



Excellence and Equity in Education

Nancy Magee • County Superintendent of Schools

June 28, 2023

Sophia Layne
President, Governing Board
Cabrillo Unified School District
498 Kelly Avenue
Half Moon Bay, CA 94019

Dear President Layne and Superintendent Thurman:

Pursuant to the provisions of Education Code (EC) Section 42127.6, if at any time during the fiscal year, the County Superintendent of Schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years or if a school district has a qualified or negative certification pursuant to Section 42131, the County Superintendent shall notify the governing board of the school district and the Superintendent of Public Instruction in writing of that determination and the basis for the determination.

Basis for Determination

The San Mateo County Office of Education (SMCOE) assessed the ability of the Cabrillo Unified School District (District) to continue as a going concern based on the submission of the 2022-23 Third Interim Financial Report multi-year projections (MYP) and the preliminary submission of the 2023-24 Proposed Adopted Budget's cash flow. The MYP shows the District does not meet the 3% required reserve in the current year and subsequent years. It further shows the District projecting a negative fund balance in the third year. The cash flow from the 2023-24 proposed budget projects the District will have a negative cash balance at fiscal year 2024-25 in the amount of \$1.2 million. This is projected with the District issuing a Tax Revenue Anticipation Note (TRANS) in the amount of \$5 million.

Background

Adopted Budget – FY 2022-23

SMCOE **approved** Cabrillo Unified School District's 2022-23 Adopted Budget based on its determination the Adopted Budget complied with the criteria and standards adopted

by the State Board of Education and allowed the District to meet its financial obligations during the fiscal year.

In our letter dated September 22, 2022, the County Superintendent urged the District to identify measures to address operating deficits in the General Fund to ensure educational programs will not be adversely affected. Also, it is critical to maintain adequate reserves to provide the District flexibility for any unforeseen events or decreases in education funding in the future.

The County Office noted to all districts, due to the 2022-23 Budget Trailer Bill Assembly Bill [AB] 181 passing after the Adopted Budget, their budgets should be revised to include the base grant augmentation and the discretionary block grants.

First Interim Financial Report

The District adopted its 2022-23 First Interim financial report with a **qualified certification**. The County Superintendent concurred with the District's qualified certification which indicated, based on current projections, the District may not meet its financial obligations in the current fiscal year or the subsequent years.

Upon completion of the First Interim review, the County Superintendent expressed the following:

- The Multi-Year Projection (MYP) projected a negative fund balance in fiscal year (FY) 2024-25
- By FY 2024-25, the District will not meet the required 3% minimum reserve requirement
- SMCOE directed the District to submit a financial projection of all funds and cash at 2nd interim and directed the District to submit a proposal for addressing the fiscal condition

Second Interim Report

The District Governing Board certified the Second Interim Financial Report with a **qualified certification**. At the time of submission, the MYP projected in all three years, the District would not meet the 3% required minimum reserve. SMCOE concurred with the District's qualified certification only after the submission of budget adjustments which allowed the minimum reserve to be met in the current year.

Upon completion of the Second Interim review, the County Superintendent expressed the following:

- The total available reserves before the budget adjustments was 1.93% and after the adjustments it became 3.69%.
- The negative fund balance projected for FY 2024-25 grew from (\$682,026) to (\$1,086,504).

- The District must continue to assess its spending and take immediate steps to adjust its staffing commensurate with projected ongoing declining enrollment.
- The District had issued a TRAns for FY 2022-23, however, funds were not drawn causing the district to incur \$55,000 of negative interest as of February 2023.
- Assigned a fiscal expert and required the District to address deficit spending and develop a Fiscal Stabilization Plan along with a board resolution to be submitted with the Third Interim by June 1, 2023.
- The District must obtain approval from SMCOE prior to the issuance of all non-voter approved debt, including TRAns, Bond Anticipation Notes (BANs) and Certificates of Participation (COPs).

Third Interim Report

Cabrillo Unified School District's Board approved the Third Interim report with a **negative certification**, which means it will not meet its financial obligations for the current or subsequent two fiscal years.

Based on information known at the time, the County Superintendent reviewed the report with the following comments:

- The current year unrestricted ending fund balance is 1.55% not meeting the Reserve for Economic Uncertainties requirement of 3%.
- Unrestricted program deficit spending for the current year has increased from Second Interim by an additional \$162,655 to a total of \$2,421,030.
- Combined unrestricted and restricted program revenues decreased by \$2.3 million while expenditures increased by \$800,000.
- The MYP shows deficit spending in unrestricted programs of \$392,857 and \$3,083,277 in fiscal years 2023-24 and 2024-25 respectively.
- Unrestricted reserve projected to be negative \$2,809,850 at the end of 2024-25.
- Due to not utilizing the TRAns in the current year, the negative interest incurred has increased to \$75,000 as of April 2023.
- A fiscal stabilization plan has not been created.
- Cashflow projection for 2023-24 shows negative cash balance in nine (9) of twelve (12) months with ending balance as of June 30, 2024 of approximately \$947,000.

Implications of Lack of Going Concern

If at any time the County Superintendent of Schools 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 of Schools 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 analysis 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 County Office 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 mis assignment in the school district, to provide the school district with recommendations to streamline and improve the teacher hiring process, teacher retention rate, extent of teacher mis assignment, and provision of highly qualified teachers, or to further review the causes that led to a finding of moderate or high risk of intervention and recommend corrective action.

If after taking any of the actions listed above, and if the District continues to show financial distress and will be unable to meet its financial obligations for the current or subsequent fiscal year, the county superintendent of schools in consultation with the Superintendent of Public Instruction shall take at least one of the actions described below and all actions that are necessary to ensure that the school district meets its financial obligations.

- Develop and impose, in consultation with the Superintendent and the governing board of the school district, a budget revision that will enable the school district to meet its financial obligations in the current fiscal year
- Stay or rescind any action that is determined to be inconsistent with the ability of the school district to meet its obligations for the current or subsequent fiscal year

- Assist in developing, in consultation with the governing board of the school district, a multiyear financial recovery plan that will enable the school district to meet its future obligations
- Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year
- As necessary, appoint a fiscal adviser to perform any or all of the duties prescribed by this section on behalf of the county superintendent of schools

The County Superintendent is not authorized to abrogate any provision of a collective bargaining agreement that was entered into by a school district before the date that the county superintendent of schools assumed authority pursuant to Education Code 42127.6(e).

The County Office will coordinate with Fiscal Crisis and Management Assistance Team (FCMAT) to conduct a Fiscal Health Risk Analysis.

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

- Non-Voter Approved Debt — since 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 2023-24 and 2024-25, unless the County Superintendent determines that repayment of the debt is probable. Please submit a non-voter-approved debt disclosure to the County 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 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:

The District is required to work with Kevin Bultema, Deputy Superintendent Business Services for SMCOE, as the previously assigned Fiscal Expert to the District.

By July 31, 2023, the District is required to encumber all contracts and other obligations known in the month of July for the 2023-24 fiscal year. Furthermore by July 31, 2023, the District is required to update their cashflow worksheet to include projected TRANS draws to cover cash deficits.

By July 31, 2023, the District is required to provide the County Office with a Solvency and Fiscal Stabilization Plan. This plan must be prepared as a multiyear financial projection for unrestricted, restricted and combined funds, including detailed assumptions. The plan must address, but is not limited to, the following issues:

- a) Develop action plan to address the \$2.8 million negative fund balance as documented in the MYP
- b) Provide solutions to implement ongoing revenue increases or expenditure reductions that eliminate the structural deficit
- c) Project staffing adjustments with cost savings analysis
- d) Project student enrollment and Average Daily Attendance (ADA) analysis
- e) Ensure hiring practices and position control is accurate
- f) Provide staffing ratios and allocations for all certificated and classified personnel
- g) Include all stipends, extra pay, substitute pay and overtime policies and practices
- h) Develop spending plan for use of one-time funding organized by fiscal year

By August 4, 2023, the District is required to update their projected revenues and expenditures to align to the adopted 2023 state Budget Act in accordance with Education Code Section 42127(h).

Recommendations:

Local Control and Accountability Plan (LCAP) — If the District chooses to reduce or eliminate planned actions and services from its 2023-24 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
- Partner with the County Office's Instructional Services Division and District Business Services Division throughout the 2023-24 school year to identify key challenges and opportunities in development of a 2024-25 LCAP that is tailored to improving student outcomes while maintaining fiscal solvency

It is also recommended the District:

- Publicly disclose the lack of going concern determination by the San Mateo County Superintendent of Schools.
- Freeze all unrestricted general fund discretionary expenditures unless operationally necessary as determined by the District's Chief Business Official (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,



Nancy Magee
San Mateo County Superintendent of Schools

cc: Board of Education, Cabrillo Unified School District
Dr. Sean McPhetridge, Superintendent, Cabrillo USD
Jesus Contreras, Chief Business Official, Cabrillo USD
Kevin Bultema, Deputy Superintendent, Business Services Division SMCOE
Tony Thurmond, State Superintendent of Public Instruction, CDE
Elizabeth Dearstyne, Director School Fiscal Services Division, CDE
Mike Fine, Chief Executive Officer, FCMAT
Wendy Richard, Executive Director, District Business Services, SMCOE