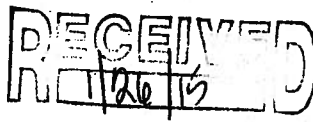


January 12, 2015



SUPERINTENDENT'S REPORT



Keller McDonald, Superintendent
West Sonoma County Union High School District
462 Johnson Street
Sebastopol, CA 95472

5340 Skylane Boulevard
Santa Rosa, CA 95403-8246
(707) 524-2600 ■ www.scoe.org

Diane Landry, Board President
West Sonoma County Union High School District
P.O. Box 1952
Guerneville, CA 95446

Dear Mr. McDonald and Ms. Landry:

In accordance with Education Code Section 42131, a review of the School District's (District) First Interim Report for fiscal year 2014-15 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2014-15 First Interim Report as Qualified. After a review of the financial data, the County has accepted the report as **Qualified**. The Qualified Certification is assigned to any district that may be unable to meet its financial obligations for the remainder of the current fiscal year or two subsequent fiscal years (Education Code Section 42131).

A summary of the First Interim Report and reasons for the Qualified status are as follows:

State Budget

In November, Legislative Analyst's Office (LAO) estimated that 2014-15 General Fund revenues would be approximately \$2 billion higher than estimated in the 2014-15 budget act. The LAO also indicated the resources for 2015-16 would be higher than the current ongoing spending levels, thus making the *near term* outlook for schools favorable. However, taking a *long term* outlook of current costs is also essential. With CalSTRS rates doubling by 2019-20, CalPERS rates being estimated to be over 18% by 2018-19, and the expiration of temporary flexibility with regards to instructional material adoptions and routine restricted maintenance set asides, the long-term future cost of current operations will be much inflated as compared to today. That said, great forethought and transparent communication of general, as well as situational, uncertainty should remain a staple in one's fiscal plan.

First Interim and Multi-Year Projection (MYP)

The First Interim Report indicates an operating deficit in the general fund of -\$1,157,214 in 2014-15, -\$1,336,353 in 2015-16, and -\$1,704,149 in 2016-17, with the minimum reserve standard of 3% only met in 2014-15 and 2015-16. Deficit spending in 2016-17 represents approximately 7% of total expenditures and results in a *negative* ending fund balance of approximately -\$586,000. Deficit spending of this magnitude is of great concern to the County and, if left unabated, will threaten the District's fiscal stability. We encourage the District to make ongoing expenditure reductions to minimize deficit spending in future years.

Other areas of concern are as follows:

1. The District is a member of the West Sonoma County Transportation JPA. Transportation JPAs are funded in 2014-15 based on the amount that each JPA received for transportation in 2012-13. Current statute does not provide funding to JPAs after 2014-15 *nor* does it provide authority to distribute JPA funding to member districts. The aforementioned financial results do not provide for the increase in transportation costs of approximately \$500,000 per year in 2015-16 and 2016-17. As reported in the District prepared "Discussion Only" MYP, minimum reserves would not be met in either of the out years and a *negative* ending fund balance of approximately -\$1.6 million would result in 2016-17.

2. It was noted that the District's employee benefits equate to approximately 49% of total salaries in 2013-14 and approximately 51% in 2014-15. Countywide, employee benefits equate to approximately 32% of total salaries in 2013-14.

Retiree health and welfare contributions are budgeted at approximately \$308,000 in 2014-15 and represents approximately 5% of the District's employee benefit costs. The latest actuarial evaluation of the District's postemployment benefits other than pensions (OPEB) was dated January 2014 and indicated: an Annual Required Contribution (ARC) of approximately \$587,000 and an Unfunded Actuarial Accrued Liability (UAAL) of approximately \$2.8 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any UAAL over a period not to exceed thirty years. Per the June 30, 2014 audit report, the 2013-14 pay-as-you-go contributions were less than the ARC and the Net OPEB obligation increased from \$536,079 to \$900,159. The aforementioned actuarial study indicates OPEB benefits can be generated with only 10 years of service and include dependent coverage.

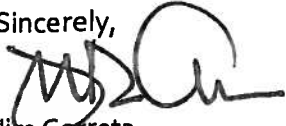
Specific Actions Required by Second Interim

Based on information received in the District's First Interim Report, the specific actions to be taken by the District Board of Trustees are itemized below:

- 1) In accordance with Education Code 42127.6 (e) a Fiscal Recovery Plan must be established to assure minimum reserve levels can be met in 2015-16. A description of the topics/ideas that are options for expenditure reductions such as class sizes, staffing, and program changes should be provided. The timing of specific meetings and identifying the required steps to accomplishing the aforementioned tasks should be established prior to Second Interim, which is due to SCOE no later than March 16, 2015. The Multi-Year Projection submitted with the Second Interim Report, should only include Board approved budget reductions/savings.
- 2) The District should update its MYP to incorporate the most recent parameters as set forth in the Governor's Budget released in January 2015 as well as any program changes that the Board has approved with regards to the Fiscal Recovery Plan. It should also include any current contracts which affect 2014-15 as well as future years.
- 3) According to the information provided in the First Interim Report, certificated and classified labor contract negotiations for 2014-15 remain unsettled and potential increases have not been calculated and incorporated into budgeted salary and benefit expenditures. Any additional Collective Bargaining Agreement proposals must follow the Public Disclosure requirements of AB 2756 and AB 1200. The County shall be provided the Public Disclosure document at least ten working days prior to adoption by the Board to review and comment on any proposed agreement (Section 16 Government Code Section 3540.2). This requirement is mandatory when the District's Interim reports are certified either Qualified or Negative.
- 4) The District must provide the County with a copy of any study, report, evaluation, actuarial report or audit that was commissioned by the District or any other agency if the study contains evidence of financial impact or that the school district is showing fiscal distress under the Standards and Criteria (Ed Code Section 42127.6). This would include any updates to the actuarial study for post-employment health benefits.

We appreciate the timely submittal of your interim report and the accompanying budget assumptions and/or narratives. A technical review will be communicated to the business office. If there are any questions regarding this letter or discussion of the District's budget, please call me at 524-2635.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Cerreta". The signature is stylized with a large, circular initial "C" and a long, sweeping horizontal stroke at the end.

Jim Cerreta

Deputy Superintendent, Business Services

c: Dr. Steven Herrington
Judy Thomson
Shelley Stiles
Linda Daugherty