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September 15, 2025

President of Board & Board of Trustees
Reed Union School District
277-A Karen Way
Tiburon, CA 94920

Dear President Wangenheim and Members of the Board,

In accordance with Education Code (EC) 42127, the Marin County Office of Education has reviewed the Reed Union School District's 2025-26 budget adoption budget in conjunction with the Local Control Accountability Plan (LCAP) and the Budget Overview for Parents pursuant to EC 52070 and 52064.1.

The County Superintendent is required to approve, conditionally approve, or disapprove the adopted budget after examining and determining the following:

- Examine the adopted budget for compliance with the State Standards and Criteria for Fiscal Solvency adopted by the State Board of Education (SBE) pursuant to EC 33127 and identify any technical corrections needed to bring the budget into compliance with those standards.
- Determine whether the adopted budget will allow the district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the district to satisfy its multi-year financial commitments.

Prior to approving the adopted budget, the County Superintendent is required to approve the LCAP and the Budget Overview for Parents for each school district after determining the following:

- The LCAP and the Budget Overview for Parents adhere to the SBE's adopted template.
- The budget includes expenditures sufficient to implement the specific actions and strategies included in the adopted LCAP, in alignment with the plan's projected costs.
- The LCAP adheres to the expenditure requirements for English learners, low income, and foster youth students.
- The LCAP includes the calculations necessary to determine any unused supplemental and concentration funds from the prior year and the planned uses of the specified funds to increase or improve services in the budget year.

Based upon our review, Reed Union School District's adopted budget and LCAP, including the Budget Overview for Parents, has been approved. However, as detailed below, the district is deficit spending at an unsustainable rate resulting in a 35% decrease in the projected ending fund balance over the three years. We note that the ending fund balance is dependent on approximately $300,000 in salary reductions beginning in the 2026-27 fiscal year. The district maintains the state minimum reserve. However, Board Policy 3105.1 which requires a 27% reserve inclusive of the state minimum, is not met in the third projection year. As such, it will be critical for the district to continue monitoring the budget frequently and evaluate spending levels until a balanced budget is achieved.

ECONOMIC INFLUENCES

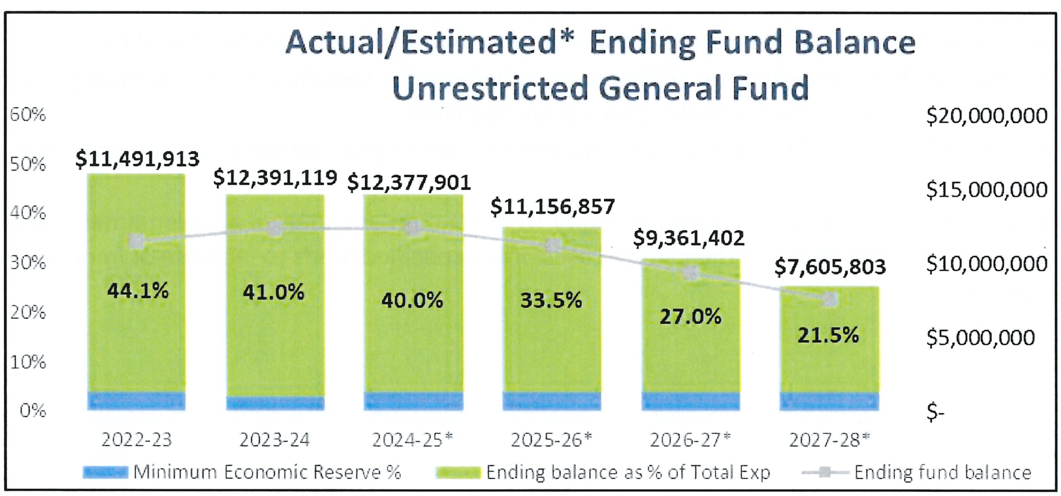
The 2025-26 California state budget applied a 2.30% cost of living adjustment (COLA) to the LCFF and selected categorical programs including the special education apportionment. The state adopted budget for 2025-26 increases funding toward the full implementation of Universal Transitional Kindergarten including funding to lower the average student-to-adult ratio (10:1), funding for literacy instruction and professional learning, one-time funding for student support and professional development as well as learning recovery

The district is dependent on local economic conditions for revenue growth as the rise in local property taxes is the primary source for revenue increases. Assessed valuation growth rates have stabilized county-wide from pandemic related highs. As a result, districts with increased average daily attendance (ADA) have the potential to become state funded. We held the Annual Property Tax Forum late spring to help inform districts about the outlook for their multi-year projections and the consensus was that the growth in assessed valuation has slowed and will continue to do so over the next few years, thereby slowing growth in property tax receipts.

The state's budget adoption is largely dependent on reserve drawdowns, spending reductions, internal borrowing, deferrals, and shifts. With the adopted budget, depletion of the Public School System Stabilization Account (PSSSA), the 2025-26 reserve cap will not be in effect for local education agencies (LEAs) and is not projected to be triggered for the 2026-27 fiscal year. Currently, uncertainties remain regarding the federal budget and the potential impact to the state budget and education funding in unknown ways. We will continue to monitor federal budget developments and provide updates as additional information becomes available.

BUDGETARY POSITION FOR REED UNION SCHOOL DISTRICT

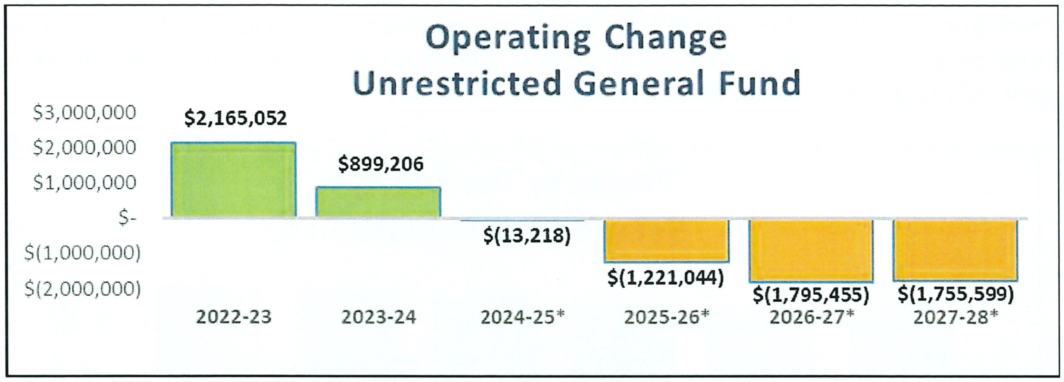
The following graph depicts the district's estimated ending fund balance in the adopted budget and multi-year projection for the unrestricted general fund with both the state required minimum reserve and the district's actual reserve as a percentage of total expenditures.



The district's ending fund balance meets the state required minimum reserve for the current and two (2) subsequent years, however, we note that the district's ending balance is dependent on nearly $300,000 in salary reductions beginning in the 2026-27 fiscal year.

OPERATING CHANGE

The district's adopted budget reflects operating deficits in the unrestricted general fund in all three (3) years of the multi-year projection as displayed in the chart below.



The cumulative impact of projected operations is a 39% decline in fund balance over the current plus two (2) subsequent years, resulting in a projected ending fund balance of $7.6 million or 21% of general fund expenditures on June 30, 2028. While some deficit spending may be planned, 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.

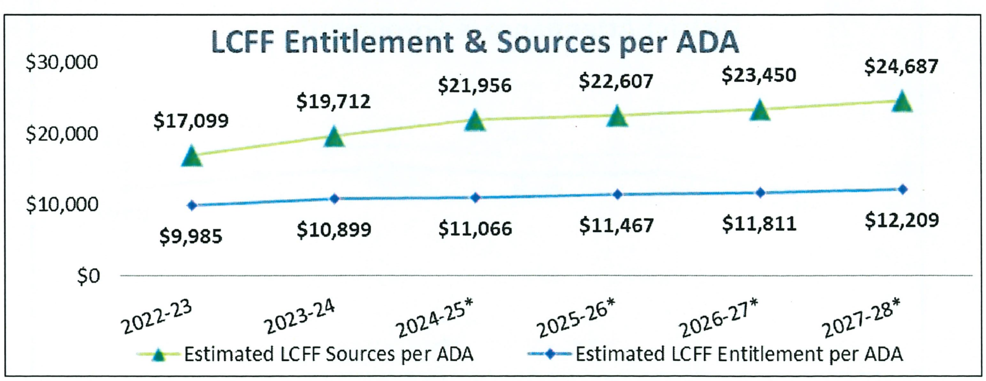
CASH FLOW

The district's historical cash flow statements indicate the district has sufficient cash throughout the year to meet operating expenditures without external cash borrowing through a Tax Anticipation Note (TAN). Nonetheless, we note the district has taken the precaution of requesting a TAN which has been approved by the Board of Supervisors. 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.

LOCAL CONTROL FUNDING FORMULA (LCFF) FOR REED UNION SCHOOL DISTRICT

The 2025-26 state budget increases base funding rates for the local control funding formula (LCFF) by approximately 2.30%.

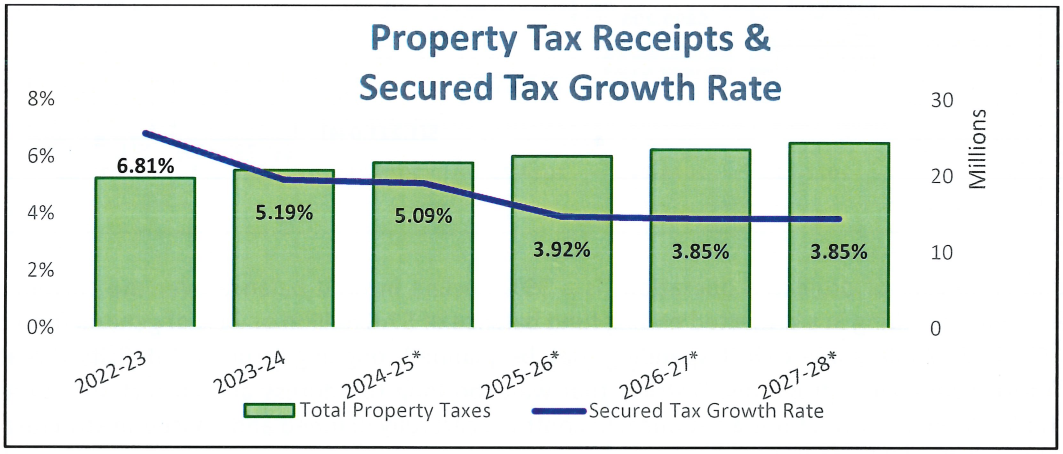
The graph below is based on the State's Adopted Budget and shows the district's LCFF entitlement per unit of attendance (ADA) as compared to actual general-purpose funding (LCFF Sources including property taxes) per ADA with projections for the adopted budget and multi-year projection.



As displayed in the graph above, as a community funded district, the district's property taxes exceed the LCFF entitlement, and the district is therefore reliant on growth in the property tax base for increases in unrestricted revenues. The district has an obligation under the LCFF to direct the supplemental grant included in the district's LCFF entitlement towards increasing or improving services to pupils of higher need. This requirement applies to all districts, including community funded districts. The district's estimated 2025-26 LCFF supplemental grant as part of the adopted budget and Local Control and Accountability Plan is approximately $163,000.

PROPERTY TAX TRENDS

Property taxes provide 94% of the district's total unrestricted revenue sources. The following chart shows the growth in total property tax revenues as well as the actual growth rates in secured tax receipts through 2024-25 and the County of Marin's preliminary tax roll for 2025-26.



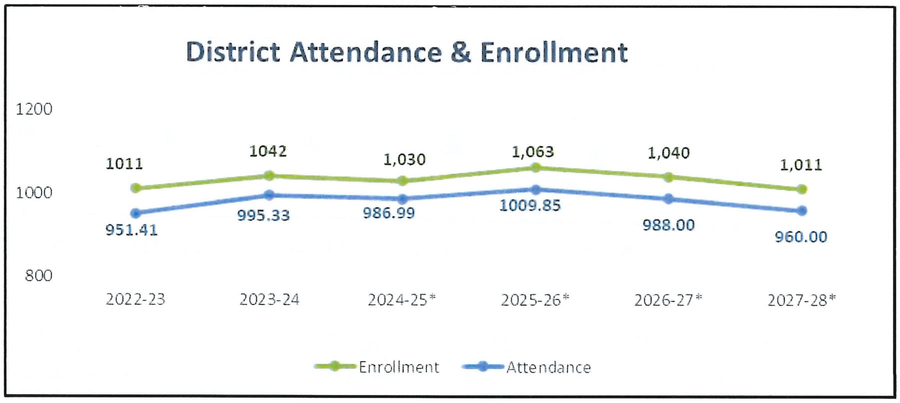
COMMUNITY FUNDED DISTRICTS - BASIC AID

Community funded districts are commonly called "basic aid", which refers to the basic aid entitlement for all students of $120 per average daily attendance (ADA) as set forth in the California Constitution as defined in Education Code 41975. Ultimately, basic aid districts receive the benefit of excess taxes which exceed their LCFF entitlement.

An additional constitutional guarantee began with the passage of Proposition 30 in 2012. Drafted as a means of guaranteeing benefit to all schools, Proposition 30's Education Protection Act (EPA) provides that no school district shall receive less than $200 per ADA. The temporary income taxes and minimum funding guarantee authorized by Proposition 30 were extended through 2030 with the passage of Proposition 55 at the November 2016 election.

STUDENT ATTENDANCE

The district is estimating that student enrollment and the associated ADA will continue to decline as reflected in the chart below.



Districts rely on attendance to drive many factors such as forming the basis of many one-time and grant funding opportunities, staffing needs, facilities and supplies that are shaped by the number of students served. As such, we recommend that all districts place a high priority on monitoring student enrollment and attendance.

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 (3) years starting with a base of $2.6 million in the adopted budget representing 9% of the district's total general fund revenue sources. The district's current parcel tax is escalated 3% annually and expires on June 30, 2031.

SALARY SETTLEMENTS

We note the district settled negotiations with all bargaining units for the budget year and included the cost of the settlement in the adopted budget. We thank the district for providing the certified Public Disclosure of Collective Bargaining Agreement and multi-year projection.

Due to the ongoing nature of these costs, any permanent increases to salary require permanent and ongoing funding sources. When the district and bargaining unit 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 ten (10) working days prior to Board approval. Budget revisions associated with salary settlements should be approved within 45 days of Board approval.

RETIREE BENEFITS

The district provides other post-employment health benefits (OPEB) to retired employees that have met certain eligibility requirements. The district's projected OPEB cost for 2025-26 is approximately $170,000 and the estimated unfunded liability is $2.6 million. This measurement is based on the district's actuarial study dated 6/30/2021. We note that the current study appears to be outdated and encourage the district to update their records or obtain a new study.

Subsequent to the budget adoption, the district informed us that it has engaged in an actuarial study resulting in an updated estimated unfunded liability of $1.5 million as of 6/30/2025. Our office looks forward to receiving the final study.

RESERVES

We note that the district meets the state minimum reserve of 3% in the budget year. Due to the district's projected ADA falling under 1001 in the two subsequent years, the state minimum requirement increases to 4%, which the district also meets in both years. However, Board Policy 3105.1, which requires a 27% reserve inclusive of the state minimum, is not met in the third projection year.

All school districts, whether state aid or community funded, are well advised to establish higher than minimum reserves 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 allow the district to better ensure a consistent and stable program offering for students.

Cap on Reserves

As part of the recently enacted 2025-26 Budget Act, the final budget included withdrawals from the Public School System Stabilization Act (PSSSA) to fund programs in 2024-25; eliminating the balance in the PSSSA. Thus, in accordance with EC 42127.01(e), that the statutory limitation on school district reserves is no longer in effect for the 2025-26 budget period. In all circumstances, we continue to encourage districts to maintain higher than minimum reserves.

CONCLUSION

We want to express our appreciation to staff for the budget adoption budget's timely submission using the statutorily required forms and responsiveness to the requests for information made during our technical review.

We appreciate your dedication and service to the students of Marin County. Your attention to good fiscal stewardship ensures the children of Marin County will continue to experience quality education now and in the future. If you have any questions, please do not hesitate to contact me at 415-499-5835.

Sincerely,

John A. Carroll

JOHN CARROLL
Marin County Superintendent of Schools

BREEAN BROWN
Assistant Superintendent, Business Services

Cc: Dr. Kimberly McGrath, Superintendent
Chris Kim, Chief Business Official