



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

April 16, 2024

Anna Trunnell, Superintendent
Lisa August, Associate Superintendent
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Omar Medina, Board President
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Dear Ms. Trunnell, Ms. August, and Mr. Medina,

In accordance with Education Code Section 42131, a review of Santa Rosa City School District's (District) Second Interim Report for Fiscal Year 2023-24 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2023-24 Second Interim Report as **Qualified**. After a review of the financial data, the County has accepted the report as Qualified. The Qualified Certification is assigned to any district that may be unable to meet its financial obligations for the remainder of the current fiscal year or two subsequent fiscal years (Education Code Section 42131).

State Budget

On January 10, 2024, the Governor released the proposed State Budget for the upcoming 2024-2025 fiscal year. Governor Newsom's State Budget proposal acknowledged California's weakening economy with solutions that did not include deficits and cuts to education. However, the Budget proposal included an element of risk and uncertainty by withdrawing \$5.7 billion from the Public School System Stabilization Account (PSSSA) to support the 2023-24 and 2024-25 Local Control Funding Formula (LCFF) funding. Additionally, as a result of the slowing of state revenues, the Governor's Budget proposals excluded any new proposals of one-time funds, a departure from what local education agencies have received throughout the last several years, and as expected, included a decreased statutory cost-of-living-adjustments for the 2024-25 and 2025-26 fiscal years.

Given the evolving economic conditions, the state revenues will be closely monitored in the months leading up to the enactment of the 2024-25 State Budget. Anticipating changes, the County emphasizes the need for local education agencies (LEAs) to develop budget solutions to address revenue shortfalls and ensure that the minimum state reserve requirement is met in both the current and subsequent fiscal years. This reminder underscores the importance to think long-term when making decisions.

As a result of the Public School System Stabilization Account exceeding 3% of the total combined General Fund revenues, the district reserve cap will remain in effect for 2024-25. Therefore, a district's combined assigned and unassigned reserves will be capped to 10%. School Districts with reserves higher than the 10% limit should develop a plan to be included in the 2024-25 Adopted Budget by June 30, 2024.

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

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

Second Interim and Multi-Year Projection (MYP)

The District's Second Interim Report MYP projects unrestricted deficit spending of -\$7,324,602, -367,766, and -534,935 in 2023-24, 2024-25, and 2025-26. The State minimum reserve for economic uncertainty (REU) of 3% is met in 2023-24. To meet the 3% REU in the two subsequent years, the District's MYP includes unidentified budget reductions of ~\$25.31 Million, with necessary reductions of ~\$3.23 Million in 2024-25 and ~\$22.80 Million in 2025-26. **Deficit spending is of concern to the County and the elimination of structural deficit spending is critical in order to maintain fiscal solvency and required reserve levels. Therefore, we urge the District to review and monitor revenues and expenditures, embrace best practices, and budget to live within its means.**

The County notes the following observations and recommendations regarding the Second Interim Report:

1. The County is very concerned with the deterioration of the District's fund balance and the deficit spending along with significant unidentified reductions needed for 2024-25 and 2025-26; therefore, the District must begin identifying the budget reductions that will result in savings to avoid fiscal insolvency. **Additionally, as presented, if the budget reductions included in 2024-25 and 2025-26 are not identified the deficit spending is expected to accelerate, resulting in inadequate cash flows and lower reserve levels, which raises substantial doubt about the District's ability to continue as a going concern.**
2. As reserve levels decline the District must monitor the cash position of all funds closely. The County recommends a thorough and deep review of its general fund's cash flow projections to ensure cash is sufficient to meet its operational needs. As presented, the ending cash balance on June 30, 2024, will be \$7.3 million, which is less than the District's average monthly payroll. The decline in cash from July 1, 2023 to June 30, 2024, is ~\$30 Million, per the cash flow worksheet; that's more than the projected deficit spending of \$7.3 Million and should be reviewed. The District must review cash balances monthly and review projections for more accurate forecasts.

It's noted that annually the District attains a line of credit (LOC) with the Auditor-Controller-Treasurer's Office to help address anticipated cash shortfalls. The LOC must be approved annually and it expires the last Monday in April; therefore, any cash shortages projected by District will need to be addressed through additional cash management options such as borrowing from other funds and/or anticipated issuance of a Tax and Revenue Note (TRAN).

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

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

Based on the information received in the District's Second Interim Report, **the governing board is required** to take the following actions:

- Submit, no later than June 1, 2024, a Third Interim Report. The Third Interim Report will include financial statement projections of the fund balances of the District through June 30, 2024, for the period ending April 30, 2024, as well as a multi-year projection of the General Fund through 2025-26.
- Continue the work on the Fiscal Stabilization Plan to address the deficit spending and ensure minimum reserve levels can be met in all years. Adopt and implement a Fiscal Stabilization Plan that identifies specific budget categories to avoid a negative or qualified certification at the 2024-25 First Interim reporting.
- Based upon the Criteria and Standards, negotiations with all bargaining units are settled for fiscal year 2023-24. Any additional collective bargaining agreement proposals must follow the Public Disclosure requirement per Government Code Section 3547.5. The County shall be provided the Public Disclosure document for at least ten working days prior to the board's approval to review and comment on any proposed agreements. This requirement is mandatory if the District's Interim reports are certified Qualified or Negative.
- The District must provide SCOE with a copy of any study, report, evaluation, actuarial report, or audit that was commissioned by the District or any other agency 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).

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 Second Interim Report included Fund 09 for the Charters. The 2023-24 ending balance in Fund 09 reported is \$2,609,472 with deficit spending of -\$1,836,215.

As the authorizing agency of Kid Street Charter School, the District maintains fiscal oversight responsibilities, particularly in the key areas of 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. It is also the District's responsibility to 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 arise related to the charter school that would negatively impact the financial condition of the District, please notify our office as soon as possible.

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

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



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

Summary

Our Office appreciates the preparation and timely submittal of your Second Interim report. A technical review will be communicated to the business office. **Please see the attached for standard reminders.** If you have any questions, please feel free to call me at (707) 524-2635.

Sincerely,

A handwritten signature in blue ink, appearing to read "Greg Medici", with a stylized flourish at the end.

Greg Medici
Deputy Superintendent, Business Services

A handwritten signature in blue ink, appearing to read "Sarah Lampenfeld", with a stylized flourish at the end.

Sarah Lampenfeld
Director, External Fiscal Services

Cc:

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

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

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