

April 17, 2017

Kathy Ankrom, Board President
Sonora Union High School District
10401 Slate Rim Road
Sonora, CA 95370

Pat Chabot, District Superintendent
Sonora Union High School District
100 School Street
Sonora, CA 95370

Subject: Approval with comments – 2016/17 Second Interim Report

Dear Ms. Ankrom and Mr. Chabot:

In accordance with the provisions of Education Code (E.C.) Section 42131, a review of the Sonora Union High School District's (District) Second Interim Report for fiscal year 2016/17 has been completed by the Tuolumne County Superintendent of Schools (County Superintendent). Per E.C. Section 42131, the District Governing Board makes a finding of positive, qualified or negative.

***“Positive certification** shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.”*

***“Qualified certification** shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.”*

***“Negative certification** shall be assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.”*

“These certifications shall be based upon the financial and budgetary reports required by Section 42130 but may include additional financial information known by the governing board of the school district to exist at the time of each certification.”

At a regular meeting of the District Governing Board on March 7, 2017, the trustees took action to certify the District's Second Interim Report as 'Positive'. Upon our review of the District's certified Second Interim Report, multiyear financial projections (MYFP) and assumptions provided by the District, it appears that the District should be able to meet its financial obligations for the current and two subsequent fiscal years.

Notwithstanding the District Governing Board's positive certification that it will meet its financial obligations for the current fiscal year and subsequent two fiscal years, and the County Superintendent's agreement with the positive certification as presented, this letter discusses the various areas of concern noted by the County Superintendent in her review of the District's 2016/17 Second Interim Report. The areas of concern include deficit spending, fund balance/reserves, staff reductions, fiscal recovery plan and debt issuance.

Deficit Spending

While the District has met its required minimum reserve in the Second Interim MYFP, the District is projecting an operating deficit of (\$440,565) in 2016/17, which is an improvement of \$83,197 over the 2016/17 First Interim deficit spending of (\$523,762). The District is projecting an increase in fund balance of \$450,343 in 2017/18 and \$127,217 in 2018/19, leaving a projected ending fund balance in the general fund of \$1,601,117 at June 30, 2019. The projected 2016/17 deficit spending not only reduces the reserves, but also greatly reduces the District's available cash. Districts that wait too long to address and correct structural deficits are forced to make dramatic corrections all at once, as was the case for Sonora Union High School District. In contrast, carefully planned and phased-in structural corrections lessen the impact on children. As the District develops its 2017/18 budget, adopting a habit of cost containment will minimize deficit spending, without which would jeopardize the financial standing of the District, including its ability to meet the State required minimum reserve.

Fund Balance/Reserves

The District projects an ending fund balance in the general fund of \$1,023,557 with a reserve for economic uncertainties component of \$552,612 and an unappropriated component of (\$820) at June 30, 2017; a projected ending fund balance of \$1,473,900 with an unappropriated component of \$957,598 at June 30, 2018; and a projected ending fund balance of \$1,601,117 with an unappropriated component of \$1,066,793 at June 30, 2019. The District projects an ending fund balance in special reserve fund for other than capital outlay projects, fund 17, of \$1,866,254 with no component for reserve for economic uncertainties or unappropriated balance at June 30, 2017. The District's projected available reserve levels are **4.07%** in 2016/17, **7.88%** in 2017/18, and **8.57%** in 2018/19 in the general fund, with no available reserves from fund 17. While the 4% minimum reserve is met, we strongly recommend that the District continue to maintain unrestricted reserves well above the state required minimum as it develops its MYFP projections into 2020.

Staff Reductions

We have received copies of the following Board approved resolutions for staffing reductions: Board Resolution 2016/17-15, 2016/17-16, and 2016/17-17 approved by the Board in January, 2017. It is our understanding that preliminary lay-off notices and reduction letters were delivered to affected staff on or before March 15, 2017 for certificated personnel, and were or will be delivered on or before April 28, 2017 (or 60 days prior to the effective date of the layoff) for classified personnel. The County Superintendent's agreement with your positive certification is predicated upon the district following through on Board Resolutions 2016/17-15,16 & 17, whose affects are reflected in the MYFP and are a critical component of meeting future years' reserves and ending fund balances. It is crucial that the District maintain planned staffing reductions in order to prevent excessive deficit spending, adhere to cost containment and maintain fiscal solvency.

Fiscal Recovery Plan

We are aware that the information provided in the District's 2016/17 Second Interim Report reflects planned budget reductions from the District's Board approved amended fiscal recovery plan. It is imperative that the District adhere to statutory timelines of the adopted Board resolutions based on the Superintendent's recommendations regarding reduction in service for both classified and certificated personnel, and any administrative personnel reductions. The District's fiscal recovery plan identifies several areas to begin addressing the structural deficit. As such, the District must adhere to the timely delivery of final termination notices and/or contract reductions on or before May 15, 2017 for certificated personnel, and on or before April 28, 2017 (or 60 days prior to the effective date of the layoff) for classified personnel.

It is imperative that the District carefully monitor and evaluate its revenue and expenditures to attain full recovery and to follow through on the District's plans and commitments to achieve fiscal solvency and cost containment to avoid future insolvency.

The Fiscal Recovery Plan Revision (March 7, 2017) does not adequately address a number of concerns identified in the FCMAT study (November 6, 2016) related to the lack of a Facilities Master Plan. The FCMAT study noted:

“The district does not have a comprehensive facilities master plan and/or a long-range deferred maintenance plan; rather, repair and maintenance projects are prioritized and managed informally based on what is desired. Facility improvement needs and projected costs exceed remaining balances designated in other funds.”

In the absence of a Board approved Facilities Master Plan, the District is vulnerable to encroachment on the general fund and interfund borrowing to cover facilities, maintenance and operational costs. Considering the magnitude of voter approved projects, it behooves the District to prioritize facility issues through the development of a Facilities Master Plan when adopting the 2017/18 Budget.

Although the requirement for a district to set aside monies for deferred maintenance has been eliminated as part of LCFF, the requirement to set aside funds for routine repair and maintenance has not. Education Code 17070.75 requires a school district to deposit 3% of its total general fund expenditures into its routine restricted maintenance account (RRMA), for the sole purpose of maintaining school facilities in good repair. The District has met this requirement with a projected deposit of \$586,006 into the RRMA. The District has also projected a \$100,000 transfer to fund 14 (deferred maintenance). As the District develops its Facilities Master Plan, we strongly recommend that the District monitor the available balance in RRMA and deferred maintenance to align with the Facilities Master Plan.

Third Interim Report

We are aware that the information provided reflects the District's financial position and assumptions as of January 31, 2017, and that further adjustments will be made during the year as additional data becomes available and actions are taken to act on proposed resolutions in order to comply with statutory deadlines.

Due to the District's MYFP's dependence on the complete execution of Board approved staffing reductions, which may still be pending, we are requiring a Third Interim Report submission to confirm such action. In addition, please provide copies of all final layoff notices and/or contract reductions with the District's Third Interim Report.

A Third Interim Report is the financial statement projecting the District's fund and cash balances through June 30, 2017 for the period ending April 30, 2017. These reports, projections, and supporting assumptions are due to the County Superintendent not later than June 1, 2017. The District Governing Board is not required to self-certify to a "positive", "qualified," or "negative" certification when submitting the Third Interim Report. However, we recommend that the Board review the Third Interim Report as an information item at a regular meeting of the Governing Board in advance of the June 1, 2017 deadline.

Debt Issuance

Education Code Section 42133(a), which reads: *“A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United State Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification for that fiscal year to be qualified or negative.”*

Conclusion

The District's Second Interim Report has been reviewed and accepted as submitted, with noted concerns and a requirement to submit a Third Interim Report not later than June 1, 2017. Should the District be unable to demonstrate in its Third Interim Report the ability to meet the State required minimum reserve, my office will evaluate the need to invoke the provisions of Ed Code Section 42127.6.

The stewardship of public funds demands responsible planning and management of resources. This year, the Board and its constituents have undergone a collective learning process in responsible planning and management of precious resources and services to the deserving students it serves. We fully expect that the District will apply this learning to the new budget cycle currently underway. Finally, we appreciate the proactive efforts of the Board, district administration, school staff, students and the community at large in supporting and providing input into the development of a balanced budget in these especially challenging times.

Any technical comments from the County Superintendent's Business Office relative to the Second Interim Report will be directed to the District's Chief Business Official. If our office can be of further assistance, please contact the Assistant Superintendent of Business Services, Ms. Rico at 536-2020.

Sincerely,



Marguerite D. Bulkin
County Superintendent



Elizabeth Rico
Assistant Superintendent Business Services

ER:djh

cc: Darlene Hodge, Director, TCSOS Business Services, External
Dana Vaccarezza, Chief Business Official
California Department of Education
State Controller's Office