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CALIFORNIA STATE AUDITOR'S ASSESSMENT ON THE NOVEMBER 2020 UPDATE FROM SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on Sacramento City Unified School District's (Sacramento Unified) November 2020 update letter.

On November 16, 2020, Sacramento Unified released a fiscal recovery plan containing a range of possible options to address its financial condition. Although Sacramento Unified's fiscal recovery plan is an important step toward resolving its financial challenges, it has several shortcomings. Specifically, its plan does not clearly address the district's looming cash challenges and relies on spending reductions that require agreements with collective bargaining groups that have yet to materialize.

Sacramento Unified's fiscal recovery plan indicates that the district will need to make $51 million in ongoing expenditure reductions based on its projected budget deficit for fiscal year 2022–23. Its plan entails options that include negotiable spending reductions—cuts that require negotiation with its labor unions—and non-negotiable items—those that do not require negotiation. Among the negotiable items, the district included reductions in health care benefit contributions for its employees (totaling $18.8 million in potential savings) and district wide salary decreases of one percent (totaling $3.5 million in potential savings).

While we believe that the district should consider these options, we are concerned that the district's plan does not fully address its near-term cash shortfalls. The fiscal recovery plan notes that due to cash deferrals of state funds, the district projects to have major cash challenges as early as May 2021. In November 2020, the Legislative Analyst's Office released a report on the state budget indicating that with revenues higher than expected the State may be able to eliminate planned deferrals to school districts in fiscal year 2020–21. However, even without the impact of the deferrals, the district still projects that it needs to take action to reduce expenditures by July 2021 to be able to address its cash challenges. The district added that although a state loan will not be required in 2020–2021, the district is at risk of fiscal insolvency if the required reductions are not implemented for the 2021–2022 fiscal year. However, the district's plan does not indicate how much it must cut in the near term to address its cash shortfall or how its proposed cuts will impact its cash situation. Without this information, it is difficult to assess whether the district's options will be sufficient to avoid insolvency. On December 4, 2020, the district released its agenda for its December 10, 2020 meeting which included plans for the district to seek a short-term loan to address its immediate cash flow needs. However, a short-term loan would provide only temporary relief while also incurring additional costs related to interest charged on the loan.

Further, much of the district's solution for its deficit relies on reductions that require negotiations with its teachers union—an effort that has to date been unsuccessful. In particular, the district notes in its plan the need for changes to its health care benefit contributions to be more aligned with comparable school districts. However, the district identified this need in response to our audit report but has been unable to negotiate changes to those benefits with its teachers union in the 11 months since we issued our report. As we stated in our report, Sacramento Unified's options for reducing ongoing expenses without engaging in labor negotiations are limited and unlikely to prove successful in addressing its precarious financial situation. Because of the urgency of this situation, Sacramento Unified needs to negotiate a plan with its teacher's union that eliminates its structural deficit and avoids insolvency—an outcome that benefits the district, its employees, and its students.

We look forward to Sacramento Unified's one-year response—due December 10, 2020—where it will provide an update on all of the recommendations we made to the district.