



Riverside County
Board of Education

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DATE: January 14, 2021

TO: Dr. Allan J. Mucerino, District Superintendent
Ms. Lizeth Vega, Board President
Mrs. Dusty Nevatt, Chief Business Officer
Alvord Unified School District

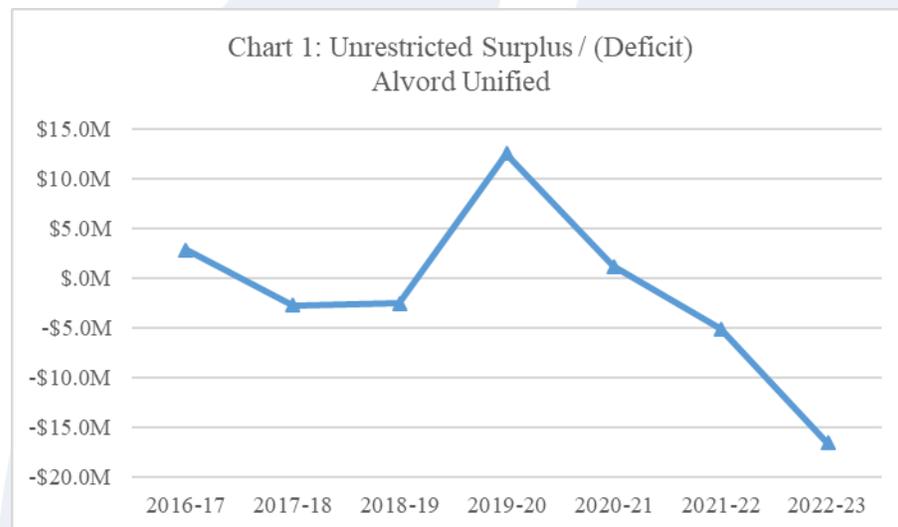
FROM: Tina Daigneault *TD*
Chief Business Official
Division of Administration and Business Services
(951) 826-6790/ FAX [951] 826-6974

SUBJECT: 2020-21 First Interim Financial Report

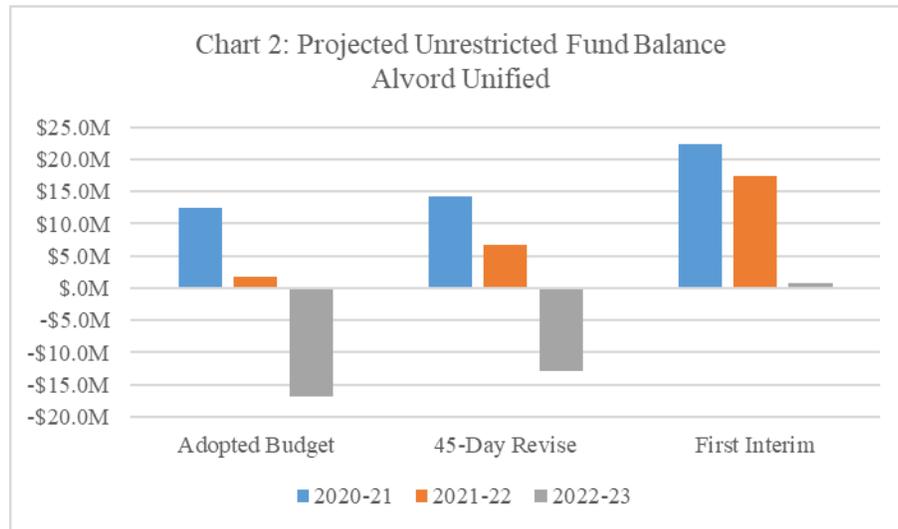
In accordance with California Education Code (EC) Section 42131, our office has reviewed the district's First Interim Financial Report for the period ending October 31, 2020. The governing board has made a **qualified** certification that the district may be unable to meet its financial obligations for the current and two subsequent fiscal years. Our office thanks the district's staff for its efforts to prepare this report and answer our questions. Based on our analysis of the information submitted, we have notified the California Department of Education of our concurrence with this **qualified** certification.

In summary of our review of the district's interim financial report, we offer the following observations on the key assumptions listed below:

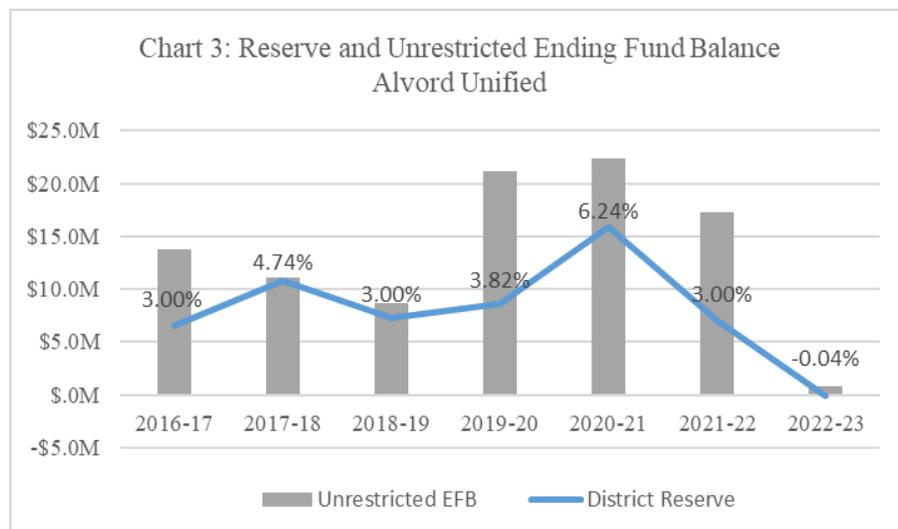
Unrestricted Deficit Spending – The district's multi-year financial projections indicate unrestricted deficit spending of \$5.1 million in 2021-22, and \$16.5 million in 2022-23. Chart 1 below illustrates the district's historical and projected unrestricted deficit spending. Continued unrestricted deficit spending cannot be sustained and will result in a deterioration of the district's fiscal condition if not addressed.



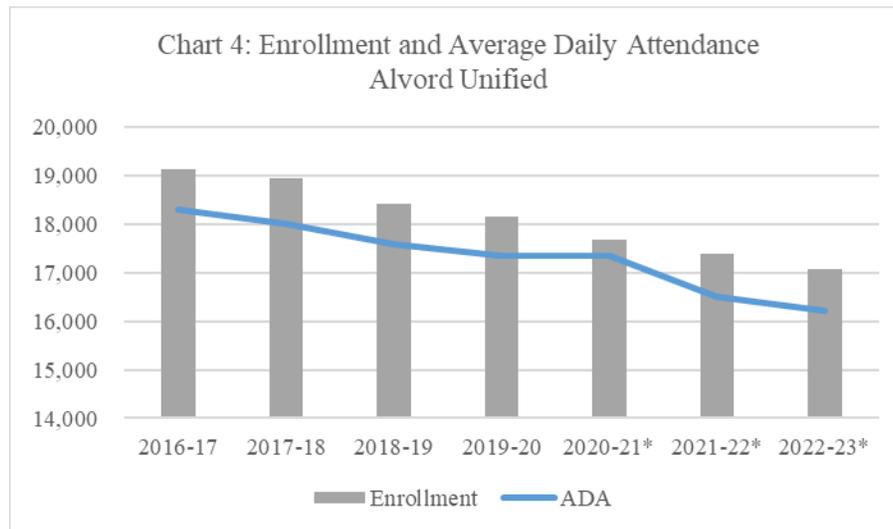
Unrestricted Fund Balance – The district developed its Adopted Budget LCFF projections in the context of the Governor’s 2020-21 enacted State Budget however, the enacted State Budget also incorporated a magnitude of additional changes that materially impacted district financial projections. For the 2020-21 fiscal year, districts are held harmless on LCFF funding levels, have received one-time Learning Loss Mitigation funds, and have been given additional flexibility, all of which have mitigated declining fund balances for the short term. However, it will be critical for districts to continue to maintain adequate unrestricted ending fund balances to be prepared for any additional impacts of the continued pandemic. Chart 2 below reflects unrestricted ending fund balance as reported in the multi-year projections.



Reserve for Economic Uncertainties – The minimum state-required reserve for a district of Alvord Unified School District’s size is 3.0 percent. Chart 3 displays a summary of the district’s actual and projected unrestricted General Fund balance and reserves. The district projects to meet the minimum reserve requirement in the current and first subsequent fiscal year only. Assuming no mitigating measures, the district will be unable to meet the minimum state reserve requirement by \$7.2 million in 2022-23. However, the district has \$0.8 million in assigned ending fund balance in 2022-23.



Enrollment and Average Daily Attendance (ADA) – The enacted State Budget includes an ADA hold harmless provision, and amends the attendance collection requirements for the current fiscal year. It will be important for districts to monitor enrollment in the current and subsequent years to ensure accurate LCFF revenue projections and mitigate the impact of a potential compounded decline following the sunset of the hold harmless provision. The district is anticipating enrollment of 17,678 for 2020-21 which is a 2.6 percent decline (473 students) from 2019-20. For 2021-22 and 2022-23, the district projects enrollment to decrease 1.7 percent in each year.



Local Control Funding Formula (LCFF) – The enacted State Budget incorporates no cost of living adjustment (COLA) for the 2020-21 fiscal year, which the district reflected in the First Interim Financial Report. The district incorporated LCFF COLAs of zero percent in the 2021-22 and 2022-23 fiscal years based on the enacted State Budget. In the Governor’s January Budget Proposal, released January 8, 2021, there is a compounded combined COLA of 3.84 percent projected for the 2021-22 fiscal year, which will positively impact the district’s projections, should this COLA be approved in the final budget act.

Unduplicated Pupil Percentage – The district reports an unduplicated pupil percentage of 79.49 percent for 2020-21, 78.25 percent for 2021-22, and 77.25 percent for 2022-23. The district’s unduplicated pupil percentage included in the 2019-20 P-2 certification by the California Department of Education is 81.02 percent.

COVID-19 Response Funds – Both the Federal and State governments have provided substantial one-time funds to schools in response to the COVID-19 pandemic. Some of these funds have specific restrictions on the timing and use of the funds. The table below lists the allocations of relief funding received by the district.

Resource	Must Be Expended By	District Allocation	Budgeted To Be Spent By June 30, 2021
Coronavirus Relief Funds (CRF)	12/30/2020*	\$17.7M	\$17.7M
Governor’s Emergency Relief Funds (GEER)	9/30/2022	\$1.1M	\$0.0M
State General Fund CARES Funds (GF)	6/30/2021	\$1.7M	\$1.7M
Elementary and Secondary School Emergency Relief Funds (ESSER)	9/30/2022	\$4.6M	\$4.5M

*The state may extend the statutory deadline to align with updated federal timelines

Employee Negotiations – As of the December 17, 2020 board date, the district reports salary and benefit negotiations continue with both the certificated and classified bargaining units for the current and prior fiscal year. Prior to entering into a written agreement, California Government Code (GC) Section 3547.5 requires a public school employer to publicly disclose the major provisions of a collective bargaining agreement, including but not limited to, the costs incurred in the current and subsequent fiscal years. The disclosure must include a written certification signed by the district superintendent and chief business official that the district can meet the costs incurred by the district during the term of the agreement. Therefore, please make available to the public and submit a disclosure to our office at least ten (10) working days prior to the date on which the governing board is to take action on a proposed agreement.

Cash Solvency – The District’s First Interim cash flow projections reflect the scheduled apportionment deferrals and the utilization of the Riverside County Tax Revenue Anticipation Notes (TRANs) Pool to address potential cash deficiencies for the remainder of the fiscal year. Our office strongly recommends that the district continue to closely monitor cash in *all funds* to ensure that sufficient resources are available. In addition, our office strongly advises districts to consult with legal counsel and independent auditors prior to using the *Cafeteria Special Revenue Fund (Fund 13)* or *Building Fund (Fund 21)* for temporary inter-fund borrowing purposes to remedy cash shortfalls.

A change in the district’s financial certification may be considered a material event requiring disclosure to bondholders. We recommend that the district consult with their bond counsel regarding continuing disclosure requirements as set forth by the Securities and Exchange Commission (SEC). Failure to comply with SEC regulations may result in enforcement action, including but not limited to financial sanctions.

Since the district filed a qualified/negative certification during the 2020-21 fiscal year, California Education Code Section 42133(a) prohibits the district from issuing non-voter approved debt (e.g. certificates of participation, tax and revenue anticipation notes (TRANs), and capital leases) in the 2021-22 fiscal year unless the county superintendent of schools determines that the district’s repayment is probable. Please submit a non-voter approved debt disclosure to our office at least 30 days prior to the governing board’s approval to proceed with all non-voter approved debt issuance, excluding TRANs. For TRANs, please contact our office for a list of requirements.

Conclusion

The economic environment continues to remain fluid. Districts have been faced with unprecedented swings in revenue projections in the current year. As such, we continue to encourage districts to build multi-year projections based on the best information available at the time, knowing that significant changes in state funding and federal relief will continue to necessitate adjustments to the district’s financial and operational plans. Further, we strongly encourage districts to continue to engage in thoughtful planning to ensure financial resources are deployed effectively for students.

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