



SAN MATEO
COUNTY
OFFICE OF
EDUCATION

Excellence and Equity in Education

Nancy Manee • County Superintendent of Schools

June 20, 2023

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

RE: 2022-23 Third Interim Report

Dear Board President Layne:

Pursuant to the provisions of Education Code (EC) Section 1240 (e), the San Mateo County Office of Education is required to present an annual report to a school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, a qualified or negative interim certification, or one that has been determined at any time during the year to be in a position of fiscal uncertainty pursuant to EC Section 42127.6.

The following annual report of the fiscal solvency of Cabrillo Unified School District (District) for fiscal year 2022-23 is generated as a result of the District's Qualified First and Second Interim Certifications and Negative Certification at Third Interim.

On the basis of our review and analysis, the Third Interim Financial Report adopted by the Board on May 30, 2023, appears to reflect adequately the financial and budgetary status of the District. **The District has submitted a negative certification which means the District has certified it will be unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent two fiscal years.**

Based on information known at the time of this report, the County Superintendent concurs with the District's negative certification with the following comments:

Fiscal Solvency Summary:

ADOPTED BUDGET – FY 2022-23

The San Mateo County Office of Education (SMCOE) **approved** Cabrillo Unified School District's 2022-23 Adopted Budget based on its determination that the Adopted Budget complied

with the Criteria and Standards adopted by the State Board of Education, allowed the District to meet its financial obligations during the fiscal year and was consistent with a financial plan that would allow the District to meet its multi-year financial commitments.

Below is the comparison of revenues and expenditures in multi-year projection (MYP) budgets for Unrestricted General Fund at the time of Budget Adoption:

Adopted Budget - Unrestricted General Fund	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$4,352,289	\$2,641,746	\$1,747,730
Revenues & Other Financing Sources	25,413,089	26,686,222	27,561,754
Expenditures & Other Financing Uses	27,123,632	27,580,238	27,908,766
Net increase (Decrease)	(1,710,543)	(894,016)	(347,012)
Projected General Fund Ending Balance	\$2,641,746	\$1,747,730	\$1,400,718
<i>Total Available Reserve (including Spec Reserve Fund, Fund 17)</i>	<i>\$2,672,945</i>	<i>\$1,778,930</i>	<i>\$1,431,918</i>
Total Available Reserves Percentage	6.05%	4.05%	3.21%

FIRST INTERIM REPORT

On December 13, 2022, the District adopted its 2022-23 First Interim financial reports 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 for the current fiscal year or two subsequent fiscal years.

At First Interim, the District flipped to Local Control Funding Formula (LCFF) status due to the Cost of Living Adjustment (COLA) of 6.56%, the LCFF base grant augmentation of 6.70%, and declining enrollment. The Multi-Year Projections (MYP) at that time, projected property taxes with a growth of 2% along with anticipated receipt of one-time supplemental taxes of \$2 million. This would result in the District flipping back to community funded status in 2023-24. Expenditures reflected a reduction due to the elimination of one-time funds in 2023-24. The estimated operating deficit in the Unrestricted General Fund is approximately \$1.75 million in 2022-23, \$56,000 in 2023-24 and \$2.11 million in 2024-25. The deficit spending in the third year out results in a projected negative fund balance. While the District recognized the deficit spending, no plan was submitted with the First Interim to address this issue. Below are the revenues and expenditures and the projected fund balances for the current and subsequent two fiscal years at First interim reporting period:

First Interim – Unrestricted General Fund	2022-23	2023-24	2024-25
Beginning Balance	\$3,283,273	\$1,532,546	\$1,476,192
Revenues & Other Financing Sources	24,905,858	27,374,429	25,759,236
Expenditures & Other Financing Uses	26,656,585	27,430,783	27,872,454
Net increase (Decrease)	(1,750,727)	(56,354)	(2,113,218)
Projected General Fund Ending Balance	\$1,532,546	\$1,476,192	(\$637,026)
<i>Total Available Reserve (including Spec Reserve Fund, Fund 17)</i>	<i>\$1,563,556</i>	<i>\$1,431,192</i>	<i>(\$682,026)</i>
<i>Total Available Reserves Percentage</i>	<i>3.40%</i>	<i>3.22%</i>	<i>(1.51%)</i>

Upon completion of the First Interim review, the County Superintendent required the District to implement the following processes and submit the following reports at Second Interim:

- 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.
- The District must obtain approval from the San Mateo County Office of Education (SMCOE) prior to the issuance of all nonvoter approved debt, including Tax and Revenue Anticipation Notes (TRANS), Bond Anticipation Notes (BANs), and Certificates of Participation (COPs). [Education Code Section 42133(a)]
- A Third Interim Report which projects the district’s fund and cash balances through June 30th must be prepared and approved by the District Governing Board. Technical Review Checks is also required with all fatal exceptions cleared and warning exceptions explained. [Education Code Section 42131(e)]
- In conjunction with the Third Interim Report, the District is required to provide a written proposal that addresses the fiscal conditions that resulted in the determination that the District may not be able to meet its financial obligations. [Education Code Section 42127.6(a)(1)(E)]
- The County Superintendent of Schools is required to present an annual report to the District’s Governing Board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a qualified certification. This is often referred to as the AB 139 letter. [Education Code Section 1240(e)]

SECOND INETRIM REPORT

On March 9, 2023, the District Governing Board certified the Second Interim Financial Report with a qualified certification. However, the District was not meeting the minimum reserve

requirement of 3% in the current fiscal year. Subsequently, the District submitted a plan to make a number of budget adjustments. These budget adjustments moved General Fund expenditures to the Special Reserve Fund for Capital Outlay Projects (Fund 40) and from unrestricted to restricted General Fund in order to meet minimum reserve requirement in the current fiscal year. With these budget adjustments, the total amount for economic uncertainties became \$1,711,433, which is 3.69% of General Fund expenditures.

At Second Interim, the projected operating deficit in the Unrestricted General Fund is approximately \$2.26 million in 2022-23, and \$2.19 million in 2024-25. Below are the revenues and expenditures and the projected fund balances for the current and subsequent two fiscal years at Second Interim reporting period:

Second Interim - Unrestricted General Fund	2022-23	2023-24	2024-25
Beginning Balance	\$3,132,314	\$873,939	\$1,076,766
Revenues & Other Financing Sources	25,239,297	27,823,023	25,927,987
Expenditures & Other Financing Uses	27,497,672	27,620,196	28,119,930
Net increase (Decrease)	(2,258,375)	202,827	(2,191,943)
Projected General Fund Ending Balance	\$873,939	\$1,076,766	(\$1,115,177)
<i>Total Available Reserve (including Spec Reserve Fund, Fund 17)</i>	\$902,612	\$1,105,439	(\$1,086,504)
Total Available Reserves Percentage	1.93%	2.49%	(2.40%)

The MYP at Second Interim did not address the deficit spending issue. Assumptions did not change from First Interim to Second Interim; however, the deficit grew over \$500,000 in the current year.

Due to the District’s distressed financial condition, EC Section 42131 (b) allows the County Superintendent of Schools to assign a fiscal expert. The district is expected to work with the San Mateo County Office of Education fiscal expert to implement actions necessary to stabilize and improve the District’s financial condition. The District’s Governing Board is expected to provide the leadership needed to restore the District’s ongoing financial stability, and to provide quality services to the students served.

The County Superintendent of School assigns Kevin J. Bultema – Deputy Superintendent, as Advisor. Wendy Richard - Executive Director and Vinita Singh – Manager, District Business Services as backup staff to work closely with District staff in assisting and guiding them to maintain fiscal solvency. The County office required the district to submit a Fiscal Stabilization Plan (FSP) along with a Board resolution to address the fiscal condition.

THIRD INTERIM REPORT

On May 30, 2023, the District approved the Third Interim report. **The District has submitted a negative certification which means the District has certified it will be unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent two fiscal years.**

GENERAL FUND:

The General Fund revenues decreased by approximately \$2.3 million between the Second and Third Interim. LCFF sources increased by \$257,000 due to adjustment in special education funds. Federal revenues reduced by \$437,000 in Title II, No Child Left Behind, Elementary and Secondary School Emergency Relief (ESSER) II and ESSER III funds to reflect actual expenses and establish carryover. State revenues were reduced by \$2.5 million due to May Revise projection of one-time Arts, Music and Instructional Materials Block grant, Learning Recovery Emergency Block grant and Career Technical Education Incentive grant program reductions. Other local revenues from restricted grants increased by \$368,000.

The General Fund expenditures increased by \$805,000. Salaries and benefits reduced by \$94,000 to reflect staff cost adjustments since Second Interim. Material and supplies reduced by \$557,000. Services and other operating expenditures increased by \$1.06 million primarily for utilities, travel and conferences, Student Information System (SIS) upgrade and integration and professional consulting services. Capital outlay increased by \$358,000 for purchase of portable classrooms. Tuition payment for county placed special education students increased by 38,000.

Deficit spending increased by \$163,000 in Unrestricted General Fund in the current fiscal year resulting in reserves dropping from 1.93% at Second Interim to 1.55% at Third Interim. The District is projecting reserves at 1.55% in the current year, 0.58% in 2023-24 and negative 6.02% in 2024-25. No proposal was submitted with the Third Interim to address the fiscal condition.

Below is a summary of the Third Interim MYP for the Unrestricted General Fund compared to the Second Interim budget:

Third Interim – Unrestricted General Fund	2022-23 Second Interim	2022-23 Third Interim	2023-24 Projection	2024-25 Projection
Beginning Balance	\$3,132,314	\$3,132,314	\$711,284	\$318,427
Revenues & Other Financing Sources	25,239,297	25,003,605	27,938,102	26,134,753
Expenditures & Other Financing Uses	27,497,672	27,424,635	28,330,959	29,218,030
Net increase (Decrease)	(2,258,375)	(2,421,030)	(392,857)	(3,083,277)
Projected General Fund Ending Balance	\$873,939	\$711,284	\$318,427	(\$2,764,850)
<i>Total Available Reserve (including Spec Reserve Fund, Fund 17)</i>	<i>\$902,612</i>	<i>\$740,094</i>	<i>\$273,427</i>	<i>(\$2,809,850)</i>
Total Available Reserves Percentage	1.93%	1.55%	0.58%	(6.02%)

CASH FLOW

The District submitted cash flow projections for 2022-23 and 2023-24. The projection shows negative cash balances for the month of August to April in the current year and from July to November and February to May in 2023-24. The projected year-end cash balance is \$3.8 million in 2022-23 and \$947,000 in 2023-24.

The District has obtained a Tax and Revenue Anticipation Note (TRAN) in the amount of \$5 million from the California School Board Association (CSBA). When reviewing the cash balances, it is noted there is no drawdown of the TRAN funds. Not utilizing the funds, cash balances became negative and caused the District to incur negative interest in the amount of approximately \$75,000 as of April 2023. The District has requested to issue a TRANs for the 2023-24 fiscal year.

COUNTY OFFICE OVERSIGHT

In accordance with Education Code Section 42127.6, the County Superintendent of Schools shall continue to perform the following actions necessary to ensure the District meets its financial obligations:

- 1) Work with the SMCOE fiscal expert
- 2) Conduct a study of the financial and budgetary conditions of the District including review of internal controls
- 3) Direct the school district to submit a financial projection of all fund and cash balances as of June 30th.

- 4) 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
- 5) Direct the district to closely monitor the budget and develop a fiscal stabilization plan
- 6) Possibility to withhold compensation of the members of the Governing Board and the District Superintendent for failure to provide requested financial information
- 7) Assign FCMAT to review the district

On June 7, 2023, the Fiscal Expert and SMCOE staff met with the following individuals:
Sean McPhetridge, Superintendent, Cabrillo USD
Sofia Layne, Governing Board President, Cabrillo USD
Jesus Contreras, Chief Business Official, Cabrillo USD
Jennifer Marsh, Director Fiscal Services, Cabrillo USD
Kevin Bultema, Deputy Superintendent, SMCOE, assigned Fiscal Expert
Wendy Richard, Executive Director, DBS, SMCOE
Vinita Singh, Manager, DBS, SMCOE

This was an initial meeting to plan the next steps. There will be a representative from SMCOE at future board meetings. A calendar will be established for regular meetings, once a month before board meetings and twice a month for continued support with the District's financial team. SMCOE will issue a letter of "Lack of Going Concern" and will support the District in developing a fiscal recovery plan and development of the 2023-24 Original Budget. FCMAT will connect with Cabrillo Unified School District to perform a fiscal health risk analysis.

CONCLUSION

The County Superintendent is aware that the information provided during each of the reporting periods in the current fiscal year reflected the District's financial position and budget assumptions at specific points in time and necessary adjustments will be made as new data becomes available.

must continue to carefully monitor its long-range financial recovery plans to address deficit spending and revenue shortfall for the subsequent fiscal years. Additional budget reductions may be necessary to ensure fiscal solvency and adequate fund balance and reserves for economic uncertainties.

The Cabrillo Unified School District's Governing Board has the fiduciary responsibility for the fiscal well-being of the district. Any budget reduction plan along with Financial Advisory committee schedules must be submitted to the County Office of education.

We will assist the administration and Governing Board as the District continues to address its fiscal challenges and further develop plans to restore fiscal solvency.

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If our office can be of further assistance, please feel free to contact me at 650.802.5511 or kbultema@smcoe.org.

Sincerely,



Kevin J. Bultema
Deputy Superintendent, Business Services Division

Enclosures

c: Dr. Sean McPhetridge, Superintendent, Cabrillo USD
Jesús J Contreras, Chief Business Official, Cabrillo USD
Nancy Magee, San Mateo County Superintendent of Schools, SMCOE
Wendy Richard, Executive Director, District Business Services, SMCOE