FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

December 10, 2010

Carl Toliver, Superintendent
Stockton Unified School District
701 N. Madison
Stockton, CA 95202

Dear Superintendent Toliver:

The purpose of this letter is to confirm the findings and recommendations of the Fiscal Crisis and Management Assistance Team (FCMAT) regarding the Stockton Unified School District to assess the district's going-concern status. As defined in the study agreement, dated November 5, 2010 the scope and objectives of the study are as follows:

1. Conduct a multiyear financial projection and cash flow analysis for the current and two subsequent fiscal years. The MYFP shall be completed using FCMAT's Budget Explorer software and will include recommendations for revenue enhancements and expenditure reductions in an effort to assist the district in reducing the projected budget deficit for the 2011-12 and 2012-13 fiscal years. The FCMAT team will utilize the district's adopted budget for the 2010-11 fiscal year as the baseline data for completing the MYFP.

FCMAT conducted fieldwork at the district office on November 17, 18 and 19, 2010, with additional off-site work during the weeks that followed. The team reviewed several documents and financial reports, including the district's annual independent audits, unaudited actuals, budget documentation from the financial system, J-18/19 attendance reports and other historical financial information pertinent to the study. The independent multiyear financial projection (MYFP) was developed based on this information and on reports from the district's financial system at the time of FCMAT's fieldwork. Additional input from district and county office staff was also considered before finalizing the enclosed information. There was insufficient time between FCMAT's engagement and the date the district requested for issuance of the final report to complete an independent cash flow projection. Therefore, to meet the district's requested time line, the FCMAT cash flow projection will be forwarded under a separate cover.

Background

The severe economic downturn in the state and local sectors has affected private businesses and government entities of all types. At the same time, increases in salary and health benefit commitments, energy, fuel, and other routine operating costs often exceed revenue growth, leaving district budgets with deficits, shortfalls and insufficient reserves.

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These economic factors, combined with the student performance objectives established by federal No Child Left Behind (NCLB) legislation, pose considerable fiscal challenges for public schools. Therefore, it is important for districts to demonstrate leadership and the ability to meet the increasing expectations of parents, students and the community while working within the constraints of decreasing fiscal resources.

The Stockton Unified School District is not immune to these problems. Over the last several years, the district has relied on one-time funding sources as its primary method of addressing the fiscal shortfalls resulting from state funding reductions, increasing costs and an ongoing decline in student enrollment. Like most districts, Stockton Unified has fewer resources available to address the ongoing funding reduction and must make difficult choices that will require fiscal diligence on the part of the school board, staff, and the community to maintain the district's financial solvency.

Executive Summary

FCMAT's assessment of the district's financial position identified several key matters that should be carefully considered. The details of these findings are elaborated on to a greater degree in the pages that follow in this letter and are summarized as follows:

- The 2010-11 budget and multiyear financial projection as adopted by the district contained budget reduction measures that are not realistically achievable without significantly impairing the district's ability to deliver a sound educational program.
- The district has relied greatly on one-time revenue sources and short-term options including state categorical flexibility and modified class size options as a means of addressing funding reductions.
- FCMAT's projection indicates that the district's fiscal condition may deteriorate far more than projected in its 2010-11 adopted budget and accompanying multiyear financial projection.
- Although the district has made a concerted effort to make significant budget reductions during the 2010-11 fiscal year, these reductions are insufficient to address the ongoing shortfall.
- Based on the information known at the time of this study, FCMAT's MYFP identifies that the district will not be able to meet its reserve requirements come 2011-12 falling short by $29.3 million by the 2012-13.
- A qualified certification should be expected for the first interim revised budget.
- The need to take action is further intensified because of the continued deterioration of the state's economic circumstances and the increasing likelihood that districts will experience further reductions and/or cash deferrals in the future.

The district has worked closely with the San Joaquin County Office of Education as potential fiscal insolvency became a possibility. As the district proceeded to develop its budget for the 2010-11 fiscal year and its accompanying multiyear financial projection, it became increasingly apparent that significant budget reduction measures would be necessary to maintain fiscal solvency in the subsequent two fiscal years.

To substantiate these concerns, the district took proactive steps to conduct this third-party review of its financial condition to confirm the need to develop a plan to respond to the impact of the state and national economic crisis. This study is the result of these actions and is the next step in managing the situation and avoiding fiscal insolvency.

The district's budget as adopted for the 2010-11 fiscal year and submitted to the San Joaquin County Office of Education contained several areas requiring revision for first interim reporting. The assumptions utilized in the district's MYFP as a basis for meeting the district's financial obligations in the subsequent two fiscal years are not realistic options for dealing with the district's projected shortfalls. The district was cautioned by the county office that the assumptions included in the MYFP did not appear achievable and if implemented, could significantly impair the district's ability to deliver a sound educational program. The weakness of these assumptions may be further exacerbated by the increasing likelihood that districts will experience further reductions in the future as a result of the state's continuing economic decline.

During FCMATs fieldwork, the district's focus on refining the assumptions utilized for the revised budget was evident and indicated that significant efforts were underway to identify sustainable reduction measures that could be incorporated into the district's MYFP to address the budgetary challenges that fell outside the realm of contractual commitments.

Districts are cautioned to set aside the additional funding authorized in the state's enacted budget over that provided in the governor's May Revise. The rapid erosion of the assumptions included in the state's 2010-2011 budget increases the expectation that the state will once again turn to public education funding as a partial remedy. If this occurs, the district will need to revisit the budget in the current fiscal year and make additional reductions or revenue enhancements.

FCMAT's projection indicates that the district's fiscal condition may deteriorate far more than projected in its 2010-11 adopted budget report and accompanying multiyear financial projection. Based on FCMATs analysis of the district's financial position, it is further projected that a qualified certification should be expected for the first interim budget. If this occurs, the county office could assign a fiscal expert or take other fiscal intervention measures in accord with Education Code section 42127.6.

If a California school district's governing board determines that it has insufficient funds to meet its current obligations, it may request an emergency apportionment loan from the state. Emergency apportionment loans are provided only through a legislative appropriation that involves various lengthy and complicated steps and preparation by both the district and the county office.

The most effective way for the district to avoid such intervention is to implement a new financial plan that identifies revenue enhancements and/or expenditure reductions. Because more than 89.7 percent of the unrestricted budget is comprised of salaries and benefits, any solution is likely to include some form of staffing or compensation adjustments.

FCMAT reviewed the district's financial information and prepared an independent financial analysis of the district's fiscal health by producing an independent multiyear financial projection.

The following factors have been identified by the county office and the district as contributing to the district's fiscal distress:

- Declining enrollment
- Expensive labor contracts
- State education funding deficits
- State education funding payment deferrals
- State education funding revised apportionment schedules

The county office's fiscal oversight activities have included the following:

- Reports to the district's governing board
- Meetings with district administration and county office fiscal support staff
- Cash flow development and analysis

FCMAT's multiyear financial projection (MYFP) indicates that without significant expenditure reductions and/or revenue enhancements, the district will have a negative general fund balance at the close of the 2012-13 fiscal year. The MYFP demonstrates that the district will not meet its reserve requirement in the two subsequent fiscal years 2011-12 and 2012-13.

FCMAT's analysis also indicates that the district *will* be able to meet its current obligations in fiscal year 2010-11 and will not require an emergency state appropriation or temporary loan from the county office for fiscal year 2010-11 based on the current financial information. However, this is based on the state budget as enacted and also incorporates use of Federal Education Jobs funding for certificated school site salaries in the 2011-12 fiscal year. The district's reserve balance will decrease to 1.77 percent at the end of the 2011-12 and will be completely depleted by 2012-13 under the state recommended reserve balance of 2 percent, according to FCMAT's financial projection. Further, the analysis indicates that in the absence of revenue enhancements or significant expenditure reductions, the district will be unable to meet it financial commitments during the 2012-13 fiscal year. FCMATs analysis of the districts unrestricted budget reveals an ongoing deficit spending cycle that erodes the district's unrestricted resources each year.

To retain its going-concern status and avoid the need for outside assistance or intervention from the county office or state in future years, the district will still need to make significant budget adjustments (i.e., expenditure decreases and/or revenue enhancements). These will serve to offset deficit spending, declining enrollment and reduced state funding as well as the loss of one-time revenue from the Federal Education Jobs funding. Without significant budget adjustments, the district will be in severe financial distress and require outside assistance during the 2012-13 fiscal year.

Multiyear Financial Projection

Multiyear financial projections are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI), county offices of education and FCMAT and their ability to provide management assistance and intervene during fiscal crises.

FCMAT prepared a multiyear financial projection (MYFP) using FCMAT's Budget Explorer software to determine the financial condition of the district's general fund for fiscal years 2010-11 through 2012-13. FCMAT reviewed revenue and expenditure trends during recent years, used industry-standard variables, and based its projection on the district's 2010-11 adopted budget.

Any forecast of financial data has inherent limitations because calculations are based on certain assumptions and criteria, including enrollment trends, cost-of-living increases, projected deferrals, forecasts of costs for utilities, fuel and other consumables, and local, state and national economic conditions. Therefore, the projection should be viewed as a trend based on current criteria and assumptions rather than as a prediction of exact numbers. Multiyear financial projections can serve as the basis for more informed decisions and the ability to forecast the fiscal effects of decisions, and should be updated at least at each interim financial reporting period and in preparation for negotiations.

When developing a MYFP, attention is focused on the district's ability to meet its required reserve for economic uncertainty and achieve a positive unappropriated fund balance. The district's recent deficit spending trend indicates a need to increase revenue, decrease expenditures, or both to maintain a positive unappropriated fund balance. When the unappropriated fund balance is negative, the negative balance is the amount by which budgeted expenditures must be reduced or revenues increased to meet the reserve requirements in accordance with AB 1200 guidelines.

The district's fiscal condition will deteriorate far more than projected in its mutliyear financial projection provided with the adopted budget report. Significant factors contributing to this situation include the impact of the state budget crisis, which may result in additional funding reductions, and the loss of one-time funding made available to districts through American Recovery and Reinvestment Act (ARRA) and the Federal Education Jobs funding. Further, the standard penalty structure for Class Size Reduction funding is expected to resume in 2012-13, requiring districts to choose between increasing staff sizes to meet the 20.4:1 requirements or forgoing CSR funding. FCMAT incorporates the elimination of CSR funding in its MYFP beginning 2012-13.

FCMAT reviewed the district's records, interviewed staff members and examined a variety of financial documents to gather the information needed for the multiyear financial projection. *This projection indicates that the district will not meet its reserve requirement in the two subsequent fiscal years, 2011-12 and 2012-13, without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending.*

If a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district governing board and the SPI. The county office of education must follow Education Code section 42127.6 when assisting a school district in this situation. In the case of a district that does not maintain its required reserve for economic uncertainty, the intent of the MYFP is to help the county and district create a plan to regain fiscal solvency and restore the required reserve.

The final Budget Explorer projection is included with this management letter, and FCMAT can provide the district and/or county office staff with access to Budget Explorer for projection files upon request.

Projection Assumptions

FCMAT prepared its multiyear financial projection to include the impact of the state budget as enacted for the 2010-11 fiscal year. Assumptions include conservative economic factors and estimates provided by School Services of California in its current Financial Dartboard as of November 2010.

Significant assumptions included in the 2011-12 and 2012-13 fiscal years respectively include the following:

- COLA: 0% and 1.9%
- Step-and-column salary increases: 1.68% certificated and 1.34% classified
- Average daily attendance decrease as a result of declining enrollment: -903.13 and -1153.57
- Staffing reductions related to projected enrollment decline have been incorporated into the 2011-12 and 2012-13 fiscal years based on 30:1 class size averages and $80,000 average annual teachers salary with benefits.

- Reductions to compensation related to noncontract wages for one-time categorical program funding sources
- Increases in general operating expenditures based on the California consumer price index (CPI) and other economic indicators.
- Projected revenue was based on validation of funding from the California Department of Education, School Services of California Dynamic Budget, grant letters and analysis of district basis for any sources that could not be directly verified.

FCMAT's MYFP assumes that the district's current ongoing costs will continue, including the cost of step-and-column adjustments, utilities and other expenditures such as contributions to special education, transportation and routine repair and maintenance. Salary and benefit cost projections were based on an analysis of the active positions obtained through the district's position control system, actual salaries and benefits paid through October 2010, and a projection of encumbered salary and benefit costs through the end of the fiscal year. Budgetary reservations for open, but unfilled, positions were assessed for reasonableness and retained because the district indicated that positions continue to be filled based on an assessment of need and satisfactory justification.

Projection Assessment

Although the district implemented significant reductions beginning in the 2010-11 fiscal year, these reductions are insufficient to address the ongoing fiscal needs of the district.

Without any further reduction measures or revenue enhancements formally approved by the board, the MYFP prepared by FCMAT indicates that the district will continue deficit spending each fiscal year through June 30, 2013. The district has relied greatly on one-time revenue sources, including the State Fiscal Stabilization Fund (SFSF), ARRA, and Federal Education Jobs funding and existing reserve balances to sustain spending levels. The district also utilized categorical funding flexibility resources permissible under SBX3 4 to assist in addressing the identified budgetary shortfalls.

Deficit spending occurs when expenditures and other uses exceed revenues and other sources. FCMAT projects that this trend will continue through the 2012-13 fiscal year unless new and significant revenues are identified and/or expenditure reductions made.

A summary of FCMATs general fund unrestricted MYFP is provided in table 1 below. The projection identifies an ongoing net decrease in fund balance, otherwise described as a structural operating deficit, in all three fiscal years.

Table 1 - FCMAT MYFP Summary

UNRESTRICTED - FCMAT	2010-11	2011-12	2012-13
Beginning Fund Balance	**$ 25,077,286**	**$ 18,624,863**	**$ 5,493,818**
Revenue	$ 205,788,211	$ 201,870,287	$ 193,538,757
Expenses	185,654,121	186,418,735	193,372,057
Excess / (Deficiency) before Other Sources & Uses	**$ 20,134,090**	**$ 15,451,552**	**$ 166,699**
Interfund Transfers Out	$ (315,383)	$ (315,383)	$ (315,383)
Contributions	(26,271,130)	(28,267,214)	(28,498,449)
Total Other Financing Sources, Uses & Contributions	**$ (26,586,513)**	**$ (28,582,597)**	**$ (28,813,832)**
Net Increase/(Decrease) in Fund Balance	**$ (6,452,423)**	**$ (13,131,045)**	**$ (28,647,132)**
Ending Fund Balance	**$ 18,624,863**	**$ 5,493,818**	**$ (23,153,315)**
Unrestricted Reserve %	**5.56%**	**1.77%**	**-7.47%**
2% Minimum Reserve Requirement	**$ 6,697,312**	**$ 6,199,277**	**$ 6,195,655**
Excess/(Shortfall) in Unrestricted Resources	**$ 11,927,551**	**$ (705,459)**	**$ (29,348,970)**

FCMAT's MYFP shows that the district will be able to maintain the recommended 2% reserve for economic uncertainties in the 2010-11 fiscal year, but will be unable to do so in the 2011-12 and/or 2012-13 fiscal years. FCMAT's MYFP is based on the assumptions listed earlier in this letter, but excludes the effect of any unsettled negotiations or changes to ongoing costs that have not been approved by the governing board. The MYFP assumes that the district will continue to operate in the same manner, with the current ongoing costs for salaries and benefits. Salary increases and/or health-and-welfare-benefit increases would further erode the ending fund balance and the district's financial solvency.

An alternative review of the district's financial position, presented in table 2 below, incorporated the possible retraction of the additional revenue limit funding included in the state's 2010-11 enacted budget. This review demonstrates the budget resolution level the district would be required to make to meet its 2% minimum reserve requirement.

Table 2 - FMCAT MYP Modified For State Budget Revisions and District Budget Reduction Level

UNRESTRICTED - FCMAT	2010-11	2011-12	2012-13
Beginning Fund Balance	**$ 25,077,286**	**$ 10,316,784**	**$ 16,007,660**
Revenue	$ 205,788,211	$ 201,870,287	$ 193,538,757
State Budget Change from May	(8,308,079)	(8,308,079)	(8,308,079)
	$ 197,480,132	**$ 193,562,208**	**$ 185,230,678**
Expenses	185,654,121	186,418,735	193,372,057
Additional Necessary Budget Revisions		(27,130,000)	(27,130,000)
	$ 185,654,121	**$ 159,288,735**	**$ 166,242,057**
Excess / (Deficiency) before Other Sources & Uses	**$ 11,826,011**	**$ 34,273,473**	**$ 18,988,620**
Interfund Transfers Out	$ (315,383)	$ (315,383)	$ (315,383)
Contributions	(26,271,130)	(28,267,214)	(28,498,449)
Total Other Financing Sources, Uses & Contributions	**$ (26,586,513)**	**$ (28,582,597)**	**$ (28,813,832)**
Net Increase/(Decrease) in Fund Balance	**$ (14,760,502)**	**$ 5,690,876**	**$ (9,825,211)**
Ending Fund Balance	**$ 10,316,784**	**$ 16,007,660**	**$ 6,182,448**
Unrestricted Reserve %	**3.09%**	**5.17%**	**2.00%**

In considering these potential factors, it is evident that the district will be required to make $27 million in ongoing expenditure reductions or revenue enhancements. A portion of this reduction can be achieved through noncontractually committed budgetary savings in the current fiscal year and therefore, it is strongly recommended that the district curtail all expenditures that are not absolutely crucial to operations in the 2010-11 fiscal year.

The district should update projections frequently as new information regarding the state budget comes available, assessing the affects of any potential revisions. Many of the assumptions that the state's 2010-11 fiscal year budget was built on began to deteriorate soon after the budget was enacted. At present the state budget includes a shortfall of approximately $25 billion as a result of unrealistic revenue projections and expenditure assumptions. The potential for additional funding reductions and/or deferrals to public education continue to exist, and districts should be well prepared to address any revisions that may affect public education.

Since the multiyear projection indicates deficit spending and shortfalls in each subsequent fiscal year, immediate action should be taken to reduce the deficit and correct the problem. The earlier this action is taken, the greater the impact on the district's multiyear financial outlook. Because of a compounding affect, each dollar of ongoing expenditure eliminated this year results in three dollars of ongoing expenditures eliminated by the third year of the MYFP.

It is difficult for school districts to deal with the financial pressures that arise from significantly reduced funding, apportionment deferrals and the uncertainty associated with a volatile economy. Therefore, districts should develop contingency plans with maximum flexibility. Districts that continue to operate programs supported by funding identified under the flexibility provisions are now confronted with the need to reassess the use of these funds. Additionally, the enactment of the 2010-11 state budget eliminated proposed decreases originally outlined in the May Revision. It is strongly recommended that the district refrain from spending this projected funding because of significant concerns that these revisions may not come to fruition.

General Fund Balance Sheet Accounts

FCMAT reviewed the general fund balance sheet accounts at June 30, 2010 and the most recent information available at the time of fieldwork. Documentation was reviewed to determine whether these balances were reasonable at both dates and that no assets or liabilities were overstated or understated that might affect the district's general ending fund balance.

Approximately $3.8 million of amounts due from other governmental agencies recorded in the district's books at June 30, 2010 remained uncollected at the date of FCMAT's fieldwork. Approximately $3.4 million of accounts payable and $5 million of amounts due to other governmental agencies recorded in the district's books at June 30, 2010 also remained unpaid at this time. FCMAT was unable to verify the validity of these items during fieldwork as a district prepared reconciliation was not available. The staff advised that the amounts in these accounts represent legitimate accruals to the best of the staff's knowledge.

These unreconciled balances could impact the general fund ending balance in the 2010-11 fiscal year. The district should routinely evaluate outstanding balances and determine if receivable amounts are uncollectable or the payable amounts are legitimate outstanding obligations. FCMAT cannot make this determination, and therefore, no adjustment was considered in our multiyear financial projection.

Other Funds

FCMAT's reviewed the financial status of all other district funds to identify any financial issues that might have a material impact on the general fund. To that end, FCMAT noted the following items:

<u>Adult Education Fund</u>

The adult education fund is utilized to account for all the unallocated prior year carryover of the fund as well as federal funds received for the program. All funds received from the state have been deposited in the general fund as per state flexibility authorization. The district staff indicated that the amounts maintained in the general fund are utilized for the adult education program. If the district intends to continue to use the state funds in this manner, the funding should be transferred to the adult education fund, and expenditures should be accounted for in that fund.

The district should honor its current commitment of operating the adult education program at available funding levels and not expose the general fund to any financial obligation.

<u>Child Development Fund</u>

The district has been advised that nearly all of its child development fund carryover from the 2009-10 fiscal year will be recaptured as a result of a failure to submit a report identifying how the carryover would be utilized in the 2010-11 fiscal year. According to the district staff, this notice was provided by the state without allowing sufficient time to develop a plan. This amount has been removed from the child development fund budget, and no impact to the general fund is expected by the district. Nonetheless, the district should develop a plan while consulting with the state to determine how these funds might be retained.

Cafeteria Fund

FCMATs initial review of the district's adopted budget found that the district did not budget an indirect cost charge to the cafeteria fund for the 2010-11 fiscal year; the maximum charge would exceed $500,000. These charges are allowed by the California School Accounting Manual to provide a funding source for the cafeteria program's share of costs of providing administration such as accounts payable, receivable, payroll, property and liability insurances and other costs funded from the general fund. Because the cafeteria fund budget includes a surplus for the 2010-11 year and a projected ending fund balance exceeding $7 million, such a charge would not cause a significant hardship for the cafeteria program or necessitate a contribution from the general fund. All programs and funds should be charged the allowable indirect cost rate each year to ensure that programs accurately reflect their true cost of operation.

Deferred Maintenance Fund

The district's deferred maintenance fund will be completely depleted by the end of the 2010-11 fiscal year according to the adopted budget. The state contribution to this fund has been retained in the general fund via flexibility authorization, and district contributions from the general fund have been eliminated. A mitigating factor is that the district has implemented a districtwide facility modernization and construction program funded by a variety of sources that has addressed many of the needs identified in the district's five-year deferred maintenance plan. Nonetheless, the district should update its five-year plan and ensure that funding identified for those projects is allocated in the general fund or other identified funds to support the expenditures for those projects.

Self Insurance Fund

The district maintains a self-insurance fund to provide for its workers' compensation and certain health-and-welfare benefits. The fund cash balance of more than $12 million is reserved for actuarially determined claims liability for the workers' compensation program and other claims as identified by program consultants.

Self-insurance is intended to lower insurance program premiums by retaining responsibility for a portion of the cost, or risk, of each claim. A balance is struck between the risk of self-insurance with transfer of risk to a third party via insurance premiums. In addition to the independent actuarial study prepared to identify the obligations, an analysis should be prepared each year to determine whether self-insured retentions are balanced with such premiums. *There should be particular sensitivity concerning the impact to the general fund budget of the balance between premiums and retentions so that the general fund impact is mitigated.*

Long-Term Debt

FCMAT reviewed the district's long-term debt, including outstanding principal balances at June 30, 2010 and annual debt service requirements for the 2010-11 through 2012-13 fiscal years. All identified debt obligations are accounted for in the 2010-11 budget. The district has incurred significant debt via issuance of certificates of participation (COPs), the debt service of which is budgeted in the capital facilities fund number 25. Because fund 25 is generating only $1 million to $2 million in new revenue each year, the district should exercise caution to avoid any impact to the general fund of future COP debt service obligations.

Cash Flow

As stated earlier in this letter, because of significant time constraints, the cash flow component of this analysis will be forwarded under separate cover. However, because of the significant budget shortfalls projected in the 2011-12 and 2012-13 fiscal year and the potential for further funding reductions and deferrals due to the state's economic circumstances, it is reasonable to expect that the district will also be confronted with cash flow challenges in the foreseeable future.

The district should be aware that any additional delay of apportionments could cause additional cash flow challenges and result in a need to borrow to meet ongoing expenditures. If borrowing becomes necessary, options include the following:

Internal borrowing between funds as authorized by Education Code section 42603 – This section allows local educational agencies (LEAs) to borrow temporarily between funds to address cash flow shortages. This is the most common method used by school districts, but is effective only if cash is available in other funds. This type of borrowing has specific limitations regarding amounts and the timing of repayment.

External borrowing from the county office of education as authorized by Education Code sections 42621 and 42622 - This option depends on the county office's willingness and ability to provide funds.

External borrowing from the county treasurer as authorized by Education Code section 42620 - Under Article XVI, Section 6 of the California Constitution, the county treasurer is required to provide funds to an LEA that cannot meet its obligations. However, the county treasurer cannot lend districts money after the last Monday in April of the current fiscal year, and the district must meet additional requirements.

External borrowing using tax and revenue anticipation notes (TRANs) - Because of arbitrage penalties, the LEA should determine its cash flow needs and size the TRANs appropriately. Strict time lines and requirements concerning the district's ability to pay should be considered and may not make this option viable. Working with an outside financial consultant can help avoid problems.

Reserve for Economic Uncertainty

Sufficient cash reserves help provide a district with sufficient time to react, plan, and execute a survival strategy. As previously stated, FCMAT has included a 2% reserve for economic uncertainty in all years of the MYFP. However, education leaders should continue to maintain the largest reserves possible in their budgets for fiscal years 2010-11, 2011-12 and 2012-13 to address possible future reductions.

FCMAT would like to thank the Stockton Unified School District staff and the San Joaquin County Office of Education for their cooperation and assistance in this review. It was through the outstanding cooperation of staff, the transparency of financial information and detail of the financial accounting that this engagement was achievable in the time frame requested.

If you have questions or require additional information about any of these issues, please do not hesitate to contact me at (209) 384-0349.

Sincerely,

Marisa A. Ploog, CPA
Fiscal Intervention Specialist

C: Jim Thomas, Deputy Superintendent Business Services, San Joaquin County Office of Education
Jim Cerreta, Fiscal Intervention Specialist FCMAT
John Von Flue, Fiscal Intervention Specialist FCMAT
Margaret Rosales, FCMAT Consultant
Nancy Howatt, FCMAT Consultant

Attachments:
Multiyear financial projection general fund summary, unrestricted summary, restricted summary
MYFP Projection Rules/Assumptions

General Fund/County School Service Fund
Unrestricted and Restricted Resources
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues					
Revenue Limit Sources	8010 - 8099	$171,973,029.00	$175,633,268.88	$171,874,951.91	$170,437,544.00
Federal Revenues	8100 - 8299	$57,788,618.00	$61,564,069.00	$32,706,984.00	$32,706,984.00
Other State Revenues	8300 - 8599	$82,382,787.00	$79,666,958.60	$78,112,746.80	$72,013,061.86
Other Local Revenues	8600 - 8799	$7,479,867.00	$7,385,957.00	$4,933,586.04	$4,940,297.27
Total Revenues		$319,624,301.00	$324,250,253.48	$287,628,268.75	$280,097,887.13
Expenditures					
Certificated Salaries	1000 - 1999	$155,865,757.16	$144,021,372.23	$143,355,714.78	$143,623,862.13
Classified Salaries	2000 - 2999	$45,998,932.96	$46,765,528.00	$47,183,872.20	$47,791,154.38
Employee Benefits	3000 - 3999	$75,045,380.83	$74,902,354.77	$74,707,068.28	$74,612,338.83
Books and Supplies	4000 - 4999	$31,698,941.12	$35,384,609.66	$14,603,552.09	$13,363,849.75
Services and Other Operating	5000 - 5999	$38,141,870.97	$33,382,559.88	$30,359,465.64	$30,637,404.24
Capital Outlay	6000 - 6900	$39,433.49	$677,589.00	$22,589.00	$22,589.00
Other Outgo	7000 - 7299	$109,825.42	$175,841.00	$175,841.00	$175,841.00
Direct Support/Indirect Cost	7300 - 7399	($172,021.00)	($971,643.00)	($971,643.00)	($971,643.00)
Debt Service	7430 - 7439	$469,588.87	$211,995.00	$211,995.00	$211,995.00
Total Expenditures		$347,197,709.82	$334,550,206.54	$309,648,454.99	$309,467,391.33
Excess (Deficiency) of Revenues Over Expenditures		($27,573,408.82)	($10,299,953.06)	($22,020,186.24)	($29,369,504.20)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$180,510.00	$315,383.00	$315,383.00	$315,383.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$1,953,094.00	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		$1,772,584.00	($315,383.00)	($315,383.00)	($315,383.00)
Net Increase (Decrease) in Fund Balance		($25,800,824.82)	($10,615,336.06)	($22,335,569.24)	($29,684,887.20)
Fund Balance					
Beginning Fund Balance	9791	$58,880,161.00	$39,482,477.71	$28,867,141.65	$6,531,572.41
Audit Adjustments	9793	($2,000,000.00)	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$56,880,161.00	$39,482,477.71	$28,867,141.65	$6,531,572.41
Ending Fund Balance		$31,079,336.18	$28,867,141.65	$6,531,572.41	($23,153,314.79)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$70,000.00	$70,000.00	$70,000.00	$70,000.00
Stores	9712	$1,200,000.00	$1,200,000.00	$1,200,000.00	$1,200,000.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$8,801,198.46	$10,242,278.62	$1,037,754.81	$0.00
Economic Uncertainties Percentage		2.00%	2.00%	2.00%	2.00%
Designated for Economic Uncertainties	9770	$6,947,564.40	$6,697,311.79	$6,199,276.76	$6,195,655.49
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Other Designations	9781	$0.00	$1,000,000.00	$1,000,000.00	$1,000,000.00
Undesignated/Unappropriated	9790	$14,060,573.32	$9,657,551.24	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($2,975,459.16)	($31,618,970.28)

General Fund/County School Service Fund
Unrestricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues					
Revenue Limit Sources	8010 - 8099	$165,375,799.00	$168,844,326.88	$165,086,009.91	$163,648,602.00
Federal Revenues	8100 - 8299	$27,749.00	$26,752.00	$26,752.00	$26,752.00
Other State Revenues	8300 - 8599	$37,918,778.00	$34,636,726.00	$34,531,709.15	$27,630,875.25
Other Local Revenues	8600 - 8799	$1,775,456.00	$2,280,406.00	$2,225,816.04	$2,232,527.27
Total Revenues		$205,097,782.00	$205,788,210.88	$201,870,287.10	$193,538,756.52
Expenditures					
Certificated Salaries	1000 - 1999	$107,757,384.50	$95,993,862.00	$95,786,105.74	$101,515,050.06
Classified Salaries	2000 - 2999	$26,188,903.07	$26,390,505.00	$26,704,798.04	$27,055,827.66
Employee Benefits	3000 - 3999	$49,754,623.66	$48,783,696.00	$49,271,774.46	$50,107,566.72
Books and Supplies	4000 - 4999	$6,601,955.98	$5,391,862.00	$4,761,237.39	$4,714,690.79
Services and Other Operating	5000 - 5999	$14,327,856.14	$13,702,311.91	$14,043,571.37	$14,126,743.06
Capital Outlay	6000 - 6900	$37,092.93	$522,589.00	$22,589.00	$22,589.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($3,970,098.00)	($5,130,705.00)	($4,171,340.67)	($4,170,409.96)
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00
Total Expenditures		$200,697,718.28	$185,654,120.91	$186,418,735.33	$193,372,057.33
Excess (Deficiency) of Revenues Over Expenditures		$4,400,063.72	$20,134,089.97	$15,451,551.77	$166,699.19
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$180,510.00	$315,383.00	$315,383.00	$315,383.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($18,421,955.00)	($26,271,130.27)	($28,267,214.20)	($28,498,448.58)
Total Other Financing Sources\Uses		($18,602,465.00)	($26,586,513.27)	($28,582,597.20)	($28,813,831.58)
Net Increase (Decrease) in Fund Balance		($14,202,401.28)	($6,452,423.30)	($13,131,045.43)	($28,647,132.39)
Fund Balance					
Beginning Fund Balance	9791	$38,480,539.00	$25,077,286.33	$18,624,863.03	$5,493,817.60
Audit Adjustments	9793	($2,000,000.00)	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$36,480,539.00	$25,077,286.33	$18,624,863.03	$5,493,817.60
Ending Fund Balance		$22,278,137.72	$18,624,863.03	$5,493,817.60	($23,153,314.79)
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$70,000.00	$70,000.00	$70,000.00	$70,000.00
Stores	9712	$1,200,000.00	$1,200,000.00	$1,200,000.00	$1,200,000.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		2.00%	2.00%	2.00%	2.00%
Designated for Economic Uncertainties	9770	$6,947,564.40	$6,697,311.79	$6,199,276.76	$6,195,655.49
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Other Designations	9781	$0.00	$1,000,000.00	$1,000,000.00	$1,000,000.00
Undesignated/Unappropriated	9790	$14,060,573.32	$9,657,551.24	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	($2,975,459.16)	($31,618,970.28)

General Fund/County School Service Fund
Restricted Resources Only
Revenues, Expenditures, and Changes in the Fund Balance

Name	Object Code	Historical Year 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues					
Revenue Limit Sources	8010 - 8099	$6,597,230.00	$6,788,942.00	$6,788,942.00	$6,788,942.00
Federal Revenues	8100 - 8299	$57,760,869.00	$61,537,317.00	$32,680,232.00	$32,680,232.00
Other State Revenues	8300 - 8599	$44,464,009.00	$45,030,232.60	$43,581,037.65	$44,382,186.61
Other Local Revenues	8600 - 8799	$5,704,411.00	$5,105,551.00	$2,707,770.00	$2,707,770.00
Total Revenues		$114,526,519.00	$118,462,042.60	$85,757,981.65	$86,559,130.61
Expenditures					
Certificated Salaries	1000 - 1999	$48,108,372.66	$48,027,510.23	$47,569,609.04	$42,108,812.07
Classified Salaries	2000 - 2999	$19,810,029.89	$20,375,023.00	$20,479,074.16	$20,735,326.72
Employee Benefits	3000 - 3999	$25,290,757.17	$26,118,658.77	$25,435,293.82	$24,504,772.11
Books and Supplies	4000 - 4999	$25,096,985.14	$29,992,747.66	$9,842,314.70	$8,649,158.96
Services and Other Operating	5000 - 5999	$23,814,014.83	$19,680,247.97	$16,315,894.27	$16,510,661.18
Capital Outlay	6000 - 6900	$2,340.56	$155,000.00	$0.00	$0.00
Other Outgo	7000 - 7299	$109,825.42	$175,841.00	$175,841.00	$175,841.00
Direct Support/Indirect Cost	7300 - 7399	$3,798,077.00	$4,159,062.00	$3,199,697.67	$3,198,766.96
Debt Service	7430 - 7439	$469,588.87	$211,995.00	$211,995.00	$211,995.00
Total Expenditures		$146,499,991.54	$148,896,085.63	$123,229,719.66	$116,095,334.00
Excess (Deficiency) of Revenues Over Expenditures		($31,973,472.54)	($30,434,043.03)	($37,471,738.01)	($29,536,203.39)
Other Financing Sources\Uses					
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$20,375,049.00	$26,271,130.27	$28,267,214.20	$28,498,448.58
Total Other Financing Sources\Uses		$20,375,049.00	$26,271,130.27	$28,267,214.20	$28,498,448.58
Net Increase (Decrease) in Fund Balance		($11,598,423.54)	($4,162,912.76)	($9,204,523.81)	($1,037,754.81)
Fund Balance					
Beginning Fund Balance	9791	$20,399,622.00	$14,405,191.38	$10,242,278.62	$1,037,754.81
Audit Adjustments	9793	$0.00	$0.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$20,399,622.00	$14,405,191.38	$10,242,278.62	$1,037,754.81
Ending Fund Balance		$8,801,198.46	$10,242,278.62	$1,037,754.81	$0.00
Components of Ending Fund Balance					
Reserved Balances	9700	$0.00	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$8,801,198.46	$10,242,278.62	$1,037,754.81	$0.00
Designated for Economic Uncertainties	9770	$0.00	$0.00	$0.00	$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00	$0.00
Other Designations	9781	$0.00	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00	$0.00

Enrollment, P2ADA & Enrollment Factors

Enrollment	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
K	3162	3208	3134	3087	3319	3204	3318	3151
1	3208	3270	3223	3123	3138	3119	3048	3141
2	3218	3135	3138	3055	3073	2915	2938	2948
3	3155	3057	3053	2990	3011	2868	2775	2768
4	3110	3004	2985	2904	2958	2928	2756	2665
5	3162	3063	2888	2867	2880	2811	2802	2633
Subtotal (K - 5)	19015	18737	18421	18026	18379	17845	17637	17306
6	3123	3088	3009	2827	2825	2754	2703	2685
7	3029	3063	3010	2918	2693	2623	2567	2508
8	2830	2899	2928	2919	2976	2656	2570	2519
Subtotal (6 - 8)	8982	9050	8947	8664	8494	8033	7840	7712
9	2956	2791	2758	2661	2582	2433	2282	2182
10	2803	2878	2583	2511	2501	2432	2231	2091
11	2393	2647	2581	2320	2303	2329	2197	2016
12	2173	2220	2230	2299	2185	2276	2189	2086
Subtotal (9 - 12)	10325	10536	10152	9791	9571	9470	8899	8375
Ungraded Elementary	0	0	0	0	0	0	0	0
Ungraded Secondary	0	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	38322	38323	37520	36481	36444	35348	34376	33393
Charter Schools (to calculate in-lieu property taxes)	614	294	888	1350	1697	3400	4191	4737
Total	38936	38617	38408	37831	38141	38748	38567	38130

P2ADA	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Excluding Charter Schools	35413.00	34934.00	34763.00	34470.00	34208.57	33055.00	32151.87	31275.88
Charter Schools (to calculate in-lieu property taxes)	583.00	280.00	844.00	1246.00	1606.00	3143.00	3919.84	4424.36
COE CommSchs/SpEd	0.00	0.00	0.00	54.38	49.51	49.51	49.51	49.51
Total	35996.00	35214.00	35607.00	35770.38	35864.08	36247.51	36121.22	35749.75

Enrollment Factors	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Excluding Charter Schools	0.9241	0.9116	0.9265	0.9449	0.9387	0.9351	0.9353	0.9366
Charter Schools (to calculate in-lieu property taxes)	0.9495	0.9524	0.9505	0.9230	0.9464	0.9244	0.9353	0.9340

Projection Rules

Rule	Description	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
CertCOLA	Certificated COLA %	0.00%	0.00%	0.00%
ClassCOLA	Classified COLA %	0.00%	0.00%	0.00%
CertColumn%	Certificated Staff Column Increase %	0.38%	0.38%	0.38%
CertStep%	Certificated Staff Step Increase %	1.30%	1.30%	1.30%
ClasStep%	Classified Staff Step Increase %	1.34%	1.34%	1.34%
CPI	California CPI (SSC)	1.20%	1.80%	2.10%
LOT-Res	California Lottery Restricted (SSC)	$17.50	$17.50	$17.50
LOT-Unr	California Lottery Unrestricted (SSC)	$112.50	$111.00	$110.00
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	1.20%	1.50%	1.50%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	5.17%	1.70%	1.90%
RLDef	Revenue Limit Deficit: K-12 (SSC)	17.96%	17.96%	17.96%
SpEdCOLA	Special Education COLA (SSC)	0.00%	0.00%	1.90%
CatCOLA	State Categorical COLA (SSC)	0.00%	0.00%	1.90%
StCOLA	COLA (SSC Recommended Planning RL COLA)	-0.39%	0.00%	1.90%
HW%	Health & Welfare Benefit Increase	0.00%	0.00%	0.00%
Tier I	Tier I Programs	0.00%	0.00%	1.90%
TierII	Tier II Programs	0.00%	0.00%	1.90%
TierIII	Tier III Programs	0.00%	0.00%	1.90%
CustAmt	Custom Amount	$0.00	$0.00	$0.00
Cust%	Custom Percent	0.00%	0.00%	0.00%
Cust1Amt	Custom One Time Amount	$0.00	$0.00	$0.00
Cust1%	Custom One Time Percent	0.00%	0.00%	0.00%
ManInput	Manual Input	$0.00	$0.00	$0.00
PRO	Proportional	0.00%	0.00%	0.00%
Zap	Zero Out	$0.00	$0.00	$0.00
Enr	Year-to-Year Change in Enrollment	-3.01%	-2.75%	-2.86%
RL-ADA	Year-to-Year Change in RL ADA	0.00%	-2.73%	-2.72%
TchrStfg	Year-to-Year Change in Teacher Staffing	0.00%	0.00%	0.00%
SalFrcstr	Salary Forecaster	$0.00	$0.00	$0.00
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00	33,055.00	32,151.87
RLDefCOE	County Office Revenue Limit Deficit (SSC)	18.25%	18.25%	18.25%
EnEducTech	Title II Part D (Resource 4045)	0.00%	0.00%	0.00%
LangAcqu	Title III Language (Resource 4203)	0.00%	0.00%	0.00%
SafeDrugFree	Title V Safe and Drug (Resource 3710)	0.00%	0.00%	0.00%
InnProg	Title V Part A (Resource 4110)	0.00%	0.00%	0.00%
21CLC	Title V now IV Part B (Resource 4124)	0.00%	0.00%	0.00%
ReadFirst	Title I Part B (Resource 3030)	0.00%	0.00%	0.00%
EvenStart	Title I Part B, Even Start (Resource 3105)	0.00%	0.00%	0.00%
CTechEdGrant	Career and Technical Ed Grants	0.00%	0.00%	0.00%
SSC CSR	SSC-CSR/ SSC CSR	$0.00	$0.00	$0.00
K3 CSR	K3-CSR/ K3 CSR	$0.00	$0.00	$0.00
AutoBal	Autobalance Rule	$0.00	$0.00	$0.00
FedCOLA	Federal COLA	0.00%	0.00%	0.00%
IndirectRate	Indirect Rate	0.00%	0.00%	0.00%