



**SAN MATEO
COUNTY
OFFICE OF
EDUCATION**

Excellence and Equity in Education

Nancy Magee • County Superintendent of Schools

February 24, 2021

Elizabeth Bredall
President, Governing Board
Pacifica School District
375 Reina Del Mar Avenue
Pacifica, CA 94044

RE: 2020-21 First Interim Report and Budget Overview for Parents Report

Dear Ms. Bredall:

The San Mateo County Office of Education (SMCOE) has completed its review of Pacifica School District's Budget Overview for Parents Report and First Interim Report for the 2020-21 fiscal year pursuant to Education Codes 42127 and 52046.1.

A. Budget Overview for Parents

California Education Code (EC) Section 52064.1 requires each school district and charter school (LEA) to develop the Local Control Funding Formula (LCFF) Budget Overview for Parents in conjunction with the LCAP by July 1 of each year. However, this year Senate Bills 98 and 820 require the Budget Overview for Parents to be prepared in conjunction with the First Interim Report. The report must include:

- The specific amount of federal funds allocated to the LEA under the Coronavirus Aid, Relief, and Economic Security Act (CARES).
- The total budgeted expenditures in the Learning Continuity and Attendance Plan (LCP).
- The total budgeted expenditures that contribute to increasing or improving services for unduplicated pupils.

The San Mateo County Superintendent of Schools has reviewed the Budget Overview for Parents for the 2020-21 school year, and acknowledges all requirements have been met, including governing board adoption in conjunction with the First Interim and posting of the report on the homepage of the LEA's website.

B. First Interim Financial Report

On the basis of our review and analysis, the First Interim Financial Report approved by the Board on November 18, 2020 appears to reflect adequately the financial and budgetary status of

the District and is consistent with the state's criteria and standards. **The District has submitted a qualified certification which means the District has certified it may not meet its financial obligations for the current or subsequent two fiscal years.**

Based on information known at the time of this report, the County Superintendent concurs with the District's qualified certification with the following comments:

GENERAL FUND:

The General Fund is the main operating fund of the District. Revenues increased by \$1.7 million while expenditures increased by \$2.1 million compared to Adopted Budget. The increase in revenues was largely due to \$1.2 million in Federal COVID-19 funds (ESSER, GEER and CR). \$300,000 in State COVID-19 funding (LLM) was also added at First Interim. Due to calculation adjustments to the Education Protection Account (EPA), LCFF funding has increased by \$200,000.

The increase in expenditures was mainly due to adjustments in supplies by \$700,000 and services by \$1.4 million. Supplies increased due to COVID-19 funding and carryover funds. Other operating services increase due COVID-19 funding and increase in legal fees and insurance deductibles stemming from claims. Transfers to the Cafeteria Fund (Fund 13) increased by \$200,000.

Below is a comparison of revenues and expenditures in the General Fund from the Adopted Budget to the First Interim reporting period:

	General Fund – Unrestricted/Restricted	2020-21 Adopted Budget	2020-21 First Interim	Difference
A.	Anticipated Revenues	\$31,686,537	\$33,358,919	\$1,672,382
B.	Proposed Expenditures	32,837,095	34,976,303	2,139,208
C.	Excess (Deficiency) of Expenditures over Revenues	(1,150,558)	(1,617,384)	(466,826)
D.	Other Sources/Uses and Transfers	525,000	325,000	(200,000)
E.	Total Increase (Decrease) in General Fund	(625,558)	(1,292,384)	(666,826)
F.	Ending Balance – Unrestricted/Restricted	2,180,909	1,514,083	(666,826)
G.	Ending Balance – Unrestricted only	1,669,173	1,208,765	(460,408)

Deficit Spending

Deficit spending has grown by \$667,000 from Adopted Budget. The District plans to implement budget reductions in 2021-22 to achieve financial stability. These will be proposed to the Board with the Second Interim Report.

Reserve for Economic Uncertainties

The minimum state-recommended reserve level for a district this size is 3% of total projected General Fund expenditures or \$1 million. Based on the First Interim Report, the District has a 3.41% available reserve or \$1.2 million.

Cash Flow

The District submitted two-year cash flow projections for the General Fund showing no negative cash balances in the current year. The District is planning on receiving a \$6 million Tax Revenue Anticipation Note (TRAN) from the California School Finance Authority (CSFA) to cover the months impacted by state deferrals - February through June of 2021. Negative balances for the months of July through November are projected for the subsequent year. The District projects positive ending cash balances for the current and subsequent fiscal years of \$778,000 and \$949,000, respectively.

Cash monitoring is critical in maintaining fiscal solvency. The County Superintendent strongly urges the District to carefully review and monitor receipts and disbursements to ensure cash balances are available to meet monthly obligations.

Multi-Year Projections (MYP)

The multi-year projection is one of the most important tools in determining the financial position of the district. 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 assumptions used by the District appear reasonable. The LCFF revenues are calculated based on funding rates provided by the State of California Department of Finance (DOF) and other assumptions reflected on the Fiscal Crisis Management and Assistance Team (FCMAT) calculator.

For the cost-of-living-adjustment (COLA), the District projects 0% for the current year and two subsequent years. The LCFF-funded ADA used by the District is projected to decline by 27 in the subsequent year and expected to increase by 28 in the third year out since students are projected to return as the pandemic subsides. LCFF revenues are projected to decrease by 1.0% in 2021-22 and increase by 2.96% in 2022-23.

The District continues to transfer in funds from Special Reserve for Other Than Capital Outlay Projects (Fund 17) in 2020-21 and 2022-22, but not 2022-23. \$625,000 is projected to be transferred in 2020-21 then drops to \$142,000 in 2021-22, leaving the fund with a projected ending fund balance of \$148,000 for June 30, 2023. **The District is cautioned about using one-time funding sources to balance the budget as these are temporary fixes and do not address the District's underlying structural problems.** Without the

proposed transfers, the District would incur even deeper operating deficits in the Unrestricted General Fund and reserves would drop even further below the minimum standard.

The chart below shows Unrestricted General Fund revenues, expenditures, fund balance, and reserve levels for the current and subsequent two fiscal years:

General Fund – Unrestricted Only	2020-21	2021-22	2022-23
Beginning Balance	\$1,787,734	\$1,208,765	\$416,125
Revenues & Other Financing Sources	22,149,999	21,307,756	21,825,109
Expenditures & Other Financing Uses	22,728,968	21,691,703	22,412,976
<i>Budget Reductions - FY 2021-22</i>	<i>0</i>	<i>408,693</i>	<i>0</i>
Net increase (Decrease)	(578,969)	(792,640)	(587,867)
Projected Ending Balance	1,208,765	416,125	(171,742)
<i>Available Reserve for Economic Uncertainties (includes unassigned balance in Spec Rsv Fund)</i>	<i>1,201,265</i>	<i>408,625</i>	<i>(179,242)</i>
<i>Available Reserves Percentage</i>	<i>3.41%</i>	<i>1.25%</i>	<i>-0.54%</i>

The District is able to make the minimum state standard for reserves in the current year, but not the subsequent years. The reserves are currently at 3.41% but decreases to 1.25% in 2021-22 and become negative 0.54% in 2022-23.

The District does plan to recommend reductions including eliminating 7.8 FTE and reductions in transportation staff (by attrition). **However, even with these reductions, the District's reserves are still far below the minimum requirement in the subsequent fiscal years. Additional \$800,000 budget reductions in 2021-22 will need to be implemented to meet the minimum reserve level. The County Office recommends the District continue to review and monitor the budget for reductions and or new revenue streams.**

OTHER DISTRICT FUNDS:

The District maintains positive balances for all funds. Below is a summary of revenues, expenditures, and fund balances for other District funds at First Interim:

District Funds	Beginning Balance	Revenues	Expenditures	Other Sources (Uses)	2020-21 Ending Balance
13 Cafeteria Fund	\$129,276	\$200,800	\$494,837	\$300,000	\$135,239
14 Deferred Maintenance	26,410	40,942	61,615	0	5,737
17 Special Reserve Fund	763,626	9,500	0	(625,000)	148,126
20 Special Rsrv - Post-emp. Benefits	891,285	8,000	0	0	899,285
21 Building Fund	17,774,318	232,245	2,754,763	0	15,251,800
25 Capital Facilities Fund	536,678	58,000	0	0	594,678
40 Spc Rsv-Capital Projects	3,742,999	288,000	1,044,449	0	2,986,550
53 Tax Override Fund	230,622	0	0	0	230,622

The Cafeteria Fund (Fund 13) shows significant decreases in federal and local revenues. The Child Nutrition Program decreased by \$135,000 and food service sales decreased by \$505,000. An additional \$200,000 is transferred from the General Fund as a contribution. The County Office recommends the District monitor Fund 13 to eliminate deficit spending.

The Building Fund (Fund 21) increased expenditures for activities related to the facilities master plan by \$1.1 million compared to the Adopted Budget.

There are no significant changes in other District funds from Adopted Budget to the First Interim.

INTERIM CERTIFICATION:

The District is advised to strictly adhere to the Education Code Section 42131 standards and criteria in the determination of a positive, qualified or negative certification of District's financial condition:

- A positive certification shall be assigned to any school district that, based on current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.
- A qualified certification shall be assigned to any school district that, based on current projections, may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

- A negative certification shall be assigned to any school district that, based on current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.

Plan/Requirements

With a qualified interim certification, the County Superintendent of Schools has outlined the following plan of action for the District that will remain in effect until further written notice.

- Assigned Denise Porterfield (Deputy Superintendent, Business Services Division) as the Fiscal Advisor.

At every reporting period, the District will be required to:

- Provide a written action plan that outlines measures taken and future steps to address the projected budget deficits. Specific details of the plan, as it relates to personnel information, can remain confidential.
- Provide a schedule of board meetings.
- Adhere to the non-voter approved debt requirements.
- Provide regular updates of staffing and FTE count.
- Provide Public Disclosure of Collective Bargaining Agreements in accordance with AB1200 to the County Office for any future negotiations.

STATUS OF COLLECTIVE BARGAINING NEGOTIATIONS:

The District has not settled negotiations with the certificated and classified bargaining units for the 2020-21 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 takes action 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).

The County Superintendent of Schools 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 proposed settlements.

LEARNING CONTINUITY AND ATTENDANCE PLAN (LCP)

The County Office recommends the District thoroughly review the budgeted expenditures for the LCP actions in the current year. An annual update for the LCP will require the District to identify material differences between planned and estimated actual expenses and provide meaningful explanations for any substantial variances to District stakeholders.

BUDGET RECOMMENDATIONS:

Barely half way through the prior year (2019-20), a global pandemic altered our way of life and significantly changed the delivery of education for our children. This situation is continuing for the current year 2020-21. School districts are challenged with planning for the start of in-person learning.

While the Enacted State Budget and subsequent trailer bills (SB98 and SB820) have held the average daily attendance (ADA) at the same level as 2019-20 P-2 ADA for the current year, districts are advised to closely monitor changes in ADA and unduplicated pupil percentage (UPP). ADA and UPP are heavily weighted factors in the LCFF calculation for future years. Community funded districts, which have additional funding from excess property taxes, are likewise cautioned to exercise fiscal prudence as operational costs may increase faster than revenues. It is important to manage fund balances and financial resources to maintain fiscal solvency and stability.

This year, 2020-21, districts received funds to assist with tackling COVID 19, distance learning, learning loss and the in-person learning of schools. Districts are advised to monitor their budgets very closely and should not be in a rush to spend down reserves.

LEAs should continue to follow these fundamental best practices:

(a) Structurally balanced budget: A budget that supports educational plans over multiple years.

(b) Reserves: The Government Finance Officers Association (GFOA) recommends a reserve balance based on an analysis of the types of risk being managed with reserves. A general guideline is a minimum of 17% or three months' worth of operational expenditures.

(c) Cash: The Fiscal Crisis and Management Assistance Team (FCMAT) emphasize the need to assess not only fund balance but also actual cash on hand. Enclosed is a summary of the District's financial profile.

We appreciate the cooperation and assistance provided by the District during the review process. If you have any questions, please feel free to contact me at 650.802.5511 or dporterfield@smcoe.org.

Sincerely,



Denise Porterfield
Deputy Superintendent, Business Services Division

Enclosures

c: Heather Olsen, Superintendent, Pacifica SD
Josephine Peterson, Chief Business Official, Pacifica SD
Nancy Magee, San Mateo County Superintendent of Schools, SMCOE
Wendy Richard, Executive Director, District Business Services, SMCOE

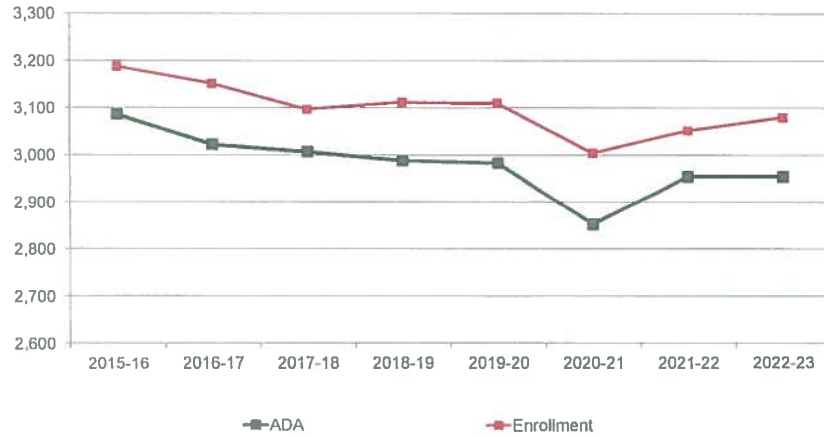
Pacifica Elementary School District
FINANCIAL PROFILE
FY 2020-21 First Interim

GENERAL FUND	Object Code	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	2019-20 Unaudited Actuals	2020-21 First Interim	2021-22 Projection	2022-23 Projection
REVENUES								
Revenue Limit/LCFF Sources	8010-8099	25,215,934	25,118,816	26,891,743	27,656,908	27,424,228	27,165,343	27,924,338
Federal Revenue	8100-8299	763,265	759,405	754,112	638,455	1,897,233	754,609	754,609
Other State Revenue	8300-8599	2,634,334	2,593,312	4,119,748	2,706,358	2,097,436	1,875,597	1,875,597
Other Local Revenue	8600-8799	2,248,153	2,188,037	2,066,487	2,105,817	1,940,022	1,940,022	1,940,022
Total Revenues		\$30,861,686	\$30,659,570	\$33,832,090	\$33,107,538	\$33,358,919	\$31,735,571	\$32,494,566
EXPENDITURES								
Certificated Salaries	1000-1999	12,609,170	12,624,991	12,835,259	12,482,778	12,552,778	11,925,936	12,114,227
Classified Salaries	2000-2999	4,679,147	4,630,777	4,667,125	4,433,742	4,317,545	4,277,051	4,341,814
Employee Benefits	3000-3999	8,990,800	9,763,598	10,868,826	10,293,593	9,932,989	9,921,938	10,232,606
Books & Supplies	4000-4999	761,912	634,189	696,424	722,668	1,689,760	901,967	827,790
Svcs & Oth Oper Exp	5000-5999	3,568,495	3,639,009	3,899,471	4,526,295	6,275,527	5,403,194	5,363,194
Capital Outlay	6000-6999	0	0	0	0	0	0	0
Other Outgo (excluding Transfers of Indirect/Direct Support Cost)	7100-7299	0	0	0	0	0	0	0
Direct Support/Indirect Cost 73xx	7400-7499	283,443	405,454	330,776	153,314	207,703	207,703	207,703
Total Expenditures	7300-7399	\$30,892,967	\$31,698,018	\$33,297,881	\$32,612,390	\$34,976,302	\$32,637,789	\$33,087,334
REVENUES LESS EXPENDITURES		(\$31,281)	(\$1,038,448)	\$534,209	\$495,148	(\$1,617,383)	(\$902,218)	(\$592,768)
OTHER SOURCES AND USES								
Interfund Transfers In	8900-8929	\$0	\$0	\$300,000	\$0	\$625,000	\$141,642	\$0
Interfund Transfers Out	7600-7629	\$412,000	\$0	\$56,000	\$306,000	\$300,000	\$100,000	\$100,000
Other Sources	8930-8979	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Uses	7630-7699	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contrib to Restr Proq	8980-8999	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL OTHER SOURCES AND USES		(\$412,000)	\$0	\$244,000	(\$306,000)	\$325,000	\$41,642	(\$100,000)
CHANGE IN FUND BALANCE		(\$443,281)	(\$1,038,448)	\$778,209	\$189,148	(\$1,292,383)	(\$860,576)	(\$692,768)
Beginning Fund Balance								
a) As of July 1 - Unaudited (F1c)	9791	3,320,839	2,877,558	1,839,110	2,617,319	2,806,467	1,514,084	653,508
b) Aud Adj/Restatements (F1d)	9793-9795	0	0	0	0	0	0	0
ENDING FUND BALANCE, June 30		\$2,877,558	\$1,839,110	\$2,617,319	\$2,806,467	\$1,514,084	\$653,508	(\$39,260)
COMPONENTS OF ENDING FUND BALANCE								
a) Nonspendable								
Revolving Cash	9711	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500
Stores	9712							
Prepaid Expenditures	9713							
All Others	9719							
b) Restricted	9740	\$748,098	\$663,646	\$1,170,478	\$1,018,733	\$305,318	\$237,382	\$132,481
c) Committed								
Stabilization Arrangements	9750							
Other Commitments								
d) Assigned								
Other Assignments	9780	\$155,512	\$0	\$181,204	\$0	\$0	\$0	\$0
e) Unassigned/Unappropriated								
Reserve for Economic Uncertainties	9789	\$1,183,315	\$1,167,964	\$1,000,616	\$1,780,234	\$1,201,266	\$408,625	\$0
Unassigned/Unappropriated	9790	\$783,133	\$0	\$257,521	\$0	\$0	\$1	(\$179,241)
Fund 17, REU and Unassigned/Unappropriated		\$ 723,045	\$ 733,161	\$ 733,161	\$ 763,627	\$ -	\$ -	\$ -
Enrollment (excl independent charter schools)		3,152	3,097	3,112	3,110	3,004	3,052	3,080
Actual ADA (excl ADA for independent charter schools)		3,022.02	3,007.26	2,988.12	2,982.88	2,852.25	2,953.85	2,953.75
Total Expenditures per ADA (incl trfs out & uses)		\$ 10,359	\$ 10,540	\$ 11,091	\$ 11,036	\$ 12,368	\$ 11,083	\$ 11,236
Total Revenues Per ADA		\$ 10,212	\$ 10,195	\$ 11,350	\$ 11,099	\$ 11,915	\$ 10,792	\$ 11,001

OTHER COMMENTS: 2020-21 First Interim Certification - Qualified

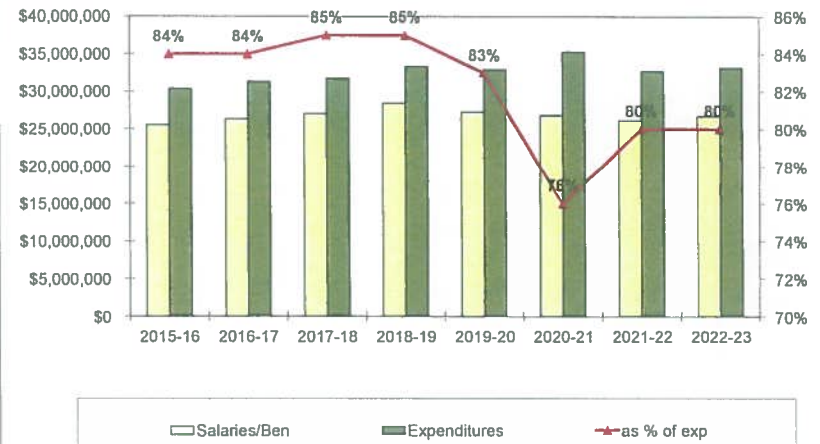
Pacifica Elementary School District
FINANCIAL PROFILE
FY 2020-21 First Interim

Enrollment vs Average Attendance

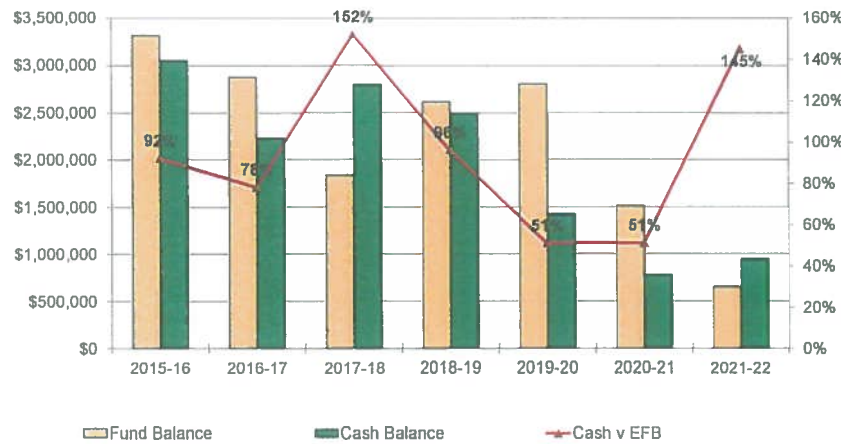


% = P2 ADA to CAPADS enrollment

Salaries & Benefits as % of Expenditures



Ending Fund Balance vs Cash Balance



Available Reserves - Funds 01 & 17

