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NICOLE H. GLENTZER
Superintendent of Schools

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January 14, 2024

Warren Galletti, Superintendent
Arena Union School District
45 Lake Street
Point Arena, CA 95468

Dear Mr. Galletti,

In accordance with Education Code Section 42131, a review of Arena Union School District's (District) First Interim Report for Fiscal Year 2023-24 has been completed by the Mendocino County Office of Education (County Office). The District self-certified its 2023-24 First Interim Report as Positive. After a review of the financial data provided by the District, it appears that the District will meet its financial obligations for the current and two subsequent years. Therefore, the County Office concurs with the District's positive certification.

State Budget

The 2023-24 enacted State Budget provides a Local Control Funding Formula (LCFF) cost-of-living-adjustment (COLA) of 8.22%, utilizing approximately \$1.6 billion one-time Proposition 98 General Fund to support the overall cost of the LCFF in 2023-24. Since the State Budget adoption, the Legislative Analyst's Office has published a fiscal outlook that projects the state facing a serious budget problem due primarily to unprecedented prior year revenue shortfall. As a result, the LAO projects a \$68 billion budget deficit going into fiscal year 2024-25. Governor Newsom released his State Budget Proposal on January 10, 2024, which provides an update on how the shortfall in revenues and changes in the economy will impact education. As always, with the volatility of state revenues, the completion of one-time federal and state COVID relief funding, and economic risks on the horizon, it is important for local education agencies (LEAs) to remain cautious, avoid structural deficit spending, and maintain adequate reserves.

First Interim and Multi-Year Projection (MYP)

The District's First Interim Report MYP projects unrestricted deficit spending of $-\$43,767$ in 2023-24, $-\$208,795$ in 2024-25, and $-\$158,301$ in 2025-26, with the State minimum reserve for economic uncertainty of 4% met in all years. Deficit spending is of concern to the County Office and the elimination of structural deficit spending is critical in order to maintain required reserve levels. Therefore, we urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

With the District being locally funded (basic aid), it is important to have sufficient reserves in place to support unexpected changes in projected revenues which are uncertain in amount. The County Office reminds the district to align staffing and expenditures to the number of students being served and monitor projections closely.

Collective Bargaining

Based upon the Criteria and Standards, negotiations with all bargaining units in the 2023-24 fiscal year are settled. Because these costs make up the largest portion of the district's budget, any salary and/or benefit increase could adversely impact the fiscal condition of the district. We caution the district to ensure that the costs of any proposed agreement be supported by ongoing revenues to avoid creating or exacerbating structural deficits. Before the district takes any future action on a proposed collective bargaining agreement, Government Code Section 3547.5 requires the district to certify financial projections reflecting the impact of any salary negotiations on the current or two subsequent years.

Summary

Our Office appreciates the preparation and timely submittal of your First Interim report. A technical review will be communicated to the business office. The Second Interim Report is due to our office no later than March 15, 2024. If you have any questions, please feel free to call me at (707) 467-5034.

Sincerely,



Heather Rantala

Assistant Superintendent, Business and Administrative Services

c:

Catherine Chin, District Business Manager

Nicole H. Glentzer, County Superintendent of Schools

Michelle Ebert, MCOE Director, External Business Services

Jami Vallejo, MCOE District Fiscal Management Advisor