



Excellence and Equity in Education

Nancy Magee • County Superintendent of Schools

September 24, 2022

Neil Layton
President, Governing Board
San Carlos Elementary School District
1200 Industrial Road, Unit 9
San Carlos, CA 94070

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

Dear Board President Layton:

The San Mateo County Office of Education (SMCOE) has completed its review of San Carlos 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 San Carlos 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 16, 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** San Carlos 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 \$6.2 million and an increase in expenditures of \$2.3 million compared to the 2021-22 Estimated Actuals.

The District was community funded in 2021-22 and is projected to flip to Local Control Funding Formula (LCFF) funded in 2022-23 due to higher enrollment and Cost of Living Allowance (COLA) of 6.56% per the Enacted State Budget. LCFF revenue sources decreased by \$4.8 million mainly due to the elimination of supplemental taxes. Federal revenue increased by \$537,000 from one-time COVID-19 funds, Special Education (SPED) Entitlement and SPED Discretionary grants. Unrestricted lottery, mandated costs block grant are projected to decrease while the In-Person Instruction (IPI) grant, the Expanded Learning Opportunities (ELO) grant, and the Educator Effectiveness Block grants have been removed, resulting in state revenue to decrease of \$1.6 million. Local revenue is projected to decrease by \$365,000. Donations and grants will be budgeted when received. Leases, rentals, and interest revenues are expected to increase.

Salaries and benefits expenditures increased by \$3.2 million due to step and column adjustments, a 2.5% salary increase, staffing adjustments, an increase in STRS, PERS contributions and health and welfare costs. Books and supplies and other operating expenses are projected to be reduced by \$728,000 due to removal of expenses associated with one-time COVID-19 funds and carryovers. Other outgo decreased by \$190,000 from the expiration of a computer lease and a reduction in use of county operated services.

Transfer to the General Fund from the Enterprise Fund (Fund 63) for \$400,000 has been removed. Transfers to the Deferred Maintenance Fund (Fund 14) and the Special Reserve Fund for Other Than Capital Outlay Projects (Fund 17) have been eliminated.

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

	General Fund – Unrestricted/Restricted	2021-22 Estimated Actuals	2022-23 Adopted Budget	Difference
A.	Anticipated Revenues	\$48,314,644	\$42,149,374	(\$6,165,270)
B.	Proposed Expenditures	43,215,789	45,496,514	2,280,725
C.	Excess (Deficiency) of Expenditures over Revenues	5,098,855	(3,347,140)	(8,445,995)
D.	Other Sources/Uses and Transfers	(2,612,947)	(774,147)	1,838,800
E.	Total Increase (Decrease) in General Fund	2,485,908	(4,121,287)	(6,607,195)
F.	Ending Balance – Unrestricted/Restricted	\$8,449,473	\$4,328,186	(\$4,121,287)
G.	Ending Balance – Unrestricted only	\$6,389,233	\$2,545,150	(\$3,844,083)

The state recommended minimum reserve for San Carlos Elementary School District is 3% of total General Fund expenditures. Based on the adopted budget, the District is projecting approximately \$3.5 million or 7.59% in available reserves which is a combination of the General Fund (Fund 01) and Special Reserve Fund (Fund 17).

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 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 9, 2022 and provided the public an opportunity to review and discuss the components and reasons for the reserves. The excess reserves amount is to cover for the following: revolving cash, prepaid assets, vacation accrual, supplemental carryover, unrestricted lottery-instructional materials carryover, universal meals program, technology carryover and economic uncertainties.

Cash Flow

The District submitted cash flow projections for 2022-23 and 2023-24 showing positive ending cash balances each month for both fiscal years. The projected cash balance at the close of the 2022-23 and 2023-24 fiscal years are estimated to be \$6.8 million and \$5.2 million, respectively.

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

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:

- The LCFF revenue sources are projected to increase by 10% and 2% in the subsequent years due to increase in enrollment and cost of living adjustments.
- Federal revenues are projected to decrease by 47% in 2023-24 from removal of one-time COVID-19 funds. It is expected to reduce further by 9% in 2024-25 from elimination of the Elementary and Secondary School Emergency Relief II (ESSER II) funds.
- State revenues is projected to remain constant in the subsequent years.
- Local revenues from leases, rental and interest are expected to increase. All one-time donations and grants have been eliminated in the current and subsequent years.

Expenditures:

- Salaries and benefits include costs of step and column adjustments, increase in STRS and PERS pension rates and health and welfare costs.
- Unrestricted salaries and benefits include additional staffing for Transitional Kindergarten (TK) and other positions added to meet the programmatic needs of the District. Temporary positions relating to one-time funds have been removed.
- Supplies are expected to increase in 2023-24 due to textbook adoption.
- Services are expected to decrease in 2023-24 due to removal of election cost and one-time COVID-19 funds. 3% increase in the cost of utilities and 5% increase for field maintenance are included each year.
- Other outgo and transfers out are expected to remain relatively flat.

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:

Unrestricted General Fund	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$6,389,233	\$2,545,150	\$1,57,618
Revenues & Other Financing Sources	20,934,014	23,430,063	23,820,760
Expenditures & Other Financing Uses	24,778,097	25,101,595	25,881,258
<i>Transfer in from Special Reserve (Fund 17)</i>	-	705,000	1,950,000
Net increase (Decrease)	(3,844,083)	(966,532)	(110,498)
Projected Ending Balance	\$2,545,150	\$1,578,618	\$1,468,120
Total Available Reserves	\$3,512,267	\$3,499,267	\$1,969,267
Total Available Reserves Percentage	7.59%	7.63%	4.23%

Deficit Spending:

Multi-year projections show operating deficits in the Unrestricted General Fund in each of the budget years.

The County Superintendent strongly urges the District to identify measures to address operating deficits in the General Fund to ensure educational programs are not adversely affected. It is also critical to maintain adequate reserves to provide the District flexibility for any unforeseen events or decreases in education funding in the future.

Salary Negotiations

The District settled negotiations with the certificated bargaining unit for 2.5% on schedule salary increase for 2022-23. The district has not settled with the classified, management and confidential units. A 2.5% salary increase is included in the adopted budget for all units.

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).

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 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
08 Student Activity	\$9,028	-	-	-	\$9,028
12 Child Development	\$-	76,169	49,892	-	\$26,277
13 Cafeteria	\$31,919	1,727,111	1,985,863	345,000	\$118,167
14 Deferred Maintenance	\$1,000,000	1,000	-	-	\$1,001,000
17 Special Reserve – Other Than for Capital Outlay	\$2,114,267	9,000	-	-	\$2,123,267
20 Special Reserve for Post-Employment Benefits	\$451,401	4,000	-	-	\$455,401
21 Building	\$920,496	50	1,170,000	1,170,000	\$920,546
25 Capital Facilities	\$810,252	202,913	86,202	-	\$926,963
35 County School Facilities	\$2,267,080	38,516	-	(1,170,000)	\$1,135,596
40 Special Reserve for Capital Outlay	\$908,919	800	-	429,147	\$1,338,866
63 Enterprise Fund	\$2,183,463	4,319,455	3,305,059	-	\$3,197,859

Cafeteria Fund (Fund 13) - Federal and state revenues from Child Nutrition programs are projected to increase and the expenditures budget has been adjusted in 2022-23 accordingly. Due to the implementation of the Universal Meals program and the need for equipment purchases, the transfer from the General Fund increased by \$250,000.

Enterprise Fund (Fund 63) – The District anticipates revenues from fee based preschool program only. SMARTE after school program has been dissolved. Expenditures budgets are adjusted accordingly.

There are no significant changes in the other funds for the budget year compared to the 2021-22 Estimated Actuals.

CHARTER SCHOOL

In 2019-20, the District approved to convert the dependent charter schools back to being part of the district. There remains one independent charter school - San Carlos Charter Learning Center (SCCLC). The District is the authorizing agency of this charter school and has the fiscal oversight responsibilities, particularly in the key areas of accounting, attendance reporting, budgeting, and payroll.

SCCLC is projecting operating surplus of \$28,000 in the current year, \$136,000 in 2023-24 and \$160,000 in 2024-25. The available reserves which include reserves for economic uncertainties and unassigned/unappropriated fund balances are projected to remain stable at approximately 33% of the total General Fund expenditures for the current and two subsequent fiscal years.

SCCLC submitted a two-year cash flow projection showing positive cash balances each month for the 2022-23 and 2023-24 fiscal years.

As an authorizing agency, the District must continue to closely monitor the charter school Local Control Accountability Plan and budget to ensure that sufficient funds are maintained to support all goals and actions included in the 2022-23 LCAP. The LCAP has been posted to the charter's website.

Should any circumstances arise related to the charter school that would negatively impact the financial condition of the District, please notify the County Office of Education as soon as possible.

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

At the request from County Superintendent of schools, Fiscal Crisis Management Assistance Team (FCMAT) can 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: Dr. Jennifer Frentress, Superintendent, San Carlos ESD
- Hans Barber, Assistant Superintendent, San Carlos ESD
- Christine Gong, Chief Financial Officer, San Carlos ESD
- Nancy Magee, County Superintendent of Schools, SMCOE
- Joy Dardenelle, Executive Director, District Improvement & Support, SMCOE
- Wendy Richard, Executive Director, District Business Services, SMCOE