

April 15, 2020

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

Laurie Fong, Board President
Santa Rosa City Schools
211 Ridgway Avenue
Santa Rosa, CA 95401

Dear Dr. Kitamura and Ms. Fong:

These are challenging times for everyone. We, at the Sonoma County Office of Education (SCOE), are here to offer support and resources, along with continuing our role of fiscal oversight. We appreciate the ongoing work that your Business Department is doing in costing out budget reduction scenarios and analyzing staffing ratios. As we move into budget development for Fiscal Year (FY) 2020-21, SCOE will provide updates on budget assumptions. We do know that, in light of the COVID-19 crisis, the May Revise will be much different from the Governor's January Budget Proposal. We expect the impact of the May Revise will place additional strain on all districts' already tight budgets.

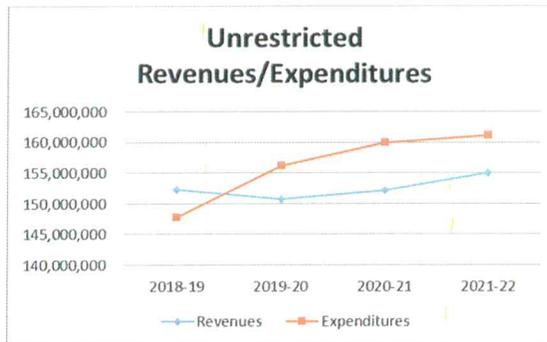
The purpose of this letter is to review key elements of the District's Second Interim Report. In accordance with Education Code Section 42131, SCOE has completed a review of Santa Rosa City Schools (District) FY 2019-20 Second Interim Report, in which the District self-certified as Qualified. After a review of the financial data, analyzed in the context of the Governor's January FY 2020-21 Budget Proposal, as well as the FY 2019-20 Adopted State Budget, and approved trailer bills, SCOE has accepted the Report as **Qualified**. A 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 issues of concern are as follows:

Second Interim and Multi-Year Projection (MYP)

The District's Second Interim Report MYP, projects unrestricted deficit spending of -\$5,461,762 in FY 2019-20; -\$7,887,691 in FY 2020-21; and -\$6,122,094 in FY 2021-22. While the State minimum reserve for economic uncertainty of 3% is met in all three years, deficit spending remains an ongoing issue of concern. Having an adequate reserve provides the District flexibility when faced with a financial crisis.

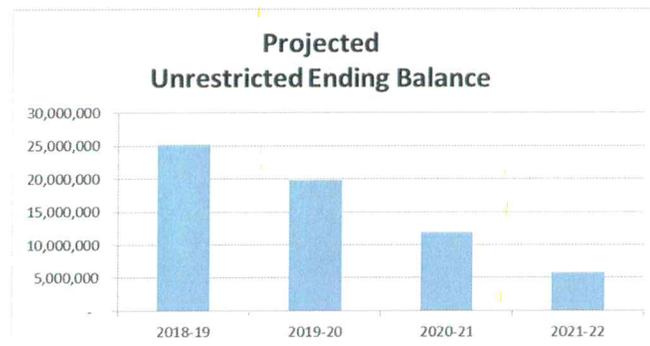
The State minimum reserve for economic uncertainty is met in FY 2021-22, but only with **\$3.6M in unspecified expenditure reductions**. We understand that there is work in progress on further budget reductions. We are advising the District to expedite identification of reductions as uncertainty mounts over the State budget assumptions.

The graph below depicts the District’s projection of the gap between revenues and expenditures. The District has acknowledged that addressing this gap is going to be a challenge and will require additional reductions.



The District had a qualified certification for both First and Second Interim Reports for FY 2016-17 and FY 2017-18, with positive swings in the actual ending fund balance at year-end. With the implementation of the Board approved Fiscal Stabilization Plan, the District had a positive certification for both First and Second Interim for FY 2018-19.

This graph shows the projected decline in unrestricted ending fund balances, assuming unspecified reductions are met. The District is currently projecting that the unrestricted ending fund balance will decline by 77% from FY 2018-19 to FY 2021-22.



The FY 2019-20 First Interim and Second Interim Reports were submitted and approved with qualified certifications. We recognize that the District needed time to work on additional reductions based on recent bargaining unit settlements and, therefore, self-certified as qualified. We look forward to seeing the next Board approved Fiscal Stabilization Plan.

SCOE’s review of the qualified FY 2019-20 Second Interim Report included the following observations, recommendations and requirements:

- SCOE commends the District for continuing the work on a Fiscal Stabilization Plan and notes that a Fiscal Stabilization Plan Part 1 was Board approved on February 26,

2020, which included \$10.6 million in reductions. The Plan Part 1 was incorporated into the 2019-20 Second Interim Report.

- SCOE concurs with the District plan to continue the work on the Fiscal Stabilization Plan, and upon Board approval of Part 2, expects to see the Plan, Part 2, reflected in the FY 2019-20 Third Interim Report.
- The District must provide SCOE 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 a financial impact or that the school district is showing fiscal distress under the Standards and Criteria (Ed Code Section 42127.6).

Charter Schools

The District reports its dependent charters: Accelerated Charter, Charter School for the Arts, Cesar Chavez Language Academy Charter and the French American Charter in Fund 09. We appreciate the District providing a separate MYP for each charter school. The FY 2019-20 projected ending balance in Fund 09 is \$4,067,930, with an increase of fund balance of \$68,222. The District is planning a \$3M transfer to the District general fund from the charters in FY 2020-21, reducing the charter schools' reserves. SCOE recommends that the District review the charter schools' reserves to ensure that long-term fiscal health is secured.

As the authorizer of Kid Street Charter School, an independent charter, the District maintains fiscal oversight responsibilities, particularly in the key areas of accounting, attendance, budgeting and payroll. (Education Code 47604.32) SCOE can provide resources to support the District in their review of an independent charter. Just a reminder that the District should review the Charter fiscal 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. Should any circumstances arise related to the Charter 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 FY 2019-20 are settled. Because these costs make up the largest portion of the District's budget, any salary and/or benefit increase could adversely affect the fiscal condition of the District.

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 detailing the impact of 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 County Superintendent shall notify the school district, governing board of the school district, and each parent and teacher organization of the district within those 10 days if, in his opinion, the agreement would endanger the fiscal well-being of the school district.

Summary

Based upon our review of the Second Interim Report, should unspecified expenditure reductions not be achieved, the minimum reserve for economic uncertainty could be met in FY 2019-20 and FY 2020-21, but **not** in FY 2021-22. It is critical the District meet its goal to identify expenditure reductions that will achieve fiscal stability. In addition, budget updates need to be a priority for the District in order to avoid substantially underestimating or overestimating the District's ending fund balance.

We appreciate the preparation and timely submittal of your FY 2019-20 Second Interim Budget Report. A technical review will be communicated to your business office. Since the District has filed a Qualified Second Interim Report, a Third Interim Report is due to our office no later than June 1, 2020.

Please see the attached standard reminders and additional reminders specific to Qualified Districts.

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

Take care and stay safe.

Sincerely,



Mary Downey
Deputy Superintendent, Business Services



Shelley Stiles
Director, External Fiscal Services

Cc: Dr. Steven D. Herrington, County Superintendent of Schools
Rick Edson, Deputy Superintendent, SRCS
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.