June 8, 2020

Ryan Holman, Ed.D., Superintendent

Snowline Joint Unified School District

4075 Nielson Road

Phelan, CA 92329-6000

Dear Superintendent Holman:

The purpose of this letter is to confirm the observations and recommendations the Fiscal Crisis and Management Assistance Team (FCMAT) discussed with the district's assistant superintendent, business services at the conclusion of FCMAT's on-site technical support services on June 2, 2020.

On May 29, 2020, the district and FCMAT entered into an agreement for FCMAT to provide on-site technical support to the district. Specifically, the study agreement states that FCMAT will complete the following:

1. FCMAT will provide two days of on-site technical assistance to district personnel, developing an independent 2020-21 budget and multiyear financial projection (MYFP) using Projection-Pro software.

Multiyear Financial Projections

MYFPs provide the governing board and district with a fiscal planning framework to make budget decisions that strategically allocate current and future resources in alignment with their goals. Assembly Bill (AB) 1200 and AB 2756 require MYFPs as part of the budget adoption and interim reporting process. Projections need to be evaluated and updated during each interim financial reporting period and before making any significant financial decisions such as salary increases or major purchases.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projection should be viewed as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. In addition to multiyear financial projections clear information should be provided on all funds and resources during budget development, budget adoption, interim and unaudited actuals reporting times. In reviewing several power point presentations, the district's assumptions were not explained. Any reports made to the board on financial updates and/or budget revisions should include a description of budget assumptions and illustrate the changes in revenues and expenditures and their effect on the fund balance.

When developing and implementing a MYFP, attention is focused on a district's ability to meet its required reserve for economic uncertainty and achieve a positive, unappropriated fund balance. The state-required minimum reserve level is determined by a district's average daily attendance (ADA), varies from 1% to 5%, and is 3% for Snowline Joint Unified.

The table below shows the statewide average reserve levels for 2018-19 (the most recent data available).

2018–19 Average Unrestricted General Fund, Plus Fund 17 Net Ending Balances as a Percentage of Total General Fund Expenditures, Transfers, and Other Uses

Unified School Districts	17.26%
Elementary School Districts	20.47%
High School Districts	15.64%

Source: School Services of California, Inc.

The Government Finance Officers Association recommends a minimum reserve of at least two months of general fund operating expenditures, or about 17%. Reserves above the state-required minimum reserve levels are recommended to mitigate volatility in funding, address unexpected costs, and manage cash flow. Based on FCMAT's projections, Snowline has an estimated 23% reserve level in the current year, which decreases to estimates of 14% in 2020-21, 2% in 2021-22 and a negative ending fund balance in 2022-23.

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.

FCMAT reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, attendance reports and other financial information pertinent to the study. The team also interviewed staff at the district for additional information and clarification. FCMAT's independent MYFP was developed based on the district's 2019-20 second interim budget, adjusted for documented changes as identified by staff at the district.

FCMAT's MYFP indicates that the district may not be able to maintain a 3% reserve for economic uncertainties in 2021-22 if it does not take steps to increase revenue and/or decrease expenditures. Following is a summary of FCMAT's projections for the district's unrestricted resources. To evaluate the multiyear projections, the district should focus on its ability to meet its reserve requirement of 3% each fiscal year, eliminate deficit spending and demonstrate a positive unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the minimum amount of the adjustment that must be made in the budget under AB 1200 guidelines.

Multiyear Financial Projection Summary
General Fund
Unrestricted Sources Only

Description	Base Year 2019-20 2nd Interim	Adjustments	Adjusted Base Year 2019-20	Year 1 2020-21	Year 2* 2021-22	Year 3 2022-23
Total Revenues	80,274,481	340,897	80,615,378	73,200,175	72,742,687	72,329,959
Total Expenditures	70,796,798	2,086,011	72,882,809	68,778,572	70,108,144	73,558,116
Total Other Financing Sources/Uses	(9,502,496)	(46,909)	(9,549,405)	(13,538,173)	(13,746,892)	(14,239,633)
Net Increase (Decrease) in Fund Balance	(24,813)	(1,792,023)	(1,816,836)	(9,116,570)	(11,112,349)	(15,467,790)
Fund Balance						
Beginning Fund Balance	23,707,886	-	23,707,886	21,891,050	12,774,480	1,662,131
Ending Fund Balance	23,683,073	(1,792,023)	21,891,050	12,774,480	1,662,131	(13,805,659)
Components of Ending Fund Balance						
Nonspendable	70,000.00		70,000.00	70,000.00	70,000.00	70,000.00
3% Reserve for Economic Uncertainties	2,783,543	62,580	2,846,123	2,704,126	1,592,131	-
Unassigned/Unappropriated Amount	20,829,531	(1,854,604)	18,974,927	10,000,353	-	(13,875,659)

**Year 2 (2021-22) reflects a 1.74% Reserve for Economic Uncertainties*

Recommendations

The district should:

1. Adopt a budget stabilization plan to address deficit spending to achieve the required reserve of 3% in 2021-22 and mitigate the possibility of negative fund balance in 2022-23 fiscal year.

2. Consider maintaining a reserve level more than the minimum required 3% for greater fiscal stability and protection from unanticipated funding cuts, revenue deferrals, enrollment declines or unexpected costs and to maintain adequate cash balances, avoiding the need for external borrowing.

3. Adopt a governing board policy establishing an additional percentage over and above the district's reserve for economic uncertainty of 3%.

4. Include a description of budget assumptions during budget development, budget adoption, interim and unaudited actuals reporting times, and illustrate the changes in revenues and expenditures and their effect on the fund balance.

Assumptions

MYFPs should be developed using assumptions that are reasonable, current, and aligned with industry standards and county office of education instructions. This includes state assumption rates and projections based on California Department of Finance, California Department of Education (CDE) and the most recent School Services of California's (SSC's) financial projection dartboard.

California school districts and county offices use many different methods and software products to prepare MYFPs. The projection for the district's general fund was prepared using FCMAT's Projection-Pro multiyear 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 SSC's financial dartboard, and based its projection on the district's 2019-20 second interim budget, adjusted for documented revisions, for the 2020-21 budget and two subsequent fiscal years.

Recommendations

The district should:

1. Document all assumptions used in the development of the MYFP for each reporting period.

2. 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.

Enrollment Projections

Accurate enrollment tracking and analysis of ADA are essential to budget planning, and projecting both into future years is a core component of any MYFP. Because much of the district's funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance are crucial. When enrollment and related ADA increase or decline, districts must consider and plan for the effects on the budget, instructional and other staffing, and other operating expenses. The district's enrollment has declined more than 4% since 2014-15 and the enrollment and ADA projections included as part of this analysis continue a pattern of decline for 2020-21 and the two subsequent fiscal years.

Because most of a school district's revenue is based on attendance, accurate projections could be more difficult in the next few years because of COVID-19.

Enrollment projections and assumptions should be based on historical data, industry-standard methods and other reasonable considerations and should be prepared frequently and with sufficient detail by grade level to monitor and project class sizes in subsequent years. Historical enrollment and attendance patterns help identify potential changes in grade level enrollment in future years.

To project enrollment, FCMAT used a modified weighted cohort survival method, which groups students by grade level on entry and tracks them through each year they stay in school. This method evaluates the longitudinal data on the number of students that pass from one grade to the next in the subsequent year. In doing so, it more closely accounts for retention and new and departing students by grade level. Although other projecting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables. Because little data is available for the beginning grade level served by a district, a five-year weighted historical average is used. To project the unduplicated pupil count (UPC) and ADA ratios, a five-year weighted historical average is also used.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions rather than exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, and changing local, state and federal economic conditions. Therefore, the forecasting model should be viewed as a trend instead of a prediction of exact numbers. To maintain the most accurate and meaningful data, districts should routinely prepare and update enrollment projections and compare them to actual enrollment. This enables the district to better identify a potential enrollment decline and adjust staffing levels and expenditure budgets accordingly.

Because the district is experiencing declining enrollment, it receives revenues based on the greater of the prior year or current year P-2 ADA. This provides the district with one year to make necessary staffing adjustments when student enrollment declines.

Districts should have multiple revenue projections based on various scenarios due to issues with student attendance in the COVID-19 environment.

Recommendations

The district should:

1. Develop enrollment projections using historical data, industry-standard methods and other reasonable considerations such as attendance patterns.

2. Prepare enrollment projections frequently and with sufficient detail by grade level to monitor and project class sizes in subsequent years.

3. Prepare enrollment projections in collaboration with all departments in the district. Because revenue is based upon attendance, it is critical that the district create accurate projections and frequently monitor for new information and actual enrollment.

4. Have multiple enrollment projections based on various scenarios because of the COVID-19 effects on student attendance.

Revenue Projections

Districts should use the most recently updated Local Control Funding Formula (LCFF) calculator available and current enrollment, ADA and UPC projections to calculate and project LCFF revenues for their budget and MYFPs. Staff should review entitlement letters on the CDE website and/or grant award letters to confirm federal and state revenue amounts. The district should review and confirm local revenue sources such as interest, rents and leases, donations, and other miscellaneous revenues. Because these revenues cannot be guaranteed year to year, budgets and projections for these items need to be conservative, consider historical trends, and identify revenue streams that are one-time. Any one-time revenues and/or revenues deferred from the prior year included in the base year budget should be eliminated from the subsequent years of the projection.

Recommendations

The district should:

1. Document all revenue assumptions using the most up-to-date information available.

2. For the 2020-21 proposed budget, use the revenue assumptions noted in the governor’s May revision.

Expenditure Projections

Accurately projecting salary and benefit costs is a critical component in budgeting for expenditures. Maintaining an effective position control system is essential for managing the cost of salaries and benefits and accurately reflecting those expenditures in a district's budget and MYFPs. Districts should confirm that the position control system includes the most current and complete salary and benefit information and is reflected accurately in the base year budget. Certificated and classified salaries should be increased or decreased in the subsequent years of the projection for known staffing increases or decreases. Estimates for certificated and classified staff step-and-column costs should be included. Estimates for an increase in cost for statutory benefits, health and welfare benefits and retiree benefits should be included.

Books, supplies, and services budgets should be reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date expenditures. Expenditures should be increased in subsequent years for any planned one-time expenditures or decreased in subsequent years for one-time purchases made in the base year. Districts should review contracts for leases and professional services and adjust subsequent year budgets, as necessary. The estimated consumer price index should be applied as appropriate to supplies and services expenditures.

Capital outlay budgets should be reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date actual expenditures and adjusted in subsequent years according to the district's capital outlay plan. Districts should review long-term debt schedules and capital lease agreements, other outgo (tuition, etc.), and transfers between the general fund and other funds and adjust subsequent year projections appropriately. Districts should review budgets for other funds for any possible impact on the general fund.

The district has $58.46 million in certificates of participation (COPs) with a total repayment cost of $85 million as well as $6.3 million in lease revenue bonds with a total repayment cost of $9.27 million. These debts are secured by the general fund and have increasing payments each year with no other revenue sources identified.

Districts should ensure that the maximum allowable indirect cost rate for each restricted program and fund is applied to the budget and subsequent years to ensure proper program cost accounting, even when this results in a contribution back to the restricted resource from the unrestricted resource. Out of balance restricted programs should be balanced with adjustments to revenue, expenditures, or contributions as appropriate.

Recommendations

The district should:

1. Budget and charge the maximum allowable indirect cost rate for each restricted program and fund.

2. Document and incorporate the calculations for step-and-column and related percentages into MYFPs.

3. Document and incorporate the calculations for salary and benefit increases for all employee groups.

4. Consider strategies to reduce expenditures in restricted programs that may be significantly impacted by the final state budget.

5. Create multiple expenditure scenarios for changes to the state budget that may occur in late summer/early fall 2020.

6. Consider expenditure reductions that will be required in future years to pay COPs debt.

This management letter contains the study team's recommendations related to multiyear projections.

FCMAT appreciates the opportunity to serve you and extends thanks to the staff of the Snowline Joint Unified School District for their cooperation and professionalism during FCMAT's on-site assistance.

Sincerely,

Roberta Montalbano

Intervention Specialist