

PIEDMONT UNIFIED SCHOOL DISTRICT

M E M O R A N D U M

TO: Board of Education

FROM: Dr. Donald Evans, Interim Superintendent
Ruth Alahydoian, Chief Financial Officer
Cheryl Kaiser, Manager, Fiscal Services

DATE: March 8, 2023

RE: **REVIEW THE 2022-23 SECOND INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *QUALIFIED* CERTIFICATION SIGNIFYING THAT THE DISTRICT MAY NOT MEET ITS FINANCIAL OBLIGATIONS FOR THE CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; ADOPT RESOLUTION 14-2022-23 RECOGNIZING THE NEED FOR BUDGET ADJUSTMENTS IN FISCAL YEAR 2023-24 AND BEYOND; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS.**

I. SUMMARY

The Second Interim Report for Fiscal Year 2022-23 provides an update of actual expenditures and revenues through January 31, 2023, and a projection of the budget adjustments necessary to close out the fiscal year. The Second Interim also includes a multiyear projection (MYP) that shapes the budget development process for 2023-24.

The Board must certify the District’s financial condition as Positive, Qualified or Negative, depending on whether the budget for the current year and the following two years shows that the District will, may not, or will not meet all of its financial obligations, including the required minimum reserve.

Based on the projections for expenditures through the end of the fiscal year and assumptions for future years described below (see MYP Projections), the District will not meet the 3% reserve in the current fiscal year and budget adjustments will be needed in order to meet the reserve requirement in 2023-24 and 2024-25, **As a result, we recommend that that the Board certify the Second Interim as “Qualified” and adopt Resolution 14-2022-23 detailing the budget adjustments required for 2023-24 and beyond.**

II. ATTACHED DOCUMENTATION

Attached to this memo are the following items that make-up this Board item:

- Second Interim Report in State Accounting Code (SACS) format (all funds and additional forms are included)
- Graph and Table of Revenues of the General Fund
- Graph and Table of Expenditures of the General Fund.
- Budget Comparison Table for the General Fund
- Multiyear Projections Table for the General Fund.
- Summary Table for each fund.

III. BACKGROUND

Governing Boards are required to certify the financial condition of each school district at two intervals during the school year, though the Board routinely reviews the budget more frequently. Per the requirements of AB 1200, the District declares its ability to meet its financial obligations through one of three self-certifications:

- *Positive* Certification means that the District believes it can meet its financial obligations for the remainder of the current fiscal year and subsequent two fiscal years;
- *Qualified* Certification indicates a district may not be able to meet its financial obligations in the current and two subsequent fiscal years;
- *Negative* Certification is used when a district will not be able to meet its financial obligations for the remainder of the current year nor for the subsequent two fiscal years

The Second Interim Report provides projections for budgets for 2023-24 through 2024-25 based on conditions at this time. In compliance with Education Code EC 42131(a)(1) requirements, Assembly Bill (AB) 1200, and AB 2756, the Piedmont USD is recommending a **qualified** certification for its 2022-23 Second Interim Report. After approval by the Board, the report will be submitted to the Alameda County Office of Education (ACOE) by March 17, 2023.

IV. 2022-23 BUDGET INFORMATION

The budget documents presented in this Second Interim report serve as a reflection of the District's goals and philosophy of providing a high-quality educational experience to the students of Piedmont. They reflect the tremendous support of the community by way of Parcel Taxes, the Piedmont Educational Foundation (PEF), and parent and community donations.

The General Fund is the primary fund for the District, from which most expenses are paid. The salary schedule adjustments approved by the Board during 2022-23 have been incorporated using general fund revenues. All bargaining units received a 7.5% salary increase and a one-time payment of \$1500.

The Ending Fund Balance for 2022-23 is projected to be \$1,677,330, of which \$853,777 is restricted, \$451,012 is reserved for the potential pullback of AMIM funding, and \$328,541 is committed to the Reserve for Economic Uncertainties. The Reserve for Economic Uncertainties is required to be 3% of total expenditures, or \$1,671,628 for 2022-23. The Reserve dollars set aside in the General Fund, together with those in FD 17, total \$437,226, or .78% of total expenditures.

The following information explains the differences between the First Interim and the Second Interim and accompanies the “Budget Comparison General Fund” table. For changes from Budget Adoption to the First Interim, please see the First Interim Board Report from December 14, 2022.

Revenues: Since the budget was adopted on June 22, 2022, revenues have been adjusted to reflect the actual State-adopted budget and other revenue adjustments. These changes were shared with the Board on August 10, September 14, October 12, and December 14. The net increase in revenues from First Interim is \$378,276, with three major adjustments as follows:

- **LCFF Funding – (\$82 K)** – PY adjustment of EPA apportionment; ADA adjustment
- **State Funding - \$265 K**
 - \$200 K Antibias Education grant
 - \$76 K 22-23 Pre-Kindergarten Planning Grant
- **Local Funding – \$195 K**
 - \$61 K - PEF elementary literacy grant
 - \$8 K - PAF elementary art grants
 - \$22.5 K -PAF secondary music clinicians
 - \$100 K – AP exam fees, PHS productions ticket revenues

Expenditures: Since the budget was adopted on June 22, 2022, expenditures have been adjusted to reflect actual and anticipated expenditures and commitments. The net increase in expenditures from First Interim is \$1,383,656. The major differences in expenditures are as follows:

- **Certificated Salaries –\$101 K** anticipated increase in teacher substitute expense
- **Classified Salaries – \$241 K** CSEA one-time and salary retro (reserve held in fund balance at first interim)
- **Benefits – \$47 K** adjustments related to certificated and classified salaries noted above
- **Books & Supplies – \$185 K**
 - \$92 K from AP exam fees
 - \$76 K Pre-K planning grant
- **Other Professional Services - \$732K**
 - \$14 K travel conference
 - \$7 K PMS canoe field trip (offset by increased donations)
 - \$14 K Track season budget
 - \$120 K Special Education transportation

- \$13K drama (offset by production ticket sales)
- \$552K Special Education settlements and placements

Fund Balance: The Ending Fund Balance, the amount remaining in the District’s General Fund at the end of the year, is projected to be \$1,677,330, of which \$853,777 is restricted. The total unrestricted balance is \$823,553. Included in the unrestricted balance is:

- **\$451,012** – expected shrinkage of AMIM grant (30% of total granted).
- **\$328,541** – Reserve for Economic Uncertainties
- **\$44,000** – revolving cash

V. MULTIYEAR PROJECTIONS (MYP)

The Second Interim Report includes multiyear projections (MYP) for two additional years – 2023-24 and 2024-25. The MYP is built on the current year budget, with adjustments for any known changes, including eliminating one-time expenditures in the current year from the subsequent year budget. The following assumptions were used:

Assumption	2022-23	2023-24	2024-25
Enrollment	2,344	2,340	2,300
Estimated ADA based on enrollment	2,220.17	2,265.95	2,231.03
ADA used for LCFF calculations	2426.72	2,337.16	2,262.76
Cost of Living Increase (COLA) for LCFF per pupil funding	13.26%	8.13%	3.54%
COLA for increase in other State revenues and various costs	6.56%	8.13%	3.54%
Natural progression (Step & Column) in Employee Salaries	Cert: actuals Class: actuals	Cert: 1.15% Class: 1.00%	Cert: 1.15% Class: 1.00%
STRS Rate	19.10%	19.10%	19.10%
PERS Rate	25.37%	27.00%	28.10%

Other assumptions in the MYP are:

Revenues:

- Local Control Funding Formula (LCFF) revenues are based on the enrollment trend this year and the 2022-23 ADA of 94.5% of enrollment.
- All ongoing state funds are increased by the COLA.
- Piedmont Education Foundation has committed \$3.3 million to the District in for the current year and \$3 million for each of the following years.

- The balances of the one-time federal and state grant funds that were related to Covid will be spent in 2022-23.
- The Antibias grant has spending planned for 22-23 and the following 3 years.
- The funds remaining from the Educator Effectiveness grant will be spent in 23-24.
- Transportation revenue is expected going forward. Each year's revenue will be a percentage of the prior year's spending.
- Prop. 28 (Arts Education) funding is expected beginning in 23-24 and estimated to be approximately \$240 K in 23-24.

Expenditures:

- Salary increases approved this year are ongoing and are reflected in the MYP.
- For 23-24 salaries and benefits are reduced by 5.42 Certificated FTE and 4.48 Classified FTE.
- Further reductions in 24-25 include 3.0 Certificated FTE and 2 Classified FTE.
- The reductions include expenses (and positions) associated with the one-time revenues and other one-time contracts.

Ending Balance:

- Fund 17 (Special Reserve / Noda Fund) is counted toward the 3% reserve requirement.

VI. STATUS OF OTHER FUNDS

In addition to the General Fund, the District also maintains eight other funds to track restricted revenues and the associated expenses. Reports are provided for each of the funds in the Standardized Account Code Structures (SACS) format required by the State of California and in a one-page table. The table below summarizes the beginning balances, revenues, expenditures and ending fund balances for all funds.

Fund #	Fund Name	Beginning Balance	Revenues	Expenditures	Ending Fund Balance
08	ASB Fund	\$ 440,874	\$ 34,941	\$ 34,941	\$ 440,874
11	Adult Education	\$ 73,002	\$ 566,917	\$ 661,291	\$ (21,372)
13	Cafeteria	343,769	1,513,981	1,885,795	(28,045)
14	Deferred Maintenance	(127,650)	274,279	55,000	91,629
17	Special Reserve-Noda	108,185	500	-	108,685
35	State School Fac	3,722	-	3,500	222
40	Reserve-Cap Facilities	753,847	345,296	946,509	152,634
51	Bond Repayment	9,021,209	7,882,798	6,310,910	10,593,097
		\$ 10,616,958	\$ 10,618,712	\$ 9,897,946	\$ 11,337,724
01	General Fund	4,888,294	52,509,962	55,720,926	1,677,330
	TOTAL	\$ 15,505,252	\$ 63,128,674	\$ 65,618,872	\$ 13,015,054

Both Adult Education (Fund 11) and the Cafeteria Fund (Fund 13) are budgeted to have a negative ending balance in 22-23.

The local Adult Education program experienced significant loss of revenues due to Covid closures. While program participation is improving, there is currently a full review of offerings, pricing, and expenses in order to create a structured plan for them to regain fiscal stability.

The Cafeteria is in its first year of offering Universal Meals and, while the program has been successful and participation is strong, the cost of launching the program outpaced the reimbursements. Additional funding is expected later this year to offset some of the start-up costs and plans are being made for increased offerings, including program appropriate snacks and drinks to generate additional revenues in 23-24 and beyond.

A multiyear projection for Fund 11 and Fund 13 is included in the SACS reports.

VII. RESOLUTION ACKNOWLEDGING NEED FOR BUDGET ADJUSTMENTS

Based on the assumptions that are used for the MYP budget adjustments are required for 2023-24 and beyond. The board is asked to acknowledge these adjustments in a formal resolution. Resolution 14-2022-23 details the adjustments to FTE and expenses.

VIII. RECOMMENDATION: APPROVE A QUALIFIED CERTIFICATION OF THE 2022-23 SECOND INTERIM FINANCIAL REPORT AND ADOPT RESOLUTION 14-2022-23 RECOGNIZING THE NEED FOR BUDGET ADJUSTMENTS IN FISCAL YEAR 2023-24; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS.

Upon review of the 2022-23 PUSD Second Interim Report, approve a *Qualified* certification of the District's ability to address and meet its financial obligations for the current year and subsequent two years and authorize all budget transfers as required.