Sacramento City Unified School District

Fiscal Health Risk Analysis

December 12, 2018

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](image)

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

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state’s 2018-19 Budget Act provides for FCMAT to offer “more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- “Lack of going concern” designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of fiscal risk. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

Study Guidelines

FCMAT entered into the study agreement with the Sacramento City Unified School District on September 27, 2018. FCMAT visited the district on October 15-18, 2018 to conduct interviews, collect data and review documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

Michelle Giacomini     Tamara Ethier
FCMAT Deputy Executive Officer   FCMAT Intervention Specialist
Petaluma, CA      Davis, CA

Eric D. Smith     Scott Sexsmith
FCMAT Intervention Specialist    FCMAT Intervention Specialist
Templeton, CA      Auburn, CA

John Lotze
FCMAT Technical Writer
Bakersfield, CA

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.
Fiscal Health Risk Analysis
For K-12 Local Educational Agencies

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 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 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 are deemed more important 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.

District or LEA Name: Sacramento City Unified School District

Dates of Fieldwork: October 15 -18, 2018

### Annual Independent Audit Report

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
<tbody>
<tr>
<td>Can the district correct the audit findings without affecting its fiscal health (i.e., no material apportionment or internal control findings)?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Has the independent audit report been completed and presented to the board within the statutory timeline?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Did the district receive an independent audit report without material findings?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Has the district corrected all audit findings?</td>
<td>☒</td>
<td>☐</td>
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</table>

The district has only partially implemented the findings related to student body funds and student attendance from the 2015, 2016 and 2017 audits. Student body findings identified in the 2015 audit have been reported as partially implemented through the 2017 audit; student attendance findings, identified in 2016, have not been implemented as of the 2017 audit.

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<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>Has the district had the same audit firm for at least three years?</td>
<td>☒</td>
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### Budget Development and Adoption

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<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td>Does the district develop and use written budget assumptions and projections that are reasonable, are aligned with the Common Message or county office of education instructions, and have been clearly articulated?</td>
<td>☒</td>
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Guidance provided in the May Revision Common Message stated that districts were “not to balance their budgets based on one-time revenues.” The narrative included with the district’s 2018-19 budget presented to its governing board on June 21, 2018 states that the district is using “$13.2 million of one-time funds to meet the increase of labor contract negotiations.”
The district cited and used appropriate assumptions related to percentages and amounts per unit of average daily attendance (ADA); however, the district did not follow the guidance included in the Common Message, the governor’s statement about one-time funds, or other industry-standard guidance, which expressly state not to budget one-time funding for ongoing costs. That one-time funding was an estimated $344 per ADA at that time.

The approved state budget enacted subsequent to the May Revision decreased the one-time per-ADA funding amount from an estimated $344 per ADA to $185 per ADA, which created an approximately $7.4 million deficit in the district’s 2018-19 budget due to the district’s action to fully commit the one-time funds to ongoing costs.

This action will also have severe impacts on future years because the one-time funding will likely be unavailable to the district, leaving a $13.2 million deficit moving forward.

• Does the district use a budget development method other than a 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?  ☒  ☐  ☐

Although the district uses a one-stop method for budget development rather than a rollover budget, it appears that the primary driving force behind this method is to develop a list of employees who will receive a preliminary layoff notice on March 15 rather than to truly develop a reliable budget. The budget development process needs to be further refined so that all revenues and expenditures are reviewed and adjusted, not only those budgets with larger staffing allocations. A comprehensive budget development process is needed for the entire budget to ensure all revenues and expenditures are understood and used according to the district’s goals and objectives.

The district uses its one-stop method in January and February. During that time, site administrators and department managers are scheduled to meet in a district office conference room on days set aside for that specific site or department. The site administrators and department managers are provided a funding estimate from the business department, then work collaboratively with the business and human resources staff (using updated staffing costs) to determine staffing and other expenditure levels for the upcoming budget year. All information is input into the financial system during the meeting, and because appropriate approval authorities are physically in the conference room, approvals are obtained and actual staffing is determined for the next fiscal year. This is a more expedited process than the typical routing of position change forms between departments to obtain various approvals, and it ensures that staffing decisions, and thus layoff notices for the next school year, are determined by the March 15 deadline.

The above process is efficient for meeting the March 15 deadline. However, not all budgets are assessed using this method. As additional staffing decisions are made during other one-stop meetings, or even after budget development ends, confusion can arise when employees are transferred between sites and departments without a paperwork trail since the information was input directly into the system and the typical forms are not used at the one-stop meetings.

• Does the district use position control data for budget development?  ☒  ☐  ☐

• Is the Local Control Funding Formula (LCFF) calculated correctly?  ☒  ☐  ☐

• Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years?  ☐  ☒  ☐

Although the district’s budgets were approved by the county office in 2016-17 and 2017-18, the district’s 2018-19 adopted budget was not approved. The district
submitted a revised budget dated October 4, 2018, which the county office disapproved on October 11, 2018.

- Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? ☒ ☐ ☐

- Are clear processes and policies in place to ensure that the district’s Local Control and Accountability Plan (LCAP) and budget are aligned with one another? ☒ ☐ ☐

  No evidence was provided that the LCAP and the budget are aligned with one another. Information obtained during interviews indicates that the business department has not been engaged in the LCAP process in the past, although the current administration plans to work with teams to integrate the work more closely.

  Board policies (BPs) and administrative regulations (ARs) adopted by the district related to the LCAP included the following: AR 1220 – Citizen Advisory Committee, BP/AR 1312.3 – Uniform Complaint Procedure, BP 6173.1 – Foster Youth.

  The California School Boards Association’s online board policy service, known as GAMUT, has one main LCAP/Budget alignment policy, BP/AR 0460, which many districts have adopted. Although the district has a subscription to GAMUT, it has not adopted this policy.

- When appropriate, does the district budget and expend restricted funds before unrestricted funds? ☐ ☒ ☐

  The district’s restricted general fund ending fund balance increased from $4,456,029 in 2014-15 to $10,224,117 in 2017-18. This indicates unrestricted funds are being expended before restricted funds, which creates a potential liability because the district may be required to return unspent restricted funds to the grantor.

- Are the LCAP and the budget adopted within statutory timelines established by Education Code sections 42103 and 52062, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first? ☒ ☐ ☐

- Has the district refrained from including carryover funds in its adopted budget? ☒ ☐ ☐

- Has the district refrained from using negative or contra expenditure accounts (excluding objects in the 5700s and 7300s and appropriate abatements in accordance with CSAM) in its budget? ☒ ☐ ☐

- Does the district adhere to a board-adopted budget calendar that includes statutory due dates and major budget development tasks and deadlines? ☒ ☐ ☐

### Budget Monitoring and Updates

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<th>Question</th>
<th>Yes</th>
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<tbody>
<tr>
<td>Are actual revenues and expenses consistent with the most current budget?</td>
<td>☒</td>
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<tr>
<td>Are budget revisions completed in the financial system, at a minimum, at each interim report?</td>
<td>☒</td>
<td>☐</td>
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</tr>
<tr>
<td>Are clearly written and articulated budget assumptions that support budget revisions communicated to the board, at a minimum, at each interim report?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system before next financial reporting period?</td>
<td>☒</td>
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<tr>
<td>Does the district provide a complete response to the variances identified in the criteria and standards?</td>
<td>☒</td>
<td>☐</td>
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<tr>
<td>Has the district addressed any deficiencies the county office of education has identified in its oversight letters?</td>
<td>☒</td>
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Since 2006, the county office of education has identified the need for the district to develop a viable plan to fund its long-term other post-employment benefits (OPEB) liability, which has not been measurably addressed.

In letters dated December 7, 2017, January 16, 2018, and April 16, 2018, the county office discussed and outlined its concerns with the district’s ongoing structural deficit, and the need for the district to submit a board-approved budget reduction plan to reverse the deficit spending trend.

On August 22, 2018, the county office disapproved the district’s 2018-19 adopted budget, and the district was instructed to revise its 2018-19 budget and submit a balanced budget plan that supports ongoing expenditures from ongoing revenue sources, and that has a timeline showing when and how adjustments would be implemented no later than October 8, 2018. On October 11, 2018, the county office notified the district that its revised adopted budget was also disapproved based on their review. That budget showed that the district’s unrestricted general fund balance would decrease by approximately $34 million in 2018-19, approximately $43 million in 2019-20 and $66.5 million in 2020-21. The district was instructed to develop a viable board-approved budget and multiyear expenditure plan that would reverse the deficit spending trend, and to submit this plan with its 2018-19 first interim report, which is due December 14, 2018.

- Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? ☒ ☐ ☐
- Does the district encumber salaries and benefits? ☒ ☐ ☐
- Are all balance sheet accounts in the general ledger reconciled, at a minimum, at each interim report? ☐ ☒ ☐

Although balance sheet accounts are reconciled multiple times each fiscal year, a reconciliation is not done at each interim.

### Cash Management

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<tr>
<td>Are accounts held by the county treasurer reconciled with the district’s and county office of education’s reports monthly?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Are all bank accounts reconciled with bank statements monthly?</td>
<td>☒</td>
<td>☐</td>
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<tr>
<td>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?</td>
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During interviews, staff indicated that the accountant prepares the cash flow for a 24-month period. However, it was not being relied on because major concerns had been expressed regarding the accuracy of the information. During FCMAT’s visit a separate cash calculation and projection was prepared by the county office’s fiscal advisor that concluded that the district will become cash insolvent in October 2019 based on current budget projections. This projection was different and showed more cash deficiency than the district-prepared cash flow projection. A more recent cash flow projection prepared by the district for 2018-19 first interim shows the cash insolvency date as November 2019, one month later than the projection prepared during FCMAT’s fieldwork.

- Does the district have a plan to address cash flow needs during the current fiscal year? ☒ ☐ ☐
- Does the district have sufficient cash resources in its other funds to support its current and projected obligations? ☒ ☐ ☐
During FCMAT’s fieldwork, the district was projected to be cash insolvent as early as October 2019 if budget reductions are not made. A more recent cash flow projection prepared by the district at 2018-19 first interim shows the cash insolvency date as November 2019 without budget reductions.

- If interfund borrowing is occurring, does the district comply with Education Code Section 42603? ☐ ☐ ☒

- If the district is managing cash in all funds through external borrowing, has the district set aside funds attributable to the same year the funds were borrowed for repayment? ☐ ☐ ☒

**Charter Schools**

- Are all charters authorized by the district going concerns? ☐ ☒ ☐

The district has transferred funds to some of its authorized charter schools when those schools were in financial need. In 2017-18, the district transferred a total of $239,697.59 to charter schools, and it is projecting a transfer of $300,000 in 2018-19.

Of most concern is the district’s ongoing support of the Sacramento New Technology Charter School for several years. Because this is an ongoing fiscal burden on the district, it needs to be discussed and remedied.

The district has also given financial assistance in the past to George Washington Carver Charter School, though not every year.

The district also needs to further study Sacramento Charter High School operated by St. Hope Public Schools to determine whether it is a going concern.

The district’s charter schools are dependent from the standpoint of governance because they are part of the district and are under the authority of the district’s governing board. However, charter schools are not intended to have budget deficits that make them dependent on a district financially. Under California Code of Regulations (CCR), Section 11967.5.1(c)(3)(A), a charter school must have a realistic financial and operational plan. Part of that includes having a balanced budget and financial plan. The district should take steps to ensure that approved charter schools do not require assistance from the district to stay solvent.

- Has the district fulfilled and does it have evidence of its oversight responsibilities in accordance with Education Code section 47604.32(d)? ☒ ☐ ☐

- Does the district have a board policy or other written document(s) regarding charter oversight? ☒ ☐ ☐

- 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? ☒ ☐ ☐

**Collective Bargaining Agreements**

- Has the district quantified the effects of collective bargaining agreements and included them in its budget and multiyear projections? ☒ ☐ ☐

- Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increases), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? ☐ ☒ ☐

The district entered into a multiyear agreement with the Sacramento City Teachers Association (SCTA) on December 7, 2017. The agreement granted salary increases of 2.5% effective July 1, 2016, an additional 2.5% effective July 1, 2017, and an additional...
6.0% (2.5% and an additional 3.5% to restructure the salary schedule) effective July 1, 2018. Based on multiyear financial projections prepared at the time of the collective bargaining disclosure, it appeared that the district would be able to meet its required reserve for economic uncertainties in fiscal years 2017-18 and 2018-19 but would need to make budget reductions of approximately $15.6 million to meet the minimum reserve requirement for fiscal year 2019-20. At that time, the district estimated that its unrestricted ending fund balance would decrease from $73 million on July 1, 2017 to negative $4 million on June 30, 2018 if no budget reductions were made. A budget reduction plan was not submitted with the collective bargaining disclosure.

All of this information, including the fact that the increase was not affordable as agreed to without identified budget reductions, was communicated by the county office to the district in a letter dated December 7, 2017 and stated publicly at a district board meeting.

- Has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA), and under gap funding if applicable? ☐ ☒ ☐

   The district entered into a multiyear agreement with the SCTA on December 7, 2017. The agreement granted salary increases of 2.5% effective July 1, 2016, an additional 2.5% effective July 1, 2017, and an additional 6.0% (i.e. 2.5% and additional 3.5% to restructure the salary schedule) effective July 1, 2018. The district and the SCTA disagree on the implementation date of the additional 3.5%, and the matter is being pursued in superior court. If the additional 3.5% is implemented on the date SCTA interprets as correct, it would result in a fiscal impact in 2018-19 of close to 7% for salary rescheduling rather than the 3.5% the district agreed to.

- If settlements have not been reached, has the district identified resources to cover the estimated costs of settlements? ☐ ☒ ☐

- Did the district comply with public disclosure requirements under Government Code 3540.2, 3543.2, 3547.5 and Education Code Section 42142? ☒ ☐ ☐

- Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? ☒ ☐ ☐

- Is the governing board’s action consistent with the superintendent’s and CBO’s certification? ☒ ☐ ☐

- Has the district settled with all its bargaining units for at least the prior three year(s)? ☒ ☐ ☐

- Has the district settled with all its bargaining units for the current year? ☒ ☐ ☐

**Contributions and Transfers to Other Funds**

- Does the district have a plan to reduce and/or eliminate any increasing contributions from the general fund to other resources? ☐ ☒ ☐

   Most of the district’s general fund contributions are to special education programs and to the routine repair and maintenance account. Total contributions increased from $62,581,129 in 2015-16 to $67,759,639 in 2016-17 and to $77,505,592 in 2017-18. The district’s 2018-19 through 2020-21 budgets include continuing contributions for a total of $89,134,727 in 2018-19, $96,425,490 in 2019-20, and $104,000,050 in 2020-21.

   FCMAT was not able to obtain an approved plan to reduce and/or eliminate increasing contributions from the general fund to other resources. The district did present an updated plan dated October 4, 2018 to reduce the district’s overall deficit, but details were not found specific to reducing contributions to restricted programs.

- If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the general fund to cover the deficit spending? ☐ ☒ ☐
Although the district’s multiyear financial projection includes transfers from the general fund to cover deficit spending in other funds, FCMAT believes that those transfers are inadequate based on prior year deficits. Without a specific plan to reduce deficit spending, specifically in the child development fund, the budgeted transfers are likely inadequate to cover the increasing costs of salaries and benefits.

Based on unaudited actuals data, the following transfers were made from the general fund to the child development fund:

- 2015-16: $1,500,000
- 2016-17: $322,344
- 2017-18: $502,296

Based on 2018-19 Standardized Account Code Structure (SACS) data, transfers to the child development fund are projected to be as follows:

- 2018-19: $2,345,207
- 2019-20: $382,178
- 2020-21: $382,178

Assuming revenue and spending patterns remain the same, even if the current projected transfers of $382,178 in 2019-20 and 2020-21 are included, the district’s shortfall in cash would be as follows:

- 2019-20: ($791,940.93)
- 2020-21: ($2,754,969.93)

The district must develop a plan to ensure its expenditures are equal to or less than expected revenues, but until that time it must ensure that its budget is revised to include adequate transfers to all funds, including the child development fund, so they have adequate cash to close the fiscal year. Unless an approved plan to reduce spending, or increase revenues, is implemented in 2018-19, these shortfalls in 2019-20 and 2020-21 will increase the district’s liabilities and further increase its projected general fund deficits. If this increased deficit is not remedied in 2018-19, it could cause the district to become cash insolvent prior to November 2019, based on current budget projections.

- If any transfers were required for other funds in the prior two fiscal years, and the need is recurring in the current year, did the district budget for them?  
  
- Deficit Spending

<table>
<thead>
<tr>
<th>Deficit Spending</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>Is the district avoiding a structural deficit in the current and two subsequent fiscal years? (A structural deficit is when ongoing unrestricted expenditures and contributions exceed ongoing unrestricted revenues.)</td>
<td>☒</td>
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Structural deficit spending is projected in 2018-19, 2019-20 and 2020-21 due to negotiated agreements settled in 2017-18 without corresponding budget adjustments to offset these ongoing increased costs.

- Is the district avoiding deficit spending in the current fiscal year?  
  
- Is the district projected to avoid deficit spending in the two subsequent fiscal years?  

Based on the revised 2018-19 adopted budget, the district’s deficit spending is projected to be $35,950,457.05 in total unrestricted and restricted funds.

The district’s total deficit, including unrestricted and restricted funds, is projected to be $52,563,654.00 in 2019-20 and $49,923,727.28 in 2020-21.
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?  ☐ ☒ ☐

As part of the district’s revised 2018-19 adopted budget, the board approved a plan to reduce deficit spending; however, the plan does not reduce or eliminate deficit spending to an amount sufficient to sustain solvency. Additional significant reductions are needed. The total plan brought to the board on October 4, 2018 was for $11,483,500 in reductions to the unrestricted general fund.

Has the district decreased deficit spending over the past two fiscal years?  ☐ ☒ ☐

FCMAT’s review of the past two fiscal years shows that the district did not start deficit spending until 2017-18; the deficit for that fiscal year was $10,966,055.80. In 2016-17, the district had a surplus of $5,747,472.67.

Employee Benefits

Has the district completed an actuarial valuation to determine its unfunded liability under Governmental Accounting Standards Board (GASB) other post-employment benefits (OPEB) requirements?  ☒ ☐ ☐


The actuarial report estimates the district’s total other post-employment benefits (OPEB) liability to be $780,518,410 for the fiscal year ending June 30, 2018, and its net OPEB liability (i.e., factoring in employer contributions to the trust, net investment income, benefit payments, and administrative expenses) to be $725,760,458 for the same period.

The district has established an irrevocable OPEB trust with assets dedicated toward paying future retiree medical benefits. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earning on trust assets. However, the actuarial report states:

. . . the district expects to yield 7.25% per year over the long term, based on information published by CalPERS as of the June 30, 2016 actuarial valuation date. However, total net contributions to the trust have averaged 31% of the amount that would have been needed to be deposited to the OPEB trust so that total OPEB contributions would equal the actuarially defined contribution.

Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?  ☒ ☐ ☐

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?  ☒ ☐ ☐

Does the district track and reconcile employees’ leave balances?  ☒ ☐ ☐

Enrollment and Attendance

Has the district’s enrollment been increasing or stable for the current and three prior years?  ☒ ☐ ☐

The district’s enrollment has been declining for the last 15 years.

Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second reporting period (P2)?  ☒ ☐ ☐
• Does the district track historical enrollment and ADA data to establish future trends? ☒ ☐ ☐
• Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district level? ☒ ☐ ☐
• Did the district certify its California Longitudinal Pupil Achievement Data System (CALPADS) Fall 1 data by the required deadline? ☒ ☐ ☐
• Are the district’s enrollment projection and assumptions based on historical data, industry-standard methods, and other reasonable considerations? ☒ ☐ ☐

The district tracked the number of children who enter kindergarten as a percentage of countywide live births five years earlier to project kindergarten enrollment for the 2018-19 school year.

However, to project enrollment in grades one through 12 for the same period, it used simple grade level progression rather than the more commonly used cohort survival method.

The cohort survival method groups students by grade level upon entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method more closely accounts for retention, dropouts and students transferring to and from a school or district by grade. Although other enrollment forecasting techniques are available, the cohort survival method usually is the best choice for local education agencies because of its sensitivity to incremental changes to several key variables including:

Birth rates and trends.
The historical ratio of enrollment progression between grade levels.
Changes in educational programs.
Migration patterns.
Changes in local and regional demographics.

• Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? ☒ ☐ ☐
• Has the district planned for enrollment losses to charter schools? ☒ ☐ ☐
• Has the district developed measures to mitigate the effect of student transfers out of the district? ☒ ☐ ☐

The district authorizes all interdistrict transfers out of the district and does not require the parents of students who receive interdistrict transfer permits to reapply annually.

• Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in K-3 classes or do they have an alternative collectively bargained agreement? ☒ ☐ ☐

Facilities

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<tr>
<th>Facilities</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<td>If the district participates in the state’s School Facilities Program, has it met the 3% Routine Repair and Maintenance Account requirement?</td>
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<td>Does the district have sufficient building funds to cover all contracted obligations for capital facilities projects?</td>
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<tr>
<td>Does the district properly track and account for facility-related projects?</td>
<td>☒</td>
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<tr>
<td>Does the district use its facilities fully in accordance with the Office of Public School Construction’s loading standards?</td>
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</table>
Although the district has a 24-to-1 student-to-staff ratio for K-3, and follows the class size standards in its collective bargaining agreement with SCTA for the other grade levels, its facilities department estimates that the district has approximately 20% more capacity than needed for its current student enrollment. The district closed six schools in the last seven years and reopened one.

- Does the district include facility needs when adopting a budget? Yes No N/A
  - The district discusses districtwide facility needs whenever it sells general obligation bonds, which occurs approximately every two years; this does not occur on the same cycle as budget adoption.

- Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? Yes No N/A

- If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens’ bond oversight committee? Yes No N/A

- Does the district have an up-to-date long-range facilities master plan? Yes No N/A
  - The district’s facilities master plan was prepared by MTD Architecture in 2012 and has not been updated since.

### Fund Balance and Reserve for Economic Uncertainty

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<tr>
<th>Question</th>
<th>Yes</th>
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<th>N/A</th>
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<tr>
<td>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?</td>
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<tr>
<td>Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?</td>
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</table>
  - The district will fall short of its 2019-20 and 2020-21 minimum reserve requirement based on its revised (October 4, 2018) adopted 2018-19 budget projections, which show unrestricted ending fund balances of $(17,491,788.17) in 2019-20 and $(66,494,314.95) in 2020-21.
| 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 does not have a board-approved plan sufficient to restore the reserve at the time of this Fiscal Health Risk Analysis.
| Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? | ☒   |    |     |
  - The district’s unrestricted general fund balance is projected to decrease significantly in 2019-20 and 2020-21 compared to its 2018-19 budgeted amount:
    - 2018-19: $25,926,177.49
    - 2019-20: $(17,491,788.17)
    - 2020-21: $(66,494,314.95)
| 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? | ☒   |    |     |
  - The district’s unrestricted ending fund balance does not include amounts for the following liabilities:
    - Because the district and the SCTA disagree on the implementation date of a 3.5% increase included in the December 7, 2017 negotiated agreement,
there is a potential fiscal impact for 2019-20 and beyond of a 7% increase related to salary schedule restructuring rather than the 3.5% stated in the agreement.

The district’s net contributions to the irrevocable OPEB trust established to pay future retiree medical benefits have averaged 31% of the amount that will be needed to ensure that total OPEB contributions equal the actuarially-defined contribution. The area of retirement benefits is a liability that the district will need to face because the costs are outpacing contributions.

General Fund - Current Year

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<th>Question</th>
<th>Yes</th>
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<tbody>
<tr>
<td>Does the district ensure that one-time revenues do not pay for ongoing expenditures?</td>
<td>☒</td>
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</table>

As mentioned in the budget development section of this analysis, the district stated in its 2018-19 budget narrative that one-time funding was used to pay for salary increases. This action will also have severe effects on the budget in future years because the one-time funding will likely not be available to the district, leaving a $13.2 million deficit moving forward.

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<tr>
<th>Question</th>
<th>Yes</th>
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<tbody>
<tr>
<td>Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or under the statewide average for the current year?</td>
<td>☒</td>
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The statewide average for unified school districts as of 2016-17 (the latest data available) is 84.63%. At 2018-19 first interim, the district is exceeding the statewide average by 6.37%.

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<th>Question</th>
<th>Yes</th>
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<tr>
<td>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 three prior years?</td>
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The district exceeds the statewide average in this area for all three prior years, with its highest percentage in 2015-16 at 6.93% higher than the state average.

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<th>Question</th>
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<tr>
<td>If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding, is the district addressing the complaint(s)?</td>
<td>☒</td>
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<tr>
<th>Question</th>
<th>Yes</th>
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<tr>
<td>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?</td>
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<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td>Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?</td>
<td>☒</td>
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</table>

The district has seen a 129% increase in its total restricted ending fund balance from 2014-15 to 2017-18. This increase indicates that the district is not fully expending its restricted funding allocations. In addition, staff stated that some federal funds have gone unspent and have been returned to the federal government.

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<th>Question</th>
<th>Yes</th>
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<th>N/A</th>
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<tbody>
<tr>
<td>Does the district consistently account for all program costs, including allowable indirect costs, for each restricted resource?</td>
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</table>

The district does not charge allowable indirect costs to special education, and as a result there is underreporting of the total cost of the program. If the indirect cost rate of 4.21% for 2018-19 were applied to the district’s 2018-19 annual special education expenditures of $107,398,026, the resulting allowable indirect cost would be $4,521,457. The district’s total actual indirect charge for special education has been approximately $100,000 per year. The industry-standard practice is to consistently account for indirect costs in all restricted resources, including special education. The district is not correctly identifying the true cost of its special education programs.
## Information Systems and Data Management

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<th>Question</th>
<th>Yes</th>
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<th>N/A</th>
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<tbody>
<tr>
<td>Does the district use an integrated financial and human resources system?</td>
<td>☒</td>
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<tr>
<td>Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions?</td>
<td>☒</td>
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<tr>
<td>Does the district accurately identify students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?</td>
<td>☒</td>
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<tr>
<td>Is the district using the same financial system as its county office of education?</td>
<td>☐</td>
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<tr>
<td><strong>The county office of education uses Quintessential Control Center (QCC) (part of the Quintessential School Systems financial system) and the district uses Escape.</strong></td>
<td>☒</td>
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<tr>
<td>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?</td>
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<tr>
<td><strong>The county office of education has not been able to access the district’s Escape system online, but conversations continue between the two agencies about how this will be accomplished. The software needed to access the Escape system has been installed on some systems at the county office, but there has been no training.</strong></td>
<td>☒</td>
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<tr>
<td>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?</td>
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<tr>
<td><strong>Although the accounts payable process appears properly supervised and monitored, the printing of the warrants is completed in the business department rather than in a separate department, such as technology, which would improve segregation of</strong></td>
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## Internal Controls and Fraud Prevention

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<th>Question</th>
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<tr>
<td>Does the district have controls that limit access to and authorizations within its financial system?</td>
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<tr>
<td>Are the district’s financial system’s access and authorization controls reviewed and updated upon employment actions (i.e. resignations, terminations, promotions or demotions) and at least annually?</td>
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<tr>
<td><strong>The district does not regularly update authorization controls, and discrepancies based on changes in positions are often found many months later. The district relies on a digital change form that requires manual signatures, which slows the process or results in lost forms. The district should move to a digital form process to increase efficiency.</strong></td>
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<tr>
<td>Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:</td>
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<tr>
<td>Accounts payable (AP)</td>
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duties. One department should input the information and a different department should print warrants.

- Accounts receivable (AR).
- Purchasing and contracts.
- Payroll.

The payroll process appears properly supervised and monitored; however, the business department prints the warrants rather than having a separate department, such as technology, do so to ensure separation of duties. One department should input the information and a different department should print warrants.

- Human resources.
- Associated student body (ASB).
- Warehouse and receiving.

- Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?
- Does the district review and clear prior year accruals by first interim?
- 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?
- Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?
- Does the district have processes and procedures to discourage and detect fraud?
- Does the district maintain an independent fraud reporting hotline or other reporting service(s)?
- Does the district have a process for collecting and following up on reports of possible fraud?
- Does the district have an internal audit process?

**Leadership and Stability**

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**John Quinto, Ed.D., the district’s current chief business official, started with the district on August 27, 2018.**

**Jorge A. Aguilar became the district’s 28th superintendent on July 1, 2017.**

- Does the superintendent meet regularly with all members of their administrative cabinet?
- Is training on financial management and budget offered to site and department administrators who are responsible for budget management?

There has been little or no budget and fiscal training for site and department administrators who are responsible for budget management. Training is done informally and as needed or requested rather than on a regular schedule.

The amount of expertise, access to and knowledge of the financial system vary by site and department.
FCMAT FISCAL HEALTH RISK ANALYSIS

• Does the governing board adopt and revise policies and administrative regulations annually? ☐ ☒ ☐  
  Although board policies and administrative regulations are brought to the board sporadically for revision and/or adoption, there was no evidence of an intent to review the information annually or to ensure that it is a priority to communicate the permissions, limitations and standards of the board.

• Are newly adopted or revised policies and administrative regulations communicated to staff and implemented? ☐ ☒ ☐  
  When it brings policies to the board for revision or adoption, the district has no process for communicating the information to staff or implementing the policies in detail. A communication is sent to staff after each board meeting that summarizes the meeting, but for staff to fully understand changes in board policy and administrative regulations, further detail and instructions are needed.

• Is training on the budget and governance provided to board members at least every two years? ☐ ☒ ☐  
  There was no evidence that budget or governance training is provided to board members regularly.

• Is the superintendent’s evaluation performed according to the terms of the contract? ☐ ☒ ☐  
  FCMAT was not able to obtain evidence that the superintendent has received any evaluations since he was hired. His contract states:

  The Board shall evaluate the Superintendent in writing each year of this agreement. The evaluation shall be based on this agreement, the duties of the position, the 2016-2021 Strategic Plan, policy goals for the District, and other goals and objectives through a collaborative process with the Superintendent. The Superintendent and a committee of the Board will develop the evaluation instrument upon which the superintendent shall be evaluated. The Board shall approve the evaluation instrument and metrics by which to evaluate the Superintendent. The annual evaluation shall be completed based on a timeline determined by the Board.

  Subsequent to fieldwork, FCMAT was notified that the superintendent’s initial evaluation was to be voted on by the governing board on December 6, 2018.

### Multiyear Projections

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<th>Question</th>
<th>Yes</th>
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<tr>
<td>• Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?</td>
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<tr>
<td>• To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?</td>
<td>☒</td>
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<tr>
<td>• Does the district use its most current multiyear projection when making financial decisions?</td>
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It appears that the district used multiyear projections when making financial decisions until the 2017-18 fiscal year, but that this practice ceased in that year, during which it also entered into a multiyear agreement with the SCTA (December 7, 2017) that granted ongoing salary increases without a budget reduction plan to maintain minimum reserves through 2020-21.
### Non-Voter-Approved Debt and Risk Management

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- Are the sources of repayment for non-voter-approved debt stable (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others), predictable, and other than unrestricted general fund?
  
The district has $67,920,000 in outstanding lease revenue bonds. The annual debt service payment is approximately $5,400,000 and continues through fiscal year 2025-26. The annual debt service payments are made from a combination of unrestricted general fund revenue and developer fees.

- If the district has issued non-voter-approved debt, has its credit rating remained stable or improved?
  
- 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?
  
- 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?
  
### Position Control

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- Does the district account for all positions and costs?
  
The district must improve its position control process. The district currently uses the same position control number for multiple positions, and for full-time equivalent (FTE) positions that have the same title, instead of creating a unique position control number for each board-approved position or FTE. The district’s current practice leads to lack of clarity about which positions are being filled and about the site to which each belongs, because the same position number can exist at multiple sites if the same title is assigned. The district needs to use a unique identifier, or position control number, for each board-authorized position.

Another area to improve on in the position control process involves the ramifications of the one-stop process, because confusion often arises when employees are transferred between sites and departments without a paperwork trail since the information was input directly into the system and the typical forms are not used during one-stop meetings. In addition, as employee transfers and changes are discussed and made later in the year, position control system information about which positions are open and about employees’ work locations is often found to be inaccurate. Because paperwork is not generated during one-stop meetings, it is often more difficult to determine the history and details of past decisions.

- Does the district analyze and adjust staffing based on staffing ratios and enrollment?
  
The district did not provide evidence that regular analysis of staffing ratios is compared with actual enrollment or that adjustments are made in accordance with sites’ or departments’ needs after the one-stop budget and staffing process occurs in January or February of each year during the budget development process. During one-stop, because the primary purpose appears to be developing the March 15 notice list, staffing ratios are compared against enrollment projections, and staffing is scheduled accordingly.

Although this process is efficient for meeting the March 15 deadline as well as initial budget development projections, the decisions made during one-stop need to be reassessed as the year proceeds and actual enrollment numbers are known.
• Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods? ☐ ☒ ☐

It is best practice to have a position control system that is integrated with, or at least reconciled with, budget, payroll and human resources records. The district does not reconcile these records regularly to ensure that its budget represents the amount the district should set aside for such costs. In interviews, employees indicated that the number of open positions shown in financial reports is usually inflated.

At interim reporting times, the district identifies variances between budgeted and actual amounts, and salary and benefit budgets are often revised based on that analysis. By contrast, standard industry practice is to reconcile actual human resources and payroll records to ensure that only open, authorized positions are shown as such in the budget; if an open position exists that should be closed, the appropriate paperwork is completed to do so, and the budget is updated.

• Does the district identify a budget source for each new position before the position is authorized by the governing board? ☐ ☒ ☐

• Does the governing board approve all new positions before positions are posted? ☐ ☒ ☐

The governing board approves new positions after employees have been hired rather than when the position is vacant or posted.

• Does the district have board-adopted staffing ratios for certificated, classified and administrative positions? ☐ ☒ ☐

Staffing ratios, where documented, appear to be a result of terms in the collective bargaining agreement rather than board-adopted.

• Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes? ☐ ☒ ☐

Staff indicated that those responsible for human resources, payroll and budget meet two times per year. Scheduled meetings should be conducted at least monthly to resolve ongoing issues and problems, as well as improve processes, between the departments.

Special Education

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the district’s staffing ratios, class sizes and caseload sizes in accordance with statutory requirements and industry standards?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>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)?</td>
<td>☒</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Does the district account correctly for all costs related to special education (e.g., transportation, indirect costs, service providers)?</td>
<td>☐</td>
<td>☒</td>
<td>☐</td>
</tr>
</tbody>
</table>

Not all appropriate costs related to special education are charged to the program, including legal fees and the full allowable indirect costs.

• Is the district’s contribution rate to special education at or below the statewide average contribution rate? ☐ ☒ ☐

The district’s 2018-19 budget plan indicates that its general fund contribution to special education will be $73,590,731 and that its total special education expenditures will be $107,398,026, which means that its contribution will equal 68.52% of total.
expenditures for the program. The statewide average contribution rate is 64.5% as of 2016-17.

- Is the district’s rate of identification of students as eligible for special education comparable with countywide and statewide average rates? ☐ ☒ ☐
  
  The district has an identification rate of 14.5%, while the statewide average identification rate is 11.5% and the countywide identification rate is 12.3%.

- Does the district monitor, and reconcile the billing for, any services provided by nonpublic schools and/or nonpublic agencies? ☒ ☐ ☐

- Does the district analyze and plan for the costs of due process hearings? ☐ ☒ ☐
  
  The district analyzes the incidence and cost of due process hearings. Employees interviewed stated that the current budgeted amount for due process hearings is insufficient and that the district would be increasing the shortfall during the next budget cycle. The average cost of a due process settlement has doubled in the last five years.

- Does the district analyze whether it will meet the maintenance of effort (MOE) requirement at each reporting period? ☐ ☒ ☐

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**Total Risk Score, All Areas** 44.8%

**Key to Risk Score**

- **High Risk:** 40% or more
- **Moderate Risk:** 25-39%
- **Low Risk:** 24% and lower
Summary

The district’s budget is the responsibility of its governing team. Senior management must present sound and accurate financial information that is supported by trend analysis, budget assumptions and multiyear projections so the board can make informed decisions. Throughout this analysis, FCMAT has identified severe fiscal risks in many areas. The most critical point of this analysis, which is not new information to the district, is that the district will be cash insolvent in November 2019 (estimated to be October 2019 at the time of FCMAT’s fieldwork) unless significant action is taken. Because necessary actions will take time to develop and implement, concerns are growing about the length of time it is taking for the district to start. The governing board must prioritize and act expeditiously to remedy the district’s fiscal distress. The fiscal risk is real, imminent, and serious. Without action, state intervention is certain.

In light of the most recent cash flow projection, the urgency to make $30 million in reductions to balance the budget cannot be overstated. If the district’s budget is not balanced in time for the 2019-20 budget adoption, current projections indicate the district will have only three to four months of cash remaining to run day-to-day operations.

The district’s lack of proper position control also presents a risk to its fiscal solvency. The district lacks an accurate position control process or system that adheres to industry standards and best practices, and it does not use its financial system’s full capability to help generate accurate projections. The district has a significant number of positions that show as open in its budget but that are not verified as such. This disparity affects the analysis of savings that may be attainable and obscures the true costs of salaries and benefits in the budget. It appears that this lack of validation of position control has continued for a number of years, as has the practice of using salary savings from unfilled positions to balance other budget items as the year progresses.

The experience and expertise of the district’s new CBO and the existing business office staff are limited, and the district’s business team is not cohesive and is lacking in communication with other departments and sites. This makes it more difficult to achieve the necessary fiscal progress. Staff have not been exposed to improvements or best practices, and the Escape financial system has many capabilities that the district is not using. The lack of understanding of data and the lack of best practices for data integrity and analysis are significant.

The district will need to make decisions and offer budget solutions to remedy past choices, and those solutions will of necessity involve reductions to programs as well as reductions in staffing and benefits. The district’s leaders will need to work diligently to offset ongoing increasing costs, which have increased significantly since the 2017 salary settlement without corresponding reductions. Time is of the essence; the cash flow projections show the severity of the consequences of inaction.

The district has options for reducing costs; however, because of the limited time available, it must focus on decisions that can be implemented by 2019-20 budget adoption. Although all options should be explored and addressed, those that include closing or modifying facilities will take more time than the current situation allows and thus will not remedy the immediate solvency issues and cannot be the solution for the 2019-20 budget. Any longer-term solutions, such as facility consolidation or closure decisions, will require that conversations and implementation begin now, with savings recognized in subsequent years of the projections, not in 2019-20.

All programs and costs that affect the unrestricted budget must be evaluated, including those that require a contribution or transfer from the unrestricted general fund, such as special education and child development. In addition, because the largest portion of any budget is in salary and benefit accounts, these are critical areas that must be reviewed. Because negotiations include strict deadlines, time is of the essence for any reductions that include salaries and benefits. All stakeholders may need to evaluate the affordability of salaries and benefits provided in the past. For example, some health plans offered to employees cost much more than others, and the district still offers lifetime health benefits to all eligible employees. The district must prioritize current expenditures and decide which to reduce or eliminate in order to maintain others. The budget must be balanced. Either revenues will need to increase significantly, which is not likely and over which the district has little control, or expenditures will need to decrease, which is achievable and is under the board’s control.

The district’s significant risk factors include deficit spending, substantial reductions in fund balance, inadequate reserve levels, approval of a bargaining agreement above cost-of-living adjustments, a significant unfunded OPEB liability, large increases in contributions to restricted programs (especially in special education), lack of a
strong position control system, and leadership issues. These factors must be addressed and remedied to avoid further erosion of the district’s reserves. A solution to the district’s financial situation is attainable, and all parties with an interest will need to be part of the discussion and solution. Failure to act quickly and decisively will result in imminent fiscal insolvency and loss of local control.