Sonoma County
Office of Education
5340 Skylane Boulevard
Santa Rosa, CA 95403-8246
707-524-2600 | scoe.org

September 15, 2026

Dr. Monica Thomas, Superintendent
Santa Rosa City Schools
110 Stony Point Road, Suite 210
Santa Rosa, CA 95401

Dear Dr. Thomas,

In accordance with Education Code Section 42127, the Sonoma County Superintendent of Schools (County) has reviewed the Santa Rosa City Schools District's (District) 2026-27 Adopted Budget to determine if it complies with the Criteria and Standards for financial stability and allows the District to meet its financial obligations for the budget and two subsequent years.

After a thorough analysis of the District's Adopted Budget in relation to the Governor's May Revision for the 2026-27 fiscal year, the State's Adopted Budget, and subsequent trailer bills, as well as the County's approval of the District's 2026-27 Local Control and Accountability Plan (LCAP), the County Office has concluded that the District has met the necessary requirements and therefore **approves** the District's budget as adopted by the District Board of Trustees (Board).

State Budget

The 2026–27 Budget Act includes several significant changes and investments affecting local educational agencies. Key provisions include a 4.31% increase to LCFF funding, including the statutory COLA and additional augmentation; $5 billion in one-time Student Support and Professional Development Discretionary Block Grant funding; $757 million in final one-time Learning Recovery Emergency Block Grant funding; and approximately $2.3 billion in ongoing funding for special education, increasing the statewide base rate to $1,340 per ADA. The District should also be aware of new conditions associated with the Discretionary Block Grant, including requirements related to declining enrollment and employee professional development costs.

Adopted Budget

As adopted by the District's Governing Board, the 2026-27 budget projects an ending fund balance of $18,793,560, comprised of $8,001,906 in unrestricted and $10,791,654 in restricted reserves. The district has met the minimum state reserve level of 3% for a district of its size. In 2026-27, the General Fund reports an increase in fund balance of $3,524,559.

For the out-years, the District projects in the General Fund:

- 2027–28: An unrestricted ending fund balance of $10,845,015, representing an increase of $2,843,109.
- 2028–29: Unrestricted ending fund balance of $9,747,166 and deficit spending of -$1,097,849.
- The minimum state reserve is reported as met in both years.

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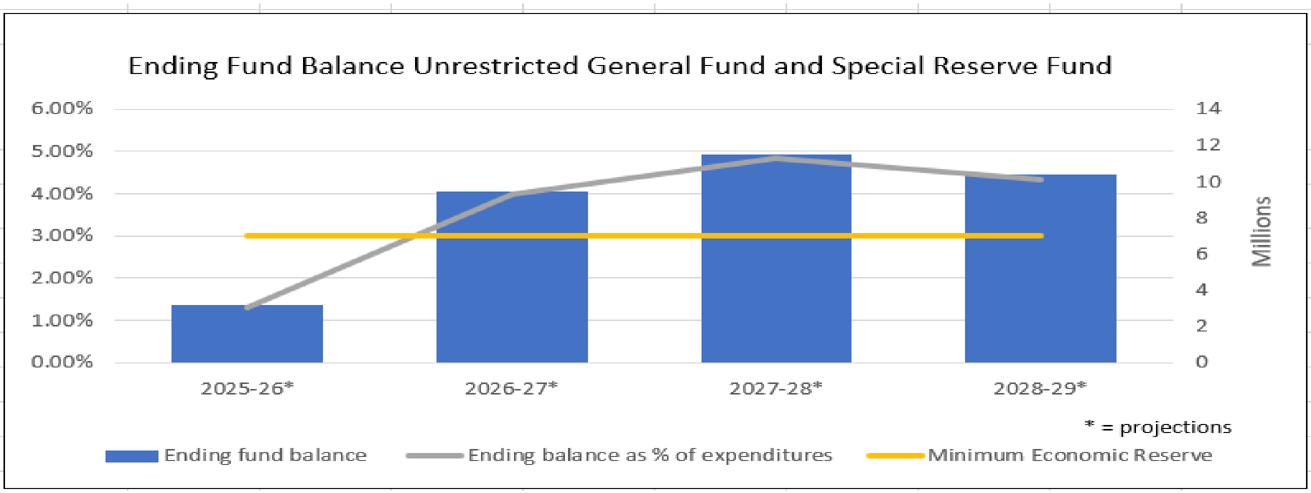
On September 15, 2025, the County Superintendent determined that the District would be unable to meet its financial obligations for the current fiscal year and the two subsequent fiscal years and identified the District as a *lack of going concern*. This determination was based on persistent structural deficits, an unsustainable expenditure pattern, and a declining cash position. In response, the District initiated fiscal recovery measures to address its structural deficit and improve its long-term financial condition.

Following the District's Negative Certification at First Interim, a fiscal advisor was assigned to assist the District in analyzing its financial condition and implementing corrective actions. The District also implemented additional fiscal oversight measures, including a review of Special Education service delivery and costs, NPA and NPS contracts, and potential efficiencies through a multi-district SELPA. By Second Interim, the Governing Board had approved approximately $16.6 million in ongoing expenditure reductions for 2026–27 and approximately $19 million in one-time budget solutions for the 2025-26 fiscal year. The County recognizes the District's efforts and commends the Governing Board and staff for taking the necessary actions to improve the District's financial position.

Fiscal Recovery and Current Financial Position

Based on the County's review of the District's 2026–27 Adopted Budget, the District continues to demonstrate progress toward fiscal recovery and improved financial stability. The District began fiscal year 2025–26 with a negative unrestricted fund balance of $1,110,745. The District's 2026–27 Adopted Budget projected an ending fund balance of approximately $2.5 million for 2025-26. Based on the Unaudited Actuals, the District now reports an ending fund balance of approximately $5.6 million, a significant improvement over prior projections and a substantially stronger financial position entering 2026–27.



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While the District does not meet its Reserve for Economic Uncertainties requirement in 2025–26, the continued implementation of the Fiscal Stabilization Plan projects that the District will meet the required reserve level in 2026–27 and maintain the required reserve through 2027–28 and 2028–29. **Given the District's recent fiscal history, continued fiscal discipline and regular monitoring of the budget and cash position will be necessary to sustain this improvement and ensure the District can meet its financial obligations.**

Areas Requiring Continued Monitoring
The District should continue to regularly review budget-to-actual results, cash flow, fund balance, and multiyear projections and make timely adjustments when actual results differ materially from budget assumptions. Particular attention should be given to the following areas:

- **Special Education:** The District should review its Special Education revenue and expenditure projections at First Interim. Certain contract-related expenditures and associated revenues appear materially understated and should be reassessed to ensure the budget reflects the District's operational needs and anticipated service costs.

- **Federal Revenues:** The District should review its Title I revenue and expenditure projections, which appear to be overstated by approximately $1 million annually, and make the necessary adjustments to ensure the multiyear projections are reasonable and supported.

- **Cash Flow:** Although the District's cash position improved at year-end, resulting in a higher ending fund balance than previously projected, the District remains reliant on the County Treasury's line of credit through March. **Cash flow projections should continue to be closely monitored and should include the anticipated in-lieu payment to Pivot Charter School to ensure all cash obligations are appropriately reflected.**

- **State Budget and One-Time Funding:** The District should exercise caution when incorporating one-time funding included in the enacted State Budget and <u>should not rely on one-time resources to support ongoing expenditures</u>. The District should also incorporate the additional 1.44 percent COLA augmentation, which was not included in the Adopted Budget.

- **Pregnancy Disability Leave:** The District should evaluate the fiscal impact of the new Pregnancy Disability Leave requirements and ensure associated salary and benefit costs are appropriately reflected in the budget and multiyear projections.

The County recognizes the District's significant progress; however, continued fiscal discipline, regular monitoring, and timely budget adjustments will be critical to sustaining the District's improved financial position and ensuring it can meet its financial obligations in the current year and two subsequent fiscal years.

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Collective Bargaining

According to the Criteria and Standards, negotiations with all bargaining units are not settled for fiscal year 2025-26 or 2026–27. Since compensation-related expenditures constitute the most significant portion of the District's budget, any increases in salary or benefits must be fully supported by ongoing revenues to avoid creating or exacerbating a structural deficit. Before finalizing any collective bargaining agreements, the District must comply with Government Code Section 3547.5, which requires a public disclosure of the financial impact, including updated projections for the current year and the 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 Adopted Budget Report includes Fund 09 for charter operations. The projected 2026–27 ending balance in Fund 09 is $6,380,533, reflecting an increase of $1,642,078.

As the authorizing agency for Kid Street Charter School and Pivot Charter School - North Bay, 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 must 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 related to the charter school negatively impact the district's financial condition, please notify our office as soon as possible.

Summary

Our office appreciates the preparation and timely submission of your Adopted Budget Report. We will communicate the technical review to the business office. The First Interim Report is due to our office by December 15, 2026. **Please see the attached for standard reminders**. If you have any questions, please call me at (707) 524-2635.

Sincerely,

Sarah Lampenfeld

Sarah Lampenfeld
Assistant Superintendent, Business Services

Cc:
Lisa August Hulme, District Chief Business Official
Amie R. Carter, Ed.D., County Superintendent of Schools
Felicia Aguirre, Director, External Fiscal Services

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2026-27 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 requiring 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. The District must complete a three-year analysis 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 their 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 that 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

The California Debt and Investment Advisory Commission (CDIAC) website contains the necessary reporting forms and fees at http://www.treasurer.ca.gov/cdiac/reporting.asp.
CDIAC's guidance regarding SB1029 is located at
http://www.treasurer.ca.gov/cdiac/reporting.asp.

Some of its guidance on SB 1029 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**, including refinancing and other secondary issuances. The bill also 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. These reporting requirements apply to any debt issuance 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, including **refinancing and other secondary issuances. AB 2551 applies to 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 its ability to repay, issuance costs, and information needed 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 understanding the 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.

Financial Planning and Interim Report Reminders

Three-Year Projection: Districts should review the reasonableness of assumptions used in the current-year budget and the two subsequent years. The multiyear projection should reflect known commitments, current trends, and realistic assumptions for revenues and expenditures.

- **Enrollment and ADA**: Districts should review current enrollment and ADA trends and ensure that projected enrollment, attendance, and funded ADA assumptions are reasonable and consistent with the district's financial projections.
- **LCFF Assumptions**: Districts should reconcile LCFF calculations used in the budget and multiyear projection and review the assumptions for COLA, property taxes, enrollment/ADA, and other components of LCFF revenue. Districts should resolve any significant differences between supporting calculations and the multiyear projection.
- **Salary and Benefit Assumptions**: Districts should ensure that salary schedules, step and column increases, negotiated settlements, statutory benefit changes, vacancies, and other known compensation changes are appropriately reflected in the current-year budget and multiyear projection.
- **Ongoing vs. One-Time Funding**: Districts should identify one-time revenues and expenditures and ensure that one-time resources are not being relied upon to support ongoing expenditures. Districts should clearly identify any use of one-time funds to support ongoing operations and address it in the multiyear projection.
- **Restricted Resources**: Districts should review restricted resource balances and expenditure plans. Districts should have a documented plan for using significant or accumulating restricted balances within applicable program requirements and timelines.
- **Cash Flow**: Districts should monitor cash balances by fund throughout the year and identify potential cash-flow shortfalls early. A fund with insufficient cash may require a temporary transfer or loan from another legally available fund. Districts should consider cash-flow assumptions as part of financial planning.
- **Reserves and Unrestricted Fund Balance**: Districts should review changes in unrestricted ending fund balance and reserves and explain significant decreases. The district should identify whether reserves are being used to balance ongoing operations and whether projected reserves remain sufficient to address identified fiscal risks.
- **Audit Findings and Corrective Action**: Districts should review prior-year audit findings, recommendations, and management letters and ensure that required corrective actions are being addressed. Any financial impacts resulting from audit findings should be reflected in the current budget and multiyear projections.
- **Fiscal Risks and Contingent Liabilities**: Districts should identify known or potential liabilities, litigation, compliance issues, significant contracts, or other events that could materially affect the district's financial condition. The district should reflect material risks in its financial analysis and projections.