



San Diego County Office of Education Main Campus
6401 Linda Vista Road, San Diego, CA 92111
858-292-3500 | www.sdcoe.net

September 18, 2018

Ms Paula Hall
Board President
Dr. Karen Janney, Superintendent
Sweetwater Union High School District
Chula Vista, CA 91911-1997

Re: 2018-19 Budget Comments

Dear Ms. Hall and Dr. Janney:

Our office has completed its review of the District's 2018-19 Adopted Budget in compliance with the provisions of Education Code Section 42127 et seq. The County Superintendent of Schools is required to review the Adopted Budget and determine if it meets the Criteria and Standards for fiscal stability and allows the District to meet its financial obligations during the 2018-19 fiscal year and beyond.

The District's Adopted Budget has been analyzed in the context of the guidance provided by the San Diego County Superintendent of Schools, the Governors 2018-19 May Revise and the 2018-19 State Adopted Budget.

The 2018-19 Adopted Budget of the Sweetwater Union High School District has been reviewed and **Disapproved** pursuant to the provisions of Education Code Section 42127 (c)(d).

The disapproval of the Adopted Budget is based on an assessment and analysis of the following major components of the District's budget:

- Preliminary 2017-18 negative Unrestricted General Fund ending balance
- Projected 2018-19 revenues overstated
- Projected 2018-19 expenditures understated
- Structural deficit in current and upcoming fiscal years
- Cash concerns

2017-18 Negative Unrestricted Ending Fund Balance

- In June, the district submitted estimated actuals that indicated all expenditures were tracking to be spent according to amounts budgeted. However, when talking with district officials during close out of the 2017-18 fiscal year, it was shared that actual expenditures seriously exceeded estimated expenditures, specifically in the salary and benefit categories. While district officials are still analyzing the issue to determine the cause, the overspent amount has caused a deficit that completely eliminates the entire 2017-18 ending balance. In turn, this ending balance in the Unrestricted General Fund, negative by approximately

\$4 million, becomes the beginning fund balance in 2018-19, on which the 2018-19 Adopted Budget submission is predicated upon.

2018-19 Projected Revenues Overstated

- The district budgeted for one-time revenues at \$344 per ADA. The amount was reduced to \$184/ADA with the official signing of the budget. While the district submitted a 45-day budget revision, the amounts were never changed in the budget.

2018-19 Projected Expenditures Understated

- The district has indicated that the current 2018-19 budget does not include the expenditures that caused the 2017-18 overspend. Reductions were not put into place to account for the deficit; therefore, the current budgeted expenditures are understated, which exacerbates the issue.

Structural Deficit - The District's Adopted Budget projections include structural deficits in the unrestricted general fund as follows:

- \$0 million deficit in fiscal year 2018-19 *
- \$4.0 million deficit in fiscal year 2019-20 *
- \$5.6 million deficit in fiscal year 2020-21 *

* These figures do not take into account issues identified in fiscal year 2017-18 that have not been included in the current 2018-19 budget. The deficit might be even higher due to the inclusion of one-time revenues to cover ongoing costs.

Cash Concerns – The district borrows cash from its Mello Roos funds to cover cash flow concerns in the general fund. Current estimates submitted with this report show that the district can meet cash requirements in the General Fund every month due to this borrowing option. However, with the projections for prior year closing and the implications it has on the current revenue and expenditure estimates, we are unable to validate the cash flow information currently submitted with this report. To further complicate the issue, the district has its own financial system separate from the county office so we are unable to pull district data to perform our own cash analysis. The district is currently revising cash projections and our office has offered to provide assistance by sending county office staff to work with district staff and create a viable report for our analysis. At the time of this writing, we do not feel we have a credible cash report to rely on which is a *primary indicator of fiscal solvency*.

Conclusion

We have serious concerns regarding the District's budget projections, as submitted, based on the areas identified above.

In order for our office to approve the district's budget, we must have evidence that the 2018-19 Adopted Budget contains all pertinent revenues and expenditures and an action plan is in place to address the structural deficit in the current and upcoming fiscal years. Revisions are required to the district budget and the Board should take

action to approve a plan for all three fiscal years that clearly identifies board-approved reductions, whether they are one-time or ongoing, the fiscal year(s) in which the reductions will occur, whether the reductions need to be negotiated with the bargaining units, and an estimated dollar amount of savings.

All budget reductions for the 2018-19 fiscal year will need to be identified and included in the budget with a narrative detailing all assumptions used. Revised multiyear financial projections and assumptions must be included in the SACS2018 software and a new budget submission with all previously required supplemental forms submitted at that time. The District Governing Board will need to adopt the Revised Budget after holding a public hearing regarding the proposed revisions. This public hearing must be conducted pursuant to Education Code 42103. Attached please find the timeline requirements.

Should you have any questions concerning this review, please feel free to call me at (858) 292-3618.

Sincerely,



Michael L. Simonson
Assistant Superintendent, Business Services

cc. Dr. Jenny Salkeld, Chief Financial Officer, Sweetwater Union High School District
Brent Watson, Executive Director, District Financial Services, SDCOE
Caryn Moore, California Department of Education