

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Fiscal Review

July 16, 2020

Budget

Amount	Details	Month	Amount
4,500	Mid Year Bonus	June	2,000
2,500	Year End Bonus	December	3,000
		January	5,000

Costs	Expenditure	Month	Amount
2,300	November vacation	November	450
600	Home for the holidays	December	600
350	Gifts for family	July	300
60	Family vacation	January	880
		January	
		January	
		January	

Annual Budget by Month			
April	May	June	July
9,915	13,220	16,000	7,000
			0

Santa Cruz City Schools

Michael H. Fine
Chief Executive Officer

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

July 16, 2020

Kris Munro, Superintendent
Santa Cruz City Schools
133 Mission Street, Ste. 100
Santa Cruz, CA 95060

Dear Superintendent Munro:

In December 2019, the district entered into an agreement with FCMAT to review the district's 2019-20 first interim budget and its Business Services Department. Specifically, the study agreement states that FCMAT will complete the following:

1. Review the district's 2019-20 first interim general fund budget and multiyear financial projection (MYFP) of the current and two subsequent fiscal years to validate the district's financial status. The budget review will be a snapshot in time of the district's current financial status. Make recommendations for expenditure reductions and/or revenue increases to help the district maintain financial solvency.
2. Review operational processes and procedures in the district's Business Services Department and make recommendations for improved efficiency, if any, in the following areas:
 - Budget development
 - Budget monitoring
 - Position control
 - Accounts payable
 - Accounts receivable
 - Payroll

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve the Santa Cruz City Schools and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Michael H. Fine
Chief Executive Officer

Table of Contents

About FCMAT	ii
Introduction.....	1
Executive Summary	2
Findings and Recommendations.....	3
Multiyear Financial Projection.....	3
Revenues.....	9
FCMAT Multiyear Projection.....	16
Risks to the Unrestricted General Fund.....	21
Other Funds.....	23
Revenue Enhancement and Expenditure Reductions.....	24
Business Services	28
Appendices.....	33

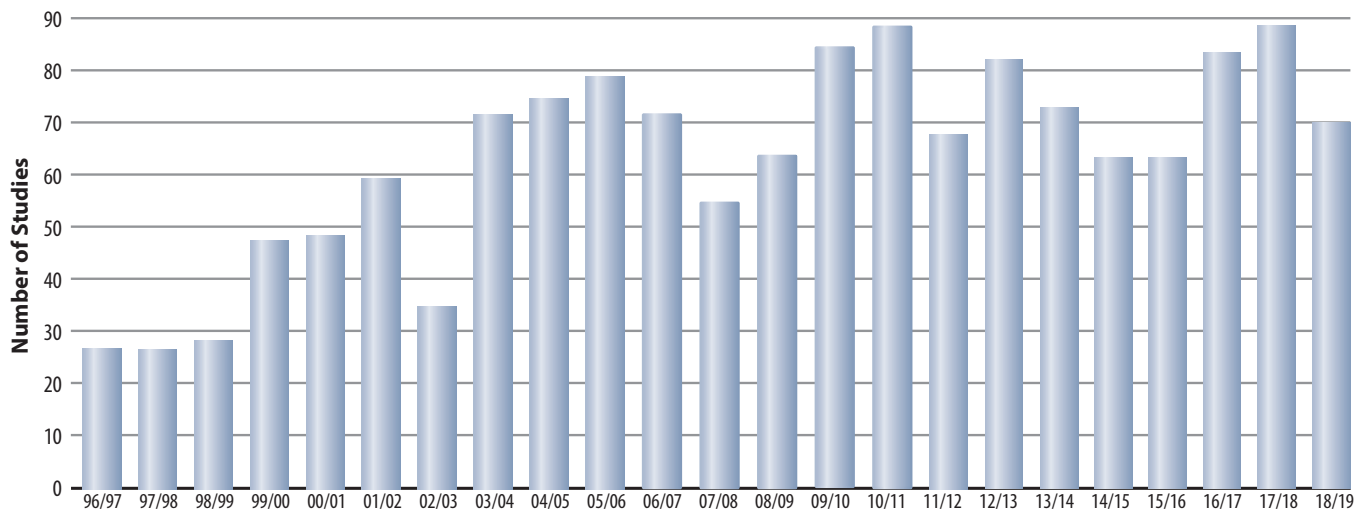
About FCMAT

FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT’s fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT’s data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS’ mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Located in Santa Cruz County, the Santa Cruz City Schools (SCCS) serves approximately 6,400 TK through 12th grade students in the city of Santa Cruz and surrounding areas. SCCS is unique in that it is composed of the Santa Cruz City Elementary and Santa Cruz City High school districts that are governed, administered and reported as one local educational agency. SCCS oversees four elementary schools, two middle schools, three high schools, and a small schools campus, which houses a home school, an independent study program, an alternative option high school, an alternative elementary school, and a Head Start program.

For 2019-20, the California Longitudinal Pupil Achievement Data System information identified an enrollment of 1,976 and an unduplicated pupil percentage (UPP), which is composed of students who qualify for free or reduced-price meals, are English learners, or are foster youth, of 42.51% for Santa Cruz City Elementary School District and 4,463 and 35.94% respectively for Santa Cruz City High School District.

Study and Report Guidelines

In December 2019, the Santa Cruz City Schools and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a review of the district's first interim budget and its Business Services Department.

FCMAT visited the district on February 18-20, 2020 to conduct interviews with district and school site staff, collect data and review documents. Following fieldwork, FCMAT conducted telephone interviews and continued to review and analyze documents received through April 29, 2020. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

John Von Flue FCMAT Chief Analyst	Colleen Patterson, MBA, CMA FCMAT Consultant
Leonel Martínez FCMAT Technical Writer	Dominico Johnston, MBA FCMAT Consultant

Those members of this study team who are otherwise employed by a local educational agency (LEA) were not representing their respective employers but were working solely as independent contractors for FCMAT. Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.

Executive Summary

Multiyear financial projections (MYFPs) provide a financial planning framework based on historical and anticipated district data, district goals, and a set of reasonable assumptions.

Santa Cruz City Schools requested that FCMAT review its first interim budget and Business Services Department. As part of the process, FCMAT developed an independent MYFP based on the district's first interim report, data and assumptions gathered from the district and other local, state and federal sources at that time, and identified trends.

SCCS is unique in that it consists of two districts that are governed, administered and report as one. The elementary district is basic-aid funded, but the high school district is funded based on state funding of the local control funding formula (LCFF). FCMAT's MYFP expects the district's pattern of declining enrollment to continue through 2021-22. The decline affects the district's revenue projections for the secondary's LCFF funds. The elementary is funded by local property taxes in excess of its LCFF calculation; therefore, declining enrollment does not affect funding. However, other uncertainties arise with funding driven by local collections calculated by local property valuations. Historically, the Santa Cruz community has indefinitely supported the district with parcel taxes. In addition, the district has received substantial support from local community donations, which should be closely monitored because they are an unsecured source. FCMAT adjusted revenue estimates in the current year to reflect known and secured revenue expectations at the first interim reporting period. The resulting adjustment reduced the current year revenues by approximately \$1.4 million. SCCS's expense projections were based on the available historical data and current year detailed year-to-date expenditures. Adjustments were made to expense and transfer categories totaling an increase of more than \$1.3 million.

FCMAT identified significant current year deficit spending, which served as a basis for continued deficit spending. Because of its current year beginning fund balance of more than \$16 million, the district can maintain its reserve for economic uncertainty through the current and subsequent year. However, without curtailment of deficit spending, the district will expend the remainder of its reserves in 2021-22 and is projected to end that year with a negative fund balance.

As part of the analysis, FCMAT reviewed the district's practices and funds, looking for opportunities to maximize use of existing funds, increase revenues and reduce expenditures. FCMAT identified several opportunities for the district to consider implementing..

FCMAT's review of the Business Services Department found opportunities to reinforce and improve practices. While no significant discrepancies were found in the district's business operations, this report contains recommendations to improve, organize and document procedures.

Findings and Recommendations

Multiyear Financial Projection

Multiyear financial projections (MYFPs) provide the board and district with a fiscal planning framework that allow them to make budget decisions to address current and future issues. Assembly Bill (AB) 1200 and AB 2756 require MYFPs to be included in the budget adoption and interim budget reporting process.

In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction, county office of education and FCMAT and their ability to intervene during fiscal crisis.

California school districts and county offices use many different methods and software products to prepare MYFPs. The projection 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 2019-20 first interim report 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 fluctuations, funding sustainability, 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. MYFPs can serve as the basis for more informed decisions and provide the ability to forecast the fiscal effects of decisions, but they should be updated at least at each interim financial reporting period, when known economic forecasts change, and in preparation for negotiations.

When developing and implementing its MYFP, a district's main objectives are to achieve and sustain a balanced budget, maximize academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that can help the district make decisions. According to the first interim financial reports submitted for the 2019-20 fiscal year, the district was projected to deficit spend by \$2.3 million and projected an unrestricted ending fund balance of \$12.2 million.

1. California school districts must continue to plan for shifts in funding allocations and growth. LCFF is fully funded therefore future increases from the state will depend on cost of living adjustments (COLA). The approval of the income tax extension (Proposition 55) by California voters will continue to support state revenues through 2030, but the revenue is expected to be volatile, and there is uncertainty about how much will be generated.
2. Each district faces its own set of financial risk factors based on reserve levels, enrollment trends, employee compensation, degree of revenue volatility and various other local and statewide factors. Districts must plan accordingly to meet ongoing academic and program objectives while maintaining fiscal solvency.
3. Developing an MYFP provides a baseline result that can help a district frame its fiscal conversation for the current and two subsequent fiscal years and focus on priorities such as the following:

- Maintaining adequate reserves to allow for unanticipated circumstances.
- Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow for expenditure plans to be changed as needed.
- Analyzing enrollment trends and regularly updating MYFPs.
- Routinely preparing alternative MYFPs that can show the fiscal impact of different budget assumptions through each year of the fiscal model.
- Developing an expenditure reduction plan that can be implemented in a timely manner should it be necessary.

The assumptions used to develop FCMAT's projection include the following:

Description		Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Enrollment projection		6,493	6,366	6,193
Average Daily Attendance (ADA) projection		6,066.46	5,996.73	5,833.32
Funded ADA		6,098.68	6,036.37	5,854.50
Statutory cost-of-living adjustment (COLA)		3.26%	2.29%	2.71%
California Lottery	Unrestricted per ADA	\$153	\$153	\$153
California Lottery	Restricted per ADA	\$54	\$54	\$54
STRS Employer rates		17.10%	18.40%	18.10%
PERS Employer rates		19.721%	22.80%	24.90%
California CPI		3.09%	2.99%	2.89%
Health and Welfare Rate increase			6%	6%
Classified step increase			2.02%	2.02%
Certificated step-and-column increase			1.68%	1.68%
Indirect cost		5.19%	4.47%	4.47%

Details and justifications supporting these assumptions and their application will be provided in the sections to follow.

Current Year Estimates

The first step in this process is to establish the current year revenue and expenditures. Accurately establishing these figures is essential since they will be used to determine the subsequent year's projections. Likewise, as ending fund balances become the beginning fund balance for the subsequent year, establishing the current year ending fund balance is essential.

The following table lists current year revenues and expenditures for the first interim as stated by the district and by FCMAT's estimates.

2019-20 General Fund Budget

FCMAT adjustments				
Object	Code	District First Interim	Adjustment	FCMAT
Revenues				
LCFF	8010-8999	\$70,583,877.00	\$(17,367.00)	\$70,566,510.00
Federal	8100-8299	\$3,849,075.00	\$-	\$3,849,075.00
State	8300-8599	\$5,391,639.00	\$112,353.00	\$5,503,992.00
Local	8600-8799	\$10,738,550.00	\$(912,741.00)	\$9,825,809.00
Interfund Transfers In	8900-8929	\$614,000.00	\$-	\$614,000.00
Total		\$91,177,141.00	\$(1,431,755.00)	\$89,745,386.00
Expenses				
Certificated Salaries	1000-1999	\$38,173,545.00	\$126,631.00	\$38,300,176.00
Classified Salaries	2000-2999	\$13,208,275.00	\$84,698.00	\$13,292,973.00
Employee Benefits	3000-3999	\$23,080,398.00	\$554,619.00	\$23,635,017.00
Books and Supplies	4000-4999	\$6,233,996.00	\$(141,775.00)	\$6,092,221.00
Services and Operating	5000-5999	\$12,066,797.00	\$784,979.00	\$12,851,776.00
Capital Outlay	6000-6999	\$964,741.00	\$(114,110.00)	\$850,631.00
Other Outgo	7100-7299 7400-7499	\$25,362.00	\$(17,331.00)	\$8,031.00
Interfund Transfers Out	7600-7629	\$300,000.00	\$54,596.00	\$354,596.00
Direct / Indirect	7300-7399	\$-	\$-	\$-
Total		\$94,053,114.00	\$1,332,307.00	\$95,385,421.00
Fund Balance				
Beginning Fund Balance		\$16,353,469.07	\$-	\$16,353,469.07
Ending Fund Balance		\$13,477,496.07	\$(2,150,062.00)	\$11,327,434.07

Source: District first interim report, FCMAT Projection-Pro

Explanations and justifications for the FCMAT adjustments to the district's budget are detailed in sections to follow. The FCMAT estimates will then be used as the 2019-20 budget and basis for the MYFP provided later in this report.

Enrollment, Average Daily Attendance, Unduplicated Pupil Percent

Historical enrollment and attendance patterns help identify potential changes in future enrollment and are therefore, core components of any MYFP. Enrollment projections are essential in identifying changes that may significantly change an LEA's estimated revenue in subsequent years of a projection. When prepared timely, they also provide key information for determining instructional priorities, grade level configurations, and potential boundary changes. The best practice dictates enrollment projections by grade level should be prepared regularly and with enough detail to monitor and project class sizes in subsequent years.

Most of a school district's funding is based on the Local Control Funding Formula (LCFF). Student enrollment, unduplicated pupil percentage (UPP) and average daily attendance (ADA) by grade level are all important components of LCFF, which is explained in the Revenue Projection section portion of this report.

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. The forecasting model should be viewed as a trend based on certain criteria and assumptions at a given point in time rather than an exact prediction. To maintain the most reliable and accurate projections, the district should routinely prepare and update enrollment and attendance data. These updates will allow the district to capture a more realistic picture of the various factors that determine the district's level of LCFF funding and adjust budgets accordingly.

Enrollment data is a product of historical enrollment data certified during the Fall 1 census date for the California Longitudinal Pupil Achievement Data System (CALPADS). Enrollment retention is a key component in maximizing ADA and therefore district funding. Enrollment retention should be a key performance indicator used by the district throughout the year and studied historically. Retention within and between school years should be a regular measurement analyzed by the district.

Enrollment history and projections for the district by grade span are presented in the table below.

Enrollment Data	Historical 5	Historical 4	Historical 3	Historical 2	Historical 1	Base Year	Year 2	Year 3
Grade Span	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
TK-3	1,617	1,555	1,468	1,422	1,302	1,292	1,221	1,168
4-6	1,181	1,191	1,143	1,098	1,053	1,045	1,028	984
7-8	782	787	782	749	761	780	725	695
9-12	3,384	3,272	3,266	3,352	3,360	3,322	3,392	3,346
Total TK-12	6,964	6,805	6,659	6,621	6,476	6,439	6,366	6,193
YOY Change		-159	-146	-38	-145	-37	-73	-173
YOY Change (%)		-2.28%	-2.15%	-0.57%	-2.19%	-0.57%	-1.13%	-2.72%

Source: FCMAT Projection-Pro enrollment

The enrollment and ADA projections were prepared by FCMAT based on reported data for years 2014-15 through 2018-19. The projections indicate the district should anticipate continued enrollment decline in 2020-21. In 2021-2, the district is expected to experience an increase in the rate of decline to 2.72 percent. The increased rate of decline stems from the exiting graduating classes being larger than the expected incoming TK-K. FCMAT's projections indicate a decline of 73 students in 2020-21 and an additional decline of 173 students in 2021-22.

The district is funded by data submitted as of the second attendance reporting period (P-2) ADA. This attendance reporting is typically calculated based on student attendance from the first day of school through the last school month ending on or before April 15. For 2019-20, as a result of Senate Bill 117, for districts that comply with Executive Order N-26-20, the second attendance and annual reporting periods were modified to only include full school months from July 1, 2019 through the last month ending on or before February 29, 2020, inclusive.

The district should regularly monitor its attendance data to forecast whether layoff notices are necessary, ensuring management has adequate time to prepare them. Failure to identify necessary reductions in revenue based on declines in ADA and implement timely staffing changes will be a significant detriment to the district.

California school districts funded under LCFF receive funding based on the greater of the prior or current fiscal year ADA. When ADA declines, the district has one year to make necessary staffing adjustments before its LCFF revenue stream decreases.

LCFF funding (specifically, supplemental and concentration grant funding) is also determined based on the LEA's unduplicated pupil percentage (UPP), which is the percentage of the district's students who are eligible for free or reduced-priced meals and/or identified as English learners and/or foster youth; eligibility of a student is only counted once even if the student meets multiple criteria. The UPP is determined based on a three-year rolling average of the ratio of unduplicated students enrolled to total enrollment.

FCMAT reviewed district enrollment and ADA data for five historical years and found the district's ADA as compared to enrollment levels remained consistently in the 94.14 to 94.34% range. This suggests that a strong correlation between enrollment and ADA will continue into the forecast years which is reflected in the table below.

Enrollment to ADA Retention %	Historical 5	Historical 4	Historical 3	Historical 2	Historical 1	Base Year	Year 2	Year 3
Grade Span	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Grades TK-3	94.51%	94.37%	94.00%	94.55%	94.31%	94.33%	94.33%	94.33%
Grades 4-6	94.99%	95.04%	94.78%	94.78%	95.49%	95.07%	95.07%	95.07%
Grades 7-8	95.12%	95.34%	95.15%	95.15%	94.40%	94.92%	94.92%	94.92%
Grades 9-12	93.46%	93.82%	94.01%	93.52%	93.76%	93.73%	93.73%	93.73%
Grades TK-12	94.15%	94.34%	94.27%	94.14%	94.23%	94.21%	94.18%	94.18%

Source: FCMAT Projection-Pro

Since 2014-15, the district has experienced declining enrollment and ADA. Unless other factors substantiate a shift in this trend, the district should continue to forecast annual declines in enrollment and therefore ADA. Based on current enrollment, ADA is projected to drop 1.15% in 2020-21 and 2.72% in 2021-22.

Historic and Projected ADA	Historical 5	Historical 4	Historical 3	Historical 2	Historical 1	Base Year	Year 2	Year 3
Grade Span	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Grades TK-3	1,528.28	1,467.51	1,379.89	1,344.49	1,227.86	1,218.77	1,151.79	1,101.80
Grades 4-6	1,121.86	1,131.90	1,083.34	1,040.67	1,005.56	993.44	977.28	935.45
Grades 7-8	743.87	750.35	744.05	712.66	718.37	740.39	688.19	659.71
Grades 9-12	3,162.66	3,069.89	3,070.35	3,134.90	3,150.27	3,113.86	3,179.47	3,136.36
Grades TK-12	6,556.67	6,419.65	6,277.63	6,232.72	6,102.06	6,066.46	5,996.73	5,833.32
YOY Change		-137.02	-142.02	-44.91	-130.66	-35.64	-69.69	-163.41
YOY Change (%)		-2.09%	-2.21%	-0.72%	-2.10%	-0.58%	-1.15%	-2.72%

Source: FCMAT Projection-Pro

The chart below compares the funded ADA projected by FCMAT in comparison to the district's reported ADA projections at budget adoption, in district's first interim criteria and standards, and in district's first interim LCFF calculator.

As mentioned before, districts are funded at the better of current year or prior year P-2 ADA. Districts in declining enrollment will be guaranteed funding from prior year ADA. The following chart considers that guarantee of ADA.

Funded ADA comparison

Source		Fiscal Year		
		2019-20	2020-21	2021-22
SCCS Budget Adoption	(Form 01CS, Item 1A)	6114.9	5991.03	5851.95
SCCS MYP 1st Interim C&S	(Form 01CS, Item 1A)	6095.28	6084.06	5965.44
SCCS LCFF Calculator	*	6101.96	6090.74	5972.12
FCMAT calculation		6098.68	6036.37	5854.50

*2019-20 LCFF Calculator elementary first interim v20.2c-LCFF 12.3.19-JL and 2019-20 secondary first interim LCFF Calculator 12.03.19 v20.2c-JL)

Since district revenues and expenditure decisions are driven by enrollment, measures should be taken to ensure enrollment is adequately projected. If enrollment projections vary from the historical norm, the district should be able to substantiate the reductions or increases.

Revenues

FCMAT developed a MYFP and analyzed the district's MYFP to ensure it was in line with the state's 2019-20 district funding allocations and School Services of California's planning factors.

Revenue Assumptions (Object 8XXX):

Projected revenue was based on validation of funding from the January 2020 Governor's Projected Budget, California Department of Education (CDE), SSC's Financial Projections Dashboard (attached as Appendix A to this report), grant letters, and analysis of district budgeted amounts for sources that could not be independently verified.

Local Control Funding Formula

The implementation of the LCFF began with the 2013-14 fiscal year. The LCFF replaced the former revenue limit calculation and charter school block grant.

The LCFF provides the following:

- A base per-pupil grant that varies by grade span.
- Supplemental funding that provides an additional 20% of the per-pupil base grant multiplied by the unduplicated pupil percentage (UPP) of targeted disadvantaged pupils. Targeted pupils are those classified as English learners, those who qualify for free or reduced-price meals and those who are foster youth.
- Concentration funding that provides an additional 50% of the base grant multiplied by the percentage of targeted disadvantaged pupils in excess of 55% of total enrollment.

LCFF eliminated many former state categorical programs for all LEAs, including school districts, charter schools, and county offices of education; these dollars were redirected to support LCFF. Full implementation of the LCFF for school districts and charter schools was achieved in 2018-19, two years earlier than anticipated, with all LEAs receiving their target allocations of LCFF funding.

Funding growth will not be at the same rate of recent years as a result of LCFF already reaching its target. The district's future LCFF funding growth from the state is contingent on changes in state applied cost-of-living adjustments (COLA), ADA growth, and unduplicated student counts.

The elementary district's operation falls under the classification of basic aid. A district that is basic aid keeps the money generated from local property tax in excess of its state-mandated LCFF total funding. This additional funding component allows funding changes for grades K-5 to be realized from changes in taxes collected based on property valuations within the district with little impact from declining ADA.

While property appreciation in the region has historically been strong, periods of significant revisions against the trend have been seen (Average Appreciation Index for Single Family Homes in Santa Cruz County, Santa Cruz Association of Realtors <https://www.mysantacruzrealestate.com/Statistics.php>). This data identifies a range of annual appreciation in home sales from -20.7% to more than 50% resulting in an average of approximately 7.6% over the last 40 years.

As the assessed value of property within the district has a direct impact on the district's total LCFF funding, property valuations and trends within the district should be an area of regular observation and analysis.

The elementary district's projection of LCFF funding in the 2020-21 and 2021-22 fiscal years indicates that the district will continue as basic-aid funded. Based on projected LCFF funding as compared to local property tax finds, FCMAT estimates that the local property tax revenues will exceed the LCFF funding by approximately 50% through that period. Therefore, the elementary district's funding depends on growth through assessed valuations inside the district's boundary. While historically such a trend has been supported, its future funding depends on local economic conditions. Given the district's reliance on assessed property valuation, a regular analysis should be performed with assistance from the county assessor to ensure district projections are aligned with anticipated tax collections.

The secondary (high school) operation is LCFF funded based on ADA. When calculating ADA projections, the elementary experienced a greater loss in ADA. This loss was due to both cohort survival estimates (grade level ADA maintenance from year to year) and, for 2018-19, the transition of sixth grade from the elementary operation to the secondary operation. The 2019-20 P-1 reports that 328.88 ADA for sixth grade are now reported to the secondary LCFF calculation.

The UPP calculated within the LCFF is the district's average of the current year UPP, plus the prior two years. The assumed UPP used in the district's first interim LCFF models is 41.43% of the elementary school population and 38.06% for the secondary school population. The UPP calculations were made in consideration of the transfer of sixth grade students to the secondary school. With that consideration, FCMAT deems the assumptions reasonable measures and are in line with historical trends. The use of fall 1 CAL-PADS unduplicated student data is critical in the development and revisions of district UPP data within LCFF calculations.

Guidance from the county office and the California Department of Finance are both valuable sources of information to enable the district to make ad hoc changes in the face of sudden economic swings. Districts are encouraged to use the most current FCMAT LCFF Calculator to estimate LCFF funding.

Federal Revenue (8100-8299)

Funding from federal grants and entitlements is restricted in accordance with their provisions. The district operates multiple restricted federally funded programs including, but not limited to Title I, Title II, Title III, Title IV, Migrant Education, Medi-Cal administrative activities, and various special education programs. FCMAT confirmed the district's federal award amounts were correct per CDE funding allocation schedules for 2019-20. The district has used a conservative flat funding approach with federal funding in the two subsequent fiscal years. Changes in federal funding are contingent on multiple economic, political and demographic factors. Routine evaluation from these sources of fiscal guidance should be sought and factored into district budget updates. Because federal funding is dependent on a reimbursement process, it will naturally place districts in a cash-short position since they have to use other funds to support the federally funded operations until the reimbursement is received. The greater the reliance on federal funding for operational activities, the greater the need to maintain a healthy balance of cash per month.

Other State Revenue (8300-8599)

State revenues were evaluated using information provided by the district and verified by CDE reported figures. The district has taken a flat funding approach in its out year projections. Constant evaluation of the out-year assumed funding should be given based on the district's declining enrollment trend and the invariability of predicting the state's COLA rate. FCMAT projected lottery revenues for 2019-20 using actual prior year annual ADA, adjusted for the statewide average excused absence factor, and multiplied by \$153 for unrestricted and \$54 for restricted lottery revenues, per the SSC Dartboard. Based on the prior year's annual ADA funded lottery allocations, Proposition 20 and non-Proposition-generated Lottery funds are

expected to come in approximately \$112,000 more than what the district projected at first interim. A minor increase of \$249 was also added to the mandated block grant funding. AB 602 established the state's special education funding structure in 1997. Special education funding is based on the ADA of all district students and does not consider those identified in the district and the cost to serve them. SCCS belongs to the North Santa Cruz County SELPA (special education local plan area). The SELPA's role is to receive funding from the state and allocate it through a locally determined distribution model. This model ideally allows the local areas to determine how the funds can be distributed to best benefit the SELPA member districts. The first interim 2019-20 revenue allocation to SCCS was approximately \$4.7 million or 31.6% of the special education revenue. In addition, through the SELPA allocation Santa Cruz City High is estimated to receive \$552,967.75 for hard of hearing and vocational education services provided students of the member districts.

Other Local Revenue (8600-8799)

The district received local revenues from leases and rentals, interest earnings, donations, parcel taxes and other miscellaneous sources. Funding from these various sources constitutes roughly 10% of the general fund budget. As a result of the uncertain nature of these revenues, it is critical that a high degree of scrutiny exists when budgeting such figures. FCMAT adjusted budgeted donations based on a four-year historical average, which resulted in a significant decrease in the district's budget for local revenue. These budget items should also be monitored and updated throughout the year based on amounts received to date. Future year projections should be held to an even higher degree of scrutiny. The unsecured nature of these revenues and their size in the district's budget can lead to a distorted view of fiscal stability. Modeling local revenue projections using historical and forward-looking models can assist in avoiding over- or understated amounts. Depending on the type of revenue anticipated, formal agreement letters or other contractual documents should be sought as the basis of current and future year projections. In other more transactional activities, such as rental income activity, conservative historical evaluations can substantiate future projections.

Parcel Taxes

SCCS revenue is supplemented by parcel taxes approved by the community. In 2012, the community approved Measures I and J, to provide \$123 per parcel revenue to the district through June 2021, and Measures O and P were approved in 2015 to add \$177 per parcel through June 2024. In March 2020, Measures T and U were approved. These measures will replace the prior measures effective July 1, 2020. It is expected that Measure T will generate \$3.7 million and Measure U will generate \$3.2 million in annual revenue to SCCS.

Expenditures

The district's expense assumptions and projections were reviewed and assessed based on prior year, expenses to date and information provided by the district for compensation settlements, the curriculum master plan, and special education expenses. The district uses the Santa Cruz County Office of education financial system, which changed from one platform in 2018-19 to another in 2019-20. District office staff could not replicate actual expenditures that tie to the SACS data reported at first interim reports from either the 2018-19, or the 2019-20 financial system. In addition, the 2018-19 unaudited actual expense detail related to restricted funds did not tie to the State Categorical Form (CAT), the carryover reported, or reportedly, the Consolidated Application and Reporting System. This lack of readily available accurate historical data from both the financial system used in 2018-19 and the financial system used in 2019-20, could hinder man-

agement's ability to analyze and project expenses and require additional staff time to complete its analysis throughout the year. FCMAT identified approximately \$406,550 in potential variances that were underbudgeted in the unrestricted general fund as of the first interim report. Special education expenses were much more affected by the lack of data, and the identified potential variances summed to approximately \$925,758 underbudgeted at first interim.

District documents indicated that the 2019-20 first interim includes \$758,476 in expenses related to restricted programs which need to be eliminated or moved to the unrestricted general fund in 2020-21. Eliminated programs include: Low Performing Student Block Grant, State Career Technical Education Block Grant (CTEIG), Strong Workforce Program, and Medi Cal Program. Assumptions include savings from a reduction of three instructional positions in 2020-21 followed by another reduction of two instructional positions in 2021-22. The actions taken for certificated salaries related to the Low Performing Student Block Grant in the MYP have not been identified by the district. No other adjustments for salaries or position decreases/increases other than those indicated are included in the district's multiyear fiscal plan (MYFP).

Salaries

The district MYFP assumptions provided to FCMAT include a 1.5% annual cost related to certificated step and column, and 2% per year related to Classified Employees. The district's new 2019-20 financial system is able to calculate the fiscal impact of annual step and column increases by bargaining group. For the FCMAT MYFP, the financial system calculated annual cost for certificated employee unit members of 1.68%, classified employee unit members 2.02%, certificated management .95%, classified management .83% and confidential employees 3.97% were used.

Certificated Salary Expenses (1000-1999)

FCMAT's review of unrestricted general fund expenditures through October 2019 and projected expenditures through June 2020, based on the 2018-19 first interim expenditures as a percentage of the associated unaudited actual information, indicates that annual projected expenses are underbudgeted by approximately \$42,000. The analysis of special education salaries indicates that annual projected expenses are underbudgeted by approximately \$110,000. These are the main contributors to an adjustment of approximately \$126,000 adjustment to certificated salaries in the current year.

The Board approved a retroactive increase in the certificated bargaining unit salaries on June 19, 2019. All of this increase should have been accrued in the 2018-19 closing and reported as a liability in the 2018-19 unaudited actuals. It was paid in August 2019 and reported as a one-time 2019-20 payroll expense.

The analysis does not include the impact of the 2% salary increase for certificated unit members adopted by the board October 16, 2019 and paid in November.

The district's MYFP for 2020-21 includes the positive fiscal impact of the reduction of \$150,695 in restricted certificated salaries (primarily CTEIG) and the reduction of three unrestricted positions due to declining enrollment at approximately \$221,000. These combine to estimate a reduction in certificated positions for 2020-21 for a savings of approximately \$371,695. In 2021-22, the MYFP adds savings related to the reduction of two certificated teaching positions totaling \$140,000.

Classified Salary Expenses (2000-2999)

FCMAT's review of unrestricted general fund expenditures through October 31, 2019 and projected expenditures through June 2020. Based on the 2018-19 first interim expenditures as a percentage of associated unaudited actual information, a similar expenditure pattern in 2019-20 would estimate that annual projected expenses are underbudgeted by approximately \$30,000.

The analysis of special education salaries indicates that annual projected expenses are underbudgeted by approximately \$55,000. These combine to approximately \$85,000 adjustment to classified salaries.

The district's MYFP for 2020-21 includes the reduction of \$14,495 in restricted certificated salaries related to one-time Medi Cal income.

Employee Benefits (3000-3999)

The benefit accounts are maintained in the district's position control document and HR information system. FCMAT's review of the actual expenditures for unrestricted general fund benefits paid through October 2019 and projected expenditures through June 2020, indicates that annual projected Other Post Employment Benefits (OPEB) expenses are underbudgeted by approximately \$500,000. Interviews indicate that the budget will be increased to match the levy, though no transfer of excess funding to fund 20 is budgeted. The shortfall in the current year budget for employee benefits is approximately \$550,000.

An analysis of the total increase in Health and Welfare expenses for the last two years indicate that the annual rate of increase has been 5.8% for certificated and 6.4% for classified. FCMAT used 6% in the MYFP as opposed to the 4% increase used by the district.

Books and Supplies (4000-4999)

The district identified an error of \$241,000 related to supplies to support the LCAP, which will be decreased in 2020-21 at budget adoption. In addition, FCMAT's review of actual expenditures through October 2019 and projected expenditures through June 2020 indicates that the \$1 million addition to the Curriculum Master Plan for unrestricted books and supplies is excessive, based on current year spending and historical averages. None of the individuals interviewed by FCMAT were confident that the districtwide textbook adoption would occur as budgeted. Based on assumptions and spending patterns, should the adoption not occur, the amount budgeted would be excessive. Based on the likelihood that the adoption would not occur, FCMAT estimates that the unrestricted general fund may be overbudgeted by \$200,000 at first interim.

The special education program instructional supply expenditures are much higher than prior year expenses causing these accounts to be underbudgeted by approximately \$60,000. The net overage in the budget for books and supplies (not including the curriculum master plan) is approximately \$140,000.

Services and Other Operating Expenses (5000-5999)

FCMAT's review of actual expenditures and encumbrances through October 2019 and projected expenditures through June 2020 indicates that unrestricted general fund expenditures are underbudgeted by approximately \$450,000 primarily related to consultants and the technology infrastructure expenses. This is offset by overbudgeted amounts of \$200,000 in maintenance, rental contracts and several miscellaneous items. The net impact is an overbudget of approximately \$160,000 in unrestricted operating expenditures.

The analysis of special education expenses indicates an underbudgeting between \$80,000 and \$630,000 related to nonpublic school (NPS) and private, nonsectarian establishments or individuals that provide services for pupils with exceptional needs through nonpublic agency (NPA) contracts. A comparison of the 2018-19 unaudited actual expenses to the 2019-20 budget forecasted a decrease in this expense, even though there was an increase of 11% in these services from 2017-18 to 2018-19. Based on interviews and

schedules reviewed, the district focus is on ensuring that the encumbrances caused by purchase orders are sufficient to allow payment to the vendor, not tracking and monitoring expenses. The district incurred a large increase in these contracted services in the prior year and the FCMAT adjustments are justified based on first interim projections.

Based on the information reviewed, FCMAT found the services and other operating expenditures to be underbudgeted by approximately \$785,000.

Direct Support/Indirect Cost (7300-7399)

Following the best practice, the full allowable indirect cost rate should be budgeted and charged to each program and fund, even those that require a contribution from the unrestricted general fund. The charging of indirect with fidelity, allows the district to understand the true cost of each program, to draw on restricted resources and to distribute unallocated costs to all programs. Special education in the current year appears to be underbudgeted by approximately \$94,000. In addition, the district uses a 1% indirect cost rate in the MYFP but historically they have been approved by the California Department of Education (CDE) to charge rates in the range of 4.47%-6.59%. Full indirect as approved by the CDE and allowed by the program should be charged with consistency.

Contributions to Restricted Funds (8980-8999)

The 2019-20 first interim report includes contributions from the unrestricted general fund to support several restricted programs including federal and state special education programs, Mental Health Services, Workability, and the College Readiness Block Grant. In 2018-19, the general fund provided \$560,000 to the District Donation and Local Restricted Program. Ensuring that all qualifying expenditures are appropriately coded to the applicable restricted programs helps provide maximum flexibility and availability of unrestricted funding, which can typically be used for any educational purpose. However, all programs requiring a contribution from the unrestricted general fund should be reviewed to ensure they are self-sustaining or, at minimum, the contribution is planned. The only exceptions should be the restricted maintenance account required contribution, the special education program, which typically receives insufficient state and federal funding, and any restricted programs that the district has made a conscious decision to support with unrestricted general funds.

In the MYFP some restricted programs begin to build a fund balance while others need program modifications or district support. Because of increasing costs year-over-year, the district may need to reduce expenditures in several of its other restricted resources in 2020-21 and/or 2021-22 to remain within the projected revenue estimates and prevent encroachment on unrestricted funds. Some areas that be affected include other local programs, Title I, Every Student Succeeds Act (ESSA) migrant education and summer program, Title II, Title III-immigrant student, Title IV, and Title IX. Areas where expenditure reduction are a must to avoid encroachment include lottery instructional materials, the After School Education and Safety Program (ASES), IDEA Federal Preschool, Carl Perkins, and Medi-Cal billing.

According to FCMAT's projection, while no contribution is budgeted for 2019-20, a decrease of \$1.3 million in expenses is required to balance the other restricted local program (9010) in 2020-21. This resource required an unrestricted general fund contribution of \$520,000 in 2018-19.

Routine Restricted Maintenance Account (RRMA)-(Resource 8150)

Districts participating in the school facility program are required to contribute 3% of the total general fund expenditures and other financing uses to the routine restricted maintenance account (RRMA). The district projected a contribution of \$2,623,612 from the general fund to the RRMA as of the first interim report,

meeting the requirement. The district is expected to receive redevelopment agency funds (RDA) sufficient to cover the RRMA but the district does not use the maximum flexibility associated with the funds outside the LCFF calculation. Expenses that are paid from the RDA funds generally qualify toward and can be used to satisfy the 3% RRMA contribution. (See Revenue Enhancements and Expenditure Reductions section)

FCMAT Multiyear Projection

The following table summarizes the results of FCMAT's MYFP for the general fund resources for the current and subsequent two fiscal years.

Combined MYP

Description	Object Code	Base Year 2019-20	Year 2 2020-21	Year 3 2021-22
Revenues				
LCFF Sources	8010-8099	\$70,566,510.00	\$70,583,877.00	\$70,583,877.00
Federal Revenue	8100-8299	\$3,849,075.00	\$3,832,735.00	\$3,832,735.00
Other State Revenues	8300-8599	\$5,503,992.00	\$5,011,130.84	\$5,055,944.78
Other Local Revenues	8600-8799	\$9,825,809.00	\$9,803,037.93	\$9,809,002.34
Transfers In	8900-8929	\$614,000.00	\$449,000.00	\$284,000.00
Total, Revenue		\$90,359,386.00	\$89,679,780.77	\$89,565,559.12
Expenditures				
Certificated Salaries	1000-1999	\$38,300,176.00	\$38,213,020.63	\$38,712,647.38
Classified Salaries	2000-2999	\$13,292,973.00	\$13,536,478.83	\$13,809,915.71
Employee Benefits	3000-3999	\$23,635,017.00	\$24,444,412.62	\$25,364,363.19
Books and Supplies	4000-4999	\$6,092,221.00	\$3,930,962.79	\$3,879,530.31
Services and Other Operating Expenditures	5000-5999	\$12,851,776.00	\$12,598,011.47	\$13,046,276.27
Capital Outlay/Depreciation	6000-6999	\$850,631.00	\$809,745.00	\$809,745.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	\$8,031.00	\$8,031.00	\$8,031.00
Other Outgo - Transfers of Indirect Costs	7300-7399	\$-	\$-	\$-
Transfers Out	7600-7629	\$354,596.00	\$361,688.00	\$368,922.00
Other Adjustments - Expenditures		\$-	\$-	\$-
Total, Expenditures		\$95,385,421.00	\$93,902,350.34	\$95,999,430.86
Net Increase (Decrease) in Fund Balance/Net Position		\$(5,026,035.00)	\$(4,222,569.57)	\$(6,433,871.74)
Fund Balance, Reserves/Net Position				
Beginning Fund Balance/Net Position				
As of July 1 - Unaudited	9791	\$16,353,469.07	\$11,327,434.07	\$7,104,864.50
Audit Adjustments	9793	\$-	\$-	\$-
As of July 1- Audited		\$16,353,469.07	\$11,327,434.07	\$7,104,864.50
Other Restatements	9795	\$-	\$-	\$-
Adjusted Beginning Balance		\$16,353,469.07	\$11,327,434.07	\$7,104,864.50
Ending Balance/Net Position, June 30		\$11,327,434.07	\$7,104,864.50	\$670,992.76
Components of Ending Fund Balance (FDs 01-60 only)				
Nonspendable	9710-9719	\$102,000.00	\$102,000.00	\$102,000.00
Restricted	9740	\$385,036.69	\$468,836.77	\$900,745.32
Committed		\$-	\$-	\$-
Stabilization Arrangements	9750	\$-	\$-	\$-
Other Commitments	9760	\$-	\$-	\$-
Assigned		\$-	\$-	\$-
Other Assignments	9780	\$-	\$-	\$-
Negative Restricted Ending Balances				
Unassigned/Unappropriated		\$-	\$-	\$-
Reserve for Economic Uncertainties	9789	\$2,844,343.00	\$2,817,070.00	\$2,879,983.00
Unassigned/Unappropriated Amount	9790	\$7,994,102.47	\$3,716,957.73	\$(3,211,735.56)

Source: FCMAT Projection-Pro

The projection identifies the district with an imbalanced budget, resulting in significant deficit spending. The district's 2019-20 fiscal year begins with a general fund balance of more than \$16.3 million and is expected to decrease its position by approximately \$5.0 million to \$11.3 million. The deficit spending continues into fiscal year 2020-21 with a deficit of \$4.2 million and 2021-22 with a deficit of \$6.4 million. As a result, deficit spending decimates the district's general fund balance in the projection period.

A review of the district's unrestricted general fund MYFP found that unrestricted funds carry the burden of the deficit spending. The projection identifies approximately \$19 million per year in contributions from unrestricted funds to restricted programs, creating a deficit that reduces the district's unrestricted fund balance each year. Because of its existing reserves, the district can maintain a 3% required reserve for economic uncertainties and a positive unrestricted general fund balance through years 2019-20 and 2020-21. However, the projections show that the district is on course to deficit spend unrestricted by \$6.8 million in 2021-22 and end that year with a negative unrestricted general fund balance.

Unrestricted MYP

Description	Object Code	Base Year 2019-20	Year 2 2020-21	Year 3 2021-22
Revenues				
LCFF Sources	8010-8099	\$70,566,510.00	\$70,583,877.00	\$70,583,877.00
Federal Revenue	8100-8299	\$-	\$-	\$-
Other State Revenues	8300-8599	\$1,810,151.00	\$1,827,317.39	\$1,848,097.41
Other Local Revenues	8600-8799	\$7,241,100.00	\$7,246,328.93	\$7,252,293.34
Transfers In	8900-8929	\$614,000.00	\$449,000.00	\$284,000.00
Contributions	8980-8999	\$(19,077,092.00)	\$(18,748,268.56)	\$(19,796,784.57)
Total, Revenue		\$61,154,669.00	\$61,358,254.76	\$60,171,483.18
Expenditures				
Certificated Salaries	1000-1999	\$30,611,686.00	\$30,681,309.54	\$31,054,403.54
Classified Salaries	2000-2999	\$9,129,320.00	\$9,313,732.27	\$9,501,869.66
Employee Benefits	3000-3999	\$16,761,757.00	\$17,275,076.19	\$17,945,464.26
Books and Supplies	4000-4999	\$2,533,469.00	\$2,436,575.53	\$2,506,992.56
Services and Other Operating Expenditures	5000-5999	\$6,241,232.00	\$6,477,705.31	\$6,579,958.03
Capital Outlay/Depreciation	6000-6999	\$142,625.00	\$101,739.00	\$101,739.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	\$8,031.00	\$8,031.00	\$8,031.00
Other Outgo - Transfers of Indirect Costs	7300-7399	\$(1,048,856.00)	\$(993,184.34)	\$(1,030,116.58)
Other Adjustments - Expenditures		\$-	\$-	\$-
Transfers Out	7600-7629	\$354,596.00	\$361,688.00	\$368,922.00
Total, Expenditures		\$64,733,860.00	\$65,662,672.50	\$67,037,263.47
Net Increase (Decrease) in Fund Balance/Net Position		\$(3,579,191.00)	\$(4,304,417.74)	\$(6,865,780.29)
Fund Balance, Reserves/Net Position				
Beginning Fund Balance/Net Position				
As of July 1 - Unaudited	9791	\$14,519,636.47	\$10,940,445.47	\$6,636,027.73
Audit Adjustments	9793	\$-	\$-	\$-
As of July 1- Audited		\$14,519,636.47	\$10,940,445.47	\$6,636,027.73
Other Restatements	9795	\$-	\$-	\$-
Adjusted Beginning Balance		\$14,519,636.47	\$10,940,445.47	\$6,636,027.73
Ending Balance/Net Position, June 30		\$10,940,445.47	\$6,636,027.73	\$(229,752.56)

Components of Ending Fund Balance (FDs 01-60 only)			\$-		
Nonspendable	9710-9719	\$102,000.00	\$102,000.00		\$102,000.00
Restricted	9740		\$-	\$-	\$-
Committed			\$-		
Stabilization Arrangements	9750		\$-	\$-	\$-
Other Commitments	9760		\$-	\$-	\$-
Assigned			\$-		
Other Assignments	9780		\$-	\$-	\$-
Negative Restricted Ending Balance					
Reserve for Economic Uncertainties	9789	\$2,844,343.00	\$2,817,070.00		\$2,879,983.00
Unassigned/Unappropriated Amount	9790	\$7,994,102.47	\$3,716,957.73		\$(3,211,735.56)

Source: FCMAT Projection-Pro

As shown in the table above, if revenue and expenditure assumptions hold, and no adjustments are made, the district will end 2021-22 with a negative unrestricted fund balance of \$229,752.56. To avoid this negative balance and maintain minimum reserves for economic uncertainty of 3%, the district needs a correction of more than \$3.2 million in its budget.

The key to maintaining fiscal solvency is retaining sufficient reserves to allow the district to take corrective action if changes occur in revenue and/or expenses. Changes could be within or outside the realm of district control. Factors that may decrease revenue include declining enrollment or changes in state funding, local property tax revenues or significant to SCCS, other locally generated revenues. Districts typically balance their budgets through their ability to control and plan expenditures. However, external pressures such as STRS and PERS employer contributions along with unanticipated expenses, such as those related to special education, can derail plans. Therefore, detailed projections, regular adjustments, and reserves adequate to allow corrective action are necessary to ensure a district's fiscal solvency.

The MYFP helps the district determine whether it can maintain fiscal solvency and its required 3% reserve for economic uncertainty for the current plus two subsequent years. If the MYFP determines that the district cannot maintain fiscal solvency and the required reserve, it can also help identify corrective adjustments and their effect on reserve.

Recommendations

The district should:

1. Continue to monitor and project enrollment and ADA at each financial reporting period to ensure the most recent data is included in its budget assumptions.
2. Continue to use the most current LCFF calculator provided by FCMAT to model various funding scenarios. Model how different changes in factors such as ADA, UPP, COLA, and anticipated local tax revenues could affect the district.
3. Continue to monitor and update the budget throughout the year based on the amounts the district is projected to receive. Check apportionment and entitlement funding exhibits on the CDE's website regularly for this information.

4. Ensure that all grants, entitlements and carryovers (unearned revenues) are properly updated by the time of the first interim report and that they agree with CDE funding exhibits.
5. Establish a review process and criteria to evaluate the validity of all local revenues budgeted. Budgeted local revenues should be conservative amounts . Anticipated donations should be substantiated through formal agreement. Out year projections should be evaluated in light of potential unforeseen factors.
6. Continue to regularly evaluate other funds and their potential to cause fiscal strain on the general fund's resources in the current and subsequent fiscal years.
7. Review the detailed information regarding the cost of step and column, to more closely track and estimate the multiyear impact of increased salary costs. The percentage increase in costs used in the MYFP should be divided by additional object codes, including those for certificated instructors, school site office support staff, confidential staff and administrators.
8. Continue to ensure the Human Resources and Business Services departments have a common understanding of the fiscal impact of budgeting the termination of restricted one-time positions, or moving them to the unrestricted general fund, and budgeted reductions in positions related to declining enrollment.
9. Refrain from using one-time revenues to establish new positions or provide ongoing increases in salaries or benefits.
10. Continue to use restricted resources as much as possible before charging expenses to the unrestricted general fund.
11. Ensure settlements, approved by the board of education in the prior fiscal year are accrued while closing the books and reported as a liability in the unaudited actuals.
12. Conduct a detailed analysis of health and welfare benefits at all reporting periods to determine if the budget and multiyear projection assumptions should be revised.
13. Periodically review actual levies of fringe benefits to ensure that the rates listed in the assumptions are those being levied.
14. Review budgets for county office services, NPS and other contract services related to special education programs frequently and, at a minimum, before each interim reporting period.
15. Continue to adopt a budget and MYFPs that eliminate deficit spending and insure fiscal solvency.
16. Review contributions to restricted programs and increase openness by disclosing at each budget reporting period all programs that require a contribution from the unrestricted general fund. This will help ensure all stakeholders are aware of the funding allocated to these programs, particularly during budget reduction discussions.
17. Identify reliable sources to estimate reasonable assumptions for the adoption of a districtwide textbook plan.
18. Include an estimated annual budget for special education programs at budget adoption and continue to adjust the budgets throughout the fiscal year.

19. Continue to charge each restricted resource the full allowable indirect cost rate.
20. Consider using RDA funds to support RRMA expenditures reducing contributions in the budget year and subsequent years.
21. Continue to use the MYFP to identify programs that may require a contribution from the unrestricted general fund in subsequent years, and take any necessary action to ensure programs are self-sustaining.

Risks to the Unrestricted General Fund

Special Education

Interviews and analysis indicated that the 2018-19 budget to actual income and expense analysis was not performed before the special education program was budgeted in 2019-20. The 2017-18 and 2018-19 special education maintenance of effort reports indicate that NPS/NPA services increased 11% over that one year period. In the absence of other data, the expense budgeted for 2019-20 should have included a similar 11% increase in services; however, the district has forecast current year cost of services to increase between 18.8% and 27.5%. This rapid rate of increase affirms the need to perform detailed analyses throughout the year to help manage special education expenses and increase forecasting accuracy.

Technology Plan Funding

At the October 2019 meeting, the SCCS board ratified the expenditure of \$155,450 per year for five years (\$777,250) to procure 2,500 Chromebooks. The funding source was identified as lease revenue. Unless the district has signed long-term rental contracts to secure the funding, the revenue to support the expenditure may not materialize and it is questionable whether the district should recognize the lease revenue.

Revenue recognition is a generally accepted accounting principle (GAAP) that identifies the specific conditions in which revenue is recognized and determines how to account for it. Before revenue is recognized, the following criteria must be met:

- Persuasive evidence of an arrangement must exist.
- Delivery must have occurred or services rendered.
- The seller's price to the buyer must be fixed or determinable.
- Collectability should be reasonably assured.

Inventory

Education Code Section 35168 requires the governing board to establish and maintain an inventory of all equipment items with a current market value of more than \$500. When federal funds are used for a purchase, the district is required to include additional information in its inventory records, including the funding source, titleholder, and percent of federal participation (34 CFR 80.32 and 5 CCR 3946). In addition, at least once every two years, a physical inventory of equipment must be conducted and the results reconciled with the property records (34 CFR 80.32).

Interviews indicate that the district is using a "free" software inventory system (in exchange for buying asset tags) that does not have the capability of scanning asset tags to produce a physical inventory of equipment at school sites. Scanning occurs only when computers originally arrive at the warehouse. Interviews also indicate that a biannual inventory does not occur.

Cashflow

The district continues to lower its reserves in its MYFP while relying on a larger percent of program costs supported by property tax revenue increases. This may reduce the ability to internally borrow operating cash from district funds. The district should regularly and routinely evaluate its cash position and project its cash flow through, at a minimum, the remainder of the current and subsequent fiscal year. Based on the outcome of its cash flow projection, the district may need to consider options for borrowing of funds from outside sources and budget for the cost of that borrowing.

Audit Findings

The 2018-19 annual audit identified findings that, if left uncorrected or to continue, could undermine confidence in the district fiscal reporting and status. One finding found an overstatement of free and reduced-price meal eligible students which also caused the overreporting of the district's unduplicated pupil percentage resulting in an overbudgeting of LCFF revenues. Another finding regarding the proper reporting of expenditures in the appropriate fiscal year, caused an overstatement of fund balance for the year.

Recommendations

The district should:

1. Review actual expenses for special education regularly and adjust no less that at all reporting periods and particularly before budget adoption.
2. Avoid recognizing revenue that is not secured or at a minimum satisfies GAAP standards.
3. Implement an inventory system with biannual reviews to track and protect district assets of \$500 value, not just computers. Consider the procurement of an inventory tracking system, that uses UPC trackable codes, that can be scanned on campuses
4. Conduct regular and routine cash position evaluations and projections to ensure cash flow is known and plans are developed and implemented to meet cash needs through the current and subsequent fiscal year.
5. Review and correct student data collection and reporting procedures to ensure proper reporting of students in CALPADs.
6. Review and establish proper fiscal year closing procedures to ensure cash, accounts receivable and accounts payable reconciliations are completed and recorded in the proper period.

Other Funds

A review of the district's 2018-19 unaudited actuals and the 2019-20 first interim for other funds found that, other than the cafeteria fund, none are expected to require contributions from the unrestricted general fund in the current or two subsequent fiscal years of the projection. Two transfers, one from fund 21 and one to fund 13 were included in the first interim budget.

Cafeteria Fund (Fund 13) is a restricted fund used to account for the food service program. The cafeteria fund is not self-sustaining and has planned deficit spending in 2019-20. It is common in districts with low participation rates to deficit spend in their food service programs. Low eligibility for free and reduced-priced-meals and open campuses contribute to a low participation rate in the district's food service. FCMAT reviewed cafeteria expenditures through October 2019 and projected expenditures through June 2020. Using the 2018-19 first interim expenditures as a percentage of associated unaudited actual expenditures, indicates that annual projected expenses are underbudgeted by approximately \$55,000.

In 2017-18 and 2018-19, cafeteria contribution estimates were overestimated. When a fund draws on the general fund for support, a review and analysis of expenditures at all reporting periods should be applied. Additionally, annual increases due to step and column and minimum wage increases should be included in the MYFP. This would increase transparency about the true cost of the food service program.

Special Reserve Fund Postemployment (Fund 20) is a restricted fund used to support the payment of OPEB expenses. If the district budgets the 2019-20 OPEB at the same rate as incurred at first interim, levies will be sufficient to cover the current reported expenses, and any excess may be deposited to this fund in reserve for future use.

Building Fund (Fund 21) is a restricted projects fund used to account primarily for bond revenue and expenses and AB1290 pass through funds from the successor agency of the city of Santa Cruz (formerly known as Redevelopment Agencies-RDAs). The fund receives approximately \$3 million per year from the former RDA, a portion of which is transferred to the general fund to support RRMA. The first interim budgeted a \$614,000 transfer, followed by \$449,000 in 2020-21 and \$284,000 in 2021-22. While city of Santa Cruz RDA revenues not subject to the LCFF deduction (object 8625) are restricted to educational facilities per Health and Safety Code Section 33607.5(a)(4)(A) and Education Code Sections 42238(h)(6), 42238.02(j)(6), and 42238.03(c)(6), many districts deposit the revenues in the general fund and transfer them to facilities funds using the 8150 resource code. This is a source of income with good historical data on which to base estimates, and could substantially alleviate the amount of ongoing annual RRMA expenses covered by the general fund.

Recommendations

The district should:

1. Closely monitor the cafeteria expenses to ensure that spending estimates are reasonably accurate.
2. Evaluate the cafeteria services revenues and expenditures. Explore strategies to make the cafeteria program self-sustaining such as production efficiencies, participation rates, meal pricing, and commodity purchasing discounts.
3. Consider budgeting and transferring excess OPEB levies to Special Reserve Fund 20.
4. Consider using RDA funds to reduce the 3% RRMA contribution in the unrestricted general fund. To do this the district may deposit RDA funds into the general fund and use them to support RRMA qualifying projects or then transfer RDA funds to a facilities fund and coding transfers to 8150 resource.

Revenue Enhancements and Expenditure Reductions

Enrollment, ADA and Unduplicated Pupil Percent (UPP)

Much of a school district's revenue is founded on enrollment, ADA, and UPP. Therefore, by increasing enrollment, attendance, and the percentage of students properly identified as unduplicated pupils, a district can increase its revenues. Focus on optimizing the district's ADA rate to enrollment will ensure ADA-driven funding is maximized. This will lead to increased funding from the state LCFF, which accounts for more than 70% of the district's general fund revenue.

Various methods can be used to increase student attendance, including incentives, parent education and automated truant student parental notification systems. Timely parent notification is critical to increasing daily attendance and preserving its correlated funding.

When developing its annual school calendar, the district needs to consider the effects of mid-week holidays, religious and cultural holidays, staff development days and other days students commonly miss school. Analysis of historical attendance trends can shed light on periods of the school year when attendance is below average. For students going on a planned leave of more than five days, the district should consider offering short-term independent study. Saturday school can help recover time lost from truancy. The CDE provides a listing of strategies and activities to help encourage students to attend school regularly. The guidance can be found at the following web address: <https://www.cde.ca.gov/ls/ai/cw/attendstrategy.asp>.

The district should take steps to ensure it maximizes the number of identified free and reduced lunch students. The direct certification process can help with this, particularly when direct certification matches are performed at least monthly. For students who are not directly certified, the district can offer meal applications online, help parents who need assistance completing the application and offer incentives to parents or students to submit applications. The district needs to retain documents to support the eligibility determination and establish practices to audit samples of documents received.

Facilities Use Fees

The district charges fees for the use of its facilities. Under the Civic Center Act, the district is eligible to fully offset the costs for use of district facilities associated with use. Although the district increased the cost for facilities use July 1, 2019, it appears that the hourly rate for custodial/classified staff to support events in the use agreement is significantly less than the true salary expenditure. The civic center rate charged for use of facilities is 32% less than the mean salary plus statutory benefits (not including health benefits) for custodial support. Further even though a significant amount of the facility use occurs outside of regular staff hours, there is also no additional cost to the user to account for employee overtime.

An annual review of the fee structure should be conducted to ensure the charges are appropriate and the revenues gained fully recoup the expenses associated from facility usage. The district will then need to ensure that it is consistent in charging all groups and individuals in accordance with the board approved use of facilities fee schedule.

Sales of Surplus Equipment

The district can sell unused or obsolete property that ranges from supplies or equipment, including computers and servers to district vehicles. Regularly reviewing and taking inventory of all fixed assets can help guide the district in its evaluation of existing surplus supplies and equipment. For larger items such as vehicles, or items held in bulk, the district can contract with private auction companies to ease the surplus sale process.

Transportation

Interviews indicate that the Transportation Department transports students countywide on behalf of other districts. Interviews with the business office and a review of funding documents could not identify any billings or credits received from the county office in exchange for this service.

The school districts in Santa Cruz County have an interagency agreement, which was board approved August 28, 2019, that ensures transportation for students in foster care. This can become a template for the establishment of minimum rates although the rates are for reciprocal services and do not appear to cover the total cost of operations.

In 2018-19 the district expended more than \$18,500 in transportation contracts for special needs students in addition to paying \$92,000 to nonpublic schools for transportation. Education Code 39802 establishes the requirements for procuring transportation for disabled students at the lowest possible figure consistent with proper and satisfactory service. Whenever a transportation expenditure of more than \$10,000 is involved, the governing board is required to secure bids according to Sections 20111 and 20112 of the Public Contract Code. These sections apply if the district plans to contract with a person or corporation other than a common carrier or a municipally owned transit system or a parent or guardian of the transported pupils. Interviews indicated that for the last five years, the district has not gone to request for proposal (RFP) to seek competitive bids for special education transportation services. The district has an obligation to ensure it receives the best service at the lowest rate.

Developer Fees

School districts are authorized to levy a fee against any construction within their boundaries to fund the construction or reconstruction of school facilities necessitated by the development. (Ed. Code, §17620(a)(1).) School impact fees, commonly known as “Level 1” or developer fees, are adjusted for inflation every two years.

On January 2020, the State Allocation Board (SAB) authorized an increase in the maximum Level 1 fee per square foot as follows:

Residential Construction: School districts may charge up to **\$4.08** per square foot of assessable space of new residential construction.

Commercial/Industrial Construction: School districts may charge up to **66 cents** per square foot of chargeable covered and enclosed commercial/industrial space.

The district website indicates it levies only \$3.36 per square foot for residential (nonsenior rate) and 58 cents per square foot for commercial construction. These are significantly less than the allowed rate even though various interviews indicate that the district has significant unmet facilities needs.

Fidelity to Staffing Ratio Levels

The staffing formula provided to FCMAT does not account for positions paid for by funds that are one-time in 2019-20 and discontinued in 2020-21. The district has charged approximately \$280,000 in salaries and benefits to restricted programs, which must be eliminated or charged to the unrestricted general fund in 2020-21. Multiple interviews indicate that no positions are closed, and the funding source is changed to unrestricted. The Business Services Department reduces expenses in the MYFP; however, others believe there is no negative impact on the budget from replacing a position, or moving an individual's funding source to the general fund, because the “savings” is never budgeted. Interviews indicate that no layoffs have occurred because of reductions to categorical funding changes.

Interviews indicate that the district has an open enrollment program. When estimates of school attendance numbers are inaccurate, instructors are not transferred from overstaffed to understaffed schools, and adjustments at the high schools are not made mid-year. The district does have involuntary transfer rights, per article XII in the Greater Santa Cruz Federation of Teacher contract, to adjust staffing between sites.

Reductions Spending and Hiring Freeze

The district has experienced an enrollment decline each year for the past several years. It should consider implementing a hiring freeze. Any position vacated by retirement, resignation, or other means should be thoroughly evaluated before being filled. This evaluation should assess the potential to transfer personnel at sites that exceed district-adopted staffing levels and determine if the position needs to be closed or restructured. Additionally, the district could consider a freeze on all overtime and extra duty hours. Any additional work that is deemed necessary should require justification and advance approval by the chief business official (CBO), or designee.

Special Education Extraordinary Cost Pool

The district should ensure that it participates consistently in all qualifying special education funding sources including the extraordinary cost pool. The extraordinary cost pool is established to protect districts against any large unanticipated special education costs. As part of the special education AB 602 formula, the program reimburses participants for extraordinary costs of serving students placed in nonpublic, nonsectarian schools and special education and related services for students who reside in licensed children's institutions. Information about the program is located on the CDE website at <https://www.cde.ca.gov/fg/aa/se/senpslciexp.asp>

Recommendations

The district should:

1. Implement measures to maximize district enrollment and ADA and ensure accurate identification and reporting of the district's UPP.
2. Annually evaluate and update facility use fees to ensure full costs associated with facility use are recouped.
3. Review inventories of supplies, equipment and properties to determine if obsolete or surplus exists. Consider selling items no longer needed and useful to the district.
4. Review the transportation services provided by the district and those contracted.
5. Negotiate an Interagency agreement to recoup the expenses for regional transportation on behalf of other districts.
6. Issue an RFP to ensure procurement of transportation services for disabled students to a qualified provider at a competitive rate.
7. Regularly conduct a developer fee justification study to determine the relationship between the amount and types of development in the school district and the need for additional school facilities. This study should be the basis for justifying and collecting the maximum allowable developer fees.
8. Reconcile position control with established staffing ratios to determine the appropriateness of staffing and identify and implement a plan of correction as needed.

9. Consider implementing more restrictive controls or freeze on hiring, overtime and extra duty to ensure that all excess employment costs are deliberate.
10. Ensure it participates in the SELPAs extraordinary cost pool to reduce the impact of any qualifying large unanticipated special education costs.

Business Services

Business Services Department is led by a director of finance that reports to the assistant superintendent of business services. Reporting to the director of finance are a supervisor of finance, two lead account technicians, an accounts payable technician, and two payroll technicians. The Business Services team is responsible for developing and maintaining the district's budget, processing payables and receivables, completing internal and external fiscal reporting and monthly payroll processing.

The workload of this business services team is unique in that SCCS is essentially two LEAs, Santa Cruz City Elementary and Santa Cruz City High school districts, that are governed, administered and reported as one. To accomplish the district's budgeting and reporting, calculations must be made for each district and then combined into the one reporting unit. This process nearly doubles the workload on the SCCS fiscal services team compared to most other districts of similar size and composition.

Budgeting and Compliance

The director of finance and supervisor of finance are the primary leads for the development and maintenance of the district's budget. They work to develop the district's revenue projections, make certain position salary and benefits are reflected accurately in amount and account coding in the financial system, help create fiscal policies and procedures and ensure the district's fiscal integrity.

The director of finance position is vacant and the role is temporarily filled by a prior director of finance who provides services remotely from out of state. The capabilities and familiarity of the interim person serves the district well, but should not be considered a permanent solution because of the workload and interaction limitations of the remote location.

The district complies with the state's financial requirement timelines of budget adoption and interim budget updates. All budgets are developed using the Escape financial software system and other fiscal tools and ad hoc reports, such as Microsoft Excel. Per state-mandated reporting periods, all budget and actuals data is formatted in the CDE's SACS accounting software. The school board is responsible for the approval of each budget update and end-of-year unaudited actuals. The county office is responsible for fiscally evaluating the district's board-certified budget.

The district plans and utilizes the assignment designation within the CDE's SACS reporting software to communicate future obligations of its ending fund balance to the board and public. The district has created multiple complex spreadsheets to track staffing and expenses. These reports are used as the building blocks to provide an accurate current and projected depiction of revenues and expenditures and the resulting financial position. The Escape financial system is utilized to house the budget, actuals and basic reporting needs.

At the conclusion of each year, the district compiles its unaudited actuals report and presents the year -end fiscal standing of the district to the board. The unaudited actuals report is audited by an independent third party audit firm, presented to the board and submitted to the state.

Recommendations

The district should:

1. Hire a full-time director of finance. Proper staffing will help to ensure past audit findings, such as the overstatement of cash in the district's building fund and misreporting of the district's UPP, do not become an annual trend.
2. Develop a standard budgeting training packet and a schedule for staff training. Instructional administrators and support staff should have training on the district's fiscal policies, practices and expectations upon hire. Opportunities should be available for annual trainings and attendance required at least biennially, when significant changes occur, or weaknesses in controls found.
3. Establish clear budget development and budget update timelines with internal fiscal staff, as well as all applicable support staff. The creation of an internal department calendar and a districtwide calendar of important dates will assist in the preparation and compliance needs of the district. This will provide additional structure for internal department operations and serve as a guide for nonfiscal staff.
4. Establish a budget development framework in the months before the board's budget adoption hearing. These study sessions should provide opportunity for board and district leadership dialogue and input and will help fiscal staff develop an adopted budget that reflects anticipated needs and communicate upcoming potential expenses to district leadership.

Position Control

The district maintains a position control document in the countywide system. Interviews indicate it is not reconciled to the staffing formula. Administrators are asked to periodically review the people assigned to their sites/divisions although this is not routinely completed, and administration performs body counts to verify actual staffing. Several divisions reported discrepancies regarding positions in their budgets and between position control documents and actual pay rates. In addition, there was confusion regarding position assignments to sites.

Recommendation

The district should:

1. Regularly reconcile the position control document to both staffing and payroll and distribute monthly to managers for input, feedback and correction.

Accounts Payable and Receivable

The two lead account technicians and an accounts payable technician positions are responsible for the district's accounts payable and receivable operations. These positions serve to process all payments, invoice vendors for payment and receipt of funds to the district.

The district has an established accounts payable procedures guide. The guide addresses both the external processing of physical invoices received by the district and electronic processing of payments via the district's Escape accounting software. The guide has been developed as a step-by-step reference manual on how accounts payable is to process payments. The guide addresses required steps to establish a vendor in the system, process transactions, audit transaction primary and supporting documentation, and release batches for payment.

The Accounts Payable Department provides staff with multiple avenues for purchasing including; purchase order, pay voucher (“payment type D”), credit card and petty cash. Purchase orders are the district’s preferred method of establishing payment agreement with a vendor.

Payments to vendors are made via check and printed by the county office. Printed checks are returned to the district, where they are reviewed and mailed to the vendor. When envelopes are stuffed, a check image is printed from the Escape financial system and attached to the payment’s corresponding backup. The county office audits all of the payments for accuracy and notifies of errors, omissions, or irregularities.

Policy specifies that district credit cards should be used only for emergencies or when vendors will not accept purchase orders. Orders per purchase are capped at \$400. Additional unauthorized uses are specified and instructions on compliance and documentation are listed. Each holder is required to sign the acceptable use policy along with his or her supervisor. However, the consequences for misuse are not identified.

The Purchasing Department developed a “comparative shopping guide” to assist staff and encourage competitive purchasing processes. The Business Services Department works with Purchasing to communicate annual purchase order and stores cutoff dates. The creation of purchase orders ends on April 15 unless approved by the Purchasing Department. Stores orders end on May 31, and departments are notified that all goods and services for purchase orders must be received before June 30.

Guidelines for employee reimbursement of expenses including travel and purchasing should be established and documented to ensure district requirements are followed and employees are properly and timely reimbursed for appropriate employee burdened expenses.

The lead account technician is the primary staff member responsible for accounts receivable. A standardized accounts receivable document has been developed by the district, which provides the user guidance from invoicing a vendor to the receipt of cash from the vendor. A cash handling procedure documents internal organization and external organization cash handling and deposit steps, but does not include timelines or frequency of deposits requirements. Both documents address the process and technical steps needed to receive funds. The guidance provides instruction and documentation examples and is structured in such a way that a system of checks and balances ensures process integrity and fraud prevention. Interviews indicated that while site staff have cash collections counted twice, the counts are not performed by two individuals together.

Recommendations

The district should:

1. Establish an accounts payable and receivable user’s manual for all procedure and guidance documents. This will provide a single resource for uniform guidance practices.
2. Include guidelines clearly specifying what is needed to establish a vendor (W-9) and for situations where additional tax withholding can be necessary. (<https://www.ftb.ca.gov/pay/withholding/backup-withholding.html>)
3. Add references to staff position titles in any district guidance or instructional document. Current guides rely on the first names of individuals to specify who is responsible for what action. This causes guides to become outdated when staff change positions and creates confusion when multiple district staff members have the same first name.
4. Incorporate information from the Purchasing Department’s comparative shopping guide into the accounts payable procedural guides. The criteria and guidelines outlined in this

- document can be included in the accounts payable guide as a reference for auditing purchase documentation.
5. Review the existing guides to ensure the instructions agree with each other. Different guides and documents may reference identical processes and need to be updated simultaneously to avoid inconsistencies.
 6. Develop standard operating procedures or a policy that clearly specifies signature authority for various actions and the process for approving them (e.g., travel and conference, purchases).
 7. Establish a policy that lists reimbursement guidelines for employee travel and conference-related expenses, as well as expectations as to the timeliness of the submission of post-travel claims.
 8. Explore systems that would allow current paper forms to be electronically routed and signed. This will increase the district's uniformity of process and fiscal compliance and improve efficiency and accessibility.
 9. Establish a range of times for staff to take deposits and a schedule that requires employees to alternate in transporting the deposit to and from the county office.
 10. Specify in the credit card acceptable use policy the consequences if the cardholder violates the rules specified in the policy.
 11. Create a guide of commonly used account codes for internal and external departments to use, helping to standardize coding on regular purchase activities. This will help reduce coding errors and the necessity of generating corrective journal entries. The document will also help establish the appropriate use of object codes.
 12. Assign a district individual to review bills before payment to confirm accuracy.
 13. Assign two individuals to count cash together, instead of performing the count at different times.

Payroll

The payroll services section of the Business Services Department consists of two payroll technicians who report directly to the director of finance. These technicians are responsible for processing and posting certificated and classified payroll, reviewing hourly employee time cards, ensuring benefits calculations and payments support and maintaining employee payroll records. The district's Escape financial system is used to electronically run payroll and maintain employee system records.

The Payroll Department operates through internal department and external department deadlines. An annual calendar specifying dates per month for regular and supplemental payroll is created and distributed to departments to alert them of due dates. These due dates include when paperwork is due to finance, HR, and payroll. The district also receives a formalized schedule of dates when items are due or available to be received from the county office.

Payroll is run twice a month. The regular payroll is paid at the end of the month, and supplemental payroll is paid on the tenth. Supplemental payroll includes payroll for extended work agreements, time sheets and new hires.

FCMAT found no concerns or inherent issues with the processing of payroll or to employee payments. Consistent training and procedural review is needed to maintain error-free and timely processing of payroll.

Recommendations

The district should:

1. Provide an annual training to all department staff who complete and review time sheets, extended work agreements or any other monthly-submitted payroll related documents. Focus on compliance, procedural requirements and the application of information provided into the payroll process.
2. Establish a payroll user guide for internal department use. Specify document needs, audit processes and input guidelines. This guide will help enable a smooth transition when staff change positions and assist in cross-training between the two payroll technicians.
3. Once the new director of finance is hired, perform a review of all processes and forms to ensure proper documentation and audit review occurs. This should be a priority. The review should include monthly and nonmonthly process flows between all departments and payroll and an evaluation of bargaining unit and salary schedule information between HR and payroll.
4. Ensure payroll staff receives annual compliance training, including, but not limited to, STRS and PERS reporting.
5. Begin an evaluation of current forms, processes and systems. Determine how the current physical (paper based) system can transition to an electronic routing, review, approval and storage system.

Appendices

A. Financial Dashboard

B. Study Agreement

A. - Financial Dartboard

SSC School District and Charter School Financial Projection Dartboard 2020-21 Governor's Proposed State Budget

This version of School Services of California Inc.'s (SSC) Financial Projection Dartboard is based on the 2020–21 Governor's State Budget proposal. We have updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and ten-year T-bill planning factors per the latest economic forecasts. We have also updated the Local Control Funding Formula (LCFF) factors. We rely on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are general guidelines.

LCFF GRADESPAN FACTORS				
Entitlement Factors Per ADA*	K–3	4–6	7–8	9–12
2019-20 Base Grants	\$7,702	\$7,818	\$8,050	\$9,329
COLA at 2.29%	\$176	\$179	\$184	\$214
2020-21 Base Grants	\$7,878	\$7,997	\$8,234	\$9,543
Grade Span Adjustment Factors	10.4%	–	–	2.6%
Grade Span Adjustment Amounts	\$819	–	–	\$248
2020-21 Adjusted Base Grants	\$8,697	\$7,997	\$8,234	\$9,791
Supplemental Grants (% Adj. Base)	20%			
Concentration Grants (% Adj. Base)	50%			
Concentration Grant Threshold	55%			

*Average daily attendance (ADA)

PLANNING FACTORS						
Factors		2019–20	2020–21	2021–22	2022–23	2023–24
Statutory COLA ¹		3.26%	2.29%	2.71%	2.82%	2.60%
California CPI		3.09%	2.99%	2.89%	2.69%	2.73%
California Lottery	Unrestricted per ADA	\$153	\$153	\$153	\$153	\$153
	Restricted per ADA	\$54	\$54	\$54	\$54	\$54
Mandate Block Grant (District)	Grades K–8 per ADA	\$32.18	\$32.92	\$33.81	\$34.76	\$35.74
	Grades 9–12 per ADA	\$61.94	\$63.36	\$65.08	\$66.92	\$68.81
Mandate Block Grant (Charter)	Grades K–8 per ADA	\$16.86	\$17.25	\$17.72	\$18.22	\$18.73
	Grades 9–12 per ADA	\$46.87	\$47.94	\$49.24	\$50.63	\$52.06
One-Time Discretionary Funds per ADA		–	–	–	–	–
Interest Rate for Ten-Year Treasuries		2.07%	2.25%	2.51%	2.50%	2.60%
CalSTRS Employer Rate ²		17.10%	18.40%	18.10%	18.10%	18.10%
CalPERS Employer Rate ³		19.721%	22.80%	24.90%	25.90%	26.60%

STATE MINIMUM RESERVE REQUIREMENTS	
Reserve Requirement	District ADA Range
The greater of 5% or \$69,000	0 to 300
The greater of 4% or \$69,000	301 to 1,000
3%	1,001 to 30,000
2%	30,001 to 400,000
1%	400,001 and higher

¹Applies to LCFF, Special Education, Child Nutrition, Preschool, Foster Youth, American Indian Education Centers/American Indian Early Childhood Education and Mandate Block Grant.

²California State Teachers' Retirement System (CalSTRS) rates in 2019–20 and 2020–21 are final. Rates in the following years are subject to change based on determination by the CalSTRS Board.

³California Public Employees' Retirement System (CalPERS) rate in 2019–20 is final. Rates in the following years are subject to change based on determination by the CalPERS Board.

B - Study Agreement

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT December 9, 2019

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Santa Cruz City Schools, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to local education agencies (LEAs). The district has requested that the team assign professionals to study specific aspects of the district's operations. These professionals may include staff of the team, county offices of education, the California Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1. Review the district's 2019-20 first interim general fund budget and multiyear financial projection (MYFP) for the current and two subsequent fiscal years to validate the district's financial status. The budget review will be a snapshot in time of the district's current financial status. Make recommendations for expenditure reductions and/or revenue increases to help the district maintain financial solvency.
2. Review operational processes and procedures in the district's Business Services Department and make recommendations for improved efficiency, if any, in the following areas:
 - Budget development
 - Budget monitoring
 - Position control
 - Accounts payable
 - Accounts receivable
 - Payroll

B. Services and Products to be Provided

1. Orientation Meeting – The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team’s procedures and the purpose and schedule of the study.
2. On-site Review – The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly memorializing the topics discussed in the exit meeting.
5. Draft Report – Electronic copies of a preliminary draft report will be delivered to the district’s administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district’s administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested by the district within six to 12 months after completion of the study, FCMAT will return to the district at no cost to assess the district’s progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter. FCMAT will work with the district on a mutually convenient time to return for follow-up support that is no sooner than eight months and no later than 18 months after completion of the study.

3. PROJECT PERSONNEL

The FCMAT study team may include:

- | | |
|----------------------------|-------------------------|
| <i>A. To be determined</i> | <i>FCMAT Staff</i> |
| <i>B. To be determined</i> | <i>FCMAT Consultant</i> |
| <i>C. To be determined</i> | <i>FCMAT Consultant</i> |

4. PROJECT COSTS

The cost for studies requested pursuant to Education Code (EC) 42127.8(d)(1) shall be as follows:

- A. \$800 per day for each staff member while on site, conducting fieldwork at other locations, preparing or presenting reports or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

- B. All out-of-pocket expenses, including travel, meals and lodging.
- C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district's acceptance of the final report.

Based on the elements noted in section 2A, the total not-to-exceed cost of the study will be \$28,400.

- D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. RESPONSIBILITIES OF THE DISTRICT

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
 1. Policies, regulations and prior reports that address the study scope.
 2. Current or proposed organizational charts.
 3. Current and two prior years' audit reports.
 4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
 5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.
- C. The district's administration will review a draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

Orientation:	to be determined
Staff Interviews:	to be determined
Exit Meeting:	to be determined
Draft Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined, if requested
Follow-Up Support:	if requested

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a draft report and a final report. Prior to completion of fieldwork, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the district shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the district, automobile

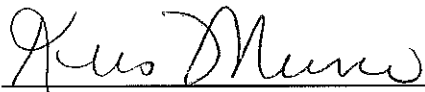
liability insurance in the amount required under California state law, and workers' compensation as required under California state law. FCMAT shall provide certificates of insurance, with Santa Cruz City Schools named as additional insured, indicating applicable insurance coverages upon request prior to the commencement of on-site work.

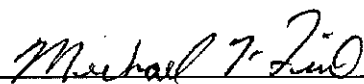
10. HOLD HARMLESS

FCMAT shall hold the district, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Name: Jim Monreal, Assistant Superintendent, Business Services
Telephone: (831) 429-3410
E-mail: jmonreal@sccs.net

 12/19/19
Kris Munro, Superintendent Date
Santa Cruz City Schools

 December 9, 2019
Michael H. Fine, Date
Chief Executive Officer
Fiscal Crisis and Management Assistance Team