

# **ARE PASO ROBLES SCHOOL BUDGETARY WOES A LESSON FOR OTHER DISTRICTS?**

## **SUMMARY**

Last fall, Paso Robles Joint Unified School District (District) found itself facing budget problems serious enough to predict that it might end this year nearly bankrupt. The primary causes were as follows:

1. The governing board and superintendent had ignored dwindling reserves for three straight years.
2. Expenses for special education students exceeded the District's expectations.
3. The District's financial managers were using an accounting procedure that artificially inflated year to year reserves.

Correcting that accounting practice became a \$1.58 million hit to last year's bottom line, reducing the remaining reserves below the required level.

In urgent bargaining this spring, the District reached employee agreements that eliminated six school days in May. This action reduced salaries enough to leave a projected reserve fund at the end of the year and avoid a state takeover. Otherwise, the District might have found itself needing to borrow money from the state to pay its bills. Paying back that loan could take decades; and, the state would appoint an administrator who would assume total control, leaving the local Governing Board with no power.

This report examines how the Paso Robles Joint Unified School District ended up in this situation. It suggests that there are lessons in this story for San Luis Obispo County's (SLO County) other nine public school districts, all of which plan to spend more money than they receive for the current fiscal year ending June 30. All ten school districts in the county are

incurring an annual deficit, even the three districts that have sufficient property tax revenue to avoid relying on help from state funding to pay for the basic costs of educating their students.

## **ORIGIN**

This report was self-initiated by the 2011-12 Grand Jury. The Grand Jury became interested in this topic after learning in the general media of the District's financial troubles.

## **AUTHORITY**

Under Articles 933.1 of the State Penal Code the Grand Jury “at any time may examine the books and records of any special-purpose assessing or taxing district located wholly or partly in the county (and)... may investigate and report upon the method or system of performing the duties of such district or commission.”

## **METHOD**

Members of the Grand Jury interviewed:

- One member of the Governing Board (Governing Board) of the Paso Robles Joint Unified School District
- The Superintendent of Paso Robles Joint Unified School District
- A leader of the Paso Robles Public Educators (local teachers' union)
- The San Luis Obispo County Superintendent of Schools, who has the responsibility for approving local school district budgets

Documents examined included:

- California State Education Code
- 2011-2012 Second Interim Report by Districts for all school districts in San Luis Obispo County, except San Miguel, as issued by County Office of Education
- *2011-2012 First Interim Report for San Miguel Joint Union Elementary School District*

- *2012 San Luis Obispo County Schools Annual Education Report*
- Governing Board agenda packets for individual school districts, which contain updated information on each district's annual budget
- *State Controller's Office – Accounting Division, Lottery Educational Apportionment System, Report of Payments to Educational Entities by Fiscal Year*
- Other County Office of Education background documents
- Websites of individual school districts

## **NARRATIVE**

### **Education Terminology**

#### *Funding terms:*

Average Daily Attendance (ADA) – The total number of days of student attendance divided by the total number of days in the regular school year.

Revenue Limit – Dollar amount per unit of ADA that the state provides to school districts.

Unrestricted Funding – Funds in district budgets that are not required to be spent for specific purposes and are under the control of the district governing board. These funds can include revenue limit funds, receipts of donations from parent organizations and others.

Required Reserves – This is the required percentage of projected budget expenditures that each district must plan to maintain in their unrestricted ending fund balance to achieve positive financial certification. The required reserves are determined by the Superintendent of Public Instruction, the Controller, and the Director of the Department of Finance per Education Code 33127 and 33128.

Types of School Districts under State Law:

Basic Aid - Three school districts in SLO County are classified as Basic Aid Districts, meaning the annual property tax revenue in those districts exceeds what the state provides to other districts for ADA funding. These school districts do not rely as heavily on state funding as the other seven school districts.

Basic Aid Districts are Cayucos Elementary School District, Coast Unified School District and San Luis Coastal Unified School District.

Revenue Limit: The other seven school districts in the county are funded by a revenue limit composed of both local property taxes and state taxes (using an ADA formula). This funding is distributed by the state on the basis of a court-mandated formula intended to equalize school funding statewide. This equalization stems from the *Serrano v. Priest* California Supreme Court decision of 1976, and the various Proposition 13-like limits that California voters have imposed on property tax increases since 1978.

Revenue limit districts are Atascadero Unified School District, Lucia Mar Unified School District, Paso Robles Joint Unified School District, Pleasant Valley Joint Union School District, San Miguel Joint Union School District, Shandon Joint Unified School District, and Templeton Unified School District.

District Financial Certifications:

The California Education Code defines three types of school district financial certifications:

Positive: A positive financial certification means a school district will meet its fiscal obligations for the current year and two subsequent fiscal years.

Qualified: A qualified financial certification means a school district may not meet its fiscal obligations for the current year or two subsequent fiscal years.

Negative: A negative financial certifications means a school district will not be able to meet its fiscal obligations for the remainder of the current or subsequent fiscal year.

## **The Paso Robles Story**

The District serves the community of Paso Robles as well as surrounding rural areas and is governed by a seven-member Board.

The District's average daily attendance is 6,428 students. There are six elementary schools, two middle schools, one high school, one continuation high school and an alternative high school.

As a Revenue Limit district, Paso Robles' unrestricted revenue limit per student is \$5,436, comparable to other SLO County Revenue Limit districts.

Enrollment is declining in the District, and the decline is projected to continue with a loss of 181 and 116 students in each of the next two school years (2012-13 and 2013-14) respectively.

On April 13th, the San Luis Obispo County Office of Education projected the District's year-end reserve to be 0.78% for school year 2011-12. The reserve levels are projected to drop in the two subsequent years to negative 4.24% in 2012-13 and negative 10.59% in 2013-14. In the absence of corrective action by the Governing Board, the District will likely exhaust all financial resources in the 2012-13 year and will run out of cash needed to meet its financial obligations.

In December 2011, the Superintendent of the District filed an interim report that self-certified the District as "negative," meaning that its current revenue and spending pattern could force it into insolvency. The details behind that negative financial certification were submitted to the County Office of Education for review, in accordance with Education Code Section (E.C.) 42127. Given the negative certification, the County Office of Education has assigned a fiscal adviser to the District. When this report became public, the District staff and the community began asking, "How did this happen?"

The negative certification did not come without warning. For the prior three years, the District was certified as "qualified." That rating should have alerted the District administrators and the governing board that there were potential budgetary issues on the horizon. A qualified rating gives the local governing board an urgent reason to review its budget and fiscal policies, and take control of the district's financial situation.

Other districts have received qualified certifications, but have reacted quickly to address their budget issues with program cuts and salary reductions. District administrators now note that this year's negative certification could have been avoided through increasing class sizes, taking furlough days or reducing employee compensation. Certificated union officials say they suggested many alternative approaches years ago, including a hiring freeze for vacated positions.

The District's administrators admit they failed to exercise significant budget trimming options until recently. They eliminated several programs and made cuts, but these actions were insufficient. They continued to hire new employees to fill non-essential positions. A significant part of the problem was the apparent inability of the District administration and its employee unions to agree on actions needed to address the District's worsening fiscal situation.

From 2008 through 2011, the years of "qualified" ratings, a "perfect storm" was brewing. State funding per student declined while at the same time enrollment dropped. Federal stimulus funding helped retain teachers and temporarily kept the negative certification at bay during the 2010-2011 school year. Contrary to expectations, special education costs ballooned when the District took over that function from the County Office of Education. While state revenues declined, District programs were maintained by overspending allotted budgets.

Governing Board members were offered education in how school district budgets are constructed and how they are constrained by state funding. However, few took advantage of workshops offered by the County Superintendent or the California School Boards Association. That budgetary expertise has generally been relegated to the District superintendent's staff.

In January of this school year, \$1.58 million was added to the District's deficit as a result of what a newly hired auditor explained as an accounting error carried forward from prior years. The error which involved health and welfare benefits was discovered during the 2010-11 fiscal year. The resulting adjustment increased the total year-end deficit to \$4.5 million. As a result of correcting this accounting practice, the year-end fund balance entering this fiscal year (2011-12) was also reduced. This correction contributed to the negative certification.

In recent weeks the District has taken advantage of state provisions that allow it to reduce school days without having the state reduce ADA funding. The District's recent decision to cut six of

the possible twelve school days will save salaries that would have otherwise been paid to District employees.

Given staff furloughs this year and 12 furlough days next year, the County Superintendent now predicts that the District will end this year with a reserve of 2.89% of the general fund revenues and will maintain a 2.16% reserve in 2012-13. The County Superintendent also believes that without additional reductions and/or additional funding the District could end 2013-14 with a negative fund balance of almost 1%.

The County Superintendent noted in an April 13 letter that he will “continue to assign a Fiscal Advisor to the District to assist the District in moving from this negative certification to an adopted budget for the 2012-13 school year that I can approve.” He added that he believes “District leadership is capable and dedicated to restoring the District to a sound financial condition.”

If District leadership is unable to restore the District to a sound financial condition, the state will assume control of the District.

There are other school districts in the county that already have been certified “qualified” and still others have the potential to be similarly downgraded.

The lesson to be learned is that when the District was alerted via the “qualified” rating, they did not aggressively address the issue through the collective bargaining process, execute appropriate and significant cost cutting measures, or explore other revenue enhancements.

## **An Overview of Fiscal Problems Countywide**

In April of 2012, the County Superintendent of Schools warned five of the seven revenue limit school districts that they must make adjustments to end deficit spending or they could be insolvent within three years. Year-after-year reductions in the state funding of ADA, combined with stable or declining enrollments, place huge stresses on the finances of these districts.

Despite their qualified ratings, the County Superintendent believes that Lucia Mar, Atascadero, Shandon and San Miguel districts have predictable revenues that are sufficient because they have

engaged in cost-cutting options to avoid depleting their reserves. Assurances aside, however, leaders of the other revenue limit districts should not ignore the warning signs. All ten school districts in the county are expected to engage in deficit spending this year and to compensate by dipping into their prior year-end fund balances.

Two proposed November 2012 ballot initiatives would raise money for K-12 education if approved by voters. California Legislative Analyst has projected that, if neither passes, there could be a reduction of approximately \$400 per student for revenue limit school districts. The County Superintendent has instructed school districts to build their 2012-2013 year budgets and their future projections on the assumption the initiatives will fail.

Governing board members receive little education in overseeing the financial operation of the school districts. The County Office provides a one-day training workshop for newly elected board members, and only a few hours of that education focus on budget issues. Board members are usually encouraged to attend education and training workshops presented annually by the California School Boards Association. Those workshops cover a wide variety of education issues. They include sessions on school finance but attendance is not mandatory and many board members prefer to rely on the local superintendent and staff to provide budget guidance

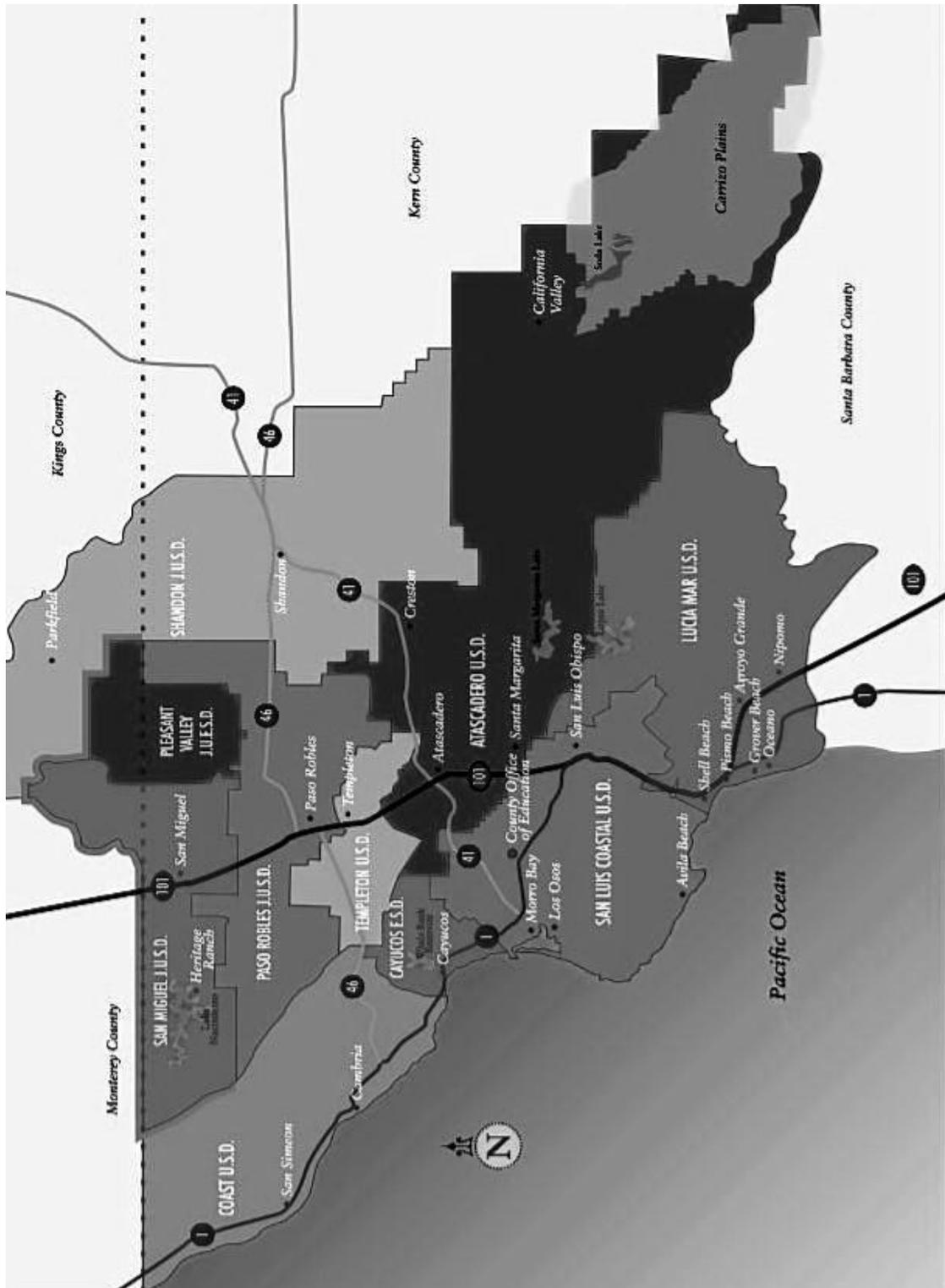


Figure 1 – County School Districts within San Luis Obispo County

Source: San Luis Obispo County Office of Education

Below is a financial review of each of the other nine SLO County school districts.

## **BASIC AID DISTRICTS:**

### **Cayucos Elementary School District**

Cayucos Elementary School District serves the community of Cayucos and contiguous unincorporated areas and is governed by a five-member Board.

The District's average daily attendance is 223 students. Cayucos Elementary School, which serves kindergarten through 8<sup>th</sup> grade, is the only school in the District.

The District's per student funding from unrestricted revenues is \$8,971.

Student population increased by eighteen students in 2011-12, and enrollment is projected to be stable for 2012-13 and 2013-14.

Deficit spending for 2011-12 was \$224,273. The County Office of Education notes, "The projected unrestricted ending general fund balance drops from \$456,417 in FY 2011-12 to \$277,675 by FY 2013-14. General Fund balance reserves are not an ongoing source of funding, and the District is encouraged to build a balanced budget with ongoing revenues equaling expenditures in the subsequent years."

The District is required to have 5% in reserves. In 2011-12 the District is expected to end the year with 7% in reserves. It is projected that the District will end with 9% in reserves 2012-13 and 2013-14.

The San Luis Obispo County Office of Education staff concurs with the positive certification for 2011-12. However, the District is cautioned to be aware of the continued revenue shortfalls predicted for the State Budget and the potential of additional cuts to educational grant funding for 2012-13 and 2013-14.

## **Coast Unified School District**

Coast Unified School District serves the communities of San Simeon to the north, Cambria, and Cayucos to the south (grades 9-12), as well as contiguous rural areas, and is governed by a five-member Board.

The District's average daily attendance is 715 students. There is one elementary school, one middle school, one high school, one continuation high school, and one community day school, an alternative education school.

The District's per student funding from unrestricted revenues is \$10,506, which is the highest per student funding of the Basic Aid districts.

There has been an increase of enrollment of 18 students in 2011-12. It has been projected that from 2012-14 there will be a total decrease in enrollment of nine students.

Deficit spending for 2011-12 is projected at \$1.1 million.

The District is required to have 4% in reserves. In 2011-12 the District had 8% in reserves, and it is projected to have 8% in reserves for 2012-13 and 2013-14.

The San Luis Obispo County Office of Education staff concurs with the positive certification for 2011-12. Coast Unified is cautioned about the potential for reduction in state education grant funding in 2012-13 and 2013-14.

Coast Unified School District has been recognized by WestEd<sup>1</sup> as one of the California's seven highest performing districts in providing education to all students, including those who do not speak English, require special education or come from low-income families. It is the only rural district in the state to be so honored. The other high-achieving school districts honored in California were Carmel, Redondo Beach, Glendale, Temecula, San Marcos and St. Helena.

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<sup>1</sup> WestEd: A San Francisco-based nonpartisan, nonprofit, mission-focused organization. The organization's mission states, "WestEd, a research, development, and services agency, works with education and other communities to promote excellence, achieve equity, and improve learning for children, youth, and adults. (Wiki)

## **San Luis Coastal Unified School District**

San Luis Coastal Unified School District serves the communities of Avila Beach, San Luis Obispo, Los Osos, and Morro Bay and adjacent rural areas. The District is governed by a seven-member Board.

Average daily attendance is 6,952 students. There are ten elementary schools, two middle schools, two high schools, and one continuation high school.

The District benefits from significantly higher property values than other areas. It also draws on the property tax revenue contributed by Diablo Canyon Nuclear Power Plant.

The District is not dependent upon state funding to supplement local property taxes. The District receives state money only in the form of state-funded grants.

The District's per student funding from unrestricted revenues is \$8,851.

Enrollment increased by 127 students in 2011. Projections anticipate that enrollment will remain stable in 2012-13 and 2013-14.

Deficit spending for 2011-12 is projected to be \$8.6 million.

The County Office of Education staff concurs with the positive certification for 2011-12. A positive certification means that the District is projected to have at least 3% in reserves for this year and the next two years, and can meet its financial obligations. The County Superintendent of Schools commended the San Luis Coastal Unified School District Board of Education for presenting a budget with the stated commitment of maintaining reserves of 10% for economic uncertainty, exceeding the state's required minimum level of 3% in the current year and subsequent two years. San Luis Coastal has just announced that cuts will have to be made in the coming years to reduce deficit spending and maintain 10% reserves.

## **REVENUE LIMIT SCHOOL DISTRICTS:**

### **Atascadero Unified School District**

The district encompasses the City of Atascadero and the unincorporated areas of Santa Margarita, Creston and California Valley. It is the largest school district in the county and is governed by a seven-member Board.

Atascadero's average daily attendance is 4,662. It operates eight elementary schools, one junior high school, one high school, and a continuation high school.

The District's per student funding from unrestricted revenues is \$5,189, which is comparable to the other SLO County revenue limit districts.

The District projects a decline in enrollment of 82 in 2012-13 and 68 in 2013-14.

Deficit spending for 2011-12 is expected to total \$2.1 million. Projected deficit spending is \$2.4 million in 2012-13 and \$2.6 million in 2013-14. According to the County Office of Education, the projected deficit numbers for FY 2012-13 and FY 2013-14 assume a tax initiative passes. Should the tax initiatives fail, the District projects that the shortfall would grow by an additional \$1.7 million per year.

The District is required to have 3% in reserves. In 2011-12, the District expects to end the year with 3.01% in reserves. The County Office of Education External Fiscal Services staff raises questions about "the district's ability to make reductions of over \$3.5 million to \$7 million to achieve a 3% reserve level" for 2012-13 and 2013-14.

On the basis of the deficit spending and uncertain reserves, the County Office of Education concurs with the qualified certification for 2011-12.

## **Lucia Mar Unified School District**

The district covers 550 square miles and serves the adjoining communities of Arroyo Grande, Grover Beach, Nipomo, Oceano, Pismo Beach, and Shell Beach and the surrounding unincorporated areas. The District has the largest school student enrollment in San Luis Obispo County and is governed by a seven-member Board.

Lucia Mar's average daily attendance is 10,205 students. The District has eleven elementary schools, three middle schools, two high schools, and one continuation high school.

The District's per student funding from unrestricted revenues is \$5,186, which is comparable to the other Revenue Limit school districts.

Enrollment is predicted to decline by 150 students for 2012-13

The District projects unrestricted deficit spending of \$3.4 million in the current year, growing to over \$4 million in 2012-13, and \$5 million in 2013-14, absent budget reductions or revenue enhancements. These projected deficit spending numbers assume that a tax initiative passes. Should the tax initiative fail, the District anticipates an estimated \$400 per ADA loss in funding, equal to \$3.8 million in lost funding. Deficit spending at these levels is not sustainable, and will necessitate even larger budget reductions in future years.

The District projects reserves of 3% for 2011-12. Budget reductions of \$2 million will be needed in 2012-13, and an additional \$8.7 million in 2013-14, in order to maintain a 3% minimum reserve level, should the tax initiatives fail.

The County Office of Education staff agreed with the District's qualified certification indicating that the District may not be able to meet its financial obligations for the current fiscal year or two subsequent fiscal years.

## **Pleasant Valley Joint Union Elementary School District**

Pleasant Valley Joint Union Elementary School District is located northeast of Paso Robles and east of San Miguel and serves the rural area of San Miguel and eastward. It is the smallest of the school districts in San Luis Obispo County and is governed by a five-member Board.

Pleasant Valley's average daily attendance is 108 students at Pleasant Valley Elementary School, the only school in the District.

The District's per student funding from unrestricted revenues is \$5,085, which is comparable to the other SLO County Revenue Limited districts.

The enrollment for 2011-12 increased by five, but there is no growth projected for 2012-13 or 2013-14.

Deficit spending for 2011-12 is expected to total \$21,312.

The County Office of Education concurs with the positive certification for 2011-12. The District is required to have 5% in reserves. In 2011-12, it had 11% in reserves and has projected 11% in reserves for 2012-13 and 7% in reserves for 2013-14. Pleasant Valley is only one of two Revenue Limit districts that has achieved a positive certification. An Interim Superintendent has been hired at a significantly lower salary than the previous Superintendent. This in part accounts for the District's ability to exceed its reserve requirement.

## **San Miguel Joint Union School District**

San Miguel Joint Union School District serves the communities of San Miguel, Heritage Ranch and Lake Nacimiento, and the surrounding rural areas. The District is governed by a five-member Board.

The average daily attendance is 557 students at the two elementary schools in the District.

The District's per student funding from unrestricted revenues is \$5,078, which is comparable to the other Revenue Limit districts in the county.

There was an increase in enrollment of 60 students in 2011-12. It is projected that there will be an increase of 53 students from 2012-14.

In April, deficit spending for 2011-12 was expected to total \$711,939. The District reduced that early in May when it shortened its school year by five days. It is projected that deficit spending for 2012-13 will be \$244,190 and \$148,787 for 2013-14.

San Miguel is required to have 4% in reserves. For 2011-12, the District expected to end the year with 4.79% in reserves. The County Office of Education warned in April that multi-year projections show that the required reserves will not be achieved in FY 2012-13 and FY 2013-14 until additional budget adjustments are implemented.

The inability to maintain the required reserve levels within the ending balances of the subsequent two years reflected in the multi-year projections is the basis for the San Luis Obispo County Office of Education External Fiscal Services staff to concur with a qualified certification for 2011-12.

### **Shandon Joint Unified School District**

The Shandon Joint Unified School District serves the communities of Shandon and Parkfield, and the surrounding rural areas. The District is governed by a five-member Board.

The District's average daily attendance is 203 students at its two elementary schools and one high school.

The District's per student funding from unrestricted revenues is \$5,492. Shandon is one of the smallest districts in the county and receives additional state funding granted to Necessary Small Schools.

Enrollment has been steady in 2011 and a slight increase of 4 students is projected for 2012-14.

Deficit spending for 2011-12 is expected to total \$ 251,800. Based on current revenue trends, the District projects deficit spending of \$210,461 in 2012-13, and \$91,747 in 2013-14.

Shandon is required to have 5% in reserves. In 2011-12 the District had 9.10% in reserves. However, the multi-year projection anticipates that the required reserves of 5% will not be achieved in FY 2012-13 and FY 2013-14 until additional budget adjustments are implemented.

The County Office of Education staff concurs with the qualified certification for 2011-12. Julian D. Crocker, County Superintendent of Schools, added, "I understand the financial circumstances faced by the district, given the current state budget crisis and the uncertainty surrounding education funding. Nevertheless, the district has no choice but to continue a high degree of fiscal discipline in order to meet its current future fiscal obligations."

### **Templeton Unified School District**

Templeton Unified School District serves the community of Templeton and the surrounding rural areas, and is governed by a five-member Board.

The District's average daily attendance is 2,216 students. There are two elementary schools, one middle school, one high school, and one continuation high school in the District.

The District's per student funding from unrestricted revenues is \$5,187, which is comparable to the other Revenue Limit districts in SLO County.

Enrollment in the district increased by 45 students in 2011-12 and is projected to stay stable.

Deficit spending for 2011-12 is projected at \$1.5 million. Deficit spending is expected to be \$815,703 in 2012-13 and \$643,752 in 2013-14. The County Office of Education warns that deficit spending at these dollar levels is not sustainable beyond FY 2013-14, and the District will need to reevaluate its spending priorities.

Templeton is required to have 4% in reserves. The District is expected to maintain 4% in reserves for 2011-12 and is projected to maintain 4% in reserves for 2012-13 and 2013-14.

Templeton Unified School District is one of only two Revenue Limit districts in the County to receive a positive certification for 2011-12 and was complimented for the detailed and comprehensive presentation of its First Interim Report. However, the County Superintendent of

Schools, “cautions the district to be aware of the potential revenue shortfalls for the 2011-12 and 2012-13 State Budgets, and the likelihood of additional revenue reductions for school districts should a tax initiative fail or not generate the forecasted revenue levels.”

### Basic Aid Districts

DISTRICTS	Number of Students	Funding per Student	Certification
Cayucos Elementary	212	\$8,971	Positive
Coast Union	731	\$10,506	Positive
San Luis Coastal	6,968	\$8,851	Positive

### Revenue Limit Districts

DISTRICTS	Number of Students	Funding per Student	Certification
Atascadero Unified	4,667	\$5,189	Qualified
Lucia Mar Unified	10,205	\$5,186	Qualified
Paso Robles Unified	6,428	\$5,436	Negative
Pleasant Valley	108	\$5,085	Positive
San Miguel	557	\$5,078	Qualified
Shandon Unified	203	\$5,492	Qualified
Templeton Unified	2,216	\$5,187	Positive

See Appendix A for additional detail about how the levels of deficits and fund balances compare for the ten districts.

## Revenue Sources for Schools

California schools are dependent on local property taxes and state funding for the vast majority of their revenues. Additional revenues can come from federal sources, school educational foundations, grants, state lottery allocations, rental income, and voter-approved parcel taxes. Parcel taxes require two-thirds approval of voters in the school district and assess the same dollar amount of taxes on each parcel, regardless of its assessed value.

In most SLO County school districts, educational foundations are limited in funds and offer small grants to teachers for specified projects. In California, a state-wide tax increase must be approved by two-thirds of the legislature of a majority of the state's voters, making passage difficult.

The California State Lottery was established in 1984 with the approval of Proposition 37. The Lottery's mandate in this Act was to provide supplemental funding to California public education at all levels from kindergarten through the University of California plus several specialized schools. Since the original stated intention was to increase funding for public schools, there is a common misconception that lottery funds would eliminate any funding problems that California school districts might encounter. The fact is that lottery funds have a very small impact on a school district's budget.

For example, in two of the larger school districts in North County in 2011, lottery revenues ranged from 1.5% of total revenues for Atascadero Unified to 2.4% for Templeton Unified. Paso Robles' lottery revenues in 2011 comprised 1.8% of total revenues. The County Superintendent of Schools reports the percentage of total revenues received by school districts countywide is 1.8%.<sup>2</sup>

Proposition 20 lottery funding is restricted to the purchase of materials and support services that may improve instruction.

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<sup>2</sup>The California State Lottery has been amended twice, in 2000 and 2010. The net effect has been to reduce administrative costs, and place restrictions on the use of a portion of lottery funds. The amount of lottery funds for prizes must be at least 50% of the revenue, and the balance less administrative costs, goes to the schools.

A ballot measure approved by voters in 1988, titled Proposition 98, enacted a complex set of formulas that were designed to assure that K-12 and community college funding was increased in years when the state was growing economically, and was held as stable as possible in years that tax revenues fell. The formulas have proven difficult to reconcile with state revenues and have not provided the floor in school funding that was the goal of Proposition 98 proponents.

## **CONCLUSIONS**

The public schools in San Luis Obispo County are confronting an era of declining resources and student enrollment, and federally-mandated spending on special education, to which they have not fully adapted. All school districts in the County, even those with strong property tax revenues, are currently running annual deficits - their total annual expenditures exceed their total annual revenues.

Despite laying off staff, consolidating administrative positions and reducing the total number of positions, the Paso Robles Joint Unified School District found itself near insolvency earlier this school year. The Governing Board had not adopted sufficient measures to deal with the District's deteriorating financial position. As a result, the District would not meet its state-required financial reserve.

Absent state assistance in addressing the situation, local governing boards must find local solutions, which means addressing both revenues and expenditures.

In order to determine local solutions, however, local governing boards must educate themselves about school finance rather than relying almost solely on the expertise of administrative staff. Both the County Superintendent and state organizations offer budget and finance workshops to governing board members.

The immediate task is to break the current cycle of deficit spending. If this cycle is not broken, each district could eventually find itself in a situation similar to Paso Robles. Simultaneously, local districts must develop new financial resources for the long term, in order to maintain the viability of public primary and secondary education in the County.

If local governing boards and administrators do not take the actions needed to stop the downward spiral and restore financial health, the state will take over the districts and local control will be lost.

## **FINDINGS**

Finding 1: A primary responsibility of a governing board is financial oversight and accountability.

Finding 2: Governing board members overseeing the county's ten districts, similar to governing board members statewide, are offered education and training in school district budgeting and financial oversight, but seldom take maximum advantage of the workshops offered.

Finding 3: All ten school districts in San Luis Obispo County are currently in deficit spending.

Finding 4: In January 2012, the County Superintendent of Schools agreed with the decision of the Paso Robles Joint Unified School District management to declare negative status.

Finding 5: The Paso Robles Joint Unified School District and its unions agreed to take six staff furlough days in May of this year, in order to reduce expenditures sufficiently to end the fiscal year with positive reserves.

Finding 6: The County Superintendent has issued "qualified" warnings to four other school districts, Atascadero, Lucia Mar Unified, San Miguel Joint Unified, and Shandon Joint Unified, and suggested that they make new budget cuts to remain solvent over the next two years.

Finding 7: Two districts, Templeton and Pleasant Valley, rely on Revenue Limit funding from the state, have maintained substantial reserves and are expected to weather the current state budget crisis with minimal disruption of their education programs.

Finding 8: Three Basic Aid districts, Cayucos, San Luis Coastal and Coast Unified, which receive revenue from local property taxes and have maintained substantial reserves, are expected to weather the current state budget crisis with minimal disruption of their education programs.

Finding 9: The County Superintendent of Schools has advised the county school districts to prepare budgets that assume the proposed ballot initiatives to raise state income taxes and sales taxes in order to increase funding for public education statewide will not pass.

Finding 10: During the current school year, State Lottery proceeds will provide about \$4.8 million to the ten school districts in San Luis Obispo County, 17 % less than the previous year and only 1.8% of the total \$267 million in annual revenues the ten school districts will receive this year.

Finding 11: A parcel tax is a viable revenue source for school districts; however, the two-thirds voter approval requirement is a substantial challenge.

## **RECOMMENDATIONS**

Recommendation 1: The SLO County Office of Education should develop a minimum two-day mandatory education program for new governing board members with a concentration on budgeting and financial oversight, supplemented by an annual continuing training program.

Recommendation 2: Each governing board in the county should establish a policy requiring new board members to attend a minimum of two days of education on school district budgeting and financial oversight. Each governing board should also require follow-up financial training for board members annually.

Recommendation 3: The administration and Governing Board of Paso Robles Joint Unified School District should take additional budget cutting steps beyond the 12 annual furlough days scheduled for the next year, in order to be assured of achieving the County Office of Education Superintendent's recommended reserve at the end of the 2013-2014 fiscal year.

Recommendation 4: The administration and Governing Boards of Paso Robles, Atascadero, San Miguel and Shandon school districts should establish budget reductions in the coming year that will assure meeting the state's recommended reserve for districts of their size by the end of 2013-2014

Recommendation 5: The Governing Boards of Atascadero, Lucia Mar, Paso Robles, San Miguel, and Shandon school districts should seriously consider a parcel tax as a revenue source and educate the public about its importance and viability.

## **REQUIRED RESPONSES**

1. The County Office of Education is required to respond to Findings 1, 2, 4, 6, 8, 9, 10, and 11, and Recommendation 1. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **August 27, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
  
2. The Governing Board of Paso Robles Joint Unified School District is required to respond to Findings 1, 2, 3, and 5, and Recommendations 2, 3, 4, and 5. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
  
3. The Governing Board of Atascadero Unified School District is required to respond to Findings 1, 2, 3, and 6, and Recommendations 2, 4, and 5. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
  
4. The Governing Board of Cayucos Elementary School District is required to respond to Findings 1, 2, 3, and 8, and Recommendation 2. The responses shall be submitted to the

Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.

5. The Governing Board of Coast Unified School District is required to respond to Findings 1, 2, 3, and 8, and Recommendation 2. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
6. The Governing Board of Lucia Mar Unified School District is required to respond to Findings 1, 2, 3, and 6, and Recommendations 2 and 5. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
7. The Governing Board of Pleasant Valley Joint Union Elementary School District is required to respond to Findings 1, 2, 3, and 7, and Recommendation 2. The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
8. The Governing Board of San Luis Coastal Unified School District is required to respond to Findings 1, 2, 3, and 8, and Recommendation 2. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
9. The Governing Board of San Miguel Joint Union School District is required to respond to Findings 1, 2, 3, and 6, and Recommendations 2, 4, and 5. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.
10. The Governing Board of Shandon Joint Unified School District is required to respond to Findings 1, 2, 3, and 6, and Recommendations 2, 4, and 5. The responses shall be submitted

to the Presiding Judge of the San Luis Obispo Superior Court by **September 24, 2012**.  
Please provide a paper copy and an electronic version of all responses to the Grand Jury.

11. The Governing Board of Templeton Unified School District is required to respond to Findings 1, 2, 3, and 7, and Recommendation 2. The responses shall be submitted to the Presiding Judge of the San Luis Obispo Superior Court by **September 24, 2012**. Please provide a paper copy and an electronic version of all responses to the Grand Jury.

The mailing addresses for delivery are:

Presiding Judge Barry T. LaBarbera Superior Court of California 1050 Monterey Street San Luis Obispo, CA 93408	San Luis Obispo County Grand Jury P.O. Box 4910 San Luis Obispo, CA 93402
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The email address for the Grand Jury is: [GrandJury@co.slo.ca.us](mailto:GrandJury@co.slo.ca.us)

## APPENDIX A FY 2011-12 Revenues, Expenditures, and Fund Balances

### Basic Aid School Districts

School District ==>	Cayucos	Coast	San Luis Coastal
1. Revenues	\$2,385,146	\$9,841,855	\$71,038,923
2. Expenditures	\$2,666,010	\$10,902,136	\$79,896,532
3. (Deficit) or Surplus Line 3 equals Line 1 minus Line 2	(\$280,864)	(\$1,060,281)	(\$8,857,609)
4. Transfers IN from Other Sources	\$75,000	\$17,753	\$300,000
5. Transfers OUT to Other Uses	\$18,409	\$100,000	\$0
6. Net (Decrease) or Increase Line 6 equals Line 3 plus Line 4 minus Line 5	(\$224,273)	(\$1,142,528)	(\$8,557,609)
7. Beginning Fund Balance, 01 July 2011	\$685,881	\$3,467,851	\$25,826,574
8. Ending Fund Balance, 30 June 2012 Line 8 equals Line 7 plus Line 6	\$461,608	\$2,325,323	\$17,268,965

### Small School Districts - Revenue Limit

School District ==>	Pleasant Valley	San Miguel	Shandon
1. Revenues	\$893,896	\$4,679,915	\$3,320,711
2. Expenditures	\$915,208	\$5,223,520	\$3,572,511
3. (Deficit) or Surplus Line 3 equals Line 1 minus Line 2	(\$21,312)	(\$543,605)	(\$251,800)
4. Transfers IN from Other Sources	\$0	\$21,418	\$0
5. Transfers OUT to Other Uses	\$0	\$189,751	\$0
6. Net (Decrease) or Increase Line 6 equals Line 3 plus Line 4 minus Line 5	(\$21,312)	(\$711,938)	(\$251,800)
7. Beginning Fund Balance, 01 July 2011	\$314,720	\$924,892	\$714,044
8. Ending Fund Balance, 30 June 2012 Line 8 equals Line 7 plus Line 6	\$293,408	\$212,954	\$462,244

### Large School Districts - Revenue Limit

School District ==>	Atascadero	Lucia Mar	Paso Robles	Templeton
1. Revenues	\$36,253,758	\$80,152,964	\$54,145,017	\$16,458,315
2. Expenditures	\$38,681,248	\$83,553,823	\$56,188,226	\$17,753,074
3. (Deficit) or Surplus Line 3 equals Line 1 minus Line 2	(\$2,427,490)	(\$3,400,859)	(\$2,043,209)	(\$1,294,759)
4. Transfers IN from Other Sources	\$300,000	\$0	\$115,000	\$3,000
5. Transfers OUT to Other Uses	\$0	\$0	\$0	\$169,546
6. Net (Decrease) or Increase Line 6 equals Line 3 plus Line 4 minus Line 5	(\$2,127,490)	(\$3,400,859)	(\$1,928,209)	(\$1,461,305)
7. Beginning Fund Balance, 01 July 2011	\$5,037,809	\$13,051,477	\$2,614,875	\$4,011,672
8. Ending Fund Balance, 30 June 2012 Line 8 equals Line 7 plus Line 6	\$2,910,319	\$9,650,618	\$686,666	\$2,550,367

Source: San Luis Obispo County Office of Education, April 17, 201012

## APPENDIX B

### Monitoring and Oversight per Assembly Bill 1200

Fiscal monitoring and oversight of school districts is accomplished using guidelines provided through numerous federal and state regulations, particularly Assembly Bill (AB) 1200, School District Budget Review,<sup>3</sup> and AB 2756, Financial Accountability & Oversight Provision.<sup>4</sup>

AB 1200 and AB 2756 define a system of fiscal accountability for school districts and county offices of education to prevent school district fiscal insolvency. The law requires school districts to:

- develop multi-year financial projections
- identify sources of funding for substantial cost increases, such as employee raises, and
- make public the cost implications of such increases before approving employee contracts.

AB 1200, AB 2756 and other related legislation is simply referred to as “AB 1200” in school fiscal monitoring circles.

In addition to monitoring school district budgets, the staff of San Luis Obispo County Office of Education (SLOCOE), External Fiscal Services, provides financial management assistance and reviews of non-voter approved debt issuance, collective bargaining, and a countywide pooled financing for tax and revenue anticipation notes.<sup>5</sup> California’s Department of Education has developed forms and computer software to aid school district accounting technicians and officials to report consistently and completely school districts’ fiscal solvency to the County Superintendent of Schools. The County Superintendent either concurs or does not concur with the school districts’ reports.

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<sup>3</sup> Chapter 1213 of the 1991 California Statutes

<sup>4</sup> Chapter 52 of the 2004 California Statutes

<sup>5</sup> Tax and revenue anticipation notes are issued by units of local government to solve problems associated with the mismatch between the receipt of property tax or other revenues and ongoing expenditures.

State law designates “apportionment funds” from state and federal agencies received directly or through the San Luis Obispo County Auditor/Controller’s Office to be distributed pursuant with each agency’s restrictions to school districts.

Training for school district business staff is provided by the San Luis Obispo County Office of Education, External Fiscal Services staff through Quarterly Accounting Workshops and a Year End Workshop, as needed. School district officials meet monthly to discuss current issues and accounting practices.

In accordance with AB 1200, the County Superintendent of Schools has fiscal oversight responsibility for school districts in San Luis Obispo County. The California Superintendent of Public Instruction (SPI) has fiscal oversight responsibility over the County Superintendent. The SPI has authority to intervene in SLOCOE fiscal matters.