



**Excellence and Equity in Education**  
Nancy Magee • County Superintendent of Schools

September 22, 2022

An Huang Chen  
President, Governing Board  
Hillsborough City School District  
300 El Cerrito Avenue  
Hillsborough, CA 94010-6818

RE: Local Control Accountability Plan and Adopted Budget – Fiscal Year 2022-23

Dear Board President Chen:

The San Mateo County Office of Education (SMCOE) has completed its review of the Hillsborough City School District's Local Control Accountability Plan (LCAP) and Adopted Budget for the 2022-23 fiscal year pursuant to Education Codes 42127 and 52070.

#### **A. LOCAL CONTROL ACCOUNTABILITY PLAN (LCAP)**

The County Superintendent is required to approve the District's LCAP if it is determined that the following criteria have been met:

- The LCAP adheres to the template adopted by the State Board of Education (EC 52064)
- The budget includes expenditures sufficient to implement the specific actions and strategies included in the LCAP
- The LCAP adheres to the expenditure requirements for funds apportioned on the basis of the number and concentration of unduplicated pupils (EC 42238.02 and 42238.03)
- The LCAP includes the required calculations to determine whether there is a carryover requirement, and if applicable, includes a description of the planned uses of the specific funds and a description of how the planned uses are to be considered as contributing towards meeting the increased or improved services requirement {(EC 52070(d)(4)}

**The San Mateo County Superintendent of Schools has approved your Local Control Accountability Plan for the 2022-23 school year, pursuant to Education Code (EC) Section 52070.5(d). California Education Code requires the County Superintendent to review and approve the LCAP prior to the approval of the LEA's adopted budget per EC Section 42127(2). Your board approved LCAP has been posted on the SMCOE website.**

## **B. ADOPTED BUDGET**

In accordance with Education Code Section 42127, the County Superintendent of Schools has examined the Adopted Budget of Hillsborough City School District (the District) for fiscal year 2022-23 to determine if it complies with the criteria and standards adopted by the State Board of Education, allows the District to meet its financial obligations during the fiscal year, and is consistent with a financial plan that will allow the District to meet its multi-year financial commitments. The County Superintendent of Schools is also required to determine whether the Adopted Budget includes the expenditures necessary to implement the LCAP.

**On the basis of the County Office review and analysis, the 2022-23 Budget adopted by the Governing Board on June 21, 2022, does comply with the criteria and standards. Additionally, the multi-year projection shows the District will meet its financial obligations in the current year and two subsequent years.**

The San Mateo County Office of Education **approves** Hillsborough City School District's 2022-23 Adopted Budget with the following comments:

### FINDINGS/COMMENTS:

#### General Fund Budget Summary

The 2022-23 Adopted budget shows a net increase in General Fund revenues of \$2.8 million and an increase in expenditures of approximately \$1.2 million compared to the 2021-22 Estimated Actuals. Secured property tax revenue is projected to grow by 6.89% over the prior year resulting in LCFF revenue sources to increase by \$1.7 million. Special education entitlement increased while one-time COVID-19 funds were eliminated resulting in federal funding being reduced by \$385,000. Other state revenues increased by \$894,000 primarily from one-time discretionary funds. Local revenue from parcel taxes, interagency services, and donations increased by \$600,000.

Salaries and benefits expenditures budget increased by \$1.3 million. This includes step and column adjustments, staffing increases due to the pandemic and new programs, and an increase in the employer pension contribution rates to CalPERS and CalSTRS. Books and supplies expenses related to approved science textbook adoption and reference materials increased by \$18,000. Services and other operating expenses are projected to increase by \$258,000. Capital outlay is reduced by \$315,000.

Below is a comparison of revenue and expenditure budgets in the General Fund for fiscal years 2021-22 and 2022-23:

<b>General Fund – Unrestricted/Restricted</b>		<b>2021-22 Estimated Actuals</b>	<b>2022-23 Adopted Budget</b>	<b>Difference</b>
A.	Anticipated Revenues	\$35,409,495	\$38,224,638	\$2,815,143
B.	Proposed Expenditures	36,565,541	37,799,304	1,233,763
C.	Excess (Deficiency) of Expenditures over Revenues	(1,156,046)	425,334	1,581,380
D.	Other Sources/Uses and Transfers	(55,000)	(55,000)	-
E.	Total Increase (Decrease) in General Fund	(1,211,046)	370,334	1,581,380
F.	<b>Ending Balance – Unrestricted/Restricted</b>	<b>\$5,384,694</b>	<b>\$5,755,028</b>	<b>\$370,334</b>
G.	<b>Ending Balance – Unrestricted only</b>	<b>\$4,834,759</b>	<b>\$5,596,113</b>	<b>\$761,354</b>

The state-recommended minimum reserve for Hillsborough City School District is 3% of total General Fund expenditures. Based on the adopted budget, the District is projecting approximately \$5.7 million or 14.95% in available reserves, of which \$2.3 million is for economic uncertainties.

The Special Reserve Fund for Other Than Capital Outlay Projects (Fund 17) ending balance of \$593,0000 is included as part of the reserve calculation.

Reserves in Excess of Minimum

Education Code 42127(a)(2)(B) requires the governing board of a school provide, for public review and discussion at a public hearing, any amount in excess of the state-recommended minimum reserve for economic uncertainties. This includes the combined assigned and unassigned ending fund balances in the General Fund (Fund 01) and Special Reserve Fund (Fund 17). The District is required to provide a statement of reasons to substantiate the need for the reserve in excess of the state-recommended level.

The District held a public hearing on June 8, 2022, and has provided the public an opportunity to review and discuss the components and reasons for the reserves. The excess reserve amount is set aside for curriculum adoptions, to subsidize the Universal Meals Program, for the Pre-Kindergarten (TK) and Expanded Learning Opportunities Program, an additional 3% set aside per Board Policy 3100 requiring available reserves of at least 6% of total general fund expenditures, for technology update and to purchase a district vehicle.

Cash Flow

The District submitted cash flow projections for 2022-23 and 2023-24 showing negative ending cash balances in the months of November 2022 and 2023. The projected ending cash balances are approximately \$6.95 million in 2022-23, and \$6.76 million at the close of 2023-24.

The District is commended for maintaining adequate funds in the General Fund to meet its financial obligations without outside borrowings.

### Multi-Year Projections (MYP)

The multi-year projection is one of the most important tools in determining the District's financial position. In order to make multi-year projections, school districts rely on a variety of assumptions and sources of information available at the time of report preparation.

The MYP incorporates the following key assumptions:

#### Revenues:

- The projected increase in secured assessed valuation is approximately 6.89% in 2022-23, 5% in 2023-24, and 4% in 2024-25.
- COVID-19 funds are eliminated in the MYP and federal revenues are projected to remain flat.
- State revenues are projected to decline by 40% in 2023-24 due to removal of one-time discretionary funds.
- Local revenue from the Hillsborough Schools Foundation (HSF) is expected to decrease by \$200,000 in 2023-24 and remain static thereafter.

#### Expenditures:

- Salaries and benefits budget for the subsequent years include step and column adjustments and increase in STRS and PERS rates. Temporary staffing for Expanded Learning Opportunities Grant and the TK program have been removed in the subsequent years.
- Books and supplies budget is projected to decrease by 18% in 2023-24 due to the elimination of science curriculum textbook adoption.
- Services and other operating expenses include funds from Hillsborough Schools Foundation for playground improvement at four school sites. These expenditures have been removed in the following years.
- A scheduled replacement of maintenance vehicles is included in the capital outlay budget for 2022-23 and 2024-25.

The chart below shows the reserve levels and projected ending balance in the Unrestricted General Fund for the budget year and subsequent two fiscal years:

<b>General Fund - Unrestricted Only</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Estimated Beginning Balance	\$4,834,759	\$5,596,113	\$6,003,494
Revenues & Other Financing Sources	25,016,361	24,126,987	25,096,277
Expenditures & Other Financing Uses	24,255,007	23,719,606	24,038,035
Net increase (Decrease)	761,354	407,381	1,058,242
<b>Projected Ending Balance</b>	<b>\$5,596,113</b>	<b>\$6,003,494</b>	<b>\$7,061,736</b>
<i>Available Reserve for Economic Uncertainties (including unassigned balance in Fund 17)</i>	<i>\$5,672,776</i>	<i>\$5,487,011</i>	<i>\$6,545,253</i>
<b>Total Available Reserves Percentage</b>	<b>14.95%</b>	<b>14.87%</b>	<b>17.55%</b>

Salary Negotiations

The District has not settled negotiations with its certificated, classified, or administrator bargaining units for the 2022-23 fiscal year.

In accordance with Government Code 3547.5 and Assembly Bill 2756, the District must provide the County Office of Education with an analysis of cost and impact on the operating budget of the proposed salary settlement. The District is also required to submit the following documents reflecting the financial impact:

- 1) Disclosure of Collective Bargaining Agreement ten (10) days before the Governing Board acts on any tentative collective bargaining agreement (requires the signatures of the Superintendent and the Chief Business Official).
- 2) Multi-year spreadsheet reflecting the current and two subsequent fiscal years.
- 3) Budget revisions (if necessary, must be posted to the financial system prior to processing a salary settlement on the payroll system).

For future negotiations, the County Superintendent of Schools recommends the District conduct a careful and thorough pre-settlement analysis of any proposed collective bargaining agreement. Multi-year proposals require diligent review to ensure the District can sustain related costs and avoid the risk of insolvency.

Other Funds

The District maintains positive balances for all funds. Below is a summary of revenues, expenditures, and fund balances for other District funds shown in the 2022-23 Adopted Budget reports:

District Funds	Estimated Beginning Balance	Revenues	Expenditures	Other Sources (Uses)	2022-23 Projected Ending Balance
13 Cafeteria	\$0	4,065	104,065	100,000	\$0
14 Deferred Maintenance	\$0	100,000	100,000	-	\$0
17 Special Reserve – Other	\$587,904	5,242	-	-	\$593,146
20 Special Reserve – Postemployment Benefits	\$1,440,106	12,526	-	35,000	\$1,487,632
25 Capital Facilities	\$296,808	172,938	7,000	-	\$462,746
40 Special Reserve – Capital Projects	\$91,263	2,446	-	(80,000)	\$13,710

Cafeteria Fund (Fund 13) – An interfund transfer of \$100,000 from General Fund is projected to subsidize the food program. Revenue and expenditures budget will be updated at next reporting cycle once the Universal Meals Program is in full operation in the new school year.

Deferred Maintenance Fund (Fund 14) – Temporary revenue and expenditures budget setup for \$100,000 based on Governor’s May Revised budget.

There are no material changes in the District’s other funds compared to the 2021-22 Estimated Actuals.

**GENERAL COMMENTS:**

**Public Disclosure of Voter and Non-Voter-Approved Debt**

Districts are reminded to review the requirements for public disclosure of voter and non-voter-approved debt. Voter-approved debts include General Obligation Bonds and Capital Appreciation Bonds. Non-voter-approved debts include Certificates of Participation (COPs), Tax Revenue Anticipation Notes (TRANS), Bond Anticipation Notes (BANs), revenue bonds or any other debt instruments not requiring voter approval.

In accordance with AB2197, Education Code Sections 17150, 42133.5 and 17150.1, thirty (30) days prior to the District Governing Board’s approval, all districts, regardless of certification status, are required to submit to the County Superintendent of Schools and the County Auditor the following information (as applicable):

- 1) Repayment schedule for debt obligation.
- 2) Evidence of the district’s ability to repay the obligation.
- 3) Disclosure of General Obligation Bonds (GOBs) and Capital Appreciation Bond (CABs) Refinancing.

The County Superintendent of Schools and the County Auditor may comment publicly within 15 days of receipt of the information.

The 30-day advance notice will require careful planning by the school district in order to comply with the disclosure requirements. The use of debt proceeds is detailed under Education Code 42133.5, which prohibits school districts from using the proceeds from specific debt instruments for general operating purposes.

### FCMAT Oversight

The 2018-19 Budget Act has strengthened FCMAT's oversight responsibilities with required intervention in case of fiscally distressed school districts. At the request from the County Superintendent of Schools, FCMAT can now engage if the district has a disapproved budget, negative interim report certification, three consecutive qualified interim report certifications, downgraded interim certification by the county superintendent, or given a "lack of going concern" designation. Once engaged, FCMAT will coordinate with the County Superintendent and perform a fiscal health risk analysis and other oversight activities.

### **BUDGET CONSIDERATIONS:**

May Revise included a Cost-of-Living Allowance (COLA) of 6.56%; a proposed \$2.1 billion augmentation to increase the Local Control Funding Formula (LCFF) base grant and \$8 million one-time discretionary funding. When the budget was signed on June 27, 2022, the COLA remained and the additional increase to the LCFF base is 6.28%. The \$8 billion in one-time discretionary funding also remained and is labeled as the Learning Recovery Emergency Block Grant and will be distributed based on unduplicated pupil counts.

The 2022-23 Budget Trailer Bill (Assembly Bill [AB] 181) includes three significant changes to Average Daily Attendance (ADA) used for LCFF funding calculations to mitigate declining enrollment.

- Ongoing change to ADA used for LCFF funding calculation
  - LCFF funding is based on greater of:
    - Current year ADA
    - Prior year ADA or
    - Computed average ADA using the three most recent prior years' ADA
  - One-time allowance for classroom-based charter schools (for 2021-22 only)
    - LCFF funding is based on greater of:
      - Current year ADA or
      - Prior year ADA
- One-time attendance yield adjustment with conditions

Districts are advised to closely monitor changes in ADA and Unduplicated Pupil Percentage (UPP) - especially LCFF funded districts. ADA and UPP are heavily weighted factors in the LCFF calculation.

Districts should review their Original Budget projections and determine if the Learning Recovery Emergency Block Grant and the Arts, Music, and Instructional Materials Discretionary Block Grant are included. These two discretionary grants will be available to LCFF funded districts, community funded districts, and charter schools.

Based on Education Code 42127(h), if the Local Educational Agency (LEA) revises its budget to reflect the Budget Act, the revisions must be made available for the public review within forty-five (45) days from enactment. The 45-day timeline is August 11, 2022. This budget is not required to be submitted to the County Office of Education. The County Office would expect to see all the budget adjustments reflected in the First Interim Report which is due by December 15, 2022.

Enclosed is a summary of the District's financial profile. The District may find this document useful in analyzing fiscal trends.

We want to express our appreciation to the Board and district staff for the work that went into the development of this year's LCAP and Budget. The County Superintendent and staff will continue to provide technical and coaching assistance in the monitoring and development of the District's budget and LCAP.

Please be sure to contact us if you have any questions about our review of your district's 2022-23 LCAP or budget.

Sincerely,



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Enclosures

c: Louann Carlomagno, Superintendent, Hillsborough City School District  
Mathew Lindner, Director of Educational Services, Hillsborough City School District  
Joyce Shen, Chief Business Official, Hillsborough City School District  
Nancy Magee, County Superintendent of Schools, SMCOE  
Joy Dardenelle, Executive Director, District Improvement & Support, SMCOE  
Wendy Richard, Executive Director, District Business Services, SMCOE