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To: Lisa Soghor, Chief Financial Officer
Elizabeth Shavelson, Assistant Chief Financial Officer

From: Cathy Dominico

Date: April 14, 2025

Re: **School District Funding and County Office of Education Oversight**

Lisa and Liz,

As we discussed, I have prepared this memorandum to provide you with an overview of county office of education oversight for California school districts and mechanisms available to schools to augment funding when budgetary shortfalls are identified.

AB 1200

School districts in California are required to file two reports during a fiscal year (interim reports) on the status of the district's financial health. The first interim report is due December 15 for the period ending October 31. The second interim report is due March 17 for the period ending January 31.

The interim reports must include a certification of whether or not the school district is able to meet its financial obligations. The certifications are classified as "positive", "qualified", or "negative".

- A "positive" certification is assigned when the district will meet its financial obligations for the current and two subsequent fiscal years.
- A "qualified" certification is assigned when the district may not meet its financial obligations for the current or two subsequent fiscal years.
- A "negative" certification is assigned when a district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

The number of districts deemed "qualified" or "negative" each year is dependent on economic conditions. For example, as one time money from COVID has been eliminated, a higher number of school districts are certifying as "qualified". Although a majority of school districts have positive certification, it is not uncommon to see multiple districts with qualified status in each

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county, especially in challenging economic times. It is more uncommon to see districts with a negative certification.

AB 1200 was created in 1991 to ensure that local educational agencies throughout California are adequately prepared to meet their financial obligations. This concern arose following the bankruptcy of the Richmond School District and the fiscal collapse of a few other districts that were preparing to request emergency loans from the state. AB 1200 improved fiscal procedures, standards, and accountability at the local level and expanded the role of county offices of education (COEs) in monitoring school districts by mandating that COEs intervene under certain circumstances to ensure districts can meet their financial obligations. Under AB 1200, COEs conduct reviews, examinations, and audits of districts, and providing written notifications of the results, at least annually, on the fiscal solvency of the districts with disapproved budgets, qualified, or negative certifications, or districts facing fiscal uncertainty.

School districts must submit regular financial reports to their respective COEs, including interim reports and annual audits. If a school district is identified as having financial difficulties, AB 1200 outlines intervention procedures. The county superintendent has the authority to disapprove a school district's budget, or authority to declare a district in jeopardy of being unable to meet its financial obligations through a "qualified" or "negative" certification at interim financial reporting periods or at any time during the year. Such action results in various authorized forms of intervention on the part of the county office including assigning external consultants, requiring a district fiscal recovery plan, or even disallowing certain district expenditures.

AB 1200 also led to the creation of FCMAT, a state entity that provides fiscal oversight and assistance to COEs and school districts facing financial challenges. FCMAT offers support in areas such as budget development, financial reporting, and crisis management and are often assigned as a fiscal advisor to school districts financial crisis or distress.

Essentially, when a district has a qualified or negative certification, the COE intervenes to help the district balance their budget and avoid a larger financial problem. Assigning a fiscal advisor or developing a fiscal recover plan can be a solid tool for school districts to balance their budget, especially when finding difficulty identifying budget cuts internally.

<u>When School Districts Are Unable to Balance Their Budgets</u>

The terms fiscal crisis and fiscal distress tend to be used interchangeably. But for clarity, fiscal distress is less serious and precedes fiscal crisis. Districts experiencing fiscal distress have many options for turnaround. More frequently fiscal distress is the result of short-term budget difficulties and can be resolved by aggressive budget balancing actions.

Fiscal crisis is more severe, usually the result of prolonged imbalances between resources and spending, or unanticipated events, leading to cash flow shortages and the exhaustion of options to mitigate those shortages (e.g., temporary cash borrowing options).

In extreme situations, a school will enter into receivership. This occurs when a school district is facing bankruptcy and has to petition the state for an emergency loan in order to continue operations. In this situation, the school district is assigned an administrator, or trustee to oversee all operations and the governing board loses its power. The administrator makes cuts to staff, programs, and services to bring the budget back to positive status.

Districts with financial difficulty follow a progression from stability to distress to crisis. Most districts stop at mild to moderate distress and take the necessary action to turn around, others progress to distress and crisis and require more intense intervention. Since 1991, only nine school districts have progressed from crisis to receivership.

<u>Budget Status of Culver City USD</u>

Culver City Unified School District has a "qualified" certification of their Second Interim Report due to the fact that they are projecting their ending fund balance to fall below the required minimum 3%. They are not projecting a negative fund balance. When looking at their multi-year budget projection, the District is projecting to continue to not meet the minimum 3% reserve requirement, however, they are projecting an increasing fund balance percentage showing an improving fiscal situation.

With a qualified status, it is likely that the COE will recommend a fiscal recovery plan that identifies sufficient budget cuts to bring the ending fund balance back up to the minimum 3% reserve requirement. If the fiscal recovery plan is not sufficient, the COE will likely assign a fiscal advisor to assist the District in identifying the improvements to the budget to achieve a 3% minimum reserve. Although the County Superintendent does have "stay" and "rescind" power for districts in financial distress, this power is typically used when a county superintendent believe the board's action might jeopardize the school district's financial stability. They do not typically intervene unless it is an extreme situation. It is not until a school district takes an emergency state loan that the school board would lose control of district operations.

<u>Options to Augment School District Funding</u>

School district operations are generally funded by a combination of local property taxes, including ERAF funds, and state aid. On average, school districts receive approximately 35% of the property taxes generated within a jurisdiction plus state aid in an amount up to their calculated Local Control Funding Formula (LCFF) entitlement amount. To augment operational revenues, school districts can seek voter approval for parcel tax revenues. They can also lease out property and use lease revenues for ongoing operations.

Although the City of Santa Monica is quite generous in providing a share of sales tax and property transfer taxes as well as significant joint use funding to their local school district, this contribution from a city is quite unique. Approximately 20%-25% of the District's unrestricted funding comes from the City of Santa Monica. I am not aware of another district in California that receives significant unrestricted funding from their local city. Some cities will provide funding for specific projects of interest, for example an arts or athletic program. In Marin County, there are cities that provide limited funding for arts and music programs. This funding amounts to several hundred thousand per year. The City of Culver City provides funding more in line with other cities in California, contributing approximately $500,000 per year for crossing guards.

Generally speaking, a school district has its own independently elected governing board that sets policy separate from that of the city. School district boundaries also do not typically align with city boundaries. As such, school districts typically obtain augmented funding independently from their own taxpayers.

Summary

The COE oversight for school districts is designed to prevent significant financial crisis by creating a mechanism for intervention when facing budget challenges. The initial intervention phase can benefit districts by providing an outside recommendation for budget cuts or other budgetary recommendations. Although Culver City Unified School District is facing some financial challenges, their financial picture is projected to improve and, with support from their COE, will likely achieve budgetary stability.

Further, it is uncommon for cities to provide substantial unrestricted operating funds to their local school districts. It is the expectation that each governing body will make local decisions on how to raise funds from their own constituents.

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