

September 15, 2025

Lisa August, Interim Superintendent
Members of the Board of Education
Santa Rosa City Schools
110 Stony Point Road, Suite 210
Santa Rosa, CA 95401

Dear Superintendent August and Members of the Board,

The Sonoma County Superintendent of Schools has reviewed and approved the Santa Rosa City School District's 2025-26 Adopted Budget. However, based on the District's multiyear projections, the County Superintendent has determined the District will be *UNABLE* to meet its financial obligations in the current or subsequent two fiscal years, and is taking action to identify the District as a "lack of going concern." As required by Education Code Section 42127.6(a)(1), a copy of this letter is being submitted to the Superintendent of Public Instruction.

The District is at risk of running out of cash by the start of the 2026-27 fiscal year. Without decisive intervention by the Board, this would cause severe disruption to students and staff, likely require a State bankruptcy loan, and result in the loss of local control over fiscal and operational decisions. Immediate action is essential to preserve both the District's viability and the well-being of its students.

A lack of going concern triggers intervention by the County Superintendent. Specifically, Education Code Section 42127.6 requires that the Superintendent take "at least one of the actions described in paragraphs (1) to (5), inclusive, and all actions that are necessary to ensure that the school district meets its financial obligations."

1. Develop and impose a budget revision that will enable the district to meet its financial obligations in the current year.
2. Stay or rescind any action that is determined to be inconsistent with the ability of the district to meet its obligations in the current or subsequent fiscal year.
3. Assist in developing a financial plan that will enable the district to meet its future obligations.
4. Assist in developing, in consultation with the governing board, a budget for the subsequent fiscal year.
5. As necessary, appoint a fiscal advisor to perform any or all of the duties prescribed above.

Santa Rosa City Schools (SRCS) has long exhibited a pattern of deficit spending, evidenced by 11 Qualified interim certifications over the last 16 reports, a trend projected to continue into fiscal year 2025–26. Despite this history, the Board's actions, including Fiscal Stabilization Plans, short-term borrowing measures, and school closures/consolidation, have been insufficient to fully address the District's financial challenges. Despite grappling with a structural deficit and declining reserves, the Board continued to approve substantial staff compensation increases that exceeded annual cost-of-living adjustments

(COLA), funding them with short-term measures such as reclassifying ongoing expenses as one-time costs, in an effort to allow more time for a thorough and deliberate decision-making process.

That time is running out soon.

If the Board does not act now, it risks losing the ability to make decisions rapidly. The County Office recognizes and respects the dedication of the Board Trustees and the enormous effort required to govern in challenging times. The County Office remains fully committed to supporting the District and ensuring that the Board maintains local control.

However, this is not a new challenge. For nearly the past nine years, the SRCS Board has dealt with recurring structural deficits without implementing a long-term solution. At the start of the 2024–25 fiscal year, the District submitted an Adopted Budget projecting reserve compliance for 2025–26 and 2026–27, contingent upon implementing \$21.3 million in budget reductions included in the Fiscal Stabilization Plan. To address the necessary reduction, the school district continued to rely on its budget stabilization committee. In August 2024, the District also formed the School Consolidation Advisory Committee, tasked with recommending schools for closure to generate savings. As outlined in the November 2024 Fiscal Stabilization Plan (FSP-1), these closures were expected to save \$11 million annually beginning in 2025–26.

Nevertheless, even after approving approximately \$25 million in reductions through FSP-1, the District's 2024-25 deficit spending increased by \$6 million in December 2024's First Interim due to unplanned expenditures. To meet reserve requirements, the Board relied on one-time borrowing strategies, including an option presented by SCOE to transfer \$10 million of bond interest earnings from the Building Fund (Fund 21) to the Special Reserve Fund (Fund 17).

In February 2025, the Board reviewed and discussed the recommendations from the Advisory Committee and took a different course of action by approving the closure of two elementary schools and the consolidation of three middle schools onto high school campuses (over two school years). While this decision marked a significant restructuring, it failed to fully address the \$21.3 million in necessary reductions, leaving a \$2.64 million shortfall and underscoring the District's ongoing structural deficit.

The implementation of these changes for the 2025-26 school year and beyond has been a substantial undertaking, requiring extensive staff time and community engagement. In March 2025, Sonoma County Office of Education (SCOE) entered into a six-month, six-project partnership with the District to support implementation and assist with transition efforts.

Despite these efforts, the fiscal challenges facing Santa Rosa City Schools remain grave. Restructuring alone has not resolved the District's long-standing pattern of deficit spending, nor ensured compliance with reserve requirements. Accordingly, further action is necessary to safeguard the District's solvency.

SCOE utilized the Fiscal Crisis and Management Assistance Team (FCMAT) Indicators of Risk or Potential Insolvency, which must be considered when evaluating a district's financial health. The existence of any one Indicator increases the risk of potential insolvency and the need for assistance from outside agencies. Lack of attention to these Indicators can ultimately result in financial insolvency and the loss of local control.

The District's ability to maintain a minimum reserve level is only one of the criteria for fiscal stability adopted by the State Board of Education. Based on the FCMAT Indicators, SCOE has identified the following fiscal and operational issues of concern. Without immediate intervention and corrective action, these issues put the District at risk of becoming fiscally insolvent:

- Failure to prioritize expending restricted funds before unrestricted funds.
- Deficit spending in the current or subsequent two fiscal years.
- Inability to decrease deficit spending over the past two fiscal years.
- Decreasing and/or unstable enrollment and/or average daily attendance (ADA).
- Unstable or declining projected unrestricted fund balance.
- Special education identification rates above countywide and/or statewide averages.

Santa Rosa City Schools: Required Next Steps (Technical Actions)

In the coming months, SRCS must continue to take action to implement recent decisions, make new decisions as needed, and sustain progress on ongoing commitments. Additionally, the following actions are required:

1. By September 30, 2025

- a. Education Code Section 42127.5 Compliance** – If a school district reports a negative unrestricted fund balance or negative cash balance in its annual report or audited financial statements, the governing board must include with the budget a statement identifying the reasons for the negative balance and the steps taken to prevent its recurrence by the end of the current fiscal year. Therefore, the District must comply with Education Code Section 42127.5 by submitting to the County Office a written statement that:
 - i. Identifies the causes of any negative unrestricted fund balance or negative cash balance.
 - ii. Details corrective actions the District has taken to address these issues and prevent recurrence.
 - iii. Describes a monitoring plan to ensure the effectiveness of these corrective actions.

2. By October 15, 2025

- a. **Cash Flow Projections** – The District is required to submit an updated 24-month cash flow projection for the General Fund and for any other funds that either require support from or provide support to the General Fund. The projection should cover the period from July 1, 2025, through June 30, 2027, and include actual revenues and disbursements through September 30, 2025. The cash flow must address the timing of receipts and expenditures, demonstrate the District’s ability to meet all financial obligations as they come due, **and must show positive cash balances in each month of the projection.**
- b. **Oversight Meetings** – The District must provide an established timeline for meetings between the Board of Trustees and the Chief Business Officer (CBO) to review financial operations, track the implementation of corrective actions, and ensure timely progress on the Fiscal Stabilization Plan. The timeline must specify the dates of each meeting and be submitted to the County.

3. Solvency and Fiscal Stabilization Plan

- a. The District shall submit a preliminary Fiscal Stabilization Plan to SCOE no later than December 8, 2025. SCOE will review the preliminary plan, provide feedback, and determine whether a fiscal advisor is needed.
- b. The District shall submit a board-approved Fiscal Stabilization Plan to SCOE no later than February 16, 2026.
 - i. The plan shall include multiyear financial projections for restricted, unrestricted, and combined funds, with detailed assumptions supporting the projections.
 - ii. The plan shall address, at a minimum, the following:
 1. Implementation of ongoing expenditure reductions sufficient to eliminate the structural deficit and restore fiscal stability.

Actions to Ensure the District Meets Its Financial Obligations

As mentioned above, the County Superintendent must take all necessary actions to ensure the District meets its financial obligations. The actions below were selected to support the Board and staff in doing so.

Per EC Section 42127.6 (e), Sonoma County Office of Education will:

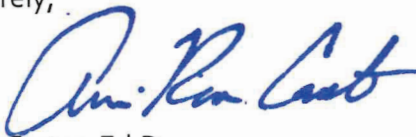
- Assign a fiscal advisor by December 15, 2025, with stay and rescind authority, paid for by the county superintendent, to advise the district on its financial condition.
- Assist in developing a financial plan that will enable the district to meet its future obligations
- Contract with the Fiscal Crisis and Management Assistance Team to perform a Fiscal Health Risk Analysis.

SCOE has identified serious concerns in the following areas:

- **Unsustainable Budget** – The 2025–26 operating budget includes more than \$239 million in planned expenditures, while only \$229 million in revenues are anticipated. This \$10 million shortfall is layered on top of an existing deficit in the unrestricted fund balance of \$3 million.
- **Growing Deficits from Imbalanced Decision-Making** – The Board continues to approve compensation increases before adopting offsetting budget reductions, worsening fiscal distress, and increasing long-term structural deficits.
- **Ongoing Deficit Spending** – The Adopted Budget Multi-Year Projection (MYP) shows continued unrestricted operating deficits of \$6.23 million in 2026–27 and \$5.95 million in 2027–28. The General Fund is projected to end with negative unrestricted fund balances of -\$2,997,332 in 2024–25, -\$11,031,466 in 2025–26, -\$17,263,452 in 2026–27, and -\$23,209,807 in 2027–28. These amounts do not include the required 3% reserve for economic uncertainty (approximately \$7 million annually).
- **Deteriorating Cash Position** – The District is operating on a \$100 million line of credit and projects to close the 2025–26 fiscal year with less than \$1 million in the General Fund.

Please see the attached report, which we highlight for the Board’s attention as part of its critical fiduciary responsibilities. The District faces real and immediate financial challenges, and we stand ready to provide guidance and support in every way necessary to help the Board take timely and effective action.

Sincerely,



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

Cc:

Sarah Lampenfeld, Assistant Superintendent, Business Services, Sonoma County Office of Education
Greg Medici, Deputy Superintendent, Sonoma County Office of Education
Luz Cazares, Interim CBO, Santa Rosa City Schools
Joel Dontos, Executive Director, Santa Rosa City Schools
Tony Thurmond, State Superintendent of Public Instruction
Dr. Linda Darling-Hammond, President, State Board of Education
Michael H. Fine, Chief Executive Officer, Fiscal Crisis and Management Assistance Team
Leisa Maestretti, Director, California Department of Education
Felicia Aguirre, District Fiscal Management Advisor, Sonoma County Office of Education

**2025-26 Adopted Budget Review
Santa Rosa City Schools**

Revenue Projections:

Description: Local Control Funding Formula (LCFF) revenue is primarily driven by student enrollment and average daily attendance (ADA). For districts in declining enrollment, LCFF revenue decreases as ADA falls, even when the state provides annual cost-of-living adjustments (COLA). Currently the district's LCFF is funded on the 3- prior year average or prior year due to projected declines in enrollment year over year.

COLA	2025-26	2026-27	2027-28
SRCS LCFF Calculator	2.30%	3.02%	3.42%
LCFF Revenue Projections	2025-26	2026-27	2027-28
SRCS Unrestricted LCFF Revenue (MYP)	\$169,839,192	\$173,262,142	\$174,569,735
Year-Over-Year Percentage Difference		2.0%	0.8%

Enrollment Projections:

Description: The District has been experiencing declining enrollment. Below is illustrated the enrollment projections according to the District's LCFF calculator.

Enrollment Forecast	2025-26	2026-27	2027-28
Projections within the District's Adopted Budget Report	12,024	11,750	11,382
Year-Over-Year Difference		-274	-368

Average Daily Attendance (ADA):

Description: Average Daily Attendance (ADA) measures the average number of students attending school each day. Funded ADA is the portion used to calculate state funding and may be based on the current year, prior year, or a three-year rolling average to help stabilize revenue. The attendance rate shows the percentage of enrolled students who actually attend, which directly affects district funding.

ADA Calculation for revenue Forecast	2025-26	2026-27	2027-28
Total Average Daily Attendance for the FY	11,122.61	10,871.94	10,545.35
Attendance rate (ADA by enrollment)	92.50%	92.53%	92.65%
Total Funded ADA	11,785.02	11,481.12	11,171.50
Funded ADA Option (25-26 breaks out elementary and secondary)	Prior Year / 3 prior year average	3 prior year average	3 prior year average

Deficit Spending and Decreases in Fund Balances:

Description: This means the district is spending more than it is receiving in ongoing revenue, and the shortfall must be covered by using reserves (fund balance). The District's MYP includes significant deficit spending

SRCS Multiyear Projection (MYP)	2025-26	2026-27	2027-28
Unrestricted General Fund - Beginning Balance	(\$2,218,240)	(\$8,056,378)	(\$14,512,648)
Unrestricted General Fund - Surplus/(Deficit)	(\$8,034,134)	(\$6,231,986)	(\$5,946,354)
Unrestricted General Fund Balance - Ending Balance (excludes REU)	(\$11,031,466)	(\$17,263,452)	(\$23,209,807)

Reserve for Economic Uncertainties (REU):

Description: Districts with an ADA between 1,001 and 30,000, such as SRCS, are required to maintain a minimum reserve for economic uncertainties equal to 3% of total expenditures and other financing uses

Reserves	2025-26	2026-27	2027-28
Is REU Met or Not Met in submitted Financial Report?	Not Met	Not Met	Not Met
Amount of Reserve that the LEA is short?	(\$7,177,459)	(\$7,139,850)	(\$7,144,767)

Cash Balance:

Description: The cash balance as of June 30 represents the total funds available in the district's accounts at the end of the fiscal year. This balance reflects the district's liquidity after accounting for all revenues received and expenditures paid through June 30. It provides an indicator of the district's ability to meet short-term obligations at year-end.

Cash Projections	2025-26	2026-27	2027-28
June Ending Cash Balance projected in Cash flow	\$849,313	not available	not available
Percent of Cash Balance to annual expenses	0.36%		