



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.3

**Meeting Date:** December 16, 2021

**Subject:** Approve Fiscal Recovery Plan

- 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:** Approval of the Fiscal Recovery Plan.

**Background/Rationale:** The current financial status as of the 2021-22 Budget Update, using enrollment projections of 38,044, projects that on-going reductions of \$26.2 million are required in order to balance the budget, satisfy the state-mandated 2% reserve and avoid fiscal insolvency. On June 24, 2021 the Sacramento City Unified School District's ("District") Board approved the 2021-22 Adopted Budget which was conditionally approved by the Sacramento County Office of Education (SCOE). SCOE conditionally approved the District's 2021-22 Adopted Budget with a lack of going concern determination primarily due to the on-going structural deficit. As part of the conditional approval, the District must submit a viable board-approved plan by December 15, 2021 to address the on-going structural deficit.

**Financial Considerations:** The District's Fiscal Recovery Plan includes proposed budget solutions.

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

**Documents Attached:**

1. Executive Summary

<p><b>Estimated Time:</b> 15 Minutes <b>Submitted by:</b> Rose Ramos, Chief Business Officer <b>Approved by:</b> Jorge A. Aguilar, Superintendent</p>
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# Board of Education Executive Summary

## Business Services

2021-22 Fiscal Recovery Plan

December 16, 2021



### I. OVERVIEW/HISTORY

On June 24, 2021 the Sacramento City Unified School District's ("District") Board approved the 2021-22 Adopted Budget which was conditionally approved by the Sacramento County Office of Education (SCOE) in a letter dated September 15, 2021. SCOE conditionally approved the District's 2021-22 Adopted Budget with a lack of going concern determination primarily due to the on-going structural deficit. As part of the conditional approval, the District must submit a viable board-approved Fiscal Recovery plan by December 15, 2021 to address the on-going structural deficit. The Fiscal Advisor assigned by SCOE has continued to work with the District providing fiscal oversight and guidance.

The District must implement sufficient reductions to resolve the on-going structural budget deficit which is also projected to increase in future years. Although a State Loan will not be required in 2021-2022, the District is at risk of fiscal insolvency if the required reductions are not implemented for the 2022-23 and 2023-24 fiscal years. To address fiscal insolvency, the District, for the board's consideration, has developed a Fiscal Recovery Plan (FRP) that includes both negotiable and non-negotiable items. Although savings from the non-negotiable items will reduce the deficit, these reductions alone will not be sufficient and therefore, additional reductions will be required to eliminate deficit spending and achieve fiscal solvency.

### II. Budget

#### 2021-22 Budget Update

The current financial status as of the 2021-22 First Interim Financial Report, presented December 16, 2021 projects that on-going reductions of \$26.2M would be required in order to balance the budget, satisfy the state-mandated 2% reserve, and maintain fiscal solvency. The following multi-year table is based on a projected enrollment of 38,044 students, adjustments related to the 2021-22 State Enacted budget and other current year adjustments shown in the 2021-22 First Interim Report.

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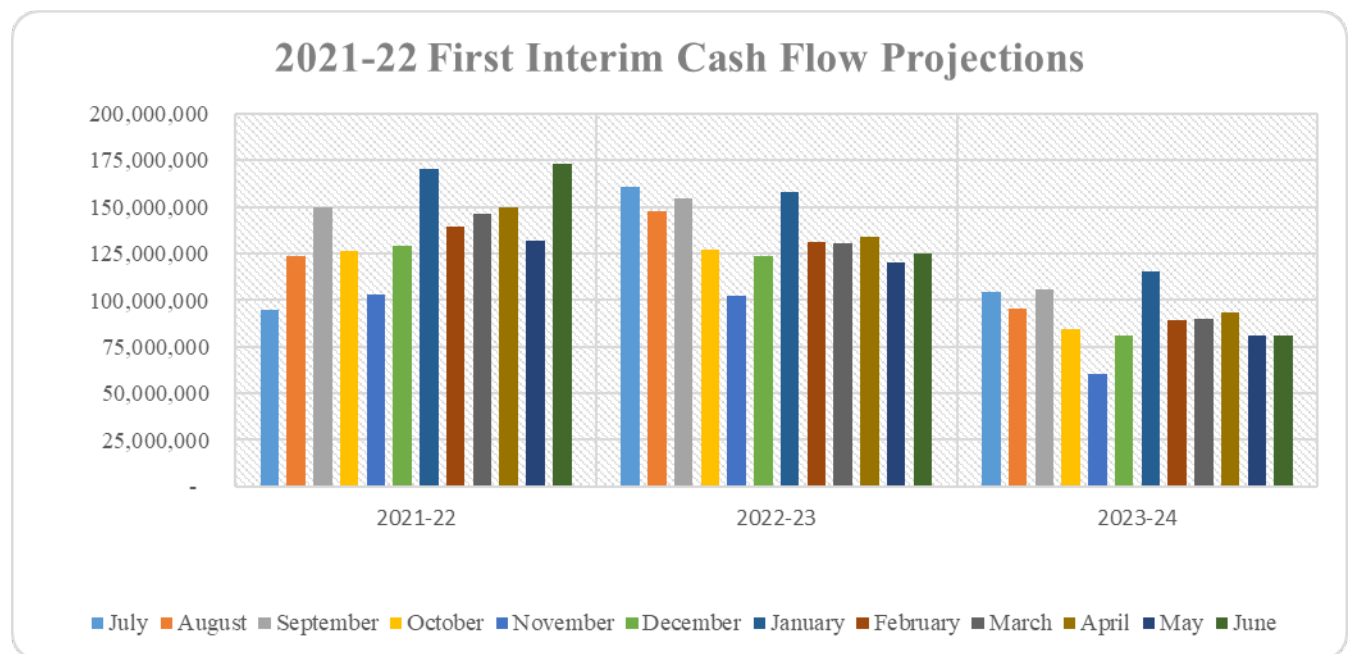
2021-22 Fiscal Recovery Plan

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2021-22 First Interim Multi-Year Projection (Total GF)			
Description	Proposed 2021-22	Projected 2022-23	Projected 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
<b>Net Increase/(Decrease)</b>	<b>(2,351,141)</b>	<b>(19,458,841)</b>	<b>(26,201,248)</b>
Add: Beginning Fund Balance	125,906,717	123,555,577	104,096,736
<b>Ending Fund Balance</b>	<b>123,555,577</b>	<b>104,096,736</b>	<b>77,895,487</b>

### Cash Flow

In the 2021-22 First Interim report and multi-year projections, the District projects having a positive cash balance through June 2024. However, due to deficit spending, cash balances are projected to decline. Therefore, the District must implement reductions in order to bolster its cash balances and continue to meet its financial obligations. The following graph illustrates the District's projected cash balances for the budget year 2021-22 through the future years 2022-23 and 2023-24 as of the First Interim report.



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### Budget Reductions Implemented To Date

Over the past four years, the District has identified and implemented \$54.7 million in on-going non-negotiable budget reductions. The District's prior reductions also included positions at the District office, administrator level and staffing adjustments consistent with student enrollment numbers. Below is a list of some of the prior year reductions:

#### **2018-19, 2019-20 & 2020-21 Budget Adjustments**

<b>Approval Date</b>	<b>Ongoing (in millions)</b>	<b>One-Time (in millions)</b>	<b>Items</b>
December 2018	17.5	3.6	Position Control, Debt Service, OPEB, Central Office Personnel, Supplies, Services & Utilities
February/March 2019	7.8	0.0	Staffing adjustments - aligning to enrollment for 2019-2020
May 2019	21.0	2.5	Special Education expenditures, LCFF, Utilized Restricted Funds, Charter Oversight Revenue & Interest
June 2019	2.9	0.0	Special Education Revenue, District Services revenue (custodial, utilities from charters)
September 2019	1.0	6.0	Interest revenue, One-time expenditures savings
February 2021	4.5	0.0	Central Office Supplies, Professional Development, Travel, Transportation (Non Special Education), College & Career Visits, Social Workers, Counselors, After School/Youth Development, Preschool Contribution
<b>Totals</b>	<b>54.70</b>	<b>12.10</b>	

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#### **External Audits of District's Budget**

In the last few years, the District's budget has been reviewed by FCMAT, bond rating agencies and the State Auditor for the purpose of identifying needed improvements and to provide recommendations to assist the District in achieving fiscal solvency. A few common conclusions from these reports:

1. The District does not have sufficient on-going resources to support on-going expenses
2. The District must not rely on one-time funds to support on-going expenditures
3. The District must implement significant on-going budget reductions to create a balanced budget, and eliminate deficit spending to avoid fiscal insolvency
4. The District's personnel costs are the largest on-going expense and must be reduced
5. The District's escalating healthcare costs are a main driving factor that must be reduced

#### **Proposed Student Centered Fiscal Recovery Plan**

The District believes that students should be at the center of all budget decisions and that we must work collaboratively to protect funding for core academic programs and services. As we continue this work, we are guided by our core values and reminded that these values are not limited to our students, but should be applied when making decisions related to our employees. The District has identified proposed budget reductions necessary to address the on-going structural deficit. *Yet, the District's potential \$26.2 million shortfall will not be resolved without negotiated solutions.* The District is seeking to return to District healthcare benefit contributions that are in parity to comparable school districts while maintaining high quality medical benefit plans for employees.

For the board's consideration, the District has developed a Fiscal Recovery Plan (FRP) that includes both negotiable and non-negotiable items. Savings from the non-negotiable items will reduce the deficit but the proposed reductions alone will not be sufficient, thus additional reductions will be required to eliminate deficit spending and achieve a balanced budget.

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### **III. Fiscal Recovery Plan – Proposed Plan**

Budget development assumptions are fluid and change throughout the fiscal year due to fluctuations in enrollment, revenue, expenditures, Federal, State or local decisions. The District revises the current budget and multi-year projections to reflect these changes appropriately and then reports updated budgets at each interim reporting period. Budget adjustments will also impact the projected deficit and the Fiscal Recovery Plan.

Additionally, it is important to note that over the past two years, the District's budget has fluctuated to a greater extent due to the impact of COVID. For example, prior to the pandemic, the District's combined operating budget was approximately \$555 million and as of the 2021-2022 1<sup>st</sup> Interim, the projected combined budget is approximately \$711 million, representing a swing of about \$154 million. This artificially large budget will return to pre-pandemic levels in two years once the one-time revenues and expenditures are removed.

Due to school closures and remote work, the District realized one-time savings in operating costs. The District was also awarded a significant amount of one-time restricted COVID relief funds. Both the one-time savings and one-time relief funds resulted in increasing combined reserves and revenues but these adjustments are temporary and not ongoing. Also, COVID relief funds are restricted for COVID related expenses only and cannot be used to address the deficit.

One-time restricted COVID relief funds account for approximately 91% of the \$154 million budget increase and the remaining 9% of the increase is due to carryover and COLA. The 1<sup>st</sup> Interim report presents a budget table that excludes the one-time funds to illustrate that the District's deficit has not been resolved but is simply masked by the one-time savings and funds.

Therefore, the District must continue to work towards implementing a fiscal recovery plan that addresses the deficit and achieves a balanced budget.

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The District proposes a five-part Fiscal Recovery Plan as follows:

**I. Approve to implement the identified reductions and adjustments listed in Table 1 effective July 1, 2022.**

Table #1 Proposed Budget Adjustments Effective July 1, 2022

Implement Effective 7/1/2022		
Item	Potential Cost Savings	Notes
Textbook Adoption Budget - LCFF BASE	\$5,054,000	One-time expense allocate to allowable restricted resources
New Teacher Induction - LCFF BASE	\$243,174	On-going expense allocate to Educator Effective Block Grant through 2025-2026
<b>TOTAL UNRESTRICTED GENERAL FUND</b>	<b>\$5,297,174</b>	
Staffing Adjustment to Enrollment Decline - LCFF Base	\$7,900,000	On-going expense reduction to align to decline in enrollment included in MYP

The multi-year projections below show the impact of implementing the \$5.2M in budget solutions effective July 1, 2022. The staffing adjustment of \$7.9M is already accounted for in the multi-year projections as an expenditure reduction.

**2021-22 First Interim Multi-Year Projection with FRP Proposal \$5.2M**

Description	Proposed 2021-22	Projected 2022-23	Projected 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
<b>Surplus/(Deficit)</b>	<b>(2,351,141)</b>	<b>(19,458,841)</b>	<b>(26,201,248)</b>
<b>Add: FRP Textbook Adoption Savings 1x</b>		<b>5,054,000</b>	<b>0</b>
<b>Add: FRP New Teacher Induction</b>		<b>243,174</b>	<b>243,174</b>
<b>Revised Surplus/(Deficit)</b>	<b>(2,351,141)</b>	<b>(14,161,667)</b>	<b>(25,958,074)</b>
Add: Beginning Fund Balance	125,906,717	123,555,577	109,393,910
<b>Ending Fund Balance</b>	<b>123,555,577</b>	<b>109,393,910</b>	<b>83,435,835</b>

**II. Approve to reserve one-time unrestricted general fund savings that resulted from unexpended budget categories. The 2021-22 First Interim Financial Report projects unrestricted general funds savings of \$14.2M due to vacancies and operational savings as described in the report.**

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**III. Approve to apply any additional unrestricted general funds provided by the State Budget to the deficit. Additional unrestricted general funds will not be allocated to new expenditures until the deficit is resolved. The 2022-23 State Budget Proposal is expected to be available in January 2022.**

**IV. Achieve a negotiated solution to address the deficit. The following table #2 illustrates Districtwide Proposals subject to negotiations.**

Table #2 Proposals Subject to Negotiations

<b>DISTRICTWIDE PROPOSALS - SUBJECT TO NEGOTIATIONS</b>		
<b>Item</b>	<b>Action</b>	<b>Potential Cost Savings</b>
Health Benefits	Reduce District Contribution to 100% employee only (any plan) & 75% of Kaiser Rate for ee plus1 or ee plus family plan	\$17,708,933
Health Benefits	Reduce District Contribution to Kaiser rate:100% employee only & 75% for ee plus1 and 75% for ee plus family plan	\$18,744,093
Dental & Vision Benefits	Reduce to 80% per Tier	\$1,421,022
Dental & Vision Benefits	Reduce to employee only	\$2,986,951
CompleteCare (Keenan Program)	\$400 Cash In-lieu of Benefits assuming 3% participation	\$1,152,703
CompleteCare (Keenan Program)	\$500 Cash In-lieu of Benefits assuming 3% participation	\$1,071,209
Furlough Days - General Fund	Currently 181, reduce by 1 day	\$1,822,752
1% Salary Reductions - General Fund	Reduce	\$3,498,368

**V. Revisit additional items for reconsideration to address the deficit as needed.**

Table #3 that follows is a list of proposed ongoing reductions to the budget. While none of these items are desired, there is recognition that difficult decisions must be made in order to fully address the structural deficit and achieve fiscal solvency. It is important to note that per the prior budget reductions shown on page 3, the Central Office has made significant staffing and operational reductions in the last three years. Therefore, there are risks in implementing additional central office reductions such as a reduction of services, significant operational delays and/or additional voluntary resignations.



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Table #3 Additional Considerations for Budget Reductions

Item	Potential Cost Savings	Notes
15% Central Office Staffing Reductions - LCFF BASE	\$3,640,000	UGF Base - Object Codes 1000s -3000s, for every 5% = \$1.2M
20% Central Office Discretionary - LCFF BASE	\$3,200,000	UGF Base - Object Codes 42xx-6xxx excludes 55xx (utilities), every 5% = \$800K
<b>TOTAL LCFF BASE</b>	<b>\$6,840,000</b>	On-going Expense Reduction - Reduces the Deficit On-going

Table #4 below is a list of proposed funding adjustments to utilize alternative funding sources as appropriate. These proposed adjustments will require additional review and approval once an alternative funding source is identified.

Table #4 Review for Alternative Funding Sources

<b>SCHOOL SITE PROGRAMS - STAFFING CONSIDERATIONS</b>	
Item	Review for Alternative Funding Sources
8.0 FTE Assistant Principal - Middle School - LCFF Base	\$1,244,800
14.0 FTE Assistant Principal - High School - LCFF Base	\$2,245,600
3.0 FTE Assistant Principal - K-8 Schools - LCFF Base	\$452,400
9.3 FTE Counselor, High School - LCFF Base	\$1,203,420
1 FTE Counselor, High School Continuation - LCFF Base	\$129,400
15.9 FTE Counselor, Middle School - LCFF Base	\$2,057,460
<b>TOTAL LCFF BASE</b>	<b>\$7,333,080</b>

VAPA Music Equipment - LCFF Base	\$78,500
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#### **IV. Driving Governance**

- a. Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1<sup>st</sup>. 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 will determine if the district will be able to meet its financial obligations during the fiscal year and the subsequent two years. The County Office of Education will either approve, disapprove, or conditionally approve the district's budget.
- b. Education Code section 42130 requires the Superintendent to submit two 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<sup>st</sup>. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.
- c. 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 subsequent two fiscal years. 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.
- d. Education Code section 42131 (3)(e) directs districts to provide additional reports to the County Office of Education as of June 1<sup>st</sup>, if a Qualified or Negative Certification is reported as of the Second Interim Report.

#### **V. Goals, Objectives and Measures**

Follow the timeline, identify all budget reductions and savings, take action to implement such savings as required by law, District policy, and applicable bargaining agreements.

The Fiscal Recovery Plan presented at the November 4, 2021 Board Meeting identified potential savings to address the deficit and achieve a balanced budget. The District must submit a viable board-approved plan by December 15, 2021 to address the on-going structural deficit.

#### **VII. Lessons Learned/Next Steps**

- a) Follow the approved calendar with adjustments made as necessary.
- b) Continue to monitor the state budget and its impact on the district finances.
- c) Continue to monitor the District and state fiscal health.
- d) Continue to engage stakeholders in the budget development process through community budget meetings.
- e) Meet and communicate with bargaining unit partners.
- f) Ensure compliance with all LCFF and LCAP requirements.