



Santa Barbara County Education Office

4400 Cathedral Oaks Rd, PO Box 6307, Santa Barbara, CA 93160-6307
Telephone: (805) 964-4711 • FAX: (805) 964-4712 • sbceo.org


Susan C. Salcido, Superintendent of Schools

September 14, 2018

SBAS-9179

TO: Vista del Mar Union School District

ATTENTION: William Banning, Interim Superintendent

FROM: Bill Ridgeway, Assistant Superintendent
Administrative Services 

SUBJECT: **Approval of Fiscal Year 2018-19 Adopted Budget**

As required by Education Code Section 42127, our office has reviewed your district's Adopted Budget. As a result of our analysis, I am pleased to notify you that your budget is approved as submitted.

We have conducted a detailed analysis of the budget using the best data available and have concluded it is consistent with the *State-Adopted Criteria and Standards*, or that there are reasonable and valid explanations for not meeting them.

If you have any questions, please feel free to contact me at ext. 5700.

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c Taiwo Madison, Fiscal Manager
Denice Cora, Administrator
Jenelle Williams, District Financial Advisor



Santa Barbara County Education Office



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Susan C. Salcido, Superintendent of Schools

September 14, 2018

SBAS-9178

TO: William Banning, Interim Superintendent
Vista del Mar Union School District

FROM: Denice Cora, Administrator 
Jenelle Williams, District Financial Advisor 

SUBJECT: **Adopted Budget Analysis and Recommendations**

In accordance with the provisions of Education Code Section 42127, our office has completed a review of the district's Adopted Budget. Based on the multi-year projections and assumptions provided by the district, it appears that the district will be able to meet its financial obligations for the current and two subsequent fiscal years while maintaining the required minimum level Reserve for Economic Uncertainties (REU). **We are therefore approving the district's Adopted Budget as submitted.**

This letter, however, discusses areas of concern noted by the Santa Barbara County Education Office in its review of the Adopted Budget and supplemental information provided by the district. The specific findings, comments, and requested actions are reflected in the following sections.

Financial Overview

The district continues to project significant deficit spending in its unrestricted General Fund which is expected to deplete the remaining reserve balance in fiscal year 2021-22. While the district continues to implement expenditure reductions that balance the financial and educational needs of the district, the magnitude of reductions needed appears insurmountable. **Therefore, we have significant concerns about the district's ability to remain fiscally solvent.**

We continue to believe that there may be an immediate need to restructure the district's educational program to realize short-term cost savings and identify opportunities for a mutually beneficial district reorganization. Therefore, we suggest that the district engage the support of the SBCEO, the District Interim Superintendent, and/or a subject matter expert to prepare an organizational study and present recommendations to the board for consideration before adoption of the 2019-2020 Budget.

General Fund (Fund 01)

General Fund – unrestricted reserve

The district is projecting an operating deficit in its unrestricted funds of approximately \$411,000, exclusive of contributions and interfund transfers. In addition, the district expects to transfer out \$20,000 to the Cafeteria Special Revenue Fund (Fund 13).

In order to support its current level of projected unrestricted deficit spending, the district plans to transfer in approximately \$300,000 from its Special Reserve Fund (Fund 17).

The net effect of these transactions is a decrease in unrestricted reserves of approximately \$131,000. This decrease, when added to the estimated beginning balance of approximately \$211,000, results in a projected unrestricted ending balance of approximately \$80,000.

In the current year, the district has included significant ongoing budget reductions of nearly \$415,000 in order to reduce deficit spending, including staffing reductions of approximately \$220,000 and reductions to services and supplies of approximately \$200,000. Therefore, we ask that the district monitor its budget closely for the remainder of the year to ensure these reductions are realized and continue to minimize costs where possible in an effort to further reduce deficit spending.

General Fund – restricted reserve

With regard to its restricted ending fund balance, the district is projecting a balanced budget where revenues equal expenditures. The district is estimating a beginning balance of zero and therefore projects a restricted ending balance of zero.

Financial Projections

Multi-year deficit spending

In its multi-year projections, the district has maintained the current years' ongoing budget reductions of \$415,000 and eliminated all future facilities expenditures. Even with these cost savings included, the district is projecting that its unrestricted General Fund deficit will increase to approximately \$519,000 in 2019-20 and approximately \$569,000 in 2020-21 (before transfers in from reserves).

Deficit spending of this magnitude cannot be supported by the unrestricted General Fund. As a result, transfers in from the Special Reserve Fund (Fund 17) will be required each year.

Special Reserve Fund (Fund 17) – one-time funds used to finance ongoing operations

The district has been spending down its Special Reserve at an accelerated rate in recent years to finance facilities projects and support deficit spending. In its Adopted Budget, the district is projecting that required transfers out to the General Fund will increase from \$300,000 in the current year to \$525,000 in 2019-20 and \$577,000 in 2020-21.

Although the district can finance its projected deficit in the two subsequent years using available reserves, this level of deficit spending is not sustainable and is expected to reduce the Special Reserve balance from approximately \$1,774,000 in the current year to approximately \$392,000 by June 30, 2021. *This assumes that any future facilities expenditures will not require the use of available reserves.*

The district's reserves are a one-time source of revenue. Continued transfers out will deplete the Special Reserve Fund. Once depleted, only current year revenues will be available to support the district's operations.

Fiscal solvency - additional reductions needed

Further reductions are needed to preserve the district's long-term fiscal health and solvency.

We strongly suggest that the district develop a strategic plan to ensure continuity of services for its students. In the meantime, the district should continue to review its programs for possible cost savings while considering the magnitude of cuts required, the timing of cuts (expenditure reductions made now will have a compounding beneficial effect over the multi-year period, thereby reducing the need for even deeper cuts in a future year), and the feasibility of implementing further reductions given its current program and staffing levels.

We understand that the district will face significant challenges when making further reductions to its program, but we ask that sufficient administrative staff remains in place to manage operations. In addition, we suggest that the district continue to balance its facilities needs with other educational priorities and closely manage facility-related costs to minimize draws on the district's reserve. To the extent possible, the district should consider pursuing an alternate means of financing for future projects in order to mitigate the impact on unrestricted reserves.

Future Planning Considerations

The district must remain diligent about managing its fiscal condition. There are several unique factors that have a significant impact on the district's budget that require additional attention and continuous monitoring.

- **Property tax** revenue is primarily generated by oil production. The district has experienced a significant decline in property tax revenue over the past few years due to decreased oil production and decreased property value. In the current year, the district has included a 1% increase over the prior year's estimated ongoing property tax revenue. In its multi-year projections, the district has projected flat property tax revenue, which is contingent upon stable property value and oil production. **The district should monitor these factors closely and develop a contingency plan in the event that further reductions are realized.**
- **Basic Aid Choice Funding** is generated from participation in the District of Choice Program, which provides funding to basic aid school districts that elect to accept inter-district transfer students. The district has removed projected revenue for this program

beginning in the current year, although it intends to accept transfers to fill existing classes. **The district should consider the long-term fiscal and cultural impacts of accepting inter-district transfers to determine the most effective way to manage this program in the future.**

- **Spending in excess of available balances** continues to require that the district subsidize its General Fund operations with one-time reserves. In addition, the Cafeteria Special Revenue Fund is projected to receive a subsidy of \$20,000 in each of the current and two subsequent years and the Deferred Maintenance Fund will require a subsidy for any unexpected facilities costs. **The district should mitigate any unnecessary draws on its reserve to the extent possible in order to preserve its available balance.**

We recommend that the district utilize the latest financial information available to guide its multi-year budget development. A flexible and scalable spending plan that is consistent with the educational priorities of the district will allow for program adjustments as needed.

Budget Management

It becomes increasingly important that the district manage its fiscal operations closely as its reserve balance is depleted. The district should ensure that all expenditures, especially facilities related costs, are included in the budget and continue to review actual activity by account to prevent budget overdrafts. Position control should be reconciled at each reporting period to verify that payroll related costs are correctly captured. The district should also monitor compliance with federal and state program requirements to prevent loss of funding, confirm that its benefit program is correctly administered (including retiree health), and continue to implement internal controls which create segregation of duties where feasible and ensure that transactions are properly recorded, summarized, and reported in accordance with applicable laws and regulations.

The district's financial situation also necessitates frequent and detailed communication for planning purposes. Providing accurate and timely financial data, supported by detailed assumptions, will allow the district to analyze data as needed to plan strategically and facilitate prudent and timely financial decisions by the district's board and administration.

Cash Flow

We would like to remind the district that cash liquidity is crucial to maintaining fiscal solvency. While the reserve balance may be sufficient to cover temporary cash shortages in the current year, the district expects that this balance will be significantly reduced by fiscal year-end. If it is not possible to internally finance its cash flow needs in the future, other short-term borrowing options (i.e., TRAN financing) will be required. Therefore, a plan must be put in place to ensure the district can meet its cash obligations beyond the current fiscal year.

We recommend that the district prepare a multi-year cash flow analysis, including adjustments for non-cash activity (i.e. accruals, STRS-on behalf entries etc.), in order to ascertain whether its cash flow needs can still be covered through the use of interfund borrowing. The District may need to consider a TRAN if cash balances in other funds are inadequate or are used for other purposes.

Labor Contract Negotiations

According to the information provided in your Adopted Budget Report, labor contract negotiations for the current year remain unsettled. The district should be aware of the following disclosure requirement relating to collective bargaining agreements:

- Before entering into a written agreement with a collective bargaining unit, the district shall disclose, at a public meeting, the costs that would be incurred under the agreement for the current and subsequent years, in a format established for this purpose (Ref. Govt. Code § 3547.5(a)).
- The district's superintendent and chief business official (CBO) shall certify, in writing, that the costs incurred under the collective bargaining agreement can be met by the district during the term of the agreement. This certification shall itemize any budget revisions necessary to meet the costs of the agreement in each year of its term (Ref. Govt. Code § 3547.5(b)).
- Within 45 days of adopting a collective bargaining agreement, the superintendent of the school district shall forward to the county office of education any revisions to the school district's current year budget that are necessary to fulfill the terms of that agreement. Any additional costs to the school district that may result from the terms of the collective bargaining agreement also shall be reflected in any interim fiscal reports or multi-year fiscal projections (Ref. Ed. Code § 42142).
- If a district does not adopt all of the revisions to its budget needed in the current year to meet the costs of the agreement, the county superintendent of schools is required to issue a qualified or negative certification for the district on its next interim report (Ref. Govt. Code § 3547.5 9(c)).

To fulfill the disclosure requirements relating to collective bargaining agreements, districts should use the Public Disclosure of Collective Bargaining Agreement form provided by our office. This Excel worksheet, along with preparation instructions, is available on the SBAS website under *Finance, AB1200 Disclosures, Public Disclosure of Proposed Collective Bargaining Agreement*.

Conclusion

We are aware that the information provided reflects the district's financial position and assumptions as of July 1, and that further adjustments will be made during the year as additional data becomes available. We hope that these comments will be helpful to the district administration and governing board as you plan for the remainder of the current year and further develop your projections for the two subsequent years. We wish to express our appreciation to the district staff for their cooperation during the review of the Adopted Budget. If our office can be of further assistance, please call us.

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c Taiwo Madison, Fiscal Manager
 Bill Ridgeway, Assistant Superintendent