



David W. Gordon  
Superintendent

September 15, 2021

**Board of Education**

Karina Talamantes  
President

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

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Vice President

Joanne Ahola

**SUBJECT: 2021-2022 Adopted Budget Report with Going Concern Determination**

O. Alfred Brown, Sr.

Heather Davis

Dear Superintendent Aguilar:

Harold Fong, MSW

Bina Lefkovitz

(916) 228-2500

[www.scoe.net](http://www.scoe.net)

Education Code section 42127(c) requires the County Superintendent to determine whether the budget adopted by the governing board of each school district in the county complies with the criteria and standards for fiscal stability adopted by the State Board of Education, allows the school district to meet its financial obligations during the fiscal year, and is consistent with a financial plan that will enable the school district to satisfy its multiyear financial commitments. The County Superintendent must disapprove a budget that does not provide adequate assurance that the school district will meet its current and future obligations. In addition, Education Code section 42127.6 requires the County Superintendent to provide a notice of going concern determination to the governing board of the school district if at any time during the fiscal year the County Superintendent determines that a school district may be unable to meet its financial obligations based on the criteria and standards for fiscal stability. **We have reviewed your 2021-2022 Adopted Budget (Budget) in accordance with these provisions and have determined that the Budget does not provide adequate assurance that the district is a going concern and will meet its future obligations.**

If the County Superintendent makes a lack of going concern determination and has already taken the actions identified in Education Code section 42127.6(a), the County Superintendent must take all the actions identified in Education Code section 42127.6(e) that are necessary to ensure the school district meets its financial obligations. These actions are the same as are required in case of a negative certification. We note that the County Superintendent has taken the actions identified in Education Code section 42127.6(a) previously and that the district's last interim report was certified negative.

Therefore, the County Superintendent must continue to take the actions identified in Education Code 42127.6(e), which include:

- **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 multiyear financial recovery plan that will enable the school district to meet its future obligations.**
- **Appointment of a fiscal adviser.**

In our response to the district's Third Interim Report, we indicated that the Budget must eliminate the district's structural deficit in order for it to be approved. However, it is now clear that we will need more time than the Budget approval process allows to assist the district to resolve its deficit. **For that reason, we are conditionally approving this Budget to allow the district time to develop a financial plan that will enable it to meet its future obligations with the conditions being that the district complete and implement a plan and take no action that would result in an increase in unrestricted general fund expenditures until the structural deficit is eliminated.**

Based on our review of the district's assumptions and multi-year projections, it appears that the district will meet its 2% unrestricted reserve requirement for the current year and two subsequent fiscal years. However, as we have stated in previous letters, 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. There are nine other criteria which must be considered in evaluating a district's budget, including but not limited to deficit spending, cost growth, and declining enrollment.

The district is projecting a significant ADA decrease from the 2019-2020 hold harmless level for 2021-2022, with continuing decreases for 2022-2023 and 2023-2024. As a result of these decreases, unrestricted General Fund revenue growth will be insufficient to cover projected increases in ongoing costs and the unrestricted General Fund balance will decrease by \$6,694,864 in 2021-2022, \$18,217,221 in 2022-2023, and \$24,929,252 in 2023-2024. This reflects a growing structural deficit which puts at risk the district's ability to meet future obligations.

The district's board recently adopted a Resolution recognizing "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." A structural deficit is when ongoing, unrestricted expenditures and contributions exceed ongoing unrestricted revenues. We have not been able to approve the district's budgets in recent years because they have all reflected ongoing unrestricted expenditures and contributions in excess of on-going unrestricted revenues.

The continued persistence of the district's underlying structural deficit in 2020-2021 is made clear when the one-time savings due to COVID-19 are taken into consideration. As a result, it is apparent that the fiscal improvement in 2020-2021 was temporary.

In addition to the above, we note that:

- Enrollment for 2021-2022 appears to be significantly lower than projected in the Budget which will further depress ADA and revenues. Furthermore, the state requirement that the district enroll all students in independent study who are quarantined in order to receive ADA funding for these students as well as the need to expand the district's independent study programming and comply with new state mandates for independent study may result in further revenue losses and/or audit penalties.
- The district's certificated and classified collective bargaining agreements have expired and the district is currently 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.
- 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 address learning loss during the pandemic. All staffing and programs the district creates or expands with this funding will need to be reduced as soon as the funds are fully expended, or this too will result in larger projected deficits.

In response to the lack of going concern determination, and as provided in Education Code section 42127.6(e), the district must develop a financial plan that will enable the school district to meet its future obligations and the County Superintendent appoints the current fiscal advisor to assist the district in developing this plan. We request that the district submit a viable board-approved plan to the County Superintendent and take any immediate actions needed to implement the plan no later than December 15, 2021. The plan should:

- Identify areas of overstaffing and align staffing with enrollment and revenues as soon as possible.
- Identify areas of significant cost growth and strategies to reduce the cost growth in these areas.

- Identify additional cost savings to eliminate the structural deficit over the multiyear period, including a timeline showing when and how each adjustment will be implemented.

While the statutory deadline for submitting a revised budget is October 8, we acknowledge that this does not allow the district adequate time to develop a viable plan and incorporate it into the Budget. As a result, the Budget is approved on condition that the district complete and implement the plan and take no action that would result in an increase in unrestricted general fund expenditures until the structural deficit is eliminated.

We will continue our current level of oversight and support of the district 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:

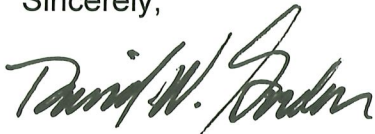
- Regular updates on actions the district and its labor partners, SCTA and SEIU in particular, are taking to improve cooperation and collaboration.
- Regular updates on the status of efforts to negotiate budget solutions with the district's bargaining units, as well as related administrative and legal actions.
- Regular updates on current and projected enrollment trends and inform us of budget and staffing adjustments necessary to accommodate enrollment fluctuations.
- 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(s) to the county office for review at least ten (10) working days prior to the date the governing board will act on the proposed bargaining agreements. This information must also be available to the public prior to the date the governing board will act 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.

Finally, we request that you provide this notification to each recognized employee organization and each recognized parent organization of the school district as required pursuant to Education Code section 42127.6(c).

We would like to thank your staff for their cooperation during our review process. If you have any questions or concerns, please feel free to contact 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  
Brooks Allen, Executive Director, SBE  
Betty T. Yee, California State Controller