



SAN DIEGO COUNTY OFFICE OF EDUCATION

6401 Linda Vista Road, San Diego, CA 92111 • 858-292-3500 • www.sdcoe.net
Randolph E. Ward, Ed.D., Superintendent of Schools

March 26, 2015

Mr. Antonio Martinez, Board President
Mr. Edward Velasquez, Interim Superintendent
San Ysidro School District
4350 Otay Mesa Road
San Ysidro, CA 92173-1685

Re: 2014-15 Second Interim Report

Dear Mr. Martinez and Mr. Velasquez,

In accordance with Education Code Section 42130 et seq., The San Diego County Office of Education has completed its review of the San Ysidro School District's 2014-15 Second Interim Report. Your district has adopted the report and has submitted a positive certification, indicating that the district will be able to meet its financial obligations for the current fiscal year or two subsequent years.

The district is currently projecting an increase to the current year unrestricted ending fund balance. A large portion of this increase, \$1.4 million, is due to projects listed within the district's LCAP that will not be implemented for fiscal year 2015-16 (see below under FCMAT Indicator - LCAP). While this increase assists the district in meeting the required 3% reserve percentage in upcoming fiscal years, deficit spending persists in fiscal year 2015-16 and beyond which continues to be an issue that the district needs to address. Besides ongoing deficit spending, there are also other factors that are of particular concern to our office. Several of the fiscal indicators that are identified by the Fiscal Crisis and Management Team (FCMAT) as indicators identifying risk or potential insolvency continue to exist in your district.

Per the authority provided in Education Code Section 42127.6, the San Diego County Office of Education is required to consider the FCMAT indicators. Based on that analysis we are **changing your interim certification to qualified based on the fiscal indicators identified below**. In accordance with the provisions of Education Code Section 42131, the County Superintendent of Schools will inform the California Department of Education that your district submitted a positive certification and that we have changed your certification to qualified.

FCMAT Indicators - The Fiscal Crisis and Management Assistance Team (FCMAT) has compiled indicators of risk or potential insolvency based on approximately 25 years of extensive work with local education agencies (LEAs). Each item listed indicates a lack of function, focus, or attention to one or more critical elements of an organization's operations, which may eventually contribute to an LEA becoming insolvent. The existence of any one of the indicators increases risk. The more indicators identified in any LEA, the greater the risk of collapse or failure. Pursuant to Education Code Section 42127.6 we have determined that four

of the most common predictors of a school district needing intervention exist in the San Ysidro School District:

○ **Leadership Breakdown**

- *Absence of a strong leadership team*
 - *The district has been without a permanent superintendent for approximately two years and is on its third interim superintendent in the same time period. A search for a permanent superintendent is currently in the works, but has not been finalized as of this writing.*
 - *Three new members with little or no experience have been added to the Board in the past year.*
 - *The Director of Human Resources has recently been dismissed from the district with the interim superintendent handling all HR issues with the assistance of a consultant who's been hired on a limited basis.*
- *Micromanagement from Board Members*
 - *Board members have shown up at the district office and directed staff to provide them with various reports and information instead of working through the superintendent with these requests.*
- *Spiraling litigation and/or settlements against the district*
 - *The district currently has a \$12 million dollar judgment (subsequently reduced to \$8.5 million) against them in a lawsuit brought by Eco Business. While the District is in the process of negotiating a settlement on this lawsuit, that settlement hasn't been agreed to yet and documentation of the proposed agreement has not been shared with our office.*
 - *The district has recently filed a lawsuit against their former superintendent.*
 - *The district has recently filed a lawsuit against their former attorneys that represented them in the Eco Business lawsuit.*
- *Board policies and administrative regulations that are not updated*
 - *While the district is currently in the process of updating its policies and has brought several of them to the Board in the past two months, this practice hasn't been done in the past several years and it will take several years to update them all going forward.*

○ **Ineffective Communication**

- *Staff unrest and/or low morale*
 - *The district recently went through a strike with its certificated staff this past year and are still in the process of building relationships that have been strained from that issue.*
 - *The district has submitted self-certified negative interim certifications for the past two years and has had its budget disapproved two years in a row. This unrest/uncertainty has had an impact on morale.*

○ **Inadequate Budget Development**

- *Deficit spending and failure to maintain adequate reserves and fund balances*
 - *The district is projecting to deficit spend by \$900,000 in 2015-16 and \$1.6 million in 2016-17. These operational deficits still exist even though the district is reducing LCAP supplemental/concentration expenditure reductions of \$1.4 million for fiscal year 2014-15.*
 - *The district barely meets the 3% reserve requirements in fiscal year 2016-17*
- *Disconnection between budget and the LCAP*
 - *The district has developed an LCAP for the 2014-15 school year that identifies goals and services along with budgeted amounts, but has had difficulty implementing several of the goals and aligned actions and services identified and spending the money allocated in the budget. Many of these LCAP expenditures that were allocated to address the needs of the unduplicated pupil subgroups have been removed from the budget without any documented LCAP revision addressing the change in policy or priority for serving the supplemental/concentration populations for which the funds are allocated, many of which would be district wide services. The district budget was approved containing the legally required minimum proportionality percentage calculation. The budget no longer reflects that commitment. The district will need to explain this in their LCAP annual update and address their commitment to increase and improve services to their unduplicated populations for approval of the 2015-16 LCAP and budget.*
- **Human Resource Issues**
 - *Poor or limited use of position control*
 - *The district has had a history of having employees work for the district without having them identified in the budget system. Budgets have to be adjusted to account for employees that have been on the payroll long term and thus become permanent employees.*
 - *Unauthorized hiring*
 - *The district has had several employees that have been brought on in part time positions that have gone unchecked and thus had to be offered a full time position*

Implications of a Qualified Certification

The district becomes subject to the following requirements in the Education Code based on a qualified certification:

1. Copies of the interim report and this letter will be forwarded to the Superintendent of Public Instruction and the State Controller. [Education Code Section 42131(a)(2)]
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2. During fiscal years 2014-15 and 2015-16, the district must obtain approval from SDCOE prior to the issuance of all nonvoter approved debt, including Tax and Revenue Anticipation Notes (TRANS) and Certificates of Participation (COPs). [Education Code Section 42133(a)]
3. The district is required to provide a written proposal that addresses the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations. [Education Code Section 42127.6(a)(1)(E)]
4. The County Superintendent is required to present an annual report to a school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a qualified certification. This annual report will be issued by June 2015. [Education Code Section 1240(e)]

Since the district certification is considered qualified, I will no longer be assigned to work with the district in the capacity of a fiscal advisor.

Conclusion

Through significant district efforts and several years of favorable state budgets, the district has come out of negative status. We encourage efforts to continue to improve the district's operational stability to ensure its future financial solvency. Should any adverse circumstances arise which would negatively impact the financial condition of the district, please notify this office as soon as possible.

Sincerely,



Lora Duzyk
Assistant Superintendent, Business Services

cc: Dena Whittington, Assistant Superintendent, Business Services, San Ysidro School District
Brent Watson, Executive Director, District Financial Services, SDCOE