



SAN DIEGO COUNTY OFFICE OF EDUCATION

6401 Linda Vista Road, San Diego, CA 92111 • 858-292-3500 • www.sdcoe.net
San Diego County Superintendent of Schools Dr. Paul Gothold

January 31, 2018

Cindy Marten
Superintendent
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2682

Dear Superintendent Marten:

Re: 2017-18 First Interim Report

Our office has completed its review of your First Interim Report (SACS Form 01I) in compliance with the provisions of Education Code Section 42130 et seq. The district has submitted a positive certification, which means that the district will meet its financial obligations for the current fiscal year and subsequent two years.

The district's First Interim Report has been analyzed in the context of the 2017-18 State Budget Act. All of the data submitted by the district has been analyzed and appears to adequately reflect the financial status of your district as of October 31, 2017.

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 we concur with this certification at this time.

The state requires the district to maintain a Reserve for Economic Uncertainties equal to 2% of expenditures. The district projects that it will meet this requirement in 2017-18 and beyond.

Financial Status in 2017-18

Deficit Spending / Ending Fund Balance / Reserve for Economic Uncertainties

The district is currently projecting to deficit spend in the unrestricted general fund as follows:

- Unrestricted Deficit Spending
 - 2017-18 = (\$21.5 million)
 - 2019-20 = (\$443,000)
- Projected Unrestricted Ending Fund Balance
 - 2017-18 = \$30.1 million
 - 2018-19 = \$30.7 million
 - 2019-20 = \$30.2 million

Multi Year Projections

When reviewing the multi-year projections, it's noted that the district is projecting a slight surplus in fiscal year 2018-19. The district approved budget solutions of approximately \$47 million for this fiscal year, which

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eliminated the deficit and allowed the district to have a positive ending fund balance and meet the required 2% reserve.

In reviewing fiscal year 2019-20, we see that expenditure reductions of \$46.6 million were assumed. These assumptions have yet to be detailed and allow the district to project a positive ending fund balance and maintain the required 2% reserve level. When we take these assumptions out of the MYP calculation, the district would project to have a negative ending fund balance of approximately \$16 million.

Cash Flow

The district has issued Tax and Revenue Anticipation Notes (TRANS) to help address anticipated cash shortfalls. Other options to help with cash flow include borrowing from other funds, spending freezes, working with vendors on the timing of revenues and payments, and a Temporary Transfer of Funds (TTF) from the County Treasury. We recommend that the district continue to closely monitor its cash situation. We recognize the District has implemented several of these options.

Conclusion

The Governor has recently released his 2018-19 budget proposal for the State of California. His proposal fully funds the LCFF at 100% and also provides additional one-time funding of approximately \$295 per ADA. While this is good news for schools, the only ongoing funding source, LCFF state aid, will no longer see increases to it beyond COLA in future years unless changes are made at the state level.

With the submission of this report, San Diego Unified is projecting a slight deficit in the 2019-20 fiscal year after assumed expenditure reductions are included. The District is currently reviewing its budget and the effects of the Governor's proposals. Adjustments to future projections will be made based on this news, but the District will still need to identify ongoing solutions to eliminate projected deficits. One-time funds will not solve ongoing deficit issues.

We appreciate the District's efforts to ensure fiscal solvency. Should any adverse circumstances arise which would negatively impact the financial condition of the district, please notify this office as soon as possible.

If you have any questions concerning this review, please feel free to call me at (858) 292-3537.

Sincerely,



Brent Watson
Executive Director
District Financial Services

BW:VS

cc: Kevin Beiser, Board President, San Diego Unified School District
Greg Ottinger, Chief Business Officer, San Diego Unified School District
Debbie Foster, Executive Director, Finance, San Diego Unified School District