



Alameda County Office of Education

L. K. Monroe Superintendent of Schools

January 13, 2022

Ka'Dijah Brown, President
Board of Education
Berkeley Unified School District
2020 Bonar Street
Berkeley, CA 94702

RE: 2021-22 First Interim Budget Report

Dear President Brown,

Pursuant to Education Code (EC) Section 42131(a)(1), at each interim reporting period the governing board (Board) of a school district is required to certify whether the district is able to meet its financial obligations for the remainder of the fiscal year and the following two years based on the financial and budgetary reports required by EC Section 42130 and may also include additional financial information known to the Board.

The Berkeley Unified School District (BUSD or District) filed a POSITIVE certification of the District's 2021-22 First Interim Budget Report based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127. This Positive Certification is assigned to any district that will meet its financial obligations for the current and subsequent two fiscal years, including maintaining reserves equal or above the minimum required Reserve for Economic Uncertainties (REU).

Based on the Alameda County Office of Education's (ACOE) required review and analysis, the First Interim Budget Report approved by BUSD's Board on December 8, 2021, a positive certification is accomplished by large-scale expenditure reductions in 2022-23 and 2023-24. While ACOE has received the district's certification, our concerns regarding BUSD's fiscal health are outlined below.

Multi-Year Budget Projections, Deficit Spending, and Declining Enrollment

The Multi-Year Budget Projection (MYP) submitted with the First Interim Budget Report outlines the effects of the pandemic and the District's decline in student enrollment. The unprecedented one-time pandemic relief funds and a faster than expected recovery of state revenues have helped many Districts maintain their REU.

Should the revenues outlined in the Governor's January state budget proposal shift in the final version, the BUSD Board will need to be prepared with contingency plans that it can swiftly implement.

BUSD's fiscal stability in its 2021-22 First Interim Budget Report requires the District to closely monitor the following items to ensure it is able to meet its financial obligations in the current and two subsequent fiscal years to maintain its Positive certification.

- BUSD is projected to deficit spend in the Unrestricted General Fund \$5.3 million, \$4.3 million, and \$1.0 million in 2021-22, 2022-23, and 2023-24, respectively. In 2022-23, BUSD projects \$4.6 million in ongoing budget reductions in its Unrestricted General Fund, as well as Restricted General Fund reductions of \$3.5 million in certificated salaries and \$1.3 million in classified salaries due to the elimination of one-time positions funded with COVID revenues. With the inclusion of these reductions, the District is projecting overall reserves at 3.84% for 2021-22, 8.45% for 2022-23, and 7.90% for 2023-24.
- Further, in September 2021, the Board approved the transfer of \$2.3 million from Fund 20, the Special Reserve Fund for Postemployment Benefits, to the General Fund principally to pay for COVID-19 pandemic expenses that exceeded the one-time funds the District had been allocated from the State and Federal governments. The District received approximately \$23 million in pandemic relief funds, which were nearly all expended by June 2021, and was anticipating additional 2021-22 pandemic-related expenses of approximately \$1.8 million. This transfer left an estimated balance in Fund 20 of \$5.4 million while the latest available audit report as of June 30, 2020, reflects a total other post-employment benefits (OPEB) liability of \$35.3 million. Statement No. 75 of the Governmental Accounting Standards Board (GASB) requires OPEB liabilities to be reported but not necessarily fully funded, and it is permissible for an LEA not participating in an irrevocable trust to redirect accumulated assets towards other uses. However, while this short-term solution supports the District's General Fund in the near term, the District retains the post-employment benefit liability.
- Prior to the pandemic, the District's enrollment was relatively flat. However, BUSD's enrollment has fallen 673 students since 2019-20 to a projected 9,171 for 2021-22 in the First Interim Budget Report. The District has projected an increase to 9,213 in 2022-23 and 2023-24 in its MYP. The District's decline in enrollment combined with the reversion to the greater of current or prior year hold-harmless provision in 2022-23 subjects the District to a loss of funded ADA of 700 students for that year. ACOE acknowledges the difficulty of projecting the number of students returning to in-person instruction during a pandemic. Declines have been observed by LEAs not just throughout the state, but across the county. As BUSD continues to closely monitor its enrollment and ADA, like LEAs across the state, BUSD must be prepared to implement contingency plans if enrollment continues to decline.

BUSD's 2021-22 Adopted Budget projected \$5.3 million in ongoing reductions to Certificated and Classified Salaries, as well as unidentified reductions of \$4.5 million in 2022-23 and \$4.8 million in 2023-24. As a condition of Approval, ACOE required the District to disclose its stabilization plan to its stakeholders and develop ongoing stabilization arrangements addressing the \$4.5 million in ongoing reductions reflected in the District's Adopted Budget should those reductions still be required in the District's First Interim Budget Report.

The District's 2021-22 First Interim Report includes additional declines in student enrollment over the District's 2021-22 Adopted Budget projections. As such, BUSD submitted a detailed list of Board-approved ongoing budget solutions totaling approximately \$4.8 million with the District's First Interim Report. ACOE acknowledges the Board's June 23, 2021, Resolution 21-052, recognizing the need to identify potential budget solutions to maintain its required reserves, and anticipates further action should the projected 2022-23 budget adjustments still be required in the District's Second Interim Budget Report.

Collective Bargaining

BUSD is still in the midst of negotiations with its bargaining units for the current year. Any increase to its salary schedules will impact the District throughout the MYP and could require additional reductions to afford the costs of the agreement.

Conclusion

As we continue to navigate our pandemic normal, mitigating staffing shortages, COVID outbreaks, declining enrollment, as well as student educational loss, ACOE recognizes the pivotal role our educational leaders hold for our community and our children. These continue to be unprecedented times, as our districts move to respond swiftly to new scenarios ensuring the safety of our students and faculty. We appreciate the Board's continued efforts in ensuring it upholds its fiduciary responsibilities while maintaining services for those most in need. ACOE looks forward to working with the BUSD staff as we continue to navigate the effects of the pandemic on enrollment and student learning and work to resolve the District's structural deficit.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. If you have any questions or concerns regarding our review process, please feel free to call me at (510) 670-4140.

Sincerely,



L.K. Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Berkeley USD
Dr. Brent Stephens, Superintendent, Berkeley USD
Pauline Follansbee, Assistant Superintendent Business Services, Berkeley USD
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District Business & Advisory Services, ACOE
Joan Laursen, Director, District Advisory Services, ACOE