



SAN DIEGO COUNTY OFFICE OF EDUCATION

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Superintendent of Schools
Randolph E. Ward, Ed.D.

August 27, 2008

Ms. Janet Bernard
Interim District Superintendent
Del Mar Union School District
225 Ninth Street
Del Mar, CA 92014-2716

Dear Mrs. Bernard:

Re: 2008-09 Budget Approval and Comments

Our office has completed its review of your final adopted 2008-09 Annual Budget Report (SACS Series) 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 the budget: (1) meets the Criteria and Standards for fiscal stability; (2) allows the district to meet its financial obligations during the fiscal year; and (3) will enable the district to satisfy its multi-year financial commitments. We have concluded that your district has met the necessary requirements and that the district's budget was filed with our office in a timely manner. Enclosed is the district's copy of the adopted budget that has been approved by the San Diego County Superintendent of Schools.

During our review, we noted the following items for your review, analysis, and action:

Incorporation of May Revision Proposals

In our May 27, 2008 letter to school districts on requirements for the adopted budget, we advised districts to be conservative in budgeting for 2008-09 because of the seriousness of the state budget problem. The district may have to utilize funds in its ending balance if some of these proposals outlined in the May Revision are not ultimately adopted. A review of the district's ending balance shows that the district would likely be able to cover this contingency in 2008-09 without going below the required Reserve for Economic Uncertainties. Once the state budget has been adopted, please make any necessary revisions to the General Fund in the First Interim Report.

Reserve for Economic Uncertainties

The state requires the district to maintain a Reserve for Economic Uncertainties (REU) equal to 3% of expenditures. The district projects that it will meet this requirement from 2008-09 through 2010-11. Because of the volatility of basic aid district revenues, the 3% minimum amount required for the REU may not be sufficient.

Board of Education

Nick Aguilar Susan Hartley Sharon C. Jones Robert J. Warkins John Witt

SERVICE AND LEADERSHIP

Deficit Spending

The district is projecting deficit spending in its Unrestricted General Fund of \$474,509 in 2007-08, \$1,230,183 in 2008-09, and \$399,225 in 2009-10. Deficit spending erodes balances and impairs a district's ability to maintain the required General Fund unrestricted reserve. Caution should be taken to assure that these expenditures are singular in nature and are not ongoing, multi-year commitments of the district. We encourage the district to make ongoing expenditure reductions to minimize deficit spending in future years.

Property Taxes

As a basic aid district, the Del Mar Union School District is dependent on property taxes as its main source of revenue. The district budgeted a 5% increase in secured property taxes. This estimate is reasonable given that the increase in assessed value for secured property in 2008-09 is greater than 5%. We recommend that the district monitor tax collections monthly to ensure that revenues are on track with the district's estimate.

Multi-Year Projection

Based upon the assumption of 5% annual increases in property tax revenues, the district's multi-year projection shows adequate reserves to fund the deficits and to meet the 3% reserve requirement over the projection period. However, the district should monitor deficit spending for any future impact on the district's financial solvency.

Multi-Year Commitments

The district's Community Facility District (CFD) has multi-year commitments totaling \$31 million as of July 1, 2007, according to the annual audit. These figures should be reported in the Criteria and Standards, S6. Long-term Commitments. These commitments should continue to be carefully monitored to preclude any adverse impact on the General Fund in future years.

Salary and Expenditure Increases

The Governor's May Revise for the 2008-09 Budget includes no Revenue Limit COLA and a 6.5% to 7% funding reduction for state categorical programs. Be advised that any ongoing salary increase (including step and column) will need to be funded by district reserves, or by additional expenditure reductions in 2008-09 and in future years. In addition, before granting any salary increases or making any other new ongoing expenditures, you are cautioned to protect the future financial integrity of your district by assuring a minimum of reserves (including adequate reserves for contingencies) for at least the following two years of operation.

Other Postemployment Benefits (OPEB)

The district provides for Other Post Employment Benefits (OPEB) with an Annual Required Contribution (ARC) of \$523,118 as reflected in the actuarial report as of 6/1/07. The district has budgeted \$180,000 (object 3701-3702) for financing OPEB costs on a pay-as-you-go basis.

Collective Bargaining and Other Disclosure Requirements

Our office requests that all districts submit a collective bargaining disclosure form to our office 10 working days prior to board action on a proposed settlement. To be in compliance with AB 2756 (Daucher), both the Superintendent and Chief Business Officer must sign the collective bargaining disclosure form. The form is available in Excel format at <http://www.sdcoe.net/business2/dfs/?loc=formsdocs&m=1&pi=bas> Districts must make any budget revisions within 45 days of approval of a collective bargaining agreement. Please send an expenditure report by major object that has been generated by your financial system

showing the budget before the changes and a second expenditure report showing the budget after the changes.

Districts are also required to disclose non-voter approved debt and self-insured workers' compensation claims. Copies of the required disclosure forms can be found on-line at: <http://www.sdcoe.net/business2/dfs/?loc=formsdocs&m=1&pi=bas>.

Conclusion

The district's adopted budget was developed prior to adoption of the state Budget Act and education trailer bills and is approved on that basis. Actual state budget data should be reviewed and incorporated into the district operating budget and multi-year projection during the First Interim Report process if the 45-day revision option under Education Code Section 42127(i)(4) is not utilized. If the district uses the 45-day option, a summary of any such revisions to the 2008-09 budget must be provided to the County Office for review as soon as possible after adoption by the board.

Should you have any questions concerning this review, please feel free to call me at (858) 292-3537 or Dr. Carole Parks, consultant, Business Advisory Services or (858) 292-3810.

Sincerely,



Linda Visnick
Executive Director
District Financial Services

LV: CDP: SR

Attachment: SACS Forms

cc: Board President
Chief Financial Officer