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# MARIN COUNTY

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## OFFICE OF EDUCATION

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January 16, 2018

Ms. Leslie Lundgren, President  
Tamalpais Union High School District

Dear Ms. Lundgren:

Our office has completed its review of the Tamalpais Union High School District's first interim budget report for 2017-18 in compliance with the provisions of Education Code 42131(a)(2). The Code requires the County Superintendent to approve or disapprove interim report certifications after:

Examining the report to determine whether it complies with the standards and criteria established pursuant to Education Code 33127.

Determining whether the first interim budget will allow the district to meet its financial obligations during the current fiscal year and is consistent with a financial plan that will enable the district to satisfy its multi-year financial commitments.

Based upon our review, the Board's POSITIVE certification of the first interim budget report has been approved. Nonetheless, the District's projected decline in ending fund balance is threatening the District's fiscal solvency, as described throughout this letter. Specifically, at the current rate of deficit spending the District could be insolvent in 2020-21.

In light of the severity of the threat to the District's fiscal solvency, the District's second interim budget report submission should include a deficit reduction and recovery plan.

### **2018-19 GOVERNOR'S BUDGET PROPOSAL**

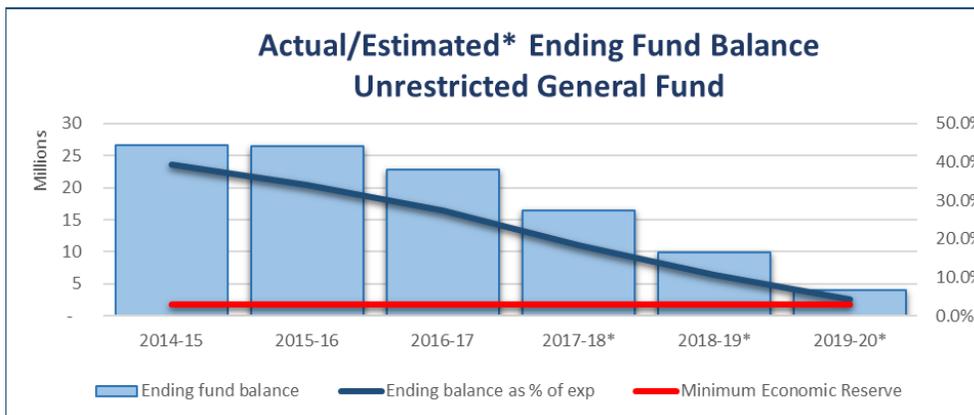
On January 10<sup>th</sup>, the Governor released his 2018-19 Budget Proposal with an increase of \$3.1 billion in Proposition 98 funding for schools for a total of \$78.3 billion, a new all-time high for Proposition 98 funding. The budget assumes the continued expansion of the economy, however, the Governor notes that by the end of the 2018-19 fiscal year, this economic expansion will have matched the longest in modern history. A moderate recession could drop state revenues by over \$20 billion annually. The Governor also points out the Budget Proposal demands caution and prudence against mounting uncertainties especially as "California's relationship with the federal

government has never been more uncertain”. To that end, the Governor proposes fully funding the Rainy Day Fund as the best tool available to guide the state through the next, inevitable, recession.

The Governor’s Budget proposes fully funding the Local Control Funding Formula (LCFF), two years ahead of schedule. To improve student achievement and transparency, the Budget proposes requiring school districts to create a link between their Local Control and Accountability Plans (LCAPs) and their budgets to show how increased funding is being spent to support students of higher need. The Budget Proposal also includes \$1.8 billion in one-time Proposition 98 funding for all school districts equal to approximately \$300 per pupil, with these funds intended to offset any mandate reimbursement claims. These funds may be used at local discretion to support critical investments such as content standards implementation, technology, professional development, induction programs for beginning teachers, and deferred maintenance, or any other locally determined need.

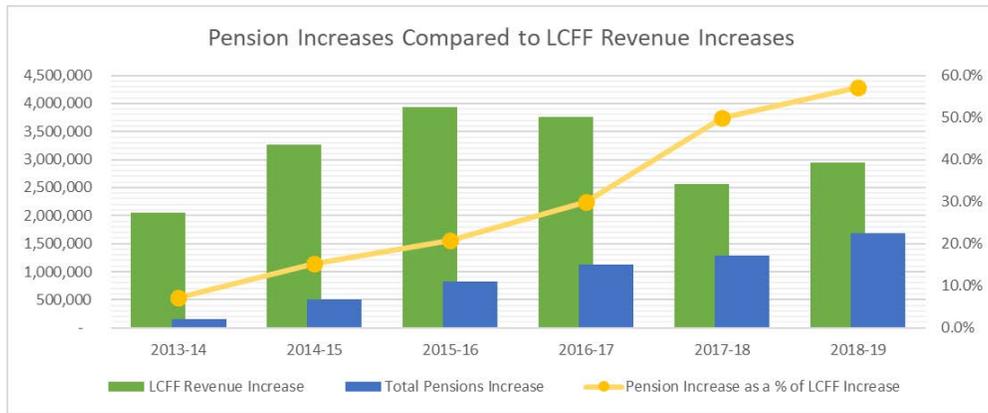
**BUDGETARY POSITION FOR TAMALPAIS UNION SCHOOL DISTRICT**

The District’s first interim budget and multi-year projection reflects a decline in budgetary position when compared to the adopted budget. The following graph depicts the District’s estimated ending balance in the first interim budget and multi-year projection for the unrestricted general fund, with both the state required minimum reserve and the District’s actual reserve as a percentage of total expenditures.



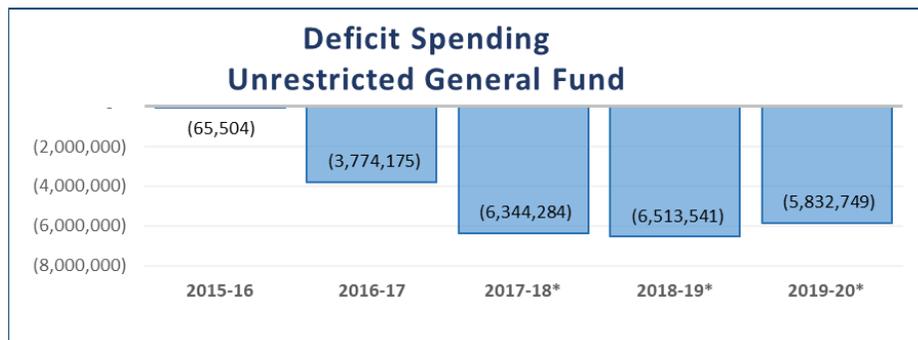
The last several years have seen substantial one-time revenues that have helped in meeting the many competing demands; however, the one-time nature of these revenues will not support ongoing costs over time. Nevertheless, the Governor’s 2018-19 budget proposal includes approximately \$300 per average daily attendance (ADA) in one-time revenues.

The District’s financial position is also under increasing pressure from retirement system increases, obligations under the Local Control Funding Formula (LCFF) supplemental grant as well as natural inflation. The following chart reflects the historical and budgeted change in LCFF funding, including local property taxes, compared to the change in retirement system costs.



**OPERATING DEFICITS**

The District’s first interim budget and multi-year projection continues to reflect operating deficits in the unrestricted general fund as displayed in the chart below.



The cumulative impact of this projected deficit spending is an 82% decline in fund balance over the current plus two subsequent years, leaving the District with reserves of \$4 million or 4% of general fund expenditures at June 30, 2020.

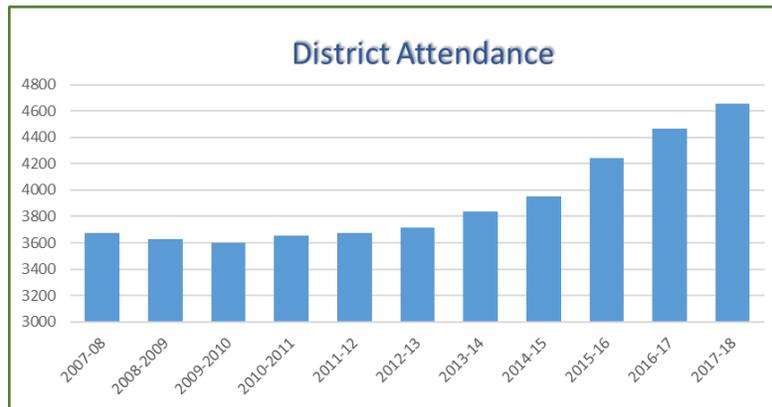
While some deficit spending may be a result of one-time costs from prior year funding sources, ongoing structural deficits threaten a school district’s future educational programs. Districts that wait too long to address and correct structural deficits are forced to make dramatic corrections all at once. In contrast, carefully planned and phased-in structural corrections lessen the impact on children.

The District will soon begin developing the 2018-19 budget and multi-year projection, casting forward an additional year. Absent any changes, the District could be insolvent when projecting an additional year at the same rate of deficit spending. As noted above, the District’s second interim budget will need to include a deficit reduction and recovery plan.

**STUDENT ATTENDANCE**

The District’s estimate of average daily attendance (ADA) at First Interim is 86 ADA less than at budget adoption. The District’s ADA has, nonetheless, increased by 186 ADA over the prior year. The increase in ADA does not generate any additional revenue as the District is a basic aid/community funded district. We note the District’s

multi-year projection includes an increase of 323 ADA in 2018-19 and an additional 73 ADA in 2019-20, however, the budget does not include any of the additional costs associated with serving these additional students.



**FEDERAL BUDGET**

The federal budget proposal for fiscal year 2018, funding 2018-19 programs for California school districts, proposed a reduction in Title I and the complete elimination of the Title II program. As a result, most districts are anticipating a reduction in federal revenues in the multi-year projection. At this time, the federal government has not yet approved the budget, and is operating on a continuing resolution that essentially leaves program funding frozen at fiscal year 2017 funding levels. We continue to monitor events in Washington to see if the deeper cuts to the education budget for K-12 public schools in the preliminary federal budget proposal for 2018-19 will materialize, including the potential impact from the recently approved federal Tax Reform Act.

**PARCEL TAXES**

Your community has shown support for its schools through a parcel tax. The District’s multi-year projection includes parcel taxes in all three years starting with a base of \$10 million in the first interim budget representing 13% of the District’s total general fund revenue sources. The District’s current parcel tax is escalated 3% annually and expires on June 30, 2022.

We note the District recently authorized a contract to perform a voter survey to evaluate the feasibility of a second parcel tax to help the District accommodate the significant student enrollment growth.

**SALARY SETTLEMENTS**

The District has not settled negotiations with any of the bargaining units for 2017-18. Due to the ongoing nature of these costs, any permanent increases to salary require permanent and ongoing funding sources. Absent any additional revenues, additional costs will further exacerbate the District’s deficit spending and associated decline in fund balance reserves.

When the District and bargaining units are ready to settle negotiations, Government Code 3547.5 requires the District to publicly disclose costs, as certified by the superintendent and chief fiscal officer. Please provide a Public Disclosure of Collective Bargaining Agreement including the tentative agreement(s) and multi-year projection to our office 10 working days prior to Board approval. Budget revisions associated with salary settlements should be approved within 45 days of Board approval.

**RESERVES**

The District maintains the state-required minimum reserve for economic uncertainty of 3% of total general fund expenditures in the current and two subsequent years. All school districts, whether state aid or community funded, are well advised to establish higher than minimum reserves in order to provide for the financial flexibility to absorb unanticipated expenditures without significant disruption to educational programs, cash flow deferrals and general economic uncertainties. Higher than minimum reserves allows the District to better ensure a consistent and stable program offering for students.

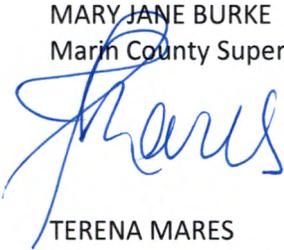
**CONCLUSION**

We thank Daniel Menyon for his timely submission of the first interim budget using the statutorily required forms. If you have any questions, please do not hesitate to contact me or Kate Lane at 415-499-5822.

We appreciate your dedication and service to the children of Marin County. Due to your good fiscal stewardship, the children of Marin County will continue to experience quality education now and in the future.

Sincerely,

MARY JANE BURKE  
Marin County Superintendent of Schools



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Deputy Superintendent

cc: Dr. David Yoshihara, Superintendent  
Daniel Menyon, Senior Director of Fiscal Services