



May 19, 2020

Jorge A. Aguilar, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, California 95824

Dear Mr. Aguilar:

As you know, Sacramento City Unified School District's (district) six-month status report regarding the district's progress in implementing recommendations made in our report about its financial condition must be submitted to my office by June 10, 2020. In anticipation of that response and our understanding that the Sacramento County Office of Education recently issued a negative certification of the district's second interim financial report, I am writing to remind you of the importance for the district to do all that it can to address its declining financial condition. In addition, the economic impact of the COVID-19 pandemic certainly has added an additional strain on all school districts in California as the Governor's revised budget warns school districts of declining state funding for the upcoming fiscal year. It is therefore even more imperative that the district act quickly and judiciously to develop and implement a plan to resolve its fiscal crisis and to make progress in implementing all of our recommendations.

Listed below are the recommendations for which we have not seen substantial progress as of the 60-day response the district submitted on February 10, 2020. Although we typically do not expect to see significant progress 60 days subsequent to the public release of our reports, as I stated at the district's board meeting in February, we expect to see such progress by the six-month mark. When you submit your six-month response please ensure that the district provides supporting documentation that demonstrates progress made in implementing each of the recommendations. In addition, because of the impending risk of insolvency, I believe that more frequent updates from the district are necessary. Therefore, once the district submits its six-month response on June 10, my office requests that the district provide monthly updates thereafter. My staff will review and assess the information, provide periodic feedback to the district, and post the information on our website.

- 1. By March 2020, adopt a detailed plan to resolve its fiscal crisis. The plan should estimate savings under multiple scenarios and include an analysis that quantifies the impact of reductions the district can make to ongoing expenditures. Specifically, Sacramento Unified should consider the impact of possible salary adjustments for employees in different bargaining units and include the impact those salary adjustments would have on postemployment benefits, such as pensions. It should also use the most recently available data to estimate net savings from modifying the health care benefits it provides to employees, as well as the impact those modifications would have on the total compensation of the employees. Finally, it should calculate the impact of possible changes to district and employee contributions to fund future retiree health benefits. The district should use the plan it develops as the basis for its discussions of potential solutions with its teachers union.*
- 2. Revise its multiyear 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.*

3. *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.*
4. *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 methodology should use the Government Finance Officers Association's best practices as a guide and should address at least the following areas:*
 - a. *Including administrators from different divisions of Sacramento Unified into the budget development process to help ensure the accuracy of projections.*
 - b. *Establishing criteria and measures for success in the budget process, such as whether budget decisions were made with adequate input and deliberation and whether the budget was balanced without using reserves or one-time revenues for ongoing expenditures.*
 - c. *Developing and adhering to a multiyear funding budget plan, with the goal of realigning resources where necessary to fund ongoing expenses with ongoing revenue.*
 - d. *Conducting an analysis of variances in budgeted and actual revenues and expenditures at each interim reporting period. Sacramento Unified should then use this information to inform its estimates for the upcoming fiscal year's budget.*
5. *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.*
6. *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.*
7. *Develop and adopt a succession plan that ensures that it has staff who have the training and knowledge necessary to assume critical roles in the case of turnover.*
8. *Develop effective employee orientation programs, including mentorship, to allow incoming leaders to better adapt to the organization's structure and culture.*

In closing, I want to acknowledge that the district is facing significant challenges and will be forced to make difficult decisions, but absent any meaningful changes, the fiscal solvency of the district is at risk. If you have any questions, please don't hesitate to contact me at (916) 445-0255.

Sincerely,



ELAINE M. HOWLE, CPA
California State Auditor