
Los Altos School District

CACF Annual Report 2022-2023

— Citizens Advisory Committee on —
Finance - June 5, 2023

Tonight's Agenda

- Overview of Current Situation
- Enrollment
- Budget
 - Magnitude of expense reductions
 - Timing of reductions
 - Parcel tax renewal
 - Long term need to balance expenses with revenue (scenarios)
- Capital Needs
- Recommendations

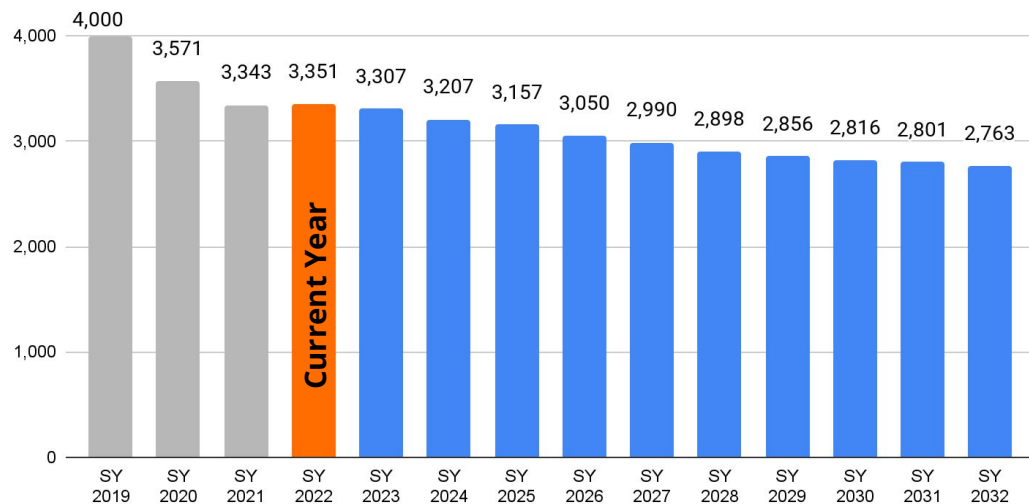
Overview of Current Situation (what we're going to tell you)

- Enrollment will decline, but not save enough money in short term.
- Renewing the Parcel Tax is critical for \$2.2M of instruction.
- Only renewed property tax growth (post-recession) can address the structural imbalance we have where expenses grow faster than revenue.
- The current deficit spending must end soon.
- Inflation and the situation aren't District's fault, but action is imperative.
- Capital needs: update 10 year plan and fund modernization needs from general obligation bonds.

Enrollment

Enrollment Is Down. Forecast Shows Further Decline.

- Macro trends suggest enrollment will stay low for the next 5+ years.
- Multiple years of higher than average growth needed to get back to pre-covid levels.
- Graduating 6th-8th grade populations significantly larger than K-3 grade populations.
- Addition of TK provides minor offset.



Budget

Deciding on how much and when to reduce expenses?

What's the problem?

- State requires 3% reserves and board policy requires 8-10% reserves
- Budget shows an annual deficit in 23/24 and each of the following years
- Structural imbalance: expenses continue to grow faster than revenue

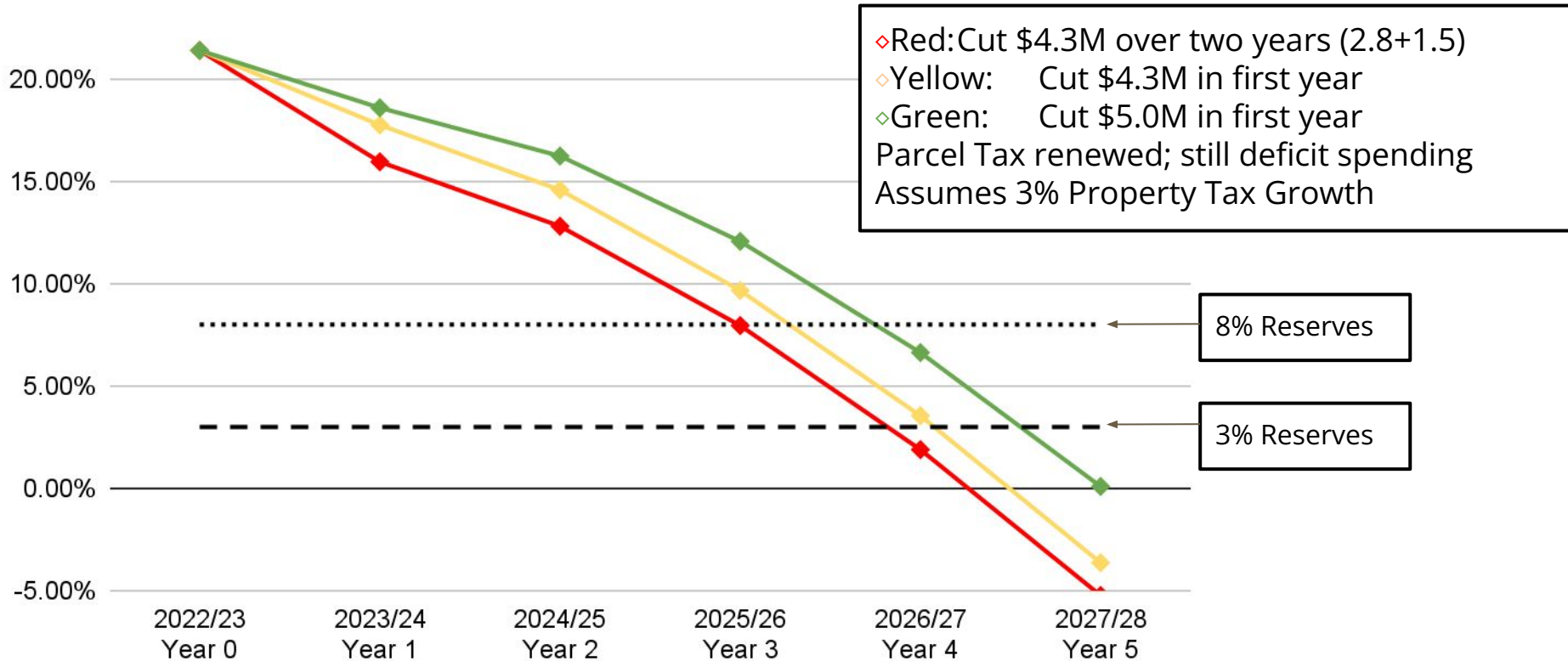
Q: Does when make a difference?

A: Delaying uses up runway (reserves)

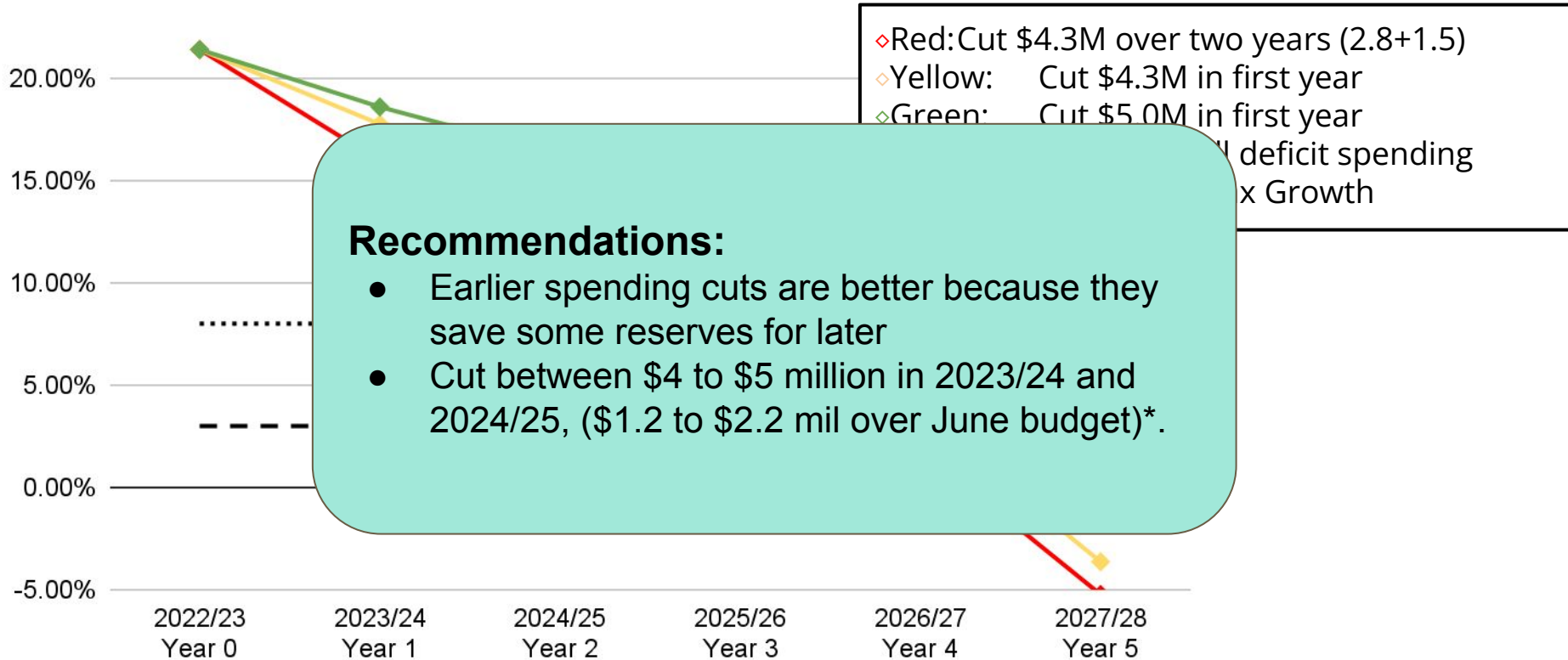
A: Budget deficit can only close with expense reductions or revenue (tax) increases.

A: The parcel tax renewal is the only revenue the district has some influence over.

Reducing Early Buys Time. Delay Uses Up Reserves.



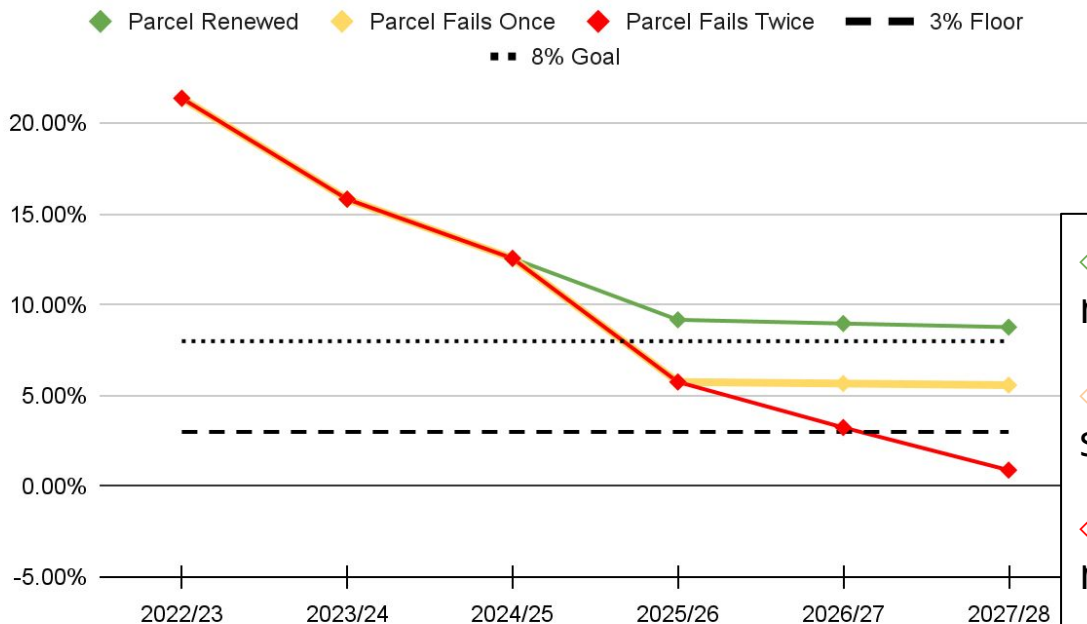
Reducing Early Buys Time. Delay Uses Up Reserves.



*CACF analysis performed on March draft MYP.

Parcel Tax Vote Outcomes and Responses: What if?

Parcel Tax Scenarios: Renew, Fail-Once, Fail-Twice
All Scenarios cut \$2.8M, \$1.5M, \$0, \$2.7M & Property Tax 6%



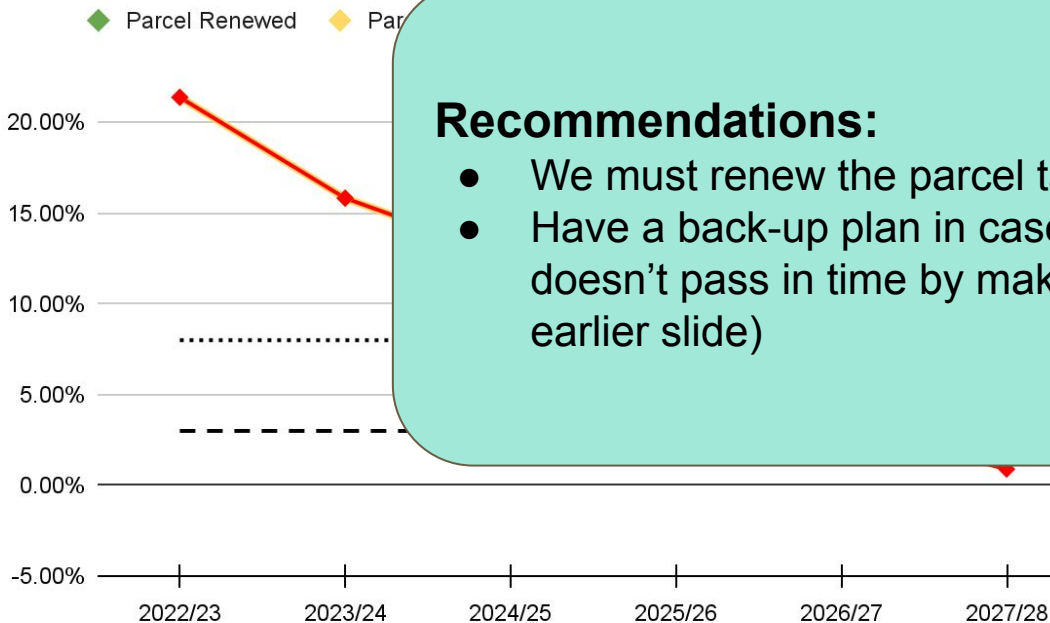
Cost to cover one year of missing parcel tax and run a second election: \$3M = 2.2+0.8

- ◆ Parcel renewed, we preserve revenue.
- ◆ Parcel Tax absent one year, then spend \$3M in reserves.
- ◆ Parcel Tax fails a second time, we need to cut an additional \$2.2M

Parcel Tax Vote Outcomes and Responses: What if?

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Recommendations:

- We must renew the parcel tax
- Have a back-up plan in case the renewal doesn't pass in time by making cuts earlier (see earlier slide)

to preserve

one year, then
erves.

◆ Parcel Tax fails a second time, we need to cut an additional \$2.2M

We must balance budgets

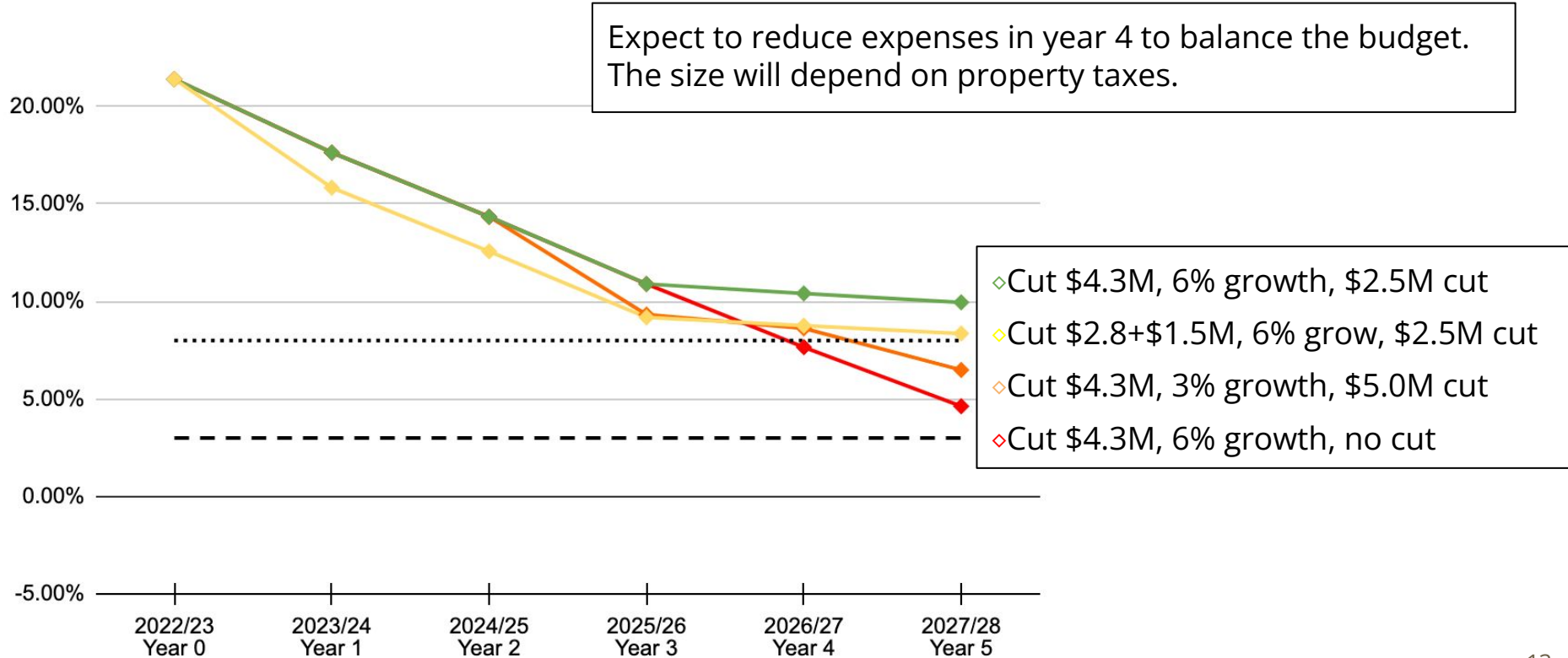
Long term need to balance expenses with revenue

If property tax growth returns to long term average about 5.75%
Then we'll still require about \$2.5M cut in year 4 to balance future budgets.
See blue and green lines on the next chart.

If property tax growth stalls at 3% for many years
Then a cut of even \$5.0M in year 4 fails to balance future budgets.
See yellow line on the next chart.

The next chart assumes parcel tax renewal on the first election.

The magnitude of future cuts depends on our property tax growth rate.



Balanced Budget Recommendations

- When and how much to reduce expenses?
 - **Reduce expenses \$4-5M* in total through right-sizing over the next two years, additional \$1.2 mil to \$2.2 mil from 2023/24 proposed budget.**
 - **Reducing earlier buys you time - better than cutting more later**
 - **Renew the parcel tax**
 - Watch property tax growth
- Make additional cuts in future years based on revenue and expense trends**

Capital Needs

Background

Last major evaluation of facilities & improvement needs was completed in 2013/2014: [Projected cost of \\$45-\\$90M over 10 year period](#).

Lots of data provided, but 10 years later there has been no plan or meaningful progress. In 2022, staff [identified \\$40M in high-priority modernization needs](#), but again with only limited implementation undertaken.

Operating budget and developer fees have historically been inadequate to cover maintenance and modernization needs.

Financing recommendations, such as setting up a sinking fund using Measure N funds to meet just a small portion of pressing requirements, have been repeatedly deferred.

Recommendation #1 - Update & Planning Process

- Replace the outdated plans (especially in light of inflation):
 - 2013 Asset Reserve Analysis - CACF encourages the board to seriously consider the Facility Condition Assessment Tool from CPM, which costs \$139,000.
 - 2014 Facilities Master Plan - contract to complete a new master plan based on current needs and enrollment, with a final product that is user-friendly
- Create a streamlined process to monitor needs and expenditures on a rolling basis

Recommendation #2 - Funding that can be secured

Use general obligation bonds for maintenance and modernization because it is the most practical approach

- Increase transfer from Building Fund (Measure N) to Deferred Maintenance Fund from \$300,000 to \$1M to save on repairs coming out of general fund
- Expand community outreach to help define bond financing needs further into the future. The last bond measure specifically for modernization was for \$94.7 million in 1998.
- Prepare to float a general obligation bond for maintenance and improvement on a recurring basis.

2023-24 CACF Projects - Feedback and List Your Priorities Here

- Discuss feedback and priorities from Board of Trustees

Appendix

— Annual report 2022-23 —

Macro Trends Impacting Enrollment Growth

	Enrollment Impact
California population has declined and near term trend is flat to slightly down overall.	↓
High housing costs and slower economy means population growth in Bay Area will decline.	↓
Birth rates continue to decline	↓

	CBEDS 2022
TK	81
Kinder	256
1st	306
2nd	304
3rd	353
4th	337
5th	406
6th	380
7th	453
8th	454
Total	3338

866

-421

1287

Expect to lose 421 due to graduation over 3 years