



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 8.2

Meeting Date: February 7, 2013

Subject: Governor's Budget Proposal

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: _____)
- Conference/Action
- Action
- Public Hearing

Division: Administrative Services

Recommendation: Receive for information a review of the Governor's Budget proposal for 2013-14.

Background/Rationale: The budget cycle is an evolutionary process that is refined as new information becomes available. As the district executes the current year budget, the process begins to develop the budget for the next fiscal year. The first event of the new budget cycle is the presentation of the Governor's proposed budget that becomes public in January of each year.

Financial Considerations: Board review and preparation for actions required to effectively balance the 2013-14 budget.

Documents Attached:

1. Executive Summary

Estimated Time of Presentation: 10 Minutes

Submitted by: Richard E. Odegaard, Interim Chief Business Officer

Approved by: Jonathan P. Raymond, Superintendent

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I. Overview/History:

Sacramento City Unified School District has been in a budget reduction mode since the 2002-03 school year. In the past five years, the district has reduced expenditures, enhanced revenues, or used one-time funds for a total of \$146 million dollars to maintain balanced budgets. The continuing shortfall has been caused primarily by a reduction in state funding with contributing factors of increased employee costs and declining enrollment. California Local Education Agencies (LEA's) have experienced a significant reduction in revenue limit dollars in that the revenue limit currently has a deficit of 22.272%.

Budget reductions have been made to all employee groups, supplies, services, utilities, and capital outlay. Decisions considered "away from the classroom" were made many years ago. Recent budget savings include increasing class sizes, reducing central office staff, the reduction or elimination of many Tier III programs such as Adult Education, Arts and Music block grant, and deferred maintenance, reduced staffing at school sites, and the implementation of furlough days.

In addition to the reductions to revenue limit dollars, state appropriations have been deferred both in inter-year and intra-year which results in districts throughout the state experiencing significant cash flow problems. This results in the district being put into a position of borrowing funds until the deferred cash is received in the following year. This is accomplished by issuing cross-year Tax Revenue Anticipation Notes (TRANS). The bottom line is that the district bears the burden of the costs of borrowing instead of the state assuming those costs.

On a more macro scale, as a result of the passage of the American Taxpayer Relief Act (ATRA) in December, the worst of the downside scenarios of the fiscal cliff have been avoided. However, the issue of sequestration was not resolved but rather delayed to March 1. The sequester mandates about \$1 trillion in government spending cuts over nine years, divided between defense and non-defense programs. The impact to SCUSD is projected to be an 8.5% reduction in Federal funding. Debt ceiling and government funding issues still loom in the near term. It should be noted that the ATRA agreement fell dramatically short of any meaningful structural reform to current fiscal policy. The California economy continues a slow but reasonably steady growth with recent employment numbers improving and a steady trend upwards in the housing market. It is noted that the passage of Proposition 30 provided relief from districts having to make substantial budget reductions in 2012-13. It will also reduce the cuts having to be made

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in coming years. However, it will not totally solve the structural deficit until the state's economy has recovered.

II. Driving Governance:

- Education Code section 42130 requires the Superintendent to submit two Interim reports to the Board of Education during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.
- Education Code section 42131 requires the Board of Education to certify, in writing, whether the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the future fiscal year. Certifications shall be based on the Board's assessment of the district budget. Certifications shall be classified as positive, qualified or negative. This education code section also outlines the role of the County Office of Education.
- Education Code Sections 44919, 44951 and 44955 require school districts to provide notice on or before March 15th to certificated employees who are designated for layoff for the subsequent year. The final decision for layoff must occur before May 15th.
- Education Code Sections 45114, 45115, 45117, 45298 and 45308 require school districts to provide not less than 45 day's notice to classified employees of a layoff.
- Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1. The budget to be adopted shall be prepared in accordance with Education Code section 42126. The adopted budget shall be submitted to the County Office of Education. The County Office of Education determines if the district will be able to meet its financial obligations during the fiscal year and ensures a financial plan that will enable the district to satisfy its multiyear financial commitments.

III. Budget:

Budget projections remain extremely cloudy at this point in time of the budget process. Proposition 30 appears to be generating new funding that will support revenue increases but the distribution of the increases are dependent upon the action taken by the legislature during the next few months. In the worst case scenario of a 1.65% COLA, the district will need to

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identify significant budget reductions. In the best case scenario, the reductions necessary to present a balanced budget to SCOE will be significantly reduced, but the district will still have a structural deficit that must be addressed.

The confusion at this point in time is whether the Governor's proposal for a revised funding formula, known as the Local Control Funding Formula (LCFF), will be approved by the legislature. The LCFF is the outgrowth of the efforts over the past year to define a Weighted Student Formula (WSF). Key elements in the LCFF are intended to establish for each district its own "Funding Target," based upon its particular grade span configuration, its percentage of students who are English-Language Learners or eligible for Free-and-Reduced Price Meals, and its current funding levels for Home-to-School Transportation, TIIG (Targeted Instruction Improvement Grants), and Foster Youth Funding.

IV. Goals, Objectives and Measures:

Maintain a balanced budget for 2012-13 and continue to follow the timeline to ensure a balanced 2013-14 budget.

V. Major Initiatives:

- Support implementation of the Strategic Plan 2010-2014.
- Fiscal stability for 2012-13, 2013-14 and outlying years.
- Focus expenditures to provide the best possible academic outcome

VI. Results:

Required Board actions will take place in order to ensure a balanced Adopted Budget is in place on or before July 1, 2013.

VII. Lessons Learned/Next Steps:

- Follow the approved calendar with adjustments made as necessary.
- Continue to monitor the state budget and its impact on the district finances.
- Meet and communicate with bargaining unit partners.