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April 16, 2015

Ms. Anne Capron, President
Ross Valley School District
700 Iron Springs Road
Fairfax, CA 94930

Dear Ms. Capron:

Our office has completed its review of the Ross Valley School District's Second Interim Budget Report for 2014-15 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 Section 33127.
>
> Determining whether the Second 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 on our review, the Board's POSITIVE certification of the Second Interim Budget Report has been approved.

STATE AND NATIONAL ECONOMIC INFLUENCES FOR ROSS VALLEY SCHOOL DISTRICT

Through our fiscal oversight role we carefully monitor the economy, its impact on State and Federal revenues, and how these might affect Marin County school districts and students. This year marks the first year of the LCFF's accountability element through the Local Control Accountability Plan (LCAP), and its impact on local budgeting and planning. The LCAP process provides a means of aligning academic and fiscal accountability. Our office is committed to working in support of districts on both accounts. Also on the watch list are unknowns around pending implementation costs associated with the Affordable Health Care Act. This letter highlights these areas and others under watch for Ross Valley School District.

While State General Fund revenues continue to grow, much of the increase is due to capital gains taxes. This volatile source of funding, combined with the State's unfunded liabilities, infrastructure needs and the retirement of Proposition 30 temporary taxes, means the State's budget is "precariously balanced". In January, the Governor's budget proposal projected Proposition 98 guarantees school funding at $65.7 billion, a 39% increase over four years. Since then, year-to-date revenues for 2014-15 are now $633 million

(1.0%) above the forecast that was revised in January. While this is welcome news for schools, the nature of the increase is still capricious. One reason for this is that sales tax continues to lag behind other indices.

In spite of these increases, school districts will continue to be challenged to keep up with the rising costs of pension obligations associated with CalSTRS and CalPERS increases set over the next six years. This ongoing and increasing liability calls for budgetary prudence in spite of anticipated revenue increases.

LOCAL CONTROL ACCOUNTABILITY PLANs (LCAP) FOR ROSS VALLEY SCHOOL DISTRICT

Under the LCFF, each district is required to adopt an LCAP, aligned with the state's priorities, that identifies locally developed goals, actions and expenditures aimed at outcomes for all students. The LCAP is the district's blueprint for outcomes for all students. Under the LCFF, county offices now review and monitor a district's financial ability to sustain and support their LCAP.

CHANGE IN BUDGETARY POSITION FOR ROSS VALLEY SCHOOL DISTRICT

The Ross Valley School District's Second Interim Budget reflects a slight improvement since the last statutorily required budget update at First Interim. Estimated fund balance reserves in year three (2016-17) of the multi-year projection are $87,000 higher than previously estimated. The District's second interim budget report also includes a reduction in the estimate of student attendance in the current and two subsequent years of the projection.

LOCAL CONTROL FUNDING FORMULA (LCFF) FOR ROSS VALLEY SCHOOL DISTRICT

The Governor's proposed 2015-16 budget proposal represents the third year of funding under the LCFF and shows a continued commitment to fully funding the new formula within an eight year time-span, nonetheless, the LCFF has markedly different results for the individual districts in Marin County.

For most state-funded districts, including Ross Valley School District, increases in the LCFF translate into increased funding which can lead to an expectation to spend more. State funded districts suffered a significant loss of funding during the great recession and many maintained services by using fund balance reserves – a one-time resource. Ross Valley School District estimates deficit spending will be $0.4 million in the 2014-15 year.

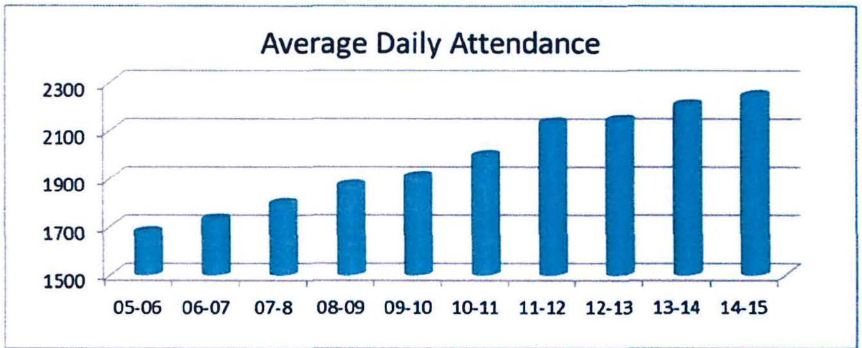
The District's Second Interim Budget and multi-year projection have been updated to reflect the gap funding percentages (State projected funding increases) released with the Governor's budget proposal for 2015-16 of 29.15% in 2014-15, 32.19% in 2015-16 and 23.71% in 2016-17. For Ross Valley School District, this change was accompanied by a revision to ADA estimates. The District's latest ADA estimates are 20 ADA lower than first interim for 2014-15 and 2015-16 and 40 ADA lower for 2016-17. Nonetheless, the increase in LCFF funding was sufficient to mitigate the loss of ADA resulting in a minimal difference to total LCFF funding across the current and two subsequent years.

FEDERAL SEQUESTRATION CUTS

Federal sequestration cuts refer to the automatic spending reduction triggered in the federal budget for fiscal year 2013. As a result of sequestration, districts realized an average 5.2% reduction in federal funding for the 2013-14 school year. The federal government has since taken action to restore most of the funding for education for fiscal year 2014 resulting in an estimated increase of at least 4% above FY2013 sequestration levels. While current sequestration cuts have ended, the Budget Control Act sequestration provisions are still in effect until 2023.

STUDENT ATTENDANCE

We note the District's Second Interim Budget is based on slightly reduced estimates for average daily attendance (ADA) for the current and two subsequent years when compared to First Interim. The Second Interim Budget estimates ADA will increase 21 ADA or 1% over the prior year, with an assumption that ADA will remain stable until 2016-17 when the District predicts a decline of 20 ADA. The District has experienced an average annual increase in ADA of 2.9% for the last ten years resulting in a 34% increase in ADA since 2005-06 as shown in the chart below.



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 $3.7 million representing 16% of the District's total general fund revenue sources. The District's current parcel tax is escalated 4% annually per the parcel tax measure and expires on June 30, 2020.

OPERATING DEFICITS

The District's Second Interim Budget projects a deficit in the unrestricted general fund of $0.4 million for 2014-15 or approximately 2% of unrestricted expenditures before returning to a surplus in 2015-16. The District's deficit spending in 2014-15 is due to one-time costs to complete the Tech Infrastructure project. The district is to be commended for their demonstrated commitment to a balanced budget.

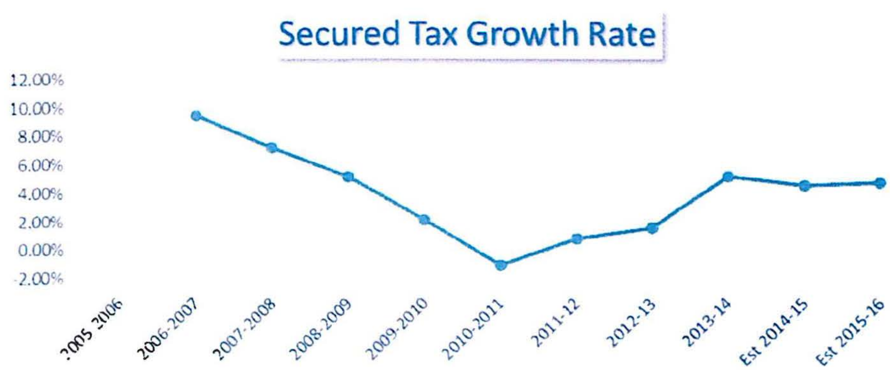
SALARY SETTLEMENTS

School districts are in the "people business." Salaries and benefits currently make up 86% of the District's unrestricted expenditures. We note the District has settled negotiations with all bargaining units for the budget year.

CASH FLOW
The District's historical cash flow statements indicate the District has sufficient cash throughout the year to meet operating expenditures without external cash borrowing. The District is well advised to maintain reserve levels at far higher levels than the state required minimums to ensure sufficient cash for operating purposes.

LONG TERM DEBT
In December, 2013, the District acted to issue Bond Anticipation Notes (BANs) to finance a portion remaining between the District's bonding authority and current bonding capacity. The BAN issuance is for a term of five years, structured with no principal payments until maturity, at which time the full amount will come due.

If assessed valuations do not increase at a rate that allows for repayment of the BAN with General Obligations Bonds, the District appears prepared to issue Certificates of Participation (COPs) to finance the shortfall in the amount owed on the BANs. If the District has to issue COPs, the annual debt service would depend on the amount of the shortfall. If annual growth in assessed property valuations is only 2% for the next five years the shortfall could be about $1.5 million. **Annual debt service payments of approximately $140 thousand would begin in 2018 and this amount may become an obligation of the general fund.** The following chart indicates the growth rate for secured property taxes through 2013-14 with projections for 2014-15 and 2015-16 from the County of Marin.



RETIREE HEALTH BENEFITS
The District provides health benefits to retired employees (OPEB) that have met certain eligibility requirements. The District funds these benefits with the annual budget appropriation paying as the expenditures come due. The District's projected OPEB cost for 2014-15 is approximately $113,000 and the entire liability is $1.5 million. This measurement is based on the District's actuarial study dated June, 2012. The District is required to renew the actuarial study on a triennial basis with the next study due for the period ending June 30, 2015.

RESERVES
The District maintains the state-required minimum reserve for economic uncertainty of 3% in the current and two subsequent years. In addition, we note the Board has taken action to increase the reserve for

economic uncertainty by 7% for a total reserve of 10% which is maintained across all three years of the multi-year projection. 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, cash flow deferrals, and general economic uncertainties without significant disruption to educational programs. Higher than minimum reserves allows the District to better ensure a consistent and stable program offering for students.

Transparency Requirement
The State's adopted budget included legislation that makes changes to how school districts report their reserves. Beginning with budgets adopted for the 2015-16 fiscal year, school districts will be required to hold public hearings on their reserve levels, including justification for carrying higher than minimum reserves.

Cap on Reserves
Also beginning with 2015-16, there is now a potential cap on reserves at twice the minimum reserve requirement. This proposed cap was tied to the passage of Proposition 2 in November, 2014; however, it is expected the cap will be rarely triggered as it is conditional upon a series of state fiscal conditions. Additionally, if triggered, districts may request an exemption from the cap from the county superintendent of schools.

CONCLUSION
We thank Midge Hoffman for her timely submission of the Second Interim Budget using the statutorily required forms. If you have any questions, please do not hesitate to contact me at 415-499-5805.

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: Rick Bagley, Ed.D, Superintendent
Midge Hoffman, Chief Business Official