



# SAN DIEGO COUNTY OFFICE OF EDUCATION

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

August 21, 2009

Dr. Sharon McClain  
District Superintendent  
Del Mar Union School District  
225 Ninth Street  
Del Mar, CA 92014-2716

Dear Dr. McClain:

Re: 2009-10 Budget Approval and Comments

Our office has completed its review of the district's 2009-10 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 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.

Based on this analysis, we have concluded that your district has met the necessary requirements. The district's budget has therefore been approved by the San Diego County Superintendent of Schools.

The district's budget has also been analyzed in the context of actions by the State of California and the federal government. At the state level, the 2009-10 Budget Act was enacted on February 20, 2009. This included reductions to funding for revenue limits and categorical programs. On May 14, 2009, the Governor released the May Revision, which proposed further revenue limit reductions in 2008-09 and 2009-10. In our letter dated May 22, 2009, we recommended that school districts utilize the assumptions included in the May Revision dated May 14, 2009 for their 2008-09 Estimated Actuals and 2009-10 Adopted Budget. The Governor subsequently recommended additional funding reductions to revenue limits and transportation on May 29, 2009. Our office did not request that school districts incorporate these assumptions into their budgets due to the lateness of the proposals.

To help stimulate the United States economy, the federal government enacted the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. This act provided three main one-time funding sources to school districts: the State Fiscal

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**SERVICE AND LEADERSHIP**

Stabilization Fund (SFSF); Title I, Part A; and Individuals with Disabilities Education Act (IDEA) funds. In our letter dated May 22, 2009, we recommended that school districts include the portions of ARRA funding that had been announced by the California Department of Education at that time. This included the revenue limit portion of the SFSF, Title I, Part A, and IDEA funds. We did not recommend that districts include the categorical portion of the SFSF since CDE had not yet calculated the entitlements. Since that time, CDE has posted preliminary entitlements for the categorical portion of the SFSF and we have taken this funding into account in our analysis.

The district utilized the assumptions in the May Revision from May 14, 2009, for revenue limit funding. The district incorporated none of the available sources of ARRA funding in 2008-09/2009-10 estimated to be . We have analyzed the district's budget based on the budget reductions proposed in the May 14, 2009 Revision.

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

### **Budget Reductions in 2009-10**

As part of the district's 2009-10 budget, the governing board adopted the reduction of 6.62 certificated FTEs. These cuts will generate ongoing savings, but the actual amount of savings will depend on how the cuts are implemented. We will periodically review revenues and expenditures to monitor the amount of savings achieved.

### **Reserve for Economic Uncertainties**

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 3% of expenditures. We believe that this level represents the minimum reserve level that a revenue limit school district should maintain. School Services of California, Inc., advises that basic aid districts should maintain a much larger reserve (20-30% of expenditures) in recognition of the volatility of local property tax revenues for the support of schools. However, EC § 33128.3 allows school districts to reduce the reserve to one-third of this requirement for 2009-10, which is 1%. A school district must make progress in 2010-11 toward returning to the original reserve requirement. In 2011-12, the full reserve requirement of 3% must be met. The district projects that it will meet this requirement from 2008-09 through 2011-12.

### **Deficit Spending**

The district is projecting deficit spending in its Unrestricted General Fund of \$849,904 in 2008-09 and \$142,169 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 0% increase in secured property

taxes for 2009-10. This estimate is reasonable given that the Assessor's estimated increase in assessed value in 2009-10 is 1.58%. We recommend that the district monitor tax collections monthly to ensure that revenues are on track with the district's estimate.

### **Federal American Recovery and Reinvestment Act (ARRA) Funding**

The district included none of the following components of the ARRA funding in the 2008-09 Estimated Actuals or the 2009-10 budget. Since the time the district adopted its budget, CDE announced entitlements for the categorical portion of the State Fiscal Stabilization Fund, which would provide \$202,676 in additional funds in 2009-10.

### **State Categorical Funding Reductions**

The state reduced categorical funding for basic aid school districts in Section 37 of ABX4 2, which was enacted on July 28, 2009, proportionate to the revenue limit reductions enacted for nonbasic aid districts in 2009-10. This so-called "Fair Share" takeback was not finalized at the time of the adopted budget. The district designated an estimated "Fair Share" reserve of \$2,525,516 for this purpose.

### **Multi-Year Projection**

The district's multi-year projection shows deficit spending of \$967,620 in 2010-11 and \$1,808,063 in 2011-12. The district has adequate reserves to fund the deficits and estimates that it will be able 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 has multi-year commitments totaling \$30.7 million as of July 1, 2008 in the 2007-08 annual audit. 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 2009-10 Budget Act includes reductions to revenue limit funding and categorical programs and the 2009-10 Revised State Budget make further reductions. Be advised that any ongoing salary increase (including step and column) or new expenditures will need to be funded by the COLA, excess district reserves, or by additional expenditure reductions in 2009-10 and in future years. We also recommend that the district protect its future financial integrity by assuring a minimum of reserves (including adequate reserves for contingencies) for at least the following two years of operation.

### **Management Plan for Financing Other Postemployment Benefits**

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 June 1, 2007. We note that in 2009-10 the district has budgeted \$141,968 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. All proposed salary reductions also need to be disclosed. 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 after adoption of the 2009-10 Budget Act but prior to approval of state budget revisions to 2008-09 and 2009-10 in ABX4 1, ABX4 2, and ABX4 3 in July 2009. The net budget reductions approved by the state are higher than the May 14 Revision and May 29 Revision. Actual state budget data should be reviewed and incorporated into the district operating budget and multi-year projection during the First Interim Report process.

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 at (858) 292-3810.

Sincerely,



Linda Visnick  
Executive Director  
District Financial Services

LV: CDP: SR

cc: Board President  
Chief Financial Officer