



Monterey County Office of Education

Leadership, Support, and Service to Prepare All Students for Success

Dr. Deneen Guss
County Superintendent of Schools

September 16, 2020

Martha Chavarria, Board President
Kari Yeater, Superintendent
North Monterey County Unified School District
8142 Moss Landing Rd
Moss Landing, CA 95039

RE: 2020-21 Adopted Budget Review

Dear Board President Chavarria and Superintendent Yeater:

In accordance with the provisions of *Education Code* Section 42127, the Monterey County Office of Education has performed an in-depth analysis of the 2020-21 adopted budget of North Monterey County Unified School District. The County Office of Education must determine whether the budget complies with the standards and criteria, established by the State Board of Education, pursuant to *Education Code* Section 33127. For one year only, 2020-21, the Local Control and Accountability Plan is not required to be approved before the budget is approved. In its place, the Learning Continuity Plan must be adopted before September 30, but will not be a part of the budget review process. On the basis of this review, we are satisfied that the District's budget for Fiscal Year 2020-21 is consistent with the state-adopted criteria and standards. **We hereby approve the District's budget and offer the following comments:**

Deficit Spending

The District is projecting to incur **overall** operating deficits of (\$573,606) in 2020-21, (\$3,489,493) in 2021-22, and (\$4,890,128) in 2022-23. Although some deficit spending may be a result of one-time costs from prior year funding sources, ongoing structural deficits may threaten a school district's future educational programs. At the same level of deficit spending the district would deplete their State recommended reserve for economic uncertainties. Failure to minimize deficit spending could jeopardize the future financial standing of the District. It is critical that the District have a plan to eliminate structural deficit spending before educational programs are threatened.

The 45-day Budget Revision received by the district, indicates projected revenues to be higher than anticipated with the assumptions used in the Adopted Budget, which were based upon the Governor's May Revise. Although we still caution the district in regards to the structural deficit spending as shown in their Adopted Budget, this update to assumptions somewhat mitigates the concern regarding the fiscal health of the district.

District Reserves

The District's 2020-21 budget, as submitted, indicates available unrestricted reserves at \$1,698,000, which is equivalent to 3.00% of their Total General Fund Expenditures.

Salary and Benefit Negotiations

We note that 2020-21 negotiations with the **Certificated & Classified** bargaining unit(s) were not settled at the time the budget was adopted. To the extent that collective bargaining agreements result in additional ongoing costs, we advise you that such increased costs should be supported by additional ongoing revenues or ongoing reductions of expenditures. Further, the Criteria and Standards specify that upon settlement, the county office of education must provide the California Department of Education with an analysis of the cost of the settlement and its impact on the operating budget. The public disclosure documents prepared in compliance with *Government Code* Section 3547.5 can be used to satisfy this requirement. Please forward copies of your public disclosure to the County Office of Education at least 10 days prior to Board ratification of any collective bargaining agreement. AB 2756 requires that the Superintendent and the Chief Business Officer sign the collective bargaining disclosure form.

Concluding Remarks

In the midst of a recession, with the economy coming to a near standstill, the full implementation of the Local Control Funding Formula, and the continuing changes in how we manage funding streams, grappling with school district budgets is more challenging than ever for LEAs.

Building, analyzing, and monitoring the budget will need to include following the best practices for budget planning as you review and develop:

- Enrollment and average daily attendance, including hold harmless for 2020-21
- Staffing and salaries
- Health and welfare benefits
- Pension benefits and contribution rate increases
- Use of base grants and supplemental/concentration grants, including meeting the minimum proportionality percentage
- Routine Restricted Maintenance Account contributions
- Determining the adequacy of reserves
- Considering the impact of other funds on the General Fund
- Realistic multiyear projections

Cash flow planning will be critical through the end of this year and the next as apportionment schedules are affected by deferrals.

Summarizing the federal funds arising from COVID-19 and ensuring expenditures meet the requirements of the grants as well as completing expenditures reports in a timely manner will be crucial in order to retain these funds.

It is imperative for districts to stay well-informed, to consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly.

We want to thank and acknowledge Danica Salazar for the timely submission of the budget documents and express our appreciation to the District's staff and the governing board for their continued diligence and hard work. We await your First Interim Report, which must be filed with our office no later than December 15, 2020.

If you have any questions, please do not hesitate to contact me at (831) 755-0308.

Sincerely,

A handwritten signature in blue ink that reads "Colleen Stanley".

Colleen Stanley Ed. D,
Chief Business Official

cc: Dr. Deneen Guss, Monterey County Superintendent of Schools
Mary E. Dawson, Assistant Superintendent, Business, North Monterey County USD
Danica Salazar, Director of Fiscal Services, NMCUSD
Philip Davis, Senior Director, District Advisory Services, MCOE
Marvalee English, Financial Analyst, MCOE