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

September 16, 2024

Daisy Morales, Ed.D., 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 Dr. Morales, Ms. August, and Mr. Medina,

In accordance with Education Code Section 42127, the Sonoma County Superintendent of Schools (County) has reviewed the Santa Rosa City School District's (District) 2024-25 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 2024-25 fiscal year, the State's Adopted Budget, and subsequent trailer bills, as well as the County's approval of the District's 2024-25 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 2024-25 Budget Act reflects the ongoing economic uncertainties, but the preservation of funding for education, as seen in the May Revision, is a positive outcome for LEAs. The Governor's strategy to address the significant $45 billion shortfall involved a combination of approaches, such as the suspension of Prop 98, which allowed for more flexibility in managing the state's fiscal challenges without triggering major cuts to K-14 education funding.

The withdrawal of $8.4 billion from the Public School System Stabilization Account also helped mitigate the immediate impact on schools, ensuring continuity in critical programs. The deferrals for fiscal years 2023-24 and 2024-25 demonstrate a balancing act—postponing payments to protect near-term budgets while acknowledging that these deferred obligations will need to be addressed in the future.

The compromises made highlighted the need for LEAs to remain vigilant, especially regarding long-term fiscal planning.

Adopted Budget

As adopted by the District's Governing Board, the 2024-25 budget reflects an ending fund balance in the General Fund of $16,783,199; comprised of $6,760,554 in unrestricted fund balance and $10,022,645 in restricted fund balance. The minimum state reserve level of 3% for a district of your size has been met. In 2024-25, the General Fund reports unrestricted deficit spending of -$11,512,276. Even though the District meets minimum reserve requirements, the County Office remains concerned about ongoing deficit spending. Therefore, we urge the District to review and monitor revenues and expenditures, embrace best

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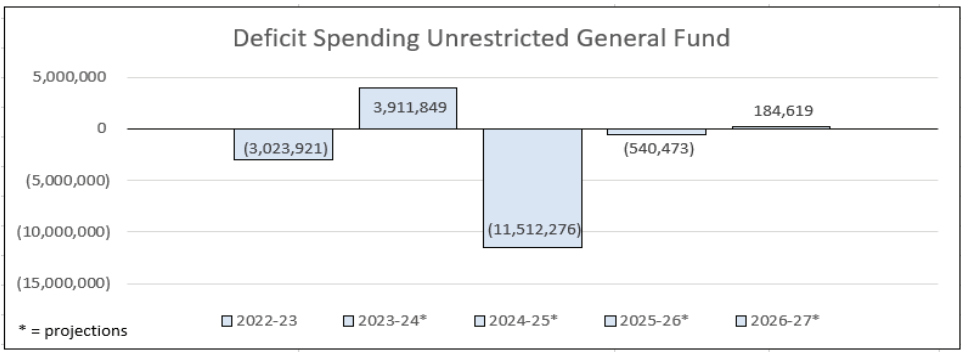
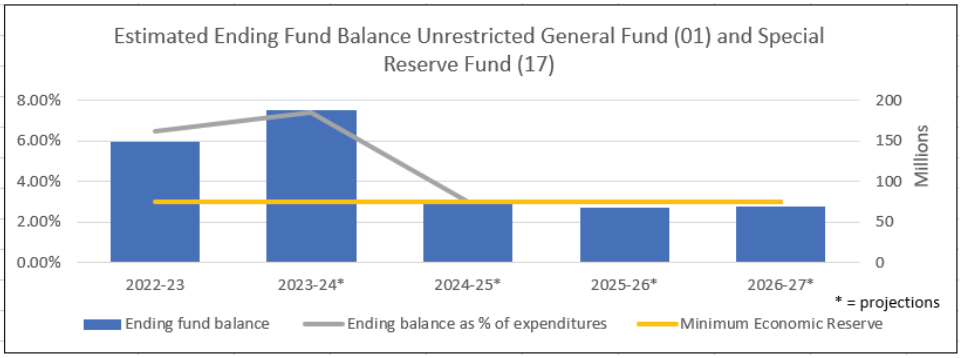
practices, and budget to live within its means. The District is projecting an unrestricted ending fund balance of $6,220,081 in 2025-26 with unrestricted deficit spending of -$540,473 and $6,404,700 in 2026-27 with an increase in unrestricted fund balance of $184,619. The Adopted Budget's Multi-Year Projection (MYP) shows that the District will not meet the Reserve for Economic Uncertainty of 3% in 2025-26 or 2026-27 without expenditure reductions. To meet the 3% REU in the two subsequent years, the District's MYP includes budget reductions of ~$21,253,707 million in 2025-26.

The District's adopted budget and multi-year projections reflect operating deficits in the unrestricted general fund as displayed in the chart below:



The cumulative impact of this projected deficit spending is a 65% decline in fund balance over fiscal year 2023-24 and fiscal year 2026-27, leaving the District reserves of $6.4M or the minimum 3% of total expenditures at June 30, 2027. The following graph displays the District's estimated unrestricted ending balance in the adopted budget and multi-year projections, with both the stated minimum reserve and the District's actual reserve as a percentage of total expenditures.



The County notes the following observations and recommendations regarding the Adopted Budget Report:

1. As reserve levels decline the District must monitor the cash position of all funds closely to ensure cash is sufficient to meet its operational needs throughout the fiscal year. As presented, the ending cash balance on June 30, 2025, will be $4.9 million, which is less than the District's average monthly

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payroll. The District has attained a line of credit (LOC) with the Auditor-Controller-Treasurer's Office to help address anticipated cash shortfalls in fiscal year 2024-25. The LOC expires the last Monday in April; therefore, any cash shortages projected by District after mid-April 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).

2. The District's Fiscal Stabilization Plan includes possible revenue enhancements which may or may not come to fruition; such as insurance Return of Equity and enrollment and attendance rate increases. If these revenue enhancements do not occur then the Fiscal Stabilization will need to expanded to cover the shortfall. The County highly recommends that a detailed analysis take place to ensure reasonably accurate revenue and expenditure projections, as well as ending fund balances, are included in the Multi-Year Projection.

The County remains very concerned with the deterioration of the District's fund balance and deficit spending; therefore, the District must continue identifying the budget reductions that will result in savings to avoid fiscal insolvency. **Additionally, as presented, if the budget reductions included in the MYP do not materialize 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.**

As a reminder, in our previous letters, dated April 16, 2024 and July 9, 2024, **the governing board is required** to take the following actions:

- Adopt and implement a Fiscal Recovery Plan that **includes detailed reductions,** addresses the deficit spending, and assures minimum reserve levels can be met by December 15, 2024, to avoid a negative or qualified certification at the 2024-25 First Interim reporting.

- 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 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 the County 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).

Collective Bargaining

Based upon the Criteria and Standards, negotiations with the certificated bargaining unit in the 2024-25 fiscal year are settled, while negotiations are not settled with the classified bargaining unit. Because these costs make up the largest portion of the District's budget, any salary and/or benefit increase could adversely

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impact the fiscal condition of the District. We caution the District to ensure that the costs of any proposed agreement are supported by ongoing revenues to avoid creating or exacerbating structural deficits. Before the District takes any action on a proposed collective bargaining agreement, Government Code Section 3547.5 requires the District to certify financial projections reflecting the impact of any salary negotiations on the current or 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 included Fund 09 for the Charters. The 2024-25 ending balance in Fund 09 reported is $3,251,539 with deficit spending of -$400,182.

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.

Summary

Our office appreciates the preparation and timely submittal of your Adopted Budget Report. A technical review will be communicated to the business office. The First Interim Report is due to our office no later than December 15, 2024. **Please see the attached for standard reminders**. If you have any questions, please feel free to call me at (707) 524-2635.

Sincerely,

Greg Medici
Deputy Superintendent, Business Services

Sarah Lampenfeld
Sarah Lampenfeld
Director, External Fiscal Services

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