

January 11, 2018

Diann Kitamura, Superintendent  
Santa Rosa City Schools  
211 Ridgway Avenue  
Santa Rosa, CA 95401Jenni Klose, Board President  
Santa Rosa City Schools  
211 Ridgway Avenue  
Santa Rosa, CA 95401**RECEIVED****JAN 17 2018**Superintendent's Office  
Santa Rosa City Schools

Dear Ms. Kitamura and Ms. Klose:

In accordance with Education Code Section 42131, a review of Santa Rosa City Schools (District) First Interim Report for fiscal year 2017-18 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2017-18 First 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). A summary of the First Interim Report and reasons for the Qualified status are as follows:

**State Budget**

The 2017-18 enacted State Budget provides approximately \$1.362 billion in additional funds for LCFF and closes the remaining gap funding by over 43 percent. It is estimated that the LCFF Target rates will be almost 97 percent funded. One-time discretionary funding of \$876.6 million was included and will be apportioned in 2017-18. In June, Governor Brown continued to emphasize that general fund revenue growth in the current and budget years, if it occurs, will be increasingly dependent upon volatile capital gains collections. As always, with the volatility of State revenue, future STRS and PERS contribution rates, and economic risks on the horizon, it is important to embrace best business practice and budget to live within your means.

**First Interim and Multi-Year Projection (MYP)**

The First Interim Report MYP indicates unrestricted deficit spending of -\$10,533,700 in 2017-18, -\$3,162,196 in 2018-19, and -\$46,332 in 2019-20, with the State minimum reserve for economic uncertainty of 3% met in all years. However, this level of deficit spending includes unspecified expenditure reductions of \$5 million in 2018-19 and \$7 million in 2019-20. If these expenditure reductions are not achieved, the District would not meet its minimum State reserves in 2018-19 and would project a *negative* fund balance of over \$5.1 million in 2019-20. Deficit spending of this magnitude is of great concern to the County and the elimination of deficit spending is crucial to maintain necessary reserve levels and fiscal solvency. The current levels of deficit spending, including the unspecified expenditure reductions is not sustainable.

At budget adoption, the County encouraged the District to carefully monitor its ADA and adjust the budget, as well as the multi-year projection. We suggested that a full review of special education revenues and services, mental health revenues, and fee allocations be undertaken. The County also suggested that the District continue to assess staffing levels and update salary and benefits budgets. We also requested that the District update their Board approved Fiscal Recovery Plan (Plan) and provide it to the County by the First Interim Report due date, and that a First Interim Report be prepared that meets the minimum reserve level and replaces unspecified expenditure reductions with specific expenditure reductions in fiscal year 2018-19. We understand that these tasks will be completed as part of the Second Interim Report and that the Board approved Fiscal Recovery Plan will be forwarded to the County after the February 14, 2018 Board Meeting.

The County offers the additional observations and recommendations. Specific actions required by Second Interim are included:

1. Documents provided to the County with the First Interim Report did not include all the required forms. We ask that these documents and forms, listed below, be presented, as part of the Second Interim Report, to the District's Board, for approval and be submitted to the County with the original signed certification. The additional documents and forms include:
  - Besides the combined Multi-Year Projection, we ask that the District submit separately the unrestricted and restricted financial projections for the General Fund and each Charter Fund operated by the District.
  - An annual Cash Flow projection for the General Fund. Best practice would also include cash flow projections for each Charter Fund operated by the District.
2. The District's LCFF calculator projects average daily attendance (ADA) to decline by approximately 140 ADA from 2016-17 to 2017-18 and then by 40 ADA in each of the subsequent years.
  - It is recommended that the District carefully monitor its ADA on a monthly basis and adjust the budget and the multi-year projection as new information becomes available. The County cautions against budgeting for optimistic ADA without a corresponding budget reserve to mitigate the risk that projections do not materialize.
3. Special education costs appear to have been updated and reviewed. The County thanks you for this detail level work.
  - It was previously noted that special education fee for service costs estimates provided by the Sonoma County SELPA are approximately \$1.9 million higher than budgeted by the District. We suggest that the District continue to analyze special



education expenses as changes can happen mid-year and fee for service costs are based on December 1 and April 1 counts.

4. Per the Criteria and Standards, staffing is reported at the same levels from 2016-17 through 2019-20.
  - Current staffing levels should be evaluated in conjunction with ADA to assure the District can meet its educational and fiscal needs. This should be accomplished in conjunction with the approval and implementation of the Board's Fiscal Recovery Plan and be completed in order to meet the annual March 15<sup>th</sup> date for notification of certificated layoffs.
5. The County requests the District continue their work to update their Board's Fiscal Recovery Plan (Plan) and **provide it to the County after February 14, 2018 when it is scheduled for Board approval.**
  - Options for expenditure reductions, established timelines, and the identification of tasks needed to implement the Plan should be included.
  - The Plan must identify **specific** areas of recommended actions. **The Multi-Year project submitted with the Second Interim Report should only include budget reductions/savings that have been Board approved.**
  - Without an approved and implemented Board Fiscal Recovery Plan and without a Second Interim Report that meets the minimum reserve level and specified expenditure reductions for fiscal year 2018-19, the District is facing extreme fiscal distress and jeopardizes its long term fiscal health.
6. 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 financial impact or that the school district is showing fiscal distress under the Standards and Criteria (Ed Code Section 42127.6). This would include any updates to the actuarial study for post-employment health benefits. Per the Criteria and Standards, the latest actuarial report was as of July 2014. A new actuarial report should be performed and be provided to the County, as soon as available.

### **Collective Bargaining**

Based upon the Criteria and Standards, negotiations with the bargaining units have not been settled in the 2017-18 fiscal year. The District will be acting on a Tentative Agreement on January 10, 2018 for the certificated bargaining unit. The County has reviewed the agreement and provided an opinion letter dated January 4, 2018.

- If the Tentative Agreement is approved by the Board on January 10, 2018, **additional** expenditure reductions will be required as outlined in both the cost disclosure and the County opinion letter.
- The Board's Fiscal Recovery Plan should address the additional reductions necessary.

- The District must update the budget and include the settlement costs in the Second Interim Report.
- Budget updates are critical to establishing estimates of year-end closing balances. In prior years, actual ending fund balances were substantially higher than what was budgeted. In order to avoid overstating (or understating) the magnitude of the District's fiscal crisis, budget updates must be a key focus for the Business Office.

A school district that is in qualified or negative certification status must provide the County the AB1200 Public Disclosure document for review and comment on any proposed agreement with bargaining units at least ten working days before the proposed agreement is approved by the district's board. (Section 16 Government Code Section 3540.2)

### **Summary**

Based upon revenues and expenditures as presented in the MYP and unrestricted fund balance as presented in the First Interim Report, should unspecified expenditure reductions not be achieved, the minimum reserve for economic uncertainty could be met in 2018-19, but **not** in 2019-20. It is critical the District meet its goals to specify expenditure reductions noted in the MYP and any additional reduction requirements that become known to achieve fiscal stability. Budget updates need to be a priority for the District in order to avoid substantially overestimating (or underestimating) the extent of the District's fiscal crisis.

The County appreciates the preparation and timely submittal of your First Interim report. The Second Interim Report is due to our office no later than March 15, 2018. A technical review of the First Interim Report will be reviewed with the District's Business Office. **Please see the attached for standard reminders.**

If you have any questions, please feel free to call Mary Downey at (707) 524-2631 or Shelley Stiles at (707) 524-2635.

Sincerely,



Mary Downey  
Deputy Superintendent, Business Services

Shelley Stiles  
Director, External Fiscal Services

cc: Dr. Steven D. Herrington, County Superintendent of Schools  
Andre Bell, Assistant Superintendent, SRCS  
Joel Dontos, Executive Director – Fiscal Services, SRCS  
Nancy Linder, Accountant, SCOE



## **Standard Reminders ~ All Districts**

### **NEW ~ Increased 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 <http://fcmat.org/fcmat-fiscal-and-legal-alerts/>.

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 <http://www.gfoa.org/debt-management-policy> (bottom of the webpage).

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/> by clicking on "Guidance on 1029 Implementation with SB1029" on the left side 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

### **Adopting LCAP Revisions during the period the LCAP is in effect**

EC sections 52062(c) and 52068(c) allow districts to adopt revisions to an LCAP during the period the LCAP is in effect if they follow the same process for adopting the LCAP. EC sections 52070 and 52070.5 specify that no later than five days after the adoption of an LCAP or annual update to an LCAP, the plan must be filed with the COE. While timelines identified in these sections are reflective of an annual process, statute does provide a process for a revised LCAP to be approved by the appropriate entity.

### **Collective Bargaining Disclosure**

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 Fiscal Crisis and Management Assistance Team), or by the State Superintendent of Public Instruction and/or a state control agency any time they are received by your District.

### **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:

<http://www.cde.ca.gov/sp/cs/as/nclrbifunddet.asp>.