FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

October 28, 2020

Honorable Tony Thurmond
State Superintendent of Public Instruction
1430 N Street, Suite 5602
Sacramento, CA 95814-5901

Honorable Keely Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Honorable Philip Y. Ting, Chair
California State Assembly Committee on Budget
State Capitol, Room 6026
Sacramento, CA 95814

Honorable Holly J. Mitchell, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, CA 95814

Dear Superintendent Thurmond, Director Bosler, Chairperson Mitchell and Committee Members, Chairperson Ting and Committee Members:

This letter is submitted for your consideration in accordance with the Fiscal Crisis and Management Assistance Team's (FCMAT's) responsibilities under Senate Bill 75 (Chapter 51/2019) (SB 75) with regard to the Paradise Unified School District (district).

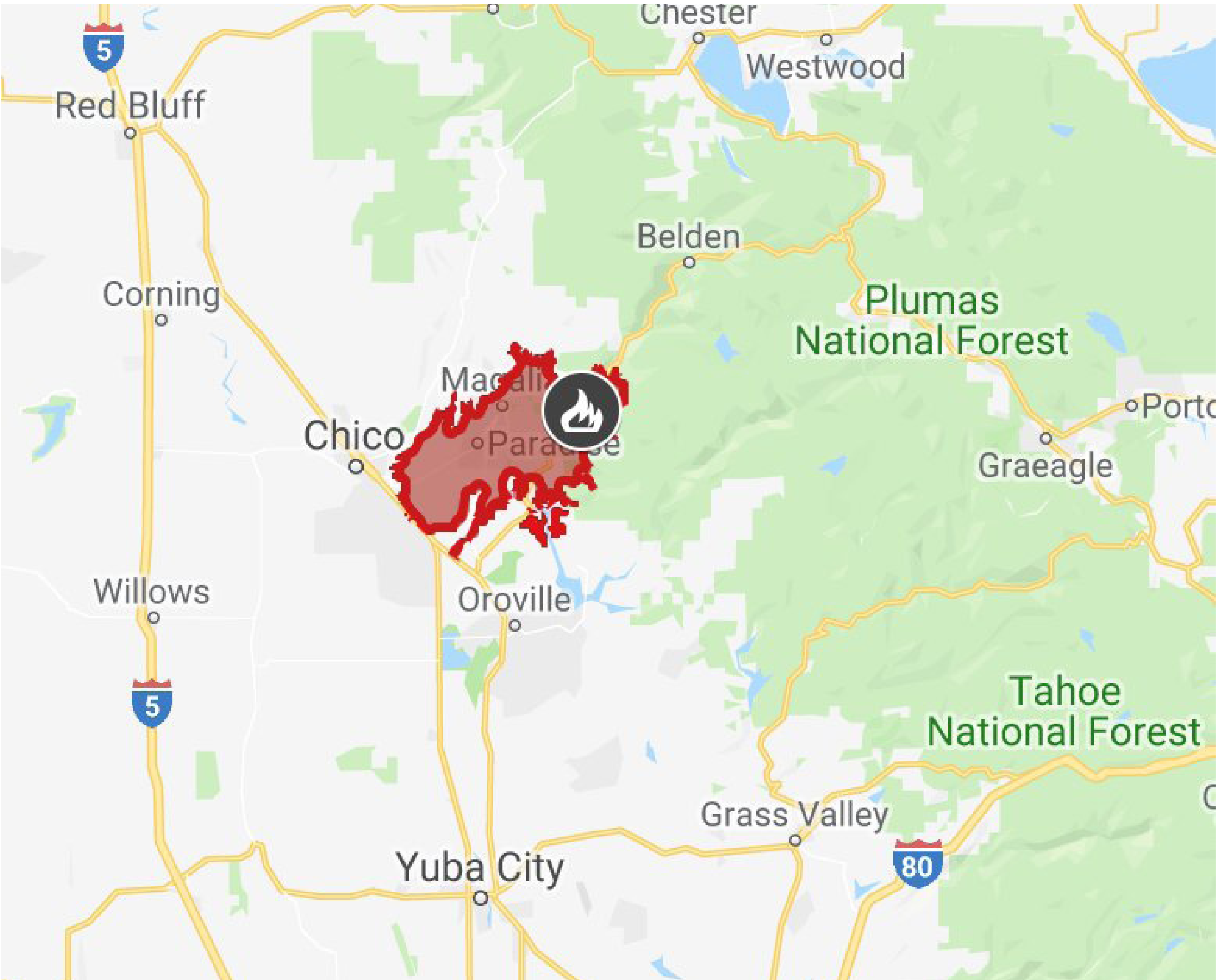
Background

Camp Fire

On November 8, 2018, a fire erupted near Camp Creek Road in Butte County. Named after its place of origin, it became known as the Camp Fire. Until the state's recent spate of wildfires, it also was known as:

- The deadliest and most destructive wildfire in California history.
- The deadliest wildfire in the United States since the Cloquet fire in 1918.
- The sixth deadliest wildfire in the United States, overall.
- One of the world's costliest natural disasters in 2018.

While most of the damage from the Camp Fire occurred in its first four hours, the fire raged for 17 days, causing 85 fatalities and injuring 17 people. It burned an area of 153,336 acres, or approximately 240 square miles, and destroyed 18,804 structures, including approximately 10,800 homes in the Paradise/Magalia area. The city of Paradise was reported as having been engulfed by the fire within hours of its start.



Within and around the cities of Paradise and Magalia lies the Paradise Unified School District. Prior to the Camp Fire, the district served approximately 3,400 students in grades TK to 12 in nine schools. The district lost approximately 103,000 to 120,000 square feet of its footprint including destruction of four of the district's nine schools, four schools with varying degrees of damage – some with portables destroyed, others with wings of the school destroyed. One elementary school escaped damage. The fire also destroyed the building housing the maintenance department and damaged the building housing the district's transportation department. As a result of the fire, the district has seen a precipitous drop in its enrollment to approximately 1,700 students as of 2019-20 and to 1,555 for the start of the 2020-21 school year.

Paradise Elementary School before and after the Camp Fire.

A Paradise USD bus destroyed by the Camp Fire.

Senate Bill 75

Senate Bill (SB) 75, Education Finance: Education Omnibus Budget Trailer Bill was signed by the governor on July 1, 2019. Included among other provisions was Section 69 in response to the Camp Fire, which states:

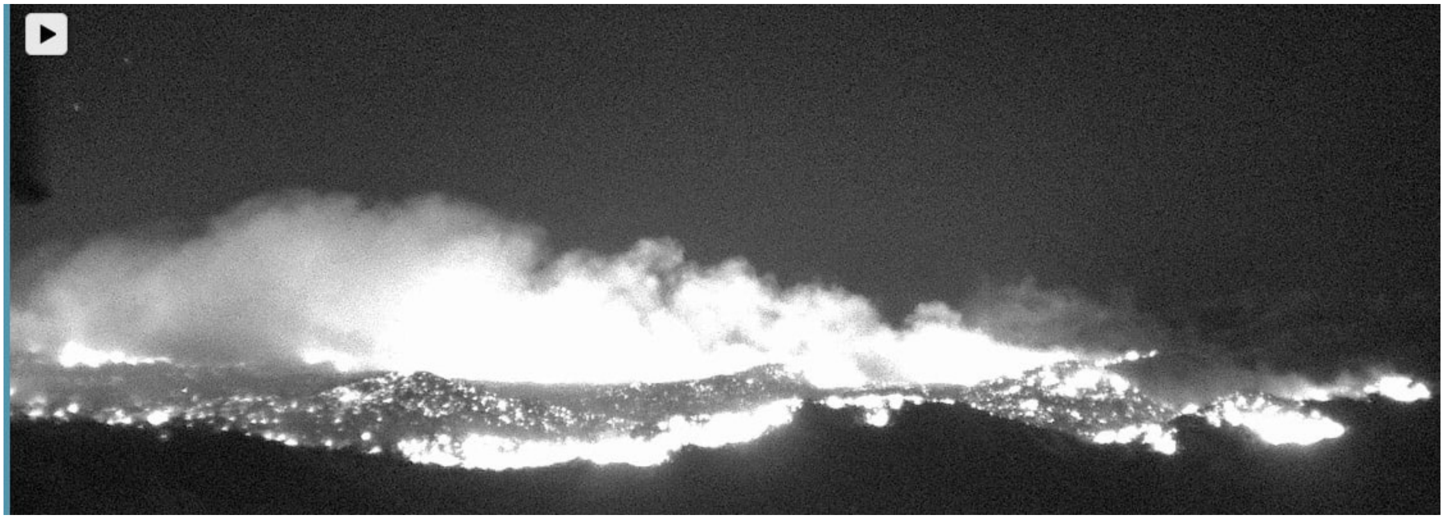
> "Notwithstanding any other law, the Paradise Unified School District may request the Fiscal Crisis and Management Assistance Team to conduct an evaluation of the need for additional funding and statutory changes for the 2021-22 fiscal year as a result of the state of emergency declared by the Governor in November 2018 and provide recommendations to the Department of Finance, the Legislature, and the Superintendent of Public Instruction by October 30, 2020."

This report is a result of that legislation.

Subsequent Events

As FCMAT was conducting its fieldwork and writing this report, the district was faced again with a large wildfire. The Bear Fire began on August 17, 2020 and was caused by lightning strikes. After three weeks, the fire had burned approximately 40,000 acres and was 50% contained as of Labor Day; however, windy, dry arid weather arrived and the fire grew to 150,000 acres overnight and approximately 252,000 acres (394 square miles) after two days. The Bear Fire joined with another fire and is now part of the North Complex Fire, which has currently burned over 300,000 acres. Even with smoke so close and with memories of the Camp Fire fresh in many minds (see photo below), numerous people (including those at the Paradise district office) sought the shelter of their homes. News reports stated that evacuations were in place, triggering terror and panic among the citizens of Paradise and creating a traffic jam leading out of town. The North Complex Fire has now destroyed two schools in other nearby districts – the Feather Falls School in Oroville, approximately 21 miles southeast of Paradise Unified, and the Berry Creek Elementary School in Berry Creek, approximately 16 miles southeast of Paradise Unified.

At approximately 3 p.m. on Sunday, September 28, the North Complex Fire reignited near Paradise during a Public Safety Power Shutdown in the area that was called due to the expectation of high winds and fire potential. In 16 hours, the fire had burned 15,000 acres and the city of Paradise was under an evacuation warning, with winds pushing the fire toward it. Cal Fire reports that the North Complex Fire burned over 318,000 acres and was 94% contained as of the writing of this report.



These events depict how fire and Public Safety Power Shutdowns are ongoing threats to stability and operations in the communities and districts they affect and create recurring challenges to normalcy.

Multiyear Financial Projections

Multiyear financial projections (MYFPs) typically provide districts and their boards with a fiscal planning framework that will enable them to make budget decisions that strategically address current and future challenges. Assembly Bill (AB) 1200 and AB 2756 require MYFPs to be included in the adopted budget and interim reporting process.

Many different methods and software products are available to prepare MYFPs. To identify and quantify the budgetary challenges that Paradise faces, the MYFP for the district's general fund used in this report was prepared using FCMAT's Projection-Pro multiyear and cash flow projection software, a web-based forecasting tool that is available at no cost to all California school districts. FCMAT reviewed revenue and expenditure trends during recent years, used industry-standard variables provided by the School Services of California (SSC) Financial Dartboard, and based its projection on the district's 2020-21 adopted budget for the current and two subsequent fiscal years.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projections should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers.

For purposes of this report, FCMAT has prepared two scenarios. The first, referred to as the baseline MYFP, uses the SSC Dartboard published on July 13, 2020, based on the 2020-21 adopted state budget. The second is referred to as the alternative MYFP and uses the baseline as its starting point but assumes a worsening state economic picture and includes a -5% deficit factor to the LCFF calculation. All other assumptions within the alternative MYFP remain the same as the baseline MYFP. The results of the deficit factor for the alternative MYFP will be discussed at the conclusion of the information related to the baseline MYFP.

Enrollment, Unduplicated Pupil Count, and ADA

Most of a school district's funding is based on the Local Control Funding Formula (LCFF). Student enrollment, unduplicated pupil count (UPC) and average daily attendance (ADA) by grade level are all important components of LCFF.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions instead of exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, and changing local, state and federal economic conditions. Therefore, the forecasting model should be viewed as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. To maintain the most accurate and meaningful data, enrollment projections should be routinely prepared, updated and compared to actual enrollment.

The district's enrollment suffered an enormous loss due to the Camp Fire, moving from a pre-fire October 2018 total of 3,439 to an October 2019 total of 1,723, or a 49.9% student loss. The 2020-21 school year has brought additional and continuing enrollment declines at the district. As of September 4, 2020, the district's enrollment was 1,567. Two weeks later, enrollment dropped another 12 students to 1,555.

Of the 12,000 homes in Paradise, approximately 10,800 were lost to the Camp Fire. Of those lost, the Paradise city manager reported on August 4, 2020 that 273 homes have been rebuilt (or 2.5%) and 1,081 building permits issued. The 1,081 number was not further disaggregated between commercial and residential permits. While this signals that the town is starting to rebuild, many people are holding their vacant land in the hope that they will be included in whatever future settlement is reached with PG&E. Additionally, a local law allows people to reside in RVs on their vacant land. That law is set to expire at the end of 2020 and local homeowners are opposed to an extension. As a result, it is difficult to determine how many of these vacant parcels, or ones with RVs on them, will be rebuilt once any settlement has been reached. This seems to have created an artificial suppression of enrollment recovery, which hampers the district's ability to determine whether the decline will be permanent or whether it is temporary pending a settlement. It is also difficult to determine how many of the vacant lots with RVs will be forced to move at the start of 2021 and take their students with them. Further complicating this analysis is that, of those homes that have been rebuilt, many are for retirees who do not generate students for Paradise Unified.

The study team reviewed county birth rate statistics and used FCMAT's Projection-Pro software to prepare enrollment, ADA and unduplicated pupil count projections for the current and two subsequent years. The Projection-Pro software uses the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in a subsequent year.

In concluding that there may be an artificial suppression of enrollment at Paradise Unified, FCMAT's analysis of birth rates for Butte County from 2010 to 2017 found that the district's pre-fire, four-year average percentage of kindergarten enrollment from county births was 13.56%. As would be expected, that percentage dropped to 5.84% in the post-fire 2019-20 school year and to 5.61% in the 2020-21 school year. However, the total number of births in Butte County did not experience a similar decrease post-fire but, instead, remained steady as shown in the chart below. This indicates that county residents have remained in Butte County and adds to the uncertainty regarding when or if residents will return to Paradise and whether the district's current enrollment decline is permanent or temporary.

Paradise Unified School District
Enrollment/Birth Rate Analysis

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	CALPADS*	CALPADS*	CALPADS*	CALPADS*	CALPADS*	Actuals	Projected	Projected
Calendar Year	2010	2011	2012	2013	2014	2015	2016	2017
# of Live Births	2,454	2,392	2,397	2,415	2,482	2,442	2,491	2,389
School Year	2015	2016	2017	2018	2019	2020	2021	2022
Kindergarten Class	325	333	327	324	145	137	129	122
% of Enrollment / Births	13.24%	13.92%	13.64%	13.42%	5.84%	5.61%	5.18%	5.11%

The following table shows the district's historical enrollment, projected enrollment using the cohort survival method, and the historical and projected P-2 ADA as a percentage of enrollment.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Enrollment*	3,521	3,496	3,442	3,403	1,734	1,555	1,402	1,251
ADA %	91.38%	90.98%	93.43%	92.74%	93.08%	92.96%	92.93%	92.93%

*Excluding students in county office programs

Projected

Because little data is available for the beginning grade level and the additional variable with the enrollment decrease due to the Camp Fire, a two-year weighted historical average is used for enrollment. To project the UPC and ADA ratios, a two-year historical average is also used.

County Programs

The Butte County Office of Education offers various programs for its districts' students such as its county community program and special day class for those whose needs cannot be fulfilled by their district's programs. In 2019-20, the county office reported that 12 students from Paradise Unified attended county programs and generated 1.51 ADA. This produces an enrollment to ADA ratio of 12.58%. Assuming these programs have 180 student days, that means these students attended the county's program on approximately 23 of those 180 days. Given this information, these programs become very expensive for the district as well as impactful to its students who fail to receive the education they deserve. In addition to the students not receiving the education offered on the days that are missed, the district receives a reduced amount per student in LCFF funding and also is billed by the county office for the full cost of the services to these students, irrespective of attendance.

FCMAT received information from the county office that the district has five students attending county programs for the 2020-21 fiscal year. The district is aware of three in grades eight, nine and 11. Projection Pro utilizes the same enrollment projection methods as described above for these students.

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district's 2020-21 adopted budget as its basis and includes the impact of the 2020-21 adopted state budget. The study team reviewed district records, interviewed staff members, and examined financial documents to gather information to verify the base year (2020-21) and prepare the MYFP.

Key planning factors and budget assumptions used by FCMAT to prepare the MYFP are based on the latest information available at the time the projection was completed, as shown in the following table, and are further described in the paragraphs below.

Planning Factor	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
Statutory COLA (Department of Finance)	2.31%	2.48%	3.26%
LCFF COLA	0.00%	0.00%	0.00%
State Categorical COLA	0.00%	0.00%	0.00%
Recommended Planning COLA	**0.00%**	**0.00%**	**0.00%**
California CPI	0.98%	1.59%	1.87%
Interest Rate for 10 Year Treasuries	0.89%	1.24%	1.70%
California Lottery, Unrestricted per ADA	$150.00	$150.00	$150.00
California Lottery, Restricted per AFA (Prop 20)	$49.00	$49.00	$49.00
Mandate Block Grant, Grades K-8 per ADA	$32.18	$32.18	$32.18
Mandate Block Grant, Grades 9-12 per ADA	$61.94	$61.94	$61.94
CalSTRS Employer Rate (statutory)	16.15%	16.00%	18.10%
CalPERS Employer Rate (projected)	20.70%	22.84%	25.50%
Step & Column, Certificated	2.199%	2.199%	2.199%
Step, Classified	1.522%	1.522%	1.488%
State Unemployment Insurance Rate	0.05%	0.05%	0.05%
Workers Compensation Insurance Rate	3.49%	3.49%	3.49%
Indirect Cost Rate	4.80%	10.68%	10.68%

Sources: School Services of California (SSC) 2020-21 Adopted State Budget Dartboard, CDE, district records.

While these planning factors are used in this baseline MYFP, FCMAT also has included an alternative MYFP later in this report to discuss the effects on the district's budget should the economy worsen and COLA deficits or other reductions be introduced.

Revenues

Projected revenues were based on validations of funding from the California Department of Education (CDE), SSC, grant letters and analysis of district estimates for any sources that could not be independently verified. Adjustments were made for any one-time funds or carryover from previous years.

Local Control Funding Formula (LCFF) Sources

The LCFF is the funding model for school district and charter school operational funding. It was implemented beginning with the 2013-14 fiscal year and replaced the former revenue limit calculation and Charter School Block Grant state apportionment distribution methodologies. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- Supplemental funding that provides an additional 20% of the adjusted base grant multiplied by the district's percentage of disadvantaged pupils (the unduplicated count of low-income students, English learners, and foster youth).
- A concentration grant that provides an additional 50% of the adjusted base grant multiplied by the district's percentage of disadvantaged pupils that exceeds 55% of total enrollment.

While 2019-20 funding was increased by COLA only, the COVID-19 pandemic has resulted in a recession with significant negative effects on state revenues. The 2020-21 state budget suspends the statutory COLA for 2020-21, resulting in a funded COLA of 0%. A COLA of 0% is also assumed for the 2021-22 and 2022-23 fiscal years in this baseline MYFP.

In completing its analysis, FCMAT used the adopted budget version of the LCFF calculator (updated July 13, 2020). The enacted state budget included a hold harmless provision for 2020-21 ADA that uses the 2019-20 P-2 ADA in place of reporting attendance for apportionment purposes in 2020-21. SB 75 amended Education Code Section 46392(d)(1) providing Paradise Unified a hold harmless provision related to total funding, and not just ADA, for the 2020-21 fiscal year:

> "(d) Notwithstanding any other law, for a school district or charter school physically located within a school district, where no less than 5 percent of the residences within the school district, or the school district's facilities, were destroyed as a result of a state of emergency that was declared by the Governor in November 2018, all of the following shall apply:
>
> (1) In the 2020-21 fiscal year, for school districts, the Superintendent shall calculate the difference between the school district's certified second principal apportionment local control funding formula entitlement pursuant to Section 42238.02 in the 2020-21 fiscal year and the 2019-20 fiscal year and, if there is a difference, allocate the amount of that difference to the school district."

The district completed its 2019-20 closing LCFF calculation that included increases to tax revenues, a correction of 0.18 ADA increase for county operated programs (i.e., community school, special education) and a correction of 7.84 ADA increase for charter schools, which brings the district's 2019-20 total LCFF entitlement to $35,845,951. As a result of the special provisions in SB 75, Paradise Unified is able to include $16,741,463 in added state funding for the 2020-21 fiscal year; however, without further legislative intervention, this funding will cease beginning in fiscal year 2021-22.

The LCFF calculation uses the greater of the prior year ADA or the current year ADA. With no requirement to record ADA for apportionment determinations for the 2020-21 fiscal year, the 2019-20 ADA will stand as the last recorded year for ADA purposes. For the 2021-22 fiscal year, the district will be able to use the greater of its 2019-20 ADA or the 2021-22 ADA in its LCFF calculation. For districts with declining enrollment, this provides a safe harbor and will do so for Paradise Unified for the 2021-22 fiscal year.

Without further continuance of the district's hold harmless provision in Education Code Section 46392, LCFF funding will decline as shown below. Should the state's economy continue to erode, further cuts to revenues could occur in the subsequent years (see also discussion below regarding Alternative MYFP).

	2019-20	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
Total LCFF Entitlement	$35,845,951	$35,845,951	$17,369,665	$15,672,616

Federal Revenues

Federal funding amounts were reviewed, verified, and adjusted as appropriate in the base year. Except for any one-time funding, FCMAT assumed unchanged funding levels for federal programs with no COLA in 2021-22 and 2022-23.

FCMAT increased federal revenues by approximately $12.0 million in 2020-21 to match budget amounts to award letters, to adjust some budgeted revenues to three-year estimated average amounts, and to adjust certain revenue sources for unspent grant awards based on the federal cash management data collection schedule. The revenues for unspent grant awards for programs on the federal cash management reporting schedule were recognized in the year that expenses are projected to occur. The largest increases were for new one-time revenues within programs such as:

- Immediate Aid to Restart School Operations – $7,048,260
- Coronavirus Relief Fund: Learning Loss Mitigation – $2,897,811
- Governor's Emergency Relief Fund: Learning Loss Mitigation – $119,603
- ESSA: School Improvement Funding for LEAs – $707,700
- Elementary and Secondary School Emergency Relief (ESSER) – $898,226

Medi-Cal Billing Option revenues were decreased $34,302 to align with a three-year average due to decreasing revenues in prior years. Smaller increases or decreases were made to various other programs.

One-time revenues for ESSER funds were added in 2020-21 and eliminated in 2021-22. The district must complete an application to receive these revenues, and the CDE website indicates that the district submitted the required assurances as of July 15, 2020. The funds are to be used to address the impact of COVID-19 on the district and may be used for any allowable expenditure incurred on or after March 13, 2020 through September 30, 2022.

One-time Learning Loss Mitigation revenues of approximately $3.0 million were added in 2020-21 and eliminated in 2021-22. The funds must be spent on activities that directly support pupil academic achievement and mitigate learning loss related to COVID-19 school closures. The district must complete an application to receive these revenues, and the CDE website indicates that the district submitted the required assurances as of July 15, 2020. The majority of the funds, $2.9 million in Coronavirus Relief Fund: Learning Mitigation, must be used on expenditures committed from March 1, 2020 through December 30, 2020. Approximately $120,000 in Governor's Emergency Relief Fund: Learning Loss Mitigation must be used on expenditures occurring from March 13, 2020 through September 30, 2022.

All other one-time and carryover revenues included in the 2020-21 budget were eliminated from FCMAT's projections in subsequent years. Revenues were reduced by approximately $12.02 million in 2021-22 including those listed above and smaller reductions to various other federal programs.

Other State Revenue

State grant award amounts for 2020-21 were confirmed and carried forward to 2021-22 and 2022-23 with no COLA. Increases totaling approximately $1.8 million were made to the 2020-21 revenues to match budgeted amounts to award notifications and to adjust some revenues to estimated amounts pursuant to the district's carryover calculations. One-time and carryover revenues were eliminated from the projection in 2021-22 and 2022-23. Revenue projections were decreased by approximately $17.3 million in 2021-22, including $16,741,463 million in SB 75 hold harmless funding described above, Special Education Early Intervention funds, and approximately $316,000 in one-time Low Performing Students Block Grant revenues.

The SELPA provided its 45-day update on special education funding that included an overall $482,260 increase in funding for 2020-21; however, both its federal and state special education funding received decreases from its old formula of approximately $43,000 and $42,000, respectively. The district's special education pass through funding received an increase of $566,919; however, all of these revenue stream changes will be phased in over the current and two subsequent years.

One-time Learning Loss Mitigation funds of approximately $305,000 were added to the projection in 2020-21 and eliminated in 2021-22. Smaller increases or decreases were made to various other programs as appropriate for 2021-22 and 2022-23.

Lottery

FCMAT projected lottery revenues for 2020-21 based on projected annual ADA, multiplied by $150 for unrestricted and $49 for restricted lottery instructional materials, per the SSC Dartboard. Revenues in the subsequent years were based on projected annual ADA multiplied by these same per ADA amounts. These are the most current assumptions available for projecting lottery revenues. Lottery funding is initially allocated using the prior year's annual ADA and adjusted in the subsequent fiscal year based on current year annual ADA.

Other Local Revenue

Other Income

The district receives local revenues from interest earnings, donations, and other miscellaneous sources. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items should be conservative, consider historical trend data and identify revenue streams that are one-time.

FCMAT reviewed the district's budgeted amounts for reasonableness using the 2019-20 actual receipts and the prior two years' actual revenues. Amounts attributed to interest and other miscellaneous revenues, if any, were considered to be ongoing in the subsequent years of the projection. Amounts attributed to donations were considered to be one-time and were eliminated in the subsequent years of the projection.

Tuition

The district invoices other local education agencies (LEAs) for special education services it provides to their students. FCMAT reviewed the prior three years' actual revenues in this category. However, one year was pre-Camp Fire, which results in a much higher revenue amount and, since the fire, revenues in this area have been steadily declining. As a result, FCMAT calculated the percentage of decline from 2018-19 to 2019-20 and applied that decline to its 2019-20 tuition revenue to arrive at the estimated revenue for 2020-21.

Expenses

The basis for FCMAT's analysis was the district's 2020-21 adopted budget. FCMAT reviewed and assessed the expense assumptions based on the district's prior year history and 2019-20 actual expenditures.

The prior three years of expenditure history reflect various levels of students, staff, facilities and their attendant needs. Those in 2017-18 reflect pre-Camp Fire, with district enrollment of 3,442 students and all nine of its school sites. In 2018-19 the district had 3,403 students, but the Camp Fire on November 8, 2018 severely interrupted operations and also required replacement/recovery measures. The 2019-20 enrollment was 50% of the 2017-18 enrollment, or 1,734 students, many of whom were transported from temporary living accommodations in the nearby cities of Oroville and Chico. This was also the first year of the district's new normal in operating five campuses; however, 2019-20 reflects the initial impacts of the COVID pandemic and in March 2020 the district converted to a distance learning model. Because of the differences between the expenditures in each of these fiscal years, their use was weighed cautiously and used only in contexts where the history being reviewed was similar to anticipated circumstances in 2020-21 or beyond.

While the district began the 2020-21 school year with all of its students in a distance learning environment, Butte County has recently moved from Tier 1 (purple), or the most restrictive tier, to Tier II (red), and then to Tier III (orange). This lessens many restrictions on meeting sizes. The district elected to reopen under a hybrid model on October 19 for most TK-6th grade students. The remaining grades will return on October 26.

Salaries and Benefits

As with other districts in California experiencing declining enrollment, the district has been implementing efforts to reduce its expenses. Since the fire, the district has reduced its total staffing by 159.9 FTE (41.0%), with its last round of layoffs for 2020-21 including 64 FTE in certificated personnel (56.2 FTE were in vacant positions). On the classified side, the district eliminated 18 positions (14.6 FTE), reduced 15.73 hours from 24 positions (2.0 FTE) and eliminated 67 vacant positions (54.7 FTE) for a total of 135.3 FTE. The district's CBO acknowledges that another round of layoffs will probably be necessary for the 2021-22 fiscal year and stated that he had informed the governing board of that. However, since the board has not taken action on any such reduction, FCMAT has not assumed any reduction in staffing beyond normal, annual retirement levels in each staffing category as discussed below.

FY	Certificated	Certificated Administrators	Classified	Classified Admin/Mgrs	Other (Psychologists/ Certificated Coordinator/ Confidential)	Total
FY 2018-19	188.2	14.8	171.9	5.0	10.1	390.0
FY 2020-21	109.6	7.8	102.7	5.0	5.0	230.1
# Change	78.6	7.0	69.2	0.0	5.1	159.9
% Change	41.76%	47.30%	40.26%	0.00%	50.50%	41.00%

FCMAT was able to tie the district's August 3, 2020 position control report and any manual adjustments for costs that cannot be associated with a specific person (such as substitutes) to the 2020-21 budget. The district uses the Escape software system for its financial reporting. That system requires that an employee be included in position control before it will allow any payroll transactions associated with that employee to be processed. To ensure any recent/summer hiring was also captured in the 2020-21 budget, FCMAT reconciled a September 29, 2020 position control report to the August report. Any differences contained in the September report were added to the budget.

In the course of the August and September 2020 position control report reconciliation, it was discovered that the prior year's workers compensation rate had been used for manual adjustments in the August position control report. Column movement is allowed to occur for certificated employees prior to September 15 (TAP Master Agreement, Article XIV.H.) of each fiscal year; consequently, the August position control report did not include all column movements. Nor did it include the addition of masters/doctorate degree stipends for employees for the 2020-21 fiscal year. The costs for the adjustments to workers compensation and column movement/stipends costs were calculated by FCMAT and the 2020-21 budget adjusted accordingly.

The district has not budgeted for personnel savings due to COVID in 2020-21, such as in unfilled positions or unused overtime/extra duty, and anticipates using federal funds to absorb any allowable costs through their various expiration dates. At that time, these costs will be returned to the unrestricted general fund. FCMAT included $275,650 in additional expenditures for substitutes and extra hour assignments related to COVID in the general fund for 2020-21. The district opened for in-person learning effective October 19 and the board approved the Memorandum of Understanding (MOU) with its certificated bargaining unit regarding the return to in-person learning on October 20. Additional expenditures from this MOU for such items as learning preparation time, COVID supplies, partitions, etc. will be paid from CARES Act funding.

FCMAT's MYFP does include the additional costs related to state minimum wage increases, which are scheduled to increase to $14 per hour on January 1, 2021 and $15 per hour on January 1, 2022.

Certificated Salaries

FCMAT's analysis of expenditures for certificated salaries indicates that the 2020-21 unrestricted general fund expenditures are underbudgeted by approximately $184,000. The analysis of restricted resources indicates that projected expenses were underbudgeted by approximately $210,000. These costs are associated with positions that had been hired since budget adoption, correction of the workers compensation rate, the finalization of column movement and additional stipends as noted above.

To compute the annual cost of step-and-column, FCMAT used the calculation from the district's financial system including all column movements, which divides the difference between the prior year and current year total salaries by the prior year total salaries. While this generates a gross rate of 2.199% for all three years of the MYFP, the rate does not include retiree savings and associated health benefit costs, which need to be factored in to generate the net rate. Due to the need to reduce future expenditures, the district does not plan to replace all retirements and, as is noted below in the Employee Benefits section, there are significant health and welfare costs to the district for its certificated retirees.

Prior to the Camp Fire, the district normally had between five and six retirements each fiscal year. In an effort to reduce its staffing prior to engaging in laying off certificated personnel, the district entered into early retirement incentive programs in both 2018-19 and 2019-20.

For the 2018-19 fiscal year, the district used the provisions of Education Code Sections 22714 and 44929 and provided two years of additional service credit to certificated employees. Sixteen teachers and one nurse opted to retire under this program. This offer generated approximately $1.5 million in costs, and the district is scheduled to make its last $244,000 payment toward this debt in 2020-21.

For 2019-20, the district offered an early retirement incentive that provided for payment of 60% of the retiree's last annual salary for the last year of employment. This offer generated approximately $37,000 in costs to the district. As noted above, the district laid off 7.8 certificated FTE in 2019-20, but FCMAT's review of position control reports as described above shows that the district hired a net 11.0 certificated FTE. Both of these early retirement incentives operate on the premise that they will achieve a cost savings for the plans to move forward. FCMAT is concerned that the district's employment actions may have negated the intended savings and may annul the execution of the incentives.

The district has no plans to offer an additional early retirement incentive. Based on the number of retirements that have occurred to date, a much smaller population of certificated personnel is near retirement age. As a result, FCMAT has assumed a slow return to prior retirement patterns. For 2021-22, FCMAT assumes four retirements with one replacement in special education and three retirements with no replacements for 2022-23.

The district also reported social emotional costs related to the fires, which has manifested itself in increased absenteeism for both students and staff. This causes the district to expend additional funds for substitutes for certificated employees. It has also caused an increase in the district's suspension rates due to increased behaviors in students and creates the need for additional counseling or support staff to address these issues. FCMAT's MYFP includes an additional $36,000 (or 43%) in substitute costs over that in the district's 2020-21 adopted budget and continues those costs into the 2021-22 and 2022-23 fiscal years. FCMAT has made no reductions in counseling costs.

Classified Salaries

FCMAT's analysis of expenditures indicates that the 2020-21 unrestricted general fund expenditures are overbudgeted by approximately $136,000, and restricted resources are underbudgeted by approximately $307,000.

To compute the annual step cost for classified employees, FCMAT used the dollar amount calculated by the district's financial system, which generates a gross rate of 1.522% for all three years of the MYFP.

Those positions under SB 98 that are provided with a temporary prohibition for layoffs during the 2020-21 fiscal year were moved from the unrestricted general fund and child nutrition fund (as applicable) and charged to the Coronavirus Relief Fund: Learning Loss Mitigation funds through their expiration on December 30, 2020. The positions were then moved to the SB 98: Learning Loss Mitigation funds for COVID expenditures through their expiration on June 30, 2021. For the 2021-22 fiscal year and until September 22, 2022, the cost for these positions was included in the ESSER funds. At the expiration of the ESSER funds in 2022-23, the costs were returned to their original placement in the unrestricted general fund or child nutrition fund.

Prior to the Camp Fire, the district's normal retirement pattern for classified employees was approximately four retirements per year, with the positions being replaced. In an effort to reduce its staffing, the district does not plan to replace classified retirements. With the current restrictions on three categories of classified staff as well as the district having taken action on 67 positions, FCMAT has assumed a slower rate of retirements in the classified ranks and has assumed one retirement without replacement for both 2021-22 and 2022-23.

Classified employees are also incurring social emotional costs related to the fires, which manifests itself in increased absenteeism. FCMAT's review of the district's 2020-21 adopted budget shows that the district had not reduced these expenditures. FCMAT made no adjustment to these costs. However, the district has expressed that educational technician positions may be laid off in the future because of the need to reduce staffing costs. Elimination of educational technician positions will further reduce services to behaviorally challenged students, which can affect those students' ability to complete their education and also will reduce the district's LCFF funding.

Employee Benefits

The district has negotiated insurance caps with both of its bargaining units. For 2020-21, those annual caps are $12,576 for full-time certificated employees and $11,211 for eight-hour classified employees. Benefits for employees less than full-time are paid on a proportionate basis. Insurance caps are adjusted based on annual collective bargaining negotiations. Consequently, none have been included for the two subsequent years, but adjustments were made for changes in the anticipated number of employees via retirement.

For both bargaining units, should an employee select a plan that is less than the negotiated cap, the difference is paid to the employee as a "rebate." FCMAT's review of position control showing medical premium rebates reflects the district paying approximately $82,400 in total to active certificated employees and approximately $36,700 to active classified employees. In one case, FCMAT found a certificated employee's gross salary was approximately $48,200 and their medical rebate was approximately $12,600 (or 26% of gross salary). These circumstances also allow married couples who both work for the district to increase their salaries based on the medical rebate – one spouse taking family benefits and the other the rebate.

Both of the district's bargaining units' collective bargaining agreements provide for health and welfare benefits to their retirees. However, due to a California Public Employment Relations Board decision in September 2010, the employees retiring from the certificated bargaining unit are allowed to select any plan "up to the maximum dollar amount in effect at the time of an employee's retirement." This has been interpreted to mean that the employee may select the top benefit plan that can cost almost two times the plan that was utilized during their active employment. Pursuant to a spreadsheet tracking medical costs of district retired employees provided to FCMAT by the district, of the district's total 56 2020-21 retired employees receiving benefits, 50 (89.3%) have chosen a plan that will exceed the insurance cap afforded them during their working years. Most of those 50 have selected plans that cost the district between $20,616 to $24,936 per retiree per year. Certificated retirees can also elect to receive a cash payment representing 85% of the total premium that could have been paid by the district although those that take this option are mostly married certificated couples where both are employed by the district, with one spouse taking the benefit package and the other opting for the annual cash payment. The 85% cash out expenditure has been very steady over the past three years at a total of approximately $35,000 to $40,000 per year.

These benefits are a very rich package afforded to the district's certificated retirees and a cost that is not attached to the number of students enrolled or other revenue levels. Because the district has been actively reducing its number of certificated employees through retirement incentives due to the effects of the Camp Fire, the cost of retiree health and welfare benefits has abnormally accelerated. Prior to staffing reductions related to the Camp Fire, the district's 2018-19 payment for retiree health and welfare costs was approximately $882,000. It has now reached approximately $1.065 million for 2020-21. Adjusting these costs proportionally by the reduction in students would mean that, for a district of 1,555 students, the proportional cost of retiree health benefits should be in the range of $447,000 ($1.065 million multiplied by 50.7% – current enrollment of 1,555 divided by 3,401 students in 2018-19). The district's analysis of this condition shows that it will not return to its proportional cost until fiscal year 2026-27 and will add approximately $1.3 million in retirement costs to its budgets during 2021-22 to 2026-27. The 2020-21 year has been excluded from this calculation because the district continues to benefit from the SB 75 hold harmless provision for that year. While these costs should be renegotiated, they remain as fixed costs to the district, unabated by any sort of cap, and will continue until each retiree reaches the age of 65 or receives 15 years of benefits, whichever occurs first. FCMAT has included a 3.19% annual increase to the cost of these benefits based on the district's four-year rate history, and retiree health and welfare payments were reconciled and budgets adjusted to reflect the impact of new retirees collecting benefits and retirees reaching age 65 and leaving the program.

The classified unit's retirement benefits include caps. Historically, FCMAT did not find that those rates had increased over time and no rate increases were assumed for 2021-22 and 2022-23. FCMAT reviewed the district's classified retiree medical contributions and adjusted the budget to ensure all classified retiree benefits costs were included in the 2020-21 budget.

Books and Supplies

The books and supplies budgets were analyzed by comparing ratios from the adopted budget to unaudited actuals for each of the 2017-18, 2018-19 and 2019-20 fiscal years. The greater of the district's 2020-21 adopted budget or the 2019-20 unaudited actuals expenditures was generally used.

The district will exhaust all of its Microsoft vouchers by 2021-22, and equipment purchases are assumed to be reduced to pre-fire levels.

The FCMAT MYFP for subsequent years includes cost adjustments based on the consumer price index (CPI) inflation factor, and budgets were reduced to account for any shortfalls in individual resources.

Services and Other Operating

Like books and supplies, the services and other operating expenditures were analyzed by comparing ratios from the adopted budget to unaudited actuals for each of the 2017-18, 2018-19 and 2019-20 fiscal years. The greater of the district's 2020-21 adopted budget or the 2019-20 unaudited actuals expenditures was generally used.

Because of Public Safety Power Shutdown events in the area, the district had been renting generators to keep its facilities functioning. However, it has received a $7.05 million grant under the Immediate Aid to Restart School Operations program to purchase generators, thereby greatly reducing rental expense starting in 2020-21.

Utilities were forecast using the district's 2020-21 adopted budget, which includes a 12.775% increase over the 2019-20 actual expenditures. FCMAT assumed a 10% increase in 2021-22 due to the expectation that the district will return to more in-person learning, and both subsequent years include cost adjustments based on the CPI inflation factor.

Home-to-School and Special Education Transportation

The district's students are now in three primary communities because of changes in living space caused by the Camp Fire. As a result, the district has expanded its transportation beyond the district's boundaries and into the cities of Chico and Oroville to bring those students back to their pre-fire home schools. The district's Transportation Department reports that of the 1,240 students transported in 2019-20, 187 were from Oroville and 392 were from Chico.

This level of student transportation requires each bus to make four runs per day and, thereby, doubles the district's transportation costs due to the increased hours paid to bus drivers as well as the cost of increased mileage to buses such as fuel, oil, tires, repairs, etc. One run is made from the district to Oroville/Chico to pick up the students and transport them to the district's schools. This process is then repeated to return the students to Oroville/Chico. This has generated a 40.4% increase, or approximately $343,000, in home-to-school transportation costs and an 80.7% increase, or approximately $88,000, in special education transportation expenses between 2017-18 and 2019-20.

The district has not made a determination whether to continue these transportation services into the current year and beyond; however, the decision to cease them would also impact the district's primary revenue source – LCFF funding – with the potential of parents deciding to enroll their students in schools near their new homes in the cities of Oroville/Chico. Without board action to terminate transportation services to Oroville/Chico, FCMAT has included the cost for continuing services. However, with the district reopening for in-person learning, the carrying capacity of buses is decreased to 50% under COVID guidelines. As a result, FCMAT has further doubled transportation costs to allow for the physical distancing that will be required for the district's bus runs. These additional costs have been included in the new federal/state funds and are discussed further below.

Property and Liability Insurance

Due to the Camp Fire, the district's premium charged by Butte Schools Self-Funded Programs (BSSP) increased by 83.87% for the 2019-20 fiscal year as compared to the district's 2017-18 premium. This increase was also spread among all members of BSSP for the 2019-20 fiscal year. The district has been provided with its 2020-21 premium, which shows another 4.68% increase for a total increase of 92.48% since 2017-18. While this is a more modest increase, the county office reported that the North Complex Fire generated significant losses that destroyed all of the facilities at one school district and destroyed an unused facility at another district. BSSP's self-insured retention for each claim associated with the Camp Fire was $100,000. Effective July 1, 2019, the self-insured retention limit for property claims increased to $250,000 and included a $5 million deductible for wildfire claims. BSSP's invoices reflect that property rates per unit of total insured value continue to increase as a result of these catastrophic wildfires and weather-related claims. The district also anticipates an increase in insurance premium from BSSP due to the North Complex Fire causing significant damage to members of BSSP. FCMAT has included a 95% increase, or $398,269, for property and liability insurance rates for BSSP to sustain a fund balance sufficient to support schools for 2021-22 and beyond.

Attorneys' Fees

With the claims involved with the Camp Fire, the district's expenditure for attorneys' fees has increased by 70.2% from $264,391 to $450,922 between 2018-19 and 2019-20. The district has settled most claims with Travelers Insurance while leaving the door open to additional claims. As was noted in the Background section, no settlement has been reached with PG&E. There is great uncertainty as to how much the district's expenditures in this area will increase or decrease; however, to be conservative FCMAT has budgeted the district's 2019-20 actual expenditures in this area, an increase of approximately $362,000 over its 2020-21 adopted budget. With no dates for legal proceedings set in the PG&E case, FCMAT has assumed legal costs will continue into 2021-22 and 2022-23.

Impact of COVID

As discussed above, FCMAT has transferred the salaries/benefits of positions protected by SB 98 into the new federal/state funding. Costs associated with additional expenses related to substitutes, extra hours, home-to-school/special education/sports transportation, mileage/travel and professional development costs due to the effects of COVID, reopening to in-person learning and the need for social distancing have also been included in the new federal/state funding. FCMAT has included approximately $1.23 million in additional COVID related expenditures in 2020-21. They continue to be paid from the new, one-time federal/state funding sources as allowed by their individual resource restrictions and expiration dates. Due to the uncertainties surrounding when the pandemic will ease, costs associated with these COVID measures will be continued into 2022-23 and transferred to the unrestricted general fund at the expiration of the funding source.

Capital Outlay

The district's insurance claims have resulted in payment for damages at all of its sites. However, the district has not been rebuilding all of its facilities but rebuilding to accommodate its present student enrollment. To move forward in these efforts the district has developed a priority list of projects across the entire district totaling approximately $150 million. The CBO reports that projects will be completed as funds are available from such sources as insurance proceeds, issuance of $61 million general obligation bonds authorized by voters the week before the Camp Fire, and potentially new construction/modernization funds from the state. While the Camp Fire has affected the district's assessed value, the district reports that it does have sufficient assessed value to begin to issue its general obligation bonds. However, the county treasurer has recently opined that he is not supportive of the district issuing such voter-approved debt at the present time. District and county office staff are in continuing discussions with the county treasurer.

Insurance proceeds from building claims are being accounted for in the Special Reserve Fund for Capital Projects (Fund 40) which had a $45.5 million 2019-20 ending fund balance. Additionally, the district has recently settled an insurance claim related to the Camp Fire with Travelers Insurance for approximately $3.5 million in cash with another $10 million being paid as capital projects are completed over the next three years. The Special Reserve Fund for Other Than Capital Outlay Projects (Fund 17) is used to account for the revenues and expenditures related to the contents of buildings destroyed. Its 2019-20 ending fund balance was approximately $2.3 million. The district plans to move these funds during 2020-21 into Fund 40 to consolidate its insurance proceeds into one fund.

The 2020-21 general fund budget excludes any funds received from insurance proceeds. Capital expenditures through the Ongoing & Major Maintenance: Restricted Maintenance Account were greatly reduced in the MYFP for 2020-21 due to a lack of funding available to support them. Any expenditures related to insurance proceeds and their use in reconstruction are contained in Fund 40. The district has also applied to the Office of Public School Construction for approximately $23.7 million in modernization funds for use at its sites.

Other Outgo/Indirect Costs

Other Outgo

The district's 2020-21 budget includes approximately $265,000 in costs related to special education excess cost payments to the SELPA that are expected to continue into the 2021-22 and 2022-23 fiscal years.

Indirect Costs

To ensure proper program cost accounting, indirect cost charges were applied to all programs where allowable, even when this resulted in a contribution back to the resource from the unrestricted general fund. FCMAT applied an indirect cost rate of 4.80% in 2020-21 based on the CDE's approved rate for the district and 10.68% in 2021-22 and 2022-23 based on the 2019-20 unaudited actuals indirect cost rate worksheet (Form ICR).

Other Financing Sources/Uses

Transfers In

The district's 2020-21 adopted budget report does not include transfers into the general fund from other funds.

Transfers Out

The district's 2020-21 adopted budget does not include transfers out of the general fund to other funds.

Contributions

When revenues in restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Restricted programs should be self-supporting, with the exception of special education, routine restricted maintenance, and any restricted program the district has made a deliberate decision to support with unrestricted general funds. The special education program typically has insufficient state and federal funding support, and the district is required to make a 3% contribution to the routine restricted maintenance account.

Due to increasing costs year-over-year, the district may need to reduce expenditures in several of its restricted resources to remain within the projected revenue estimates. When restricted resource expenditure budgets exceeded projected revenue in the subsequent years of the MYFP, FCMAT reduced expenditures in the 4000 (books and supplies) and 5000 (services and other operating) object codes where possible to remain within the projected revenue estimates. However, this action may also affect programs by the reduction of expenditures for these items. No reductions were made in salary and benefit budgets. A contribution was made from the unrestricted general fund to balance any restricted resource where expenditures still exceeded revenue after these adjustments.

The following table shows projected contributions to the district's restricted resources.

	Resource Code	Base Year 2020-21	Year 2 2021-22	Year 3 2022-23
Unrestricted Resources				
Unrestricted	0000	$ (4,236,964.18)	$ (3,736,189.50)	$ (4,660,233.26)
Education Protection Account	1400	$ 664,832.00	$ 701,960.25	$ 909,021.09
Total Unrestricted		$ (3,572,132.18)	$ (3,034,229.25)	$ (3,751,212.17)
Restricted Resources				
ESSA: School Improvement Funding for LEAs	3182	$ -	$ -	$ 70,260.58
Medi-Cal Billing Option	5640	$ 34,302.00	$ 42,754.95	$ 45,190.24
Special Education	Various	$ 1,942,457.18	$ 2,087,734.30	$ 2,048,096.73
Ongoing & Major Maintenance Account (RRMA)	8150	$ 1,140,003.00	$ 903,740.00	$ 905,728.02
Other Restricted Local	9010	$ 455,370.00	$ -	$ 681,936.00
Total Restricted		$ 3,572,132.18	$ 3,034,229.25	$ 3,751,211.57

Multiyear Financial Projection Analysis

FCMAT has analyzed all general fund sources and expenditure categories by resource. The unrestricted general fund summary below includes a column showing the study team's adjustments to the base year and indicates that, without revenue increases, hold harmless revenue extensions and/or expenditure reductions, revenues are projected to exceed expenditures by $14.16 million for 2020-21, with deficit spending of $6.44 million in 2021-22 and $7.88 million in 2022-23. The unrestricted general fund ending balance is projected to decline from $32.9 million (80.45%) in 2020-21 to $21.79 million (71.38%) in 2022-23.

Unrestricted General Fund Summary

Description	Object Code	Base Year 2020-21	Adjustments to Base Year	Year 2 2021-22	Year 3 2022-23
A. Revenues					
LCFF Sources	8010-8099	-	-	-	-
Federal Revenue	8100-8299	1,995,997.00	11,983,465.32	1,963,980.00	1,944,617.00
Other State Revenues	8300-8599	3,706,478.00	260,903.92	3,444,045.79	3,423,016.54
Other Local Revenues	8600-8799	678,160.00	(1,001.00)	866,113.00	1,055,124.00
Total, Revenue		6,380,635.00	12,243,368.24	6,274,138.79	6,422,757.54
B. Expenditures					
Certificated Salaries	1000-1999	2,200,323.00	210,350.00	2,423,604.20	2,477,520.26
Classified Salaries	2000-2999	1,330,605.00	307,391.24	1,589,755.81	1,613,296.46
Employee Benefits	3000-3999	3,171,180.00	(121,803.89)	3,069,885.59	3,163,632.35
Books and Supplies	4000-4999	1,365,377.00	1,401,696.76	1,954,779.37	989,399.78
Services and Other Operating Expenditures	5000-5999	1,632,268.00	1,505,125.60	1,776,310.33	1,411,414.76
Capital Outlay/Depreciation	6000-6999	25,000.00	6,725,439.00	25,000.00	25,000.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	261,489.00	-	261,489.00	261,489.00
Other Outgo - Transfers of Indirect Costs	7300-7399	265,164.00	392,587.58	936,626.19	812,891.49
Other Adjustments - Expenditures				-	-
Total, Expenditures		10,251,406.00	10,420,786.29	12,037,450.49	10,754,644.10
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		(3,870,771.00)	1,822,581.95	(5,763,311.70)	(4,331,886.56)
D. Other Financing Sources/Uses					
Interfund Transfers					
Transfers In	8900-8929	-	-	-	-
Transfers Out	7600-7629	-	-	-	-
Other Sources/Uses					
Sources	8930-8979	-	-	-	-
Uses	7630-7699	-	-	-	-
Other Adjustments - Other Financing Uses				-	-
Contributions	8980-8999	3,399,670.00	172,462.18	3,034,229.25	3,751,212.17
Total, Other Financing Sources/Uses		3,399,670.00	172,462.18	3,034,229.25	3,751,212.17
E. Net Increase (Decrease) in Fund Balance/Net Position		(471,101.00)	1,995,044.13	(2,729,082.45)	(580,674.39)
F. Fund Balance, Reserves/Net Position					
Beginning Fund Balance/Net Position					
As of July 1 - Unaudited	9791	2,694,252.85		4,218,195.98	1,489,113.53
Audit Adjustments	9793	-		-	-
As of July 1- Audited		2,694,252.85		4,218,195.98	1,489,113.53
Other Restatements	9795	-		-	-
Adjusted Beginning Balance		2,694,252.85		4,218,195.98	1,489,113.53
Ending Balance/Net Position, June 30		4,218,195.98		1,489,113.53	908,439.14
Components of Ending Fund Balance (FDs 01-60 only)					
Nonspendable	9710-9719	-		-	-
Restricted	9740	4,218,195.98		1,489,113.53	908,439.14
Committed					
Stabilization Arrangements	9750	-		-	-
Other Commitments	9760	-		-	-
Assigned					
Other Assignments	9780	-		-	-
Unassigned/Unappropriated					
Reserve for Economic Uncertainties	9789	-		-	-
Unassigned/Unappropriated Amount	9790	-		-	-

The restricted general fund summary below shows FCMAT's analysis of the district's restricted resources and includes a column showing the team's adjustments to the base year.

Restricted General Fund Summary

Description	Object Code	Base Year 2020-21	Adjustments to Base Year	Year 2 2021-22	Year 3 2022-23
A. Revenues					
LCFF Sources	8010-8099	-	-	-	-
Federal Revenue	8100-8299	1,995,997.00	11,983,465.32	1,963,980.00	1,944,617.00
Other State Revenues	8300-8599	3,706,478.00	260,903.92	3,444,045.79	3,423,016.54
Other Local Revenues	8600-8799	678,160.00	(1,001.00)	866,113.00	1,055,124.00
Total, Revenue		6,380,635.00	12,243,368.24	6,274,138.79	6,422,757.54
B. Expenditures					
Certificated Salaries	1000-1999	2,200,323.00	210,350.00	2,423,604.20	2,477,520.26
Classified Salaries	2000-2999	1,330,605.00	307,391.24	1,589,755.81	1,613,296.46
Employee Benefits	3000-3999	3,171,180.00	(121,803.89)	3,069,885.59	3,163,632.35
Books and Supplies	4000-4999	1,365,377.00	1,401,696.76	1,954,779.37	989,399.78
Services and Other Operating Expenditures	5000-5999	1,632,268.00	1,505,125.60	1,776,310.33	1,411,414.76
Capital Outlay/Depreciation	6000-6999	25,000.00	6,725,439.00	25,000.00	25,000.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	261,489.00	-	261,489.00	261,489.00
Other Outgo - Transfers of Indirect Costs	7300-7399	265,164.00	392,587.58	936,626.19	812,891.49
Other Adjustments - Expenditures				-	-
Total, Expenditures		10,251,406.00	10,420,786.29	12,037,450.49	10,754,644.10
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		(3,870,771.00)	1,822,581.95	(5,763,311.70)	(4,331,886.56)
D. Other Financing Sources/Uses					
Interfund Transfers					
Transfers In	8900-8929	-	-	-	-
Transfers Out	7600-7629	-	-	-	-
Other Sources/Uses					
Sources	8930-8979	-	-	-	-
Uses	7630-7699	-	-	-	-
Other Adjustments - Other Financing Uses				-	-
Contributions	8980-8999	3,399,670.00	172,462.18	3,034,229.25	3,751,212.17
Total, Other Financing Sources/Uses		3,399,670.00	172,462.18	3,034,229.25	3,751,212.17
E. Net Increase (Decrease) in Fund Balance/Net Position		(471,101.00)	1,995,044.13	(2,729,082.45)	(580,674.39)
F. Fund Balance, Reserves/Net Position					
Beginning Fund Balance/Net Position					
As of July 1 - Unaudited	9791	2,694,252.85		4,218,195.98	1,489,113.53
Audit Adjustments	9793	-		-	-
As of July 1- Audited		2,694,252.85		4,218,195.98	1,489,113.53
Other Restatements	9795	-		-	-
Adjusted Beginning Balance		2,694,252.85		4,218,195.98	1,489,113.53
Ending Balance/Net Position, June 30		4,218,195.98		1,489,113.53	908,439.14
Components of Ending Fund Balance (FDs 01-60 only)					
Nonspendable	9710-9719	-		-	-
Restricted	9740	4,218,195.98		1,489,113.53	908,439.14
Committed					
Stabilization Arrangements	9750	-		-	-
Other Commitments	9760	-		-	-
Assigned					
Other Assignments	9780	-		-	-
Unassigned/Unappropriated					
Reserve for Economic Uncertainties	9789	-		-	-
Unassigned/Unappropriated Amount	9790	-		-	-

The combined general fund summary below shows FCMAT's analysis of all the district's unrestricted and restricted general fund sources and includes a column showing the combined adjustments to the base year.

Combined General Fund Summary

Description	Object Code	Base Year 2020-21	Adjustments to Base Year	Year 2 2021-22	Year 3 2022-23
A. Revenues					
LCFF Sources	8010-8099	17,460,175.00	1,644,468.00	17,369,665.00	15,672,616.00
Federal Revenue	8100-8299	1,995,997.00	11,983,465.32	1,963,980.00	1,944,617.00
Other State Revenues	8300-8599	19,237,749.00	1,831,622.72	3,782,278.74	3,739,315.04
Other Local Revenues	8600-8799	854,660.00	52,999.00	1,099,142.60	1,291,664.60
Total, Revenue		39,548,581.00	15,512,555.04	24,215,066.34	22,648,212.64
B. Expenditures					
Certificated Salaries	1000-1999	9,338,081.00	394,294.00	9,606,474.91	9,589,731.78
Classified Salaries	2000-2999	4,149,618.00	171,283.24	4,559,731.29	4,989,071.15
Employee Benefits	3000-3999	8,341,096.00	46,093.11	8,099,895.02	8,377,963.44
Books and Supplies	4000-4999	2,632,633.00	2,113,927.76	2,915,610.69	1,968,198.66
Services and Other Operating Expenditures	5000-5999	3,970,613.00	1,861,075.60	4,980,032.29	5,107,748.52
Capital Outlay/Depreciation	6000-6999	329,792.00	6,943,970.00	235,367.00	235,367.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	261,489.00	-	261,489.00	261,489.00
Other Outgo - Transfers of Indirect Costs	7300-7399	-	343,046.58	-	-
Other Adjustments - Expenditures				-	-
Total, Expenditures		29,023,322.00	11,873,690.29	30,658,600.20	30,529,569.55
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		10,525,259.00	3,638,864.75	(6,443,533.86)	(7,881,356.91)
D. Other Financing Sources/Uses					
Interfund Transfers					
Transfers In	8900-8929	-	-	-	-
Transfers Out	7600-7629	-	-	-	-
Other Sources/Uses					
Sources	8930-8979	-	-	-	-
Uses	7630-7699	-	-	-	-
Other Adjustments - Other Financing Uses				-	-
Contributions	8980-8999	-	-	-	-
Total, Other Financing Sources/Uses		-	-	-	-
E. Net Increase (Decrease) in Fund Balance/Net Position		10,525,259.00	3,638,864.75	(6,443,533.86)	(7,881,356.91)
F. Fund Balance, Reserves/Net Position					
Beginning Fund Balance/Net Position					
As of July 1 - Unaudited	9791	22,954,100.35		37,118,224.10	30,674,690.24
Audit Adjustments	9793	-		-	-
As of July 1- Audited		22,954,100.35		37,118,224.10	30,674,690.24
Other Restatements	9795	-		-	-
Adjusted Beginning Balance		22,954,100.35		37,118,224.10	30,674,690.24
Ending Balance/Net Position, June 30		37,118,224.10		30,674,690.24	22,793,333.33
Components of Ending Fund Balance (FDs 01-60 only)					
Nonspendable	9710-9719	-		-	-
Restricted	9740	4,218,195.98		1,489,113.53	908,439.14
Committed					
Stabilization Arrangements	9750	-		-	-
Other Commitments	9760	-		-	-
Assigned					
Other Assignments	9780	-		-	-
Per Original Budget					
Unassigned/Unappropriated					
Reserve for Economic Uncertainties	9789	1,226,910.37		919,758.01	915,887.09
Unassigned/Unappropriated Amount	9790	31,673,117.75		28,265,818.70	20,969,007.10

Other Funds

In addition to analyzing the general fund, FCMAT completed a basic review of the district's other funds to determine their possible financial impact on the unrestricted general fund. The district's 2020-21 adoption budget did not contain contributions to other funds; however, the following five funds required transfers from the general fund in 2019-20. No other funds are expected to require a contribution from the unrestricted general fund in the current or two subsequent fiscal years.

Adult Education Fund

The district was required to transfer $1,000 to this fund in 2019-20 for cash flow purposes and will be repaying the funds in 2020-21. Additionally, the district has made reductions to the staff positions within this fund to reduce expenditures and ensure that its normal revenue stream can cover the expenditures generated.

Cafeteria Special Revenue Fund

The district was required to contribute $361,856 from the general fund to the cafeteria special revenue fund in 2018-19. While the district's original budget for 2019-20 anticipated no additional contributions needed to effectively operate this fund, it required a $134,000 contribution from the general fund. The district's CBO has confirmed that the district finally will be receiving additional funds from the 2018-19 fiscal year related to fire losses. The original estimate for those funds was $500,000, but the final distribution may be as little as 50% of that amount. The district has been making efforts to tighten expenses in this fund and the 2018-19 funds will give the Child Nutrition Services Department a little extra time to finalize those measures without having to transfer funds from the general fund.

Debt Service Fund

This fund was created to service the district's Certificate of Participation long-term debt and will receive a $150,000 transfer from the general fund in 2020-21 to completely retire the district's debts. Moving forward, it is anticipated that the fund will see a small amount of interest revenue and no expenditures. The district is contemplating closing this fund.

Other Enterprise Fund

The district maintains this fund to account for its child care services program, which is no longer an active program. However, a retroactive salary payment was posted into the fund requiring a $2,000 transfer from the general fund. No further activity is anticipated in this account for the current or two subsequent years.

Warrant/Pass-Through Fund

This fund accounts for amounts collected from employees for such items as STRS/PERS, social security taxes, health and welfare contributions, etc. Due to an increase in retiree medical costs that the district's contribution had not been adjusted to match, the fund required a $264,000 transfer in 2019-20. The 2020-21 budget will be adjusted to accommodate the increase and further contributions from the general fund are not anticipated.

Alternative MYFP

The 2020-21 May Revision proposed COLA deficits of approximately 10%, but the final budget's use of $11.2 billion in deferrals and a 0% suspended COLA eliminated the 10% deficit factor. It is too early in the fiscal year to know with any certainty what the economic conditions are and what the resulting state budget decisions will be for 2021-22. However, to identify the potential risk of a continuing deficit in Proposition 98 spending levels, FCMAT has assumed a -3.0% deficit for LCFF funds in its alternative MYFP for both 2021-22 and 2022-23 so that the effects of such a reduction in revenue can be observed in the budget. All other amounts and assumptions remain the same. The following chart shows the effect of the deficit factor in LCFF funding on the district's fund balance.

To alleviate confusion, exhibits attached to the alternative assumptions have not been included. Instead, exhibits are available on request.

	Baseline MYFP			Alternative MYFP: -3.0% Deficit		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
LCFF Sources	$ 19,104,643.00	$ 17,369,665.00	$ 15,672,616.00	$ 19,104,643.00	$ 16,847,959.00	$ 15,201,841.00
Other Revenues	$ 35,956,493.04	$ 6,845,401.34	$ 6,975,596.64	$ 35,956,493.04	$ 6,845,401.34	$ 6,975,596.64
Total Revenues	$ 55,061,136.04	$ 24,215,066.34	$ 22,648,212.64	$ 55,061,136.04	$ 23,693,360.34	$ 22,177,437.64
Total Expenditures	$ 40,897,012.29	$ 30,658,600.20	$ 30,529,569.55	$ 40,897,012.29	$ 30,658,600.20	$ 30,529,569.55
Excess (Deficiency) of revenues Over Expenditures Before Other Financing Sources and Uses	$ 14,164,123.75	$ (6,443,533.86)	$ (7,881,356.91)	$ 14,164,123.75	$ (6,965,239.86)	$ (8,352,131.91)
Other Financing Sources/Uses	$ -	$ -	$ -	$ -	$ -	$ -
Net Increase (Decrease) in Fund Balance	$ 14,164,123.75	$ (6,443,533.86)	$ (7,881,356.91)	$ 14,164,123.75	$ (6,965,239.86)	$ (8,352,131.91)
Beginning Fund Balance	$ 22,954,100.35	$ 37,118,224.10	$ 30,674,690.24	$ 22,954,100.35	$ 37,118,224.10	$ 30,152,984.24
Ending Fund Balance	$ 37,118,224.10	$ 30,674,690.24	$ 22,793,333.33	$ 37,118,224.10	$ 30,152,984.24	$ 21,800,852.33

Recommendation

While the district has been reducing staffing/expenditures and rebuilding its facilities in response to its drastic change in student enrollment as a result of the Camp Fire, FCMAT found issues related to the fire that will affect the district for many years to come:

1. Uncertainty caused by the Camp Fire and exacerbated by the North Complex Fire regarding when, or if, residents will return to Paradise and whether the district's enrollment decline is permanent or temporary.
2. The social emotional effects of the Camp Fire on both students and staff, creating increased costs for substitutes, counseling and support staff services.
3. The acceleration of the district's payment of retiree health and welfare benefits in connection with its staffing reduction efforts to size the district according to its current student population. The district's proportional cost associated with this item is not projected to return to its previous normal level until fiscal year 2026-27.
4. Large increases in transportation costs due to the district's efforts to maintain its enrollment by transporting its pre-fire students now living in either Oroville or Chico.
5. Large increases in property and liability insurance premiums due to the Camp Fire and exacerbated by the North Complex Fire.
6. Increases in attorneys' fees associated with claims settlements for both insurance claims with Travelers Insurance and to seek remuneration from a claim with PG&E.

FCMAT has quantified the two-year effect of the last four items above in the following chart. Unfortunately, given the vast number of variables involved in estimating the effects of residents returning to Paradise and whether they would bring students with them, as well as the social emotional effects of the fire, those items could not be included in the chart. Even though it is expected that two of the issues, retiree health and welfare, will gradually return to normal levels given sufficient time, the district will continue to suffer monetarily from all six of these issues beyond the 2022-23 fiscal year.

Condition	2021-22	2022-23
Excess health and welfare costs for retirees	$ 425,942.00	$ 298,306.00
Increased transportation costs	$ 437,962.76	$ 446,152.66
Increased property and liability premiums	$ 398,269.00	$ 405,716.63
Increased attorneys' fees	$ 812,922.00	$ 828,123.64
TOTAL	$ 2,075,095.76	$ 1,978,298.93

The Department of Finance, the Legislature, and the Superintendent of Public Instruction should consider a two-year partial extension of the hold harmless language afforded Paradise Unified School District as contained in Education Code Section 46392. Much like the stepped approach in relief provided in AB 1840, FCMAT would recommend a similar approach to the continuance of Paradise's hold harmless funding with a 75% reduction in that apportionment in 2021-22 and an 87.5% reduction in 2022-23 to provide an additional cushion to the district to address the future effects of issues related to the Camp Fire.

Sincerely,

Julie Auvil, CPA, CGMA, CICA
Intervention Specialist

Cc: Brooks Allen, Executive Director, California State Board of Education
Lisa Constancio, Deputy Superintendent, California Department of Education
Jeff Bell, Program Budget Manager, California Department of Finance
Jessica Holmes, Assistant Program Manager, California Department of Finance
Mary Sakuma, Butte County Superintendent of Schools
Lisa Anderson, Executive Director, Butte County Office of Education
Travis Haskill, Director, External Services, Butte County Office of Education
Elisa Wynne, Deputy Staff Director, Senate Budget Committee
Erin Gabel, Principal Consultant, Assembly Budget Committee
Tom Taylor, Superintendent, Paradise Unified School District
David McCready, Assistant Superintendent, Paradise Unified School District