



July 2, 2021

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Via E-Mail: dfisher@saccityta.com; jborsos@cta.org; nmilevsky@saccityta.com

David Fisher
John Borsos
Nikki Milevsky
Sacramento City Teachers Association
5300 Elvas Avenue
Sacramento, CA 95819

Re: Response to SCTA Letter of June 11, 2021 Concerning Budget and Structural Deficit

Dear Mr. Fisher, Mr. Borsos and Ms. Milevsky,

I am in receipt of your letter dated June 11, 2021 regarding the District's financial status. Your letter claims that there has been some "confusion" regarding the District's financial performance over the last ten years and that the District does not actually have a structural deficit. Your claims are incorrect and contrary to the definitions of fiscal distress and structural deficits as understood by the California Department of Education (CDE), county offices of education and the Fiscal Crisis Management Assistance Team (FCMAT).

As you may know, Education Code section 42127.6(a)(1)(A) allows the county superintendent of schools to "assign a fiscal expert" and/or "fiscal advisor" to advise a district "on its financial problems" if the district has a qualified or negative budget certification, a disapproved budget and/or a county office of education declares a "lack of going concern" in a district. The purpose of such advisement is to "ensure that the district meets its financial obligations." (*Id.*) The Sacramento County Office of Education ("SCOE") has assigned a fiscal advisor, Terri Ryland, to work closely with our District staff in that capacity. The District is under the fiscal oversight of SCOE per AB1200 and is required to have a fiscal advisor because our budget has been and continues to be disapproved and negatively certified.

Your letter disregards the reality of the District's budget situation, which has been and remains negatively certified. As you know, by letter dated April 12, 2021, SCOE again determined that the District's budget certification as of the 2020-2021 Second Period Interim Report was negative. SCOE noted that there are a number of factors that it is required to consider when reviewing District budget reports to ensure that they meet the standards for fiscal stability adopted by the State Board of Education. In its April 12 letter, SCOE specifically notes that:

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.

Looking at the most recent past fiscal years, SCTA claims that the District ended each year with an unrestricted fund balance showing a surplus and therefore the District does not have a structural deficit. It appears that SCTA's claims are premised on looking at these years in isolation, and without factoring the circumstances unique to each year. For example, for the 2018-19 fiscal year, the District did end the fiscal year with a surplus of \$857,000. That surplus was the result of unspent budget dollars due to turnover of staff, mid-year budget cuts, freeze on vacant positions and deliberate slow-down of travel and supplies expenditures. And, in looking at the multi-year budget projections at the time of the 2018-19 Revised Adopted Budget the second year showed a projected unrestricted general fund deficit of \$41.5 million and the third year a projected deficit of \$45.7 million. Looking at the 2019-20 fiscal year, the District ended the fiscal year with a surplus of \$23.5 million. Of that surplus amount, over \$20 million was specifically identified as being due to one-time, unexpected savings that resulted in shuttering our schools in Spring 2020 because of the COVID-19 pandemic. In addition, staff reduction made in the spring of 2019 resulted in lowering the on-going salary costs by millions of dollars, as was intended.

For the current, 2020-21 fiscal year, the District is estimating ending the fiscal year with a surplus of \$10.9 million, again due in large part to one-time funds provided by the State and federal governments to help mitigate the impacts of COVID-19 on our student's learning and social and emotional well-being and in part due to funding cuts made by the Board as part of its Fiscal Recovery Plan. District staff has identified approximately \$28.9 million in one-time budget savings due to distance learning and students not being on campus for most of the year. Without those savings, the District could have ended the year with an \$18 million deficit. Thus, but for these temporary one-time savings, the District's budget would continue to reflect fiscal distress.

A number of independent entities have noted the District's structural, ongoing budget deficit in the unrestricted General Fund and expect that deficit to grow in future years if corrective action is not taken. As noted by the SCOE, the Fiscal Crisis and Management Assistance Team ("FCMAT") and the California State Auditor, the District spends more than it receives in revenue and its costs are growing faster than its revenues. On February 4, 2021, the District's Governing Board adopted [Board Resolution 3180](#) recognizing the existence of and significant threat posed by the District's ongoing structural deficit and resolving that the District must act to reduce the ongoing unrestricted general fund expenditures in order to balance the multi-year budget and meet the state mandated 2% reserve **without a structural deficit**. Further, on March 4, 2021, the Governing Board revised District [Board Policy 3100—Reserves and Use of One-Time Funds](#)—to require that, beginning with the 2022-2023 budget or after the district's deficit is eliminated, the Board establish and maintain a general fund reserve for economic uncertainty established at no less than 5% of total general fund expenditures.

As noted by SCOE in its April 12 letter, the District continues to experience declining enrollment, which has been exacerbated by the COVID-19 pandemic, the District's cash balances will fall below the cost of one month of salaries and benefits in early 2022-23, and the District is still working to complete successor contract negotiations with its labor partners. SCTA claims that to have a structural deficit, "an entity must have an ongoing, recurrent deficit. SCUSD has not." SCTA's definition of a structural deficit is only one aspect of determining the

existence of a structural deficit and fiscal distress. As noted by FCMAT, “*a structural deficit is when ongoing, unrestricted expenditures and contributions exceed ongoing unrestricted revenues.*” (See FCMAT Report titled “Fiscal Health Risk Analysis” dated December 12, 2018 at p. 13.) When one looks at our District’s budgets over the recent past years, it is clear that our *ongoing* unrestricted expenditures and contributions *exceed* our *ongoing* unrestricted revenues. As noted above, this is very clearly demonstrated when the one-time savings from closing our schools due to COVID-19 are reflected. Thus, while it may be beneficial to SCTA’s narrative to look at one line on the District’s budget in isolation without consideration of the factors at play in a given fiscal year or how the budget picture changes when looking at the current year and subsequent two fiscal years, such approach would be fiscally imprudent. And, looking at years in isolation or without context of ongoing budget plans is not allowed when reviewing the fiscal solvency of school districts under AB1200.

The District, with the support of SCOE and consistent with Board Resolution 3180 and Board Policy 3100, has and will continue to implement budgeting practices that examine the current and subsequent two fiscal years, and limit the use of one-time funds for ongoing purposes. Other factors that must be considered when evaluating the fiscal stability of a district include:

- Fund and cash balances
- Reserves
- ADA and enrollment trends
- LCFF revenue
- Salaries and benefits
- Other revenues and expenditures
- Facilities maintenance
- Contingent liabilities
- Contingent revenues
- Contributions to underfunded programs
- Long-term commitments
- Unfunded liabilities
- Temporary interfund borrowings
- Status of labor agreements
- Status of other funds

To the extent that you have requested documents that contradict or refute SCTA’s claims regarding the existence of the District’s structural deficit, the District is not obligated under the Public Records Act to respond to a request that is vague. We do not agree with SCTA’s claims regarding the existence of the District’s structural deficit and believe they are premised on an inaccurate understanding of what constitutes a structural deficit. Nonetheless, in order to ensure that SCTA has all of the relevant documents related to the District’s budget and the reports from various outside agencies recognize the District’s budget challenges and the existence of a structural deficit, please see the following:

- [April 12, 2021 letter from SCOE](#)
- [January 14, 2021 letter from SCOE](#)

- [October 28, 2020 letter from SCOE](#)
- [September 15, 2020 letter from SCOE](#)
- [FCMAT Fiscal Health Risk Analysis dated December 12, 2018](#)
- [FCMAT Management Letter dated September 15, 2020](#)
- [Report of the California State Auditor dated December 10, 2019](#)
- [District website where budget documents are located and accessible](#)

We appreciate SCTA's continued interest in the District's budget and are hopeful that the information provided above will assist in moving our conversations around the District's budget and financial status forward.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Aguilar', with a stylized flourish at the end.

Jorge A. Aguilar
Superintendent