



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

May 14, 2021

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

RE: 2020-21 Second Interim Financial Report

Dear Ms. Bredall:

In accordance with Education Code Section 42127, the San Mateo County Office of Education has examined the Second Interim Financial Report of Pacifica School District (District) for fiscal year 2020-21 to determine if it complies with the criteria and standards established pursuant to Education Code Section 42131.

On the basis of our review and analysis, the Second Interim Financial Report approved by the Board on March 10, 2021 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 positive certification which means the District has certified it will meet its financial obligations for the current and subsequent two fiscal years.**

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

GENERAL FUND:

The General Fund is the main operating fund of the District. Revenues increased by \$265,000 while expenditures increased by \$82,000 compared to First Interim. The increase in revenues was largely due to addition of Coronavirus Aid, Relief and Economic Act (CARES) funds. The expenditure adjustments were mainly in supplies and services such as software licenses for special education during distance learning.

Transfers in to the General Fund from Special Reserves – Fund 17 were reduced by \$325,000 due to the increased revenues.

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

	General Fund – Unrestricted/Restricted	2020-21 First Interim	2020-21 Second Interim	Difference
A.	Anticipated Revenues	\$33,358,919	\$33,623,946	\$265,027
B.	Proposed Expenditures	34,976,303	35,058,159	81,856
C.	Excess (Deficiency) of Expenditures over Revenues	(1,617,384)	(1,434,213)	183,171
D.	Other Sources/Uses and Transfers	325,000	-	(325,000)
E.	Total Increase (Decrease) in General Fund	(1,292,384)	(1,434,213)	(141,829)
F.	Ending Balance – Unrestricted/Restricted	1,514,083	1,372,254	(141,829)
G.	Ending Balance – Unrestricted only	1,208,765	1,114,767	(93,998)

Deficit Spending

Deficit spending has grown by \$142,000 from First Interim. The District plans to implement budget reductions in 2021-22 to achieve financial stability. These budget reductions were brought to the Board with the Second Interim Report. The reductions include reduced site allocations and staff reductions due to attrition.

Reserve for Economic Uncertainties

The minimum state-recommended reserve level for a district this size is 3% of total General Fund expenditures. Based on the Second Interim Report, the District has 4.5% available reserve or \$1.6 million.

Cash Flow

The District submitted two-year cash flow projections for the General Fund. The District will have negative cash balances in March of the current year and July through November in the subsequent year. \$6 million Tax Revenue Anticipation Notes (TRANs) from the California School Finance Authority (CSFA) to cover the months impacted by state deferrals has been issued by the District. The District projects positive ending cash balances for the current and subsequent fiscal years of \$115,000 and \$212,000, respectively.

Cash monitoring is critical in maintaining fiscal solvency. The County Superintendent strongly urges the District to carefully monitor cash flow 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. 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 assumptions used by the District appear reasonable. The Local Control Funding Formula (LCFF) revenues are calculated based on funding rates provided by the Department of Finance (DOF) and other assumptions reflected on the Fiscal Crisis Management and Assistance Team (FCMAT) calculator.

The Enacted State Budget and Senate Bills 98 and 820 have kept the average daily attendance (ADA) at the same level as 2019-20 P-2 ADA for the current year. Since the District is projecting declining enrollment, it is able to leverage the hold-harmless provision in 2021-22 and use the greater of the current or prior year ADA. Consequently, the 2021-22 ADA remains the same as 2020-21. Enrollment continues to drop and funded ADA is projected to decline by 74 ADA in 2022-23.

LCFF revenue increases by 3.56% in year two and 0.35% in year three due to the newly revised statutory cost-of-living allowance (COLA) projections based on the January release of the Governor's 2021-22 State Budget Proposal. The Governor is proposing a compounded LCFF COLA of 3.84% (2.31% for 2020-21 and 1.5% for 2021-22) and a statutory COLA of 1.5% for selected programs outside of the LCFF. The District projects 2.98% COLA for year three.

Expenditures are projected to decrease in 2021-22 by 2.4 million. Certificated salaries were adjusted by \$814,000 due to reducing certificated staff based on declining enrollment. Classified salaries decreased by \$107,000 based on staff attrition. Supplies dropped by \$788,000 and services decreased by \$872,000 primarily due to the elimination of one-time revenues.

Expenditures are expected to increase by approximately 2% in 2022-23. The increase of \$518,000 in expenditures was mainly seen in salaries and benefits due to 1.5% for step and column, and rising costs in benefits such as STRS and PERS.

At First Interim, the District projected a \$142,000 transfer from Fund 17 - Special Reserve in 2021-22, but the transfer has been eliminated at Second Interim due to budget reductions and projected increase in revenue. Deficit spending is eliminated in year two but returns in 2022-23.

The County Office recommends the District continue to review and monitor the budget closely as revised projections can have a serious impact on the District's reserves.

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	21,639,531	22,462,494	22,457,595
<i>Transfers In from Fund 17-Special Reserves</i>	<i>300,000</i>	<i>0</i>	<i>0</i>
Expenditures & Other Financing Uses	22,612,498	21,675,233	22,654,458
<i>Budget Reductions - FY 2021-22</i>	<i>0</i>	<i>408,693</i>	<i>0</i>
Net increase (Decrease)	(672,967)	378,568	(196,863)
Projected Ending Balance	1,114,767	1,493,335	1,296,473
<i>Available Reserve for Economic Uncertainties (includes unassigned balance in Spec Rsv Fund)</i>	<i>1,580,394</i>	<i>1,958,963</i>	<i>1,762,100</i>
<i>Available Reserves Percentage</i>	<i>4.47%</i>	<i>5.95%</i>	<i>5.27%</i>

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 Second Interim:

District Funds	Beginning Balance	Revenues	Expenditures	Other Sources (Uses)	2020-21 Ending Balance
13 Cafeteria Fund	\$129,276	\$222,468	\$506,449	\$300,000	\$145,295
14 Deferred Maintenance	26,410	40,942	61,615	0	5,737
17 Special Reserve Fund	763,627	9,500	0	(300,000)	473,127
20 Special Rsv - Post-emp. Benefits	891,286	8,000	0	0	899,286
21 Building Fund	17,774,318	532,245	3,681,322	0	14,625,241
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 a \$22,000 increase in revenue mainly due to an increase in State Child Nutrition Program funding. Expenditures for benefits increase by \$11,600.

The Special Reserve Fund (Fund 17) transfers out to the General Fund decreased by \$325,000 as more revenue was projected in the General Fund..

The Building Fund (Fund 21) increased local revenue by \$300,000 and services and capital outlay expenditures increased by \$926,000 for activities related to the facilities master plan.

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

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 agreements 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.

BUDGET RECOMMENDATIONS:

On March 5, 2021, Governor Newsom signed into law Assembly Bill 86 (AB86). This bill will give school districts over \$6.6 billion to assist in reopening schools by offering in-person instruction and expanded learning opportunities. (AB) 86 is part of the 2021-22 Proposed Budget presented by Governor Newsom in January, however it takes effect immediately. Also, in March, President Biden signed into law the American Rescue Plan, which will provide over \$170 billion for education.

The Governor's Proposed 2021-22 Budget includes a compound COLA of 3.84%, derived from the unfunded 2020-21 statutory COLA of 2.31% and an estimated 1.5% statutory COLA for 2021-22. The Governor's January budget proposal includes details to lessen the total cash deferrals in fiscal year 2021-22 and is proposed to defer only the June 2022 to July 2022 apportionment. It is important that every LEA continues to scrutinize every cash outflow and inflow for accurate cash flow projections leading into fiscal year 2021-22.

County offices of education continue to reinforce the need for adequate reserve levels. The Government Finance Officers Association, a national organization representing federal, state, and local finance officials, recommends school districts and other local governments maintain reserves of at least two months of operating expenditures (approximately a 17% reserve) to mitigate revenue shortfalls and unanticipated expenditures. The association further recommends all governments develop a formal policy regarding their minimum reserves and consider maintaining reserves larger than 17% if revenues or expenditures are especially volatile.

Given the current health and economic volatility, it is critical that decisions about reserve levels are made thoughtfully and deliberatively. Inadequate reserves force districts to react quickly, which can cause significant disruptions to student programs and employees.

Under the Governor's budget proposal and current law, traditional attendance accounting returns in 2021-22 with the assumption that all students will attend school in person. Assuming traditional attendance accounting returns, LEAs will be able to take advantage of the prior year ADA guarantee in the case of declining enrollment. For most school districts, 2020-21 ADA that becomes the prior year, is, in fact, 2019-20 ADA. Districts should nonetheless monitor enrollment carefully because the additional cushion in 2021-22 is offset by the recognition in 2022-23 of two years of ADA decline. Charter schools are not afforded the prior year guarantee and will be funded on current year ADA again beginning in 2021-22.

Given the continued economic uncertainties associated with the pandemic, all LEAs are encouraged to continue to develop multiple scenarios using the LCFF COLA planning factors as best case. LEAs that are prepared for both best and worst case budgets are better able to weather economic uncertainty.

The LCAP adoption cycle and related requirements are expected to return to a more normal cycle this spring. By June 30, 2021, LEAs will need to adopt an LCAP using the LCAP template and expenditures tables that were approved in January 2020 but later suspended for the 2020-21 year.

Enclosed is a summary of the District's financial profile.

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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

Pacific Elementary School District
FINANCIAL PROFILE
FY 2020-21 Second Interim

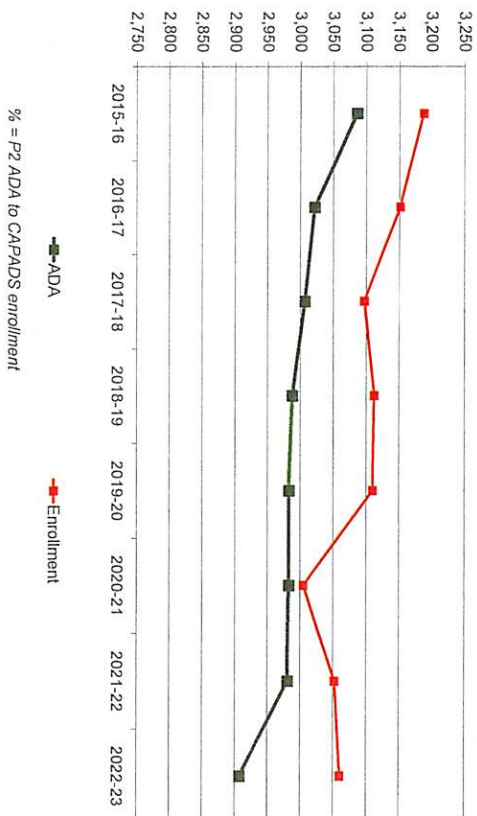
GENERAL FUND	Object Code	2016-17 Actuals	2017-18 Actuals	2018-19 Actuals	Unaudited Actuals	2019-20 Actuals	2020-21 Second Interim	2021-22 Projection	2022-23 Projection
REVENUES									
Revenue Limit/CFF Sources	8010-8099	25,215,934	25,118,816	26,891,743	27,656,908	27,456,450	28,379,412	28,474,514	
Federal Revenue	8100-8299	763,265	759,405	754,112	638,455	2,124,813	981,989	981,989	
Other State Revenue	8300-8599	2,634,334	2,593,312	4,119,748	2,706,358	2,075,036	1,853,199	1,853,199	
Other Local Revenue	8600-8799	2,248,153	2,188,037	2,066,487	2,105,817	1,967,645	1,967,645	1,967,645	
Total Revenues		\$30,861,686	\$30,659,570	\$33,832,090	\$33,107,538	\$33,623,946	\$33,182,246	\$33,277,347	
EXPENDITURES									
Certificated Salaries	1000-1999	12,609,170	12,624,991	12,835,259	12,482,778	12,390,800	11,763,956	11,949,819	
Classified Salaries	2000-2999	4,679,147	4,630,777	4,667,125	4,433,742	4,350,355	4,309,861	4,375,116	
Employee Benefits	3000-3999	8,990,800	9,763,598	10,868,598	10,293,593	9,802,792	9,791,775	10,378,890	
Books & Supplies	4000-4999	761,912	634,189	686,424	722,668	1,866,704	1,078,910	818,299	
Svcs & Oth Oper Exp	5000-5999	3,568,495	3,639,009	3,899,471	4,526,295	6,439,806	5,567,472	5,607,472	
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		\$30,892,967	\$31,698,018	\$33,297,881	\$32,612,390	\$35,058,160	\$32,719,677	\$33,337,399	
REVENUES LESS EXPENDITURES		(\$31,281)	(\$1,038,448)	\$534,209	\$495,148	(\$1,434,214)	\$462,569	(\$60,052)	
OTHER SOURCES AND USES									
Interfund Transfers In	8900-8929	\$0	\$0	\$300,000	\$0	\$300,000	\$0	\$0	
Interfund Transfers Out	7600-7629	\$412,000	\$0	\$56,000	\$306,000	\$300,000	\$200,000	\$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 Rest Prog	8980-8999	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
TOTAL OTHER SOURCES AND USES		(\$412,000)	\$0	\$244,000	(\$306,000)	\$0	(\$200,000)	(\$100,000)	
CHANGE IN FUND BALANCE		(\$443,281)	(\$1,038,448)	\$778,209	\$189,148	(\$1,434,214)	\$262,569	(\$160,052)	
Beginning Fund Balance									
a) As of July 1 - Unaudited (F-1c)	9791	3,320,839	2,877,558	1,839,110	2,617,319	2,806,467	1,372,253	1,534,822	
b) Aud Adj/Restatements (F-1d)	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	\$1,372,253	\$1,534,822	\$1,474,770	
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	\$257,487	\$141,487	\$178,298	
c) Committed	9750								
Stabilization Arrangements									
Other Commitments									
d) Assigned									
Other Assignments	9780	\$155,512	\$0	\$181,204	\$0	\$0	\$0	\$0	
e) Unassigned/Unappropriated	9789	\$1,183,315	\$1,167,964	\$1,000,616	\$1,780,234	\$1,107,266	\$1,486,835	\$1,288,972	
Reserve for Economic Uncertainties									
Unassigned/Unappropriated	9790	\$783,133	\$0	\$257,521	\$1,780,234	\$0	\$0	\$0	

Fund 17, REU and Unassigned/Unappropriated	\$	723,045	\$	733,161	\$	733,161	\$	763,627	\$	473,127	\$	473,127	\$	473,127	\$	473,127
Enrollment (excl independent charter schools)	\$	3,162	\$	3,097	\$	3,112	\$	3,110	\$	3,005	\$	3,052	\$	3,062	\$	3,060
Actual ADA (excl ADA for independent charter schools)	\$	3,022.02	\$	3,007.26	\$	2,998.12	\$	2,982.96	\$	2,982.96	\$	2,980.81	\$	2,980.81	\$	2,907.00
Total Expenditures per ADA (incl trfs out & uses)	\$	10,359	\$	10,540	\$	11,091	\$	11,036	\$	11,853	\$	11,044	\$	11,502	\$	11,502
Total Revenues Per ADA	\$	10,212	\$	10,195	\$	11,350	\$	11,099	\$	11,373	\$	11,132	\$	11,447	\$	11,447

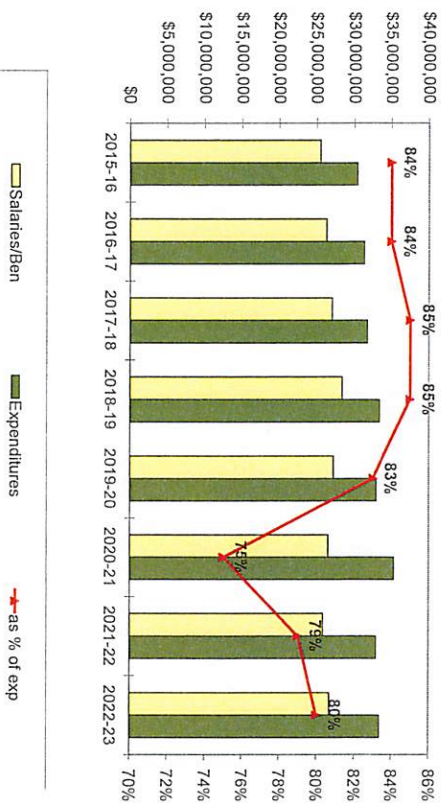
OTHER COMMENTS: 2020-21 Second Interim Certification - Positive

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

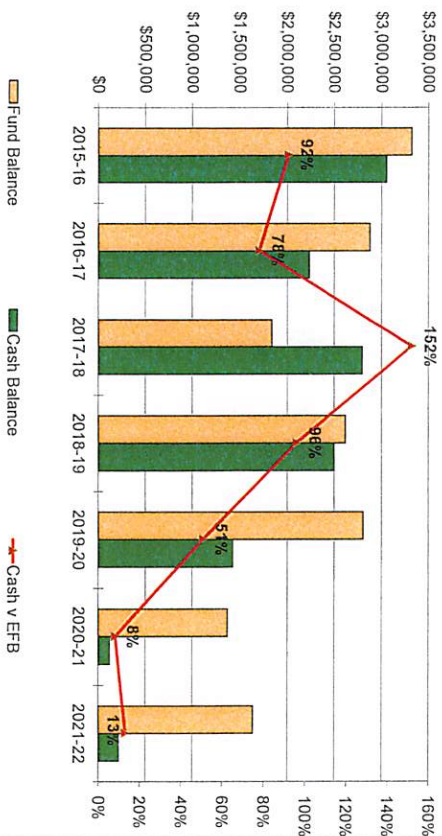
Enrollment vs Average Attendance



Salaries & Benefits as % of Expenditures



Ending Fund Balance vs Cash Balance



Available Reserves - Funds 01 & 17

