

January 14, 2022

Autumn Chapman, Superintendent  
Loleta Union Elementary School District  
PO Box 547  
Loleta, CA, 95551

Subject: Negative certification of 2021-2022 First Interim Report

Dear Ms. Chapman:

Thank you for the timely submission of the district's 2021-2022 First Interim Report.

In accordance with Education Code Section 42131, the County Superintendent of Schools is required to review the report for adherence to the state-adopted Criteria and Standards. The district has filed a First Interim Report with a negative certification. Based on the multiyear projections and assumptions provided by the district, it appears the district will not meet its 5% reserve requirement for the current fiscal year and will in fact reduce the reserves to a projected

- 0% by June 30, 2022
- negative unrestricted ending fund balances of \$151,215 in 2022-2023 and \$449,597 in 2023-2024.

We concur with the district's negative certification with the following comments:

#### Cash

In October 2021, the district borrowed \$170,137 in cash from the Humboldt County Office of Education (HCOE) in order to maintain positive cash flow in the General Fund and Special Reserves. In addition, we noted that the district is projecting a negative cash balance in the General and Special Reserves funds of \$179,347 as of June 30, 2022.

The original agreement for the cash borrowing was set to end with repayment in January 2022, however, at your January 13, 2022 board meeting the governing board of the district agreed to request the timeline be extended with a repayment of cash borrowed to be returned prior to June 30, 2022. HCOE is in agreement with this extension but reminds the district that it is unable to extend the cash borrowing beyond June 30, 2022, as these loans can only be made within a fiscal year. The district must take all possible action to avoid ending with negative cash come June 30, 2022 or will need to find other sources of borrowing in order to avoid State intervention.

#### Deficits Projected in the Current and Multi-Year Budgets

Part of the reason for the district's fiscal distress is due to its deficit spending. The structural deficit is projected to be \$276,028 in the current year.

During our review of the multi-year budget projections, we noted that the Local Control Funding Formula (LCFF) was based on Department of Finance (DOF) projections for

COLA. The LCFF includes cost-of-living (COLA) increases of 2.48% for 2022-23 and 3.11% for 2023-24. Under these revenue assumptions, the multi-year budgets project deficit spending of \$238,472 in 2022-23 and \$298,382 in 2023-24.

#### Reserves

As noted above, the district's reserve level is projected to drop to 0% by the end of 2021-22 and remain at 0% in all subsequent years. Estimated minimum reserve levels for 2022-2023 and 2023-2024 are \$117,865 and \$118,212 respectively.

#### Cafeteria

An additional stress on the district's General Fund is due to the Cafeteria Fund projected deficit of \$125,888 which represents 142% of the total annual revenue generated by that fund.

#### Fiscal Recovery Plan

The district will need to develop a Fiscal Recovery Plan identifying approximately \$1.1 million in prospective budget reductions to be made for 2022-2023 and that includes financial projections of all its funds and cash balances for the current fiscal year ending June 30, 2022. As staffing makes up the majority of the district's expenditures, please keep in mind that both certificated and classified staff are required to be noticed by March 15, 2022. The district should communicate with legal counsel for guidance with this process.

At your January 13, 2022 board meeting the governing board of the district took action to develop a Fiscal Recovery Plan that meets the reductions required. As part of the plan's development process, the board has scheduled three special board meetings one on each Thursday leading up to the regular scheduled board meeting on February 10, 2022. HCOE staff and Fiscal Advisor will attend all the special board meetings to assist the district in the development of the plan. The board agreed to have an approvable plan adopted at their meeting on February 10, 2022.

If the Fiscal Recovery Plan is not approved by February 10, 2022 the district will not be in a place to make the reductions necessary within its statutory deadlines; the amount needed in future budget reductions will increase significantly; and the district would move in the direction of a State receivership, and loss of local governance.

The following are the actions the district must take:

- Prepare and Approve a Fiscal Recovery Plan identifying all necessary reductions for submittal to HCOE no later than February 11, 2022.
- Freeze all unrestricted general fund discretionary expenditures unless operationally necessary — as determined by the district's Superintendent, business services clerk or designee
- Implement a hiring freeze on all positions that do not provide direct and essential services to students
- Notify HCOE prior to presenting proposals to bargaining units for negotiation, and update us after each negotiating session with employee groups.

- Encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.
- Continue to closely monitor future enrollment trends, and inform HCOE of budget adjustments should enrollment trends fluctuate.
- Be subject to the stay and rescind authority of the appointed Fiscal Advisor.
- Provide full and timely cooperation with COE staff and the appointed Fiscal Advisor.

We wish to acknowledge and express our appreciation to the district's staff, the governing board and the community for their continued diligence and hard work. If you have any questions regarding our review process, please feel free to contact our office.

Sincerely,



Michael Davies-Hughes  
County Superintendent  
Humboldt County Office of Education

MDH: cm

c: Brenda Juarez, District School Board President  
District School Board Members  
Jayne Christakos, Fiscal Advisor  
Tiara Zahler, District Business Services Clerk  
Michael Fine, Fiscal Crisis Management Assistance Team  
Elizabeth Dearstyne, CDE Fiscal Services  
Corey Weber, Assistant Superintendent of Business Services, HCOE