



Dulcinea A. Grantham
Attorney at Law

E-mail: dgrantham@lozanosmith.com

March 11, 2022

Via Email: jlindsayarb@gmail.com

Joe Lindsay
375 61st St.
Oakland, CA 94618

Re: Sacramento City Unified School District Supplemental Information for Fact-Finding

Dear Mr. Lindsay:

On behalf of the Sacramento City Unified School District (“District”), I want to again thank you for your work as the Chairperson in the fact-finding between the District and the Sacramento City Teachers Association (“SCTA”). As you know, the District and SCTA met on Monday, March 7, 2022, for the hearing on the impasse in negotiations between the parties related to COVID-19 and reopening schools for the 2021-2022 school year. At the outset of the hearing, and in response to the letter that the District’s representatives sent to you and the District’s and SCTA’s panel members on March 4, 2022, we discussed the PERB certified scope of the current impasse between the parties and the issues to be addressed during the hearing.

During the hearing, the District restated its position that the current impasse concerns only COVID-19 and reopening-related negotiations pertaining to the 2021-2022 school year and does not, and cannot, include the general notion of a “staffing crisis” in the District as argued by SCTA. The District’s position on this issue is set forth in the District’s March 4 letter. Notwithstanding the District’s position, you allowed SCTA to present evidence of a general staffing crisis in the District that predates and could follow the current COVID-19 pandemic. SCTA’s attempt to use the issue of staffing during fact-finding prior to completion of successor contract negotiations and without going through the statutory impasse process in an attempt to comingle general compensation issues, fuels the inaccurate narrative that SCTA has told the public and its members—namely that the anticipated strike that they will call at the end of this process is around the District’s proposed “takeaways” when the District cannot implement any alleged “takeaways” at the conclusion of the instant fact-finding. Rather, the District will, consistent with the Educational Employment Relations Act and traditional bargaining norms, continue to engage with SCTA in successor contract negotiations in an attempt to reach agreement.

The District respectfully submits this letter and the attached supplemental information in response to the materials submitted by SCTA during the hearing.

Limited Liability Partnership

2001 North Main Street, Suite 500 Walnut Creek, California 94596 Tel 925-953-1620 Fax 925-953-1625

I. The current impasse and the negotiations on which it is based were not about any general “staffing crisis.”

Based on your decision, SCTA’s presentation to the Fact-Finding Panel focused almost exclusively on their proposal that includes provision for ongoing salary increases, changes to class sizes, and other provisions that directly relate to articles opened and actively being negotiated by the District and SCTA in the successor contract negotiations that pre-dated the COVID-19 related negotiations for the 2021-2022 school year. SCTA further presented data that they believed supported the District’s ability to pay for the increased costs associated with SCTA’s proposals.

During the hearing there was discussion around Superintendent Aguilar’s December 10, 2021 letter describing the District’s declaration of impasse as related to proposals around COVID-19 and reopening, changes to the independent study program, compliance with public health guidance and recommendations, and addressing the staffing shortage. The Superintendent’s use of the term staffing shortage in the December 10, 2021 letter and in subsequent communications to SCTA and District families, was not intended to address any staffing shortage other than the one that presently exists in the District related to the COVID-19 pandemic and the effects of the Omicron surge. SCTA’s attempt to claim that any reference by the Superintendent to a generalized staffing shortage is disingenuous.

SCTA’s refusal to even consider some of the District’s proposals, such as the proposal to temporarily deploy certificated Training Specialists to the classroom, has exacerbated the staffing crisis that they claim to be trying to resolve. Rather than consider solutions, SCTA is attempting to circumvent the negotiations and impasse process regarding successor contract negotiations by taking the position at fact finding that the only solutions for COVID-related issues is an across the board salary increase to its members whose total compensation is already among the highest in the region.

II. The District has been attempting to engage SCTA in successor contract negotiations since early 2019.

To be clear, the District and SCTA have been bargaining on two parallel tracks since the COVID-19 pandemic began. However, the District’s journey in successor contract negotiations long preceded the COVID-19 pandemic. The District has attempted to engage in successor contract negotiations with SCTA since early 2019, following both the District and SCTA sunshining their respective initial proposals for a 2019-2022 successor contract.

Those negotiations were delayed by SCTA’s refusal to engage in good faith bargaining with the District as described in a decision issued by the Chief Administrative Law Judge of the Public Employment Relations Board that found SCTA engaged in “a per se refusal to bargain over subjects that are within the scope of mandatory bargaining.” The Judge went further and stated that “several indicators of bad faith are present, making this a clear-cut case of bad faith bargaining under the totality of the circumstances.” Chief Judge Cloughessy further found that *“the Association’s refusal to schedule any bargaining sessions for a full year and its failure to offer any proposals or counter proposals following the exchange of place-holder sunshine proposals [had] such a profound and detrimental effect on the bargaining process as a whole*

that each by itself obstructed the possibility of any agreement in good faith, and each of these indicators by itself therefore establishes bad faith bargaining on the part of the Association.”

SCTA is now attempting to use this fact-finding proceeding to fast track some of its successor contract proposals after refusing to negotiate with the District on successor contract negotiations for a year.

Nearly a year after the District first attempted to engage in successor contract negotiations, SCTA finally agreed to come to the table and negotiate with the District around successor contract negotiation. The District and SCTA held one in-person bargaining session on March 3, 2020, immediately prior to schools being shuttered due to the COVID-19 pandemic.

Throughout the COVID-19 pandemic the District and SCTA have negotiated around the effects of the COVID-19 pandemic on the working conditions of SCTA unit members. The District and SCTA were unable to reach agreements on MOUs related to distance learning for Spring 2020, or the fall reopening of schools for the 2020-2021 school year. The District and SCTA did reach agreement on returning students to in-person instruction pursuant to state and local guidelines for Spring 2021. Throughout these negotiations, the proposals exchanged and agreed upon have focused on the COVID-19 pandemic and reopening schools. At no point in these earlier negotiations or in the current negotiations did the District agree to bring into COVID-related negotiations any or all of the terms of successor contract negotiations. And this should not be permitted through this fact-finding proceeding either.

III. The District’s salary and benefits are among the highest in the region.

In determining that the “staffing crisis” is at issue in this impasse, arguably any proposal that either party has exchanged could relate to addressing that crisis. This could include the District’s proposal to continue to maintain the highest health and welfare benefit contribution in the Sacramento Region. As stated above, the District strongly disagrees with any determination that only some proposals relate to the staffing crisis, particularly those beneficial to SCTA, while determining that others do not, like those that are necessary to maintain the fiscal solvency of the District. The District’s Governing Board has taken tremendous steps to follow the guidance and recommendations of independent entities like the Fiscal Crisis Management Assistance Team (“FCMAT”), the California State Auditor, and the Sacramento County Office of Education, among others, resulting in a reduction of the District’s structural deficit and an ongoing commitment to ensuring the fiscal solvency of the District.

Allowing SCTA to move its ongoing salary proposal from successor contract negotiations over to these COVID-related negotiations allows them to fast-track successor contract proposals that they have sought for two years, **but which were delayed due to their own refusal to bargain in good faith.** It further allows SCTA leaders to call a strike and threaten to shut down schools, further exacerbating the disrupted learning students have endured during this COVID-19 pandemic and again causing District families to scramble to determine what to do in the face of a teacher strike.

Interestingly, SCTA’s fact-finding presentation focuses largely on vacancies during the current, 2021-2022 school year, including unfilled substitute positions in the District. SCTA has not presented evidence to support their claim that there is a generalized staffing crisis in the District that pre-dated COVID-19. It is worth noting that the District’s proposal on increased pay for

substitutes and teachers subbing during their prep period, continuity of learning (short term independent study), and extra pay for employees who agree to teach students in long-term independent study, would have gone a long way to address the vacancies and substitute shortage that SCTA describes in its presentation. (See pp. 14-16 of SCTA presentation.) Further, the District’s proposal to temporarily deploy the 28 training specialists to the highest needs schools in the District would have gone a long way to filling unfilled substitute or vacant positions in the District.

SCTA’s presentation attempts to demonstrate the importance of pay in retaining high quality educators. **However, the District’s current average compensation for SCTA represented employees is among the highest in the region.**

COMPARATIVE ANALYSIS OF CERTIFICATED SALARIES AND BENEFITS, 2020-21
 COMPUTED AVERAGE SALARY AMOUNT WITH PER DIEM AMOUNTS
 WITH PLACEMENT STATISTICS AT STEP 10 AND ABOVE

Table 7

DISTRICT NAME	RANK	COMPUTED AVERAGE SALARY	PER DIEM RANK	PER DIEM AMOUNT	PERCENT FTE AT OR ABOVE STEP 10	PERCENT FTE AT OR ABOVE STEP 10 IN LAST COLUMN
ROCKLIN UNIFIED	1	88,507	1	475.84	75.08%	58.46%
STATEWIDE UNIFIED AVERAGE	2	85,154	2	461.04	66.90%	45.69%
SACRAMENTO CITY UNIFIED	3	83,404	3	455.76	69.60%	57.07%
ELK GROVE UNIFIED	4	80,979	4	440.10	70.84%	53.25%
TWIN RIVERS UNIFIED	5	80,769	7	434.24	67.44%	45.00%
FOLSOM-CORDOVA UNIFIED	6	80,585	5	437.96	67.69%	57.69%
REGION 12 UNIFIED AVERAGE	7	80,098	6	435.02	65.83%	50.78%
COMPARATIVE GROUP AVERAGE	8	79,057	8	428.22	64.11%	46.14%
STOCKTON CITY UNIFIED	9	78,580	11	420.21	60.14%	33.02%
LODI UNIFIED	10	78,335	9	423.44	61.23%	35.90%
SAN JUAN UNIFIED	11	78,226	10	420.57	58.60%	46.82%
CENTER JOINT UNIFIED	12	76,929	12	418.09	67.35%	52.89%
NATOMAS UNIFIED	13	75,993	13	415.26	52.76%	42.26%
WASHINGTON UNIFIED	14	75,826	14	412.10	60.70%	45.54%
DAVIS JOINT UNIFIED	15	74,547	15	405.14	66.12%	49.14%
WOODLAND JOINT UNIFIED	16	73,100	16	397.28	58.38%	46.20%
RIVER DELTA JOINT UNIFIED	17	59,963	17	327.67	44.10%	27.51%

The computed average salary is determined by dividing the total salary schedule cost by the total FTE. The average indicated represents scheduled salaries only.
 The percent FTE at step 10 or above is calculated by taking the total FTE at and above step 10 divided by the total FTE on the salary schedule. Percent FTE at or above step 10 in the last column is calculated by taking the total FTE at or above this point in the last column divided by the total FTE on the salary schedule.

When the District’s generous health and welfare benefit contribution, which does not require any employee to pay any portion of the premium out of pocket, is factored, **the District’s total compensation is the highest in the region.**

COMPARATIVE ANALYSIS OF CERTIFICATED SALARIES AND BENEFITS, 2020-21
MAXIMUM DISTRICT CONTRIBUTION TO HEALTH AND WELFARE BENEFITS

Table 10

DISTRICT NAME	RANK	MAXIMUM MEDICAL CONTRIBUTION (FAMILY OR COMPOSITE)	MAXIMUM DENTAL CONTRIBUTION (IF ANY)	MAXIMUM VISION CONTRIBUTION (IF ANY)	MAXIMUM LIFE CONTRIBUTION (IF ANY)	MAXIMUM OTHER CONTRIBUTION (IF ANY)	CAFETERIA AMOUNT (IF ANY)
SACRAMENTO CITY UNIFIED	1	33,697	2,087	262	13	0	0
LODI UNIFIED	2	24,444	1,668	240	0	0	0
SAN JUAN UNIFIED	3	22,195	710	91	107	0	0
REGION 12 UNIFIED AVERAGE	4	19,711	1,544	212	64	34	0
STOCKTON CITY UNIFIED	5	19,081	1,494	0	0	1,494	19,081
STATEWIDE UNIFIED AVERAGE	6	18,922	1,291	189	55	545	0
COMPARATIVE GROUP AVERAGE	7	16,972	1,129	126	50	200	3,330
ELK GROVE UNIFIED	8	16,427	2,124	238	61	0	0
CENTER JOINT UNIFIED	9	15,840	1,389	240	48	0	0
TWIN RIVERS UNIFIED	10	15,264	0	0	94	0	0
NATOMAS UNIFIED	11	13,476	0	0	0	0	0
DAVIS JOINT UNIFIED	12	12,245	1,447	366	0	0	0
WASHINGTON UNIFIED	13	11,617	800	0	15	0	0
FOLSOM-CORDOVA UNIFIED	14	10,800	785	207	111	34	0
ROCKLIN UNIFIED	15	10,176	0	0	0	0	10,176
RIVER DELTA JOINT UNIFIED	16	8,448	0	0	68	0	8,448
WOODLAND JOINT UNIFIED	17	7,440	0	0	10	0	7,440

Maximum district contributions for health benefits may be potentially over- or understated. Although the J-90 form did ask the districts if there is a maximum contribution, the districts may not have considered this issue in their responses.

Maximum contributions to "Other" benefits are not additive and, therefore, this table reflects only one maximum contribution for this category of benefits.

COMPARATIVE ANALYSIS OF CERTIFICATED SALARIES AND BENEFITS, 2020-21
TOTAL COMPENSATION: COMPUTED AVERAGE SALARY
PLUS AVERAGE DISTRICT CONTRIBUTION FOR HEALTH AND WELFARE BENEFITS

Table 15

DISTRICT NAME	RANK	TOTAL COMPENSATION	COMPUTED AVERAGE SALARY	AVERAGE HEALTH AND WELFARE BENEFIT CONTRIBUTION
SACRAMENTO CITY UNIFIED	1	106,797	83,404	23,393
STATEWIDE UNIFIED AVERAGE	2	100,112	85,154	14,958
STOCKTON CITY UNIFIED	3	98,579	78,580	19,999
ROCKLIN UNIFIED	4	97,371	88,507	8,864
ELK GROVE UNIFIED	5	95,442	80,979	14,463
REGION 12 UNIFIED AVERAGE	6	95,118	80,098	15,020
SAN JUAN UNIFIED	7	94,060	78,226	15,834
COMPARATIVE GROUP AVERAGE	8	92,604	79,057	13,547
LODI UNIFIED	9	91,952	78,335	13,617
TWIN RIVERS UNIFIED	10	91,681	80,769	10,912
FOLSOM-CORDOVA UNIFIED	11	90,429	80,585	9,844
CENTER JOINT UNIFIED	12	88,622	76,929	11,693
WASHINGTON UNIFIED	13	85,596	75,826	9,770
NATOMAS UNIFIED	14	85,214	75,993	9,221
DAVIS JOINT UNIFIED	15	84,165	74,547	9,618
WOODLAND JOINT UNIFIED	16	80,550	73,100	7,450
RIVER DELTA JOINT UNIFIED	17	68,070	59,963	8,107

The statewide, comparative group, and regional averages shown for health and welfare benefits do not reflect "Other" benefits.

The average scheduled salary is determined by dividing the total salary schedule cost by the total FTE. The average indicated represents scheduled salaries only.

SCTA’s presentation further fails to discuss other factors, such as work day and work year, that impact the ability to recruit and retain high quality educators. **The District’s current work year for teachers in the SCTA unit is the lowest in the region at 181 days for current employees, and the work day is similarly the lowest number of hours.**

The District also provides unlimited experience credit to incoming certificated employees, meaning that employees get placed on the salary schedule commensurate with their years of relevant experience, rather than being limited to a certain number of years like in many districts.

Finally, there is absolutely no evidence that the proposals offered by SCTA will solve the vacancies and staffing shortages in the District. As presented by the District during fact-finding, educator retirements are on the rise and educators are leaving the profession in large numbers. This is not a Sacramento City Unified issue, nearly every district in the State is having a staffing crisis. During COVID-19, educators have left the profession in droves. (See District Fact-Finding Binder at p. 240)

IV. Contrary to SCTA’s assertions, the District continues to operate with a structural deficit and is under the oversight of a County Office appointed fiscal advisor.

SCTA’s claim that “school districts in the Sacramento Metropolitan Region and Similarly Funded School Districts Have invested in Educators with Historic One-time and On-going

Monies” ignores that the District made a significant investment in educators in 2017 with a restructure of the salary schedule and corresponding salary adjustments that were, while greater than the District expected because of a disagreement over the terms of the Tentative Agreement, significantly enhanced educator take-home pay in the 2018-19 school year.

SCTA’s presentation claims that the District “has one of the highest reserve levels of similarly sized school districts in the state,” which is simply not true, and they have offered no data to support it. In fact, the average reserve for a unified school district in the State for 2020-2021 is 22.36% and based on the latest State certified data, the District’s reserve for 2020-2021 is 17.40%.

Average Unrestricted General Fund, Plus Fund 17; Net Ending Balances as a Percentage of Total General Fund Expenditures, Transfers, and Other Uses			Change from Prior Year
	2019-20	2020-21	
Unified School Districts	18.82%	22.36%	3.54%
Elementary School Districts	22.70%	26.01%	3.31%
High School Districts	17.34%	21.82%	4.47%
Sacramento City Unified	15.88%	17.40%	1.52%

SCTA’s claims that the District does not have a structural deficit are incorrect and contrary to the definitions of fiscal distress and structural deficits as understood by the California Department of Education (CDE), county offices of education and FCMAT. SCTA claims that to have a structural deficit, “an entity must have an ongoing, recurrent deficit. SCUSD has not.” SCTA’s definition of a structural deficit is only one aspect of determining the existence of a structural deficit and fiscal distress. As noted by FCMAT, “*a structural deficit is when ongoing, unrestricted expenditures and contributions exceed ongoing unrestricted revenues.*” (See FCMAT Report titled “Fiscal Health Risk Analysis” dated December 12, 2018 at p. 13.)

Education Code section 42127.6 subdivision (a)(1)(A) allows the county superintendent of schools to “assign a fiscal expert” and/or “fiscal advisor” to advise a district “on its financial problems” if the district has a qualified or negative budget certification, a disapproved budget and/or a county office of education declares a “lack of going concern” in a district. The purpose of such advisement is to “ensure that the district meets its financial obligations.” (*Id.*) The Sacramento County Office of Education (“SCOE”) has assigned a fiscal advisor, Terri Ryland, to work closely with District staff in that capacity. The District is under the fiscal oversight of SCOE per AB1200 and is required to have a fiscal advisor because the District budget has been and continues to be disapproved and certified as negative (as in the past years) or qualified (as it currently is certified).

SCOE has repeatedly and specifically noted in communications to the District around its budget, and as recently as January 14, 2022, that:

The district has experienced a prolonged period of fiscal distress and we have not been able to approve its last few budgets because of its significant and persistent deficits. Moreover, the current improvement in the district's fiscal position is likely to be temporary without corrective action to close its structural budget deficit.

SCTA claims that the District ended each year with an unrestricted fund balance showing a surplus and therefore the District does not have a structural deficit. It appears that SCTA's claims are premised on looking at these years in isolation, and without factoring the circumstances unique to each year. For example, for the 2018-19 fiscal year, the District did end the fiscal year with a surplus of \$857,000. That surplus was the result of unspent budget dollars due to turnover of staff, mid-year budget cuts, freeze on vacant positions and deliberate slow-down of travel and supplies expenditures. And, in looking at the multi-year budget projections at the time of the 2018-19 Revised Adopted Budget the second year showed a projected unrestricted general fund deficit of \$41.5 million and the third year a projected deficit of \$45.7 million. Looking at the 2019-20 fiscal year, the District ended the fiscal year with a surplus of \$23.5 million. Of that surplus amount, over \$20 million was specifically identified as being due to one-time, unexpected savings that resulted in shuttering District schools in Spring 2020 because of the COVID-19 pandemic. In addition, over the last three years, the District has aligned staffing to enrollment resulting in lowering the on-going salary costs by millions of dollars, as was intended. The District's enrollment decline has increased significantly in 2021-2022 by 1600 students. The projected enrollment in the 2021-2022 adopted budget projected a decline of 200 students. Based on current CBEDS and Decision Insite data, the District is projected to decline by an additional 1500 students in 2022-2023. In an effort to address the structural deficit, the District's Board took action to approve a \$5.2 million Fiscal Recovery Plan. However, the District's structural deficit is projected to persist as shown in the District's multi-year projections.

A number of independent entities have noted the District's structural, ongoing budget deficit in the unrestricted General Fund and expect that deficit to grow in future years if corrective action is not taken. As noted by SCOE, FCMAT and the California State Auditor, the District spends more than it receives in revenue and its costs are growing faster than its revenues. On February 4, 2021, the District's Governing Board adopted [Board Resolution 3180](#) recognizing the existence of and significant threat posed by the District's ongoing structural deficit and resolving that the District must act to reduce the ongoing unrestricted general fund expenditures in order to balance the multi-year budget and meet the state mandated 2% reserve **without a structural deficit**. Further, on March 4, 2021, the Governing Board revised District [Board Policy 3100—Reserves and Use of One-Time Funds](#)—to require that, beginning with the 2022-2023 budget or after the district's deficit is eliminated, the Board establish and maintain a general fund reserve for economic uncertainty established at no less than 5% of total general fund expenditures.

As noted by SCOE in its January 14, 2022 letter, the District continues to experience declining enrollment, which has been exacerbated by the COVID-19 pandemic, the District's cash balances will fall below the cost of one month of salaries and benefits in early 2022-23, and the District is still working to complete successor contract negotiations with its labor partners.

When one looks at the District's budgets over the recent past years, it is clear that the District's *ongoing* unrestricted expenditures and contributions *exceed* its *ongoing* unrestricted revenues. As noted above, this is very clearly demonstrated when the one-time savings from closing schools due to COVID-19 are reflected. Thus, while it may be beneficial to SCTA's narrative to look at one line on the District's budget in isolation without consideration of the factors at play in a given fiscal year or how the budget picture changes when looking at the current year and subsequent two fiscal years, such approach would be fiscally imprudent. And, looking at years in isolation or without context of ongoing budget plans is not allowed when reviewing the fiscal solvency of school districts under AB1200.

V. The District's fiscal challenges have been well documented by numerous outside agencies and fact-finders.

In order to ensure that you, as the Neutral Fact-Finding Chair, have all of the relevant documents related to the District's budget and the reports from various outside agencies recognize the District's budget challenges and the existence of a structural deficit, in addition to the information provided in this letter, please see the following:

MOST RECENT LETTER FROM SCOE

- January 14, 2022 letter from SCOE
- [April 12, 2021 letter from SCOE](#)
- [January 14, 2021 letter from SCOE](#)
- [October 28, 2020 letter from SCOE](#)
- [September 15, 2020 letter from SCOE](#)
- [FCMAT Fiscal Health Risk Analysis dated December 12, 2018](#)
- [FCMAT Management Letter dated September 15, 2020](#)
- [Report of the California State Auditor dated December 10](#)
- [District website where budget documents are located and accessible](#)

VI. Conclusion

The District again urges you to limit this fact-finding and your recommendations to the issues involved in COVID-19 and reopening negotiations, which do not include any generalized staffing crisis in the District, and allow the District and SCTA to continue to negotiate over proposals that relate to successor contract terms and long-term solutions so that we can reach agreement through that process.

Sincerely,

LOZANO SMITH



Dulcinea A. Grantham

DAG/cd

Enclosures

Joe Lindsay
March 11, 2022
Page 10

cc: John Borsos, Executive Director, Sacramento City Teachers Association
John Gray, President, School Services of California

Enclosures



David W. Gordon
Superintendent

January 14, 2022

Board of Education

Karina Talamantes
President

Paul A. Keefer, Ed.D., MBA
Vice President

Joanne Ahola

O. Alfred Brown, Sr.

Heather Davis

Harold Fong, MSW

Bina Lefkowitz

(916) 228-2500

www.scoe.net

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

SUBJECT: 2021-2022 First Period Interim Report

Dear Superintendent Aguilar:

In our letter dated September 15, 2021, we determined that the district's 2021-2022 Adopted Budget did not provide adequate assurance that the district is a going concern and would be able to meet its future obligations. As a result, we made a **lack of going concern determination** and **conditionally approved** the budget to allow the district time to resolve its structural deficit and develop a financial plan that would enable it to meet its future obligations. In that letter, we also required that the district take no action that would result in an increase in unrestricted general fund expenditures until the structural deficit is eliminated.

After submission of the First Period Interim Report, the County Superintendent of Schools is required to review the report for adherence to the Criteria and Standards for fiscal stability adopted by the State Board of Education, pursuant to Education Code section 42131. The district has filed a First Interim Report with a **qualified** certification. Based on the multi-year projections and assumptions provided by the district, it appears the district will have a small budget surplus in the current fiscal year and will meet its 2% unrestricted reserve requirement for the current year and two subsequent years. This is primarily due to one-time COVID-19 related savings in the current and prior years. In addition, at its December 18, 2021 meeting, the district's governing board adopted a fiscal recovery plan which included ongoing solutions of \$7.9 million and one-time solutions of \$5.3 million and identified additional solutions for future consideration. As a result, we concur with the district's **qualified** certification.

However, the ability of the district to maintain a minimum reserve level is only one of the criteria for fiscal stability adopted by the State Board. Other important criteria include deficit spending, cost growth, and declining enrollment. Furthermore, the district's fiscal recovery plan does not fully

resolve the ongoing structural deficit which threatens the long-term fiscal health of the district.

- The multi-year projections submitted project that the unrestricted General Fund balance will decrease by \$19.5 million in 2022-2023, and by \$26.2 million in 2023-2024. We note that the district experienced temporary fiscal improvement in 2021-2022 due to the one-time COVID-19 related savings and that the decreases in the subsequent years reflect a growing structural deficit.
- The district is projecting a decrease of 2,240 ADA in 2021-2022, an additional decrease of 179 ADA in 2022-2023, and an additional decrease of 177 ADA in 2023-2024.
- It is noted that the Certificated and Classified bargaining agreements have expired, and the district is negotiating successor agreements. Because potential costs for the new agreements are not included in the district's projections, any salary and benefit increase or other costs included in the agreements will result in even larger projected deficits.

Because the County Superintendent has previously made a lack of going concern determination, state law authorizes the County Superintendent to continue the current level of oversight and support of the district through the end of this fiscal year and into the next until the district determines all its potential expenditures going forward and adopts a budget which eliminates its structural deficit. This is not affected by the recent improvement in the district's fiscal position or by its "qualified" certification. It includes:

- Authority to stay or rescind any action that is determined to be inconsistent with the ability of the school district to meet its obligations.
- Assistance in developing a budget for the subsequent year.
- Appointment of a fiscal adviser.

We also continue our request that the district provide the following:

- Regular updates on actions the district and its labor partners, SCTA and SEIU in particular, are taking to improve cooperation and collaboration.
- Regular updates on the status of efforts to negotiate budget solutions with the district's bargaining units, as well as related administrative and legal actions.
- Regular updates on current and projected enrollment trends and inform us of budget and staffing adjustments necessary to accommodate enrollment fluctuations.

Jorge A. Aguilar, Superintendent

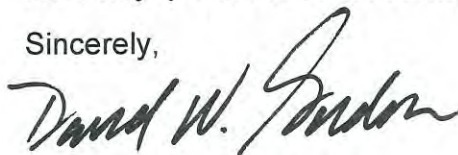
January 14, 2022

Page 3

-
- Immediate notification to us and the fiscal advisor, and provide for our review, any changes to the budget.
 - A copy of studies, reports, evaluations, or audits commissioned by the school district or a state agency as soon as they are available to the district.
 - Before the district's board of education takes any action on a proposed collective bargaining agreement, the district must meet the public disclosure requirements of Government Code section 3547.5. **Please submit the public disclosure of the collective bargaining agreement to the county office for review at least ten (10) working days prior to the date the governing board will take action on the proposed bargaining agreements.** This information must also be available to the public prior to the date the governing board will take action on the proposed bargaining agreements, in accordance with Brown Act requirements. Also, as provided by the State Criteria and Standards (CCR Section 15451(b)(C)) and Education Code section 42142, when labor contract negotiations are settled after the adoption of the district's budget, the district must provide the County Superintendent a fiscal analysis of the agreement and its effect on the budget and, within 45 days of adoption of the agreement, any revisions to the district's current budget necessary to fulfill the terms of the agreement.

We would like to thank your staff for their cooperation during our review process. If you have any questions or concerns, please call Nicolas Schweizer at (916) 228-2561.

Sincerely,



David W. Gordon

Sacramento County Superintendent of Schools

DWG/NS/sl

cc: Christina Pritchett, Board President, SCUSD
Rose Ramos, Chief Business Officer, SCUSD
Dr. Nancy Herota, Deputy Superintendent, SCOE
Nicolas Schweizer, Associate Superintendent, SCOE
Sharmila LaPorte, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael H. Fine, Chief Executive Officer, FCMAT
Lisa Constancio, Deputy Superintendent, CDE
Betty T. Yee, California State Controller



David W. Gordon
Superintendent

April 12, 2021

Board of Education

Joanne Ahola
President

Karina Talamantes
Vice President

O. Alfred Brown, Sr.

Heather Davis

Harold Fong, MSW

Paul A. Keefer, Ed.D., MBA

Bina Lefkovitz

(916) 228-2500

www.scoe.net

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

SUBJECT: 2020-2021 Second Period Interim Report

Dear Superintendent Aguilar:

The Sacramento City Unified School District Board of Education, at its meeting on March 18, 2021, adopted a qualified certification of the district's Second Period Interim Report. However, only a few weeks prior to this action, the board adopted Resolution No. 3180 to recognize the significant threat posed by the district's ongoing structural deficit. Consistent with this resolution and with state law, we have determined that a negative certification should have been filed by the district and, as a result, we are changing the district's certification to **negative**.

After submission of the Second Period Interim Report, the county superintendent of schools is required to review the report for adherence to the criteria and standards for fiscal stability adopted by the State Board of Education, pursuant to Education Code Section 42131, and change the certification of a school district if the county superintendent determines that a different certification should have been filed.

One of the criteria for fiscal stability adopted by the State Board is the ability of the district to maintain a minimum reserve level which, for the Sacramento Unified School District, is only 2%. Based on the multi-year projections and assumptions provided by the district, the district will meet its reserve requirement for the current fiscal year and two subsequent fiscal years.

The district appears to have focused on its ability to meet minimum reserve requirements in adopting a qualified certification, however, there are nine other criteria which must be considered in determining a district's certification. Of these, a criterion of significant concern for the district is its level of deficit spending and another is potential growth in salary and benefit costs. The multi-year projections submitted by the district indicate significant cost growth and deficits beginning in the next fiscal year. Additionally, the district's

certificated and classified collective bargaining agreements have expired and its bargaining units have not yet shared their proposals for the new agreements. Due to potential costs for the new agreements not being included in the district's projections, any salary and benefit increases, or other costs included in the agreements will result in even larger projected deficits.

Furthermore, the State Board requires additional information be considered such as the use of one-time funding for ongoing expenditures, which has also been a concern for the district. We note that the primary reason the district has been able to generate budget surpluses this year and last year is the \$57 million in one-time savings that resulted from the closure of the district's schools due to the COVID-19 pandemic. The district's projections rely on these one-time savings to meet minimum reserve requirements over the next two years.

The district has experienced a prolonged period of fiscal distress and we have not been able to approve its last few budgets because of its significant and persistent deficits. Moreover, the current improvement in the district's fiscal position is likely to be temporary without corrective action to close its structural budget deficit. **The Resolution the district's board recently adopted recognizes "the existence of and significant threat posed by the district's ongoing structural deficit" and "that the district must act to reduce the ongoing unrestricted general fund expenditures in order to balance the multi-year budget."**

While the district's ability to meet its minimum reserve requirement for the current and subsequent fiscal years would otherwise justify a qualified certification, the combination of issues with the other criteria for fiscal stability discussed above, the district's prolonged period of fiscal distress, and the likelihood that the recent fiscal improvement will be temporary lead us to determine that a negative certification should have been filed by the district.

Background and Additional Concerns

In our letter dated September 15, 2020, the district's 2020-2021 Adopted Budget was **disapproved**. After re-submission of the budget, the district was notified in a letter dated October 28, 2020 that the budget was again **disapproved**. In that letter, we also requested that the district submit a viable board-approved budget and multi-year expenditure plan that reverses the deficit spending trend with the 2020-2021 First Interim Report. The district's First Interim Report was submitted and approved with a **negative** certification.

The district's board, at its February 4, 2021 meeting, approved a Fiscal Recovery Plan that projects savings of approximately \$4.5 million. These savings are reflected in the district's Second Interim multiyear projections. At the same meeting, the board adopted Resolution

No. 3180 recognizing the district's structural deficit. At its February 18, 2021 meeting, the board approved layoffs including the reductions necessary to implement the Fiscal Recovery Plan.

District staff submitted the Second Interim Report to the board with a negative certification. However, the board elected to change the certification to a qualified certification. Due to the factors discussed above, we do not concur with the district board's qualified certification and are certifying the district's Second Interim report as **negative**. We note the following additional concerns:

- The multi-year projections submitted project that the unrestricted General Fund balance will increase by \$4,752,580 in 2020-2021, decrease by \$11,166,753 in 2021-2022, and decrease by \$26,361,653 in 2022-2023.
- The district is projecting decreases to ADA from the 2020-2021 hold-harmless level as follows: 673 ADA in 2021-2022, an additional 386 ADA decrease in 2022-2023, and a further 373 ADA decrease in 2023-2024.
- The district's cash flow projections submitted with the 2020-2021 Second Period Interim Report project that the district will maintain positive cash balances for the current and two subsequent fiscal years. The district has submitted and been approved for a waiver request for apportionment deferrals for the months of April and May 2021. However, cash balances continue to deteriorate and for a few months in 2022-2023 cash balances fall below the cost of one month of salaries and benefits which has proven to be an important indicator of fiscal solvency.
- It is noted that the certificated and classified salary negotiations have not been settled for 2019-2020 and the current fiscal year.
- The Governor's 2021-2022 Budget proposal will provide additional ongoing funding for school districts and relief from the apportionment deferrals. However, even if adopted as proposed by the state legislature, it would not be sufficient to resolve the district's ongoing fiscal imbalances.
- The district has received significant additional one-time federal and state funding to maintain the continuity of instruction and student services, support reopening schools for in-person instruction, and to address learning loss during the pandemic. However, the district must continue to be resolute in recognizing the one-time nature of this funding and that it must be dedicated to addressing immediate operational needs created by the pandemic, reopening schools for in-person instruction, and addressing the harm the pandemic has done to students.

We will continue our current level of oversight and support of the district through the end of this fiscal year and into the next until the district determines all its potential expenditures going forward and adopts a budget which eliminates its structural deficit and allows it to meet its multiyear financial commitments. As a result, we continue our request that the district provide the following:

- A plan for expenditure of state and federal funding provided to support reopening schools for in-person instruction and to address learning loss during the pandemic that recognizes the one-time nature and purposes of these funds and is in alignment with the Fiscal Recovery Plan.
- Regular updates on actions the district and its labor partners, SCTA in particular, are taking to improve cooperation and collaboration.
- Regular updates on the status of efforts to negotiate budget solutions with the district's bargaining units, as well as related administrative and legal actions.
- Regular updates on current and projected enrollment trends and inform us of budget and staffing adjustments necessary to accommodate enrollment fluctuations.
- Immediate notification to us and the fiscal advisor, and provide for our review, any changes to the budget.
- A copy of studies, reports, evaluations, or audits commissioned by the school district or a state agency as soon as they are available to the district.
- Before the district's board of education takes any action on a proposed collective bargaining agreement, including memorandum of understanding and side letters, the district must meet the public disclosure requirements of Government Code Section 3547.5. **Please submit the public disclosure of the collective bargaining agreement to the county office for review at least ten (10) working days prior to the date the governing board will take action on the proposed bargaining agreement.** This form must also be available to the public at least ten (10) working days prior to the date the governing board will act on the proposed bargaining agreements. Within 45-days of adopting a collective bargaining agreement, the district superintendent must also send the county superintendent any revisions to the district's current budget necessary to fulfill the terms of the agreement.

Jorge A. Aguilar, Superintendent
April 12, 2021
Page 5

We would like to thank your staff for their cooperation during our review process. If you have any questions or concerns, please call Nicolas Schweizer at (916) 228-2561.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/NS/sl

cc: Christina Pritchett, Board President, SCUSD
Rose Ramos, Chief Business Officer, SCUSD
Dr. Nancy Herota, Deputy Superintendent, SCOE
Nicolas Schweizer, Associate Superintendent, SCOE
Sharmila LaPorte, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael H. Fine, Chief Executive Officer, FCMAT
Lisa Constancio, Deputy Superintendent, CDE
Betty T. Yee, California State Controller



RECEIVED

JAN 19 2021

OFFICE OF THE SUPERINTENDENT
Sacramento City Unified School District

David W. Gordon
Superintendent

January 14, 2021

Board of Education

Joanne Ahola
President

Karina Talamantes
Vice President

O. Alfred Brown, Sr.

Heather Davis

Harold Fong, MSW

Paul A. Keefer, Ed.D., MBA

Bina Lefkovitz

(916) 228-2500

www.scoe.net

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

SUBJECT: 2020-2021 First Period Interim Report

Dear Superintendent Aguilar:

In our letter dated September 15, 2020, the district's 2020-2021 Adopted Budget was **disapproved**. After re-submission of the budget, the district was notified in a letter dated October 28, 2020 that the budget was again **disapproved**. In that letter, we also requested that the district submit a viable board-approved budget and multi-year expenditure plan that reverses the deficit spending trend with the 2020-2021 First Interim Report, which was due on December 15, 2020.

After submission of the First Period Interim Report, the County Superintendent of Schools is required to review the report for adherence to the State-adopted Criteria and Standards pursuant to Education Code sections 42130-31 and 33127. The district has filed a First Interim Report with a **negative** certification. Based on the multi-year projections and assumptions provided by the district, it appears the district will meet its 2% unrestricted reserve requirement for the current fiscal year and first subsequent fiscal year but will fall short by \$42.8 million in 2022-2023. Furthermore, the district has a history of relying on one-time revenue and/or one-time savings to support ongoing expenses and is now projecting significant and rapidly growing operating deficits beginning in the current fiscal year. As a result, we concur with the district's **negative** certification with the following comments:

- The multi-year projections submitted project that the unrestricted General Fund balance will decrease by \$22.1 million in 2020-2021, by \$38.2 million in 2021-2022, and by \$55.4 million in 2022-2023.
- The district is projecting a decrease of 224 ADA in 2021-2022, and a decrease of 144 ADA in 2022-2023. However, it is our understanding that enrollment has declined by at least 600 students in the current fiscal year and that this decline may persist into future fiscal years, resulting in much larger ADA decreases than projected.

- The district's cash flow projections submitted with the First Period Interim Report project a positive cash balance through April 2021, but beginning in May 2021, the district is projecting to have major cash challenges and is projected to have a negative cash balance of \$36.4 million in May 2021 and end the year with a negative \$25 million on June 30, 2021. The district plans to manage temporary cash shortages through interfund transfers, temporary short-term borrowings, and has submitted a waiver request of the apportionment deferrals.
- It is noted that certificated and classified salary negotiations have not been settled for 2019-2020 and the current fiscal year.

Need for Board Approval of a Fiscal Recovery Plan

As noted above, our October letter requested that the district submit a board-approved Fiscal Recovery Plan by December 15, 2020. A Fiscal Recovery Plan was developed by the district and presented at the December 10, 2020 board meeting. The plan includes both negotiable and non-negotiable items. Savings from the non-negotiable items will reduce the deficit, but these reductions alone will not be sufficient in eliminating deficit spending and achieving fiscal solvency for the district. Furthermore, the district's governing board has not yet acted on the Fiscal Recovery Plan.

It is our understanding that the district plans to seek board approval of the Fiscal Recovery Plan by early February. **We encourage the district to maintain this schedule and not delay action further.**

The Governor's 2021-2022 Budget proposal would provide additional ongoing funding for school districts and relief from the apportionment deferrals, however, even if adopted as proposed by the state legislature, it would not be sufficient to resolve the district's ongoing fiscal imbalances. Significant operational deficits would remain, and the district would still be at risk of cash insolvency by the end of the coming fiscal year. Furthermore, a potential loss of funding related to the significant decline in enrollment could negate much of this additional funding.

The district will receive significant additional one-time federal funding, and potentially state funding as well, to maintain the continuity of instruction and student services, support reopening schools for in-person instruction, and to address learning loss during the pandemic. However, the district must continue to be resolute in recognizing the one-time nature of this funding and that it must be dedicated to addressing immediate operational needs created by the pandemic, reopening schools for in-person instruction, and addressing the harm the pandemic has done to students.

To avoid a fiscal crisis, the district must implement budget reductions no later than July 2021 to avoid running out of cash. However, many of the items included in the Fiscal Recovery Plan require reductions in force or must be negotiated with the district's labor partners. As a result, the district's board must act on the Fiscal Recovery Plan expeditiously, the district must include in its March 15 layoff notices all of the reductions necessary to implement the plan, and the district and its labor partners must immediately begin meeting to negotiate budget solutions.

Lack of Collaborative Relationship between SCUSD and SCTA

As noted above, the Fiscal Recovery Plan includes budget solutions which must be negotiated with the district's labor partners. However, the lack of collaboration between the district and Sacramento City Teachers Association (SCTA) has been a significant barrier to addressing the district's fiscal challenges. It is a foundational issue that has also impeded the implementation of consistent, effective instructional practices, and initiatives, and is a barrier to implementing the districtwide changes necessary to improve student outcomes. We request that the district and its labor partners take action to improve cooperation and collaboration, such as working with the California Labor Management Initiative or bring on another external facilitator, or panel of facilitators.

We continue our request that the district provide the following:

- A board-adopted Fiscal Recovery Plan and include in its March 15 layoff notices the reductions necessary to implement the plan and to reduce staffing due to significant declines in enrollment by the February 18, 2021 board meeting.
- As soon as practicable, a plan for expenditure of state and federal funding provided to support reopening schools for in-person instruction and to address learning loss during the pandemic that recognizes the one-time nature and purposes of these funds and that is in alignment with the Fiscal Recovery Plan.
- Regular updates on actions the district and its labor partners, SCTA in particular, are taking to improve cooperation and collaboration.
- Regular updates on the status of efforts to negotiate budget solutions with the district's bargaining units, as well as related administrative and legal actions.
- Regular updates on current and projected enrollment trends and inform us of budget and staffing adjustments necessary to accommodate enrollment fluctuations.
- Immediate notification to us and the fiscal advisor, and provide for our review, any changes to the budget.

- A copy of studies, reports, evaluations, or audits commissioned by the school district or a state agency as soon as they are available to the district.
- Before the district's board of education takes any action on a proposed collective bargaining agreement, including memorandum of understanding and side letters, the district must meet the public disclosure requirements of Government Code section 3547.5 and the California Code of Regulations Title V, section 15449. **Please submit the public disclosure of the collective bargaining agreement to the county office for review at least ten (10) working days prior to the date the governing board will take action on the proposed bargaining agreements.** This form must also be available to the public at least ten (10) working days prior to the date the governing board will act on the proposed bargaining agreements. Also, as provided by the State Criteria and Standards, when labor contract negotiations are settled after the adoption of the district's budget, the district must analyze the budget to determine the effect of the settlement, and the governing board must certify to the validity of the analysis within 45 days of the final settlement. Within this 45-day period, the District Superintendent must also send the County Superintendent any revisions to the district's current budget necessary to fulfill the terms of the agreement.

We would like to thank your staff for their cooperation during our review process.

If you have any questions or concerns, please call Nicolas Schweizer at (916) 228-2561.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/NS/sl

cc: Christina Pritchett, Board President, SCUSD
Rose Ramos, Chief Business Officer, SCUSD
Nicolas Schweizer, Associate Superintendent, SCOE
Sharmila LaPorte, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael H. Fine, Chief Executive Officer, FCMAT
Lisa Constancio, Deputy Superintendent, CDE
Betty T. Yee, California State Controller



David W. Gordon
Superintendent

October 28, 2020

Board of Education

Joanne Ahola
President

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

Karina Talamantes
Vice President

O. Alfred Brown, Sr.

SUBJECT: 2020-2021 Re-Adopted Budget

Heather Davis

Dear Superintendent Aguilar:

Harold Fong, MSW

Paul A. Keefer, Ed.D., MBA

BACKGROUND

Bina Lefkovitz

In our August 4, 2020 letter, the Sacramento County Office of Education (SCOPE) **disapproved** the Sacramento City Unified School District's (SCUSD) 2020-2021 Adopted Budget. Per Education Code requirements, the district was instructed to revise the 2020-2021 Adopted Budget and submit it to this office no later than October 8, 2020. The district was also required to submit a viable, board-approved, budget-balancing plan that would reverse the deficit spending trend and support on-going expenditures from on-going revenue sources, and include a timeline showing when and how each line item adjustment would be implemented. Our office continues to provide a fiscal advisor to assist the district during this process. It is also noted that the district is operating under expired Collective Bargaining Agreements with all of its employee units.

(916) 228-2500

www.scoe.net

STRUCTURAL DEFICITS/RESERVE REQUIREMENTS

In accordance with the provisions in Education Code sections 42127 and 33127, we have examined the district's Re-Adopted Budget to determine if it complies with the Criteria and Standards adopted by the State Board of Education. Based on our review, it appears that the district's unrestricted General Fund balance will decrease by approximately \$18 million in 2020-2021, approximately \$34 million in 2021-2022, and approximately \$50.9 million in 2022-2023. It appears that the district will meet its minimum reserve requirement in the current and first subsequent fiscal year, but will fall short in the second subsequent fiscal year, leaving a negative unrestricted ending fund balance of approximately \$18.3 million in 2022-2023.

CASH FLOW SHORTAGES

Fiscal Year 2020-2021

Cash flow projections show the district anticipates a negative cash balance from May 2021 to September 2021 due to the Principal Apportionment Deferrals. The district will try to utilize cash flow management options such as TRAns or deferral waivers. We will work closely with the district on cash management strategies as much as is practicable.

Fiscal Year 2021-2022

Due to the use of the above-mentioned options, it appears the district may avoid cash flow insolvency in the 2020-2021 fiscal year. However, the 2021-2022 cash flow projection shows that the district anticipates a negative cash balance beginning in March 2022, again due to the Principal Apportionment Deferrals. The district continues to show negative cash flow projections even after the cash deferrals are repaid or forgiven. It appears the district will not have the ability to repay any cash flow borrowing after March 2022, therefore, the cash management options available to the district in 2020-2021 may be limited, and possibly nonexistent by 2021-2022. This would lead to insolvency and the need for an emergency apportionment.

FCMAT LETTER

In May of 2020, SCUSD and FCMAT entered into an agreement for FCMAT to provide management assistance to the district by developing an independent, multi-year financial projection and cash flow analysis to determine whether the district will need an emergency appropriation. On September 15, 2020, following completion of their fieldwork, FCMAT issued a letter of their findings and recommendations. Education Code provides that the County Superintendent shall review and consider studies, reports, evaluations, or audits that contain evidence that shows fiscal distress when determining whether the adopted budget of a school district will allow the district to meet its financial obligations. In our review of the FCMAT letter, we noted some significant items as follows in bold:

- **The position control reports provided to FCMAT cannot be relied upon for staffing or Multi-year Financial Projections.** FCMAT comments that despite repeated observations over the years about the district's lack of position control, the district still has an unreconciled and inaccurate position control system. Many improvements have been made, but many are still needed. The system/process is insufficient to serve in the traditional role of a position control system, which provides gatekeeper functionality for over 90% of the district's expenditures.

SCOE agrees with this finding and has noted that the district is hindered by the lack of accurate position control data to be used in the budgeting process. In the current system, cumbersome and time-consuming reconciliations must be performed, at minimum, on an annual basis. Without such procedures, the position control reports cannot be relied upon for budget projections. Per our past recommendations, the district is currently working on implementing changes to the position control system procedures to allow for budget-ready position control data.

- **The FCMAT review indicates that, based on information they obtained from the California Department of Education (CDE), the district's average students per teacher ratios appear to be below the state limit and those in the certificated collective bargaining agreement.** While the FCMAT letter compares current staffing ratios to state and Collective Bargaining Agreement (CBA) limits, further analysis of the CDE data and the district's records shows that when necessary adjustments are made to account for Special Education, charter schools, and the preparation periods required by the CBAs, the district class-size averages are extremely close to those limits, except in certain specialty programs. We know these specialty programs continue to be analyzed by the district as part of a potential Fiscal Recovery Plan.
- **The FCMAT letter concluded that an emergency appropriation will likely be necessary in 2020-2021 if internal and external borrowing options are not available and/or the district does not receive apportionment deferral exemptions. Furthermore, even if borrowing options are available and/or deferral exemptions are received in 2020-2021, without substantial corrective action, an emergency appropriation is likely needed in 2021-2022.** The cash flow statements prepared by FCMAT for 2020-2021 and 2021-2022, along with those prepared by SCUSD, show the district running out of cash in March 2022 with no ability to recover, even after the deferrals are repaid or forgiven.

DISAPPROVED RE-ADOPTED BUDGET

We recognize recent successes at reducing the current-year budget for anticipated vacancies and pandemic-related savings, however, more budget balancing efforts are required. Based on our review of the district's financial reports showing an on-going structural deficit, extreme cash flow issues, negative fund balance projections, and the conclusion presented in the FCMAT letter, the district's Re-Adopted Budget is **disapproved**.

In response to disapproval of the Re-Adopted Budget, and pursuant to Education Code sections 42127.1 through 42127.3, the County Superintendent must call for the formation of a Budget Review Committee (BRC) unless the governing board of the district and the County Superintendent agree to waive this requirement. If the district opts for the formation of the committee, the committee shall be composed of three persons from a list of candidates provided by the California State Superintendent of Public Instruction (SPI) and selected by the district's governing board. The selection must be made within five (5) working days after receipt of the list. The SPI shall convene the committee no later than five (5) working days following the selection of the committee members. No later than November 30, 2020, the BRC shall review the proposed budget of the district and transmit to the SPI, the County Superintendent, and the governing board of the district either of the following:

1. The recommendation that the school district budget be approved; or
2. A report disapproving the school district budget and setting forth recommendations for revisions to the school district budget that would enable the district to meet its financial obligations in the current fiscal year and two subsequent fiscal years.

If the district's governing board and the County Superintendent agree to waive the formation of the BRC, the California Department of Education must approve the waiver. November 8, 2020 is the deadline for a board-approved waiver to be submitted to the California Department of Education. Enclosed with this letter is a copy of the waiver request form. If your board pursues the option of waiving the committee, we will need to act quickly. Given the multiple reviews, audits, and the most recent FCMAT letter, along with the fact that the district is ready to present its Fiscal Recovery Plan next month, we recommend the district waive the formation of the BRC, as there is no need for a duplicative process.

Upon approving a waiver of the BRC, CDE shall ensure that a balanced budget is adopted by December 31, 2020. The County Superintendent must perform his duties under Education Code section 42127.3(b), which include the responsibility to stay or rescind any action inconsistent with a budget that will govern the district and allow the district to meet its financial obligations. **While the district must reverse its deficit spending in time to meet minimum reserve levels in 2022-2023 and beyond, this office recommends that the district make cuts immediately.** The fiscal advisor sponsored by the County Superintendent will remain in place to assist the district during this process.

To meet the December 31, 2020 deadline, the district shall submit a viable board-approved budget and multi-year expenditure plan that will reverse the deficit spending trend with the 2020-2021 First Interim Report, which is due by December 15, 2020. **Our understanding is that a draft fiscal recovery plan will be discussed at the November 19, 2020 district board meeting, with a follow-up discussion and action on December 10, 2020.** We look forward to seeing the presentation of these items.

We continue our request that the district provide the following:

- Commit to using only on-going funding sources to pay for on-going expenditures.
- Recognize the one-time nature of savings due to COVID-19, and project future budgets accordingly.
- Immediately address attendance-taking strategies of classroom teachers, assuring current-year enrollment and attendance accounting is accurate, ensuring full funding for the district.
- Expedite development and implementation of procedures to update position control and reconcile it to budget and payroll on a periodic basis, and no less than at each financial reporting period.
- Notify us and the fiscal advisor immediately, and provide for our review, any changes to the budget.
- Continue to closely monitor future enrollment trends and inform us of budget adjustments should enrollment trends fluctuate.

If you have any questions or concerns regarding this review, please feel free to call Tamara Sanchez at 916-228-2551.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/TS/dw

Enclosure: CDE Waiver Request Form

cc: Jessie Ryan, Board President, SCUSD
Rose Ramos, Chief Business Officer, SCUSD
Dr. Nancy Herota, Deputy Superintendent, SCOE
Tamara Sanchez, Associate Superintendent, SCOE
Debra Wilkins, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael H. Fine, Chief Executive Officer, FCMAT



RECEIVED

SEP 23 2020

David W. Gordon
Superintendent

September 15, 2020

OFFICE OF THE SUPERINTENDENT
Sacramento City Unified School District

Board of Education

Joanne Ahola
President

Karina Talamantes
Vice President

O. Alfred Brown, Sr.

Heather Davis

Harold Fong, MSW

Paul A. Keefer, Ed.D., MBA

Bina Lefkovitz

(916) 228-2500

www.scoe.net

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

SUBJECT: 2020-2021 Adopted Budget 45-Day Revision Update

Dear Superintendent Aguilar:

We reviewed the district's 2020-2021 Adopted Budget to determine whether it complied with the Criteria and Standards adopted by the State Board of Education. In our letter to the district dated August 4, 2020, the district's 2020-2021 Adopted Budget was **disapproved** in accordance with the provisions in Education Code sections 42127(c)(1)(2) and 33127.

We requested that the district submit to us by August 13, 2020, a budget revision reflecting material changes to the district's budget based on the enacted state budget to include updated multi-year and cash flow projections. The 45-day budget revision was submitted and reviewed with the following comments:

- Based on the multi-year projections and assumptions provided by the district with its Adopted Budget, it appeared the district would not meet its minimum reserve requirements for 2020-2021, 2021-2022, and 2022-2023. After submission of an updated 45-day revision reflecting changes from the approved state budget to the 2020-2021 Adopted Budget, multi-year projections, and cash flow, it appears the district will fall short in meeting its 2% unrestricted reserve requirement by \$52,788 in 2020-2021, and will not meet minimum reserve requirements in 2021-2022 and 2022-2023.
- The multi-year projections submitted projected negative ending fund balances of \$11.2 million for 2020-2021, \$108.1 million for 2021-2022, and \$216.9 million for 2022-2023. With submission of the 45-day budget revision, the unrestricted general fund balance is now projected to decrease by \$40.7 million, leaving the district with an unrestricted ending balance of \$23 million in 2020-2021, and negative ending fund balances of \$36.2 million in 2021-2022 and \$121.6 million in 2022-2023.

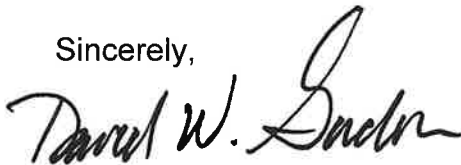
- The cash flow submitted with the 2020-2021 Adopted Budget projected that the district would have a negative cash balance in October 2020. After submission of the 45-day revision, the Principal Apportionment deferrals, and the revised cash flow projections again project the district will have a negative cash balance beginning in October 2020, and a projected negative cash balance of \$101.2 million at June 30, 2021.

We continue to request that the district provide the following:

- Submit to this office, by October 8, 2020, a revised 2020-2021 Adopted Budget which includes changes from the enacted state budget, and updated multi-year projections and cash flow projections for three fiscal years.
- A viable board-approved budget plan that will reverse the deficit spending trend. The plan should include support of ongoing expenditures from ongoing revenue sources, along with a timeline showing when and how each line item adjustment will be implemented. The fiscal advisor assigned by this office will continue to assist the district during this process.

If you have any questions or concerns regarding this review, please feel free to call Tamara Sanchez at 916-228-2551.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/TS/dw

cc: Jessie Ryan, Board President, SCUSD
Rose Ramos, Chief Business Officer, SCUSD
Dr. Nancy Herota, Deputy Superintendent, SCOE
Tamara Sanchez, Associate Superintendent, SCOE
Debra Wilkins, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael Fine, Chief Executive Officer, FCMAT
Crowe, LLP, Auditor



CSIS California School Information Services

Sacramento City Unified School District

Fiscal Health Risk Analysis

December 12, 2018



Michael H. Fine
Chief Executive Officer



Contents

About FCMAT	3
Introduction	5
Study Guidelines	5
Study Team.....	5
Fiscal Health Risk Analysis	7
Annual Independent Audit Report	7
Budget Development and Adoption	7
Budget Monitoring and Updates.....	9
Cash Management	10
Charter Schools.....	11
Collective Bargaining Agreements	11
Contributions and Transfers to Other Funds	12
Deficit Spending.....	13
Employee Benefits.....	14
Enrollment and Attendance	14
Facilities	15
Fund Balance and Reserve for Economic Uncertainty	16
General Fund - Current Year	17
Information Systems and Data Management	18
Internal Controls and Fraud Prevention	18
Leadership and Stability	19
Multiyear Projections	20
Non-Voter-Approved Debt and Risk Management	21

Position Control21

Special Education..... 22

Summary24

About FCMAT

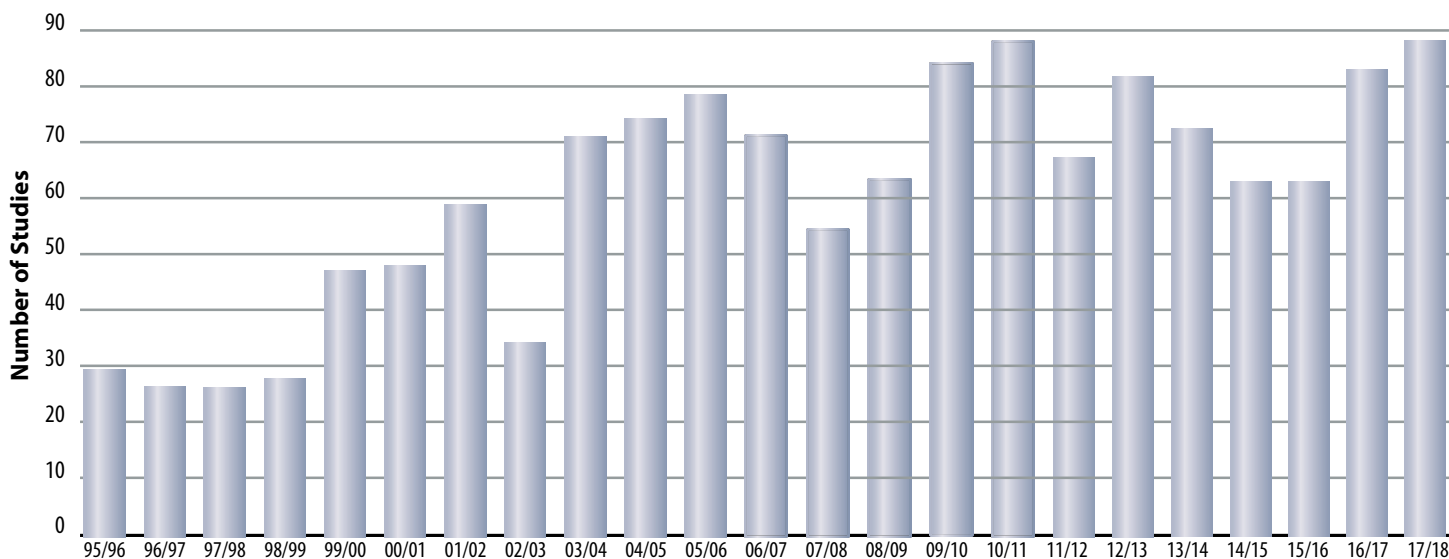
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT’s fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT’s data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS’ mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 became effective. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state's 2018-19 Budget Act provides for FCMAT to offer "more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- "Lack of going concern" designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of fiscal risk. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

Study Guidelines

FCMAT entered into the study agreement with the Sacramento City Unified School District on September 27, 2018.

FCMAT visited the district on October 15-18, 2018 to conduct interviews, collect data and review documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The team was composed of the following members:

Michelle Giacomini
FCMAT Deputy Executive Officer
Petaluma, CA

Tamara Ethier
FCMAT Intervention Specialist
Davis, CA

Eric D. Smith
FCMAT Intervention Specialist
Templeton, CA

Scott Sexsmith
FCMAT Intervention Specialist
Auburn, CA

John Lotze
FCMAT Technical Writer
Bakersfield, CA

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendations.



Fiscal Health Risk Analysis

For K-12 Local Educational Agencies



CSIS California School Information Services

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district’s fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT’s work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control.

The greater the number of “no” answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis, and not all questions within each section, carry equal weight; some are deemed more important and thus count more heavily toward or against a district’s fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A “yes” or “n/a” answer is assigned a score of 0, so the risk percentage increases only with a “no” answer.

To help the district, narratives are included for responses that are marked as “no” so the district can better understand the reason for the response and actions that may be needed to obtain a “yes” answer.

Identifying issues early is the key to maintaining fiscal health. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

District or LEA Name: Sacramento City Unified School District

Dates of Fieldwork: October 15 -18, 2018

Annual Independent Audit Report

Yes No N/A

- Can the district correct the audit findings without affecting its fiscal health (i.e., no material apportionment or internal control findings)?
- Has the independent audit report been completed and presented to the board within the statutory timeline?
- Did the district receive an independent audit report without material findings?
- Has the district corrected all audit findings?

The district has only partially implemented the findings related to student body funds and student attendance from the 2015, 2016 and 2017 audits. Student body findings identified in the 2015 audit have been reported as partially implemented through the 2017 audit; student attendance findings, identified in 2016, have not been implemented as of the 2017 audit.

- Has the district had the same audit firm for at least three years?

Budget Development and Adoption

Yes No N/A

- Does the district develop and use written budget assumptions and projections that are reasonable, are aligned with the Common Message or county office of education instructions, and have been clearly articulated?

Guidance provided in the May Revision Common Message stated that districts were “not to balance their budgets based on one-time revenues.” The narrative included with the district’s 2018-19 budget presented to its governing board on June 21, 2018 states that the district is using “\$13.2 million of one-time funds to meet the increase of labor contract negotiations.”

The district cited and used appropriate assumptions related to percentages and amounts per unit of average daily attendance (ADA); however, the district did not follow the guidance included in the Common Message, the governor's statement about one-time funds, or other industry-standard guidance, which expressly state not to budget one-time funding for ongoing costs. That one-time funding was an estimated \$344 per ADA at that time.

The approved state budget enacted subsequent to the May Revision decreased the one-time per-ADA funding amount from an estimated \$344 per ADA to \$185 per ADA, which created an approximately \$7.4 million deficit in the district's 2018-19 budget due to the district's action to fully commit the one-time funds to ongoing costs.

This action will also have severe impacts on future years because the one-time funding will likely be unavailable to the district, leaving a \$13.2 million deficit moving forward.

- Does the district use a budget development method other than a rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?

Although the district uses a one-stop method for budget development rather than a rollover budget, it appears that the primary driving force behind this method is to develop a list of employees who will receive a preliminary layoff notice on March 15 rather than to truly develop a reliable budget. The budget development process needs to be further refined so that all revenues and expenditures are reviewed and adjusted, not only those budgets with larger staffing allocations. A comprehensive budget development process is need for the entire budget to ensure all revenues and expenditures are understood and used according to the district's goals and objectives.

The district uses its one-stop method in January and February. During that time, site administrators and department managers are scheduled to meet in a district office conference room on days set aside for that specific site or department. The site administrators and department managers are provided a funding estimate from the business department, then work collaboratively with the business and human resources staff (using updated staffing costs) to determine staffing and other expenditure levels for the upcoming budget year. All information is input into the financial system during the meeting, and because appropriate approval authorities are physically in the conference room, approvals are obtained and actual staffing is determined for the next fiscal year. This is a more expedited process than the typical routing of position change forms between departments to obtain various approvals, and it ensures that staffing decisions, and thus layoff notices for the next school year, are determined by the March 15 deadline.

The above process is efficient for meeting the March 15 deadline. However, not all budgets are assessed using this method. As additional staffing decisions are made during other one-stop meetings, or even after budget development ends, confusion can arise when employees are transferred between sites and departments without a paperwork trail since the information was input directly into the system and the typical forms are not used at the one-stop meetings.

- Does the district use position control data for budget development?
- Is the Local Control Funding Formula (LCFF) calculated correctly?
- Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?

Although the district's budgets were approved by the county office in 2016-17 and 2017-18, the district's 2018-19 adopted budget was not approved. The district

submitted a revised budget dated October 4, 2018, which the county office disapproved on October 11, 2018.

- Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . . .
- Are clear processes and policies in place to ensure that the district’s Local Control and Accountability Plan (LCAP) and budget are aligned with one another?

No evidence was provided that the LCAP and the budget are aligned with one another. Information obtained during interviews indicates that the business department has not been engaged in the LCAP process in the past, although the current administration plans to work with teams to integrate the work more closely.

Board policies (BPs) and administrative regulations (ARs) adopted by the district related to the LCAP included the following: AR 1220 – Citizen Advisory Committee, BP/AR 1312.3 – Uniform Complaint Procedure, BP 6173.1 – Foster Youth.

The California School Boards Association’s online board policy service, known as GAMUT, has one main LCAP/Budget alignment policy, BP/AR 0460, which many districts have adopted. Although the district has a subscription to GAMUT, it has not adopted this policy.

- When appropriate, does the district budget and expend restricted funds before unrestricted funds?

The district’s restricted general fund ending fund balance increased from \$4,456,029 in 2014-15 to \$10,224,117 in 2017-18. This indicates unrestricted funds are being expended before restricted funds, which creates a potential liability because the district may be required to return unspent restricted funds to the grantor.

- Are the LCAP and the budget adopted within statutory timelines established by Education Code sections 42103 and 52062, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first?
- Has the district refrained from including carryover funds in its adopted budget?.
- Has the district refrained from using negative or contra expenditure accounts (excluding objects in the 5700s and 7300s and appropriate abatements in accordance with CSAM) in its budget?
- Does the district adhere to a board-adopted budget calendar that includes statutory due dates and major budget development tasks and deadlines?

Budget Monitoring and Updates

Yes No N/A

- Are actual revenues and expenses consistent with the most current budget?.
- Are budget revisions completed in the financial system, at a minimum, at each interim report?
- Are clearly written and articulated budget assumptions that support budget revisions communicated to the board, at a minimum, at each interim report?
- Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system before next financial reporting period? .
- Does the district provide a complete response to the variances identified in the criteria and standards?
- Has the district addressed any deficiencies the county office of education has identified in its oversight letters?

Since 2006, the county office of education has identified the need for the district to develop a viable plan to fund its long-term other post-employment benefits (OPEB) liability, which has not been measurably addressed.

In letters dated December 7, 2017, January 16, 2018, and April 16, 2018, the county office discussed and outlined its concerns with the district’s ongoing structural deficit, and the need for the district to submit a board-approved budget reduction plan to reverse the deficit spending trend.

On August 22, 2018, the county office disapproved the district’s 2018-19 adopted budget, and the district was instructed to revise its 2018-19 budget and submit a balanced budget plan that supports ongoing expenditures from ongoing revenue sources, and that has a timeline showing when and how adjustments would be implemented no later than October 8, 2018. On October 11, 2018, the county office notified the district that its revised adopted budget was also disapproved based on their review. That budget showed that the district’s unrestricted general fund balance would decrease by approximately \$34 million in 2018-19, approximately \$43 million in 2019-20 and \$66.5 million in 2020-21. The district was instructed to develop a viable board-approved budget and multiyear expenditure plan that would reverse the deficit spending trend, and to submit this plan with its 2018-19 first interim report, which is due December 14, 2018.

- Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?
- Does the district encumber salaries and benefits?
- Are all balance sheet accounts in the general ledger reconciled, at a minimum, at each interim report?

Although balance sheet accounts are reconciled multiple times each fiscal year, a reconciliation is not done at each interim.

Cash Management

Yes No N/A

- Are accounts held by the county treasurer reconciled with the district’s and county office of education’s reports monthly?
- Are all bank accounts reconciled with bank statements monthly?
- Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?

During interviews, staff indicated that the accountant prepares the cash flow for a 24-month period. However, it was not being relied on because major concerns had been expressed regarding the accuracy of the information. During FCMAT’s visit a separate cash calculation and projection was prepared by the county office’s fiscal advisor that concluded that the district will become cash insolvent in October 2019 based on current budget projections. This projection was different and showed more cash deficiency than the district-prepared cash flow projection. A more recent cash flow projection prepared by the district for 2018-19 first interim shows the cash insolvency date as November 2019, one month later than the projection prepared during FCMAT’s fieldwork.

- Does the district have a plan to address cash flow needs during the current fiscal year? . . .
- Does the district have sufficient cash resources in its other funds to support its current and projected obligations?

During FCMAT's fieldwork, the district was projected to be cash insolvent as early as October 2019 if budget reductions are not made. A more recent cash flow projection prepared by the district at 2018-19 first interim shows the cash insolvency date as November 2019 without budget reductions.

- If interfund borrowing is occurring, does the district comply with Education Code Section 42603?
- If the district is managing cash in all funds through external borrowing, has the district set aside funds attributable to the same year the funds were borrowed for repayment? . . .

Charter Schools **Yes** **No** **N/A**

- Are all charters authorized by the district going concerns?

The district has transferred funds to some of its authorized charter schools when those schools were in financial need. In 2017-18, the district transferred a total of \$239,697.59 to charter schools, and it is projecting a transfer of \$300,000 in 2018-19. Of most concern is the district's ongoing support of the Sacramento New Technology Charter School for several years. Because this is an ongoing fiscal burden on the district, it needs to be discussed and remedied.

The district has also given financial assistance in the past to George Washington Carver Charter School, though not every year.

The district also needs to further study Sacramento Charter High School operated by St. Hope Public Schools to determine whether it is a going concern.

The district's charter schools are dependent from the standpoint of governance because they are part of the district and are under the authority of the district's governing board. However, charter schools are not intended to have budget deficits that make them dependent on a district financially. Under California Code of Regulations (CCR), Section 11967.5.1(c)(3)(A), a charter school must have a realistic financial and operational plan. Part of that includes having a balanced budget and financial plan. The district should take steps to ensure that approved charter schools do not require assistance from the district to stay solvent.

- Has the district fulfilled and does it have evidence of its oversight responsibilities in accordance with Education Code section 47604.32(d)?
- Does the district have a board policy or other written document(s) regarding charter oversight?
- Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?.

Collective Bargaining Agreements **Yes** **No** **N/A**

- Has the district quantified the effects of collective bargaining agreements and included them in its budget and multiyear projections?
- Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increases), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?.

The district entered into a multiyear agreement with the Sacramento City Teachers Association (SCTA) on December 7, 2017. The agreement granted salary increases of 2.5% effective July 1, 2016, an additional 2.5% effective July 1, 2017, and an additional

6.0% (2.5% and an additional 3.5% to restructure the salary schedule) effective July 1, 2018. Based on multiyear financial projections prepared at the time of the collective bargaining disclosure, it appeared that the district would be able to meet its required reserve for economic uncertainties in fiscal years 2017-18 and 2018-19 but would need to make budget reductions of approximately \$15.6 million to meet the minimum reserve requirement for fiscal year 2019-20. At that time, the district estimated that its unrestricted ending fund balance would decrease from \$73 million on July 1, 2017 to negative \$4 million on June 30, 2018 if no budget reductions were made. A budget reduction plan was not submitted with the collective bargaining disclosure.

All of this information, including the fact that the increase was not affordable as agreed to without identified budget reductions, was communicated by the county office to the district in a letter dated December 7, 2017 and stated publicly at a district board meeting.

- Has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA), and under gap funding if applicable?

The district entered into a multiyear agreement with the SCTA on December 7, 2017. The agreement granted salary increases of 2.5% effective July 1, 2016, an additional 2.5% effective July 1, 2017, and an additional 6.0% (i.e. 2.5% and additional 3.5% to restructure the salary schedule) effective July 1, 2018. The district and the SCTA disagree on the implementation date of the additional 3.5%, and the matter is being pursued in superior court. If the additional 3.5% is implemented on the date SCTA interprets as correct, it would result in a fiscal impact in 2018-19 of close to 7% for salary rescheduling rather than the 3.5% the district agreed to.

- If settlements have not been reached, has the district identified resources to cover the estimated costs of settlements?
- Did the district comply with public disclosure requirements under Government Code 3540.2, 3543.2, 3547.5 and Education Code Section 42142?
- Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?
- Is the governing board's action consistent with the superintendent's and CBO's certification?
- Has the district settled with all its bargaining units for at least the prior three year(s)?
- Has the district settled with all its bargaining units for the current year?

Contributions and Transfers to Other Funds **Yes** **No** **N/A**

- Does the district have a plan to reduce and/or eliminate any increasing contributions from the general fund to other resources?

Most of the district's general fund contributions are to special education programs and to the routine repair and maintenance account. Total contributions increased from \$62,581,129 in 2015-16 to \$67,759,639 in 2016-17 and to \$77,505,592 in 2017-18. The district's 2018-19 through 2020-21 budgets include continuing contributions for a total of \$89,134,727 in 2018-19, \$96,425,490 in 2019-20, and \$104,000,050 in 2020-21.

FCMAT was not able to obtain an approved plan to reduce and/or eliminate increasing contributions from the general fund to other resources. The district did present an updated plan dated October 4, 2018 to reduce the district's overall deficit, but details were not found specific to reducing contributions to restricted programs.

- If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the general fund to cover the deficit spending?

Although the district's multiyear financial projection includes transfers from the general fund to cover deficit spending in other funds, FCMAT believes that those transfers are inadequate based on prior year deficits. Without a specific plan to reduce deficit spending, specifically in the child development fund, the budgeted transfers are likely inadequate to cover the increasing costs of salaries and benefits.

Based on unaudited actuals data, the following transfers were made from the general fund to the child development fund:

- 2015-16: \$1,500,000
- 2016-17: \$322,344
- 2017-18: \$502,296

Based on 2018-19 Standardized Account Code Structure (SACS) data, transfers to the child development fund are projected to be as follows:

- 2018-19: \$2,345,207
- 2019-20: \$382,178
- 2020-21: \$382,178

Assuming revenue and spending patterns remain the same, even if the current projected transfers of \$382,178 in 2019-20 and 2020-21 are included, the district's shortfall in cash would be as follows:

- 2019-20: (\$791,940.93)
- 2020-21: (\$2,754,969.93)

The district must develop a plan to ensure its expenditures are equal to or less than expected revenues, but until that time it must ensure that its budget is revised to include adequate transfers to all funds, including the child development fund, so they have adequate cash to close the fiscal year. Unless an approved plan to reduce spending, or increase revenues, is implemented in 2018-19, these shortfalls in 2019-20 and 2020-21 will increase the district's liabilities and further increase its projected general fund deficits. If this increased deficit is not remedied in 2018-19, it could cause the district to become cash insolvent prior to November 2019, based on current budget projections.

- If any transfers were required for other funds in the prior two fiscal years, and the need is recurring in the current year, did the district budget for them?

Deficit Spending	Yes	No	N/A
<ul style="list-style-type: none"> • Is the district avoiding a structural deficit in the current and two subsequent fiscal years? (A structural deficit is when ongoing unrestricted expenditures and contributions exceed ongoing unrestricted revenues.) <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <p><i>Structural deficit spending is projected in 2018-19, 2019-20 and 2020-21 due to negotiated agreements settled in 2017-18 without corresponding budget adjustments to offset these ongoing increased costs.</i></p>			
<ul style="list-style-type: none"> • Is the district avoiding deficit spending in the current fiscal year? <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <p><i>Based on the revised 2018-19 adopted budget, the district's deficit spending is projected to be \$ 35,950,457.05 in total unrestricted and restricted funds.</i></p>			
<ul style="list-style-type: none"> • Is the district projected to avoid deficit spending in the two subsequent fiscal years? <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <p><i>The district's total deficit, including unrestricted and restricted funds, is projected to be \$52,563,654.00 in 2019-20 and \$49,923,727.28 in 2020-21.</i></p>			

- If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending? . . .
As part of the district's revised 2018-19 adopted budget, the board approved a plan to reduce deficit spending; however, the plan does not reduce or eliminate deficit spending to an amount sufficient to sustain solvency. Additional significant reductions are needed. The total plan brought to the board on October 4, 2018 was for \$11,483,500 in reductions to the unrestricted general fund.
- Has the district decreased deficit spending over the past two fiscal years?
FCMAT's review of the past two fiscal years shows that the district did not start deficit spending until 2017-18; the deficit for that fiscal year was \$10,966,055.80. In 2016-17, the district had a surplus of \$5,747,472.67.

Employee Benefits

Yes No N/A

- Has the district completed an actuarial valuation to determine its unfunded liability under Governmental Accounting Standards Board (GASB) other post-employment benefits (OPEB) requirements?
- Does the district have a plan to fund its liabilities for retiree benefits?
The district commissioned an actuarial valuation dated June 30, 2016, in accordance with Governmental Accounting Standards Board (GASB) Statement 75, Actuarial Report of OPEB Liabilities.
The actuarial report estimates the district's total other post-employment benefits (OPEB) liability to be \$780,518,410 for the fiscal year ending June 30, 2018, and its net OPEB liability (i.e., factoring in employer contributions to the trust, net investment income, benefit payments, and administrative expenses) to be \$725,760,458 for the same period.
The district has established an irrevocable OPEB trust with assets dedicated toward paying future retiree medical benefits. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earning on trust assets. However, the actuarial report states:
. . . the district expects to yield 7.25% per year over the long term, based on information published by CalPERS as of the June 30, 2016 actuarial valuation date. However, total net contributions to the trust have averaged 31% of the amount that would have been needed to be deposited to the OPEB trust so that total OPEB contributions would equal the actuarially defined contribution.

- Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?
- Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?
- Does the district track and reconcile employees' leave balances?

Enrollment and Attendance

Yes No N/A

- Has the district's enrollment been increasing or stable for the current and three prior years?
The district's enrollment has been declining for the last 15 years.
- Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second reporting period (P2)?

- Does the district track historical enrollment and ADA data to establish future trends? . . .
- Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district level? . . .
- Did the district certify its California Longitudinal Pupil Achievement Data System (CALPADS) Fall 1 data by the required deadline? . . .
- Are the district’s enrollment projection and assumptions based on historical data, industry-standard methods, and other reasonable considerations? . . .

The district tracked the number of children who enter kindergarten as a percentage of countywide live births five years earlier to project kindergarten enrollment for the 2018-19 school year.

However, to project enrollment in grades one through 12 for the same period, it used simple grade level progression rather than the more commonly used cohort survival method.

The cohort survival method groups students by grade level upon entry and tracks them through each year they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method more closely accounts for retention, dropouts and students transferring to and from a school or district by grade. Although other enrollment forecasting techniques are available, the cohort survival method usually is the best choice for local education agencies because of its sensitivity to incremental changes to several key variables including:

Birth rates and trends.

The historical ratio of enrollment progression between grade levels.

Changes in educational programs.

Migration patterns.

Changes in local and regional demographics.

- Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? . . .
- Has the district planned for enrollment losses to charter schools? . . .
- Has the district developed measures to mitigate the effect of student transfers out of the district?. . .

The district authorizes all interdistrict transfers out of the district and does not require the parents of students who receive interdistrict transfer permits to reapply annually.

- Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in K-3 classes or do they have an alternative collectively bargained agreement? . . .

Facilities

Yes No N/A

- If the district participates in the state’s School Facilities Program, has it met the 3% Routine Repair and Maintenance Account requirement? . . .
- Does the district have sufficient building funds to cover all contracted obligations for capital facilities projects? . . .
- Does the district properly track and account for facility-related projects? . . .
- Does the district use its facilities fully in accordance with the Office of Public School Construction’s loading standards? . . .

Although the district has a 24-to-1 student-to-staff ratio for K-3, and follows the class size standards in its collective bargaining agreement with SCTA for the other grade levels, its facilities department estimates that the district has approximately 20% more capacity than needed for its current student enrollment. The district closed six schools in the last seven years and reopened one.

- Does the district include facility needs when adopting a budget?
The district discusses districtwide facility needs whenever it sells general obligation bonds, which occurs approximately every two years; this does not occur on the same cycle as budget adoption.
- Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?
- If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?.
- Does the district have an up-to-date long-range facilities master plan?.
The district's facilities master plan was prepared by MTD Architecture in 2012 and has not been updated since.

Fund Balance and Reserve for Economic Uncertainty

Yes No N/A

- Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Funds 01 and 17) as defined by criteria and standards?
- Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?
The district will fall short of its 2019-20 and 2020-21 minimum reserve requirement based on its revised (October 4, 2018) adopted 2018-19 budget projections, which show unrestricted ending fund balances of (\$17,491,788.17) in 2019-20 and (\$66,494,314.95) in 2020-21.
- If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?
The district does not have a board-approved plan sufficient to restore the reserve at the time of this Fiscal Health Risk Analysis.
- Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?
The district's unrestricted general fund balance is projected to decrease significantly in 2019-20 and 2020-21 compared to its 2018-19 budgeted amount:
 2018-19: \$25,926,177.49
 2019-20: (\$17,491,788.17)
 2020-21: (\$66,494,314.95)
- If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level?
The district's unrestricted ending fund balance does not include amounts for the following liabilities:
Because the district and the SCTA disagree on the implementation date of a 3.5% increase included in the December 7, 2017 negotiated agreement,

there is a potential fiscal impact for 2019-20 and beyond of a 7% increase related to salary schedule restructuring rather than the 3.5% stated in the agreement.

The district's net contributions to the irrevocable OPEB trust established to pay future retiree medical benefits have averaged 31% of the amount that will be needed to ensure that total OPEB contributions equal the actuarially-defined contribution. The area of retirement benefits is a liability that the district will need to face because the costs are outpacing contributions.

General Fund - Current Year

Yes No N/A

- Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . .

As mentioned in the budget development section of this analysis, the district stated in its 2018-19 budget narrative that one-time funding was used to pay for salary increases. This action will also have severe effects on the budget in future years because the one-time funding will likely not be available to the district, leaving a \$13.2 million deficit moving forward.

- Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or under the statewide average for the current year? . . .

The statewide average for unified school districts as of 2016-17 (the latest data available) is 84.63%. At 2018-19 first interim, the district is exceeding the statewide average by 6.37%.

- Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the three prior years? . . .

The district exceeds the statewide average in this area for all three prior years, with its highest percentage in 2015-16 at 6.93% higher than the state average.

- If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding, is the district addressing the complaint(s)? . . .

- Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds? . . .

- Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time? . . .

The district has seen a 129% increase in its total restricted ending fund balance from 2014-15 to 2017-18. This increase indicates that the district is not fully expending its restricted funding allocations. In addition, staff stated that some federal funds have gone unspent and have been returned to the federal government.

- Does the district consistently account for all program costs, including allowable indirect costs, for each restricted resource? . . .

The district does not charge allowable indirect costs to special education, and as a result there is underreporting of the total cost of the program. If the indirect cost rate of 4.21% for 2018-19 were applied to the district's 2018-19 annual special education expenditures of \$107,398,026, the resulting allowable indirect cost would be \$4,521,457. The district's total actual indirect charge for special education has been approximately \$100,000 per year. The industry-standard practice is to consistently account for indirect costs in all restricted resources, including special education. The district is not correctly identifying the true cost of its special education programs.

Information Systems and Data Management

Yes No N/A

- Does the district use an integrated financial and human resources system?
- Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions?
- Does the district accurately identify students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?
- Is the district using the same financial system as its county office of education?

The county office of education uses Quintessential Control Center (QCC) (part of the Quintessential School Systems financial system) and the district uses Escape.

- If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?

There is no automated interface between the two systems. When the district processes payroll and accounts payable warrants, information related to these transactions is uploaded to the county via a file transfer protocol (FTP). This process is started manually once payroll and accounts payable warrant processing is complete. No other electronic interface exists between the two systems.

- If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?

The county office of education has not been able to access the district's Escape system online, but conversations continue between the two agencies about how this will be accomplished. The software needed to access the Escape system has been installed on some systems at the county office, but there has been no training. The county office has had to create a second set of books for the district in its QCC system so it can attempt to monitor financial transactions and balances at the major object level. This requires much manual entry by county office staff since the district sends the county office only limited data related to warrant processing.

Internal Controls and Fraud Prevention

Yes No N/A

- Does the district have controls that limit access to and authorizations within its financial system?
- Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (i.e. resignations, terminations, promotions or demotions) and at least annually?

The district does not regularly update authorization controls, and discrepancies based on changes in positions are often found many months later. The district relies on a digital change form that requires manual signatures, which slows the process or results in lost forms. The district should move to a digital form process to increase efficiency.

- Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:

- Accounts payable (AP)

Although the accounts payable process appears properly supervised and monitored, the printing of the warrants is completed in the business department rather than in a separate department, such as technology, which would improve segregation of

duties. One department should input the information and a different department should print warrants.

- Accounts receivable (AR)
- Purchasing and contracts.
- Payroll

The payroll process appears properly supervised and monitored; however, the business department prints the warrants rather than having a separate department, such as technology, do so to ensure separation of duties. One department should input the information and a different department should print warrants.

- Human resources
- Associated student body (ASB)
- Warehouse and receiving
- Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?
- Does the district review and clear prior year accruals by first interim?
- Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?
- Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?.
- Does the district have processes and procedures to discourage and detect fraud?
- Does the district maintain an independent fraud reporting hotline or other reporting service(s)?
- Does the district have a process for collecting and following up on reports of possible fraud?
- Does the district have an internal audit process?.

Leadership and Stability

Yes No N/A

- Does the district have a chief business official who has been with the district more than two years?
John Quinto, Ed.D., the district's current chief business official, started with the district on August 27, 2018.
- Does the district have a superintendent who has been with the district more than two years?
Jorge A. Aguilar became the district's 28th superintendent on July 1, 2017.
- Does the superintendent meet regularly with all members of their administrative cabinet? .
- Is training on financial management and budget offered to site and department administrators who are responsible for budget management?

There has been little or no budget and fiscal training for site and department administrators who are responsible for budget management. Training is done informally and as needed or requested rather than on a regular schedule.

The amount of expertise, access to and knowledge of the financial system vary by site and department.

- Does the governing board adopt and revise policies and administrative regulations annually?

Although board policies and administrative regulations are brought to the board sporadically for revision and/or adoption, there was no evidence of an intent to review the information annually or to ensure that it is a priority to communicate the permissions, limitations and standards of the board.
- Are newly adopted or revised policies and administrative regulations communicated to staff and implemented?

When it brings policies to the board for revision or adoption, the district has no process for communicating the information to staff or implementing the policies in detail. A communication is sent to staff after each board meeting that summarizes the meeting, but for staff to fully understand changes in board policy and administrative regulations, further detail and instructions are needed.
- Is training on the budget and governance provided to board members at least every two years?

There was no evidence that budget or governance training is provided to board members regularly.
- Is the superintendent’s evaluation performed according to the terms of the contract?

FCMAT was not able to obtain evidence that the superintendent has received any evaluations since he was hired. His contract states:

The Board shall evaluate the Superintendent in writing each year of this agreement. The evaluation shall be based on this agreement, the duties of the position, the 2016-2021 Strategic Plan, policy goals for the District, and other goals and objectives through a collaborative process with the Superintendent. The Superintendent and a committee of the Board will develop the evaluation instrument upon which the superintendent shall be evaluated. The Board shall approve the evaluation instrument and metrics by which to evaluate the Superintendent. The annual evaluation shall be completed based on a timeline determined by the Board.

Subsequent to fieldwork, FCMAT was notified that the superintendent’s initial evaluation was to be voted on by the governing board on December 6, 2018.

Multiyear Projections **Yes** **No** **N/A**

- Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?
- To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?
- Does the district use its most current multiyear projection when making financial decisions?

It appears that the district used multiyear projections when making financial decisions until the 2017-18 fiscal year, but that this practice ceased in that year, during which it also entered into a multiyear agreement with the SCTA (December 7, 2017) that granted ongoing salary increases without a budget reduction plan to maintain minimum reserves through 2020-21.

Non-Voter-Approved Debt and Risk Management

Yes No N/A

- Are the sources of repayment for non-voter-approved debt stable {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others}, predictable, and other than unrestricted general fund?
The district has \$67,920,000 in outstanding lease revenue bonds. The annual debt service payment is approximately \$5,400,000 and continues through fiscal year 2025-26. The annual debt service payments are made from a combination of unrestricted general fund revenue and developer fees.
- If the district has issued non-voter-approved debt, has its credit rating remained stable or improved?
- If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities?
- If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district’s unrestricted general fund revenues?

Position Control

Yes No N/A

- Does the district account for all positions and costs?
The district must improve its position control process. The district currently uses the same position control number for multiple positions, and for full-time equivalent (FTE) positions that have the same title, instead of creating a unique position control number for each board-approved position or FTE. The district’s current practice leads to lack of clarity about which positions are being filled and about the site to which each belongs, because the same position number can exist at multiple sites if the same title is assigned. The district needs to use a unique identifier, or position control number, for each board-authorized position.
Another area to improve on in the position control process involves the ramifications of the one-stop process, because confusion often arises when employees are transferred between sites and departments without a paperwork trail since the information was input directly into the system and the typical forms are not used during one-stop meetings. In addition, as employee transfers and changes are discussed and made later in the year, position control system information about which positions are open and about employees’ work locations is often found to be inaccurate. Because paperwork is not generated during one-stop meetings, it is often more difficult to determine the history and details of past decisions.
- Does the district analyze and adjust staffing based on staffing ratios and enrollment?
The district did not provide evidence that regular analysis of staffing ratios is compared with actual enrollment or that adjustments are made in accordance with sites’ or departments’ needs after the one-stop budget and staffing process occurs in January or February of each year during the budget development process. During one-stop, because the primary purpose appears to be developing the March 15 notice list, staffing ratios are compared against enrollment projections, and staffing is scheduled accordingly.
Although this process is efficient for meeting the March 15 deadline as well as initial budget development projections, the decisions made during one-stop need to be reassessed as the year proceeds and actual enrollment numbers are known.

- Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?
It is best practice to have a position control system that is integrated with, or at least reconciled with, budget, payroll and human resources records. The district does not reconcile these records regularly to ensure that its budget represents the amount the district should set aside for such costs. In interviews, employees indicated that the number of open positions shown in financial reports is usually inflated.
At interim reporting times, the district identifies variances between budgeted and actual amounts, and salary and benefit budgets are often revised based on that analysis. By contrast, standard industry practice is to reconcile actual human resources and payroll records to ensure that only open, authorized positions are shown as such in the budget; if an open position exists that should be closed, the appropriate paperwork is completed to do so, and the budget is updated.
- Does the district identify a budget source for each new position before the position is authorized by the governing board?
- Does the governing board approve all new positions before positions are posted?
The governing board approves new positions after employees have been hired rather than when the position is vacant or posted.
- Does the district have board-adopted staffing ratios for certificated, classified and administrative positions?
Staffing ratios, where documented, appear to be a result of terms in the collective bargaining agreement rather than board-adopted.
- Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes?
Staff indicated that those responsible for human resources, payroll and budget meet two times per year. Scheduled meetings should be conducted at least monthly to resolve ongoing issues and problems, as well as improve processes, between the departments.

Special Education **Yes** **No** **N/A**

- Are the district’s staffing ratios, class sizes and caseload sizes in accordance with statutory requirements and industry standards?
- Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?
- Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?
- Does the district account correctly for all costs related to special education (e.g., transportation, indirect costs, service providers)?
Not all appropriate costs related to special education are charged to the program, including legal fees and the full allowable indirect costs.
- Is the district’s contribution rate to special education at or below the statewide average contribution rate?
The district’s 2018-19 budget plan indicates that its general fund contribution to special education will be \$73,590,731 and that its total special education expenditures will be \$107,398,026, which means that its contribution will equal 68.52% of total

expenditures for the program. The statewide average contribution rate is 64.5% as of 2016-17.

- Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates?

The district has an identification rate of 14.5%, while the statewide average identification rate is 11.5% and the countywide identification rate is 12.3%.

- Does the district monitor, and reconcile the billing for, any services provided by nonpublic schools and/or nonpublic agencies?

- Does the district analyze and plan for the costs of due process hearings?.

The district analyzes the incidence and cost of due process hearings. Employees interviewed stated that the current budgeted amount for due process hearings is insufficient and that the district would be increasing the shortfall during the next budget cycle. The average cost of a due process settlement has doubled in the last five years.

- Does the district analyze whether it will meet the maintenance of effort (MOE) requirement at each reporting period?

Total Risk Score, All Areas **44.8%**

Key to Risk Score

- High Risk: 40% or more*
- Moderate Risk: 25-39%*
- Low Risk: 24% and lower*

Summary

The district's budget is the responsibility of its governing team. Senior management must present sound and accurate financial information that is supported by trend analysis, budget assumptions and multiyear projections so the board can make informed decisions. Throughout this analysis, FCMAT has identified severe fiscal risks in many areas. The most critical point of this analysis, which is not new information to the district, is that the district will be cash insolvent in November 2019 (estimated to be October 2019 at the time of FCMAT's fieldwork) unless significant action is taken. Because necessary actions will take time to develop and implement, concerns are growing about the length of time it is taking for the district to start. The governing board must prioritize and act expeditiously to remedy the district's fiscal distress. The fiscal risk is real, imminent, and serious. Without action, state intervention is certain.

In light of the most recent cash flow projection, the urgency to make \$30 million in reductions to balance the budget cannot be overstated. If the district's budget is not balanced in time for the 2019-20 budget adoption, current projections indicate the district will have only three to four months of cash remaining to run day-to-day operations.

The district's lack of proper position control also presents a risk to its fiscal solvency. The district lacks an accurate position control process or system that adheres to industry standards and best practices, and it does not use its financial system's full capability to help generate accurate projections. The district has a significant number of positions that show as open in its budget but that are not verified as such. This disparity affects the analysis of savings that may be attainable and obscures the true costs of salaries and benefits in the budget. It appears that this lack of validation of position control has continued for a number of years, as has the practice of using salary savings from unfilled positions to balance other budget items as the year progresses.

The experience and expertise of the district's new CBO and the existing business office staff are limited, and the district's business team is not cohesive and is lacking in communication with other departments and sites. This makes it more difficult to achieve the necessary fiscal progress. Staff have not been exposed to improvements or best practices, and the Escape financial system has many capabilities that the district is not using. The lack of understanding of data and the lack of best practices for data integrity and analysis are significant.

The district will need to make decisions and offer budget solutions to remedy past choices, and those solutions will of necessity involve reductions to programs as well as reductions in staffing and benefits. The district's leaders will need to work diligently to offset ongoing increasing costs, which have increased significantly since the 2017 salary settlement without corresponding reductions. Time is of the essence; the cash flow projections show the severity of the consequences of inaction.

The district has options for reducing costs; however, because of the limited time available, it must focus on decisions that can be implemented by 2019-20 budget adoption. Although all options should be explored and addressed, those that include closing or modifying facilities will take more time than the current situation allows and thus will not remedy the immediate solvency issues and cannot be the solution for the 2019-20 budget. Any longer-term solutions, such as facility consolidation or closure decisions, will require that conversations and implementation begin now, with savings recognized in subsequent years of the projections, not in 2019-20.

All programs and costs that affect the unrestricted budget must be evaluated, including those that require a contribution or transfer from the unrestricted general fund, such as special education and child development. In addition, because the largest portion of any budget is in salary and benefit accounts, these are critical areas that must be reviewed. Because negotiations include strict deadlines, time is of the essence for any reductions that include salaries and benefits. All stakeholders may need to evaluate the affordability of salaries and benefits provided in the past. For example, some health plans offered to employees cost much more than others, and the district still offers lifetime health benefits to all eligible employees. The district must prioritize current expenditures and decide which to reduce or eliminate in order to maintain others. The budget must be balanced. Either revenues will need to increase significantly, which is not likely and over which the district has little control, or expenditures will need to decrease, which is achievable and is under the board's control.

The district's significant risk factors include deficit spending, substantial reductions in fund balance, inadequate reserve levels, approval of a bargaining agreement above cost-of-living adjustments, a significant unfunded OPEB liability, large increases in contributions to restricted programs (especially in special education), lack of a

strong position control system, and leadership issues. These factors must be addressed and remedied to avoid further erosion of the district's reserves. A solution to the district's financial situation is attainable, and all parties with an interest will need to be part of the discussion and solution. Failure to act quickly and decisively will result in imminent fiscal insolvency and loss of local control.

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

September 15, 2020

Jorge Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

Dear Superintendent Aguilar:

In May 2020, the Sacramento City Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide management assistance to the district. The agreement stated that FCMAT would perform the following:

1. Review the district's budget and develop an independent multiyear financial projection (MYFP) and cash flow analysis for 2019-20 and two subsequent fiscal years, to determine whether the district will need an emergency appropriation.

To assess the district's 2019-20 general fund third interim budget report and complete a MYFP and cash flow analysis, FCMAT conducted interviews by video conference on May 19-22, 2020 and reviewed numerous documents provided by the district and other sources. The purpose of this letter is to provide the findings and recommendations identified by FCMAT following completion of fieldwork and document analysis.

Introduction

The 2019-20 school year was an unprecedented time for California's local educational agencies (LEAs), the state, nation, and the world. The governor's January 2020-21 state budget proposal included a positive economic forecast with moderate funding growth for LEAs that included a cost-of-living adjustment (COLA), some one-time funds for new categorical programs, and increased funding for other programs. However, within the first few months of 2020, the COVID-19 pandemic caused severe negative impacts on economies throughout the world, California schools were closed for in-person instruction, and LEAs were immediately left to determine how to provide meals and instruction to students remotely.

The governor's May revision contained drastic cuts to LEAs including a 10% reduction to the Local Control Funding Formula (LCFF), which included suspension of the COLA, cash deferrals, and cuts to numerous categorical programs. After negotiations between the legislature and the governor, the enacted 2020-21 state budget included suspension of the COLA, but replaced further cuts to the LCFF and existing categorical programs with increased cash deferrals, provided reductions to the rate increases for employee pensions, and included substantial one-time federal and state funds for costs due to COVID-19.

These significant changes made throughout the state's 2020-21 budget process caused the need for LEAs to develop numerous budget, MYFP and cash flow projection scenarios during the 2020-21 local budget development cycle. Given the pandemic's uncertainties, the continuing changes being made to address it, and resulting ongoing economic impacts, LEAs must be prepared for possible additional financial issues that extend beyond 2020-21.

One-time funding, such as that provided by the state in prior years and COVID-19 relief funds in 2020-21, can temporarily mask an ongoing operational deficit; one-time funds should not be used for ongoing costs. Districts that maintained healthy financial reserves and cash balances and proactively managed budget adjustments and reductions before the economic downturn will be in a better position to weather the economic crisis. Districts that had minimal reserves and/or cash balances may be forced to make more drastic cuts to remain fiscally solvent. Maintaining fiscal solvency while maximizing services to students with available financial resources will be a continuing challenge for LEAs and their governing boards who have a fiduciary duty to ensure solvency.

AB 1200 Oversight

If at any time during the fiscal year a district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code Section 42127.6 when assisting a school district in this situation and take all actions necessary to ensure the district meets its financial obligations. Assistance includes steps such as assigning a fiscal expert or fiscal advisor to advise the district on financial issues, conducting a study of the district's financial and budget conditions and requiring the district to submit a proposal for addressing its fiscal condition.

During fiscal year 2018-19 and 2019-20, the Sacramento City Unified School District filed negative certifications for all its first and second interim financial reporting periods. According to Education Code Section 42131, a negative certification indicates that based on current projections, the district will be unable to meet its financial obligations in the current fiscal year or the subsequent fiscal year. A district that has a qualified or negative second interim report certification must also complete projections of its fund and cash balances through the remainder of the fiscal year for the period ending April 30. This is commonly referred to as the third interim report.

The district's 2017-18 and 2018-19 unaudited actuals reports show deficit spending of \$12.86 million and a net increase of \$860,000, respectively, in the unrestricted general fund. The 2019-20 third interim report projects \$37.49 million in deficit spending in 2020-21 and \$61.79 million in 2021-22. As discussed later in this letter, FCMAT's MYFP also projects deficit spending in the unrestricted general fund in 2020-21 and 2021-22.

The 2018-19 and 2019-20 budget and interim report review letters from the county office discuss ongoing projected deficit spending in the unrestricted general fund. The letters indicate that the county office assigned a fiscal advisor to the district in 2018-19, disapproved the district's 2018-19 and 2019-20 adopted budgets, and concurred with the district's negative certification of its first and second interim reports during each of these fiscal years. The September 11, 2019 letter from the county office regarding disapproval of the 2019-20 budget states the following:

Since the district's 2018-2019 Adopted Budget was submitted one year ago, the district has made considerable progress toward stabilizing its budget. However, the cuts thus far are not enough to remove the structural deficit, and although the date the district projects it will become cash insolvent has been delayed, the risk has not been eliminated.

Regular and frequent budget monitoring becomes even more critical in times of fiscal uncertainty. The district will need to ensure that multiyear financial and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current budget assumptions available. This is particularly important because economic indicators may change rapidly as California continues to try to balance its budget.

Multiyear Financial Projections

Multiyear financial projections are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the budget adoption and interim reporting process. AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight used to monitor school districts' fiscal position. Among other things, AB 2756 strengthened the roles of the SPI and county offices of education and their ability to intervene during fiscal crises. In the case of a district that does not meet its required reserve levels, the intent of the MYFP is also to help the county office and the district formulate a plan to regain fiscal solvency and restore the reserve.

MYFPs help LEAs make more informed decisions and project the future effects of current decisions. Projections are a required part of annual budget development and must be evaluated and updated during each interim financial reporting period. They should also be updated before any significant decisions are made that affect the budget, such as salary and benefit increases. In developing and implementing its MYFPs, a district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the district make decisions.

Financial planning is crucial for every LEA, regardless of its size or structure. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas helps a district evaluate its budget priorities and direction and highlight possible areas of concern.

Any projection of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends; cost-of-living adjustments; estimates for utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be viewed and evaluated as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers.

LEAs statewide had to update their multiyear assumptions and projections several times during the 2020-21 budget adoption process because of the negative impacts of COVID-19 on the state and federal economy. Multiyear projections can become somewhat less reliable in a time of fiscal instability, especially for the subsequent fiscal years, because projected revenue information from the state may frequently change. However, the MYFP still provides guidance for decisions that affect multiple fiscal years, and the district must continue to update and reassess the ramifications of state-imposed budget adjustments and cash deferrals.

FCMAT developed its MYFP using the latest information included in the 2020-21 state budget. The MYFP developed for this report indicates deficit spending in the unrestricted general fund of \$19.76 million and \$43.05 million in 2020-21 and 2021-22, respectively. The unrestricted general fund ending balance is projected to decline from \$80.53 million (13.91%) in 2019-20 to \$17.73 million (3.05%) in 2021-22 if actions are not taken to increase revenues and/or reduce expenditures. The projection assumes no additional state funding cuts; however, due to the evolving public health crisis and any resulting economic impact, the district should be aware that additional state funding reductions and/or cash deferrals may be forthcoming.

The district has faced fiscal challenges, including declining student enrollment, increased costs for health and welfare benefits, increased employer contributions for pension plans, an unfunded COLA, and cash deferrals for state apportionments, that will require the governing board and administration to continue to make and implement difficult decisions to ensure that the district remains fiscally solvent.

FCMAT strongly recommends that the district maintain a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to the requirements of AB 1200 and AB 2756.

Enrollment and Average Daily Attendance

Accurate enrollment tracking and analysis of average daily attendance (ADA) are essential to providing a solid foundation for budget planning. Because the district’s primary funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance is a crucial function and should be done at a minimum at each reporting period to ensure the most recent data is included in budget assumptions. When enrollment and related ADA decline, the district must consider the budgetary effects of the decline on student-to-teacher ratios and plan accordingly. The district must also exercise extreme caution regarding issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Accurate tracking and analysis of enrollment and ADA can help the district project future revenues and control staffing expenditures to help maintain fiscal solvency.

The study team reviewed county birth rate statistics and used FCMAT’s Projection-Pro software to prepare enrollment, ADA and unduplicated pupil count projections for the current and two subsequent years. The Projection-Pro software uses the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students who pass from one grade to the next in a subsequent year.

FCMAT reviewed the district’s enrollment and ADA trends for 2014-15 through 2019-20. The review compared October California Longitudinal Pupil Achievement Data System (CALPADS) student enrollment counts, as reported by the California Department of Education (CDE), to the second period principal apportionment (P-2) ADA to determine the average ADA-to-enrollment ratios. Historical data indicates that the district has experienced declining enrollment each year since 2017-18, and FCMAT’s projections indicate that enrollment will continue to decline in 2020-21 and 2021-22.

The following table shows the district’s historical enrollment, projected enrollment using the cohort survival method, and the historical and projected P-2 ADA as a percentage of enrollment.

	2017-18	2018-19	2019-20	2020-21 Projected	2021-22 Projected
Enrollment	40,854	40,660	40,409	40,242	40,000
ADA %	94.49%	94.50%	94.57%	94.45%	94.44%

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district’s 2019-20 third interim report as the baseline and includes the impact of the 2020-21 adopted state budget. The study team reviewed district records, interviewed staff members, and examined financial documents to gather information to verify the base year (2019-20) and prepare the MYFP.

Key planning factors and budget assumptions used by FCMAT to prepare the MYFP are based on the latest information available at the time the projection was completed, as shown in the following table, and are further described in the paragraphs below.

Planning Factor	2019-20	2020-21	2021-22
Statutory COLA (Department of Finance)	3.26%	2.31%	2.48%
LCFF COLA	3.26%	0.00%	0.00%
State Categorical COLA	3.26%	0.00%	0.00%
Recommended Planning COLA	3.26%	0.00%	0.00%
California CPI	2.34%	0.98%	1.59%
Interest Rate for Ten-Year Treasuries	1.25%	0.89%	1.24%
California Lottery, Unrestricted per ADA	\$148.78	\$150.00	\$150.00
California Lottery, Restricted per ADA (Prop 20)	\$48.41	\$49.00	\$49.00
Mandate Block Grant, District (K-8), per ADA	\$32.18	\$32.18	\$32.18
Mandate Block Grant, District (9-12), per ADA	\$61.94	\$61.94	\$61.94
CalPERS Employer Rate (projected)	19.721%	20.70%	22.84%
CalSTRS Employer Rate (statutory)	17.10%	16.15%	16.00%
Step and Column, Certificated	1.20%	1.50%	1.50%
Step, Classified	0.82%	0.57%	0.57%
Indirect Cost Rate	4.50%	3.79%	3.91%

Sources: School Services of California (SSC) 2020-21 Adopted State Budget Dashboard, CDE, district records.

Revenues

Projected revenue was based on validation of funding from the CDE, School Services of California (SSC), grant letters and analysis of district estimates for any sources that could not be independently verified. Adjustments were made for any one-time funds or carryover from previous years.

Local Control Funding Formula (LCFF) Sources

The LCFF is the funding model for school district and charter school operational funding. It was implemented beginning with the 2013-14 fiscal year and replaced the former revenue limit calculation and Charter School Block Grant state apportionment distribution methodologies. The LCFF provides the following:

- A base per-pupil grant that varies by grade level.
- Supplemental funding that provides an additional 20% of the base grant multiplied by the district's percentage of disadvantaged pupils (the unduplicated count of low-income students, English learners, and foster youth).
- A concentration grant that provides an additional 50% of the base grant multiplied by the district's percentage of disadvantaged pupils that exceeds 55% of total enrollment.

The introduction of the LCFF funding model eliminated many former state categorical programs, and the related funding was redirected to support the implementation of the LCFF. Full implementation of the LCFF was expected to take eight years, with LEAs receiving a transitional level of funding during implementation. However, full implementation occurred two years earlier than anticipated, in 2018-19, with all

LEAs receiving their target allocations of LCFF funding. After full implementation, 2019-20 funding was increased by the COLA only, calculated with other variable factors, such as changes in attendance and in student unduplicated counts. For most districts, including Sacramento City, the LCFF entitlement is funded through a combination of local property taxes and state aid. An LEA's property tax will first be applied toward the total LCFF entitlement, and the balance is funded through state aid.

The COVID-19 pandemic has resulted in a recession with significant negative effects on state revenues. The 2020-21 state budget suspends the statutory COLA for 2020-21 resulting in a funded COLA of 0%. A COLA of 0% is also assumed for the 2021-22 fiscal year.

When completing the 2019-20 third interim report, the district used FCMAT's LCFF calculator released on January 14, 2020 to project LCFF revenues for 2019-20 and subsequent years. In completing its analysis, FCMAT used the adopted budget version of the calculator (updated July 13, 2020), which was not available when the district completed its third interim report. This, coupled with FCMAT's enrollment and ADA analysis discussed previously, resulted in differences to projected ADA and unduplicated pupil percentage (UPP) values and LCFF revenues.

FCMAT's projection of ADA and UPP for 2019-20 resulted in a reduction of approximately \$153,000 in LCFF revenues. This reduction is caused primarily by a decrease in the UPP resulting from an audit adjustment in 2018-19. FCMAT's projection of LCFF revenues for 2020-21 was lower than the district's because FCMAT's UPP projection was lower. The enacted state budget included a hold harmless provision for 2020-21 ADA, which uses the 2019-20 P-2 in place of reporting attendance for apportionment purposes in 2020-21. Because district LCFF apportionments are based on the greater of current or prior year P-2 ADA, this resulted in a higher projection of LCFF revenues for 2021-22 since 2019-20 ADA is higher and is considered the prior year for 2021-22.

If the district's enrollment and ADA continue to decrease, LCFF revenues are likely to decline significantly in 2022-23 because without the continuance of the ADA hold harmless provision, LCFF funding will be based on a two-year decline in enrollment and ADA, rather than a one-year decline. In addition, if the state's economy continues to decline, further cuts to revenues could occur in the subsequent years.

	2019-20		2020-21		2021-22	
	District	FCMAT	District	FCMAT	District	FCMAT
COLA	3.26%	3.26%	0%	0%	0%	0%
Funded ADA	38,470.98	38,501.38	38,310.11	38,316.76	38,079.53	38,316.76
UPP	72.03%	71.81%	72.22%	71.88%	72.06%	71.89%
LCFF Revenues	\$411,121,603	\$410,968,388	\$410,161,125	\$409,495,717	\$407,064,031	\$409,518,684

Federal Revenue

Federal funding amounts were reviewed, verified, and adjusted as appropriate in the base year. Except for any one-time funding, FCMAT assumed unchanged funding levels for federal programs with no COLA in 2020-21 and 2021-22.

FCMAT decreased federal revenues by \$7.3 million in 2019-20 to match budget amounts to award letters, to adjust some budgeted revenues to actual amounts received to date, and to adjust certain revenue sources for unspent grant awards based on the federal cash management data collection schedule. The revenues for unspent grant awards for programs on the federal cash management reporting schedule were recognized in the year that expenses are projected to occur. Comprehensive Support and Improvement (CSI) revenues were increased \$1.87 million to agree with the award letter. A decrease of \$8.5 million was made to Title I Part A, Title II, Title III, and Title IV Part A revenues to adjust for unspent grant awards. Medi-Cal Billing Option revenues were decreased \$800,000 to align revenues

with the prior year actual amount received and the current amount received to date. Smaller increases or decreases were made to various other programs.

One-time and carryover revenues included in the 2019-20 budget were eliminated from FCMAT's projections in subsequent years. Revenues were reduced by \$8.1 million in 2020-21 including \$4.9 million in School Improvement Grant (SIG), \$3.1 million in CSI program funding, which ends in 2019-20, and smaller reductions to various other federal programs. Further reductions of \$12.9 million to federal revenues were made in 2021-22 for the termination of SIG funding, which ends in 2020-21.

One-time revenues of \$15.8 million for Elementary and Secondary School Emergency Relief (ESSER) funds were added in 2020-21 and eliminated in 2021-22. The district must complete an application to receive these revenues, and the CDE website indicates that the district submitted the required assurances on June 22, 2020. The funds are to be used to address the impact that COVID-19 has had on the district and may be used for any allowable expenditure incurred on or after March 13, 2020 through September 30, 2022.

One-time Learning Loss Mitigation revenues of \$37.0 million were added in 2020-21 and eliminated in 2021-22. The funds must be spent on activities that directly support pupil academic achievement and mitigate learning loss related to COVID-19 school closures. The majority of the funds must be used on expenditures occurring from March 1, 2020 through December 30, 2020. Approximately \$3 million must be used on expenditures occurring from March 13, 2020 through September 30, 2021.

Other State Revenue

State grant award amounts for 2019-20 were confirmed and carried forward to 2020-21 and 2021-22 with no COLA. Reductions totaling approximately \$125,000 were made to the 2019-20 revenues to match budget amounts to award notifications and to adjust some revenues to actual amounts received.

One-time and carryover revenues were eliminated from the projection in 2020-21 and 2021-22. Revenue projections were decreased by \$10.7 million in 2020-21, including \$4.2 million in Special Education Early Intervention funds, \$3.4 million in Career Technical Education Incentive Grant revenues, \$860,000 in Strong Workforce Program revenues, approximately \$666,000 in COVID-19 funds and \$916,000 in one-time Low Performing Students Block Grant revenues. An increase in the special education base rate and low incidence funding results in a projected increase of \$3.35 million in 2020-21 and is assumed to be ongoing. One-time Learning Loss Mitigation Funds of \$3.5 million were added to the projection in 2020-21 and eliminated in 2021-22.

Mandate Funding

The district received \$7.1 million in one-time funds for previous years' mandate claims in 2018-19 that will not be received in 2019-20 or subsequent years. FCMAT's projection for the ongoing Mandate Block Grant for 2019-20 remains unchanged from the district's third interim budget. Funding in subsequent years is projected based on per ADA amounts from the SSC Dartboard with no COLA applied. Receipt of Mandate Block Grant funds is contingent on the district filing a funding application each year with the CDE.

Lottery

FCMAT projected lottery revenues for 2019-20 based on projected annual ADA, multiplied by \$148.78 for unrestricted and \$48.41 for restricted lottery instructional materials, per the CDE. Revenues in the subsequent years were based on projected annual ADA multiplied by \$150 for unrestricted and \$49 for restricted, per the SSC Dartboard. These are the most current assumptions available for projecting lottery revenues. Lottery funding is initially allocated using the prior year's annual ADA and adjusted in the subsequent fiscal year based on current year annual ADA.

Other Local Revenue

The district receives local revenues from interest earnings, leases and rentals, fees and contracts, donations, and other miscellaneous sources. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items should be conservative, consider historical trend data and identify revenue streams that are one-time. These budget items should also be monitored and updated throughout the year based on amounts received to date.

FCMAT reviewed the district's budgeted amounts for reasonableness using the prior two years' actual revenues and 2019-20 year-to-date actual receipts. Amounts attributed to leases and rentals, fees and contracts, and interest were found to be reasonable and were considered to be ongoing in the subsequent years of the projection. Amounts attributed to donations and other local grants were adjusted in 2019-20 based on grant or award letters, contracts, or actual amounts received. Most of these sources were considered to be one-time and were eliminated in the subsequent years of the projection unless documentation was provided that identified the funding as ongoing.

Although FCMAT's projections assume a static level of funding in subsequent years for leases and rentals and fees and contracts, the ongoing closure of school facilities may negatively affect these revenue sources. Additionally, except for the June 2020 to July 2020 deferral, FCMAT's projection for interest earnings assumes the district will be granted an exemption from all state apportionment deferrals. However, if the deferral exemption is not granted, cash balances and therefore interest revenues will decrease.

Expenditures

The district's 2019-20 third interim expense assumptions were reviewed and assessed based on prior year history and 2018-19 third interim expenditures as a percentage of unaudited actuals. Expenses to date were reviewed for all resources as of April 30, 2020, and all major resources were reviewed again as of May 31, 2020. Information provided by the district was used to support items such as the transfer of teacher salaries between resources, insurance refunds, special education expenses, charter services, legal costs, debt service, capital expenditures and other outgo. Documents provided by the district, the third interim MYFP, budget report narratives, historical spending, and interviews were used to support expenditure additions and reductions in FCMAT's analysis.

Attempts to tie the position control reports provided by the district to the budget were unsuccessful. This lack of readily available accurate data from the software system could hinder management's ability to analyze salary-related expenses and require additional staff time to complete its analysis throughout the year. The position control database, in its current state, does not properly report and maintain the number of full-time equivalent (FTE) positions, assignment changes, and vacancy information required to support the budget. Therefore, the position control reports provided to FCMAT cannot be relied upon for staffing or MYFPs. One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, and FCMAT's analysis shows that salaries and benefits account for 94% of Sacramento City's 2019-20 unrestricted general fund expenditure budget.

The district's position control report listed 551 vacancies. FCMAT's analysis includes adjustments for those positions on the Human Resources Department lists for active recruiting as of June 2020 and certificated staffing decreases due to declining enrollment, as shown in the district's third interim Form MYP. No other adjustments for position decreases or increases are included in the FCMAT analysis because action had not been taken to fill, freeze or eliminate the remaining positions shown as vacant on the district's position control report.

Some of the expenditure variances discussed in the following paragraphs are related to the restructure of the 2019-20 school year because of COVID-19. The variances were estimated based on prior year expenditures and their relationship to the transition to distance learning.

Salaries

The district's financial software system generated a reasonable gross cost of the fiscal impact of annual step-and-column increases. In addition, FCMAT used information provided by the district to support certificated retiree salary savings. As discussed below in the Employee Benefits section, the salary savings are offset by the associated retiree health benefit expenses. Such detailed information is necessary to accurately estimate the multiyear impact of step and column costs.

FCMAT found that district documents include various percentages for annual step and column costs. For example, the third interim Form MYP includes a 2020-21 projection of 1.1% for certificated step-and-column costs and 0.7% for classified. However, the third interim narrative states 1.2% for certificated and 0.82% for classified. Although these variances are minor, a best practice is to explain any variances to ensure information is consistently presented.

FCMAT's MYFP does not include potential additional costs related to state minimum wage increases, which are scheduled to increase to \$14 per hour on January 1, 2021 and \$15 per hour on January 1, 2022. The scope of FCMAT's work did not include an analysis to determine if these increases will have a material effect on the district's budget.

Certificated Salaries

FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund certificated salary expenses are overbudgeted by \$3.1 million. The analysis of restricted resources indicates that projected expenses are overbudgeted by \$4.0 million, including \$2.3 million in Title I.

To compute the annual cost of step-and-column, FCMAT used the dollar amount calculated by the district's financial system and divided it by the 2019-20 adjusted base salary total. While this generates a gross rate of 1.5%, the rate does not include retiree salary savings and associated health benefit costs, which need to be factored in to generate the net rate. In FCMAT's analysis, retirees in 2020-21 who occupied active positions in 2019-20 were replaced with new employees at lower salaries. Salary information provided by the district supports annual retiree salary savings of approximately \$2.0 million. However, this savings is offset and may be exceeded by the additional costs and long-term liabilities related to retiree health benefits.

The district's third interim Form MYP includes the addition of \$2.4 million in unrestricted certificated salaries in 2020-21, due to positions being shifted from Title I funding. This salary shift was reported in the unrestricted Form MYP, but it appears it was not reduced from the restricted Form MYP, thereby overstating combined salaries by this amount. FCMAT's MYFP adjusted for the reduction in restricted salaries in 2020-21 and added ongoing salary expenses related to one-time savings in 2019-20 (due to COVID-19) for substitutes, extra duty, etc. These ongoing salary expenses were added using the greater of 2018-19 or 2019-20 expenses as a basis for the projection.

Classified Salaries

FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund classified salary expenses are overbudgeted by \$1.2 million, and restricted resources are overbudgeted by \$1.1 million.

To compute the annual step cost for classified employees, FCMAT used the dollar amount calculated by the district's financial system and divided it by the 2019-20 adjusted base salary total, which generates a gross rate of .57%.

FCMAT's 2020-21 MYFP includes the addition of ongoing salary expenses related to one-time savings in 2019-20 (due to COVID-19) for part-time hourly employees, transportation and instructional aide vacancies, overtime, substitutes, etc. These ongoing salary expenses were added using the greater of 2018-19 or 2019-20 expenses as a basis for the projection.

Employee Benefits

Benefit accounts are maintained in a web-based system, supported by the insurance provider, and accounted for in the district's financial system. No budget monitoring report that included each employee, his or her position information and the amount paid by the district for his or her health benefits was provided to the study team. Interviews indicated that employee benefit databases and the general ledger are not reconciled on a regular and ongoing basis.

FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund expenses for health and welfare costs and other postemployment benefits (OPEB) levies are overbudgeted by \$2.6 million, and restricted resources are overbudgeted by \$1.5 million. In addition, the analysis indicates that STRS and PERS are overbudgeted by \$200,000 in the unrestricted general fund and \$900,000 in restricted resources. All other benefits budgets combined are overbudgeted by approximately \$400,000.

As discussed above, the district's third interim report includes the addition of \$2.4 million in unrestricted general fund certificated salaries in 2020-21, due to positions being shifted from Title I funding, but it appears this amount was not reduced from the district's restricted resources. FCMAT's MYFP adjusted for the reduction of \$600,000 in Title I for employee benefits associated with this salary shift.

FCMAT's MYFP includes an ongoing increase in 2020-21 of \$1.1 million for health and welfare expenses, due to the one-time rebate provided in June 2020. Health and welfare benefits were increased by 9.4% each year in 2020-21 and 2021-22. This increase was based on the most current rate information available as of June 2020. The district's broker indicated that rate increases for classified employees may be higher; however, classified rate changes occur in January and apply to only six months of the 2020-21 fiscal year.

The estimated annual pay-as-you-go costs for new certificated retirees have been added to FCMAT's MYFP at the rate of \$540,000 in 2020-21 and an additional \$701,000 in 2021-22. In addition to the annual costs, long-term OPEB liabilities are estimated to increase by more than \$3 million in 2020-21 and \$4 million in 2021-22. These expenses were based on the OPEB actuarial report for the fiscal year ending June 2019, the estimated 9.4% medical rate increases in 2020-21 and 2021-22, and other district provided information. While it is outside the scope of this analysis to calculate and project the exact timing and impact of OPEB expenses, the number of retirees (3,118) on the district health plan continues to grow closer to the number of active employees (4,278), and the levy for retiree health and welfare costs should be closely monitored to ensure it is sufficient to cover the annual pay-as-you-go cost, at a minimum, and to ensure that the unfunded liability for OPEB does not continue to grow.

Books and Supplies

Based on FCMAT's analysis, an unusually large portion of the 2019-20 books and supplies budget will not be expended. The district's third interim executive summary indicates that carryover funds are budgeted in books and supplies as a placeholder until the district determines how to expend them. FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund expenses for books and supplies are overbudgeted by \$3.6 million, and restricted resources are overbudgeted by \$4.1 million. The vacancy in the facilities administrative position may contribute to the underexpenditure of \$1.8 million in the routine restricted maintenance account (RRMA), which is part of the restricted resources total. Other significant portions of the unspent funds appear to reside in lottery instructional materials \$1.2 million, other restricted local resources \$1.2 million, Title III \$900,000, SIG \$900,000, Medi-Cal \$700,000, and the after school programs \$700,000. FCMAT's analysis includes shifting \$5.5 million for COVID-19 related expenses, originally paid from fund 21, to federal learning loss mitigation resources.

The third interim executive summary and other information provided by the district were used to support additions and reductions in FCMAT's MYFP. District spreadsheets provided for the third interim MYFP cal-

ulation include the addition of textbook adoptions totaling \$10 million in 2020-21 and \$5 million in 2021-22. However, interviews and other district-provided documents indicate \$4 million to \$6 million is needed for textbook adoptions in each of these years, and additional funds will be needed in 2022-23. Therefore, FCMAT included \$6 million in 2020-21 and \$4 million in 2021-22 in its MYFP for textbook adoptions.

One-time savings in books and supply costs related to restructure of the 2019-20 school year due to COVID-19 were added back to FCMAT's MYFP in 2020-21 as ongoing expenses using the greater of 2018-19 or 2019-20 expenses as the basis for the projection. All books and supplies budgeted to CSI and SIG were terminated in 2021-22 due to the expiration of funding. The FCMAT MYFP also includes adjustments based on the consumer price index (CPI).

Services and Other Operating

The district's second interim executive summary indicated that some of the budgeted professional development expenses did not occur, and this may have been further exacerbated by the restructure of the 2019-20 school year due to COVID-19. FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund expenses for services and other operating expenditures are overbudgeted by \$2.3 million, primarily because of \$1.4 million in utility savings.

The analysis indicates that restricted resources expenses are overbudgeted by \$8.6 million; this includes special education expenses that appear to be overbudgeted by \$2.2 million, primarily in non-public school (NPS) and other contracts. A review of the spreadsheet provided by the district to support budgeted special education expenses found that while the methodology used to project expenses appears sound, the basis of the projection used 2018-19 estimated actuals rather than 2018-19 unaudited actuals. The vacancy in the facilities administrative position may contribute to the underexpenditure of \$1.1 million in the RRMA. Other significant portions of the unspent funds appear to reside in SIG \$1.4 million, Title IV Part A \$1.5 million, various career technical education programs \$600,000, Medi-Cal \$500,000, Title I \$500,000 and other restricted local resources \$600,000.

The third interim executive summary and other information provided by the district were used to support additions and reductions in FCMAT's MYFP, including an increase of 5% per year in utilities.

One-time savings in services and other operating costs related to restructure of the 2019-20 school year due to COVID-19 were added back to FCMAT's MYFP in 2020-21 as ongoing expenses using the greater of 2018-19 or 2019-20 expenses as the basis for the projection. FCMAT's MYFP includes the use of all federal and state COVID-19 relief funds in 2020-21 (excluding the \$5.5 million expended in 2019-20). All services budgeted to the Low Performing Students Block Grant were terminated in 2020-21, and those budgeted to CSI and SIG were terminated in 2021-22 due to the expiration of funding. Special education service provider expenditures were increased approximately 8% per year based on the historical average of 2017-18 actual expenditures compared to 2018-19 actual expenditures (as reported in the Special Education Maintenance of Effort (SEMA reports)). The FCMAT MYFP also includes adjustments based on the CPI.

Capital Outlay

Interviews indicated that capital outlay expenses paid by the general fund are typically budgeted using a zero-based budgeting method. FCMAT's analysis found no significant variance in the unrestricted general fund, and restricted resources are overbudgeted by \$1.1 million. The majority of the overbudgeted amount is in RRMA (\$500,000) and the Career Technical Education Incentive Grant (\$400,000).

Other Outgo/Indirect Costs

In 2019-20, the district applied indirect costs to its restricted programs including special education. FCMAT reduced the indirect cost earnings in the unrestricted general fund by \$1.4 million based on the reduced expenditures included in its analysis.

FCMAT's MYFP applies an indirect cost rate of 3.79% in 2020-21 and 3.91% in 2021-22 based on the 2018-19 unaudited actuals indirect cost rate worksheet (Form ICR).

Other Financing Sources/Uses

Transfers In

The district transfers funds from the charter schools fund to the general fund for fees and oversight costs. In FCMAT's MYFP, this transfer is assumed to be ongoing at the third interim \$2.2 million budgeted amount.

Transfers Out

The third interim report included contributions to the charter schools, adult education and child development funds. In FCMAT's MYFP, these transfers are assumed to be ongoing at the third interim \$2.6 million budgeted amount.

Contributions

When revenues in restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Restricted programs should be self-supporting, with the exception of special education, routine restricted maintenance, and any restricted program the district has made a deliberate decision to support with unrestricted general funds. The special education program typically has insufficient state and federal funding support, and the district is required to make a 3% contribution to the routine restricted maintenance account.

Due to increasing costs year-over-year, the district may need to reduce expenditures in several of its restricted resources to remain within the projected revenue estimates. When restricted resource expenditure budgets exceeded projected revenue in the subsequent years of the MYFP, FCMAT reduced expenditures in the 4000 (books and supplies) and 5000 (services and other operating) object codes where possible to remain within the projected revenue estimates. However, this action may also affect programs by the reduction of expenditures for these items. No reductions were made in salary and benefit budgets. A contribution was made from the unrestricted general fund to balance any restricted resource where expenditures still exceeded revenue after these adjustments.

The following table shows projected contributions to the district's restricted resources.

	Resource Code	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Unrestricted Resources				
Unrestricted	0000	(\$89,249,124)	(\$95,584,657)	(\$111,646,314)
Total Unrestricted		(\$89,249,124)	(\$95,584,657)	(\$111,646,314)
Restricted Resources				
School Improvement Grant	3180	\$0	\$0	\$11,373,694
ESSA: School Improvement Funding (CSI)	3182	\$0	\$0	\$280,213
Department of Rehabilitation: Workability	3410	\$7,086	\$13,028	\$23,582
Medi-Cal Billing Option	5640	\$0	\$276,036	\$895,270
Special Education	Various	\$73,127,742	\$77,341,620	\$82,507,613
Ongoing & Major Maintenance Account (RRMA)	8150	\$16,114,296	\$ 17,953,973	\$ 16,565,942
Total Restricted		\$89,249,124	\$95,584,657	\$111,646,314

The 2019-20 third interim report includes a contribution of \$17.5 million to the RRMA. After the application of FCMAT’s adjustments, this amount was reduced to \$16.1 million. As provided in the 2020-21 state budget, FCMAT’s MYFP excludes the on-behalf pension contributions (resource 7690) from the 3% RRMA calculation each year, beginning in 2020-21.

Restricted Resources

Expenditures that qualify to be charged against restricted resources should be appropriately coded to the applicable programs. This helps provide maximum flexibility and availability of unrestricted funding, which can typically be used for any educational purpose. Developing plans to use restricted funds is an integral part of maximizing budgets and spending capacity. Although some unspent restricted funds may be related to the restructure of the 2019-20 school year due to COVID-19, based on the amount of carryover for grants and entitlements, it appears that all restricted funds may not be maximized prior to the expenditure of unrestricted resources. Examples of projected 2019-20 unspent restricted funds include: \$5.5 million Title I, \$4.1 million SIG, \$2.5 million RRMA, \$2.3 million Title IV, \$2.1 million CSI, and \$2.1 million other restricted local.

Multiyear Financial Projection Analysis

FCMAT has analyzed all general fund sources and expenditure categories by resource. The unrestricted general fund summary below includes a column showing the study team’s adjustments to the base year and indicates that, without revenue increases and/or expenditure reductions, deficit spending of \$19.76 million is projected in 2020-21 and \$43.05 million in 2021-22. The unrestricted general fund ending balance is projected to decline from \$80.53 million (13.91% - this includes the \$5.5 million for COVID-19 costs that are charged to restricted resources in 2019-20 but the revenue is recognized in 2020-21, as allowed by CDE) in 2019-20 to \$17.73 million (3.05%) in 2021-22.

To protect the district’s financial solvency and eliminate deficit spending, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated, unless a significant increase in ongoing funding is provided.

Unrestricted General Fund Summary

Description	Object Code	Base Year 2019-20	Adjustments to Base Year	Year 2 2020-21	Year 3 2021-22
A. Revenues					
LCHF Sources	8010-8099	411,121,607.75	(153,219.00)	409,495,717.75	409,518,684.75
Federal Revenue	8100-8299	155,908.30	332,857.00	300,000.00	300,000.00
Other State Revenues	8300-8599	12,021,397.78	(93,161.00)	7,678,669.00	7,577,669.00
Other Local Revenues	8600-8799	7,577,955.55	62,956.00	6,714,964.00	6,714,964.00
Total, Revenue		430,876,869.38	149,433.00	424,189,350.75	424,111,317.75
B. Expenditures					
Certificated Salaries	1000-1999	160,345,199.44	(3,075,376.00)	162,849,062.14	162,810,220.51
Classified Salaries	2000-2999	40,685,765.82	(1,232,997.00)	41,055,123.18	41,289,137.39
Employee Benefits	3000-3999	109,146,396.02	(3,060,297.00)	113,908,845.00	120,609,847.29
Books and Supplies	4000-4999	6,521,592.33	(3,621,438.00)	10,388,810.39	9,151,729.69
Services and Other Operating Expenditures	5000-5999	24,638,110.21	(2,341,632.00)	25,626,056.86	26,644,318.99
Capital Outlay/Depreciation	6000-6999	448,316.02	53,390.00	611,016.02	611,016.02
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	917,738.00	50,438.00	967,986.00	967,527.00
Other Outgo - Transfers of Indirect Costs	7300-7399	(8,880,421.50)	1,378,283.18	(7,448,894.85)	(6,974,190.13)
Other Adjustments - Expenditures				-	-
Total, Expenditures		333,822,696.34	(11,849,628.82)	347,958,004.74	355,109,606.76
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		97,054,173.04	11,999,061.82	76,231,346.01	69,001,710.99
D. Other Financing Sources/Uses					
Interfund Transfers					
Transfers In	8900-8929	2,191,263.00	-	2,191,263.00	2,191,263.00
Transfers Out	7600-7629	2,594,535.42	-	2,594,535.42	2,594,535.42
Other Sources/Uses					
Sources	8930-8979	-	-	-	-
Uses	7630-7699	-	-	-	-
Other Adjustments - Other Financing Uses				-	-
Contributions	8980-8999	(93,420,037.00)	4,170,912.92	(95,584,657.39)	(111,646,314.47)
Total, Other Financing Sources/Uses		(93,823,309.42)	4,170,912.92	(95,987,929.81)	(112,049,586.89)
E. Net Increase (Decrease) in Fund Balance/Net Position		3,230,863.62	16,169,974.74	(19,756,583.80)	(43,047,875.90)
F. Fund Balance, Reserves/Net Position					
Beginning Fund Balance/Net Position					
As of July 1 - Unaudited	9791	61,133,834.79		80,534,673.15	60,778,089.35
Audit Adjustments	9793	-		-	-
As of July 1- Audited		61,133,834.79		80,534,673.15	60,778,089.35
Other Restatements	9795	-		-	-
Adjusted Beginning Balance		61,133,834.79		80,534,673.15	60,778,089.35
Ending Balance/Net Position, June 30		80,534,673.15		60,778,089.35	17,730,213.45
Components of Ending Fund Balance					
Nonspendable	9710-9719	329,056.94		329,056.94	329,056.94
Restricted	9740	-		-	-
Committed					
Stabilization Arrangements	9750	-		-	-
Other Commitments	9760	-		-	-
Assigned					
Other Assignments	9780	-		-	-
Unassigned/Unappropriated					
Reserve for Economic Uncertainties	9789	10,742,864.04		12,337,768.96	11,412,415.39
Unassigned/Unappropriated Amount	9790	69,462,752.17		48,111,263.45	5,988,741.12

The restricted general fund summary below shows FCMAT’s analysis of the district’s restricted resources and includes a column showing the study team’s adjustments to the base year.

<i>Restricted General Fund Summary</i>						
Description	Object Code	Base Year 2019-20	Adjustments to Base Year	Year 2 2020-21	Year 3 2021-22	
A. Revenues						
LCFF Sources	8010-8099	-	-	-	-	-
Federal Revenue	8100-8299	66,562,042.59	(7,635,009.24)	105,945,607.51	40,918,220.48	
Other State Revenues	8300-8599	63,050,864.29	(32,087.00)	63,372,600.10	59,842,080.10	
Other Local Revenues	8600-8799	3,228,219.32	20,114.00	780,486.70	568,178.70	
Total, Revenue		132,841,126.20	(7,646,982.24)	170,098,694.31	101,328,479.28	
B. Expenditures						
Certificated Salaries	1000-1999	59,149,067.10	(4,028,840.90)	55,091,332.06	55,917,702.03	
Classified Salaries	2000-2999	22,461,415.25	(1,131,353.32)	22,736,396.95	22,865,994.48	
Employee Benefits	3000-3999	65,801,858.48	(2,546,944.10)	66,097,867.43	69,024,244.41	
Books and Supplies	4000-4999	16,294,117.20	(4,106,932.42)	11,541,656.21	6,768,364.77	
Services and Other Operating Expenditures	5000-5999	55,173,097.16	(8,587,145.00)	102,415,551.19	51,673,285.70	
Capital Outlay/Depreciation	6000-6999	9,155,476.82	(1,101,575.70)	2,462,989.02	1,151,625.39	
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	-	-	-	-	
Other Outgo - Transfers of Indirect Costs	7300-7399	7,421,641.74	(1,378,283.18)	5,990,115.09	5,515,410.37	
Other Adjustments - Expenditures				-	-	
Total, Expenditures		235,456,673.75	(22,881,074.62)	266,335,907.95	212,916,627.15	
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		(102,615,547.55)	15,234,092.38	(96,237,213.64)	(111,588,147.87)	
D. Other Financing Sources/Uses						
Interfund Transfers						
Transfers In	8900-8929	-	-	-	-	
Transfers Out	7600-7629	-	-	-	-	
Other Sources/Uses						
Sources	8930-8979	-	-	-	-	
Uses	7630-7699	-	-	-	-	
Other Adjustments - Other Financing Uses				-	-	
Contributions	8980-8999	93,420,037.00	(4,170,912.92)	95,584,657.39	111,646,314.47	
Total, Other Financing Sources/Uses		93,420,037.00	(4,170,912.92)	95,584,657.39	111,646,314.47	
E. Net Increase (Decrease) in Fund Balance/Net Position		(9,195,510.55)	11,063,179.46	(652,556.25)	58,166.60	
F. Fund Balance, Reserves/Net Position						
Beginning Fund Balance/Net Position						
As of July 1 - Unaudited	9791	9,195,510.53		11,063,179.44	10,410,623.19	
Audit Adjustments	9793	-		-	-	
As of July 1- Audited		9,195,510.53		11,063,179.44	10,410,623.19	
Other Restatements	9795	-		-	-	
Adjusted Beginning Balance		9,195,510.53		11,063,179.44	10,410,623.19	
Ending Balance/Net Position, June 30		11,063,179.44		10,410,623.19	10,468,789.79	
Components of Ending Fund Balance						
Nonspendable	9710-9719	-		-	-	
Restricted	9740	11,063,179.44		10,410,623.19	10,468,789.79	
Committed						
Stabilization Arrangements	9750	-		-	-	
Other Commitments	9760	-		-	-	
Assigned						
Other Assignments	9780	-		-	-	
Unassigned/Unappropriated						
Reserve for Economic Uncertainties	9789	-		-	-	
Unassigned/Unappropriated Amount	9790	-		-	-	

The combined general fund summary below shows FCMAT's analysis of all the district's unrestricted and restricted general fund sources and includes a column showing the combined adjustments to the base year.

<i>Combined General Fund Summary</i>					
Description	Object Code	Base Year 2019-20	Adjustments to Base Year	Year 2 2020-21	Year 3 2021-22
A. Revenues					
LCFF Sources	8010-8099	411,121,607.75	(153,219.00)	409,495,717.75	409,518,684.75
Federal Revenue	8100-8299	66,717,950.89	(7,302,152.24)	106,245,607.51	41,218,220.48
Other State Revenues	8300-8599	75,072,262.07	(125,248.00)	71,051,269.10	67,419,749.10
Other Local Revenues	8600-8799	10,806,174.87	83,070.00	7,495,450.70	7,283,142.70
Total, Revenue		563,717,995.58	(7,497,549.24)	594,288,045.06	525,439,797.03
B. Expenditures					
Certificated Salaries	1000-1999	219,494,266.54	(7,104,216.90)	217,940,394.20	218,727,922.54
Classified Salaries	2000-2999	63,147,181.07	(2,364,350.32)	63,791,520.13	64,155,131.87
Employee Benefits	3000-3999	174,948,254.50	(5,607,241.10)	180,006,712.43	189,634,091.70
Books and Supplies	4000-4999	22,815,709.53	(7,728,370.42)	21,930,466.60	15,920,094.46
Services and Other Operating Expenditures	5000-5999	79,811,207.37	(10,928,777.00)	128,041,608.05	78,317,604.69
Capital Outlay/Depreciation	6000-6999	9,603,792.84	(1,048,185.70)	3,074,005.04	1,762,641.41
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	917,738.00	50,438.00	967,986.00	967,527.00
Other Outgo - Transfers of Indirect Costs	7300-7399	(1,458,779.76)	-	(1,458,779.76)	(1,458,779.76)
Other Adjustments - Expenditures				-	-
Total, Expenditures		569,279,370.09	(34,730,703.44)	614,293,912.69	568,026,233.91
C. Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and Uses		(5,561,374.51)	27,233,154.20	(20,005,867.63)	(42,586,436.88)
D. Other Financing Sources/Uses					
Interfund Transfers					
Transfers In	8900-8929	2,191,263.00	-	2,191,263.00	2,191,263.00
Transfers Out	7600-7629	2,594,535.42	-	2,594,535.42	2,594,535.42
Other Sources/Uses					
Sources	8930-8979	-	-	-	-
Uses	7630-7699	-	-	-	-
Other Adjustments - Other Financing Uses					
Contributions	8980-8999	-	-	-	-
Total, Other Financing Sources/Uses		(403,272.42)	-	(403,272.42)	(403,272.42)
E. Net Increase (Decrease) in Fund Balance/Net Position		(5,964,646.93)	27,233,154.20	(20,409,140.05)	(42,989,709.30)
F. Fund Balance, Reserves/Net Position					
Beginning Fund Balance/Net Position					
As of July 1 - Unaudited	9791	70,329,345.32		91,597,852.59	71,188,712.54
Audit Adjustments	9793	-		-	-
As of July 1- Audited		70,329,345.32		91,597,852.59	71,188,712.54
Other Restatements	9795	-		-	-
Adjusted Beginning Balance		70,329,345.32		91,597,852.59	71,188,712.54
Ending Balance/Net Position, June 30		91,597,852.59		71,188,712.54	28,199,003.24
Components of Ending Fund Balance					
Nonspendable	9710-9719	329,056.94		329,056.94	329,056.94
Restricted	9740	11,063,179.44		10,410,623.19	10,468,789.79
Committed					
Stabilization Arrangements	9750	-		-	-
Other Commitments	9760	-		-	-
Assigned					
Other Assignments	9780	-		-	-
Unassigned/Unappropriated					
Reserve for Economic Uncertainties	9789	10,742,864.04		12,337,768.96	11,412,415.39
Unassigned/Unappropriated Amount	9790	69,462,752.17		48,111,263.45	5,988,741.12

Other Funds

In addition to analyzing the general fund, FCMAT completed a basic review of the district's other funds to determine their possible financial impact on the unrestricted general fund. The third interim report included transfers to the charter schools, adult education and child development funds totaling \$2.6 million. Interviews indicated that some steps, such as closing the Parent Participation Preschool program in the adult education fund, are being taken to reduce costs or eliminate programs in funds that are not self-supporting. However, without an adequate increase in revenue and/or decrease in projected expenditures, these funds may require an increased contribution from the unrestricted general fund in future years. No other funds are expected to require a contribution from the unrestricted general fund in 2019-20 or the two subsequent fiscal years.

A review of the district's financial system report dated May 28, 2020 found that some resources with a 2018-19 ending balance also include the balance in 2019-20 as budgeted carryover revenue, thereby overstating 2019-20 revenue. Examples include fund 09 unrestricted and restricted lottery, California Clean Energy Jobs Act and the Classified School Employee Professional Development Block Grant, and fund 11 CalWORKs.

Charter Schools Special Revenue Fund

The 2019-20 second interim report projects that overall the charter schools fund (fund 09), used for reporting financial transactions of the five district-operated charter schools, will have a positive ending balance. However, interviews indicated that some of the schools within the fund are deficit spending, and a contribution from the unrestricted general fund is necessary to balance their budgets in each of the projected years.

Interviews with staff and district documents indicate that enrollment has declined at some of the district-operated charter schools since 2018-19 and is projected to continue to decline as shown in the following table.

	2018-19	2019-20	2020-21	2021-22	2022-23
Bowling Green	813	795	797	787	778
George Washington Carver	256	272	243	233	223
New Joseph Bonnheim	295	307	309	315	321
New Technology High	207	169	163	158	150
The MET	275	280	264	269	267
TOTAL	1,846	1,823	1,776	1,762	1,739

A review of the district's third interim LCFF calculations found that beginning in 2020-21, the calculations do not include in-lieu property tax transfers as a component of the total LCFF entitlement for three of the charter schools. Although this does not affect overall LCFF funding for each charter school, it may affect the cash flow for the charter schools and the district and should be included when calculating LCFF funding.

Building Fund

Interviews indicated that the building fund (fund 21) has sufficient resources to finish the projects in progress at the time of FCMAT's fieldwork. However, additional bonds will need to be issued to support the salaries and benefits charged to fund 21 and proceed with planned project expenditures. Interviews further indicated that the district has \$77 million of Measure Q bonds remaining to be issued and that another general obligation bond, Measure H for \$750 million, was authorized by the voters in March 2020.

Capital Facilities Fund

The district uses the capital facilities fund (fund 25) to deposit developer fees and the portion of funds received from redevelopment agencies (RDAs) that are not subject to the LCFF deduction. Annual debt service payments of approximately \$5.5 million for the district's lease revenue bonds are split funded between fund 25 and the capital projects fund for blended component units (fund 49).

The district's most recent developer fee justification report was completed in September 2015. The State Allocation Board adjusts Level 1 developer fees every two years based on the construction cost index, and as of January 2020, the maximum rate for Level 1 fees is \$4.08 per square foot for residential and \$0.66 per square foot for commercial/industrial construction. To ensure it can collect the maximum allowable rate, the district should review and update its developer fee justification report, as necessary. In addition, interviews indicated that a study has not been completed to analyze the district's projected annual RDA revenues. Such a study should be completed for planning purposes and to determine if this funding stream can continue to be relied upon for lease revenue bond debt service payments.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement shows the district's liquidity and ability to meet its current payroll and other financial obligations. The cash flow analysis should not be confused with the district's budget and fund balance; it is a different analytical tool. The cash flow statement excludes transactions that do not directly affect cash receipts and payments.

Any projection of financial data for cash flow purposes has inherent limitations because of issues such as unanticipated changes in the timing of receipts and expenses and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help a district make more informed decisions and enable it to better project the fiscal impact of current decisions. The cash flow projections should be updated at least monthly to accurately account for all revenues, expenditures and other changes related to cash.

Given the uncertainties of the pandemic, the resulting state budget crisis, and the possibility for a protracted economic recovery, cash management is one of the main concerns in every LEA. The state has a history of deferring payments to LEAs, and the 2020-21 state budget again includes cash deferrals with the first being the June to July 2020 apportionment deferral. The following table shows the 2020-21 apportionment deferral schedule as provided by CDE on September 9, 2020. These deferrals are assumed to be ongoing in FCMAT's cash flow projection for the district.

Month Due	% of Payment Deferred	Month Paid
February 2021	53%	November 2021
March 2021	82%	October 2021
April 2021	82%	September 2021
May 2021	82%	August 2021
June 2021	100%	July 2021

The size and frequency of the state's apportionment deferrals make it challenging for school districts to maintain fiscal sustainability and make it more critical than ever for districts to use effective methods to project and monitor cash flow. Cash is critical for operations and, although the balance sheet may include other assets, without sufficient cash the district is effectively bankrupt and may require intervention from the state. This makes it imperative for the district to emphasize cash flow analysis.

To complete the cash flow projections, FCMAT reviewed the district's 2018-19 and 2019-20 financial system Cashflow Summary reports that show all transactions that affect the general fund cash balance and the district's 2019-20 third interim cash flow projection. To calculate the projected monthly receipt and disbursement percentages, the study team compared the actual monthly totals by object code range, as shown on the 2019-20 CashFlow Summary report, to FCMAT's adjusted budget. Except for books/supplies and services, these percentages were applied to FCMAT's cash flow projection in each subsequent year. Because of the change in monthly disbursement percentages between 2018-19 and 2019-20, likely related to the restructure of the 2019-20 school year due to COVID-19, the study team used the 2018-19 percentages for books/supplies and services in each subsequent year.

Information provided by the district indicated that \$5.5 million was spent in 2019-20 for Chromebooks and connectivity devices provided to students for distance learning, which FCMAT included in its 2019-20 budget adjustments and the 2019-20 cash flow projection for expenditures and 2020-21 cash flow projection for revenues. The remaining \$50.8 million for federal and state COVID-19 relief funds are included in the cash flow projection as both received and spent in 2020-21 based on the latest payment schedule information provided by CDE and required expenditure deadlines.

The 2019-20 balance sheet items show an accrual balance of \$4.4 million in assets and \$2.6 million in liabilities. FCMAT's cash flow analysis assumes that all these amounts are received or paid by December 2020, except for amounts attributed to the revolving cash fund and stores, which are rolled forward each year. The cash flow analysis further assumes all year-end accruals are received or paid by December of the following fiscal year.

The following cash flow projections show a negative ending cash balance of \$24.3 million in May 2021 and negative \$49 million in June 2021. Negative ending cash balances are also projected in numerous months in the 2021-22 fiscal year. It is imperative for the district to monitor its cash regularly and complete monthly cash flow projections for the budget year and, at a minimum, one subsequent fiscal year to ensure that it can meet its financial obligations.

The district should be aware that any additional delay of cash receipts could cause further cash flow shortfalls. Because LEAs face the possibility of additional cash deferrals, it is more important than ever for the district to monitor monthly cash flow requirements. **The consequences of becoming cash insolvent are severe and should be avoided to maintain local governance and control of the district.** The district must closely track and update all fund balances and cash flow projections as economic data and other fiscal information continue to change.

2019-20 Cash Flow with June to July Deferral

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Accrual	Adjustment	Total	Variance
A. BEGINNING CASH	74,722,120.83	74,722,120.83	81,057,136.62	81,203,653.32	85,995,013.72	23,424,075.00	23,424,075.00	23,486,484.00	21,935,654.00	69,812,123.48	66,331,713.75	90,511,143.68	73,015,664.20	-	-	-	-
B. RECEIPTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LCFF Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal Apportionment	317,798,524.00	13,036,481.00	13,036,481.00	39,611,353.00	23,424,075.00	23,424,075.00	39,585,543.00	23,486,484.00	21,935,654.00	69,812,123.48	66,331,713.75	90,511,143.68	73,015,664.20	37,624,500.00	-	317,798,524.00	-
Property Taxes	106,091,809.95	-	-	-	(4,051,263.00)	1,056,201.64	-	61,009,316.48	6,981.02	13,035.61	37,770,697.98	21,935,654.00	10,666,429.45	4,442,132.91	-	106,091,809.95	-
Miscellaneous Funds & LCFF Transfers	(12,921,945.20)	-	-	-	-	-	-	(2,003,646.00)	2,415.17	(771,555.00)	(1,700,179.39)	11,280.68	470.76	(4,384,005.19)	-	(12,921,945.20)	-
Federal Revenue	59,415,798.65	6,222,682.76	46,539.49	58,487.32	334,917.74	654,693.53	670,961.24	3,664,488.14	544,286.64	4,015,432.22	4,336,865.32	832,938.82	8,558,957.70	29,874,036.73	-	59,415,798.65	-
Other State Revenue	74,947,014.07	3,944,951.65	2,091,372.64	4,758,918.39	2,078,055.18	8,831,839.44	6,190,315.33	2,466,074.00	2,218,289.43	4,292,598.82	7,793,386.59	2,735,683.00	2,905,764.37	24,837,765.23	-	74,947,014.07	-
Other Local Revenue	10,889,244.87	1,392,229.49	503,252.87	162,952.11	752,844.54	599,639.21	161,216.62	562,624.13	425,014.89	354,760.96	1,366,807.09	292,175.12	848,577.38	3,474,050.46	-	10,889,244.87	-
Interfund Transfers In	2,191,263.00	-	-	-	-	-	-	1,291,523.00	-	-	77,330.96	-	-	822,409.04	-	2,191,263.00	-
All Other Financing Sources	558,411,709.34	24,573,238.90	15,680,747.21	44,591,710.82	22,538,729.46	34,559,448.82	46,608,036.19	89,878,863.75	25,132,641.15	46,690,459.61	71,580,562.55	25,790,447.86	22,980,199.66	87,806,623.36	-	558,411,709.34	-
TOTAL RECEIPTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D. DISBURSEMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	212,390,049.64	1,673,720.67	3,849,445.50	16,335,610.53	20,896,116.95	20,249,351.49	20,786,692.39	20,366,693.76	20,253,245.98	21,018,116.53	20,506,945.06	19,730,674.63	20,379,810.15	3,341,126.00	-	212,390,049.64	-
Classified Salaries	60,782,830.75	2,835,825.02	4,006,872.33	5,136,185.01	5,358,558.37	5,292,344.43	5,504,846.32	5,456,488.18	5,189,786.15	5,379,582.84	5,344,406.51	5,171,463.66	5,296,834.79	807,873.14	-	60,782,830.75	-
Employee Benefits	169,341,013.40	2,488,339.23	3,740,761.23	14,307,433.28	14,565,947.00	14,349,357.90	13,916,446.48	14,482,710.27	14,437,823.19	14,588,939.96	14,438,213.19	14,284,825.53	14,820,255.27	18,919,960.35	-	169,341,013.40	-
Books and Supplies	15,087,339.11	48,324.87	1,920,577.98	651,439.14	376,676.55	388,248.52	204,084.17	564,770.21	726,200.14	445,477.38	372,734.95	537,992.07	1,185,301.16	7,665,502.07	-	15,087,339.11	-
Services	68,882,430.37	297,385.54	2,680,823.80	3,287,290.26	7,468,435.36	5,199,348.24	5,708,124.77	3,793,191.79	4,831,376.14	7,122,771.89	5,679,220.79	3,652,729.63	6,305,617.18	12,855,914.98	-	68,882,430.37	-
Capital Outlay	8,555,607.14	575,643.00	2,251,282.16	1,247,628.08	108,402.64	5,812.62	928,363.66	357,291.83	182,442.94	306,241.10	408,591.61	244,022.51	409,670.90	983,478.54	-	8,555,607.14	-
Other Outgo	(490,603.76)	22,215.00	23,106.00	38,807.11	(29.49)	(40,180.80)	40,180.80	35,569.54	184,512.17	91,168.14	(27,719.24)	(893.31)	2,500,000.00	(1,141,542.99)	-	(490,603.76)	-
Interfund Transfers Out	2,594,535.42	-	-	-	-	-	-	-	-	-	-	-	-	94,535.42	-	2,594,535.42	-
All Other Financing Uses	537,143,202.07	7,941,453.33	18,474,869.00	44,004,393.41	48,773,807.38	45,484,463.20	47,888,732.59	45,491,891.71	45,980,236.12	48,829,469.68	46,620,042.36	43,785,383.82	51,141,511.96	43,526,847.51	-	537,143,202.07	-
TOTAL DISBURSEMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
E. NET INCREASE/DECREASE (B - C + D)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
F. ENDING CASH (A + E)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assets and Deferred Outflows	292,519.48	(34,615.12)	(29,468.53)	(79,527.46)	(312,611.53)	(370,791.22)	(37,657.30)	387,400.34	224,763.16	(36,045.92)	379,223.65	(13,978.13)	(23,150.59)	23,978.13	-	67,519.48	225,000.00
Cash Not in Treasury	32,097,812.12	10,128,193.32	4,306,632.15	4,284,585.35	6,414,712.77	368,866.48	(62,847.35)	(40,892.37)	486,296.04	(26,337.32)	(59,225.82)	1,625,431.25	330,953.29	4,341,444.33	-	32,097,812.12	-
Accounts Receivable	5,970,783.94	47.53	159.57	106.34	172.12	21.27	151.64	70.89	28.36	14.18	14.18	583.39	7.09	(583.39)	-	5,970,783.94	-
Due From Other Funds	104,845.11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	104,845.11	-
Stores	19,306.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,306.00	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Outflows of Resources	38,485,266.65	16,083,710.67	4,277,333.19	4,205,164.23	6,102,273.36	(1,903.47)	(100,353.01)	346,578.86	711,087.56	(62,869.06)	320,012.01	1,602,036.51	307,809.79	4,364,839.07	-	38,485,266.65	-
SUBTOTAL	30,947,183.61	14,449,621.90	1,336,684.70	1,121.24	123,690.18	7,756,957.58	14,414.56	(49,888.12)	1,293,897.71	1,279,030.60	1,101,102.27	1,102,580.03	(105,954.17)	2,643,935.13	-	30,947,183.61	-
Liabilities and Deferred Inflows	1,492,129.73	1,492,129.73	-	-	-	-	-	-	-	-	-	-	-	-	-	1,492,129.73	-
Accounts Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due To Other Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources	10,438,728.82	10,438,728.82	-	-	-	-	-	-	-	-	-	-	-	-	-	10,438,728.82	-
SUBTOTAL	42,878,042.16	26,380,480.45	1,336,684.70	1,121.24	123,690.18	7,756,957.58	14,414.56	(49,888.12)	1,293,897.71	1,279,030.60	1,101,102.27	1,102,580.03	(105,954.17)	2,643,935.13	-	42,878,042.16	-
Nonoperating	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses Clearing	(4,392,775.51)	(10,296,769.78)	2,940,638.49	4,204,042.99	5,978,583.18	(7,758,861.05)	(114,767.57)	396,476.98	(582,810.15)	(1,341,999.66)	(781,090.26)	499,456.48	413,763.96	1,720,903.94	-	(4,721,832.45)	329,056.94
TOTAL BALANCE SHEET ITEMS	16,875,731.76	6,335,015.79	146,516.70	4,791,360.40	(20,256,594.74)	(18,683,875.43)	(595,463.97)	44,783,449.02	(21,430,405.12)	(3,480,409.73)	24,179,429.93	(17,995,479.48)	(27,747,548.34)	46,000,679.79	-	16,546,674.82	-
F. ENDING CASH (A + E)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses Clearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL BALANCE SHEET ITEMS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
F. ENDING CASH (A + E)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2020-21 Cash Flow with Deferrals

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Adjustment	Total	Variance
A. BEGINNING CASH	45,268,115.86	45,268,115.86	79,905,595.63	65,424,553.52	96,999,549.23	72,349,872.58	56,747,604.36	47,749,270.32	86,114,137.38	49,455,847.12	21,265,684.22	21,324,684.22	(24,317,776.44)	-	-	-
B. RECEIPTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LCFF Sources	316,379,901.00	14,180,714.45	14,180,714.45	33,716,689.01	25,525,286.01	25,525,286.01	33,716,689.01	25,525,286.01	11,996,884.42	12,785,954.48	4,594,551.48	4,594,551.48	8,191,403.00	101,845,891.18	316,379,901.00	-
Principal Apportionment	106,091,809.95	-	-	-	-	1,060,918.10	-	61,013,399.90	10,609.18	10,609.18	37,768,684.34	10,609.18	6,216,980.06	-	106,091,809.95	-
Property Taxes	(12,975,993.20)	-	-	(4,067,973.87)	-	-	(2,012,576.55)	-	-	(774,666.79)	(1,707,640.71)	(16,866.79)	-	(4,386,266.50)	-	-
Miscellaneous Funds & LCFF Transfers	106,245,607.51	5,597,985.43	42,773.53	38,034,716.41	298,414.69	588,136.00	5,289,195.08	2,935,333.33	491,895.57	8,299,382.08	3,803,084.39	748,536.73	13,131,992.16	26,883,162.10	106,245,607.51	-
Federal Revenue	71,051,269.10	3,553,326.89	1,884,749.43	7,787,188.69	1,871,238.68	7,957,830.94	5,579,939.18	2,046,878.42	728,351.60	1,904,006.57	5,058,766.37	498,888.71	2,225,207.00	31,957,582.92	71,051,269.10	-
Other State Revenue	7,495,450.70	958,668.14	346,289.82	112,431.76	517,935.64	407,752.52	110,932.67	387,514.80	292,322.58	244,351.69	940,679.06	200,878.08	583,895.61	2,391,798.32	7,495,450.70	-
Interfund Transfers in	2,191,263.00	-	-	-	-	-	-	1,291,530.41	-	-	77,351.58	-	-	822,381.00	2,191,263.00	-
All Other Financing Sources	596,479,308.06	24,290,694.91	16,454,527.23	79,651,025.87	24,145,901.16	35,539,923.57	44,696,755.94	91,187,363.33	13,520,063.33	22,469,637.21	50,635,476.53	6,036,595.40	28,346,791.54	159,504,549.03	596,479,308.06	-
TOTAL RECEIPTS	217,940,394.20	1,721,729.11	3,944,721.14	19,832,575.87	21,445,334.79	20,769,719.57	21,336,864.59	20,900,483.80	20,791,513.61	21,576,099.03	21,053,042.08	20,246,662.62	20,922,277.84	3,399,870.15	217,940,394.20	-
C. DISBURSEMENTS	63,791,520.13	2,979,063.99	4,210,240.33	5,390,883.45	5,626,412.08	5,556,241.40	5,728,478.51	5,447,795.82	5,447,795.82	5,645,549.53	5,607,274.62	5,428,658.36	5,556,241.40	835,668.91	63,791,520.13	-
Classified Salaries	180,006,712.43	2,646,098.67	3,975,148.34	15,210,567.20	15,480,577.27	15,246,568.54	14,796,551.76	15,390,573.91	15,354,572.57	15,516,578.61	15,354,572.57	15,192,566.53	15,750,887.34	20,088,749.11	180,006,712.43	-
Employee Benefits	21,930,466.60	497,821.59	3,429,949.88	1,574,607.50	804,848.12	2,353,139.07	771,952.42	1,298,283.62	2,125,062.21	767,566.33	614,053.06	1,690,838.97	1,690,838.97	4,311,529.73	21,930,466.60	-
Books and Supplies	128,041,608.05	8,469,961.50	9,250,341.88	10,903,821.10	15,060,698.76	11,560,576.86	15,023,385.37	9,140,782.51	6,551,057.14	7,008,257.91	7,757,732.13	8,693,533.28	8,901,029.31	9,820,430.31	128,041,608.05	-
Services	3,074,005.04	206,880.54	808,770.73	448,189.93	38,732.46	2,151.80	333,229.55	284,038.07	128,493.41	65,783.71	110,049.38	146,937.44	147,044.84	353,203.18	3,074,005.04	-
Capital Outlay	(490,793.76)	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	89,538.71	(1,458,779.76)	(490,793.76)	-
Other Outgo	2,594,535.42	-	-	-	-	-	-	-	-	-	-	-	-	2,594,535.42	2,594,535.42	-
Interfund Transfers Out	616,888,448.11	16,601,414.25	25,702,006.23	53,440,003.90	58,536,462.32	55,566,256.09	58,121,154.27	52,822,499.26	50,778,353.61	50,659,693.96	50,576,552.69	51,679,056.05	53,057,758.41	39,945,207.06	616,888,448.11	-
All Other Financing Uses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	23,978.13	(201,021.87)	8,128,548.58	8,128,548.58	12,505,469.35	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	-	(201,021.87)	225,000.00
Assets and Deferred Outflows	91,325,658.65	48,181,823.89	8,128,548.58	8,128,548.58	12,505,469.35	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	-	91,325,658.65	-
Cash Not in Treasury	821,825.65	-	-	-	-	-	-	-	-	-	-	-	-	-	821,825.65	-
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stores	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Outflows of Resources	92,171,462.43	48,698,570.73	8,128,548.58	8,128,548.58	12,505,469.35	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	7,190,639.13	-	91,842,405.49	329,056.94
SUBTOTAL	46,076,347.22	21,655,836.19	13,362,111.69	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	-	46,076,347.22	-
Liabilities and Deferred Inflows	94,535.42	-	-	-	-	-	-	-	-	-	-	-	-	-	94,535.42	-
Accounts Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources	46,170,782.64	21,750,371.61	13,362,111.69	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	-	46,170,782.64	-
SUBTOTAL	46,000,679.79	26,948,199.12	(5,235,563.12)	5,363,973.74	9,740,884.52	4,426,064.29	4,426,064.29	4,426,064.29	4,426,064.29	4,426,064.29	4,426,064.29	4,426,064.29	4,426,064.29	-	46,000,679.79	-
Suspense Clearing	25,991,539.74	34,637,479.77	(14,481,042.12)	31,574,995.71	(24,649,676.65)	(15,602,268.23)	(6,988,334.04)	38,364,867.06	(36,658,290.26)	(28,190,056.74)	58,893.84	(45,642,460.65)	(24,710,966.88)	119,559,341.98	25,991,539.74	329,056.94
TOTAL BALANCE SHEET ITEMS	25,991,539.74	34,637,479.77	(14,481,042.12)	31,574,995.71	(24,649,676.65)	(15,602,268.23)	(6,988,334.04)	38,364,867.06	(36,658,290.26)	(28,190,056.74)	58,893.84	(45,642,460.65)	(24,710,966.88)	119,559,341.98	25,991,539.74	329,056.94
E. NET INCREASE/DECREASE (B - C + D)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
F. ENDING CASH (A + E)	45,268,115.86	79,905,595.63	65,424,553.52	96,999,549.23	72,349,872.58	56,747,604.36	47,749,270.32	86,114,137.38	49,455,847.12	21,265,684.22	21,324,684.22	21,324,684.22	(24,317,776.44)	70,530,598.66	45,268,115.86	-
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	(40,028,743.32)	70,530,598.66	-

2021-22 Cash Flow with Deferrals

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Accrual	Adjustment	Total	Variance	
	(49,028,743.32)	(49,028,743.32)	(15,988,918.81)	1,916,911.22	20,553,739.91	23,157,225.77	28,030,385.28	19,707,382.04	58,390,356.92	22,815,142.35	(10,116,865.99)	(10,229,651.23)	(54,983,144.32)					
A. BEGINNING CASH																		
B. RECEIPTS																		
LCFF Sources																		
Principal Apportionment	316,402,868.00	14,181,862.80	14,181,862.80	33,718,756.04	25,527,353.04	25,527,353.04	33,718,756.04	25,527,353.04	11,997,855.93	12,786,326.55	4,594,923.55	4,594,923.55	8,191,403.00	101,854,138.63		316,402,868.00	-	
Property Taxes	106,091,809.95					1,060,918.00		61,013,399.90	10,609.18	10,609.18	37,768,684.34	10,609.18	6,216,980.06			106,091,809.95	-	
Miscellaneous Funds & LCFF Transfers	(12,975,993.20)			(4,067,973.87)	(4,067,973.87)			(2,012,576.55)		(7,746,667.79)	(1,707,640.71)	(16,688,791.00)		(4,396,266.50)		(12,975,993.20)	-	
Federal Revenue	41,218,220.48	4,315,547.68	32,974.58	41,218.22	230,822.03	453,400.43	465,765.89	2,262,880.30	379,207.63	2,786,351.70	3,008,930.10	5,778,955.09	5,939,545.57	20,724,521.26		41,218,220.48	-	
Other State Revenue	67,419,749.10	3,546,278.80	1,881,011.00	4,281,154.07	1,867,527.05	7,942,046.44	5,468,871.28	2,042,818.40	724,385.37	1,896,328.71	5,044,831.00	21,731,174.00	31,913,177.31			67,419,749.10	-	
Other Local Revenue	7,283,142.70	931,513.95	336,481.19	109,247.14	503,265.16	396,202.96	1,077,960.51	376,538.48	284,042.57	237,430.45	914,034.41	195,188.22	567,356.82	2,324,050.84		7,283,142.70	-	
Interfund Transfers In	2,191,263.00							1,291,530.41			77,351.58			822,381.00		2,191,263.00	-	
All Other Financing Sources																		
TOTAL RECEIPTS	527,631,060.03	22,875,203.24	16,432,329.57	38,150,375.47	24,060,993.42	35,379,920.97	39,861,183.72	90,501,943.99	13,396,100.68	16,942,378.80	49,701,114.27	5,854,905.18	21,132,607.19	153,242,002.54		527,631,060.03	-	
C. DISBURSEMENTS																		
Classified Salaries	218,727,922.54	1,727,950.59	3,958,972.40	19,904,240.95	21,522,827.58	20,844,771.02	21,413,463.62	20,976,007.77	20,866,643.81	21,654,064.33	21,129,117.32	20,319,824.00	20,997,880.56	3,412,155.59		218,727,922.54	-	
Contracted Salaries	64,155,131.87	2,996,044.66	4,334,238.70	5,421,108.64	5,658,482.63	5,587,911.99	5,812,454.95	5,761,130.84	5,478,848.26	5,677,729.17	5,639,236.09	5,459,601.72	5,587,911.99	840,432.23		64,155,131.87	-	
Employee Benefits	189,634,091.70	2,787,621.15	4,190,913.43	16,024,080.75	16,308,531.89	16,062,007.57	15,587,922.34	16,213,714.84	16,175,788.02	16,446,458.70	16,175,788.02	16,005,117.34	16,592,983.02	21,163,164.63		189,634,091.70	-	
Books and Supplies	15,920,094.46	361,386.14	2,489,902.77	1,143,062.78	584,267.47	1,708,226.14	560,387.32	942,469.59	1,542,657.15	557,203.31	445,762.28	1,227,439.28	1,227,439.28	3,129,890.57		15,920,094.46	-	
Services	78,317,604.69	1,585,847.38	2,380,855.18	4,056,851.92	8,270,339.06	4,772,551.56	8,239,012.01	7,682,957.02	4,752,878.60	5,521,391.13	6,281,071.90	7,432,406.69	9,954,167.56	9,954,167.56		78,317,604.69	-	
Capital Outlay	1,762,641.41	118,625.77	483,750.95	256,993.12	22,209.28	1,233.85	191,246.59	162,868.07	73,678.41	37,720.53	63,102.56	84,254.26	84,254.26	202,527.50		1,762,641.41	-	
Other Outgo	(691,252.76)	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	89,496.25	(1,458,779.76)		(691,252.76)	-	
Interfund Transfers Out																		
All Other Financing Uses																		
TOTAL DISBURSEMENTS	570,620,769.33	9,661,296.66	17,798,457.42	46,886,159.14	52,446,478.88	49,006,523.10	51,884,307.81	51,818,969.11	48,971,345.24	49,874,388.15	49,813,899.51	50,608,998.27	52,012,482.31	39,838,093.74		570,620,769.33	-	
D. BALANCE SHEET ITEMS																		
Assets and Deferred Outflows																		
Cash Not in Treasury	225,000.00																	
Accounts Receivable	158,682,168.03	39,542,888.02	29,813,652.66	29,813,652.66	33,230,011.62	20,740,801.93	5,941,161.15									158,682,168.03	-	
Due From Other Funds	822,381.00															822,381.00	-	
Stores	104,056.94															104,056.94	-	
Prepaid Expenditures																		
Other Current Assets																		
Deferred Outflows of Resources																		
Liabilities and Deferred Inflows	159,883,605.97	40,365,269.02	29,813,652.66	29,813,652.66	33,230,011.62	20,740,801.93	5,941,161.15									159,883,605.97	-	
Accounts Payable	37,350,671.64	17,554,815.67	10,831,694.78	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30								37,350,671.64	-	
Due To Other Funds	2,594,535.42															2,594,535.42	-	
Current Loans																		
Unearned Revenues																		
Deferred Inflows of Resources																		
SUBTOTAL	39,945,207.06	20,149,351.09	10,831,694.78	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30								39,945,207.06	-	
Nonoperating																		
Suspense Clearing																		
TOTAL BALANCE SHEET ITEMS	119,888,398.91	20,215,917.93	18,781,957.88	27,372,612.36	30,988,971.32	18,499,761.63	3,700,120.85	38,682,974.88	15,575,214.56	(2,232,008.34)	(112,785.24)	(44,753,993.09)	(30,879,875.13)	113,403,908.80		119,888,398.91	-	
E. NET INCREASE/DECREASE (B - C + D)	76,898,689.61	33,252,864.31	17,415,830.03	16,686,828.68	2,663,485.86	4,873,159.51	(8,223,003.24)	38,682,974.88	15,575,214.56	(2,232,008.34)	(112,785.24)	(44,753,993.09)	(30,879,875.13)	113,403,908.80		76,898,689.61	-	
F. ENDING CASH (A + E)	(49,028,743.32)	(15,988,918.81)	13,693,188.61	20,553,739.91	23,157,225.77	28,030,385.28	19,707,382.04	58,390,356.92	22,815,142.35	(10,116,865.99)	(10,229,651.23)	(54,983,144.32)	(85,865,039.65)			27,540,889.35	-	
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS																		

Pursuant to Education Code Section 14041.8, for the 2020-21 fiscal year only, school districts and charter schools may receive an exemption from the principal apportionment deferrals if certain criteria are met. These criteria include a certification from the county superintendent to the SPI and Department of Finance that indicates the LEA has exhausted its internal and external borrowing options, will be unable to meet its financial obligations and would require a state loan without an exemption. FCMAT prepared the following additional cash flow projection for 2020-21 and 2021-22, which assumes that the district is exempt from all 2020-21 deferrals and that the deferrals end in 2021-22 or that the state provides further exemptions. However, the state budget provides a limited amount of funds on a first-come basis for deferral exemptions; therefore, it is unknown if the district will receive these exemptions.

Because of its projected cash shortfalls without apportionment deferral exemptions, the district should take immediate action to identify internal and external borrowing options, including those pursuant to Education Code Sections 42603, 42620, 42621 and 42622, as well as Tax and Revenue Anticipation Notes (TRANS), and apply for a deferral exemption as soon as the application is available.

2020-21 Cash Flow - NO Deferrals

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Accrual	Adjustment	Total	Variance
A. BEGINNING CASH	45,268,115.86	14,180,714.45	14,180,714.45	33,716,689.01	25,525,286.01	25,525,286.01	33,716,689.01	47,749,270.32	86,114,137.38	64,255,487.91	58,962,988.60	81,919,439.88	59,174,536.66	-	-	-	-
B. RECEIPTS																	
LCFF Sources																	
Principal Apportionment	316,379,901.00	14,180,714.45	14,180,714.45	33,716,689.01	25,525,286.01	25,525,286.01	33,716,689.01	47,749,270.32	86,114,137.38	64,255,487.91	58,962,988.60	81,919,439.88	59,174,536.66	-	-	-	-
Property Taxes	106,091,809.95	14,180,714.45	14,180,714.45	33,716,689.01	25,525,286.01	25,525,286.01	33,716,689.01	47,749,270.32	86,114,137.38	64,255,487.91	58,962,988.60	81,919,439.88	59,174,536.66	-	-	-	-
Miscellaneous Funds & LCFF Transfers	(12,975,993.20)	42,773.53	42,773.53	38,034,716.41	(4,067,973.87)	1,060,932.18	(2,012,576.55)	(2,012,576.55)	(774,666.79)	8,299,382.08	3,903,084.39	748,536.73	13,131,992.16	(4,396,266.50)	-	-	-
Federal Revenue	106,245,607.51	3,553,326.89	3,553,326.89	7,887,188.69	1,871,238.68	7,957,830.94	5,579,939.18	2,046,878.42	1,999,590.80	3,870,829.48	7,025,589.28	2,465,711.62	22,387,310.46	26,883,162.10	-	-	-
Other State Revenue	71,051,269.10	3,553,326.89	3,553,326.89	7,887,188.69	1,871,238.68	7,957,830.94	5,579,939.18	2,046,878.42	1,999,590.80	3,870,829.48	7,025,589.28	2,465,711.62	22,387,310.46	26,883,162.10	-	-	-
Other Local Revenue	7,495,450.70	958,668.14	346,889.82	112,431.76	517,935.64	407,752.52	110,932.67	38,754.80	292,322.58	244,351.69	940,679.06	200,878.08	583,895.61	2,391,798.32	-	-	-
Interfund Transfers In	2,191,263.00	-	-	-	-	-	-	1,291,530.41	-	77,351.58	-	-	-	822,381.00	-	-	-
All Other Financing Sources	596,479,308.06	24,290,694.91	16,454,527.23	79,651,025.87	24,145,901.16	35,539,923.57	44,696,756.94	91,187,266.32	28,319,704.13	45,367,194.65	73,533,033.97	28,934,132.83	56,270,642.08	48,088,385.39	-	-	-
TOTAL RECEIPTS	217,940,394.20	1,721,729.11	3,944,721.14	19,832,575.87	21,445,334.79	20,769,719.57	21,336,364.59	20,900,483.80	20,791,513.61	21,576,099.03	21,053,042.08	20,246,662.62	20,922,777.84	3,399,870.15	-	-	-
C. DISBURSEMENTS	63,791,520.13	2,979,063.99	4,210,240.33	5,390,384.45	5,626,412.08	5,556,241.40	5,779,511.72	5,728,478.51	5,447,795.82	5,645,549.53	5,607,274.62	5,428,658.36	5,556,241.40	835,668.91	-	-	-
Classified Salaries	180,006,712.43	2,646,098.67	3,978,148.34	15,210,567.20	15,480,577.27	15,246,688.54	14,796,517.76	15,390,573.91	15,354,572.57	15,516,578.61	15,354,572.57	15,192,566.53	15,750,587.34	20,088,749.11	-	-	-
Employee Benefits	21,930,466.60	497,821.59	3,429,924.98	10,903,821.10	804,848.12	2,353,139.07	771,952.42	1,298,883.62	2,125,062.21	2,125,062.21	614,053.06	1,690,838.97	1,690,838.97	4,311,529.73	-	-	-
Books and Supplies	128,041,608.05	8,469,961.50	9,250,341.88	10,903,821.10	15,060,698.76	11,560,276.86	15,023,385.37	9,140,282.51	6,251,057.14	7,008,257.91	7,757,732.13	8,893,533.28	8,901,029.31	9,820,430.31	-	-	-
Services	3,074,005.04	206,880.54	808,707.73	448,189.93	38,734.46	215.80	333,529.55	284,038.07	128,493.41	65,783.71	110,049.38	146,937.44	147,244.84	353,203.18	-	-	-
Capital Outlay	(490,793.76)	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	79,858.85	89,538.71	(1,458,779.76)	-	-	-
Other Outgo	2,594,535.42	-	-	-	-	-	-	-	-	-	-	-	-	2,594,535.42	-	-	-
Interfund Transfers Out	616,888,448.11	16,601,414.25	25,702,206.23	53,440,003.90	58,536,462.32	55,568,256.09	58,121,154.27	52,822,499.26	50,178,353.61	50,659,693.96	50,576,582.69	51,679,056.05	53,057,758.41	39,945,207.06	-	-	-
All Other Financing Uses	23,978.13	(201,021.87)	8,128,548.58	8,128,548.58	12,505,459.35	7,190,639.13	7,190,639.13	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	91,325,658.65	48,181,823.89	8,128,548.58	8,128,548.58	12,505,459.35	7,190,639.13	7,190,639.13	-	-	-	-	-	-	-	-	-	-
D. BALANCE SHEET ITEMS	23,978.13	(201,021.87)	8,128,548.58	8,128,548.58	12,505,459.35	7,190,639.13	7,190,639.13	-	-	-	-	-	-	-	-	-	-
Assets and Deferred Outflows	91,325,658.65	48,181,823.89	8,128,548.58	8,128,548.58	12,505,459.35	7,190,639.13	7,190,639.13	-	-	-	-	-	-	-	-	-	-
Cash Not in Treasury	821,825.65	(104,056.94)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due From Other Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stores	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities and Deferred Inflows	92,171,462.43	48,688,570.73	8,128,548.58	8,128,548.58	12,505,459.35	7,190,639.13	7,190,639.13	-	-	-	-	-	-	-	-	-	-
Accounts Payable	46,076,247.22	21,655,836.19	13,362,111.69	2,764,574.83	2,764,574.83	2,764,574.83	2,764,574.83	-	-	-	-	-	-	-	-	-	-
Due To Other Funds	94,535.42	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nonoperating	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Suspense Clearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL BALANCE SHEET ITEMS	25,591,539.74	34,637,479.77	14,481,042.12	31,574,995.71	(24,649,676.65)	(15,602,268.23)	(8,998,334.04)	38,364,667.06	(21,858,649.48)	(5,292,499.31)	22,956,451.28	(22,744,903.22)	3,212,883.66	8,143,178.34	-	-	-
E. NET INCREASE/DECREASE (B - C + D)	79,905,595.63	65,424,553.52	65,424,553.52	96,999,549.23	72,349,872.58	56,741,604.36	47,749,270.32	86,114,137.38	64,255,487.91	58,862,988.60	81,919,439.88	59,174,536.66	62,387,203.32	-	-	-	-
F. ENDING CASH (A + E)	45,268,115.86	110,692,669.38	176,117,222.90	273,016,776.42	345,366,649.00	402,108,253.09	449,857,523.41	536,001,660.79	622,172,800.30	680,940,512.31	739,859,951.19	819,039,391.07	878,216,594.96	-	-	-	-
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS	45,268,115.86	110,692,669.38	176,117,222.90	273,016,776.42	345,366,649.00	402,108,253.09	449,857,523.41	536,001,660.79	622,172,800.30	680,940,512.31	739,859,951.19	819,039,391.07	878,216,594.96	-	-	-	-

2021-22 Cash Flow - NO Deferrals

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Accrual	Adjustr
A. BEGINNING CASH	62,387,420.32	62,387,420.32	67,993,394.29	62,511,666.88	58,250,938.13	37,956,866.55	28,030,385.28	19,707,382.04	58,390,356.92	37,615,878.66	27,583,122.72	50,369,589.88	28,515,349.20		
B. RECEIPTS															
LCFF Sources															
Principal Apportionment	316,402,868.00	14,181,862.80	14,181,862.80	33,718,756.04	25,527,353.04	25,527,353.04	33,718,756.04	25,527,353.04	25,527,353.04	33,718,756.04	25,527,353.04	25,527,353.04	33,718,756.04	-	-
Property Taxes	106,091,809.95	-	-	-	(4,067,973.87)	1,060,918.10	61,013,393.90	(2,012,576.55)	10,609.18	10,609.18	37,788,684.34	10,609.18	6,216,980.06	-	-
Miscellaneous Funds & LCFF Transfers	(12,975,993.20)	4,315,547.68	32,974.58	-	230,822.03	453,400.43	465,765.89	2,262,880.30	379,207.63	(774,666.79)	(1,707,640.71)	(16,868.79)	5,895,545.57	(4,396,266.50)	-
Federal Revenue	41,218,220.48	3,546,278.80	1,881,011.00	4,281,154.07	1,867,527.05	7,942,046.44	5,568,871.28	2,042,818.40	1,995,624.57	2,786,351.70	3,008,930.10	2,460,820.84	2,615,886.27	20,724,521.26	-
Other State Revenue	67,419,749.10	931,513.95	336,481.19	109,247.14	503,265.16	396,202.96	107,790.51	376,538.48	284,042.57	237,430.45	914,034.41	195,188.22	567,356.82	2,324,650.84	-
Other Local Revenue	7,283,142.70	-	-	-	-	-	-	1,291,530.41	-	-	77,351.58	-	-	822,381.00	-
Interfund Transfers In	2,191,263.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other Financing Sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL RECEIPTS	527,631,060.03	22,975,203.24	16,432,329.57	38,150,375.47	24,060,993.42	35,379,920.97	39,861,183.72	90,501,943.99	28,136,836.99	39,844,632.21	72,600,366.67	28,754,157.58	49,058,524.76	41,817,591.45	-
C. DISBURSEMENTS															
Certified Salaries	218,727,922.54	1,727,950.59	3,958,975.40	19,904,240.95	21,522,827.58	20,844,771.02	21,413,463.62	20,797,007.77	20,866,643.81	21,654,064.33	21,129,117.32	20,319,824.00	20,997,880.56	3,412,155.59	-
Classified Salaries	64,155,131.87	2,996,044.66	4,234,239.70	5,421,108.64	5,658,482.63	5,587,911.99	5,812,454.95	5,761,130.84	5,478,848.26	5,677,729.17	5,639,236.09	5,459,601.72	5,597,911.99	840,332.23	-
Employee Benefits	189,634,091.70	2,787,621.15	4,190,913.43	16,024,080.75	16,306,531.89	16,062,007.57	15,587,922.34	16,213,714.84	16,175,788.02	16,346,458.70	16,175,788.02	16,005,117.34	16,592,983.02	21,163,164.63	-
Books and Supplies	15,920,094.46	361,386.14	2,389,902.77	1,143,062.78	584,267.47	1,708,256.14	560,387.32	942,469.59	1,542,657.15	557,203.11	1,227,439.28	1,227,439.28	1,227,439.28	3,129,890.57	-
Services	78,317,604.69	1,589,847.38	2,389,855.18	4,056,851.92	8,270,339.06	4,722,551.56	8,239,012.01	7,682,957.02	4,753,878.60	5,521,391.13	6,281,071.90	7,432,340.69	7,432,340.69	9,954,167.56	-
Capital Outlay	1,762,641.41	118,625.77	463,750.95	256,993.12	22,209.28	1,233.85	191,246.59	162,868.07	73,678.41	37,720.53	63,107.56	84,430.52	84,430.52	202,327.50	-
Capital Outlay	(691,252.76)	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	79,820.98	89,496.25	(1,458,535.42)	-
All Other Financing Uses	2,594,535.42	-	-	-	-	-	-	-	-	-	-	-	-	2,594,535.42	-
TOTAL DISBURSEMENTS	570,620,769.33	9,661,236.66	17,798,457.42	46,886,159.14	52,446,478.88	49,006,523.10	51,884,307.81	51,818,969.11	48,974,315.24	49,874,388.15	49,813,895.51	50,608,398.27	52,012,482.31	39,838,083.74	-
D. BALANCE SHEET ITEMS															
Assets and Deferred Outflows															
Cash Not in Treasury	225,000.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	47,266,004.39	11,619,037.48	6,716,095.22	6,716,095.22	10,332,454.18	5,941,161.15	5,941,161.15	-	-	-	-	-	-	-	-
Due From Other Funds	822,381.00	822,381.00	-	-	-	-	-	-	-	-	-	-	-	-	-
Stores	104,056.94	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Outflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	48,417,442.33	12,441,418.48	6,716,095.22	6,716,095.22	10,332,454.18	5,941,161.15	5,941,161.15	-	-	-	-	-	-	-	-
Liabilities and Deferred Inflows															
Accounts Payable	37,350,671.64	17,554,815.67	10,831,694.78	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	-	-
Due To Other Funds	2,594,535.42	2,594,535.42	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Inflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SUBTOTAL	39,945,207.06	20,149,351.09	10,831,694.78	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	2,241,040.30	-	-
Nonoperating															
Suspense Clearing	8,472,235.27	(7,707,932.61)	(4,115,599.56)	4,475,054.92	8,091,413.88	3,700,120.85	3,700,120.85	38,682,974.88	(20,774,478.25)	(10,032,755.94)	22,786,467.16	(21,854,240.69)	(2,953,957.56)	1,979,497.71	-
TOTAL BALANCE SHEET ITEMS	(94,517,474.03)	5,605,973.97	(5,481,727.41)	(4,260,728.76)	(20,294,071.58)	(9,926,481.27)	(8,323,003.24)	38,682,974.88	(20,774,478.25)	(10,032,755.94)	22,786,467.16	(21,854,240.69)	(2,953,957.56)	1,979,497.71	-
E. NET INCREASE/DECREASE (B - C + D)															
F. ENDING CASH (A + E)	67,993,394.29	67,993,394.29	62,511,666.88	58,250,938.13	37,956,866.55	28,030,385.28	19,707,382.04	58,390,356.92	37,615,878.66	27,583,122.72	50,369,589.88	28,515,349.20	25,561,391.64		
G. ENDING CASH, PLUS CASH ACCRUALS AND ADJUSTMENTS															

Other Items to Consider

Indirect Costs

Beginning in 2021-22, indirect costs can no longer be applied to food expenses (object code 4700). Based on the projected food costs for the cafeteria fund, as shown in the 2019-20 second interim report, indirect costs paid to the unrestricted general fund may be reduced by more than \$400,000 per year.

Class Size

Education Code Section 41376 prescribes maximum class sizes and penalties. For grades four through eight, the average number of students per teacher is not to exceed the greater of 29.9 – the statewide average in 1964 – or the district’s 1964 average. Based on information from CDE, the district’s average number of students per teacher in 1964 was 32.8. The district’s 2018-19 and 2019-20 Class Size Penalties reports show the average number of students per teacher in fourth through eighth grade was 22.5 and 21.3, respectively. These averages are well below the state limit and those shown in the certificated collective bargaining agreement, which requires maximum class sizes not to exceed 33 students per teacher for grades four to six and 31 students per teacher for grades seven to eight.

Independent Charter Schools

In addition to the district-operated charter schools, the district has authorized ten independently operated charter schools. A review of the documents provided for these charter schools showed that Aspire Capitol Heights’ 2019-20 first interim report projected deficit spending in each year of the projection and a negative fund balance in 2021-22. Education Code Section 47604.32 requires districts that authorize charter schools to perform fiscal and operational oversight functions. To ensure the charter schools it has authorized are fiscally solvent and avoid possible fiscal responsibility for a charter school in fiscal distress, the district should ensure it fulfills and has evidence showing fulfillment of its oversight responsibilities.

Recommendations

The district should:

1. Adopt a budget and MYFPs that eliminate deficit spending and ensure it does not use one-time revenues, including reserves, for ongoing costs.
2. Adopt a budget and MYFPs that include a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to the requirements of AB 1200 and AB 2756.
3. Ensure that MYFPs and cash flow projections are kept up to date and based on the most current budget assumptions available.
4. Monitor and project enrollment and ADA at each reporting period, at a minimum.
5. Ensure it uses the most recently updated LCFF calculator available as well as accurate and current enrollment, ADA, and UPP projections to update budgets and MYFPs.
6. Monitor and project revenue and expenditures using the most current information and assumptions available. Update revenue budgets throughout the year as award amounts become known, ensuring budgets match information provided by the CDE and award letters.

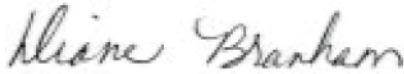
7. Ensure unearned revenues received in the prior year are included in current year budgets upon completion of the unaudited actuals and eliminated from the subsequent two years of the projection.
8. Review all budgets monthly and make adjustments as necessary to minimize variances between budgeted and actual expenditures at year end.
9. Develop and implement procedures to update position control and reconcile it to budget and payroll on a periodic basis, and no less than at each financial reporting period.
10. If not actively recruiting for positions listed as vacant in position control, determine if they should be frozen or eliminated and ensure they are not included in the budget and MYFP, where applicable.
11. Annually perform a review of the actual historical costs for employee step and column increases to determine if the percentage applied for forecasting should be updated.
12. Ensure that information is consistently presented in budget documents and report narratives and that any variances are explained.
13. Regularly complete a reconciliation of the employee benefit databases and the general ledger.
14. Closely monitor the costs of and contributions for OPEB to ensure a sufficient amount is budgeted to cover the annual pay-as-you-go cost, at a minimum, and to ensure that the unfunded liability does not continue to grow.
15. Review the spreadsheet used to project special education expenses and ensure it includes the unaudited actuals, rather than estimated actuals, after the books are closed each year.
16. Identify programs that may require a contribution from the unrestricted general fund in subsequent years and take any necessary action to ensure programs are self-sustaining.
17. Ensure it eliminates positions that are paid from grant funds when the funds expire, or ensure it proactively determines how the positions will continue to be funded.
18. Ensure that restricted funds are appropriately allocated to all qualifying expenditures before expending unrestricted dollars.
19. Review contributions to other funds and ensure that all funds are self-sustaining.
20. Ensure that prior year ending balances are not also budgeted as revenue in the current year.
21. Include in-lieu property tax transfers in charter school LCFF calculations.
22. Continue to evaluate its ongoing and planned construction project costs to ensure general obligation bond funds are issued timely.
23. Review and update its developer fee justification report as necessary to ensure it can collect the maximum allowable fees.
24. Complete a study to determine its projected annual RDA revenues.
25. Investigate and clear prior year balance sheet transactions as soon as possible each fiscal year.
26. Monitor its cash regularly and complete monthly cash flow projections for the budget year and at least one subsequent fiscal year.

27. Take immediate action to identify all internal and external borrowing options and apply for a state apportionment deferral exemption as soon as the application is available.
28. Analyze the effect of no longer being able to charge indirect costs to food expenses, as of 2021-22.
29. Review its class sizes and make adjustments as necessary to ensure fiscal solvency.
30. Ensure it fulfills and has evidence showing fulfillment of its charter school oversight responsibilities.

Based on the assumptions used in FCMAT's analysis, an emergency appropriation will likely be necessary in 2020-21 if internal and external borrowing options are not available and/or the district does not receive apportionment deferral exemptions. Furthermore, even if borrowing options are available and/or deferral exemptions are received in 2020-21, without substantial corrective action an emergency appropriation is likely needed in 2021-22.

FCMAT appreciates the opportunity to serve the Sacramento City Unified School District and extends thanks to all the staff for their assistance during this review.

Sincerely,

A handwritten signature in cursive script that reads "Diane Branham".

Diane Branham
Chief Analyst



Sacramento City Unified School District

Because It Has Failed to Proactively Address
Its Financial Challenges, It May Soon
Face Insolvency

December 2019

REPORT 2019-108





CALIFORNIA STATE AUDITOR

621 Capitol Mall, Suite 1200 | Sacramento | CA | 95814



916.445.0255 | TTY **916.445.0033**



For complaints of state employee misconduct,
contact us through the **Whistleblower Hotline:**

1.800.952.5665

Don't want to miss any of our reports? Subscribe to our email list at

auditor.ca.gov





December 10, 2019
2019-108

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of the Sacramento City Unified School District (Sacramento Unified). Our assessment focused on Sacramento Unified's financial condition, and the following report details the audit's findings and conclusions. We determined that Sacramento Unified has not proactively addressed its financial problems.

Sacramento Unified failed to take sufficient action to control its costs in three main areas—teacher salaries, employee benefits, and special education. Sacramento Unified increased its spending by \$31 million annually when it approved a new labor contract with its teachers union in 2017. Despite warnings from the Sacramento County Office of Education that it could not afford the agreement, the Sacramento City Unified School District Board of Education approved the agreement without a plan for how it would pay for it. Sacramento Unified also failed to control the costs of the generous employee benefits it provides, which increased by 52 percent from fiscal years 2013–14 through 2017–18. We also found that Sacramento Unified lacked clear policies to guide staff on what are appropriate expenditures for special education, limiting its ability to control these costs. Consequently, Sacramento Unified projects it will largely deplete its general fund in October 2021 and will likely need to accept a loan from the State to continue operating. If it accepts such a loan, the required loan payments would result in less funding for students and a loss of local control to an appointed administrator.

Although both Sacramento Unified and its teachers union have proposed changes to stabilize the district's finances, we found that the proposals are unlikely to solve the district's ongoing financial problems. In fact, several proposals from the teachers union would increase costs dramatically. Given that accepting state assistance would result in less funds for students, we would have expected Sacramento Unified to develop a detailed plan for resolving its financial concerns, but it has not done so. It states that it needs to make \$27 million in reductions by fiscal year 2021–22, but even that amount may not be sufficient to end its deficit spending. We have identified a number of options the district could take, including making changes to salaries and benefits for different groups of employees; however, if it is to avoid the negative effects of insolvency, Sacramento Unified must act quickly to develop and implement a plan.

Respectfully submitted,

A handwritten signature in black ink that reads 'Elaine M. Howle'. The signature is written in a cursive, flowing style.

ELAINE M. HOWLE, CPA
California State Auditor

Selected Abbreviations Used in This Report

CalSTRS	California State Teachers' Retirement System
FCMAT	Fiscal Crisis Management and Assistance Team
LCFF	Local Control Funding Formula

Contents

Summary	1
Introduction	5
Audit Results	
Sacramento Unified's Finances Are Deteriorating, Increasing the Likelihood of Insolvency	9
Sacramento Unified's Costs for Employee Compensation and Special Education Have Increased Dramatically in Recent Years	13
Sacramento Unified Lacks Consistent Leadership and Adequate Budget Policies, Limiting Its Ability to Effectively Manage Its Finances	25
The Current Proposals From Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis	29
Unless Sacramento Unified Acts Quickly, It Is Unlikely to Resolve Its Financial Crisis Before the Need for State Assistance	34
Recommendations	38
Appendix	
Scope and Methodology	43
Responses to the Audit	
Sacramento County Office of Education	45
California State Auditor's Comments on the Response From the County Office Superintendent	49
Sacramento City Unified School District	51
California State Auditor's Comments on the Response From Sacramento Unified	63

Blank page inserted for reproduction purposes only.

Summary

Results in Brief

The Sacramento City Unified School District (Sacramento Unified) is an urban public school district in Sacramento County that serves about 41,000 students and employs 2,200 teachers. Since fiscal year 2016–17, its expenditures have exceeded its ongoing revenue by \$9 million to \$25.9 million each year. During this same time period, it has increased spending in three main areas—teacher salaries, employee benefits, and special education—without taking sufficient action to control these costs. Because its spending has consistently exceeded its ongoing revenue, it has instead had to rely on reserves from its general fund—the primary fund that the district uses—and on one-time funds to cover its expenditures. As a result, its general fund balance has declined by nearly \$30 million over the past three years. Sacramento Unified now projects that by October 2021 it will have largely depleted its general fund and will likely need state assistance in the form of a loan to continue operating. If it must accept such a loan, the resulting loan and interest payments would result in less funding available for students. Further, the terms of the loan would require it to relinquish local control to an appointed administrator who would assume the responsibilities of the Sacramento City Unified School District Board of Education (board) and the district superintendent.

In December 2017, Sacramento Unified significantly increased its ongoing spending when its board approved a new labor contract with its teachers union that increased the amount the district paid for teacher salaries by 15 percent. This labor agreement could ultimately cost Sacramento Unified about \$31 million per year in additional costs, an increase of 5 percent in the district's total spending in fiscal year 2019–20. At the time of the labor negotiations, the teachers union believed that the district's fund balance was steadily increasing and that teacher salaries were relatively low. However, neither of these beliefs was entirely accurate. Although Sacramento Unified did have lower average teacher salaries than comparable school districts before the 2017 agreement, it consistently maintained the highest average total compensation for teachers because it offered more generous and expensive health care benefits. Further, at the time of the labor negotiations, Sacramento Unified had received one-time funds from the Legislature that likely gave the impression that the district was in better financial condition than it actually was. However, the Legislature allocates one-time funds for a specific purpose, such as satisfying potential outstanding state mandate claims, and for a limited term. Consequently, school districts should not rely on them for ongoing expenses, like teacher salaries.

Audit Highlights . . .

Our audit of Sacramento Unified's financial condition revealed the following:

- » *Sacramento Unified has not proactively addressed its financial problems and is close to insolvency—it projects facing a \$19.1 million shortfall in fiscal year 2021–22.*
- » *At the same time that its fund balance and financial condition declined, Sacramento Unified increased spending for teacher salaries, benefits, and special education.*
 - *In 2017 its district board approved a new labor contract that increased teacher salaries by 15 percent, costing an additional \$31 million per year.*
 - *Despite warnings from the Sacramento County Office of Education that it could not afford the labor agreement, the district board approved the agreement without a plan to pay for it.*
 - *Sacramento Unified has failed to control the costs of generous employee benefits it provides, which increased by 52 percent over a five-year period.*
 - *Special education costs have doubled and account for 21 percent of the district's total spending in fiscal year 2017–18.*
- » *Despite the impending risk of insolvency, Sacramento Unified and its teachers union have yet to agree on a solution to the district's financial problems.*
- » *If it is to avoid the negative effects of insolvency, Sacramento Unified should act quickly to develop and implement a plan to address its increasingly precarious financial situation.*

When its current superintendent joined the district in July 2017, Sacramento Unified and its teachers union had been unable to reach an agreement for nearly a year. According to the district superintendent, he reached an agreement with the teachers union in part because he wanted to avert the negative impact a strike would have on students and their families. However, at the board meeting to approve the labor contract in December 2017, the Sacramento County superintendent of schools (county office superintendent) informed the board that Sacramento Unified could not afford the agreement unless it reduced its budget by \$15.6 million. The county office superintendent asked the district to provide a budget reduction plan if it decided to approve the labor contract. Instead of submitting such a plan, the district board chose to rely on one-time funds it anticipated receiving from the proposed January 2018 Governor's Budget to pay for part of the ongoing salary increases in that year. It did not identify a plan to pay for the increases in future years—an omission that has contributed significantly to its current precarious financial situation. However, because Sacramento Unified projected that it could meet its current and future financial obligations at that time, the county office superintendent could not compel the district to make cuts instead of using the one-time funds.

Sacramento Unified also failed to control the costs of generous employee benefits it provides, which represented almost a third of its budget in fiscal year 2017–18. In particular, it offers costly health care benefits, including fully paid health care for its teachers and their families. In contrast, other nearby districts typically pay for the lowest cost health plan for the employee and their family or pay the full cost for only the employee's health care. Despite receiving warnings regarding its health benefit costs from entities that have reviewed its budgets since 2003, Sacramento Unified has not taken sufficient action to control those costs when negotiating any of the six agreements that it has entered into with its teachers union since then. Further, despite the county office superintendent's persistent concerns, Sacramento Unified has not taken sufficient action to control its increasing liability for its retiree health benefits. In part because Sacramento Unified requires teachers to contribute only \$20 per month to their retiree health benefits, its liability increased to \$726 million in fiscal year 2017–18, or 140 percent of the district's total spending that year. Further, its contributions toward its teachers' pension system increased by \$15.2 million from fiscal years 2013–14 through 2017–18, in part because of the higher salaries the district agreed to pay as a result of the 2017 labor contract.

Finally, Sacramento Unified has done little to control its special education costs, which grew by 31 percent from fiscal years 2013–14 through 2017–18, reaching 21 percent of its total expenditures. The district lacks clear policies to guide staff on identifying appropriate

expenditures for special education, which limits its ability to control these costs. In addition, it has not applied for all available funding. Specifically, the State provides reimbursement for extraordinary special education costs, such as the costs of residential treatment for students who receive special education services. However, according to Sacramento Unified's special education director, the district did not apply for this funding because the State caps the total reimbursement amount it will pay statewide. We estimate that Sacramento Unified could have been eligible for up to \$1.4 million over five years if it had applied for these funds.

Despite the impending risk of insolvency, Sacramento Unified and its teachers union have yet to agree to a solution to the district's financial problems. They each recently made proposals regarding the budget, but it is unlikely that either proposal can solve the district's ongoing financial challenges. In fact, several of the teachers union's suggestions would increase the district's costs dramatically. In contrast, Sacramento Unified's proposal could result in significant savings; however, implementing it would require substantial concessions from the teachers union. Given that accepting state assistance would result in the appointment of an administrator for the district and would have significant implications for the district's students and community, we expected Sacramento Unified to have developed a detailed plan for resolving its financial concerns. However, it has not done so. We identified a number of options it could take, including making changes to salaries and benefits for different groups of employees. If it is to avoid the negative effects of insolvency, Sacramento Unified should act quickly to develop and implement a plan to address its increasingly precarious financial situation.

Key Recommendations

Legislature

To help ensure that county office superintendents can prevent school districts under their oversight from becoming insolvent, the Legislature should consider amending state law to require school district boards to obtain approval from their county office superintendents before considering significant spending actions.

Sacramento Unified

By March 2020, Sacramento Unified should adopt a detailed plan to resolve its fiscal crisis. The plan should estimate savings under multiple scenarios and include an analysis that quantifies the

impact of potential or proposed reductions the district can make to ongoing expenditures. Specifically, Sacramento Unified should consider the impact of possible salary adjustments for employees in different bargaining units and include the impact those salary adjustments would have on retiree benefits, such as pensions. It should also use the most recently available data to estimate net savings from modifying the health care benefits it provides to employees, as well as the effect those modifications would have on the total compensation of the employees. Finally, it should calculate the impact of possible changes to district and employee contributions to fund future retiree health benefits. The district should use the plan it develops as the basis for its discussions of potential solutions with its teachers union.

Agency Comments

Both the county office superintendent and Sacramento Unified generally agreed with our recommendations. The county office superintendent questioned its ability to ensure that Sacramento Unified implemented our recommendations. Sacramento Unified noted that implementing some of the recommendations would require negotiated solutions with its teachers union.

Introduction

Background

The Sacramento City Unified School District (Sacramento Unified) is an urban public school district in Sacramento County that serves 41,000 students and employs 4,200 individuals, of whom 2,200 are teachers.¹ It operates 83 schools including 59 elementary schools and 12 high schools. The Sacramento City Unified School District Board of Education (board) is the governing and policymaking body for Sacramento Unified. District voters elect its seven members for four-year terms. The board establishes Sacramento Unified's long-term vision and ensures educational and fiscal accountability to the community while providing community leadership. The board is also responsible for employing the district superintendent, who is the general administrator of all of Sacramento Unified's instructional and business operations.

The Sacramento County superintendent of schools (county office superintendent) has fiscal oversight responsibility of Sacramento Unified and all other school districts in the county. As part of his fiscal oversight, the county office superintendent reviews districts' annual budgets and interim financial reports to assess their ability to meet their financial obligations. When a district's budget or financial reports indicate that the district may be unable to meet its financial obligations for the current fiscal year or two subsequent fiscal years, the county office superintendent can take action, such as assigning a fiscal expert to advise the district or requiring the district to submit a proposal for addressing its fiscal deficiencies. If the county office superintendent, in consultation with the state superintendent of public instruction, determines that a school district will be unable to meet its financial obligations for the current or subsequent fiscal year, the county office superintendent can develop and impose a budget revision or can reject any district action it finds to be inconsistent with that district's ability to meet its obligations.

Funding Sources for School Districts

Sacramento Unified receives the majority of its funding in its general fund—which is the primary fund that it uses to pay for its activities—through the State's Local Control Funding Formula (LCFF). LCFF has three primary funding components,

¹ We refer to certificated nonmanagement employees as *teachers* throughout this report. In addition to teachers, certificated employees include staff, such as counselors, nurses, and librarians, who are not teachers but provide direct services to students.

LCFF Funding Categories

Base funds: Each district receives a funding base amount that is equal to a base rate multiplied by the district's average daily attendance.

Supplemental funds: Each district receives an amount equal to 20 percent of the base rate for the percentage of its students identified as low-income, English learner, or foster youth.

Concentration funds: When a district's percentage of its students identified as low-income, English learner, or foster youth exceed 55 percent of its total enrollment, the district receives additional funds equal to 50 percent of the base rate for its percentage of students above the threshold.

Source: State law.

which we describe in the text box. Based on its population of students, Sacramento Unified receives base, supplemental, and concentration funds. Because its enrollment has declined in recent years, state law allows the district to use its prior year average daily attendance—an amount that the district submits to the California Department of Education—to calculate the funding it will receive rather than its enrollment in the current year. Despite its declining enrollment, Sacramento Unified's revenue has increased in recent years. The increase is because when the Legislature implemented LCFF in fiscal year 2013–14, it did not fully fund it, as LCFF represented a significant increase in the amount of educational funding the State was providing. However, LCFF reached full implementation in fiscal year 2018–19, so the district should not expect similar increases in funding in future years.

In addition to LCFF funds, school districts also receive state and federal funding to provide special education services. Examples of such services include speech therapy, psychological services, assistance for students with physical disabilities, and aides to assist students. The State bases funding for special education on a district's overall attendance rather than its number of students receiving special education services. According to a study by the Public Policy Institute of California, state law structures funding this way to avoid creating incentives for districts to classify students as needing special education when they do not.

State law requires each school district to maintain a minimum reserve for economic uncertainties. This reserve allows a district to better manage its cash flow, mitigate volatility in funding, and address unexpected costs. The size of a district's reserve depends on its enrollment and level of spending. For a district the size of Sacramento Unified, the required reserve is 2 percent of its general fund expenditures, which for Sacramento Unified would be \$11.6 million for fiscal year 2019–20.

School District Budget Approval Process

Each year, Sacramento Unified must submit its budget to the county office superintendent for review and approval based on a number of criteria, including the district's projected ability to meet its financial obligations. Sacramento Unified must submit its budget using forms the California Department of Education developed. These forms require Sacramento Unified to project its revenues and expenses for

the budget year and the subsequent two fiscal years. If the county office superintendent disapproves the proposed budget, the district moves forward with a budget that reflects the lesser of its last budget or the disapproved budget. Sacramento Unified must also submit periodic financial reports during the year. As the text box describes, the county office superintendent reviews the information the district submits and confirms the district's status as positive, qualified, or negative. Although qualified and negative statuses are similar, a qualified status describes a situation in which a district may not meet its financial obligations in the future, while the risk is more imminent for a negative status.

School District Financial Certification Statuses

Positive: A district projects that it will meet its financial obligations in the current fiscal year and two subsequent fiscal years.

Qualified: A district projects that it may not meet its financial obligations in the current fiscal year or two subsequent fiscal years.

Negative: A district projects that it will not meet its financial obligations in the current or subsequent fiscal year.

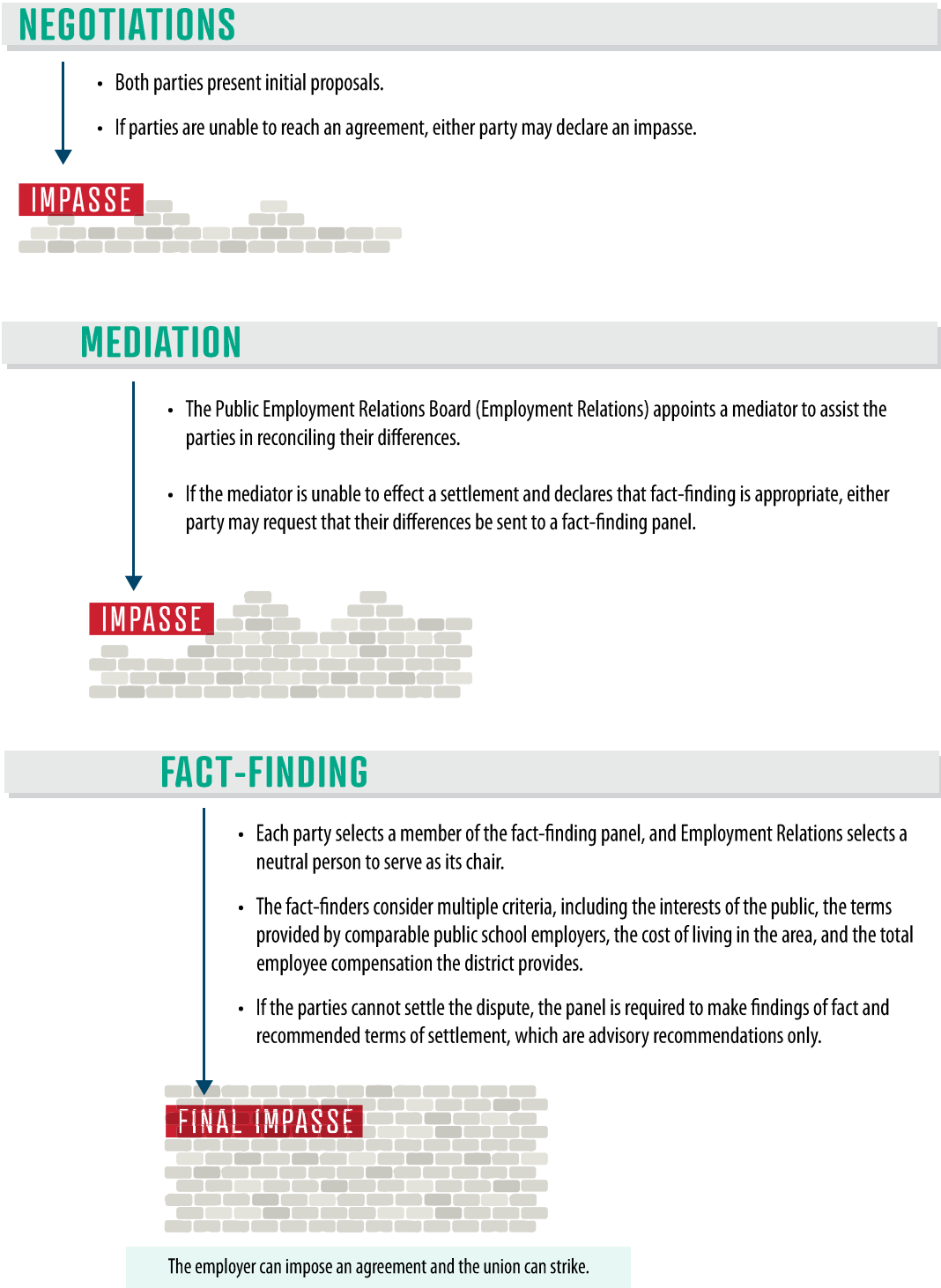
Source: State Law.

School District Labor Negotiation Process

The majority of Sacramento Unified's employees are represented by five unions, the largest of which is its teachers union. These unions negotiate with the district to determine, among other items, the salary and benefit structures for their represented employees. Benefits include those that employees receive during employment, such as health insurance benefits, and those that they receive after retirement, such as retiree health insurance and pension benefits. As Figure 1 shows, Sacramento Unified and its unions must follow a negotiation process to agree on any changes to represented employees' terms and conditions of employment. If the parties in one of these negotiations reach a final impasse, state law allows Sacramento Unified—as the employer—to impose an agreement, which allows the union to strike.

A labor agreement may have a significant impact on a school district's budget. As a result, state law requires that before adopting labor agreements, districts at risk of failing to meet their financial obligations in the near future must disclose those agreements to their county boards of education. The Sacramento County superintendent of schools states that he goes beyond the minimum required disclosure and asks all 13 districts in his jurisdiction of Sacramento County, including Sacramento Unified, to disclose all labor agreements 10 days before adoption. This practice enables the county office superintendent to share any concerns with the communities of those districts before the districts adopt labor agreements. Sacramento Unified submitted its most recent labor agreement to the county office superintendent before adopting it.

Figure 1
The State Has Established a Negotiation Process for Public School Employers and Labor Unions



Source: State law.

Audit Results

Sacramento Unified's Finances Are Deteriorating, Increasing the Likelihood of Insolvency

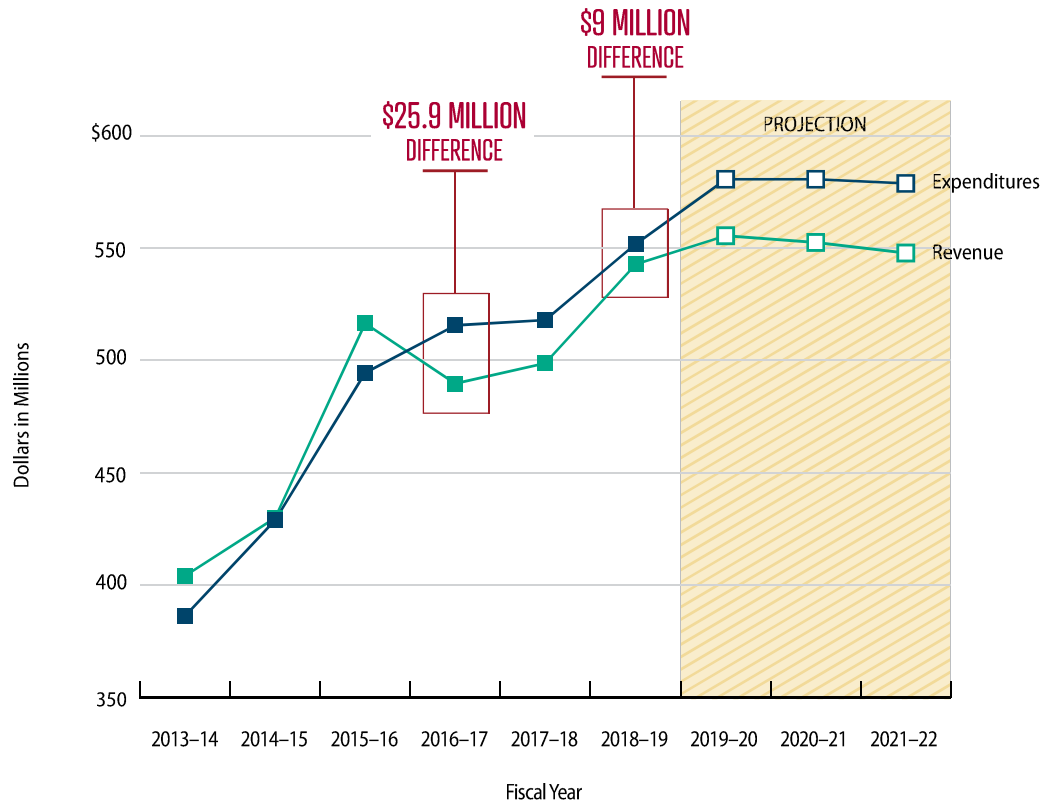
Sacramento Unified's costs, such as salaries and benefits, have increased at a rate that has outpaced the ongoing revenue it receives, leading it to project that it will run out of money in fiscal year 2021–22. Since fiscal year 2016–17, Sacramento Unified has fallen short in paying for its expenditures from its revenue. As Figure 2 shows, from fiscal years 2016–17 through 2018–19, its expenditures each year exceeded its revenue by amounts ranging from \$9 million to \$25.9 million. It used its general fund balance (fund balance) to cover the shortfalls, resulting in its fund balance decreasing from \$97.9 million in July 2016 to \$70.3 million in June 2019. As of October 2019, Sacramento Unified projected that its general fund expenditures would exceed its revenue from fiscal years 2019–20 through 2021–22 by \$77.8 million—which is \$7.5 million more than its current fund balance of \$70.3 million. Moreover, state law requires the district to maintain a reserve of 2 percent of its general fund expenditures. Taking into consideration that it projects that this required reserve will be \$11.6 million in fiscal year 2021–22, Sacramento Unified will face a \$19.1 million shortfall at that time.

Sacramento Unified cannot achieve cost savings significant enough to balance its budget without addressing its three largest categories of expenditures: salaries; benefits; and contracts, services, and other operating expenses. Specifically, 80 percent of Sacramento Unified's fiscal year 2019–20 budgeted expenditures consist of salaries and benefits, as Figure 3 shows. An additional 13 percent of its budgeted expenditures are for contracts, services, and other operating expenditures, which largely consist of special education contracts. To address its ongoing costs related to salaries and benefits, the board voted in February and March 2019 to lay off 12 administrators, 150 teachers, and 157 support staff.² The district claimed at the time that these reductions would save \$7.8 million annually. However, according to the district, it had rescinded more than 130 of these layoffs as of October 2019, calling into question whether it realized the full savings. We discuss Sacramento Unified's costs related to salaries, benefits, and special education in greater detail in the sections that follow.

² We identify the administrators, teachers, and support staff in terms of the number of full-time equivalents (FTEs) rather than the number of individuals, which might be greater than the number of FTEs. For example, two individuals who worked half-time would be one FTE. Unless we specify otherwise, we describe numbers of employees throughout this report in terms of FTEs.

Figure 2

Sacramento Unified Has Consistently Spent More Than It Received in Revenue Since Fiscal Year 2016–17

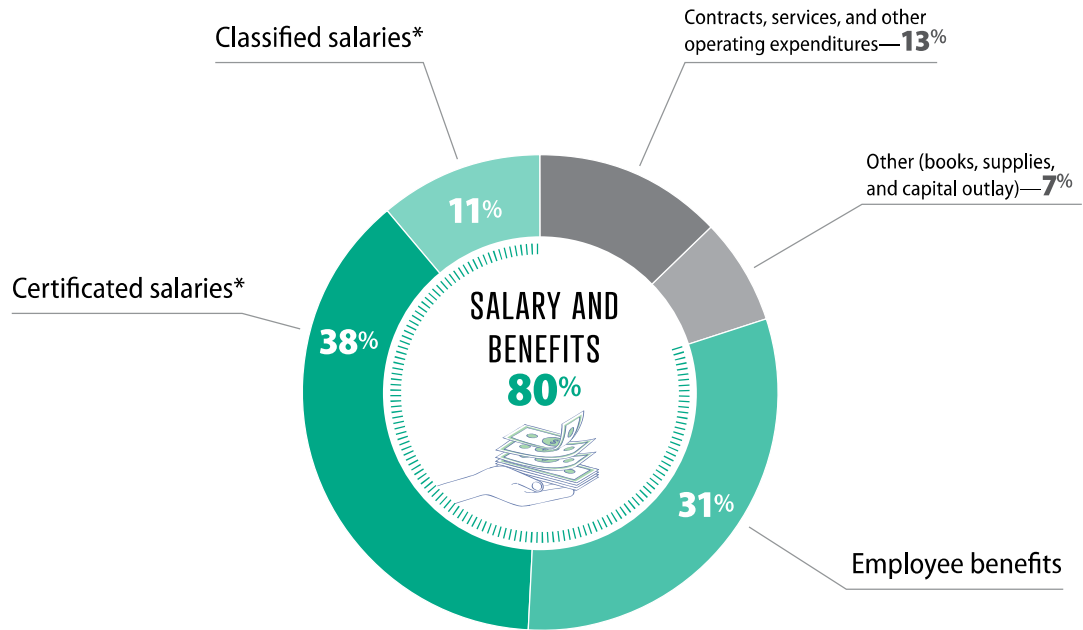


Source: Sacramento Unified's audited financial statements for fiscal years 2013–14 through 2017–18, unaudited actuals for fiscal year 2018–19, and budget documentation for fiscal years 2019–20 through 2021–22.

Note: To better understand Sacramento Unified's financial condition, the amounts above include only operating revenues and expenditures, as they represent what the district spends to run its schools and the revenue it receives based on the services it provides. We have removed one-time revenues received from the State from the revenues presented. As we discuss later in the report, these one-time funds cannot be expected in future years and should not be relied upon to pay for ongoing costs. We also do not include revenues and expenditures from financing sources, such as transfers from other funds, as they generally do not reflect costs or revenues incurred in the operation of the district.

Sacramento Unified's declining enrollment has also contributed to its precarious financial situation. As we discuss in the Introduction, the State bases each school district's funding primarily on student attendance. From fiscal years 2013–14 through 2018–19, Sacramento Unified's enrollment declined by 978 students, or 163 students per year. Based on historical trends, it projects decreases of 378 students per year from fiscal years 2019–20 through 2021–22. A 2013 report from the Boston Consulting Group identifies declining birth rates and shifts to public charter schools as factors that have contributed to shrinking enrollment in urban school districts. The report also notes that classroom costs become harder to manage when enrollment declines because students rarely leave schools in class-size increments. For example, according to a 2018 report from WestEd—a nonprofit educational research organization—a school might lose six students per grade level yet still not be able to decrease the number of teachers it needs.

Figure 3
Most of Sacramento Unified’s Total Budgeted General Fund Expenditures for Fiscal Year 2019–20 Are for Salaries and Benefits

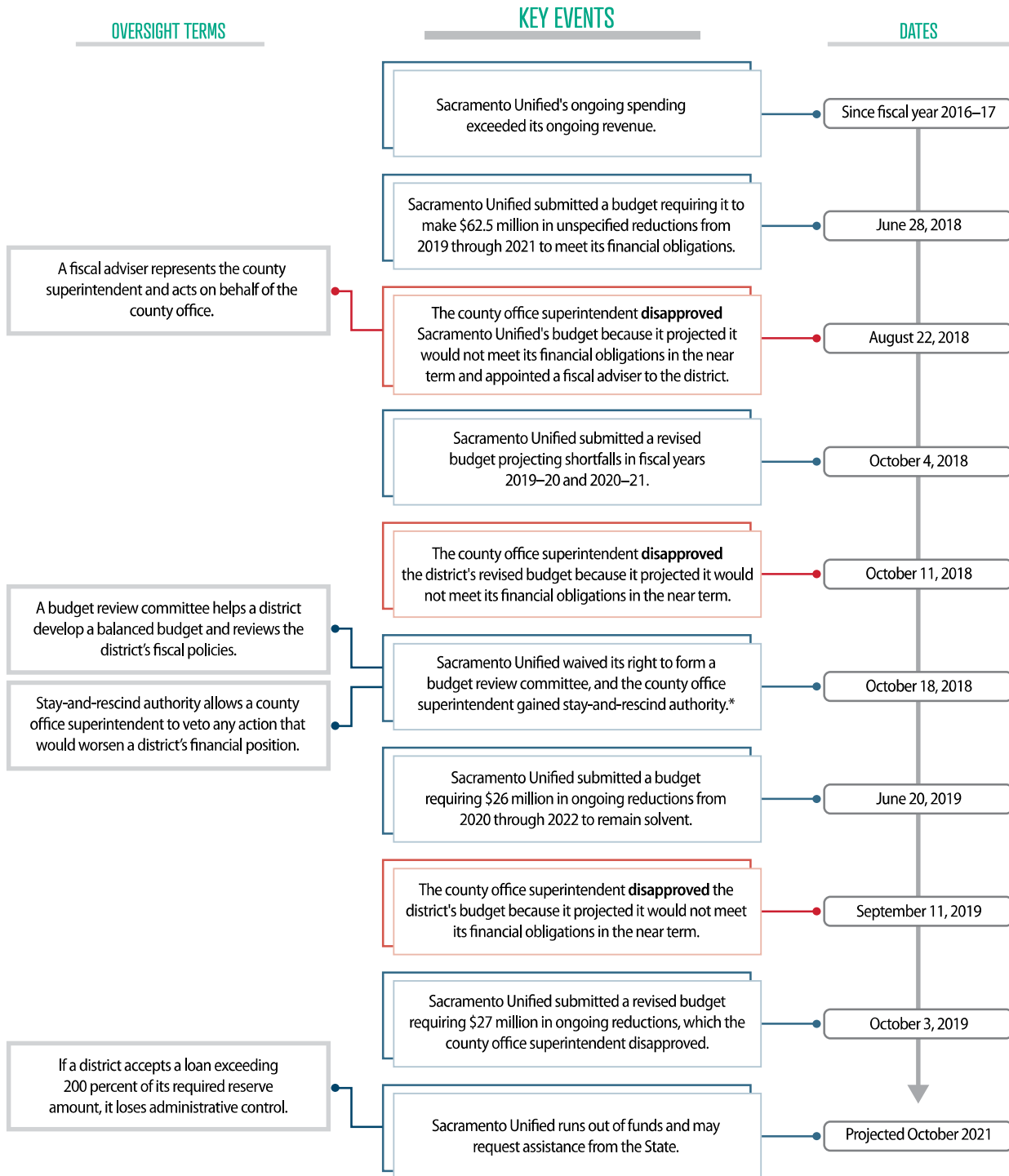


Source: Sacramento Unified’s fiscal year 2019–20 budget.

* Individuals with teaching certificates, such as district teachers, receive certificated salaries. Certificated employees also include staff who are not teachers but provide direct services to students, such as counselors, nurses, and librarians. Employees without teaching certificates, such as administrators, custodians, and bus drivers, receive classified salaries.

Because it is consistently spending more than it receives in funding, Sacramento Unified is at risk of needing state assistance. As Figure 4 shows, Sacramento Unified’s deteriorating financial condition has prompted the county office superintendent to intervene repeatedly since August 2018. The multiyear projections that the district prepared in October 2019 indicate that it will largely deplete its general fund in October 2021. If Sacramento Unified cannot meet its financial obligations at that time, it may need to request an emergency loan from the State to remain solvent. If the loan exceeds 200 percent of Sacramento Unified’s required reserve—which will be approximately \$23.2 million in fiscal year 2021–22—the county office superintendent will appoint an administrator from a pool identified and vetted by the Fiscal Crisis Management and Assistance Team (FCMAT)—a state-created agency designed to help districts meet and maintain their financial obligations—and agreed to by the state superintendent of public instruction and the chair of the State Board of Education. This action would place the district’s board in an advisory role and replace the superintendent with an administrator.

Figure 4
Sacramento Unified Is Close to Insolvency



Source: State law and letters from the county office superintendent to Sacramento Unified.

* The county and state superintendents must agree to the waiver, after which the county superintendent gains the duties and responsibilities of the budget review committee.

Appointment of an administrator would significantly affect Sacramento Unified’s finances and functions. According to state law, an appointed administrator is responsible for implementing substantial changes in a district’s fiscal policies and practices and revising its educational program to align with realistic income projections. If a district’s financial condition becomes extremely severe, an administrator also has the authority to file for bankruptcy. Such a filing would permit the administrator to take actions that include voiding collective bargaining agreements. Further, when a district must make loan and related interest payments, it has less funding available for students. As a result, it may need to increase class sizes or reduce programs and opportunities for students.

Sacramento Unified’s Costs for Employee Compensation and Special Education Have Increased Dramatically in Recent Years

At the same time that Sacramento Unified’s fund balance and financial condition have declined, it has increased spending for teacher salaries, benefits for all employees, and special education. As of December 2017, Sacramento Unified provided the most generous and expensive employee benefits among nearby school districts. Nonetheless, at that time, it agreed to significant salary increases for its teachers, also making its salaries the highest among nearby districts. In part as a result of this decision, teacher salaries represented 38 percent of Sacramento Unified’s total costs in fiscal year 2018–19, while all employee benefits represented an additional 34 percent. Further, the district lacks policies to guide staff on the types of expenditures that are appropriate for the large portion of its budget that it spends on special education, which could lead to it overpaying for some services. Special education costs, which include expenditures for teacher salaries, employee benefits, and contracted services, represented 21 percent of Sacramento Unified’s total costs in fiscal year 2018–19.

The School Board Approved Salary Increases for Its Teachers That It Could Not Afford Without Making Offsetting Cost Reductions

In December 2017, Sacramento Unified significantly increased its ongoing spending obligations when its school board approved a labor contract with its teachers union that contained significant increases in its salary costs. As the text box shows, the 2017 contract terms included general salary increases and a change to the salary schedule, which Sacramento Unified projects will together result in a 15 percent

**Key Terms From the
2017 Teachers Union Labor Contract**

- 7.5 percent in general salary increases.
 - 2.5 percent retroactive increase for fiscal year 2016–17.
 - 2.5 percent increase in fiscal year 2017–18.
 - 2.5 percent increase in fiscal year 2018–19.
- Adjustment of the salary schedule targeting additional pay towards midcareer staff to improve retention and recruitment of experienced teachers.
- Changed required student-to-teacher ratio from 32 to 24 for kindergarten.
- Changed required student-to-teacher ratio from 31 to 24 for grades 1–3.

Source: 2017 teachers union labor contract.

increase in its salary costs. A salary schedule adjustment changes how much a district pays a teacher based on that teacher's combination of experience and educational attainment, as we show in Figure 5. In June 2017, Sacramento Unified calculated that a 1 percent increase in salary and statutory benefits—which are benefits that a public school provider must provide according to law, such as employer pension contributions—would cost it about \$2.1 million. Based on this calculation, we estimate that when fully implemented in fiscal year 2019–20, the 2017 contract's salary increases and adjustment to the salary schedule will add about \$31 million per year in ongoing spending. This amount represents 5 percent of Sacramento Unified's total spending.

Figure 5
Example of the Change to the Salary Schedule Under the 2017 Labor Agreement



Source: Sacramento Unified's salary schedule documentation effective July 1, 2017, and July 1, 2019.

In addition, the agreement solidified the district's past efforts to reduce its student-to-teacher ratios in grades K–3. Before the agreement, Sacramento Unified's budgets had included funds to hire additional teachers to reduce K–3 class sizes. The 2017 agreement made those class size reductions mandatory. State law provides additional LCFF funds for the purpose of lowering class sizes in grades K–3.

The increased labor costs to which Sacramento Unified agreed when it approved the 2017 contract are significant, particularly given its declining financial situation. Negotiations for the labor agreement began in October 2016 as the district anticipated expiration of its existing contract with its teachers union in December 2016. Sacramento Unified and the teachers union met at least 22 times from October 2016 through May 2017 but could not reach an agreement. At that time, the teachers union noted that Sacramento Unified's salaries were lower than nearby districts' salaries and that it believed that Sacramento Unified could afford the increases it was proposing because the district's budget documents showed that its fund balance was steadily increasing. However, neither of these assumptions fully and accurately reflected the situation at the time.

Although Sacramento Unified did have lower average salaries than comparable school districts, it also consistently maintained the highest average total compensation per teacher from fiscal years 2013–14 through 2019–20, as we show in Table 1. Specifically, the district’s generous and expensive health insurance benefits exceeded those of other districts both in aggregate and per capita costs in all seven years. For example, Sacramento Unified’s total cost for health and welfare benefits to its teachers in fiscal year 2017–18 exceeded Elk Grove Unified’s costs that year by about \$13 million, even though Elk Grove Unified employed 950 more teachers. Sacramento Unified’s generous benefits have driven the district’s high total compensation costs, even when the salaries it offered were lower than those of comparable districts. We discuss Sacramento Unified’s health benefit costs further below.

Table 1
Sacramento Unified Consistently Provided the Highest Total Compensation for Teachers Among Comparable Districts From Fiscal Years 2013–14 Through 2019–20

DISTRICT	FISCAL YEAR						
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Average Salary							
Sacramento Unified	\$65,695	\$67,009	\$70,343	\$73,916	\$73,236*	\$83,148	\$91,250
Elk Grove Unified	\$71,340	\$73,322	\$76,341	\$78,663	\$80,261	\$88,445	\$85,058
San Juan Unified	\$71,583	\$74,317	\$75,808	\$76,908	\$76,673	\$82,211	\$84,433
Stockton Unified	\$61,632	\$65,674	\$68,852	\$72,903	\$75,370	\$86,161	\$86,846
Twin Rivers Unified	\$71,162	\$71,399	\$73,962	\$74,625	\$76,166	\$87,847	\$88,250

DISTRICT	FISCAL YEAR						
	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Average Total Compensation†							
Sacramento Unified	\$84,626	\$87,645	\$91,233	\$95,189	\$94,889	\$111,259	\$119,036
Elk Grove Unified	\$82,826	\$84,775	\$88,087	\$91,183	\$91,568	\$100,121	\$96,906
San Juan Unified	\$83,468	\$85,838	\$89,674	\$91,613	\$90,789	\$95,856	\$99,080
Stockton Unified	\$74,484	\$78,982	\$82,409	\$89,588	\$91,822	\$101,912	\$101,903
Twin Rivers Unified	\$78,714	\$76,001	\$79,716	\$81,401	\$83,323	\$96,146	\$98,266

Source: California Department of Education certificated salary and benefits data from fiscal years 2013–14 through 2017–18 and district budgets for salary and benefits data from fiscal years 2018–19 through 2019–20.

■ Highest in category

■ Lowest in category

Note: Sacramento Unified’s amounts have been updated to reflect increases from the 2017 labor contract.

* Sacramento Unified’s average salary declined slightly in fiscal year 2017–18 because the teachers that it employed had relatively less experience in fiscal year 2017–18 than fiscal year 2016–17 and thus received lower salaries.

† Average total compensation includes salary plus health and welfare benefits. It does not include a district’s costs to provide statutory benefits, such as pension and Medicare.

Additionally, Sacramento Unified may have appeared to be in a better financial condition than it actually was at the time of the 2017 labor negotiations, in part, because it had received one-time funds from the State that contributed to its rising fund balance. From fiscal years 2013–14 through 2017–18, Sacramento Unified received between \$1.7 million and \$20.6 million annually in one-time funds. The Legislature appropriates one-time funds for a specific purpose and for a limited term, and subsequent legislation is necessary to renew them. Thus, such funds are fundamentally different from funds that districts generally use for ongoing costs, which consist of appropriations for the same purpose that are funded on an annual basis or continuously appropriated funds that are appropriated from year to year without the need for further authorization from the Legislature. For example, in fiscal year 2017–18, Sacramento Unified received \$5.7 million in one-time funds from the State for the purpose of satisfying potential outstanding state mandate claims. From fiscal years 2013–14 through 2015–16, such one-time funds helped Sacramento Unified to increase its fund balance. However, that fund balance began declining beginning in fiscal year 2016–17, as Figure 6 shows, because of the district’s increasing expenditures.

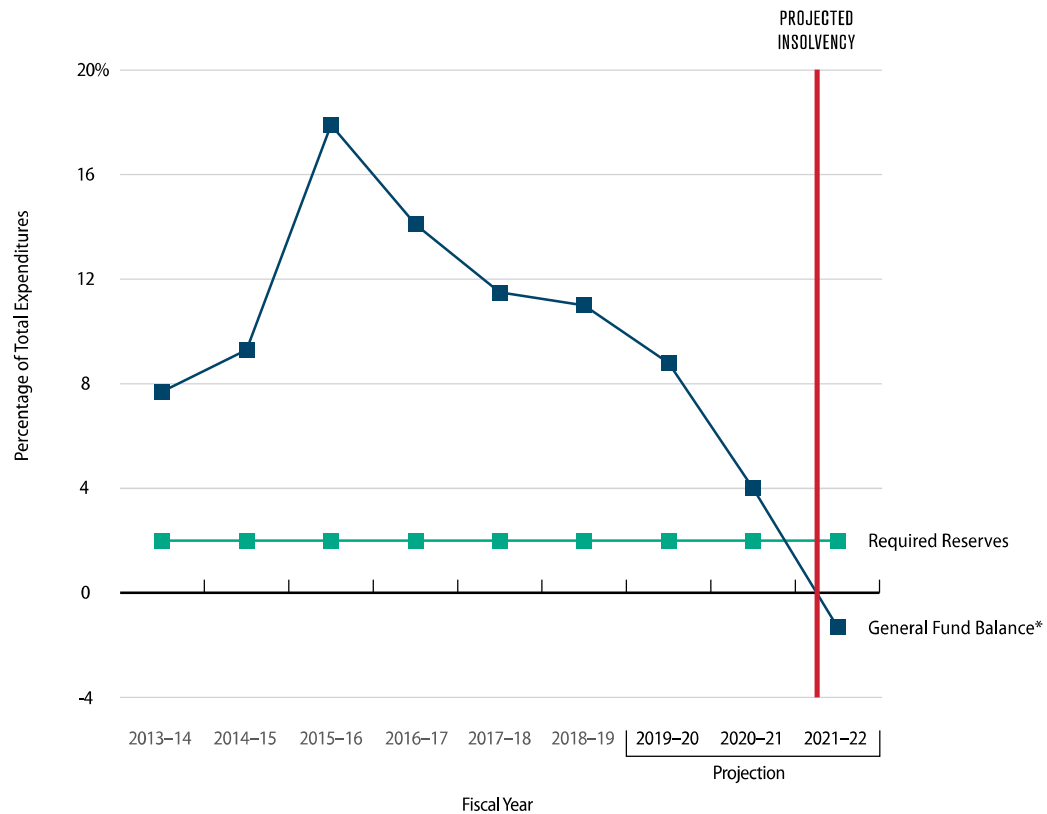
When Sacramento Unified’s current superintendent joined the district in July 2017, the district and its teachers union still had not reached an agreement on salary despite negotiating for nearly a year. In November 2017, Sacramento Unified made a proposal to the teachers union that included a 6.5 percent salary increase and a 2.5 percent salary schedule adjustment over the three-year term of the contract. The teachers union, stating that the agreement was not fair, voted to strike. As the parties reached a final impasse in negotiations, the superintendent met with the union later in November 2017 and brokered the 2017 labor agreement, which provided significantly higher increases than the district’s previous November 2017 proposal. According to the superintendent, he agreed to the higher increases because he wanted to avert the negative impact an impending strike would have on students and families. Further, based on his conversations with the district’s chief business officer at the time, he believed the district could afford the salary increases.

The superintendent agreed to the higher salary increases because he wanted to avert the negative impact an impending strike would have on students and families and he believed the district could afford the agreement.

Although Sacramento Unified believed that it could afford the agreement, the county office superintendent warned the district that it could not. At the Sacramento Unified board meeting to approve the labor agreement in December 2017, the county office superintendent told the board that the district could not afford the agreement without reducing its budget by \$15.6 million. Further, in his comments at that meeting and in a letter he sent to the district on the same day, he explained that the \$15.6 million in budget reductions would allow Sacramento Unified to meet its minimum reserve requirements through fiscal year 2019–20 but would

not eliminate its ongoing structural deficit. He emphasized that without making reductions to its ongoing spending, Sacramento Unified could not afford the agreement based on its own financial projections. He further stated that if the board decided to approve the labor agreement, he would request that the board approve a budget reduction proposal within a month.

Figure 6
Sacramento Unified’s Available General Fund Balance Has Declined Since Fiscal Year 2016–17



Source: State law, Sacramento Unified’s audited financial statements for fiscal years 2013–14 through 2017–18, unaudited expenditures for fiscal year 2018–19, and budget documentation for fiscal years 2019–20 through 2021–22.

* The general fund balance is presented without restricted revenue. Restricted revenue is revenue that is subject to externally imposed or legally enforceable constraints by external resource providers, through constitutional provisions, or through enabling legislation.

However, the board unanimously approved the agreement during the meeting but did not subsequently submit a corresponding budget reduction proposal. According to two board members, the board approved the agreement because it believed that Sacramento Unified would be able to meet its financial obligations based on information from the district’s chief business officer at the time. However, Sacramento Unified’s fiscal year 2017–18 first interim financial report, which the then-chief business officer submitted

Rather than submitting a budget reduction proposal, the board chose to rely on one-time funds to pay for the ongoing salary increases and it did not propose a plan for covering these ongoing costs in subsequent years.

to the board for approval at the same meeting, noted that under current projections, the district would exhaust its fund balance and need to make budget adjustments for fiscal years 2018–19 and 2019–20. Nevertheless, rather than submitting a budget reduction proposal, the board chose to rely on one-time funds it anticipated from the proposed January 2018 Governor’s Budget to pay for the ongoing salary increases. It did not propose a plan for covering these ongoing costs in subsequent years.

When it approved the 2017 labor contract without making reductions to ongoing spending, the board failed to uphold its fiduciary duty to ensure that the district is able to meet its financial obligations. In his review of Sacramento Unified’s first interim financial report in January 2018, the county office superintendent told the district that using one-time funds to pay for ongoing expenses was a poor business practice. However, because Sacramento Unified projected that it could meet its financial obligations in the current and subsequent fiscal year, the county office superintendent could not compel the district to make cuts instead of using the one-time funds.

In addition to the expected cost increases we describe above, ambiguity in the 2017 contract has resulted in Sacramento Unified facing even greater costs. The contract included a clause that limited the increase in costs from the salary schedule adjustment to 3.5 percent of its teachers’ salary costs. Sacramento Unified believed that the wording of this clause meant that the salary schedule adjustment was capped at a 3.5 percent increase in its annual teacher salary costs. In its review of the district’s financial disclosure of the contract, the county office superintendent reached the same conclusion. However, in September 2018, the teachers union disputed this interpretation, claiming that the 3.5 percent cap applied to fiscal year 2018–19 only, with no cap for the salary schedule adjustment in subsequent years. In May 2019, an arbitrator agreed with the teachers union’s interpretation that the cap applied to fiscal year 2018–19 only.

Therefore, the contract requires that salaries in fiscal year 2019–20 increase according to the salary schedule without a cap. As a result, Sacramento Unified has had to budget an additional 4 percent of its annual teacher salary costs to implement the salary schedule adjustment, for a total increase of 7.5 percent in annual teacher salary costs. In an October 2019 letter from Sacramento Unified to the teachers union president, the district stated that it had fully implemented the new salary schedule for fiscal year 2019–20. It further explained that it had already paid the first of two retroactive payments for fiscal year 2018–19, and that it anticipates making the second payment in November 2019.

The board approved the contract despite the ambiguity in its terms. The board could have mitigated the risk of adding these significant ongoing spending obligations to the district’s increasingly risky financial situation if it had certified the district’s ability to meet the costs of the labor agreement before approving it. If such a requirement existed, it might have inquired further into the financial impact of the labor agreement. Although state law requires a school district’s superintendent and chief business officer to publicly disclose the costs associated with labor contracts and certify that the school district can afford the cost of the contracts, it does not require its board to certify that the district can afford the costs of the agreement.

Sacramento Unified’s Spending on Employee Benefits Has Increased Significantly Since Fiscal Year 2013–14

Employee benefits are another growing area of costs for Sacramento Unified. Employee benefits primarily consist of health care benefits and pension benefits for both current and retired employees. From fiscal years 2013–14 through 2017–18, the cost of these benefits increased from \$106 million to \$160.8 million, or 52 percent. As of fiscal year 2017–18, employee benefits represented 31 percent of the district’s total expenses. Although Sacramento Unified has a limited ability to control pension costs for its employees because state law establishes the rates it contributes, it has failed to address its high health care costs.

As we indicate previously, Sacramento Unified offers its teachers generous and costly health care benefits. In fact, as the text box demonstrates, one of the plans Sacramento Unified offers is among the costliest in the State. From fiscal years 2013–14 through 2017–18, the district’s health care costs grew from \$60.5 million to \$72.7 million, an increase of 20 percent, with \$10.5 million of the increase related specifically to benefits it provided for its teachers. Sacramento Unified offers two health plan options to its teachers and pays the full cost of either plan for employees and their families. In comparison, other nearby districts generally limit the amount that they pay to the cost of the least expensive plan, pay the full cost only for employees, or cover only 80 percent of the least expensive health plan’s costs for employees and their families. As a result, as Table 2 shows, Sacramento Unified consistently spent more than other nearby districts on health care benefits both per employee in general and per teacher specifically.

Top Five Costliest California School District Health Plans in 2018

The following identifies the annual cost to a district for an employee family plan:

1. \$37,971 - Sequoia Union High (San Mateo County)
2. \$35,694 - Saratoga Union Elementary (Santa Clara County)
3. \$35,052 - East Side Union High (Santa Clara County)
4. \$34,697 - Sacramento Unified (Sacramento County) (HealthNet)
5. \$30,324 - Saddleback Valley Unified (Orange County)

Source: California Department of Education’s 2018 form J-90 data report.

Table 2
Sacramento Unified Has Consistently Spent More on Providing Health Care Benefits to Its Employees Than Comparable Districts (Annual Cost Per Employee or Teacher) (in thousands)

DISTRICT	2013-14		2014-15		2015-16		2016-17		2017-18	
	ALL	TEACHERS	ALL	TEACHERS	ALL	TEACHERS	ALL	TEACHERS	ALL	TEACHERS
Sacramento Unified	\$17.4	\$20.1	\$18.1	\$20.9	\$17.7	\$21.1	\$17.7	\$21.0	\$17.4	\$21.2
Elk Grove Unified	9.4	10.9	10.5	11.1	10.0	11.2	10.0	12.4	9.3	10.9
San Juan Unified	8.2	8.8	9.2	8.9	9.3	10.9	9.8	11.4	10.4	11.0
Stockton Unified	7.8	10.6	9.2	10.6	9.3	11.0	11.0	14.1	11.9	14.2
Twin Rivers Unified	6.8	5.1	6.2	2.8	6.2	4.1	6.0	5.1	6.3	5.1

Source: Education Data Partnership district profile information and budget documentation for the Sacramento, Elk Grove, San Juan, Stockton, and Twin Rivers unified school districts.

■ Highest in category

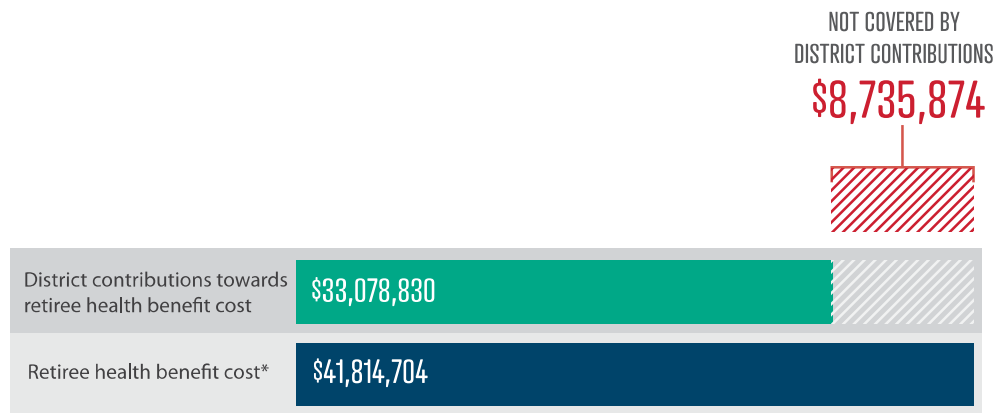
■ Lowest in category

Since 2003 Sacramento Unified has received repeated warnings about the affordability of paying the full cost for all health plans it offers to its teachers. Nonetheless, it did not include a limit on its contributions to health benefits for employees and their families in any of the six contracts it negotiated with its teachers union during these years. The chairperson of a fact-finding panel that reviewed Sacramento Unified's compensation and employee benefits in 2003 identified the district's high health care costs as an area of concern and recommended that it impose a cap on the amount of health benefits it would pay, using the cost of its Kaiser Permanente premium to set the cap because that plan was the less expensive of the two plans the district offered. In a 2006 fiscal review, FCMAT repeated this recommendation to Sacramento Unified, recommending that the district negotiate a cap on health benefit plans with its collective bargaining units. The district followed neither recommendation. However, the district's current leaders note that the district's current contract proposal to the teachers union includes capping the amount the district pays for health care. We discuss the district's contract proposals in a later section.

Further, Sacramento Unified has not taken sufficient action to control its increasing liability for retiree health benefit obligations. The district offers health care benefits to retired employees who meet certain criteria—such as years of service—that vary depending on when the employees retire and whether they are over age 65 at retirement. In particular, retired teachers union members continue to receive fully paid health care benefits until 65 and then receive a managed Medicare benefit. Other nearby districts typically pay only the cost of the lowest cost plan they offer for retired employees who have not yet transitioned to Medicare.

Sacramento Unified’s contributions toward its retiree health benefit obligations ranged from a low of \$19.3 million to a high of \$45.4 million annually from fiscal years 2013–14 through 2017–18. Those contributions fully covered the cost of current retirees’ health care benefits. However, the contributions did not cover the full cost of the retiree health benefits the district has promised employees who have yet to retire; instead they covered only a portion of this cost. As Figure 7 shows, Sacramento Unified should have contributed \$41.8 million in fiscal year 2017–18 towards retiree health benefits for current and future retirees; instead it contributed only \$33.1 million, thus increasing the amount it will have to contribute for future retirees. As its liability increases, so too does the minimum amount it has to contribute each year. Sacramento Unified’s retiree health benefit liability—the amount it projects it will have to contribute for these benefits in the future—totalled \$726 million as of fiscal year 2017–18, or 140 percent of its total general fund spending that year.

Figure 7
Sacramento Unified’s Retiree Health Benefit Liability Grew in Fiscal Year 2017–18, in Part, Because of Its Limited Contributions Toward Retiree Health Benefits



Source: Sacramento Unified’s *Government Accounting Standards Board 75 Actuarial Report of Other Post Employment Benefits Liabilities for fiscal year end June 30, 2018 Financial Report*, and Sacramento Unified’s audited financial statements for fiscal year 2017–18.

* Retiree health benefit cost is the amount Sacramento Unified’s actuary determined the district needs to contribute to fund benefits over time and is greater than the amount needed to cover only current retirees’ health benefits. If the district does not make the full contribution, interest accrues on the unpaid portion.

Despite receiving repeated warnings from external parties, Sacramento Unified has failed to formulate a plan to address its growing liability for these retiree health benefit costs. Since 2007 the county office superintendent has sent at least 24 letters to Sacramento Unified asking it to submit a plan explaining how it will pay for its unfunded retiree health benefit obligations. However, according to the county office superintendent, the district had failed to do so as of August 2019.

The district's continued unwillingness to require its employees to contribute more to retiree health benefits is puzzling given the fact that its unfunded liability for these benefits increased by nearly \$166 million from 2008 through 2018.

Similarly, in 2010 the Sacramento County Grand Jury recommended that school district boards in the county find a way to pay for their retiree health benefits without relying so heavily on their general funds and that they negotiate with their employee unions to reduce benefits or increase employee contributions. In its response to the grand jury report, Sacramento Unified noted that it had recently reached an agreement with its teachers union that extended the vesting period to qualify for retiree health benefits and called for employee contributions toward the cost of retiree health care of \$15 per month in fiscal year 2010–11 and \$20 per month beginning in fiscal year 2011–12. However, the fact that its liability continued to grow from fiscal years 2013–14 through 2017–18 demonstrates the inadequacy of these steps.

Further, Sacramento Unified's decision to enter its 2017 labor contract further increased its burden related to retiree health care costs. Specifically, the district agreed to a provision that increased its contributions by an additional 1.5 percent of total bargaining unit payroll, or about \$3 million in fiscal year 2018–19. However, teacher contributions towards the cost of retiree health benefits are currently \$20 per month. We find the district's continued unwillingness to require its employees to contribute more to retiree health benefits puzzling given the fact that its unfunded liability for these benefits increased by nearly \$166 million from 2008 through 2018.

Finally, the 2017 labor contract has also affected Sacramento Unified's pension costs. State law establishes mandatory California State Teachers' Retirement System (CalSTRS) contributions for employers and employees, requiring incremental increases of employers' contributions up to 10.85 percent of teachers' salaries from fiscal years 2014–15 through 2020–21. In part because of these incremental increases, Sacramento Unified's annual contribution to CalSTRS increased by \$15.2 million from fiscal years 2013–14 through 2017–18, to a total of \$29.2 million. Although this growth to date has been largely outside of the district's control, the 2017 contract will result in even higher pension costs. Specifically, because state law bases CalSTRS contributions on teachers' salaries, the salary increases in the 2017 contract will increase the amount Sacramento Unified must contribute toward teacher pensions. When it approved the contract, Sacramento Unified projected that the salary increases would increase its pension costs by \$2 million annually beginning in fiscal year 2018–19, an additional expense the district can ill afford.

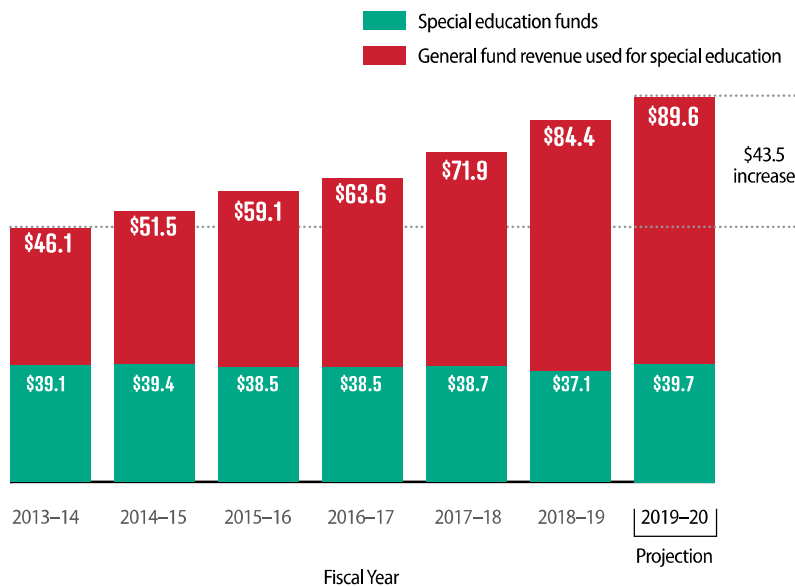
Sacramento Unified Has Not Taken Sufficient Action to Ensure That Its Special Education Costs Are Reasonable

Sacramento Unified has done little to control special education costs or seek additional revenue available for special education. Special education represented 21 percent of the district's total spending for

fiscal year 2017–18. It has done little to control these costs even though its special education expenditures increased by 31 percent—or \$26.1 million—from fiscal years 2013–14 through 2017–18, accounting for 20 percent of the overall increase in its spending during this period.

Sacramento Unified’s close tracking and monitoring of its special education costs is particularly important because its overall decline in enrollment has limited the funding it receives for special education services. State law bases funding for special education on a district’s average daily attendance, not its number of students enrolled who receive special education services. From fiscal years 2013–14 through 2017–18, Sacramento Unified’s overall attendance declined by 2 percent, and it consequently lost nearly \$700,000 in state and federal funding for special education. During this same period, the number of Sacramento Unified’s students who received special education services increased by 7 percent and its general fund expenditures for special education increased by 56 percent, or \$25.8 million. As Figure 8 shows, Sacramento Unified projects that its general fund spending for special education will nearly double by fiscal year 2019–20 from what it spent in fiscal year 2013–14.

Figure 8
From Fiscal Years 2013–14 Through 2019–20, Sacramento Unified’s General Fund Spending for Special Education Is Projected to Almost Double (in millions)



Source: Sacramento Unified’s accounting system.

Because special education spending represents such a large portion of Sacramento Unified's costs, we expected that it would have taken steps to maximize the value of its spending. State law requires the district to provide an education to students receiving special education services at no cost to their families. Sacramento Unified also has a responsibility to use its limited funds in an efficient and effective manner. However, it has no written policies guiding staff on identifying cost-effective approaches for providing special education services. A failure to have clear policies in this area could lead to Sacramento Unified overpaying for some services. For example, the largest area of increase in its special education costs comes from contracts for specialized services, such as speech therapy. However, the district does not have policies requiring staff to analyze the value of those contracts and determine whether it would benefit from consolidating providers.

When we looked at Sacramento Unified's use of costly residential treatment programs for students receiving special education services, we identified a similar lack of adequate policies. Residential treatment programs involve students living at facilities where they receive special education and related services. These facilities may be in California, but they may also be in other states, depending on the needs of the students. However, Sacramento Unified has not adequately documented its efforts to ensure the residential treatment programs it uses are cost-effective. Specifically, state law requires the district to document its efforts to locate an appropriate residential treatment program within the State before sending a student out of state. Using in-state programs may reduce travel costs and keep children closer to their families. Sacramento Unified must report on its efforts to place students to the California Department of Education and include the costs of the special education that out-of-state facilities provide. However, we found that Sacramento Unified's documentation contained minimal analysis. In fact, in one case, it was evident that the district had copied language for this analysis from a prior form, as the analysis listed a different child's name. Further, although the district prepared the documentation, the California Department of Education confirmed that Sacramento Unified had not actually submitted this required documentation to it.

Finally, despite a decline in its funding for special education, Sacramento Unified has not applied for all the special education funding available to it. Specifically, the State reimburses entities for extraordinary costs of special education placements and has set aside \$3 million annually for this purpose. Although Sacramento Unified has had 12 or fewer students per year requiring such placements since fiscal year 2013-14, these placements have cost an average of more than \$100,000 per year per student. According to the special education director at the district, it has

Sacramento Unified has not adequately documented its efforts to ensure the residential treatment programs it uses are cost-effective.

not applied for the available funding because the State caps the total reimbursement amount it will pay statewide. However, we calculated that Sacramento Unified could have been eligible for up to \$1.4 million in reimbursements during the five-year period we reviewed. After we brought this issue to the district's attention, in November 2019, the district applied for reimbursement for three placements from fiscal year 2018–19 that could result in about \$273,000 in additional funds. Considering its deteriorating financial situation, Sacramento Unified cannot afford to fail to request any funding that may be available to it.

We calculated that Sacramento Unified could have been eligible for up to \$1.4 million in reimbursements during the five-year period we reviewed.

Sacramento Unified hopes to reduce its special education costs through early intervention, but its efforts are unlikely to have immediate effect on its current financial crisis. According to the district superintendent, increasing efforts to promptly identify students who may require special education services and providing early intervention could deter the classification of students as having special needs. However, increasing the intervention services Sacramento Unified provides will not reduce the number of students to whom it currently provides special education services; thus, it will not realize any immediate cost savings.

Sacramento Unified Lacks Consistent Leadership and Adequate Budget Policies, Limiting Its Ability to Effectively Manage Its Finances

Sacramento Unified has not taken adequate steps to address the organizational issues, such as management turnover, that are limiting its ability to make viable strategic decisions and to manage its finances effectively. According to board leaders, the district's high turnover in key management positions over the last six years has affected its ability to make progress in addressing its financial condition. For example, as we discuss previously, the district has failed to implement changes to its health care costs despite repeated warnings. When key leaders change, established policies can provide guidance to staff in the interim; however, Sacramento Unified lacks such policies. Without consistent leadership and guidance, the district will likely struggle to make the difficult organizational decisions necessary to address its systemic financial problems.

Sacramento Unified has experienced significant turnover of its key leaders and has not used strategies that would help mitigate such turnover. It hired its current superintendent in July 2017, and the former superintendent served for less than three years. During the current superintendent's tenure, Sacramento Unified has had three chief business officers, with the current one hired in September 2019. From April 2019 through September 2019, the district paid a financial consultant to fill a role similar to that

of chief business officer. In comparison, most of the other school districts we reviewed have had only one or two superintendents and chief business officers during the past five years.

To address its high turnover, we expected that Sacramento Unified would have developed a succession plan or other strategies; however, that was not the case. A succession plan helps to ensure that an agency has a talented and competent workforce and that the agency can mitigate the loss of institutional knowledge when it experiences attrition. The U.S. Office of Personnel Management suggests that as part of a succession plan, an agency should develop orientation and mentorship programs that help adapt individuals to its culture. According to Sacramento Unified's chief human resources officer—who is one of its few long-tenured, executive-level staff—the district could increase its retention of key management by improving its onboarding process. For example, to better transition individuals into its culture, Sacramento Unified should, when possible, provide time for new managers to work with the managers whom they are replacing. However, Sacramento Unified has not used a succession plan or mentorship programs to address its turnover. Further, a board member stated that past boards were not clear on their goals, in one case hiring a superintendent who may not have intended to stay long term.

Sacramento Unified's failure to create and maintain comprehensive budget policies and procedures has exacerbated the problems resulting from its lack of consistent leadership and have contributed to its inability to manage its growing costs effectively.

Sacramento Unified's failure to create and maintain comprehensive budget policies and procedures has exacerbated the problems resulting from its lack of consistent leadership and has contributed to its inability to manage its growing costs effectively. The Government Finance Officers Association recommends that school districts go through certain steps in their budgeting process, such as developing policies for long-term forecasting and using performance measures to assess how well services are executed. Sacramento Unified has a district budget procedure, a board budget policy, and a board administrative regulation on budget development. However, these documents provide only broad guidance for developing budgets. Specifically, they state that the district shall prepare its budget annually using the best possible estimates that individual schools and administrative staff can provide, that the district shall develop its budget in accordance with standards and criteria for fiscal accountability adopted by the State Board of Education, and that it will use a series of budget assumptions to project the budget. They do not provide details regarding how Sacramento Unified will perform each of these steps, including the reasoning and key assumptions the district will use when making its budget decisions and developing its multiyear projections. For example, in its fiscal year 2019–20 budget, Sacramento Unified included contract savings of \$485,000 from services not needed, but it did not describe what those services were and why they are no longer necessary.

Because Sacramento Unified's broad policies provide only high-level guidance, we asked the individual who served as the district's budget director until July 2019 to provide a description of its budget development practices. As of October 2019, Sacramento Unified did not have a budget manager. According to the former budget manager, its practices include estimating revenue based on attendance and performing a staffing analysis at each school site to determine the necessary number of teachers. She further stated that Sacramento Unified's cabinet, composed of its executive management, also makes budget recommendations, which are subject to board approval. In a December 2018 fiscal health risk analysis of the district, FCMAT identified the inadequacies in Sacramento Unified's budget practices. Specifically, it noted that the district needed to develop a comprehensive budget development process to ensure its management understands all revenues and expenditures and that they direct expenditures to support the district's goals and objectives.

Because Sacramento Unified has not developed guidance regarding the need to document its reasoning and key assumptions for its budget decisions, it lacks a starting point for explaining to the public the differences between its budgets and its spending. In reviewing its budgets, we observed large variances in its budgeted and reported actual revenues and expenditures. For example, in fiscal year 2017–18, Sacramento Unified reported it spent \$16 million, or 64 percent, more on contracted services than it budgeted. We expected that Sacramento Unified would have investigated such variances and incorporated its findings into its budgetary guidance to increase the accuracy of its future revenue and expenditure projections. However, it did not do so, likely in part because it has no procedures requiring staff to determine the causes of large variances. Moreover, it could not provide explanations for many of the variances we identified, further demonstrating its lack of a thorough budget process. If its budget projections are not accurate, Sacramento Unified risks spending more than expected and reaching fiscal insolvency sooner than its current projection. Further, its ability to explain significant variations is critical to ensuring the public's confidence in its projections.

In fact, Sacramento Unified has been unable to provide documentation of the rationale it used to develop many of the revenue and expenditure estimates in its three-year projections. State law requires districts to use a standardized form to submit their budgets to allow for ease of comparison. The form includes a three-year financial projection and asks for the disclosure of assumptions used to determine the projections for the two subsequent fiscal years. For example, the user guide for the standardized form states that districts should identify any significant cost increases that will impact their budgets.

Sacramento Unified has been unable to provide documentation of the rationale it used to develop many of the revenue and expenditure estimates in its three-year projections.

Sacramento Unified's lack of a documented methodology and key assumptions explaining its rationale for its multiyear projections is troubling because flawed assumptions could mean it may become insolvent sooner than it expects.

Although the district anticipates a \$3.9 million cost increase for books and supplies from fiscal years 2019–20 through 2020–21, it did not identify this increase in its budget assumptions. The district hired a consultant in April 2019 that helped develop its multiyear projections for fiscal years 2019–20 to 2021–22, which the board adopted in October 2019. However, it still has not publicly disclosed many of the assumptions it used to develop the projections. Sacramento Unified's current chief business officer started in September 2019, and the district superintendent stated that he expects she will implement improved policies and procedures for budget development. Without adequate policies and procedures to inform the accuracy of its estimates of revenue and expenditures, the district cannot effectively plan for its future.

Sacramento Unified's lack of a documented methodology and key assumptions explaining its rationale for its multiyear projections is particularly troubling because flawed assumptions could mean it may become insolvent sooner than it expects. Its current three-year projection for fiscal years 2019–20 through 2021–22 indicates that it will largely deplete its general fund in October 2021 and become insolvent in fiscal year 2021–22. However, subsequent events have called that prediction into question. According to a consultant at Sacramento Unified, the district incorporated into its projection salary increases from the May 2019 arbitration we previously discuss. However, she stated that the district's salary costs may still increase as a result of late hires and corrections in individual employees' pay based on their experience and education. These increases in expenditures may move forward the date by which Sacramento Unified becomes insolvent.

Sacramento Unified typically creates its multiyear projections as part of its budget in June, and it updates them when it submits interim financial reports in December, March, and May. However, because the pending insolvency has such a large potential impact on the district, Sacramento Unified should update its multiyear projections when significant events occur, like the May 2019 arbitration results. Such updates will enable it to improve its financial planning and to provide better information to the public about its financial situation.

Consistent leadership and clear budget policies could also help Sacramento Unified to effectively use one-time funds. As we previously discuss, the Legislature appropriates these funds for a specific purpose and for a limited term, and they require subsequent legislation for their renewal. Thus, districts cannot anticipate receiving these funds in future years. However, Sacramento Unified used one-time funds from fiscal years 2016–17 through 2018–19 to pay for ongoing costs. By relying on one-time funds to pay for ongoing expenditures, the district risks being

unable to pay for such costs if these funds are not available in the future. For example, the district received \$7.1 million in one-time funds from the State in fiscal year 2018–19 that were designated for the professional development of teachers, among other uses. However, according to its budget, the district did not receive these funds in fiscal year 2019–20.

Further, in violation of state law, Sacramento Unified frequently failed to disclose its use of one-time funds. State law requires districts to disclose in their budgets if they intend to use one-time funds to pay for ongoing general fund expenditures in excess of 1 percent of their total general fund expenditures. Sacramento Unified used one-time funding in excess of 1 percent of its general fund expenditures in each year from fiscal years 2015–16 through 2018–19. However, it disclosed its use of one-time funds in only one year, fiscal year 2018–19. By not disclosing its use of one-time funds, Sacramento Unified has not ensured that its stakeholders are fully aware of the degree to which it has relied on these funds to pay for its ongoing expenses.

We asked the district superintendent why Sacramento Unified frequently used one-time funds to pay for ongoing expenditures and why it did not disclose their use in its annual budgets. He stated that former superintendents and budget officers might have decided to use one-time funds for ongoing expenses because of a variety of factors; however, he acknowledged that this was not a best practice. He also stated that going forward, he intends to avoid funding ongoing expenditures with one-time revenues.

The Current Proposals From Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District’s Financial Crisis

Because Sacramento Unified agreed to significant salary increases in its 2017 contract with the teachers union and failed to adequately control its rising health care and retiree benefit costs through negotiations, it must now make more dramatic budget reductions to establish and maintain fiscal solvency. The district has recently made some reductions to its ongoing spending that are not dependent on negotiations, such as layoffs of administrators and teachers in excess of required student-to-teacher ratios. However, it is unlikely that it will be able to resolve its current difficulties without negotiating with its labor partners. In fact, according to Sacramento Unified’s superintendent and board president, it cannot make budget reductions independently of labor negotiations without a catastrophic negative impact on students.

In violation of state law, Sacramento Unified frequently failed to disclose its use of one-time funds.

It is imperative that Sacramento Unified and its teachers union work together to agree to a solution, which they have not yet done.

Sacramento Unified's options for reducing ongoing expenses without engaging in labor negotiations are limited and unlikely to prove successful in addressing its precarious financial situation. For example, it could close schools and remove bus routes. However, if it closes a school, it may lose students—and the revenue associated with those students—either to other districts or to a charter school that could begin operating in the school's facilities. In 2013 Sacramento Unified conducted an analysis of the fiscal impacts of closing 11 schools and found that it would only save the district approximately \$2.5 million per year, or about \$230,000 per school. Moreover, according to Sacramento Unified, 78 of its 91 bus routes serve students who receive special education services, while it maintains some of the other 13 routes because of safety concerns, such as crossing railroad tracks. As a result, closing schools and removing bus routes are unlikely to generate the savings needed to resolve Sacramento Unified's financial problems and could create new problems for students and their families.

Because it lacks other options, it is imperative that Sacramento Unified and its teachers union work together to agree to a solution, which they have not yet done. The teachers union and Sacramento Unified have each recently made proposals regarding the district's budget; however, these proposals have limitations and are unlikely to fully address the district's financial problems. In June 2019, the teachers union offered a proposal that included suggestions to stabilize Sacramento Unified's fiscal status. However, these suggestions would not resolve the district's long-term fiscal problems, and some would worsen the current deficit. For example, the union suggests rescinding layoffs of teachers, as well as certain classified staff. Doing so would result in dramatic increases in the district's ongoing spending—in this case, an estimated increase of about \$14 million in its ongoing expenditures beginning in fiscal year 2019–20.

Further, the teachers union suggested adopting the nonbinding class size reduction goals for grades 4 to 12 included in the 2017 contract. As Table 3 shows, if Sacramento Unified were to hire additional certificated staff and rehired laid-off teachers to achieve the staffing goals the union proposed, it would add at least another \$26.9 million in ongoing spending starting in fiscal year 2019–20. In total, implementing the union's staffing proposals would increase ongoing district expenditures by at least \$36.7 million—the cost of hiring the additional staff to meet the class size reduction goals plus rehiring classified staff not covered by the class size goals.

Table 3
In Its 2019 Budget Proposal, the Teachers Union Suggested Lowering Class Sizes, Which Would Result in Additional Costs

GRADES/SUBJECTS	CURRENT MAXIMUM (STUDENT:TEACHER)	PROPOSED MAXIMUMS (STUDENT:TEACHER)	ADDITIONAL TEACHERS REQUIRED (FULL TIME EQUIVALENTS)	COST OF THE CHANGE (IN MILLIONS)
K-3	24:1	24:1	0.00	\$0
4-6	33:1	24:1	108.82	8.9
7-8	31:1	24:1	65.34	5.4
9-12: English, Math, Social Science, and Science	35:1	28:1	43.16	3.6
9-12: All other subjects	32:1	35:1	(14.16)	(1.2)
Special Day Class: Elementary—Mild to Moderate Needs*	15:1	12:1	3.65†	1.6
Special Day Class: Elementary—Moderate to Severe Needs*	13:1	8:1		
Special Day Class: Secondary*	16:1	12:1		
School Nurses	35.00 FTEs	750:1	19.21	1.6
Librarians	11.60 FTEs	One for every secondary school except opportunity schools	7.40	0.6
Program Specialists	1,100:1	500:1	44.36	4.8
Psychologists	None	1,000:1; no more than two schools per psychologist	7.50	0.8
Behavioral Specialists	None	No more than five schools per specialist	9.60	0.8
Total			310.11	\$26.9

Source: June 2019 teachers union budget proposal and previous teachers union bargaining agreements.

Note: For the purposes of calculating the cost of the increased staffing, we assumed Sacramento Unified would need to hire the full number of teachers between the current and proposed requirements and that the newly hired staff would be at the lowest salary amount.

* Special day classes provide services to students with more intensive needs whose individual education plans require attendance in special education for the majority of the school day. The students are grouped according to similar instructional needs.

† The additional teachers for elementary special day classes were all calculated at the mild/moderate needs rate.

The teachers union proposal contains other suggestions that could result in some level of savings but are unlikely to be viable in the long term. For example, the union proposed reducing Sacramento Unified’s contributions to retiree health benefit liabilities to only the amount due in the current year. We estimate this would result in savings of about \$7 million from fiscal years 2019–20 through 2021–22—considerably less than the \$25.5 million over the same period the teachers union asserted in its proposal because the union appears to have used outdated information for its calculations. Because Sacramento Unified expects the annual cost of retiree health benefits to increase over the next several years, the amount of savings generated from this proposal would diminish over

time. Moreover, decreasing the amount of its contributions toward retiree health benefits in the short term would increase the amount Sacramento Unified would need to contribute over the long term, making this a poor option for resolving its ongoing budget problems.

We identified concerns with many of the teachers union's other suggestions as well. For example, it suggested reducing pay by 20 percent for those administrators with annual salaries exceeding \$120,000. We estimate that this change, including a 20 percent reduction in the superintendent's salary, could save Sacramento Unified about \$3 million annually, including decreased district contributions toward employee pensions. However, the superintendent stated that he believes such a change may cause employee retention problems. In addition, most of the district administrators with salaries exceeding \$120,000 are represented by United Professional Educators, Sacramento Unified's labor union for certificated management staff. The district would need to negotiate any salary reductions for those employees with their labor union. If one removes represented employees from the calculation above, the union's suggestion would only result in about \$1 million in annual ongoing savings.

Another suggestion by the teachers union might result in savings but involves a greater amount of uncertainty. Specifically, the union suggested reducing contract expenditures by 10 percent, which we estimate could result in savings of \$5 million annually. However, it is unclear whether Sacramento Unified would be able to reduce its contract expenditures by that amount, in part because nearly half of its contracts are for special education services. Although the district has some discretion as to how and where it provides such services, it must provide appropriate facilities, education, or designated instruction and services required by students with exceptional needs, and it may contract with agencies to provide these services when no appropriate public option is available. In addition, reducing its contract services might require Sacramento Unified to hire additional staff to provide the contracted services, potentially further increasing costs.

It is also unclear whether Sacramento Unified could reduce its other contract expenses by 10 percent. In fiscal year 2019–20, it budgeted about \$26 million for services and other operating expenditures. About 40 percent of those costs are for essentials like water and electricity. Although the teachers union's suggestion specifically mentions outside legal expenses, Sacramento Unified budgeted about \$3 million for this type of service. If it were to cut these legal expenditures by 10 percent, it would save only about \$300,000 annually.

Sacramento Unified made an initial proposal in August 2019 to its teachers union that could result in significant savings, but its suggested actions would require significant concessions from the union.

Sacramento Unified made an initial proposal in August 2019 to its teachers union that could result in significant savings, but its suggested actions would require significant concessions from the union. For example, the district suggested capping the amount it

pays towards health benefits for employee-only plans at the rate of the lowest-cost health plan and capping contributions for employee-plus-one and family plans at 75 percent of the lowest cost plan rate. This suggestion would cause Sacramento Unified's teachers to contribute an amount similar to the amounts teachers contribute at nearby districts, which generally cover between 75 percent to 85 percent of the lowest-cost employee-plus-one plans and 75 percent to 80 percent of the lowest-cost family plans. We estimate that implementing this change could result in \$15.7 million in annual savings.

Sacramento Unified also suggested that teachers union members increase their monthly contributions to the cost of their future retiree health benefits. However, unless the district reduces the amount it contributes in accordance with the amount of increased employee contributions, this proposal would not result in short-term savings. If Sacramento Unified did reduce its contributions by the total amount of increased employee contributions, this change would result in immediate savings but would be unlikely to decrease its growing liability for retiree healthcare costs.

Both of Sacramento Unified's suggestions require negotiations with its teachers union. The 2017 labor agreement we previously discuss expired in June 2019. From November 2018 through October 2019, Sacramento Unified sent 16 letters to the teachers union requesting a first meeting to negotiate a successor contract; however, as of October 2019, the union had refused to meet. The county office superintendent also noted that the union has not agreed to collaborate or come to the bargaining table to discuss the district's proposals and indicated that the hostile relationship between the union and the district has impeded progress in making the district into a strong, high-functioning organization. However, the teachers union has raised a number of concerns it wants the district to address before beginning negotiations, including staffing concerns and payments related to the 2017 labor agreement. The union has asserted that Sacramento Unified should not expect to negotiate a new agreement when it has not fulfilled its obligations according to the last agreement. As we discuss earlier, the district has stated that it will make outstanding payments for the salary schedule adjustment in November 2019.

Ultimately, the district is responsible for finding a way to work with its teachers union to maintain ongoing fiscal solvency. However, if Sacramento Unified cannot obtain concessions, it may need to take unilateral action to avoid insolvency. State law allows a public school employer to unilaterally implement the last offer made to its union upon reaching an impasse if Employment Relations declares that the parties are at impasse following good-faith efforts

The teachers union has raised a number of concerns it wants the district to address before beginning negotiations, including staffing concerns and payments related to the 2017 labor agreement.

to negotiate. However, once an impasse is declared, a union also gains the right to strike if a district attempts to impose terms of employment. Because the length of negotiations can vary, it is not clear when Sacramento Unified would need to impose those terms to avoid insolvency.

Unless Sacramento Unified Acts Quickly, It Is Unlikely to Resolve Its Financial Crisis Before the Need for State Assistance

As a result of agreeing to raises that it could not afford and of repeatedly failing to adequately contain its costs, Sacramento Unified may need to request state assistance in the near future. The district projects that it will run deficits in the next several years and largely deplete its general fund in October 2021. In order to avert the projected deficits, it should have already made the cuts necessary to remain fiscally solvent. However, it has not done so, and it lacks a plan for doing so. If Sacramento Unified determines it has insufficient funds to meet its current obligations, state law allows it to request an emergency loan from the State. If the loan is large enough, an administrator will be appointed who will assume the role of the district's board and superintendent. Under these circumstances, Sacramento Unified's employees and students will both likely face numerous, negative repercussions.

If Sacramento Unified needs to take state assistance, it will mean fewer funds available for student education because of interest payments on the loan and the cost of hiring an administrator, among other expenses.

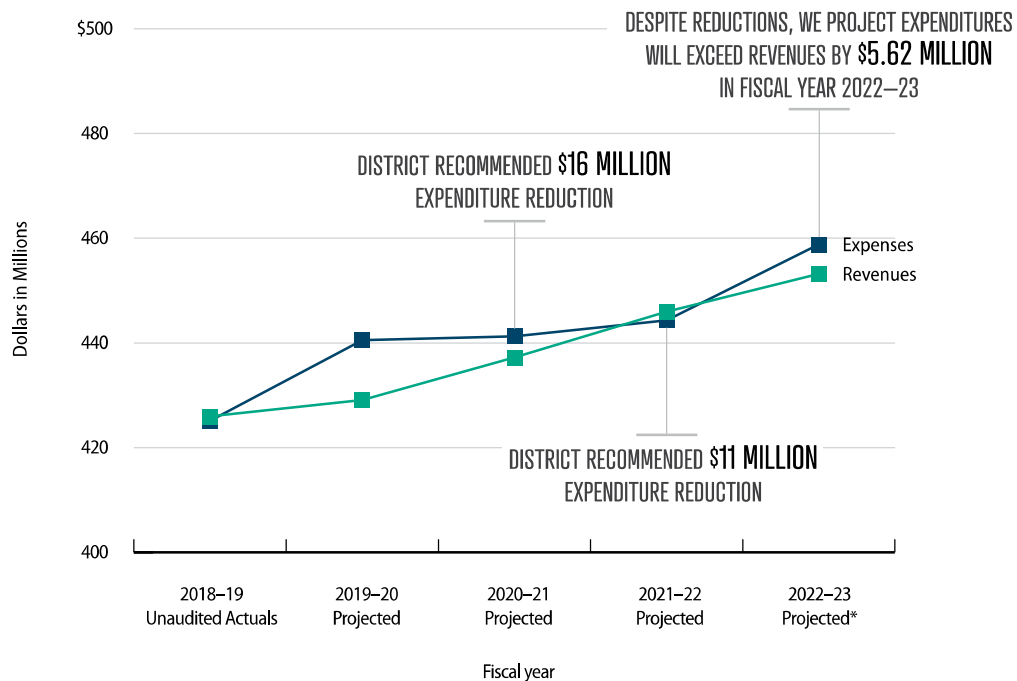
If Sacramento Unified needs to take state assistance, it will mean fewer funds available for student education because of interest payments on the loan and the cost of hiring an administrator, among other expenses. According to the fiscal adviser assigned by the county office superintendent, school districts usually borrow the amount they need to cover their ongoing structural deficits for three years. The loan amounts and the subsequent annual costs vary depending on the district's ongoing deficit spending, fund balance, and cash balances at the time it requests the loan. Further, interest rates at the time a loan is taken may affect annual costs. Based on a loan of \$80 million, which is about the sum of the district's projected general fund deficits over the next three years, and assuming that the district makes no changes in its spending, Sacramento Unified could pay about \$5 million annually toward principal and interest on the loan. Further, the total interest on the loan could amount to \$21 million over the 20-year life of the loan, funds lost to the district.

In addition, state law requires the district to take on additional costs if it accepts a loan, including paying for annual reviews by FCMAT and hiring an administrator. According to an intervention specialist at FCMAT, each FCMAT review would likely cost between \$250,000 and \$325,000 while the administrator would likely cost between \$225,000 and \$275,000 annually. However, the costs of hiring the

administrator might be mitigated because state law requires the district to release its superintendent if an administrator is appointed and caps the severance pay for the superintendent at six months.

Given the implications of accepting state assistance, we expected Sacramento Unified to have developed a detailed plan for resolving its financial concerns. In its most recent fiscal year 2019–20 budget, which it submitted in October 2019, Sacramento Unified states that it needs to make \$27 million in ongoing expenditure reductions—\$16 million in fiscal year 2020–21 and \$11 million in fiscal year 2021–22—to eliminate its deficit spending. However, as of October 2019, the only substantial cost-savings proposal it has put forward is reducing teachers’ health benefits through negotiations. As we discuss above, this change would save the district \$15.7 million. Sacramento Unified projects that the \$27 million in reductions it needs to make would result in it having \$20,000 more in ongoing revenue than ongoing expenditures in fiscal year 2021–22. However, as Figure 9 shows, these reductions alone would likely not be sufficient for it to avoid continued deficit spending in fiscal year 2022–23.

Figure 9
Sacramento Unified’s Recommended Expenditure Reductions May Not Be Sufficient to Prevent Insolvency in Future Years



Source: Sacramento Unified’s October 2019 budget proposal and auditor calculation.

Note: Expenditures and revenues tend to increase each year regardless of a district’s action. For example, costs rise because employees’ pay increases with additional experience. Revenues may increase because of cost-of-living adjustments included in state funding. Overall, Sacramento Unified’s expenditures are increasing at a faster rate than its revenue.

* We projected fiscal year 2022–23 by trending the revenues and expenditures Sacramento Unified presented for fiscal years 2018–19 through 2021–22.

Sacramento Unified has not yet adopted a detailed plan to resolve its fiscal crisis. In Figure 10, we present the potential savings of several options that Sacramento Unified could take to eliminate its structural financial problems. For example, Sacramento Unified currently provides higher salaries and health benefits than other nearby districts and it requires teachers to pay only \$20 per month to fund their retiree health benefits. Recently, the Service Employees International Union representing state employees reached a tentative agreement for those employees to contribute a total of 3.5 percent of their salaries to retiree health benefits by July 2020. If Sacramento Unified reduced all employee salaries by 2 percent, capped health benefits for all employees at 90 percent of the cost of the lowest-price plan, and required teachers to pay 3.5 percent of their salaries toward their retiree health benefits, the district could reduce its ongoing costs by \$28 million annually.

However, these changes still may not be sufficient to eliminate Sacramento Unified's deficit spending and avoid insolvency. Sacramento Unified and its board will need to make difficult choices to address the district's structural financial issues, and they will need to act quickly if they wish to avoid the difficulties inherent in accepting an emergency loan from the State and appointment of an administrator. Using the type of analysis we present here as a foundation, Sacramento Unified will also need to negotiate a plan with its teachers union for the benefit of the district, its employees, and—most importantly—its students.

Figure 10
Sacramento Unified Has Options for Avoiding Insolvency

The information below represents estimated potential savings based on available district documentation

POTENTIAL CHANGES TO SALARIES	POTENTIAL SAVINGS
→ Cut all salaries by 2%	\$6,854,000
Cut only teacher salaries by 2%	\$4,704,000
Cut only classified salaries by 2%	\$1,361,000
Cut only administrator salaries by 2%	\$789,000
POTENTIAL CHANGES TO RETIREE HEALTH BENEFITS	
→ Teachers pay 3.5 percent of salary toward retiree health benefits*†	\$7,064,000
All staff pay 3.5 percent of salary toward retiree health benefits†	\$9,997,000
POTENTIAL CHANGES TO HEALTH CARE BENEFITS	
<i>CHANGES AFFECTING TEACHERS HEALTH CARE BENEFITS</i>	
Cap district payment at lowest-cost plan for employee-only and family plans	\$7,867,000
Cap district payment at lowest-cost plan for employee-only plans and 75 percent for family plans	\$15,682,000
<i>CHANGES AFFECTING ALL EMPLOYEES HEALTH CARE BENEFITS</i>	
→ Cap district payment at 90 percent of the lowest-cost plan for employee-only and family plans	\$14,078,000
Cap district payment at 80 percent of the lowest-cost plan for employee-only and family plans	\$20,419,000

Source: Sacramento Unified’s financial records and health plan rate sheets.

* Teachers currently pay \$20 per month toward retiree health benefit costs, or about 0.3 percent of their average salary.

† These changes would not result in immediate savings unless Sacramento Unified reduced its contributions by the amount of the increased employee contribution.

Recommendations

Legislature

To help ensure that county office superintendents can prevent school districts under their oversight from becoming insolvent, the Legislature should consider amending state law to require school district boards to obtain approval from their county office superintendents before considering actions that would result in expenditures that exceed 200 percent of their required reserve amount. County office superintendents should disapprove any district action that they determine would cause school districts to do either of the following:

- Project insolvency within the current fiscal year or two subsequent fiscal years.
- Rely on reserves or other one-time resources, such as one-time funds from the State, to remain solvent within the current fiscal year or two subsequent fiscal years.

To help ensure that school district boards are accountable for the costs they approve, the Legislature should consider amending state law to require those boards to certify the district's ability to meet the costs disclosed in each collective bargaining agreement.

Sacramento County Superintendent of Schools

To ensure that Sacramento Unified takes the steps necessary to address its fiscal crisis, the county office superintendent should do the following:

- Direct Sacramento Unified to submit a corrective action plan by March 2020 that consolidates the district's plans to resolve its fiscal crisis.
- Ensure that Sacramento Unified addresses the issues identified in this report, including its executive management turnover and lack of policies guiding its budget process.
- Ensure that Sacramento Unified implements all of the recommendations detailed below.

Sacramento Unified

To address its current financial problems, Sacramento Unified should do the following:

- By March 2020, adopt a detailed plan to resolve its fiscal crisis. The plan should estimate savings under multiple scenarios and include an analysis that quantifies the impact of reductions the district can make to ongoing expenditures. Specifically, Sacramento Unified should consider the impact of possible salary adjustments for employees in different bargaining units and include the impact those salary adjustments would have on postemployment benefits, such as pensions. It should also use the most recently available data to estimate net savings from modifying the health care benefits it provides to employees, as well as the impact those modifications would have on the total compensation of the employees. Finally, it should calculate the impact of possible changes to district and employee contributions to fund future retiree health benefits. The district should use the plan it develops as the basis for its discussions of potential solutions with its teachers union.
- Revise its multiyear projections and update them at least quarterly until it has taken action that would cause it to no longer project insolvency. It should disclose these projections to the board.
- The district should adopt and disclose publicly a multiyear projection methodology. This methodology should disclose the assumptions and rationale used to estimate changes in salaries, benefits, contributions, and LCFF revenue—including changes in enrollment and the source and reliability of the data used to make these projections.
- Before it imposes an agreement on its teachers union or accepts state assistance, the district should publicly disclose the likely effects that such actions will have on the district's students, faculty, and the community, and its plans to address these effects.

To prevent a similar fiscal crisis in the future, Sacramento Unified should do the following by July 2020:

- Have the board adopt a budget methodology, including guidance on the use of one-time funds, the use and maintenance of district reserves, and the maintenance of a balanced budget. The methodology should use the Government Finance Officers Association's best practices as a guide and should address at least the following areas:

- Including administrators from different divisions of Sacramento Unified into the budget development process to help ensure the accuracy of projections.
 - Establishing criteria and measures for success in the budget process, such as whether budget decisions were made with adequate input and deliberation and whether the budget was balanced without using reserves or one-time revenues for ongoing expenditures.
 - Developing and adhering to a multiyear funding budget plan, with the goal of realigning resources where necessary to fund ongoing expenses with ongoing revenue.
 - Conducting an analysis of variances in budgeted and actual revenues and expenditures at each interim reporting period. Sacramento Unified should then use this information to inform its estimates for the upcoming fiscal year's budget.
- Develop a long-term funding plan to address its retiree health benefits liability. The plan should include appropriate action necessary to ensure the district will be able to meet its obligations to its employees and retirees.
 - Adopt a policy that guides staff on steps they should take to ensure that special education expenditures are cost-effective. The policy should include consideration of options for offering services, including those provided by district staff or by contracted providers.
 - Annually apply for available state funding for its extraordinary special education costs.
 - Develop and adopt a succession plan that ensures that it has staff who have the training and knowledge necessary to assume critical roles in the case of turnover.
 - Develop effective employee orientation programs, including mentorship, to allow incoming leaders to better adapt to the organization's structure and culture.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
California State Auditor

December 10, 2019

Blank page inserted for reproduction purposes only.

Appendix

Scope and Methodology

The Joint Legislative Audit Committee (Audit Committee) directed the California State Auditor to conduct an audit of Sacramento Unified. Specifically, it directed us to review Sacramento Unified’s fiscal health and budgeting practices. The table below lists the objectives that the Audit Committee approved and the methods we used to address those objectives.

Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
<p>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</p>	<ul style="list-style-type: none"> • Reviewed relevant laws, rules, regulations, guidelines, and policies related to the financial and operational administration of school districts. • Interviewed key staff at Sacramento Unified who oversee the administration of the district, including staff in the finance, human resources, and special education departments.
<p>2 Determine the scope of Sacramento Unified’s short-term and long-term financial problems.</p>	<ul style="list-style-type: none"> • Reviewed and analyzed Sacramento Unified’s financial information including budgets, interim financial reports, and audited financial statements. • Interviewed key staff at Sacramento Unified in the finance department.
<p>3 Review Sacramento Unified’s revenues, expenditures, and budget projections for the last five years to determine the following:</p> <ol style="list-style-type: none"> a. Which actions that Sacramento Unified took or failed to take that were the primary causes of its current financial crisis. b. Which of Sacramento Unified’s key decisions caused the financial crisis, who made those key decisions, and why those decisions were made. c. Whether Sacramento Unified took reasonable actions to reduce its budget shortfalls. d. What Sacramento Unified needs to do to resolve both the immediate financial crisis and the root causes of the crisis. 	<ul style="list-style-type: none"> • Reviewed documentation and interviewed key staff to identify primary causes and key decisions relating to areas of concern, including labor agreements, employee benefit costs, special education, and executive turnover. • Reviewed the actions the district has taken to address its budget shortfalls. • Reviewed documentation and interviewed key staff and leadership to identify the root causes of the financial crisis and identify methods to resolve those causes. • Reviewed documentation from nearby comparable districts regarding finances, labor agreements, salaries, and benefits, and we compared Sacramento Unified’s actions in these areas with those of the selected districts. • Evaluated proposals from Sacramento Unified and its teachers union regarding the district’s budget. • To identify options Sacramento Unified could take to help resolve its immediate financial crisis, we made projections of the savings that the district could expect if it implemented certain spending changes.
<p>4 Determine what financial or budgeting practices Sacramento Unified needs to improve to avoid this situation in the future.</p>	<ul style="list-style-type: none"> • Reviewed Sacramento Unified budgeting practices. • Reviewed best practices to identify areas where Sacramento Unified should improve its budgeting practices.
<p>5 Evaluate the recommendations made by the county office superintendent and Sacramento Unified’s response to those recommendations.</p>	<ul style="list-style-type: none"> • Although the county office superintendent did not make formal recommendations to Sacramento Unified about how to resolve its financial problems, we reviewed the guidance it provided to the district and whether and how the district implemented that guidance. • Reviewed guidance provided to Sacramento Unified by other third-party organizations, including FCMAT, and determined how the district applied that guidance.

continued on next page...

AUDIT OBJECTIVE	METHOD
6 Determine what Sacramento Unified is doing in the short term to minimize the budget reductions impact on its students.	Reviewed actions taken by Sacramento Unified to address its fiscal condition, including layoffs of staff.
7 Review and assess any other issues that are significant to the audit.	<ul style="list-style-type: none"> • Because of the importance of its multiyear projections in guiding Sacramento Unified's decision making, we reviewed its use and preparation of these projections. • Reviewed the impact accepting a loan from the State would have on students.

Source: Analysis of the Audit Committee's audit request number 2019-108, and information and documentation identified in the table column titled Method.

Assessment of Data Reliability

In performing this audit, we relied on electronic data files that the California Department of Education makes publicly available. These electronic data files relate to school district salaries and benefits for certificated staff. The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of computer-processed information we use to support our findings, conclusions, or recommendations. To perform this assessment, we relied on accuracy and completeness testing that the California Department of Education has completed. In addition, we conducted logic testing to ensure that the data in the electronic data files were appropriate and consistent with information that Sacramento Unified published in its budget and audited financial documents. Based on that assessment, we considered the information sufficiently reliable for our purposes.

We also relied on information from Sacramento Unified's accounting system. To assess the sufficiency and appropriateness of this information, we compared the information to the district's audited financial statements. Based on that assessment, we considered the information sufficiently reliable for our purposes.

Sacramento Office of Education County

MAILING: P.O. Box 269003, Sacramento, CA 95826-9003
PHYSICAL LOCATION: 10474 Mather Boulevard, Mather, CA
(916) 228-2500 • www.scoe.net

David W. Gordon
Superintendent

November 14, 2019

BOARD OF EDUCATION

O. Alfred Brown, Sr.
President

Joanne Ahola
Vice President

Heather Davis

Harold Fong, M.S.W.

Paul A. Keefer, MBA, Ed.D.

Bina Lefkowitz

Karina Talamantes

Elaine M. Howle, California State Auditor*
California State Auditor's Office
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

**SUBJECT: Sacramento County Superintendent of Schools Response
to Audit Report 2019-108, Sacramento City Unified School District**

Dear Ms. Howle:

I appreciate the opportunity to respond to the California State Auditor's report, entitled "Sacramento City Unified School District." This letter includes my response to the audit report recommendations.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/TS/ds



* California State Auditor's comments begin on page 49

Elaine M. Howle, California State Auditor
November 14, 2019
Page 2

County Superintendent's Response to Recommendations

Audit Recommendations

To ensure that Sacramento Unified takes the steps necessary to address its fiscal crisis, the county superintendent should do the following:

- *Direct Sacramento Unified to submit a corrective action plan by March 2020 that consolidates the district's plans to resolve its fiscal crisis.*
- *Ensure that Sacramento Unified addresses the issues identified in this report, including its executive management turnover and lack of policies guiding its budget process.*
- *Ensure that Sacramento Unified implements all of the recommendations detailed below.*

Response from the Sacramento County Superintendent of Schools

- ① The recommendation requires legal authority not granted to the County Superintendent. The school district governing board is independent from the County Superintendent of Schools, and the County Superintendent's authority to intervene in district financial matters is extremely narrow. When districts have disapproved budgets or negative interim report certifications, the County Superintendent does have increased authority, but this authority is still specifically limited by statute. The County Superintendent has no legal authority or mandate to "guarantee" or "ensure" that the district implements the report recommendations.
- ②
- ①
- ③ **Response to Bullet #1:** In December 2017, the Sacramento County Superintendent of Schools warned the Sacramento City Unified School District (SCUSD) Board against approval of the July 1, 2016 to June 30, 2019 Collective Bargaining Agreement between SCUSD and the Sacramento City Teachers Association (SCTA), unless the district provided a detailed budget reduction plan for solving the district's on-going structural deficit. Since then, the County Superintendent has requested a corrective action plan from the district nine additional times. Most recently, on October 10, 2019, the County Superintendent again requested a viable board-approved budget, and a multi-year expenditure plan that would reverse the deficit spending trend. The district's response is due on December 16, 2019.

Elaine M. Howle, California State Auditor
November 14, 2019
Page 3

Response to Bullet #2: As noted above, the County Superintendent can request and recommend that the district address the issues identified in this report, including its executive management turnover and lack of policies guiding its budget process, and will monitor the district's progress in these areas. Under current law, the County Superintendent cannot require, mandate, or ensure that the district implement these recommendations. ①

Response to Bullet #3: As noted above, the County Superintendent can request and recommend that the district implement all the recommendations detailed below. Under current law, the County Superintendent cannot require, mandate, or ensure that the district implement the report recommendations. ①

In addition, the district has already determined the fiscal impact of potential budget reductions that do not require approval from its employee associations. However, long-term budget solutions on many items cannot be implemented until the district negotiates and reaches agreements with its employee associations. With the expiration of the teachers' contract, the district has initiated proposals for a new agreement. The County Superintendent does not have authority to require or ensure that the parties collaborate or engage in labor negotiations to achieve potential budget savings. ④

Blank page inserted for reproduction purposes only.

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE COUNTY OFFICE SUPERINTENDENT

To provide clarity and perspective, we are commenting on the county office superintendent's response to our audit. The numbers below correspond to the numbers we have placed in the margin of the county office superintendent's response.

The county office superintendent understates its legal authority. If the county office superintendent determines that a school district should receive a negative certification—meaning that the district's budget shows that it is unlikely to meet its financial obligations in the current or subsequent financial year—state law requires the county office superintendent to take certain actions, one of which is assisting the district in the development of a financial plan to meet the district's future obligations. As we note in Figure 4 on page 12, the county office superintendent has disapproved Sacramento Unified's budget several times due to the district projecting that it would not meet its financial obligations in the near future and has placed a fiscal adviser in the district to assist the district with its financial planning.

①

The county office superintendent has substantial authority to intervene in district financial matters. For example, in Figure 4 on page 12 we note that the county office superintendent has stay-and-rescind authority and has a fiscal adviser in place to oversee district finances. The fiscal adviser works with the district to address its financial condition and if the district attempts to take an action that would be detrimental to its financial condition, the county office superintendent can use its stay-and-rescind authority to block the action. Because of its authority through the fiscal adviser, the county office superintendent would by necessity be involved in the district's development of a financial plan.

②

Our recommendation to the county office superintendent is for it to ensure that Sacramento Unified develops a detailed plan to address its fiscal challenges. If the district does submit a corrective action plan, the county office superintendent should ensure that the plan includes the items we include in our recommendations, such as assessing the impact of changes to salary and benefits. Assisting the district in developing a plan ties directly to the county office superintendent's responsibilities. As we note on page 5, the county office superintendent is charged with reviewing and approving the district's budget. The district will need to have a plan if it is to develop a budget that the county office superintendent can approve.

③

- ④ While the county office superintendent cannot compel parties to negotiate, most of the recommendations we ask the county office superintendent to ensure that Sacramento Unified implement do not require negotiations. For example, developing a plan to address the district's financial condition, revising its multiyear projections, and publicly disclosing its methodology does not require negotiations.



OFFICE OF THE SUPERINTENDENT

5735 47th Avenue • Sacramento, CA 95824

(916) 643-9010 • FAX (916) 399-2058

Jorge A. Aguilar, Superintendent

November 14, 2019

BOARD OF EDUCATION

Jessie Ryan
President
Trustee Area 7

Darrel Woo
Vice President
Trustee Area 6

Michael Minnick
2nd Vice President
Trustee Area 4

Lisa Murawski
Trustee Area 1

Leticia Garcia
Trustee Area 2

Christina Pritchett
Trustee Area 3

Mai Vang
Trustee Area 5

Olivia Ang-Olson
Student Board Member

Elaine M. Howle*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Audit 2019-108

Dear Ms. Howle,

The Sacramento City Unified School District (“District” or “SCUSD”) wishes to express its appreciation for the work and professionalism of the audit team in conducting its audit of the District.

District leadership accepts many of the Auditor’s findings, including the finding that “*The School Board Approved Salary Increases for Its Teachers That It Could not Afford Without Making Offsetting Cost Reductions.*” The District made the decision to not cut services to its students and families to pay for the salary increases that averted a teachers strike. Addressing the budgetary impact of averting the strike requires bold and long-term solutions that will require us all to act in good faith and agree to make shared sacrifices for the benefit of students. The Auditor has confirmed that the solution is for leaders of both the District and the Sacramento City Teachers Association (“SCTA”) to negotiate a new agreement that will reduce health care and other labor costs and prevent a state takeover. The District remains committed to such a solution. We are ready to start negotiations and have submitted a proposal to SCTA leaders.

The District has also already begun to address many of the recommendations contained in the Audit Report (“Audit”). The State Auditor’s Office analysis is critical to furthering the District’s efforts to address its structural budget deficit, to help avoid a state takeover, and it provides credible independent confirmation of the seriousness of the District’s budget situation. The Audit also validates the fundamental budget data provided by both the District and the Sacramento County Office of Education which have been challenged by some stakeholders.

The following (*citations to Audit section headings in italics*) is the District’s Summary of the most important findings from the Audit which help provide the context and to frame the District’s Responses. In summary, the Audit:

- Confirms the District’s structural deficit projections and the amount of \$27 million in required cost reductions. (See *Unless Sacramento Unified Acts Quickly, It is Unlikely to Resolve Its Financial Crisis Before the Need for a State Takeover*; Figure 7.)

①
②
③
④
⑤
⑥
⑦

* California State Auditor’s comments begin on page 63

- Confirms that expenditures have exceeded revenues since 2016-2017 and are projected to continue to do so resulting in a negative cash balance of \$7.5 million by 2021-2022, and considering the reserve amount required by state law, “Sacramento Unified faces a \$19.1 million shortfall at that time.” (See *Audit Results*, Figure 2; Figure 5.)
- ⑧
- Confirms that the 2017 Tentative Agreement with SCTA added \$31 million to the District’s ongoing expenditures (*The School Board Approved Salary Increases for Its Teachers That It could Not Afford Without Making Offsetting Cost Reductions*.)
 - States that “Sacramento Unified’s options for reducing ongoing expenses that do not involve labor negotiations are limited and unlikely to prove successful in addressing its precarious financial situation.” (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District’s Financial Crisis*.)
 - States that SCUSD cannot achieve cost savings large enough to balance its budget without addressing employee salaries, benefits, and contracts which mainly consist of Special Education service agreements. (*Audit Results*.)
- ⑨
- Confirms that SCUSD’s “enrollment declined by 978 students since 2013-14 through 2018-2019” and that declining enrollment has “contributed to its precarious financial situation.” (*Audit Results*.)
 - Highlights out that the District spends 80% of its total budget - restricted *and* unrestricted general fund - on employee salary and benefits. (*Id.* Figure 3.) This finding is consistent with the previously shared Fiscal Crisis and Management Assistance Team (FCMAT) finding that approximately 91% of the District’s *unrestricted* general fund has been expended on employee salary and health and welfare benefits. (See 2018 FCMAT Report at pg. 17, https://www.scusd.edu/sites/main/files/file_attachments/sacramento_city_usd_fhra_final_12-12-2018_002.pdf)
 - Recognizes that SCUSD provides its teachers with the highest salary and total compensation of the comparable districts in the region. Relatedly, the auditors observed that SCUSD’s spending for health and welfare benefits in 2017-2018 to its teachers exceeded that of Elk Grove Unified by \$13 million despite the fact that Elk Grove employs 950 more teachers. (*Sacramento Unified’s Spending on Employee Benefits Has Increased Significantly in the Past Five Years*; Tables 2 and 3.) Further, the auditors found that SCUSD pays the fourth costliest health plan in the State of California. (See *Top Five Costliest California School District Health Plans in 2018*.)
 - Confirms the unfunded liability for retiree health benefits - or “Other Post Employment Benefits (“OPEB”) - and that District employees’ contributions although recently

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 3 of 11

established for all District employees - are currently insufficient to address this substantial unfunded liability. (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years.*)

- Highlights that the District has not addressed the critical matters of addressing its uncapped healthcare or insufficient OPEB contributions despite numerous warnings from outside entities in any of the six (6) Collective Bargaining Agreements (“CBA”) with the teachers union since 2003. (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years.*)
- Recognizes that budget solution ideas offered by leaders of the SCTA would not significantly address the District’s budget deficit, and in many cases would add additional millions in expenditures. (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis.*)
- Suggests a variety of negotiable options to reduce the District’s structural deficit - namely health plan premium contribution limits, salary cuts, and increased employee contributions to fund retiree healthcare. (*Unless Sacramento Unified Acts Quickly, It is Unlikely to Resolve Its Financial Crisis Before the Need for a State Takeover, Figure 8.*)

⑥ ⑦

The Audit’s conclusions ultimately align with those of the District - namely that the primary solution to the District’s budget problems exists through negotiations with its labor partners, despite the fact that as the Audit also recognizes, the relationship between the District and its teachers union has not been productive and collaborative for many years.

Responses to Recommendations

In order to provide additional context and clarification of some of these complex matters, the District provides the following response to specific findings and recommendations of the Audit.

The District Agrees With the Audit’s First Recommendation that “By March 2020, [SCUSD] adopt a detailed plan to resolve its fiscal crisis ...”

⑩

The Audit correctly recognizes that any viable plan for the District to achieve fiscal stability and ultimately avoid a takeover will primarily require negotiated items involving employee compensation. The auditors recognize that SCUSD provides its teachers with the highest salary and total compensation of the comparable districts discussed in the Audit, and even observed that SCUSD’s spending for health and welfare benefits in 2017-2018 to its teachers exceeded that of Elk Grove Unified by \$13 million despite the fact that Elk Grove employs 950 more teachers. With regard to healthcare benefits, the Audit states that SCUSD pays the fourth highest healthcare premium rate of all school districts in the state, only slightly exceeded by three Bay Area districts. (See *Sacramento Unified's Spending on Employee Benefits Has*

Increased Significantly in the Past Five Years; Table 3; Top Five Costliest California School District Health Plans in 2018.)

In order for the District to bring its healthcare spending in line with comparable districts (as well as other state and local governments), we must overcome significant obstacles in the teachers union Collective Bargaining Agreement (CBA). The Audit observed that SCUSD “offers two health plan options to its teachers and pays the full cost of either plan for employees and their families. In comparison, other nearby districts generally limit the amount that they pay to the cost of the least expensive plan, pay the full cost only for the employee, or cover only 80 percent of the least expensive health plan’s costs for employees and their families.” (*Id.*)

Since the 1970’s the SCTA CBA has contained language requiring that a specific healthcare provider – HealthNet (or its predecessor) - be one of the plans offered to the District’s certificated members. The CBA also provides that the District must cover 100% of the employee and family plans of all plans offered by the District. This results in the District currently paying well over \$30,000 for any members that select the family HealthNet plan. (See Health Insurance Overview Presentation FTAC Committee, October 10, 2019, survey of school districts health care contributions available at: <https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability-committee>). Decades ago, when healthcare plans were less expensive, these CBA provisions did not present a significant issue; however, with the rising costs of healthcare, this CBA language severely cripples the District. The Audit correctly observes that SCUSD has been warned repeatedly of its unaffordable health plans since 2003 by Fact Finding Panels and FCMAT, but, “Nonetheless, it did not include a limit on its contributions to health benefits for employees and their families in any of the six agreements it negotiated with its teachers union during these years.” (*Sacramento Unified’s Spending on Employee Benefits Has Increased Significantly in the Past Five Years.*)

The Audit recognizes that solving this problem requires collaboration with the District’s teachers union, noting that “From November 2018 through October 2019, Sacramento Unified sent 16 letters to the teachers union requesting a first meeting to negotiate a successor contract, however, as of October 2019, the teachers union had refused to meet.” (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District’s Financial Crisis.*) In fact, under a prior administration in 2014-15, the District sought to unilaterally remove HealthNet and move all bargaining units to the same lower cost plans, but had to halt this change due to a legal challenge by SCTA. As such, the District recognizes that any change to alter the current healthcare structure must go through the negotiations process and, thus, has repeatedly requested for the last twelve months that SCTA come to the bargaining table to discuss these matters, as the Audit notes, sending sixteen (16) letters to the union urging that the parties begin negotiations. Our students deserve a reasonable solution that both honors our employees and allows for sufficient funding to support student learning that does not depend on deficit spending.

It was with the above in mind that the District submitted its proposal to SCTA on August 2, 2019 that identified significant savings through placing a reasonable limit on the District’s healthcare plan premium contribution. (<https://www.scusd.edu/negotiations-updates>). The Audit accurately describes the District’s proposal to SCTA to limit the District’s healthcare premium

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 5 of 11

contribution to 100% for the individual employee and to 75% of the “plus one” and family plans of the low cost plan offered by the District (currently Kaiser HMO). The Audit estimates that this would provide an annual savings of approximately \$15.7 million to the District from such an agreement with SCTA alone. (Figure 8, outlining cost savings measures.) The Audit also outlines various negotiated savings possibilities, including but not limited to capping District health plan contributions for teacher’s plans to the Kaiser rate (\$7.86 million), capping the District’s contribution to all employee health plans at 80% of the Kaiser rate (\$20.4 million), 2% pay cuts to all employees (\$6.85 million), and increased employee OPEB contributions (\$9.99 million). (Figure 8.) As noted by the Audit, this proposed healthcare contribution is consistent with comparable school districts in the region, including Elk Grove Unified and San Juan Unified.

⑦

The Audit does not consider, however, that in addition to the proposal made to SCTA, the District has also been discussing similar healthcare savings options with its classified employee unions which if agreed to, would further increase healthcare savings. While classified employees do not currently have the same expensive healthcare plan provided to SCTA, additional savings are likely achievable by establishing District premium contributions that are equitable to all District classified and certificated employees. The District estimates that annual savings totaling additional millions are achievable by taking reasonable steps to bring its healthcare costs in line with those of other comparable school districts, as well as state and local governments.

⑪

Importantly, the Audit also recognizes that budget solutions ideas offered by the Sacramento City Teachers Association would not significantly address the District’s budget deficit, and in many cases would add additional millions in expenditures. (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District’s Financial Crisis.*) The Audit found that SCTA’s arguments to rescind layoffs of teachers and certain classified staff would “result in dramatic increases in ongoing spending - in this case, an estimated increase of approximately \$14 million in ongoing expenditures beginning in fiscal year 2019-20.” In addition, the Audit addressed SCTA’s proposal to add certificated staff:

“Further, the teachers union proposed adopting the non-binding class size reduction goals for grades 4 to 12 included in the 2017 contract. As shown in Table 5, if the district were to hire additional certificated staff, including rehiring laid off teachers, to achieve the staffing goals the union proposed, it would add at least another \$26.9 million in ongoing spending starting in fiscal year 2019-20. In total, implementing the union’s staffing proposals would increase ongoing district expenditures by at least \$36.7 million - the cost of the additional staff to meet the class size reduction goals plus rehired classified staff not covered by the class size goals.”

⑦

Other suggestions offered by SCTA have included reducing the District’s contribution to the OPEB liability which provides an estimated \$7 million in savings between 2019-20 and 2021-22. The Audit recognizes that while “decreasing the amount of district contributions toward retiree health benefits in the short term would likely increase the amount the District would need to contribute over the long term, making this a poor option for resolving its ongoing budget problems.” (*Id.*) The Audit also evaluated SCTA’s idea to reduce pay for administrators making

over \$120,000 by 20% and reduce contract expenditures by 10%. Reducing administrators pay, as the auditors recognized, would require negotiations with their bargaining group, the United Professional Educators (“UPE”) which represents principals, vice principals, and other administrators to realize a projected annual savings of \$3 million. And, if exclusively directed at the Superintendent’s salary and those of unrepresented administrators, annual savings would result in about \$1 million. (*Id.*) Of course, such a decision would likely also significantly affect the retention of the District’s already under-staffed administration. As noted by the recently issued report by PIVOT and PACE entitled, *The Implications of Sacramento City Unified’s Ongoing Budgetary Challenges for Local and State Policy*, “[i]n 2017-18, SCUSD spent 4.6 percent of its budget on these functions [central office administration], which is just below the county average of 5.3 percent (see Figure 3).” (“PIVOT Report” at pg. 11, <https://edpolicyinca.org/publications/implications-sacramento-city-unifieds-ongoing-budgetary-challenges-local-and-state-policy>.)

Lastly, the Audit recognizes that reducing outside contracts would also result in an uncertain and insubstantial amount of savings because the majority of such contracts are for special education services which the District is required to provide and for utilities such as water and electricity.

Options for reducing the District’s expenses that do not require negotiations are “unlikely to prove successful in addressing its precarious financial situation.” (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District’s Financial Crisis*.) Specifically, the Audit notes that “closing schools and removing bus routes are unlikely to generate the savings needed to resolve the district’s financial problems and could create new problems for parents and students.” (*Id.*) It was precisely for this reason that the criticism that the District did not immediately make sufficient budget reductions following the 2017 Tentative Agreement lacks full context and does not tell the complete story because, as the Audit itself recognized, any expenditure reductions that would be sufficient to resolve the District’s structural deficit require negotiations. The District did not implement a budget reduction plan at that time because some of the programs that would have been cut were instrumental in supporting students and staff. Further, the state provided additional one-time funds in the Governor’s January budget which it used to cover the costs of the Tentative Agreement and shield students from the burden of cuts. For example, efforts such as our teacher induction program had been grant-funded and the District was committed to supporting our new teachers. Hence, rather than eliminate the program the District reduced the funding given our financial challenges.

⑫

As the Sacramento County Office of Education (“SCOE”) wrote in their letter of June 25, 2019 in response to a question from SCTA concerning the matter of the District making significant reductions following approval of the 2017 Tentative Agreement:

⑬

“The district requested a December 15, 2017 extension in an attempt to provide us with a \$15.6 million budget reduction plan. On January 8, 2018, the district provided a list of budget reductions, which was scheduled to go [to] the board for approval on January 18, 2018. The Governor’s Budget was released in early January 2018 providing more than \$20 million in additional funding to the district. Consequently, the district decided

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 7 of 11

not to take action on the budget reduction list. Our letter to the district dated January 16, 2018 summarized this budget activity (Attachment A).

To specifically answer the questions posed by SCTA, the district's budget shortfall was temporarily resolved with the Governor's budget, therefore, SCOE had no requirement for further documentation in response to SCOE's December 7, 2017 request. The district did not fail to comply, as the change in circumstances did not require the district to take any action in response to SCOE's December 7, 2017 request."

As such, the assertion that the District's Board of Trustees ("Board") failed in their fiduciary duty to ensure that the District was able to meet its financial obligations does not accurately portray the circumstances or context in which these decisions were made and how those decisions would impact students. The Board's primary duty above all else is to serve the District's students. When the Board ultimately recognized that the budget could not be balanced by cutting services to students and that significant budget reductions would have to be negotiated and such negotiations would not commence, the Board committed to making cuts in areas that did not require negotiations and would have minimal impact on students. As the Audit recognizes, the District issued lay off notices and reduced certificated, classified, and management staff in order to "right-size" staffing consistent with the SCTA CBA requirement. Ultimately, however, the Board recognizes that those cuts are also impacted by limits within the CBA and are insufficient to close the deficit.

⑫

⑭

⑮

The Audit's analysis of the District's healthcare costs and how they compare to neighboring districts is further supported by the recently issued PIVOT Report (See <https://edpolicyinca.org/publications/implications-sacramento-city-unifieds-ongoing-budgetary-challenges-local-and-state-policy>), which found that SCUSD is indeed out of step with comparable districts with regard to its uncapped healthcare contributions. Furthermore, the Audit's findings in this regard are complementary to those issues recently raised by the State Auditor in its report entitled, "*The State's Approach Has Not Ensured That Significant Funding Is Benefiting Students as Intended to Close Achievement Gaps.*" (<https://www.auditor.ca.gov/reports/2019-101/summary.html>) That audit report observed that state LCFE funding intended for direction to specific student populations has instead been used to support school districts' base funds. As such, the District respectfully requests that the Legislature consider appropriate action to address this issue. Creative solutions should be considered to rectify hurdles to the success of our students' education that are created by excessive costs of employee compensation packages embedded in collective bargaining agreements that can no longer be disregarded.

Lastly, the Audit states that the District's budget presentation showed it would seek \$16 million in cost reduction in 2020-21, and an additional \$11 million in 2021-22, however, this was one illustrative scenario presented to the Board. The District understands that the earlier it can realize on-going costs savings will result in compounded savings that would speed up the stabilization of its budget and avoid a state takeover. Therefore, it is the District's intent to seek the greatest amount of savings at the earliest possible time to reduce the future need to make additional and greater cost reductions in future years.

The District Agrees With the Audit's Recommendation that the District: "Develop a long-term funding plan to address its retiree health benefits liability. The plan should include appropriate action necessary to ensure the district will be able to meet its obligations to its employees and retirees."

With this recommendation, as well as that contained within the earlier recommendation regarding development of its detailed fiscal plan, the Audit recommends that SCUSD consider increased employee contributions toward funding future retiree health benefits (OPEB). The District agrees with this recommendation, which also requires negotiation with its bargaining partners. In fact, the District agreed to increased OPEB employee contributions in recent rounds of negotiated contracts with employee groups representing classified employees, school administrators and unrepresented employees. The table below shows the current employee contribution amount, as well as the fiscal year that changes to the contribution amount were effectuated:

⑩

Employee Group	Contribution Amount Established	Amount Employee Contribution
SCTA	2010-11	\$200/year
United Professional Educators (i.e. School Administrators)	2017-18	\$500/year
Classified Union Employees (SEIU, Teamsters, TCS)	2018-19	1/3 of 1% of base salary
Unrepresented Employees	2018-19	0.40% to 0.48% of salary, with higher salary ranges contributing higher percentages, increasing in FY 2020-21 from 0.46% to 0.56%

⑪

In part due to these increased employee contributions, as well as the District's own annual contributions of at minimum \$5,000 per eligible employee, the latest OPEB actuarial report provided to the District for 2018-19 lowers the projected unfunded liability for current and future District retirees to \$526 million. Although few school districts in the state have instituted a program of fully funding its OPEB liabilities (see Legislative Analyst Report of September 25, 2017; <https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability->

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 9 of 11

committee), the District understands that this unfunded liability remains unacceptably high and intends to continue to develop its plan to address this serious matter in order to safeguard the District and ensure that resources are available for future generations of students. The recent Pivot Report provided that “SCUSD spends 2,859 dollars per pupil on non-pension benefits, with most of this going toward health and welfare benefits and OPEB. [footnote] The district’s total per pupil expenditures in 2017-18 were 13,044 dollars, which means that the district spent 22 percent of its budget on non-pension benefits, with healthcare accounting for most of this. [footnote] By comparison, other Sacramento County districts spend between 9 and 17 percent of their budgets on non-pension benefits (see Figures 5 and 6).” (PIVOT Report at pg. 13-14.)

With this in mind, in its August 2, 2019 proposal to SCTA, the District proposed increasing SCTA employees’ contributions toward funding future retiree health benefits.

(<https://www.scusd.edu/negotiations-updates>).

The District Agrees With the Recommendations Related to Budget Policies and Procedures and Has Already Initiated its Work on These Matters

The Audit recommends that the District adopt a number of improved budget policies and procedures aimed at improved multi-year projections and transparency.

The Audit recommends that the District: ***“Revise its multi-year projections and update them at least quarterly until it has taken action that would cause it to no longer project insolvency. It should disclose these projections to the board.”*** This recommendation is consistent with the requirements that the District present three interim budgets and a final adopted budget to its board and the Sacramento County Office of Education as a result of its negative budget status.

18

The Audit further recommends: ***“The district should adopt and disclose publicly a multiyear projection methodology. This methodology should disclose the assumptions and rationale used to estimate changes in salaries, benefits, contributions, and LCFF revenue – including changes in enrollment and the source and reliability of the data used to make these projections.”***

The District agrees with this recommendation and has already begun much of this work through its Fiscal Transparency and Accountability Committee (“FTAC”). The FTAC committee was established by the Board this past year in order to improve the District’s budget policies, procedures and overall budgetary transparency. The committee has worked with District staff and important community stakeholders on these shared goals. The FTAC’s work on these matters including its efforts on the items provided by the FCMAT Fiscal Health Risk Analysis can be viewed at: <https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability-committee>.

The Audit also recommends that by July 2020, the District ***“Have the board adopt a budget methodology including guidance on the use of one-time funds, the use and maintenance of district reserves, and the maintenance of a balanced budget ...”*** The District agrees with this recommendation and is already working on developing appropriate policies and procedures,

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 10 of 11

including through the work of the FTAC. The District notes that there will be no use of one-time funds for ongoing expenditures in 2019-2020.

The District Agrees With the Audit’s Overall Findings and Recommendation Regarding Improved Policies and Processes to Analyze and Address Special Education Costs

The Audit’s specific recommendation provides that the District: ***“Adopt a policy that guides staff on steps they should take to ensure that special education expenditures are cost-effective. The policy should include consideration of options for offering services, including those provided by district staff or by contracted providers.”***

19

The Audit contains extensive discussion of the District’s Special Education (“SPED”) program and costs, noting that SPED costs accounted for 21% of the District’s total spending for fiscal year 2017-18, and states that it has done little to control these costs, which increased 31% or \$26.1 million between 2013-14 and 2017-18. However, the Audit does not provide necessary context regarding the issue of rapidly rising SPED costs for most school districts across the state of California. The recent report issued by the Legislative Analyst’s Office (“LAO”) on November 6, 2019 explained that the percentage of students qualifying for services rose from 10.8% in the early 2000’s to 12.5% by 2017-2018. (<https://lao.ca.gov/Publications/Detail/4110>). In addition, the average cost to educate a student with a disability is almost triple the cost to educate a student without disabilities (\$26,000 vs. \$9,000). The LAO report also acknowledges that both state and federal funding has decreased during this period (after taking into account inflation-adjustments over time), primarily due to declining overall student enrollment. This has caused an increase in local unrestricted funding towards special education services to meet the growing needs of this student population. As such, it is critical to recognize that the issue of rising SPED costs is a statewide problem that requires further consideration by the Legislature.

Furthermore, the problem of rising SPED costs is further compounded due to the issues involved with the low reimbursement rate for SPED services pursuant to AB602. Although the District, as noted in the Audit, has a high rate of SPED identified students, SCUSD has been reimbursed at one of the lowest rates in the state at \$489.97 per student, while other school districts received approximately \$925 per student. The 2019-2020 state budget improved this situation somewhat by bringing all Special Education Local Plan Areas (“SELPA”) to at least the statewide target rate for AB 602 (SELPA’s are groupings of school districts and SCUSD constitutes its own SELPA). At the time, this was estimated to be \$557.27 for 2019-2020. SCUSD continues to advocate to the Legislature to further increase its AB 602 reimbursement rate which greatly affects the level of services that the District can provide to our students with disabilities.

The District’s Special Education Department continues to seek improvements to services for all students as well as ways to achieve efficiencies where possible – including the work initiated this year with the California Collaborative for Educational Excellence (CCEE). The Audit notes the expensive contracts with outside service providers to provide those services identified as required for its many students with disabilities, and recommends improved policies and procedures to consider their cost effectiveness. The District agrees that improved practices should be developed for review and analysis of the effectiveness of those services that are required for our students, including in the area noted by the Audit regarding expensive

Response to Elaine M. Howle, CA State Auditor, RE Audit 2019-108
November 14, 2019

Page 11 of 11

residential placements for a limited number of students. The process for determination of what additional services are required for the District to provide to its students with disabilities is governed by federal and state law that establish extensive procedures through the Individualized Education Program (“IEP”) for the determinations regarding what reasonable accommodations the District must provide. Cost considerations are imbedded within the sometimes complex analysis of whether a particularly requested accommodation is “reasonable” – but cost alone cannot be determinative. This is generally the case with regard to the need to provide a costly residential placement for a student with disabilities. Moreover, due to the limited capacity of such residential facilities, placements are sometimes required to be located out-of-state at a higher cost. There are very few high level Residential Treatment Center group homes that provide intensive psychiatric services to youth located in California and they are frequently at capacity when a slot is needed. This leads Districts to seek out other Residential Treatment Centers options out of state. All decisions regarding students with disabilities are made through the student’s IEP and services are provided to meet their unique needs. Each SELPA must provide a full continuum of services to be in compliance with state and federal law. For example, as our population has shifted over time and the number of students with Autism has increased, the costs to provide services have also increased. This is due to the multiple related services that a student with Autism might have as a part of their IEP in proportion to a student receiving speech and language services to address an articulation error.

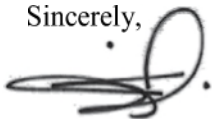
Lastly, these matters would be incomplete without an acknowledgment that litigation plays a significant factor in driving an increase in the District’s SPED costs. The District has been a frequent target of complaints alleging that it has failed to adequately provide reasonable accommodations, including in some instances when residential placements were initially denied by the District.

Conclusion

The District appreciates the State Audit team for its thorough and independent review which confirms SCUSD’s dire financial situation. The Audit provides an important foundation to move forward with critical employee-related cost savings. The District is committed to addressing all of the important issues raised in the Audit and appreciates this opportunity to provide greater context on these matters and update the current work that has been taking place. We look forward to the periodic reports regarding the District’s progress on these important matters.

②0

Sincerely,



Jorge A. Aguilar
Superintendent

Blank page inserted for reproduction purposes only.

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM SACRAMENTO UNIFIED

To provide clarity and perspective, we are commenting on Sacramento Unified's response to our audit. The numbers below correspond to the numbers we have placed in the margin of Sacramento Unified's response.

Sacramento Unified implies it needed to cut services to pay for its 2017 labor agreement with its teachers union. However, it fails to note that it was warned before approving the contract that it could not afford this agreement and its board approved the agreement anyways. It relied on one-time funds to pay for the salary increases instead of proposing a plan to cover these ongoing costs. Further, the district could have negotiated additional cost savings since the 2017 agreement that did not reduce services, but it has not. Consequently, the district now faces insolvency and the potential for reduced funding for its teachers and students if it accepts a loan from the State due to the need to pay interest on the loan and other related costs that we discuss on pages 34 and 35.

①

Sacramento Unified overstates our conclusions. The report indicates that the district needs to address the three largest drivers of its costs, which are salaries, benefits, and special education costs, and we recommend on page 39 that the district develop a detailed plan that would address its costs.

②

We did not validate the district's budget data. We based our report on sufficient evidence, including audited financial statements. We also used information prepared by the district, such as budgets, and information from the district's accounting system and compared it to audited financial statements and trends from prior years to assess the reasonableness of the information. However, as we note on page 27, we identified significant variances between the district's budget and actual expenditures and on page 39 we recommend that the district develop a budget methodology using best practices.

③

In its attempt to summarize the findings of our audit, Sacramento Unified selectively presents our key findings. The summary fails to note where our report details the district's decisions that led to its current situation. For example, the district board approved the 2017 labor agreement despite being warned it could not afford it.

④

- ⑤ Our audit did not confirm that Sacramento Unified needs to make \$27 million in cost reductions. As we state on page 35, the *district recommended to its board* \$27 million as the amount of cost reductions needed to eliminate deficit spending by fiscal year 2021–22. As we note in Figure 9 on page 35, the district spends more than it receives in revenue and its costs are growing faster than its revenues. Consequently, as Figure 9 shows, these reductions alone would likely not be sufficient for it to avoid continued deficit spending in fiscal year 2022–23.
- ⑥ While preparing our draft audit report for publication, some of the text quoted by Sacramento Unified was changed to remove the term *state takeover*. Recent changes to state law have made the term inaccurate.
- ⑦ While preparing our draft audit report for publication, some of the figure and table numbers quoted by Sacramento Unified changed. Figure 7 is now Figure 9. Figure 8 is now Figure 10, and Table 5 is now Table 3.
- ⑧ Our audit did not confirm that the 2017 labor agreement cost \$31 million. Rather, as we note on page 14, Sacramento Unified calculated in June 2017 that a 1 percent increase in salary and statutory benefits would cost about \$2.1 million. Based on this calculation, we estimate that the 2017 contract's salary increases and adjustment to the salary schedule, which resulted in a 15 percent increase in salary and statutory benefits for teachers, would add about \$31 million per year in ongoing spending.
- ⑨ We developed the decline in enrollment independent of Sacramento Unified based on the district's audited financial statements for fiscal years 2013–14 through 2017–18 and its unaudited financial report for fiscal year 2018–19.
- ⑩ Although Sacramento Unified states that it agrees with our recommendation, its response does not indicate how or when it will implement the recommendation. We look forward to seeing the district's progress at its 60-day update.
- ⑪ As we told Sacramento Unified several times during the audit, our report would not divulge ongoing, nonpublic negotiations between the district and its labor unions. Further, Figure 10 on page 37 does indicate the potential savings the district could incur if it revised its health care options for all employees.

Sacramento Unified’s statement is disingenuous. As we note in the report on page 16, the county office superintendent warned the district before it approved its agreement with its teachers union that the district could not afford the agreement. Yet, its board approved the agreement anyway. In addition, the district’s statement that it could have only made reductions by cutting programs is not accurate. The district board could have proposed offsetting cost reductions, such as to health care costs, before it approved the 2017 labor agreement, but it did not do so. As the district notes in its response, and as we note in our report on page 18, the district instead chose to rely on one-time funds rather than trying to solve its fiscal problems. As such, we stand by our statement that the district board failed to uphold its fiduciary duties because it approved this contract without making necessary cost reductions.

⑫

Sacramento Unified’s quotation of a letter from the county office superintendent is misleading, as it does not fairly represent what the county office superintendent told the district at the time. As we note in our report on page 16, the county office superintendent warned the district before it approved its 2017 labor agreement that it needed to reduce its costs in other areas to afford the cost of the new agreement. Further, as we note on page 18, when the district ultimately decided to rely on one-time funds from the State, the county office superintendent warned the district that such an action was a poor business practice.

⑬

Sacramento Unified’s statement regarding when its board recognized it needed to make cost reductions is misleading. The sentence seems to imply that the board did not realize it would need to make cost reductions until after it had approved the 2017 labor agreement. As we note on page 16, the county office superintendent informed the board before it approved the agreement that it could not afford the agreement without making cost reductions. In addition, as we discuss on pages 17 and 18, the district’s former chief business officer also informed the board of the need to make budget adjustments before the board approved the agreement.

⑭

We did not report that the layoffs Sacramento Unified issued in 2019 were to “right-size” its staff. Rather, we note on page 9 that the district laid off staff in an effort to reduce its costs but that it subsequently rehired many of those it laid off.

⑮

Even though it has recently required some employees to begin contributing toward their retiree health benefits, the district has not developed a plan for how it will pay for these promises to its employees despite repeated requests from the county office superintendent, as we note on pages 21 and 22.

⑯

- ⑰ Sacramento Unified's summary of the OPEB actuarial report (OPEB report) it mentions is misleading. At the time of our exit conference with the district in October 2019, the district's fiscal year 2018–19 independent financial audit that includes information from the referenced OPEB report had not been finalized. Therefore, we did not include this information in our audit. Nevertheless, the district's statement that its liability declined due to district actions is inaccurate. The actuary that prepared the OPEB report reduced the district's projected liability because of favorable changes in assumptions, the majority of which were due to health care premiums not increasing as fast as expected—a factor that had nothing to do with actions of the district. Further, the OPEB report still notes that the district has a \$526 million liability and the district has no plan for how it will pay for it, as we note on page 21.
- ⑱ Although, as we note on page 28, Sacramento Unified submits its budget in June and interim reports in December, March, and May, there is still a six-month gap between submission of its budget in June and the first interim report in December where the district could update its multiyear projections to increase transparency.
- ⑲ We agree there are statewide issues concerning special education that may affect the district. Nonetheless, because the district's special education costs increased significantly over the last several years, we expected the district to have taken steps to control these costs—particularly in light of its deteriorating financial situation. However, as we note on page 23, Sacramento Unified has done little to control its special education costs.
- ⑳ Although Sacramento Unified states that it agrees with many of our recommendations, we are concerned that it fails to address several of our recommendations in its response. Specifically, the district fails to discuss our recommendations regarding any efforts to reduce its executive management turnover, including developing a succession plan and a mentoring program. We look forward to seeing the district's progress in these areas in its 60-day update.