



A. Call to Order

1. Roll Call

Staff conducted Roll Call to establish Quorum.

Committee Members

- Satheesh Madhathil - present; arrived at 9.34 am
- Ava Chiao - present
- Kate Lee - present
- Mary Alarid-Enright - present
- Michelle Herriage - present
- Nick Prychodko - present
- Dan Halabe - present; arrived at 9.36 am
- Stuart Rosenberg - absent
- Phyllis Vogel - absent
- Kimya Shariffi - present
- Shompa Bhattacharya - present
- Omar Batres - absent
- Maria Fernandez- present

Staff

- Stacy Yao - present
- Tina Bernal - present
- Kavitha Lakshmanan - present

2. Approval of the February 25, 2026 Regular Meeting Agenda

As the committee was not in quorum at the start of the meeting, the agenda was not approved. Agenda was amended to include that persons wanting to comment would need to submit a public comment card and each comment is limited to 2 minutes.

B. Minutes Approval

1. Approval of the December 2, 2026 Regular Meeting Minutes

Motion: Approve the December 2, 2025 regular Budget Advisory Committee meeting minutes

Motion by Dan Halabe, second by Ava Chiao

Final Resolution: Motion Carries

Voting:

- Satheesh Madhathil - yes
- Ava Chiao - yes
- Kate Lee - yes
- Mary Alarid-Enright - yes
- Michelle Herriage - yes
- Nick Prychodko - yes
- Dan Halabe - yes
- Kimya Shariffi -yes
- Shompa Bhattacharya - yes
- Maria Fernandez- yes

C. Information/Discussion

1. 2025-26 Second Interim Financial Report

Presenters: Stacy Yao, Superintendent and Tina Bernal, Director, Fiscal Services

Budget Cycle & Certification Overview

- Purpose of Second Interim: The district is required to submit this financial report to the California Department of Education on or before March 15.
- Certification Status: The district is certifying the budget as Positive, indicating that CUSD will meet its financial obligations for the current fiscal year and the subsequent two years.
- Reporting Timeline: Following this report, the district will move toward Estimated Actuals (by July 1) and Unaudited Actuals (by September 15).

Financial Summary (2025-2026)

The Second Interim reflects several shifts in revenue and expenditures compared to the First Interim report.

- Beginning Fund Balance (July 1): \$33,381,314
- Total Revenues: \$257,074,264
- Total Expenditures: \$267,949,069
- Net Change in Fund Balance: (\$10,874,805)
- Ending Fund Balance: \$22,506,509

Key Variances from First Interim

- Revenue Increases (+\$3,639,507): State revenue rose by \$442,820 due to increased funding for Special Education and the Learning Recovery Block Grant (LRBG).
 - Local revenue (Fund 01) increased by \$734,082, attributed to fair market value (FMV) adjustments, Medi-Cal billing, and device replacement fees.
 - Categorical/Donation revenue (Fund 08) increased by \$2,642,749, including a \$1.2M CalShape grant for HVAC systems and \$866K in donations.
- Expenditure Shifts:
 - Total expenditures rose slightly by \$94,543.
 - Unrestricted fund spending decreased to \$167.9M as a result of targeted cost-control strategies.
 - Contributions to Special Education increased by \$454,416, driven by Non-Public School (NPS) costs and the restoration of essential instructional assistant positions.

Fiscal Stabilization & Multi-Year Projections

- Deficit Reduction: The district's goal is to eliminate deficit spending in the unrestricted fund beginning in the 2026-2027 fiscal year.
- Reserve Goals: CUSD aims to increase its total reserves from 4.78% (current) to 6% in 2026-2027, eventually reaching 10% by 2029-2030.
- Future Controls: Fiscal Services plans to implement new strategies to tighten spending, including potentially "sweeping" unencumbered funds back to the general fund at the second interim point in future years.

Member clarifying questions and comments

- What specific actions is the District Office taking to shave off funds from the unrestricted budget?
 - The district is analyzing every operational point, including purchasing in bulk to get the lowest prices and evaluating all vendors. In HR, every vacancy is scrutinized to determine if the position is absolutely necessary before filling it. At every point analyzing what is absolutely necessary vs what can we live without. While these are small adjustments, they add up to significant numbers over time.
- What is the scale of "soft commitments" from school sites and departments that could potentially be swept if unencumbered?
 - It is estimated that a couple hundred thousand dollars could be swept from school sites and approximately \$500,000 from various departments. Concrete numbers would be required to confirm this, but the district is encouraging schools to spend parent donations within the same year they are received.
- Why did restricted expenditures increase by nearly \$1 million between the First and Second Interim?
 - About half of that increase (\$454,416) is a contribution to Special Education due to rising costs in Non-Public School (NPS) and Non-Public Agency (NPA) placements and filling essential

specialized assistant positions. The other half is tied to spending new state revenues, such as the Learning Recovery Block Grant.

- Is the increase in Special Education costs a one-time event or a trend?
 - It is a steady trend. While student numbers remain relatively stable, the cost of services and lack of cheaper placement options for specialized programs continue to drive expenses upward.
- Why has the district previously refrained from budgeting parent donations?
 - The district has taken a conservative approach because donations are unpredictable and can fluctuate with the economy. However, the strategy is shifting to look at five-year trends to create more realistic, conservative estimates in the budget moving forward.
- Regarding the Yosemite trip, what is the cost and how is the differential covered?
 - The program costs approximately \$1 million to \$1.2 million annually. While family fees cover most costs, the Cupertino Education Endowment Foundation (CEEF) provided a one-time gift this year to cover scholarships for students unable to pay and supplemental costs like nursing services.
- Why did the ending fund balance increase by \$5 million more than originally projected in the adopted budget?
 - The increase was primarily due to restricted carryover—funds that were received in a prior year but not yet spent. This balance does not help the general fund or unrestricted reserves as it must be spent on specific categorical programs.
- Why put money into additional Board reserve instead of using it to immediately cover the \$10 million deficit?
 - Reserves are critical for cash flow. As a Basic Aid district, CUSD receives 50% of its cash in December and 50% in June. Without sufficient reserves to cover the approximately \$20 million in monthly expenditures, the District must borrow money (via TRANS), which cost approximately \$965,000 in interest and fees this year alone.

The "What If" Scenario (No \$3M Reduction)

If the Board rejects the proposed \$3 million in cuts, the district's Multi-Year Projection (MYP) shifts as follows:

- Deficit Spending: Deficit spending would continue through 2028-2029. While currently projected at \$10.8 million for 2025-2026, it would drop to \$3.8 million in 2026-2027 and grow to \$4.5 million in 2027-2028.
- Reserves: The total reserve would drop from 4.78% to a low of 3.43% in 2027-2028, which is dangerously close to the state-mandated 3% minimum.
- Salary Adjustments: This model includes a projected 1% salary increase in the 2027-2028 fiscal year.
- Long-term Outlook: Deficit spending would not be eliminated until the 2029-2030 school year, at which point the reserve would recover to approximately 4.99%. Already Included Reductions: The "What If" model still assumes previously approved savings, including \$1.1 million from early retirement, management reductions, and healthcare plan changes.
The district is planning for a 5% increase in property tax revenue.
- Revenue appears flat for a few years because growing property taxes are being offset by expiring one-time state and federal funds.
- The budget accounts for declining enrollment by projecting a reduction in teaching staff based on specific student-to-teacher ratios.
- The model assumes the District will successfully lease the Finch and Meyerholz properties. If these sites remain vacant, projected transfers from the building fund to the general fund (currently at \$9.4 million) would need to be reduced.

Member clarifying questions and comments

- How does the district's reserve levels impact the need for borrowing?
 - A lower reserve increases the need for lines of credit (TRANS) to meet monthly obligations. The interest expense for this borrowing (which cost approximately \$965,000 this year) is not currently modeled in the future-year projections.
- What is the status of the Meyerholz and Finch property leases?
 - The district is currently in discussions with potential tenants for Meyerholz, though previous negotiations fell through. If no tenants are secured by next year, the district will have to adjust its revenue assumptions downward.
- Does declining enrollment reduce the District's total revenue?
 - Because CUSD is a Basic Aid district, enrollment drops do not automatically decrease total property tax revenue, but they do lead to a reduction in state and federal categorical funding. The district manages costs by reducing staffing levels (teachers) in proportion to the student-to-teacher ratio as enrollment declines. The District relies primarily on local property taxes.

Multi-Year Projection (MYP) Summary

The Second Interim MYP builds in all current budget assumptions, including the \$3 million in proposed reductions. By implementing these changes, the district aims to achieve two primary financial goals:

- Under this plan, deficit spending in the unrestricted fund is projected to be eliminated by the 2026-2027 fiscal year.
- The district's reserves are projected to hit the 6% mark in 2026-2027 and reach the 10% goal by 2029-2030.
- The current five-year projection includes only a 1% salary adjustment, scheduled for the 2027-2028 year. However, overall costs will continue to rise due to mandatory increases in health care and "step and column" pay movements.

Projections include staff reductions aligned with declining enrollment ratios. The district continues to prioritize hiring its own staff over contractors, though rising health and welfare benefit costs have made contracting more cost-effective in some specific instances.

Member Clarifying Questions and Comments:

- What was the Cost of Living Adjustment (COLA) from the state for this school year?
 - The COLA only applies to specific categorical funds, such as Special Education and student nutrition, rather than general salary increases. For the 2025-2026 year, the state categorical COLA is 2.3%.
- Does the state provide COLA for general salary increases?
 - No, because CUSD is a Basic Aid district, it receives the majority of its funding from local property taxes rather than state-determined per-pupil funding.
- How much does a 1% salary increase cost the district?
 - For the three main unions, a 1% increase costs approximately \$1.9 million. Including management adds another \$200,000 to that total.
- Why is there only a 1% salary increase projected over five years?
 - Additional increases were omitted from the current projection to avoid dropping reserves below the 6% mark and returning the district to a deficit spending status.
- Does the district project increased staffing for Special Education?
 - No. The district does not project staffing increases for SpEd because it is actively trying to contain costs through internal adjustments and maximizing class sizes.
- Is it more expensive to hire contractors or district staff?
 - Historically, contracting was roughly 20% more expensive. However, due to the high cost of providing district health and welfare benefits, some individual contracts are now appearing less expensive than hiring full-time employees.
- What other ways is the district looking to increase revenue?
 - The district is looking at leasing its vacant properties (Finch and Meyerholz), renegotiating existing leases (such as for the preschool operating under FUHSD), and opening solar charging stations to the public for a fee starting March 1.
- How does the district currently account for the rising cost of goods and services in its budget?
 - The district currently uses a budgeting assumption of 0% for the increase in the cost of goods and services. While it is a best practice for a healthy district to budget for approximately a 3% increase, CUSD does not currently have the financial ability to do so. Consequently, the district operates with a flat budget and is forced to make manual adjustments and trim expenses throughout the year to account for actual price increases.
- What strategy is the district using to manage these rising costs without additional funding?
 - Because there is no additional money to cover inflation, the district must identify areas to cut or reduce every year just to maintain existing operations. One specific strategy is to evaluate whether certain expenditures can be shifted from the General Fund to the General Obligation Bond. Shifting allowable expenses to the bond helps relieve pressure on the General Fund, though the district must balance this against the finite amount of bond money available for projects.

D. Follow Up Items

The follow up items document was reviewed

E. Agenda Setting/Future Meetings

Stacy Yao, Superintendent shared:

- Following the departure of the Chief Business Officer (CBO), the district is planning a restructure and reorganization of its fiscal leadership.
- There is a planned shift for the Budget Advisory Committee to take a more active role in identifying trends and reviewing fiscal processes rather than just receiving reports.
- To accommodate a more proactive approach, the committee may move toward more frequent meetings and utilize subcommittees to perform deeper dives into specific budget topics between quarterly sessions.
- The committee aims to ensure its meetings occur well in advance of Board presentations so that its voice can be represented during Board of Education meetings.
- The next scheduled meeting is set for May 27, 2026, where the committee will review a preview of the adopted budget.
- The May meeting will also include an update on property taxes and a discussion on a potential parcel tax as a revenue source.
- The district intends to re-integrate activities like the "Start, Stop, Go" exercise to identify high-priority items to keep, processes to change, and new educational needs to address.
 - Member comment — Last time this activity was done outside of the meeting and hence, it did not get the full participation of the committee members or get recorded in the meeting minutes.

The committee requested that the following items be brought back as agenda items:

1. Contracts — What is our district doing to reduce contracting outside staff? What is the cost effectiveness of employee vs. contractor?

- While requested for the May meeting, a deep dive into the cost-effectiveness of contracting versus in-house staff (e.g., arborists or specialists) is likely deferred until **Fall 2026** due to the time required to analyze these efficiencies.

2. How can the committee improve its visibility and community engagement? Maybe is it possible to utilize the District's social media platform to notify the public of meetings?

- While meetings are currently posted at libraries and school sites, digital engagement may reach a broader audience.
- Intentionally extending the postings to a larger audience may take away from the committee's focus.

3. Update on Solar Charging

4. District's plan for a future Parcel Tax

5. Ideal Board Reserve: Is there a specific reserve percentage that exists that balances cash flow needs against the cost of borrowing? Bring back historical data and best practice benchmarks from other districts for further discussion.

6. Economics of Contractors: Concern regarding the 20% margin typically seen in contract work and whether overhead in external agencies could be bypassed. This topic will be brought back for analysis to determine if reducing contracting is a realistic fiscal goal.

Member Clarifying Questions and Comments:

- Will the committee be able to influence the 2026-2027 Adopted Budget?
 - Due to the short timeframe, the district is unsure if the committee's input will be fully implemented before the budget is finalized in June, but efforts will be made to include committee feedback from the May 27th preview.

F. Adjournment

Meeting adjourned at 11:17 AM.