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January 8, 2020

BUSINESS OFFICE
SANTA ROSA CITY SCHOOLSDiann Kitamura, Superintendent
Rick Edson, Deputy Superintendent
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401Laurie Fong, Board President
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Dear Ms. Kitamura, Mr. Edson, and Ms. Fong,

In accordance with Education Code Section 42131, a review of Santa Rosa City School District's (District) First Interim Report for fiscal year 2019-20 has been completed by the Sonoma County Office of Education (County). The District self-certified its 2019-20 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

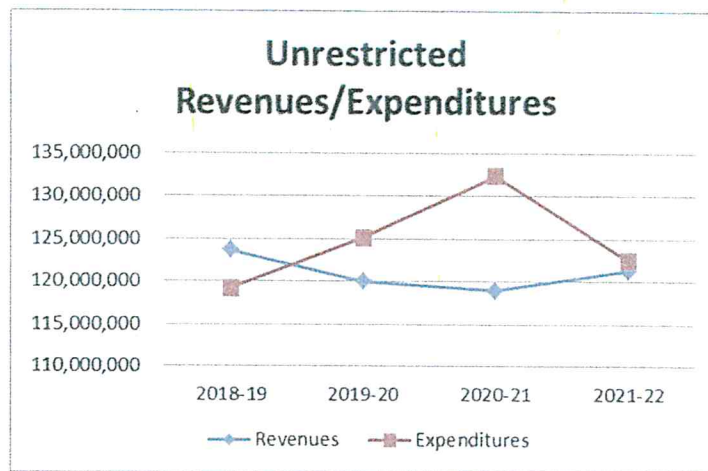
The 2019-20 enacted State Budget provides approximately \$3.566 billion in additional funds for LCFF; funding the statutory 3.26% COLA. One-time discretionary funding in 2019-20 has been eliminated for the first time in over five years. A Special Education Early Intervention Preschool Grant was included in June, and is considered unrestricted one-time funding until legislative action is taken. 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.

Since the State Budget adoption, the Legislative Analyst's Office has published a Fiscal Outlook that changes the COLA for 2020-21 from 3% to 1.79%. Governor Gavin Newsom will release his State Budget Proposal on January 10, 2020 to confirm COLA estimates for the current and following years, as well as the many other factors that will change.

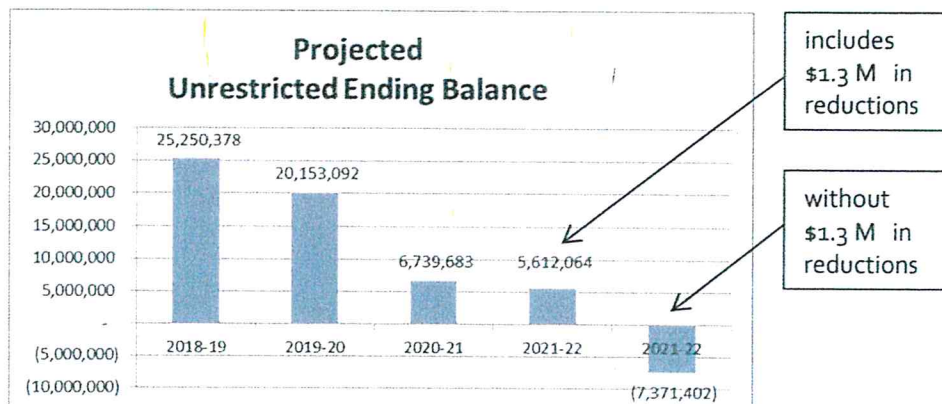
First Interim and Multi-Year Projection (MYP)

The First Interim Report MYP, indicates unrestricted deficit spending of -\$5,097,286 in 2019-20, -\$13,413,409 in 2020-21, and -\$1,127,619 in 2021-22, with the State minimum reserve for economic uncertainty of 3% met in 2019-20 and 2020-21 only. Deficit spending of this magnitude is of great concern to the County. The elimination of deficit spending is crucial to

maintain necessary reserve levels and fiscal solvency. The graph below depicts the gap between projected revenue and expenditures:



The State minimum reserve for economic uncertainty is met in 2021-22, but only with **\$13M in unspecified expenditure reductions**. If expenditure reductions in 2021-22 are not achieved, the District would not meet its minimum State reserves in 2021-22 resulting in a projected a **negative** fund balance of over \$11 million in 2021-22. The current levels of deficit spending, including the unspecified expenditure reductions is not sustainable. The graph below shows the decline in ending fund balance with and without the \$13M in reductions.



Historically, the District had a qualified certification for both First and Second Interim for 2016-17 and 2017-18. With the implementation of a Board approved Fiscal Recovery Plan, the District had a positive certification for both First and Second Interim for 2018-19.

The 2019-20 Adopted Budget projected meeting minimum reserve level in 2019-20, 2020-21 and 2021-22. The District's multi-year projection (MYP) projected unrestricted deficit spending of -\$5,283,949 in 2019-20, -\$9,214,646 in 2020-21 and \$-171,112 in 2021-21. However, the level of deficit spending for 2020-21 included unspecified expenditure reductions of \$4.2 million, and for 2021-22 unspecified expenditure reductions of \$13.8 million.

At budget adoption, the County encouraged the District to continue to analyze revenue and expenditure projections in all sources for validation of projections. Further, the County highly recommended that a detailed, account-by-account analysis take place to ensure reasonably

accurate revenue and expenditure projections, as well as ending fund balances. The County supports the District's continual exploration of cost cutting measures that will help build or maintain the District's reserves to allow for long term fiscal stability.

The County offers the following observations and recommendations regarding the First Interim Report. Specific actions required by Second Interim are included:

1. Per the Criteria and Standards, 2019-20 staffing is reported 1,703.9 FTE, broken down as follows:

<u>Fiscal Year</u>	<u>Certificated Unit</u>	<u>Classified Unit</u>	<u>Admin/Management/Confidential</u>
2019-20	937.3	633.8	132.8
2020-21	937.3	633.8	132.8
2021-22	937.3	633.8	132.8

- Certificated staffing decreased by 7.3 FTE, classified staffing increased by 25.0 FTE, and management/confidential staffing increased 4.2 FTE over 2018-19 as reported at 2019-20 Budget Adoption. Staffing levels remain flat to 2020-21 and 2021-22. Current staffing levels should continue to be evaluated concurrently with monitoring ADA to ensure that the District can meet its educational and fiscal needs.
 - A continued comprehensive assessment of staffing, class sizes, class sections, and student projections, as well as determining recommended student classroom loading factors can be an essential tool in stabilizing finances while efficiently and effectively providing educational services. This should be accomplished in conjunction with the approval and implementation of an updated Fiscal Recovery Plan. The updated Plan should be completed in order meet the annual March 15th date for notification of certificated layoffs.
2. The District's LCFF calculator projects average daily attendance (ADA) to decline by approximately 104 ADA from 2018-19 to 2019-20 and then by 66 and 156 ADA in each of the subsequent years.
 - It is recommended that the District carefully monitors its ADA on a monthly basis and adjusts 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 are reported as increasing significantly over 2018-19, putting pressure on the unrestricted fund balance as the contributions rise.
 - We suggest that the District continue to analyze special education expenses and meet with the fiscal analyst of the SELPA prior to preparation of the Second Interim Report to review special education and mental health revenues. The current year budget and out-years of the MYP should be adjusted, as necessary.

4. The County requests the District continue their work to update or expand their Fiscal Recovery Plan (Plan) from 2017-18 and provide it to the County after Board approval.
 - The County highly recommends that the District continue to be proactive and implement the updated Fiscal Recovery Plan prior to March 15, as savings will compound when applied over multiple years.
 - The Plan must identify specific budget categories. The Multi-Year Projection submitted with the Second Interim Report should only include budget reductions/savings that have been Board approved.
 - Without an approved and implemented Fiscal Recovery Plan and without a Second Interim Report that meets the minimum reserve level and specified expenditure reductions for fiscal year 2021-22, the District is facing extreme fiscal distress and jeopardizes its long term fiscal health.
5. 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 2019. A new actuarial report should be performed and be provided to the County, as soon as available.

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 Adopted Budget included Fund 09 for the Charters. The 2019-20 ending balance in Fund 09 reported is \$3,876,100 with deficit spending of -\$166,562. The County appreciates the District for providing a separate MYP for each charter school.

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.

Collective Bargaining

Based upon the Criteria and Standards, negotiations with all bargaining units in the 2019-20 fiscal years are settled. Because these costs make up the largest portion of the district's budget, any salary and/or benefit increase could adversely impact the fiscal condition of the district. We caution the district to ensure that the costs of any proposed agreement be

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.

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.

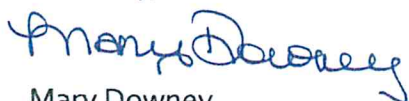
Summary

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 2019-20 and 2020-21, but not in 2021-22. 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.

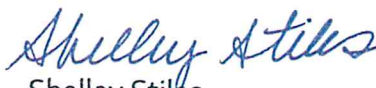
The County appreciates the preparation and timely submittal of your First Interim report. The Second Interim Report is due to our office no later than March 15, 2020. A technical review of the First Interim Report will be reviewed with the District's Business Office. Please see the attached for standard 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: Steven D. Herrington, PhD., County Superintendent of Schools
Joel Dontos, Executive Director – Fiscal Services, SRCS
Nancy Linder, District Fiscal Management Advisor, SCOE

2019-20 Annual Standard Reminders ~ All Districts

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

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 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:

<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 <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 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.

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.