SAN MATEO COUNTY OFFICE OF EDUCATION
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Marco Chávez • County Superintendent of Schools

June 17, 2026

Laverne Villalobos
President, Governing Board
Pacifica School District
375 Reina Del Mar Avenue
Pacifica, CA 94044

RE: 2025-26 Third Interim Report

Dear Board President Villalobos:

The San Mateo County Office of Education (SMCOE) has completed its review of Pacifica School District's Third Interim Report for the 2025-26 fiscal year, submitted pursuant to Education Code Section 42131(f).

On the basis of our review and analysis, the Third Interim Financial Report approved by the Board on May 20, 2026, appears to reflect adequately the financial and budgetary status of the District. The information and assumptions incorporated in the budget appear reasonable.

Initially, it appeared the District would meet its financial obligations for the current or subsequent two fiscal years. However, the documents presented during the Public Hearing of the Proposed 2026-27 Budget show a significant downward shift in the fiscal outlook of the district and its ability to meet its financial obligations in the subsequent two years.

This letter outlines SMCOE's review of the Third Interim Report. We updated the letter to include the last paragraph titled "Public Hearing of the 2026-27 Proposed Budget" based on new information from the District's June 10, 2026 Board meeting.

BACKGROUND

On February 18, 2026, the County Office of Education (COE) issued a Lack of Going Concern letter to Pacifica School District based on new fiscal concerns presented by the District on February 11, 2026. Among the reasons for the basis for "lack of going concern" determination were the Unaudited Actuals General Fund Ending Balance being $480,000 lower than Estimated Actuals, Special Education costs not adequately budgeted, declining enrollment, and leadership

turnover at the District. The COE assigned a fiscal expert to the District and continued weekly fiscal meetings with District leadership and COE advisors.

In May 2026, the Fiscal Crisis and Management Assistance Team (FCMAT) completed a Fiscal Health Risk Analysis (FHRA) using financial data from the District's 2025-26 First Interim Report, interview with district staff, and a review of fiscal and operation documentation provided by both the District and COE. Based on the analysis, FCMAT concluded that the district's overall fiscal solvency risk level is high, with a score of 49.3%. In addition, specific conditions identified in the analysis – most notably incomplete financial reporting, deficit spending without a governing board-approved corrective action plan, and weaknesses in internal controls – independently elevated the District's fiscal risk.

As of the Second Interim Report, the District submitted a qualified certification, indicating the District may not meet its financial obligations for the current fiscal year or the subsequent two fiscal years. The multiyear projections indicated that the District needed to make $825,000 in unidentified reductions across the two subsequent years to meet the 3% reserve minimum.

GENERAL FUND

The 2025-26 Second Interim projected a $672,000 deficit in the General Fund. As of the Third Interim report, the deficit has increased to $817,000, reflecting a net change of approximately $145,000.

Total revenues remained relatively stable. Minor increases were made across all revenue sources.

Total expenditures increased by $228,000 primarily due to forecasted increases in insurance costs related to AB 218 and contract services. Certificated and Classified salary expenditures decreased by approximately $96,000.

STRS on-behalf entries affecting both revenue and expenditures of $1.2 million remain removed in the Third Interim Report and must be recorded at year-end close in accordance with Governmental Accounting Standards Board Statement No. 68 (GASB 68).

RESERVES

The state-recommended minimum reserve for Pacifica School District is 3% of total General Fund expenditures. The District is projecting approximately $1.6 million in available reserves, or 3.66% of the total General Fund expenditures for 2025-26.

The Special Reserve Fund (Fund 17) accounts for $893,000 of the total available reserves.

MULTI-YEAR PROJECTIONS (MYP)

Reserves are projected at 3.34% in 2026–27 and 3.90% in 2027–28. This includes the Special Reserve Fund (Fund 17).

Total revenues are expected to decline by $562,000 in 2026–27 and $3.2 million in 2027–28. LCFF revenues increased by an average of $430,000 annually as projected cost-of-living adjustments (COLA) increased based on the latest state projections. In 2026-27, State revenues increased $1 million due to additional one-time revenues budgeted from the May Revise and are removed thereafter in 2027-28. Measure D Parcel Tax revenue is eliminated in 2027–28 due to expiration.

Total expenditures decrease by $2.1 million in 2026–27 and $2.9 million in 2027–28. For 2026–27, the budget includes a 11.0 Full-Time-Equivalent (FTE) workforce reduction. Salary costs for both Classified and Certificated staff decline by $911,000. Services and other operating expenses decrease by $1.4 million as the District reduces software subscriptions, legal costs, Non-Public School (NPS) tuition, and County Special Education Program tuition due to aging-out students. Book and supplies costs increased $527,000 due to textbook adoption. For 2027–28, the District projects continued workforce reductions tied to the Measure D parcel tax expiration, driving a $498,000 drop in salary costs. Books and supplies decrease by $928,000 due to removal of Student Support Discretionary Block Grant funds. Contracted services expenses continue to decline by $1.48 million.

DEFICIT SPENDING

The multi-year projections show operating deficits in the Unrestricted General Fund of $238,000 in the current year and $234,000 in 2026–27, followed by an operating surplus of $91,000 in 2027–28.

The District's multi-year projections reflect progress toward structural budget balance, with deficit spending eliminated by 2027–28. The County Superintendent of Schools advises the District to continue monitoring revenues, expenditures, and reserve levels to maintain long-term fiscal stability.

CASH FLOW

The District submitted cash flow projections for the 2025-26 and 2026-27 fiscal years showing positive balances each month. The projected ending cash balance is $3.3 million for 2025-26 and $3 million for 2026-27.

SALARY NEGOTIATIONS

The District has reached tentative agreements with both Classified and Certificated bargaining units providing a 3% salary increase for the 2025-26 Fiscal Year. The County Office received the

Disclosure of Collective Bargaining Agreement on June 16, 2026 and will provide comments before the District's Board meeting on June 24, 2026.

FISCAL OUTLOOK

The District continues to experience declining enrollment trends, resulting in corresponding reductions to Local Control Funding Formula (LCFF) revenues. Continued monitoring of enrollment trends and alignment of staffing levels to projected enrollment will remain critical to maintaining fiscal solvency.

The District's existing parcel tax, Measure D, currently generates approximately $1.2 million annually and is scheduled to expire in June 2027. The District has removed Measure D revenues from its multiyear projections beginning in 2027–28 and should continue monitoring expenditures and implementing ongoing budget adjustments necessary to accommodate the loss of these revenues.

The District has not incorporated the proposed 3% salary increase for 2025–26 into its Third Interim financial projections. If approved, the agreement will increase ongoing expenditures and place additional pressure on the District's ability to maintain structural budget balance and fund future compensation commitments. The District should continue exercising fiscal prudence through careful management of staffing levels, evaluation of operational expenditures, and cautious use of one-time funding sources.

PUBLIC HEARING OF THE 2026-27 PROPOSED BUDGET

The District held the Public Hearing of the 2026-27 LCAP and Proposed Budget on June 10, 2026. The Board packet did not include documents such as the Cash Flow and Criteria and Standards. According to the documents presented, the District projects ending this current year not meeting the mandated 3% minimum reserve. The fiscal outlook worsens in 2026-27 with ending fund balance of $8,659 in the Unrestricted General Fund. The multi-year projections show the Unrestricted General Fund ending balances dipping to negative dollar amounts, -$1.84 million in 2027-28 and -$3.73 million in 2028-29. **The COE currently lacks sufficient information to determine the cause of the significant negative variance between the 2025-26 Third Interim Report and the 2026-27 Proposed Budget.** We will provide further comments after we receive and complete the review of the 2026-27 Adopted Budget and the fiscal stabilization plan.

We appreciate the cooperation and assistance provided by the District during the review process. If you have any questions, please feel free to contact me at 650.802.5511 or kbultema@smcoe.org.

Sincerely,



Kevin J. Bultema
Deputy Superintendent, Business Services Division

Enclosures

c: Board of Education Pacifica SD
Carisa Bowman, Superintendent, Pacifica SD
Marco Chavez, Superintendent of Schools, SMCOE
Tony Thurmond, State Superintendent of Public Instruction, CDE
Mike Fine, Chief Executive Officer, FCMAT
Megan Reilly, Chief Administrative Officer, FCMAT
Tami Pierson, Director, School Fiscal Services Division, CDE
Malia M. Cohen, Controller, California State Controller's Office
Dhanya Unni, Executive Director, District Business Services, SMCOE
Ron Wheelehan, SMCOE Fiscal Expert to Pacifica SD