

# FISCAL SERVICES DEPARTMENT

## FIRST INTERIM REPORT 2021-22 NARRATIVE FOR ALL FUNDS

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The following is a brief overview of the various budget adjustments made to the First Interim budget:

### **General Fund**

#### ***Revenues Have Increased by Approximately \$11,494,060:***

- LCFF sources has a net increase of \$113,534. A slight increase due to a revision in the 2019-20 P-2. This is the last year the District will be able to use the ADA Hold Harmless provision.
- Federal income has a net increase of \$3,575,360. This increase is due to income from restricted resources as a result of unspent categorical revenue from the prior year and new Federal grants awarded to the District since the Adopted Budget. The largest source of the increase includes \$3.5M from the Coronavirus Relief Funds as the State shifted a significant portion of funding for the Expanded Learning Opportunities (ELO) from State to Federal funds. Other changes in Federal revenues include an increase in Migrant Education funding by \$53K. Unfortunately, partially due to the new federal census data, Title I funds were reduced by \$350K.
- State income has a net increase of \$4,977,871. This increase is due to one-time carryover from In-Person Instruction Grant (IPI) of \$2.9M and the new ongoing funding of \$1.1M for the Expanded Learning Opportunities Program (ELO-P) which will provide for increased before and after school programming.
- Local income has a net increase of \$2,827,295. This increase includes new and carryover funds from donations or local grants totaling \$938K. The most current estimated residual amount the District would receive from the Redevelopment Property Tax Trust Fund increased by \$881K. The SELPA's latest projections for the District's allocation of special education funding increased by \$1M in part due to one-time grants and savings from prior year as a result of the pandemic.

#### ***Expenses Have Increased by \$7,083,043:***

- Salaries and benefits have a net increase of \$1,522,889. Budget changes are a result of step/column changes, actual salaries of new hires, additional hours and stipend payroll for various support programs as well as additional staffing needed to support the return to in-person instruction.
- Books and supplies increased by \$1,389,352. A combination of Unrestricted and Restricted carryover is budgeted for instructional materials, technology, books, supplies, and routine maintenance equipment.
- Services and Other Operating Expenditures increased by \$2,767,205. Expenditures in this area of the budget are mainly used for professional services delivered by independent contractors. Since the Adopted Budget, the District has incurred additional contracts needed for special education. These contracts total \$1.6M. Included are contracts for outside transportation, students who require a specialized placement outside of the

District such as NPA/S, contractors hired to fill vacant positions, and expenditures for the one-time state funding that came in after the budget was adopted.

- Capital Outlay increased by \$1,456,211. The majority of this increase is due to the assessment and repairs of Heating, Ventilation, and Air Conditioning (HVAC) systems at the sites.
- Other Outgo decreased by \$21,190. This reflects a decrease in special education costs paid to the County Office of Education.
- Transfers and indirect costs decreased by \$31,425. This decrease reflects changes made to the indirect cost amounts in other funds that are credited back to the general fund.

***Other Financing Sources/Uses Have Decreased by \$234,715:***

- The reduction is a result of the District no longer needing to make a contribution to the Cafeteria Fund as the program now has a positive Beginning Fund Balance to draw down from.

***Fund Balance/Undesignated/Unappropriated Amount Increased by \$3,225,036:***

- The ending unappropriated amount is \$29,463,811
- The District continues to maintain a 3% reserve of \$3,489,183
- Included in the set-asides are resources for CAHSEE, TIGG, IMF and LCFF carryover as well as set-aside for the change in fair market value of cash assets

**Adult Ed Fund**

This resource provides training for adults, including concurrently enrolled students as defined in Education Code Section 52500.1, and revised by the passage of Assembly Bill 104. This revision 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 2021-22 school year, the District will receive funds from the Adult Education Block Grant in the amount of \$541K 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 \$22K which reflects the District's proportionate share of the Santa Clara County's CalWORKs allocation. The projected federal revenue under the Workforce Innovation and Opportunity Act (WIOA) is \$92K.

**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 totals \$307K. This amount fluctuates based on enrollment of students into the program. Included in the Child Development Fund is \$20K 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 food service program. The Student Nutrition Services department serves an average of 5,400 meals per day to District students.

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. Payments received from food service meal sales and catering events are accounted for as local revenue. The District anticipates federal revenue to be \$3.7M and state revenue to be \$247K. Changes in the revenue amounts since the Adopted Budget are due to the extension of the USDA free school meals waiver for the entire school year. Expenses totaling \$4.4M are primarily staffing and food related costs. Included in the Cafeteria Fund expense is \$125K for indirect costs that are reimbursed to the General Fund. The projected ending fund balance for 2021-22 is \$610K.

#### **Deferred Maintenance Fund**

Beginning in July 2013, Deferred Maintenance revenues were consolidated into the Local Control Funding Formula (LCFF). There are no planned contributions to the Deferred Maintenance Fund aside from interest earned. The District is considering a policy that would provide an ongoing dedicated funding source for replacement of infrastructure and building systems at end of life. If a policy is adopted by the Board it will be reflected in the budgeted revenues at Second Interim.

Budgeted expenditures of \$100K include the repair and replacement of the Sobrato well which is used for irrigation of the campus.

#### **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 the City of Morgan Hill Redevelopment Agency was dissolved in accordance with AB 1484. The projected beginning balance is \$3.85M with estimated interest earnings of \$65K. The projected ending fund balance will be \$3.9M.

#### **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. An actuarial study was completed and presented at the December 2020 Board of Education Meeting. The report indicated the present value of projected benefits to be \$61.6 million.

The beginning balance is \$614K and with projected interest earnings of \$11K, the projected ending fund balance will increase to \$625K. There are no planned expenditures from this Fund. The District will not be making a contribution for the 2021-22 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 \$413K transfer from the Unrestricted General Fund. This transfer 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 budgeted in the Bond fund will be interest earned. Series B funds are budgeted for the Britton Middle School Transformation project which includes design costs for the Administration Office and student union building. The Nordstrom construction costs associated with the modernization of the current Administration Building are included in the budget as well the construction costs associated with Jackson Academy's multi-purpose room renovation which was completed in October 2021. The balance of the Series B proceeds will fund the wifi replacement project, instructional technology, and safety and security projects throughout the District.

### **Capital Facilities Fund**

Projected revenues of \$1.4M consist of interest earned and developer fee collections. Budgeted expenses include consultants from SchoolWorks for the Developer Fee Study and Demographic Report as well as legal fees.

### **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 (CFD) which allows for financing of public improvements and services. The District 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 boundaries. Projected revenue of \$595K reflects the annual ongoing property tax collections and interest. Resources are allocated for tax roll preparations and design costs for roofing replacement projects.

### **Bond Interest and Redemption Fund**

This Fund is used for the repayment of bonds issued by the District for the Measure G 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.