



Hollister School District

Fiscal Review

January 20, 2010

Joel D. Montero
Chief Executive Officer



January 20, 2010

Ronald F. Crates, Ed. D., Superintendent
Hollister School District
2690 Cienega Road
Hollister, CA 95023

Dear Superintendent Crates:

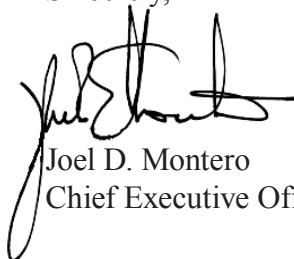
In September 2009, the Hollister School District entered into an agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a study that would complete the following:

1. Develop an independent multiyear financial projection (MYFP) of the district's general fund to confirm its status as a going concern. FCMAT's Budget Explorer software will be used to prepare the MYFP.
2. Compare district salary and benefits schedule to districts with similar revenue limits.
3. Facilitate a study session with the board on the results of the study and the financial aspects of district operations that could potentially negatively impact fiscal and organizational health.

This report contains the study team's findings and recommendations.

On behalf of FCMAT we appreciate the opportunity to serve the district and extend our thanks to all the staff members of the Hollister School District for their cooperation and assistance during fieldwork.

Sincerely,



Joel D. Montero
Chief Executive Officer

FCMAT

Joel D. Montero, Chief Executive Officer

1300 17th Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647
422 Petaluma Blvd North, Suite. C, Petaluma, CA 94952 • Telephone: 707-775-2850 • Fax: 707-775-2854 • www.fcmat.org
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

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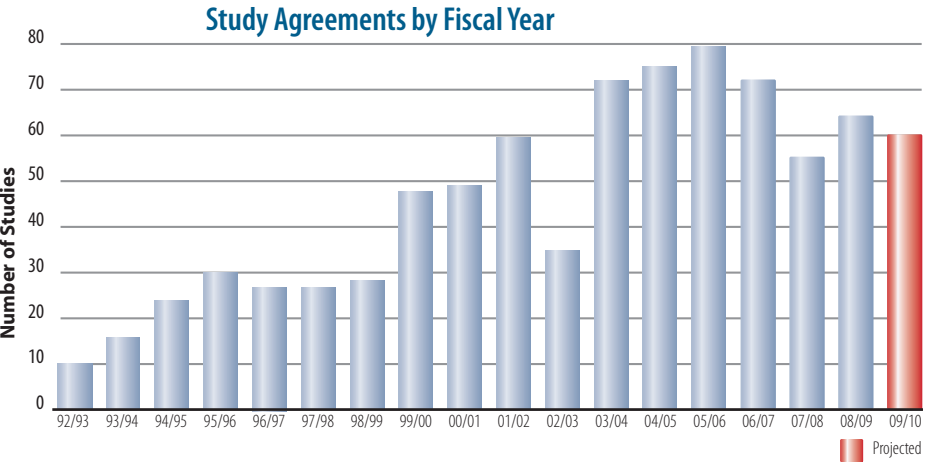
Foreword - FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies (LEAs) in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that LEAs throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district’s progress on the improvement plans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT’s services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 750 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



Total Number of Studies.....	743
Total Number of Districts in CA.....	1,050
Management Assistance.....	705 (94.886%)
Fiscal Crisis/Emergency	38 (5.114%)
Note: Some districts had multiple studies.	
Eight (8) districts have received emergency loans from the state.	
(Rev. 12/8/09)	

Introduction

Background

Located in rural San Benito County, the Hollister School District serves approximately 5,650 students in kindergarten through eighth grade at six elementary and two middle schools. The district also operates a magnet Dual Language Academy. District enrollment peaked in 2002-03, and has declined each year since then. Since 2002-03, the district has lost 540 students, or approximately 9% of the total student population.

In August 2009, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the district to perform the following:

1. Develop an independent multiyear financial projection (MYFP) of the district's general fund to confirm its status as a going concern. FCMAT's Budget Explorer software will be used to prepare the MYFP.
2. Compare district salary and benefits schedule to districts with similar revenue limits.
3. Facilitate a study session with the board on the results of the study and the financial aspects of district operations that could potentially negatively impact fiscal and organizational health.

Study Team

The FCMAT study team was composed of the following members:

Deborah Deal
FCMAT Fiscal Intervention Specialist
Los Angeles, California

Margaret Rosales
FCMAT Consultant
Kingsburg, California

Leonel Martínez
FCMAT Public Information Specialist
Bakersfield, California

Study Guidelines

FCMAT visited the district on October 21-22, 2009 to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

- I. Executive Summary
- II. Multiyear Financial Projection
- III. Comparative Salary and Benefits Analysis
- IV. Appendix

Executive Summary

Over the last few years, the Hollister Elementary School District has experienced the effects of the global recession, state budget reductions, apportionment deferrals, reductions in force and declining enrollment. As a result, the governing board has had to make difficult decisions concerning the reduction or elimination of programs.

Education Code 33127(EC) requires the county office to determine whether the district's budget meets the state adopted criteria and standards for fiscal stability. State criteria and standards include comparisons and projections such as the following:

- Average daily attendance
- Revenues and expenditures
- Reserves and fund balance
- Multiyear commitments, including cost-of-living adjustments

These comparisons and projections also include the following:

- Clear definitions and guidelines for budget certifications
- An assessment of financial health indicators
- Trends in fund balance
- Long-term commitments
- Use of one-time revenues and on-going costs
- Use of one-time revenues and one-time costs
- Appropriate recognition of future commitments including any district-created benefit program
- Facilities maintenance funding adequate to preserve district facilities over the estimated useful life.

The multiyear financial projection included in the adoption budget indicates that the district will have an operating deficit all three fiscal years and a negative fund balance in 2010-11 and 2011-12 as depicted in the following table:

Adopted Budget Multiyear Financial Projection

	2009-10	2010-11	2011-12
Revenues and Other Financing Sources	\$43,259,576	\$40,101,626	\$40,435,641
Expenditures and Other Financing Uses	\$44,722,948	\$46,057,663	\$46,402,745
Net Increase/Decrease in Fund Balance	(\$1,463,372)	(\$5,956,037)	(\$5,967,104)
Fund Balance	\$3,452,296	(\$2,503,741)	(\$8,470,845)

Source: Hollister Elementary Adopted Budget 2009-10

On August 17, 2009, the San Benito County Superintendent of Schools issued a *conditional approval* of the district's adopted budget for 2009-10 indicating that the budget did not ensure that the district will meet its current and future obligations. EC 42127 et seq., required the district to respond to the county office's concerns before September 22, 2009.

The district administration and county office staff met September 14, 2009 to review the details of the district's proposed budget adjustments, which totaled \$6.37 million for the 2010-11 fiscal year. Certificated and classified staff reductions represent \$3.66 million, more than half the proposed cuts. Approximately \$1.86 million in additional reductions represent negotiable items, and the remaining \$850,000 consists of delayed textbook purchases.

It is anticipated that the district's certification status will change from a conditionally approved budget to a qualified certification in the next budget cycle, indicating that the district will not be able to meet its financial obligations in the subsequent two fiscal years. This trend could necessitate fiscal intervention. The district will need to develop a financial plan that identifies revenue enhancements or expenditure reductions. Since more than 93% of the unrestricted budget is comprised of salary and benefits, any solution will most likely involve staffing reductions.

In August 2009, the district requested assistance from the Fiscal Crisis and Management Assistance Team (FCMAT) to prepare a multiyear financial projection and provide a comparison of employee salary and benefits. FCMAT's Multiyear Financial Projection (MYFP) excludes adjustments for staff reductions or negotiable items pending official board and/or collective bargaining approval. The study scope also includes a study session with the governing board regarding the results of the FCMAT study and the financial aspects of district operations that could affect future fiscal and organizational health.

Multiyear Financial Projection

The primary objectives in developing and implementing the MYFP are to achieve and sustain a balanced budget that meets the state's criteria and standards including the designated reserve for economic uncertainties. The district faces substantial fiscal challenges that require the governing board to make difficult decisions to balance the budget and ensure fiscal solvency. This will be especially challenging as the state continues to struggle with its own fiscal crisis.

FCMAT's multiyear financial projection indicates that the district *will not* meet its recommended reserve requirement in the two subsequent fiscal years without a detailed financial plan to increase revenue and/or reduce expenditures and cease deficit spending. The district has taken initial steps to address the budget shortfall by identifying \$6.37 million in ongoing budget reductions, but unless these budget reductions are successfully negotiated and formally approved by the governing board, the district will require an alternative plan to overcome the projected deficit.

FCMAT analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that the district is projected to have a *negative unrestricted fund balance* for the 2010-11 and 2011-12 fiscal years without substantial expenditure reductions or revenue enhancements.

Unrestricted Multiyear Financial Projection

	2009-10	2010-11	2011-12
Revenues and Other Financing Sources	\$29,685,697	\$30,471,697	\$ 30,614,966
Expenditures and Other Financing Uses	\$32,185,039	\$35,992,570	\$ 36,950,293
Net Increase/Decrease in Fund Balance	(\$2,499,342)	(\$5,520,873)	(\$ 6,335,327)
Beginning Fund Balance	\$ 3,790,863	\$ 1,291,521	(\$ 4,229,352)
Ending Fund Balance	\$ 1,291,521	(\$4,229,352)	(\$10,564,679)
Components of Fund Balance Including Reserves for Economic Uncertainties	\$ 1,291,521	(\$ 473,465)	(\$ 1,380,839)
Total Shortfall	\$0	(\$4,702,818)	(\$ 11,945,519)

Source: Budget Explorer v4.0 Fiscal Crisis and Management Assistance Team

To protect its financial solvency and eliminate the projected shortfalls of \$4.7 million in 2010-11 fiscal year and \$11.9 million in 2011-12, the district should begin preparing a detailed financial plan. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short-term, the district should take immediate action to address the budget shortfall projected for the subsequent two fiscal years. The governing board should approve a budget and multiyear projections that eliminate deficit spending and meet state reserve requirements.

Assembly Bill 1200 was enacted in 1991 and provides county offices with increased authority and responsibility. Subsequent legislation, Assembly Bill 2756, made substantial changes to the financial accountability and oversight of the fiscal condition of school districts and county offices of education. AB 2756 strengthened the role of the Superintendent of Public Instruction (SPI), the county office, and FCMAT and their ability to intervene during fiscal crises.

If a district cannot meet its financial obligations for the current and/or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district governing board and the SPI. The county office is required to follow Education Code section 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions, and requiring the district to submit a proposal for addressing its fiscal condition. If these steps are unsuccessful, the district may require expert fiscal assistance to eliminate deficit spending and restore the required reserves, and may face the loss of local governance and decision-making authority.

The term “lack of going concern” means that the district is not fiscally healthy and is unable to meet its financial obligations. EC 42127.6 has often been referred to as the lack-of-going-concern section. Based on the district’s inability to sustain the reserve requirements for 2010-11 and 2011-12, the county office should determine whether a letter on this matter should be issued in an effort to help stabilize district finances and more closely monitor its ability to remain fiscally solvent.

Budget Development

To develop an accurate multiyear projection, districts should have a detailed budget process that includes a districtwide budget calendar, designated time lines and departmental responsibilities for various budget tasks. All school sites and departments should be involved in budget development to ensure that district needs and program requirements are properly reflected in the final budget.

Interviews with the district staff indicated that in the current fiscal year, the business office developed the budget with very little input from school sites or departments. According to staff, the normal process that included all stakeholders was not possible given the complexities in funding issues including flexibility sweeps and budget reductions imposed by the state.

The district should ensure the budget is reviewed and updated monthly at the resource and object levels. It is important for this review be completed and evaluated by a second employee to help ensure all anticipated revenues and expenditures are accounted for and that budget revisions include the most current information. It is imperative for the district to be able to project its fund balance at any given time. The district should also ensure that its annual board meeting calendar coincides with the required budget reporting time lines to allow as much time as possible for all budget documents to be submitted to the board as required.

Revenue Limit

Most of the district’s funding comes through revenue limit resources, which are driven by average daily attendance (ADA). The district uses the historical average of enrollment to the second principle ADA of 95%. The state imposed deficits of 7.8444% in 2008-09 and 18.355% in 2009-10 because of state’s financial crisis. These deficits indicate a total loss of \$18.3 million over the three-year projection. High revenue limit deficits and declining enrollment have greatly attributed to the district’s current budget crisis.

The state imposed a one-time revenue-limit decrease of \$252.83 per student in the current fiscal year, which represents an additional \$1.4 million loss for the district in the current fiscal year. The district staff inadvertently applied this decrease to the base revenue limit calculation before the deficit, causing this one-time adjustment to be applied to future years. The error understated revenue limit sources by approximately \$1.9 million over the subsequent two fiscal years. FCMAT’s MYFP corrects this calculation in all three fiscal years.

Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs during all reporting periods. To help ensure proper staffing levels, especially in a period of declining enrollment, the district should develop current staffing formulas for all positions and use them to determine staffing allocations for each school site and department.

The district utilizes a position control system that interfaces with the budget development system. The position control data is updated by human resources staff and is ultimately included in the district's operating budget. FCMAT found that four positions eliminated by the governing board were still included in the position control report but as negative amounts for salary and benefits. This error understated expenditures for salaries and benefits. District staff members indicate that they need additional training to properly use the position control module. In addition, the Business and Human Resources departments should meet more frequently to discuss current period transactions that have an impact on the district's budget.

Proper separation of duties is a key factor in creating strong internal controls and a reliable position control system. The district should ensure that proper internal controls are maintained for the position control system by separating the duties between the Business and Human Resources departments. The position control system should be kept current and be fully integrated to coordinate the functions of budget, personnel and payroll.

The Human Resources and Business Services departments should immediately review their policies and procedures for position control and work together to create a proper system of checks and balances. All employees who are responsible for position control data should be provided with training on the system and held accountable to ensure that accurate information is entered and procedures are followed.

Cash Management

With the current budget crises at the state and national levels, cash management has become one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment. The 2008-09 and 2009-10 state budget acts further complicate the situation with numerous additional deferrals. As a result, it is important for the district to monitor its cash levels frequently and project cash flow to determine whether cash will be sufficient to meet its future financial obligations.

The apportionment schedule for most school districts has changed significantly. In addition to the change in the apportionment percentage, districts will also experience three one-time cash deferrals and four ongoing cash deferrals. In total, *25% of the district's current year apportionment dollars will be deferred to the following fiscal year.*

These changes greatly affect the district's ability to meet payroll and other obligations without internal and/or external borrowing. The following table demonstrates the district's new apportionment schedule and the projected schedule for apportionment payments by the state:

Monthly Apportionment and Payment Schedule	Old Apportionment Payment Schedule	New Apportionment Payment Schedule	Percentage of Actual Monthly Payments	Actual Monthly Shortfall Percentage
July	6.0%	5.0%	1.0%	-4.0%
August	12.0%	5.0%	0.0%	-5.0%
September	8.0%	9.0%	9.0%	0.0%
October	8.0%	9.0%	14.0%	5.0%
November	8.0%	9.0%	4.5%	-4.5%
December	8.0%	9.0%	13.0%	4.0%
January	8.0%	9.0%	13.5%	4.5%
February	14.0%	9.0%	0.5%	-8.5%
March	7.0%	9.0%	9.0%	0.0%
April	7.0%	9.0%	6.0%	-3.0%
May	7.0%	9.0%	4.5%	-4.5%
June	7.0%	9.0%	0.0%	-9.0%
Total	100%	100%	75%	
Subsequent Fiscal Year				
July			17.5%	
August			7.5%	

The district recently implemented a cash-flow projection model. It is imperative that the district properly project its cash flow needs and regularly update the projection.

Staff members of the San Benito County Office of Education indicated that because of workload issues, cash postings for all districts have not been timely. This is especially problematic given the cash deferrals imposed by the state.

According to the district staff, this practice has occurred over the last three years, and postings have been an average of approximately two (sometimes three) months in arrears. However, postings for the last two months have been timely.

Concerns regarding the untimely posting of cash receipts indicated a potential loss of interest earnings. FCMAT reviewed the calculation of interest from the San Benito County Office of Education. The county office posts interest calculated on the average cash balance of the three months in the quarter and applies a percentage of average cash to the total amount received by San Benito County. However, the review found that the San Benito County Auditor's office posts interest on the entire state school apportionment fund based on the available cash on the *last day of the quarter*.

Interest normally is calculated on the average daily balance of cash in an individual account. Unfortunately, this is not the case for San Benito County.

Discussions regarding this calculation were confirmed by the county auditor, who indicated that the San Benito County financial system, Legacy Bi-Tech, cannot accommodate an average daily balance calculation and maintained that “there is no requirement that interest be computed on an average daily basis.” The county auditor indicated that a new upgrade to the operating system should be available by the end of the fiscal year that will accommodate an average daily balance calculation. During this interim period, the San Benito County Auditor’s office is not making provision to adjust the calculation to reflect the appropriate interest earnings for all school districts within its boundaries in accordance with generally accepted accounting principles or California government codes.

The county treasurer indicated that while the final responsibility for all investment decisions rest with the treasurer, the county auditor’s office is authorized to assist with the day-to-day operations. The county treasurer was unaware of the current practice and will take the necessary action to correct the calculation and make “restitution” for prior understatements of interest earnings to the state school apportionment fund.

Comparative Salary and Benefit Analysis

The district administration requested that FCMAT provide data on the cost of employee compensation compared with other districts of similar type, size and funding. This will help ensure that the district offers fair and competitive compensation to attract and retain employees.

The district offers full-time employees and their eligible dependents (plan participant) medical, dental and vision insurance coverage. Employees may choose from three options that provide various levels of coverage. Depending on the option selected, employees that choose a more basic plan may receive cash equivalent to the difference between the cost of the more expensive and less expensive plans.

The basic plan premium is \$13, 597 per plan participant in the current fiscal year. Premium costs have increased 26.41% in the previous four year period with the exception of the current fiscal year. The district anticipates spending \$5.3 million on health insurance benefits in 2009-10.

Findings and Recommendations

Multiyear Financial Projection

Multiyear financial projections (MYFPs) are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from the Fiscal Crisis and Management Assistance Team (FCMAT).

MYFPs help districts make more informed decisions and forecast the effect of proposed decisions including negotiations. Projections should be a part of annual budget development and evaluated and updated during each major financial reporting period. In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement through the incorporation of district goals and objectives, and maintain local control. The MYFP helps identify specific planning milestones that will help the district make decisions. Financial planning is crucial for every school district, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional programs and goals.

Any forecast of financial data has inherent limitations. These limitations include issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers. Even trends have limitations as evidenced by the unusual budgetary cycles over the last two fiscal years especially with previously restricted categorical programs now reclassified as unrestricted.

Multiyear projections in a time of fiscal instability can become somewhat unreliable, especially when projecting future fiscal years because anticipated revenue projections from the state frequently change. As projection variables such as a deficit factor adjustments change, the MYFP can be quickly updated, allowing the district to understand the ramifications of state-imposed budget adjustments.

Districts throughout the state were forced to update multiyear assumptions and projections several times during the prior fiscal year as the state continued to experience severe revenue declines. Districts will need to monitor and update projections regularly during this continued period of uncertainty.

State Budget-Overview

In November 2008, the governor called for a special session of the state legislature after financial projections forecast a growing multibillion-dollar deficit. This resulted in deep cuts to the education budget late in the fiscal year.

The Governor's 2009-10 May revise had further cuts to education funding, including a decrease in the revenue limit of \$252.83 per prior year (2008-09) average daily attendance (ADA). The revise also provided some relief to school budgets such as the following:

- Flexibility options that allow previously restricted categorical program dollars to be used for any educational purpose;
- A lower reserve requirement for economic uncertainties;
- A decrease in penalties for class-size reduction;
- A lower contribution to the routine restricted maintenance account required for local educational agencies who participate in the School Facility Program;
- The elimination of the deferred maintenance match for four years.

In addition to these flexibility options, the federal government enacted the American Recovery and Reinvestment Act (ARRA). ARRA funds were intended to compensate for the loss of state funding, save jobs, stimulate the economy, improve academic achievement and support school reform. However, federal funds that were expected to compensate for earlier cuts in education funding were needed to offset further decreases for the 2009-10 fiscal year.

This one-time funding source provided *temporary relief* for school districts, but without permanent restoration of funding by the state or federal government, districts may still face the possible elimination of jobs, services and other educational needs.

ARRA funds are provided in the following areas:

- State Fiscal Stabilization Funding (SFSF) – These funds can be utilized for a broad range of purposes beginning April 17, 2009.
- Title I – These funds can be expended beginning February 17, 2009. Their use is subject to cost and accounting rules under OMB-A87 and A133 and also subject to maintenance-of-effort requirements.
- Individuals with Disabilities Education Act (IDEA) – These funds can be expended beginning February 17, 2009 and are being sent to SELPAs for distribution. Their use is subject to maintenance-of-effort requirements.

The following table identifies the ARRA one-time funding for the Hollister School District. This funding saved jobs and compensated for anticipated budget reductions *but only for the 2009-10 school year*.

**American Recovery and Reinvestment Act
One-Time Funding**

Type of Funding	2008-09	2009-10
SESF	\$1,833,475	
Title I		\$339,945
IDEA		\$1,054,252
Total	\$1,833,475	\$1,394,197

School districts received the first payments of SFSF and Title I dollars in June 2009 and the remaining dollars early in the 2009-10 fiscal year. FCMAT has included in the MYFP the amounts listed in the table above. More detailed information regarding the ARRA funds and reporting requirements can be found on the following CDE Web sites:

SFSF - <http://www.cde.ca.gov/ar/sf/index.asp>

Title I - <http://www.cde.ca.gov/fg/aa/ca/nclbttitlei.asp>

IDEA - <http://www.cde.ca.gov/fg/fo/r18/arralocass09result.asp>

Budgeting Flexibility - Sections 5, 15, and 42 of SBX3 4 provided budget flexibility for LEAs through the following measures:

- Districts may use 100% of general fund or cafeteria fund restricted balances as of June 30, 2008 for any educational purpose with specific exceptions.
- For 2008-09 through 2012-13, LEAs may use funding formerly restricted for 42 specified categorical programs for any educational purpose.
- For 2008-09 through 2012-13, the required contribution to the routine restricted maintenance account (RRMA) is reduced from 3% to 1% of an LEA's total general fund expenditures and other financing uses.
- For 2008-09 through 2012-13, the local match requirement for the deferred maintenance program eligibility is eliminated. Additionally, program funding for this period is unrestricted and can be used for any educational purpose (see deferred maintenance section below.)

SBX3 4 does not limit an LEA's budgeting flexibility to the amount of revenue limit and categorical funding reductions the LEA sustains. *SBX3 4 does not reduce the level of an LEA's required reserve for economic uncertainties; however, SB4 3, Chapter 3/2009 subsequently changed the reserve for economic uncertainties requirements for 2009-10 through 2010-11.*

Categorical Program Flexibility - Section 15 of SBX3 4 authorizes complete flexibility in the use of funds appropriated in 42 budget act items. For 2008-09 through 2012-13, these 42 programs have been reclassified from restricted to unrestricted, and program or funding requirements provided in the Education Code are not in effect. The analysis includes a reduction of 4.46% in 2009-10 for the affected programs operated by the district.

K-3 Class Size Reduction - SBX3 4 established a new schedule of funding reduction percentages in Education Code section 52124.3 for classes exceeding 20.44 pupils. From 2008-09 through 2011-12, this new schedule replaces the schedule of funding reduction percentages previously established in Education Code section 52124. The new schedule provides for reductions to funding as follows:

Schedule of Class Size Reduction Funding Reduction

Funding Reduction	Class Size Range, Inclusive
5%	20.45 to 21.44
10%	21.45 to 22.44
15%	22.45 to 22.94
20%	22.95 to 24.94
30%	24.95 or more

Like the previous schedule, funding for classes of more than 20.44 pupils will be calculated based on a count not to exceed 20 pupils multiplied by the funding rate, less the funding reduction percentage. In FCMAT's MYFP analysis, district adjustments to the K-3 Class Size Reduction (CSR) program and related funding are included.

Deferred Maintenance Program - The local matching contribution normally required as a condition of eligibility for the deferred maintenance basic grant funding has been eliminated for 2008-09 through 2012-13. In addition, deferred maintenance program funding is one of the 42 budget items made flexible by Education Code section 42605 for 2008-09 through 2012-13. Funding related to this budget item is therefore unrestricted for the five-year period and may be used for any educational purpose. The district has eliminated the deferred maintenance match in all three projection years.

Routine Restricted Maintenance Account Contribution - The contribution to the routine restricted maintenance account (RRMA), required for LEAs participating in the state school facility program, is reduced from 3% to 1% of the total general fund expenditures and other financing uses for 2008-09 through 2012-13. The district utilized this option to the extent of allowable expenditures.

A letter from the CDE dated April 17, 2009 contains additional information regarding the flexibility provisions and is located at the following CDE Web site:

<http://www.cde.ca.gov/fg/ac/co/documents/sbx34budgetflex.doc>

Following previous enacted legislation ABX 4 3 Chapter 1/2009 and ABX4 3 Chapter 3/2009 made the following three significant adjustments to school district budgets:

1. Reduced the requirement for the reserve for economic uncertainties to one-third of the required percentage for 2009-10 and 2010-11 (with the second year showing some progress towards restoration), and full restoration of the initial reserve requirement by 2011-12.
2. Imposed a one-time adjustment to the 2009-10 revenue limit calculation of (\$252.83) per 2008-09 P2 ADA.
3. Increased the deficit factor to 18.355%

FCMAT's MYFP reflects these additional adjustments.

AB 1200 Oversight

If a district cannot meet its financial obligations for the current or two subsequent fiscal years or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code section 42127.6 in assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions and requiring the district to submit a proposal for addressing its fiscal condition. In the case of a district that does not meet its required reserve levels, the MYFP is intended to help the county office and district formulate a plan to regain fiscal solvency and restore the required reserves and ending fund balance.

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The district will need to ensure that multiyear financial projections are updated and that the information is accurate and based on the most current assumptions. This is particularly important since economic indicators may change rapidly as state continues to struggle to balance its budget and cash flow.

FCMAT updated the multiyear projections to include the latest budget adjustments signed into law during the special state legislative session that ended in February 2009 for 2008-09 and 2009-10 as well as to subsequent special legislation. *The MYFP developed for this report indicates that the district will not be able to maintain its required reserves in the following two fiscal years.* The district faces substantial fiscal challenges that will require the governing board to make and implement difficult decisions immediately.

The following 15 conditions represent the most common indicators of fiscal distress and are referenced in AB 2756 (Daucher) and included in Education Code sections 42127 and 42127.6:

1. Governance crisis
2. Absence of communication to education community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed ADA projections
6. Failure to maintain reserves
7. Insufficient consideration of the effects of long-term bargaining agreements
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure projections
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state COLAs
12. Lack of integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating general fund encroachment from restricted programs
15. Lack of regular budget monitoring

The Hollister School District is experiencing several of these conditions, which will require immediate attention.

Multiyear Financial Projection Methodology

FCMAT reviewed and used the district's unaudited actuals for 2008-09 and the adopted budget for 2009-10 reports for the general fund and the assumptions included with the multiyear financial projections for fiscal years 2009-10 through 2011-12 as a baseline for a MYFP analysis. To prepare an independent MYFP, FCMAT also reviewed the following:

- Revenue limit and cash flow documents.
- Enrollment and ADA projections for the current and two subsequent fiscal years.
- Documentation supporting the district's budget assumptions.
- Actual data from the district's financial and position control systems.

California school districts and county offices of education use many different software products to prepare MYFPs. For the Hollister School District, FCMAT used its latest Budget Explorer Web-based MYFP version 4.0 software, which was designed exclusively for the state's school districts and county offices of education. The latest version includes a cash flow module that is fully integrated with the budget projection module and includes the latest cash flow deferral schedules from the California Department of Education.

Budget Explorer allows school districts to create and update financial projections instantly by interfacing with the standardized account code structure (SACS) or importing data directly from a district's financial system. With its comprehensive modeling capabilities, the district can produce multiyear financial projections more efficiently, accurately and rapidly than with conventional spreadsheets. The district can use Budget Explorer to make more informed budget decisions and incorporate educational goals and objectives

into several financial scenarios. The MYFP utilized in this document and prepared by FCMAT will be available to the district online upon completion of this report.

Multiyear Financial Projection Assumptions

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria including enrollment trends, cost-of-living adjustments (COLAs), and future projections for utilities, fuel, supplies and equipment. Financial projections must reflect the changing economic conditions at the state, federal and local levels.

When making multiyear expenditure decisions about salaries and benefits, the district must analyze the compounding effects over several years. According to AB 1200 guidelines, school districts are required to estimate the cost of a tentative agreement for salary and benefits in the current and two subsequent fiscal years. Additionally, Government Code 3547.5(a) requires the agreement's major provisions to be disclosed at a public meeting of the public school employer. Using a multiyear software program allows the district staff to clearly determine the effect of these proposals on the unappropriated fund balance from year to year to ensure that reserve levels are maintained and the district remains fiscally solvent.

FCMAT's projection includes the impact of the approved Senate Bill 4 of the 2009-10 Third extraordinary session (SBX3 4) on February 2009 as well as subsequent multiple extraordinary sessions in July 2009 including: ABX4 1, ABX4 2, ABX 4 3 and SBX4 16 budget and trailer bills to the state budget act for fiscal years 2008-09 and 2009-10. This includes significant midyear funding reductions of 4.46% for categorical programs in the current fiscal year, a one-time revenue limit adjustment of \$252.83 per ADA, and an increase the deficit factor.

The MYFP prepared by FCMAT uses the district's 2009-10 adopted budget SACS data file as the baseline. FCMAT also used budget assumptions based on the 2009-10 State Adopted Budget Act and School Services of California's (SSC's) Financial Dartboard assumptions updated in June 2009. FCMAT's MYFP excludes any salary increase in the current or projection years beyond the current negotiated agreement. Included in the projection years are the following assumptions:

- The average cost of step-and-column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of 1.50% for certificated staff and 1.56% for classified staff.
- An increase of 8% for health and welfare costs in 2010-11 and 2011-12 based on district information.
- Increases in general operating expenditures based on the California consumer price index and the most recent economic indicators.

To verify the base year (2009-10) for the multiyear projection, FCMAT did the following:

- Prepared spreadsheet pivot tables for certificated, classified and management salary and benefit costs comparing actual year-to-date salary expense activity and encumbrances with position control reports.
- Reviewed internal and third party support documentation to verify the district's current year revenues.
- Reviewed the district's actual revenue and expenditure detail to identify potential adjustments in each resource and in major object code sections of the general fund.

In addition to staff interviews, FCMAT used a number of district documents to develop a baseline and future assumptions for the MYFP, including the following:

- A conditional approval letter from the county office regarding the adopted budget report for 2009-10.
- Financial system budget comparative reports that correspond to amounts in the 2009-10 adopted budget report and actual transactions to date.
- The financial summary report showing all general ledger balance sheet accounts by fund for 2009-10 to analyze cash, accounts receivable and payables.
- Revenue-limit worksheets, including all supporting schedules for 2009-10, 2010-11 and 2011-12 projections.
- Historical enrollment information for the current and prior five fiscal years, and projections for the subsequent two years.
- Period one (P-1), period two (P-2), and annual attendance reports, including CBEDS data, for 2006-07 through 2008-09.
- Identification of any one-time revenues and expenditures included in the 2009-10 budget.
- District and department organization charts.
- Long-term debt schedules from the 2008-09 audited financial statements and related contracts.
- Collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare rates as stated in the collective bargaining agreement.
- Independent audit reports.

The following table includes the economic factors used by FCMAT in completing the district's multiyear financial projection:

Multiyear Projection Rules and Assumptions

Rule	Title	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Cert. COLA	Certificated COLA %	0.00%	0.00%	0.00%
Class. COLA	Classified COLA %	0.00%	0.00%	0.00%
Cert. Step%	Certificated Staff Step/Column Increase %	1.50%	1.59%	1.59%
Clas. Step%	Classified Staff Step Increase %	1.56%	1.56%	1.56%
CPI	California CPI (SSC)	0.50%	1.90%	2.20%
LOT-Res	California Lottery Restricted (SSC)	\$13.25	\$13.25	\$13.25
LOT-Unr	California Lottery Unrestricted (SSC)	\$111.00	\$111.00	\$111.50
INT	Interest Rate Trend for 10 Year Treasuries (SSC)	3.60%	4.10%	4.40%
NetCOLA	Net Funded Revenue Limit COLA (SSC)	(7.64%)	0.50%	2.30%
RLDef	Revenue Limit Deficit: K-12 (SSC)	18.355%	18.355%	18.355%
SpEdDef	Special Education COLA (SSC)	0.00%	0.50%	2.30%
CatCOLA	State Categorical COLA (SSC)	0.00%	0.50%	2.30%
StCOLA	Statutory COLA (SSC)	4.25%	0.50%	2.30%
HW%	Health & Welfare Benefit Increase	0.00%	8.0%	8.0%
Enr	Year-to-Year Change in Enrollment	(1.72%)	(1.84%)	(1.88%)
RL-ADA	Year-to-Year Change in RL ADA	0.00%	(1.84%)	(1.88%)
P2ADA	P2-ADA/ PRIOR YEAR ANNUAL ESTIMATE	0.00%	5358.95	5261.26
TierI	Tier I Programs	0.00%	0.50%	2.30%
TierII	Tier II Programs	(4.46%)	0.50%	2.30%
TierIII	Tier III Programs	(4.46%)	0.50%	2.30%

Based on School Services of California Financial Dashboard June 2009 and district estimates

Multiyear Financial Projection Analysis

The primary purpose of a MYFP is to project the district’s budget over several fiscal years using budget assumptions that allow the district to achieve and sustain a balanced budget and meet the required minimum reserve for economic uncertainties.

To evaluate the multiyear projection, attention is focused on the district’s ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines. The unrestricted general fund summary below indicates that, without substantial reductions or revenue enhancements, the district will have a negative fund balance in the 2010-11 and 2011-12 fiscal years.

To protect the district’s financial solvency and eliminate the projected \$4.7 million shortfall in 2010-11, and the \$11.9 million shortfall in 2011-12, the district will need to begin preparing immediately for a period of fiscal instability. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. In the short term, the district should take immediate actions to address the projected budget shortfall for the current and two subsequent fiscal years of the MYFP analysis.

FCMAT's MYFP indicates that the district *will not* meet its recommended reserve requirement in the two subsequent fiscal years without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. The district's enrollment is projected to decrease another 208 students, or 3.7% during the next three fiscal years compounding the district's current financial situation.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. When analyzing the district's budget, much attention is focused on the unrestricted budget in particular the unappropriated ending fund balance. The following table demonstrates that the district is in financial crisis. The unrestricted budget is projected to have a shortfall in the general fund operating budget in two of three fiscal years.

MYFP Unrestricted General Fund Summary

Name	Object Code	Historical Year	Base Year	Year 1	Year 2
		2008 - 09	2009 - 10	2010 - 11	2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	\$28,967,990.65	\$25,120,881.24	\$26,104,017.19	\$26,206,253.47
Federal Revenues	8100 - 8299	\$0.00	\$2,000.00	\$2,000.00	\$2,000.00
Other State Revenues	8300 - 8599	\$3,649,923.99	\$4,366,715.00	\$4,167,734.79	\$4,206,706.26
Other Local Revenues	8600 - 8799	\$489,910.11	\$196,100.00	\$197,945.00	\$200,006.18
Total Revenues		\$33,107,824.75	\$29,685,696.24	\$30,471,696.98	\$30,614,965.91
Expenditures					
Certificated Salaries	1000 - 1999	\$19,325,530.10	\$16,953,390.00	\$17,930,450.88	\$18,189,484.03
Classified Salaries	2000 - 2999	\$2,269,148.42	\$2,538,633.00	\$2,573,290.28	\$2,607,096.84
Employee Benefits	3000 - 3999	\$6,907,841.62	\$6,728,118.41	\$7,412,465.49	\$7,828,933.89
Books and Supplies	4000 - 4999	\$191,691.97	\$533,795.00	\$534,037.46	\$535,525.50
Services and Other Operating	5000 - 5999	\$1,792,269.99	\$1,918,579.00	\$1,935,414.45	\$1,957,672.17
Capital Outlay	6000 - 6900	\$0.00	\$60,000.00	\$60,000.00	\$60,000.00
Other Outgo	7000 - 7299	\$0.00	\$0.00	\$0.00	\$0.00
Direct Support/Indirect Cost	7300 - 7399	(\$776,026.29)	(\$706,166.00)	(\$662,182.00)	(\$657,513.69)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenditures		\$29,710,455.81	\$28,026,349.41	\$29,783,476.56	\$30,521,198.74
Excess (Deficiency) of Revenues Over Expenditures		\$3,397,368.94	\$1,659,346.83	\$688,220.42	\$93,767.17
Other Financing Sources/Uses					
Interfund Transfers In	8900 - 8929	\$2,441,358.50	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	(\$4,275,701.86)	(\$4,158,689.26)	(\$6,209,093.79)	(\$6,429,094.06)
Total Other Financing Sources/Uses		(\$1,834,343.36)	(\$4,158,689.26)	(\$6,209,093.79)	(\$6,429,094.06)
Net Increase (Decrease) in Fund Balance		\$1,563,025.58	(\$2,499,342.43)	(\$5,520,873.37)	(\$6,335,326.89)
Fund Balance					
Beginning Fund Balance	9791	\$2,255,707.61	\$3,790,863.21	\$1,291,520.78	(\$4,229,352.59)
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00	\$0.00
Other Restatements	9795	(\$27,869.98)	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$2,227,837.63	\$3,790,863.21	\$1,291,520.78	(\$4,229,352.59)
Ending Fund Balance		\$3,790,863.21	\$1,291,520.78	(\$4,229,352.59)	(\$10,564,679.48)
Components of Ending Fund Balance					

Reserved Balances	9700	\$0.00	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$5,026.50	\$0.00	\$0.00	\$0.00
Stores	9712	\$101,694.89	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$0.00	\$0.00	\$0.00	\$0.00
Economic Uncertainties Percentage		3%	1%	1%	3%
Designated for Economic Uncertainties	9770	\$1,408,642.26	\$442,599.86	\$473,465.26	\$1,380,839.22
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$2,275,499.59	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$848,920.92	\$0.00	\$0.00
Negative Shortfall	9790	(\$0.03)	\$0.00	(\$4,702,817.85)	(\$11,945,518.70)

Restricted General Fund

The district has more than 35 restricted federal and state programs. Other than routine restricted maintenance, home-to-school transportation and special education, only one program (NCLB Title III), requires a contribution from the district’s unrestricted general fund as projected in the 2009-10 adopted budget. The district should carefully review all contributions and ensure that all restricted programs are self-sustaining. The only exceptions should be the restricted routine maintenance, special education and home-to-school transportation programs because these programs typically have insufficient state and federal funding support. The district has taken a proactive approach to offset the encroachment for special education services offered to students from other local school districts by charging back the costs associated with these services. The following shows the district’s restricted general fund budget.

MYFP Restricted General Fund Summary

Name	Object Code	Historical Year	Base Year	Year 1	Year 2
		2008 - 09	2009 - 10	2010 - 11	2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	\$1,233,089.45	\$1,155,199.74	\$1,159,350.74	\$1,178,540.81
Federal Revenues	8100 - 8299	\$5,439,300.94	\$5,135,069.00	\$3,588,569.00	\$3,588,569.00
Other State Revenues	8300 - 8599	\$4,616,694.62	\$2,732,244.00	\$2,739,880.51	\$2,799,796.03
Other Local Revenues	8600 - 8799	\$2,724,996.92	\$2,408,780.00	\$2,408,780.00	\$2,408,780.00
Total Revenues		\$14,014,081.93	\$11,431,292.74	\$9,896,580.25	\$9,975,685.84
Expenditures					
Certificated Salaries	1000 - 1999	\$6,058,484.19	\$6,040,927.37	\$5,402,920.37	\$5,483,673.78
Classified Salaries	2000 - 2999	\$3,345,550.12	\$3,084,604.00	\$3,121,687.90	\$3,169,107.20
Employee Benefits	3000 - 3999	\$2,985,786.33	\$2,926,511.29	\$2,870,094.07	\$3,025,471.23
Books and Supplies	4000 - 4999	\$1,375,258.95	\$583,667.00	\$539,510.57	\$437,041.58
Services and Other Operating	5000 - 5999	\$2,458,702.92	\$2,625,645.19	\$2,445,942.39	\$2,467,851.85
Capital Outlay	6000 - 6900	\$17,032.38	\$0.00	\$0.00	\$0.00
Other Outgo	7000 - 7299	\$289,186.51	\$360,000.00	\$360,000.00	\$360,000.00
Direct Support/Indirect Cost	7300 - 7399	\$714,284.65	\$612,282.00	\$568,298.00	\$563,629.69
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenditures		\$17,244,286.05	\$16,233,636.85	\$15,308,453.30	\$15,506,775.33
Excess (Deficiency) of Revenues Over Expenditures		(\$3,230,204.12)	(\$4,802,344.11)	(\$5,411,873.05)	(\$5,531,089.49)
Other Financing Sources/Uses					
Interfund Transfers In	8900 - 8929	\$0.00	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$4,275,701.86	\$4,158,689.26	\$6,209,093.79	\$6,429,094.06
Total Other Financing Sources/Uses		\$4,275,701.86	\$4,158,689.26	\$6,209,093.79	\$6,429,094.06
Net Increase (Decrease) in Fund Balance		\$1,045,497.74	(\$643,654.85)	\$797,220.74	\$898,004.57
Fund Balance					
Beginning Fund Balance	9791	\$1,617,953.16	\$2,572,200.90	\$1,928,546.05	\$2,725,766.79
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00	\$0.00
Other Restatements	9795	(\$91,250.00)	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$1,526,703.16	\$2,572,200.90	\$1,928,546.05	\$2,725,766.79
Ending Fund Balance		\$2,572,200.90	\$1,928,546.05	\$2,725,766.79	\$3,623,771.36
Components of Ending Fund Balance					
Reserved Balances	9700	\$0.00	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$0.00	\$0.00	\$0.00	\$0.00
Stores	9712	\$0.00	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$2,572,200.90	\$1,928,546.05	\$2,725,766.79	\$3,623,771.36
Designated for Economic Uncertainties	9770	\$0.00	\$0.00	\$0.00	\$0.00
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$0.00	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$0.00	\$0.00	\$0.00
Negative Shortfall	9790	\$0.00	\$0.00	\$0.00	\$0.00

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a fund balance shortfall in the two subsequent fiscal years. Contributing to this shortfall is a deficit of 18.355% beginning in 2009-10. The district also experienced significant funding reductions to several state categorical programs and declining enrollment.

MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Historical Year	Base Year	Year 1	Year 2
		2008 - 09	2009 - 10	2010 - 11	2011 - 12
Revenues					
Revenue Limit Sources	8010 - 8099	\$30,201,080.10	\$26,276,080.98	\$27,263,367.93	\$27,384,794.28
Federal Revenues	8100 - 8299	\$5,439,300.94	\$5,137,069.00	\$3,590,569.00	\$3,590,569.00
Other State Revenues	8300 - 8599	\$8,266,618.61	\$7,098,959.00	\$6,907,615.30	\$7,006,502.29
Other Local Revenues	8600 - 8799	\$3,214,907.03	\$2,604,880.00	\$2,606,725.00	\$2,608,786.18
Total Revenues		\$47,121,906.68	\$41,116,988.98	\$40,368,277.23	\$40,590,651.75
Expenditures					
Certificated Salaries	1000 - 1999	\$25,384,014.29	\$22,994,317.37	\$23,333,371.25	\$23,673,157.81
Classified Salaries	2000 - 2999	\$5,614,698.54	\$5,623,237.00	\$5,694,978.18	\$5,776,204.04
Employee Benefits	3000 - 3999	\$9,893,627.95	\$9,654,629.70	\$10,282,559.56	\$10,854,405.12
Books and Supplies	4000 - 4999	\$1,566,950.92	\$1,117,462.00	\$1,073,548.03	\$972,567.08
Services and Other Operating	5000 - 5999	\$4,250,972.91	\$4,544,224.19	\$4,381,356.84	\$4,425,524.02
Capital Outlay	6000 - 6900	\$17,032.38	\$60,000.00	\$60,000.00	\$60,000.00
Other Outgo	7000 - 7299	\$289,186.51	\$360,000.00	\$360,000.00	\$360,000.00
Direct Support/Indirect Cost	7300 - 7399	(\$61,741.64)	(\$93,884.00)	(\$93,884.00)	(\$93,884.00)
Debt Service	7430 - 7439	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenditures		\$46,954,741.86	\$44,259,986.26	\$45,091,929.86	\$46,027,974.07
Excess (Deficiency) of Revenues Over Expenditures		\$167,164.82	(\$3,142,997.28)	(\$4,723,652.63)	(\$5,437,322.32)
Other Financing Sources/Uses					
Interfund Transfers In	8900 - 8929	\$2,441,358.50	\$0.00	\$0.00	\$0.00
Interfund Transfers Out	7600 - 7629	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Sources	8930 - 8979	\$0.00	\$0.00	\$0.00	\$0.00
All Other Financing Uses	7630 - 7699	\$0.00	\$0.00	\$0.00	\$0.00
Contributions	8980 - 8999	\$0.00	\$0.00	\$0.00	\$0.00
Total Other Financing Sources/Uses		\$2,441,358.50	\$0.00	\$0.00	\$0.00
Net Increase (Decrease) in Fund Balance		\$2,608,523.32	(\$3,142,997.28)	(\$4,723,652.63)	(\$5,437,322.32)
Fund Balance					
Beginning Fund Balance	9791	\$3,873,660.77	\$6,363,064.11	\$3,220,066.83	(\$1,503,585.80)
Audit Adjustments	9793	\$0.00	\$0.00	\$0.00	\$0.00
Other Restatements	9795	(\$119,119.98)	\$0.00	\$0.00	\$0.00
Adjusted Beginning Fund Balance		\$3,754,540.79	\$6,363,064.11	\$3,220,066.83	(\$1,503,585.80)
Ending Fund Balance		\$6,363,064.11	\$3,220,066.83	(\$1,503,585.80)	(\$6,940,908.12)
Components of Ending Fund Balance					
Reserved Balances	9700	\$0.00	\$0.00	\$0.00	\$0.00
Revolving Cash	9711	\$5,026.50	\$0.00	\$0.00	\$0.00
Stores	9712	\$101,694.89	\$0.00	\$0.00	\$0.00
Prepaid Expenditures	9713	\$0.00	\$0.00	\$0.00	\$0.00
Other Prepay	9719	\$0.00	\$0.00	\$0.00	\$0.00
General Reserve	9730	\$0.00	\$0.00	\$0.00	\$0.00
Legally Restricted Balance	9740 - 9759	\$2,572,200.90	\$1,928,546.05	\$2,725,766.79	\$3,623,771.36
Economic Uncertainties Percentage		3%	1%	1%	3%
Designated for Economic Uncertainties	9770	\$1,408,642.26	\$442,599.86	\$473,465.26	\$1,380,839.22
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0.00	\$0.00	\$0.00	\$0.00
Other Designated	9780	\$2,275,499.59	\$0.00	\$0.00	\$0.00
Undesignated/Unappropriated	9790	\$0.00	\$848,920.92	\$0.00	\$0.00
Negative Shortfall	9790	(\$0.03)	\$0.00	(\$4,702,817.85)	(\$11,945,518.70)

Description	Base Year	Year 1	Year 2	Base Year	Year 1	Year 2
	2009 - 10	2010 - 11	2011 - 12	2009 - 10	2010 - 11	2011 - 12
1. Base Revenue Limit Per ADA						
1.a. State Avg Base RL Per ADA (Prior Yr)	\$5,882.00	\$6,132.00	\$6,163.00	\$5,882.00	\$6,132.00	\$6,163.00
1.b. Base RL per ADA (Prior Yr)	\$5,858.77	\$6,108.77	\$6,139.77	\$5,858.77	\$5,855.94	\$5,886.94
2. Inflation Increase	\$250	\$31	\$142	\$250	\$31	\$142
3. All Other Adjustments	\$0.00	\$0.00	\$0.00	(\$252.83)	\$0.00	\$0.00
4. TOTAL, BASE REVENUE LIMIT PER ADA	\$6,108.77	\$6,139.77	\$6,281.77	\$5,855.94	\$5,886.94	\$6,028.94
Revenue Limit Subject To Deficit						
5. Total Base Revenue Limit						
5.a. Base Revenue Limit Per ADA (Line 4)	\$6,108.77	\$6,139.77	\$6,281.77	\$5,855.94	\$5,886.94	\$6,028.94
5.b. Prior Year P2 ADA	5,461.08	5,358.95	5,261.26	5,461.08	5,358.95	5,261.26
5.b.i. Prior Yr. ADA Adjustment	0.00	0.00	0.00	0.00	0.00	0.00
5.b.ii. Net Prior Yr. Revenue Limit ADA	5,461.08	5,358.95	5,261.26	5,461.08	5,358.95	5,261.26
5.c. Current Yr. RL ADA (excluding Charter ADA)	5,358.95	5,261.26	5,162.44	5,358.95	5,261.26	5,162.44
5.d. ADA Used for Revenue Limit	5,461.08	5,358.95	5,261.26	5,461.08	5,358.95	5,261.26
5.d.i. Current Yr. Charter Schl. ADA	20.74	20.74	20.74	20.74	20.74	20.74
5.d.iii. COE CommSchs/SpEd	10.00	10.00	10.00	10.00	10.00	10.00
5.e. ADA used for Revenue Limit	5,471.08	5,368.95	5,271.26	5,471.08	5,368.95	5,271.26
5.f. Total Base Revenue Limit	\$33,421,569	\$32,964,118	\$33,112,843	\$32,038,316	\$31,606,687	\$31,780,110
13. Beginning Teacher Salary Incentive Funding	\$44,126	\$44,126	\$44,126	\$44,126	\$44,126	\$44,126
15. REVENUE LIMIT SUBJECT TO DEFICIT	\$33,465,695	\$33,008,244	\$33,156,969	\$32,082,442	\$31,650,813	\$31,824,236
Deficit Calculation						
16. Revenue Limit Deficit: K-12 (SSC)	18.35500%	18.35500%	18.35500%	18.35500%	18.35500%	18.35500%
16.a. Loss to Deficit	\$6,142,628	\$6,058,663	\$6,085,962	\$5,888,732	\$5,809,507	\$5,841,339
17. SubTotal, After Deficit	\$27,323,067	\$26,949,581	\$27,071,007	\$26,193,710	\$25,841,306	\$25,982,898
Other Revenue Limit Items Net of Any Deficit						
18. Unemployment Insurance Revenue						
	\$38,500	\$38,500	\$38,500	\$38,500	\$38,500	\$38,500
21. Less: PERS Reduction						
	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911
23. TOTAL, OTHER REVENUE LIMIT ITEMS	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)
24. TOTAL REVENUE LIMIT	\$27,166,656	\$26,793,170	\$26,914,596	\$26,037,299	\$25,684,895	\$25,826,487
Revenue Limit Local Sources						
25. Property Taxes	\$7,526,835	\$7,526,835	\$7,526,835	\$7,526,835	\$7,526,835	\$7,526,835
28. Community Redevelopment Funds	\$76,441	\$76,441	\$76,441	\$76,441	\$76,441	\$76,441
29. Less: Charter Schools In-lieu Taxes	(\$32,201)	(\$29,554)	(\$30,118)	(\$32,201)	(\$29,554)	(\$30,118)
30. TOTAL, REVENUE LIMIT - LOCAL SOURCES	\$7,571,075	\$7,573,722	\$7,573,158	\$7,571,075	\$7,573,722	\$7,573,158
32. STATE AID PORTION OF REVENUE LIMIT	\$19,595,581	\$19,219,448	\$19,341,438	\$18,466,224	\$18,111,173	\$18,253,329
Basic Aid Status						
33. Funding Model Used: ("Basic Aid" or "Revenue Limit")	RevLim	RevLim	RevLim	RevLim	RevLim	RevLim
Other Revenue Limit Adjustments						
36. One-Time RL Reduction ABx4	\$1,397,356	\$0	\$0	\$0	\$0	\$0
37. Adjusted State Aid Portion of RL (2009-10 Only)	\$18,198,225	\$19,219,448	\$19,341,438	\$18,466,224	\$18,111,173	\$18,253,329
Other Items						

38. Less: County Office Funds Transfer	\$49,713	\$49,713	\$49,713	\$49,713	\$49,713	\$49,713
42. TOTAL, OTHER ITEMS	(\$49,713)	(\$49,713)	(\$49,713)	(\$49,713)	(\$49,713)	(\$49,713)
43. TOTAL STATE AID PORTION OF REVENUE LIMIT	\$18,148,512	\$19,169,735	\$19,291,725	\$18,416,511	\$18,061,460	\$18,203,616
45. NET ACCRUAL TO STATE AID - REVENUE LIMIT	\$18,148,512	\$19,169,735	\$19,291,725	\$18,416,511	\$18,061,460	\$18,203,616
Reconciliation to SACS Form 01						
46. Total State Aid Portion of Revenue Limit (Line 43)	\$18,148,512	\$19,169,735	\$19,291,725	\$18,416,511	\$18,061,460	\$18,203,616
47. Total, Revenue Limit - Local Sources	\$7,571,075	\$7,573,722	\$7,573,158	\$7,571,075	\$7,573,722	\$7,573,158
48. Total Combined Revenue Limit	\$25,719,587	\$26,743,457	\$26,864,883	\$25,987,586	\$25,635,182	\$25,776,774
Revenue Limit Transfers						
49. Total Restricted Revenue Limit Sources	\$830,200	\$834,351	\$853,541	\$830,200	\$834,351	\$853,541
Reconciliation of Total Revenue Limit Sources						
50. Revenue Limit State Aid - Prior Year	\$36,583	\$0	\$0	\$36,583	\$0	\$0
51. PERS Revenue Limit Reduction (Line 21)	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911
52. Total Unrestricted Revenue Limit Sources	\$25,120,881	\$26,104,017	\$26,206,253	\$25,388,880	\$24,995,742	\$25,118,144
Net Difference				\$267,999	(\$1,108,275)	(\$1,088,110)

Adjustment Analysis

FCMAT’s multiyear projection includes the following adjustments to the district’s adopted budget report:

Revenue Limit

The calculation for the district’s revenue limit for 2009-10 through 2011-12 uses the following assumptions based on the latest state budget revisions enacted in July 2009 that are included in the School Services of California Inc. Financial Dartboard:

- An estimated statutory COLA of 4.25% for 2009-10, 0.50% for 2010-11, 2.30% for 2011-12,
- A revenue limit deficit of 18.355% for all three projection years,
- A one-time reduction of \$252.83 per prior year (2008-09) ADA.

FCMAT corrected and recalculated beginning teacher salary incentive funding, used the correct deficit factor, updated charter school in-lieu taxes, included an amount for community redevelopment funding, and updated property taxes to the most current county records.

In the current fiscal year, the governor’s budget includes a one-time adjustment to the revenue limit of \$252.83 per prior year (2008-09) ADA. The business office staff uses an Excel spreadsheet to prepare the revenue limit calculation and incorrectly placed the one-time adjustment *in the base revenue limit calculation before the deficit*, which caused this one-time adjustment to be carried into future fiscal years. This error reduced revenue limit sources by approximately \$1.9 million over the subsequent two fiscal year period.

This calculation is normally reviewed by the county office for accuracy; however, interviews with the county office staff indicate that this calculation is not verified for any district in the county. Because this is the largest revenue source in the district’s budget, the chief business official and the county office should carefully review the calculation for accuracy.

The following table compares the FCMAT calculation for the one-time adjustment with the district’s. FCMAT’s MYFP corrects this calculation in all three fiscal years.

Revenue Limit Comparative Analysis

Revenue Limit Description	As Corrected			Per District		
	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12	Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
1. Base Revenue Limit Per ADA						
1.a. State Avg Base RL Per ADA (Prior Yr)	\$5,882.00	\$6,132.00	\$6,163.00	\$5,882.00	\$6,132.00	\$6,163.00
1.b. Base RL per ADA (Prior Yr)	\$5,858.77	\$6,108.77	\$6,139.77	\$5,858.77	\$5,855.94	\$5,886.94
2. Inflation Increase	\$250	\$31	\$142	\$250	\$31	\$142
3. All Other Adjustments	\$0.00	\$0.00	\$0.00	(\$252.83)	\$0.00	\$0.00
4. TOTAL, BASE REVENUE LIMIT PER ADA	\$6,108.77	\$6,139.77	\$6,281.77	\$5,855.94	\$5,886.94	\$6,028.94
Revenue Limit Subject To Deficit						
5. Total Base Revenue Limit						
5.a. Base Revenue Limit Per ADA (Line 4)	\$6,108.77	\$6,139.77	\$6,281.77	\$5,855.94	\$5,886.94	\$6,028.94
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Other Revenue Limit Items Net of Any Deficit						
18. Unemployment Insurance Revenue	\$38,500	\$38,500	\$38,500	\$38,500	\$38,500	\$38,500
21. Less: PERS Reduction	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911
23. TOTAL, OTHER REVENUE LIMIT ITEMS	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)	(\$156,411)
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45. NET ACCRUAL TO STATE AID - REVENUE LIMIT	\$18,148,512	\$19,169,735	\$19,291,725	\$18,416,511	\$18,061,460	\$18,203,616
Reconciliation to SACS Form 01						
46. Total State Aid Portion of Revenue Limit (Line 43)	\$18,148,512	\$19,169,735	\$19,291,725	\$18,416,511	\$18,061,460	\$18,203,616
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49. Total Restricted Revenue Limit Sources	\$830,200	\$834,351	\$853,541	\$830,200	\$834,351	\$853,541
Reconciliation of Total Revenue Limit Sources						
50. Revenue Limit State Aid - Prior Year	\$36,583	\$0	\$0	\$36,583	\$0	\$0
51. PERS Revenue Limit Reduction (Line 21)	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911	\$194,911
52. Total Unrestricted Revenue Limit Sources	\$25,120,881	\$26,104,017	\$26,206,253	\$25,388,880	\$24,995,742	\$25,118,144
Net Difference				\$267,999	(\$1,108,275)	(\$1,088,110)

Federal Revenues - Federal revenues were balanced to the current year awards including deferred revenues and/or carryover balances. FCMAT also recognized the one-time Title I - AARA funds of \$339,945 for 2009-10. All other federal programs were balanced to grant award letters.

State Revenues - State revenues were balanced to the current year awards including deferred revenues and/or carryover balances. All other state programs were balanced to grant and/or entitlement letters. ARRA allocations for special education have been included in the FCMAT projection with offsets for one-time expenditures where possible.

Other Local Revenues - The district originally projected \$20,000 for local income when the prior year was \$369,000. FCMAT has adjusted this to \$120,000 based on discussions with the district staff.

Salaries and Benefits - Employee salary and benefit costs represent the largest part of a school district's budget. FCMAT's MYFP indicates that 93.55% of the district's 2009-10 unrestricted general fund expenditure budget is projected to be used for employee compensation. The following adjustments were made to the salary and benefits accounts:

Certificated Salaries – The district eliminated four certificated staff positions that were still included in position control records as negative numbers. The salary and related benefits have been removed from position control and are properly reflected in the multiyear projection. Approximately \$227,000 was deducted to adjust the unrestricted salary accounts to the actual projected year-to-date expenses including encumbrances through year-end. Step-and-column movement for contracted salaries of 1.50% is included for all three fiscal years.

FCMAT's MYFP also includes savings related to a four-day work furlough by teachers and management personnel in the current year.

Classified Salaries - All salary accounts were adjusted according to year-to-date actual expenses and encumbrances to year-end. An additional \$139,000 was added to the classified salary accounts to properly reflect the cost of authorized positions. These calculations were compared with positions control records and tested for accuracy. Step-and-column movement for salaries of 1.56% is included for all three fiscal years.

The MYFP also includes the effects of a prior year ongoing reduction in the total number of work days for all California School Employee Association members ranging from four to 68.

Employee Benefits - Based on actual benefits and projected costs to year-end, the district should add approximately \$400,000 in employee benefits for the additional retiree incentive program that was originally included in the adopted budget but was not reflected in the most current position control reports. In addition, several categories of extra pay for stipends, extra duty and substitutes totaling \$1.3 million included in position control were not budgeted for statutory benefits totaling approximately \$207,000. All other benefits accounts were adjusted according to the year-to-date actual projected year-to-date expenses including encumbrances through year-end.

Supplies & Other Services - FCMAT made adjustments based on year-to-date expenditures and encumbrances. Totals were compared with prior year spending trends and adjusted accordingly. The district used internal service accounts to transfer funds between the general fund and other general purpose funds. FCMAT corrected these to reflect the appropriate object codes.

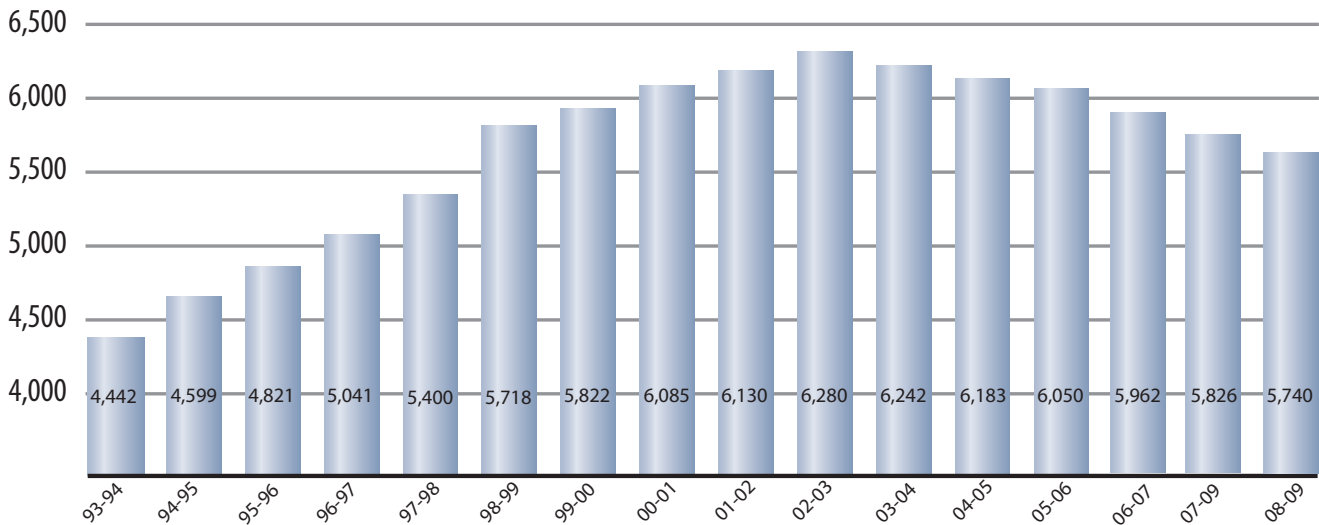
FCMAT’s projection reduced supplies or services in the restricted resources where possible to remain within the projected revenue estimates. However, this action may also affect programs by reducing expenditures for these items.

Enrollment and Average Daily Attendance (ADA)

Proper enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning. Because the district’s primary funding is based on the total number of student days in the attendance cycle, it is crucial to monitor and project student enrollment and attendance. When enrollment and related ADA decline, the district should consider the budgetary impact on teacher-to-student ratios and plan accordingly. The district should also exercise extreme caution regarding budgetary issues such as negotiations, staffing and deficit spending to ensure fiscal solvency.

A state-mandated building moratorium that went into effect after a sewer spill in 2002 was recently lifted after the city of Hollister built a new 15-million gallon sewer plant. This moratorium had a substantial effect on enrollment as depicted in the graph below. As the economy recovers, the district may see declining enrollment trends reverse. The following table shows historical enrollment data from 1993-94 through 2008-09.

**Historical Enrollment
1993-94 through 2008-09**



Source: California Department of Education, DataQuest

FCMAT reviewed the district’s enrollment and ADA trends for 2004-05 through 2008-09. The review compared the October CBEDS student enrollment counts to the second period principal apportionment (P-2) to determine the average enrollment-to-ADA ratios.

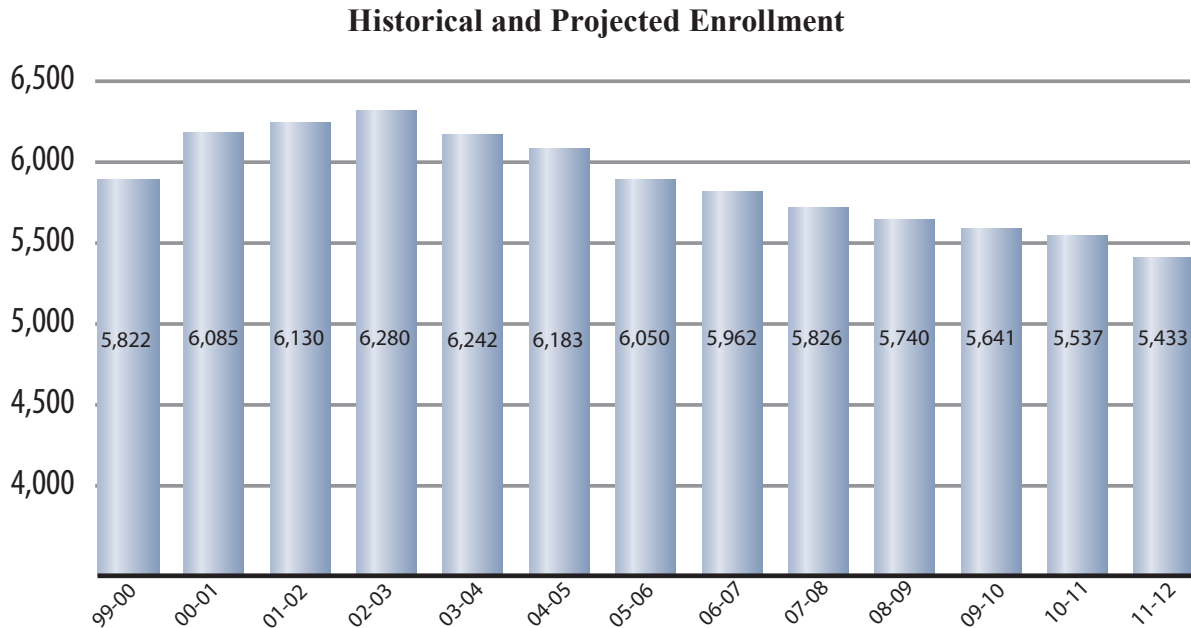
Historical data indicates the district has experienced declining enrollment for several years, including the current year. The district has lost approximately 7.2 % of its enrollment, or 443 students, since 2006-07. FCMAT projects this trend will continue for at least the next three fiscal years. The district should explore options to attract and retain students and increase its ratio of student attendance to enrollment.

Future Enrollment Projection - To project the district's future enrollment, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method more closely accounts for retention, dropouts and students transferring to and from the district grade by grade. Although other enrollment forecasting techniques are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables (see below).

FCMAT calculated percentages from historical enrollment data to determine a reliable weighted average percentage of increase or decrease in enrollment between any two grades over the projection period. The final calculation extrapolated future enrollment trends based on the ratios between grade levels from year to year for the last five school years. Enrollment variables include the following:

- Birth rates and trends.
- The historical ratio of enrollment progression between grade levels.
- Changes in educational programs.
- Inter-district and intra-district transfers.
- Migration patterns.
- Changes in local and regional demographics.
- Industry changes such as a new industry coming to the area or an industry leaving.
- Residential housing starts and the generation factor per household.
- The approval of charter schools, pending applications, and the recruitment efforts of approved charter schools within the district's boundaries.

The following table shows historical enrollment data from 1999-00 through 2008-09 and projected enrollment using the cohort survival method for 2009-10 through 2011-12.



Enrollment projections indicate that the district will continue to experience declining enrollment. The multiyear projection includes a loss of 208 students from 2009-10 to 2011-12. FCMAT’s MYFP *does not* include reductions in staffing based on the enrollment decline because this is a local decision. However, the district should review staffing in conjunction with enrollment projections and make reductions accordingly.

Recommendations

The district should:

1. Begin preparing immediately for a period of fiscal instability.
2. Adopt a budget and multiyear projections that eliminate deficit spending and meet reserve requirements in the budget and projections years.
3. Ensure that the governing board immediately begins making decisions to address any conditions that are indicators of fiscal distress as discussed in this report.
4. Ensure that multiyear financial projections are accurate and up to date.
5. Review estimated enrollment and ADA calculations to ensure that they are accurate and conservative.

6. Review the revenue limit assumptions and calculations prepared by the county office to avoid instances of overreporting or underreporting.
7. Regularly review revenue and expenditure projections for reasonableness and make adjustments accordingly.
8. Complete an in-depth analysis and review of expenditures and reduce costs where possible.
9. Compare budgeted expenditures to actual expenditures plus encumbrances and make adjustments accordingly.
10. Evaluate and maximize all state flexibility options provided in the 2009-10 state budgets.
11. Develop seniority lists to prepare for a potential reduction in force for all bargaining unit members including management.
12. Ensure seniority lists meet the legal requirements and time lines required by the Education Code.
13. Review contributions to restricted programs and ensure all restricted programs are self-sustaining.
14. Ensure that all programs are charged the maximum allowable indirect cost rate.
15. Carefully review federal stimulus (AARA) funding rules for accountability and reporting requirements.
16. Create a one-time spending plan for the federal stimulus (AARA) funding.
17. Explore options to attract and retain students and increase the ratio of student attendance to enrollment.

Budget Development

On June 23, 2009, the district adopted its annual budget in accordance with EC 42127. That section of the Education Code requires each school district's governing board to hold a public hearing on the budget to be adopted for the subsequent fiscal year on or before July 1. No more than five days after that adoption or by July 1, whichever occurs first, the governing board is required to file the budget with the county superintendent of schools.

Revenue, expense, and the estimated ending balance of each fund change during the year because of factors such as additions or deletions in personnel, the effects of a negotiated settlement of collective bargaining agreements, increases in utilities or fuel prices, official notification of grant awards, changes in enrollment or average daily attendance and many other adjustments. These factors also include state budget cuts in categorical program funding and deficits to the base revenue limit within the fiscal year.

Budget development begins as early as November or December for the upcoming fiscal year for some school districts. Districts should develop a budget development calendar that clearly identifies department responsibilities for each task and the associated time line for completion. The process generally begins with updating enrollment projections and correlating them with required staffing levels to determine the need for additional personnel, or the estimated reduction in force. Position control is revised and updated to reflect the appropriate staffing levels. The last step is to estimate for each program revenues and expenditures that reflect district goals and objectives.

Interviews with the district staff indicated that in the current fiscal year, the business office developed the budget with very little input from school sites or departments. According to the staff, the normal process that included all stakeholders was not possible given the complexities in funding issues including flexibility sweeps and budget reductions imposed by the state.

The director of fiscal services has primary responsibility for developing all program budgets and assembling the district's budget. Development of budgets for federal and state categorical programs is the responsibility of the Curriculum Department, which ultimately has responsibility for reporting how federal and state funds are spent. Personnel in the Curriculum Department indicated that the current year budget is used to create the following year's budget in conjunction with information from the business office on staffing and existing contracts.

Most district funding comes from revenue limit resources, 64.09% in 2008-09 and an estimated 63.9% in 2009-10. ADA in the second principal apportionment period (P-2) drives the revenue limit calculation. P-2 is the period from the first day of the school year through the last school month that ends on or before April 15 of each school year. ADA can be estimated in several ways; however, the district traditionally uses 95% of enrollment for this purpose. A review of the district's historical average of CBEDS

enrollment to P-2 ADA indicated a three-year historical average of 95.01%. The district should review its estimated enrollment and ADA calculations monthly to ensure they are up to date, accurate and as conservative as possible.

With the passage of the state budget, 42 categorical programs with a flexibility option allowed transfers of the 2007-08 ending fund balance to the unrestricted portion of the general fund on a one-time basis. In addition, legislation allowed districts to utilize several other flexibility items, one included sweeping the 2007-2008 deferred maintenance ending fund balance for any educational purpose.

The district exercised many of these flexibility options, but did not include the one for deferred maintenance totaling approximately \$2 million. If the district intends to utilize this flexibility item, the district has until June 30, 2010 and may use only that portion of the fund balance as of June 30 2008.

Position Control

One of the most important elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of district budget, averaging more than 93% of the unrestricted general fund expenditures.

A reliable position control system establishes positions by site or department and helps prevent overbudgeting or underbudgeting of staff by including all board-approved positions. In addition, a reliable position control system helps prevent districts from omitting from the budget routine annual expenses such as substitutes, extra duty pay, stipends, vacation payouts and estimated costs for column changes.

An effective position control system should be fully integrated with other financial modules such as budget and payroll and used to update the budget during each major reporting period.

Position control functions should be separated to ensure an effective process. In addition, effective internal controls ensure that only board-authorized positions are entered into the system, that human resources hires employees only for authorized positions, and that the Payroll Department pays only employees that were hired and placed in authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

Strong internal controls should be an integral part of a position control system. The following table depicts the various tasks to manage position control with the responsible department once the governing board authorizes new positions or deletes positions in the budget. This division of labor helps to provide separation of duties to maintain strong internal controls.

Responsibility	Task
Business Department	<p>Create board authorized position(s) into the position control system, with estimated salary/budget.</p> <p>Each position should have a unique position control number.</p>
Business Department	<p>Develop account codes for each authorized position</p> <p>Budget development</p> <p>Create and Multi-year projections</p> <p>Salary and benefit projections</p>
Human Resources	<p>Enter demographic data into the Position Control system, including:</p> <p>Employee name</p> <p>Employee address</p> <p>Social Security number</p> <p>Credential information</p> <p>Classification</p> <p>Salary schedule placement</p> <p>Other: Annual review information, etc.</p>
Business or Human Resources Department	<p>Update employee benefits</p> <p>Review and update employee work calendars</p>
Business Department	<p>Annually review and update salary schedules</p>

The rollover of position control data from the current fiscal year to the budget year provides a starting point for budget development. Position control files for the budget year should be updated periodically to eliminate positions as necessary, add new approved positions, make changes in statutory and health and welfare benefit rates, and make any other adjustments that will affect projected salaries and benefits for the budget year.

A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information.

When a new position is added, the district’s Business Department assigns a position control number and provides that number to the Human Resources Department (HR.) HR staff members are responsible for entering all demographic information on the position and for assigning an employee to a position.

An accurate and effective position control system lists all actively filled and vacant positions. If a position becomes vacant and the district *does not* intend to fill it until some later date, the start date that the district plans to fill the vacancy should be adjusted. This will allow the position to be properly budgeted in the multiyear projection. By deleting a position that it plans to fill, the district can spend the unused resources for a different purpose. However, this may cause overspending when the position is filled. A better practice is to reduce the budget by establishing an effective start date instead of deleting the position. Open and unfilled positions for which the district is actively recruiting should remain in position control to reserve the funding necessary to fill the position for the balance of the fiscal year.

Lack of strong and effective internal controls can have many serious financial implications. For example, fraud may be perpetrated by adding a “ghost” or nonexistent employee in the position control system, feeding that information into the payroll system, and issuing a check to that employee. Other mistakes can occur such as including inaccurate ending dates on positions or unintentional errors that overstate or understate personnel costs in the budget development process. This can cause a check to be issued to an employee who left the district. The HR and the Business departments should immediately review their policies and procedures for position control and work together to create a proper system of checks and balances. All employees who are responsible for position control data should be provided with training on the system and held accountable for ensuring that accurate information is entered and procedures are followed. The district should immediately follow up on instances where controls have been ignored or overridden.

The district utilizes the Quintessential School Systems (QSS) for position control module and for all financial reporting. Position control reports indicate that the HR Department enters the initial information into the system, this data flows to the Business Services Department and is included the district’s budget.

During fieldwork, FCMAT found that four positions eliminated because of budget reductions remained the system, but as negative amounts for salary and benefits. This understated the actual cost of salary and benefits reported in the adopted budget for 2009-2010 and has been adjusted in the MFYP.

District staff members in both HR and Business Departments routinely verify full-time equivalents (FTEs), but did not have adequate time before the adoption budget to complete an analysis of FTEs and other cross-check measures to verify the data.

Staff members in both departments indicate they need additional training on the position control module. The district should require training in this area to ensure the accuracy of the data that encompasses more than 93% of the district’s operating budget.

These findings make it very difficult to ensure that position control data is accurate for budget and payroll purposes. Because the position control system is not accurate, the information included in the budget development system and ultimately the operating budget may be over- or understated.

The district's position control includes routine annual expenses for items such as substitutes, extra duty pay, stipends and overtime. During fieldwork, FCMAT found that corresponding statutory benefits for these routine annual expenses, which totaled approximately \$207,000, were not budgeted. The district should ensure that statutory benefits are budgeted for all salary classifications.

Cash Management

With the current budget crises at the state and national levels, cash management is one of the main concerns for every school district. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment. The 2008-09 and 2009-10 state budget acts further complicate the situation with numerous additional deferrals. As a result, it is important for the district to monitor its current level of cash frequently and project cash flow to determine whether there will be sufficient cash to meet future financial requirements.

District personnel recently started using a cash-flow spreadsheet to project the district's cash requirements for the fiscal year. The district is required to prepare a cash-flow worksheet in conjunction with its first- and second-interim reports. A cash-flow projection is also required with a third-interim report, which districts must submit when they have a qualified or negative certification during the first- or second-interim reporting period. Each section of the cash flow worksheet, including revenue, expenditure, prior-year accruals, and net increase/decrease in fund balance should be carefully reviewed to ensure it matches the appropriate year-to-date amounts and that the projected total revenues for the year have been adjusted for any variances. The anticipated amounts on the cash-flow documents should agree with the working budget.

FCMAT interviewed staff members at the San Benito County Office of Education, who indicated that because of workload and staffing issues, cash postings for all districts have not been timely. During fieldwork approximately \$2 million in apportionment revenue was posted to the district's cash account approximately six weeks after receipt in the county office. This is especially problematic given the cash deferrals imposed by the state.

According to the district staff, this practice has occurred over the last three years, and postings have been an average of approximately two (sometimes three) months in arrears. However, postings for the last two months have been timely.

Concerns regarding the untimely posting of cash receipts indicated a potential loss of interest earnings. FCMAT reviewed the calculation of interest from the San Benito County Office of Education. The county office posts interest calculated on the average *month-end cash* balance of the three months in the quarter and applies a percentage of average cash to the total amount received by San Benito County. However, this review found that the San Benito County Auditor's Office posts interest on the entire state School apportionment fund based on the available cash on the *last day of the quarter*.

Interest normally is calculated on the *average daily balance of cash* in an individual account. Unfortunately, this is not the case for San Benito County.

Discussions regarding this calculation were confirmed by the county auditor, who indicated that the San Benito County financial system, Legacy Bi-Tech, cannot accommodate an average daily balance calculation and maintained that "there is no requirement that interest be computed on an average daily basis." The county auditor indicated that a new upgrade to the operating system should be available by the end of the fiscal year. During this interim period, the San Benito County Auditor's office is *not making any* provision to adjust the calculation to reflect the appropriate interest earnings for all school districts within its boundaries in accordance with applicable government codes or generally accepted accounting principles.

California Government Code Section 27000.3 establishes the legality of certain types of investment vehicles for a local agency's portfolios. This section states that each county treasurer authorized to make investment decisions on behalf of local agencies is a trustee and therefore a fiduciary subject to the prudent investor standard. The main purpose of this standard is to safeguard the principal and maintain the liquidity needs of the county and other depositors. Code section 53684 (b) specifically provides the following:

The county treasurer shall, at least quarterly, apportion any interest or other increment derived from the investment of funds pursuant to this section in an amount proportionate to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool.

The San Benito County Treasurer has a Statement of Investment Policy 2009 that cites these applicable code sections and states that interest will be apportioned on the average daily balance method quarterly to all participants with funds in the investment pool and distributed quarterly. That the school districts and other pool participants of San Benito County have clearly forgone interest on thousands of dollars over the last decade while the current method and operating system has been in place.

The county treasurer indicated that while the final responsibility for all investment decisions rest with the treasurer, the county auditor’s office is authorized to assist with the day-to-day operations. The county treasurer was unaware of the current practice and will take the necessary action to correct the calculation and make “restitution” for prior understatements of interest earnings to the state school apportionment fund.

The San Benito County Treasurer has made the following statement for inclusion in this report:

The County has apportioned interest to the local agencies that maintain their funds in the County Treasury on a quarterly basis based upon the ending balance of the final month of each quarter. The County recognizes that this methodology does not meet the requirements set forth in Government Code 53684(b) and the Investment Policy. The County will recalculate the interest apportionment for the current fiscal year 2009-10 using the average daily balance method. Additionally, misapportioned interest will be corrected and deposited to the respective local agency accounts as required by law.

The apportionment schedule for most school districts has changed significantly. In addition to the change in the apportionment percentage, districts will also experience three one-time *cash* deferrals and four one-going *cash* deferrals. A total of 25% of the district’s current year apportionment dollars will be deferred to the following fiscal year. *These changes greatly affect the district’s ability to meet payroll and other obligations without internal and/or external borrowing.* The following table demonstrates the new apportionment schedule for the Hollister School District and the projected schedule for apportionment payments by the state:

State Apportionment Schedule and Payment Allocation

Monthly Apportionment and Payment Schedule	Old Apportionment Payment Schedule	New Apportionment Payment Schedule	Percentage of Actual Monthly Payments	Actual Monthly Shortfall Percentage
July	6.0%	5.0%	1.0%	-4.0%
August	12.0%	5.0%	0.0%	-5.0%
September	8.0%	9.0%	9.0%	0.0%
October	8.0%	9.0%	14.0%	5.0%
November	8.0%	9.0%	4.5%	-4.5%
December	8.0%	9.0%	13.0%	4.0%
January	8.0%	9.0%	13.5%	4.5%
February	14.0%	9.0%	0.5%	-8.5%
March	7.0%	9.0%	9.0%	0.0%
April	7.0%	9.0%	6.0%	-3.0%
May	7.0%	9.0%	4.5%	-4.5%
June	7.0%	9.0%	0.0%	-9.0%
Total	100%	100%	75%	
Subsequent Fiscal Year				
July			17.5%	
August			7.5%	

The district recently implemented a cash-flow projection model. It is imperative that the district properly project its cash flow needs and regularly update the projection with actual information.

Recommendations

The district should:

1. Review its budget development tasks and time lines and construct a district-specific annual budget development calendar to be utilized by all district departments.
2. Assign school sites and departments the task of creating their budgets. The Business Services Department should develop a budgeting workshop to provide the necessary tools and knowledge to complete the task.
3. Compare position control data with budgeted amounts and actual payroll to ensure that budget information accurately reflects board-authorized positions.
4. Ensure all positions have supporting board authorization for position placement and compensation increases.
5. Develop staffing formulas for all positions.
6. Assign the Human Resources and Business Services departments to review their policies and procedures for position control and work together to create a proper system of checks and balances, provide mandatory training for employees and hold them accountable for the procedures.
7. Revise position control to include vacant positions. This will provide a reserve of funds that can be used to refill positions and avoid possible overspending or underspending.
8. Monitor current level of cash frequently and project cash flow to determine whether there will be sufficient cash to meet future financial requirements.
9. Ensure amounts on the cash-flow documents agree with the working budget.
10. Monitor cash postings from the county office to ensure they are timely.

11. Work with the San Benito County Treasurer and Auditor offices to make provisions for the correct interest calculation until the upgrade operating system can accurately project average daily balance calculations.

12. Consider depositing excess funds in the Local Agency Investment Fund to maximize interest earnings calculated on an average daily basis.

Comparative Salary and Benefit Analysis

The district administration requested that the FCMAT team compare the district's cost of employee compensation with the cost for other districts of comparable type, size and funding.

Thirteen elementary districts were selected based on 2007-08 statewide information compiled by Ed-Data, a partnership of educational agencies that include Alameda County Office of Education, California Department of Education, Ed Source and FCMAT/CSIS teams. This was the most current information available.

FCMAT developed its comparison by starting with all elementary school districts statewide, narrowing them to those with an enrollment within five percent more or less than Hollister, including elementary school districts that were located in surrounding counties, and considering total revenue sources.

Thirteen districts met these criteria. The results of this analysis are compiled in the following tables showing the district ranking within the comparison group and the statewide average:

1. Total revenue
2. Revenue limit sources
3. Certificated salaries
4. Classified salaries
5. Employee benefits

The first table is a comparison of total revenues per enrollment. Since districts vary greatly in revenue sources that include unrestricted and restricted funding, this ranking includes revenue limit, federal, other state and local revenues. The ranking indicates that Hollister ranks 11 of the 13 selected districts with the highest at \$9,294 and the lowest at \$8,200. Hollister was \$868 dollars lower than the district with the highest total revenue and \$411 dollars lower than the statewide average for all elementary districts.

Total Revenue								
County Name	District Name	Enrollment	Revenue Limit Sources	Federal Revenue	Other State Revenue	Other Local Revenue	Total Revenue	
Monterey	Alisal Elementary	7508	5395	1107	1884	908	9294	
Santa Clara	Sunnyvale	6027	6022	401	1528	1285	9236	
San Diego	National Elementary	5900	5651	772	1556	1218	9196	
Los Angeles	Garvey Elementary	5961	5606	969	1713	734	9022	
Santa Clara	Alum Rock Union Elementary	13,841	5357	798	2288	558	9001	
Riverside	Perris Elementary	5670	5542	732	2180	499	8954	
Orange	Buena Park Elementary	5766	5724	697	1712	746	8879	
Imperial	El Centro Elementary	5744	5470	1175	1655	422	8722	
San Diego	Encinitas Union Elementary	5728	5920	305	1430	990	8644	
Orange	La Habra City Elementary	5746	5589	615	1638	681	8523	
San Benito	Hollister Elementary School District	5826	5601	645	1617	562	8426	
Santa Clara	Franklin McKinnley Elementary	9957	5480	631	2022	269	8402	
Los Angeles	Sulphur Springs Union Elementary	5789	5411	335	1843	610	8200	
<i>Statewide Averages for Elementary Districts</i>			<i>\$5,722</i>	<i>\$669</i>	<i>\$1,711</i>	<i>\$735</i>	<i>\$8,837</i>	

The second table focuses on revenue limit sources per enrollment. In this comparison, Hollister ranks six of 13 selected districts with the highest at \$6,022 and the lowest at \$5,357. Hollister was \$421 dollars lower than the district with the highest total revenue limit sources and \$121 dollars lower than the statewide average for all elementary districts.

Revenue Limit Sources			
County Name	District Name	Enrollment	Revenue Limit Sources
Santa Clara	Sunnyvale	6027	6022
San Diego	Encinitas Union Elementary	5728	5920
Orange	Buena Park Elementary	5766	5724
San Diego	National Elementary	5900	5651
Los Angeles	Garvey Elementary	5961	5606
San Benito	Hollister Elementary School District	5826	5601
Orange	La Habra City Elementary	5746	5589
Riverside	Perris Elementary	5670	5542
Santa Clara	Franklin McKinnley Elementary	9957	5480
Imperial	El Centro Elementary	5744	5470
Los Angeles	Sulphur Springs Union Elementary	5789	5411
Monterey	Alisal Elementary	7508	5395
Santa Clara	Alum Rock Union Elementary	13,841	5357
<i>Statewide Averages for Elementary Districts</i>		<i>\$ 5,722</i>	

The third table focuses on certificated salaries per enrollment. In this comparison, Hollister ranks second of 13 selected districts with the highest at \$4,584 and the lowest at \$4,006. Hollister was \$3 lower than the district with the highest certificated salaries per enrollment and \$345 higher than the statewide average for all elementary districts.

Certificated Salaries			
County Name	District Name	Enrollment	Certificated Salaries
Santa Clara	Alum Rock Union Elementary	13,841	4584
San Benito	Hollister Elementary School District	5826	4581
San Diego	Encinitas Union Elementary	5728	4570
Riverside	Perris Elementary	5670	4562
Santa Clara	Franklin McKinnley Elementary	9957	4458
Santa Clara	Sunnyvale	6027	4422
Orange	La Habra City Elementary	5746	4361
San Diego	National Elementary	5900	4333
Los Angeles	Garvey Elementary	5961	4261
Imperial	El Centro Elementary	5744	4120
Orange	Buena Park Elementary	5766	4079
Los Angeles	Sulphur Springs Union Elementary	5789	4054
Monterey	Alisal Elementary	7508	4006
<i>Statewide Averages for Elementary Districts</i>			<i>\$4,236</i>

The fourth table focuses on classified salaries per enrollment. In this comparison, Hollister ranks 10 of 13 selected districts with the highest at \$1,447 and the lowest at \$967. Hollister was \$349 dollars lower than the district with the highest classified salaries per enrollment and \$174 dollars lower than the statewide average for all elementary districts.

Classified Salaries			
County Name	District Name	Enrollment	Classified Salaries
Los Angeles	Sulphur Springs Union Elementary	5789	1447
Santa Clara	Sunnyvale	6027	1415
San Diego	National Elementary	5900	1410
Orange	Buena Park Elementary	5766	1388
Orange	La Habra City Elementary	5746	1368
Los Angeles	Garvey Elementary	5961	1358
Imperial	El Centro Elementary	5744	1271
Monterey	Alisal Elementary	7508	1235
Santa Clara	Alum Rock Union Elementary	13,841	1202
San Benito	Hollister Elementary School District	5826	1098
San Diego	Encinitas Union Elementary	5728	1084
Santa Clara	Franklin McKinnley Elementary	9957	1052
Riverside	Perris Elementary	5670	967
<i>Statewide Averages for Elementary Districts</i>			<i>\$1,272</i>

The last table focuses on employee benefits per enrollment. In this comparison, Hollister ranks second of 13 selected districts with the highest at \$2,138 and the lowest at \$1,379. Hollister was \$360 lower than the district with the highest employee benefits per enrollment and \$208 higher than the statewide average for all elementary districts.

Employee Benefits			
County Name	District Name	Enrollment	Employee Benefits
Monterey	Alisal Elementary	7508	2138
San Benito	Hollister Elementary School District	5826	1778
Santa Clara	Sunnyvale	6027	1637
Orange	Buena Park Elementary	5766	1623
Santa Clara	Alum Rock Union Elementary	13,841	1561
Los Angeles	Garvey Elementary	5961	1557
Imperial	El Centro Elementary	5744	1552
Los Angeles	Sulphur Springs Union Elementary	5789	1545
Riverside	Perris Elementary	5670	1496
Orange	La Habra City Elementary	5746	1496
San Diego	Encinitas Union Elementary	5728	1484
San Diego	National Elementary	5900	1469
Santa Clara	Franklin McKinley Elementary	9957	1379
<i>Statewide Averages for Elementary Districts</i>			<i>\$1,570</i>

These comparisons indicate that Hollister is the second highest of 13 districts in certificated salaries and benefits; sixth in revenue limit sources; eleventh in total revenue sources and tenth in classified salaries.

District Health and Welfare

FCMAT also provided all the participating elementary districts statewide with a survey on health and welfare benefits and related costs. The results were compiled in a spreadsheet database and provided to the district administration.

The Hollister School District offers all full-time employees and their eligible dependents (plan participant) medical, dental and vision insurance coverage. Employees may choose from three separate options that offer various levels of coverage as follows:

1. No cost, or copay, for the basic plan, or
2. An upgraded plan with no deductible that cost \$126 per month, or
3. A downgraded plan with a cash-back option of \$313 per month for nonmanagement employees and \$527 for management team members.

Certificated teachers with at least 13 years of service to the district qualify for retiree health insurance benefits with the following provisions:

- At ages 59 through 61, the district provides all retirees and their eligible dependents medical coverage at 50% of the cost of premium. Six retirees meet these eligibility requirements.
- At ages 62 to 65, the district provides retirees and their eligible dependents with medical coverage at no cost. Twenty-seven retirees meet these eligibility requirements.

On February 24, 2009, the district offered a one-time retirement incentive agreement for teachers to resign and retire by June 30, 2009. Certificated teachers that have attained age 58 on or before June 30, 2009 with at least eight years of service in the district were offered fully paid medical coverage for the unit member and eligible dependent until the unit member reached age 65. The district also offered an early notification bonus of \$3,000 if the unit member gave notice of resignation and retirement to the district on or before March 6, 2009. According to the district, approximately 13 employees accepted this offer.

The total basic plan premium cost in the current fiscal year is \$13, 597 per plan participant. The district anticipates the cost of health insurance benefits to be \$5.3 million in the current fiscal year.

Except for the current year, premium costs have increased 26.41% in the previous four years. The latest billing indicates that the district has 485 participants and 33 are retired employees.

Recommendations

The district should:

1. Review the comparison data and compile a list of items for potential discussion at the negotiating table.

Subsequent Events - January 14, 2009

FCMAT prepared the district’s multiyear projection based on information available when fieldwork was conducted in October 2009. Each January, the governor presents preliminary budget information for the next budget year. During this time, potential current year budget revisions are announced. While the governor has said many times that education funding is protected, the reality is that public education is projected to take another serious cut in funding.

Revenue Limit Reductions

Elementary school district revenue limits will receive an ongoing reduction of \$191 per ADA. The governor’s proposal essentially extends the current year “one-time” cut of \$252 indefinitely. For Hollister schools, this represents another \$1 million reduction in each of the next two fiscal years.

In addition, the cost-of-living (COLA) adjustment for the target year has been reduced from 0.5% to (0.38%) a net change of (0.88%) adding another \$236,000 loss in funding for 2010-11.

A comparison of the district’s MYFP for 2010-11 and 2011-12 before and after these adjustments is represented in the following table:

Impact of Governor’s January Budget Proposal For Fiscal Years 2010-11 and 2011-12

	Before			After		
	Governor’s January Budget -Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12	Governor’s January Budget - Base Year 2009 - 10	Year 1 2010 - 11	Year 2 2011 - 12
Revenues	\$41,116,988.98	\$40,368,277.23	\$40,590,651.75	\$41,116,988.98	\$39,067,966.41	\$39,152,002.37
Expenditures	\$44,259,986.26	\$45,091,929.86	\$46,027,974.07	\$44,259,986.26	\$45,096,007.23	\$46,048,584.07
Excess (Deficiency) of Revenues Over Expenditures						
	(\$3,142,997.28)	(\$4,723,652.63)	(\$5,437,322.32)	(\$3,142,997.28)	(\$6,028,040.82)	(\$6,896,581.70)
Beginning Fund Balance	\$6,363,064.11	\$3,220,066.83	(\$1,503,585.80)	\$6,363,064.11	\$3,220,066.83	(\$2,807,973.99)
Ending Fund Balance	\$3,220,066.83	(\$1,503,585.80)	(\$6,940,908.12)	\$3,220,066.83	(\$2,807,973.99)	(\$9,704,555.69)
Legally Restricted Balance	\$1,928,546.05	\$2,725,766.79	\$3,623,771.36	\$1,928,546.05	\$2,700,776.59	\$3,553,320.80
Economic Uncertainties Percentage	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.03
Designated for Economic Uncertainties	\$442,599.86	\$473,465.26	\$1,380,839.22	\$442,599.86	\$473,508.08	\$1,381,457.52
Undesignated/Unappropriated	\$848,920.92	\$0.00	\$0.00	\$848,920.92	\$0.00	\$0.00
Negative Shortfall	\$0.00	(\$4,702,817.85)	(\$11,945,518.70)	\$0.00	(\$5,982,258.66)	(\$14,639,334.01)

Conclusion

The state's year-to-date cash receipts and revenues are approximately \$19.9 billion less than estimates over the two-year period. California has experienced several cycles of budget corrections that represent the largest in both dollars and percentages in the state's history. For the eighth time in a year, the governor has invoked his authority under Proposition 58 to declare a fiscal emergency to call the legislature to a special session. The legislature has 45 days to prepare a revised fiscal plan or act on the governor's proposals and cannot adjourn or act on any other bills during this time.

During the last two budget cycles, K-14 public schools were greatly affected. These deep cuts prompted unprecedented layoffs and the reduction or elimination of countless programs. Since they have few monetary resources left to decrease, districts such as Hollister will struggle to balance the budget and maintain fiscal solvency.

Appendix

A *Study Agreement*

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM AMMENDED STUDY AGREEMENT September 22, 2009

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Hollister School District, hereinafter referred to as the District, mutually agree as follows:

1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the District. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

1. Develop an independent multi-year financial projection (MYFP) of the District general fund to confirm its status as a going concern. FCMAT's Budget Explorer software will be used to prepare the MYFP.
2. Compare District salary and benefits schedule to districts with similar revenue limits.
3. Facilitate a study session with the board on the results of the study and the financial aspects of district operations that could potentially negatively impact fiscal and organizational health.

B. Services and Products to be Provided

1. Orientation Meeting - The Team will conduct an orientation session at the District to brief management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
2. On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.
3. Exit Meeting - The Team will hold an exit meeting at the conclusion of the on-site

review to inform the District of significant findings and recommendations to that point.

4. Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the district administration for review and comment.
6. Final Report - Sufficient copies of the final study report will be delivered to the district administration following completion of the review.
7. Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District’s progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

3. **PROJECT PERSONNEL**

The study team will be supervised by Anthony L. Bridges, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team will also include:

- A. Debi Deal, FCMAT Fiscal Intervention Specialist

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to E.C. 42127.8(d) (1) shall be:

- A. \$500.00 per day for each Team Member while on site, conducting fieldwork and analysis at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the scope of work identified in section 2 A, estimated total cost is \$7,500. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.
- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services are payable to Kern County Superintendent of Schools-Administrative Agent.

5. **RESPONSIBILITIES OF THE DISTRICT**

- A. The District will provide office and conference room space while on-site reviews are in progress.
- B. The District will provide the following (if requested):
 - 1) A map of the local area
 - 2) Existing policies, regulations and prior reports addressing the study request
 - 3) Current organizational charts
 - 4) Current and four (4) prior years' audit reports
 - 5) Any documents requested on a supplemental listing
- C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with COE or District pupils. The COE and District shall take appropriate steps to comply with EC 45125.1(c).

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for key study milestones:

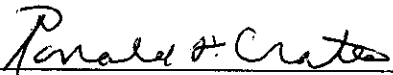
Orientation:	September/October, 2009
Staff Interviews:	to be determined
Exit Interviews:	to be determined
Preliminary Report Submitted:	to be determined
Final Report Submitted:	to be determined
Board Presentation:	to be determined
Follow-Up Support:	If requested


7. **CONTACT PERSON**

Please print name of contact person: Jack Bachofer, Chief Business Official

Telephone 559-528-4763 FAX _____

Internet Address: JBachofer@hsd.k12.ca.us

 9/22/09
Dr. Ronald F. Crates, District Superintendent Date
Collister School District

 September 8, 2009
Anthony L. Bridges, Deputy Executive Officer Date
Fiscal Crisis and Management Assistance Team