



David W. Gordon  
Superintendent

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July 8, 2022

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

**SUBJECT: 2021-2022 AB 139 Annual Report (Third Period Interim)**

Dear Superintendent Aguilar:

This letter to the Sacramento City Unified School District Governing Board is a summary of the analyses completed by the Sacramento County Office of Education regarding the fiscal status of the district for the 2021-2022 fiscal year. The summary reflects the main concerns noted in our assessment of the district's Adopted Budget, First, Second, and Third Period Interim Reports. This report fulfills the requirement, pursuant to Education Code section 1240[e], for the county superintendent to present an annual report to the governing board and the Superintendent of Public Instruction on the fiscal solvency of any district with a **qualified** or **negative** 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 of an ongoing structural deficit. A structural deficit is when ongoing, unrestricted expenditures and contributions exceed ongoing unrestricted revenues. As a result, we made a "lack of going concern" determination and conditionally approved the budget to allow the district time to develop a fiscal recovery plan that would enable it to meet its future obligations.

At its December 18, 2021 meeting, the district's board adopted a fiscal recovery plan which included ongoing solutions of \$7.9 million and onetime solutions of \$5.3 million and identified additional solutions for future consideration. However, the fiscal recovery plan did not fully resolve the ongoing structural deficit.

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 Period Interim Report with a **qualified** certification, which we concurred with in our letter dated January 14, 2022. In its Second Period 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, after the submittal of its Second Period Interim Financial Report, the district entered into collective bargaining 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 a strike by SCTA and SEIU, the district was compelled to close all its schools for eight days and incur significant state fiscal penalties. The agreements and the penalties resulted in the district's structural deficit growing to \$16.1 million by 2023-2024. On this basis, we changed the district's certification to **negative** in our letter dated April 18, 2022.

Pursuant to Education Code section 42231, any school district with a qualified or negative Second Period Interim Report must provide the County Superintendent, the State Controller's Office and the Superintendent of Public Instruction with a financial statement projecting the district's fund and cash balance through June 30, 2021, for the period ending April 30, 2021 (Third Period Interim Report).

We have reviewed the district's Third Period Interim Report, which reflects the cost of the SCTA and SEIU agreements and the fiscal penalties resulting from the strike. It appears the district will meet its 2% unrestricted reserve requirement for the current fiscal year and two subsequent fiscal years. However, the district continues to have a structural deficit and the multi-year projections submitted by the district project that the unrestricted General Fund balance will decrease by \$59.5 million in 2021-2022, by \$1.8 million in 2022-2023, and by \$14.7 million in 2023-2024. The district is also experiencing significant ongoing enrollment declines. Its enrollment projections reflect decreases of 958 students in 2021-2022, 1,502 students in 2022-2023, and 183 students in 2023-2024.

Our office has received the district's 2022-2023 Adopted Budget and it is currently under review. For the budget to be approved, it must include multi-year projections that meet the 2% unrestricted reserve requirements for all years and **address the district's structural deficit**.

The recently adopted 2022-2023 state budget includes significant additional ongoing and one-time funding for school districts which may mitigate the district's structural deficit over the next few years. However, in the longer term, the district is facing reduced revenue due to declining enrollment and significant ongoing fiscal pressures for employee benefits and program services. Furthermore, although the district has settled with SCTA and SEIU

to extend the 2016-2019 certificated and classified collective bargaining agreements through June 30, 2023, the agreements allow for reopeners on salary for 2022-2023.

From 2018-2019 through to the current fiscal year, the district adopted several fiscal recovery plans and implemented \$58.1 million in ongoing solutions and \$21.9 million in onetime solutions. With the fiscal pressures the district faces and the significant reductions the district has already made, it has limited ability to absorb additional cost increases. **As a result, we encourage the district to avoid taking actions that would further increase its ongoing costs and preserve its reserves in order to avoid the potential for future insolvency, budget cuts and layoffs, and the harmful impacts these have on students.**

We will continue our current level of oversight and support of the district, including the assignment of a fiscal advisor, until the district determines its potential expenditures going forward and is able to adopt a budget that meets its multiyear financial commitments.

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 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

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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.

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