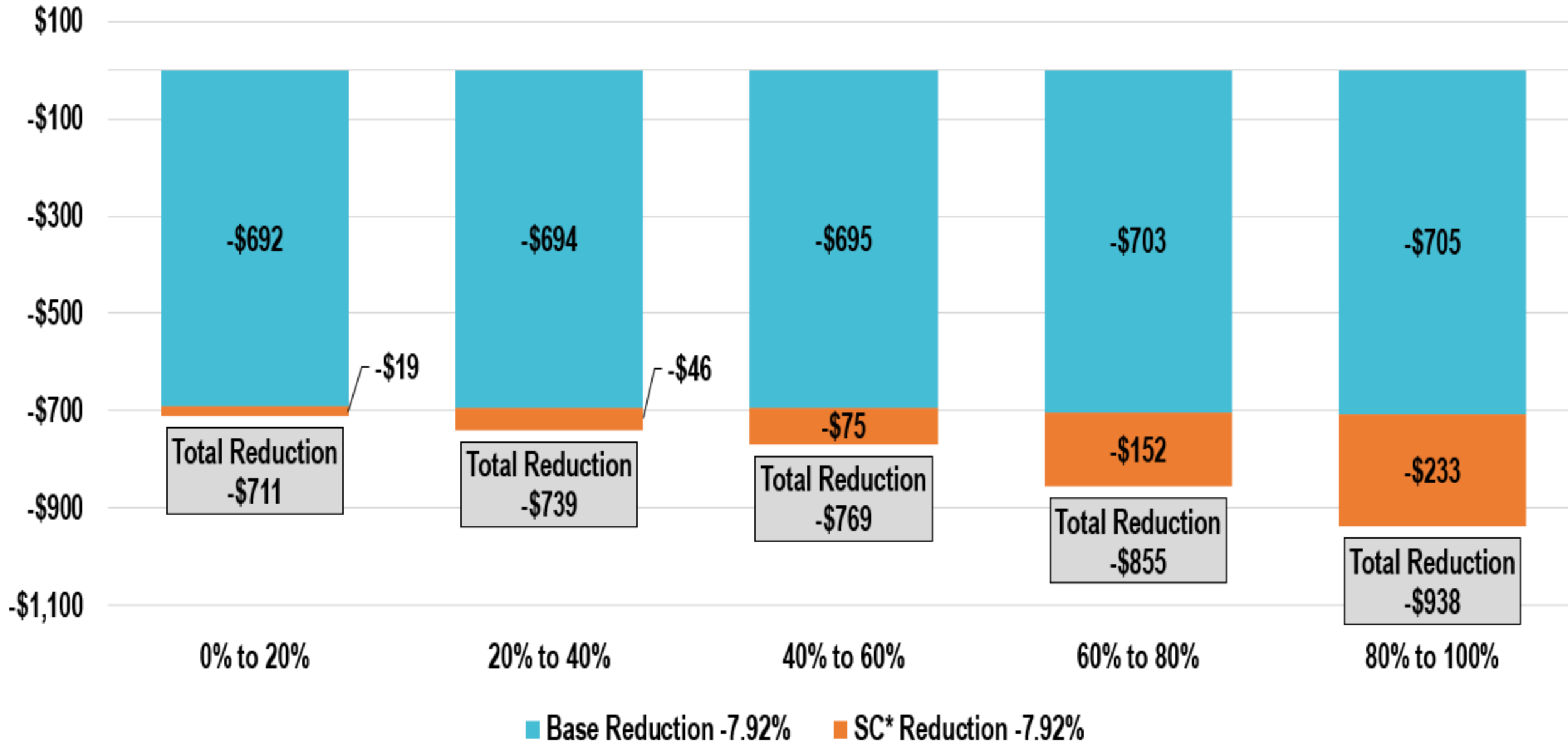
LCFF – BASE / SUPPLEMENTAL & CONCENTRATION

DISTRICT



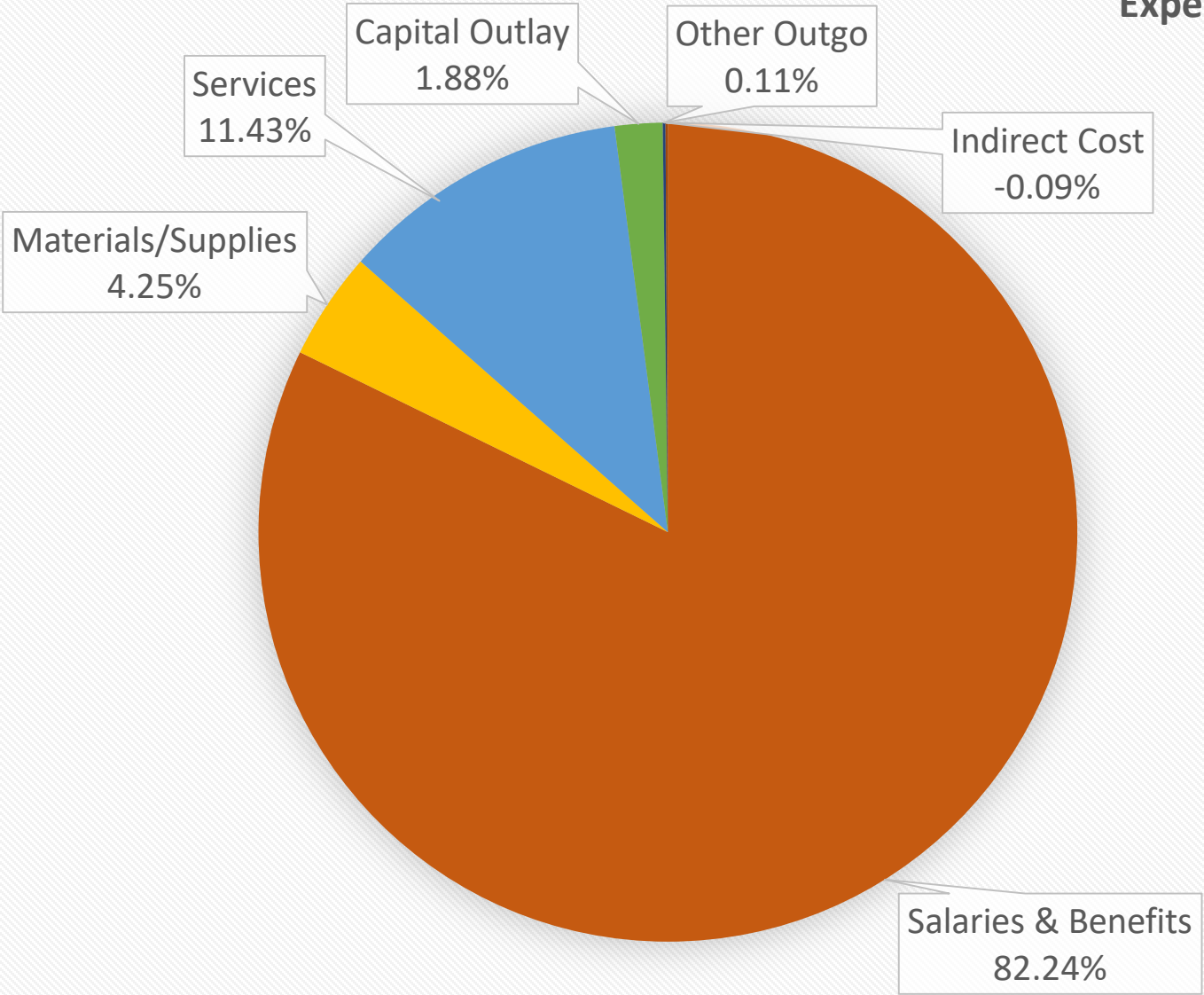
Unduplicated Students = Any student in one or more of these groups would only be counted once in the calculation (Low Income, English Learner, Foster Youth). The unduplicated pupil count is used to determine the amount of supplemental and concentration funds the District will receive under LCFF.

Average Per-ADA Reduction from 2019–20 to 2020–21 by Unduplicated Pupil Percentage



Expenditures by Object

DISTRICT

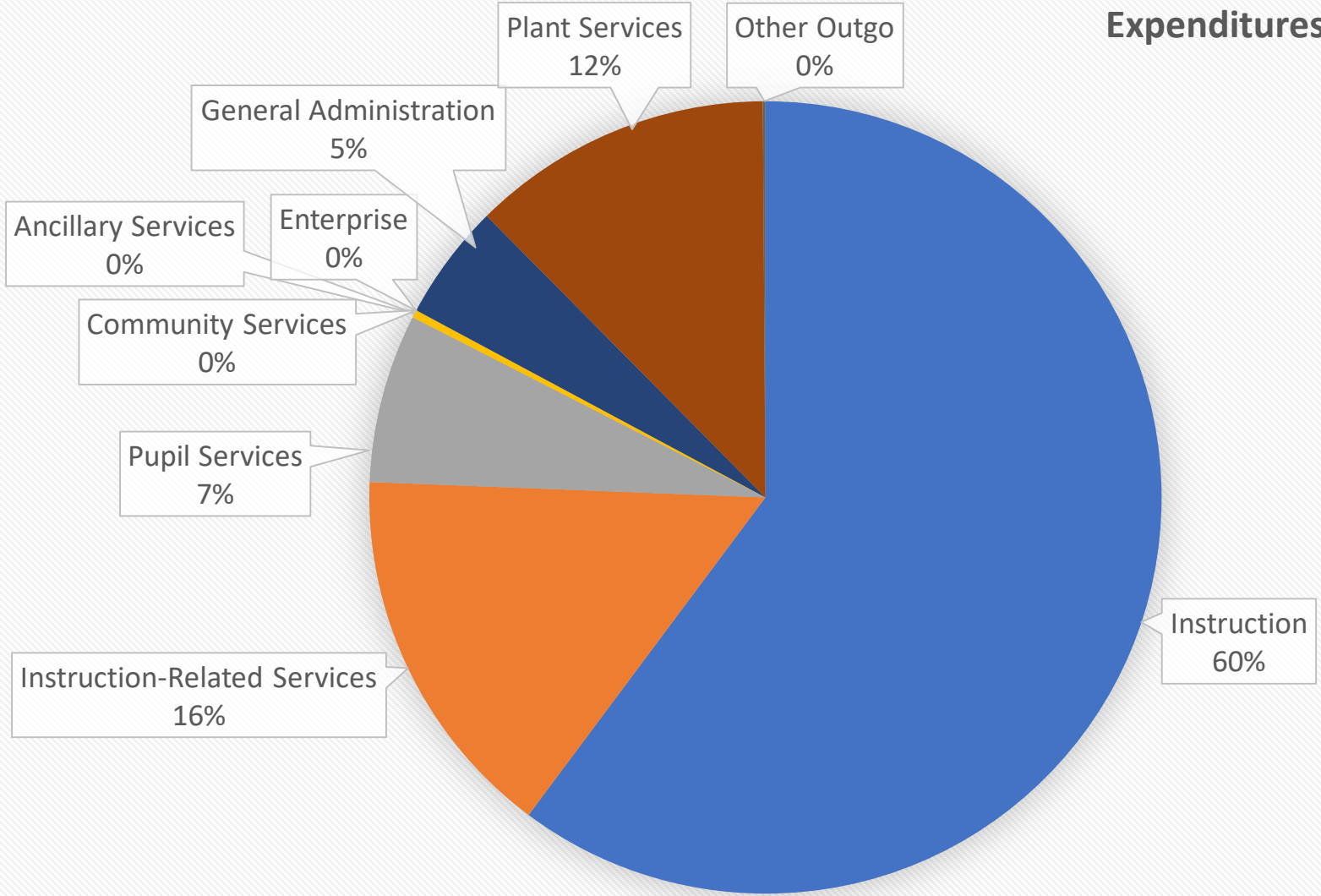


**Salaries & Benefits
account for over
82% of the budget**



Expenditures by Function

DISTRICT

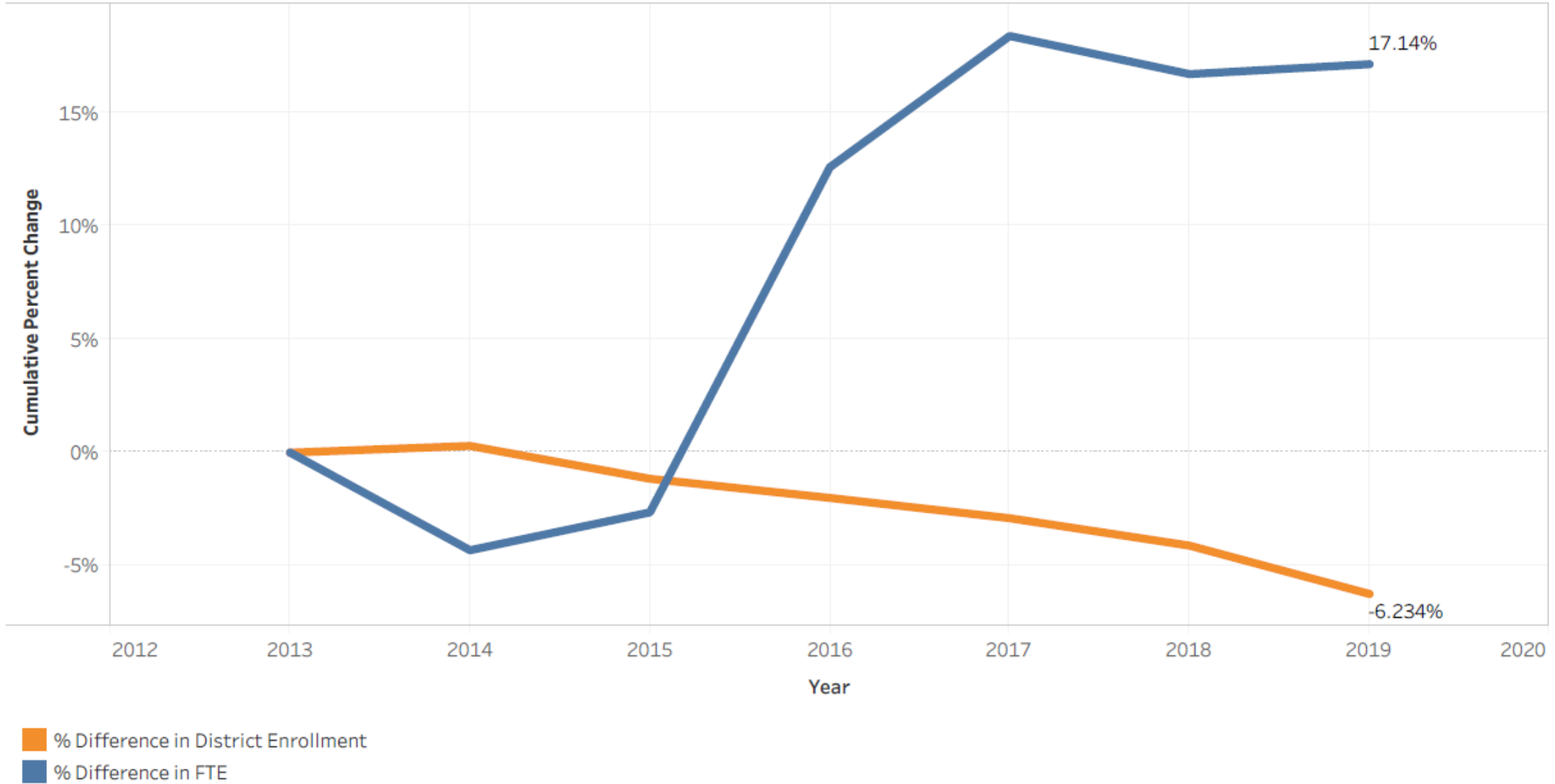


- Instruction
- Instruction-Related Services
- Pupil Services
- Ancillary Services
- Community Services
- Enterprise
- General Administration
- Plant Services
- Other Outgo

Paramount Unified Economic Profile

DISTRICT

The graph below show the cumulative percent changes in FTE and Enrollment from 2013 to 2019.



FUNDING AND ASSISTANCE – May Revision Estimates

COVID-19 RELIEF FUNDS

- CARES Act Estimate \$4.2 Million
- California LEA Response Fund \$246 Thousand
- FEMA Funds \$795 Thousand

Additional relief funding and Federal Heroes Act funding TBD

BUDGET ASSISTANCE FUNDS

- Special Education \$785 Thousand
- PERS/STRS Rates 2% Reduction

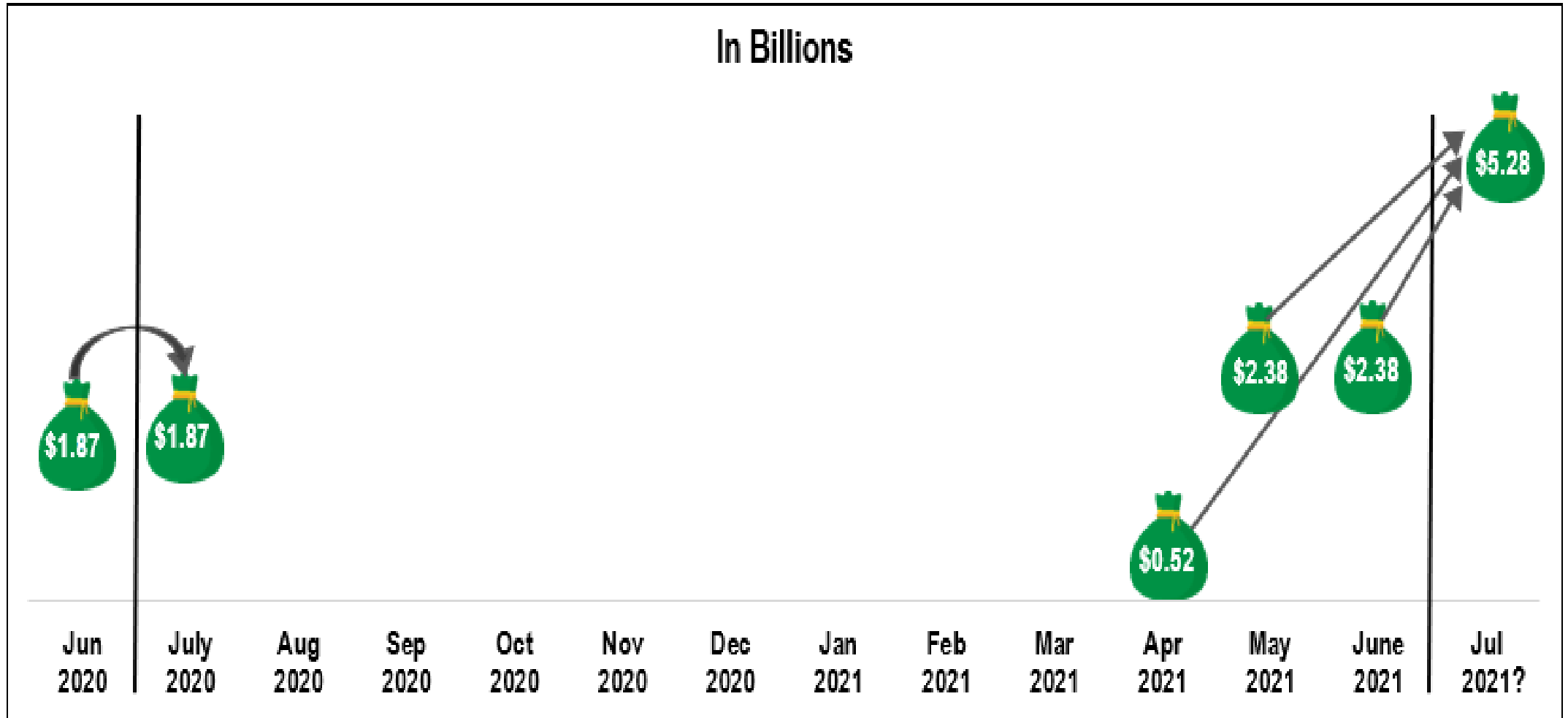
FUNDING ESTIMATES

- COLA Reduced by 10% (2.31% + 7.92%)
- LCFF 10% Reduction (COLA + Additional Cut) -\$16,300,471
- Lottery Funding No Change
- Home to School Transportation Cut -\$100,280
- TIIG (Targeted Instruction) Cut -\$21,853

PUSD – State Cuts and District Reductions

STATE CUTS / REDUCTIONS	2019-20	2020-21	2021-22	2022-23
10% State Cut - BASE		\$ 11,718,012	\$ 12,069,552	\$ 12,431,639
10% State Cut - S&C		\$ 4,582,459	\$ 4,719,933	\$ 4,861,531
Attendance Decline	\$ 4,840,000	\$ 4,537,500	\$ 4,235,000	\$ 4,235,000
State Deferral	\$ 11,250,000	\$ 33,750,000		
Interfund Repay			\$ 15,000,000	
	\$ 16,090,000	\$ 54,587,971	\$ 36,024,485	\$ 21,528,170

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



PUSD – Offsets (District Adjustments)

DISTRICT

OFFSETS/DISTRICT ADJUSTMENTS	2019-20	2020-21	2021-22	2022-23
Deferral Payback		\$ 11,250,000	\$ 33,750,000	
Base enrollment adjustments		\$ 2,875,000	\$ 2,875,000	\$ 2,875,000
Reductions - BASE		\$ 3,979,355	\$ 4,597,276	\$ 4,778,319
Reductions - S&C		\$ 2,062,107	\$ 2,359,966	\$ 2,430,765
Federal Relief - CARES/Etc.		\$ 4,000,000		
Interfund Borrowing		\$ 15,000,000		
	\$ -	\$ 39,166,462	\$ 43,582,243	\$ 10,084,085

Interfund borrowing from reserves to be repaid within 1 year

	2019-20	2020-21	2021-22	2022-23
District Reductions		\$ 6,041,462	\$ 6,957,243	\$ 7,209,085

BUDGET DISTRICT UPDATE		ESTIMATED BASED ON DATA AS OF MAY 20, 2020			<i>DISTRICT</i>
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Interfund Borrowing		\$ 15,000,000			
	\$ -	\$ 39,166,462	\$ 43,582,243	\$ 10,084,085	
Reserve Utilization / Need	\$ (16,090,000)	\$ (15,421,509)	\$ 7,557,757	\$ (11,444,085)	
Balance Reserves	\$ 19,510,000	\$ 4,088,491	\$ 11,646,248	\$ 202,164	

Strategies, Other Costs, Revenues and Unknowns

- Other Costs & Unknowns

- H&W costs in 2021 and beyond
- Workers' Comp / Liability Insurance
- Step & Column
- State Budget (July) August?
- Federal Budget (October)

- Strategies and Other Revenues

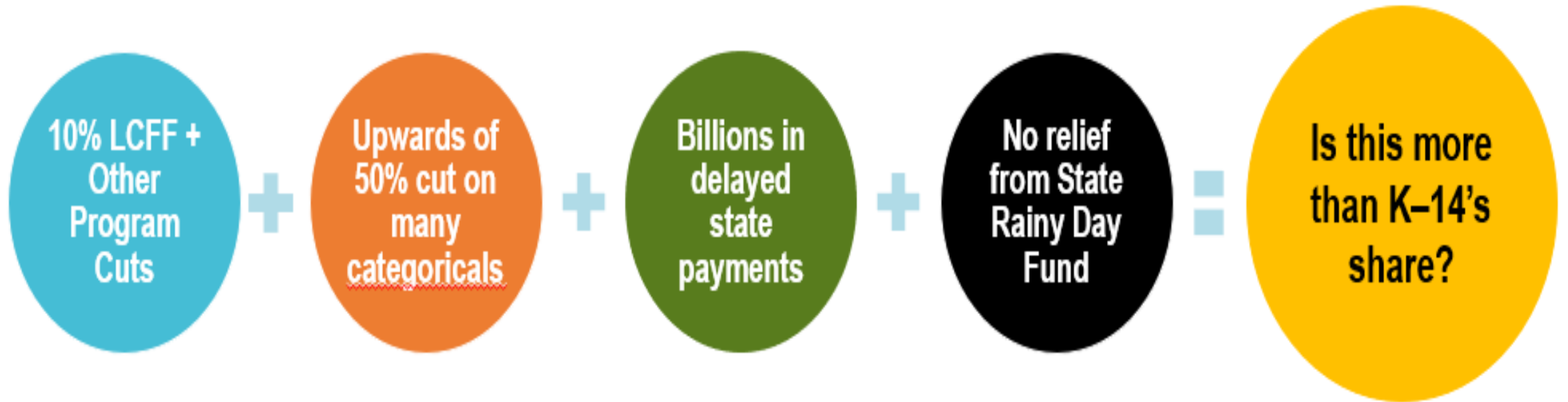
- Reduced STRS/PERS
- Contract Savings
- Special Ed – State Funding
- Staffing to Enrollment
- Protect credit – Reduce borrowing
- Proportional reductions

NEXT STEPS

Ensure District Solvency – AB1200/LACOE/AUDITOR/STATE

- District to analyze services, staffing and contracts to reduce and eliminate costs
- Identify and implement budget reductions of \$5.9M for FY 2020-21 in order to balance the budget
- Develop and present balanced budget for June 22, 2020
- Develop Budget Priorities for Multi-Year Budgets
 - Safety, Instruction and Services to Students
- District Budget Committee – Feedback from Stakeholders to recommend reductions and budget adjustments for FY 2021-22 and FY 2022-23
 - Begin budget committee meetings in August 2020

Questions?



Thank You