

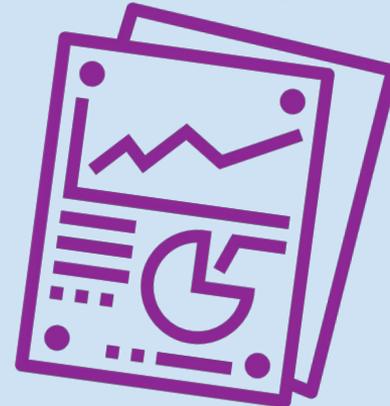
2021-22

Second Interim Budget Report

**Morgan Hill Unified School District
Presented to the Board on
March 15, 2022**

What is a Second Interim Report?

- Reflects the updated financial and budgetary status of the District as of January 31, 2022
- 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

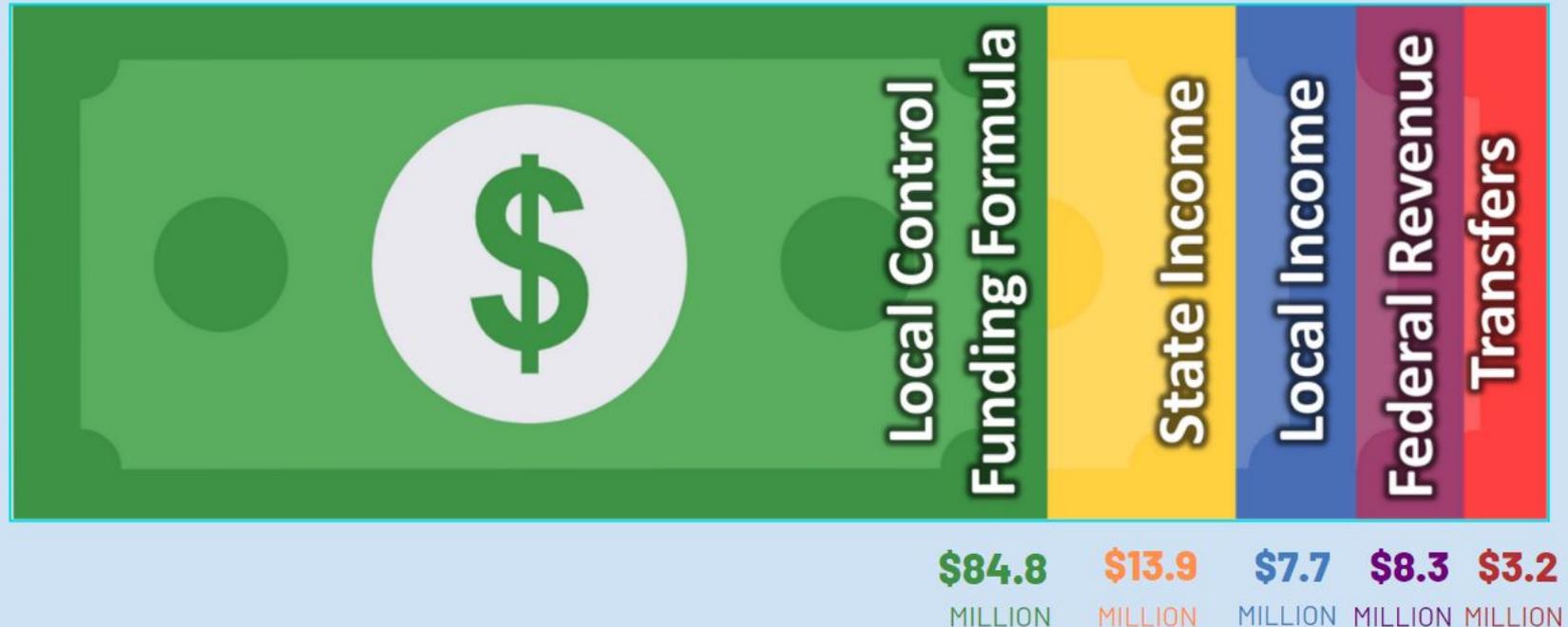
- For all fiscal years, the current projections demonstrate that the District expects to meet all financial obligations, with reserves higher than the State's minimum requirements
- The District remains in a strong cash position
- The projections for the next two years assume the Department of Finance's projected Cost of Living Adjustment (COLA).
- 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 Second Interim

	First Interim	2nd Interim	Difference
LCFF Sources	\$84,549,619	\$84,803,568	\$253,949
Federal	\$7,421,715	\$8,301,272	\$879,557
Other State	\$12,240,587	\$13,981,421	\$1,740,834
Other Local	\$7,811,888	\$7,685,164	\$(126,724)
Transfer In	\$3,171,400	\$3,171,400	\$0
TOTAL	\$115,195,209	\$117,942,825	\$2,747,616

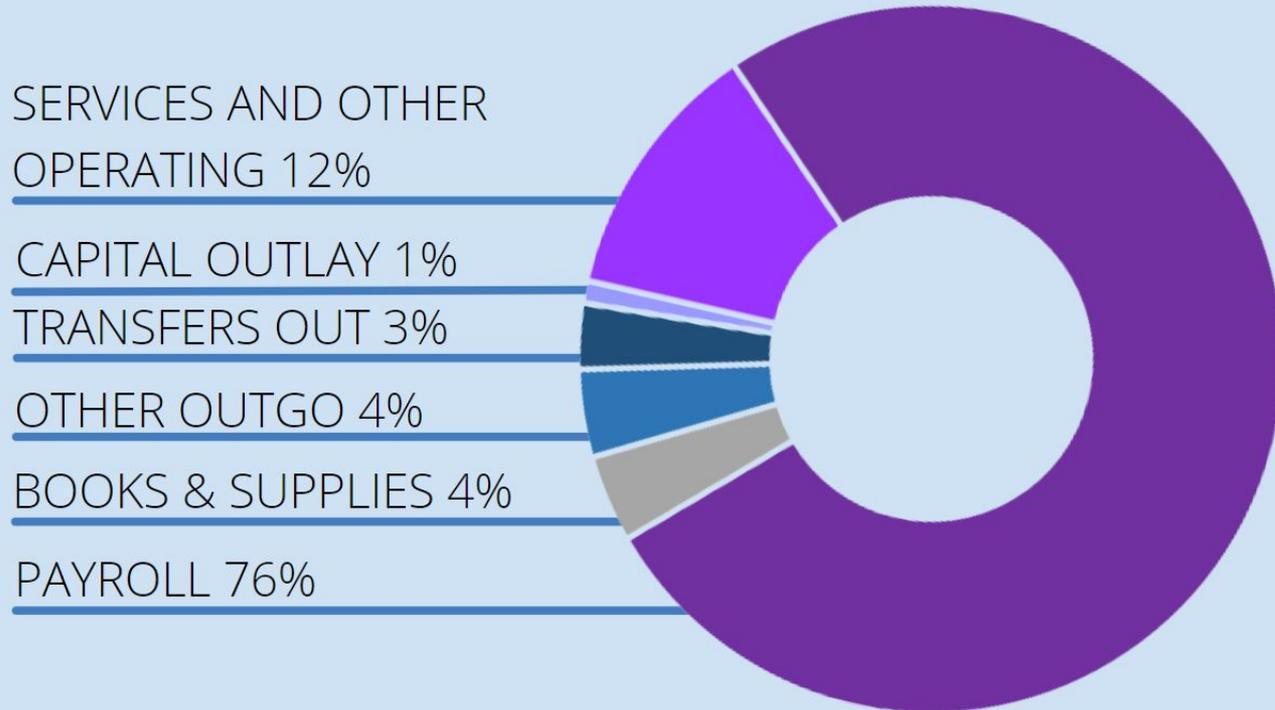
Revenue Changes Second Interim Cont.

- District continues to use the ADA hold harmless provision (FY 2019-20)
- Special Education increased almost \$300K between the AB602 and other State funding
- COVID revenue increased to match the expenditures by \$882K
- Educator Effectiveness Grant \$1.7 Mil
- A net decrease of \$127K resulted from donations/grants increasing and SpEd interdistrict transfer decreasing



General Fund Expenditures 2021-22

Total Combined: Unrestricted & Restricted

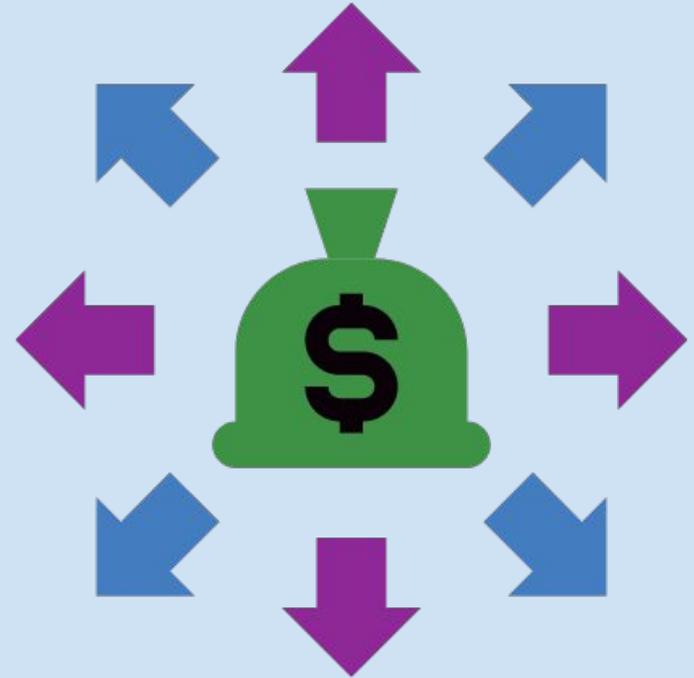


Expenditures Changes Second Interim

	First Interim	Second Interim	Difference
Certificated Salaries	\$46,205,843	\$46,363,205	\$157,362
Classified Salaries	\$16,388,785	\$16,314,919	(\$73,866)
Employee Benefits	\$25,587,689	\$26,000,885	\$413,196
Books & Supplies	\$4,460,827	\$4,930,011	\$469,184
Other Operating Expenditures	\$14,382,453	\$14,993,699	\$611,246
Capital Outlay	\$1,458,213	\$1,488,213	\$30,000
Other Outgo	\$4,448,169	\$4,150,239	(\$297,930)
Indirect Cost	(\$185,682)	(\$187,310)	(\$1,628)
Other	\$3,559,794	\$3,559,794	\$0
TOTAL	\$116,306,091	\$117,613,655	\$1,307,564

Expenditures Changes Second Interim Cont.

- **Salaries and Benefits** increased from COVID related needs, the Educator Effectiveness Grant, Summer School stipend increases and Health and Welfare new plans as of 1/1/2022
- **Books and Supplies**
 - Educator Effectiveness Grant
 - COVID testing kits



Expenditures Changes Second Interim Cont.

- **Contracted Services**

- Special Education ↑
- Educator Effectiveness Grant ↑
- Summer School ↑
- Restricted Routine Maintenance ↑
- Transportation ↓
- Net increase \$611K



Unrestricted General Fund

	First Interim	Second Interim	Difference
Revenue	\$83,678,576	\$83,678,576	\$0
Expenses	\$70,543,101	\$70,629,902	\$86,801
Excess/(Deficiency)	\$13,135,474	\$13,048,673	(\$86,801)
Other Financing & Contributions	(\$14,249,351)	(\$13,532,638)	\$716,713
Net Increase to Fund Balance	(\$1,113,877)	(\$872,359)	\$241,518
Beg Fund Balance	\$35,880,307	\$35,880,307	\$0
Ending Fund Balance	\$34,766,430	\$35,007,948	\$241,518
% Unrestricted Reserve	28.33%	28.35%	0.02%

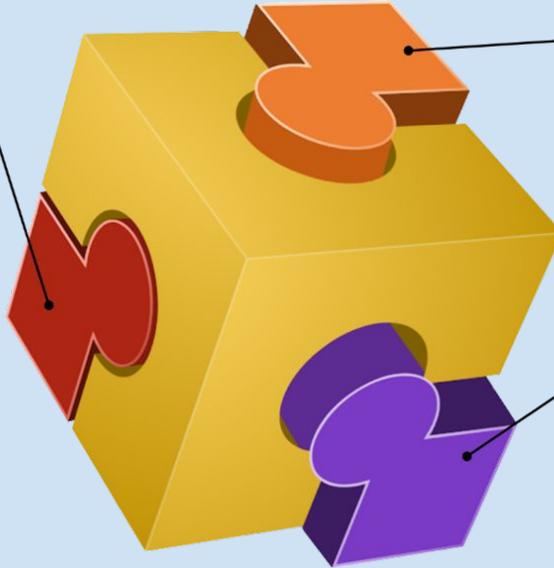
Other Funds

Fund	Description	Beginning Balance	Revenue	Expenditures	Ending Balance
Fund 11	Adult Ed	\$572,153	\$697,354	\$900,974	\$368,533
Fund 12	Child Development	-	\$314,207	\$314,207	-
Fund 13	Cafeteria	\$1,100,207	\$4,218,500	\$4,577,857	\$740,850
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	\$1,558,935	\$8,512,362	\$19,847,742
Fund 25	Capital Facilities	\$10,954,937	\$1,400,000	\$59,526	\$12,295,411
Fund 49	Mello-Roos	\$2,078,716	\$594,938	\$571,806	\$2,101,848
Fund 51	Bond Interest & Redemption	\$2,618,064	\$4,928,976	\$4,818,493	\$2,728,548

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

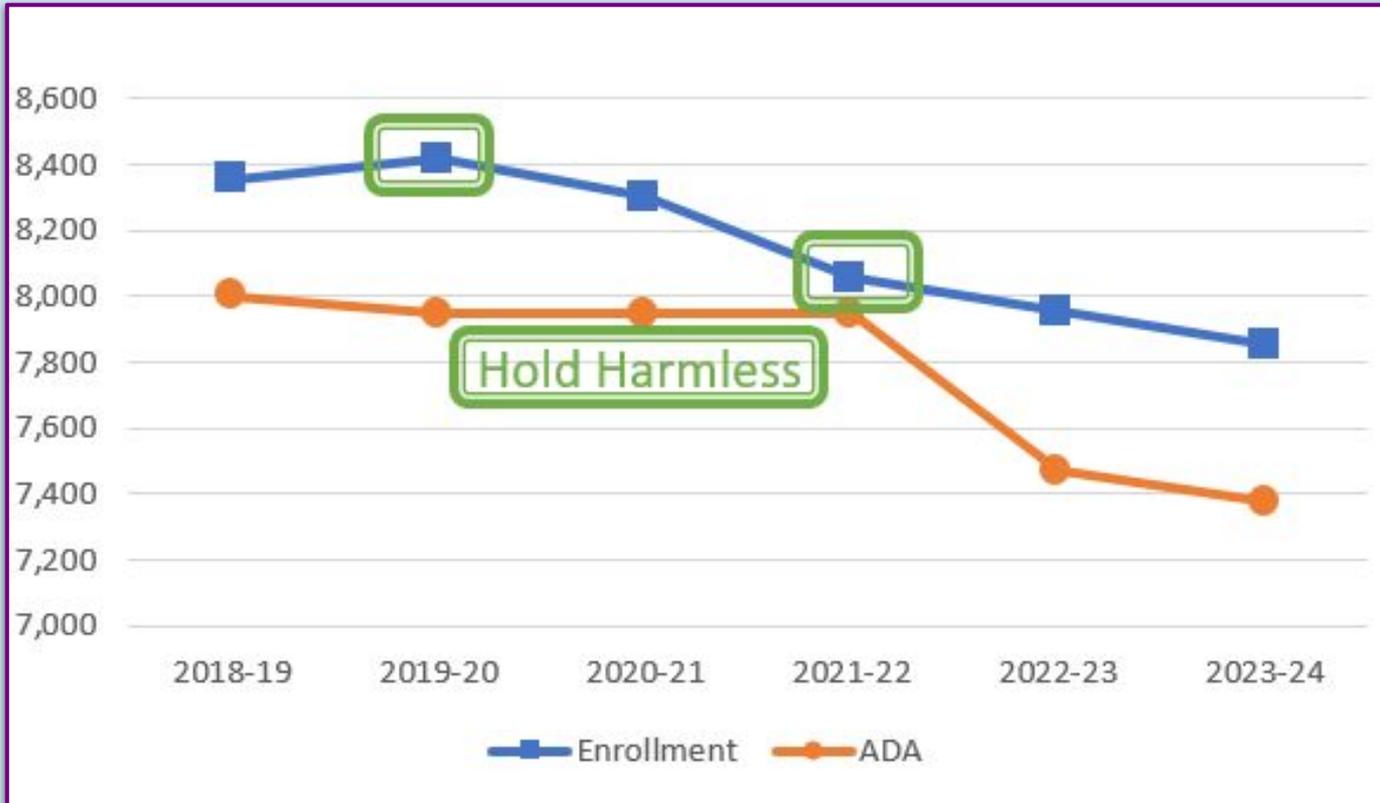
- **Declining Enrollment and lower Average Daily Attendance (ADA)**
 - Loss of funding
- **Low Cost of Living Adjustments (COLAs)**
- **One-time COVID Funds exhausted**
 - Determine what costs need to be absorbed into General Fund or Restricted Programs
- **Increased employer pension contributions**



Revisions to Revenue Assumptions

	2021-22 1st I/2nd I	2022-23 1st I/2nd I	2023-24 1st I/2nd I
LCFF Statutory COLA	1.70%	2.48%/5.33%	3.11%/3.61%
Funded COLA	5.07%	2.48%/5.33%	3.11%/3.61%
Enrollment	8,054	7,954	7,854
Current ADA	7,471/7,433	7,377/7,340	7,284/7,246
Funded ADA	7,946	7,471/7,433	7,377/7,340

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.

New ADA Formula

Morgan Hill Scenario			
Fiscal Year	Actual ADA	Funded ADA for 2022-23	
2019-20	7,946.46	Current Law	7,433.17
2020-21	7,946.46*	Governor's Proposal	7,775.36
2021-22	7,433.17	Difference	342.19
2022-23	7,339.67		

*Result of Hold Harmless

This ADA proposal increases the districts LCFF Funding by \$3,378,186

With the alternative option that is in the Governor's proposal for funding ADA - which is the greater of current year, prior year, or average of three prior years' ADA, whichever is greater. This will assist with the ADA Cliff funding and will benefit Morgan Hill Unified.

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	\$13.5M	\$14.2M	\$14.6M
Contributions to Cafeteria Fund	\$0	\$0	\$550K

Multi-Year Projection General Fund

	2021-22	2022-23	2023-24
Revenue	\$117,942,825	\$111,927,985	\$108,213,246
Expenses	\$117,613,655	\$116,948,817	\$118,841,160
Net Increase / (Decrease) to Fund Balance	\$329,169	(\$5,020,300)	(\$10,628,614)
Beginning Fund Balance	\$44,074,266	\$44,403,436	\$36,927,692
Ending Fund Balance	\$44,403,436	\$39,383,135	\$28,754,521
% Unrestricted Reserve	28%	25%	20%

Reserves / Reserve Cap

- The school district reserve cap will be triggered for the first time beginning with the 2022-23 Adopted Budget
- Districts should begin to anticipate whether their 2022-23 ending and unassigned reserves in the general Fund 01 and Fund 17 combined are no more than 10% of annual expenditures. Districts have several options available locally to ensure compliance:
 - Commit reserves rather than leaving reserves in assigned or unassigned - a commitment requires board action through a resolution adopted before the end of the fiscal year
 - Transfer reserves to funds other than Fund 17
 - Contribute to restricted resources within the General Fund

Next Steps

- **Board approval the District's Second Interim Financial Report**
 - It is recommended that the approve the SACS Reports including a positive certification
 - The Second 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 May revise for 2022-23 Budget

Questions?

