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

April 16, 2026

Lisa August, Interim Superintendent
Nick Caston, Board President
Santa Rosa City Schools
110 Stony Point Road, Suite 210
Santa Rosa, CA 95401

Dear Superintendent August and President Caston,

Pursuant to Education Code Section 42131, the Sonoma County Office of Education (County) has completed its review of Santa Rosa City Schools' (District) Second Interim Report for fiscal year 2025–26. The District self-certified its Second Interim Report as Positive.

Based on the County's review of the financial data, the District is projected to meet its financial obligations in the current year and the two subsequent fiscal years; however, the District does not meet the required reserve for economic uncertainties (REU) in the current year, while meeting the requirement in the subsequent two years. Accordingly, the County accepts the District's Positive certification, with grave concerns.

This letter outlines the identified concerns and specifies the actions necessary to support the District's fiscal stability and ongoing solvency.

On September 15, 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. As a result, the District was identified as a *lack of going concern*. This determination was based on persistent structural deficits, an unsustainable expenditure pattern, and a declining cash position. In the absence of timely and effective corrective fiscal actions, the District projected it would experience cash flow constraints beginning in the 2026–27 fiscal year.

In response to these fiscal conditions, the District Governing Board and staff have initiated a series of actions intended to address the structural deficit and improve long-term fiscal stability. These actions included the convening of a Special Education Task Force to evaluate service delivery models and associated costs; a comprehensive review and encumbrance of all Nonpublic Agency (NPA) and Nonpublic School (NPS) contracts; continued oversight through the Board Finance Committee; the establishment of a formal timeline and process for identifying and implementing budget reductions; and the initiation of an analysis regarding the feasibility of a multi-district Special Education Local Plan Area (SELPA) to identify potential programmatic and cost efficiencies.

In addition, the Fiscal Crisis and Management Assistance Team (FCMAT) conducted a Fiscal Health Risk Analysis (FHRA) in response to the District's lack of going concern determination. Completed in

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January, the FHRA provides an independent evaluation of the District's fiscal condition, including identified risks associated with ongoing structural deficit spending and declining reserve levels.

Following the District's Negative Certification at First Interim, a fiscal advisor was assigned to analyze and improve the District's financial condition.

By Second Interim reporting, the Governing Board has approved approximately $16.6 million in ongoing expenditure reductions for the 2026–27 fiscal year, along with approximately $19 million in one-time budget solutions in the current fiscal year. **The County commends the District for identifying and adopting these necessary reductions and recognizes the District's demonstrated commitment to restoring fiscal solvency. Continued diligence will be essential to ensure the District achieves long-term fiscal stability and meets its ongoing financial obligations.**

The implementation phase of these actions is critical to achieving and sustaining fiscal solvency. Accordingly, the Fiscal Advisor will remain assigned to the District as a Fiscal Expert, with compensation provided by the County Superintendent, to provide ongoing monitoring, technical assistance, and advisory support related to the District's financial condition through December 31, 2026. The Fiscal Expert will serve strictly in an advisory capacity and will not have stay or rescind authority.

A key consideration from the County perspective is the anticipated change in District leadership. In the current year, the District is operating under an interim Superintendent and an interim Chief Business Official. Effective July 1, a transition in leadership is expected, which may present challenges to continuity; however, it is imperative that the District maintains focus on implementing the fiscal recovery plan. Leadership stability and continuity will be important, but regardless of personnel changes, the District must ensure that all adopted actions are executed with fidelity and that organizational stability and accountability are maintained throughout the recovery process.

State Budget

The Governor's proposed 2026–27 Budget, released on January 9, 2026, continues to prioritize K–12 education through a mix of ongoing and one-time investments, while signaling caution due to revenue volatility and reserve levels. Special education receives a significant ongoing base grant increase to strengthen funding adequacy. The proposal also includes a substantial Proposition 98 settle-up of $5.6 billion in 2025–26, following the proposed $1.9 billion deferral repayment, highlighting continued reliance on state revenue adjustments. One-time discretionary funding for Local Educational Agencies (LEAs) is proposed, but LEAs should exercise caution in budgeting these funds until amounts are finalized. Additionally, LEAs should note that certain funds expire on June 30, 2026, including the Educator Effectiveness Block Grant and the Arts, Music, and Instruction Discretionary Block Grant, and plan accordingly.

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As with all January proposals, revenue projections and Proposition 98 funding levels remain subject to change at the May Revision. LEAs should continue to practice prudent fiscal planning, avoid structural deficit spending, maintain adequate reserves, and closely monitor multi-year projections as the state budget process progresses.

Second Interim and Multi-Year Projection (MYP)

The District's Second Interim Report MYP projects an increase in unrestricted fund balance of $1,912,263, $4,829,369, and $2,606,689 in 2025-26, 2026-27, and 2027-28, with the State minimum reserve for economic uncertainty (REU) of 3% met in 2026-27 and 2027-28 only. Fiscal year 2025-26 falls short of the REU requirement by 1.93% or $4,859,800.

The County's review of the District's 2025–26 Second Interim Report included the following observations and concerns:

- **Cash Position**
  While the District's multiyear projections reflect efforts to restore reserve levels in subsequent years, it remains critical that the District closely monitor the cash position of all funds to ensure sufficient liquidity to meet operational needs throughout the fiscal year.

  According to the cash flow worksheet included in the Second Interim Report, the District projects an ending cash balance of $4,549,978 in the General Fund as of June 30, 2026, representing approximately 2% of projected 2026–27 expenditures, an amount that reflects a minimal cash reserve and limited margin for cash flow variability.

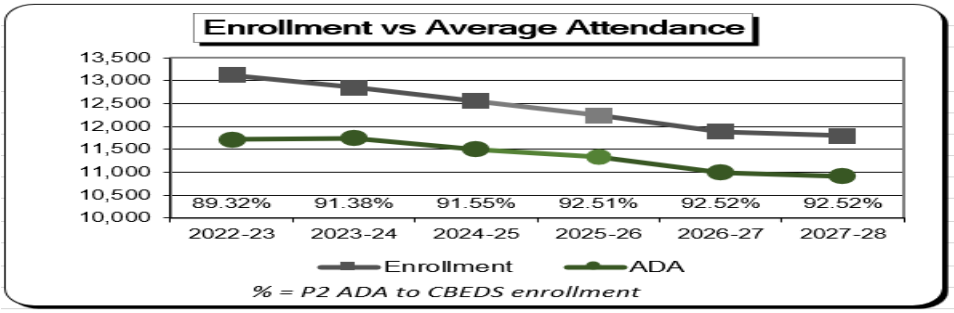
  As presented in the Second Interim report to the board, the District anticipates the need to secure a Line of Credit in the fall of 2026 to address intra-year cash flow shortfalls. Furthermore, projections indicate a materially low cash balance as of June 30, 2027, signaling continued liquidity risk despite planned reserve restoration. The District must prioritize conservative cash flow assumptions, closely monitor revenue and expenditure timing, and develop contingency plans to mitigate the risk of cash insolvency.

- **Local Control Funding Formula (LCFF) Projections**
  The Second Interim Report reflects Average-Daily-Attendance (ADA) projections generally consistent with historical experience; however, enrollment and unduplicated pupil count (UPC) assumptions should be aligned with 2025-26 CALPADS Fall 1 data. In the current year, these counts appear materially misstated, which may impact LCFF revenue estimates. Based on the County analysis, incorporating Fall 1 data would increase current-year LCFF revenue by approximately $563,000 and could affect subsequent-year projections.

  An identified area of risk is the projection of 2025-26 ADA at P-1 levels without accounting for historical in-year attrition. Over the past three years, Secondary (High School) ADA has

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declined by an average of 78 from P-1 to P-2 reporting, which may result in overstated revenues in subsequent years. Additionally, the 2027–28 projection assumes a Secondary ADA decline of 98, compared to a historical average of approximately 300. This creates a risk that out-year enrollment and ADA are overstated, which could result in a structural budget gap if historical trends continue and projected assumptions do not materialize. The District should also evaluate its projections against the December 2025 demographic study to ensure alignment. This analysis is critical to assessing the reliability of the multi-year fiscal outlook and the adequacy of projected reserve levels. Below is a chart of the Districts' student enrollment and ADA.



- **Revenue and Expenditure Assumptions**
  The County recommends a comprehensive review of federal and special education revenue and expenditure assumptions to ensure projections are accurate and supportable. Particular attention should be paid to special education expenditures, which appear understated in the current year, and to special education revenues, which appear overstated and may result in unanticipated cost pressures.

- **One-time Indirect Charge**
  The District plans to recoup prior year charges for the operation of the Expanded Learning Opportunities Program (ELOP) of $3,771,724 over the next two fiscal years.

- **Bond Expenditures**
  Based on current activity, encumbrances and expenditures exceed available balances in the bond funds by approximately $25 million. According to the District, planned expenditures are anticipated to be reduced to align with available funding. The County requests that purchase orders and expenditures be reviewed and aligned by May 1 to ensure that all commitments are supported by available fund balances and to prevent over-commitment of bond resources.

Collective Bargaining

Based upon the Criteria and Standards, negotiations with all bargaining units in the 2025-26 fiscal year have not been settled. Because these costs account for the largest share of the district's budget, any salary and/or benefit increase could adversely affect the district's fiscal condition. We caution the

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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 future 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 Second Interim Report includes Fund 09 for charter operations. The projected 2025–26 ending balance in Fund 09 is $4,227,267, reflecting an increase of $1,048,872.

Based on multi-year projections, all charter schools are expected to maintain sufficient unrestricted reserves, except Charter School for the Arts, which is projected to have an unrestricted fund balance of zero following identified reductions in fiscal year 2026-27.

As Kid Street Charter School's authorizing agency, 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 is responsible for transmitting 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 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
Assistant Superintendent, Business Services

Cc:
Luz Cázares, Interim Chief Business Official
Amie R. Carter, Ed.D., County Superintendent of Schools
Felicia Agurrie, SCOE District Fiscal Management Advisor
Santa Rosa City Schools Board of Trustees

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2025-26 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 for 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. A three-year analysis must be completed 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 its 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 which 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

California Debt and Investment Advisory Commission's (CDIAC) website contains the necessary reporting forms and fees which can be found at the website http://www.treasurer.ca.gov/cdiac/reporting.asp. CDIAC's guidance regarding SB1029 is located at http://www.treasurer.ca.gov/cdiac/reporting.asp by clicking on "Guidance on 1029 Implementation with SB1029" on the bottom of the webpage. Some of its guidance 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**, which would include refinancing and other secondary issuances. In addition, the bill 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. The aforementioned reporting requirements are applicable to any issuance of debt 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, which **would include refinancing and other secondary issuances. The provisions of AB 2551 will be required for 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 the ability to repay, and costs of issuance as well as information necessary 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 yield an understanding of 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.