

January 15, 2026

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

Dear Superintendent August and President Caston,

In accordance with Education Code section 42131, the Sonoma County Office of Education (County) has reviewed Santa Rosa City Schools' (District) First Interim Report for fiscal year 2025–26. The District self-certified the report as **Negative**, and after review, the County concurs with this certification. A Negative certification indicates that a district will not be able to meet its financial obligations for the remainder of the current fiscal year or the following fiscal year.

On September 15, the County Superintendent determined that the District would be unable to meet its financial obligations over the current and subsequent two fiscal years, and the District was identified as a *lack of going concern*. This determination was based on ongoing structural deficits, an unsustainable budget, and a declining cash position. Without corrective action, the District would face cash flow challenges in the 2026–27 fiscal year.

District staff and the Governing Board have taken steps to identify budget reductions intended to address the District's structural deficit. These actions include the following: convening a Special Education Task Force to review service levels, reviewing and encumbering all Nonpublic Agency and Nonpublic School contracts, continuing oversight through the Board Finance Committee, establishing a timeline and process for budget reductions, and initiating an evaluation of a potential multi-district SELPA. Additionally, the Fiscal Crisis and Management Assistance Team (FCMAT) initiated a Fiscal Health Risk Analysis (FHRA) due to the lack of a going concern determination. The FHRA will be completed and presented to the District's governing board at the January 28, 2026 board meeting.

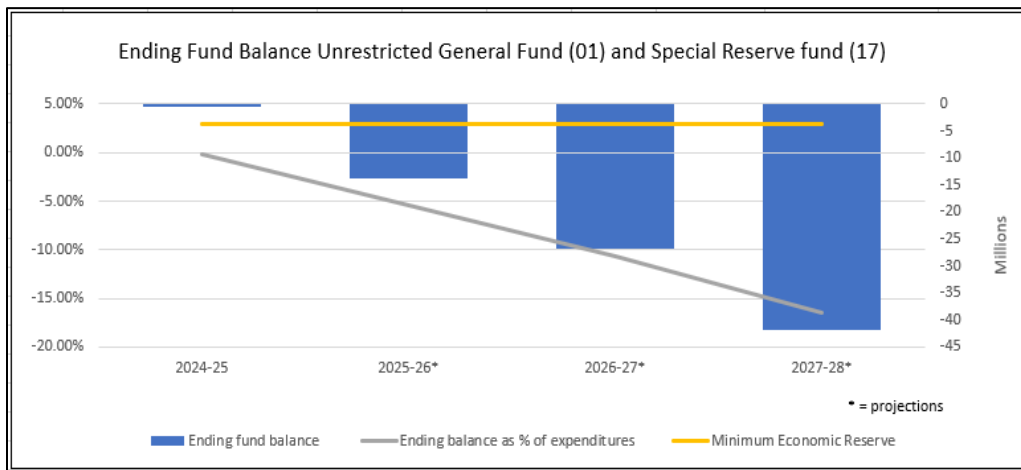
In October 2025, the District presented preliminary First Interim multi-year and cash flow projections, which were subsequently updated to incorporate 2024–25 actuals, revised assumptions, actual 2025–26 enrollment, updated revenue and expenditure projections, and revised cash flow estimates. Despite these efforts, the District continues to face significant and ongoing fiscal challenges, including declining enrollment, structural deficit spending, and projected negative cash balances.

First Interim and Multi-Year Projection (MYP)

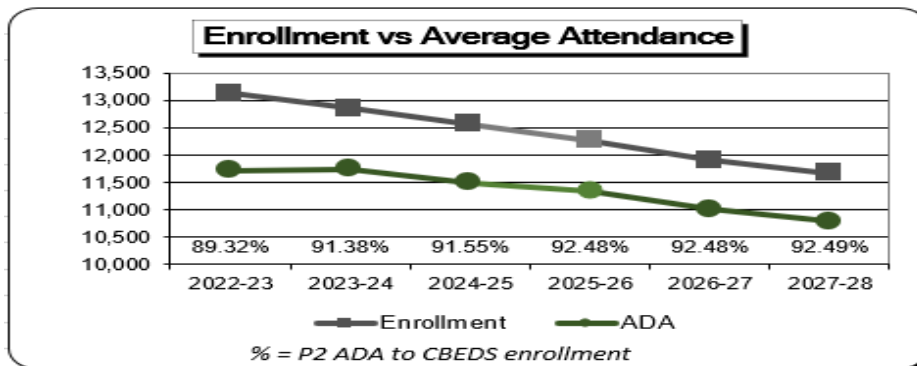
In December 2025, the District submitted its 2025–26 First Interim Report along with a Fiscal Stabilization Plan (Plan 1) identifying approximately \$1.9 million in budget reductions, including \$1.1 million from Unrestricted sources and \$0.8 million from Restricted sources. The District has indicated that a second Fiscal Stabilization Plan (Plan 2) is scheduled for presentation to the Governing Board on January 28, 2026. Plan 1 was reviewed in conjunction with the First Interim Report and does not sufficiently address the magnitude of the projected operating deficits reflected in the multi-year projections. As a result, Plan 1 falls short of the County’s expectations for restoring fiscal stability.

The District’s First Interim budget and multi-year projections reflect continued operating deficits in the Unrestricted General Fund. The District’s First Interim Report MYP indicates unrestricted deficit spending of -\$13,373,140 in 2025–26, -\$13,016,778 in 2026–27, and -\$14,856,667 in 2027–28. The State-required minimum reserve for economic uncertainty of 3% is **NOT met in any year**. The MYP projects a negative unrestricted ending fund balance of approximately \$21.4 million in 2025–26, \$34.4 million in 2026–27, and \$49.3 million in 2027–28, including the required reserve.

Absent corrective action, the cumulative impact of this deficit spending results in an estimated \$41.2 million decline in fund balance between fiscal years 2024–25 and 2027–28, further eroding the District’s financial solvency. The accompanying graph illustrates the District’s projected Unrestricted ending balance relative to the minimum reserve requirement and the District’s actual reserve level, expressed as a percentage of total expenditures.



Because enrollment and average daily attendance (ADA) generate the majority of the District’s LCFF revenue, even small variances have a material impact on the District’s financial condition. Failure to align staffing levels with sustained enrollment declines exacerbates the District’s structural imbalance. At First Interim, staff projections remained flat to 2025-26. Below is a graph of the District’s enrollment decline beginning in 2022-23 and projected through 2027-28.



Based on the foregoing and pursuant to Education Code 42127.6, the County Office has assigned Fiscal Advisor Robert Shemwell to work with District staff to analyze and improve the District’s financial condition. The Fiscal Advisor shall retain stay and rescind authority. This assignment will remain in effect until the District demonstrates the ability to achieve and sustain a positive financial certification.

Deficit spending at this level is a significant concern. Eliminating structural deficits is critical to achieving and maintaining the required reserve. The County urges the District to carefully review and monitor revenues and expenditures, adopt fiscal best practices, and budget to live within its means.

By the Second Interim, the District must complete a comprehensive review of the following areas:

- Local Control Funding Formula (LCFF) Projections**
The First Interim Report reflects ADA projections consistent with historical experience; however, enrollment and unduplicated pupil count (UPC) assumptions should be revised to align with CALPADS Fall 1 data. Enrollment appears overstated and UPC understated. Based on the County’s projections, incorporating the Fall 1 data would result in an estimated \$1.9 million increase in current-year LCFF revenue. Additionally, review staff projections to align with anticipated enrollment declines.
- Federal and Other State Revenues**
The District must review federal and other state revenue projections in all years to ensure amounts are accurate and appropriately reflect entitlement updates, carryover balances, and unearned revenues. Please continue to monitor the spending deadlines of federal carryover funds.

- **Assumptions, Criteria and Standards**

Assumptions are critical for ensuring that education partners can accurately understand and evaluate the District's financial reporting. The Criteria and Standards are intended to document the assumptions underlying the projections clearly and to provide transparency regarding changes from period to period. The District must ensure that all assumptions are clearly stated, supported, and reasonable, and that the Criteria and Standards are accurate. This clarity is essential for effective fiscal oversight and informed decision-making by the Governing Board and the County.

Based on the information contained in the District's First Interim Report, the Governing Board is required to take the following actions:

- **Submit Updated Cash Flow Projections by February 16, 2026**

The fund balance represents the District's financial cushion and its ability to respond to emergencies or unexpected costs, while the cash balance is a key indicator of liquidity and the District's ability to meet payroll and other short-term obligations. With continued deficit spending and low projected cash balances, careful monitoring and proactive cash management are essential. Cash flow projections in the First Interim Report show a General Fund cash balance of **negative \$2,017,615** as of June 30, 2026, raising significant concern about the District's ability to meet its obligations.

Based on the County's review, the current-year negative cash can be addressed through interfund borrowing, which is authorized under Education Code section 42603. An LEA may temporarily borrow funds from other funds, but may not transfer more than 75% of any fund during the fiscal year.

The District is required to submit an updated 24-month cash flow projection for the General Fund and any other funds that either provide or receive support to/from the General Fund. The projection must cover July 1, 2025, through June 30, 2027, include actual revenues and expenditures through January 31, 2026, and demonstrate the District's ability to meet all obligations as they come due. The projection must reflect **positive cash balances for each month** and be submitted to the County no later than **February 16, 2026**.

- **Adopt and Implement a Fiscal Stabilization Plan by February 16, 2026**

The District must adopt and implement a Fiscal Stabilization Plan that includes specific and measurable expenditure reductions, addresses ongoing structural deficit spending, and demonstrates that the required minimum reserve for economic uncertainty will be met.

- **Update Multiyear Projections with the Second Interim Report**
The District must update its multiyear projections to reflect the fiscal parameters included in the Governor’s January 2026 Budget, as well as any fiscal or programmatic changes approved by the Governing Board related to the Fiscal Stabilization Plan.
- **Comply With Collective Bargaining Requirements**
Based upon the Criteria and Standards, negotiations with all bargaining units have not settled. Any collective bargaining agreement proposals must meet the public disclosure requirements of Government Code section 3547.5. The County Office of Education must receive the public disclosure document at least ten working days prior to Board action for review and comment. This requirement is mandatory when Interim reports are certified as Qualified or Negative.
- **Submit Fiscal Studies and Reports to SCOE**
Pursuant to Education Code section 42127.6, the District shall provide the County Office of Education with copies of any study, report, evaluation, actuarial report, or audit that identifies a financial impact or fiscal distress under the Criteria and Standards.

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 2025-26 ending balance in Fund 09 is \$3,236,248, with an increase of 57,853.

As Kid Street Charter School's authorizing agency, the district maintains fiscal oversight responsibilities, particularly in key areas such as 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. The district is responsible for transmitting 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 related to the charter school negatively impact the district’s financial condition, please notify our office as soon as possible.

Summary

Pursuant to Education Code section 42133, a Qualified or Negative certification prohibits the District from incurring any non-voter-approved debt, including certificates of participation, tax and revenue anticipation notes, or lease obligations, without the prior approval of the County Superintendent of Schools.



5340 Skylane Boulevard
Santa Rosa, CA 95403-8246
707-524-2600 | scoe.org

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 17, 2026. **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
Assistant Superintendent, Business Services

Cc:

Luz Cázares, Interim Chief Business Official
Amie R. Carter, Ed.D., County Superintendent of Schools
Felicia Agurrie, SCOE District Fiscal Management Advisor
Santa Rosa City Schools Board of Trustees
Michael H. Fine, Chief Executive Officer, Fiscal Crisis and Management Assistance Team
Tami Pierson, Director, School Fiscal Services Division, California Department of Education

2025-26 Annual Standard Reminders ~ All Districts

Collective Bargaining Disclosure

SCOE Business requests copies of collective bargaining disclosures **10 days prior to board approval**: If any collective bargaining settlements are reached during the current year all districts are being reminded of the public disclosure obligation. An important AB 1200 reporting requirement is the statute for tentative collective bargaining agreements to meet the requirements of Government Code Section 3547.5 and Education Code Sections 42131 and 42142, both of which outline the District's responsibilities for public disclosure and budget revisions for collective bargaining agreements. A three-year analysis must be completed to determine the impact of negotiations in future years. The superintendent and chief business officer must certify that the District can meet the costs incurred under the agreement. The governing board must take formal board action to approve the proposed agreement. **Please note that within 45 days of the settlement, the District must send to SCOE any revisions to the District's current budget necessary to fulfill the terms of the agreement.**

Submission of Studies, Reports, Evaluations and/or Audits

Education Code Sections 42127 and 42127.6 require districts to submit to the County Office any studies, reports, evaluations, or audits done of the district that contain evidence that the district is showing fiscal distress. They also require the County Office to incorporate that information into the analysis of budgets, interim reports, and the District's overall financial condition.

We request that the District submit to this office any such documents commissioned by the District (e.g., reports done by the Fiscal Crisis and Management Assistance Team) or by the State Superintendent of Public Instruction and/or a state control agency, any time your District receives them.



SB740

Please note that a SB740 funding determination may be required when a charter school offers instructional time in a non-classroom-based setting. Charter schools that do not submit a request by the due date may not receive a funding determination, and could have their State apportionment associated with its non-classroom-based ADA reduced to zero. SB740 regulations, instructions, and form can be found at:

<https://www.cde.ca.gov/sp/ch/nclrbifunddet.asp>

Requirements for Debt Management Policy and Practices

Effective January 1, 2017, (per Senate Bill (SB) 1029, Hertzberg), issuers must certify on the **Report of Proposed Debt Issuance** (<http://www.treasurer.ca.gov/cdiac/reporting.asp>) that they have:

-  Adopted local debt policies concerning the use of debt; and
-  The proposed debt issuance is consistent with those policies.

The issuer's **local debt policies** *must* include (A) through (E), below:

- A. The purposes for which the debt proceeds may be used.
- B. The types of debt that may be issued.
- C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
- D. Policy goals related to the issuer's planning goals and objectives.
- E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

FCMAT has prepared a Fiscal Alert which provides a **sample Debt Management Policy** which is located at:

<https://www.fcmat.org/PublicationsReports/FCMAT-Alert-and-Sample-Debt-Management-Policy-1-19-2017.pdf>

SB 1029 contains a declaration that state and local agencies should adopt comprehensive written debt management policies pursuant to the recommendation of the Government Finance Officers Association (GFOA). The GFOA is a national association of government finance professionals with a shared mission to promote excellence in state and local government financial management. The GFOA provides **best practices** and a link to the ***Debt Issuance Checklist: Considerations When Issuing Bonds*** at <https://www.gfoa.org/small-issuer-checklist>

California Debt and Investment Advisory Commission's (CDIAC) website contains the necessary reporting forms and fees which can be found at the website <http://www.treasurer.ca.gov/cdiac/reporting.asp>. CDIAC's guidance regarding SB1029 is located at <http://www.treasurer.ca.gov/cdiac/reporting.asp> by clicking on "Guidance on 1029 Implementation with SB1029" on the bottom of the webpage. Some of its guidance is noted below:

Government Code 8855(i) requires any issuer of public debt to provide a *Report of Proposed Debt Issuance* to the California Debt Investment and Advisory Commission *no later than 30 days before the sale* of such debt.

Government Code section 8855(k) ~ Effective January 1, 2017, state and local issuers are required to submit an **annual debt transparency report** for any issue of debt for which they have submitted a *Report of Final Sale* during the reporting period. The annual debt transparency report is due to CDIAC within seven (7) months of the close of the reporting period, defined as July 1st to June 30th. This provision makes January 31st the effective deadline for submittal of the annual debt transparency report. Debts issued between January 1, 2017, and June 30, 2017, and reported to CDIAC on or after January 21, 2017, will be required to submit an annual debt transparency report no later than January 31, 2018.

Minimum annual debt transparency report information and additional requirements/stipulations apply. Please see the Guidance from CDIAC for more detailed information.

Reporting Requirements for Proposed Debt Issuances

AB 2274 amended Government Code Section 8855 and is effective January 1, 2015. It requires LEAs to notify the California Debt Investment Advisory Commission (CDIAC) of **any proposed debt issuance**, which would include refinancing and other secondary issuances. In addition, the bill established reporting timeframes. No later than 30 days *prior to the sale* of any debt issue,

the issuer shall submit a report of the proposed issuance to CDIAC. Not later than 21 days *after the sale* of the debt, the issuer shall submit a report of the final sale to CDIAC. Instructions to all of the requirements that CDIAC needs depending on the type of debt transaction and applicable reporting forms, are available at: <http://www.treasurer.ca.gov/cdiac/reporting.asp>

AB 2551 enhances transparency requirements for local bond elections, including Proposition 39 (2000) and two-thirds vote general obligation bonds. The bill requires LEAs attempting to pass local bonds to *submit to their local elections office* the total estimated debt service, including principal and interest, if all bonds are issued, as part of the Tax Rate Statement required pursuant to Elections Code Sections 9400-9401. The aforementioned reporting requirements are applicable to any issuance of debt after AB 2274 adds reporting requirements to debt from bonds already approved by voters. It requires agencies to notify CDIAC of *any* proposed debt issuance, which **would include refinancing and other secondary issuances. The provisions of AB 2551 will be required for any local bond elections after January 1, 2015.**

Reporting Requirements for Non-Voter-Approved Debt

Education Code Section 17150 requires school districts to notify the County Superintendent of Schools and County Auditor at least 30 days prior to the governing boards' approval of the issuance of certificates of participation (COPs) or other non-voter-approved debt secured by real property such as: Lease purchases (LP) secured by real property; Qualified Zone Academy Bonds (QZABs) secured by real property; Revenue bonds; Energy Loans or Bond Anticipation Notes (BANs). Under the new law, the district must provide repayment schedules, evidence of the ability to repay, and costs of issuance as well as information necessary to assess the anticipated effect of the debt issuance. Within 15 days of the receipt of the information, the County Superintendent of Schools and the County Auditor are authorized to comment publicly regarding the district's capacity to repay the debt obligation, based on the information provided.

Additional Standard Reminders for School Districts with Qualified or Negative Certifications

Debt Issuance

The statutory requirements for debt issuance for school districts with qualified or negative interim report certifications are specifically addressed by E.C. Section 42133(a), and read as follows:

"A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable. A school district is deemed to have a qualified or negative certification for purposes of this subdivision if, pursuant to this article, it files that certification or the county superintendent of schools classifies the certification of that fiscal year to be qualified or negative."

E.C. Section 15140 (b) notes that a district that has received a qualified or negative certification in its most recent interim report, may not issue and sell bonds on its own behalf pursuant to this chapter without further action of the board of supervisors or officers of that county or of any other county in which a portion of the school district or community college district is located.

Collective Bargaining

Government Code Section 3540.2 provides added oversight related to the collective bargaining process. Any school district with a Qualified or Negative certification under Education Code Section 42131 **shall allow the county office of education at least ten working days to review and comment on any proposed agreement made between the exclusive representative and the public school employer, or designated representative, before it is ratified.** The school district shall provide the county office with all information relevant to yield an understanding of financial impact of that agreement. The county superintendent shall notify the school district, county board of education, district superintendent, governing board of the school district, and each parent and teacher organization of the district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district.

Per Government Code 3540.2(d), a school district shall, upon request, provide the county superintendent of schools with all information relevant to provide an understanding of the financial impact of any final collective bargaining agreement reached.