August 22, 2018

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


Dear Superintendent Aguilar:

In accordance with the provisions in Education Code sections 42127(c)(1)(2) and 33127, we have examined the district’s 2018-2019 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 2018-2019 minimum reserve requirement, but will fall short in the two subsequent fiscal years by approximately $22.1 million in 2019-2020, and $40 million in 2020-2021. The 2019-2020 shortfall leaves the district with a negative fund balance. Therefore, the district’s Adopted Budget is disapproved.

In letters from this office dated December 7, 2017, January 16, 2018, and April 16, 2018, we discussed our concerns with the district’s on-going structural deficit problem, and the need for the district to submit a board-approved budget reduction plan to reverse the deficit spending trend. To date, no such plan has been received by this office.

Since our review of the district’s second interim budget, the district’s fiscal situation has worsened. While revenues have remained relatively stable, unrestricted expenditures in 2018-2019 and 2019-2020 have increased significantly even though the district has been asked to solve its structural deficit problem. Since the district’s submission of the second interim report, unrestricted expenditures increased from approximately $348 million to $371 million in 2018-2019; and from approximately $359 million to $375 million in 2019-2020.

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, 2018, 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, 2018, 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 assign 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 2019-2020 through 2020-2021, this office recommends that the district begin making cuts immediately, as any delay in resolving the structural deficit could compromise the options available to the district to maintain fiscal solvency.

We continue our request that the district provide the following:

- 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.

Attached for your reference are copies of the letters noted above. 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
    Tamara Sanchez, Assistant Superintendent, SCOE
    Debra Wilkins, District Fiscal Services Director, SCOE
    Crowe Horwath, LLP, Auditor