

September 15, 2022

Lamont Jackson, Ph.D.
Superintendent
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2682

Re: 2022-23 Adopted Budget Approval

Dear Dr. Jackson:

Our office has completed its review of the district's 2022-23 Adopted Budget in compliance with the provisions of Education Code Section 42127. The County Superintendent of Schools is required to review the budget and determine if it complies with the standards and criteria for fiscal stability and if the budget allows the district to meet its financial obligations during the current fiscal year and satisfy its multiyear financial commitments.

The district's Adopted Budget has been analyzed in the context of guidance provided by the San Diego County Superintendent of Schools, the Governor's 2022-23 May Revision and the 2022-23 State Adopted Budget.

Based on this analysis, we have concluded that the district will be able to meet its financial obligations in 2022-23. The district's budget has therefore been approved by the San Diego County Superintendent of Schools.

Reserves and Multi-Year Projections

The Adopted Budget projects the following impacts to the unrestricted general fund:

- Projected unrestricted deficit spending
 - 2022-23 = Deficit <\$50.4 million>
 - 2023-24 = Deficit <\$13.4 million>
 - 2024-25 = Deficit <\$ 3.3 million>

- Projected unrestricted ending fund balance
 - 2022-23 = \$56.2 million
 - 2023-24 = \$42.9 million
 - 2024-25 = \$40.0 million

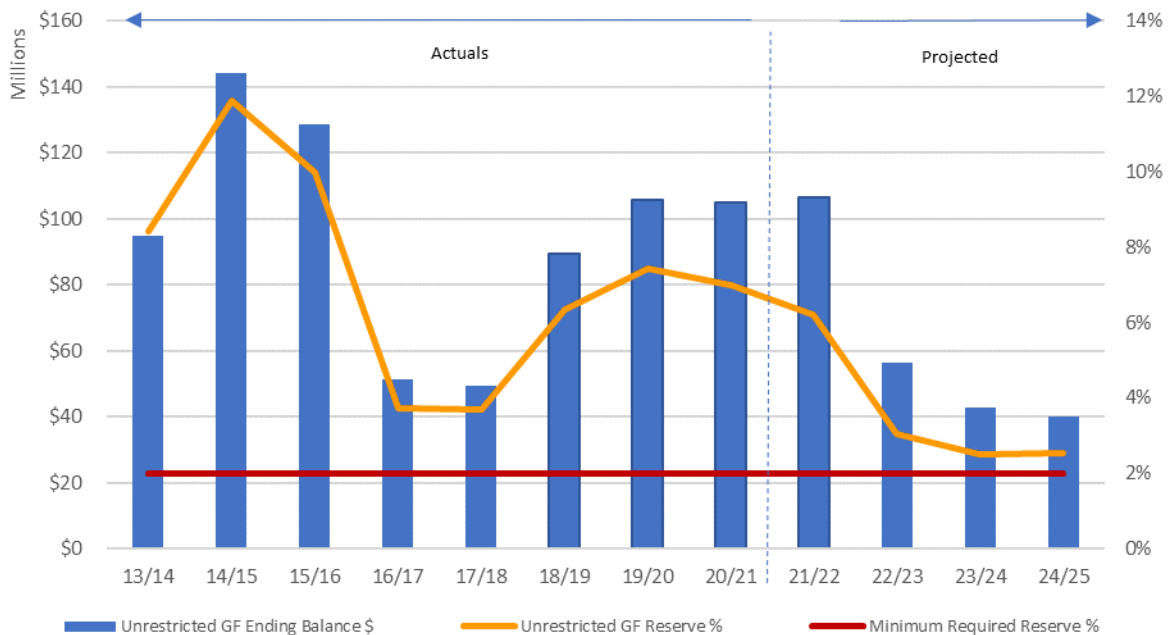
- Placeholders for expenditure reductions
 - 2023-24 = \$38.1 million
 - 2024-25 = \$194.3 million

The budget submitted projects the district will be unable to meet its financial commitments in subsequent fiscal years without additional budget solutions. The district adopted a resolution indicating the need to make \$38.1 million of budget reductions by fiscal year 2023-24 and \$194.3 million by fiscal year 2024-25 to maintain the minimum required reserve levels.

Subsequent to adoption of the district’s budget, the California state budget was adopted, which prompted the district to submit a 45 day budget update on August 8, 2022. This update included significant increases in one-time and ongoing revenues. The First Interim Report must include a revised budget based on the final state adopted budget, as well as a plan to meet required reserve levels throughout the multi-year projection period.

Unrestricted General Fund Ending Balance and Reserve Trend

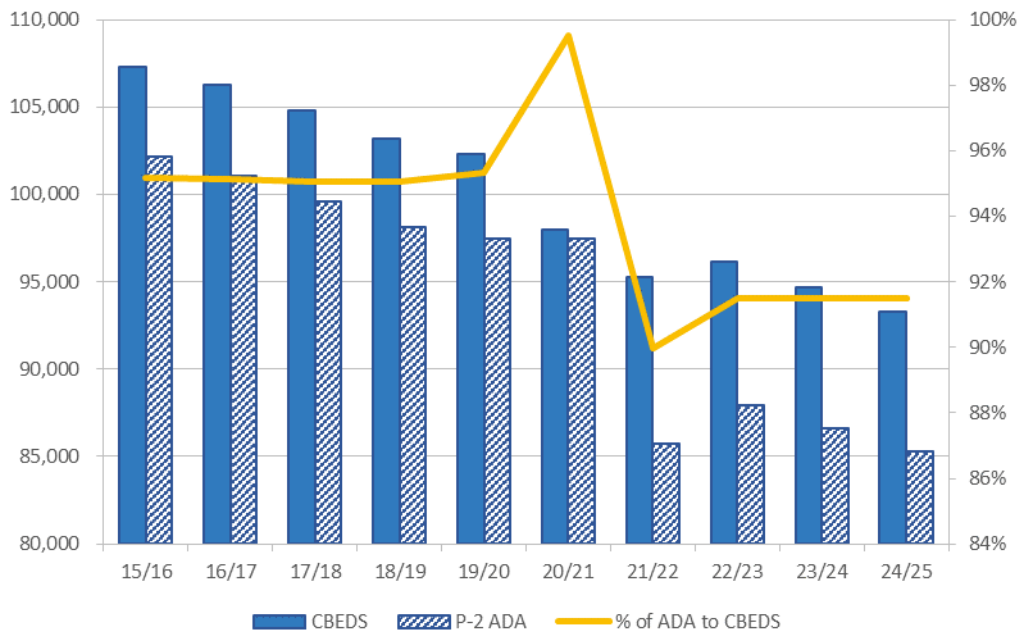
The following chart displays the district’s ending fund balance and reserve status from fiscal year 2013-14 through the projection period. The chart includes the district’s placeholders for expenditure reductions.



Enrollment and Average Daily Attendance (ADA)

Historical enrollment and attendance figures, as well as the assumptions included in the district’s multi-year projection, are presented in the chart below. The district has a history of declining enrollment, which has been exacerbated by the COVID-19 pandemic, and this trend is forecast to continue in future years. Since a significant portion of the district’s funding is based on ADA, we recommend the district continue to monitor enrollment and attendance and update projections accordingly.

Note: The graph reflects the hold harmless prior year ADA in 2020-21, which is causing an inflated percentage of ADA to enrollment.



Monthly Financial Reports

As a district utilizing a financial system independent of the county office, you are required to provide us with a monthly report by the 15th working day of each month containing the following information:

- General ledger for each fund
- Budgeted and actual revenues by major object for each fund
- Budgeted and actual expenditures by major object for each fund

Cash Flow

The cash flow submitted with the 2022-23 Adopted Budget projects negative cash balances during the year. The district issued Tax and Revenue Anticipation Notes (TRANS) of \$205 million in July 2022 to help address anticipated cash shortfalls. The district should continue to closely monitor cash balances in all funds and prepare cash flow projections for the next 18-24 months.

Charter Schools

As the authorizing agency of numerous charter schools, the district maintains fiscal oversight responsibilities. Please see Education Code Section 47604.32 for a detailed list of oversight duties.

The district should review charter budget reports at each cycle: budget, first interim, second interim, and unaudited actuals. It is also the district's responsibility to transmit these reports to our office by the deadline. Please coordinate with your district's charter schools in advance to ensure that the deadline is met.

Should any circumstances arise related to the district's charter schools that would negatively impact the financial condition of the district, please notify this office as soon as possible.

Conclusion

The Adopted Budget shows the district will be unable to meet its multi-year financial commitments in subsequent fiscal years without additional budget solutions; however, the district's adopted budget was developed prior to adoption of the 2022-23 state budget. Actual state budget data should be incorporated into the district operating budget and multi-year projection during the First Interim Report process. Any necessary budget reductions should be detailed and approved by the board along with submission of the First Interim Report.

During the past few years, the state and federal governments have appropriated significant one-time funding to mitigate the impacts and effects of the COVID-19 pandemic on the district, its staff members and students. We encourage the district to prepare detailed plans and review expenditures to ensure compliance with the requirements of each funding source. The district should continue to monitor the operating budget, and the ongoing expenditures that will remain after one-time funding sources have been exhausted, to maintain future solvency. Large sources of one-time funds can mask an underlying structural deficit if not managed prudently.

Lamont Jackson, Ph.D., Superintendent

September 15, 2022

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If you have any questions concerning this review, please feel free to call me at (858) 295-6702 or Natalie Schuff, Director, Business Advisory Services, at (858) 295-6659. This letter can be found on our website at: <https://www.sdcoe.net/administrative-services/business-services/district-financial-services/business-advisory-services>.

Sincerely,



Brent Watson
Executive Director
District Financial Services

BW: NS: VS

cc: Sharon Whitehurst-Payne, Ph.D., Board President, San Diego Unified School District
Jodie Macalos, Executive Director, Finance, San Diego Unified School District
Drew Rowlands, Chief Business Officer, San Diego Unified School District