

Date

Board President

Address

Dear _____:

In accordance with the provisions of Education Code Section 42127.6(c), the _____ County Superintendent of Schools has determined that the _____ School District may be unable to meet its financial obligations for the current or two subsequent fiscal years. This determination is in response to the district's updated multiyear financial projections submitted to our office, and in conjunction with the projected costs of the district's collective bargaining agreement with _____. As a result of the projections, which are detailed below, the county superintendent has determined that the district is **no longer a going concern, and consequently, is statutorily required to take the same actions as a county office would for a district with a qualified certification at an interim reporting period.** As required by Education Code Section 42127.6 (a)(1), our office has submitted a copy of this letter to the Superintendent of Public Instruction.

Basis for Determination

In our letter dated _____, the county superintendent *conditionally approved* the district's 20__-__ adopted budget, noting the following concerns:

- *20__-__ and 20__-__ Budget Shortfalls* — The district's multiyear financial projections were predicated on planned but yet-to-be-identified reductions of \$_____ in 20__-__ and \$_____ in 20__-__. Based on the district's revenue projections at that time, the district would be unable to satisfy its financial commitments in 20__-__ if it could not implement a substantial portion of the reductions.
- *Operating Deficit* — Multiyear financial projections indicated a substantial general fund operating deficit for the current and first subsequent fiscal year.
- *Declining Enrollment* — The district's projections indicated declining enrollment for the current and two subsequent fiscal years.
- *Cash* — Absent temporary borrowing, the district's general fund cash balance was not projected to be sufficient to cover cash flow needs throughout the 20__-__ fiscal year.

As a result of the conditional approval, our office directed the district to take the following actions by _____ [date]:

- *20__-__ Unaudited Actuals* — Close prior year accounts, and certify 20__-__ unaudited actuals.
- *20__-__ Revised Budget & Multiyear Financial Projections* — Revise and provide our office with a budget, multiyear financial projections, and an updated LCFF calculation to account for changes resulting from the district's

20__ - __ unaudited actuals, the enacted 20__ - __ Budget Act, and up-to-date ADA and enrollment estimates.

- *Cash Flow* — Provide our office with updated 20__ - __ general fund cash flow projections, with actuals through _____ [date].

The district submitted a revised budget, which our office approved on _____ [date], while noting that the following concerns remained:

- *20__ - __ and 20__ - __ Budget Shortfalls* — The district's multiyear financial projections were predicated on planned reductions of \$_____ in 20__ - __ and \$_____ in 20__ - __. Based on the district's October revenue projections, the district would still be unable to satisfy its financial commitments in 20__ - __ if it could not implement a substantial portion of the reductions.
- *Operating Deficit* — Multiyear financial projections continued to indicate a substantial general fund operating deficit for the current and first subsequent fiscal years.
- *Declining Enrollment* — The district's projections continued to indicate declining enrollment for the current and two subsequent fiscal years.
- *Cash* — Absent temporary borrowing, the district's general fund cash balance was not projected to be sufficient to cover cash flow needs throughout the 20__ - __ fiscal year.

On _____ [date], the district's governing board approved a tentative collective bargaining agreement with _____ and a revised multiyear financial projection. The district included in its projection salary increases for the _____ bargaining unit and management, neither of which have been approved by its governing board. In addition, the district included \$_____ in projected cost savings in the 20__ - __ and 20__ - __ fiscal years as a result of its supplemental early retirement offering. The updated multiyear financial projection indicated that total expenditures and uses exceed total revenues and sources by \$_____, \$_____, and \$_____ in the 20__ - __, 20__ - __, and 20__ - __ fiscal years, respectively.

The district has provided our office with a list of potential budget reductions totaling \$_____ that it believes will enable it to meet its reserve requirement in the current year. However, these reductions include many planned actions and services that were designed principally to increase or improve services for disadvantaged students and/or are one-time in nature. Many of the planned actions and services identified for reduction are the same actions and services identified in the district's 20__ - __ Local Control and Accountability Plan (LCAP) as specific steps the district is taking to address areas with the greatest need for improvement and to close existing performance gaps on multiple state indicators, based on analysis of the California School Dashboard equity report. Some of the actions and services identified for reduction are related to Multi-Tiered System of Supports (MTSS), Positive Behavior Intervention System (PBIS), Dual Language Immersion (DLI), technology, textbooks, and summer school. Stakeholders identified these actions as having the most value and thus they were prioritized to be included in the LCAP. Our office is concerned that the budget reductions will hinder the district's ability to support improved outcomes for its students.

The district may choose to implement a combination of one-time and ongoing budget reductions to remain fiscally solvent. However, addressing the district's current structural deficit necessitates identifying, implementing and maintaining approximately \$_____ in budget reductions in each fiscal year. Based on the district's projections, the district will need to seek an

emergency state loan during the 20___ - ___ fiscal year if it is unable to implement significant reductions. These factors raise substantial doubt regarding the district's ability to continue to meet all financial obligations through the projection period.

Implications of Lack of Going Concern

If at any time the county superintendent determines that a district may be unable to meet its financial obligations for the current or two subsequent fiscal years, Education Code Section 42127.6 requires the county superintendent, in consultation with the Superintendent of Public Instruction, to do at least one of the following, and all actions necessary, to ensure that the district meets its financial obligations:

- Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.
- Conduct a study of the financial and budgetary conditions of the district that includes, but is not limited to, a review of internal controls.
- Direct the school district to submit a financial projection of all fund and cash balances of the district as of June 30 for the current and subsequent fiscal years.
- Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.
- Direct the district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations.
- Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information.
- Assign the Fiscal Crisis and Management Assistance Team to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers, and the extent of teacher misassignments.

The items checked indicate those actions the county superintendent is taking at this time. Additional information regarding the county superintendent's requirements is provided below.

The district's fiscal status results in the following additional requirements under current law.

Non-Voter Approved Debt — Because the district's financial status mirrors that of a district with a qualified certification, Education Code Section 42133 prohibits the district from issuing non-voter-approved debt (e.g., certificates of participation, tax and revenue anticipation notes, and capital leases) in 20___ - ___ and 20___ - ___, unless the county superintendent determines that repayment of the debt is probable. Please submit a non-voter-approved debt disclosure to our office at least 30 days prior to the governing board's approval to proceed with any non-voter-approved debt issuance, excluding TRANs. For TRANs, please contact our office for a list of requirements.

Employee Negotiations — Government Code Section 3540.2(a) requires the district to allow the county office of education at least 10 working days to review and comment on any proposed collective bargaining agreement. Therefore, please provide us with any forthcoming agreements or re-openers within this time frame, along with a signed certification by the district superintendent and chief business official that the district can fulfill the cost of the agreement.

Required Actions

Please provide our office with the following by _____ [date]:

- *Cash Flow Projections* — The district currently has a \$_____ 20__ - __ tax and revenue anticipation note (TRAN), with repayment scheduled for _____ [date]. Our office is requiring the submission of an updated 24-month cash flow projection for all district funds. The projection should include the period from _____ through _____, with actual revenues and disbursements through _____.

Please provide our office with the following by _____ [date]:

- *Solvency and Fiscal Stabilization Plan* — The county superintendent is requiring the submission of a board-approved solvency and fiscal stabilization plan. This plan must be prepared as a multiyear financial projection for restricted, unrestricted and combined funds, including detailed assumptions. The plan must address, but is not limited to, the following issues:
 - Action plan to address the \$_____ current year projected budget shortfall
 - Solutions to implement ongoing expenditure reductions that eliminate the structural deficit
 - Workers' Compensation Self-Insurance Fund — multiyear funding plan
 - Employee Benefit Self-Insurance Fund — multiyear funding plan
 - Certificated, classified and management staffing adjustments
 - Student enrollment and ADA analysis
 - Hiring practices and position control
 - Staffing ratios and allocations for all certificated and classified personnel
 - Stipends, extra pay, substitute pay and overtime policies and practices

Recommendations

- *Local Control and Accountability Plan* — If the district chooses to reduce or eliminate planned actions and services from its 20__ - __ LCAP, the county superintendent strongly advises that the district:
 - Consult with stakeholders regarding the impact those changes would have on implementing current LCAP planned actions and services.

- Consult with stakeholders to develop the 20____-__ LCAP inclusive of the annual update, goals, actions, services and expenditures.
- Partner with the county office's Educational Services Department and District Fiscal Services Department throughout the 20____-__ school year to identify key challenges and opportunities in development of a 20____-__ LCAP that is tailored to improving student outcomes while maintaining fiscal solvency.
- The county superintendent also recommends that the district:
 - Publicly disclose the lack of going concern determination by the _____ County Superintendent of Schools
 - Freeze all unrestricted general fund discretionary expenditures unless operationally necessary — as determined by the district's CBO or designee
 - Implement a hiring freeze on all positions that do not provide direct services to students
 - Review and reconcile position control for the current year's budget

Conclusion

Our office acknowledges the difficult financial decisions the district is facing in the near future, and looks forward to continuing to work closely and collaboratively with the district to strengthen its financial condition. Please do not hesitate to contact our office with any questions or concerns.

Sincerely,

County Superintendent
 _____ County Office of Education

cc: Board of Education, _____ SD
 _____, Superintendent, _____ SD
 Other district staff, as needed, including CBO
 State Superintendent of Public Instruction, California Department of Education
 Other CDE staff, as needed
 State Controller, as needed
 Other SCO staff, as needed
 Other COE staff, as needed