

September 6, 2019

Linda Chavez, Board President
Alum Rock Union Elementary School District
2930 Gay Avenue
San Jose, CA 95127

Dear Board President Linda Chavez,

Subject: Conditional Budget Approval of the Alum Rock Union Elementary School District 2019-20 Adopted Budget

In accordance with Education Code (EC) Sections 42127 and 52070, the Santa Clara County Office of Education (SCCOE)/Santa Clara County Superintendent of Schools (County Superintendent) is required to approve, conditionally approve, or disapprove the Alum Rock School District's (District) 2019-20 Adopted Budget in conjunction with the Local Control Accountability Plan (LCAP). A review of the Budget was completed by the Santa Clara County Superintendent of Schools to determine whether it allows your district to meet its financial obligations during the fiscal year, and is consistent with a financial plan that will enable your district to satisfy its multi-year financial commitments. Additionally, the adopted budget includes the expenditures necessary to implement the local control and accountability plan or annual update to the local control and accountability plan approved by the county superintendent of schools.

Our office is also required to review and approve the LCAP prior to the approval of the district's adopted budget per EC Section 52070(d) if staff determines that the following criteria have been met:

- The LCAP adheres to the template adopted by the State Board of Education (EC 52064).
- The budget includes expenditures sufficient to implement the specific actions and strategies included in the LCAP.
- The LCAP adheres to the expenditure requirements for funds apportioned on the basis of the number and concentration of unduplicated pupils (EC 42238.02 and 42238.03).

In accordance with EC section 52070, the SCCOE's District LCAP Advisory Services and District Business and Advisory Services teams have reviewed and **approved the District's 2019-20 LCAP**. The District's approved LCAP and Budget Overview for Parents have been posted on our SCCOE website.

Based on our review, the district's 2019-20 Adopted Budget is CONDITIONALLY APPROVED.

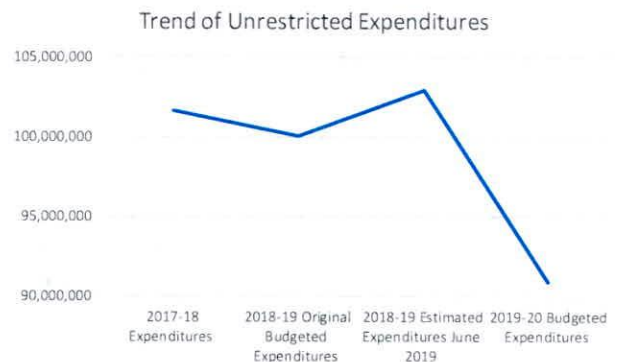
We want to commend the board and district leadership for the steps they have taken to balance the budget in 2019-20 and future years, but we remain concerned about the magnitude of reductions needed

and the thin margin of reserves in the budget. **Failure to achieve any of the proposed reductions could result in fiscal insolvency.**

The district business office team has improved greatly in earlier identified areas of concern around cash reconciliation, general ledger and suspense account reconciliations, position control, and budget monitoring. The business team is building capacity, and the district should continue to focus on ensuring the team has adequate training and the support necessary to ensure quality budget development, monitoring, financial reporting, and a successful transition to the county QSS system.

The primary areas of concern identified in the conditional budget approval assessment are:

- The district has experienced declining enrollment for several years without a corresponding decrease in staffing.
- The district has a budget history of optimistic projections that do not materialize as the year progresses.
- 2019-20 unrestricted budgeted expenditures are \$91 M, a reduction of \$12 M from 2018-19 estimated expenditures. See unrestricted expenditure detail in Appendix A.
- Negotiations are not settled for 2018-19 or future years.
- The district has presented a balanced budget for 2019-20, 2020-21, and 2021-22 with the minimum required level of reserves (Appendix A); however, it requires rigorous adherence to staffing and other reductions in 2019-20 and future years to ensure fiscal solvency.



Pursuant to E.C. 42127 (d)(3), on or before October 8, the governing board of the school district shall revise the adopted budget to include changes in projected income or expenditures subsequent to July 1, and to include any responses to the recommendations of the county superintendent of schools, and shall file the revised budget with the county superintendent of schools.

Recommendations:

The fiscal expert team assigned to support the district in December 2017, will continue to work with the district in closing the books for 2018-19.

The fiscal expert team will continue to work with the district in 2019-20 and monitor the budget and review revised budget and interim reports to ensure adherence to the proposed budget reductions.

The conditions of the December 2018 board resolution that outlined elements of budget monitoring shall continue through January 2020, specifically ongoing FTE reporting and cash reconciliation. See Appendix B for details.

By October 8, 2019, the 2019-20 budget, and 2020-21 and 2021-22 multi-year projection should be revised to reflect the following:

- a) Any increases or decreases to fund balance as a result of the 2018-19 end of year closing. This will include the fiscal impact of the 2018-19 journal entries to clear the general ledger and suspense accounts per the Ryland and Associates report from June /August 2019, a net positive impact to the unrestricted general fund of \$138 K.
- b) Any changes to certificated and classified staffing and related costs as a result of more accurate information available in August 2019.
- c) Updated projections to the salary savings from the retirement option provided in 2018-19 (SERP) that were included in the budget.
- d) Any changes to books and supplies and operating expenditure accounts as a result of an analysis of projected reductions/savings in 2019-20.
- e) Any changes to projected ADA in 2019-20 (impacting 2020-21 funding) as a result of August 2019 start of school enrollment.

We look forward to receiving a revised budget by October 8, 2019, that reflects the updates to the budget as indicated above. It is my intent to require as a condition of final budget approval, the fiscal expert team presence and support of Alum Rock Union Elementary School District through June 2020 to ensure the district is maintaining a rigorous adherence to the budget plan to ensure fiscal solvency.

Sincerely,



Mary Ann Dewan, Ph.D.
County Superintendent of Schools

cc: Hilaria Bauer, Ph.D., Superintendent, Alum Rock Union Elementary School District
Kolvira Chheng, Assistant Superintendent of Business Services, Alum Rock Union Elementary School District
Sandra Garcia, Director of State and Federal Programs, Alum Rock Union Elementary School District
Gary Waddell, Ed.D., Assistant Superintendent, Santa Clara County Office of Education
Chris Izor, Director - District LCAP Advisory Services, Santa Clara County Office of Education
James Novak, Ed.D., Chief Business Officer, Santa Clara County Office of Education
Judy Lee Kershaw, Director – District Business Services, Santa Clara County Office of Education
Ann Redd, District Business Advisor - Senior, Santa Clara County Office of Education

Appendix A Financial Details

Alum Rock Unrestricted Expenditure Detail

	Unrestricted Expenditures*	2017-18 Actuals	2018-19 Original Budget	2018-19 Est Actuals as of June 2019	2019-20 Budget	Change from 2018-19 Est. to 2019-20 Budget
1	Certificated Salaries	49,639,196	46,462,558	49,136,756	44,131,730	(5,005,026)
2	Classified Salaries	14,815,631	15,394,630	15,488,423	13,735,261	(1,753,162)
3	Benefits	23,025,794	23,581,867	24,539,134	22,735,871	(1,803,263)
4	Books and Supplies	3,822,768	3,092,418	3,006,172	1,799,302	(1,206,870)
5	Services/Other Operating Exp.	13,505,714	13,768,225	13,169,396	10,785,472	(2,383,924)
6	Capital Outlay	252,587	338,219	205,219	183,798	(21,421)
7	Other Outgo/Excess Cost	(622,399)	34,155	34,155	702,521	668,366
8	Direct Support/Indirect Cost	(2,711,376)	(2,561,237)	(2,665,448)	(3,136,592)	(471,144)
9	Total Expenditures	101,727,915	100,110,835	102,913,807	90,937,363	(11,976,444)
* does not include "other financing sources/uses"						

Alum Rock 2019-20 Multi-Year Projection (Restricted & Unrestricted)

	Alum Rock 2019-20 Multi Year Projection Unrestricted & Restricted	2019-20 Adopted Budget	2020-21 Projected	2021-22 Projected
1	Revenue	131,208,105	129,178,131	128,930,823
2	Expenditures	132,032,021	129,195,874	128,904,568
3	Revenue less Expenditures	(823,916)	(17,743)	26,256
4	Beginning Balance	5,101,600	4,277,682	4,259,938
5	Ending Balance	4,277,684	4,259,939	4,286,194
6	Revolving Cash	20,000	20,000	20,000
7	Economic Uncertainties Reserve/Unassigned	4,257,684	3,875,876	3,867,137
8	EUR and Unassigned as % of Expenditures	3.22%	3.00%	3.00%

Appendix B

December 2018 Board Resolution Items and Status

Beginning January 2019, the district will present to the board a monthly report of certificated FTE. At a minimum, the monthly reporting will continue through January 2020.	Ongoing
The District has made significant progress in building systems around monthly cash reconciliation. To ensure these systems are maintained, the district will present to the board a monthly report of cash reconciliation for all funds, starting in January 2019 and continuing at a minimum through January 2020.	Ongoing
By February 2019, the District will review enrollment at all sites to determine appropriate staffing levels for the fiscal year 2019-20.	Done
The fiscal year 2018-19 first interim multi-year projection proposes an additional \$5.7 Million dollars in reductions in the fiscal year 2019-20 and \$6.5 Million dollars in 2020-21. By February 2019, the district board shall identify the additional reductions to meet this goal, specifically noting how many additional certificated FTE reductions may be required to meet the goal.	Done
Starting in January 2019, the District will hire a consultant to review all general ledger and suspense account balances and assist in resolving all prior year issues. This process will be complete by June 2019. A report by the consultant will be provided to the county office of education by June 2019, describing the prior year corrections and amounts so that an assessment of the materiality of the changes can be made.	Done
In order to ensure the systems around budget development and financial reporting are maintained, the district shall develop written procedures by June 2019 in the area of monthly budget monitoring, cash reconciliation, general ledger, and suspense account review.	Done Alum Rock team will continue to revise and update.
The district will ensure that all appropriate staff are trained and cross-trained in these areas, so there is sufficient capacity in the business office to ensure credible budget development and that financial reporting systems are maintained.	Done Alum Rock team will continue to revise and update.