



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 8.5

Meeting Date: February 3, 2022

Subject: 2022-23 January Governor's Budget Proposal 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 the budget update.

Background/Rationale: On January 10, 2022, Governor Newsom released the 2022-2023 State Proposed Budget including the proposals for K-12 Education. Of the proposals for K-12 Education, a few items may have a significant impact on the District's multi-year budget projections, an increase in COLA, a proposal to address the declines in enrollment and average daily attendance that LEA's are experiencing during the pandemic and beyond and an increase in special education base funding rate.

As of the 2021-22 First Interim Financial Report the District projected that a \$26.2 million solution would be required to address the deficit.

Financial Considerations: Identify projected impact to District revenues based on 2022-23 Governor's January Budget Proposal.

LCAP Goal(s): Family and Community Empowerment; Operational Excellence

Documents Attached:

1. Executive Summary

Estimated Time of Presentation: 20 Minutes

Submitted by: Rose Ramos, Chief Business Officer

Approved by: Jorge A. Aguilar, Superintendent

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I. OVERVIEW/HISTORY:

The District approved the 2021-22 First Interim Financial Report at the December 16, 2021 Board Meeting. The 2021-22 First Interim information presented to the Board is based on the 2021-22 Enacted State Budget.

On January 10, 2022, Governor Newsom released the 2022-23 State Proposed Budget including the proposals for K-12 Education. Of the proposals for K-12 Education, a few items may have a significant impact on the District's multi-year budget projections, an increase in COLA, a proposal to address the declines in enrollment and average daily attendance that LEA's are experiencing during the pandemic and beyond and an increase in special education base funding rate.

II. Driving Governance:

Education Code Section 42130 requires school districts to prepare interim financial reports each fiscal year. The requirement includes filing two interim financial reports. The First Interim Report, as of October 31st, requires Board approval by December 15th. The Second Interim Report, as of January 31st, requires Board approval by March 15th. If the District is in qualified or negative status, a third financial report is required as of April 30, and requires Board approval by June 1st. 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 projections, for the subsequent two fiscal years. Certifications shall be based on the Board's assessment of the district budget. The certifications provided with the first and second interim reports are classified as positive, qualified, or negative. A "positive" certification indicates that the district will meet its financial obligations for the current fiscal year as well as the two subsequent fiscal years. A "qualified" certification means that the district may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A "negative" certification means that the district is unable to meet its financial obligations for the remainder of the current fiscal year or the future fiscal year. This education code section also outlines the role of the County Office of Education.

The SCUSD Board of Trustees has revised Board Policy 3100 to establish and maintain a general reserve for economic uncertainty that meets or exceeds the requirements of CCR 15443. The reserve for economic uncertainty for the District will be established at no less than 5% of total general fund expenditures. Under BP 3100 it is acknowledged that one-time funding should be used for one-time expenditures and shall only be used for an on-going expenditure as a last resort. As part of the approval of the annual budget, the Board shall consider any proposed use of one-time funding and shall take separate action to approve such uses

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III. Budget:

The following key items are included in the 2022-23 Governor's January Budget Proposal for K-12 Education Budget.

COLA

The first budget proposal is a projected increase in COLA for 2022-23 fiscal year and continuing through 2024-25. The following table provides a comparison between what the District was projecting for COLA as of the 2021-22 First Interim report and the 2022-23 Governor's proposed COLAs.

| COLA | 21-22 | 22-23 | 23-24 | 24-25 |
|----------------------------|--------------|--------------|--------------|--------------|
| Governor's Proposed Budget | 5.07% | 5.33% | 3.61% | 3.64% |
| First Interim Projected | 5.07% | 2.48% | 3.11% | 3.54% |
| Difference | 0.00% | 2.85% | 0.50% | 0.10% |

Attendance/LCFF

Beginning in 2022-23, and for future years, the Governor's proposal would amend EC § 42238.05(a)(1) and allow a third option for funded ADA which would use the actual ADA from the prior three years. If enacted, this would allow a school district in 2022-23 to be funded on the greater of the following:

- Actual ADA from 2022-23
- Actual ADA from 2021-22
- Average ADA based on actuals from 2019-20, 2020-21, and 2021-22

The table below shows the projected COLA increases and proposal for funded ADA for fiscal years 2022-23, 2023-24 and 2024-25. Fiscal years 2022-23 and 2023-24 projections use the average ADA from the three prior years and 2024-25 is based on the projected actual ADA.

The following assumptions were used to calculate projected LCFF:

- Fiscal year 2021-22 incorporates P1 ADA data and CBEDS enrollment of 38,044 with an ADA yield of 90% (*this information was needed to calculate future year averages.*) Please note that the District's ADA yield in 2019-20 was 94.6%
- Enrollment for future years is based on a .5% decline and an attendance yield of 94.6% starting in 2022-23, the same assumption used with the 21-22 First Interim Report.
- Unduplicated Pupil Percentage rolling average for future years is approximately 70%.

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| LCFF Projected Changes | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-----------------------------|----------------------|---------------------|---------------------|---------------------|
| 2022-23 Governor's Proposal | \$434,355,408 | \$441,824,790 | \$446,693,669 | \$457,250,037 |
| 2021-22 First Interim | \$435,769,916 | \$421,198,106 | \$430,357,310 | \$444,831,680 |
| Difference | (\$1,414,508) | \$20,626,684 | \$16,336,359 | \$12,418,357 |
| | | | | |
| LCFF Base | 2021-22 | 2022-23 | 2023-24 | 2023-24 |
| 2022-23 Governor's Proposal | \$343,676,443 | \$350,826,736 | \$356,092,677 | \$363,284,019 |
| 2021-22 First Interim | \$344,812,766 | \$334,202,099 | \$342,876,146 | \$353,274,421 |
| Difference | (\$1,136,323) | \$16,624,637 | \$13,216,531 | \$10,009,598 |
| | | | | |
| Supplemental/Concentration | 2021-22 | 2022-23 | 2023-24 | 2023-24 |
| 2022-23 Governor's Proposal | \$84,135,430 | \$84,454,519 | \$84,057,457 | \$87,422,483 |
| 2021-22 First Interim | \$84,413,615 | \$80,452,472 | \$80,937,629 | \$85,013,724 |
| Difference | (\$278,185) | \$4,002,047 | \$3,119,828 | \$2,408,759 |

The projected increases highlighted above for LCFF base would be applied to the projected deficits in the District's multi-year projections. The current year projected decrease will be reflected in the 2021-22 Second Interim Report.

Special Education Funding Increase

Another significant budget proposal is an on-going projected new rate to the existing AB 602 base rate for Special Education. The proposed rate would increase to \$820 per ADA, up from \$715 per ADA. The table below provides the impact of the proposed AB 602 funding rate of \$820 per ADA. The projected increases in the future years would be applied to the projected contributions in the multi-year projections and would assist in reducing any projected deficits. The ADA used for the calculations assumes the projected funded ADA used in calculating LCFF revenues in the future years.

| | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-----------------------------|---------------|---------------------|---------------------|---------------------|
| 2022-23 Governor's Proposal | \$ 29,165,265 | \$ 33,448,276 | \$ 33,056,480 | \$ 32,062,221 |
| 2021-22 First Interim | \$ 29,165,265 | \$ 29,165,265 | \$ 28,823,638 | \$ 27,956,693 |
| Difference | \$ - | \$ 4,283,011 | \$ 4,232,842 | \$ 4,105,528 |

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Impact to the District's Projected Deficits as of 2021-22 First Interim Report

The tables below illustrate the potential impact to the multi-year projections (total General Fund) with the proposals discussed above. Increased COLA's, ADA proposed flexibility and increase to special education AB602 funding rate to \$820/ADA. As a reminder, the increase in LCFF base will help offset projected deficits as the LCFF supplemental and concentration increases will need to be budgeted and expensed. This analysis reflects only changes due to the Governor's Budget Proposal with updated ADA information from the District's 21-22 P1 attendance report; other local changes to the budget, favorable and unfavorable, will be incorporated into the Second Interim Report.

| 2021-22 First Interim Multi-Year Projections (Total GF) | | | |
|---|----------------------|-----------------------|-----------------------|
| Description | 2021-22 | 2022-23 | 2023-24 |
| Total Revenues | \$711,345,307 | \$597,075,014 | \$606,905,302 |
| Total Expenditures | \$715,746,748 | \$618,584,156 | \$635,156,851 |
| Excess/(Deficiency) | (\$4,401,442) | (\$21,509,142) | (\$28,251,549) |
| Other Sources/Uses | \$2,050,301 | \$2,050,301 | \$2,050,301 |
| Net Increase/(Decrease) | (\$2,351,141) | (\$19,458,841) | (\$26,201,248) |
| Add: Beginning Fund Balance | \$125,906,717 | \$123,555,577 | \$104,096,736 |
| Ending Fund Balance | \$123,555,577 | \$104,096,736 | \$77,895,487 |

| 2021-22 First Interim Multi-Year Projections (Total GF) With 22-23 Governor's Budget Proposals | | | |
|---|----------------------|---------------------|----------------------|
| Description | 2021-22 | 2022-23 | 2023-24 |
| Total Revenues | \$711,345,307 | \$597,075,014 | \$606,905,302 |
| COLA & ADA Proposal | (\$1,136,323) | \$16,624,637 | \$13,216,531 |
| Special Ed AB602 Proposal | \$0 | \$4,283,011 | \$4,232,842 |
| Total Expenditures | \$715,746,748 | \$618,584,156 | \$635,156,851 |
| Excess/(Deficiency) | (\$5,537,765) | (\$601,494) | (\$10,802,176) |
| Other Sources/Uses | \$2,050,301 | \$2,050,301 | \$2,050,301 |
| Net Increase/(Decrease) | (\$3,487,464) | \$1,448,807 | (\$8,751,875) |
| Add: Beginning Fund Balance | \$125,906,717 | \$122,419,254 | \$123,868,061 |
| Ending Fund Balance | \$122,419,254 | \$123,868,061 | \$115,116,185 |

Other K-12 Spending Proposals

- \$3.4 billion for the Expanded Learning Opportunities Program (ELOP)
- \$650 million for universal access to school meals
- \$640 million (Prop 98 "rebenched") for transitional kindergarten expansion

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- \$295 million for 5.33% COLA for certain categorical programs
- \$1.2 billion for Early Childhood Education programs
- \$309 million for California State Preschool programs
- \$762 million (one-time) for Early Literacy programs
- \$3.1 billion (one-time) to Prop 98 reserve
- \$2 billion (one-time) for college and career pathways
- \$1.5 billion (one-time) to support electric buses
- \$1.3 billion (GF one-time) to support the School Facilities Program

IV. Goals, Objectives and Measures:

Continue to provide information to the Board and the public including required reporting periods such as First, Second and Third Interim reports. Follow the timeline, identify all budget cuts and savings, and take action to implement such savings as required by law, District policy, and applicable bargaining agreements.

V. Major Initiatives:

- Analyze information from the State and its impact on District finances.
- Continue to work with the Fiscal Advisor and staff to implement FCMAT's recommendations.

VI. Results:

Budget development for 2022-23 will follow the calendar and timeline approved by the Board. Required Board actions will take place in a timely manner to ensure a balanced Adopted Budget is in place on or before July 1, 2022.

VII. Lessons Learned/Next Steps:

- Continue to monitor the State budget and its impact on District finances.
- Continue to obtain stakeholders' input, follow the LCAP process and meet with bargaining units to seek cost reductions and long-term budget savings.
- The District's 2021-22 Second Interim Financial Report will include additional information and new updates.
- In May 2022, the Governor will release (May Revise) updated projections for the 2022- 23 State Budget. The May Revise will inform the District's 2022-23 budget development and multi-year projections. However, between May Revise and the State Adoption, the State Budget may undergo further revisions that may influence K-12 funding. Therefore, the District's budget may be revised to reflect any applicable changes included in the State Adopted budget.