August 13, 2012

Board of Trustees
Nevada Joint Union High School District
11645 Ridge Road
Grass Valley, CA 95945

Honorable Members of the Board:

Thank you for your submission of the 2012-13 Adopted Budget. I appreciate your dedication and commitment to the students of Nevada Joint Union High School District. Your leadership in this challenging financial climate is respected and admired.

The budget review process is governed by Education Code, amended by AB 2756. The following Education Code provisions outline the major components of the budget review process:

EC 42127 (c) The county superintendent of schools shall do all of the following:

(1) Examine the adopted budget to determine whether it complies with the standards and criteria adopted by the State Board of Education pursuant to Section 33127 for application to final local educational agency budgets. The county superintendent shall identify, if necessary, any technical corrections that are required to be made to bring the budget into compliance with those standards and criteria.

(2) Determine whether the adopted budget will allow the district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments..........The county superintendent of schools shall either conditionally approve or disapprove a budget that does not provide adequate assurance that the district will meet its current and future obligations and resolve any problems identified in studies, reports, evaluations, or audits described in this paragraph.

(d) On or before August 15, the county superintendent of schools shall approve, conditionally approve, or disapprove the adopted budget for each school district.

The law authorizes the County Superintendent to issue a “conditional” budget approval. The conditional approval process allows the County Superintendent to communicate recommendations and to request that the governing board responds to the recommendations of the County Superintendent and revise the adopted budget. If the District complies with the recommendations, the County Superintendent may then approve the budget. The mechanism gives the District an opportunity to comply and to avoid a disapproved budget.

It is important to note, that the issues detailed below are a result of the state budget woes and cuts to education and not due to fiscal mismanagement by the district. These state budget issues are further exacerbated by declining enrollment and charter school competition. I am aware of the numerous, painful cuts you have made to date by reducing staffing, curtailing expenses and sweeping flexible funds. I have
confidence that the Board and Management possess the skills and capacity to revise the budget and projections to insure the continuance of a quality high school program for all students.

After a thorough review of the 2012-13 adopted budget and multi-year projections for the Nevada Joint Union High School District, I have concluded that a conditional approval is appropriate because it is not evident that you will be able to meet your multi-year financial commitments.

Listed below are the major findings of the district’s budget which form the basis for a conditional approval.

**Multi-year Budget Projections (MYPs):** Multi-year projections are a critical decision making tool in planning for the continued financial success of the district and required under EC 42127. In order to remain solvent, the district must utilize the projections to guide decisions. While much uncertainty may exist in this financial climate, it is imperative the District use existing facts and circumstances to project district resources and guide decision making in the current fiscal year as well as the two subsequent fiscal years.

The state fiscal crisis further complicates this process. As I have consistently advised in my budget and interim guidance letters, it is imperative districts have a contingency plan in place at budget time to account for the potential of mid-year cuts. At times, our approach in planning for mid-year cuts has been critically viewed as too conservative. However, we have a fiduciary responsibility to our students and our community and to do otherwise would be fiscally irresponsible.

Our concerns in the Multi Year Projection include:

- Unidentified cuts of $1.5M in 2013/14 and $2.0M in 2014/15
- Significant deficit spending in each year of $2.9M in 2012-13, $1.1M in 2013-14 and $1.1M in 2014-15, over and above the unidentified cuts above.
- The district only meets reserves over the projection period due to an assumption of sweeping $1M carryover site balances which has not been past practice and has not been Board approved.
- Declining enrollment in each of the projected years, with one of the most significant drops in ADA experienced in the current budget year.

**Cash:** Cash is a grave concern as the state continues to push its cash flow problems to local districts. The most recent apportionment schedule contains further intra-year deferrals that may adversely affect the district. In addition, I do not agree with the assumption that the property tax in lieu transfer can be deferred until July 2013. We recognize the significant impact on district cash due to the Muir property tax transfer as it increases your reliance on state aid. Further, because you rely more heavily on state aid, you are also subject to higher deferrals which has an adverse effect on your cash. Our office will work closely with the district both with the Muir property tax transfer as well as other cash flow solutions.

**Reserve Levels:** The required Reserve for Economic Uncertainties for the District is 3%. The district can only meet reserves based on the assumption that the district will make $1.5M in unidentified cuts and sweep $1M in ending site balances. I cannot affirm that you can meet your reserve requirements with such broad, unidentified assumptions.

**Negotiations:** The district has already made numerous cuts, but they have not been sufficient enough to create a balanced operating budget. I have noted that negotiations are unsettled for the current budget year. Since nearly 83% of your total expenses are salaries and benefits, this is a critical area. It is likely if the tax measures do not pass, concessions may be required.
District Requirements: As previously mentioned, the District’s Budget has been conditionally approved as adopted. The requirements to achieve an approved budget are to respond to the following by September 8, 2012, and provide a detailed plan with implementation timelines by First Interim:

1. Redevelop the district’s multi-year projections. Please include detailed, Board approved expenditure reductions or revenue enhancements
2. Board action on the sweep of ending site balances
3. Revise the cash flow report to reflect payment of the in lieu property taxes in the budget year. As previously mentioned, we will work closely with your business office to develop cash flow solutions.

Ed code 42127 also provides further remedies to re-establishing the fiscal health of a district ranging from assigning a fiscal expert to assist the district or establishing a budget review committee to work with the district in resolving budgetary issues. If you would like to explore these options, please do not hesitate to call me to discuss.

We continue to extend our support during this time. Please be assured that we are available to provide guidance and assistance during these challenging fiscal times. Moreover, the Nevada County Superintendent of Schools is available to work with the district in meeting the conditions of this conditional approval. If you have any questions, please contact me or Donna Fitting.

Sincerely,

Holly Hermansen
Superintendent of Schools

CC: Marianne Cartan, Superintendent
Karen Suenram, Assistant Superintendent