CALIFORNIA STATE AUDITOR'S ASSESSMENT ON THE SEPTEMBER 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) September 2020 update letter.

We are concerned that over the past nine months the district has failed to make substantial progress in implementing our recommendations and addressing the financial conditions identified in our report. We typically expect such progress by the six month mark. As of September 2020, nearly all of our recommendations remain open. Implementing our recommendations is essential for addressing its current financial problems and preventing future fiscal crises.

Further, it is imperative that Sacramento Unified and its teachers union work together to agree to a financial solution. As we discuss 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. While the district cites ongoing challenges in negotiating a successor contract with its teachers union, these delays continue to put a financial strain on the district and ultimately affects the students. As we recommended in our report, Sacramento Unified should immediately develop a plan that includes multiple scenarios of expenditure reductions that will resolve its financial concerns.

Developing a plan is especially important since the district continues to risk insolvency. Although the district reported experiencing substantial one-time savings from closing its schools for part of the 2019–20 school year, according to its unaudited financial report released in September 2020, these savings do not solve Sacramento Unified's structural problem of spending more than its revenue. Further, as the district noted in its budget presentation to its board in August 2020, deferrals of state funding will exacerbate the district's short term financial challenges and may result in cash shortages during the 2020–21 school year. The district's most recent cash flow projection from September 2020 projects the district to have insufficient cash to pay its bills as early as May 2021. Ultimately this lack of cash could lead to the need to seek a loan from the State—a situation we have repeatedly warned the district and its teachers union should work to avoid as it will result in fewer funds available for students and teachers.

Lastly, we are concerned that the district has not met its stated goal to develop a draft of its multiyear projection methodology by September 2020. As we note in our report, identifying the reasoning and key assumptions for these multiyear projections is critical to ensuring the district does not become insolvent sooner than it expects and can clearly and consistently explain its finances.

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