

# Morgan Hill Unified Adopted Budget All Funds Narrative FY2022-23



The District is required to adopt a budget prior to July 1 of each year in order to authorize the expenditure of funds. Since the preparation of this budget occurs before the Legislature's final action and before actual expenditures are known for the current year, estimates of proposed revenues and expenditures are based on the most reasonable assumptions and recent information available at the time.

As Staff prepared the 2022-23 budget, the information presented by School Services at the Governor's May Revise and the Santa Clara County Office of Education's budget guidelines were utilized in making budget assumptions and projections.

## Revenues

- Local Control Funding Formula (LCFF) Sources: LCFF Sources account for 72.64% of the District's General Fund revenue.

Total 2022-23 LCFF unrestricted revenues of \$86,639,874 is based on the following assumptions:

- 6.56% Cost of Living Adjustment (COLA)
  - 3.29% on-going Prop 98 fund to increase LCFF base funding
  - 10.4% of grade span adjustment factors for grade K-3 and 2.60% for grade 9-12
  - The rolling three year average ADA method was used, which results to 7,793.18 funded ADA
  - Transitional Kindergarten (TK) add-on is based on TK ADA at the funding rate of \$2,813 per ADA
- Special Education:
    - 6.56% Cost of Living Adjustment (COLA)
    - 8.25% Augmentation

Due to the COLA and Augmentation, there is an increase from \$715/ADA to \$820/ADA for 2022-23 for a total of \$6,602,802 Special Education projected revenues.

- Federal Revenues: Total projected Federal revenues is \$9,941,909. Carryover amounts are not included in the budget until the District has closed the prior year financials and actual amounts are known. The \$45,000 of unrestricted revenue is from the Medi-Cal

Administrative Activities program. The Federal restricted revenues include Elementary and Secondary School Emergency Relief funds due to COVID-19 totaling \$7,565,587. In addition, the Federal revenues for Special Education is projected at \$2,331,322.

- *State Revenues:* Total projected State revenues is \$9,795,648. Of this total, \$1,622,828 is unrestricted revenues, \$4,808,555 is STRS on-behalf, and \$916,087 is Special Education. State revenue allocations also have been reduced by carryover amounts. The majority of State categorical programs were consolidated into LCFF, but several programs remained outside of LCFF including Lottery, mandated cost block grant reimbursement, After School Education & Safety, and the Mental Health Block Grant. Included in the State revenues are the Expanded Learning Opportunities Grant (funding based on the 2021-22 rate) and the A-G Completion Grant, these together are \$2,448,178.
- *Other Local Revenues:* Total projected Local revenues is \$6,273,481. Of this total, \$1,348,752 is unrestricted revenues, \$23,529 is Special Education, \$2,347,557 is Home to School and Special Education Transportation, \$2,324,031 is Routine Restricted Maintenance (RRM), and \$229,612 is restricted. Other local revenues include revenues from other agencies and local donations. Compared to the prior year, other local revenues have been reduced for carryover, any one-time donations or grants. Some other examples of local revenues are interest, technology surplus, Erate credits and foreign exchange student tuition.

## Expenditures

- *Salaries and Benefits:* In Morgan Hill Unified School District, 79% of the District's unrestricted budget is allocated for staffing related expenses. Annual increases for step & column and longevity are included in the proposed budget and statutory benefits have been updated to reflect increases in unemployment insurance and employer pension costs for PERS and STRS rates of 25.37% and 19.10% respectively.

Staffing is determined by a combination of fixed and contractual formula-driven allocations. The District maintains staffing ratios of 12:1 for TK, 24:1 for grades K-2, and 29:1 for grades 3-12.

At the secondary level, 3.0 additional FTE is budgeted due to projected increase in enrollment. Additional staffing to support educational programs and student safety:

Wellness Counselor (1 FTE)	TK Teacher (4 FTE)	Occupational Therapist (1 FTE)
Educationally-Related Mental Health Services (1 FTE)	Secondary ELD and Technology TOSA (2 FTE)	College, Career, Media Technician (8 FTE)
Health Assistants Increase to 6 Hours a Day (6 Positions)	Paraprofessional Increase to 6 Hours a Day (33 Positions)	Community Liaison Increase to 7 Hours a Day (13 Positions)
Site Focus Academy TOSA (3 FTE)	K-8 Registrar (2 FTE)	Site Instructional TOSA (3 FTE)
Los Paseos Assistant Principal (1 FTE)	Board Certified Behavior Analyst (1 FTE)	Secondary Collab RSP Teacher (4 FTE)
Student Supervisors at Middle and High Schools (6 Positions)	Music/PE/Art Elementary Teachers (10 FTE)	Staffing for Extra Periods (8 FTE)
Paraprofessional Elementary PE/Music/Art (10 FTE)	Director Family Engagement, College, Career and Media Tech (1 FTE)	TK Associate Teacher (9 FTE)

- *Books, Supplies, Services and Other Operating:* No carryover is included in the expenditures. Contracts and other operating expenditures have been adjusted based on current information.
- *Capital Outlay:* The budget for 2022-23 includes an additional Freight Farm, landscaping projects, asphalt, continuing the HVAC project and purchasing eco-friendly equipment to replace the gas powered machines.
- *Other Outgo:* This reflects special education costs paid to the Santa Clara County Office of Education and other school districts to provide services for District students and the budget has been adjusted based on current information.
- *Transfers and Indirect Costs:* Indirect costs reflect the District's approved 2022-23 indirect cost rate of 7.11%.

## Other Financing Sources/Uses

- Transfers into the General Fund include \$39,000 from Capital Facilities for reimbursement of the administrative costs to collect developer fees. A \$2,324,031 transfer between the Unrestricted General Fund and the Routine Restricted Maintenance Fund is from revenues collected in Community Redevelopment Funds.
- Transfers out of the General Fund total \$2,756,825. This includes the \$2,324,031 transferred to Routine Restricted Maintenance mentioned above and \$432,794 which is transferred to the Building Fund to pay the annual debt service payments for the solar projects at Live Oak and Sobrato. The District transfers \$20,000 to the Adult Education Fund to reimburse for concurrently enrolled student services.
- Contributions total \$13,690,930 which includes \$527,435 for Routine Restricted Maintenance which represents a portion of the required 3% contribution of General Fund expenditures. The unfunded Special Education program cost is projected to be \$13,038,495. The District will also contribute \$125,000 for technology replacement costs.

## Special Education (General Fund)

The District is a member of the South East Special Education Local Plan Area (SE SELPA). Funding is apportioned through the SELPA from the Federal, State, and local resources. Included in the budget are district programs and services, excess cost paid to the Santa Clara County Office of Education for district students in county programs, and the cost of non-public schools.

Special Education is highly regulated by the Federal Individuals with Disabilities Education Act, and the District risks lawsuits and sanctions if the Individualized Education Program (IEP) process is not followed. Although staff continues to review programs to contain costs, Federal regulations require local education agencies to maintain a certain level of services (expenditures) as in the prior year (maintenance of effort), which limits the District's ability to reduce expenditures in this area.

For 2022-23, the cost to operate Special Education is projected to be \$22.91 million and the projected revenue that the District anticipates to receive is \$9.87 million from Federal, State, and local sources. Therefore, the General Fund will have to transfer in \$13.04 million (about 57.5% of total Special Education expenditures) to cover the funding shortfall.

## Projected Ending Balance

For the school year ending June 30, 2023, it is projected that the unassigned/unappropriated Unrestricted General Fund balance will be \$8,591,932. This is after taking into account the required 3% reserve for economic uncertainties, set-asides and the new requirement to commit fund balances in excess of 10%. Upon the completion of the Unaudited Actuals in August 2022, the ending fund balance and the unappropriated amount will be modified.

The District is required to adopt a budget prior to July 1 of each year in order to authorize the expenditure of funds. Since the preparation of this budget occurs before the Legislature's final action and before actual expenditures are known for the current year, estimates of proposed revenues and expenditures are based on the information available at time of preparation and reasonable assumptions.

Attached are the Adopted Budget Reports for 2022-23 for the restricted funds not included in the General Fund. These funds represent budgets that are legally restricted and/or designated for specific purposes such as construction, food service, adult education, etc.

## OTHER FUNDS

### **Adult Education Fund (Fund 11)**

These resources provide funding for adult education and training. This includes 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. This also prepares for completion of the California High School Equivalency Credential, learning 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 2022-23 school year, the District will receive funds from the Adult Education Block Grant in the amount of \$562,843 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 \$22,400 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 \$92,111. Included in the Adult Education funds are \$30,027 for indirect costs that are reimbursed to the General Fund for support services. The projected ending fund balance is \$368,533.

### **Child Development Fund (Fund 12)**

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 El Toro, Nordstrom and Walsh elementary schools.

The estimated Federal revenues is \$7,200, State revenue is \$306,707. Included in the Child Development Fund is \$20,359 that is transferred to the General Fund for support services. The ending fund balance is \$0.

### **Cafeteria Fund (Fund 13)**

The Cafeteria Fund is used to account for revenues and expenses related to operating the food service program. For the 2022-23 school year, the revenue funding will come from the Federal National School Lunch Program (NLSP) and California's Universal Free Meals Program.

Effective July 1, 2022, the mandate for Universal Meals will take effect, Local Educational Agencies (LEA) must provide free breakfast and lunch each school day to any student requesting a meal, regardless of free or reduced-price meal eligibility. To receive State reimbursement, LEAs must participate in both the National School Lunch Program (NSLP) and School Breakfast Program. The projected meal rate for 2022-23 fiscal year was projected the same as the 2021-22 fiscal year meal rate of \$3.75.

For the 2022-23 fiscal year, the Nutrition Department is estimating 28,000 meals per week for revenue projections. This projection is down from our current meal count of 30,000. The decrease is due to the anticipated slowdown in lines when serving the meals. Currently, the Seamless Summer Feeding Option rules allow districts to utilize hand-held clickers to count meals. Next year, the students will be using keypads and touchscreens which requires each student to enter their student identification number. The department is researching alternatives to its point of sale machines.

The District anticipates Federal revenue to be \$3,472,000 and State revenue to be \$251,300. Due to the decrease in meals projected to be served, revenue is expected to be \$962,762 less for the 2022-23 fiscal year. With the success of the reimbursable meal program and our departmental charge of offering only nutritionally packed food items, the Nutrition Department no longer sees any value in offering à la carte items. Scratch cooked meals and bottled waters will be offered through on site vending machines.

The budget for expenses is projected to be \$4,876,213, which includes staffing salary and benefits of \$2,027,168 which is 42% of the expenses. The increase for staffing cost for fiscal year 2022-23 is \$106,657. The budget also includes \$300,000 for one-time expenses in capital outlay for ovens, refrigerators, milk dispensers, and some of the cost for an additional Freight Farm (\$143,000 is budgeted in General Fund). The budget for food cost is \$2,147,500, this is an increase of \$211,851 due to the District no longer being able to serve cost efficient bulk meal kits and the increase in food prices. The nutrition departmental goal of serving all organic produce from local farms is also reflected, but is not the main increase factor.

Also included in expenses is \$134,718 for indirect costs that is transferred to the General Fund for general and administrative expenses. The projected ending fund balance for fiscal

year 2022-23 is \$308,325. For fiscal year 2022-23, there is no projected contribution from the General Fund to the cafeteria fund. For fiscal year 2023-24 the projected contribution from the General Fund is \$579,236 and for fiscal year 2024-25 the projected contribution is \$841,362.

#### **Deferred Maintenance Fund (Fund 14)**

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 First Interim. Budgeted expenditures of \$100,000 include the repair and replacement of the Sobrato well which is used for irrigation of the campus.

#### **Special Reserve Fund (Fund 17)**

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 \$3,920,774 with estimated interest earnings of \$35,000. The projected ending fund balance will be \$3,955,774. Since this fund is counted as part of the General Fund, for the 2022-23 budget year, this ending fund balance with the General Fund balance will need to have a Board of Education resolution to commit any excess of 10%.

#### **Postemployment Benefit Fund (Fund 20)**

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 75 regulations. GASB 75 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 will be completed as of June 30, 2022.

The beginning balance is \$624,488 with estimated interest earnings of \$6,500, the projected ending fund balance will increase to \$630,988. There are no planned expenditures from this Fund. The District will not be making a contribution for the 2022-23 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 (Fund 21)**

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 offsets 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 issued in the 2017-18 school year. Series B funds were earmarked for:

- Britton Middle School:
  - Two new two-story classrooms (24 classrooms) - complete
  - The three new science classroom buildings (6 classrooms) - complete
- Nordstrom Elementary School:
  - New classroom project (8 classrooms) - complete
  - Administration Building modernization will start this summer
- Jackson Academy:
  - New classroom building project (6 classrooms) - complete
  - New multi-purpose project - complete
- The balance of the Series B proceeds will fund the District wide phone upgrade, instructional technology, and safety and security projects throughout the District.

Series C is scheduled to be issued this fall to fund future projects that include the construction of Britton Middle School Administration Building modernization and new Student Union. Staff is currently working on the design for the Administration Office renovation and the new Student Union Building. Multiple deferred maintenance projects including roofing, HVAC and fire alarm projects at various sites are also part of the Series C.

Interest revenue and Series C bonds proceeds are projected in the 2022-23 budget.

#### **Capital Facilities Fund (Fund 25)**

Projected revenues of \$1,400,000 consist of interest earned and developer fee collections. Various expenses for site improvements are included in the estimated expenditures and subject for revisions pending Board direction before proceeding.

#### **Capital Projects Fund (Fund 49)**

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. These 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 area. The projected revenue of \$594,938 reflects the annual ongoing property tax collections and interest. Resources are allocated for tax roll preparation.



**Bond Interest and Redemption Fund (Fund 51)**

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.