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JAN 28 2019

January 28, 2019

The Honorable Rudy Salas, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

RE: JLAC Request – Sacramento City Unified School District

Dear Assemblymember Salas:

I write this letter to respectfully request that the Joint Legislative Audit Committee approve an audit of the Sacramento City Unified School District (SCUSD) in response to the severe budget deficit the district is facing. In 2018 the district made \$20 million in cuts, but they must cut an additional \$16 million from the budget by November 2019, in order to avoid state receivership. This district is also facing \$35 million in cuts for the 2019-20 school year, with another \$35 million in cuts for the 2020-21 school year.

The Sacramento City Unified School District (district) is in significant financial distress and an audit by the California State Auditor would help stakeholders better understand the depth and cause of these troubles, as well as what the district can do to improve its financial condition and prevent this from reoccurring in future years. In its most recent financial statements available, the district reported a \$17.6 million operational deficit in its general fund, and a \$58.2 million operational deficit for all of its governmental fund combined. In fall 2018, the Sacramento County Office of Education disapproved the district's 2018-19 adopted budget, as well as the district's attempt at a revised budget, because neither plans resolved the district's ongoing deficit spending.

In October 2018, the Fiscal Crisis & Management Assistance Team (FCMAT) reviewed the district's financial condition and practices and concluded the district is at high risk for insolvency. In fact, FCMAT stated that the district will be cash insolvent by November 2019 unless significant action is taken. FCMAT highlighted a series of salary increases that the district agreed to in December 2017 that the district acknowledged were not affordable without significant budget reductions.

Facing an imminent crisis – one that could cause the state to put the district in receivership – may cause the district to make required budget reductions in the coming months. However, this



immediate resolution will not necessarily highlight or resolve the real causes of the financial crisis, which FCMAT summarized as a “leadership issue.” Instead if the decision makers behind this crisis feeling the impact of upcoming budget reductions, I fear it will only be the district’s children who suffer the impact of the districts leadership problems. Consequently, I request a comprehensive audit by the California State auditor that will answer the following questions:

- What is the scope of the district’s short-term and long-term financial problems?
- What district actions, or lack of action, were the main causes of the current financial crisis?
- What were the district’s key decisions that caused the crisis? Who made these decisions? Why were these decisions made?
- What does the district need to do to resolve both the immediate financial crisis and the root causes of this crisis? What can be done to avoid this situation in the future?
- What financial and budgeting practice, if any, in the district need to be improved?
- What is the district doing in the short run to minimize the budget reductions impact on the district’s children?

To explore these questions in depth, my request is that the auditors look back at least 3 – 5 years and review SCUSD’s revenues, expenditures, and budget projections; evaluate the budget recommendations made by the Sacramento County Office of Education and SCUSD’s response to those recommendations; determine whether SCUSD took reasonable actions to reduce its budget shortfalls. Lastly, to the extent possible, provide recommendations as to how this situation can be avoided in the future.

Thank you for your serious consideration of this request. If you need additional information, please feel free to contact me or my Chief of Staff, Maria Alvarez, at 916-319-2007.

Sincerely,



Kevin McCarty
Assemblymember, 7th District