



SAN MATEO  
COUNTY  
OFFICE OF  
EDUCATION

**Excellence and Equity in Education**

Nancy Magee • County Superintendent of Schools

September 22, 2022

Frank Barbaro  
President, Governing Board  
Millbrae Elementary School District  
555 Richmond Drive  
Millbrae, CA 94030

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

Dear Board President Barbaro:

The San Mateo County Office of Education (SMCOE) has completed its review of Millbrae Elementary School District's Local Control and 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 Millbrae Elementary 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.

**On the basis of the County Office review and analysis, the 2022-23 Budget adopted by the Governing Board on June 28, 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** Millbrae Elementary 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 decrease in General Fund revenues of approximately \$548,000 compared to the 2021-22 Estimated Actuals. The largest decrease is in federal revenues of \$778,000 due to reductions in Title I, II, and III as enrollment continues to decline. Also, one-time stimulus funds have been eliminated. State revenues only declined by \$176,000 due to the elimination of one-time funds. Local revenues project a decrease of \$263,000 as donations and carryover are removed from the adopted budget and will be adjusted once the funds have been received and books closed for the prior year. All three of these revenues were offset by an increase in the Local Control Funding Formula (LCFF) resources of \$670,000, which was due to the Cost-of-Living Adjustment (COLA) of 6.56%. The District will receive additional funds once the LCFF calculator is updated with all the 2022-23 State Enacted Budget changes. The increase of 6.28% on the base grant is not included.

The net increase in General Fund expenditures of approximately \$214,000 is largely due to salaries and benefits increasing based on prior year salary increases. Books and supplies are projected to decrease by \$51,000 due to the elimination of one-time funds. Services and other operating expenditures are anticipated to decrease by \$710,000 because of the removal of one-time funds and carryover.

Other sources and transfers decreased by \$115,000 due to the elimination of a transfer from the Special Reserve Fund (Fund 17). In 2022-23, the District budgets a \$95,000 transfer from the Special Reserve for Capital Projects (Fund 40) of interest gained in Fund 40.

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	\$30,557,793	\$30,010,188	(\$547,605)
B.	Proposed Expenditures	30,531,691	30,746,033	214,342
C.	Excess (Deficiency) of Expenditures over Revenues	26,102	(735,845)	(761,947)
D.	Other Sources/Uses and Transfers	210,362	95,391	(114,971)
E.	Total Increase (Decrease) in General Fund	236,464	(640,454)	(876,918)
F.	<b>Ending Balance – Unrestricted/Restricted</b>	<b>\$7,087,062</b>	<b>\$6,446,608</b>	<b>(\$640,454)</b>
G.	<b>Ending Balance – Unrestricted only</b>	<b>\$5,100,565</b>	<b>\$4,556,577</b>	<b>(\$543,988)</b>

Reserves in Excess of Minimum

Education Code 42127(a)(2)(B) requires the governing board of a school district 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 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 14, 2022 and provided the public an opportunity to review and discuss the components and reasons for the reserves. The total assigned and unassigned balances in the General Fund and Special Reserve Fund are approximately \$5.1 million. The amount in excess of the 3% minimum reserve is approximately \$4.2 million for the 2022-23 fiscal year. The excess is for anticipated 1% salary increase for 2022-23 and for the deficit projected in all three fiscal years. \$541,000 is set aside in the Special Reserve Fund (Fund 17) for technology and other district needs.

Cash Flow

The District submitted a cash flow projection for one year through an Excel format. The monthly cash balances were all positive for the projected year. The estimated ending cash

balance for June 30, 2023, is projected to be \$2.6 million. Millbrae does not anticipate to expect to apply for a Tax Revenue Anticipation Note (TRANs) for the budget year.

The County Superintendent recommends the District continue implementing best practices and monitoring regularly its cash position ensuring payroll and other monthly obligations are met. Also, it is requested the District submit a two-year cash flow projection with the First Interim Report.

### Multi-Year Projections (MYP)

The multi-year projection is one of the most important tools in determining the financial position of the district. 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:

- LCFF revenues for the 2022-23 fiscal year reflects a 6.56% COLA. For the two subsequent years, a 3.61% and 3.64% COLA was projected.
- The District is projecting to have declining Average Daily Attendance (ADA) for all three years. 2022-23 is projected to be 2,190, 2,098 for 2023-24 and 1,995 for 2024-25.
- LCFF revenue is projected to increase in 2022-23 and decrease due to the declining enrollment for the subsequent years.
- The current year reflects a reduction in federal funds and almost a 50% reduction in 2023-24 due to the elimination of one-time funds. For 2024-25, the District is projecting increased federal funding by 4%.
- State revenues were reduced in the current budget year as well as for 2023-24 due to the removal of one-time funds. In 2024-25, the District is projecting an increase in state revenue by 3%.
- The District recognizes local revenues as they are received. Carryover and one-time funds are excluded in the projections.
- Measure N is set to expire at the end of 2022-23 which produces \$97 per parcel or approximately \$610,000 annually. Measure N funding has been removed from the 2023-24 fiscal year.

#### Expenditures:

- Salaries and benefits include step and column adjustments estimated at 2% for certificated and classified employees in the current and subsequent years. A 1%

increase is projected in 2023-24 due to contingency language from last year’s negotiated settlement, as well as a \$546,000 reduction due to eliminated positions funded through one-time funds.

- Benefits are projected to increase to reflect the rising employer contribution rates for CalSTRS and CalPERS pension costs.
- Books and supplies are projected to be reduced in the current year as one-time funds are removed. For 2023-24, further reductions are anticipated due to the expiration of the Measure N parcel tax. An increase of 2% is projected for 2024-25.
- Service and other operating expenditures are projected to decrease in the current year and further reduce in 2023-24 due to the elimination of one-time funding. For 2024-25, a 2% increase is anticipated.
- Other outgo expenditures are project to remain flat in all three budget years.
- Indirect costs for 2024-25 are projected to increase significantly. It is recommended the District review this for accuracy.
- For the 2023-24 fiscal year, there are additional reductions projected of \$262,000 in the restricted funds due to the removal of one-time funds and carryover.

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>Unrestricted General Fund</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Estimated Beginning Balance	\$5,100,565	\$4,556,577	\$4,317,714
Revenues & Other Financing Sources	18,445,972	19,283,409	16,775,199
Expenditures & Other Financing Uses	18,989,960	19,522,272	19,957,551
Net increase (Decrease)	(543,988)	(238,863)	(3,182,352)
<b>Projected General Fund Ending Balance</b>	<b>\$4,556,577</b>	<b>\$4,317,714</b>	<b>\$1,135,362</b>
<i>Available Reserves Percentage Per MYP</i>	<i>11.7%</i>	<i>6.83%</i>	<i>6.72%</i>

Deficit Spending:

The multi-year projections show an increasing operating deficit in the General Fund growing from \$544,000 in 2022-23 to \$3.2 million in 2024-25 due to the expiration and removal of Measure N parcel tax funding. The District meets the minimum reserve requirement only due to the fund balance in the Special Reserve Fund (Fund 17).

**The County Office recommends the District incorporate all the new revenue and utilize the ADA options to maximize the LCFF revenue to reduce the projected deficit**

**spending. The County Superintendent encourages the District to develop a plan to mitigate deficit spending by reducing expenditures or increasing revenues in the current and subsequent years.**

### Parcel Tax

Measure N, the District's parcel tax, is expiring as of June 30, 2023. This funding provided \$97 per parcel or about \$600,000 in revenue and has been removed from the MYP for the 2023-24 fiscal year. The District is currently reviewing the possibility of renewing the parcel tax.

### Salary Negotiations

The District has not settled negotiations with its certificated and classified bargaining units for the 2022-23 fiscal year, however, there is contingency language from the prior year settlement that gives the bargaining units a 1% on-going salary increase. This amount is included in the adopted budget.

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 operating budget of any 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 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).

The County Superintendent encourages school districts to be cautious in their negotiations and to conduct thorough pre-settlement analysis of any proposed collective bargaining agreement to protect from cost increases beyond the scope of bargaining. Increases in CalSTRS and CalPERS contributions must also be considered to ensure affordability of proposed settlements.

Other Funds

The District maintains positive balance 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	\$336,656	1,269,829	1,293,224	-	\$313,261
17 Special Reserve – Other	\$534,140	6,400	-	-	\$540,540
19 Foundation Special Reserve	\$50,507	-	-	-	\$50,507
20 Special Reserve – Post Employment Benefits	\$2,117,923	20,000	-	-	\$2,137,923
25 Capital Facilities	\$900,335	66,000	-	-	\$966,335
40 Special Reserve – Capital Projects	\$13,511,450	653,000	197,500	(95,391)	\$13,871,559

Cafeteria Fund (Fund 13): The District is projecting a 10% decrease in revenues and approximately 7% decrease in expenditures for the 2022-23 fiscal year. The transfer from the General Fund is eliminated.

Special Reserve for Other Than Capital Outlay Projects Fund (Fund 17): The transfer out of Fund 17 is eliminated for 2022-23.

Fund 40 – Special Reserve Capital Projects reduced capital outlay expenditures by \$421,000 at Adopted Budget but will update the budget for continued modernization projects as projects are confirmed.

There are no significant changes in the other funds of the District compared to the 2022-23 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.

#### Fiscal Distress Notification

In compliance with Assembly Bill 2756, districts are required to submit to the County Superintendent of Schools any study, report, evaluation or audit that was commissioned by the district, the Superintendent of Public Instruction, or State control agencies that show evidence of fiscal distress under the Standards and Criteria adopted in Section 33127, or any report on the school district by the County Office, Fiscal Crisis and Management Assistance Team or any regional team created pursuant to subdivision (1) of Section 42127.8. The County Superintendent is required, in turn, to consider the findings of such report(s) in the analysis of the district's financial status (Reference: Education Code Section 42127.6).

#### FCMAT Oversight

In the 2020-21 Budget Act, FCMAT's oversight responsibilities have been strengthened by 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,



Kevin J. Bultema  
Deputy Superintendent Business Services  
[kbultema@smcoe.org](mailto:kbultema@smcoe.org)  
650-802-5511



Marco Chavez  
Deputy Superintendent Educational Services  
[mchavez@smcoe.org](mailto:mchavez@smcoe.org)  
650-802-5311

Enclosures

- c: Debra French, Superintendent, Millbrae Elementary School District  
Ralph Cramer, Chief Business Official, Millbrae Elementary School District  
Terry Brenner, Director of Educational and Administrative Services, Millbrae ESD  
Nancy Magee, County Superintendent of Schools, SMCOE  
Joy Dardenelle, Executive Director, District Improvement and Support, SMCOE  
Wendy Richard, Executive Director, District Business Services, SMCOE