FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

Vista Unified School District

Fiscal Health Risk Analysis and Multiyear Financial Projection

July 22, 2019

Michael H. Fine
Chief Executive Officer

July 22, 2019

Linda Kimble, Ed.D., Superintendent
Vista Unified School District
1234 Arcadia
Vista, CA 92084

Dear Superintendent Kimble:

In February 2019, the Vista Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement stated that FCMAT would perform the following:

1. Review the district's 2018-19 second interim general fund budget and use it as a baseline to develop an independent multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot of the district's financial status at the time of review.

2. Make recommendations for expenditure reductions and/or revenue enhancements to help the district eliminate its structural budget deficit and maintain financial solvency.

3. Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis and identify the district's risk rating.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Vista Unified School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Michael H. Fine
Chief Executive Officer

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About FCMAT

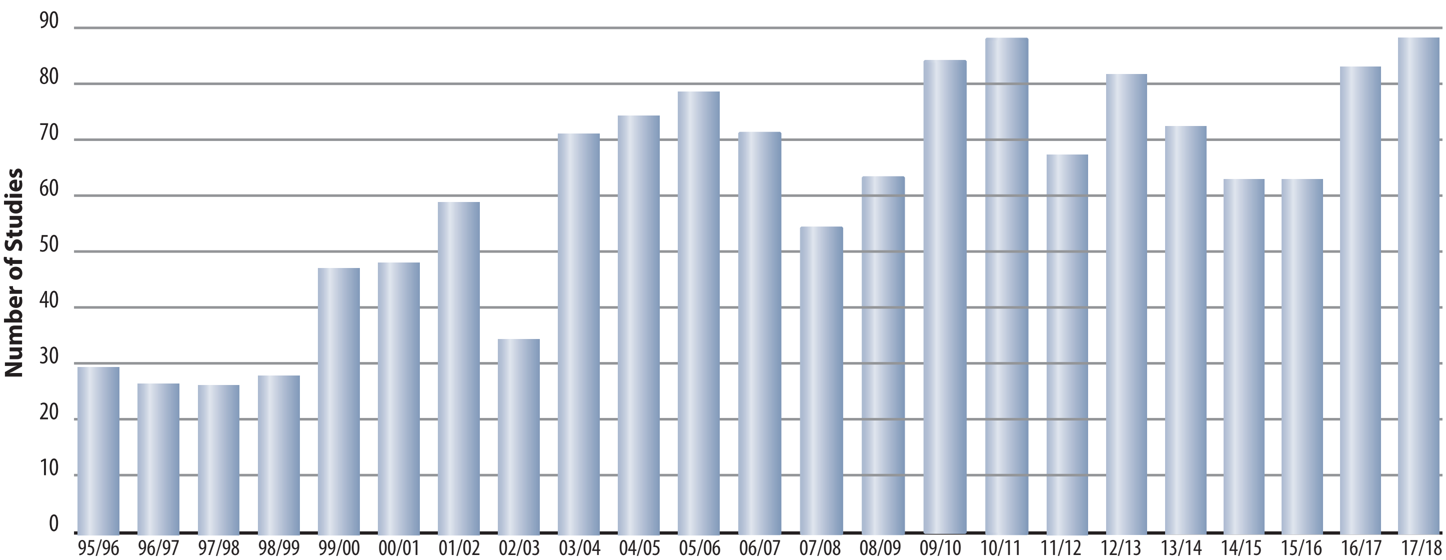
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

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.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development 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 became effective. 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

The Vista Unified School District is located in northern San Diego County and encompasses 39 square miles across most of Vista, a large portion of eastern Oceanside, some unincorporated areas, and small portions of Carlsbad and San Marcos. The district has a five-member elected governing board and serves more than 20,000 students in transitional kindergarten through grade 12 in 29 schools. The district operates 15 elementary schools, five middle schools, three comprehensive high schools, three alternative education schools, two special education schools, and an adult school. The district is also the authorizer of five charter schools.

District enrollment peaked at 28,173 students in 1999-2000 but has declined each year since 2013-14. Enrollment declined to 20,756 students in 2018-19, a loss of 645 students from the prior year. The district's fund balance decreased by $6.7 million in 2016-17 and by $13.6 million in 2017-18, and its 2018-19 second interim financial report projected a decline in ending fund balance of $10.7 million. The district has used its financial reserves to cover past deficits, but it must now make significant expenditure reductions to eliminate deficit spending and remain fiscally solvent.

In February 2019, the district and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct a fiscal health risk analysis of the district and to review the district's 2018-19 second interim general fund budget, develop an independent multiyear financial projection (MYFP), and make recommendations for expenditure reductions and/or revenue enhancements to help the district eliminate its structural deficit and maintain fiscal solvency.

Study and Report Guidelines

FCMAT visited the district on April 23-25, 2019 to conduct interviews, collect data and review documents, and FCMAT performed additional off-site work during the weeks that followed. The team reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, attendance reports, and other historical financial information pertinent to the study. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Fiscal Health Risk Analysis
- Multiyear Financial Projections
- Revenue Enhancements and Expenditure Reductions
- Appendices

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:

Debbie Riedmiller, CFE
FCMAT Intervention Specialist

Scott Sexsmith
FCMAT Intervention Specialist

Jeff Potter, CFE
FCMAT Intervention Specialist

John Lotze
FCMAT Technical Writer

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.

Executive Summary

One of FCMAT's main objectives in this study was to review and validate the district's financial status. The team reviewed numerous documents and financial reports, including the district's annual independent audits, unaudited actuals, financial system reports, attendance reports and other historical financial information pertinent to the study. The independent MYFPs were developed based on the district's 2018-19 second interim report as well as additional information from the district's financial system and staff.

District enrollment has declined from a peak of 28,173 in 1999-2000 to 20,756 in 2018-19. The decline in enrollment since 2013-14 averages 1.46% per year, with a decline of 3.01% (645 students) in 2018-19. The enrollment decline is projected to continue in the two subsequent years of the projection and beyond; this and the associated decline in average daily attendance (ADA) results in a year-over-year loss of revenue and contributes to the district's deficit spending and fiscal distress.

The district has experienced deficit spending in the past two years and is expected to deficit spend in the current fiscal year. Its unrestricted ending fund balance has declined by more than $19.8 million from July 1, 2016 through June 30, 2018, and the district projects an additional decline of $5.65 million for 2018-19. The district's projection includes interfund transfers totaling $2.8 million to the general fund from Funds 40 and 67; without these transfers, deficit spending in the unrestricted general fund in the current year would be nearly $8.5 million. The transfer from Fund 40 will deplete the balance in that fund, making these sources unavailable in future years.

The district has planned significant reductions for 2019-20 and 2020-21, which will result in a small surplus in 2019-20 and will allow the district to maintain the required reserve levels through 2020-21. The governing board approved $12.4 million in budget reductions for the 2019-20 fiscal year and approved a supplemental early retirement program (SERP) incentive. In addition, the board adopted a resolution identifying the need for additional budget reductions of $2.3 million in 2019-20 and $10.9 million in 2020-21. The district's 2018-19 second interim multiyear financial projection (MYFP) included the detailed reductions approved by the board for 2019-20 and the amount of reduction approved by resolution. Including these reductions, the district projects an unrestricted general fund deficit of $5.65 million in 2018-19, a surplus of $377,438 in 2019-20 and a deficit of $1.5 million in 2020-21. The district projects that it will meet its required reserve for economic uncertainties in all three years of the projection. If these planned reductions are not achieved, the district may not meet its financial obligations in future years. It is imperative that the district carry out all planned reductions and continue to search for ongoing solutions to eliminate deficit spending.

Financial projections are based on certain assumptions and criteria, including enrollment and ADA trends, cost-of-living increases, economic conditions, and revenue and expenditure estimates. Therefore, when the underlying assumptions change, the results of the projection will change. FCMAT's projection was based on assumptions that differed from the district's assumptions; these are discussed below.

FCMAT's MYFP excludes the unspecified reductions identified only by amount on the board resolution, and shows that, based on current assumptions, the district is projected to deficit spend in all three years of the projection. The MYFP shows that the district will meet its required level of reserve for economic uncertainties in 2018-19 and 2019-20 but will not do so in 2020-21 unless it carries out the significant reductions shown on its board resolution.

The district contracted with Davis Demographics to prepare a demographic study and enrollment projection for 2019-20 through 2025-26. The enrollment projection shows a continuing decline in enrollment through 2025-26. FCMAT prepared an independent enrollment projection and used its own estimates to complete the MYFP. The enrollment projection prepared by Davis Demographics shows an enrollment decline greater than that projected by FCMAT.

At the time of this study, the governor's state budget proposal includes funds to reduce the California State Teachers' Retirement System (CalSTRS) employer contribution rate; however, FCMAT used the current statutory rates for the projection because a reduction in the STRS contribution rate requires statutory changes not yet enacted.

The district's 2018-19 second interim financial projection was based on assumptions available when it was prepared. FCMATs projection was based on the updated assumptions and planning factors included in the governor's 2018-19

May Revision state budget proposal and FCMAT's Local Control Funding Formula (LCFF) Calculator, which were both released in May 2019.

The following is a summary of FCMAT's projection of the district's unrestricted general fund for the current and two subsequent fiscal years.

Multiyear Financial Projection Summary, General Fund, Unrestricted Resources Only

	Object Code	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Revenues		$214,593,243.00	$210,891,290.00	$214,526,543.00
Expenditures		$176,826,203.00	$163,278,728.36	$174,386,677.18
Other Financing Sources/Uses		($43,930,985.95)	($48,231,997.91)	($50,330,031.97)
Net Increase (Decrease) in Fund Balance		($6,163,945.95)	($619,436.27)	($10,190,166.15)
Fund Balance				
Beginning Fund Balance	9791	$15,561,917.11	$9,397,971.16	$8,778,534.89
Ending Fund Balance	9799	$9,397,971.16	$8,778,534.89	($1,411,631.26)
Components of Ending Fund Balance				
Revolving Cash	9711	$250,000.00	$250,000.00	$250,000.00
Stores	9712	$109,502.19	$109,502.00	$109,502.00
3% Reserve for Economic Uncertainties	9789	$8,296,719.35	$7,716,367.88	$8,101,088.24
Undesignated/Unappropriated	9790	$741,749.62	$702,665.01	($9,872,221.50)

The district is projected to deficit spend $6,163,946 in 2018-19, $619,436 in 2019-20, and $10,190,166 in 2020-21. Its unrestricted ending fund balance is projected to decline from $15.6 million at the beginning of fiscal year 2018-19 to negative $1.4 million at the end of fiscal year 2020-21. The district is projected to meet the required reserve for economic uncertainties in 2018-19 and 2019-20, but the unrestricted fund balance is projected to be negative in 2020-21. To avoid insolvency and maintain local governance, the district must ensure that it follows through with its proposed expenditure reductions for 2020-21.

The number shown as a negative in the undesignated/unappropriated fund balance is the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with Assembly Bill (AB) 1200.

An entity that continues to spend more than it receives depletes its cash resources. The district should implement immediate expenditure reductions to avoid running out of cash and becoming insolvent. The consequences of becoming cash insolvent are severe and should be avoided to prevent state intervention and to maintain local governance and control.

Findings and Recommendations

Fiscal Health Risk Analysis

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district's fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT's work since the inception of Assembly Bill (AB) 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of "no" answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily toward or against a district's fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A "yes" or "n/a" answer is assigned a score of 0, so the risk percentage increases only with a "no" answer.

To help the district, narratives are included for responses that are marked as "no" so the district can better understand the reason for the response and actions that may be needed to obtain a "yes" answer.

Identifying issues early is the key to maintaining fiscal health. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

1.	Annual Independent Audit Report	Yes	No	N/A
1.1	Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	✓	☐	☐
1.2	Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller's Office should be explained.)	✓	☐	☐
1.3	Was the district's most recent independent audit report free of material findings?	✓	☐	☐
1.4	Has the district corrected all reported audit findings from the current and past two audits?	✓	☐	☐
1.5	Has the district had the same audit firm for at least three years?	☐	✓	☐
	The district changed audit firms from Vavrinek, Trine, Day and Co., LLP to Wilkinson, Hadley, King & Co., LLP in 2017-18.			

2.	Budget Development and Adoption	Yes	No	N/A
2.1	Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated?	✓	☐	☐
2.2	Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	✓	☐	☐

		Yes	No	N/A
2.3	Does the district use position control data for budget development?	✓	☐	☐
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	☐	☐
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	✓	☐	☐
2.6	Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)?	✓	☐	☐
2.7	Does the district budget and expend restricted funds before unrestricted funds?	☐	✓	☐

The district's restricted program carryover amounts and restricted ending fund balances have increased from 2015-16 to 2017-18, indicating that the district is not strategically spending restricted funds before unrestricted funds. The table below shows the district's restricted carryover and ending balances as recorded on its 2015-16, 2016-17, and 2017-18 unaudited actuals reports. The district does not fully budget carryover revenue and expenditures.

	2015-16	2016-17	2017-18
Carryover (Unearned Revenues)	3,171,083	5,169,145	6,556,660
Ending Fund Balance	8,179,452	8,636,386	7,679,891
Total	11,350,535	13,805,531	14,236,551

		Yes	No	N/A
2.8	Have the LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years?	✓	☐	☐
2.9	Has the district refrained from including carryover funds in its adopted budget?	✓	☐	☐
2.10	Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?	☐	✓	☐

The district's 2018-19 adopted budget contains negative or contra expenditure accounts in the following accounts and amounts: -$8.7 million in certificated salaries, -$1.2 million in classified salaries, -$3.1 million in employee benefits, -$13.0 million in books and supplies, -$3.3 million in services and other operating expenses, and -$1.2 million in capital outlay.

		Yes	No	N/A
2.11	Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund?	☐	✓	☐

District staff reported that all grants are presented to the board monthly for approval. However, the district did not provide evidence that grants are evaluated for their potential multiyear impact on the district's unrestricted general fund prior to acceptance.

		Yes	No	N/A
2.12	Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?	✓	☐	☐

3. Budget Monitoring and Updates

		Yes	No	N/A
3.1	Are actual revenues and expenses consistent with the most current budget?	✓	☐	☐
3.2	Are budget revisions posted in the financial system at each interim report, at a minimum?	✓	☐	☐

		Yes	No	N/A
3.3	Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?	✓	☐	☐
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period?	✓	☐	☐
3.5	Does the district provide a complete response to the variances identified in the criteria and standards?	✓	☐	☐
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years?	✓	☐	☐
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?	☐	✓	☐
	District staff reported to FCMAT that there is a hard stop in the financial system that prevents purchase orders and requisitions from being processed if there are insufficient funds on the budget line; however, an override code can be used by select staff to permit processing. The district has 270 account lines that have negative budget balances totaling $1.8 million.			
3.8	Does the district encumber and adjust encumbrances for salaries and benefits?	☐	✓	☐
	Most regular salary and benefit lines are encumbered; however, hourly and substitute salaries and benefits are not encumbered.			
3.9	Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum?	✓	☐	☐
3.10	Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code?	✓	☐	☐

4. Cash Management

		Yes	No	N/A
4.1	Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?	✓	☐	☐
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	✓	☐	☐
4.3	Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?	☐	✓	☐
	Cash flow projections are prepared at budget adoption and interim reporting periods; the projections cover 12 months. Actuals are updated and remaining months are reconciled to the budget at reporting periods.			
4.4	Does the district have a reasonable plan to address cash flow needs during the current fiscal year?	✓	☐	☐
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	✓	☐	☐
4.6	If interfund borrowing is occurring, does the district comply with Education Code section 42603?	✓	☐	☐
4.7	If the district is managing cash in any funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed?	✓	☐	☐

5. Charter Schools

		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	✓	☐	☐
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code section 47604.32?	✓	☐	☐
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	✓	☐	☐
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	✓	☐	☐

6. Collective Bargaining Agreements

		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the prior two fiscal year(s)?	✓	☐	☐
6.2	Has the district settled with all its bargaining units for the current year?	✓	☐	☐
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	☐	✓	☐

The district conducted a presettlement analysis and correctly identified the related costs of the settlement for the current and subsequent years. However, the district did not identify ongoing revenue sources or expenditure reductions to support the agreements. The district's analysis of the proposed agreements for 2017-18 shows projected costs of $3.5 million in 2017-18 and $4 million annually in subsequent years. The district indicated in the disclosure documents that the costs would be funded in 2017-18 with ongoing general fund revenues and ending fund balance. The costs in the subsequent years would be funded with unspecified ongoing budget reductions of $9.2 million. The cost of the 2018-19 bargaining agreements was projected at $3.66 million in 2018-19, $3.51 million in 2019-20, and $3.63 million in 2020-21. The source of funding for the agreements was general fund revenues and ending fund balance in the current year and ongoing unspecified budget cuts of $14.7 million in subsequent years.

		Yes	No	N/A
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)?	☐	✓	☐

The district's 2015-16 settlement with the certificated employees' bargaining unit included a formula for annual increases to the salary schedule based on the difference between base LCFF revenues in one fiscal year and the next fiscal year; this formula resulted in an increase of 2.9% in the 2016-17 fiscal year. The funded COLA in 2016-17 was 0%.

		Yes	No	N/A
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements?	☐	☐	✓
6.7	Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142?	✓	☐	☐

		Yes	No	N/A
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?	✓	☐	☐
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	✓	☐	☐

7. Contributions and Transfers

		Yes	No	N/A
7.1	Does the district have a board-approved plan to eliminate, reduce, or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds?	✓	☐	☐
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	☐	☐	✓
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	✓	☐	☐

8. Deficit Spending

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐

The district's 2018-19 second interim multiyear financial projection (MYFP) indicates that it will deficit spend $10.7 million in the current year. FCMAT's projection indicates that the district will deficit spend $12.6 million in the same period.

		Yes	No	N/A
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐

The district's 2018-19 second interim MYFP shows a small surplus in 2019-20 and is based on achieving more than $19 million in budget reductions approved by the board, including $2.3 million in unspecified reductions.

In 2020-21, the district projects to deficit spend by $1.5 million, as shown in its 2018-19 second interim MYFP. The projection is based on achieving $10.5 million in unspecified reductions approved by the governing board on March 5, 2019.

FCMAT's projections indicate deficit spending in both of the two subsequent fiscal years.

		Yes	No	N/A
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending?	☐	✓	☐

The board acknowledged the need to make reductions to eliminate deficit spending and passed resolution #19-24 on March 5, 2019, which identified the amount of budget reductions needed in 2019-20 and 2020-21. However, the district has not identified the specific reductions to be made or a timeline for implementation of the reductions.

		Yes	No	N/A
8.4	Has the district decreased deficit spending over the past two fiscal years?	☐	✓	☐

Deficit spending was $6.7 million in 2016-17 and $13.6 million in 2017-18. The district's 2018-19 second interim MYFP shows deficit spending of $10.7 million in 2018-19, a surplus of $377,438 in 2019-20, and a deficit of $1.5 million in 2020-21. However, the projection is based on achieving reductions of over $19 million in 2019-20 and $10.85 million in 2020-21. If these reductions are not realized, deficit spending will reach $19 million in 2019-20 and $12.35 million in 2020-21.

9. Employee Benefits

		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	✓	☐	☐
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits?	✓	☐	☐
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	☐	✓	☐

The district's bargaining agreement with classified employees allows all employees covered by the agreement to carry over five days (40 hours) of earned but unused vacation to the next fiscal year. An employee who has worked in the district for at least five continuous years may request to carry over an additional five days of earned but unused vacation to the next fiscal year; this is permitted one time every five years, up to a maximum of 48 days (384 hours). The agreement states that employees who do not request carryover will be paid for the current year's unused vacation days at the end of each fiscal year. According to the vacation leave balance report provided by the district, 19 employees carried over to the 2018-19 fiscal year leave balances greater than 384 hours, and 153 employees carried over balances greater than 80 hours. The district's liability for compensated absences as reported on the June 30, 2018 audit report was $1.89 million.

		Yes	No	N/A
9.4	Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?	✓	☐	☐
9.5	Does the district track, reconcile and report employees' compensated leave balances?	✓	☐	☐

10. Enrollment and Attendance

		Yes	No	N/A
10.1	Has the district's enrollment been increasing or remained stable for the current and two prior years?	☐	✓	☐

Enrollment was 21,738 in 2016-17, declined to 21,401 in 2017-18, and was reported as 20,756 for 2018-19.

		Yes	No	N/A
10.2	Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?	✓	☐	☐
10.3	Does the district track historical enrollment and ADA data to predict future trends?	✓	☐	☐
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?	✓	☐	☐
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?	✓	☐	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?	☐	✓	☐

School sites do not review or verify their CALPADS data before submission. The district understands the need for improvement in this area, including education at school sites regarding the critical nature of this data.

		Yes	No	N/A
10.8	Has the district planned for enrollment losses to charter schools?	☐	✓	☐

The district acknowledged that enrollment losses to charter schools are largely handled reactively, by gathering data on losses that have already occurred. Projecting and planning for losses to charter schools is an area the district has identified as needing refinement.

		Yes	No	N/A
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?	✓	☐	☐
10.10	Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement?	✓	☐	☐

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement?	✓	☐	☐
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	✓	☐	☐
11.3	Does the district properly track and account for facility-related projects?	✓	☐	☐
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?	☐	✓	☐

The district's enrollment has been declining for several years, and current facility use averages 71.7% of capacity at the district's elementary schools, 60.5% at its middle schools, and 65.4% at its high schools. All middle school and high schools reported enrollment at less than 75% capacity. Only five of the district's 26 school sites had enrollment greater than 80% of capacity, and three school sites reported enrollment below 50% capacity.

		Yes	No	N/A
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	✓	☐	☐
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?	✓	☐	☐
11.7	If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?	✓	☐	☐
11.8	Does the district have an up-to-date long-range facilities master plan?	✓	☐	☐

12. Fund Balance and Reserve for Economic Uncertainty

		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including funds 01 and 17) as defined by criteria and standards?	✓	☐	☐
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	☐	✓	☐

Although the district's 2018-19 second interim MYFP indicates the district will meet the reserve requirement in 2019-20 and 2020-21, the projection depends on the district's ability to reduce its budget by $19.2 million in 2019-20 and $10.9 million in 2020-21. The board passed a resolution identifying the amount of budget reductions needed; however, there is no plan or detailed list of reductions to be made.

		Yes	No	N/A
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?	☐	✓	☐

The district's ability to meet its reserve requirement in 2020-21 is predicated on its ability to cut $10.9 million from the budget. The board passed a resolution identifying the amount of budget reductions needed; however, there is no plan or detailed list of reductions to be made. Without the reductions, the district falls considerably short of meeting its required minimum reserve and will see significant erosion of its ending fund balance.

		Yes	No	N/A
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	☐	✓	☐

According to the district's 2018-19 second interim report MYFP, its unrestricted ending fund balance is projected to increase slightly in 2019-20 and decrease by $1.5 million in 2020-21. The projection is predicated on the district's ability to successfully implement budget reductions of more than $19 million in 2019-20 and $10.9 million in 2020-21. The governing board passed a resolution identifying the amount of budget reductions needed in 2019-20 and 2020-21, but specific reductions have yet to be fully identified and may not ultimately be realized.

		Yes	No	N/A
12.5	If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level?	☐	☐	✓

13. General Fund - Current Year

		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures?	☐	✓	☐

The district identifies one-time revenues and removes them from subsequent years on its MYFPs but did not provide evidence of a process or mechanism to ensure one-time revenues are not committed to ongoing expenditures. The 2017-18 and 2018-19 bargaining agreement disclosure documents state that the cost of ongoing salary schedule increases will be paid for in part with reserves.

		Yes	No	N/A
13.2	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the current year?	☐	✓	☐

For unified school districts, the statewide average percentage of the unrestricted general fund budget allocated to salaries and benefits was 87.06% in 2017-18 (the latest data available). In the current year, the percentage of the unrestricted general fund budget allocated to salaries and benefits at Vista Unified is 90.2%.

		Yes	No	N/A
13.3	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	☐	✓	☐

The percentage of the district's unrestricted general fund budget allocated to salaries and benefits was 88.5% in 2016-17 and 88.7% in 2017-18. The statewide average percentage of the unrestricted general fund budget allocated to salaries and benefits was 86.14% in 2016-17 and 87.06% in 2017-18.

		Yes	No	N/A
13.4	If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)?	☐	☐	✓
13.5	Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds?	✓	☐	☐
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐

13.7	Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource?	☐	✓	☐

The district does not charge the full indirect cost for special education programs.

14. Information Systems and Data Management

		Yes	No	N/A
14.1	Does the district use an integrated financial and human resources system?	✓	☐	☐
14.2	Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions?	✓	☐	☐
14.3	Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?	✓	☐	☐
14.4	Is the district using the same financial system as its county office of education?	✓	☐	☐
14.5	If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?	☐	☐	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	☐	☐	✓

15. Internal Controls and Fraud Prevention

		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorizations?	☐	✓	☐

Some accounts payable staff have access that allows them to both create and pay a vendor.

		Yes	No	N/A
15.2	Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	☐	☐
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?			
	• Accounts payable (AP)	☐	✓	☐

The district has sufficient coverage of duties in this area, including review of printed AP warrants by other AP staff members. However, FCMAT identified several weaknesses, including individual employees having access in the financial system to both create and pay a new vendor, and unrestricted and unmonitored use of a signature stamp for warrant approvals.

		Yes	No	N/A
	• Accounts receivable (AR)	☐	✓	☐

As with AP, FCMAT identified adequate controls in some AR areas, such as restrictions on the creation of new requisitions. However, FCMAT identified a weakness in cash collections and reconciliation following receipt from the various school sites: Incoming cash is counted and recorded by a single employee, with no monitoring by an additional individual. Any variances from the school site count are recorded but lack sufficient confirmation or oversight.

		Yes	No	N/A
	• Purchasing and contracts	✓	☐	☐
	• Payroll	✓	☐	☐

		Yes	No	N/A
	• Human resources	✓	☐	☐
	• Associated student body (ASB)	☐	✓	☐
	The last three independent audit reports noted deficiencies in internal controls for ASB accounts.			
	• Warehouse and receiving	✓	☐	☐
15.4	Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	☐	☐
15.5	Does the district review and clear prior year accruals by first interim?	☐	✓	☐
	The district does not clear prior year accruals by the first interim reporting period but indicated that it intends to do so in the future.			
15.6	Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?	✓	☐	☐
15.7	Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	☐	☐
15.8	Does the district have processes and procedures to discourage and detect fraud?	☐	✓	☐
	The district's Board Policy 3400, Management of District Assets/Accounts - Internal Controls/ Fraud Prevention, broadly addresses fraud; however, the district did not provide any detailed fraud reporting or detection procedures that all employees follow.			
15.9	Does the district maintain an independent fraud reporting hotline or other reporting service(s)?	☐	✓	☐
	The district maintains an anonymous tip line on its website, but the portal is not specifically designed or intended to be used for the reporting of potentially fraudulent activity; it is a tip line for any activity a user determines is reportable. In interviews with school site personnel, FCMAT found that the existence and location of the anonymous tip line is not widely known among district staff or leadership.			
15.10	Does the district have a process for collecting and following up on reports of possible fraud?	☐	✓	☐
	Although the district maintains an anonymous tip line on its website as mentioned above, it neither has nor follows a written or documented process for handling submissions to the tip line. An informal process exists to address and resolve any reports; however, it is not specific to fraud allegations and varies depending on the nature of the report.			
15.11	Does the district have an internal audit process?	☐	✓	☐
	The district lacks a dedicated internal audit department, although various processes and functions across the district employ auditing techniques to review and verify the accuracy and appropriateness of transactions and other critical data. There is insufficient internal audit and review of ASB activities.			

16. Leadership and Stability

		Yes	No	N/A
16.1	Does the district have a chief business official who has been with the district more than two years?	✓	☐	☐
16.2	Does the district have a superintendent who has been with the district more than two years?	☐	✓	☐
	Linda Kimble, Ed.D. has been the district's superintendent since January 2018.			

		Yes	No	N/A
16.3	Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	✓	☐	☐
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	✓	☐	☐
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?	✓	☐	☐
16.7	Is training on the budget and governance provided to board members at least every two years?	✓	☐	☐
16.8	Is the superintendent's evaluation performed according to the terms of the contract?	☐	✓	☐

Although the superintendent has only been employed by the district since January 2018, the board did not appear to have completed a formal evaluation by June 30, 2018. However, an informal evaluation appears to have been completed in November 2018 in accordance with the contractual requirement, and the district included the superintendent's evaluation on the April 11, 2019 special board meeting closed session agenda, in advance of the June 30 requirement (meeting minutes were unavailable at the time of this report).

17. Multiyear Projections

		Yes	No	N/A
17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?	✓	☐	☐
17.2	To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?	✓	☐	☐
17.3	Does the district use its most current multiyear projection in making financial decisions?	☐	✓	☐

The district indicated that its MYFP is used primarily by the business office, but is not usually used as a guiding document by the superintendent's cabinet or other district administrators when making financial decisions.

		Yes	No	N/A
17.4	If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount?	✓	☐	☐

18. Non-Voter-Approved Debt and Risk Management

		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others}, stable, predictable, and other than unrestricted general fund?	✓	☐	☐
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved in the current or prior two fiscal years?	☐	✓	☐

Moody's downgraded the district's credit rating from Aa2 to Aa3 on April 10, 2019.

		Yes	No	N/A
18.3	If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities?	☐	☐	✓
18.4	If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?	✓	☐	☐

19. Position Control

		Yes	No	N/A
19.1	Does the district account for all positions and costs?	☐	✓	☐
	The district uses the Digital Schools system to maintain position control data for regular, permanent positions; however, it does not maintain costs for extra duty, substitute and overtime in the position control system.			
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	☐	☐
19.3	Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?	✓	☐	☐
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	☐	☐
19.6	Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios?	✓	☐	☐
19.7	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?	✓	☐	☐

20. Special Education

		Yes	No	N/A
20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	✓	☐	☐
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	✓	☐	☐
20.3	Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?	✓	☐	☐
20.4	Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?	☐	✓	☐
	The district does not charge indirect costs to special education resources at the maximum allowable rate; therefore, it does not capture all program costs related to special education.			
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate?	✓	☐	☐
20.6	Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates?	☐	✓	☐
	The district's average rate of identification is 13.9%, which is higher than the 11.7% statewide average and the 12.8% countywide average.			
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	✓	☐	☐

Total Risk Score, All Areas	**29.3%**

Key to Risk Score

High Risk: 40% or more

Moderate Risk: 25-39%

Low Risk: 24% and lower

Risk Analysis Summary

This Fiscal Health Risk Analysis identifies several areas of concern that contribute to the district's fiscal distress. Of significant concern is the year over year loss of revenue due to the district's steady decline in enrollment, which is projected to continue into the next two years. Enrollment has declined each year since 2013-14. From 2017-18 to 2018-19, enrollment declined from 21,401 to 20,756, a decrease of 3.01%, or 645 students. When enrollment declines, districts must reduce staffing and other operating expenses to compensate for the loss of revenue.

Also of great concern is the rapid erosion of the district's unrestricted ending fund balance because of ongoing deficit spending. The district ended the 2015-16 fiscal year with a surplus, but deficit spending began in the 2016-17 fiscal year and is projected to continue through the last year of the MYFP, 2020-21. The district ended the 2016-17 fiscal year with an unrestricted general fund deficit of $7.15 million and ended the 2017-18 fiscal year with a deficit of $12.7 million. The district's 2018-19 MYFP estimates deficit spending of $5.65 million in the current year, a small surplus in 2019-20 which is based on achieving more than $19 million in budget reductions, and a deficit of $1.5 million in 2020-21 based on reductions of $10.9 million. In February 2019, the governing board approved approximately $12 million in reductions for the 2019-20 fiscal year, and in March 2019 the board adopted a resolution acknowledging the need for additional reductions of $2.3 million for 2019-20 and $10.9 million in 2020-21. The district included these reductions in its second interim MYFP, but additional board action will be required to approve specific items for reduction. Although the resolution identified the amount of reductions needed, specific reductions and a timeline for implementing the reductions have not been identified. If these reductions are not realized, deficit spending will reach $19 million in 2019-20 and $12.35 million in 2020-21.

Current projections indicate that the district's unrestricted general fund balance will decline from $15,561,917 at the start of the 2018-19 fiscal year to $8,776,261 at the end of the 2020-21 fiscal year. This includes projected reductions of $19 million in 2019-20 and $10.9 million in 2020-21. If these reductions are not realized, the district will be unable to meet its minimum reserve requirement in the subsequent years, and its unrestricted ending fund balance will be negative in 2019-20 and 2020-21.

Although the district's MYFP shows declining enrollment, deficit spending, and declining fund balances, the board approved an eight-period day at two of its high schools for the 2020-21 school year at a projected cost of $5.9 million. The district's agreement with its certificated employee bargaining unit includes a formula for annual increases to the salary schedule based on the difference between the base LCFF revenues in one fiscal year and the next fiscal year. This formula resulted in an increase greater than the funded COLA. The district's presettlement analysis of the 2017-18 and 2018-19 proposed agreements states that the cost of the salary increase will be partially funded with ending fund balance, which is rapidly declining. Funding ongoing costs with one-time resources is unsustainable and should be avoided. FCMAT's analysis indicates that the district's staffing costs have exceeded the statewide average in the prior two years and are projected to be in excess of 90% for the current and two subsequent fiscal years. The district must reduce staffing levels in alignment with declining enrollment.

Due to declining enrollment, the district's schools are not at capacity. Student enrollment is 71.7% of capacity at the district's elementary schools, 60.5% at its middle schools and 65.4% at its high schools. All middle schools and high schools reported enrollments at less than 75% of capacity. Only five of 26 school sites had enrollment greater than 80% capacity, and three school sites reported enrollment below 50% capacity. This means that the district is incurring costs to maintain more facilities and school sites than needed to adequately serve its students.

The increasing cost of providing programs and services to special needs students also contributes to the district's declining fiscal position. Contributions from the district's general fund to its special education program have increased from $32 million in 2016-17 to a projected $39 million in 2018-19. The district identifies 13.9% of its students as needing special education services, which is higher than the statewide average of 11.7% and the countywide average of 12.8%.

The district's significant risk factors include declining enrollment, deficit spending, substantial reductions in fund balance, and approval of bargaining agreements that exceed the district's ability to support them. The board has recognized and acknowledged the need for substantial reductions, and it must ensure that it follows through with the needed reductions to eliminate deficit spending. Failure to act quickly and decisively may result in fiscal insolvency and loss of local control.

Multiyear Financial Projections

Multiyear financial projections (MYFPs) allow a governing board and district to make budget decisions that strategically allocate current and future resources in alignment with its goals. Assembly Bill (AB) 1200 and AB 2756 require multiyear financial projections, and they are a part of the adoption budget and interim 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 status of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI), county offices of education and FCMAT and their ability to intervene during fiscal crises.

California school districts and county offices use many different methods and software products to prepare MYFPs. The projections for the district's general fund used in this report were prepared using FCMAT's Budget Explorer MYFP software, a web-based forecasting tool that is available at no cost to all California school districts. FCMAT reviewed the district's 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 (of the current and two subsequent fiscal years) on the district's 2018-19 second interim budget.

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. Multiyear financial projections 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 and in preparation for negotiations.

When developing an 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 district's deficit spending trends indicate that it needs to increase revenue, decrease expenditures, or both, to maintain a positive unappropriated fund balance. When the unappropriated fund balance is negative, it indicates the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with AB 1200.

California school districts must continue to plan for the slowing of funding growth. The largest funding increases from Local Control Funding Formula (LCFF) implementation occurred in prior fiscal years, and state revenue growth has slowed. 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 thus the amounts it generates uncertain.

Full funding of the LCFF was achieved in 2018-19, and estimates of funding increases are limited to COLA alone. Although revenues are flattening, salaries, benefits, utilities, and other costs are escalating, making district budgets difficult to manage. It is unlikely that the annual COLA on the LCFF will be sufficient to fund the annual cost increases associated with salary schedule step and column movement and the increasing employer-paid portion of employee retirement system costs at most districts.

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.

In such an uncertain environment, all local educational agencies (LEAs) should strive to maintain fiscal solvency and protect the integrity of educational programs by doing the following:

1. Maintain adequate reserves to allow for unanticipated circumstances (with the adequate level based on each LEA's unique situational assessment).

2. Maintain fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed as needed.

Budget Assumptions for 2018-19 and MYFP

The key planning factors and budget assumptions FCMAT used to project the district's 2018-19 budget and MYFP are listed below and are based on the latest information available.

Planning Factor	2018-19	2019-20	2020-21
LCFF COLA (school districts and charter schools)	3.7%	3.26%	3.00%
Statutory COLA (Department of Finance-DOF)	2.71%	3.26%	3.00%
State Categorical COLA	2.71%	3.26%	3.00%
LCFF Gap Funding Percentage (DOF)	100.00%		
California CPI	3.64%	3.38%	3.16%
Interest Rate for Ten-Year Treasuries	2.70%	2.85%	2.70%
California Lottery, Unrestricted per ADA	$151	$151	$151
California Lottery, Restricted per ADA (Prop 20)	$53	$53	$53
Mandate Block Grant, District (K-8), per ADA	$31.16	$32.18	$33.15
Mandate Block Grant, District (9-12), per ADA	$59.83	$61.94	$63.80
One-Time Discretionary Funds per ADA	$184		
CalPERS Employer Rate (projected)	18.062%	20.733%	23.60%
CalSTRS Employer Rate (statutory)	16.28%	18.13%	19.10%
Step and Column, Certificated	1.78%	1.78%	1.78%
Step and Column, Classified	2.55%	2.55%	2.55%
Indirect Cost Rate	6.05%	5.34%	5.34%

Sources: School Services of California (SSC) 2019-20 Governor's May Revision Dartboard, BASC 2019-20 May Revision Common Message, CDE, district records

Enrollment and Average Daily Attendance (ADA) Projections

Accurate enrollment tracking and analysis of ADA are essential to budget planning, and projecting both of these into future years is a core component of any multiyear financial projection. 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, the district must consider and plan for the effects of this on the budget, instructional and other staffing, and other operating expenses. Enrollment projections should be prepared frequently and should include sufficient detail by grade level to allow a district to monitor and project class sizes in subsequent years.

If a district has declining enrollment and related ADA, it must exercise extreme caution when making strategic decisions that will affect the budget, including decisions about negotiations with collective bargaining units, staffing ratios and deficit spending. The district must perform due diligence when developing and maintaining its budget to sustain financial stability.

School agencies are required to provide notice to certificated staff by March 15 each year if their employment may be terminated in the subsequent year. To ensure appropriate action is taken by this deadline, the district must have up-to-date enrollment and ADA projections based on the most current information and estimates.

This information can help a district determine whether notices are necessary and if so, how many notices, and have adequate time to prepare them. Once the deadline has passed, the opportunity to reduce certificated staffing levels is lost and a district is often left without the funding needed for its staffing costs. Failure to identify potential reductions in revenue and plan for necessary staffing reductions in a timely manner can have a significant impact on a district's financial position.

Historical enrollment and attendance patterns help identify potential changes in grade level enrollment in future years. The majority of school districts' funding is based on the LCFF, which contains numerous calculations, many of which are based on student enrollment and ADA by grade level.

Local Control Funding Formula funding for school districts is calculated using either the current or prior year period 2 (P-2) ADA report, whichever is greater. Period 2 ADA is calculated using student attendance from the first day of school through the last school month ending on or before April 15. A district's LCFF funding is also partly determined by the district's unduplicated pupil percentage (UPP), which is a three-year rolling average of the number of enrolled students who are eligible for free or reduced priced meals, or identified as English learners, or who are foster youth (unduplicated means no student is counted more than once even if they meet more than one of the three criteria). This number is then divided by total enrollment to determine a percentage. The LCFF provides additional funding when the UPP is greater than certain percentages. FCMAT used the district's five-year historical average UPP in the two subsequent years of its MYFP.

Enrollment, ADA and UPP

FCMAT reviewed the district's enrollment and ADA for 2013-14 through 2017-18 and its October 2018 enrollment data. The review compared the October California Longitudinal Pupil Achievement Data System (CALPADS) student enrollment counts to the April P-2 ADA to determine average ADA-to-enrollment ratios. Historical data indicates that the district has experienced six years of declining enrollment. FCMAT's projections indicate that the district's enrollment will continue to decline in the next two years. Districts should carefully monitor and project enrollment and ADA at each reporting period to ensure that the most recent data is included in their budget assumptions.

FCMAT used the cohort survival method to project the district's enrollment. This method groups students by grade level on entry and tracks them through each year they stay in school. The method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in the subsequent year. In doing so, the method more closely accounts for retention, dropouts, and new and departing students by grade. Although other enrollment forecasting methods are available, the cohort survival method is usually considered the best choice for school districts because of its sensitivity to incremental changes in several key variables.

Percentages are calculated from historical enrollment data certified on CALPADS Fall 1 census date, which is always the first Wednesday in October. This data is used to determine a percentage of increase or decrease in enrollment between any two grades. For example, if 100 students were certified as enrolled in first grade in 2017-18 and that number increased to 104 in second grade in 2018-19, the survival would be 104%, or a ratio of 1.04. Such ratios are calculated between each pair of grades over several recent years. These ratios are key factors that contribute to the reliability of the projections, provided the starting point data is valid. Each ratio collectively encompasses the variables that could account for an increase or decrease in the size of a grade cohort as it progresses over a period of time.

Enrollment variables include the following:

- Birth rates and trends
- Historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Incoming and outgoing interdistrict transfers
- Migration in and out of schools, including movement in and out of charter schools
- Changes in local and regional demographics
- Industry changes such as new industry moving into, or existing industry moving out of, an area
- Residential housing starts and the correlation of housing starts with local, state or national economics

Projecting kindergarten enrollment differs from other grades because little data is available on the presence of four- and five-year-old children that may enroll in the district the following year. The industry standard for projecting kindergarten enrollment is to measure current kindergarten enrollment as a percentage of countywide live births five years earlier. Because many school districts are located in San Diego County, FCMAT used birth data by postal zip code within the district's boundaries rather than countywide birth data. This approach indicates that approximately 57.67% of children born within the identified zip codes become kindergartners in the district five years later, based on a weighted five-year average. If this percentage holds true for the subsequent two years of the MYFP, the district will have kindergarten enrollments of 1,896 and 1,831 for the 2019-20 and 2020-21 school years, respectively.

Past, Current and Projected Kindergarten Enrollment

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 Projected	2020-21 Projected
Kindergarten Enrollment	1,830	1,793	1,919	1,990	2,009	1,836	1,896	1,831
Calendar Year	2008	2009	2010	2011	2012	2013	2014	2015
No. of Live Births	3,597	3,534	3,574	3,355	3,315	3,203	3,287	3,174
Enrollment as a Percentage of Births Five Years Earlier	50.88%	50.74%	53.69%	59.31%	60.60%	57.32%	57.67%	57.67%

Source: California Department of Public Health

Enrollment, ADA and UPP Projections by Grade Level

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 Projected	2020-21 Projected
Kindergarten	1,830	1,793	1,919	1,990	2,009	1,836	1,896	1,831
1st Grade	1,828	1,670	1,588	1,629	1,606	1,614	1,563	1,614
2nd Grade	1,706	1,767	1,654	1,555	1,586	1,599	1,583	1,534
3rd Grade	1,710	1,657	1,781	1,603	1,557	1,566	1,579	1,564
	7,074	**6,887**	**6,942**	**6,777**	**6,758**	**6,615**	**6,621**	**6,542**
4th Grade	1,789	1,710	1,666	1,732	1,561	1,532	1,546	1,559
5th Grade	1,610	1,719	1,668	1,632	1,704	1,551	1,499	1,513
6th Grade	1,573	1,519	1,573	1,521	1,496	1,529	1,422	1,375
	4,972	**4,948**	**4,907**	**4,885**	**4,761**	**4,612**	**4,467**	**4,446**

7th Grade	1,556	1,536	1,515	1,600	1,490	1,470	1,515	1,409
8th Grade	1,655	1,566	1,532	1,505	1,579	1,456	1,459	1,503
	3,211	**3,102**	**3,047**	**3,105**	**3,069**	**2,926**	**2,973**	**2,912**
9th Grade	1,753	1,850	1,710	1,739	1,668	1,697	1,610	1,613
10th Grade	1,720	1,733	1,819	1,688	1,661	1,608	1,656	1,571
11th Grade	1,767	1,688	1,694	1,710	1,652	1,567	1,550	1,596
12th Grade	1,766	1,831	1,734	1,736	1,731	1,731	1,613	1,596
Ungraded	85	89	88	98	101	-	-	-
	7,091	**7,191**	**7,045**	**6,971**	**6,813**	**6,603**	**6,429**	**6,376**
Total Enrollment	22,348	22,128	21,941	21,738	21,401	20,756	20,491	20,276
Enrollment increase (decrease)	86	(220)	(187)	(203)	(337)	(645)	(265)	(215)
Unduplicated Pupil Count	14,450	14,234	13,635	13,659	13,673	13,449	13,032	12,895
UPP%	64.66%	64.33%	62.14%	62.83%	63.89%	64.80%	63.60%	63.60%
P2 ADA	**21,494.74**	**21,172.39**	**20,944.10**	**20,973.47**	**20,342.88**	**19,764.97**	**19,585.67**	**19,379.81**
P-2 ADA as Percentage of Enrollment	96.18%	95.68%	95.46%	96.48%	95.06%	95.23%	95.58%	95.58%

Sources: Ed Data, CALPADS 1.17 report, CDE Apportionment Exhibits

Notes on above table:

For grades 1-12, the enrollment projections are based on the cohort survival average by grade level for the previous five years.

For kindergarten, the enrollment projections are based on a weighted five-year average of kindergarten enrollment as a percentage of live births in the area five years before.

The unduplicated pupil percentage is based on a five-year average ratio of unduplicated pupils to total enrollment.

The P-2 attendance percentage is based on a five-year average ratio of P-2 attendance to enrollment.

Enrollment and ADA projections have inherent limitations because they are based on certain criteria and assumptions rather than exact calculations. 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.

Projections

The main objective when developing an MYFP is to evaluate the district's long-term financial sustainability. Multiyear financial projections provide the board and the district with a fiscal planning framework that enables them to make budget decisions that strategically address current and future budget issues. The analysis is performed to determine whether the district will generate sufficient revenues annually to meet all expenditures without incurring a structural deficit for the current and two subsequent fiscal years.

A district can file (self-certify) one of three types of interim budget certifications: a positive certification when it will meet its financial obligations for the current and two subsequent years; a qualified certification when it may not meet its financial obligations for the current or two subsequent years; and a negative certification when it will not be able to meet its financial obligations for the rest of the current year or the subsequent fiscal year. The county office may concur with the district's self-certification or may change the district's certification. The district filed a positive certification for its 2018-19 second interim financial reports, and the county office concurred with that certification.

When a school district expends more revenue than it receives in a fiscal year, it is deficit spending. When this happens year over year, it is known as a structural or operating deficit. Left uncorrected, a structural deficit will deplete a district's reserves and result in a negative fund balance. In a worst-case scenario, a district will run out of cash and become fiscally insolvent, resulting in state intervention and loss of local control. The district is managing its cash flow needs using internal borrowing from other funds and by issuing tax revenue anticipation notes (TRANS). It is extremely important that the district carefully monitor its cash flow needs at least monthly and prepare cash flow projections that extend at least 18 months into the future.

FCMAT's MYFP as of the 2018-19 second interim indicates that the district may not meet its reserve requirement in the second subsequent year. The district's board adopted a resolution acknowledging the need to implement $10.9 million in reductions to remain fiscally solvent in fiscal year 2020-21. The district must create a detailed plan in fiscal year 2019-20 that includes specific reductions and timeline for implementing them; this must be done before the start of the 2020-21 fiscal year.

The following table summarizes FCMAT's projections for the district's unrestricted resources.

Multiyear Financial Projection Summary, General Fund Unrestricted Resources Only

Name	Object Code	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Revenues				
LCFF/State Aid	8010 - 8099	$201,287,979.00	$202,566,670.00	$206,214,419.00
Federal Revenues	8100 - 8299	$1,134,889.00	$570,000.00	$570,000.00
Other State Revenues	8300 - 8599	$7,828,569.00	$4,012,134.00	$3,999,638.00
Other Local Revenues	8600 - 8799	$4,341,806.00	$3,742,486.00	$3,742,486.00
Revenues		**$214,593,243.00**	**$210,891,290.00**	**$214,526,543.00**
Expenditures				
Certificated Salaries	1000 - 1999	$90,620,520.00	$82,782,252.11	$88,586,597.43
Classified Salaries	2000 - 2999	$25,281,218.00	$23,652,225.05	$24,255,357.02
Employee Benefits	3000 - 3999	$44,850,727.00	$41,666,342.92	$45,546,626.03
Books and Supplies	4000 - 4999	$3,986,974.00	$1,251,825.51	$1,327,489.03
Services and Other Operating	5000 - 5999	$16,716,859.00	$18,218,738.77	$19,059,277.67
Capital Outlay	6000 - 6900	$653,396.00	$266,996.00	$266,996.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($5,713,366.00)	($4,986,135.00)	($5,082,148.00)
Debt Service	7400 - 7499	$429,875.00	$426,483.00	$426,482.00
Expenditures		**$176,826,203.00**	**$163,278,728.36**	**$174,386,677.18**
Excess (Deficiency) of Revenues Over Expenditures		$37,767,040.00	$47,612,561.64	$40,139,865.82
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$2,802,732.00	$200,000.00	$200,000.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($46,733,717.95)	($48,431,997.91)	($50,530,031.97)
Other Financing Sources/Uses		**($43,930,985.95)**	**($48,231,997.91)**	**($50,330,031.97)**
Net Increase (Decrease) in Fund Balance		($6,163,945.95)	($619,436.27)	($10,190,166.15)
Fund Balance				
Beginning Fund Balance	9791	$15,561,917.11	$9,397,971.16	$8,778,534.89
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$15,561,917.11	$9,397,971.16	$8,778,534.89
Ending Fund Balance	9799	$9,397,971.16	$8,778,534.89	($1,411,631.26)
Components of Ending Fund Balance				
Fund Balance, Nonspendable				

Revolving Cash	9711	$250,000.00	$250,000.00	$250,000.00
Stores	9712	$109,502.19	$109,502.00	$109,502.00
3% Reserve for Economic Uncertainties	9789	$8,296,719.35	$7,716,367.88	$8,101,088.24
Undesignated/Unappropriated	9790	$741,749.62	$702,665.01	($9,872,221.50)

The following table summarizes FCMAT's projections for the district's restricted resources.

Multiyear Financial Projection Summary, General Fund Restricted Resources Only

Name	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$1,213,702.00	$1,213,702.00	$1,213,702.00
Federal Revenues	8100 - 8299	$14,956,478.00	$12,109,314.00	$12,109,314.00
Other State Revenues	8300 - 8599	$14,761,103.00	$12,122,695.12	$12,605,967.59
Other Local Revenues	8600 - 8799	$18,407,664.00	$17,784,065.00	$17,784,065.00
Revenues		$49,338,947.00	$43,229,776.12	$43,713,048.59
Expenditures				
Certificated Salaries	1000 - 1999	$26,056,286.00	$26,377,288.33	$26,806,325.98
Classified Salaries	2000 - 2999	$18,912,837.00	$19,395,114.34	$19,889,689.76
Employee Benefits	3000 - 3999	$24,884,940.00	$26,969,991.59	$28,462,866.79
Books and Supplies	4000 - 4999	$9,322,404.77	$4,463,475.48	$3,801,698.95
Services and Other Operating	5000 - 5999	$9,233,615.00	$8,515,912.15	$8,382,268.43
Capital Outlay	6000 - 6900	$4,621,403.75	$2,239,473.45	$2,238,454.60
Other Outgo	7000 - 7299	$1,800,641.00	$1,800,641.00	$1,800,641.00
Direct Support/Indirect Cost	7300 - 7399	$4,898,981.00	$4,171,750.00	$4,267,763.00
Debt Service	7400 - 7499	$0.00	$0.00	$0.00
Expenditures		$99,731,108.52	$93,933,646.34	$95,649,708.51
Excess (Deficiency) of Revenues Over Expenditures		($50,392,161.52)	($50,703,870.22)	($51,936,659.92)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$46,733,717.95	$48,431,997.91	$50,530,031.97
Other Financing Sources/Uses		$46,733,717.95	$48,431,997.91	$50,530,031.97
Net Increase (Decrease) in Fund Balance		($3,658,443.57)	($2,271,872.31)	($1,406,627.95)
Fund Balance				
Beginning Fund Balance	9791	$7,679,891.52	$4,021,447.95	$1,749,575.64
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$7,679,891.52	$4,021,447.95	$1,749,575.64
Ending Fund Balance	9799	$4,021,447.95	$1,749,575.64	$342,947.69
Components of Ending Fund Balance				
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$0.00	$0.00	$0.00
Nonspendable Stores	9712	$0.00	$0.00	$0.00
Restricted Balance	9740	$4,021,447.95	$1,749,575.64	$342,947.69
Committed				
Reserve for Economic Uncertainties	9789	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	($0.00)	($0.00)

The following table summarizes FCMAT's projections for the district's combined resources.

Multiyear Financial Projection Summary, General Fund Unrestricted and Restricted Resources

	Object Code	Base Year 2018 - 19	Year 1 2019 - 20	Year 2 2020 - 21
Revenues				
LCFF/State Aid	8010 - 8099	$202,501,681.00	$203,780,372.00	$207,428,121.00
Federal Revenues	8100 - 8299	$16,091,367.00	$12,679,314.00	$12,679,314.00
Other State Revenues	8300 - 8599	$22,589,672.00	$16,134,829.12	$16,605,605.59
Other Local Revenues	8600 - 8799	$22,749,470.00	$21,526,551.00	$21,526,551.00
Revenues		**$263,932,190.00**	**$254,121,066.12**	**$258,239,591.59**
Expenditures				
Certificated Salaries	1000 - 1999	$116,676,806.00	$109,159,540.44	$115,392,923.41
Classified Salaries	2000 - 2999	$44,194,055.00	$43,047,339.39	$44,145,046.78
Employee Benefits	3000 - 3999	$69,735,667.00	$68,636,334.51	$74,009,492.82
Books and Supplies	4000 - 4999	$13,309,378.77	$5,715,300.99	$5,129,187.98
Services and Other Operating	5000 - 5999	$25,950,474.00	$26,734,650.92	$27,441,546.10
Capital Outlay	6000 - 6900	$5,274,799.75	$2,506,469.45	$2,505,450.60
Other Outgo	7000 - 7299	$1,800,641.00	$1,800,641.00	$1,800,641.00
Direct Support/Indirect Cost	7300 - 7399	($814,385.00)	($814,385.00)	($814,385.00)
Debt Service	7400 - 7499	$429,875.00	$426,483.00	$426,482.00
Expenditures		**$276,557,311.52**	**$257,212,374.70**	**$270,036,385.69**
Excess (Deficiency) of Revenues Over Expenditures		($12,625,121.52)	($3,091,308.58)	($11,796,794.10)
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$2,802,732.00	$200,000.00	$200,000.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		**$2,802,732.00**	**$200,000.00**	**$200,000.00**
Net Increase (Decrease) in Fund Balance		($9,822,389.52)	($2,891,308.58)	($11,596,794.10)
Fund Balance				
Beginning Fund Balance	9791	$23,241,808.63	$13,419,419.11	$10,528,110.53
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$23,241,808.63	$13,419,419.11	$10,528,110.53
Ending Fund Balance	9799	$13,419,419.11	$10,528,110.53	($1,068,683.57)
Components of Ending Fund Balance				
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$250,000.00	$250,000.00	$250,000.00
Nonspendable Stores	9712	$109,502.19	$109,502.00	$109,502.00
Restricted Balance	9740	$4,021,447.95	$1,749,575.64	$342,947.69
Committed				
Other Assignments	9780	$0.00	$0.00	$0.00
3% Reserve for Economic Uncertainties	9789	$8,296,719.35	$7,716,367.88	$8,101,088.24
Undesignated/Unappropriated	9790	$741,749.62	$702,665.01	($9,872,221.50)

If the district cannot meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the governing board and the Superintendent of Public Instruction (SPI). The county office of education must follow Education Code 42127.6 when assisting a school district in fiscal distress. If a district does not maintain its required reserve for economic uncertainties, the MYFP is the primary tool used to help the county office and the district develop a plan to regain fiscal solvency and restore the required reserve.

Adjustment Analysis

The following table shows the differences between the district's 2018-19 second interim report and FCMAT's analysis. In February 2019, the district's governing board approved expenditure reductions of $12.4 million for fiscal year 2019-20. In March 2019, the board adopted a resolution that identified the amount of expenditure reductions needed in 2019-20 and 2020-21, specifically $2.3 million and $10.9 million, respectively. The district included these reductions in its 2018-19 second interim report. However, FCMAT did not include the reductions of $10.9 million for 2020-21 because the reductions were not specific and the district provided no timeline for their implementation. Differences are explained in the Projection Assumptions section directly following the table below.

Multiyear Financial Projection Comparison Summary, General Fund Unrestricted and Restricted Resources

Name	Object Code	District 2018-19 Second Interim	FCMAT 2018-19 Analysis	Difference
Revenues				
LCFF/State Aid	8010 - 8099	$202,460,764.00	$202,501,681.00	$40,917.00
Federal Revenues	8100 - 8299	$14,686,391.00	$16,091,367.00	$1,404,976.00
Other State Revenues	8300 - 8599	$22,659,470.00	$22,589,672.00	($69,798.00)
Other Local Revenues	8600 - 8799	$22,779,698.00	$22,749,470.00	($30,228.00)
Revenues		**$262,586,323.00**	**$263,932,190.00**	**$1,345,867.00**
Expenditures				
Certificated Salaries	1000 - 1999	$117,376,806.00	$116,676,806.00	($700,000.00)
Classified Salaries	2000 - 2999	$43,394,055.00	$44,194,055.00	$800,000.00
Employee Benefits	3000 - 3999	$70,062,101.00	$69,735,667.00	($326,434.00)
Books and Supplies	4000 - 4999	$12,901,048.00	$13,309,378.77	$408,330.77
Services and Other Operating	5000 - 5999	$25,778,474.00	$25,950,474.00	$172,000.00
Capital Outlay	6000 - 6900	$5,208,396.00	$5,274,799.75	$66,403.75
Other Outgo	7000 - 7299	$1,800,641.00	$1,800,641.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($814,385.00)	($814,385.00)	$0.00
Debt Service	7400 - 7499	$429,875.00	$429,875.00	$0.00
Expenditures		**$276,137,011.00**	**$276,557,311.52**	**$420,300.52**
Excess (Deficiency) of Revenues Over Expenditures		($13,550,688.00)	($12,625,121.52)	$925,566.48
Other Financing Sources/Uses				
Interfund Transfers In	8900 - 8929	$2,802,732.00	$2,802,732.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Other Financing Sources/Uses		**$2,802,732.00**	**$2,802,732.00**	**$0.00**
Net Increase (Decrease) in Fund Balance		($10,747,956.00)	($9,822,389.52)	$925,566.48
Fund Balance				
Beginning Fund Balance	9791	$23,241,808.63	$23,241,808.63	$0.00
Audit Adjustments	9793	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance	9797	$23,241,808.63	$23,241,808.63	$0.00
Ending Fund Balance	9799	$12,493,852.63	$13,419,419.11	$925,566.48

Components of Ending Fund Balance				
Fund Balance, Nonspendable				
Nonspendable Revolving Cash	9711	$250,000.00	$250,000.00	$0.00
Nonspendable Stores	9712	$109,502.19	$109,502.19	$0.00
Restricted Balance	9740	$2,634,423.95	$4,021,447.95	$1,387,024.00
Committed				
Stabilization Arrangements	9750	$0.00	$0.00	$0.00
Other Commitments	9760	$0.00	$0.00	$0.00
Other Assignments	9780	$0.00	$0.00	$0.00
3% Reserve for Economic Uncertainties	9789	$8,281,791.17	$8,296,719.35	$14,928.18
Undesignated/Unappropriated	9790	$1,218,135.32	$741,749.62	($476,385.70)

Projection Assumptions

FCMAT's MYFP for the district includes the impact of the governor's 2019-20 May Revision state budget proposal, as published in May 2019. These assumptions were applied to the district's 2018-19 second interim budget. FCMAT reviewed the district's records, interviewed staff members and examined a variety of financial documents to gather the information needed for the MYFP. Assumptions include conservative economic factors and estimates described by major object code. The district needs to monitor and project revenue and expenditures using the most current information and assumptions available. The district will also need to review all budgets monthly and make adjustments to minimize variances between budgeted and actual expenditures at year end.

Revenue Assumptions (Object 8XXX):

Projected revenue was based on validation of funding from the CDE, information from School Services of California (SSC), grant letters, and analysis of the district's estimates for any sources that could not be independently verified. FCMAT reviewed and projected federal, state and local revenues using the funding levels indicated in the district's 2018-19 second interim budget report. Adjustments were made for any one-time funding or carryover from previous years.

Local Control Funding Formula (LCFF) Sources (8010-8099)

The LCFF is the state's funding model for school districts and charter schools. The LCFF was implemented beginning with the 2013-14 fiscal year and replaced the former revenue limit calculation and Charter School Block Grant state apportionment distributions. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- A supplemental grant that provides an additional 20% of the base grant multiplied by the district's percentage of disadvantaged pupils (that is, the unduplicated number and resulting percentage of low-income students, English language learners, and foster youth).
- A concentration grant that provides an additional 50% of the base grant multiplied by the district's percentage of disadvantaged pupils in excess of 55%.

The LCFF eliminated many former state categorical programs for all local education agencies (LEAs), including school districts, charter schools, and county offices of education; this formerly categorical funding was redirected to the LCFF. Full implementation of the LCFF for school districts and charter schools was expected to take eight years, with LEAs receiving a transitional level of funding during implementation. However, full implementation was achieved in 2018-19, two years earlier than anticipated, with all LEAs receiving their target allocations of LCFF funding. Although LCFF has reached its target funding sooner than anticipated, no additional funds are expected; therefore, FCMAT recommends projecting LCFF revenue conservatively in MYFPs. Additional LCFF increases are now limited mainly to the cost-of-living adjustment (COLA) and adjustments made because of changes in attendance and unduplicated student counts. Although the economy has continued to improve over the last six years, the California Department of Finance continues to remind educational entities that changes in both state and national economics may adversely affect school funding.

Districts are advised to use the FCMAT LCFF Calculator to estimate LCFF funding. For most districts, the LCFF entitlement is funded through a combination of local property taxes and state aid. An LEA's property tax will first be applied toward the total LCFF entitlement, and the balance funded using state aid. FCMAT prepared independent LCFF calculations and used them to develop its MYFP for the district.

FCMAT used the May Revise version of the LCFF calculator released in May 2019; the district used the governor's budget version released in January 2019. This resulted in a slight difference in funded ADA in FCMAT's projection as well as an increase in LCFF revenues. FCMAT's projection of ADA and unduplicated pupil count also resulted in differences in projected LCFF revenues in the subsequent years.

Districts should use the most recently updated LCFF calculator available and current enrollment, ADA and UPP projections to update their budgets and MYFPs.

Federal Revenue (8100-8299)

With the exception of any one-time funding, FCMAT assumed unchanged funding levels for federal programs in 2018-19, with no COLA in 2019-20 and 2020-21.

Unrestricted federal revenues remained unchanged in the current year. Projected Medi-Cal Administrative Activities (MAA) revenues were reduced in subsequent years due to the uncertainty of this funding source. Federal restricted revenues were increased $1,404,976 in the current year for carryover revenues in Title I, Title II, Title III and Title IV programs. This carryover revenue has been eliminated from FCMAT's projections in subsequent years.

Revenues deferred from the prior year should be included in current year budgets when the unaudited actuals are completed, and should be eliminated from the two subsequent years of the MYFP.

Other State Revenue (8300-8599)

Other state grant award amounts for 2018-19 were confirmed and are carried forward to 2019-20 and 2020-21, reduced by any one-time amounts received in 2018-19, and increased by COLA.

The Classified School Employees Professional Development Block Grant and the Low Performing Students Block Grant have been eliminated from 2019-20 and 2020-21 because the state budget has not committed to continue funding these programs. In addition, the Career Technical Education Incentive Grant shows deferred revenue of $2,395,546 for 2018-19, which has been removed in subsequent years.

Mandate Funding

One-time revenue of $184 per ADA was allocated to all districts in 2018-19. This revenue source has been eliminated in subsequent years because these funds are considered one-time; it is not known whether this revenue will be appropriated in future years.

FCMAT's projections for the ongoing mandate block grant remain unchanged from the district's second interim budget. The block grant is calculated at $31.16 per ADA in grades K-8 and $59.83 per ADA in grades 9-12, and it is increased by the COLA in subsequent years, as shown on the School Services of California (SSC) Dartboard. To receive mandate block grant funds, a district must file a funding application each year with the CDE.

Lottery

FCMAT projected unrestricted lottery revenues for 2018-19 using actual prior year annual ADA, multiplied by $151 for unrestricted and $53 for restricted lottery instructional materials revenues, per the SSC Dartboard. FCMAT decreased projected unrestricted lottery revenues by $42,478 and decreased projected restricted lottery revenues by $24,027 in the current year based on actual 2017-18 ADA. Revenues in the subsequent years were based on projected annual ADA. Lottery funding is initially allocated using the prior year's annual ADA and is adjusted in the subsequent fiscal year based on current year annual ADA. Projections for the subsequent years remain consistent with these assumptions.

Other Local Revenue (8600-8799)

The district receives local revenues from leases and rentals, interest earnings, donations, and other miscellaneous revenues. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items need to be conservative, take into account data on historical trends, and identify revenue streams that are one-time. These budget items should also be monitored and updated throughout the year based on amounts received to date. FCMAT reviewed the district's budgeted amounts for reasonableness using the prior two years' actual revenues and current year-to-date actual revenues. Amounts attributed to interest and other miscellaneous revenues were considered ongoing in the subsequent years of the projection. Amounts attributed to donations were considered one-time and were eliminated in the subsequent years unless FCMAT could identify a multiyear historical trend that justified a conservative revenue estimate.

Contributions (8980-8990)

When revenues for restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Usually, restricted programs should be self-supporting, with the exception of special education and routine restricted maintenance, neither of which are typically fully funded by either state or federal sources.

FCMAT projects a contribution of $38,959,199 to special education programs in the current year. This is projected to increase to $40,740,630 in 2019-20 and to $42,437,394 in 2020-21 because of increasing costs.

The district projects a contribution of $7,829,950 to resource 8150, the routine restricted maintenance account (RRMA), in the current budget year. FCMAT projected the contribution at $7,716,368 in 2019-20 and $8,101,088 in 2020-21. FCMAT set the projected contribution in the subsequent years to the minimum required amount and reduced projected expenditures to balance the resource.

The district projects a contribution of $55,432 from resource 5640 (Medi-Cal Billing Option) to the unrestricted resource, which is projected to decrease to $25,000 in 2019-20 and 2020-21 in alignment with prior year actuals. A new contribution to resource 4035, Title II, is projected in 2020-21 because of increasing costs and the elimination of unearned (carryover) revenues.

The table below shows projected contributions from the district's unrestricted general fund to its restricted resources.

Contributions

	Resource Code	Base Year 2018-19	Year 1 2019-20	Year 2 2020-21
Unrestricted Resources				
Unrestricted	0000	($46,733,717.95)	($48,431,997.91)	($50,530,031.97)
Total Unrestricted		**($46,733,717.95)**	**($48,431,997.91)**	**($50,530,031.97)**
Restricted Resources				
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	$0.00	$357,355.06	$525,722.96
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	$0.00	$4,265.18	$9,709.29
Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	3327	$0.00	$6,863.80	$15,150.04
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	3345	$0.00	$38.04	$82.61
NCLB: Title II, Part A, Teacher Quality	4035	$0.00	$0.00	$16,550.08
Medi-Cal Billing Option	5640	($55,432.00)	($25,000.00)	($25,000.00)
Special Education	6500	$38,945,072.00	$40,319,866.59	$41,785,999.50
Special Ed: Mental Health Services	6512	$12,856.00	$43,114.35	$81,210.89
Special Ed: Project Workability I LEA	6520	$1,271.00	$9,127.01	$19,518.36
College Readiness Block Grant	7338	$0.35	$0.00	$0.00
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	$7,829,950.60	$7,716,367.88	$8,101,088.24
Total Restricted		**$46,733,717.95**	**$48,431,997.91**	**$50,530,031.97**
Balance		**$0.00**	**$0.00**	**$0.00**

In instances where restricted resource expenditure budgets exceeded projected revenue in the second and third years of the projection, FCMAT first reduced expenditures in the 4XXX object code series. If a shortfall remained, FCMAT reduced expenditures in the 5XXX object code range; no reductions were made in salary and benefit budgets. If any restricted resource expenditures still exceeded revenues after the above adjustments, FCMAT made a contribution from the unrestricted resource to balance the restricted resource.

Expenditure Assumptions (Object 1XXX-7999):

FCMAT's MYFP assumes that the district's current ongoing costs as of 2018-19 second interim will continue unless adjusted as noted below.

Salary and Benefits (1XXX-3XXX)

The district uses the Digital Schools system to track and maintain position control data for regular, permanent positions. The Digital Schools system is not integrated with the financial system. Salary and benefit costs for overtime, substitutes, and stipend positions are budgeted based on prior year expenses.

FCMAT evaluated the reasonableness of the district's 2018-19 salary and benefit information budgeted at second interim using current year-to-date actual expenditures and projected costs for the remainder of the year. Annual costs were estimated using actual expenditures as of February 28, 2019, plus February 2019 payroll multiplied by the four remaining months to be paid in the current fiscal year. This amount was compared to the district's 2018-19 budget and to the two prior years actuals. Salary accounts were adjusted in the current year based on this analysis.

Certificated Salaries (1XXX)

Certificated salaries were decreased in the budget year based on an analysis of actual expenditures to date and projected costs for the remainder of the fiscal year. Certificated salaries were increased by 1.78% in each subsequent year of the projection for the estimated cost of salary schedule step movement. An ongoing reduction of $4.5 million was made in 2019-20 for the estimated savings from the Supplemental Employee Retirement Plan (SERP). An additional ongoing annual reduction of $5.6 million was made for additional board-approved certificated reductions. In 2020-21, in addition to the increase for the cost of salary schedule step movement, salaries were increased $4.4 million for the estimated cost of changing to an eight-period day at two high schools.

Classified Salaries (2XXX)

Classified salaries were increased in the budget year based on an analysis of actual expenditures to date and projected costs for the remainder of the fiscal year. Classified salaries were increased by 2.55% in each subsequent year of the projection for the estimated cost of salary step movement. An ongoing reduction of $942,000 was made in 2019-20 for the estimated savings from the Supplemental Employee Retirement Plan (SERP). An additional ongoing reduction of $511,000 was made for additional board-approved classified staffing reductions.

Employee Benefits (3XXX)

Employee benefit accounts were adjusted in the current year based on actual year-to-date activity and encumbrances through February 2019 and payroll reports for September and October 2018. Statutory benefits were increased or decreased in the subsequent years in proportion to increases or decreases in certificated and classified salaries. Increased employer contributions for the California State Teachers' Retirement System (STRS) and the California Public Employees' Retirement System (PERS) were included in the subsequent years. Although the governor's proposal includes funds to reduce the STRS employer contribution rate, the current statutory rates were used for the projection. No increases in health and welfare benefits were projected for the subsequent years because the district contribution is capped in the collective bargaining agreements.

Books and Supplies (4XXX)

The books and supplies budget was reviewed for reasonableness using the two prior years' actual expenditures and current year-to-date expenditures and encumbrances. After adjustments were made as described below, expenditures in the subsequent years were increased based on the consumer price index (CPI) inflation factor.

Unrestricted expenditures were increased in the current budget year to align with actual year-to-date expenditures and encumbrances for materials and supplies. Board-approved expenditure reductions were included in the 2019-20 projection; however, expenditures were not reduced in 2020-21 because the resolution adopted by the board did not specify expenditure categories and amounts. Expenditures related to expiring programs (resource 7338 and 7510) were eliminated in the subsequent years. Expenditures were reduced in the second and third year of the projection whenever restricted resource expenditure budgets exceeded projected revenue. Expenditures were reduced in the following resources: 3010, 3550, 4035, 4201, 5630, 6387, 7010, and 9010.

Services and Other Operating Expenditures (5XXX)

The services and other operating expenditures budgets were reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date expenditures and encumbrances. After adjustments were made as described below, expenditures in the subsequent years were increased based on the CPI inflation factor.

Unrestricted expenditures were increased in the budget year to align with actual year-to-date expenditures and encumbrances. Board-approved expenditure reductions were included in 2019-20; however, expenditures were not reduced in 2020-21 because the board resolution did not specify expenditure categories and amounts. Expenditures related to expiring programs (resource 7311, 7338 and 7510) and carryover revenues (resources 4035 and 6387) were eliminated in the subsequent years of the projection. Expenditures were reduced in the second and third year of the projection whenever restricted resource expenditure budgets exceeded projected revenue.

Capital Outlay (6XXX)

Capital outlay budgets were reviewed for reasonableness using the prior two years' actual expenditures and current year-to-date expenditures and encumbrances. Unrestricted expenditures were increased in the current year to align with actual year-to-date expenditures and encumbrances. Board-approved expenditure reductions for 2019-20 were included in the projection. Expenditures related to expiring programs and carryover revenues (resources 6230 and 6387) were eliminated in the subsequent years.

Other Outgo (7XXX)

Indirect Costs

Indirect costs were based on the CDE's approved rate for the district. These costs were adjusted in the budget year as described below. The maximum allowable rate for each restricted program was applied in the subsequent years to ensure proper program cost accounting, even when this resulted in a contribution back to the restricted resource from the unrestricted resource. The district included indirect costs to most but not all eligible programs in its second interim budgets.

Indirect costs were increased in the current budget year because FCMAT added indirect cost charges to resources 4035, 6230, 6500, 6512, and 8150.

Debt Service

Debt service in the current and subsequent years was based on the district's long-term debt schedules for capital leases and a child care facility loan.

Interfund Transfers (8919 & 7619)

Other Authorized Interfund Transfers In (8919)

The district projects transfers into the general fund of $2.6 million from the capital reserve fund and $200,000 from the self-insurance fund in 2018-19. The $2.6 million transfer from the capital reserve fund was eliminated from the subsequent years of the projection. The $200,000 from the self-insurance fund is assumed to be ongoing.

Other Authorized Interfund Transfers Out (7619)

The district's second interim report does not include any transfers out of the general fund into other funds.

Other Funds

FCMAT completed a basic review of other funds to consider their financial impact on the district's unrestricted general fund.

Adult Education

The district recorded a $660,048 surplus of revenues over expenditures in its adult education fund in 2016-17. In 2017-18, the district recorded a deficit of $332,391. The district's 2018-19 first interim budget projects $1.8 million in deficit spending, and the fund balance is projected to decline from $2,202,396 to $436,795 in 2018-19. The district must ensure that it closely monitors revenues and expenditures and reverses the deficit spending trend in the adult education fund to avoid the need for a transfer from the general fund.

Cafeteria

The district's cafeteria fund is self-supporting. The district recorded a surplus of $182,112 in 2016-17, a surplus of $777,070 in 2017-18, and projects a deficit of $341,258 in 2018-19. The district is deliberately spending down the fund balance in 2018-19 with one-time expenditures.

Capital Facilities

The district recorded deficits of $768,117 in its capital facilities fund in 2016-17 and $249,494 in 2017-18, and is projecting a deficit of $942,865 in 2018-19. The fund balance is projected to decline from $2,219,896 to $1,277,031 in 2018-19. The district must ensure that it closely monitors revenues and expenditures and avoids deficit spending in the capital facilities fund.

Special Reserve Fund for Capital Outlay

The district's special reserve fund for capital outlay projects has a 2018-19 beginning fund balance of $2,607,732. The district recorded surpluses of $651,849 in the fund in 2016-17 and 1,464,531 in 2017-18. The 2018-19 second interim report projects a transfer of $2,602,732 to the general fund. The ending fund balance is projected at $3. The district recognizes that the transfer is a one-time solution for the general fund budget.

Recommendations

The district should:

1. Fully develop a detailed fiscal recovery plan for 2020-21, including a timeline for implementation, to eliminate the structural deficit in its general fund.
2. Adopt a budget and MYFP that eliminate deficit spending and restore the reserve requirements in the budget and projection years.
3. Maintain a reserve level sufficient to ensure cash is available to meet payroll and other expenditure obligations.
4. Monitor current year and subsequent year cash flow at least monthly, and prepare cash flow projections that extend at least 18 months into the future.
5. Recognize carryover (unearned revenues) in the current year budget as soon as prior year unaudited actuals have been completed, and ensure that unearned revenue is not included in the subsequent two years of the multiyear financial projection.
6. Be conservative when budgeting amounts for local revenue, and update the budget throughout the year as needed to account for year-to-date receipts.
7. Track and monitor one-time revenues and expenditures to ensure that one-time revenues do not pay for ongoing expenditures.

8. Ensure the position control system includes items such as substitutes, overtime, extra duty pay, stipends, and vacation payouts.
9. Reconcile and adjust budget and position control using actual payroll data regularly, meaning at least at budget adoption and interim reporting periods, though more frequently is preferable.
10. Review all budgets monthly, and make adjustments to help prevent variances between budgeted and actual expenses at year end.
11. Monitor and project revenues and expenditures for all other funds throughout the year, and ensure the assumptions used are the most current available. Ensure that the financial impact on the unrestricted general fund in the current and subsequent two years is considered in all multiyear financial projections.
12. Ensure that school sites and departments verify their respective CALPADS data and correct it as needed before the report submission deadlines.
13. Ensure all employees and managers adhere to the district's policy that limits accrued vacation balances.

Revenue Increases and Expenditure Reductions

Revenue Increases

Enrollment, ADA, and UPP

Much of a school agency's revenue is derived from enrollment, ADA, and unduplicated pupil count. By increasing enrollment, attendance, and the percentage of students properly identified as unduplicated pupils, a district may increase revenues.

The average daily attendance rate for California unified school districts is 94.9% of enrollment. Although the district has consistently exceeded this rate since 2014-15, this remains a critical component of the district's primary funding source. The district can increase LCFF revenues by increasing student attendance. Various methods can be used to increase student attendance, including incentives, parent education, and a system to notify parents immediately when students are absent. Timely parent notification is critical to increasing daily attendance and preserving the associated funding. When developing its school calendar, the district also needs to consider the effects of mid-week holidays, religious and cultural holidays, staff development days and other days students commonly miss school. The district may consider offering short-term independent study for students who are absent more than five days, or Saturday school to recover truancy absences. The district may also consider participation in the School Attendance Review Board (SARB). A list of potential strategies and activities that help encourage students to attend school regularly is provided by the CDE and can be found at https://www.cde.ca.gov/ls/ai/cw/attendstrategy.asp.

The district's unduplicated pupil percentage has remained relatively unchanged for the past five years. It would benefit the district to ensure that it properly identifies all students who are eligible for free and reduced-price meals. Direct certification is a process that 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 for submitting applications. The district needs to retain documents to support the eligibility determination.

The district's Board Policy 5117, Interdistrict Attendance, was last revised on June 26, 2014. This policy discourages transfers into the district and states this is because the district is overcrowded. The policy states that the district will accept transfers into the district on a case-by-case basis. The policy also states that requests for transfers out of the district will be approved on a case-by-case basis. The district needs to ensure that it follows the education code, adheres to established policies and strategies to limit outgoing interdistrict transfers, and ensures that all interdistrict permits are renewed annually. As outlined in policy and consistent with Education Code Section 46600, the district should review all applications for interdistrict transfers out but approve only those that have authorized reasons.

Fees and Other Charges

California law provides for a free public school system but includes some exceptions and authorizes certain fees. CDE Fiscal Management Advisory 17-01 provides details on allowable fees. The advisory may be found on the CDE website at https://www.cde.ca.gov/re/lr/fm/fma1701rev.asp. Any fees levied should remain in compliance with district Board Policy and Administrative Regulation 3260, Fees and Charges.

It would benefit the district to consider requiring parents and guardians to pay part of the cost of home-to-school transportation for eligible pupils. California Education Code Section 39807.5 allows school districts to do this for students who are not exempt in accordance with Section 39807.5(d). The amount is to be determined by the district's governing board, but it may not exceed the statewide average nonsubsidized cost of transportation on a publicly owned or operated transit system.

The Education Code allows fees to be levied, but before deciding whether to implement them the district would need to analyze which of its students use school transportation. The Education Code exempts students whose parents or guardians are indigent from paying transportation fees, and the State Board of Education recommends that districts use the free meal qualification guidelines to determine who is exempt. Therefore, the district would need to determine the number of students using its transportation service who qualify to receive free meals, and these students could not be charged. This information can help determine whether charging fees would generate sufficient revenue to warrant implementing fees.

School districts can also implement a reduced transportation fee for students who qualify for reduced-price meals, so this information also needs to be included in the analysis. In addition, the district would need to estimate the number of students who would no longer attend district schools and/or use district transportation if fees were implemented. Additional information regarding home-to-school transportation fees may be found on the CDE website at http://www.cde.ca.gov/fg/aa/ca/ptran15feesltr.asp.

The district will need to continue evaluating the efficiency and cost effectiveness of its transportation routes and developing and optimizing bus routes to ensure maximum efficiency. This includes considering increasing walking distances in accordance with applicable board policies and administrative regulations.

A district may charge a fee for field trips so long as no pupil is prevented from participating because of a lack of sufficient funds. The district could consider eliminating or reducing the number of field trips and athletic trips, particularly those out of state or those that require an overnight stay. The district may also consider soliciting donations to pay for field trips and athletic transportation.

The Education Code gives school districts guidelines for charging facility use fees to cover the cost of maintenance and operation of facilities used by community groups. The district's Board Policy 1330, Use of School Facilities and Grounds, authorizes the use of school facilities by district residents and community groups. It would benefit the district to ensure that the fee covers no less than the direct costs of the facility use. Groups that charge admission or solicit contributions should be charged fair rental value in accordance with board policy when they use school facilities or grounds. The district will need to ensure that it charges all groups and individuals the same rate for facility use unless an exemption for such fees applies.

Sales of Surplus Equipment

The district will need to determine if any unused or obsolete property, such as computers or district vehicles, can be sold as surplus equipment. Best business practices include ongoing evaluation of surplus equipment to determine if items stored in empty classrooms or warehouses can be used at another school or if they can be disposed of as surplus. For example, the district could review the number of buses on hand and in use. Several private companies provide auction services for the sale of surplus goods, and many districts have found they can generate revenues by using these services rather than paying to dispose of surplus items. This process may also help minimize the cost for storage and the risk of theft.

Parcel Tax

It would benefit the district to explore the viability of a parcel tax to produce additional, reliable annual revenue. Many districts have sought help from local voters to obtain this type of increased funding. Parcel taxes are typically levied at a flat rate per parcel and must be applied uniformly to almost all real property owners; the only permitted exemptions are senior citizens and federal supplemental security income disability benefits recipients. Parcel taxes can be difficult to pass because they require a two-thirds vote of the electorate. Best practice is to seek the advice of experienced financial advisors and legal counsel before determining whether to place a local parcel tax measure on a ballot.

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. As part of the special education Assembly Bill (AB) 602 formula, the program reimburses special education local plan areas (SELPAs) for extraordinary costs of serving students placed in nonpublic, nonsectarian schools (NPS) and special education and related services for students who reside in licensed children's institutions (LCI). Information about the program may be found on the CDE website at https://www.cde.ca.gov/fg/aa/se/senpslciecp.asp.

Expenditure Reductions

Spending and Hiring Freeze

It would benefit the district to implement an immediate spending freeze, with written approval in advance from the chief business official required for all purchases and expenditures not already encumbered. Many districts freeze spending during difficult financial situations. The key to implementing a spending freeze is to do it immediately and without exception for unrestricted general fund expenditures, excluding health and safety issues. Spending of restricted program funding may need to continue because many resources include deadlines by which all funds must be expended or returned to the grantor.

Like spending freezes, purchase order cutoff dates can help reduce spending and make it easier to estimate the ending fund balances and reserves. The purchase order cutoff date should include all expenditures from all funding sources and should be early enough in the year (normally in March and April) that a thorough review of each resource can be made to ensure all restricted resource expenditure deadlines are met. The district would benefit from implementing spending freezes and/or purchase order cutoff dates each year, and from prohibiting the processing of requisitions and purchase orders when the budget is insufficient to support the expenditure; it should also not allow staff to override the hard stop that it has in place except in emergency situations. It would also help to consider reducing discretionary budget allocations to school sites and departments.

The district should also consider a hiring freeze for all nonessential positions. Any positions vacated (e.g. by a retirement or resignation) should be thoroughly evaluated for the potential to eliminate or restructure the position instead of automatically refilling it. In addition, the district needs to freeze all overtime hours. Any overtime work should require justification and approval in advance by the CBO.

The district should also consider eliminating nonessential travel, conference and professional development expenditures unless paid for from restricted funds.

Restricted Funds

The district has large carryover balances in its restricted programs, including restricted lottery, Title I, and Title II. The district will need to ensure that all restricted funds are properly allocated to all qualifying expenditures before it expends unrestricted dollars. Restricted funds should always be spent in accordance with their respective program or funding guidelines. Ensuring that all qualifying expenditures are coded to the correct restricted programs can make available any unrestricted dollars that might otherwise have been transferred to a restricted resource. This helps ensure maximum flexibility and availability of unrestricted funding, which can typically be used for any educational purpose.

Indirect Costs

The district does not charge the maximum allowable indirect cost rate to all programs. The district needs to do this even when it results in a contribution back to the program resource from the unrestricted resource. All programs have general management costs, commonly known as indirect costs; these typically include administrative activities such as accounting, budgeting, payroll preparation, personnel services, purchasing, and central data processing. An indirect cost rate gives LEAs an efficient and standardized way to recover some general management costs from individual programs. The rates charged to each program are established by the CDE for all LEAs in California. An LEA may claim up to its approved indirect cost rate unless there is specific authority (e.g., legislation or regulation) that limits the rate. Charging each program the maximum allowable rate allows an LEA to provide equitable indirect cost charges across the organization, ensure that all general management costs are adequately supported by the various programs, and ensure proper program cost accounting.

Developer Fee Administrative Charge

The capital facilities fund, also known as the developer fee fund, is used primarily to account for funds received from fees levied on developers or other agencies as a condition of approving a development. The district collects Level I developer fees but does not charge any administrative fee on these developer fees. Education Code Section 17620 allows the district to charge up to 3% of the annual developer fees it collects for administrative costs and to transfer those funds to its general fund.

Facilities

The district operates 29 schools across 39 square miles. Because of declining enrollment, current facility use averages 71.7% at the district's elementary schools, 60.5% at its middle schools, and 65.4% at its high schools. Six elementary, two middle and four high schools are below 65% of capacity. Three schools reported enrollment below 50% of capacity. The district incurs costs to maintain facilities that are not operated at full capacity. The district should consider closing or consolidating one or more schools, or sharing administrative staff between school sites.

School Staffing Levels

The district's most recent collective bargaining agreement with certificated employees identifies a maximum class size of 26 students for grades K-3, with a schoolwide average not to exceed 24; a maximum of 34 students for grades 4-5; and a maximum class size of 34 for middle school students, with a maximum daily student contact of 190 for teachers. There are some exceptions for music, band, and physical education classes. Class size averages reported on the district's 2018-19 P-2 were 23 in grades K-3 and 22.8 in grades 4-8. The district will need to review enrollment and staffing at its middle schools and adjust staffing based on ratios and enrollment.

The bargaining agreement with certificated employees identifies a maximum class size of 38 (for most subjects) in grades 9-12. Class size averages for core subject classes reported on each school's 2017-18 School Accountability Report Cards (SARC)s vary between 22 and 32. The district will need to review staffing and enrollment at its high schools and adjust staffing levels based on approved ratios and enrollment.

Routine Restricted Maintenance Account

Any district that participates in the School Facility Program is required to contribute 3% of its total general fund expenditures and other financing uses to the RRMA. The state gave districts some flexibility in this requirement beginning in 2008-09 by reducing the required contribution to the RRMA from 3% to 1% of general fund expenditures and other financing uses. However, this flexibility was phased out beginning in 2015-16. For 2018-19, districts are required to contribute the greater of the following: the lesser of 3% of total general fund expenditures and other financing sources or the amount that the district deposited to the account in 2014-15; or 2% of total general fund expenditures and other financing uses. Beginning in 2019-20, the district will be required to contribute the full 3% of general fund expenditures and other financing uses.

The district projects a contribution of $7,356,687 to resource 8150, the RRMA, in the current fiscal year. The required minimum contribution reported on the district's 2018-19 second interim report is $5,007,962. The district needs to reduce its RRMA expenditures and contribution to the minimum amount required in the current and subsequent years.

Special Education Costs

In fiscal year 2018-19, approximately 13.9% of the district's K-12 enrollment is identified as requiring special education services, which is higher the statewide average of 11.7%. Identification of special needs students is influenced by how a district implements general education supports such as student study teams (SSTs), Response to Instruction and Intervention (RtI^2), and a multi-tiered system of supports (MTSS). The district will need to ensure that it implements structured interventions to support students in the general education environment, and improves the accuracy of its identification of students as requiring special education services. It would benefit the district to review assessment requests and determine if general education interventions are appropriate before it assesses a student for special education.

Recommendations

The district should:

1. Adopt strategies to maximize attendance.
2. Adopt strategies to correctly identify unduplicated pupils.
3. Analyze its student population that uses home-to-school transportation to determine if charging fees would generate sufficient revenue to warrant this change. Consider implementing fees if the analysis indicates sufficient revenues are attainable.
4. Implement a fee for field trips, and/or solicit donations to pay for field trip and athletic transportation costs.
5. Consistently charge a facility use fee that covers no less than the direct costs of the facility use.
6. Evaluate stored surplus equipment to determine if these items can be used or sold at auction.
7. Evaluate the feasibility of putting a parcel tax measure on the ballot.
8. Immediately implement spending freeze in the current year and a purchase order cut-off date each year.
9. Evaluate and identify the necessity of each vacancy and extra-time and over-time request. Implement a hiring freeze for all nonessential positions, and eliminate or reduce overtime.
10. Review all expenditures in the services and other operating expenditures category (i.e., travel and conferences, professional development, contract services) for all possible savings.
11. Ensure that restricted funds are allocated correctly to all qualifying expenditures before expending unrestricted dollars.
12. Charge all resources and funds the maximum allowable indirect cost rate even if this results in a contribution from the unrestricted general fund.
13. Charge and collect a 3% administrative fee on developer fees, and transfer those revenues to the general fund.
14. Consider closing or consolidating one or more schools or sharing administrative staff between school sites.
15. Continually review and monitor certificated employee assignments and class sizes to ensure staffing levels are appropriate and cost effective.
16. Reduce its RRMA expenditures and contribution to the minimum amount required.
17. Implement structured interventions for students in the general education environment, and improve the accuracy of its identification of students as requiring special education services.

Appendix

Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
February 15, 2019

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Vista Unified School District, 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 2018-19 second interim general fund budget and use it as a baseline to develop an independent multiyear financial projection (MYFP) for the current and two subsequent fiscal years. The MYFP will be a snapshot of the district's financial status at the time of review.

2. Make recommendations for expenditure reductions and/or revenue enhancements to help the district eliminate its structural budget deficit and maintain financial solvency.

3. Prepare an analysis using the 20 factors in FCMAT's Fiscal Health Risk Analysis, and identify the district's risk rating.

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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 also include:

A.	***To be determined***	***FCMAT Staff***
B.	***To be determined***	***FCMAT Consultant***
C.	***To be determined***	***FCMAT Consultant***
D.	***To be determined***	***FCMAT Consultant***

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, presenting reports or participating in meetings. The cost of independent

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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 $34,400.

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 preliminary 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 preliminary 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 insurance as required under California state law. FCMAT shall provide certificates of insurance, with Vista Unified School District 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: Donna Caperton
Telephone: (760) 726-2170
E-mail: donnacaperton@vistausd.org

2/22/19

Linda Kimble, Superintendent — Date
Vista Unified School District

February 15, 2019

Michael H. Fine, — Date
Chief Executive Officer
Fiscal Crisis and Management Assistance Team

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