

PIEDMONT UNIFIED SCHOOL DISTRICT

M E M O R A N D U M

TO: Board of Education

FROM: Randall Booker, Superintendent
Ruth Alahydroian, Chief Financial Officer
Cheryl Kaiser, Manager, Fiscal Services

DATE: March 9, 2022

RE: **REVIEW THE 2021-22 SECOND INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *POSITIVE* CERTIFICATION SIGNIFYING THAT THE DISTRICT WILL MEET ITS FINANCIAL OBLIGATIONS FOR THE CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; ADOPT RESOLUTION 22-2021-22 RECOGNIZING THE POSSIBLE NEED FOR BUDGET ADJUSTMENTS IN FISCAL YEAR 2022-23 AND BEYOND; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS.**

I. SUMMARY

The Second Interim Report for Fiscal Year 2021-22 provides an update of actual expenditures and revenues through January 31, 2022, and a projection of the budget adjustments necessary to get to the end of the fiscal year. The Second Interim also includes a multiyear projection (MYP) that shapes the budget development process for 2022-23.

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 meet the 3% reserve in the current and two subsequent fiscal years, with possible budget adjustments needed in 2022-23 and 2023-24, **As a result, we recommend that that the Board certify the Second Interim as "Positive" and adopt Resolution 22-2021-22 recognizing the need to monitor and adjust the budget, if needed, in fiscal year 2022-23 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 2021-22 through 2023-24 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 approval of/confirming a **positive** certification for its 2021-22 Second Interim Report. After approval by the Board, the report will be submitted to the Alameda County Office of Education (ACOE) by March 17, 2021.

IV. 2021-22 BUDGET INFORMATION

The budget documents presented in this Second Interim report continue to 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 through various fundraising efforts.

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 2021-22 have been incorporated using Measure H revenues. The remaining Measure H funds are set-aside and are included in the ending fund balance.

Adjusting to a full-time in-person learning environment after a year of hybrid learning has resulted in challenges for many students, requiring additional services, both educational and socio-emotional. The District planned for these needs and increased staffing to support these efforts. The State provided additional funding specifically to expand learning opportunities. ***However, the needs have exceeded our initial plans and as a result, General Expenditures have grown since the First Interim.***

The Ending Fund Balance for 2021-22 is projected to be \$3,454,767, of which \$246,388 is the remaining Measure H funds that are still pending discussions with labor partners (CSEA), and \$1,496,782 is set-aside as the required 3% reserve for economic uncertainty. The remaining amount is available for additional unexpected expenses and to protect against continued enrollment decline and reduced funding from the State in 2022-23 and beyond (see the Multiyear Projections discussion for more information).

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 8, 2021.

Revenues: Since the budget was adopted on June 23, 2021, revenues have been adjusted to reflect the actual State-adopted budget and other revenue adjustments. These changes were shared with the Board on August 11, September 14, October 13, and December 8. The net increase in revenues from First Interim is \$494,224, with the three major adjustments as follows:

- **Federal Funding - \$113 K** – American Recovery Plan additional funding for SPED
- **State Funding - \$115 K** – Pre-Kindergarten Planning Grant (one-time)
- **Local Funding – \$262 K** – Several different local contributions, primarily:
 - \$72 K from anonymous donor for Diversity Equity, Inclusion and Belonging work
 - \$53 K increase to Coaches Stipend Fund based on commitment from Boosters
 - \$95 K from parents for AP tests
 - \$30 K from Turkey Trot for cross country and track teams

Expenditures: Since the budget was adopted on June 23, 2021, expenditures have been adjusted to reflect actual and anticipated expenditures and commitments. The net increase in expenditures from First Interim is \$1,579,929. The major differences in expenditures are as follows:

- **Certificated Salaries –\$324 K** net increase
 - \$489 K for salary increase of 2.5% for APT and APSA
 - Reductions of \$164 K in budgets for substitutes, unfilled positions and other adjustments.
- **Classified Salaries – \$126 K** net increase

- \$254 K for salary increase of 3% for CSEA and 2.5% for APSA
- Reductions of \$128 K in budgets for unfilled positions.
- **Benefits – \$72 K** net increase based on salary adjustments noted above and increase in health benefit contributions for CSEA and APSA.
- **Books & Supplies – \$144 K** increase in budget
 - \$95 K from parents for AP Exams
 - \$43 K Pre-K planning grant
- **Capital Outlay - \$113 K** increase in budget for unexpected costs for Witter Field and storm drain repairs. Other smaller projects are also included - paid from Restricted Maintenance funds.
- **Services and Other Operating Expenditures – \$800 K** increase in service contracts based on revenue received or to meet specific or one-time needs for this year. The major additions were:
 - \$326K for services and placements for special needs students needing additional support this year.
 - \$280K for contractors to replace staff on leave or provide additional services needed for this year.
 - \$57K Pre-K planning grant.

Fund Balance: The Ending Fund Balance, which is the bottom line of what is left in the District’s General Fund at the end of the year, is projected to be \$3,454,767. The unrestricted balance, not including Measure H funds, is 3.88% of expenditures. Included in the balance is:

- **\$1,496,782** – 3% Reserve for Economic Uncertainty.
- **\$1,222,968** – Restricted funds not yet included in the expenditure budget.
- **\$438,629** – available to other expenses that may arise this year, and if not spent, available to offset budget shortages in the subsequent year(s).
- **\$246,388** – Measure H funds that have not yet been negotiated with labor partners.
- **\$50,000** – revolving cash

V. MULTIYEAR PROJECTIONS (MYP)

The Second Interim Report includes multiyear projections (MYP) for two additional years – 2022-23 and 2023-24. 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	2021-22	2022-23	2023-24
Enrollment	2,349	2,291	2,269
Estimated ADA based on enrollment	2,261.99	2,223.33	2,198.08
ADA used for LCFF calculations	2,495.47	2,261.99	2,223.33

Cost of Living Increase (COLA) for LCFF per pupil funding	5.07%	5.33%	3.61%
COLA for increase in other State revenues and various costs	1.70%	5.33%	3.61%
Natural progression (Step & Column) in Employee Salaries	Cert: 1.45% Class: 1.00%	Cert: 1.33% Class: 1.00%	Cert: 1.0% Class: 1.00%
STRS Rate	16.92%	19.10%	19.10%
PERS Rate	22.91%	26.10%	27.10%

Other assumptions in the MYP are:

Revenues:

- Local Control Funding Formula (LCFF) revenues are based on the enrollment trend this year and the 2021-22 ADA at 96% of enrollment.
- All ongoing state funds are increased by the COLA.
- Piedmont Education Foundation has committed \$3.4 million to the District in 22-23 thanks to a successful fundraising campaign.
- The one-time federal and state grant funds are eliminated in 2022-23.

Expenditures:

- Salary increases approved this year are ongoing and are reflected in the MYP.
- Salaries and benefits are reduced by 3 Certificated FTE and 3 Classified FTE.
- The expenses (and positions) associated with the one-time revenues and other one-time contracts are eliminated.
- The loan payment for the VRF project (final phase at Havens and Wildwood) and the remaining theater expenses is included.
- **Unidentified budget adjustments of \$201,000 are included in 2022-23 and \$1,376,000 in 2023-24.**

Ending Balance:

- Measure H funds that have not yet been negotiated are shown in the Components of the Ending Fund Balance.
- Fund 17 (Special Reserve / Noda Fund) is counted toward the 3% reserve requirement.

Alternate Scenarios for 2023-24

There are several factors that are likely to result in additional funding for the District. The following discussion and scenarios provide a sense of how each factor may determine whether the District will need to tighten it’s belt or be able to fund new priorities next year.

Average Daily Attendance: The decline in enrollment that Piedmont is experiencing is not unique. All but a few districts in the State are experiencing similar declines. As a result, the Governor and several legislators have proposed alternative ways to calculate LCFF that will

protect districts from steep cuts in funding. The proposals currently under discussion could result in \$1.1 to \$2.2 million in additional revenues for the District for 2022-23.

Cost of Living Adjustment (COLA): The COLA is calculated based on a statutory formula that looks to eight data points to determine the percentage increase from year to year. The COLA used for the MYP included in the Second Interim is based on six of the eight data points and results in a 5.33% increase. The seventh factor has already been calculated and the resulting COLA is currently 6.17%. Going from 5.33% to 6.17% will generate \$176 K for the District for 2022-23. The last factor will be known in April and could move the COLA up or down.

Inter-District Transfers (IDTs): The Board policy to allow more IDTs, and the District’s capacity study identifying the number of spaces available at each grade level has received attention throughout the Bay Area. The District started accepting IDTs as of March 1. No IDTs are included in the assumptions for the MYP in the Second Interim. Because the funding formula looks to the greater of current year or prior year ADA, the District would need to build back to 2021-22 total enrollment before any new students will generate additional funding. Based on current assumptions, the first 58 IDTs will only bring us to 2021-22 enrollment. However, if the District were to attract 75 IDTs, we could see an additional \$300 K.

Three Scenarios: To summarize the impact of these different factors, the following table shows three scenarios for 2022-23. The first scenario is the MYP included in the Second Interim. The bottom line is the budget adjustment that will be needed. The second scenario assumes the COLA at 6.17% and the Governor’s proposal for ADA averaging. In this scenario, the District will not have to make budget adjustments and may have additional resources for other priorities. The third scenario adds 75 IDTs to Scenario 2. The result is over \$1 million in additional revenues for other priorities.

	Scenario 1	Scenario 2	Scenario 3
	2nd Interim	Reasonable	High Hopes
ADA formula	> PY or CY	PY 3 yr Avg	PY 3 yr Avg
		\$1,465,512	\$1,465,512
COLA	5.33%	6.17%	6.17%
		\$176,343	\$176,343
IDTs	0 - 58	0 - 58	75
			\$294,000
Total Add'l Revenues:		\$1,641,855	\$1,935,930
Adjustments Needed:	-\$201,000	-\$201,000	-\$201,000
Fully restore 3% to Fund 1 UR		-\$604,332	-\$604,332
Still Available:		\$836,523	\$1,130,523

VI. STATUS OF OTHER FUNDS

In addition to the General Fund, the District also maintains nine 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
01	General Fund	\$4,715,595	\$48,601,806	\$49,862,634	\$3,454,767
08	ASB Student Funds	\$338,739	\$25,000	\$5,899	\$357,840
11	Adult Education	\$105,628	\$542,781	\$521,702	\$126,707
13	Cafeteria	375,434	650,294	787,612	238,116
14	Deferred Maintenance	(156,312)	85,856	55,000	(125,456)
17	Special Reserve-Noda	110,556	1,000	-	111,556
21	Building Fund	8,337,235	175,960	8,495,276	17,919
35	State School Fac	3,726	-	-	3,726
40	Reserve-Cap Facilities	675,802	19,988	211,948	483,842
51	Bond Repayment	9,507,842	9,525,491	7,257,070	11,776,263
	TOTAL – ALL FUNDS	\$24,014,245	\$59,628,176	\$67,197,141	\$16,445,280

VII. RESOLUTION ACKNOWLEDGING NEED FOR BUDGET ADJUSTMENTS

Based on the assumptions that are used for the MYP that result in the need for budget adjustments, the Board is asked to acknowledge this budget challenge in a formal resolution. The resolution identifies the potential need to make \$201,000 in budget adjustments for 2022-23 and \$1,376,000 in budget adjustments in 2023-24. The resolution also acknowledges that there are several factors, as described above, that will most likely resolve the need for adjustments.

VIII. RECOMMENDATION: APPROVE A POSITIVE CERTIFICATION OF THE 2021-22 SECOND INTERIM FINANCIAL REPORT ADOPT RESOLUTION 22-2021-22 RECOGNIZING THE POSSIBLE NEED FOR BUDGET ADJUSTMENTS IN FISCAL YEAR 2022-23; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS.

Upon review of the 2021-22 PUSD Second Interim Report, approve a *Positive* 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.

Attachments