

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

© Fiscal Crisis & Management
Assistance Team

Santa Rosa City Schools

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About FCMAT

- The Fiscal Crisis and Management Assistance Team (FCMAT) was created by the California Legislature* to help California's transitional kindergarten through grade 14 (TK-14) local educational agencies (LEAs) avoid fiscal insolvency.
- FCMAT is an external, independent state agency.
- FCMAT provides management assistance, fiscal crisis intervention and other services to LEAs.

*FCMAT was established under Assembly Bill (AB) 1200 (Chapter 1213, Statutes of 1991).

Fiscal Oversight

- Assembly Bill 1200 is landmark legislation that strengthened fiscal oversight of schools by:
 - Establishing a comprehensive, statewide framework to improve local fiscal procedures and accountability standards.
 - Promoting collaboration between county superintendents and school districts to ensure fiscal stability.
- The first level of fiscal oversight rests with each school district's elected governing board, which is solely responsible for the district's financial stability.
- County superintendents provide a secondary layer of oversight, ensuring that school districts within their counties maintain sound financial operations. They also serve as an intermediary between the state and school districts.

Fiscal Health Risk Analysis (FHRA)

FCMAT's FHRA

- FCMAT developed the FHRA tool to assess an LEA's risk of financial insolvency in the current fiscal year and the following two years.
- The 2018-19 State Budget Act implemented an automatic engagement process as part of an early warning system for insolvency.
- FCMAT must conduct an FHRA for any LEA that meets one or more of the following criteria:
 - A disapproved budget.
 - A negative interim report certification.
 - Three consecutive qualified interim report certifications.
 - A downgrade of an interim certification by the county superintendent.
 - **A lack of going concern designation by the county superintendent.**

Indicators of Risk or Potential Insolvency

The FHRA evaluates the following 20 key areas that FCMAT has identified as most commonly leading to fiscal insolvency:

- Inattention to annual independent audit.
- Inadequate budget development and adoption.
- Insufficient budget monitoring and updates.
- Inadequate cash management.
- Unmonitored charter schools.
- Mismanaged collective bargaining agreements.
- Increasing or uncontrolled contributions and transfers.
- Continuing deficit spending (unrestricted general fund).
- Mismanaged employee benefits.

Refer to [FCMAT Indicators of Risk and Potential Insolvency](#) for details.

Indicators of Risk or Potential Insolvency (cont.)

- Inattention to enrollment and attendance.
- Inattention to facilities.
- Inadequate fund balance and reserve for economic uncertainty.
- Mismanaged general fund (current year).
- Nonintegrated information systems and data management.
- Ineffective internal controls and fraud prevention.
- Weakness in leadership and stability.
- Inadequate multiyear projections.
- Inattention to non-voter-approved debt and risk management.
- Lack of position control.
- Unmonitored special education.

FHRA Overview

- The tool consists of 138 “yes” or “no” questions across 20 key areas that FCMAT has identified as most commonly leading to fiscal insolvency.
 - “No” responses include a short narrative describing the situation.
- Each question and area is weighted based risk level, categorized as high, moderate or low.
- Total risk score categories:
 - **High risk:** 40% or more.
 - **Moderate risk:** 25-39%.
 - **Low risk:** 24% or lower.

Santa Rosa City Schools Conditions

- District adopted 2025-26 budget with a projected negative \$11 million ending fund balance.
 - Projected a further decreases to an estimated negative \$17.2 million in 2026-27.
 - Projected a further decrease to negative \$23.2 million in 2027-28.
- Collective bargaining disclosures in recent years have consistently indicated that budget reductions would be necessary to maintain long-term affordability.
 - Adequate adjustments have not been not made.

Santa Rosa City Schools Conditions (cont.)

- Cash flow is a concern for the current and subsequent fiscal years.
 - The October 2025 updated cash flow projection shows anticipated negative cash balances of \$2.8 million as of June 30, 2026, and negative \$16.2 million as of June 30, 2027.
- In September 2025, the county superintendent issued a lack of going concern designation for the district.

Santa Rosa City Schools FHRA Results

- Trigger: Lack of Going Concern designation.
 - Automatic High Risk designation.
- Financial Reporting Period for Analysis: 2025-26 Adopted Budget.
- Analysis Results:
 - Calculated risk rating: 57.0% High Risk
- Report Focus:
 - FCMAT's reports focus on systems and processes that may require improvement. Areas that are functioning well are generally not commented on in FCMAT's reports.

Santa Rosa City Schools FHRA Results (cont.)

FCMAT determined that the following areas pose the greatest risk to its fiscal solvency:

- Budget Development and Adoption.
- Budget Monitoring and Updates.
- Cash Management.
- Collective Bargaining Agreements.
- Deficit Spending.

Santa Rosa City Schools FHRA Results (cont.)

- Fund Balance and Reserve for Economic Uncertainty
- General Fund – Current Year.
- Internal Controls and Fraud Prevention.
- Leadership and Stability.
- Multiyear Projections.
- Position Control.

Santa Rosa City Schools FHRA Results (cont.)

Budget Development and Adoption

- Documents accompanying budget materials lack breakdown of critical elements:
 - contribution increases by program;
 - detailed explanations for increases or decreases in the multiyear projection (MYP);
 - fiscal details of staffing changes from estimated actuals to adopted budget and the MYP;

Santa Rosa City Schools FHRA Results (cont.)

Budget Development and Adoption (cont.)

- the fiscal impact of the reconfiguration and mergers of schools;
- the quantified fiscal impact of each agreement on the MYP.
- District lacks a formal process for reconciling position control and did not use it as part of the budget development process.

Santa Rosa City Schools FHRA Results (cont.)

Budget Monitoring and Updates

- The district provides a budget narrative at each interim; however,
 - the assumptions lack sufficient fiscal details to clearly explain the proposed changes.
 - it does not adequately describe the detailed assumptions underlying the MYP.
- All the information needed to interpret the financials should be included within the documents.

Santa Rosa City Schools FHRA Results (cont.)

Budget Monitoring and Updates (cont.)

- The district has not addressed its deteriorating fund balance and ongoing deficit spending.
- The county superintendent has repeatedly required the district to identify and implement detailed budget reductions to address its structural deficit.
- The county superintendent required the board to take action to adopt and implement a fiscal stabilization plan with detailed reductions to address its deficit spending.

Santa Rosa City Schools FHRA Results (cont.)

Cash Management

- The district's 2025-26 adopted budget included a cash flow projection for the current fiscal year only, omitting the subsequent year.
- The October 2025 updated cash flow projection shows anticipated negative cash balances of \$2.8 million as of June 30, 2026, and \$16.2 million as of June 30, 2027. The projections do not identify how these shortfalls will be addressed.

Santa Rosa City Schools FHRA Results (cont.)

Collective Bargaining Agreements

- Collective bargaining disclosures over the past few years included statements indicating the need for reductions to afford the settlements.
- Adequate reductions have not been made.

Santa Rosa City Schools FHRA Results (cont.)

Deficit Spending (Unrestricted General Fund)

- The district's 2025-26 adopted budget projects an unrestricted general fund operating deficit of approximately \$8.0 million for the current fiscal year.
- The district's 2025-26 adopted budget MYP shows continued deficit spending in both subsequent fiscal years, with projected operating deficits of approximately \$6.2 million in 2026-27 and \$5.9 million in 2027-28.

Santa Rosa City Schools FHRA Results (cont.)

Fund Balance and Reserve for Economic Uncertainties

- Unable to maintain the minimum reserve for economic uncertainties as required by the State Standards and Criteria for Fiscal Solvency in the current year.
- The state-required reserve is 3% of total expenditures and uses, which for 2025-26 is approximately \$7.2 million. The district is short of the required reserve by more than \$16.3 million.
- Multiyear projections indicate continued negative unrestricted general fund balances and ongoing deficit spending. As a result, the district is projected to remain significantly below the 3% reserve requirement in both 2026-27 and 2027-28.

Santa Rosa City Schools FHRA Results (cont.)

General Fund – Current Year

- As one-time funds expired the adopted budget narrative, criteria and standards and the board presentation did not identify remaining one-time funds, their expiration, or any plan for reducing or budgeting related expenditures in the adopted budget or two subsequent years.
- District reduced restricted fund balances by approximately \$3 million in 2024-25, however; it deficit spent \$19.5 million in unrestricted funds, leaving approximately \$15 million in restricted funds unused.
- District does not consistently charge full indirect costs to each restricted resource or other funds.

Santa Rosa City Schools FHRA Results (cont.)

Multiyear Projections

- The 2025-26 adopted budget presentation did not include all key assumptions used to develop the multiyear projections.
 - The presentation and documents did not provide details such as step-and-column percentages, the consumer price index, or workers' compensation and unemployment insurance rates.
 - Did not clearly explain what fiscal stabilization plan solutions were incorporated into the subsequent years of the MYP (e.g., 2026-27 school consolidations and closure savings).

Santa Rosa City Schools FHRA Results (cont.)

Multiyear Projections (cont.)

- Multiyear projections not used to effectively guide recent financial decisions.
- In 2024-25, the MYP showed a significant structural deficit in the unrestricted general fund.
 - The district approved additional ongoing obligations, including classified employee compensation increases in February 2025, without implementing measures to address the deficit.
 - This action demonstrates that the district disregarded its own financial projections and took action that worsened its fiscal condition.

Santa Rosa City Schools FHRA Results (cont.)

Position Control

- Except for certificated staffing tied to contract provisions, the district has not historically used a formal or well-understood process to analyze or adjust staffing based on established ratios and enrollment.
- No formal process for reconciling budget, payroll, and position control at budget adoption or interim reporting periods.

Santa Rosa City Schools FHRA Results (cont.)

Position Control (cont.)

- Procedures do not ensure that a sustainable funding source is identified prior to board approval for each new position.
 - The district has authorized ongoing positions funded with one-time resources without a plan for how to maintain or eliminate those positions once the temporary funding is exhausted.
 - The governing board's personnel reports do not include clear and specific funding sources.

Santa Rosa City Schools FHRA Results (cont.)

Position Control (cont.)

- Only newly created positions that require a new job description or classification are taken to the governing board for approval prior to posting.
- Adding more full-time equivalent positions to an existing classification, these changes are approved only at the cabinet level and are not presented to the board until after individuals have been hired and placed in the new positions or assignments.

Subsequent Events

- The district certified as negative at the 2025-26 first interim reporting period reflecting a \$13.3 million deficit in the unrestricted general fund.
- Multiyear projections estimate no significant change in 2026-27 with the deficit increasing to \$14.9 million in 2027-28.
- Cash flow estimates for the general fund reflect the district would have negative \$2 million cash in June 2027, which it estimates it can cover through interfund borrowing.
- **Cash flow estimates reflect the district will have insufficient cash to finish the 2026-27 fiscal year.**

Next Steps

- Board action is required for the district to maintain fiscal solvency and retain local authority and control.
- District leadership and staff should collaborate with the county superintendent.
- The district should:
 - Address the structural deficit.
 - Monitor cash closely.
 - Use the FHRA to prioritize and address systems and processes in need of improvement.

Response to Fiscal Distress

Comparison of characteristics between districts that make a successful turnaround and those that require severe measures.

Districts That Make a Successful Turnaround	Districts That Require Severe Measures
<ul style="list-style-type: none">• Recognize they have a problem.• Do not mask the problem.• Take advantage of financial expertise that is available.• Work collaboratively with oversight agencies.• Are part of the solution.	<ul style="list-style-type: none">• Deny they have a problem.• Resist scrutiny from outsiders.• Do not seek external assistance.• Are resistant combative with oversight agencies.

Questions?

Thank you!