

2021-22

First Interim Budget Report

Morgan Hill Unified School District
Presented to the Board on
December 14, 2021

What is a First Interim Report?

- Reflects the updated financial and budgetary status of the District as of October 31, 2021
- Includes a Multi-Year Projection (MYP) that shows the financial projections for the current and subsequent two fiscal years
- The Board is required to certify to the District's ability to meet its financial obligations for the current and two subsequent fiscal years
 - Will meet (Positive)
 - May not meet (Qualified)
 - Will not meet (Negative)



Required Reports

The District is required to adopt a budget and provide updates to the Santa Clara County Office of Education (SCCOE) by:

- July 1: Adopt budget
- December 15: 1st Interim to SCCOE
- March 15: 2nd Interim to SCCOE
- June 30: Estimated Actuals
- September 15: Unaudited Actuals



Overview

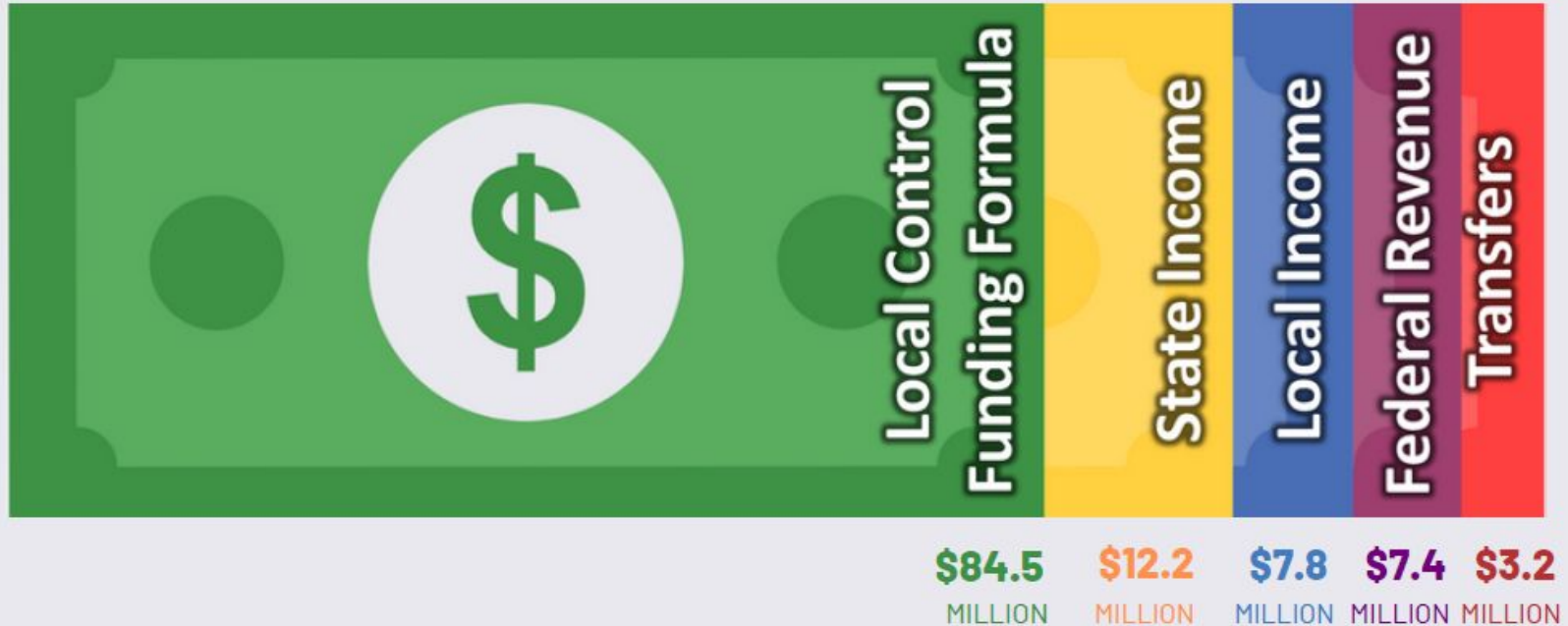
- For all fiscal years, the current projections demonstrate that the District expects to meet all financial obligations, with reserves higher than the State's minimum requirements
- The District remains in a strong cash position
- The projections for the next two years assume the Department of Finance's projected Cost of Living Adjustment (COLA); however, this is offset by projected Average Daily Attendance (ADA) and enrollment declines beginning in 2022-23
- As one-time COVID funding ends, the District will need to make decisions regarding programs and staffing levels

**MHUSD strives
to follow these
fundamental
best practices:**

1. Structurally balanced budget
2. Strong reserves
3. Sufficient cash
4. Risk factors awareness

General Fund Revenues 2021-22

Total Combined: Unrestricted & Restricted



Revenue Changes First Interim

	Adopted Budget	First Interim	Difference
LCFF Sources	\$84,436,085	\$84,549,619	\$113,534
Federal	\$3,846,355	\$7,421,715	\$3,575,360
Other State	\$7,262,716	\$12,240,587	\$4,977,871
Other Local	\$4,984,593	\$7,811,888	\$2,827,295
Transfer In	\$2,287,650	\$3,171,400	\$883,750
TOTAL	\$102,817,399	\$115,195,209	\$12,377,810

Revenue Changes First Interim Cont.

- District continues to use the ADA hold harmless provision (FY 2019-20)
- The State shifted a significant portion of the funding for the Expanded Learning Opportunities (ELO) from State to Federal funds
- Title I funds were reduced by \$350K in part due to the new federal census data
- One-time carryover from In-Person Instruction Grant (IPI) of \$2.9M



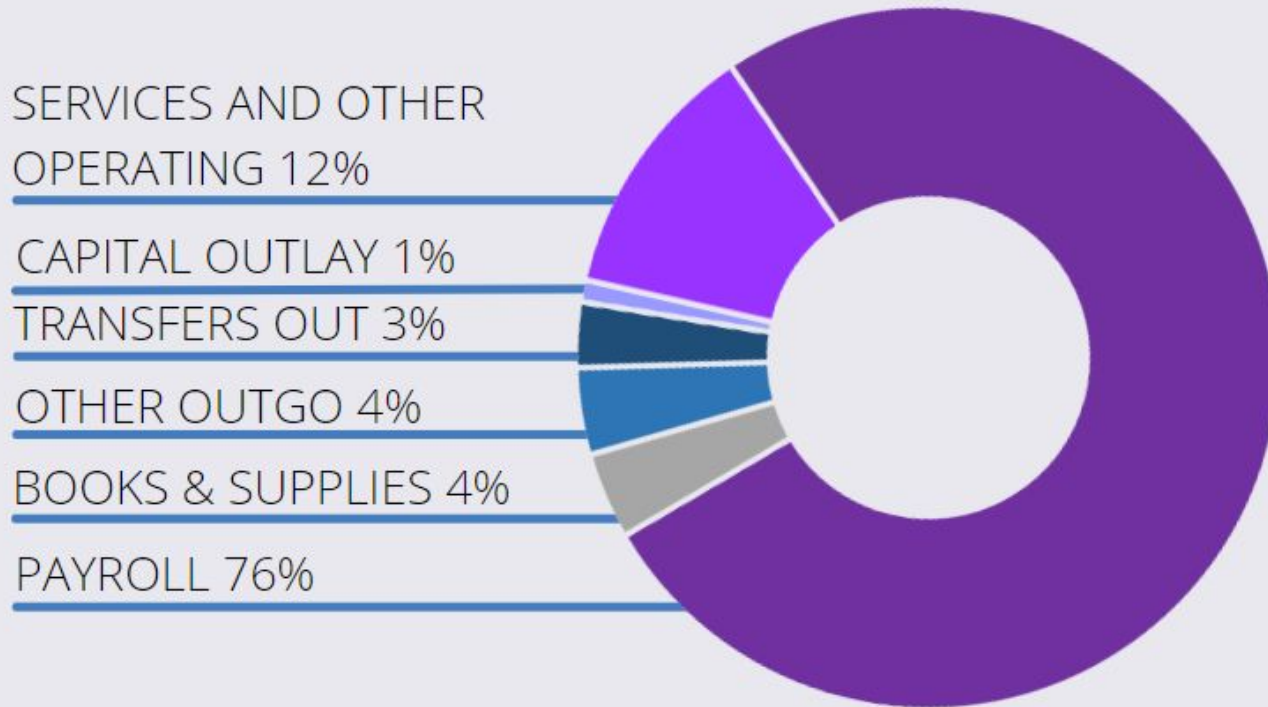
Revenue Changes First Interim Cont.

- New ongoing funding of \$1.1M for the Expanded Learning Opportunities Program (ELO-P)
- New and carryover funds from donations or local grants totaling \$938K
- Redevelopment Property Tax Trust Fund increased by \$881K
- SELPA's latest projections for the District's allocation of special education funding increased by \$1M



General Fund Expenditures 2021-22

Total Combined: Unrestricted & Restricted



Expenditures Changes First Interim

	Adopted Budget	First Interim	Difference
Certificated Salaries	\$45,157,868	\$46,205,843	\$1,047,975
Classified Salaries	\$15,772,505	\$16,388,785	\$616,280
Employee Benefits	\$25,729,055	\$25,587,689	(\$141,366)
Books & Supplies	\$3,071,475	\$4,460,827	\$1,389,352
Other Operating Expenditures	\$11,615,248	\$14,382,453	\$2,767,205
Capital Outlay	\$2,002	\$1,458,213	\$1,456,211
Other Outgo	\$4,469,359	\$4,448,169	(\$21,190)
Indirect Cost	(\$154,257)	(\$185,682)	(\$31,425)
Other	\$2,910,759	\$3,559,794	\$649,035
TOTAL	\$108,574,014	\$116,306,091	\$7,732,077

Expenditures Changes First Interim Cont.

- Salaries adjusted to reflect negotiated settlements and aligned with authorized positions
- Carryover from unspent donations, grant programs, and local allocations now included
 - Significant increase in books and supplies



Expenditures Changes First Interim Cont.

- **Contracted Services**
 - One-time funds
 - Special Education
 - Contractors for unfilled, vacant positions
 - Services for students served outside of District
- **Heating Ventilation and Air Conditioning (HVAC) project**



Unrestricted General Fund

	Adopted Budget	First Interim	Difference
Revenue	\$83,495,392	\$83,678,576	\$183,184
Expenses	\$68,582,316	\$70,543,101	\$1,960,785
Excess/(Deficiency)	\$14,913,076	\$13,135,474	(\$1,777,601)
Other Financing & Contributions	(\$15,460,653)	(\$14,249,351)	\$1,211,302
Net Increase to Fund Balance	(\$547,577)	(\$1,113,877)	(\$566,300)
Beg Fund Balance	\$35,880,307	\$35,880,307	\$0
Ending Fund Balance	\$35,332,729	\$34,766,430	(\$566,300)
% Unrestricted Reserve	27.9%	28.3%	0.4%

Other Funds

Fund	Description	Beginning Balance	Revenue	Expenditures	Ending Balance
Fund 11	Adult Ed	\$572,153	\$697,354	\$900,974	\$368,533
Fund 12	Child Development	-	\$307,007	\$307,007	-
Fund 13	Cafeteria	\$1,100,207	\$3,955,500	\$4,445,899	\$609,808
Fund 14	Deferred Maintenance	\$376,844	\$5,000	\$100,000	\$281,844
Fund 17	Special Reserve	\$3,855,774	\$65,000	-	\$3,920,774
Fund 20	Postemployment Benefits	\$613,888	\$10,600	-	\$624,488
Fund 21	Building Fund	\$26,801,168	\$1,583,935	\$16,799,198	\$11,585,905
Fund 25	Capital Facilities	\$10,954,937	\$1,400,000	\$63,651	\$12,291,286
Fund 49	Mello-Roos	\$2,078,716	\$594,938	\$115,526	\$2,558,128
Fund 51	Bond Interest & Redemption	\$2,618,064	\$4,923,709	\$4,818,493	\$2,723,280

Other Documents Included

Morgan Hill Unified
Santa Clara County

2021-22 First Interim
General Fund
Unrestricted (Resources 0000-1999)
Revenues, Expenditures, and Changes in Fund Balance

Description Resource Co

A. REVENUES

- 1) LCFF Sources
- 2) Federal Revenue
- 3) Other State Revenue
- 4) Other Local Revenue
- 5) TOTAL REVENUES

B. EXPENDITURES

Criteria and Standards Review Summary

The following summary is automatically completed based on data provided in the Criteria and Standards Review form (Form 01CSI). Criteria and standards that are "Not Met," and supplemental information and additional fiscal indicators that are "Yes," may indicate areas of potential concern, which could affect the interim report certification, and should be carefully reviewed.

CRITERIA AND STANDARDS			Met	Not Met
1	Average Daily Attendance	Funded ADA for any of the current or two subsequent fiscal years has not changed by more than two percent since budget adoption.		X

COVID Funds Report

Resource #

3210 \$
3212 \$
3213 \$
3214 \$

Allo

Morgan Hill Unified Budget Snapshot FY2021-22



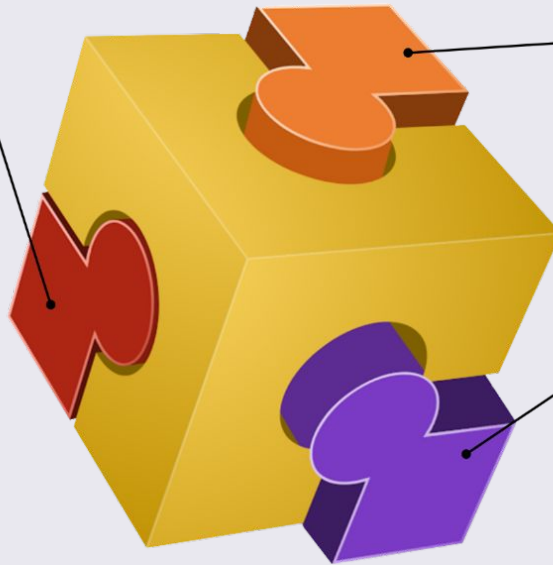
OPERATING BUDGET

WHERE DOES THE

Multi-Year Projection

Multi-year Projections

- Multi-Year Projections are the result of mathematical calculations for future years based on:
 - Decisions that have already been made, and
 - A set of reasonable assumptions



- Multi-Year Projections are not predictions of the future
 - They are not forecasts
- They are exactly wrong...
 - But should be approximately right

Key Budgetary Pressures

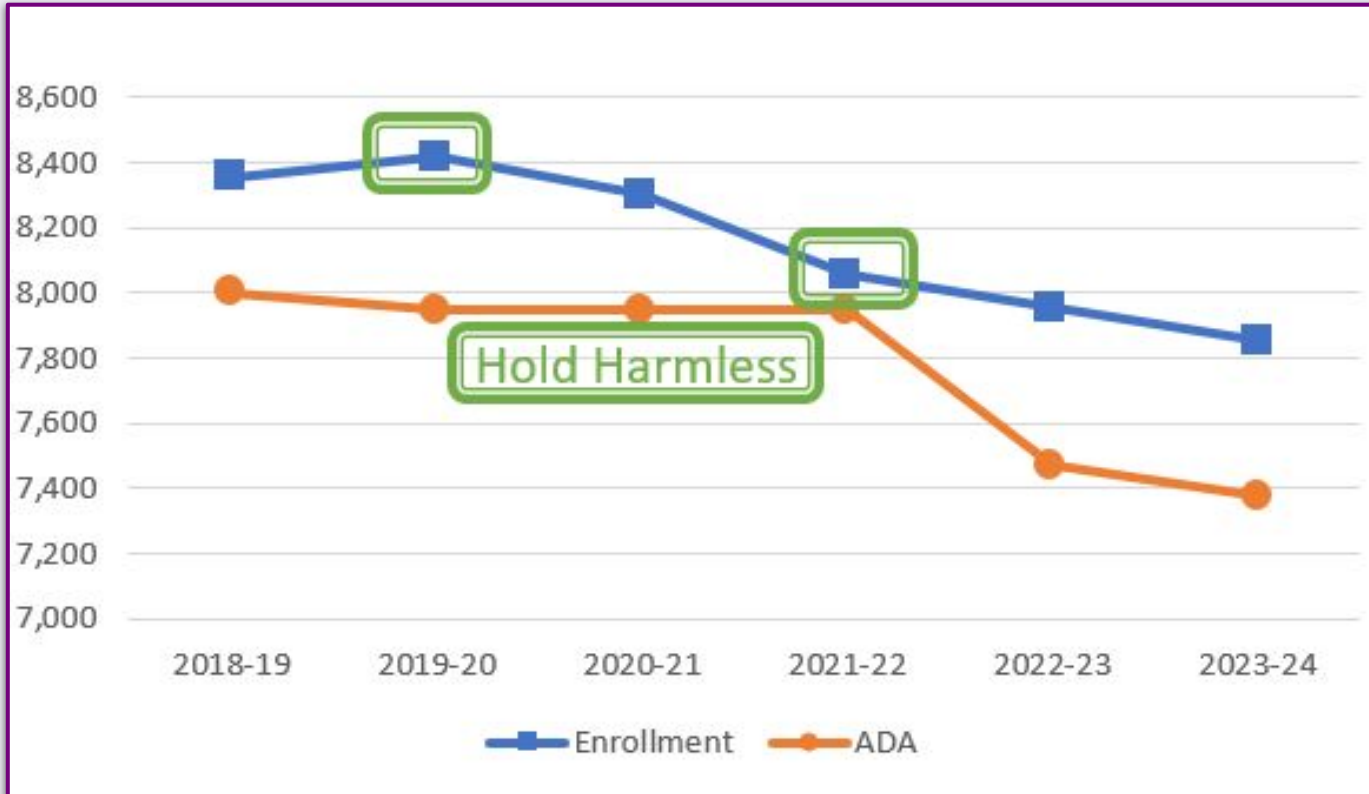
- **Declining Enrollment and lower Average Daily Attendance (ADA)**
 - Loss of funding
- **Low Cost of Living Adjustments (COLAs)**
 - Eroding purchasing power
- **One-time COVID Funds exhausted**
 - Determine what costs need to be subsumed into General Fund or Restricted Programs
- **Increased employer pension contributions**



Revisions to Revenue Assumptions

	2021-22	2022-23	2023-24
LCFF Statutory COLA	1.70%	2.48%	3.11%
Funded COLA	5.07%	2.48%	3.11%
Enrollment	8,054	7,954	7,854
Current ADA	7,471	7,377	7,284
Funded ADA	7,946	7,471	7,377

Declining ADA





Declining ADA will mean less revenue next year.

Hold harmless provisions on ADA expire in 2022-23.

This is already being referred to as the “funding cliff” for districts in declining enrollment.

Revisions to Expenditure Assumptions

	2021-22	2022-23	2023-24
Salaries	Step/Column & Longevity increase included. Negotiations settled	Step/Column & Longevity increase estimated at 1.75%	Step/Column & Longevity increase estimated at 1.75%
Health Benefits	Employer contributions at current rate caps		
CalSTRS Employer Rate	16.92%	19.1%	19.1%
CalPERS Employer Rate	22.91%	26.10%	27.10%
Routine Repair and Maintenance Contribution	3%		
COVID 1X Funding	Included	Included	Included
General Fund Contributions	\$13.9M	\$14.6M	\$15.0M
Contributions to Cafeteria Fund	\$0	\$0	\$445K

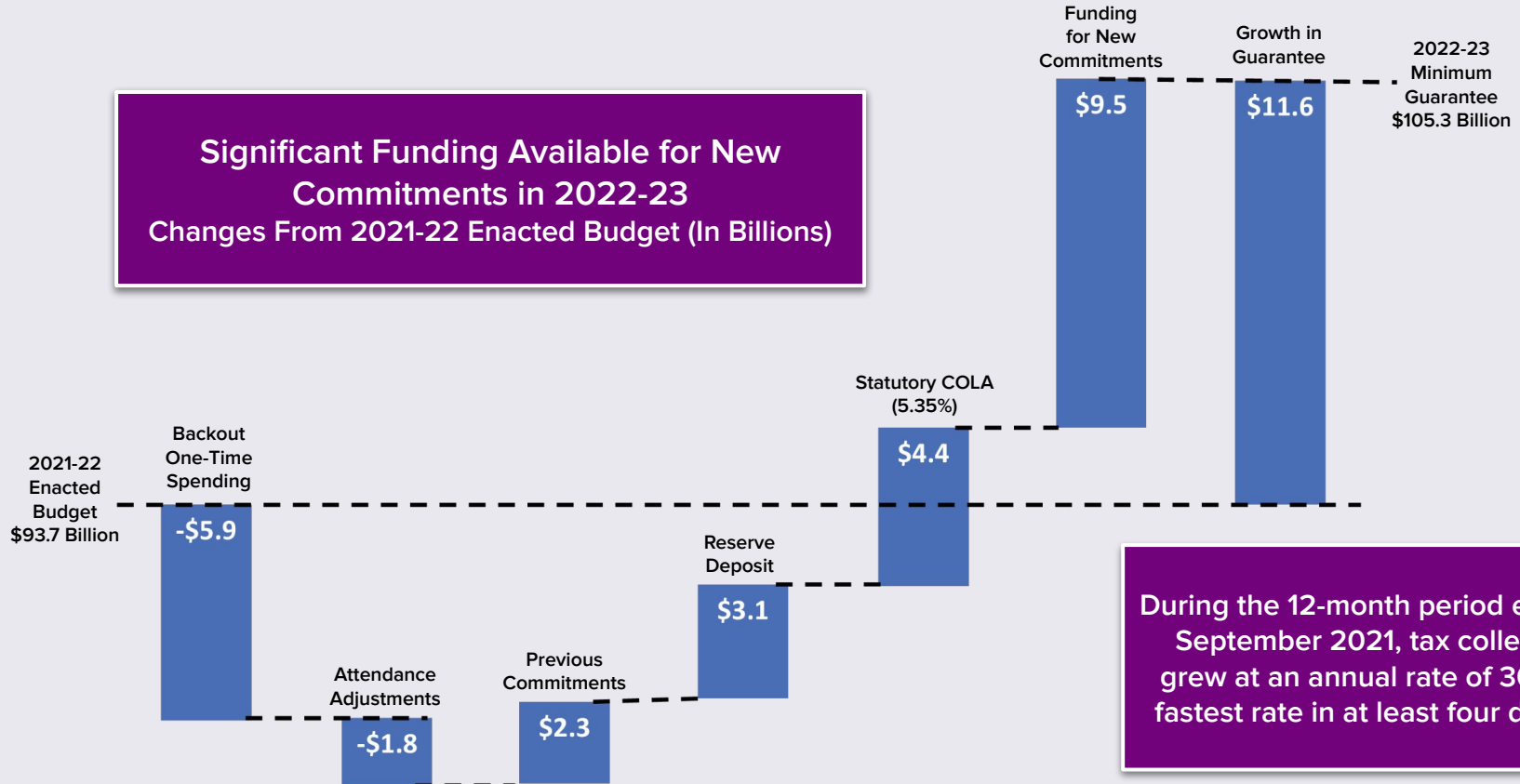
Multi-Year Projection General Fund

	2021-22	2022-23	2023-24
Revenue	\$115,195,209	\$110,230,997	\$106,275,463
Expenses	\$116,306,091	\$116,266,689	\$118,167,496
Net Increase / (Decrease) to Fund Balance	(\$1,110,882)	(\$6,035,692)	(\$11,892,033)
Beginning Fund Balance	\$44,074,266	\$42,963,384	\$36,927,692
Ending Fund Balance	\$42,963,384	\$36,927,692	\$25,035,659
% Unrestricted Reserve	28%	23%	17%

Reserves in the Multi-Year Projection



LAO Update



Reserves / Reserve Cap

- The school district reserve cap will be triggered for the first time beginning with the 2022-23 Adopted Budget
- Districts should plan ahead to ensure they are limiting their assigned and unassigned reserves in the General Fund (Fund 01) and the Special Reserve Fund for Other than Capital Outlay Fund (Fund 17) to no more than 10% of annual expenditures
 - Funds that are in the committed portion of the fund balance are not included in the reserve cap calculation
 - Board resolution that will set aside funds for specific uses

Next Steps

- **Board approval the District's First Interim Financial Report**
 - It is recommended that the approve the SACS Reports including a positive certification
 - The First Interim Budget will be sent to the Santa Clara County Office of Education for review after the Board takes action
- **Staff will update the Board as new information becomes available**
 - Governor's January Proposal for 2022-23 Budget
 - District Financial Audit Report January 2022

Questions?

