



David W. Gordon
Superintendent

April 12, 2021

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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.

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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