

# MARTINEZ UNIFIED SCHOOL DISTRICT



**JUNE 10, 2024**

921 Susana St  
Martinez, CA 94553



**Martinez Unified  
School District**

## BACKGROUND/RATIONALE

Education Code Section 42130 requires school districts to prepare and submit Interim Financial Reports each year, including the district's revenues and expenditures. These reports intend to provide an "early warning" system to indicate whether a district can meet its financial obligations for the remainder of the fiscal year and 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 interim reports are submitted, a district must designate a certification as to their financial condition. There are three certifications:

- a. Positive – the district will be able to meet its financial obligations for the current fiscal year and the 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

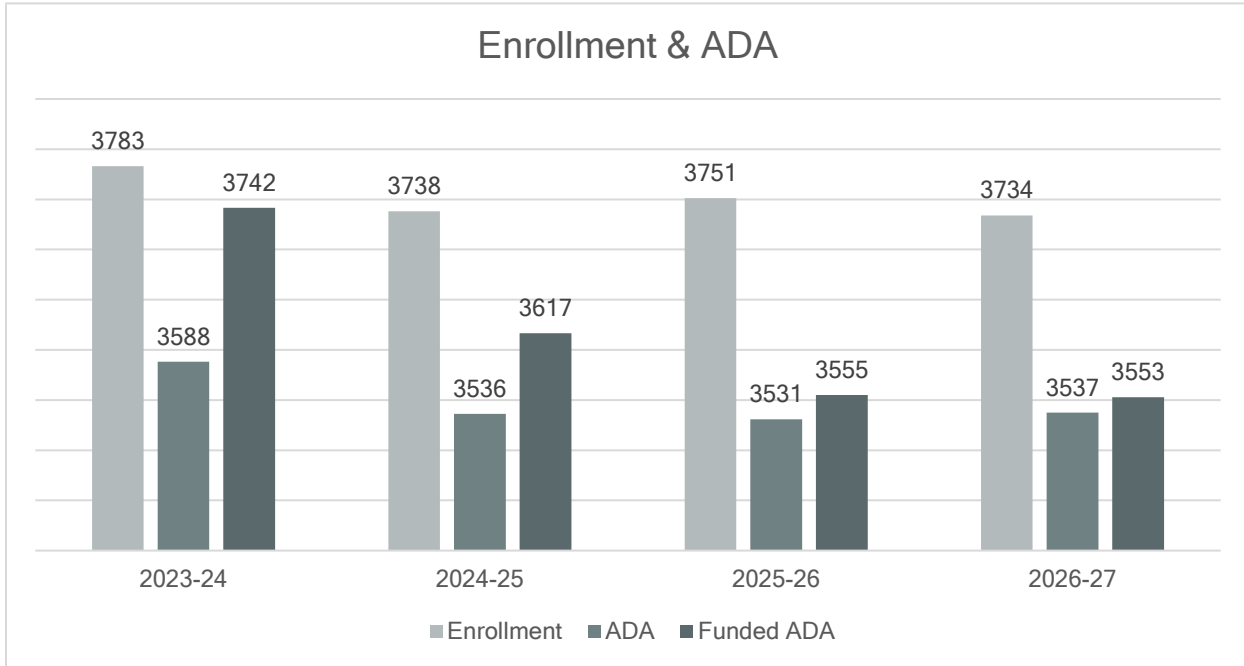
Once certified, a copy of the certification page and the interim report must be filed with the county superintendent of schools, who will review the report and either agree with or change, the certification.

## ASSUMPTIONS

Financial forecasts are based on industry-accepted factors or, “assumptions.” The chart below is based on the School Services of California’s dartboard (as of the Governor’s January proposed budget) and local enrollment projections. These assumptions include enrollment and average daily attendance, unduplicated pupil counts, cost of living allowance (COLA) increases from the state and other statutory costs associated with retirement systems and health care.

| <b>Assumptions</b>             | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> |
|--------------------------------|----------------|----------------|----------------|
| Enrollment                     | 3,738          | 3,751          | 3,734          |
| ADA %                          | 94.5%          | 94.5%          | 94.5%          |
| Funded ADA                     | 3,616.59       | 3,555.19       | 3,552.87       |
| Unduplicated Pupil Count (UPC) | 1,291          | 1,280          | 1,280          |
| COLA                           | 1.07           | 2.93           | 3.08           |
| Local COLA                     | -2.5%          | 0.4%           | 2.8%           |
| CA Consumer Price Index        | 3.10%          | 2.86%          | 2.87%          |
| STRS Employer Rates            | 19.10%         | 19.10%         | 19.10%         |
| PERS Employer Rates            | 27.05%         | 27.6%          | 28%            |
| Health and Welfare Increase    | 8%             | 8%             | 8%             |

3,738 students are projected for enrollment in the 2024-25 fiscal year. Attendance figures are relatively unchanged for the next two years with a small increase of 13 students for 2025-26 and a decrease of 17 in 2026-27. ADA is forecast at 94.5%. The gap between Actual ADA and funded ADA will be reduced over the next two years signaling the end of the benefits of attendance relief measures that were enacted during the pandemic. The unduplicated pupil account will remain flat.



Statutory COLA is calculated at 1.07% which is a slightly increased figure than what was published with the Governor's proposed budget in January. Future years COLAs are approximately 3% which loosely mirrors the Consumer Price Index forecast. Local COLA is calculated as the percentage increase of LCFF funding year over year. Its purpose is to demonstrate the impact of the decline in funded ADA on total unrestricted revenue. MUSD is projecting a Local COLA of -2.5% for 2024-25, 0.4% in 2025-26, and 2.8% in 2026-27.

Employee benefits costs for PERS and health and welfare increases continue to climb. PERS established increases over the next two years grow to 28%. Health and welfare increases (Kaiser Family Coverage) are expected to increase by 8% or less this year when new premiums are imposed January 2025.

## REVENUES

School Districts receive from multiple sources including the state, local property taxes, and the federal government. Total revenues have decreased by 7.9% with lower LCFF revenue, the expiration of federal ESSER III funds, and a conservative estimate of local funds resulting from facility rentals and medical reimbursements.

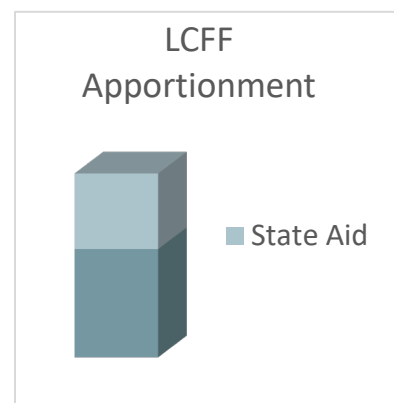
| Source       | Estimated Actuals | Budget            | Change       |
|--------------|-------------------|-------------------|--------------|
| LCFF         | 48,871,196        | 45,714,049        | -6.5%        |
| Federal      | 2,928,604         | 1,910,483         | -34.8%       |
| Other State  | 7,108,463         | 7,027,976         | -1.1%        |
| Local        | 4,207,969         | 3,507,096         | -16.7%       |
| <b>TOTAL</b> | <b>63,116,233</b> | <b>58,159,604</b> | <b>-7.9%</b> |

## LCFF Revenue -

Proposition 98 sets the minimum support the state must provide to Local Education Agencies (LEAs) utilizing the Local Control Funding Formula (LCFF). The LCFF includes base, supplemental, and concentration grants. The LCFF base allocation is determined by multiplying ADA by grade span totals (grades TK-3, 4-6, 7-8, and 9-12). Additional LCFF funding is received for each designated unduplicated pupil (low-income, foster, homeless, and English learner) for the supplemental grant. For those districts with unduplicated pupil counts greater than 55%, a concentration grant is added to their revenue. MUSD, based on its student subgroups, receives the base and supplemental grants. The state will provide the difference between local property tax revenue and the total LCFF apportionment to districts as state aid.

Total LCFF revenues have decreased 6.5% based on lower Funded ADA (-43) and a 1.07% COLA. The three-year average UPC also resulted in a nearly \$200K decrease in supplemental funds from the prior year.

| <i>LCFF Revenue</i>       | <i>Amount</i>     |
|---------------------------|-------------------|
| <i>Property Taxes</i>     | 26,699,253        |
| <i>State Aid</i>          | 13,823,235        |
| <i>Supplemental Grant</i> | 3,014,399         |
| <i>Special Education</i>  | 1,356,017         |
| <i>EPA</i>                | 723,318           |
| <i>Other</i>              | 97,826            |
| <b><i>TOTAL</i></b>       | <b>45,714,049</b> |



## Federal Revenue –

| <b>Federal Revenue</b>             | <b>Amount</b> |
|------------------------------------|---------------|
| <i>Special Education</i>           | 868,965       |
| <i>Title I – Basic</i>             | 356,944       |
| <i>CSI</i>                         | 326,888       |
| <i>Title II – Instruction</i>      | 142,349       |
| <i>Title III - English Learner</i> | 257,157       |
| <i>Title IV – Student Support</i>  | 43,855        |
| <i>CTE</i>                         | 23,700        |
| <b>TOTAL</b>                       | 1,910,483     |

The federal government provides revenue to school districts mostly as categorical funding based on student subgroups (low-income and special education). All federal funds received are restricted. The amounts allocated reflect new funds awarded in 2024-25 and carryover funds from 2023-24. Vicente was designated for Comprehensive Support and Improvement and have allocated funds in the School Plan. Overall federal funding decreased by 35% as the ESSER III apportionment was fully expended in the current fiscal year.

## State Funds –

STRS on behalf is a state contribution to LEAs for the costs of the retirement program. ELOP funds are for the after-school programs at each elementary schools and 6<sup>th</sup> graders at MJHS. Lottery is both restricted and unrestricted and is used for teacher salaries and instructional materials. Prop 28 funding is intended to increase arts & music programs. Funds are allocated to each school and applied to the site plan (SPSA). The Universal Pre-Kindergarten grant will fully expended at the end of the fiscal year. Transportation funds are reimbursed at 60% of the previous year's expenditures. The equity multiplier is a new resource earmarked for Vicente and is included in both their site plan and the district LCAP. The 1% decrease is attributed to decreasing Special Education Transportation needs, a decrease in Proposition 28 funds due to lower state revenues, and reduced carryover of Universal Pre-K funds.

| <b>Other State Revenue</b> | <b>Amount</b>    |
|----------------------------|------------------|
| <i>STRS on Behalf</i>      | 2,936,993        |
| <i>ELOP</i>                | 1,262,618        |
| <i>Lottery</i>             | 916,818          |
| <i>Transportation</i>      | 554,629          |
| <i>Special Education</i>   | 489,106          |
| <i>Prop 28</i>             | 446,885          |
| <i>Mandated Cost</i>       | 171,719          |
| <i>Equity Multiplier</i>   | 91,577           |
| <i>Universal Pre-K</i>     | 90,000           |
| <i>Classified Summer</i>   | 67,630           |
| <b>TOTAL</b>               | <b>7,027,976</b> |

The 1% decrease is attributed to decreasing Special Education Transportation needs, a decrease in Proposition 28 funds due to lower state revenues, and reduced carryover of Universal Pre-K funds.

## Local Revenue -

| <i><b>Other Local Revenue</b></i> | <b>Amount</b>    |
|-----------------------------------|------------------|
| <i>Special Education</i>          | 1,685,333        |
| <i>Parcel Tax</i>                 | 784,650          |
| <i>County CTE</i>                 | 258,186          |
| <i>PEI Grant</i>                  | 205,000          |
| <i>Rent/Leases</i>                | 192,818          |
| <i>Interest</i>                   | 100,244          |
| <i>Other</i>                      | 148,284          |
| <i>Donations</i>                  | 76,973           |
| <i>Tuition</i>                    | 55,608           |
| <b>TOTAL</b>                      | <b>3,507,096</b> |

Local Revenues includes the following sources listed in the chart. A renewed parcel tax was approved in March 2024 by Martinez voters and will continue for the next 8 years. The County Office of Education supports 11 sections of Career Technical Education courses for AHS and Vicente. Tuition is collected for out-of-district students who participate in Special Education programming. The PEI grant funds counseling services for Vicente. The District leases space to Woodbridge, Dutch Brothers, and other businesses. Other funds include interest and donations to schools. Overall, the decline of local revenue decreased by 16.7%. The revenue amount will be adjusted throughout the year as

medical billing reimbursements, donations, and facility use fees are received.

## EXPENDITURES

Total Expenditures are slightly less than estimated actuals for 2023-24. Certificated staffing layoff savings nearly matched the increased cost of a negotiated settlement of 6% resulting in a .9% decrease when compared to estimated actuals. Classified salaries are projected to increase by \$180K. The increase is due to a negotiated raise and a reduction in contracted staffing costs for Special Education. The budget for books and supplies grew by 12.6% in anticipation of new textbook adoptions. Contracted services are set to decrease as the district looks to reduce overall costs. Capital Outlay costs are based on remaining Kitchen Infrastructure funds that will expire in June 2025. Increases to tuition cost for Special Education students participating in County Office programs are the reason for a 21.5% change to Other Outgo.

| Expenditures               | Estimated Actuals | Budget            | Change       |
|----------------------------|-------------------|-------------------|--------------|
| Certificated Salaries      | 25,593,484        | 25,358,155        | -0.9%        |
| Classified Salaries        | 6,648,198         | 6,829,377         | 2.7%         |
| Benefits                   | 16,762,930        | 17,431,380        | 4.0%         |
| Books & Supplies           | 1,755,426         | 1,976,059         | 12.6%        |
| Services/Contracts         | 10,795,094        | 9,704,236         | -10.1%       |
| Capital Outlay             | 171,540           | 159,974           | -6.7%        |
| Other Outgo                | 892,800           | 1,085,000         | 21.5%        |
| Other Outgo–Indirect Costs | (156,137)         | (158,652)         | 1.6%         |
| <b>TOTAL</b>               | <b>62,463,335</b> | <b>62,385,528</b> | <b>-0.1%</b> |

## MULTIYEAR PROJECTIONS (MYP)

The primary objective of developing multiyear projections is to provide a financial 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 are 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. When creating a multiyear projection, districts rely on a variety of assumptions and sources of information available at the time. 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. Consequently, projections are viewed as a “snapshot in time” and a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

| <b>Unrestricted</b>      | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> |
|--------------------------|----------------|----------------|----------------|
| Total Revenues           | 46,997,137     | 47,243,514     | 48,546,032     |
| Total Expenditures       | 36,859,084     | 37,286,887     | 37,955,684     |
| Excess/Deficiency        | 10,138,053     | 9,956,627      | 10,590,349     |
| Contributions            | 11,519,820     | 11,791,264     | 12,091,452     |
| Beginning Balance July 1 | 6,613,397      | 5,231,631      | 3,396,994      |
| Ending Balance June 30   | 5,231,631      | 3,396,994      | 1,895,890      |
| Required 3% Reserve      | 1,871,566      | 1,850,516      | 1,875,197      |
| Unrestricted Reserve %   | 8.39%          | 5.51%          | 3.03%          |

The unrestricted ending reserve balance is expected to be 8.39% for 2024-25. Over the next two years that amount will be reduced to 3.03% which is scarcely more than the required reserve level. Revenue increases are not projected to overcome total expenditures and contributions to Special Education resulting in a structural deficit. Future reductions are required to maintain the minimum reserve balance for the district.

The Unrestricted & Restricted chart combines both sources to show the overall fund balance for MUSD. The ending balance will be reduced by \$9.7M from \$11.7M to \$2M at the end of 2026-27. The rate of deficit spending is declining, but not at a rate to balance the budget.

| <b>Unrestricted &amp; Restricted</b> | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> |
|--------------------------------------|----------------|----------------|----------------|
| Total Revenues                       | 58,159,604     | 58,623,293     | 60,157,597     |
| Total Expenditures                   | 62,385,528     | 61,683,860     | 62,506,535     |
| Excess/Deficiency                    | (4,225,925)    | (3,060,567)    | (2,348,938)    |
| Beginning Balance July 1             | 11,708,947     | 7,483,022      | 4,422,455      |
| Ending Balance June 30               | 7,483,022      | 4,422,455      | 2,073,518      |

## ENDING FUND BALANCE

Deficit spending occurs when the district spends more on current expenses than its 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, the unrestricted general fund must contribute to balancing the restricted resource, also called encroachment.

Deficit spending for restricted accounts is purposeful in the short term as one-time funds expire, however deficits in unrestricted accounts portend a greater concern with overspending. Increases in revenue, or decreases in expenditures, or both are required to balance the budget and safeguard fiscal solvency. Martinez Unified projects deficit spending in 2024-25 of \$4.23M. Subsequent year deficits are projected at \$3M and \$2.35M, respectively. These figures include both restricted and unrestricted resources. Already factored as future reduction in restricted spending is \$1.8M.

## OTHER FUND ACCOUNTS

Also included in the Budget Report are the ending balances for other district funds, all of which have positive ending balances. Major construction and modernization at the four elementaries will be completed by the fall of 2024. Fund 21 is projected to have a small residual amount of \$225K when this work is completed. Fund 35 has increased its unassigned balance after receiving apportionments from the state for previously completed projects. There may be future apportionments from Las Juntas and John Swett that will increase the balance if the state continues to fund the building program. Many maintenance and construction projects are scheduled for the 2024 summer and fall. AHS will receive a new FieldTurf surface for the AHS softball field, fencing along Marrion Terrace, network cabling, and gym floor refinishing. MJHS will have exterior painting, security fencing and cameras, and new student and staff furniture. Fund 40 is being used to purchase MJHS furniture.

| Fund | Description                      | Balance    |
|------|----------------------------------|------------|
| 8    | Student Activity Special Revenue | 277,247    |
| 11   | Adult Education                  | 1,600,514  |
| 13   | Cafeteria Special Revenue Fund   | 596,234    |
| 20   | Post-Employment Benefits (OPEB)  | 705,333    |
| 21   | Building Fund                    | 225,332    |
| 25   | Capital Facilities Fund          | 270,857    |
| 35   | County School Facilities Fund    | 9,491,231  |
| 40   | Special Reserve Capital Outlay   | 757,261    |
| 51   | Bond Interest                    | 11,427,708 |
| 73   | Donations                        | 277,885    |

## CONCLUSION

The Martinez Unified School District is projecting a positive certification for fiscal year 2024-25. The district's financial health as demonstrated through the attached documentation is evidence of a strong core leadership focused on maintaining fiscal solvency while providing a high-quality academic program with attractive pay and benefits packages for its employees.

The enrollment projection is showing flat growth over the next few years and is a welcome improvement from recent decreases. Average Daily Attendance has improved since the pandemic and is now forested at 94.5%. While this is a positive trend, attendance is still lagging pre-pandemic levels. A reduction in student absences will benefit student achievement and increase revenue and reduce deficit spending.

Martinez Unified is facing multiple challenges ahead. District reserves will decrease by \$9.7M over the next two years. Deficit spending in both unrestricted and restricted accounts will be addressed as one-time funds expire. Program reductions are needed in staffing, supplies and materials and services in future years to balance spending. Projected revenues from the state and federal government will not be sufficient to overcome rising costs.