

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  
Michelle Nguyen, Director of Fiscal Services

**DATE:** December 12, 2018

**RE:** **REVIEW THE 2018-19 FIRST INTERIM FINANCIAL REPORT OF THE DISTRICT; DETERMINE A *QUALIFIED* CERTIFICATION SIGNIFYING THAT THE DISTRICT *MAY NOT* 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 First Interim Report for Fiscal Year 2018-19 provides an update of actual expenditures and revenues through October 31, 2018, and a projection of the budget adjustments necessary to get to the end of the year. The First Interim also includes a multiyear projection (MYP) to serve as an early warning system about the direction of the District's spending over the following two years.

If the projected budget for the current year or the following two years shows that the District may not be able to meet all of its financial obligations, including the required minimum reserve, the District must certify the First Interim Report as "Qualified".

It appears that PUSD may not meet the 3% reserve in the current fiscal year if an additional reduction of \$45,000 is not identified. The reductions for 2019-20 and 2020-21 will need to be substantially more, given the additional costs associated with the STRS and PERS pension systems, and the reduced revenues due to declining enrollment.

**As a result, we recommend that that the Board certify the First Interim as "Qualified".**

**II. ATTACHED DOCUMENTATION**

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

- 2018-19 1<sup>st</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

*Qualified* or *Negative* Certifications serve as an “early warning device” and are transmitted to the County Office, California Department of Education, and the State Controller for possible intervention by these agencies.

In compliance with Education Code EC 42131(a)(1) requirements, Assembly Bill (AB) AB 1200, and AB 2756, the Piedmont USD is certifying a **qualified** certification for its 2018-19 First Interim Report. The First Interim Report provides projections for budgets for 2018-19 through 2020-21 based on conditions as of October 31, 2018. After approval by the Board, the report will be submitted to the Alameda County Office of Education (ACOE) by December 17, 2018.

### IV. **2018-19 BUDGET INFORMATION**

The budget documents presented in this First 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 the School Support Parcel Tax; the Piedmont Educational Foundation – both the Endowment and the annual giving campaign; 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. Based on the most current information available on revenue projections, employee-related costs and all other anticipated obligations, the net difference in the General Fund between revenues and expenditures for 2018-19 is **negative \$819,377**.

The Ending Fund Balance is projected to be \$1,219,459, which will leave the reserve at less than the required 3%. (It will be 2.89%.)

Revenues: Since the budget was adopted on June 27, 2018, revenues have been adjusted to reflect the actual State-adopted budget and the changes to LCFF and Other State funding, reducing total revenues by \$108K. Those changes were reported to the Board in August and again in October. The major differences in revenues since the budget update provided at the October 24, 2018, board meeting are:

- Local revenues are \$131 K less based on updated estimates of revenues from the “Piedmont Store” and other local sources.
- Other State revenue (STRS On-behalf) has increased by \$248K based on an updated calculation of the accounting entry that reflects the State’s contribution to STRS. The corresponding expenditure is also adjusted so that the net effect is -0-.

Expenditures: Since the budget was adopted on June 27, 2018, budgeted expenditures have been increased to include approximately \$400K to spend down the restricted funds not fully spent in the prior year (carryover), and approximately \$540K for increased costs related to special education settlements and out-of-district placements. Those changes were reported to the Board in August and again in October. The major differences in expenditures since the budget update provided at the October 24, 2018, board meeting are:

- Certificated and classified salaries and benefits have been recalibrated to reflect the actual people in positions. The net change is a reduction of \$425K.
- Classified salaries were increased by \$1,317 per FTE per the contract agreement, resulting in an increase of \$192K.
- Budgets were shifted between the “Books and Supplies” budgets and the “Professional Services” budgets as final decisions were made on how funds would be spent. There is a net increase of \$14,815.

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 \$819K to \$1.2M. The required reserve of 3% of expenditures will not be met with this balance; it will be 2.89%.

## V. MULTIYEAR PROJECTIONS (MYP)

The First Interim Report includes multiyear projections (MYP) for two additional years – 2019-20 and 2020-21. The MYP is built on the current year budget, with adjustments for any known changes, including eliminating one-time expenditures in 2018-19 from the 2019-20 budget. The following assumptions were used:

Assumption	2018-19	2019-20	2020-21
Enrollment	2,601	2,544	2,506
Cost of Living Increase (COLA) for LCFF per pupil funding	3.74%	2.57%	2.67%
COLA for increase in other State revenues and various costs	2.71%	2.57%	2.67%
Natural progression (Step & Column) in Employee Salaries	1.50%	1.50%	1.50%
STRS Rate	16.28%	18.13%	19.10%
PERS Rate	18.06%	20.80%	23.50%

With the above assumptions, the structural deficit (expenditures greater than revenues) in 2019-20 will increase to \$1.8M, leaving the District with a negative fund balance of (\$618K). The gap between projected reserves and required reserves will grow to \$1.9m.

Continuing into 2020-21, the projected structural deficit will be \$2.4M, leaving the District with a negative fund balance of (\$3M), and a gap of \$4.4M.

The District will need to put a plan in place in early 2019 to address the on-going deficit and restore reserves to at least the required level of 3% in 2019-20.

## **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.

With the exception of Fund 14 and Fund 17, described below, no significant changes have been made to the budgets in the other funds.

Deferred Maintenance Fund – Fund 14. The District contributes \$20,000 from LCFF revenues to fund deferred maintenance projects throughout the District. The fund balance was \$208K at the beginning of the year, and the original budget was set at \$40k. The District expects to spend a total of \$90K from this fund to pay for the repair

of elevators and heater/boilers that have reached the end of their life cycles. The First Interim Budget incorporates the additional \$50K in the budget.

Special Reserve Parcel Tax– Fund 17. The purpose of this fund is to put funds aside in the early years of a parcel tax measure to support programs that have increased in cost in the final years. In 2015-16, funds were transferred to this fund from Measure A, which was approved by the voters in March 2013 for eight years. This amount is now needed to cover the increased cost of programs and the resulting budget deficit in FY 2018-19, and will be transferred back into the General Fund.

**VII. RECOMMENDATION: APPROVE QUALIFIED FIRST INTERIM**

Upon review of the 2018-19 PUSD First 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 make all budget transfers as required.

Attachments