



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item 9.2

**Meeting Date:** January 21, 2016

**Subject:** 2016-2017 Budget Update

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

**Division:** Business Services

**Recommendation:** Receive for information a review of the Governor's Budget proposal for 2016-2017.

**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 2016-2017 and 2017-2018 budgets.

**LCAP Goal(s):** Family and Community Engagement

**Documents Attached:**

1. Executive Summary

<p><b>Estimated Time of Presentation:</b> 10 minutes <b>Submitted by:</b> Gerardo Castillo, CPA, Chief Business Officer <b>Approved by:</b> José L. Banda, Superintendent</p>
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# Board of Education Executive Summary

## Business Services

2016-2017 Budget Update

January 21, 2016



### I. OVERVIEW/HISTORY:

The Governor's Budget Proposals for 2016-17 continue the positive theme that has existed over the past three years for public education. As the economy has improved, and been aided by the additional \$8 billion in annual revenues provided by Proposition 30, and repayment of the maintenance factor, Governor Brown has been able to advance his agenda with authority for public education. This is great news for Sacramento City Unified School District (SCUSD), especially since SCUSD has been in a budget reduction mode since the 2002-03 school year. From 2002-03 to 2013-14, the district has reduced expenditures, enhanced revenues, or used one-time funds for a total of \$150 million dollars to maintain balanced budgets. Last year (2014-15) was the first year in several years that SCUSD did not incur reductions, and the first time since 2007-08 that positive certification was presented to Sacramento County Office of Education.

The continuing shortfall of previous years was caused primarily by a reduction in state funding with contributing factors of increased employee costs and declining enrollment. California LEA's experienced a significant reduction in revenue limit dollars in that the revenue limit was up to a deficit of 22.272%. The Governor clearly acknowledged that the growth in education budget was warranted largely because of the fact that the cuts to education were much deeper than other areas of the State Budget. The Governor's effort to restore funding to public education is greatly appreciated.

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, deferred maintenance, reduced staffing at school sites, and the implementation of furlough days.

With the release of the Governor's Proposed Budget for the 2016-2017 fiscal year we are hopeful that we can continue the recovery process that SCUSD started in 2014-15 including full implementation of K-3 reduction for 2016-17, but because previous years cuts were so severe, it will take several years. Key points of the Governor's Budget are provided below:

- The Governor is careful to point out that education funding has grown by 51% over the past five years. As we know, the property taxes have gone up faster than the education funding increases in recent years, so even though the increases have been large, they have been funded by growth in property taxes, not the state General Fund.

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- The Governor took great pains to explain the relationship between state revenues, particularly capital gains revenues, and ongoing state expenditures. He asserted that even a moderate recession could quickly produce huge deficits in the State Budget. As a result, the Governor plans to make major additions to the Rainy Day Fund.
- The Budget tells state-funded agencies to prepare for the next downturn, builds state-level reserves, but leaves local school districts without relief on the reserve policy.
- The Budget proposes a Proposition 98 guarantee of \$71.6 billion, an increase of \$2.4 billion, or 3.5%, of additional funding allocated through the Local Control Funding Formula (LCFF), an average increase of \$368 per-pupil over the level provided in 2015-16
- Reminder: LCFF is designed to distribute additional funds to all school districts over time, but with particular emphasis on improving the level of support for English Learners, Foster Youth, and students in poverty. The implementation plan for LCFF continues to assume that it will be fully funded by 2020-21. However, in only three years it has reached 95% of the targeted funding levels.
- The Department of Finance staff estimates that the additional funding proposed in the budget will eliminate 49.08% (compare to 35.55% at 1<sup>st</sup> interim) of the remaining gap between the 2016-2017 funding level and the LCFF funding target for each school district.
- The Governor's Budget Proposal includes \$1.2 billion for discretionary one-time Proposition 98 funding to further investments in the implementation of Common Core, professional development, induction programs for beginning teachers, and deferred maintenance. The allocation amounts to about \$214 per ADA (\$8.1 million for SCUSD).
- The Governor's Budget contains \$365.4 million for energy efficiency project grants from Proposition 39 for K-12 agencies (i.e., school districts, COEs, state specials schools, and charter schools).
- Budget proposes a cost-of-living adjustment (COLA) of .47%, estimated \$2.50 per ADA, for categorical programs outside the LCFF, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- Federal Education Programs have the same level of funding or small increases.
- 2015-16 and 2016-17 fiscal years, school districts are required to contribute the lesser of 3% of the total General Fund expenditures towards Routine Restricted Maintenance or the amount deposited in 2014-15.
- 2017-18 and 2019-20 fiscal years, school districts are required to contribute the greater of 2% of the total General Fund expenditures or the lesser of 3% of the total general fund expenditures towards Routine Restricted Maintenance or the amount deposited in 2014-15.
- 2020-21 and beyond at least 3% of the total General Fund expenditures towards Routine Restricted Maintenance.

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- Employer costs for retirement benefits for both the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) are projected to nearly double over the next several years.
  - CalSTRS - From 8.25% in 2013-14 to 19.1% in 2020-21
  - CalPERS – From 11.442% in 2013-14 to 20.4% in 2020-21
- No new funding to address the increased district costs for retirement and no new funding for transportation.
- Proposition 30 taxes are temporary:
  - They expire completely by 2018.
  - Governor Jerry Brown has made it clear that he does not support extending them.

Overall, a very good State Budget for public education, funding is however only part of the equation. Declining enrollment, increased operating expenses and uncertain future state resources are the key issues facing the Sacramento City Unified School District. The development of future budgets will be influenced by external variables such as the State Budget and enrollment changes. Internal factors of compensation and number of employees must be commensurate with the number of students. Sacramento City Unified School District must think long term and be vigilant in monitoring all expenditures to avoid fiscal distress.

## 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 15<sup>th</sup> to certificated employees who are designated for layoff for the subsequent year. The final decision for layoff must occur before May 15<sup>th</sup>.

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- Education Code Sections 45114, 45115, 45117, 45298 and 45308 require school districts to provide not less than 45 days' 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 fluid at this point in terms of the budget process. The Governor's Budget Proposals do not mark the end of the Budget cycle—they mark the beginning. The Legislature will have a lot to say about the Governor's priorities, especially with all the new revenues streaming in. This would be the third year in a row that the Governor has made public education his highest priority. In his press conference announcing his Budget, the Governor made the valid point that education took more than its fair share of reductions during the last recession. The Legislature will push for improvements in other areas of the Budget, as they did the last couple of years. The Governor will again be tested, but he has proven that he can stand his ground.

Staff attended the Budget Conference on January 13<sup>th</sup> and is still reviewing the details.

### IV. GOALS, OBJECTIVES AND MEASURES:

Maintain a balanced budget for 2015-2016 and continue to follow the timeline to ensure a balanced 2016-2017 and 2017-18 budget.

### V. MAJOR INITIATIVES:

- Support implementation of LCFF and the LCAP process.
- Fiscal stability for 2016-17, 2017-2018 and outlying years.
- Focus expenditures to provide the best possible academic outcome.

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### VI. RESULTS:

Required Board actions will take place in order to ensure a balanced Adopted Budget is in place on or before July 1, 2016.

### 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.
- Continue to provide updates to the board, parents, community and staff