

S.F. schools' financial tanspin prompts state to intervene in face of massive shortfall

The San Francisco school district's financial situation is so dire, the state is...

By Jill Tucker

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The state emphasized that it has the power to withhold pay from school board members and the superintendent for “failure to provide requested financial information.” State officials said they are not currently taking that step, but could in the future.

“We acknowledge that the district is working to identify strategic solutions for resolving the projected budget shortfalls,” said a Sept. 15 letter to district Superintendent Vince Matthews that was included in the public agenda for a special Tuesday board meeting on future budgeting. “However, reductions have yet to be identified after a year of discussion.”

The district was expected to submit a fiscal recovery plan with two separate budget reports this fiscal year but did not do that, state officials said. District leaders, however, said there was no deadline to submit those plans.

The school board now has until Dec. 15 to approve a “fiscal stabilization plan” that will ensure they can pay their bills with an adequate reserve left over for fiscal years 2022-23 and 2023-24.

The state intervention is the latest blow for a district that’s been in [crisis for 18 months](#), with school board controversies, [a recall effort](#), costly lawsuits and tension between the teachers union and parents over return to in-person instruction. At the same time, enrollment is dropping.

In early 2020, the district was spending \$60 million a year beyond its revenue. Adding to the crunch, personnel costs were growing at four times the rate of

increases in funding from the state, and special education and other costs were escalating.

Since then, the situation has only gotten worse.

“In SFUSD we are seeing a decline in enrollment, which results in a decrease in revenue,” Matthews wrote to staff this month. “Our costs continue to significantly rise — current employee and retiree benefits, salaries and programs that serve our highest need students are just a few areas where costs have increased by tens of millions in recent years.”

While city schools have received \$60 million for pandemic recovery from state and federal sources, and \$15 million from city coffers, the district has largely used that money [to offset a shortfall this year](#), preventing cuts to staffing and programs, and expanding online learning and after-school programs, Matthews said.

The school board increased its financial burden by creating new programs for racial subgroups, and incurred staff and legal fees with its decision and reversal on renaming some schools and approval of a nearly \$1 million plan to [cover up a school mural](#).

Spending to support struggling students is understandable, said former school board member Rachel Norton, “but your responsibility as a board member, first and foremost, is the financial condition of the district. That is your job.” She added, “It doesn’t appear that this board has made the hard decisions.”

Most recently, the board opposed a \$5 million-saving move recommended by staff to shift teachers around to more evenly distribute the student load, and reduce the budget at some schools with declining enrollment.

At Tuesday’s special meeting, board members discussed the state’s intervention and asked state fiscal experts what it will take to balance the budget.

“Districts successful in a turnaround recognize they have a problem,” said Michael Fine, CEO of the Fiscal Crisis & Management Assistance Team, which works with the state’s school districts on financial stability, who participated in the meeting. “Don’t mask the problem; take advantage of the expertise.”

Fine also advised the board to listen to staff and take their advice.

“Our collective job is to stop the bleeding, get you on the healing path, get you turned around and back where you need to be,” he said.

The district’s teachers union said Tuesday that educators would do everything they can to protect classrooms and essential services for students.

“SFUSD should have a laser-like focus on keeping cuts as far away from classrooms and school sites as possible,” said a statement from United Educators of San Francisco. “We find it troubling that in one of the wealthiest cities in the world, for decades, management has suggested deficits and cuts that take away valuable resources from our students, classrooms and schools.”

So far, the board has refused to make cuts at school sites despite declining enrollment. Last year, that meant the superintendent was forced to balance the budget by stripping \$25 million from the central office. Yet, teachers union officials and others recently have complained about an unresponsiveness from human resources and other administrative services, Matthews told the Sept. 21 meeting.

Board member Alison Collins grilled staff on why they weren’t applying for grants. Such funding is typically for specific programs and would not offset the deficit, said district officials, who for well over a year have sounded the budget deficit alarm and urged the board to act.

If the district goes under and requires a loan to pay bills, the state would step in and take over, with the school board losing all control.

The actions by the state are legally required given the anticipated shortfall over the next two years and lack of a plan to address it.

The intervention “allows central office staff to receive technical advice regarding our budgets for the upcoming years,” said school board Vice President Faauuga Moliga ahead of Tuesday’s board meeting. “I believe this will prove helpful to everyone.”

Typically, the county office of education would assume the fiscal oversight, but in San Francisco the district and county office of education are combined.

With the state’s action, San Francisco joins 13 districts — among the state’s 1,000 school districts — in financial straits dire enough to spur county intervention, including Oakland, where the Alameda County Office of Education has oversight.

Oakland's financial troubles have continued despite a \$100 million state bailout and takeover in 2003. Matthews, several years before becoming San Francisco's superintendent, ran the Oakland district as state administrator until the state restored the Oakland board's power in 2009. The state continues to have some fiscal oversight over Oakland schools because the district is still paying back the loan.

San Francisco will have to make hard decisions to avoid the same fate, officials said.

School board member Jenny Lam, who chairs the S.F. district's Budget Committee, warned her colleagues last month that the district was facing "historical budget deficits" and there is no money. The pain in cutting some school budgets and transferring teachers to save \$5 million will be magnified 20-fold in the months ahead, she said.

"Resolving SFUSD's historical budget deficits remains the top priority, and ensuring the highest level of learning outcomes despite our budgetary circumstances is our challenge," Lam said Tuesday. She added that the district is on track to have a budget plan in place by Dec. 15. "Our focus must remain on the fiscal solvency of SFUSD; it's the only path forward for the future of our students."

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With a \$116 million shortfall increasing the likelihood that the San Francisco school district won't be able to pay its bills, the California education superintendent is stepping in to address its financial tailspin in a move aimed at avoiding a full state takeover. The intervention, revealed this week in district meeting documents, means the state will bring in a fiscal consultant to help the school board figure out how to cut the equivalent of 13% of its annual \$1 billion budget. It will also require the district to submit any labor agreements to state Superintendent of Public Instruction Tony Thurmond for review.