



2240 Old River Road  
Ukiah, CA 95482-6156

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

MICHELLE HUTCHINS  
*Superintendent of Schools*

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February 14, 2022

Warren Galletti, Superintendent  
Members, Board of Trustees  
Arena Union Elementary-Point Arena Joint Union High  
P.O. Box 87  
Point Arena, California 95468

Subject: County Office Review of the 2021-22 First Interim Report

Dear Superintendent and Members of the Board:

We have reviewed the 2021-22 First Interim Report of the Arena Union Elementary-Point Arena Joint Union High, in accordance with Education Code Section 42130, to determine if it complies with the criteria and standards adopted by the State Board of Education pursuant to EC Section 33127. AB1200 and AB2756 charge County Offices of Education with certain fiscal oversight of school districts, and in order to comply, MCOE must assure that expenditures will not exceed available reserves and that all budget documents are complete and accurate. Any technical corrections to the budget that come to our attention during our review will be directed to your district's Business Manager.

Based on our review and analysis, we believe that the first interim report approved by the district's governing board on December 15, 2021 reflects the financial status of the district and is consistent with the state's criteria and standards. Thus, we concur with the positive certification.

### **2022-23 Proposed Budget**

In January, Governor Newsom released the first look at his proposed budget for 2022-23. The revenue forecast has drastically improved from the 2021 State Budget Act. The Governor is proposing significant revisions to existing TK-12 education programs and education areas that include the LCFF, ELO Programs, and special education.

The Governor's budget proposes a 5.33% COLA for 2022-23 applied to LCFF base grants, and other categorical programs. The major TK-12 programs can expect to see increased funds to the Special Education base funding formula, Universal access to school meals, Transitional Kindergarten Expansion, and College and Career Pathways are among some of the proposals.

Issues left with no solution include fiscal instability facing many LEA's due to declining enrollment and high absenteeism rates. At this time, the Governor's budget does not offer any relief for school employers' in 2022-23 in relation to increased pension costs.

Overall, the proposed budget provides many positives for schools. However, the January proposal is just the starting point. The proposed plan now goes before Legislators to review, dissect, and debate. Returning to your first interim budget report, your district's fiscal crisis indicators include the following risk factors:

- **Deficit Spending and Reserves:** Unrestricted deficit spending is projected to total **\$(127,616)** over the Multi-Year Projection (MYP) period, spending down 9% of reserves. The unrestricted ending fund balance decreases from \$1,378,486 at the beginning of 2021-22 to \$1,250,870 at the end of June 2024.

In each year of the MYP the district maintains the state mandated Reserve for Economic Uncertainty (REU), plus an unappropriated reserve of at least twice the state required. We note, that total unrestricted reserves at the end of June 2023 amount to 13.7% of total expenditures, the California Department of Education and the Government Finance Officers Association recommendation of minimum reserves of two months of general fund expenditures, or roughly 16.7%.

As we learned during the great recession and more recently with the COVID pandemic, districts with healthy reserves are better able to weather economic downturns and sustain staff, programs and services to students.

- **Declining Enrollment and ADA:** Schools in declining enrollment will experience a sharp decline in LCFF funding in 2022-23. The district must monitor enrollment and ADA projections, and align staffing and services with student counts and budget projections.

Districts were required to present and approve, by the local governing board of the LEA by October 29, 2021, the Elementary and Secondary School Emergency Relief (ESSER) III Expenditure Plan, which was to address the impact of COVID-19 on elementary and secondary schools. Districts are also required to do a LCAP Supplemental that needs to be presented to the Board by February 28, 2022.

We remind districts that both the LCAP Federal Addendum and ESSER III Plans must be on the districts web page.

The Second Interim Budget Report is due to our office no later than March 17. As we begin planning for the 2022-23 budget, we want to remind districts that the Local Control and Accountability Plan (LCAP) Supplemental from February 28, 2022, needs to be added to the 2022-23 LCAP Plan.

We continue to support you in your efforts to maintain the fiscal health of your school district. As always, we recommend fiscal prudence, preferring to err on the side of conservatism. We encourage all districts to plan carefully, paying close attention to their multi-year projections and the fiscal impact of today's decisions on future budgets.