The Implications of Sacramento City Unified's Ongoing Budgetary Challenges for Local and State Policy

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Executive Summary

Sacramento City Unified School District (SCUSD), California's thirteenth largest school district, faces a looming deficit and must make significant budget adjustments to avoid state intervention. This case study explores how the district reached this point, how its finances compare with other districts in Sacramento County, and what the implications are for students, particularly those with the greatest needs. It finds that:

- Many of SCUSD's troubles can be linked to broader issues affecting districts across the state, including declining enrollment, increasing special education costs, and increasing pension payments.
- The district's instability, past budgeting practices, and tense labor-management relations have created a rocky foundation upon which the district must address its current budget situation.
- As compared with neighboring districts, SCUSD spends far more on health care and a smaller share of its budget on salaries for pupil support personnel, teachers, classified instructional staff, and office staff. Many stakeholders agree that the greatest fiscal challenge in SCUSD is the high cost of health care.

These challenges are making it harder to retain talented staff and teachers, limiting opportunities for the highest-need students, widening inequities, and reducing public commitment to public education. Our study of SCUSD offers considerations for policymakers and lessons that may apply to other districts facing a similarly troubling combination of statewide cost pressures, tense labor-management relations, and high health care costs. These lessons learned include:

1. Unaffordable teacher benefits, however well intentioned, will impact district budgets if not addressed.
2. Tense labor-management relations jeopardize financial stability and public confidence.
3. Additional county or state authority to take corrective action may be needed to address the root causes of fiscal distress.
4. Districts face real and unavoidable cost increases, and although money alone cannot address all the root causes of financial distress, more funding is an important part of the solution.

SCUSD's fiscal crisis cannot be solved overnight. Even with major fixes now, the district will be paying off liabilities for decades to come. What leaders in SCUSD can do now is stabilize the situation, steer a course toward future sustainability and success, and restore public confidence.

Introduction

Sacramento City Unified School District (SCUSD)'s budget was disapproved by the Sacramento County Office of Education (SCOE) in August 2018, triggering a review by California's Fiscal Crisis and Management Assistance Team (FCMAT). When SCUSD received the report in December 2018, it was blistering. The report warned that the district would run out of cash in 11 months unless it closed a 30 million dollar budget gap. As FCMAT wrote, "The fiscal risk is real, imminent, and serious. Without action, state intervention is certain" (Fine, 2018).

At this point, the budget crisis in SCUSD began receiving substantial statewide attention. News media reminded the public of the consequences of the state's takeover of Oakland Unified School District 15 years earlier. Parents and advocates packed school board meetings to voice their concerns. State Assemblyman Kevin McCarty asked the state auditor to dig into the district's finances. Meanwhile, in the spring of 2019, a longstanding labor dispute between the Sacramento City Teachers Association (SCTA) and district management boiled over, with teachers holding a daylong strike. By October 2019, the district had made roughly 50 million dollars in ongoing budget adjustments and reductions[1] and dipped into its reserves, staving off state takeover for the time being.

Although the financial troubles of California's thirteenth largest school district reached a boiling point in 2018-19, the challenges facing the district have been building up over time. In this case study, we examine how SCUSD reached this point, and we benchmark SCUSD's finances against other districts in Sacramento County. We study how the district's financial situation affects its ability to effectively serve students, particularly those with the greatest needs.

We briefly discuss possible options for SCUSD, and we conclude by reflecting upon lessons learned that may be instructive for other districts that find themselves in similar straits and for state and local leaders as they seek to improve education funding and quality in California.

About this Report

With this report, we aim to build deeper understanding among policymakers, advocates, and state and local decision makers about the funding challenges felt by local school districts and how these challenges are affecting students, educators, and the broader community. Ample research has demonstrated that California education needs more money (Levin et al., 2018; Imazeki, 2018), even as district costs are rising (Willis, Krausen, Nakamatsu Byun, & Caparas, 2018; Koedel & Gassmann, 2018). Recent labor actions and tax reform proposals further demonstrate that educators, community

[1] See October 3, 2019 SCUSD Board of Education meeting presentation and packet, Item #9: Public Hearing and Approval of 2019-20 Adopted Budget Revision: https://www.scusd.edu/sites/main/files/file-attachments/combined_packet_10-3-19_rev2-12.1a.pdfpacket_10-3-19_rev2-12.1a.pdf

members, and other stakeholders feel the need for more investment in our educational system. This report sheds light on why that is the case in one local school district.

The SCUSD story is complicated and constantly evolving. This is not meant to be an exhaustive review of all that has happened in the district over time and does not investigate every idiosyncrasy of the district's budget. Rather, it is meant to provide one illustrative case study[2] and share insights and lessons learned that may be instructive to state and local leaders as they seek to improve education funding and quality in California.

Methodology and Data Sources

We conducted an extensive document review which included district financial reports, board presentations and minutes, and reports and letters submitted to the district by SCOE, FCMAT, fact-findings, auditors, and others. We also reviewed relevant news articles and research reports. We analyzed financial data available through the California Department of Education (CDE) Standardized Accounting Code System (SACS) as well as benefit and employment data available through the CDE J-90 files. We analyzed student demographic and enrollment data available through the CDE. We interviewed SCUSD, SCOE, and FCMAT administrators, school board members, a parent organizer, and representatives of two labor associations. In addition, we conducted a focus group with approximately a dozen parents who sit on the Parent Advisory Committee and two students who sit on the Student Advisory Committee.

Sacramento Unified School District Demographics

SCUSD serves approximately 40,000 students across 68 school sites.[3] The diversity of Sacramento, one of the nation's most ethnically and linguistically diverse cities (Sheeler, 2019; Stodghill & Bower, 2002), is reflected in the district's demographics. Latinx students make up 39 percent of the student population, Asian and Pacific Islander students 20 percent, and African American students 14 percent. More than 48 languages are spoken by students and families in the district, and 19 percent of students are English learners (Ed-Data, n.d.). SCUSD serves some of the lowest income neighborhoods in Sacramento County, and more than 70 percent of students are considered socioeconomically disadvantaged. SCUSD's students are supported by 4,364 employees, including approximately 2,200 teachers. The average teacher in SCUSD has 12 years of experience, which is typical for comparable districts in Sacramento County (Ed-Data, n.d.).

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[2] This report is related to a larger project that investigates how rising costs are squeezing district budgets and affecting opportunities for students. Pivot Learning's first report, *The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity*, released in April 2019, found that in order to offset growing pension costs, California school districts are taking such actions as increasing class sizes; cutting enrichment opportunities like art, music, and after-school activities; and reducing counseling and health supports that especially benefit high-need student groups such as English Learners, low-income students and foster youth.

[3] Unless otherwise noted, district demographic data in this paragraph is as reported in the district's 2019-20 Local Control and Accountability Plan, August 22, 2019 (see https://www.scusd.edu/sites/main/files/file-attachments/lcap_2019_final.pdf). Enrollment data is for traditional public schools only (charters excluded).

Background: The Roots and Reasons for SCUSD's Fiscal Distress

How did SCUSD end up in financial peril? In some ways, SCUSD is struggling from the same budgetary impacts felt by districts up and down California. Yet in other respects, it is an outlier suffering under the weight of its own decisions. Several interviews described SCUSD's situation as anomalous, with one interviewee saying that "[Sac] City's financials are really way beyond the industry standard on many dimensions." In this section, we explore the historical events, decisions, and trends that have contributed to SCUSD's current situation.

Evidence of a Mounting Fiscal Crisis

SCUSD's budget crisis began years ago, long before SCOE and FCMAT sounded the alarm in 2018. For a seven-year stretch, from 2007-08 through 2013-14, the county concurred with SCUSD's "qualified" budget certifications. A qualified budget is a signal that the district may not be able to meet financial obligations for the current fiscal year and the next two years. While these were Great Recession years that left many districts in a precarious financial position, these qualified certifications nevertheless sent a signal to SCUSD leaders that major changes were needed. Then for the next four years, from 2014-15 through 2017-18, SCUSD had "positive" budget certifications. This was during a time when the state was enjoying new revenues thanks to an improving economy and a voter-approved tax measure, Proposition 30, and when districts like SCUSD with significant numbers of low-income, English learner, and foster care students were receiving rapid funding increases as the Local Control Funding Formula (LCFF) was phased in.

However, the positive budgets and surge in new dollars masked escalating problems. During these years, SCUSD leaders received letters from SCOE counseling the district to cut expenditures, reduce deficit spending, stop depending on one-time and grant funds to plug budget gaps, improve its budgeting practices, reduce healthcare costs for current teachers and retirees, and reduce unfunded retiree health care liabilities.[4] In addressing the SCUSD school board in 2017, SCOE superintendent Dave Gordon said: "During my tenure as county superintendent, I have sent 22 letters to five different superintendents urging that you take care of this unfunded [retiree health care] liability. And for more than a decade, it hasn't been seriously addressed" (Sacramento City Unified Board Meeting, December 7, 2017).

[4] The 2018 FCMAT report reads, "In letters dated December 7, 2017, January 16, 2018, and April 16, 2018, the county office discussed and outlined its concerns with the district's ongoing structural deficit, and the need for the district to submit a board-approved budget reduction plan to reverse the deficit spending trend." (See https://www.scusd.edu/sites/main/files/file-attachments/sacramento_city_usd_fhra_final_12-12-2018_002.pdf.) As additional examples, letters dated August 15, 2014, August 15, 2015, and September 28, 2016 express concern regarding the district's lack of progress towards the funding of the OPEB obligation, and the August 15, 2014 and August 15, 2015 letters also advise the district to restore fiscal solvency, including building reserves and only committing to ongoing spending when the district has ongoing revenues to cover that spending. These letters can be found here: https://www.scoe.net/lcap/Documents.

In November 2017, the district narrowly averted a strike by negotiating a new teacher contract including salary increases and other provisions. District officials knew that SCUSD could not afford this contract without making 15.6 million dollars in other budget reductions. Before board members voted to approve the agreement, they reviewed public disclosures acknowledging that the salary increases would create deficit spending (Sacramento City Unified School District and United Professional Educators, n.d.), and they received a letter from SCOE warning the following:

> *While the $15.6 million in budget reductions will allow the district to meet reserve requirements through 2019-2020, it will not completely eliminate the on-going structural deficit of the district, which will require further cuts. Based on the review of the public disclosure and the multi-year projections provided by the district, our office has concerns over the district's ability to afford this compensation package and maintain on-going fiscal solvency.*[5]

So, when SCUSD certified its budget as "negative" in 2018-19[6] and county administrators and FCMAT warned that the district would soon run out of cash, the district was not surprised. But now, the crisis became more urgent and the district entered what one school board member described as "death row." County officials warned that the district could face state takeover if it did not submit a balanced budget. To avoid state takeover, SCUSD made approximately 50 million dollars in ongoing adjustments and reductions to cover the remaining budget gap and ensure minimum reserve levels for the 2019-20 and 2020-21 school years—an adjustment amount equivalent to roughly eight or nine percent of the district's budget.[7] Because it still projects a negative ending balance for 2021-22, SCUSD must now identify approximately 27 million dollars in additional savings in order to stay solvent in future years.[8]

Statewide Budget Pressures

Some of SCUSD's troubles can be linked to broader issues affecting districts across the state. With declining enrollment, increased special education costs, larger pension contributions, and other rising costs, California districts like SCUSD have less room in their

[5] December 7, 2017 letter from Sacramento County Office of Education to Sacramento City Unified School District.

[6] The Sacramento County Office of Education negative certification letter can be found here: https://www.scusd.edu/sites/main/files/file-attachments/scoe_letter_2018-19_first_interim_1.14.19.pdf. Budget certification status for California school districts going back to 1995-96 can be found here: https://www.cde.ca.gov/fg/fi/ir/interimstatus.asp

[7] Total General Fund Expenditures, Restricted + Unrestricted. As of the October 3, 2019 proposed budget: https://www.scusd.edu/sites/main/files/file-attachments/9.1_rev2.pdf.

[8] In slides presented at the October 3, 2019 Board of Education meeting, district officials wrote "Revised Multi-Year Projection (while improved) has a negative ending balance for 2021-22 Unrestricted General Fund" and "Need a negotiated solution to achieve $27 million."

budgets to increase teacher salaries or add new programs (Willis, Krausen, Nakamatsu Byun, & Caparas, 2018; Koedel & Gassmann, 2018).

Declining enrollment. Like many urban districts in California, SCUSD has been experiencing declining enrollment as families move away to suburban areas and birth rates dip. SCUSD now serves approximately 47,000 students in both traditional public schools and charters, down from its peak of 53,000 in 2002.[9] Since state funding is tied to student enrollment, these declines in SCUSD and elsewhere have triggered school closures and reductions in staffing.

Rising special education costs. At the same time, special education enrollment is rising in districts statewide (Warren & Hill 2018), and SCUSD is no exception. With rising identification rates come rising costs for mandated services, and districts are increasingly drawing from their general operating funds to pay for these (Willis, Krausen, Nakamatsu Byun, & Caparas, 2018). In SCUSD, 13.9 percent of students have a disability, which is higher than the county and statewide rates of 12.7 percent and 11.9 percent, respectively.[10] In a 2017 report commissioned by SCUSD, the Council of the Great City Schools noted that the district bears significant costs due to nonpublic day school placements, special day classes, its therapeutic center, transportation, and legal settlements, among other costs (Council of the Great City Schools, 2017). For the most part, these costs are not unique to SCUSD, although they may be steeper than in surrounding areas.

Rising pension costs. SCUSD is experiencing the same rising pension costs that are affecting all California districts (Koedel & Gassmann, 2018; Melnicoe, Hahnel, Koedel, & Ramanathan, 2019). Due to a 2014 state policy change,[11] SCUSD will contribute about 1,200 dollars per pupil to pensions in 2019-20, as compared with 457 dollars in 2013-14.[12] This reflects a change in California State Teachers' Retirement System (CalSTRS) contribution rate from 8.3 percent of payroll in 2013-14 to 17.1 percent in 2019-20 (CalSTRS, June 2019), and a change in the California Public Employees' Retirement System (CalPERS) contribution rate from 11.4 percent (CalPERS, 2013) to 19.7 percent (CalPERS, 2019) during that same timeframe. These rate increases on the heels of LCFF felt like a

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[9] See California Department of Education, "Enrollment Time Series," 1996-97 to 2018-19. https://dq.cde.ca.gov/dataquest/DQ/EnrTimeRpt.aspx?Level=District&cYear=2001-02&cname=SACRAMENTO%20CITY%20UNIFIED&cCode=3467439 Data only available for charter and traditional public schools combined.

[10] DataQuest, "2018-19 Enrollment," accessed 10/22/2019.

[11] With Assembly Bill (AB) 1469, the Governor and Legislature increased California State Teachers' Retirement System (CalSTRS) rates for school districts in order to shrink the size of the state's unfunded pension liability.

[12] Source: 2013-14 SACS unaudited actuals; 2019-20 calculated by summing the district's proposed 2019-20 General Fund STRS and PRS contributions (as of its Oct. 3, 2019 proposed budget – which are $55,926,273 and $11,347,775 respectively), having adjusted the CalSTRS figure to remove the state's on-behalf share (which for 2019-20 is 10.33 percent to the district's 17.1 percent), and dividing by the district's funded ADA, which for 2019-20 is 38,494.64, according to the district's final budget.

bait-and-switch to many California district administrators, including at least one SCUSD leader who told us that between LCFF and the pension rate change, Governor Brown "was giving us more but also making us pay for more."

Other rising costs. Across the state, many school facilities are aging and demand expensive repairs, and insufficient funds are available to address those needs—particularly in low-wealth communities (Brunner & Vincent, 2018). Utilities, other operational costs, and labor costs are also rising statewide. In many cases, these expenses are growing faster than revenues, leading to an unsustainable fiscal situation for districts across the state.

Challenges with Business Practices and Labor-Management Relations

The current superintendent, Jorge Aguilar, inherited a district known for central office management challenges and tense labor-management relations. This has created a rocky foundation upon which the district must address rising costs and deficit spending, as addressed in the next section.

Bad business practices. Two decades of letters and reports from SCOE and FCMAT have counseled SCUSD to improve its business practices. For example, a 2006 FCMAT fiscal review report advised the district to fix its position control processes and improve coordination between budget, payroll, and personnel departments—issues that were also surfaced by the 2018 FCMAT report (Fiscal Crisis & Management Assistance Team, 2006; Fine, 2018). These management challenges were still apparent during the most recent school year. For example, in spring 2019, the SCUSD school board approved a budget that failed to account for more than 700 students in five school sites—missing student headcount that was worth 8 million dollars annually. One interviewee expressed frustration that the board has approved budgets that have relied upon erroneous data and inaccurate assumptions.

Superintendent Aguilar, the seventh superintendent to serve since 2003, says that he has been working to improve these problematic business practices since he was hired in 2017. He replaced the district's Chief Business Officer, and the district brought in additional fiscal experts in 2019 to help correct budget errors and tighten up processes. A September 2019 letter from SCOE acknowledged that the district has made recent improvements and also bulleted out areas for continued work (Sacramento County Office of Education, 2019).

Tense labor-management relations. The Sacramento City Teachers Association (SCTA) and the district management have had a contentious relationship for decades that has continued into this superintendent's tenure. Interviewees from both the district and SCTA described the relationship as "fractured" and fraught with distrust. Although the district had avoided a strike in 2017 by negotiating a new contract, that contract became the subject of ongoing debate, with SCTA alleging that the district failed to follow through on all its agreements. In 2019, SCTA staged a one-day strike—the first strike in the district since 1989.

Administrators, community members, and labor representatives agree that SCUSD has a better relationship with its other bargaining units, which represent classified and administrative staff. Several of these partners have entered into a labor-management consortium with the district, and during our interviews, several administrators and one labor representative described this as a partnership focused on working together to identify areas where "shared sacrifice" can be made in the interest of the district and its students. For instance, the district and administrative bargaining unit recently agreed to new caps on unused vacation time and a buy-out of administrators' accrued vacation time in order to decrease liabilities by 6 million dollars. One other bargaining unit described this as a give-away to administrators and a poor use of funds. Said one labor leader, "Of all the things that a district is going to decide to address at that moment, the least justifiable one is a vacation buyout for about 200 administrators."

Health Care Costs as a Large Percentage of the District's Budget

Many people we interviewed said that the greatest fiscal challenge in SCUSD is the cost of health care. They describe three main reasons: (1) the district offers generous employee and retiree health benefits, (2) the district offers teachers an expensive health care plan, and (3) the district is only partially pre-funding its retiree health benefits.

Generous employee and retiree health benefits. In the 1970s and 1980s, health benefits were relatively cheap, Sacramento County Office of Education Superintendent Dave Gordon told the Sacramento Bee in 2015 (Kalb, 2015). Sometime during this period, the district, as part of the collective bargaining process, agreed to pay 100 percent of the cost of health insurance premiums for teachers and their dependents, and also for teacher retirees - even after they reach the Medicare-eligible age of 65. Benefits like these are an important part of a teacher's total compensation (Loeb, Miller, & Strunk, 2009; Legislative Analyst's Office, 2017).

In the decades since, the cost of health care has grown exponentially, but the district has yet to scale back active teacher benefits in response, as many other districts have. SCUSD is among only seven percent of California school districts (Legislative Analyst's Office, 2017), and one of just two districts in Sacramento County,[13] that pays for the healthcare of its teacher retirees for life. When SCUSD's retired teachers become eligible for Medicare, eligible teachers are covered under a Medicare Advantage Plan, which covers all Medicare deductibles and coinsurance costs.

[13] The other is Elk Grove Unified.

SCUSD also still covers 100 percent of the premium for teacher employees and their families.[14] By comparison, the average California district paid approximately 85 percent of the healthcare premium in 2017-18 (Bruno, 2019), and private industry employers pay 67 percent of the cost for family plans and 79 percent for single coverage plans (Bureau of Labor Statistics, 2018).

SCUSD also covers 100 percent of the premium for most classified employees and their families, depending on the plan they choose. The district covers 100 percent of the premium for classified and certificated supervisors and administrators but does not pay the full cost for family members.

An expensive health care plan. In the 1990s, under different leadership, the district and teachers' union agreed—in what one interviewee described as "a pretty remarkable and questionable decision"—to name the insurance provider HealthNet in the contract. Some current district officials describe HealthNet as a "Cadillac plan" because of its high price tag. Naming HealthNet in the contract, they assert, has limited their negotiating power and prevented them from shopping around for better plans and pricing.

Indeed, HealthNet is considerably more expensive than most plans. For example, a teachers' family plan under HealthNet cost 32,245 dollars in 2017-18, significantly more than the average family plan in California school districts, which cost 21,727 dollars.[15] The district also offers a Kaiser plan which is far more competitive and affordable; in 2017-18, it was 20,880 dollars, and about half of SCUSD employees are enrolled in the Kaiser plan over the HealthNet plan. Still, more than 500 active employees were enrolled in HealthNet's most expensive plan as of 2017-18. A 2003 fact-finding report advised the district to establish a "floating cap" on health care contributions at the Kaiser premium level, but this recommendation was never acted upon (Hodges, 2003).

SCTA and the district agree that HealthNet is too expensive, and they agree that savings should be found while maintaining comparable coverage. An outside health broker[16] recommended by SCTA and hired by the district estimated that a new plan could save the district between 11 and 16 million dollars annually. Despite their apparent agreement on the problem, the two parties have not been able to come together to find a solution.

At issue is disagreement on how to prioritize the use of resulting savings. In December 2017, the board approved the tentative agreement negotiated by SCTA and the

[14] For the other bargaining units, the district covers 100 percent of the employee-only portion under some but not all plan options.

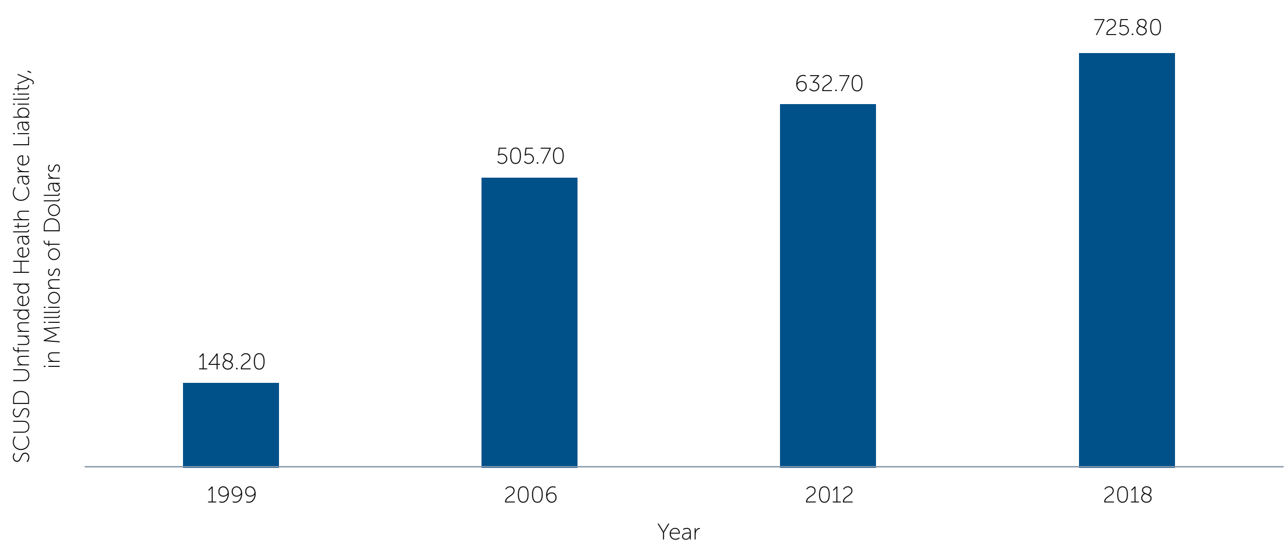
[15] California Department of Education J-90 data, 2017-18, tasal418 table. The 2019-20 rate for HealthNet is slightly lower at $31,493, but we do not report that here because we do not have comparable 2019-20 statewide rates. 2019-20 SCTA rate sheets are here: https://www.scusd.edu/sites/main/files/file-attachments/scta_2019-20_active_rate_sheets_2_0.pdf

[16] California Education Coalition for Health Care Reform (CECHCR).

district, which included a commitment to negotiate health care savings by July 1, 2018 and then use the resulting savings to achieve certain goals, which included class size reduction and other student services—contingent upon sufficient funding and negotiating of priorities.[17] But the two parties have not yet negotiated those health care savings, and they have not come to an agreement on what they would do with the savings. The district has signaled that it wants to reverse deficit spending, decrease liabilities, and invest in the district's equity agenda, while the union wants to invest in smaller class sizes and additional personnel.

The district is only partially pre-funding its retiree health benefits. Some districts, including others in Sacramento County, choose to set aside dedicated funding for future retiree health benefits as employees work and accrue them, but not SCUSD. For decades, SCUSD made no pre-payments and simply paid retiree health premium costs as they came due. Now the district makes some pre-payments, but not enough to stop unfunded liabilities from mounting. As shown in Figure 1, two decades ago, the district already had 148 million dollars in unfunded retiree health care liabilities, a figure that has since grown to 726 million dollars. To retire this liability, SCUSD would have to pay 41.8 million dollars per year for 30 years, according to an August 2018 actuarial report—which would work out to more than 1,000 dollars per pupil annually. Even if the district were to roll back retiree health benefits tomorrow, these already-accrued benefits would still be owed.

Figure 1. SCUSD Unfunded Liabilities Over Time (millions) [18]



[17] Tentative Agreement from 11/29/17 can be found here: https://sacteachers.org/wp-content/uploads/2017/12/TA-11-29-17.pdf

[18] 1999 liability cited in this 2005 audit report: https://www.scusd.edu/sites/main/files/file-attachments/fss-2005-final.pdf. 2006 and 2012 liabilities cited in this 2013 audit report: https://www.scusd.edu/sites/main/files/file-attachments/12.2b_independent_audit_final_audit_rept_of_6.30.13_for_12.12.13_0.pdf. 2018 liability cited in this 2018 audit report: https://www.scusd.edu/sites/main/files/file-attachments/scusd-6.30.2018-fs-final_produced_copyne.pdf.

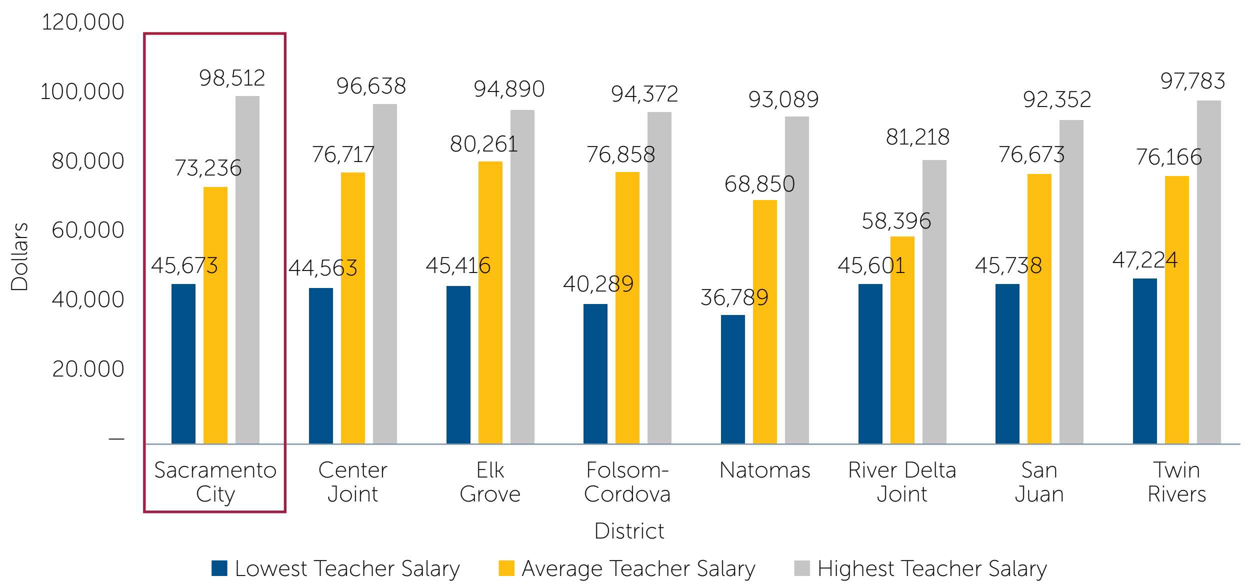
Analysis of Sacramento City Unified's Budget

In this section, we look at how the spending decisions described above translate into impacts on the district's budget. To understand how typical SCUSD's expenditures are, we compare its budget with other unified districts in Sacramento County.

SCUSD Teacher Salaries are Comparable with Other Districts

In 2017-18, a beginning teacher in SCUSD made around 45,700 dollars in the first year, and the maximum a teacher could earn in base salary was 98,500 dollars—the highest salary cap found countywide (see Figure 2). That year, the average SCUSD teacher made about 73,200 dollars, which was generally comparable with other county districts. SCUSD salaries went up in 2018-19 and again in 2019-20. The beginning teacher salary is now 47,988 dollars, and the maximum is now 100,975 dollars.[19]

Figure 2. SCUSD's 2017-18 Teacher Salaries Compared to Neighboring Districts

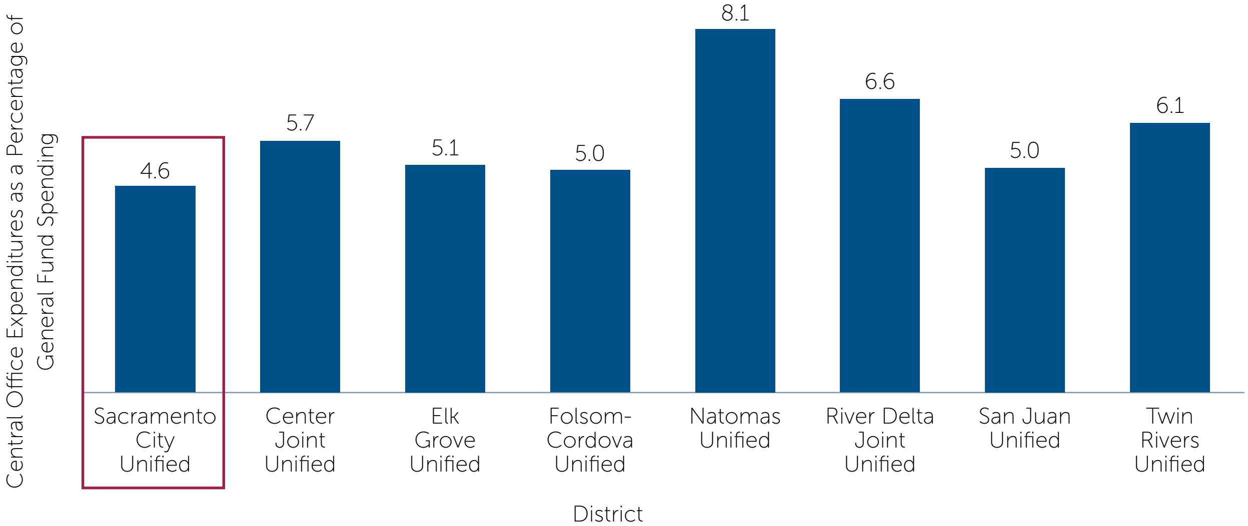


Sources: California Department of Education J-90 data, 2017-2018, tasal118 table; Ed-Data, "Teacher Salaries"

SCUSD's Central-Office Administrative Costs are at the County Average

There is not a perfect way to compare central office spending across districts, since districts can each code expenditures somewhat differently in their accounting systems. However, we can assume that "general administrative costs" comprise the bulk of central office spending. These include costs associated with payroll, fiscal services, human resources, board, superintendent, data processing services, and so on. In 2017-18, SCUSD spent 4.6 percent of its budget on these functions, which is just below the county average of 5.3 percent (see Figure 3).[20]

Figure 3. SCUSD's 2017-18 Central-Office Spending as Compared with Neighboring Districts



Source: California Department of Education SACS data, 2017-2018, General Fund only

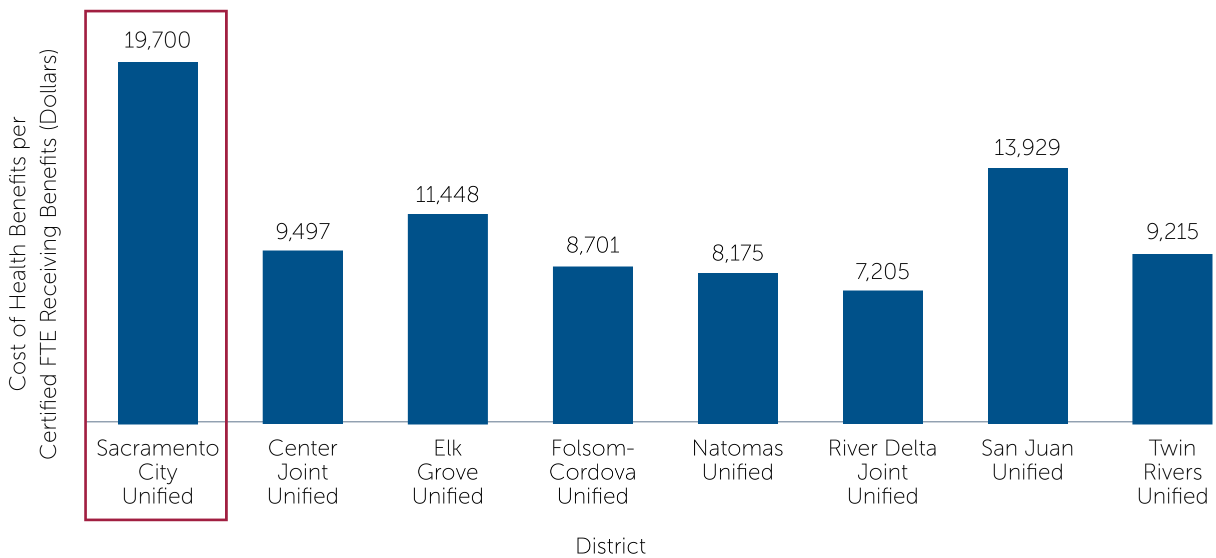
Anecdotally, we heard that SCUSD has decreased its central-office administrative costs in recent years. Administrators, parents, and board members alike spoke of painful reductions to central-office staff. One board member said, "If you had the chance to walk around the inside of the [district office] building, you'll find so many empty cubicles. There was a point in time where this place was teaming with people. Each successive year, we've gotten leaner and leaner."

[20] The denominator includes all general fund expenditures for object codes < 7600. Excludes STRS on-behalf resources (resource code 7690). Numerator is the same, but then limited to function codes in the 7000 range. County average is weighted.

SCUSD Spends Significantly More Than its Neighbors on Employee and Retiree Health Care Benefits

In 2017-18, SCUSD spent 19,700 dollars per teacher in health care premiums. The next highest spending district in the county was San Juan Unified, at 13,929 dollars per teacher (see Figure 4). On average, unified districts in Sacramento County spent 11,289 dollars per teacher on health benefits.[21] And for those SCUSD teachers choosing to cover their families under the expensive HealthNet plan, the district spent 32,245 dollars per teacher in premiums. These spending levels are high not only when compared with other county districts, but also other California districts. In fact, SCUSD spends more per pupil on health benefits than all but two other mid-sized to large California districts (Bruno, 2019).

Figure 4. SCUSD Health Benefits Costs, Compared to Neighboring Districts



Source: District data from California Department of Education J-90 data, 2017-2018. This data set covers certificated teachers, not all bargaining units.

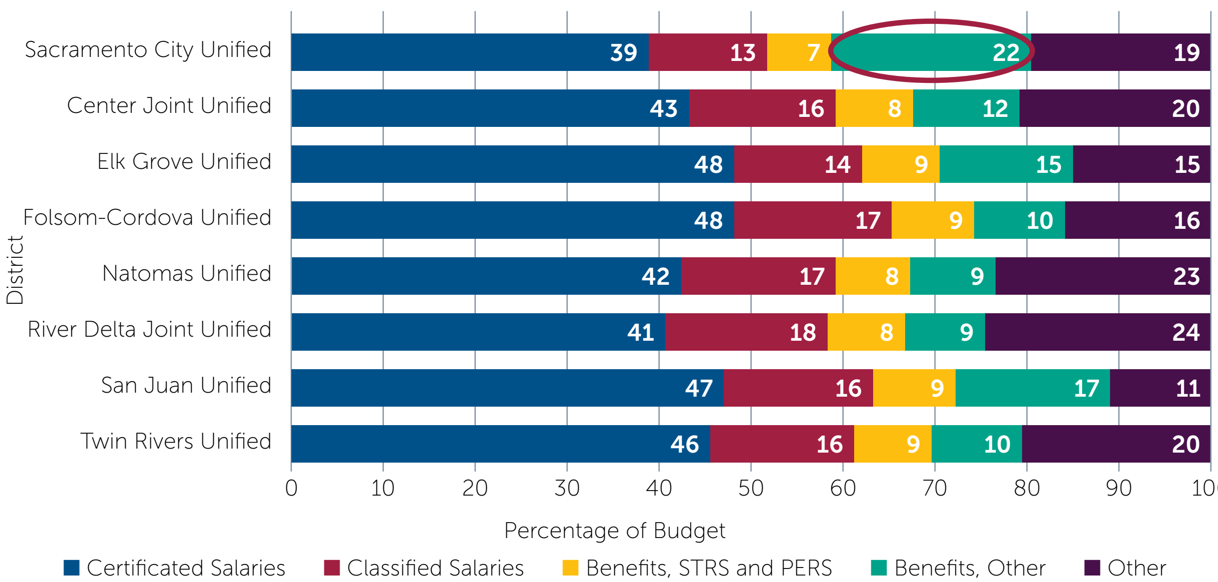
Because SCUSD is unique in offering lifetime health benefits to retired teachers, and because it only partially pre-funds these benefits, its Other Post-Employment Benefits (OPEB) costs are also higher than other districts. In 2017-18, the district spent 641 dollars per pupil for these OPEB costs. This is double what Elk Grove Unified—the other district offering lifetime benefits—paid that same year. This means that SCUSD first pay more than 600 dollars per student for contributions to retiree health benefits and to pay down the liabilities the fund has accrued over time, before it can invest in current teachers and students.

[21] When weighted based on certificated teacher FTE.

In total, SCUSD spends 2,859 dollars per pupil on non-pension benefits, with most of this going toward health and welfare benefits and OPEB.[22] The district's total per pupil expenditures in 2017-18 were 13,044 dollars, which means that the district spent 22 percent of its budget on non-pension benefits, with healthcare accounting for most of this.[23] By comparison, other Sacramento County districts spend between 9 and 17 percent of their budgets on non-pension benefits (see Figures 5 and 6).

Because SCUSD spends such a large share of its budget on health care, for both active employees and retirees, it spends less in other areas. Most notably, SCUSD spends less on certificated and classified salaries as a share of the total budget. Since the district's average teacher salaries are comparable to other districts, it is not that SCUSD is paying teachers less in salary-based compensation. Rather, it employs fewer people. We dug deeper into the data and found that, as compared with county averages, SCUSD spends a smaller share of its total budget on pupil support salaries; teacher salaries; classified instructional salaries; and clerical, technical, and office staff salaries.

Figure 5. SCUSD's 2017-18 Expenditures by Category, as a Percent of Total Expenditures, as Compared with Other Sacramento County Districts

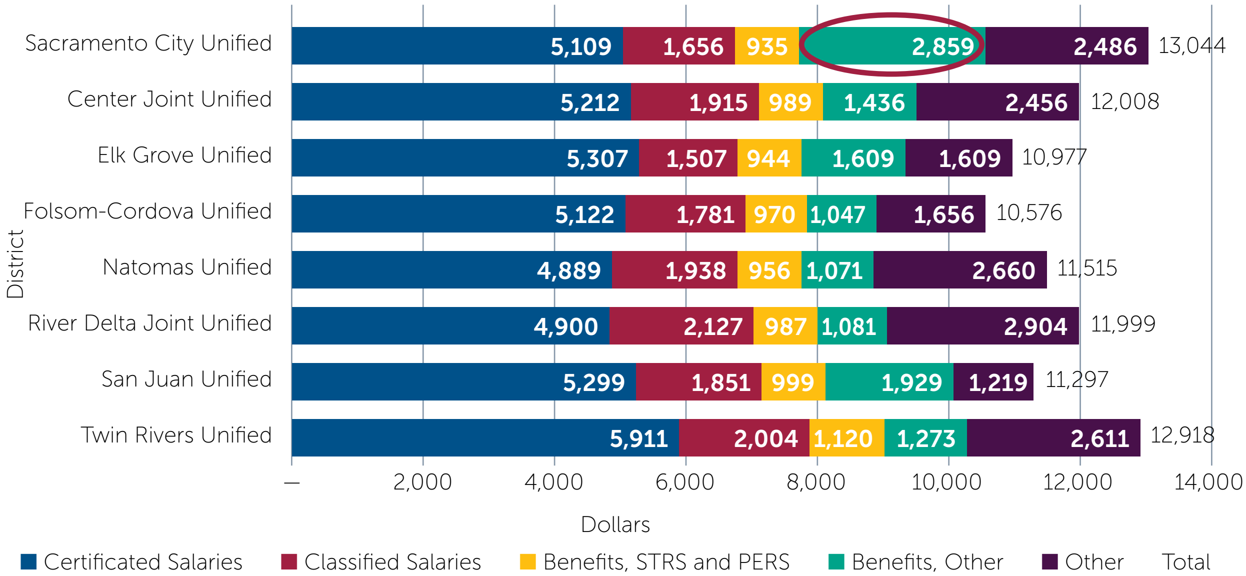


Source: California Department of Education SACS data, 2017-2018, General Fund only.

[22] The other costs in this category include State Unemployment Insurance, Workers' Compensation Insurance, OASDI/Medicare/Alternative contributions, and any other benefits.

[23] We calculate that 19 percent of the district's budget went to healthcare.

Figure 6. SCUSD's 2017-18 Per-Pupil Expenditures by Category, as Compared with Other Sacramento County Districts



California Department of Education SACS data, 2017-2018, General Fund only.

The Impact of Fiscal Distress on Employees and Students

Implications for Employees

With fewer staff come fewer services. SCUSD was still able to maintain a healthy 21 to 1 student-to-teacher ratio in 2017-18[24]—comparable to the county average—because it has not significantly reduced its teaching force, and because the teachers' contract includes class size caps. However, it has fewer other certificated and classified staff than neighboring districts. This means that school sites and the district office likely have fewer instructional and other support positions than do other districts—these may include nurses, librarians, paraprofessionals, custodians, maintenance staff, office staff, and other important non-teaching positions. These staffing conditions likely translate into fewer interventions and supports for students, services that often support students with the greatest academic and social and emotional needs. Teachers, too, receive fewer supports. For example, the district currently employs just one coordinator and one clerical staff dedicated full-time to providing induction to new teachers.

[24] Source: Ed-data, https://www.ed-data.org, "Per Pupil Ratio: Teachers." This ratio is the total number of certificated teacher FTEs divided by the number of students. Both counts are point-in-time counts.

Reductions in staff, both certificated and classified, also make jobs harder for those who remain. As one labor leader told us, "The work doesn't just go away because we reduce positions, instead it gets shifted." She explains that when custodians' hours are reduced, principals stay late to clean their buildings and lock up. When carpet cleaning services are cut, teachers take time out of instruction to clean up after students that get sick. And research has shown that when teachers are dissatisfied with working conditions and receive less support, attrition increases (Simon & Moore Johnson, 2015; Carver-Thomas & Darling-Hammond, 2017).

Implications for Students, Especially the Most Vulnerable

When the district was forced to make budget adjustments, board members, district administrators, and labor leaders spoke of the importance of keeping cuts "away from students." The district brought in an outside expert to help find and correct errors and inefficiencies in the budget. They reduced payments to the retiree health care fund, cut spending deemed unnecessary, adjusted expenditures for programs like Special Education based on more conservative projections, and tightened up "position control"—the processes for tracking and budgeting filled and vacant positions.

The reality, however, is that because districts are in the business of serving students, nearly all cuts ultimately impact the classroom. The district laid off a number of certificated, classified, and management staff. It cut an expanded summer learning program. It cut the supplies and services budget, which could make it harder for teachers and students to get the classroom supplies they need for learning. It eliminated school sites and slots for a preschool and infant/toddler program which it had run directly and returned that program to an outside agency (Morrar, 2019), which may reduce some access to quality early education in Sacramento. This is a move that could, in theory, drive up longer term costs related to special education, academic intervention, and other services, since the research clearly demonstrate the importance of early childhood education and early intervention (Stipek et al., 2018).

However, many programs at risk of being cut were eventually spared. A central office multilingual coordinator, a central office arts coordinator, and a districtwide sports program were among the positions and programs restored when the final budget was adopted. Some told us this was because of the disproportionate impact they would have on needy students. Said one administrator, in reference to the need to preserve programs like these: "Sometimes the only reason our students have their eyes open to other opportunities is because of what happens in school. If that is gone, it will affect our most needy students."

Perhaps the larger reason these positions were spared was that savings were found elsewhere in the budget. Some stakeholders we spoke with, including parents and representatives of one labor group, expressed dismay that the district had sounded the alarm on impending cuts and then ultimately "found" money. One labor representative called it a "phony budget crisis," fabricated by the district. Such comments speak to the distrust of stakeholders within the district.

Regardless, almost all stakeholders agree that the budget situation in SCUSD is having a harmful effect on students and the community. This has manifested in at least four ways:

1. Challenges maintaining talented staff and teachers. For example, although the district ultimately restored the visual and performing arts position, an interviewee told us that the person who held that job had already taken a position in a neighboring district by the time his pink slip was rescinded. Labor representatives and district administrators also told us that recruitment and retention is becoming even harder. Several people interviewed commented that vacant positions, turnover, and misassignments have led to reductions in services for students.

2. Limited opportunities for the district's highest need students. District leaders spoke about their desire to implement an equity agenda, which would mean offering more to students who have historically received less. "We aren't able to do this equity work because we don't have the funds," said one district leader. Another lamented the district's inability to innovate because of the fiscal crunch, saying "We're able to maintain the core services for English learners and foster youth, but if we wanted to do that and also expand our services, there isn't funding." Another agreed: "A lot of the initiatives that can and should be taken to help raise up underserved populations of kids just aren't happening... because you don't have any investment capital like other districts do. If you wanted kids to qualify for A through G for entry into UC or CSU, you don't have any money to invest in that other than the teacher in the classroom. Without that, it's very hard for a district with lots of needy students to make a lot of progress in those areas." Despite its fiscal constraints, SCUSD is still obligated to increase and improve services for low-income students, English learners, and foster youth under LCFF. Several stakeholders said that the district aims to lead with equity, but that the LCAP still needs to be strengthened to support this goal.

3. Growing inequities between school sites and districts. Some administrators and parents expressed fear that cuts – and even just the threat of cuts – will drive some families to leave the district. Several parents told us that they themselves were seriously considering leaving the district. But the most vulnerable families, they say, have limited choices. These families must send their children to schools that offer fewer opportunities than can be found in neighboring districts, said more than one interviewee. They said that schools in nearby districts have the resources to provide more arts programs, better instructional materials, and newer technology.

4. Reduced public commitment to public education. Some interviewees told us that SCUSD's very public struggle is eroding public confidence in Sacramento's schools, and potentially in public education more broadly. One parent organizer told us that it is negatively affecting school and community culture and that parents feel disempowered. This waning confidence and growing negativity could lead to disinvestment in the education system, even as the need for resources and services for students continues to grow.

Paths Forward for Sacramento City Unified

SCUSD officials prevented state takeover for 2019-20, but the district is still deficit spending and projects to end the 2021-22 fiscal year with a negative ending fund balance that will exhaust reserves and fail to cover all expenditures. The district is now looking to its expensive employee and retiree health benefits as the place to find savings. Several of the bargaining units have come together to problem-solve. SCUSD has asked SCTA to open negotiations regarding these benefits, but as of now those negotiations have not begun. Some stakeholders told us that SCTA has demonstrated a consistent unwillingness to come to the bargaining table, while others place the blame on both parties. Said one interviewee: "These two groups of adults simply won't sit down and have a reasonable conversation." Yet without major reductions in costs, the district will need to make significant cuts.

Because healthcare costs and other major cost drivers are bound up in negotiated agreements, the district is unlikely to substantially repair its financial situation unless it first repairs its relationship with SCTA. The district and its labor associations will need to partner together if the district is to achieve a balanced budget and a plan for investing in both teachers and students.

Investing in the District's Equity Agenda

Finally, the district continues to face significant equity challenges. Special Education costs are on the rise, even as the district serves more students identified for Special Education than ever before. The district is receiving "differentiated assistance" from its county office because at least six of its student groups – including special education students, foster youth, African American students, and Pacific Islander students – are being underserved both academically and non-academically. Eleven schools in SCUSD have been identified as particularly struggling and in need of support under the federal Every Student Succeeds Act (ESSA). SCUSD administrators must develop plans and implement programs to address these needs. Across interviews, administrators stressed a readiness to develop and expand these programs.

To invest in improving outcomes for historically underserved student populations, the district will need to find cost savings or make hard choices about how to shift money. Most likely, it will have to do both. Our own analysis found that if SCUSD spent the county average[25] for health and welfare benefits, it could save approximately 25 to 40 million dollars annually, which is roughly 650 to 1,000 dollars per pupil.[26] Even if the district were to use half of that to reverse deficit spending and reduce liabilities, it could still have 12 to 20 million dollars left to invest in programs that support equity. At that level of funding, it might be able to offer every student music instruction with a certificated teacher once per week and also fully fund an expanded learning summer program for all grade levels. Or it could adopt new textbooks across all subject areas, expand academic interventions, double the amount of funding school sites get for classroom supplies, expand elementary and middle school athletics, and fund college and career visits for all juniors. The list is, of course, endless – but the point is that significant savings from healthcare could potentially translate into meaningful programs and services for students.

Recommendations and Lessons Learned

In the April 2019 report, *The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity*, Melnicoe, Hahnel, Koedel, and Ramanathan made the following recommendations:

- **For districts:** (1) Collaborate with stakeholders to understand the fiscal situation, make tough decisions, plan ahead, and advocate for a statewide solution, (2) Align instructional goals with the budget, and (3) Only make investments that can be sustained over time.
- **For the state:** (1) Increase state revenues for education, (2) Identify ways to tackle unfunded pension liabilities without encroaching upon district budgets, (3) Identify ways the state pension program can be modernized and restructured in order to benefit teachers and decrease costs, and (4) Pair new state investments with new revenue sources.

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[25] Average of seven comparison districts, not including SCUSD: Twin Rivers, San Juan, River Delta Joint, Natomas, Folsom-Cordova, Elk Grove, and Center Joint.

[26] We established an estimated range by using two different calculation methods. Method 1 involved calculating the average per-pupil health and welfare benefits for certificated and classified staff in SCUSD and a weighted average in the 7 comparison districts. The difference between these two values is $1,039 per pupil. We then multiplied this by SCUSD's Average Daily Attendance of 38,983 to identify a possible savings of $39.9 million. Method 2 involved 1) calculating the difference between the cost of teacher health and welfare benefits in SCUSD ($19,700) and the 7 comparison districts ($11,289), which is $8,410 per teacher, 2) calculating the difference between the cost of "65 and under" retiree benefits in SCUSD and the comparison districts, which is $7,520 per retiree, and 3) assuming that the district could reduce by half the $5,375 per "over 65" retiree it spends by reducing or ending lifetime health benefits. These three values were added together to arrive at an estimated savings of $25.1 million. In summary, we arrived at a range of approximately $25 to $40 million.

This case study affirms those recommendations and also highlights additional lessons learned. These lessons apply not only to SCUSD but also to other school districts facing this troubling combination of statewide pressures like pensions and special education, tense labor-management relations, and high health care and other benefit costs.

1. Unaffordable health benefits, if not addressed, will squeeze district budgets. SCUSD made commitments to teachers that were well-intentioned but unaffordable in the long run. No doubt, teachers and other employees deserve good benefits and a secure retirement. But the district has committed to providing benefits that are unaligned with industry standards and unsustainable. Other districts have run into this same issue, and many have untangled it by choosing more affordable health care plans, sharing the cost of premiums with employees, and tapering off retirement health benefits once employees reach Medicare-eligible age. SCUSD and any other district in this situation should do the same. Policymakers should identify ways to incentivize these local policy changes.

2. Tense labor-management relations jeopardize financial stability. The long history of contentious relationships between SCTA and SCUSD points to the importance of nurturing strong and productive relationships between management and labor. Other districts who have faced similar financial pressures have found their way out through cooperation between labor and management, while others with contentious relationships continue to face budget challenges.

Neighboring Elk Grove Unified School District (EGUSD) provides one such example. EGUSD and its seven unions participate in a Joint Health Care Coalition (JHCC) in order to negotiate for the best health care at the best price, something they have been able to achieve because of the commitment all parties have made to building the relationship and establishing trust (Knudson, 2019). Nearby San Juan Unified has also exemplified a collaborative district and labor relationship, with several profiles written about its success. One such case study describes how the district and the union deliberately built trust, open communication, and collaboration following a strike vote 25 years ago. Since then, it has been able to cooperatively develop a Peer Assistance and Review (PAR) program, a new school governance structure, and a teacher evaluation system (Futernick, 2016). Policymakers and funders should continue to invest in labor-management efforts that strengthen these partnerships and lift promising practices.

3. Additional county or state authority taking corrective action may be needed to address the root causes of fiscal distress. Under California law, county offices of education are charged with monitoring district budgets and giving school boards early and regular feedback on fiscal challenges. In addition, FCMAT plays an important role in assessing how well district budget and management practices adhere to industry-defined performance standards. In the case of SCUSD, both SCOE and FCMAT have repeatedly pointed out problems, but neither agency has the authority to force changes. In SCUSD, many of the fiscal challenges are rooted in other issues, most notably the tense labor-management relations, and relatedly, in contract language that limits the ability of district leaders to make significant shifts in spending. State leaders should examine how well its new "System of Support" (California Department of Education, 2019) connects to the system of fiscal oversight, since it is clear from our research in SCUSD that improvement in student opportunities and outcomes must go hand in hand with improvement in budgetary practices. In addition, state leaders should assess whether county and state leaders are sufficiently empowered to recommend and require changes in districts that fall short of stake takeover but nevertheless struggle with ongoing fiscal distress.

4. Districts facing real and unavoidable cost increases need more funding. Addressing student needs, while also putting every student on the path toward college and career readiness, costs more than we have been investing in public education as a state. Declining enrollment, rising pension costs, the increase in the minimum wage, higher energy costs, increased facility costs, and countless other cost drivers only exacerbate this. If state and local leaders want to fully support student success, attract and retain high-quality educators, and stop seeing districts enter financial distress, they will need to find additional revenues. While money alone cannot address all the root causes of financial distress, it is an important part of the solution. However, taxpayers may hesitate to make larger investments until they know money will be used efficiently to benefit students.

Conclusion

SCUSD must make difficult decisions in order to end its deficit spending and stay cash-solvent. The challenge will be in making financial decisions that do no harm to either students or educators and that instead free up funds to invest in them. That said, SCUSD's fiscal crisis cannot be solved overnight. Even with major fixes now, it will be paying off liabilities for decades to come. What it can do, however, is stabilize the situation, steer a course toward future sustainability and success, and restore public confidence. Those things are within the district's control, so long as all local stakeholders work together. Further public investments in SCSUD and other districts are much needed, but they must be layered on top of an already strong foundation.

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