



MENDOCINO COUNTY OFFICE OF EDUCATION

WARREN GALLETTI, SUPERINTENDENT OF SCHOOLS

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February 22, 2016

Ron Miles, President
Members, Board of Trustees
Brent Cushenbery, Superintendent
Pt. Arena Joint Union High/Arena Union Elem School Districts
P.O. Box 87
Point Arena, CA 95468

SUBJECT: REVIEW OF 2015/16 FIRST INTERIM PT. ARENA JOINT UNION HIGH/ARENA UNION ELEM SCHOOL DISTRICTS BUDGET

Dear Members of the Board:

We have reviewed your 2015/16 First Interim Report in accordance with Education Code Section 42130, regarding our fiscal oversight responsibilities. The Mendocino County Superintendent of Schools is required to review Interim Reports to ensure expenditures will not exceed available resources and projected revenues are realistic. Education Code Section 33127 further explains the guide used to monitor the fiscal stability of school districts shall be the adopted State Board of Education's Standards and Criteria. School districts shall also use these same Standards and Criteria in developing their budgets and managing their expenditures. AB1200 and AB2756 charge County Offices of Education with certain fiscal oversight responsibilities for school districts. In order to comply with these requirements, MCOE must assure all budget documents are complete and accurate. Any technical corrections to the budget brought to our attention are being addressed with your district Business Manager.

As a result of our review, we concur with the positive certification of your First Interim Report with the following comments:

2016/17 State Budget

With the State's economic outlook continuing to improve, the Governor's budget proposals reflects both stability for and growth in education funding. Education marks another year of major funding recovery.

The Governor continues to support LCFF funding, with a \$2.8 billion increase in funding that brings districts to within 95% of their full implementation of the LCFF targets. Restoration has come quickly. This increase is an average increase in per pupil funding of 5.6%, or \$489 per ADA. As a Basic Aid district, Point Arena Schools will not benefit from this increase to the LCFF funding. Please note that the actual increase will vary by District, and 60% or more of the funding increase in a typical District is in the form of increased supplemental and concentration grants for new or improved services for students. Districts will specify how these increased grants are to be spent in the 2016-17 Local Control Accountability Plan update.

Additional welcome news in the budget proposal is the inclusion of another round of one-time discretionary funds of \$1.2 billion; equal to about \$214 per ADA (this is 60% less than the current one-time funding). These funds are intended to be spent on implementation of content standards, technology, professional development and deferred maintenance, however, any funds received will offset the state obligation for your outstanding mandate reimbursement. The growth in education funding has been fueled by three major factors, all of which could change during 2016-17; Prop 30 temporary taxes, growth in the economy and repayment of the maintenance factor. Governor Brown advises caution and continues to exercise restraint in making ongoing

commitments of funding and projects lower growth in funding over the next several years as the maintenance factor allocation has been fully paid in 2015-16.

Issues left with no new solutions in this budget include steep STRS and PERS retirement cost increases, school construction and lack of legislative action on the budget reserve cap problem.

Returning to the status of your District's First Interim Budget, we note that **Your District's Fiscal Crisis Indicators include the following risk factors which must be monitored and addressed to ensure the district's fiscal solvency:**

- **Deficit Spending:** Your District's MYP reflects deficit spending in all three years, resulting in a decline of the unrestricted fund balance of more than <\$1.1M> over the three-year budget period. It is essential that you reduce deficit spending by developing a Board approved plan of specific actions to bring expenditures in line with projected revenues. You have identified some one-time expenses for your capital outlay projects however, your needs appear to continue year after year.
- **Reserves:** The MYP indicates the ending fund balance will be adequate to meet the state required minimum 4% Reserve for Economic Uncertainties of \$315,000 for the three-year period. The current projection shows that the Board 12% stabilization reserve will not be fully funded in 2017-18. Again, we encourage the district to start the process now to bring expenditures into alignment with projected revenues for the 2016-17 budget to further ensure adequate reserves and fiscal solvency.
- **Labor Contract Negotiation:** According to the information provided in the District's 1st Interim Budget, certificated, classified and management/confidential negotiations remain unsettled and potential increases have not been incorporated into budgeted salary and benefits expenditures. Any negotiated increase will continue to increase your shortfall between current revenue and current operating expenditures decreasing your reserves further.

As your District works to prepare your second interim budget, we recommend you take special care to review the LCAP goals, expenditure plans, outcomes and evidence of progress made to assist in the preparation of the LCAP annual update and share this information with your stakeholders.

In Closing

We express our appreciation for the detailed assumptions and narrative budget packet and commend you on your commitment to set aside additional reserves above the state required minimum. We urge that School Districts manage their budgets with conservatism, as we agree with the Governor in his caution and restraint of making ongoing commitments, as funding is projected to drastically slow in the next few years for education. Above all, we support you in all that you are striving to do for the children of your District. Please feel free to call on us if we may be of assistance.

Sincerely,



Vicki Todd
Associate Superintendent

cc: Catherine Chin, Business Manager
Warren Galletti, Superintendent, MCOE