

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

September 22, 2022

Carrie Du Bois
President, Governing Board
Sequoia Union High School District
480 James Avenue
Redwood City, CA 94062

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

Dear Board President Du Bois:

The San Mateo County Office of Education (SMCOE) has completed its review of Sequoia Union High 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 Sequoia Union High 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 22, 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** Sequoia Union High 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 \$4.5 million compared to the 2021-22 Estimated Actuals. Property tax revenues are projected to increase by 5% or by \$4.4 million. Federal revenues are projected to increase by \$920,000 from estimated carryover of Elementary and Secondary School Emergency Relief (ESSER) III funds. Mandate block grant revenues are projected to increase while the Career Technical Education Incentive grant program was eliminated. Overall state revenues are projected to decrease by \$7.7 million due to the removal of one-time COVID-19 funds and prior year carryover. Local revenues are projected to decrease by \$2.1 million. Private donations, grants and foundation commitments will be recorded when received.

General Fund expenditures are projected to decrease by approximately \$1.5 million compared to 2021-22 Estimated Actuals. Salaries and benefits expenditures are increased by \$1.3 million to include a 2.5 % salary increase for 2022-23 and step and column movement. Benefits costs are adjusted to reflect changes in pension contribution rates. Books and supplies expenditures are projected to decrease by \$4.1 million due to elimination of one-time COVID-19 funds and carryover from the prior year. Services and other operating expenditures are projected to increase by \$1.3 million mainly from investment in professional development activities such as contracted facilitators and travel and conferences costs. Capital outlay expenses are projected to be reduced by \$85,000.

A transfer to the Cafeteria Fund (Fund 13) is expected to increase by \$121,000 or 16%, while the transfer to the Charter School Special Reserve Fund (Fund 09) is projected to be decreased by \$172,000 or 37% in 2022-23.

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	\$210,129,161	\$205,618,486	(\$4,510,675)
B.	Proposed Expenditures	217,890,503	216,349,247	(1,541,256)
C.	Excess (Deficiency) of Expenditures over Revenues	(7,761,342)	(10,730,761)	(2,969,419)
D.	Other Sources/Uses and Transfers	(2,035,963)	(1,985,015)	50,948
E.	Total Increase (Decrease) in General Fund	(9,797,305)	(12,715,776)	(2,918,471)
F.	Ending Balance – Unrestricted/Restricted	\$22,576,226	\$9,860,450	(\$12,715,776)
G.	Ending Balance – Unrestricted only	\$18,890,652	\$8,844,138	(\$10,046,514)

The state-recommended minimum reserve for Sequoia Union High School District is 3% of total General Fund expenditures. Based on the adopted budget, the District is projecting approximately \$8.3 million or 3.81% in available reserves, of which \$6.6 million is for economic uncertainties.

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 8, 2022, and provided the public an opportunity to review and discuss the components and reasons for the reserves. The excess reserves are to protect against state and property tax revenues volatility, increasing STRS/PERS contribution rates, Special Education costs, buffer recent deficit spending and address the impact of one-time costs such as disasters and lawsuits.

Cash Flow

The District submitted two-year cash flow projections showing negative cash balances in the months of September and November in the current fiscal year and September thru November in the subsequent fiscal year. The projected cash balance at the close of the 2022-23 and 2023-24 fiscal years are estimated to be \$28 million and \$34 million, respectively.

As a Basic Aid district, local property taxes are the main source of revenues. Property taxes distributions usually occur in the months of December, April, and June. The District has \$24 million in Tax and Revenue Anticipation Notes (TRANs) to smooth out its cash flow needs.

The County Superintendent of Schools urges the District to continue to implement best practices and regularly monitor its cash position to ensure the District meets its financial obligations in a timely manner.

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:

- Property taxes are projected to increase by 5% in the current and subsequent years.
- Federal and state revenues are estimated to decline in 2022-23 and 2023-24 due to removal of one-time COVID-19 funds and prior year carryover.
- Local revenues are expected to decrease by 42% in 2023-24 and remain constant thereafter. Donations, grants, foundation commitments, and facilities leases and rentals will be recorded when received.

Expenditures:

- The salaries and benefits budget include step and column adjustments for both classified and certificated positions. Changes to pension contributions are also included.
- The District is projecting reduction in staffing in 2023-24 due to removal of temporary positions associated with COVID-19 funds and restricted programs.
- Reduction in books and supplies and services and other operating expenditures are due to removal of one-time COVID-19 funds. On-going expenditures have been adjusted by the California Price Index (CPI) each year.

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:

General Fund - Unrestricted Only	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$18,890,652	\$8,844,138	\$7,418,744
Revenues & Other Financing Sources	135,627,600	144,975,364	151,973,331
Expenditures & Other Financing Uses	145,674,114	146,400,758	150,531,998
Net increase (Decrease)	(10,046,514)	(1,425,394)	1,441,333
Projected Ending Balance	\$8,844,138	\$7,418,744	\$8,860,077
Total Available Reserves	\$8,319,043	\$6,893,649	\$8,334,982
Total Available Reserves Percentage	3.81%	3.37%	3.98%

Salary Negotiations:

The District settled negotiations with all bargaining units for a 2.5% increase on salary schedule for 2022-23. On January 1, 2023, the units will receive an additional 2% increase contingent on exiting CALPERS health and joining Claremont Partners JPA for health coverage.

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.

CHARTER SCHOOL

The District is the authorizing agency for four (4) charter schools: East Palo Alto Academy (EPAA), Everest Public High School (Everest), Summit Preparatory Charter High School (Summit) and KIPP Esperanza High School. As the authorizing agency, the District maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance reporting, budgeting, and payroll. The financial activity for EPAA is included in Fund 09 of the District's financial records.

The charts below show the reserve levels and projected ending balance in the General Fund for the budget year and subsequent two fiscal years for Everest, Summit and KIPP Esperanza:

Everest Public High School General Fund – Unrestricted/Restricted	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$1,979,850	\$1,677,833	\$1,820,105
Revenues & Other Financing Sources	5,236,387	5,533,481	5,700,438
Expenditures & Other Financing Uses	5,538,404	5,391,209	5,540,048
Net increase (Decrease)	(302,017)	142,272	160,390
Projected General Fund Ending Balance	\$1,677,833	\$1,820,105	\$1,980,495
<i>Available Reserves Percentage</i>	<i>30.29%</i>	<i>33.76%</i>	<i>35.75%</i>

Summit Preparatory Charter High School General Fund – Unrestricted/Restricted	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$4,752,097	\$5,409,592	\$5,565,731
Revenues & Other Financing Sources	6,850,948	6,184,412	6,106,218
Expenditures & Other Financing Uses	6,193,453	6,028,273	6,078,319
Net increase (Decrease)	657,495	156,139	27,899
Projected General Fund Ending Balance	\$5,409,592	\$5,565,731	\$5,593,630
<i>Available Reserves Percentage</i>	<i>87.34%</i>	<i>92.33%</i>	<i>92.03%</i>

KIPP Esperanza High School General Fund – Unrestricted/Restricted	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$1,869,802	\$1,871,802	\$1,871,802
Revenues & Other Financing Sources	5,795,909	6,710,695	7,053,040
Expenditures & Other Financing Uses	5,793,909	6,710,695	7,053,040
Net increase (Decrease)	2,000	0	0
Projected General Fund Ending Balance	\$1,871,802	\$1,871,802	\$1,871,802
<i>Available Reserves Percentage</i>	<i>31.51%</i>	<i>27.20%</i>	<i>25.88%</i>

The sponsoring district should carefully review the charter school budgets to ensure that sufficient funds are maintained to provide high quality education to all students.

Local Control and Accountability Plan (LCAP) report for East Palo Alto Academy, Everest, Summit Prep and KIPP Esperanza charter schools were approved in conjunction with their Adopted Budget and posted on the homepage of LEA’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.

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
08 Student Activity	\$2,248,339	-	-	-	\$2,248,339
09 Charter Schools	\$70,000	6,103,238	6,470,944	297,706	\$0
11 Adult Education	\$1,434,312	2,173,667	2,218,667	45,000	\$1,434,312
13 Cafeteria	\$208,655	2,216,275	3,232,210	842,309	\$35,029
14 Deferred Maintenance	\$1,421,034	40,000	840,000	800,000	\$1,421,034
20 Special Reserve- Post emp. Benefits	\$52,039	700	-	-	\$52,739
21 Building	\$239,647	-	-	-	\$239,647
25 Capital Facilities	\$7,443,036	2,548,702	129,886	-	\$9,861,852
35 County School Facilities	\$32,690,845	376,305	376,305	-	\$32,690,845
40 Special Reserve – Capital Projects	\$7,026,069	310,481	310,481		\$7,026,069

Adult Education Fund (Fund 11) – Other state revenue from the Adult Education program is projected to decrease by 5%. Expenditures are reduced to balance the budget.

Cafeteria Fund (Fund 13) – Federal and state revenues from the Child Nutrition Programs are projected to decrease. Accordingly, the expenditures budget has been adjusted for 2022-23.

Building Fund (Fund 21) – 2021-22 is the final year of the bond fund and all construction projects are expected to be completed by the end of the fiscal year. All future projects will be budgeted when identified.

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.

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

At the request from the County Superintendent of Schools, 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.

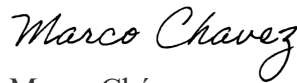
We want to express our appreciation to the Board and district staff for the work that went into the development of this year's LCAP and Budget. The County Superintendent and staff will continue to provide technical and coaching assistance in the monitoring and development of the District's budget and 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. Darnise Williams, Superintendent, Sequoia Union HSD
Bonnie Hansen, Assistant Superintendent of Educational Services, Sequoia Union HSD
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