

To Board of Education

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Date December 11, 2019

Subject FY19/20 First Interim Report

The Education Code requires school districts to prepare interim financial reports as of October 31 and January 31 of each fiscal year. The First Interim Report for all funds as of October 31, 2019 is enclosed. Following are highlights of the significant changes that the OUSD has made in the operating budget since the Revised Budget as of September 11, 2019, and in the projection of revenues, expenditures and fund balance at June 30, 2020.

REVENUE

Revenue	Adopted Budget	Revised Budget (as of Sep 11, 2019)	1st Interim Projected Year Totals	Change from Revised
LCFF	387,868,765	387,868,765	387,932,725	63,960
Federal Revenue	42,815,057	42,815,057	53,026,631	10,211,574
Other State Revenue	58,453,532	62,483,457	70,593,862	8,110,405
Other Local Revenue	78,496,196	77,889,586	72,471,197	(5,418,389)
	567,633,550	571,056,865	584,024,415	12,967,550

The OUSD’s projected total revenue has increased by 13.0M from 571.1M to 584.0M. The increase is primarily due to two types of adjustments.

1. Revisions to State and Federal revenue estimates approximating 9.8M, including 1.9M in Title I, 1.1M in 21st Century Learning, 1.1M K12 Strong Workforce, 1.2M in Career Technical Education, (1.3M) in Low Performing and 3.4M in STRS On Behalf
2. Recognition of State and Federal revenues deferred from the prior year approximating 7.9M, including 3.2M in Title I, 1.0 in SIG, and 1.7M in Other State

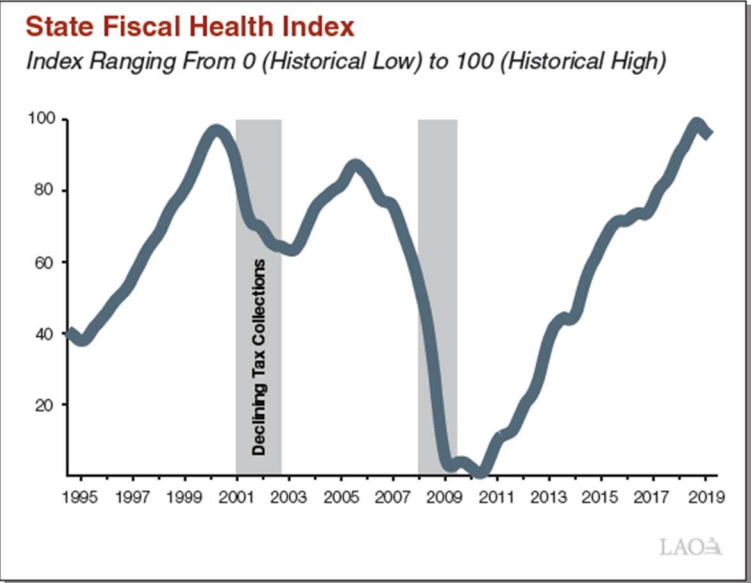
Other Local Revenue was adjusted to reflect local donations and grant awards by approximately (5.4M). Please note that this decrease in revenue is primarily due to the timing of grant awards. For example, our 5.7M grant award from Salesforce was originally expected in FY19/20 and was included in the Adopted Budget for spending in the current year. However, the dollars were received in FY18/19. Accordingly, we recognized the revenue in FY18/19 and reflected it as part of our ending fund balance. These funds are now available in the current year for spending as carryover.

The adjustment to revenue from our Local Control Funding Formula (LCFF) Sources is minimal and continues to be projected based on estimated current year Average Daily Attendance. While the adjustment is minimal, there is a notable shift occurring between the Adopted Budget and 1st Interim Projected Year Totals stemming from changes in enrollment and our underserved pupil percentage (i.e., Low-Income, English Learner, Foster Youth). Our estimated current year enrollment shows an increase of 379 students from Adopted Budget to 1st Interim Projected Year Totals, as well as a decrease of 4.3% in our underserved pupil percentage. These changes result in a 2M increase in base LCFF funding and a 2M decrease in supplemental and concentration funding.

	Adopted Budget	Revised Budget (as of Sep 11, 2019)	1st Interim Projected Year Totals	Change from Revised
Enrollment (CBEDS)	35,666	35,666	36,045	379
Average Daily Attendance (ADA)				
<i>Projected</i>	34,049	34,049	34,327	278
<i>Funded</i>	34,049	34,049	34,327	278
Underserved Pupil Percentage (UPP)				
<i>Single Year</i>	77.0%	77.0%	72.8%	-4.3%
<i>Three Year Average</i>	76.8%	76.8%	75.5%	-1.4%
Attendance Rate	95.5%	95.5%	95.2%	

The OUSD is projected to receive 79% of revenue from State sources. Accordingly, our fiscal condition is connected directly to the economy of the State. In the annual 2020-21 Fiscal

Outlook for California, the Legislative Analyst’s Office (LAO) reported that the California budget remains in a good position with an estimated surplus of \$7.0B. The LAO also noted that there is greater risk in the economic outlook for FY20/21 than in previous budget cycles, specifically citing weakening in data on housing markets, trade activity,



new car sales, and business startup funding. Of note, the LAO has estimated the cost of living adjustment (COLA) for FY20/21 at 1.79%, a notable decrease from the previous estimate of 3%. The LAO also recommends that the Governor provide a 0.5% augmentation to soften the impact of the decrease in estimated COLA. For the OUSD, the change in the estimated COLA from 3.0% to 1.79% translates to a 4.4M decrease in projected FY20/21 LCFF funding. The

recommended augmentation of 0.5% translates to 1.8M in LCFF funding. We look forward to the release of the Governor’s Proposed Budget for FY20/21 by January 10, 2020.

EXPENDITURES

Expenditures	Adopted Budget	Revised Budget (as of Sep 11, 2019)	1st Interim Projected Year Totals	Change from Revised
Salaries and Benefits	448,449,862	454,293,698	469,933,145	15,639,447
Books and Supplies	32,302,078	32,302,078	34,481,562	2,179,484
Services/Other Operating Expenditures	75,171,896	72,938,298	91,179,972	18,241,674
Capital Outlay	127,474	127,474	665,003	537,529
Other Outgo	11,091,021	11,091,021	11,364,389	273,368
	567,142,331	570,752,569	607,624,071	36,871,502

The OUSD’s projected total expenditures have increased by 36.9M from 570.8M to 607.6M primarily due to two types of adjustments:

1. Approximately 29.1M of the increase in expenditures is due to the budgeting of FY18/19 carryover and unearned revenue. As always, the FY19/20 Adopted Budget was based on the assumption that all FY18/19 budgets would be expended in that year, so that there would be no carryover balances to FY19/20. However, when the FY18/19 Unaudited Actuals were approved, carryover balances were designated from unexpended funds within the FY18/19 ending fund balance. As always, the FY19/20 expenditure budgets have been increased by the actual amounts of the carryover balances. The majority of the carryover balances are budgeted in the supplies and subsequently transferred to other accounts.
2. Approximately 9.8M of the increase in expenditures is due to revisions to State and Federal revenue estimates as detailed above in the Revenue section

3. Decrease of 5.4M in expenditures due to revisions to Local revenue estimates as detailed above in the Revenue section

As discussed at the October 23, 2019 Board meeting, expenditures have been adjusted to reflect the following:

- Supplemental and Concentration expenditures have been increased by 8.8M to align our budget with our approved Local Control and Accountability Plan (LCAP).
- Projections for utilities have been updated to reflect an increase of 2% over the prior year. The total increase of 1.6M consists of two components, 1.4M to match FY18/19 expenditures plus 0.2M to reflect a 2% increase.
- Projections for compensation costs have been updated, including additional staffing for student enrollment as of the 20-day count, offset accounts have been eliminated, and assumptions for certain certificated positions have been adjusted (i.e., classroom teachers, replacement teachers, teachers on special assignment).

In addition, a team of staff representing Talent, Payroll, Budgeting and Accounting has engaged deeply our position control realignment work. The team is generously supported by the Alameda County Office of Education (ACOE). As of 1st Interim Projections, we have eliminated 9.0 FTE for a total of 0.8M in savings. We have also revised our approach to budgeting Replacement Teachers. Replacement Teachers are positions filled when a Teacher goes on temporary leave. We have historically maintained a pool of Replacement Teacher positions in our budget. Going forward, we will create Replacement Teacher positions on a one to one basis as needed. As of 1st Interim Projections, we have eliminated 23.0 FTE for a total of 1.4M in savings. We will continue to update the Board regarding the impact of our position control realignment work, including an update at 2nd Interim Projections.

Fund Balance

Currently, the combined general fund (restricted and unrestricted) ending fund balance is projected to be 46.8M. Of this, approximately 12.2M is designated for the required reserve for economic uncertainties and 6.1M is designated for an additional reserve for economic

uncertainties. The remaining fund balance is comprised of 21.7M in legally restricted funds (primarily parcel taxes), 4.9M for specific designations, and 2.0M unassigned.

Multi-Year Projection

The multi-year projection (MYP) considers key financial indicators from federal, state and local sources and projects how those factors might impact the OUSD for the current and two subsequent years. Below are three categories of critical assumptions used in developing the MYP: Enrollment and Average Daily Attendance (ADA), Revenue, and Expenditures. Please note, FY18/19 data is included based on Unaudited Actuals to offer a year of actual data.

Our enrollment projections will be updated once our CALPADS data is submitted and certified. ADA projections will be updated once attendance data is submitted for the P1 reporting period.

	FY18/19	FY19/20	FY20/21	FY21/22
Enrollment and Average Daily Attendance				
Enrollment (CBEDS)	36,468	36,045	35,570	35,307
Average Daily Attendance (ADA)				
Projected	32,631	34,327	33,825	33,476
Funded	34,274	34,327	33,825	33,476
Underserved Pupil Percentage (UPP)				
Single Year	76.2%	72.8%	73.7%	74.3%
Three Year Average	76.8%	75.5%	74.3%	73.6%
Attendance Rate	89.5%	95.2%	95.1%	94.8%

Revenue projections will be updated with the release of the Governor’s Proposed Budget in January 2020. Please note that in FY18/19, the Statutory COLA was actually 2.71% and was augmented by 0.99% for a total COLA of 3.7%.

Revenue	FY18/19	FY19/20	FY20/21	FY21/22
Statutory COLA *	3.70%	3.26%	3.00%	2.80%
Gap Funding Rate	100.0%	100.0%	100.0%	100.0%
Federal COLA	0%	0%	0%	0%
Other State Funding	2.71%	3.26%	3.00%	2.80%

Expenditure projections will also be updated with the release of the Governor’s Proposed Budget in January 2020. As always, compensation increases are not included in our MYP until they have been ratified by the bargaining unit and approved by the Board. As of 1st Interim, our MYP includes Board approved compensation increases for OEA and SEIU. Compensation increases for BCTC, CSEA, AFSCME, TEAMSTERS, and UAOS will be incorporated into our MYP once they have been ratified by their respective bargaining units and approved by the Board.

Expenditures	FY18/19	FY19/20	FY20/21	FY21/22
Step and Column Salary Increase	5.5M	5.5M	5.5M	5.5M
Special Education Contribution	58.7M	64.2M	67.1M	70.1M
Growth in Special Education Contribution	2.6M	5.5M	2.9M	3.0M
Inflationary Increase - CPI	3.62%	3.33%	3.14%	3.02%
Indirect Cost Rate	3.98%	3.25%	5.56%	5.56%
CalPERS Rate	18.062%	19.721%	22.800%	24.900%
CalSTRS Rate	16.28%	17.10%	18.40%	18.10%

As of FY19/20 1st Interim, the District is projecting the need for at least 15.5M in ongoing reductions for FY20/21 and an additional 10.5M in FY21/22. These reductions are reflected in the MYP. Staff will identify expenditure reallocations and reductions and present them to the Board for action in February 2020.

	FY2019	FY2020	FY2021	FY2022
REVENUES				
LCFF Sources	378,538,603	387,932,725	390,877,935	395,810,473
Federal Revenues	45,307,610	53,026,631	45,592,894	45,592,894
Other State Revenues	71,226,703	70,593,862	66,010,255	67,858,542
Other Local Revenues	90,844,010	72,471,197	72,471,197	72,471,197
Total Revenues	585,916,926	584,024,415	574,952,281	581,733,106
EXPENDITURES				
Salaries and Benefits	428,503,704	469,933,145	475,164,166	488,117,034
Books/Supplies & Outlay	26,186,358	35,146,565	25,458,649	26,207,417
Services & Operating Expenses	94,295,117	91,179,972	81,776,830	84,246,490
Other Outgo & Transfers	10,128,089	11,364,389	11,364,389	11,364,389
Total Expenditures	559,113,267	607,624,071	593,764,033	609,935,329
Other Sources/(Uses)	(5,540,736)	(802,611)	(802,611)	(802,611)
Net Inc/Dec in FB	21,262,923	(24,402,267)	(19,614,363)	(29,004,834)
BEGINNING BALANCE	56,587,855	71,245,993	46,843,726	27,229,363
Audit Adjustment	(6,604,785)	-	-	-
Adjusted Beginning Fund Balance	49,983,070	71,245,993	46,843,726	27,229,363
ENDING BALANCE	71,245,993	46,843,726	27,229,363	(1,775,471)
Components of the Ending Fund Balance				
Cash/Stores/Prepaid	289,029	150,000	150,000	150,000
Legally Restricted	40,683,996	21,653,556	19,161,438	14,919,700
Assignments				
Prop 39 Charter Repairs	2,283,187	2,283,187	2,283,187	2,283,187
Stale Dated Warrants	1,588,260	1,588,260	1,588,260	1,588,260
ECE Rental	32,254	32,254	32,254	32,254
FY18 Audit Adjustment	144,219	144,219	144,219	144,219
Chromebook Refreshment Plan	-	750,000	1,500,000	2,250,000
Other Assignments	884,160	-	-	-
Spending Reductions - FY21	-	-	(15,500,000)	(31,000,000)
Spending Reductions - FY22	-	-	-	(10,500,000)
Adtnl Reserve for Economic Uncertainties	5,650,465	6,085,544	5,951,307	6,113,020
Reserve for Economic Uncertainties	11,300,930	12,179,815	11,902,614	12,226,040
Unassigned	8,389,494	1,976,892	16,084	17,849

Cash Flow

We have adjusted our forecast and project positive cash balances for all months. Cash flow for projected months (December 2019 through June 2020) are based on Federal, State and Local cash payment schedules and prior year actuals.

To have sufficient cash on hand to meet our financial obligations, our cash flow includes a 30M loan from the County Treasury received in October and scheduled for repayment in April. State funding is apportioned over twelve uneven payments, and the temporary borrowing helps smoothen our cash flow to ensure the OUSD can meet its cash needs for the fiscal year.

Our lowest cash balance is estimated at 1.8M in November and we expect to end the year with a positive cash balance of 32.6M in June 2020.

Other District Funds

OUSD did not have major changes to the other funds of the district. We have provided a summary of the most notable changes that occurred.

Adult Education Fund (11)

The increase in expenditures reflects carryover that has been budgeted for spending in the current year. Our practice is to budget carryover in the 4000 object code series for reallocation to other object codes based on plans, priorities, and needs.

Child Development Fund (12)

Net increase in revenue and expenditures based on a 0.9M decrease in federal revenue and 1.4M increase in state revenue. The increase of state revenue stems from the expansion of the California State Preschool Program (CSPP) services statewide with an emphasis on full-day/full-year services.

Cafeteria Fund (13)

Overall increase in revenues of about \$1.3M compared to the Adopted Budget reflecting increases in the reimbursement rates for both Federal and State programs. We are also assuming an improved participation rate.

The increasing of overall expenditures is about 0.4M reflecting projected increases for compensations, supplies, and services.

Of note, the Inter-Fund Transfer (or contribution) from the General Fund has decreased from 1.8M to 0.5M as a result of the additional Federal and State revenues. Please note that no costs associated with the Central Kitchen Project are included in the 1st interim Projected Year Totals except for 1.0 FTE Coordinator position.

Deferred Maintenance Fund (14)

No significant change.

Capital Building Fund (21)

Local revenue has been increased to reflect estimated interest income. There was no interest income budgeted in the Adopted Budget.

Overall spending has increased by about \$153M compared with Adopted Budget as we are expecting to complete construction work.

Capital Facilities Fund (25)

No significant change.

County School Facilities Fund (35)

No significant change.

Special Reserve Fund for Capital Outlay Projects (40)

Overall spending has increased for the purchase and installation of up to three portables for the Sankofa campus.

Bond Interest and Redemption Fund (51)

Fund 51 belongs to the County Tax Collector. Any changes made to this fund are based on the latest information provided to the District by the Tax Collector's office. First interim reflects what the Tax Collector knows regarding anticipated tax collections and bond payments as of October 31.

Self-Insurance Fund (67)

Revenue in this fund was updated to reflect adjusted estimated interest income and a small increase in local revenue. Expenditure increases include known adjustments to salaries and benefits, as well as increases to supplies and legal budgets for anticipated claims.

Major General Fund Revenue and Expenditure Categories

The OUSD use the state's standardized object codes to classify their General Fund revenues and expenditures. The following represent the main categories into which both are placed.

REVENUES

Local Control Funding Formula (LCFF) (8010–8099): includes LCFF, Education Protection Account plus other Prior Year Adjustments.

Federal Revenues (8100–8299): includes all money received for Title I, Title II, etc. plus Special Education and other federal programs.

Other State Revenues (8300–8599): includes lottery and state allocation (e.g., California Clean Energy Jobs Act, Special Education).

Local Revenues (8600–8799): includes interest, donations and reimbursements, rents and leases, and other local sources.

EXPENDITURES

Certificated Salaries (1000–1999): includes teachers, certified pupil support, certified supervisors and administrators, etc.

Classified Salaries (2000–2999): includes instructional assistants, athletics staff, clerical and office, maintenance staff, classified supervisors and administrators, etc.

Employee Benefits (3000–3999): includes Health and Welfare, Worker’s Compensation, and other employee benefits.

Books and Supplies (4000–4999): includes approved textbooks and core curricula material, books and other reference materials, materials and supplies, etc.

Services and Other Operating Expenses (5000–5999): includes non-public school services/non-public agency services, audit, legal fees, travel and conferences, dues and memberships, field trips, housekeeping services, licenses, rentals, leases, and repairs.

Capital Outlay (6000–6599): most commonly refers to site improvements, equipment, and equipment replacement.

Other Outgo (7100–7299): includes payments to districts, and payments to county offices.

Direct Support/Indirect Costs (7400–7499): used to record transfers of direct support and indirect costs within or between funds