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David W. Gordon  
Superintendent

January 14, 2021

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