



San Diego County Office of Education Main Campus  
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November 8, 2018

**VIA EMAIL ATTACHMENT AND U.S. MAIL**

Ms. Paula Hall  
Board President  
Sweetwater Union High School District  
Chula Vista, CA 91911-1997

**RE: 2018-19 Revised Budget Approval**

Dear Board President Hall:

In a letter dated September 18, 2018, the San Diego County Office of Education (County Office) disapproved the 2018-19 Adopted Budget for Sweetwater Union High School District (District) because it did not support the District's ability to operate with a financial plan that would enable the District to satisfy its current and multiyear financial commitments. On September 20, 2018, the County Office provided follow up guidance to the District on budget revision timelines per Education Code.

**2018-19 REVISED BUDGET APPROVAL**

On October 8, 2018 the District submitted a Revised Budget for fiscal year 2018-19. Our office has completed its review of the Revised Budget in compliance with the provisions of Education Code Section 42127 et seq. The District's Revised Budget has been analyzed in the context of the guidance provided by the San Diego County Superintendent of Schools (CSOS), the Governor's 2018-19 May Revise, and the 2018-19 State Adopted Budget.

Due to the proximity of the 2018-19 First Interim reporting deadline of December 15, 2018, the District's 2018-19 Revised Budget is approved. The District is required to address the following items with the submission of the First Interim Report.

- Enrollment and Average Daily Attendance (ADA) assumptions – The District has experienced declining enrollment and ADA for the past five years. When comparing the 2018-19 Revised Budget ADA to 2017-18 actual ADA, the District has budgeted an increase of 493 ADA, which is in direct contrast with the five-year trend. Should this not materialize, the District's 2018-19 Revised Budget overestimates LCFF revenue by approximately \$5.2 million. Further, with the increase in ADA being budgeted throughout the MYP, revenue could be significantly overstated over the three year reporting period. The District needs to submit enrollment and attendance data by grade level for July through October 2018.

- Routine Restricted Maintenance (RRM) – The Multi-Year Projection (MYP) submitted with the Revised Budget calculates this amount to be 2% of total expenditures for all fiscal years. Per our 2018-19 Adopted Budget guidance, this contribution must be increased to 3% for fiscal years 2019-20 and beyond. This is an increase of approximately \$4 million in Unrestricted General Fund contributions required for each subsequent year. Should the District receive any state funding through Proposition 51 in fiscal year 2018-19 the RRM contribution must be increased retroactively to 3% for 2018-19.
- Special Education – The District has identified special education contributions as an area of reduction. The District will need to take into account the maintenance of effort requirements, along with any increase in Non-Public School placements when identifying reductions. The District will need to work with the South County SELPA prior to identifying expenditure reductions in this area.
- Prior Year Closing - Provide notification to the CSOS of any 2017-18 audit adjustments (either increasing or decreasing the unrestricted ending fund balance) once the audit is finalized. If information via the draft report is available prior to First Interim submission, any significant audit adjustments to the General Fund should be included.
- Medi-Cal offset to one-time discretionary funds – Provide documentation of the amount, and verification that the offset is included in the budget.
- Ongoing cash borrowing concerns – According to District provided documents, the General Fund has ongoing outstanding loans from the Community Facilities District funds. The following actual and projected loan balances identify a growing structural deficit.
  - 2016-17: \$ 5 million
  - 2017-18: \$36 million
  - 2018-19: \$68 million (projected)Additional outstanding loans to the Adult Education and Cafeteria Funds are not included in the above totals. Cash flow projections for all funds containing interfund borrowing must be provided.
- Inclusion of any relevant and timely information obtained from the FCMAT Audit report conducted in October 2018, should the report be available in time.

### **Detailed Reduction Plan 2019-20**

As noted in the September 20, 2018 Budget Comments letter, *“Should the District identify a need for further expenditure reductions in fiscal year 2019-20... a detailed reduction plan shall be provided with the submission of the First Interim report due in December 2018.”* With the inclusion of the above it is likely the amount of reductions identified in Resolution 4589 has increased, the required detailed reduction plan must take into account these increases with submission of the First Interim Report.

### **Bargaining Disclosures**

The District’s 2018-19 budget solutions include items that still need to be negotiated with bargaining units. Please provide our office with disclosure documents at least ten days prior to Board action.

**Fiscal Advisor**

As discussed, the CSOS will provide the district with a fiscal advisor to assist in the improvement of multiple District processes including but not limited to cash management, first interim support and financial analysis of the proposed early retirement incentive. We are pleased to share that Dr. Mark Skvarna, biography attached, will be available to the district two to three days per week effective November 13, 2018. Dr. Skvarna will have access to any additional county office staff that may be needed in support of moving the District forward.

We look forward to continued cooperation and communication.

Sincerely,



Michael Simonson  
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cc: Members of the Board, Sweetwater Union High School District  
Dr. Karen Janney, Superintendent, Sweetwater Union High School District  
Dr. Jenny Salkeld, Chief Financial Officer, Sweetwater Union High School District  
Dr. Paul Gothold, County Superintendent of Schools, SDCOE  
Brent Watson, Executive Director, District Financial Services, SDCOE  
Caryn Moore, California Department of Education