

April 15, 2024

Matthew Morgan, Superintendent
Harmony Union School District
1935 Bohemian Highway
Occidental, CA 95465

Dear Mr. Morgan,

In accordance with Education Code Section 42131, a review of Harmony Union School District's (District) Second Interim Report for Fiscal Year 2023-24 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2023-24 Second 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 concurs with the District's positive certification.

State Budget

On January 10, 2024, the Governor released the proposed State Budget for the upcoming 2024-2025 fiscal year. Governor Newsom's State Budget proposal acknowledged California's weakening economy with solutions that did not include deficits and cuts to education. However, the Budget proposal included an element of risk and uncertainty by withdrawing \$5.7 billion from the Public School System Stabilization Account (PSSSA) to support the 2023-24 and 2024-25 Local Control Funding Formula (LCFF) funding. Additionally, as a result of the slowing of state revenues, the Governor's Budget proposals excluded any new proposals of one-time funds, a departure from what local education agencies have received throughout the last several years, and as expected, included a decreased statutory cost-of-living-adjustments for the 2024-25 and 2025-26 fiscal years.

Given the evolving economic conditions, the state revenues will be closely monitored in the months leading up to the enactment of the 2024-25 State Budget. Anticipating changes, the County emphasizes the need for local education agencies (LEAs) to develop budget solutions to address revenue shortfalls and ensure that the minimum state reserve requirement is met in both the current and subsequent fiscal years. This reminder underscores the importance to think long-term when making decisions.

Second Interim and Multi-Year Projection (MYP)

The District's Second Interim Report MYP, which includes its conversion charter, projects unrestricted deficit spending of -\$1,115,720 in 2023-24 and -\$32,534 in 2024-25, while 2025-26 projects an increase in unrestricted fund balance of \$55,001. The State minimum reserve for economic uncertainty of 5% met in all years. **Deficit spending is of concern to the County and the elimination of structural deficit spending is critical in order to maintain required reserve levels. Therefore, we urge the District to**

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review and monitor revenues and expenditures, embrace best practices, and budget to live within its means.

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 are 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.

Charter Schools

As the authorizing agency of Pathways Charter School, the District maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance, budgeting, and payroll. Please see Education Code Section 47604.32 for a detailed list of oversight duties.

The District should review the charter budget reports at each cycle: Budget, First Interim, Second Interim, and Unaudited Actuals. It is also the District's responsibility to transmit these reports to our office by the state required deadline. Please coordinate with the charter school in advance to ensure all deadlines are met. Should any circumstances arise related to the charter school that would negatively impact the financial condition of the District, please notify our office as soon as possible.

Summary

Our Office appreciates the preparation and timely submittal of your Second Interim report. A technical review will be communicated to the business office. **Please see the attached for standard reminders.** If you have any questions, please feel free to call me at (707) 524-2635.

Sincerely,



Sarah Lampenfeld
Director, External Fiscal Services

Cc:

Stacy Kalember, District Chief Business Official
Amie R. Carter, Ed.D., County Superintendent of Schools
Greg Medici, SCOE Deputy Superintendent, Business Services
Michelle Panizzera, SCOE District Fiscal Management Advisor

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