

April 22, 2020

TO: John A Bowes, Ed.D., Superintendent
Davis Joint Unified School District

FROM: Garth Lewis, Yolo County Superintendent of Schools
Crissy Huey, Associate Superintendent, Administrative Services  
Yolo County Office of Education

SUBJECT: REVIEW OF 2019/20 SECOND INTERIM REPORT

The Yolo County Office of Education's staff reviewed the District's 2019/20 Second Interim Report in compliance with provisions of Education Code 42130. Also reviewed were the District's standards and criteria for fiscal stability under the provisions of Education Code 33127.

Based on the multi-year projections and assumptions provided by the District, it appears the District will be able to meet its financial obligations for the current and two subsequent fiscal years. It is important to note that since the District developed the Second Interim Report, economic conditions have deteriorated due to the COVID-19 pandemic, which we did not consider in our review. The Yolo County Superintendent of Schools **approves** the District's positive certification of the Second Interim Report with the following comments:

CURRENT ECONOMIC SHIFT AND FISCAL OUTLOOK

In anticipation of the countywide shelter at home order and in an effort to slow the spread of COVID-19, all Yolo County school districts and the county office of education made the difficult decision to close schools and programs effective March 16, 2020. In response, districts have risen to the occasion in identifying core needs for students and staff during this time and as a result, spending priorities have significantly shifted. To say that it is a challenge to plan during this unprecedented period of economic instability is an understatement, which is why regular reassessments of the District's financial position are more critical now than ever. While the state has guaranteed funding for schools in the current year through the passage of SB 117, the state's economic outlook for 2020/21 is bleak. Many of the factors used to build the District's multi-year financial projection come from the January 2020 Governor's Budget Proposal, which now appears overly optimistic. For instance, instead of the proposed cost-of-living increases (COLA) over 2% for the next two years, a zero COLA and potential reductions are now conceivable. Adding to the uncertainty, the final State Budget levels will likely not be known until at least August as both the Governor and legislative leaders have signaled that the June budget will be subject to revision later this summer when tax data is known.

We have clearly entered a period of economic uncertainty and yet the full impact of COVID-19 is still unknown. It is our strong recommendation that districts be mindful of their own unique risk factors (cash flow, current reserve levels, bargaining agreements, enrollment trends, etc.) when considering new or continued spending. As you take the next steps forward into budget development planning for 2020/21, we want to remind you that we are here to support you and your staff and we will continue working with our partners across the state to bring you the most up-to-date information as the situation evolves.

SALARY AND BENEFIT NEGOTIATIONS

According to the information provided in the 2019/20 Second Interim Report, salary and benefit negotiations for all bargaining units have been settled for the current year.

MULTI-YEAR COMMITMENTS

It should be noted that the District has multi-year commitments funded by sources other than the General Fund. If revenues and/or sources of revenues designated for these multi-year commitments were to dry up, they would become the responsibility of the General Fund.

ENROLLMENT

Similar to 2018/19, the District has experienced a decrease in enrollment in the current year. The Second Interim Report assumes a decrease in enrollment for both 2020/21 and 2021/22. We strongly encourage the District to closely monitor enrollment projections, making adjustments as necessary and implementing contingency plans should the enrollment projections not materialize.

MULTI-YEAR PROJECTIONS

The multi-year projection shows the District is able to meet its required reserves through fiscal year 2021/22. With the Local Control Funding Formula (LCFF), year-to-year funding changes are a result of changes in ADA, including shifting ADA between grade spans, unduplicated English Learners, Free and Reduced and Foster Youth counts and projected state cost-of-living-adjustments. We strongly encourage the District to monitor student unduplicated counts, and to perform a risk analysis of the ability to absorb changes in out-year funding estimates.

Also, while prioritizing new expenditures, we encourage the District to be mindful of the need to keep budgets aligned with their Local Control and Accountability Plan (LCAP), while maintaining fiscal flexibility and solvency.

In addition to general fund deficit spending in 2019/20, 2020/21 and 2021/22, it is noted that other funds are currently projected to have deficit spending, along with current negative cash balances. We urge the District to closely monitor this spending and the potential impact it will have on the General Fund. The District should be planning carefully to ensure adequate cash flow in the months ahead, as we face the unknown possibility of revised cash flow from property taxes and state aid. It would be prudent to prepare now for any anticipated cash borrowing, such as a tax revenue anticipation note (TRAN) or temporary borrowing from other funds.

DESIGNATION FOR ECONOMIC UNCERTAINTIES

The Designation for Economic Uncertainties is an amount that is set aside from unrestricted resources and is expressly for major unforeseen events that would otherwise jeopardize the budget plan. Such a designation is not for expenditures that are known or can be anticipated. We believe the State minimum reserve percentages are the bare minimum.

Currently, \$3,076,196 is designated for economic uncertainties, which complies with the 3% minimum reserve requirement for a district of your size. The District's average general fund cost of salary and benefits for one month is approximately \$7.6 million.

The County, as in the past, reminds school districts that a requirement of AB 1200 is to maintain a positive certification by having adequate cash and district reserves to meet the financial obligations for the current and two subsequent fiscal years.

In addition to the notes included in this letter, the technical review questions and comments exchanged with District staff are an integral part of this approval. In closing, we appreciate the cooperation and positive working relationship with your business office. If you have any questions about the review of your Second Interim Report, please contact Crissy Huey at (530) 668-3722 (crissy.huey@ycoe.org) or Veronica Moreno at (530) 668-3719 (veronica.moreno@ycoe.org).

- c: Cindy Pickett, President, Board of Trustees, Davis JUSD
- Bruce Colby, Associate Superintendent, Business Services, Davis JUSD
- Mallory Arevalos, Director, Fiscal Services, Davis JUSD
- Veronica Moreno, Director, External Business Services, YCOE