

April 11, 2023

Anna Trunnell, Superintendent
Santa Rosa City Schools
211 Ridgeway Avenue
Santa Rosa, CA 95401

Dear Ms. Trunnell,

In accordance with Education Code Section 42131, a review of Santa Rosa City Schools District's (District) Second Interim Report for Fiscal Year 2022-23 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2022-23 Second Interim Report as Positive. After a review of the financial data provided by the District, it appears that the District will meet its financial obligations for the current and two subsequent years. Therefore, the County concurs with the District's positive certification.

State Budget

On January 10, 2023, the Governor released the proposed State Budget for the upcoming 2023-2024 fiscal year. Governor Newsom's State Budget proposal assumes a slowing of the economy but still growing at the national and state level. The Budget includes a form of risk and uncertainty by proposing to utilize \$1.4 billion in one-time funds to increase Local Control Funding Formula (LCFF) funding, as well as a mid-year cut to the Arts, Music, and Instructional Material Discretionary Block Grant of approximately 30%. Additionally, as a result of the slowing of state revenues in fiscal year 2022-2023, the Governor's Budget proposals didn't include any new proposals of one-time funds as local education agencies have received throughout the COVID-19 pandemic. The Budget proposal does include an increased statutory cost-of-living-adjustment in 2023-24 of 8.13%, largely driven by inflationary pressures of goods and services.

As a result of the Public School System Stabilization Account exceeding 3% of the total combined General Fund revenues in 2021-22 and 2022-23, the district reserve cap will remain in effective for 2023-24. Therefore, local 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 2023-24 Adopted Budget by June 30, 2023.

Second Interim and Multi-Year Projection (MYP)

The District's Second Interim Report MYP projects unrestricted deficit spending of -\$8,549,241 and -\$3,316,894 in 2022-23 and 2023-24, while in 2024-25 the MYP projects an increase in unrestricted fund balance of \$64,359. The State minimum reserve for economic uncertainty of 3% is met in all years. Deficit spending is of concern to the County and the elimination of structural deficit spending is critical in order to maintain required reserve levels. Therefore, we urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

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

The District's 2022-23 First Interim Report had a qualified certification. The First Interim's MYP included \$6.4M in expenditure reductions identified through the District's Fiscal Stabilization Plan and \$6.2M in support from one-time funds in 2023-24, in addition to \$1.69M in support from one-time block grants and \$5.1M in unspecified expenditure reductions in 2024-25. The 2022-23 Second Interim reports the State minimum reserve for economic uncertainty is met in 2023-24 and 2024-25 by utilizing \$18.6M in one-time state block grants and COVID relief funds. The \$6.4M of identified expenditure reductions included with the First Interim Report have been removed from the MYP with the Second Interim Report.

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

1. Starting with fiscal year 2022-23, school districts are funded on the greater of current year ADA, prior year ADA, or three-year average. The current year's three-year average includes ADA from 2019-20, 2020-21, and 2021-22, for which 2020-21 was a hold harmless year for all LEAs. This can create an increased average through 2024-25; thereby a "cliff" in Local Control Funding Formula (LCFF) is still possible. Per the LCFF calculations and the Criteria and Standards, the District notes enrollment and ADA will remain flat in the two subsequent years to the current fiscal year. Based on the last three fiscal years, 2019-20, 2020-21, and 2021-22, the combined average decrease of enrollment for the Elementary and Secondary Districts was approximately 200 to 300 students per year. Therefore, enrollment and ADA projections could be unrealistic and result in an artificial increase to LCFF revenues in 2023-24 and 2024-25. The County highly recommends the District analyze student enrollment and ADA to ensure alignment between staffing and expenditures to the number of students being served and confirm projections.
2. Since the start of the COVID-19 pandemic, school districts and charter schools received significant one-time dollars to support and increase student learning. All of these one-time dollars have expenditure deadlines. As a result of the deadline, the District's Elementary and Secondary School Emergency Relief (ESSER) II and III and Expanded Learning Opportunities Grant dollars must be exhausted by September 30, 2024. The County recommends an analysis of restricted resources and how these one-time funds will be spent to ensure expenditure deadlines are met and all available restricted resources are utilized for student learning.
3. The County recommends a thorough and deep review of revenues and expenditures in all sources for validation of projections. Further, the County highly recommends that a detailed, resource-by-resource analysis take place to ensure reasonably accurate revenue and expenditure projections, as well as the appropriateness of outstanding receivables and payables.
4. The County commends the District's efforts to identify the necessary budget reductions through its District Budget Committee over the last several years. The County advises the District to continue to identify expenditure reductions that will result in savings when applied over multiple years versus relying on one-time funds, especially as uncertainty mounts over the State budget assumptions. Having adequate reserve levels provides the District flexibility when faced with a financial crisis.

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

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Collective Bargaining

Based upon the Criteria and Standards, negotiations with all bargaining units in the 2022-23 fiscal year are settled.

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 Board Approved Second Interim Report included Fund 09 for the Charters. The 2022-23 ending balance in Fund 09 reported is \$4,057,223 with an increase in fund balance of \$2,700,181.

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 this office as soon as possible.

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,

Sarah Lampenfeld

Sarah Lampenfeld
Director, External Fiscal Services

c:

Lisa Cavin, Associate Superintendent
Joel Dontos, Executive Director - Fiscal Services, SRCS
Amie R. Carter, Ed.D., County Superintendent of Schools
Greg Medici, SCOE Deputy Superintendent, Business Services
Felicia Aguirre, SCOE District Fiscal Management Advisor

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