



**CALIFORNIA DEPARTMENT  
OF EDUCATION**

**TONY THURMOND**  
STATE SUPERINTENDENT OF  
PUBLIC INSTRUCTION

1430 N STREET, SACRAMENTO, CA 95814-5901 • 916-319-0800 • WWW.CDE.CA.GOV

May 3, 2024

Matt Wayne, Ed.D., Superintendent  
San Francisco County Office of Education  
San Francisco County Office of Education Unified School District  
555 Franklin Street  
San Francisco, CA 94102-5207

Dear Superintendent Wayne, Ed.D.:

Subject: 2023–24 Second Interim Reports

Pursuant to California *Education Code (EC)* sections 1240(l) and 42131(g), the California Department of Education (CDE) has reviewed the San Francisco County Office of Education (SFCOE) and the San Francisco Unified School District's (SFUSD's) Second Interim Reports and the accompanying certifications of financial solvency. The purpose of the review is to determine whether the Second Interim Reports comply with the Criteria and Standards for fiscal stability adopted by the State Board of Education and are consistent with a financial plan that will enable the county office of education and school district to satisfy their multiyear financial commitments, including all financial obligations in the current year.

**SFCOE Second Interim**

The SFCOE submitted a Second Interim Report with a positive certification indicating that the SFCOE will meet its financial obligations for the current and subsequent two fiscal years. The CDE concurs with this certification.

**SFUSD Second Interim**

The SFUSD submitted a Second Interim Report with a qualified certification indicating that the SFUSD may not meet its financial obligations for the current fiscal year and subsequent two fiscal years. However, because SFUSD is still in the process of implementing a Fiscal Stabilization Plan to resolve deficit spending, the CDE is revising the certification to **Negative**, indicating that the SFUSD will not meet its financial obligations for the remainder of the fiscal year or for the subsequent fiscal year, with the following comments:

## **Structural Deficit**

The SFUSD is projecting deficit spending in the unrestricted general fund for the current and two subsequent fiscal years. Although SFUSD is taking actions to realign resources and eliminate deficit spending, the planned expenditure reductions are still being analyzed and implemented. Without budget adjustments to bring the expenditures in line with revenues, the SFUSD will be unable to meet its financial obligations in the 2024–25 fiscal year.

In December 2023, the SFUSD adopted a Budget Balancing Solution Plan with the 2023–24 First Interim Report that included unrestricted general fund one-time reductions, \$103.1 million of ongoing reductions for 2024–25, and an additional \$88.8 million of unidentified ongoing reductions for 2025–26. The CDE requested that the SFUSD submit an update on the status of these reductions with the Second Interim Report.

The Second Interim Report reflects that of the \$103.1 million in expenditure reductions identified at First Interim for 2024–25, \$28.3 million were not achieved and were added back to the unrestricted general fund for 2024–25. The remaining reductions still planned in the Second Interim Report include \$74.8 million of ongoing reductions for 2024–25 and an additional \$88.8 million of unidentified ongoing reductions for 2025–26 (\$51.8 million for the unrestricted general fund and \$37 million for the restricted general fund). Even after these planned reductions, deficit spending remains.

The CDE has the following concerns with the status of the planned expenditure reductions for 2024–25 and 2025–26:

### **Fiscal Year 2024–25**

- The SFUSD moved \$48.3 million in expenditures from the unrestricted general fund to one-time restricted resources for the 2023–24 fiscal year. At the First Interim Report, the SFUSD stated that if additional funding was not identified, these expenditures would be eliminated in the 2024–25 fiscal year. At the Second Interim Report, \$28.3 million of these ongoing expenditures were moved back to the unrestricted general fund in 2024–25, increasing the deficit spending in the unrestricted general fund. The SFUSD states that the remaining \$20 million in expenditures are still planned for elimination with the 2024–25 budget adoption if additional funding is not identified. As of the Second Interim Report, the SFUSD has not identified how the \$20 million in reductions will be implemented; therefore, the CDE has made an adjustment to add back in the expenditures when assessing SFUSD's Second Interim Report.

- At the First Interim Report, the SFUSD projected estimated ongoing savings of \$40 million from eliminating vacant positions in the 2023–24 fiscal year. As of the Second Interim Report, \$15.8 million of the vacant positions were eliminated. The remaining \$24.2 million in vacant positions are special education positions and are still being analyzed for elimination with the 2024–25 budget adoption. It is unclear if the funding for these vacant positions is currently being used for contracted services. The CDE is concerned that after a thorough analysis of these vacant special education positions, the SFUSD will be unable to achieve the anticipated savings. As of the Second Interim Report, the positions have not been eliminated; therefore, the CDE has made an adjustment to add back in \$24.2 million when assessing SFUSD’s Second Interim Report.
- The SFUSD plans to achieve \$29 million of savings in 2024–25 through changes to their staffing model for elementary, middle, and high schools. The SFUSD stated that these reductions would be achieved through layoffs and attrition. The SFUSD Board of Education adopted a resolution to issue layoff notices that included \$14 million in estimated savings for certificated staff. The CDE has been informed that the SFUSD will no longer pursue these layoffs. The CDE is concerned that this level of savings may not be achieved through attrition alone and there are no alternative identified reductions; however, the CDE has not made an adjustment for this expenditure reduction.
- The SFUSD plans to reduce ongoing consultant contract expenditures by \$11 million in 2024–25. The CDE requested a list of the contracts to be eliminated with the Second Interim Report. The SFUSD stated that the reductions were being made through a proportionate reduction to each central office department, however, the SFUSD did not provide a detailed list of contracts that would be reduced or eliminated nor did the SFUSD provide an analysis of the impact of the reductions on services to students. An \$11 million reduction is approximately 12 percent of the projected 2024–25 general fund unrestricted services and other operating expenditures. The CDE is concerned that when the SFUSD reviews the impact of the reductions, the intended level of savings may not be achieved; however, the CDE has not made an adjustment for this expenditure reduction.

### **Fiscal Year 2025–26**

- The SFUSD has included \$51.8 million of expenditure reductions for the unrestricted general fund in its multiyear projections for the 2025–26 fiscal year, however specific reductions have not yet been identified to achieve this

level of savings; therefore, the CDE has made an adjustment to add back in the expenditures when assessing SFUSD's Second Interim Report.

- The SFUSD has included \$37 million of expenditure reductions for the restricted general fund in its multiyear projections for the 2025–26 fiscal year, however, specific reductions have not yet been identified to achieve this level of savings.

If the SFUSD is unable to achieve the level of savings they are projecting in the 2024–25 fiscal year, the district risks having to make larger expenditure reductions in the 2025–26 fiscal year or face fiscal insolvency. Below is a projection of the unrestricted general fund based on the district's second interim multiyear projection, adjusted by the CDE to add back planned reductions that have not been implemented or that have not yet been identified.

**SFUSD Unrestricted General Fund Projections – Adjusted by the CDE**  
(\$ in Millions)

<b>SFUSD</b>	<b>2023–24</b>	<b>2024–25</b>	<b>2025–26</b>
Beginning Fund Balance	\$219.7	\$160.4	\$38.7
Revenues	\$726.1	\$703.5	\$707.0
Expenditures	\$785.4	781.0	\$739.9
<b>Add</b> Back to Expenditures: Expenditures that were Moved to Restricted on One-Time Basis Coming Back to Unrestricted	N/A	\$20.0	\$20.0
<b>Add</b> Back to Expenditures: Vacant Positions that have not been Eliminated	N/A	\$24.2	\$24.2
<b>Add</b> Back to Expenditures: Unidentified Reductions (Included in Line B10 of MYP)	N/A	N/A	\$51.8
Deficit Spending	(\$59.3)	(\$121.7)	(\$128.9)
Ending Fund Balance	\$160.4	\$38.7	(\$90.2)
Commitment of Fund Balance for Financial and Payroll System Replacement	\$20.0	\$20.0	\$20.0

SFUSD	2023–24	2024–25	2025–26
Reserve for Economic Uncertainties (Minimum 2%)	\$26.9	\$26.9	\$26.4
<b>Shortfall from Meeting Financial Obligations (24-25 and 25-26)</b>	N/A	(\$8.2)	(\$136.6)

*Source: SFUSD FY 2023–24 2<sup>nd</sup> Interim Report and Multi-Year Projections Presentation, March 12, 2024, SFUSD CDE Required Budget Balancing Solutions Plan – 2<sup>nd</sup> Interim Update Presentation, March 12, 2024, Estimated Savings for Reduction in Particular Kinds of Service Resolution, March 5, 2024, Itemization of Items in Line B10 for Second Interim Provided by Fiscal Expert.*

### **Declining Enrollment and Reduced State Funding**

SFUSD's 2023–24 Second Interim Report reflects further declines in enrollment resulting in projected enrollment of 48,734 for 2023–24, 47,673 for 2024–25, and 47,165 for 2025–26. The decline in enrollment, if continued as projected, represents a loss of revenue for the SFUSD. The CDE recommends that the SFUSD continue to assess and adjust staffing needs and facilities planning for the upcoming years based on the projected rate of decline in enrollment. In addition, the CDE recommends that the SFUSD monitor enrollment trends and adjust financial projections if further material reductions in enrollment occur or are expected to occur.

### **Payroll System**

The SFUSD continues to experience issues with the current payroll system and has set aside funds to replace the financial and payroll system. Prior overpayments are still being resolved. In addition, the State Teachers Retirement System is currently conducting an audit of the SFUSD, and the potential fiscal impact is not yet known.

### **Audit Report**

SFUSD's auditor issued a disclaimer of opinion on the 2021–22 audit report due to the inability to obtain sufficient appropriate audit evidence and material weakness in internal control over financing reporting. It is CDE's understanding that the 2022–23 audit report that was due to CDE on December 15, 2023, was recently finalized and will be presented to the governing board on May 7, 2024. With SFUSD's submission of the Adopted Budget on

July 1, 2024, the CDE requests an update on the progress of clearing the audit findings identified in the 2021–22 and 2022–23 audit report.

## **Other Reports**

The CDE has been informed that the Fiscal Crisis and Management Assistance Team (FCMAT) has completed new Fiscal Health Risk Analysis (FHRA) reports for the SFUSD and the SFCOE and will present them to the governing board on May 7, 2024. The CDE requests that the governing board adopt a corrective action plan no later than June 30, 2024, to address deficiencies identified in the FCMAT reports.

In accordance with *EC* Section 1630, please continue to keep the CDE informed of any studies, reports, evaluations, or audits of the SFUSD or the SFCOE that contain evidence showing any fiscal distress. The CDE is required to incorporate the information contained in these reports into our analysis of the budgets and interim reports.

## **Debt Issuance**

This letter also serves as a reminder of the statutory restrictions on debt issuance for school districts that have qualified or negative interim report certifications. These restrictions are specifically addressed in *EC* Section 42133. The SFUSD may not issue, for the 2023–24 and 2024–25 fiscal years, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments not requiring the approval of the voters, unless the State Superintendent of Public Instruction (SSPI) determines that repayment of that indebtedness is probable.

## **Collective Bargaining**

Prior to entering into any collective bargaining agreement, the SFUSD must submit the proposed agreement and required financial documents to the CDE and allow 10 days for review and comment, in accordance with *Government Code* Section 3540.2(e).

## **Third Interim Financial Report**

With a negative certification at Second Interim, the SFUSD is required to submit to the CDE a financial projection of all funds and cash balances through June 30 as of the period ending April 30 (*EC* Section 1240.2). This report is commonly referred to as the third interim report and is due with supporting assumptions by **June 1, 2024**.

## **CDE Fiscal Oversight and Actions Required of District**

Because of SFUSD's distressed financial condition, *EC* Section 1630(d) allows the SSPI to intervene and compel the SFUSD to implement measures to improve its financial condition. On September 15, 2021, Fiscal Experts were assigned to the SFUSD. Pursuant to *EC* Section 1630(d) and SFUSD's negative certification, the SSPI is extending the authority of the Fiscal Experts to **Fiscal Advisers**, with stay or rescind authority over any action that is determined to be inconsistent with the ability of SFUSD to meet its obligations for the current or subsequent fiscal year. In addition, the Fiscal Advisers will assist in developing, in consultation with the board of education and SFUSD, a multiyear financial recovery plan that will enable SFUSD to meet its future obligations along with a budget for the 2024–25 fiscal year.

**The CDE requires that SFUSD work with the Fiscal Advisers to address deficit spending, with detailed, specific actions and timelines, in an updated Board-approved Fiscal Stabilization Plan to be submitted to the CDE with its Adopted Budget by July 1, 2024.** The SFUSD is required to include the necessary adjustments at a detailed fund and object code level in its 2024–25 Adopted Budget and multiyear projections to maintain minimum reserve levels in all fiscal years.

## **Commitments by District Leadership**

CDE and SFUSD leadership along with CDE assigned Fiscal Experts, and Mike Fine with FCMAT, met on Wednesday, May 1, 2024, to discuss SFUSD's Second Interim Report and the continued fiscal challenges facing the SFUSD. At that meeting, the following items were discussed and there was a commitment by the district's superintendent to implement the following actions as the SFUSD proceeds with the development of its 2024–25 budget:

- Immediate freeze on hiring.
- Reconciliation of retirements and resignations for 2024–25: the district will determine the number of retirements and resignations and will identify which current staff may appropriately be placed into those positions before hiring new employees.
- Position Alignment: the district will confirm the accuracy of its current vacancies (490 committed to by the district's superintendent) and ensure the 2024–25 adopted budget only reflects positions SFUSD intends to fill.
- Restricted Revenue Alignment: as part of the 2024–25 adopted budget, the district will provide CDE with a detailed reconciliation of the \$20 million in expenditures moved from restricted to unrestricted, noted in the table above.

Thank you for the submission of your Second Interim Reports and the cooperation during our review process. On behalf of the CDE and our Fiscal Experts, I want to express the confidence we have in the leadership of your Business Department and recognize all the hard work and positive strides those individuals have made to address some of the long standing and systemic issues with SFUSD's financial systems and reporting. Our Fiscal Experts have reported to us a noted improvement in the responsiveness of receiving timely and quality information. Furthermore, we recognize that this dramatically improves the confidence in the information being presented and analyzed. While additional steps are needed to improve SFUSD's financial systems, we acknowledge progress is being made that will lead to improved decision-making and the long-term fiscal sustainability of the SFUSD.

If you have any questions or concerns, please contact myself at [aquillen@cde.ca.gov](mailto:aquillen@cde.ca.gov) or Elizabeth Dearstyne, Director at [edearstyne@cde.ca.gov](mailto:edearstyne@cde.ca.gov).

Sincerely,

Abel Guillen

Digitally signed by Abel  
Guillen  
Date: 2024.05.03  
08:19:06 -07'00'

Abel Guillén, Deputy Superintendent  
Operations and Administration Branch

AG:jf

cc: Tony Thurmond, State Superintendent of Public Instruction  
Board of Education Members, San Francisco COE and USD  
Brooks Allen, Executive Director, State Board of Education  
Elizabeth Dearstyne, Director, School Fiscal Services Division  
Michael Fine, CEO, Fiscal Crisis and Management Assistance Team  
Dr. Candi Clark, Interim Associate Superintendent, Business Services, San Francisco COE and USD  
Jie Jackie Chen, Financial Services Officer, San Francisco COE and USD  
Elliott Duchon, CDE Appointed Fiscal Adviser  
Pam Lauzon, CDE Appointed Fiscal Adviser