



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

September 22, 2022

John C. Baker
President, Governing Board
South San Francisco Unified School District
398 B Street
South San Francisco, CA 94080

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

Dear Board President Baker:

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

FINDINGS/COMMENTS:

General Fund Budget Summary

General Fund revenue is projected to decrease by approximately \$387,000 in comparison to the 2021-22 Estimated Actuals. LCFF revenue sources are projected to increase by \$7.3 million mainly from secured property taxes and community redevelopment funds. Federal revenues are projected to be reduced by \$10.7 million due to removal of one-time COVID-19 funds. Other state revenues are projected to increase by \$2.6 million. Mandated Block Grant and unrestricted lottery increased while Child Nutrition programs and the Career Technical Education Incentive Grant will be reduced. All one-time COVID-19 state funds have been removed. Lease and rentals and other local revenue are projected to increase by \$384,000.

General Fund expenditures are projected to decrease by \$20 million compared to 2021-22 Estimated Actuals. Salaries budgets include cost of step and column adjustments. Benefits costs are adjusted to reflect changes in pension contribution rates and health and welfare costs increases. Books and supplies expenditures are projected to reduce by 82% due to removal of expenses associated with one-time COVID-19 funds. District carryovers are not budgeted until the books are closed for the prior fiscal year. Services and other operating costs are reduced by 17% mainly due to decrease in professional and consulting services. Construction projects are expected to be completed in the prior year resulting in a reduction in capital outlay expenditures by 22%. Transfers to the Child Development Fund has been eliminated and projected to be reduced to the Special Reserve Fund.

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	\$135,923,789	\$135,536,401	(\$387,388)
B.	Proposed Expenditures	157,096,355	137,205,146	(19,891,209)
C.	Excess (Deficiency) of Expenditures over Revenues	(21,172,566)	(1,668,745)	19,503,821
D.	Other Sources/Uses and Transfers	(1,632,091)	(1,486,699)	145,392
E.	Total Increase (Decrease) in General Fund	(22,804,657)	(3,155,444)	19,649,213
F.	Ending Balance – Unrestricted/Restricted	\$26,040,099	\$22,884,655	(\$3,155,444)
G.	Ending Balance – Unrestricted only	\$20,446,266	\$17,294,130	(\$3,152,136)

The state-recommended minimum reserve for South San Francisco Unified School District is 3% of total General Fund expenditures. Based on the adopted budget, the District is projecting approximately \$7.4 million or 5.36% in available reserves, of which \$6.9 million is for economic uncertainties.

The Special Reserve Fund (Fund 17) has a fund balance of \$16.4 million that is set aside for other assignments and is not included in the calculation of available reserves.

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 reserve balances. Total assigned and unassigned ending balance in excess of state-recommended reserve level is \$29.3 million. The excess reserve amount is set aside for projected STRS/PERS increases for 2024-25 and 2025-26, property tax litigation repayment, site discretionary funds carryover for 2021-22, future replacement of student electronic devices, Wellness Counselors and Mental Health Coordinators, funds to cover three months of payroll, balance to address deficit spending in 2023-24 and 2024-25 and reserve for insurance deductible for property claims.

Cash Flow

The District submitted cash flow projections for 2022-23 and 2023-24 showing negative balances in the months of October and November 2023 and March 2024. The projected cash balance at the close of 2022-23 and 2023-24 fiscal year is estimated to be \$35.5 million and \$30.8 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:

- Property taxes are expected to increase by 4% in 2022-23 and 2023-24, and by 5% in 2024-25. Community Redevelopment funds (RDA) are projected to increase by 20% in the current year and remain constant thereafter.
- The District is projecting a declining trend in enrollment of 2% each year.
- All one-time stimulus funds and carryover have been removed in 2022-23. One-time discretionary funding of \$5 million is budgeted in state revenues in 2022-23 and has been removed in the subsequent years.
- Federal, state, and local revenues are projected to be flat funded in the subsequent years.

Expenditures:

- Salaries and benefits expenses include step and column adjustments estimated at 1.5% for certificated and classified employees. Changes to pension contribution rates are also included.
- Reduction in books and supplies and services and other operating expenditures are due to elimination of one-time COVID-19 funds and carryover in the current year. On-going expenditures have been adjusted for inflation and unforeseen circumstances in the subsequent years.
- The District projects to continue contribution to Special Education, Transportation and Routine Restricted Maintenance programs. The Deferred Maintenance transfer is discontinued in 2023-24 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:

General Fund – Unrestricted Only	2022-23	2023-24	2024-25
Estimated Beginning Balance	\$20,446,266	\$17,294,130	\$11,831,778
Revenues & Other Financing Sources	85,100,528	83,695,078	85,912,172
Expenditures & Other Financing Uses	88,252,664	89,157,430	89,898,019
Net increase (Decrease)	(3,152,136)	(5,462,352)	(3,985,847)
Projected Ending Balance	\$17,294,130	\$11,831,778	\$7,845,931
<i>Total Available Reserves</i>	<i>\$7,429,030</i>	<i>\$7,085,330</i>	<i>\$7,227,360</i>
<i>Total Available Reserves Percentage</i>	<i>5.36%</i>	<i>5.00%</i>	<i>5.00%</i>

Deficit Spending

The District is projecting deficit spending in all three budget years. Compared to the Second Interim Report, the deficit spending has been reduced by \$7.3 million. The District implemented a budget reduction plan in the current year and is being conservative in property tax projections for the subsequent years. Should additional revenues not materialize, the District will need to make further budget reductions in the future.

The District should identify and implement measures to address operating deficits and maintain adequate reserves to provide the District flexibility for any unforeseen events in the future years.

Community Funded Status

The multi-year projections submitted at Adopted Budget do not show a change in the District’s funding status in the subsequent two fiscal years. There are fiscal impacts and potential funding reductions when a district switches from Community Funded to Local Control Funding Formula (LCFF) funded status.

The District is the largest recipient of Redevelopment Property Tax Trust Fund (RPTTF) Residual among the school districts in San Mateo County. The District’s total property taxes for the current year based on the 2021-22 (P-2) report are approximately \$105 million of which RPTTF residual allocation is approximately \$25 million or 24% of the total taxes.

This RPTTF residual is currently keeping the District in community funded status. The District could potentially transition between Community Funded and LCFF funded status with changes in the LCFF components such as increase in LCFF base grant, decline in enrollment, unduplicated pupil count, and property tax allocations.

The County Superintendent urges the District to carefully review the assumptions used in the adopted budget and MYP projections and make revisions, as necessary.

Salary Negotiations:

The District has not settled negotiations with any 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 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 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
08 Student Activity	\$886,152	975,500	865,500	-	\$996,152
11 Adult Education	\$1,664,206	1,373,818	1,545,928	-	\$1,492,096
12 Child Development	\$300,293	3,524,494	3,511,193	(13,301)	\$300,293
13 Cafeteria	\$207,790	4,380,028	4,380,028	-	\$207,790
14 Deferred Maintenance	\$4,414,001	2,422,944	1,851,000	-	\$4,985,945
17 Special Reserve – Other	\$16,222,421	148,000	-	-	\$16,370,421
21 Building	\$5,262,239	50,000	-	-	\$5,312,239
25 Capital Facilities	\$6,487,284	560,000	88,000	-	\$6,959,284
35 County School Facilities	\$1,889,318	20,000	-	-	\$1,909,318
40 Special Reserve - Capital Projects	\$3,177,455	34,300	2,330,295	1,500,000	\$2,381,460
73 Foundation Trust	\$479,512	4,436	4,800	-	\$479,148

Adult Education Fund (Fund 11) –The transfer from General Fund for \$161,000 was eliminated.

Cafeteria Fund (Fund 13) – Federal revenue from Child Nutrition program is projected to increase by 20%. Accordingly, expenditure budget is adjusted.

Deferred Maintenance Fund (Fund 14) – Capital outlay expenditures reduced by \$4.8 million as technology infrastructure project is near completion. Any projects not completed by the end of this year will accounted for at First Interim.

County School Facilities Fund (Fund 35) – State revenue from school facilities apportionment for \$4 million has been removed and capital outlay expenditures will be budgeted as projects are identified.

There are no other significant 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.

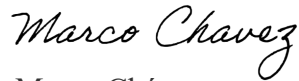
We want to express our appreciation to the Board and district staff for the work that went into the development of this year's LCAP and Budget. The County Superintendent and staff will continue to provide technical and coaching assistance in the monitoring and development of the District's budget and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

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