Los Altos School District

CACF Mid-Year Update 2021-2022

Citizens Advisory Committee on Finance - Jan. 23, 2023

Tonight's Agenda

- Overview
- Review Revenue and Parcel Tax Renewal
- Review Expense Items
- Recommendations

Overview

Current situation:

- District's current financial position is strong with reasonable reserves.
- High **inflation** and **interest rates** present significant risks that are likely to raise costs, lower revenue and drain reserves after FY2023.
- A **parcel tax** expiration in 2025.
- The recent decline in state **retirement fund valuations** leave them underfunded.
- Social and emotional **learning costs** are likely to remain above pre-pandemic levels.

Recommendations

- Approach the 2023-24 budget and multi-year projects with the following assumptions:
  - Revenue will have minimal growth: flat to 2%
  - Expenses will continue to grow for multiple reasons outlined later in this presentation.
- Discuss and define plan for the parcel tax renewal by June 2023

District revenue growth faces strong headwinds

Strong drags on housing market

- The recent spike in mortgage rates has caused the volume of home sales to drop to pre-pandemic levels. There is significant risk that this trend continues.
- Housing prices are down from the 2021-22 peak and may continue to slide.
  - The market values of homes purchased during the 2021-22 peak may have dropped below assessed value.
- Corporate layoffs are mounting locally.
- We will hear more bad news?

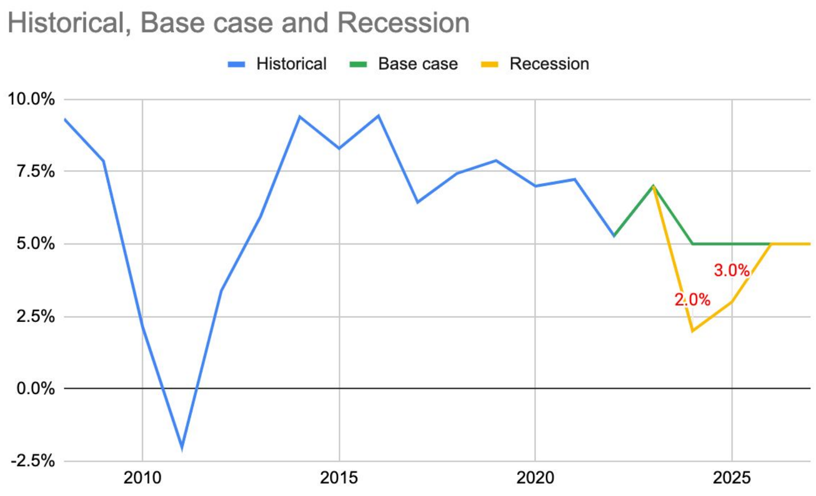
Positive aspects of housing market

- Mortgage delinquency rates are at 20-year lows* and well below levels preceding Great Recession (2000-05).
- The inventory of homes for sale remains at a healthy level (under 40 days), at least for the time being.
- “Return to office” policy may sustain local demand.

*There is only 20 years of data available to us.

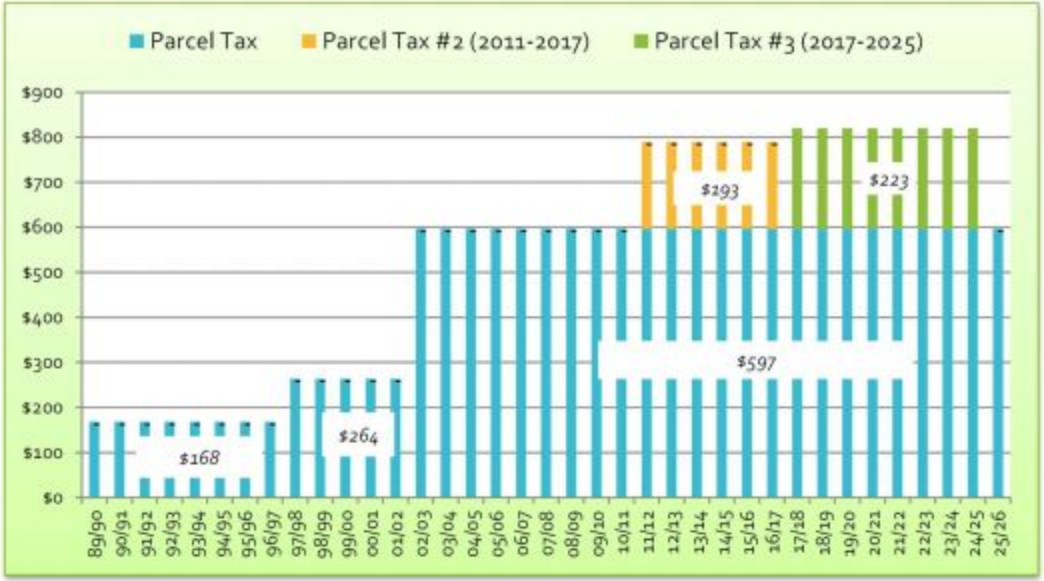
Plan for even lower revenue growth

- The 2022-23 budget (the base case here) had already projected lower growth compared to recent years.
- CACF considered a “recession” scenario with a two-year decline in tax growth rate for the 2024-25 and 2025-26 years.
- Implications of this recession scenario are a cumulative decline in projected revenue of $10 million or average of 4.1% per year through the FY24 to FY27 period.
- District’s vulnerability with respect to revenues is likely to magnify impact of expense increases.



Parcel Tax Background

- Two current parcel taxes:
  - $597 (Original + increase)
  - $223 (2016 Tax)
- 2016 tax expires June 2025 and accounts for $2.8 mil in revenue (3.4% of 2026 revenue).
- There are only two statewide elections before the expiration, both in 2024.



CACF considered scenarios

1. No renewal
2. Renew at current rate of $223 per parcel or total of $2.8 mil per year.
   - This would be 3.4% of 2025-26 projected revenue.
3. Renew at $295 (2016 tax adjusted for inflation)
   - $900k above current parcel tax per year
   - $3.7 mil of total funding (4.4% of projected 2025-26 revenue)
4. Renew at $401 (total of two parcel taxes adjusted for inflation)
   - $2.2 mil above current parcel tax per year
   - $5.0 mil of total funding (5.9% of projected 2025-26 revenue)

Several factors may complicate a parcel tax renewal

- An increase and a renewal require **⅔ vote**.
- **Economic factors**, including recession, inflation or stagnation.
- Some past parcel taxes, albeit a minority, have faced challenges at the polls: Cupertino 2021 and Los Altos in 2011 & 2002.
- **Voter attitudes** may be affected by other issues outside the District's influence, such as non-District bonds or controversial candidates.
- **Recommend** the Board of Trustees discuss and begin to define a preliminary plan and timing by the end of June 2023
- **Timing** is key as other LASD priorities and projects will vie for attention: 10th site, middle school configuration and a possible bond measure

CACF Personnel & Expenses

Subcommittee
Mid-Year 2022-23

Two topics for your attention

Short Term Concern

Personnel costs are likely to rise due to pressure from many factors.

Our most important assets, our staff, are essential workers who worked through the pandemic and now a period of high inflation.

Long Term Concern

CalPERS and CalSTRS costs are likely to continue their growth over the long term.

Decades of history and current economics point to this cost increasing.

** We highlight these areas because of the very important impact they have on the LASD budget and on the quality of educational services. They are not, of course, the only areas where economic cost pressures now and in the future should be considered and addressed.*

Personnel Cost Pressures

Hire talent

Think through competitive hiring package including compensation, environment, benefits, support

- What are future hiring needs (expected attrition including retirements)?
- Where are we relative to our neighboring districts?
- Is our step-column table an advantage? Should we add more steps or target changes?
- What is our hiring package goal?
    - 50th or 75th percentile versus others?
    - 75% of staff can afford to live within 30 minutes?
    - Do we have a tenure goal? E.g. staff stay for > 10 years?

Inflation and the questions above will cost $.

Retain talent

Think through how to retain teachers:

- What can we do to retain more young teachers?
- What non-salary benefits should we have?
- What benefits address needs from LATA?
    - Consider flexible benefits - use for child-care, health-care, FSA or take 80% cash
    - Increase paid prep-time
    - Increase in-classroom resources like more classroom support

Other policy considerations with cost impacts:

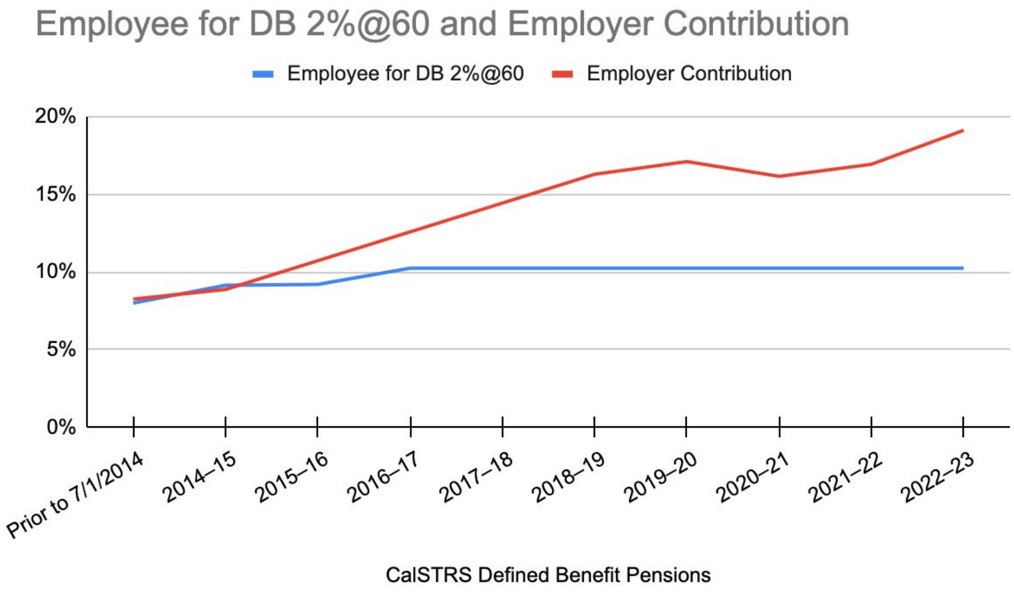
- Class size - currently low, so should be a hiring advantage
- Is our administration vs classroom headcount ratio appropriate?

Pension Costs

CalSTRS:

The 2020–21 state budget re-directed the supplemental payment paid by the state on behalf of employers as part of the 2019–20 state budget. The supplemental payment was used to reduce the contribution rate for employers by

1.03% of payroll in 2019–20,
2.95% of payroll in 2020–21 and
2.18% of payroll in 2021–22.



CalPERS remains under-funded

July 2022: With CalPERS' discount rate of 6.8% and this year's preliminary return of -6.1%, the estimated overall funded status stands at 72%.

The San Jose Mercury News (not a fan or CalPERS) reports:

After swimming in cash following the halcyon dot-com boom in the 1990s, the state promised public employees more money and benefits than could realistically be paid out decades later, especially since many plans pledged to support retirees until their deaths. Overall, reports indicate that CalPERS – the California Public Employees' Retirement System – is now hundreds of billions of dollars short.

In order to afford burgeoning payments to CalPERS, some cities have cut staff rosters, reduced program services and increased taxes. But other governments – drowning in debt – have also declared bankruptcy and scrapped their retirement plans.

https://www.mercurynews.com/2022/10/23/these-bay-area-cities-are-facing-the-greatest-financial-risk-state-auditor-says/

Sizing Cost Pressures Things are good now but we must anticipate cost pressures

Personnel Cost Pressures

Inflation with CPI ~ 8% in 2022

Expect 6-8% expense increase across board

Competitive Benefits package

Each 2% step-column increase costs $1M

Non-salary benefits to improve retention

In-room assistance, prep-time or

Benefit buffet: health-care, child-care

Example Explore increased paid prep time

2024 inflation is *expected* to be moderate

CalPERS and CalSTRS costs are likely to continue their growth over long term.

Changes are not annual and even, but a function of CA state government action.

Next Steps

- Approach the 2023-24 budget and multi-year projects with the following assumptions:
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Appendix

Mid-year report 2022-23

District Context

Notes from LATA Survey

- Prep time before the school year is important, significant, and unpaid; *we need more classroom support.*
- ~33% have commutes 45+min, 20% 60+
- 40% rent and inflation is a challenge for even more
- Childcare is a significant cost for ~12%, and another 20% have delayed starting a family - *is support with Stepping Stones an option?*

SEL: Social, Emotional, Learning

Are there rising student behavior issues?
Can we measure the needs here?
Can we provide assistance with behaviour issues

Presently no apparent learning loss across the district

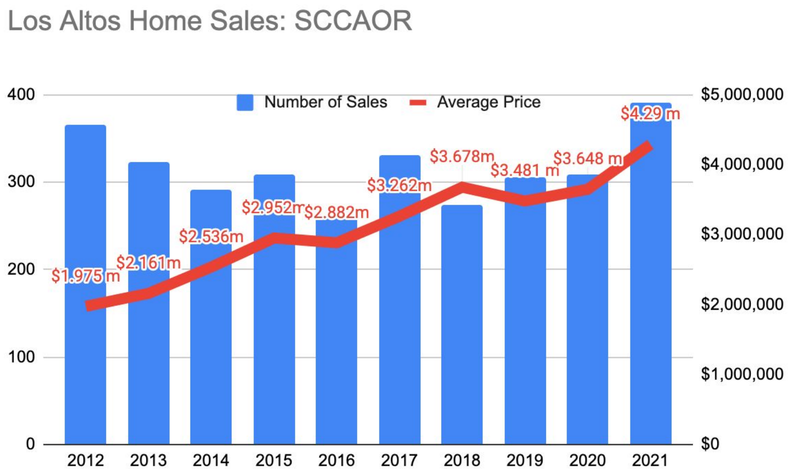
Perhaps parents with the means dealt with the issue through time and tutoring

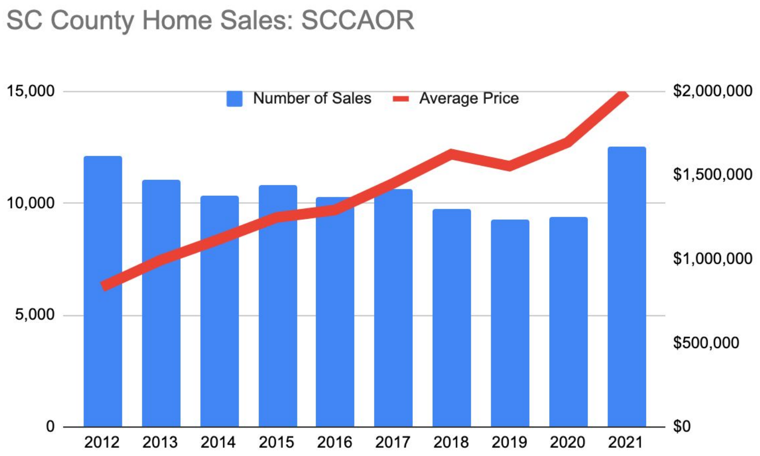
Don't say 'Covid is over- move on'

There are always struggling students with unique needs

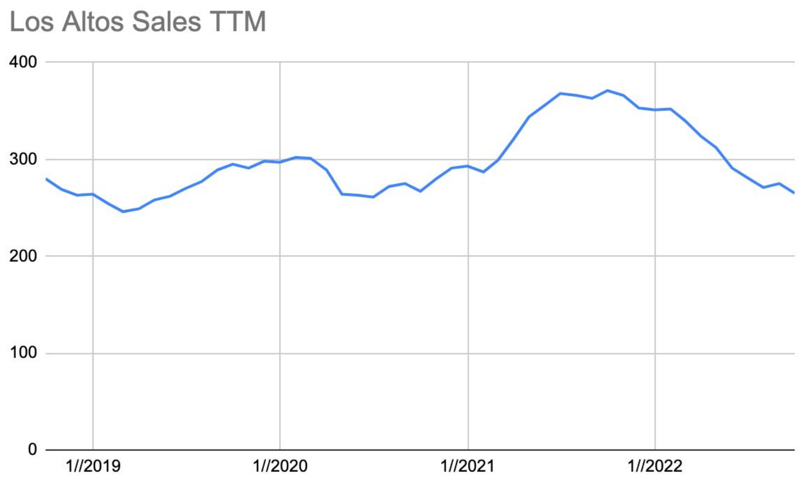
Housing Market Data

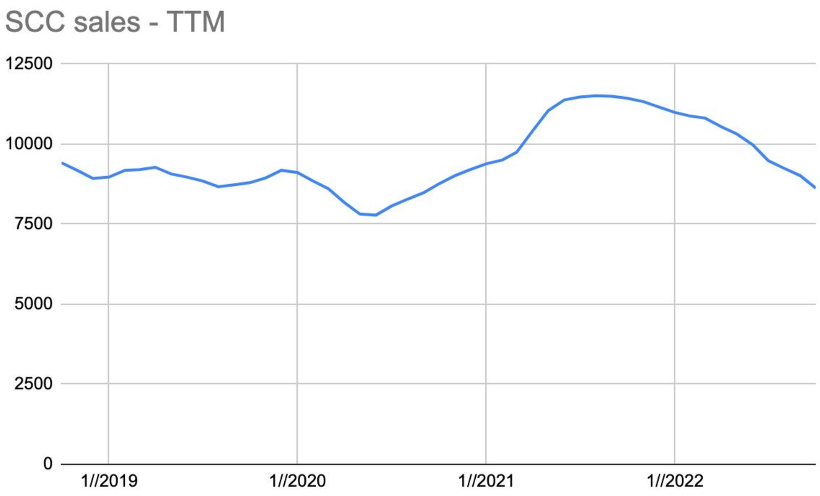
Home sales in recent years have been robust, but...



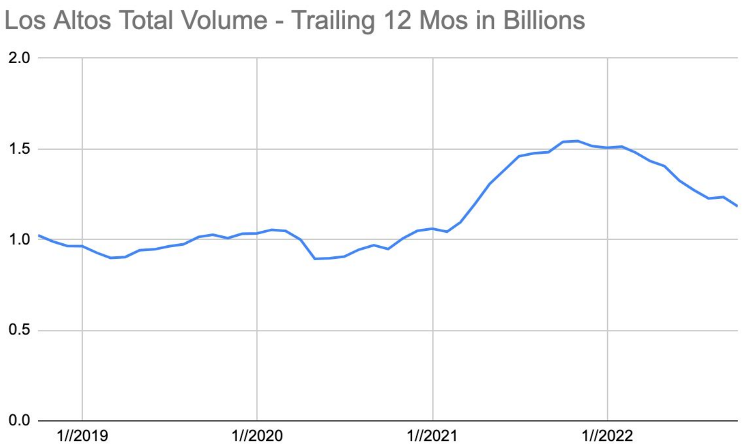


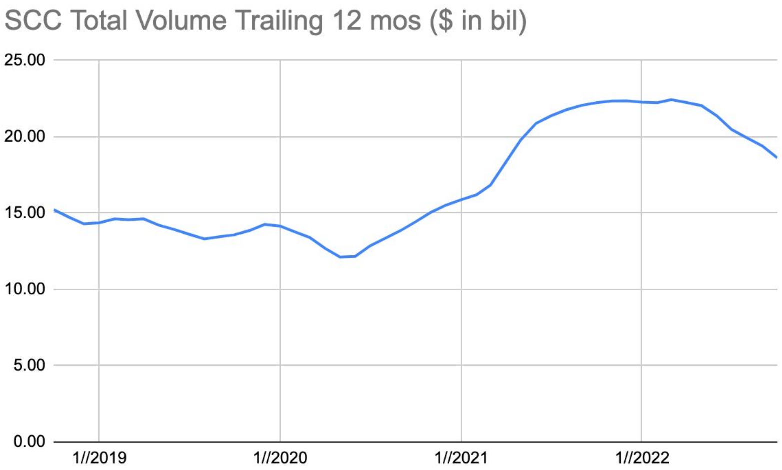
We are seeing a decline in sales, and...



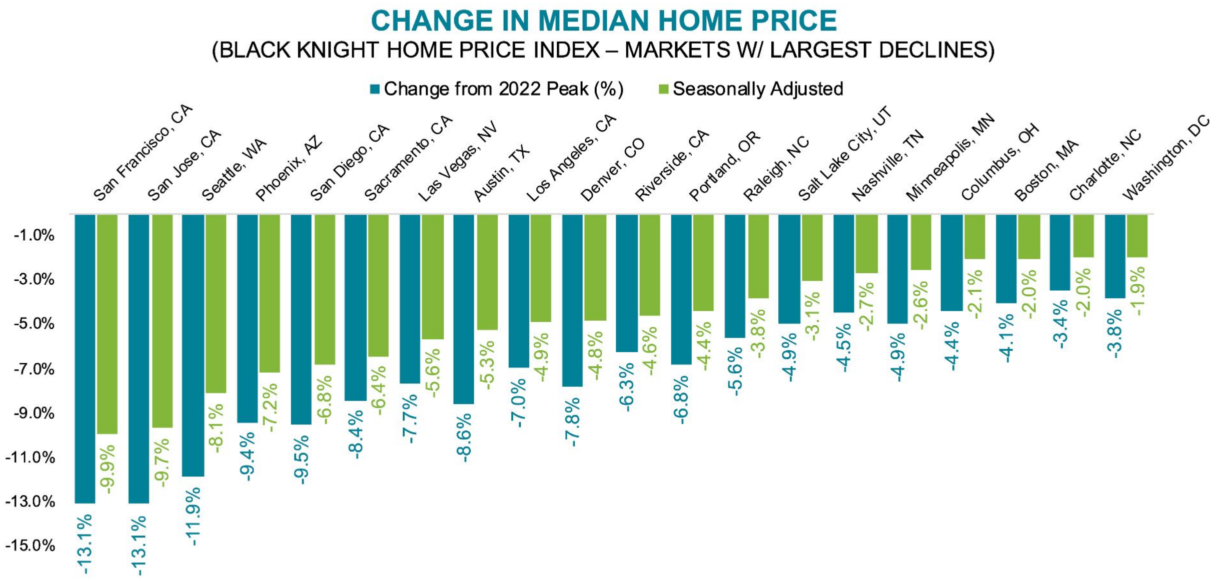


The Total Sales Volume $ Has Declined from 2021 Peak





Another source that shows a decline in prices



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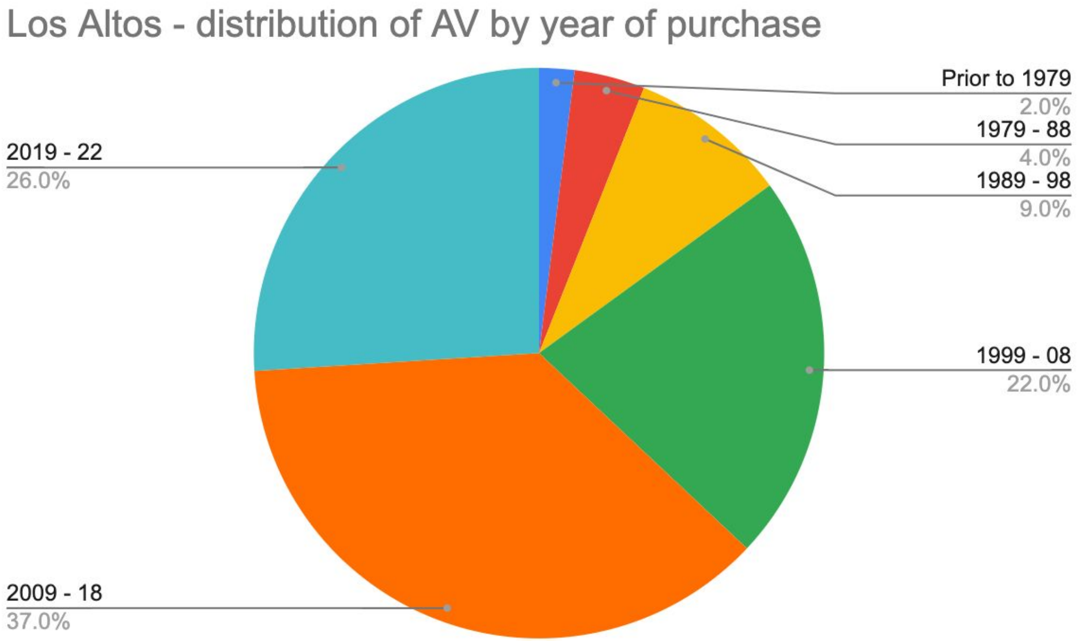
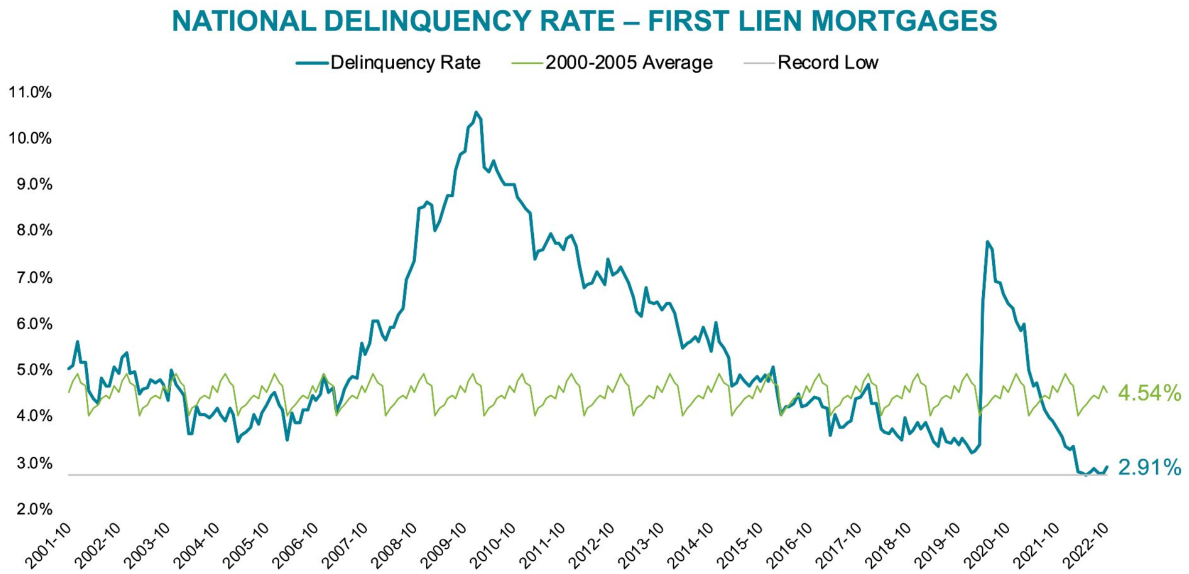
Recently sold homes account for 26% of Assessed Value

Many may now have market values below AV



SCC Assessor report for December 2022

Delinquency rates are very low



Source: Black Knight, McDash

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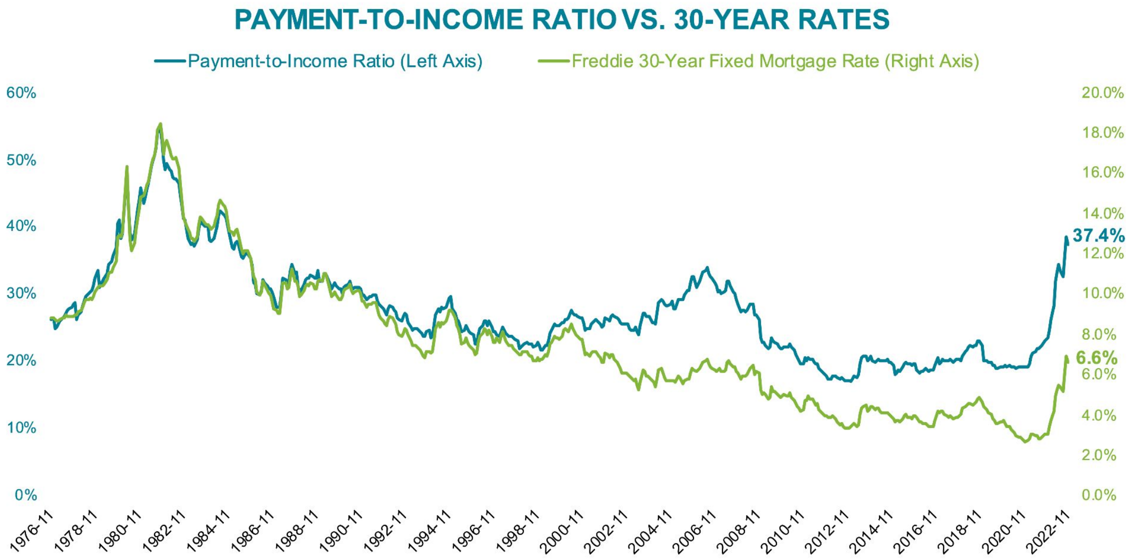
Some similarities to spike in mortgage rates in 1979-81



Source: Black Knight Home Price Index, FHLMC PMMS, Census Bureau
*The National Payment-to-Income Ratio is the share of median income needed to make the monthly principal and interest payment on the purchase of an average-priced home using a 20% down 30-year fixed rate mortgage at the prevailing interest rate

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