

OTHER FUNDS 2020-21 FIRST INTERIM BUDGET

Attached are the first interim reports for the 2020-21 restricted funds not included in the General Fund. These funds represent budgets that are restricted and designated for specific purposes such as Construction, Food Service, Adult Ed, etc. The First Interim budget reflects the reworking of the Adopted Budget based on carryover of funds, new funding levels and real or projected expense increases, the Second Interim budget reflects additional refinement based on current information. The following information reflects changes made between the Adopted Budget and First Interim.

Adult Ed Fund

These resources provide funding for training for adults, including concurrently enrolled students as defined in Education Code Section 52500.1, and revised by the passage of Assembly Bill 104, which allows students 18 years of age and older to enroll in adult education classes to pursue graduation requirements for the Adult High School diploma, prepare for completion of the California High School Equivalency credential, learn English as a second language, services for mandated classes, elective classes, other transitional programs, and to acquire skills for college and career readiness.

For the 2020-21 school year, the District will receive funds from the Adult Education Block Grant in the amount of \$527,258 to support programs for adult learners and to fund allowable expenses as defined by Assembly Bill 104. In addition, the District receives State revenues of \$24,139 which reflects the District's proportionate share of the Santa Clara County's CalWORKs allocation. The projected federal revenue allocation for the Workforce Innovation and Opportunity Act (WIOA) is \$82,035. As a result of the COVID pandemic, WIOA allowed the District to carryover \$6,246 in unspent funds from the 2019-20 fiscal year. Included in the Adult Education funds are \$39,079 for indirect costs that are reimbursed to the General Fund for support services. The projected ending fund balance is \$369,347.

Child Development Fund

This program is a pass-through, with expenses matching revenues. For the past twenty years, the District has contracted with an outside vendor to provide pre-school child care services at Walsh and El Toro schools.

The estimated state revenue total is \$294,763, which is an increase of \$94,178 since the Adopted Budget. However, this amount is likely to be adjusted downward during the fiscal year, since actual earnings are based on enrollment of students which has declined with the distance learning instructional model. Included in the Child Development Fund is \$16,711 that is transferred to the General Fund for support services. The ending fund balance is \$0.

Cafeteria Fund

The Cafeteria Fund is used to account for revenues and expenses related to operating the student nutrition program. The Student Nutrition Department serves an average of 17,000 meals per week to youth in the community.

Revenues are generated from federal, state and local sources. The District is reimbursed a fixed dollar amount from the Federal and State government for each meal served. The District anticipates federal revenue to be \$2,141,845 and state revenue to be \$166,000. The local revenue includes both Albertson's and GenYouth grants totaling \$109,000. Changes in the revenue amounts since the

Adopted Budget are due to the District being approved for the USDA school meal waiver for the 2020-21 school year. Since the USDA program allows all youth under age eighteen to eat for free, there are no budgeted revenues from a la carte food sales for the remainder of the school year.

Expenses totaling \$2,678,680 are primarily staffing and food related costs. An estimated amount of \$271,570 of expenditures that were originally budgeted has been transferred to the Coronavirus Relief Fund, as allowed, for employee salaries and benefits costs for reassigned staff members who are not performing student nutrition duties three days out of the week. Included in the Cafeteria Fund expense is \$122,366 for indirect costs that are reimbursed to the General Fund. The projected ending fund balance for 2020-21 is \$144,294, after the District transfers in \$261,335 from the Unrestricted General Fund to fund the operating deficit in the program.

Deferred Maintenance Fund

Beginning in July 2013, Deferred Maintenance revenues were consolidated into the Local Control Funding Formula (LCFF). Per the May 2020 Budget Committee recommendation no transfer from the LCFF into the Deferred Maintenance Fund is planned. Resources available for expenditure include only the fund balance and interest earned. The District will continue to monitor the usage of these resources for emergencies that are eligible projects under the former deferred maintenance program.

Special Reserve Fund

The Special Reserve was established with one-time revenues as a result of a legal settlement and revenues received in 2012-13 when City of Morgan Hill Redevelopment Agency was dissolved in accordance with AB 1484. The projected beginning balance is \$3,803,589 with estimated interest earnings of \$65,000. The projected ending fund balance will be \$3,868,589.

Postemployment Benefit Fund

The Postemployment Benefit Fund was established pursuant to *Education Code* Section 42840 to account for monies that have been earmarked for the future cost of postemployment benefits for retirees of the District and in compliance with GASB 45 regulations. GASB 45 provides that the cost of postemployment benefits should be accrued systematically over the working careers of employees. The District is required to update its actuarial study every two years. The next actuarial study will be completed by December 2020.

The beginning balance is \$605,665 and with projected interest earnings of \$10,600, the projected ending fund balance will increase to \$616,265. There are no planned expenditures from this Fund. The District will not be making a contribution for the 2020-21 school year, but since the current year retiree benefit expenses are included in the Unrestricted General Fund the District will meet the criteria for funding its annual postemployment benefit costs.

Building Fund

The Building Fund contains resources from several different sources namely two bond programs (1999 and 2012) and the Certificates of Participation (2010).

- Certificates of Participation - In 2009 the District received an allocation of funds from the Qualified School Construction Bond program and in 2010 the District issued debt via a Certificate of Participation in the amount of \$13.5 million which funded the construction of the photovoltaic systems at Live Oak and Sobrato High Schools. Revenues into this program include semi-annual federal subsidy payments which offset a portion of the interest expense

for the Certificates of Participation and an annual \$412,794 transfer from the Unrestricted General Fund which represents the projected energy cost savings generated by the photovoltaic systems. Expenditures include the semi-annual debt service payments on the Certificates of Participation.

- 2012 Bond (Measure G) – The \$80 million bonds from Series B were received in the 2017-18 school year. Therefore, the only revenue projected in the Bond Fund will be interest earned from the bond proceeds. Series B funds are budgeted for the new Britton Middle School Transformation project which includes the new science classrooms which were completed in August 2020. At Nordstrom Elementary portables will be replaced with a new modular classroom building. The new classroom building is currently under construction and scheduled to be completed in November 2020. At Jackson Academy, facilities enhancements include new classrooms to replace those classrooms displaced as part of the planned expansion of the multi-purpose room, the classroom project is scheduled to be completed in November 2020. Included in the budget are instructional technology, infrastructure, and safety and security projects throughout the District. The Board has participated in two facilities study sessions regarding future projects, as additional projects are approved by the Board they will be included in the budget.

Capital Facilities Fund

Projected revenues of \$1,065,000 consist of interest earned and developer fee collections. The District also anticipates receiving a contribution of \$2,000,000 from the City of Morgan Hill for the joint-use park on the Borello site. Budgeted expenses include consultants for the demographic study and boundary committee support. Construction expenses for site development of the Borello campus including design, inspections, testing, site preparation (blacktop paving, parking lot, sidewalks, grass play fields, etc.) and onsite utility connections and fees are included in the budgeted expenditures. Commencement of construction would be contingent on approval by the Board to proceed with Phase I improvements.

Mello Roos Fund

The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a “CFD”) which allows for financing of public improvements and services. Morgan Hill USD has two CFD’s – CFD #1 was created in 1991 and CFD #2 was created in 1994 by the majority of voters. The areas were established due to housing development impacting the District. Revenues are received from property taxes paid by those properties residing within the Mello Roos district. Projected revenue of \$559,467 reflects the annual ongoing property tax collections and interest. Resources are allocated for tax roll preparation and an appraisal of the VTA lot due to right-of-way improvements on Main Avenue and undergrounding utilities on Hale Avenue which will require the purchase of a portion of the VTA lot by the City of Morgan Hill and PG&E.

Bond Interest and Redemption Fund

This fund is used for the repayment of bonds issued by the District for the refinance of 1999 General Obligation Bond and 2012 General Obligation Bond. The principal and interest on the bonds are paid by property taxes levied on all properties within the District’s boundaries. Fiscal year 2019-20 was the final year for taxpayer assessment for the 1999 General Obligation Bond and the final debt service payment was made in August 2020. Staff anticipates closing this fund at the conclusion of the 2020-21 fiscal year.