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Jorge A. Aguilar, Superintendent

November 14, 2019

Elaine M. Howle
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Audit 2019-108

Dear Ms. Howle,

The Sacramento City Unified School District ("District" or "SCUSD") wishes to express its appreciation for the work and professionalism of the audit team in conducting its audit of the District.

District leadership accepts many of the Auditor's findings, including the finding that "*The School Board Approved Salary Increases for Its Teachers That It Could not Afford Without Making Offsetting Cost Reductions*." The District made the decision to not cut services to its students and families to pay for the salary increases that averted a teachers strike. Addressing the budgetary impact of averting the strike requires bold and long-term solutions that will require us all to act in good faith and agree to make shared sacrifices for the benefit of students. The Auditor has confirmed that the solution is for leaders of both the District and the Sacramento City Teachers Association ("SCTA") to negotiate a new agreement that will reduce health care and other labor costs and prevent a state takeover. The District remains committed to such a solution. We are ready to start negotiations and have submitted a proposal to SCTA leaders.

The District has also already begun to address many of the recommendations contained in the Audit Report ("Audit"). The State Auditor's Office analysis is critical to furthering the District's efforts to address its structural budget deficit, to help avoid a state takeover, and it provides credible independent confirmation of the seriousness of the District's budget situation. The Audit also validates the fundamental budget data provided by both the District and the Sacramento County Office of Education which have been challenged by some stakeholders.

The following (*citations to Audit section headings in italics*) is the District's Summary of the most important findings from the Audit which help provide the context and to frame the District's Responses. In summary, the Audit:

- Confirms the District's structural deficit projections and the amount of $27 million in required cost reductions. (See *Unless Sacramento Unified Acts Quickly, It is Unlikely to Resolve Its Financial Crisis Before the Need for a State Takeover*; Figure 7.)

- Confirms that expenditures have exceeded revenues since 2016-2017 and are projected to continue to do so resulting in a negative cash balance of $7.5 million by 2021-2022, and considering the reserve amount required by state law, "Sacramento Unified faces a $19.1 million shortfall at that time." (See *Audit Results*, Figure 2; Figure 5.)

- Confirms that the 2017 Tentative Agreement with SCTA added $31 million to the District's ongoing expenditures (*The School Board Approved Salary Increases for Its Teachers That It could Not Afford Without Making Offsetting Cost Reductions*.)

- States that "Sacramento Unified's options for reducing ongoing expenses that do not involve labor negotiations are limited and unlikely to prove successful in addressing its precarious financial situation." (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis*.)

- States that SCUSD cannot achieve cost savings large enough to balance its budget without addressing employee salaries, benefits, and contracts which mainly consist of Special Education service agreements. (*Audit Results.*)

- Confirms that SCUSD's "enrollment declined by 978 students since 2013-14 through 2018-2019" and that declining enrollment has "contributed to its precarious financial situation." (*Audit Results*.)

- Highlights out that the District spends 80% of its total budget - restricted *and* unrestricted general fund - on employee salary and benefits. (*Id*. Figure 3.) This finding is consistent with the previously shared Fiscal Crisis and Management Assistance Team (FCMAT) finding that approximately 91% of the District's *unrestricted* general fund has been expended on employee salary and health and welfare benefits. (See 2018 FCMAT Report at pg. 17, https://www.scusd.edu/sites/main/files/file-attachments/sacramento_city_usd_fhra_final_12-12-2018_002.pdf)

- Recognizes that SCUSD provides its teachers with the highest salary and total compensation of the comparable districts in the region. Relatedly, the auditors observed that SCUSD's spending for health and welfare benefits in 2017-2018 to its teachers exceeded that of Elk Grove Unified by $13 million despite the fact that Elk Grove employs 950 more teachers. (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years*;Tables 2 and 3.) Further, the auditors found that SCUSD pays the fourth costliest health plan in the State of California. (See *Top Five Costliest California School District Health Plans in 2018.*)

- Confirms the unfunded liability for retiree health benefits - or "Other Post Employment Benefits ("OPEB") - and that District employees' contributions although recently established for all District employees - are currently insufficient to address this substantial unfunded liability. (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years.)*

- Highlights that the District has not addressed the critical matters of addressing its uncapped healthcare or insufficient OPEB contributions despite numerous warnings from outside entities in any of the six (6) Collective Bargaining Agreements ("CBA") with the teachers union since 2003. (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years*.)

- Recognizes that budget solution ideas offered by leaders of the SCTA would not significantly address the District's budget deficit, and in many cases would add additional millions in expenditures. (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis*.)

- Suggests a variety of negotiable options to reduce the District's structural deficit - namely health plan premium contribution limits, salary cuts, and increased employee contributions to fund retiree healthcare. (*Unless Sacramento Unified Acts Quickly, It is Unlikely to Resolve Its Financial Crisis Before the Need for a State Takeover*, Figure 8.)

The Audit's conclusions ultimately align with those of the District - namely that the primary solution to the District's budget problems exists through negotiations with its labor partners, despite the fact that as the Audit also recognizes, the relationship between the District and its teachers union has not been productive and collaborative for many years.

Responses to Recommendations

In order to provide additional context and clarification of some of these complex matters, the District provides the following response to specific findings and recommendations of the Audit.

The District Agrees With the Audit's First Recommendation that *"By March 2020, [SCUSD] adopt a detailed plan to resolve its fiscal crisis …"*

The Audit correctly recognizes that any viable plan for the District to achieve fiscal stability and ultimately avoid a takeover will primarily require negotiated items involving employee compensation. The auditors recognize that SCUSD provides its teachers with the highest salary and total compensation of the comparable districts discussed in the Audit, and even observed that SCUSD's spending for health and welfare benefits in 2017-2018 to its teachers exceeded that of Elk Grove Unified by $13 million despite the fact that Elk Grove employs 950 more teachers. With regard to healthcare benefits, the Audit states that SCUSD pays the fourth highest healthcare premium rate of all school districts in the state, only slightly exceeded by three Bay Area districts. (See *Sacramento Unified's Spending on Employee Benefits Has*

Increased Significantly in the Past Five Years; Table 3; Top Five Costliest California School District Health Plans in 2018.)

In order for the District to bring its healthcare spending in line with comparable districts (as well as other state and local governments), we must overcome significant obstacles in the teachers union Collective Bargaining Agreement (CBA). The Audit observed that SCUSD "offers two health plan options to its teachers and pays the full cost of either plan for employees and their families. In comparison, other nearby districts generally limit the amount that they pay to the cost of the least expensive plan, pay the full cost only for the employee, or cover only 80 percent of the least expensive health plan's costs for employees and their families." (*Id*.)

Since the 1970's the SCTA CBA has contained language requiring that a specific healthcare provider – HealthNet (or its predecessor) - be one of the plans offered to the District's certificated members. The CBA also provides that the District must cover 100% of the employee and family plans of all plans offered by the District. This results in the District currently paying well over $30,000 for any members that select the family HealthNet plan. (See Health Insurance Overview Presentation FTAC Committee, October 10, 2019, survey of school districts health care contributions available at: https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability-committee). Decades ago, when healthcare plans were less expensive, these CBA provisions did not present a significant issue; however, with the rising costs of healthcare, this CBA language severely cripples the District. The Audit correctly observes that SCUSD has been warned repeatedly of its unaffordable health plans since 2003 by Fact Finding Panels and FCMAT, but, "Nonetheless, it did not include a limit on its contributions to health benefits for employees and their families in any of the six agreements it negotiated with its teachers union during these years." (*Sacramento Unified's Spending on Employee Benefits Has Increased Significantly in the Past Five Years*.)

The Audit recognizes that solving this problem requires collaboration with the District's teachers union, noting that "From November 2018 through October 2019, Sacramento Unified sent 16 letters to the teachers union requesting a first meeting to negotiate a successor contract, however, as of October 2019, the teachers union had refused to meet." (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis.)* In fact, under a prior administration in 2014-15, the District sought to unilaterally remove HealthNet and move all bargaining units to the same lower cost plans, but had to halt this change due to a legal challenge by SCTA. As such, the District recognizes that any change to alter the current healthcare structure must go through the negotiations process and, thus, has repeatedly requested for the last twelve months that SCTA come to the bargaining table to discuss these matters, as the Audit notes, sending sixteen (16) letters to the union urging that the parties begin negotiations. Our students deserve a reasonable solution that both honors our employees and allows for sufficient funding to support student learning that does not depend on deficit spending.

It was with the above in mind that the District submitted its proposal to SCTA on August 2, 2019 that identified significant savings through placing a reasonable limit on the District's healthcare plan premium contribution. (https://www.scusd.edu/negotiations-updates). The Audit accurately describes the District's proposal to SCTA to limit the District's healthcare premium contribution to 100% for the individual employee and to 75% of the "plus one" and family plans of the low cost plan offered by the District (currently Kaiser HMO). The Audit estimates that this would provide an annual savings of approximately $15.7 million to the District from such an agreement with SCTA alone. (Figure 8, outlining cost savings measures.) The Audit also outlines various negotiated savings possibilities, including but not limited to capping District health plan contributions for teacher's plans to the Kaiser rate ($7.86 million), capping the District's contribution to all employee health plans at 80% of the Kaiser rate ($20.4 million), 2% pay cuts to all employees ($6.85 million), and increased employee OPEB contributions ($9.99 million). (Figure 8.) As noted by the Audit, this proposed healthcare contribution is consistent with comparable school districts in the region, including Elk Grove Unified and San Juan Unified.

The Audit does not consider, however, that in addition to the proposal made to SCTA, the District has also been discussing similar healthcare savings options with its classified employee unions which if agreed to, would further increase healthcare savings. While classified employees do not currently have the same expensive healthcare plan provided to SCTA, additional savings are likely achievable by establishing District premium contributions that are equitable to all District classified and certificated employees. The District estimates that annual savings totaling additional millions are achievable by taking reasonable steps to bring its healthcare costs in line with those of other comparable school districts, as well as state and local governments.

Importantly, the Audit also recognizes that budget solutions ideas offered by the Sacramento City Teachers Association would not significantly address the District's budget deficit, and in many cases would add additional millions in expenditures. (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis*.) The Audit found that SCTA's arguments to rescind layoffs of teachers and certain classified staff would "result in dramatic increases in ongoing spending - in this case, an estimated increase of approximately $14 million in ongoing expenditures beginning in fiscal year 2019-20." In addition, the Audit addressed SCTA's proposal to add certificated staff:

> *"Further, the teachers union proposed adopting the non-binding class size reduction goals for grades 4 to 12 included in the 2017 contract. As shown in Table 5, if the district were to hire additional certificated staff, including rehiring laid off teachers, to achieve the staffing goals the union proposed, it would add at least another $26.9 million in ongoing spending starting in fiscal year 2019-20. In total, implementing the union's staffing proposals would increase ongoing district expenditures by at least $36.7 million--the cost of the additional staff to meet the class size reduction goals plus rehired classified staff not covered by the class size goals."*

Other suggestions offered by SCTA have included reducing the District's contribution to the OPEB liability which provides an estimated $7 million in savings between 2019-20 and 2021-22. The Audit recognizes that while "decreasing the amount of district contributions toward retiree health benefits in the short term would likely increase the amount the District would need to contribute over the long term, making this a poor option for resolving its ongoing budget problems." (*Id.*) The Audit also evaluated SCTA's idea to reduce pay for administrators making over $120,000 by 20% and reduce contract expenditures by 10%. Reducing administrators pay, as the auditors recognized, would require negotiations with their bargaining group, the United Professional Educators ("UPE") which represents principals, vice principals, and other administrators to realize a projected annual savings of $3 million. And, if exclusively directed at the Superintendent's salary and those of unrepresented administrators, annual savings would result in about $1 million. (*Id*.) Of course, such a decision would likely also significantly affect the retention of the District's already under-staffed administration. As noted by the recently issued report by PIVOT and PACE entitled, *The Implications of Sacramento City Unified's Ongoing Budgetary Challenges for Local and State Policy*, "[i]n 2017-18, SCUSD spent 4.6 percent of its budget on these functions [central office administration], which is just below the county average of 5.3 percent (see Figure 3)." ("PIVOT Report" at pg. 11, https://edpolicyinca.org/publications/implications-sacramento-city-unifieds-ongoing-budgetary-challenges-local-and-state-policy.)

Lastly, the Audit recognizes that reducing outside contracts would also result in an uncertain and insubstantial amount of savings because the majority of such contracts are for special education services which the District is required to provide and for utilities such as water and electricity.

Options for reducing the District's expenses that do not require negotiations are "unlikely to prove successful in addressing its precarious financial situation." (*The Current Proposals from Sacramento Unified and Its Teachers Union Are Unlikely to Resolve the District's Financial Crisis*.) Specifically, the Audit notes that "closing schools and removing bus routes are unlikely to generate the savings needed to resolve the district's financial problems and could create new problems for parents and students." (*Id*.) It was precisely for this reason that the criticism that the District did not immediately make sufficient budget reductions following the 2017 Tentative Agreement lacks full context and does not tell the complete story because, as the Audit itself recognized, any expenditure reductions that would be sufficient to resolve the District's structural deficit require negotiations. The District did not implement a budget reduction plan at that time because some of the programs that would have been cut were instrumental in supporting students and staff. Further, the state provided additional one-time funds in the Governor's January budget which it used to cover the costs of the Tentative Agreement and shield students from the burden of cuts. For example, efforts such as our teacher induction program had been grant-funded and the District was committed to supporting our new teachers. Hence, rather than eliminate the program the District reduced the funding given our financial challenges.

As the Sacramento County Office of Education ("SCOE") wrote in their letter of June 25, 2019 in response to a question from SCTA concerning the matter of the District making significant reductions following approval of the 2017 Tentative Agreement:

> *"The district requested a December 15, 2017 extension in an attempt to provide us with a $15.6 million budget reduction plan. On January 8, 2018, the district provided a list of budget reductions, which was scheduled to go [to] the board for approval on January 18, 2018. The Governor's Budget was released in early January 2018 providing more than $20 million in additional funding to the district. Consequently, the district decided*

> *not to take action on the budget reduction list. Our letter to the district dated January 16, 2018 summarized this budget activity (Attachment A).*
>
> *To specifically answer the questions posed by SCTA, the district's budget shortfall was temporarily resolved with the Governor's budget, therefore, SCOE had no requirement for further documentation in response to SCOE's December 7, 2017 request. The district did not fail to comply, as the change in circumstances did not require the district to take any action in response to SCOE's December 7, 2017 request."*

As such, the assertion that the District's Board of Trustees ("Board") failed in their fiduciary duty to ensure that the District was able to meet its financial obligations does not accurately portray the circumstances or context in which these decisions were made and how those decisions would impact students. The Board's primary duty above all else is to serve the District's students. When the Board ultimately recognized that the budget could not be balanced by cutting services to students and that significant budget reductions would have to be negotiated and such negotiations would not commence, the Board committed to making cuts in areas that did not require negotiations and would have minimal impact on students. As the Audit recognizes, the District issued lay off notices and reduced certificated, classified, and management staff in order to "right-size" staffing consistent with the SCTA CBA requirement. Ultimately, however, the Board recognizes that those cuts are also impacted by limits within the CBA and are insufficient to close the deficit.

The Audit's analysis of the District's healthcare costs and how they compare to neighboring districts is further supported by the recently issued PIVOT Report (See https://edpolicyinca.org/publications/implications-sacramento-city-unifieds-ongoing-budgetary-challenges-local-and-state-policy), which found that SCUSD is indeed out of step with comparable districts with regard to its uncapped healthcare contributions. Furthermore, the Audit's findings in this regard are complementary to those issues recently raised by the State Auditor in its report entitled, *"The State's Approach Has Not Ensured That Significant Funding Is Benefiting Students as Intended to Close Achievement Gaps."* (https://www.auditor.ca.gov/reports/2019-101/summary.html) That audit report observed that state LCFF funding intended for direction to specific student populations has instead been used to support school districts' base funds. As such, the District respectfully requests that the Legislature consider appropriate action to address this issue. Creative solutions should be considered to rectify hurdles to the success of our students' education that are created by excessive costs of employee compensation packages embedded in collective bargaining agreements that can no longer be disregarded.

Lastly, the Audit states that the District's budget presentation showed it would seek $16 million in cost reduction in 2020-21, and an additional $11 million in 2021-22, however, this was one illustrative scenario presented to the Board. The District understands that the earlier it can realize on-going costs savings will result in compounded savings that would speed up the stabilization of its budget and avoid a state takeover. Therefore, it is the District's intent to seek the greatest amount of savings at the earliest possible time to reduce the future need to make additional and greater cost reductions in future years.

The District Agrees With the Audit's Recommendation that the District*: "Develop a long-term funding plan to address its retiree health benefits liability. The plan should include appropriate action necessary to ensure the district will be able to meet its obligations to its employees and retirees."*

With this recommendation, as well as that contained within the earlier recommendation regarding development of its detailed fiscal plan, the Audit recommends that SCUSD consider increased employee contributions toward funding future retiree health benefits (OPEB). The District agrees with this recommendation, which also requires negotiation with its bargaining partners. In fact, the District agreed to increased OPEB employee contributions in recent rounds of negotiated contracts with employee groups representing classified employees, school administrators and unrepresented employees. The table below shows the current employee contribution amount, as well as the fiscal year that changes to the contribution amount were effectuated:

Employee Group	Contribution Amount Established	Amount Employee Contribution
SCTA	2010-11	$200/year
United Professional Educators (i.e. School Administrators)	2017-18	$500/year
Classified Union Employees (SEIU, Teamsters, TCS)	2018-19	⅓ of 1% of base salary
Unrepresented Employees	2018-19	0.40% to 0.48% of salary, with higher salary ranges contributing higher percentages, increasing in FY 2020-21 from 0.46% to 0.56%

In part due to these increased employee contributions, as well as the District's own annual contributions of at minimum $5,000 per eligible employee, the latest OPEB actuarial report provided to the District for 2018-19 lowers the projected unfunded liability for current and future District retirees to $526 million. Although few school districts in the state have instituted a program of fully funding its OPEB liabilities (see Legislative Analyst Report of September 25, 2017;https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability-committee), the District understands that this unfunded liability remains unacceptably high and intends to continue to develop its plan to address this serious matter in order to safeguard the District and ensure that resources are available for future generations of students. The recent Pivot Report provided that "SCUSD spends 2,859 dollars per pupil on non-pension benefits, with most of this going toward health and welfare benefits and OPEB. [footnote] The district's total per pupil expenditures in 2017-18 were 13,044 dollars, which means that the district spent 22 percent of its budget on non-pension benefits, with healthcare accounting for most of this. [footnote] By comparison, other Sacramento County districts spend between 9 and 17 percent of their budgets on non-pension benefits (see Figures 5 and 6)." (PIVOT Report at pg. 13-14.)

With this in mind, in its August 2, 2019 proposal to SCTA, the District proposed increasing SCTA employees' contributions toward funding future retiree health benefits. (https://www.scusd.edu/negotiations-updates).

<u>The District Agrees With the Recommendations Related to Budget Policies and Procedures and Has Already Initiated its Work on These Matters</u>

The Audit recommends that the District adopt a number of improved budget policies and procedures aimed at improved multi-year projections and transparency.

The Audit recommends that the District: ***"Revise its multi-year projections and update them at least quarterly until it has taken action that would cause it to no longer project insolvency. It should disclose these projections to the board."*** This recommendation is consistent with the requirements that the District present three interim budgets and a final adopted budget to its board and the Sacramento County Office of Education as a result of its negative budget status.

The Audit further recommends: ***"The district should adopt and disclose publicly a multiyear projection methodology. This methodology should disclose the assumptions and rationale used to estimate changes in salaries, benefits, contributions, and LCFF revenue – including changes in enrollment and the source and reliability of the data used to make these projections."***

The District agrees with this recommendation and has already begun much of this work through its Fiscal Transparency and Accountability Committee ("FTAC"). The FTAC committee was established by the Board this past year in order to improve the District's budget policies, procedures and overall budgetary transparency. The committee has worked with District staff and important community stakeholders on these shared goals. The FTAC's work on these matters including its efforts on the items provided by the FCMAT Fiscal Health Risk Analysis can be viewed at: https://www.scusd.edu/board-education-committee/fiscal-transparency-and-accountability-committee.

The Audit also recommends that by July 2020, the District ***"Have the board adopt a budget methodology including guidance on the use of one-time funds, the use and maintenance of district reserves, and the maintenance of a balanced budget …"*** The District agrees with this recommendation and is already working on developing appropriate policies and procedures, including through the work of the FTAC. The District notes that there will be no use of one-time funds for ongoing expenditures in 2019-2020.

The District Agrees With the Audit's Overall Findings and Recommendation Regarding Improved Policies and Processes to Analyze and Address Special Education Costs

The Audit's specific recommendation provides that the District: ***"Adopt a policy that guides staff on steps they should take to ensure that special education expenditures are cost-effective. The policy should include consideration of options for offering services, including those provided by district staff or by contracted providers."***

The Audit contains extensive discussion of the District's Special Education ("SPED") program and costs, noting that SPED costs accounted for 21% of the District's total spending for fiscal year 2017-18, and states that it has done little to control these costs, which increased 31% or $26.1 million between 2013-14 and 2017-18. However, the Audit does not provide necessary context regarding the issue of rapidly rising SPED costs for most school districts across the state of California. The recent report issued by the Legislative Analyst's Office ("LAO") on November 6, 2019 explained that the percentage of students qualifying for services rose from 10.8% in the early 2000's to 12.5% by 2017-2018.(https://lao.ca.gov/Publications/Detail/4110). In addition, the average cost to educate a student with a disability is almost triple the cost to educate a student without disabilities ($26,000 vs. $9,000). The LAO report also acknowledges that both state and federal funding has decreased during this period (after taking into account inflation-adjustments over time), primarily due to declining overall student enrollment. This has caused an increase in local unrestricted funding towards special education services to meet the growing needs of this student population. As such, it is critical to recognize that the issue of rising SPED costs is a statewide problem that requires further consideration by the Legislature.

Furthermore, the problem of rising SPED costs is further compounded due to the issues involved with the low reimbursement rate for SPED services pursuant to AB602. Although the District, as noted in the Audit, has a high rate of SPED identified students, SCUSD has been reimbursed at one of the lowest rates in the state at $489.97 per student, while other school districts received approximately $925 per student. The 2019-2020 state budget improved this situation somewhat by bringing all Special Education Local Plan Areas ("SELPA") to at least the statewide target rate for AB 602 (SELPA's are groupings of school districts and SCUSD constitutes its own SELPA). At the time, this was estimated to be $557.27 for 2019-2020. SCUSD continues to advocate to the Legislature to further increase its AB 602 reimbursement rate which greatly affects the level of services that the District can provide to our students with disabilities.

The District's Special Education Department continues to seek improvements to services for all students as well as ways to achieve efficiencies where possible – including the work initiated this year with the California Collaborative for Educational Excellence (CCEE). The Audit notes the expensive contracts with outside service providers to provide those services identified as required for its many students with disabilities, and recommends improved policies and procedures to consider their cost effectiveness. The District agrees that improved practices should be developed for review and analysis of the effectiveness of those services that are required for our students, including in the area noted by the Audit regarding expensive residential placements for a limited number of students. The process for determination of what additional services are required for the District to provide to its students with disabilities is governed by federal and state law that establish extensive procedures through the Individualized Education Program ("IEP") for the determinations regarding what reasonable accommodations the District must provide. Cost considerations are imbedded within the sometimes complex analysis of whether a particularly requested accommodation is "reasonable" – but cost alone cannot be determinative. This is generally the case with regard to the need to provide a costly residential placement for a student with disabilities. Moreover, due to the limited capacity of such residential facilities, placements are sometimes required to be located out-of-state at a higher cost. There are very few high level Residential Treatment Center group homes that provide intensive psychiatric services to youth located in California and they are frequently at capacity when a slot is needed. This leads Districts to seek out other Residential Treatment Centers options out of state. All decisions regarding students with disabilities are made through the student's IEP and services are provided to meet their unique needs. Each SELPA must provide a full continuum of services to be in compliance with state and federal law. For example, as our population has shifted over time and the number of students with Autism has increased, the costs to provide services have also increased. This is due to the multiple related services that a student with Autism might have as a part of their IEP in proportion to a student receiving speech and language services to address an articulation error.

Lastly, these matters would be incomplete without an acknowledgment that litigation plays a significant factor in driving an increase in the District's SPED costs. The District has been a frequent target of complaints alleging that it has failed to adequately provide reasonable accommodations, including in some instances when residential placements were initially denied by the District.

<u>Conclusion</u>

The District appreciates the State Audit team for its thorough and independent review which confirms SCUSD's dire financial situation. The Audit provides an important foundation to move forward with critical employee-related cost savings. The District is committed to addressing all of the important issues raised in the Audit and appreciates this opportunity to provide greater context on these matters and update the current work that has been taking place. We look forward to the periodic reports regarding the District's progress on these important matters.

Sincerely,

Jorge A. Aguilar
Superintendent