

**PIEDMONT UNIFIED SCHOOL DISTRICT**

**M E M O R A N D U M**

**TO:** Board of Education

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

**DATE:** March 11, 2020

**RE: REVIEW THE 2019-20 SECOND INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *POSITIVE* CERTIFICATION SIGNIFYING THAT THE DISTRICT WILL MEET IT'S FINANCIAL OBLIGATIONS FOR CURRENT YEAR AND SUBSEQUENT TWO FISCAL YEARS; AND AUTHORIZE APPROPRIATE BUDGET TRANSFERS.**

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**I. SUMMARY**

The Second Interim Report for Fiscal Year 2019-20 provides an update of actual expenditures and revenues through January 31, 2020, and a projection of the budget adjustments necessary to get to the end of the year. The Second Interim also includes a multiyear projection (MYP) that shapes the budget development process for 2020-21 and serves as an early warning system about the direction of the District's spending over the following two years.

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.

Thanks to the passage of Measures G and H by Piedmont voters, the District will meet the 3% reserve in the current and two subsequent fiscal years. **As a result, we recommend that that the Board certify the Second Interim as "Positive".**

**II. ATTACHED DOCUMENTATION**

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

- 2019-20 2<sup>nd</sup> Interim Report in State Accounting Code (SACS) format (all funds are included)
- Graphs and Table of Revenues and of Expenditures of the General Fund.

- Multiyear Projections table for the General Fund.
- Summary tables 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 often. 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 2019-20 through 2021-22 based on conditions as of January 31, 2020. In compliance with Education Code EC 42131(a)(1) requirements, Assembly Bill (AB) AB 1200, and AB 2756, the Piedmont USD is certifying a **positive** certification for its 2019-20 Second Interim Report. After approval by the Board, the report will be submitted to the Alameda County Office of Education (ACOE) by March 16, 2020.

### IV. 2019-20 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, and parent and community donations through various fundraising efforts.

The salary settlements approved by the Board in November have been incorporated into the budget. All accounts have been reviewed and adjusted as necessary to cover all known expenses and obligations.

The General Fund is the primary fund for the District, from which most expenses are paid. When expenses exceed revenues, the District is "deficit" spending. In 2019-20, the District's **expenses are expected to exceed revenues by \$861,520**. Some of the deficit is created by spending down revenues not spent in the prior year (i.e., spending "carryover"). Because funds are available in the fund balance to absorb the deficit, the district is able to maintain its 3% reserve in 2019-20, and because Piedmont voters have approved Measure H, additional revenues are anticipated in 2020-21 and subsequent years to eliminate the deficit.

The Ending Fund Balance for 2019-20 is projected to be \$1,602,903, of which \$1,293,235 is set-aside as the required reserve for economic uncertainty.

Revenues: Since the budget was adopted on June 26, 2019, revenues have been adjusted to reflect the actual State-adopted budget and the changes to LCFF and Other State funding based on enrollment. Those changes were reported to the Board in August and October. Additional revenues have been added, including parent donations through the on-line Piedmont Store and a \$100K temporary transfer in from Fund 40. The major differences in revenues since the First Interim on December 11, 2019, are as follows:

- LCFF Revenues:
  - **\$140 K additional LCFF funds** resulting from State adjustments from prior years.
- Local Revenues:
  - **\$158K** – Donations, including Turkey Trot, PADC and parent contributions.
- Other Sources:
  - **\$36,104 loan proceeds** – To accommodate the temporary relocation of the District’s shipping and receiving office, and as a back-up to the aging trucks used by maintenance staff, the District financed the purchase of a new truck. The bond program will pay for the first two years of payments; the remaining three years of payments will be paid from the Restricted Routine Maintenance Account.

Expenditures: Since the budget was adopted on June 26, 2019, budgeted expenditures have been increased by approximately \$312K to reflect the restricted and committed funds not fully spent in the prior year (carryover), the cost of additional staff and approximately \$100K for textbook adoptions. The major differences in expenditures since the First Interim on December 11, 2019, are as follows:

- Salaries:
  - **\$409 K increase** in certificated and classified salaries due to Board approved salary increase.
- Benefits:
  - **\$93 K increase** related to salary increases
  - **\$79 K increase** related to Open Enrollment and other employee-driven adjustments.
- Books/Supplies/Services:
  - Changes were adjustments based on new revenues, or movement of budgets among the categories.
  - The **\$100 K purchase of IT Storage Arrays was moved** to Fund 11.
- Transfer to Other Funds:
  - **\$100 K that was returned to Fund 40.** Prior to First Interim, a temporary transfer was made from Fund 40 for the purchase of the IT storage array.

The Board approved payment from Fund 11 (Adult Ed). Once the purchase was moved to that fund, the \$100 K temporary transfer was returned.

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 **decrease by \$862 K to \$1,602,903**, with **\$1,426,091, or 3.31%** available as a reserve.

**V. MULTIYEAR PROJECTIONS (MYP)**

The Second Interim Report includes multiyear projections (MYP) for two additional years – 2020-21 and 2021-22. The MYP is built on the current year budget, with adjustments for any known changes, including eliminating one-time expenditures in 2019-20 from the 2020-21 budget. The funding assumptions in the Governor’s Proposed Budget for 2020-21 are incorporated. The following assumptions were used:

Assumption	2019-20	2020-21	2021-22
Enrollment	2,567	2,535	2,472
Cost of Living Increase (COLA) for LCFF per pupil funding	3.26%	2.29% (decrease from 3.00%)	2.71% (decrease from 2.80%)
COLA for increase in other State revenues and various costs	3.26%	2.29% (decrease from 3.00%)	2.71% (decrease from 2.80%)
Natural progression (Step & Column) in Employee Salaries	1%	1.25% Certificated 1.00% Classified	1.25% Certificated 1.00% Classified
STRS Rate	17.10%	18.40%	18.10%
PERS Rate	19.72%	22.80%	24.90%
SPED Funding - <b>NEW</b>	n.a.	Add'l \$70 per ADA	Ongoing...

Enrollment is projected to decline over the next two years. As a result, the District will rightsize staffing to maintain appropriate class sizes and staffing ratios. The MYP assumes a reduction in staff (approximately 2-3 FTE) of \$335 K in 2020-21 that is ongoing and results in \$370 K reduction (from current year levels) in 2021-22.

The passage of Measure G and H allows the District to assume the continued parcel tax revenues from Measure G and the added revenues from Measure H in the MYP. The amount to be collected from Measure H is estimated to be \$2.6 million. Based on an MOU between the District and the employee bargaining units, Measure H will be used for employee compensation and retention strategies that will be negotiated. Any funds not spent will be carried over and held for that use. The table below isolates the Measure H funds as a reserve.

MULTIYEAR PROJECTIONS - 2019-20 Second Interim			
	2019-20	2020-21	2021-22
Total Revenues (Excl Meas H)	\$ 42,246,304	\$ 42,363,651	\$ 42,966,262
Total Expenditures	43,107,824	43,132,723	43,706,674
<b>Net Surplus (Deficit)</b>	<b>(861,520)</b>	<b>(769,072)</b>	<b>(740,412)</b>
Beginning Balance	2,464,423	1,602,903	833,831
<b>Measure H (Reserve)</b>		<b>2,600,000</b>	<b>5,200,000</b>
<b>Available Balance for the Year</b>	<b>2,464,423</b>	<b>4,202,903</b>	<b>6,033,831</b>
<b>Ending Fund Balance</b>	<b>\$ 1,602,903</b>	<b>\$ 3,433,831</b>	<b>\$ 5,293,419</b>
Required Reserve	1,293,235	1,293,982	1,311,200
Other Reserved Amts	176,812	25,000	25,000
Measure H Reserve	-	2,600,000	5,200,000
<b>Over (Under)</b>	<b>\$ 132,856</b>	<b>\$ (485,151)</b>	<b>\$ (1,242,782)</b>

To preserve all of Measure H for new compensation initiatives, the District will need to further identify budget balancing solutions. This is the result of the confluence of a 2% salary increase, a reduction in the State COLA, a 1% decline in enrollment, and a 7% increase in benefit costs. The shortfall is shown in two ways: The Net Deficit, which is the difference between revenues and expenditures; and the bottom line, which is the shortfall between having enough for the required reserve and the set-aside of Measure H for new compensation strategies. In 2020-21, the deficit is \$771 K and the shortfall, taking all reserves into consideration, is \$487 K.

## 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 beginning balances, revenues, expenditures and ending fund balances for all funds are shown in the table below. For those funds with budget changes since budget adoption, a description is provided in the narrative below the table.

Fund #	Fund Name	Beginning Balance	Revenues	Expenditures	Ending Fund Balance
11	Adult Education	\$ 421,376	\$ 606,232	\$ 828,832	\$ 198,776
13	Cafeteria	815,994	616,771	1,121,875	310,890
14	Deferred Maintenance	161,722	51,457	112,876	100,303
17	Special Reserve-Noda	104,881	2,579	-	107,460
17	Special Reserve-Parcel Tax	-	-	-	-
21	Building Fund	16,776,790	30,350,668	36,491,004	10,636,454
35	State School Fac	3,579	45	3,369	255
40	Reserve-Cap Facilities	444,763	383,939	407,359	421,343
51	Bond Repayment	8,920,097	11,108,202	10,436,702	9,591,597
67	Self Insurance	7,284	72	3,823	3,533
		\$27,656,486	\$ 43,119,965	\$ 49,405,840	\$ 21,370,611

Adult Education Fund – Fund 11. The District runs an adult education program and keeps funds designated for that program in Fund11. The revenues are from two sources: the Adult Education block grant for high school credit completion courses, and the community-based program of local interest courses. Since the First Interim, the District has purchasing computer storage arrays through Fund 11 for critical data storage purposes, including the long-term digital storage of graduate information. In addition, the Education Speaker Series, which had been fiscally “housed” in the Adult Education Fund, has been transferred to Piedmont Education Fund. The \$11.6 K associated with the Speaker Series was sent to PEF in January.

Cafeteria Fund – Fund 13. The food service operations of the District are run through Fund 13. Revenues are from food sales at the middle school and high school, and from a portion of the food sales at the elementary schools. The District also participates in the federal milk program, which generates approximately \$7,000 in reimbursements for milk purchases. Starting this year, we have included a portion of the cost for noon-time supervision at the elementary schools from this fund. Over the past few years, the fund has built a comfortable reserve. In December, the Board approved a loan of \$280,000 from the reserves to Fund 40 (Reserve for Capital Projects) for the VRF project at elementary schools, to be repaid over 10 years with interest.

Building Fund – Fund 21. The bond proceeds from the Measure H1 bond program are held in Fund 21, and all expenditures for the program are recorded here. The H1 Bond program is a \$66 million program that spans at least 5 years. Last summer, the second of three series of bonds were issued, providing \$30 million of the \$66 million to the program. The last and final series of \$10 million will be issued in early 2021.

Special Reserve for Capital Facilities – Fund 40. Over the years, the District has set-aside funds from facilities rentals and other sources as a reserve for capital needs. A temporary transfer of \$100,000 was made to the General Fund that was returned.

## **VII. RECOMMENDATION: APPROVE POSITIVE SECOND INTERIM**

Upon review of the 2019-20 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 make all budget transfers as required.

Attachments