

July 18, 2025

Lisa August, Interim Superintendent
Roxanne McNally, Board President
Santa Rosa City Schools
110 Stony Point Road, Suite 210
Santa Rosa, CA 95401

Dear Ms. August and Ms. McNally,

In accordance with Education Code Section 42131, the Sonoma County Office of Education (County) has completed a review of Santa Rosa City Schools' (District) Third Interim Report for Fiscal Year 2024-25. The County requested the Third Interim Report as a result of the District's Qualified Second Interim Report. Additionally, the Third Interim Report allowed the District to update the 2024-25 Budget Year.

The County recognizes the work done by the District to submit the 2024-25 Third Interim Report. The County's review of the District's 2024-25 Third Interim Report included the following observations, recommendations, and requirements:

- The Third Interim Multi-Year Projection (MYP) reflects projected unrestricted deficit spending of $-\$21,421,780$, $-\$8,045,405$, and $-\$5,153,433$ in 2024-25, 2025-26, and 2026-27. As a result of this continued deficit spending, the District's unrestricted reserve levels are projected to be negative in all three years: $-\$2,973,063$, $-\$10,991,468$, and $-\$16,144,901$.
- The cash flow submitted with the Third Interim Report projects an ending General Fund cash balance of approximately \$10 million as of June 30, 2025. With declining reserve levels, the District must continue to closely monitor the cash position across all funds to ensure sufficient liquidity is maintained throughout the year.
 - As part of the Third Interim submission, the County also requested a cash flow projection for the 2025–26 period. The projection shows an ending balance of \$993,805 as of June 30, 2026, and includes \$3 million in interfund borrowing and use of a line of credit (LOC) to meet operational needs during the year. Based on current assumptions, the District is entering 2025–26 with a projected cash balance equivalent to only 4.5% of total expenditures.
 - Given the District's ongoing deficit spending and low projected cash levels, careful monitoring and proactive management will be critical to maintaining adequate cash flow.

The County remains deeply concerned with the deterioration of the District's fund balance and deficit spending. As a reminder from our previous letter, dated April 16, 2025 **the governing board is required** to take the following actions:

- Adopt and implement a Fiscal Recovery Plan that **includes detailed reductions**, addresses deficit spending, and assures minimum reserve levels can be met by December 15, 2025, to avoid a negative or qualified certification at the 2025-26 First Interim reporting.
- Based upon the Criteria and Standards included in the Second Interim, negotiations with all bargaining units are settled. Any additional collective bargaining agreement proposals must comply with the Public Disclosure requirement as specified in Government Code Section 3547.5. The County shall be provided the Public Disclosure document for at least ten working days to review and comment on any proposed agreements. This requirement is mandatory if the District's Interim reports are certified as Qualified or Negative.
- The District must provide the County with a copy of any study, report, evaluation, actuarial report, or audit that the District or any other agency commissioned if the study contains evidence of a financial impact or that the school district is showing fiscal distress under the Standards and Criteria (Ed Code Section 42127.6).

Due to ongoing deficit spending, cash flow projections, and declining reserve levels, there is significant concern about the District's ability to continue operating as a going concern. The following areas require immediate attention based on the Fiscal Crisis and Management Assistance Team's (FCMAT) Indicators of Risk or Potential Insolvency:

- Failure to prioritize expending restricted funds before unrestricted funds
- Deficit spending in the current or two subsequent fiscal years
- Failure to decrease deficit spending over the past two fiscal years
- Decreasing and/or unstable enrollment and/or average daily attendance (ADA)
- Unstable or decreasing projected unrestricted fund balance
- Identification rate of students as eligible for special education is above the countywide and/or statewide averages

Summary

Our Office appreciates the preparation and submittal of your Third Interim Report. If you have any questions, please do not hesitate to contact Sarah Lampenfeld at (707) 524-2635.

Sincerely,



Sarah Lampenfeld
Assistant Superintendent, Business Services

Cc:

Amie R. Carter, Ed.D., County Superintendent of Schools
Felicia Aguirre, SCOE District Fiscal Management Advisor
Joel Dontos, Executive Director of Fiscal Services, SRCS
Trustees, Santa Rosa City Schools

Amie R. Carter, Ed.D. | Sonoma County Superintendent of Schools

Board of Education | Gina Cuclis, Herman G. Hernandez, Steven Herrington, Ph.D., Peter Kostas, Mary Watts