



Excellence and Equity in Education

Nancy Magee • County Superintendent of Schools

September 22, 2022

Alison Proctor
President, Governing Board
San Mateo-Foster City Elementary School District
1170 Chess Drive
Foster City, CA 94404

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

Dear Board President Proctor:

The San Mateo County Office of Education (SMCOE) has completed its review of San Mateo-Foster City 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 Mateo-Foster City 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 23, 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** the San Mateo-Foster City Elementary School District's 2022-23 Adopted Budget with the following comments:

FINDINGS/COMMENTS:

General Fund Budget Summary

The 2022-23 Adopted Budget projects a net decrease in General Fund revenues of approximately \$656,000 and a net increase in expenditures of approximately \$12.3 million compared to the 2021-22 Estimated Actuals.

Local Control Funding Formula (LCFF) sources, which for the San Mateo-Foster City School District is comprised mostly of property taxes, is projected to increase 6.83% or \$7.2 million, for the budget year. Federal revenues are projected to increase by \$3.6 million due to carryover of one-time stimulus funds. State revenues are anticipated to decrease by \$7.4 million due to the elimination of one-time funds. Local revenues are projected to decrease by \$4.1 million. Carryover for local revenues are not included at budget adoption and will be updated as the revenues are received.

Salaries and benefits are projected to have a net increase of \$12.6 million based on a 3% salary increase, step and column placements and reduction in staff due to declining enrollment. Books and supplies are expected to decrease by \$4 million due to the elimination of one-time funding. Services and other operating expenditures are projected to increase by \$4.3 million due to carryover of one-time funding.

Transfers to the Special Reserve for Other Than Capital Outlay Fund (Fund 17) and to the Deferred Maintenance Fund (Fund 14) have increased by \$976,000 as compared to the prior year.

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	\$178,670,453	\$178,014,296	(\$656,157)
B.	Proposed Expenditures	173,833,927	186,122,176	12,288,248
C.	Excess (Deficiency) of Expenditures over Revenues	4,836,526	(8,107,880)	(12,944,406)
D.	Other Sources/Uses and Transfers	67,392	(1,095,697)	(1,163,089)
E.	Total Increase (Decrease) in General Fund	4,903,918	(9,203,577)	(14,107,495)
F.	Ending Balance – Unrestricted/Restricted	\$65,137,905	\$55,934,328	(\$9,203,577)
G.	Ending Balance – Unrestricted only	\$40,696,893	\$33,718,353	(\$6,978,540)

Reserve for Economic Uncertainties

The District is projecting approximately \$5.6 million or 3% in available reserves for economic uncertainties, which meets the minimum requirement.

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 9, 2022, and provided the public an opportunity to review and discuss the components and reasons for the reserves. The total assigned and unassigned balance in the General Fund and Special Reserve Fund is \$34.7 million. The amount in excess of the 3% minimum reserve is approximately \$29.1 million for the 2022-23 fiscal year. The excess reserves are for liabilities such as vacation accrual, one month of payroll, planned expenditures delayed by COVID-19, property and liability insurance, mold insurance, budget stabilization, future textbook adoption, technology refresh and upgrade, and additional reserves for unforeseen economic circumstances.

Cash Flow

The District submitted cash flow projections for 2022-23 and 2023-24 showing positive cash balances each month for both fiscal years. The projected ending cash balance at the close of each fiscal year is approximately \$48.1million and \$41.8 million, respectively.

The County Superintendent commends the District as it continues to implement best practices and monitor regularly its cash position to ensuring payroll and other monthly obligations are met.

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:

- Secured property tax revenues are estimated to be 6.83% for the current year and 3.33% for the two subsequent years.
- Federal funding increased in the current year due to carryover of one-time funds. For the two subsequent years, funding is projected to decrease by 30 to 40% due to the elimination of all one-time funding.
- State funding decreases in the current year and subsequent year due to elimination of one-time funds. For 2024-25, state revenues remain flat.
- Local revenues are projected to decrease in the current year and increase approximately 1% in each of the subsequent years.

Expenditures:

- Salaries and benefits budget include step and column adjustments estimated at 1.5% for all three budget years. The current year and 2023-24, include a 3% salary increase. For 2023-24, the District projects a reduction in certificated staff due to declining enrollment.
- CALSTRS, CALPERS and workers' compensation rates are expected to increase each budget year.
- Books and supplies are projected to decrease in the current year and further reduce in the two subsequent years as one-time funding is expended.

- Services and other operating expenditures are projected to increase in the current year and decrease in the two subsequent years.
- Transfers to other district funds are projected to decrease for the 2023-24 and 2024-25 fiscal years.

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	\$40,696,893	\$33,718,353	\$29,038,307
Revenues & Other Financing Sources	106,055,614	109,177,664	112,960,015
Expenditures & Other Financing Uses	113,034,154	113,857,710	115,363,227
Net increase (Decrease)	(6,978,540)	(4,680,046)	(2,403,212)
Projected General Fund Ending Balance	\$33,718,353	\$29,038,307	\$26,635,095
<i>Available Reserves Per MYP</i>	<i>\$11,233,072</i>	<i>\$10,949,196</i>	<i>\$10,894,954</i>
<i>Available Reserves Percentage Per MYP</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>

Deficit Spending

Deficit spending is projected for all three budget years; however, it is decreasing each year. SMCOE strongly encourages the District to review revenues and expenditures closely and adjust the budget to alleviate deficit spending.

Salary Negotiations

The District has settled a two-year agreement with the certificated and classified bargaining units, as well as management staff. This agreement is included in the MYP for the current and subsequent fiscal year.

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 ongoing costs of any 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
12 Child Development	\$922,344	4,184,717	4,172,717	-	\$934,344
13 Cafeteria	\$3,424,817	4,430,805	4,968,276	-	\$2,887,346
14 Deferred Maintenance	\$5,617,298	52,000	499,990	976,047	\$6,145,355
17 Special Reserve - Other	\$885,166	12,928	-	85,691	\$983,785
21 Building	\$88,899,512	624,500	48,000,000	-	\$41,524,012
25 Capital Facilities	\$5,809,447	1,064,500	330,844	-	\$6,543,103
35 County School Facilities	\$26,037	400	-	-	\$26,437
40 Special Reserve - Capital Projects	\$16,161,675	208,743	-	33,959	\$16,404,377
63 Enterprise Fund	\$3,349,838	7,220,470	7,197,840	-	\$3,372,468
71 Retiree Benefits	\$26,232,150	2,538,926	1,987,000	-	\$26,784,076
73 Foundation Trust	\$21,270	2,200	-	-	\$23,470

Child Development Fund (Fund 12): Revenues are projected to increase by 14% due to the increased rates for the preschool program. Expenditures have increased accordingly. The transfer to the General Fund (Fund 01) has been eliminated.

Cafeteria Fund (Fund 13): Food service sales are projected to decrease by 17% as compared with 2021-22 Estimated Actuals. Expenditures are projected to increase by 17% due to increased costs for staffing and food supplies.

Deferred Maintenance Fund (Fund 14): For the 2022-23 fiscal year, the District is projecting to transfer \$976,000 for deferred maintenance projects.

Building Fund (Fund 21): Interest is projected to decrease as funds are used to complete construction projects.

Special Reserve for Capital Outlay Projects Fund (Fund 40): Expenditures are projected to decrease by \$314,000 and will be updated at First Interim as District reviews the facilities master plan.

There are no significant changes in the other funds of the District 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.

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 shows 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

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: Diego R. Ochoa, Superintendent, San Mateo-Foster City Elementary School District
David Chambliss, Assistant Superintendent, Educational Services SM-FCESD
Patrick Gaffney, Deputy Superintendent & Chief Business Official, SM-FCESD
Nancy Magee, County Superintendent of Schools, SMCOE
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