Sacramento County Office of Education
EDUCATION EMPOWERS

(916) 228-2500

www.scoe.net

April 17, 2023

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

SUBJECT: **2022-2023 Second Period Interim Report**

Dear Superintendent Aguilar:

After submission of the Second 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 filed a Second Interim Report with a **positive** certification. Based on the multi-year projections and assumptions provided by the district, it appears the district will meet its 2% minimum unrestricted reserve requirement for the current fiscal year and two subsequent fiscal years. We concur with the district's **positive** certification with the following comments:

- The multi-year projections submitted project that the unrestricted General Fund balance will increase by $39,198,861 in 2022-2023, increase by $24,564,783 in 2023-2024, and increase by $1,015,981 in 2024-2025.

- However, in the longer term, the district is facing reduced revenue due to declining enrollment and increased expenditures due to significant ongoing fiscal pressures for program services.

- The district has received significant additional one-time federal and state funding to address learning recovery during the pandemic and to provide additional supports for its students. This funding will begin to expire next year and, as a result, the district needs to identify ongoing funding to replace the one-time funding or plan to terminate the services and staff being funded.

- Also, the 2023-2024 Governor's Budget projects a state budget deficit in the coming year, and so, the state will not be able to continue to provide significant increases in ongoing and one-time funds as it has done over the last couple of years.

It is our understanding that the district has begun negotiations with the Sacramento City Teachers Association on changes to their collective bargaining agreement, including employee compensation, and will begin similar negotiations with the rest of its bargaining units. In our January 16, 2023 First Interim Report letter, we advised the district to refrain from taking actions that would result in ongoing deficit spending and maintain reserves above its current reserve policy of 5% to avoid the potential for future insolvency, budget cuts and layoffs, and the harmful impacts these have on students. **We continue to advise the district to use caution in increasing expenditures and to ensure that it can support any increases within ongoing revenues, including increases resulting from negotiated agreements.**

To ensure it can support the costs of a collective bargaining agreement, the district should conduct a pre-settlement analysis of each proposal under consideration and identify related costs or savings for the current and subsequent years and identify ongoing revenue sources or expenditure reductions to support the agreement. This is one of the standards relating to collective bargaining included in the Fiscal Health Risk Analysis developed by the Fiscal Crisis and Management Assistance Team (FCMAT) as a tool to help evaluate a local education agency's risk of insolvency.

Collective bargaining agreements resulting in significant deficit spending should not be adopted without detailed budget adjustments adopted by the district's governing board to address the deficits. It is advisable that these detailed adjustments be adopted concurrent with adoption of the collective bargaining agreement. Pursuant to Government Code Section 3547.5(b), a school district's superintendent and its chief business official must certify in writing that the costs incurred under a negotiated bargaining agreement can be met by the district during the term of the agreement. This certification cannot be made with certainty based on future unspecified, unadopted budget adjustments.

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. **We request that the public disclosure of the collective bargaining agreement be provided to us for review at least ten (10) working days prior to the date the governing board will take action on the proposed bargaining agreements and include the multiyear impact of the agreement on the district's budget.** This information must also be available to the public prior to the date the governing board will take action on the proposed bargaining agreements.

In addition to requiring that the district provide the County Superintendent a fiscal analysis of the collective bargaining agreement and its effect on the district's budget, State Criteria and Standards (California Code of Regulations section 15451(b)(C)) and Education Code section 42142 also require that the district provide the County Superintendent any revisions to the district's current budget necessary to fulfill the terms of the agreement within 45 days of adoption of the agreement. **Furthermore, if the agreement will result in significant ongoing deficit spending and/or put the district at risk of not meeting its minimum unrestricted reserve requirement for the current fiscal year and two subsequent fiscal years, the district must also submit a detailed budget adjustment plan approved by the district's governing board demonstrating how the district will meet the current and future costs of the agreement and maintain adequate reserves.**

Furthermore, Education Code section 42127(c)(2) requires the County Superintendent to disapprove a school district's budget that does not provide adequate assurance that the school district will meet its current and future obligations. We have denied the district's budgets as recently as 2020-2021 due to failure to meet its minimum reserve requirement for the budget year and two subsequent fiscal years, reliance on one-time revenue and/or one-time savings to support ongoing expenses and rapidly growing operating deficits. **As a result, the district should evaluate the fiscal impact of any collective bargaining agreement through at least 2025-2026 to ensure its 2023-2024 budget can be approved.**

We are also continuing to request:

- Immediate notification to us and the fiscal advisor, and provide for our review, any significant changes to revenues, expenditures, or the budget.

- Regular updates on any negotiations occurring between the district and its labor partners.

- Regular updates on current and projected enrollment trends and inform us of budget and staffing adjustments necessary to accommodate enrollment fluctuations.

- 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.

We would like to thank your staff for their cooperation during our review process. If you have any questions or concerns regarding this review, please feel free to call Nicolas Schweizer, Associate Superintendent of Business Services, at (916) 228-2561.

Sincerely,

David W. Gordon
Sacramento County Superintendent of Schools

DWG/NS/sl

cc: Chinua Rhodes, Board President, SCUSD
Rose Ramos, Chief Business & Operations 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