

David W. Gordon
Superintendent

September 11, 2019

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

SUBJECT: 2019-2020 Adopted Budget Report

Dear Superintendent Aguilar:

Budget Disapproved

In accordance with the provisions in Education Code sections 42127(c)(1)(2) and 33127, we have examined the district's 2019-2020 Adopted Budget to determine whether it complies with the Criteria and Standards adopted by the State Board of Education. Based on our review of the district assumptions and multi-year projections, it appears that the district will meet its 2019-2020 and 2020-2021 minimum reserve requirement, but will fall short by approximately \$27 million in 2021-2022. The 2021-2022 shortfall leaves the district with a negative fund balance. Therefore, the district's Adopted Budget is **disapproved**.

Multi-Year Projections

The multi-year projections submitted with the 2019-2020 Adopted Budget project that the unrestricted General Fund balance will decrease by approximately \$12.3 million in 2019-2020, \$27 million in 2020-2021, and \$29.5 million in 2021-2022, leaving the district with a negative fund balance of \$14.8 million at June 30, 2022. The cash flow projections submitted with the 2019-2020 Adopted Budget project that without further budget reductions, the district will have a negative cash balance of approximately \$7.3 million in November 2020.

District is Making Progress

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.



Throughout the past year, my office has encouraged the district and its bargaining units to be diligent in identifying negotiated budget reductions. Although there have been delays in this process, we see that the district has submitted an initial Negotiations Proposal to the Sacramento City Teachers' Association. We again encourage the district and its bargaining units to immediately accelerate the negotiations process so that all possible savings to the budget can be realized.

The district has progressed in its commitment to improve accuracy and transparency in the area of enrollment projections, and continues to meet with an enrollment contractor to provide input from pertinent departments and refine assumptions the enrollment contractor will use in its enrollment projections. Next steps include sharing with the enrollment contractor the real data from school openings along with CBEDS data. The district expects to receive the enrollment projections from the enrollment contractor in early December 2019. We look forward to reviewing this information when completed, and appreciate this well-reasoned approach to the enrollment projection process.

We are pleased with the district's success in recruiting the key management team positions of Chief Business Officer and the Chief Academic Officer. Filling these positions with highly-qualified staff is crucial to the district's continued progress toward solving its budget crisis.

Because the district is holding weekly Cabinet discussions on district spending, and is more consistently using properly documented procedures, we note great improvement in the district's hiring and purchasing processes. We encourage the district to continue to work toward refining these new systems to ensure thoughtful prioritization of spending and hiring. To assist the district's effort for better internal controls in the business/budget office, and to help the district operate as efficiently and effectively as possible, we are making the following suggestions:

- Hire and properly train business and payroll staff to stay current on all required reporting.
- Document the one-stop-staffing process and streamline practices to ensure that hiring is accurate and properly budgeted.
- Evaluate staffing ratios, class sizes, and caseloads in regular and specialty programs to determine if there are limitations, contractual or otherwise, that result in costs to the district or that limit the ability to fully implement these opportunities for students.
- Create and strictly adhere to a budget calendar with adequate timelines for Cabinet and Board review and approvals.
- Continue to improve documentation of budget assumptions for Board packets.

Collaboration Between the District and All Bargaining Units is Crucial to Turning the District Around

The district has forged a positive, collaborative relationship with all of its bargaining units except its teachers' association. With the expiration of the teachers' contract, the district has initiated proposals for a new agreement. The teachers' association has not yet agreed to collaborate or come to the bargaining table to discuss the district's proposals.

Over the years, the openly hostile relationship between the teachers' association and the district has impeded progress in making SCUSD into a strong, high-functioning organization. By contrast, neighboring districts have built strong organizations, enjoyed continuity of leadership, and their students have benefitted from the fruits of stability and labor-management collaboration.

Since 2009, SCUSD has gone through five superintendents. This churn of leadership and the resulting management instability has been and continues to be a major problem facing the district in building a strong organization and a stable budget that does not depend on deficit spending. For this downward spiral to end, all parties must come together collaboratively to rebuild and strengthen the organization.

Required Next Steps

- In response to this disapproved budget, and as provided in Education Code section 42127(d), the County Superintendent may assign a fiscal advisor to assist the district in developing a budget that can be approved. On or before October 8, 2019, the governing board of the district shall revise the adopted budget to include any response to the recommendations of the County Superintendent, adopt the revised budget, and file the revised budget with the County Superintendent. Before revising the budget, the governing board of the district shall hold a public hearing regarding the proposed revisions. If the County Superintendent is unable to approve the revised budget, the County Superintendent shall invoke his duties under Education Code sections 42127.1 through 42127.3.
- By October 8, 2019, the district shall submit a viable, board-approved budget plan that will reverse the deficit spending trend. The plan should include support of on-going expenditures from on-going revenue sources, along with a timeline showing when and how each line item adjustment will be implemented. This office will continue to provide a fiscal advisor to assist the district during this process. While the district must reverse its deficit spending in time to meet minimum reserve levels in 2020-2021, this office recommends that the district make cuts immediately, as any delay in resolving the structural deficit compromises the future options available to the district to maintain fiscal solvency.

- 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 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 take action 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.
- Notify us 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 about the adopted budget, please contact Tamara Sanchez, Associate Superintendent of Business Services, at (916) 228-2551.

Sincerely,



David W. Gordon
Sacramento County Superintendent of Schools

DWG/TS/dw

cc: Jessie Ryan, Board President, SCUSD
Jacquie Canfield, Fortson Consulting
Tamara Sanchez, Associate Superintendent, SCOE
Debra Wilkins, District Fiscal Services Director, SCOE
Terri Ryland, Fiscal Advisor, SCOE
Michael Fine, Chief Executive Officer, FCMAT
Lesley Taylor, Education Administrator, CDE
Betty T. Yee, California State Controller
Crowe Horwath, LLP, Auditor