



David W. Gordon
Superintendent

April 18, 2022

Board of Education

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

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Vice President

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O. Alfred Brown, Sr.

Heather Davis

Harold Fong, MSW

Bina Lefkovitz

(916) 228-2500

www.scoe.net

SUBJECT: **2021-2022 Second Period Interim Report AND SCTA and SEIU Tentative Agreements**

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 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. The Sacramento City Unified School District filed a Second Interim Report with a qualified certification. Based on the multi-year projections and assumptions provided by the district at the time, it appeared the district would meet its 2% unrestricted reserve requirement for the current year and two subsequent years.

However, after the submittal of its Second Interim Report, the district entered into tentative agreements with the Sacramento City Teachers Association (SCTA) and the Service Employees International Union (SEIU) to address issues related to the impact of COVID-19 and issues surfaced in a Fact-Finding report issued by PERB on March 17, 2022. Also, because of the strike by SCTA and SEIU, the district was compelled to close all its schools for eight days which will result in significant fiscal penalties. The agreements and the penalties will result in a \$16.1 million structural deficit and reduce the district's unrestricted general fund balance to \$27.8 million in 2023-2024. On this basis, we are changing the district's certification to negative.

Second Period Interim Report

In our letter dated September 15, 2021, we determined that the district's 2021-2022 Adopted Budget did not provide adequate assurance that the district is a going concern and would be able to meet its future obligations. As a result, we made a "lack of going concern" determination and conditionally approved the budget to allow the district time to resolve its structural deficit and develop a

financial plan that would enable it to meet its future obligations. At its December 18, 2021 meeting, the district's governing board adopted a fiscal recovery plan that included ongoing and one-time budget solutions and identified additional solutions for future consideration.

The district's fiscal condition had improved since then as a result of one-time COVID-19 related savings in the current and prior years and it filed a First Interim Report with a qualified certification, which we concurred with in our letter dated January 14, 2022. In its Second Interim Report, the district projected budget surpluses in 2021-2022 and 2022-2023, but deficits beginning in 2023-2024. These projections reflected the positive fiscal impact to the district of the proposals in the 2022-2023 Governor's Budget that provide fiscal relief to districts experiencing significant declining enrollment and additional state funds for special education costs. However, the SCTA and SEIU agreements significantly alter the projections as described further below. The district has also updated its enrollment projections to reflect a significant decline from 38,198 students in 2021-2022 to 36,513 students in 2023-2024.

SCTA and SEIU Tentative Agreements

County Superintendents of Schools are responsible for the fiscal oversight of all school districts in their counties and for reviewing the labor agreements of school districts in fiscal distress, as is Sacramento City Unified School District. Specifically, Government Code section 3540.2, requires a school district that has a qualified or negative certification to allow the county office of education in which the district is located at least 10 working days to review and comment on any proposed agreement between the exclusive representatives and the public-school employer.

We have reviewed the SCTA and SEIU agreements the district has submitted to us, and we are concerned that the agreements significantly increase the district's risk of future fiscal insolvency. The agreements extend the 2016-2019 certificated and classified collective bargaining agreements through June 30, 2023, and provide:

- A 4% ongoing general salary increase.
- One-time, off schedule stipends for 2019-2020, 2020-2021, and 2021-2022.
- A 25% increase in substitute rates for 2021-2022.
- Various other stipends, pay rate adjustments, additional paid sick leave and additional professional development days.

The ongoing cost of these agreements is approximately \$15 million, and the one-time cost is approximately \$44 million. Multi-year projections submitted by the district to reflect the impact of the agreements indicate that the unrestricted General Fund balance will decrease

by \$59.1 million in 2021-2022, \$678,000 in 2022-2023 and \$16.1 million in 2023-2024. However, we note that the agreements allow for reopeners on salary for 2022-2023.

Any additional salary and benefit increases or other costs included in future agreements will result in even larger projected deficits.

In addition to the provisions above, the agreements require SCTA and the district to meet and discuss options to increase health benefit plan choices for employees. If additional options are agreed to by August 31, 2022, savings resulting from the plan changes will be allocated not as cost savings but as program enhancements, including to add positions to support the district's Multi-Tiered Systems of Support framework. We encourage the SCTA and the district to come to an agreement to reduce the district's health benefit costs. However, given the district's growing structural deficit, this proposal may need to be renegotiated to allow the savings to be redirected to support current ongoing costs.

Instructional Time Penalties

From March 23 through April 3, 2022, SCTA and SEIU went out on strike. The district was unable to keep its schools open during the strike and, as a result, it will fall short of the state mandated minimum number of instructional days and minutes which must be offered to students in 2021-2022. While the district expects \$8.4 million in savings because of the strike, it will also be subject to state penalties of \$47 million for failing to offer the minimum number of instructional days and minutes. The \$38.6 million net negative fiscal impact is reflected in the district's multi-year projections discussed above. We encourage the district to work with its labor partners to restore as many days and minutes as possible this year, not only to reduce the penalties it incurs, but also to make up for the learning losses experienced by students during the strike.

County Superintendent Oversight

Due to the previous "lack of going concern" determination and the current negative certification, state law requires the County Superintendent to continue the 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. It includes:

- 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 budget for the subsequent year.
- Appointment of a fiscal adviser.

We also 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 negotiations 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 enrolment 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 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 information must also be available to the public prior to the date the governing board will take action 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.

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

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
Abel Guillen, Deputy Superintendent, CDE
Betty T. Yee, California State Controller