Executive Summary

Education Code Section 42130 requires school districts to prepare and submit Interim Financial Reports each year. The intent of these reports is to provide an **"early warning"** system to indicate whether a district can meet its financial obligations for the remainder of the fiscal year and for the subsequent fiscal years.

The requirement includes filing two Interim Financial Reports during the year. The First Interim Report, for the period ending October 31, requires Board approval by December 15. The Second Interim Report, for the period ending January 31, requires Board approval by March 15. When submitting Interim Reports, a district must designate a certification as to their financial condition. There are three possible certifications:

a. Positive – the district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years
b. Qualified – the district may not be able to meet its financial obligations for the current fiscal year or subsequent two fiscal years
c. Negative – the district will be unable to meet its financial obligations for the remainder of the current year or the subsequent fiscal year

Once certified, a copy of the certification page and the interim report must be filed with the county superintendent of schools, who will review the report and either agree with, or change, the certification.

Deficit spending occurs when the district spends more in the current expenses than current revenue. A structural deficit occurs when the district incurs a new decrease in fund balance following inter-fund transfers and contributions to restricted programs. Planned deficit spending occurs when the district has excess reserves. **Beyond these planned events, the district needs to make budgetary adjustments to eliminate deficit spending to maintain appropriate reserve levels within the fund balance**. When analyzing deficit spending, the district should focus on the unrestricted general fund because most restricted programs are self-supporting. If not, contributions must be made from the unrestricted general fund to balance the restricted resource, also referred to as encroachment.

A the end of the 2016-17 fiscal year, the General Fund, although having a positive ending fund balance, was unable to meet its 3% reserve for economic uncertainties in the third year, without an inter-fund transfer of $1,385,000 from Fund 17. At the beginning of the 2017-18 fiscal year, the Inter-fund transfer was reversed and the Unaudited Actuals showed a Beginning Fund Balance of $8,091,653. It is projected that at the end of the 2017-18 fiscal year, the District will be deficit spending in the amount of $1,788,129 with an Ending Fund balance of 6,331,723. The projected ending balance for the unrestricted General Fund in 2018-19 will be $2,815,067 and in 19-20, $285,781, leaving the district with .61% over the mandatory 3% Reserve.

The district is continuing to create and implement a budget reduction plan to address needed changes to the budget to ensure the district's future positive financial position and to maintain a balanced budget. Over the last two years, the District has made over $1,000,000 in cuts, reducing staffing, thereby reducing total salary costs across all bargaining units, as well as reductions in supplies and services. Additionally, extra oversight is happening to ensure that categorical funds are used first, whenever possible. In order to be successful in reducing the District's deficit spending, significant effort is needed to ensure changes and reductions continue to be communicated, implemented and followed through, and all staff remain committed to ensure the districts continued fiscal solvency.

The district has been doing an in-depth review of all budget lines, which has been the cause of some budget modifications that are included in the First & Second Interim. The Second Interim Financial Report, as of October 31, includes assumptions and projections made with the best available information at this time.

Multi-year Projections (MYP)

The primary objective of developing multiyear projections is to provide a fiscal planning framework that will enable the board and district to make budget decisions that strategically address current and future challenges. Assembly Bill (AB) 1200 and AB 2756 require multiyear financial projections, and they are a part of the adopted budget and interim reporting process.

By law, districts are required to project revenues and expenditures for the budget year and the two subsequent fiscal years. To make multi-year projections, districts rely on a variety of assumptions and sources of information available at the time the projection is created. Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, projected deferrals, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Because of that, projections are viewed as a "snapshot in time" and a trend based on certain criteria and assumptions rather than a prediction of exact numbers. An updated projection will come to the district at the time of the Second Interim.

At this time, there are specific concerns that are reflected in the district MYP:

a. Decline in the district enrollment
b. Spending is projected to continue at a rate greater than revenues, resulting in the necessity to make reductions in 2018-19 and 2019-20 to maintain a positive ending fund balance and positive certification

Assumptions: Expenditures

Districts are well versed in the task of projecting known costs. These include personnel costs such as step and column movements that are associated with existing bargaining agreements and other well-established costs and associated inflation trends such as utilities, insurance premiums, consumable materials, and existing contracts for services etc. For multi-year projections, the challenge comes in trying to estimate with any certainty changes in expenditures that are likely, but not yet known, and to build in flexibility for contingencies. Known assumptions are:

Assumptions	***2017-18***	***2018-19***	***2019-20***
Enrollment (students)	4151	4115	4088

Unduplicated Count	1287	1287	1287
COLA	1.56%	2.51%	2.41%
LCFF Gap Funding Percentage (DOF rates)	43.97%	100%	100%
California Consumer Price Index (CPI)	3.18%	3.22%	3.04%
STRS Employer	14.43%	16.28%	18.1%
PERS Employer Rates	15.531%	18.1%	20.8%
Lottery – Base per ADA	$146	$146	$146
Lottery - Prop 20 per ADA	$ 48	$ 48	$ 48
Medicare	1.45%	1.45%	1.45%
Health and Welfare Increase	5.0%	5.0%	5.0%
FICA	6.20%	6.20%	6.20%
Unemployment	.05%	.05%	.05%
Workers' Compensation	2.81%	2.81%	2.81%
Minimum Wage	$11.00	$12.00	$13.00

Risk factors incorporated in MYPs under the "likely and not yet known" category include:

- Costs associated with maintaining programs that were previously funded with categorical or one time funding, must now be funded with unrestricted funds if they are to continue. (DGI) (R4)
- Unknown cost changes to health care due to Federal requirements.
- Costs associated with implementation of minimum wage requirements and adding Noon Duty personnel to the classified unit.

Ending Fund Balance – General Fund

The following reflects the estimated ending fund balance for the Martinez Unified for fiscal years 2017-18, 2018-19 and 2019-20, using the budget assumptions listed earlier.

Ending Balances

Year	Unrestricted	Restricted	Total	3% Reserve Required
2017-18	$6,094,852	$236,871	$6,331,723	$1,331,732
2018-19	$4,183,291	$306,668	$4,489,959	$1,368,225
2019-20	$1,695,914	$444,883	$2,140,797	$1,410,134

The Multi-Year Projections reflects increased costs year-to-year, and shows that the district will meet its 3% required reserve in 2019-20 without budget reductions.

Other Funds

Also included in the First Interim packet is data on the following funds, which are all fiscally solvent. Projected fund balance totals at June 30, 2018 are reflected for each:

Fund Balances

Fund Number	Description	Balance
11	Adult Education Fund	$ 1,127,215.00
13	Cafeteria	$ 29,073
14	Deferred Maintenance	$ 16,498
17	Special Reserve – Non Capital Outlay	-0-
20	Special Reserve for Postemployment Benefits	$ 463,371
21	Building Fund	$ 33,266,673
25	Capital Facilities Fund	$ 678,122
35	School Facilities	$ 6,254,393
40	Special Reserve Fund , Capital Outlay	$ 2,025,570
51	Bond Interest & Redemption Fund	$ 4,915,485
73	Foundation Private Purpose Trust Fund	$ 37,900

Concerns/Next Steps

Currently the district will file the 2nd Interim as Positive and without budgetary reductions in spending from the unrestricted general fund over the next two years, the district will not be able to meet its obligations past the 19-20 school year.