



**Excellence and Equity in Education**

Nancy Magee • County Superintendent of Schools

September 22, 2022

Mary Beth Alexander  
President, Governing Board  
Cabrillo Unified School District  
498 Kelly Avenue  
Half Moon Bay, CA 94019

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

Dear Board President Alexander:

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

### FINDINGS/COMMENTS:

#### General Fund Budget Summary

The 2022-23 Adopted Budget shows a decrease in General Fund revenues of approximately \$672,000 and a decrease in expenditures of approximately \$1.8 million compared to the 2021-22 Estimated Actuals.

Property taxes are projected to grow by \$1.2 million or 4% over the prior year. Federal revenue is expected to decrease by \$791,000 primarily due to elimination of one-time COVID-19 funds. State revenue is projected to be reduced by \$408,000 from removal of prior year carryover and a reduction in the Career Technical Education Incentive grant. Local revenue is projected to decrease by \$633,000. Donations and grants are budgeted when awarded or received.

Salaries and benefits expenditures include step and column adjustments, increases in PERS and STRS pension costs, increase in health and welfare costs and adjustments due to retirement and attrition. A one-time off schedule payment of \$2,000 per employee is removed in 2022-23. Overall salaries and benefits are projected to be decreased by \$344,000. Books and supplies expenditures are reduced by \$449,000 due to removal one-time COVID-19 funds and a reduction in textbooks and core curriculum materials. Services and other operating expenses are expected to be reduced by approximately \$906,000 mainly in professional consulting, repairs and non-capitalized equipment costs. Capital outlay for equipment is reduced by \$77,000.

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	\$43,694,037	\$43,022,007	(\$672,030)
B.	Proposed Expenditures	45,577,725	43,801,302	(1,776,423)
C.	Excess (Deficiency) of Expenditures over Revenues	(1,883,688)	(779,295)	1,104,393
D.	Other Sources/Uses and Transfers	(350,000)	(350,000)	-
E.	Total Increase (Decrease) in General Fund	(2,233,688)	(1,129,295)	1,104,393
F.	<b>Ending Balance – Unrestricted/Restricted</b>	<b>\$5,930,509</b>	<b>\$4,801,214</b>	<b>(\$1,129,295)</b>
G.	<b>Ending Balance – Unrestricted only</b>	<b>\$4,352,289</b>	<b>\$2,641,746</b>	<b>(\$1,710,543)</b>

The state-recommended minimum reserve for Cabrillo Unified School District is 3% of total General Fund expenditures. Based on the adopted budget, the District is projecting approximately \$2.7 million or 6.05% in available reserves, of which \$1.3 million is for economic uncertainties.

The Special Reserve Fund for Other Than Capital Outlay Projects (Fund 17) ending balance of \$76,000 is included as part of the reserve calculation.

Reserves in Excess of Minimum

Education Code 42127(a)(2)(B) requires the governing board of a school district to 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 August 11, 2022, and provided the public an opportunity to review and discuss the components and reasons for the reserves. The excess reserve amount is set aside for economic uncertainties.

Cash Flow

The District submitted cash flow projections for 2022-23 and 2023-24. The projection shows negative cash balances for the months of September to November in the current fiscal year and for August to November and March in the subsequent fiscal year. The projected ending cash balance is estimated to be \$4 million each year.

The District has applied for a Tax Revenue Anticipation Note (TRAN) in the amount of \$5 million to address cash flow.

Cash monitoring is critical in maintaining fiscal solvency. The District should continue to implement best practices and monitor its cash position regularly.

### 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 projected to increase by 4% in the current and subsequent years.
- Based on the demographic study, the District is projecting a decline in enrollment and average daily attendance (ADA) in the current and subsequent years.
- Federal and state revenues are expected to decrease in 2023-24 due to the removal of one-time American Rescue Plan (ARP) funds, the In-Person Instruction (IPI) grant and the Expanded Learning Opportunities (ELO) grant and remain constant thereafter.
- Local revenues are reduced in 2022-23 and projected to be flat in the subsequent years.

#### Expenditures:

- Salaries and benefits budget include step and column adjustments estimated at 2% for certificated and classified employees.
- Health and welfare benefits costs are projected to increase by 5% each year. Changes to pension contribution rates are also included.
- Books and supplies and other operating expenditures are expected to decrease in 2023-24 due to removal of one-time COVID-19 funds and remain constant in the subsequent years.
- Maintenance equipment replacement is removed in 2023-24 reducing capital outlay by 21%.

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>General Fund – Unrestricted Only</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
Estimated Beginning Balance	\$4,352,289	\$2,641,746	\$1,747,730
Revenues & Other Financing Sources	25,413,089	26,686,222	27,561,754
Expenditures & Other Financing Uses	27,123,632	27,580,238	27,908,766
Net increase (Decrease)	(1,710,543)	(894,016)	(347,012)
<b>Projected Ending Balance</b>	<b>\$2,641,746</b>	<b>\$1,747,730</b>	<b>\$1,400,718</b>
<i>Total Available Reserves (including unassigned balance in Fund 17)</i>	<i>\$2,672,945</i>	<i>\$1,778,930</i>	<i>\$1,431,918</i>
<b>Total Available Reserves Percentage</b>	<b>6.05%</b>	<b>4.05%</b>	<b>3.21%</b>

Deficit Spending

**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 has not settled salary 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 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 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:

<b>District Funds</b>	<b>Beginning Balance</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Other Sources (Uses)</b>	<b>2022-23 Ending Balance</b>
08 Student Activity Fund	\$146,547	-	-	-	\$146,547
11 Adult Education Fund	\$184,601	402,810	366,625	-	\$220,786
12 Child Development Fund	\$959	239,401	239,401	-	\$959
13 Cafeteria Fund	\$32,295	656,557	989,594	350,000	\$49,258
14 Deferred Maintenance	\$240	3	-	-	\$243
17 Special Reserve Fund	\$75,300	900	-	-	\$76,200
21 Building Fund	\$34,339,146	400,000	1,848,628	-	\$32,890,518
25 Capital Facilities Fund	\$1,946,986	235,000	14,484	-	\$2,167,502

Child Development Fund (Fund 12) - State Preschool revenue is projected to decrease by 17%. Salaries and benefits expenditures budget was adjusted accordingly.

Cafeteria Fund (Fund 13) – Child Nutrition program revenue is expected to reduce by \$32,000. Certificated salaries were reduced accordingly.

Building Fund (Fund 21) – Capital outlay budget will be setup as construction projects are 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.



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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. Sean McPhetridge, Superintendent, Cabrillo USD  
Leticia Bhatia, Assistant Superintendent Curriculum & Instruction, Cabrillo USD  
Jesús J Contreras, Chief Business Officer, Cabrillo USD  
Nancy Magee, County Superintendent of Schools, SMCOE  
Joy Dardenelle, Executive Director, District Improvement & Support, SMCOE  
Wendy Richard, Executive Director, District Business Services, SMCOE