



2240 Old River Road  
Ukiah, CA 95482-6156

Ph. (707) 467-5001  
Fax (707) 462-0379

WARREN GALLETTI  
*Superintendent of Schools*

INTEGRITY CUSTOMER SERVICE ACCOUNTABILITY TEAMWORK INNOVATION PASSION

January 30, 2018

M. Vikki Robinson, President, Board of Trustees  
Members, Board of Trustees  
Point Arena Schools District  
P. O. Box 87  
Point Arena, California 95468

Subject: County Office Review of the 2017-18 First Interim Report

Dear President and Members of the Board:

In accordance with Education Code Section 42127, we have reviewed the first interim report of Point Arena Schools District for fiscal year 2017-18 to determine if it complies with the criteria and standards adopted by the State Board of Education pursuant to Education Code Section 42131. Any technical corrections to the budget that may have come to our attention are being addressed with the district Business Manager.

Based on our review and analysis, we believe that the first interim report approved by the district's governing board on December 6, 2017 reflects the financial status of the district and is consistent with the state's criteria and standards. Thus, we concur with the district's positive certification.

Your district's fiscal crisis indicators include the following risk factors, which must be monitored to ensure continued fiscal solvency:

- **Deficit Spending and Reserves:** The district's first interim and multi-year report projects deficit spending in the unrestricted general fund in each of the current and two subsequent years, totaling <del>\$530,576</del> over the three-year period. Unrestricted reserves are expected to fall 34.3% from \$1.55 million at the beginning of 2017-18 to \$1.06 million at the end of 2019-20.

As projected in the provided report, PASD maintains a Reserve for Economic Uncertainty of at least 12% of total general fund expenditures and other uses in each year, meeting the state minimum requirement of 4%. Continued deficit spending will limit the district's ability to weather an economic downturn or unforeseen expenditures over the long-term. We encourage the district to work toward alignment of current year expenditures with projected revenue.

- **Declining Enrollment:** Enrollment for 2017-18, taken on October 4, 2017, the state's official student information day, shows a decline of 29 students from the prior year; 23 – or a 9% decline at Arena Elementary; and 6 – or a decline of 4% at Point Arena High School. While declining enrollment for a Community Funded (Basic Aid) district would not generally cause a funding issue, the lost enrollment appears to have gone to the Pacific Community Charter School (PCCS), where enrollment is up 30%, or 18 students. This increase in enrollment at PCCS significantly increases the district's transfer of Charter in-lieu Property Tax, from a projected \$(442,244) at budget adoption, to \$(557,007) at first interim – an increase in transfers out of \$(114,763), or 26%. **Transfers out, effectively reduce the district's revenue.**

Because of the unique effect of the transfer of enrollment and funding between the district and the charter, we recommend the district evaluate its elementary school program to identify potential reductions that will help balance expenditures with lost revenue. Oftentimes districts cannot fully control enrollment trends, however, where possible, the district should strive to develop a program that attracts and maintains students.

- **Negotiations:** The Criteria and Standards Review states that negotiations with Classified, Management and Confidential employees for the current year are not yet settled, and that the first interim budget does not include a set aside for possible salary increases. Thus, any settlement will increase projected deficit spending in all years.
- **Public Disclosure Requirement:** We remind you that, before the District's Board of Trustees takes action on a proposed collective bargaining agreement, the district must meet the public disclosure requirement of Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449. Please provide MCOE with a copy of the required public disclosure form as soon as it is prepared so that **we may have 10 days to review and comment before the Board takes action.**
- **Change in Leadership:** Since the beginning of this school year, the district has been operating with the County Superintendent of Schools acting as the Interim Superintendent for Point Arena Schools District. While the district had planned to begin a search for a permanent Superintendent, they have instead made a formal offer to hire Warren Galletti, the County Superintendent of Schools instead. Mr. Galletti will assume the post of permanent Superintendent for the district as of February 1, 2018. We note that changing leadership, regardless of the new leader's qualifications, is considered by the state as a fiscal indicator that must be monitored, as it can raise the risk level of an organization.

While the forecast concerning the state budget continues to be positive, we remain mindful of the cyclical nature of school funding, the state's dependence on the volatile personal income tax revenue, and that we are deep into a recovery that has outlasted historical trends. In this, the final year of Governor Brown's term, he indicated that there is sufficient funds to bring the Local Control Funding Formula to full implementation, two years earlier than originally planned; and he is proposing another round of one-time discretionary funding. While schools would benefit from achieving full implementation sooner than planned, we remind administration that, once at full implementation, the only sure annual increase to the funding formula will be limited to the COLA (Cost of Living Adjustment), which for the current and two subsequent years is roughly 2%. Community Funded, or Basic Aid districts will continue to be held to the variances of local property tax revenue. We continue to recommend districts proceed with fiscal prudence, understanding the ramification of today's decisions on future budgets.

Looking ahead, we would like to remind district administration that it is never too early to begin the planning and development of next year's Local Control Accountability Plan (LCAP). The first steps should be completion of the Annual Update, including an analysis of student outcomes as a result of the implementation of the current year plan; determining what was successful and what program changes should be considered to help ensure long-term student success.

MCOE has set up a short series of workshops intended to help district administration meet the statutory requirements of developing the annual LCAP. We encourage your leadership team, Superintendent, Principals, Business Manager, and any other staff member involved in the development of the plan to attend as a team. The workshops will provide your team with working time to analyze and develop the LCAP, as

well as access to MCOE's LCAP team, who can provide assistance. The next dates are March 5 and May 7 in Fort Bragg; or March 23 and May 15 in Ukiah.

During the First Interim reporting period, MCOE provided an Interim Business Manager to Point Arena Schools while your Business Manager was out on leave. We thank your district office staff for providing support to the Interim Business Manager and helping to maintain consistent business operations during the interim period.

Please know that we are here to support your district in providing a solid educational foundation for the students in your community, and we welcome your questions and comments. Please feel free to contact me or my staff at any time.

Sincerely,



Becky Jeffries

Assistant Superintendent, Business Services

cc: Warren Galletti, Interim Superintendent, PASD/Superintendent of Schools, MCOE  
Catherine Chin, Business Manager, PASD  
Chris Francis, LCAP Coordinator, MCOE