



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item 10.2

Meeting Date: February 4, 2021

Subject: Resolution No. 3180: Recognition of District Structural Deficit

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: February 4, 2021)
- Conference/Action
- Action
- Public Hearing

Division: Office of the Superintendent

Recommendation: Resolution No. 3180: Recognition of District Structural Deficit

Background/Rationale: The District's structural deficit has been analyzed by numerous independent entities, include the Fiscal Crisis & Management Assistance Team (FCMAT), the California State Auditor, the Sacramento County Office of Education, and the Policy Analysis for California Education (PACE). Each of these independent entities have offered recommendations aimed at reducing the District's Structural Deficit. The proposed Resolution aims to recognize the District's fiscal challenges and to establish the goal of taking actions to address such.

Financial Considerations: The proposed Resolution is directed at recognizing and addressing the District's Structural Deficit.

LCAP Goal(s): Operational Excellence

Documents Attached:

1. Resolution No. 3180 will be provided Monday, February 1st

<p>Estimated Time of Presentation: 15 minutes Submitted by: President Pritchett, Board of Education Approved by: Jorge A. Aguilar, Superintendent</p>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
BOARD OF EDUCATION
RESOLUTION NO. 3180

RESOLUTION ON RECOGNITION OF STRUCTURAL DEFICIT

WHEREAS, the Sacramento City Unified School District (“District”) is facing a significant structural budget deficit in the unrestricted General Fund and independent entities expect that deficit to grow in future years if corrective action is not taken, because as noted by the State Auditor, the district spends more than it receives in revenue and its costs are growing faster than its revenues (Audit Report at Figure 9, pg. 35); and

WHEREAS, the Board of Education understands that there are long-time challenges related to the District’s structural budget which have been recognized by independent entities for approximately two decades, as observed by the State Auditor, “[d]espite receiving warnings regarding its health benefit costs from entities that have reviewed its budgets since 2003, Sacramento Unified has not taken sufficient action to control those costs when negotiating any of the six agreements that it has entered into with its teachers union since then.” (Audit Report at pg. 2); and

WHEREAS, the Board of Education is fully aware that an ongoing structural deficit can be solved through a sufficient increase in ongoing General Fund revenues, reductions in district costs for employee salaries and benefits, cuts to programs or services, or a combination of the above, as recognized by the State Auditor, “Sacramento Unified cannot achieve cost savings significant enough to balance its budget without addressing its three largest categories of expenditures: salaries; benefits; and contracts, services, and other operating expenses” (Audit Report at pg. 9); and

WHEREAS, the District and Board value the hard work and contributions of its employees and believes its employees deserve a competitive compensation package; and

WHEREAS, that in order to address the long-time challenges related to the District’s structural budget, the Board recognizes the importance of working collaboratively with District Labor Partners to create conditions for change that benefit students and staff, and endorses an interest-based, non-adversarial approach to collective bargaining, as noted in Board Policy 4141; and

WHEREAS, the Board recognizes such collaboration is important for the short-term and long-term fiscal health of the district and that building capacity in school systems and labor partners “to increase collaboration and collective trust is central to creating the conditions for change that improve outcomes for students and staff” and;

WHEREAS, The Board recognizes that budget projections of both revenue and expenditures are made at a specific point in time, that projections are updated and are expected to change often based on numerous factors, and that the District uses industry standards to make budget projections, including relying on a cohort method for enrollment projections and using

the latest factors released by the Department of Finance (DOF) and Fiscal Crisis & Management Assistance Team (FCMAT) tools that districts are expected to utilize as planning factors, including primarily State-required reports and key information regarding budget assumptions, multi-year projections, and cash flow reports (First Interim Report Assumptions at pg. 187; FCMAT 2020 Report at pg. 6); and

WHEREAS, the Sacramento County Office of Education disapproved the District's adopted budget for the 2018-2019, the 2019-2020, and the 2020-2021 fiscal years on the basis of a structural budget deficit, cash flow insufficiencies, and negative fund balance projections, which are projected to lead to a failure to meet ongoing expenses and the state-mandated 2% reserve, and thereby trigger the need for a state loan and takeover of the District; and

WHEREAS, State Takeover or "receivership" results in the loss of local board control of the District with the appointment of an outside administrator and additional costs for repaying the state loan with interest as well as additional oversight, and as recognized by the State Auditor, *"[f]urther, when a district must make loan and related interest payments, it has less funding available for students. As a result, it may need to increase class sizes or reduce programs and opportunities for students."* (Audit Report at pg. 13); and

WHEREAS, the District's budget has been analyzed by numerous outside independent entities, including the California State Auditor pursuant to its authority under Government Code Section 8543, et seq., the Fiscal Crisis & Management Assistance Team (FCMAT) pursuant to its responsibilities under AB 1200, Education Code Section 42127.8, and the Sacramento County Office of Education pursuant to its school district budget related responsibilities under Education Code Section 42127 et seq. The District relies upon these outside entities for the purpose of identifying needed improvements and providing recommendations to assist the District in achieving fiscal solvency, as set out in the reports issued by each independent entity:

1. California State Auditor – 2019
2. Fiscal Crisis & Management Assistance Team (FCMAT) - 2018
3. Fiscal Crisis & Management Assistance Team (FCMAT) - 2020
4. Policy Analysis for California Education (PACE) - 2019
5. Sacramento County Office of Education (SCOE) Analyses Continuing

Critical conclusions from these independent entities include:

1. The District does not have sufficient ongoing resources to support ongoing expenses. As noted by the State Auditor, "Sacramento Unified's costs, such as salaries and benefits, have increased at a rate that has outpaced the ongoing revenue it receives" (Audit Report at pg. 9, Figure 2);

2. The District should not rely on one-time funds to support ongoing expenses. As recognized by the State Auditor, "The Legislature appropriates one-time funds for a specific purpose and for a limited term, and subsequent legislation is necessary to renew them. Thus, such funds are fundamentally different from funds that districts generally use for ongoing costs, which consist of appropriations for the same purpose that are funded on an annual basis or continuously appropriated funds that are appropriated from year to year without the need for

further authorization from the Legislature. For example, in fiscal year 2017–18, Sacramento Unified received \$5.7 million in one-time funds from the State for the purpose of satisfying potential outstanding state mandate claims.” (Audit Report at pg. 16);

3. The District must implement significant ongoing budget reductions to create a balanced budget. As explained by the State Auditor, “Sacramento Unified and its board will need to make difficult choices to address the district’s structural financial issues, and they will need to act quickly if they wish to avoid the difficulties inherent in accepting an emergency loan from the State and appointment of an administrator.” (Audit Report at 36);

4. The District’s high and escalating health benefits costs that well exceed those of other comparable area districts are a main driving factor in its employee compensation costs. The State Auditor recognized that “as of December 2017, Sacramento Unified provided the most generous and expensive employee benefits among nearby school districts” (Report at pg. 13). “Sacramento Unified’s generous benefits have driven the district’s high total compensation costs ...” (Audit Report at pg. 15); and

5. The District is unlikely to solve its structural deficit without reductions in the district’s costs for employee compensation, including health benefits costs (See Audit Report at pg. 36-37, Figure 10; Recommendations pg. 39.) “Because negotiations include strict deadlines, time is of the essence for any reductions that include salaries and benefits. All stakeholders may need to evaluate the affordability of salaries and benefits provided in the past. For example, some health plans offered to employees cost much more than others, and the district still offers lifetime health benefits to all eligible employees.” (FCMAT 2018 at pg. 24); and

WHEREAS, The District is required to provide regular updates regarding its progress on the recommendations from the State Auditor and FCMAT (First Interim Update at pg. 4, 30), and has made progress in implementing a large number of recommendations from these independent entities to improve budgeting and financial policies and practices; and

WHEREAS, the District’s current benefit structure includes significantly underfunded retiree lifetime health benefits in addition to fully-paid, high-priced health benefits for active employees (Audit Report at pg. 20-22, Figure 7; see also FCMAT 2018 at pg. 14-17), with one plan recognized by the State Auditor as the fourth costliest school district healthcare plan in California (Table at pg. 19); and

WHEREAS, as recognized by the State Auditor, the District has the region’s highest-cost benefit structure for active employees (pgs. 15-20, Table 2) and retirees continue to receive fully paid health care benefits until receiving Medicare at 65 whereas other nearby districts typically pay only the cost of the lowest cost plan they offer prior to Medicare (pg. 20-21, Figure 7) and among the highest regional average salary for teachers, yet ongoing revenue is not projected to increase at the same rate in part due to declining enrollment (Audit Report at pg. 10, 15, Table 1, pg. 20, Table 2); and

WHEREAS, the District has made progress in improving its budgeting processes as noted by SCOE in September of 2019, and has made significant reductions to lower ongoing unrestricted General Fund costs over the last two years (FRP PowerPoint Slide 14), including but not limited to millions of dollars in staffing adjustments aligned to enrollment and shifting expenditures to restricted funding sources when possible; and

WHEREAS, the Board of Education recognizes that the District does not currently provide a large number of targeted student supports and programs through the unrestricted General Fund which it can consider eliminating for cost savings [as stated by SCOE in its letter of Nov. 20, 2019](#); and

WHEREAS, the Board of Education recognizes that employee compensation for current levels of student supports and programs is the District's largest on-going cost. Currently, [salaries and benefits for such student supports and programs make up 88% of unrestricted General fund at First Interim Budget Update](#) (First Interim at pg. 184), and this number generally fluctuates between 88%-91% yearly. According to FCMAT, "[\[t\]he statewide average for unified school districts as of 2016-17 \(the latest data available\) is 84.63%. At 2018-19 first interim, the district is exceeding the statewide average by 6.37%.](#)" (FCMAT 2018 at pg. 17.) In addition to accounting for 88% of the unrestricted General Fund budget, salaries and benefits account for approximately [80% of General Fund Unrestricted and Restricted Budget, \(Audit Report at pg. 11, Figure 3\)](#); and

WHEREAS, the Board recognizes that the District has been able to supplement its budget and temporarily mitigate its deficit with Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and recent Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA Act) **one-time restricted revenues** which must be [spent for specific COVID related purposes](#) as further [outlined by the California Department of Education \(CDE\) and School Services of California](#) (SSC) (Adopted Budget at pg. 7-31), and the Board of Education understands that these funds are one-time restricted funds and non-sustainable as they must be expended by June 2021, December 2021, September 2022, and June 2023; and

WHEREAS, the Board understands the following:

1. The District accounts for these above **one-time restricted revenues** by using a placeholder of the "Books and Supplies" budget line in its Restricted General Fund Budget;
2. Current standard budget practice is to set up the carryover budget in the Books and Supplies budget line until final decisions are made as to what type of expenditures meet the District's needs;
3. In a given year, the total restricted expenditures budget will equal restricted revenues plus carryover ;
4. One-time restricted funds will not provide a solution to an ongoing projected structural deficit in the unrestricted General Fund, because they are one-time in nature and because there are specific restrictions on how they may be used; and

WHEREAS, the projected current year ending surplus (2020-2021) is largely a result of [one-time budget savings due to less spending during school closures caused by COVID-19](#) (First Interim Report at pgs. 170-198); and

WHEREAS, based on First Interim Budget projections, the District's cash flow is expected to experience significant shortages beginning on or about [May 2021 which the District should be](#)

able to manage in the short run through temporary interfund transfers, short term borrowing, and possibly a waiver of the state revenue cash deferrals, with more significant cash shortages occurring however in March of 2022 (First Interim at pgs. 195-196), and although the Governor's January Budget Proposal would delay these estimated dates for a limited number of months, the cash flow problem is projected to persist; and

WHEREAS, based on the projected impact of the Governor's January Budget Proposal and one-time restricted federal COVID relief dollars, the District expects the date of fiscal insolvency as projected in First Interim will be prolonged; however, reserves are nevertheless expected to be depleted due to the structural deficit leaving cash flow shortages and a negative fund balance in year 2022-2023; and

WHEREAS, the Board intends this resolution to clearly communicate to stakeholders the basis for action on a fiscal recovery plan; and

WHEREAS, the District is projected to face the following significant consequences if ongoing reductions are not achieved:

- The District is projected to experience serious cash-flow challenges by March 2022 and will be at risk of an emergency apportionment (State Loan and Takeover) leading to a lack of local democratic control and millions in additional ongoing expenses;
- The District's ongoing, structural budget deficit is projected to increase to approximately \$33 million by 2022-2023 based on 2020-2021 First Interim and factoring in generous assumptions from the Governor's January Proposed Budget (see Budget and Fiscal Recovery Plan Update, Board Presentation Item 7.2, January 26, 2021); and
- A prolonged inability to reach a point of fiscal recovery where the District can afford to invest in programs, services, and staff training to support student safety, wellness, academic success and social and emotional well-being, such as: expanding inclusive practices for students with disabilities throughout the district; offering additional specialized programs of study; providing equitable extracurricular activities and replacing the current "pay-to-play" and fundraising models for athletic and experiential activities, which are pervasive in our District; enhancing cultural competency and linguistic services, expanding enrichment programs such as college visits; adopting new, updated, socially and culturally relevant curricular materials; and providing high-quality ongoing professional staff development.

NOW, THEREFORE, BE IT RESOLVED that, the SCUSD Board of Education recognizes the existence of and significant threat posed by the District's ongoing structural deficit; and

BE IT FURTHER RESOLVED that the Board remains committed to supporting the District and all District Labor Partners to establish collaborative and non-adversarial labor relations and encourages District Labor Partners to commit or recommit to participating in the [Labor Management Institute \(LMI\)](#) or similar entities; and

BE IT FURTHER RESOLVED that the District must act to reduce the ongoing unrestricted general fund expenditures in order to balance the multi-year budget and meet the state mandated 2% reserve *without a structural deficit*. Such action will prevent a state loan and takeover, and

provide a foundation for solvency and reinvestment in critical priorities that serve students and families.

PASSED AND ADOPTED by the Sacramento City Unified School District Board of Education on this ____ day of _____ 2021, by the following vote:

AYES: _____

NOES: _____

ABSTAIN: _____

ABSENT: _____

ATTESTED TO:

Jorge A. Aguilar
Secretary of the Board of Education

Christina Pritchett
President of the Board of Education