

April 13, 2018

Diann Kitamura, Superintendent
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Jenni Klose, Board President
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Dear Ms. Kitamura and Ms. Klose:

In accordance with Education Code Section 42131, a review of Santa Rosa City Schools (District) Second 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 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). A summary of the Second Interim Report and reasons for the Qualified status are as follows:

State Budget

In January, Governor Brown released his 2018-19 State Budget Proposal. He caps off his legacy of restructuring the entire public education funding delivery model. Ahead of schedule, the proposal includes fully funding LCFF in 2018-19. For the current 2017-18 year, the Proposition 98 guarantee is now estimated at \$75.2 billion, up approximately \$700 million from the enacted level. COLA is 1.56% and Gap Closure is 44.97%.

Some of the major 2018-19 proposed budget components include:

- \$78.3 billion Proposition 98 funding in 2018-19; LCFF gap closure rate of 100%, two years early with an infusion of nearly \$3 billion;
- 2.51% statutory COLA, which is applied to LCFF base grant for 2018-19;
- \$200 million ongoing to establish a K-12 specific component of the community college-administered Strong Workforce Program to support K-12 CTE programs aligned with needed industry skills; and
- \$1.8 billion for discretionary one-time mandate monies (approximately \$295 per ADA);

these funds will offset LEAs' outstanding mandate reimbursement on a dollar for dollar basis.

- For School Facilities, the 2018-19 proposal authorizes a total of \$640 million in Proposition 51 bond authority.

With the proposal to fund LCFF at 100% in 2018-19, the 2019-20 year will be funded at COLA only. It is important to remember that COLA only funding is not sufficient to cover pension-related employer increases, step/column costs, and rising Special Education contributions. Thus, the average school District would have to redirect some of its existing resources to cover increasing costs. With that in mind, the County suggests LEAs remain cautious, plan to spend conservatively, maintain adequate reserves, and think long term.

Second Interim and Multi-Year Projection (MYP)

The Second Interim Report MYP indicates unrestricted deficit spending of -\$11,659,747 in 2017-18, an increase in unrestricted fund balance of +\$1,729,476 in 2018-19, and unrestricted deficit spending of -\$1,090,847 in 2019-20, with the State minimum reserve for economic uncertainty of 3% met in all years. The MYP includes Board approved expenditure reductions of \$7.4 million in 2018-19. However, the level of deficit spending for 2019-20 includes unspecified expenditure reductions of \$2.3 million. If these unspecified expenditure reductions are not identified, and if these reductions are not fully implemented and financially achieved, the District will continue to face serious fiscal challenges. Even though the District meets minimum reserve requirements, the County Office remains concerned about on-going deficit spending. We urge the District to review and monitor revenues, expenditures, and fund balances of all funds.

At First Interim, the County required that the District develop and the Board approve a Budget Reduction and Fiscal Recovery Plan (Plan) no later than February 14, 2018 when it was scheduled for Board approval. The County requested that the Plan be reflected in the Second Interim Report and **commends the District for the accomplishment of this request**. The County also shared additional observations and recommendations as follow:

1. Requested the District submit Multi-Year projections that include both restricted and unrestricted revenues and expenditures for the General Fund and each Charter Fund operated by the District.
2. Requested the District submit an annual Cash Flow projection for the General Fund.
3. The need to carefully monitor ADA is crucial.
4. Recognized that special education costs have been updated and reviewed. Ongoing review of special education costs are necessary because changes in the placement of students happen throughout the year and cost impacts can be substantial.
5. Current staffing levels should continue to be evaluated in conjunction with ADA to ensure that the District can meet its educational and fiscal needs. This should be accomplished in along with the approval and implementation of the Board's Fiscal Recovery Plan and be completed in order meet the annual March 15th date for notification of certificated layoffs.
6. The County requested the District continue their work and complete a Fiscal Recovery Plan. The Second Interim projection should include only reductions or savings that have been Board approved.

The Second Interim review recognizes that the District has made significant progress toward fiscal solvency. The County offers the following observations and recommendations:

1. Documents provided to the County with the Second Interim Report included all the required forms. In addition to the required forms, the County asked for Multi-year projections (MYP) for each individual Charter Fund operated by the District. One MYP, summing up all five charter funds was received as part of the packet and the County thanks the District for this intermediate step. It is best practice to review each Charter as a separate entity and the County encourages the District to return to this practice during each financial reporting period.
2. The District's LCFF calculator projects average daily attendance (ADA) to decline based on the District's past enrollment patterns and declines attributed to the Sonoma County Fires of 2017. The County commends the District for work completed and recommends continued careful monitoring of ADA on a monthly basis. The County suggests that the District use conservative ADA projections.
3. The Board Approved Budget Reduction and Fiscal Recovery Plan for 2018-19 included reductions in positions (FTEs). Resolutions for preliminary reductions were approved and preliminary notices were issued by the March 15, 2018 deadline. Final notices must be sent out by May 15, 2018. Since Plan reductions were included in the Second Interim MYP, if final notices are not issued, the District will continue to face fiscal challenges.
4. In January 2018, the Board approved a certificated salary settlement and estimated costs associated with the settlement are incorporated into the Second Interim budget.
5. The County requests the District continue their work to update the Board approved Fiscal Recovery Plan (Plan), specifically identifying budget line items for the \$2.3 million of unidentified reductions included in the Second Interim MYP for 2019-20.

The Plan must identify **specific** areas of recommended actions. **The Multi-Year projection submitted with the Third Interim Report should only include budget reductions/savings that have been Board approved.**

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 are not settled for the classified unit in the 2017-18 fiscal year. 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 Second Interim Report, the District is meeting the State minimum reserve for economic uncertainty of 3% in all three years. It is critical the District fully implement the planned reductions as noted in the MYP and any additional reduction requirements that become necessary to achieve fiscal stability. Budget updates continue 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 Second Interim report. With the Qualified certification, a Third Interim Projection is due to our office no later than June 1, 2018. A technical review of the Second 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
Rick Edson, Assistant Superintendent, Business Services, 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

Standard Reminders ~ All Districts (continued)

period, defined as July 1st to June 30th. This provision makes January 31st the effective deadline for submittal of the annual debt transparency report. Debt 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 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.

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> .

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.