

January 15, 2025

Daisy Morales, Ed.D., Superintendent  
Lisa August, Associate Superintendent  
Santa Rosa City Schools  
211 Ridgway Avenue  
Santa Rosa, CA 95401

Dear Dr. Morales and Ms. August,

In accordance with Education Code Section 42131, a review of Santa Rosa City Schools School District's (District) First Interim Report for Fiscal Year 2024-25 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2024-25 First 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 6, 2025, the Governor provided a preview of the proposed 2025-26 State Budget, with the full release anticipated on January 10<sup>th</sup>. The preview highlighted a fully balanced budget with no deficits and reinforced the Governor's commitment to key education initiatives, including the Expanded Learning Opportunities Program and Universal Transitional Kindergarten. It also proposed a \$3.6 billion increase to Proposition 98 funding compared to the current year's minimum guarantee.

The budget preview projects a 2.43% cost-of-living adjustment (COLA) for 2025-26, a decrease from the 2.93% forecasted in the June 2024 Enacted Budget. Additionally, the Governor emphasized the need for fiscal prudence, noting the state's heavy reliance on capital gains from high-income earners. This emphasis serves as a reminder to prioritize long-term planning in decision-making.

### **First Interim and Multi-Year Projection (MYP)**

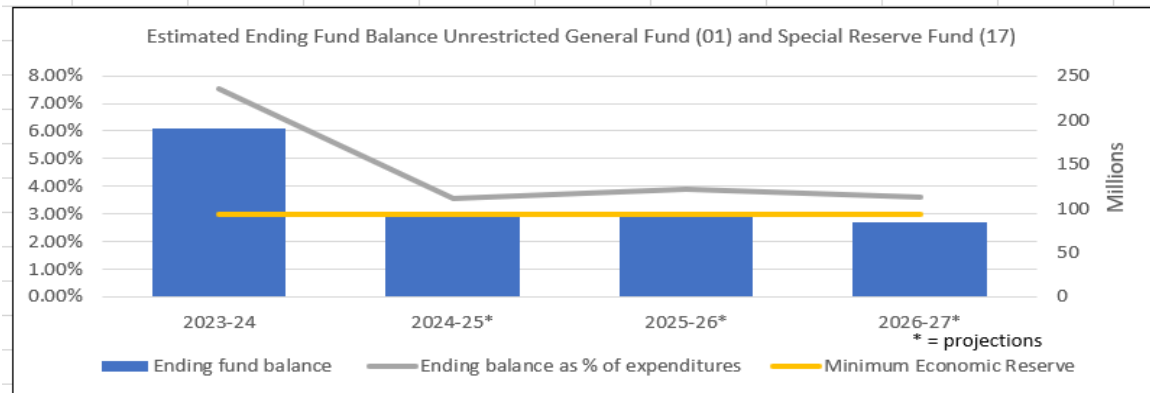
The District's First Interim Report MYP projects unrestricted deficit spending of -\$17,245,290, in 2024-25, and -\$146,616 in 2025-26. However, the MYP anticipates an increase in the unrestricted fund balance by \$6,764,640 in 2026-27. The State minimum reserve for economic uncertainty of 3% met in 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 review and monitor revenues and expenditures, embrace best practices, and budget to live within your means.

The district's first interim budget and multi-year projections reflect operating deficits in the unrestricted general fund. The cumulative impact of this projected deficit spending is a 56% decline in fund balance from fiscal year 2023-24 to 2026-27. The following graph displays the district's estimated unrestricted

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ending balance in the first interim budget and multi-year projections, with both the stated minimum reserve and the district’s actual reserve as a percentage of total expenditures.



The 2024-25 Adopted Budget projected that the District would meet the required reserve levels in the 2025-26 and 2026-27 fiscal years, contingent upon implementing \$21.3 million in unidentified budget reductions in 2025-26. This projection followed two consecutive Qualified certifications during the 2023-24 fiscal year. At the time of budget adoption, the County urged the District to continue its efforts to develop and implement a Fiscal Stabilization Plan to ensure long-term fiscal solvency.

Throughout the fiscal year, the District has worked intensively to address deficit spending and maintain the required minimum reserve levels for the current and subsequent two years. As a result of these efforts, the District’s Board of Trustees approved a Fiscal Stabilization Plan on November 20, 2024, identifying approximately \$25 million in ongoing budget reductions.

**The County commends the District for its actions to address budget concerns and encourages its continued commitment to achieving fiscal stability.**

The County’s review of the District’s 2024-25 First Interim Report included the following observations and concerns:

- As reserve levels decline, the District must closely monitor the cash position of all funds to ensure sufficient cash is available to meet operational needs throughout the fiscal year. The First Interim Report did not include the required submission of a cash flow worksheet; however, as indicated in the Criteria and Standards, the projected ending cash balance on June 30, 2025, is \$100,000. The District has attained a line of credit (LOC) with the Auditor-Controller-Treasurer’s Office to help address anticipated cash shortfalls in fiscal year 2024-25. The LOC expires the last Monday in April; therefore, any cash shortages projected by District after mid-April will need to be addressed through additional cash management options such as borrowing from other funds and/or anticipated issuance of a Tax and Revenue Note (TRAN).

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- The County recommends conducting a comprehensive review of all revenue and expenditure sources to validate projections, with particular attention to federal and other state revenues, as these projections appear to be overstated in the current and subsequent years.
- The First Interim presents short-term borrowing from bond interest (Fund 21) into the Special Reserve Fund (Fund 17) to meet the required minimum for economic uncertainty in 2024-25 and 2025-26.

### **Collective Bargaining**

Based on the Criteria and Standards, negotiations with the certificated bargaining unit for the 2024–25 fiscal year have been settled, while negotiations with the classified bargaining unit remain unresolved. 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**

The District reports Accelerated Charter, Charter School for the Arts, Cesar Chavez Language Academy Charter, and the French American Charter in a fund other than the General Fund. The First Interim Report included Fund 09 for the Charters. The 2024-25 ending balance in Fund 09 reported is \$4,610,005 with an increase to the ending fund balance of \$227,272.

As the authorizing agency of Kid Street 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.



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**Summary**

Our Office appreciates the preparation and timely submittal of your First Interim report. A technical review will be communicated to the business office. The Second Interim Report is due to our office no later than March 15, 2025. **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*

Sarah Lampenfeld  
Director, External Fiscal Services

Cc:

Joel Dontos, Executive Director of Fiscal Services, SRCS  
Amie R. Carter, Ed.D., County Superintendent of Schools  
Greg Medici, SCOE Deputy Superintendent, Business Services  
Felicia Aguirre, SCOE District Fiscal Management Advisor

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