



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 10.3

Meeting Date: May 21, 2020

Subject: May Revise Budget Update and District's 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: Receive information on the Governor's May Revise Budget Proposal for Fiscal Year 2020-2021 and District's Fiscal Recovery Plan.

Background/Rationale: The Governor's May Revise Budget was released on May 14, 2020 which includes budget information for K-12 districts. The District will use this information to update the 2020-21 budget projections and Fiscal Recovery Plan.

Financial Considerations: N/A

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

Documents Attached:

1. Executive Summary

<p>Estimated Time: N/A Submitted by: Rose Ramos, Chief Business Officer Approved by: Jorge A. Aguilar, Superintendent</p>
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I. OVERVIEW/HISTORY:

On October 3, 2019 the Sacramento City Unified School District's ("District") Board approved the 2019-20 revised adopted budget which was disapproved by the Sacramento County Office of Education (SCOE) due to the projected negative ending fund balance in 2021-22. The District's Board voted to waive the formation of the Budget Review Committee which was approved by the California Department of Education. The Fiscal Advisor assigned by SCOE has continued to work with the District providing fiscal oversight and guidance.

The District has not achieved sufficient reductions to resolve the on-going structural budget deficit which is projected to increase in future years. As required by Education Code and requested by the State Auditor, the District must prepare and submit a Fiscal Recovery Plan (FRP) regularly, and the FRP should include options for budget savings in order to achieve fiscal solvency.

At the February 6, 2020 Board Meeting, the board approved the 1st Interim Fiscal Recovery Plan which included potential negotiable solutions listed in the following table. It is important to note that the amounts listed were based on estimates provided in the fall of 2019 and will need to be updated. Updated Plan items to be provided ahead of the May 21, 2020 board meeting.

Sacramento City Unified School District	
Fiscal Recover Plan Options to achieve \$27M	
Options Subject to Negotiations	
(1) Potential Changes to Health Care Benefits	
Cap district payment at lowest-cost plan for employee-only plans and 75 percent for plus 1 and family plans. <i>Source: Keenan Calculation</i>	28,516,699
(2) Potential Change to Employee Contribution to fund Retiree Health Benefits to 2%	3,300,000
Employees Contribution 2% - (does not reduce employers contribution but addresses the OPEB liability)	

The District's finances were also audited by the Auditor of the State California. The State Auditor released the audit report in December of 2019 which stressed the critical need for the District to implement a budget solution to avoid a State Loan.

State Auditor Recommendations

The 2019 State Audit Report recommended that the District develop a detailed plan to address fiscal issues and also recommended that the District and labor partners work toward a solution that reduced

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the cost of health benefits and other labor costs.

The following table provides some of the recommendations included in the 2019 State Audit Report.

Options Subject to Negotiations	
(1) Potential Changes to Salary	
Cut to all salaries by 2%	\$6,854,000
<i>Source: State Auditor Report 12/10/19</i>	
(2) Staff pay 3.5% of salary to retiree health benefits	
<i>assumes contribution would reduce GF cost</i>	\$9,997,000
(3) Cap district payment at 80% of the lowest-cost plan for employee only and family plans	\$20,419,000

Budget Reductions Implemented

Over the last 18 months, the District has identified and implemented more than \$30 million in on-going, non-negotiable budget reductions. The District identified additional non-negotiable items for budget reduction considerations but further review revealed that any possible budget savings would be inconsistent with the District's budget balancing priorities and could also result in unintended financial consequences. SCOE supported the District's conclusion that eliminating those programs would negatively impact students and, therefore, were no longer considered to be part of the budget balancing plan.

The District's prior reductions also included positions at the District office, administrator level and staffing adjustments consistent with declining student enrollment numbers. The District's projected enrollment is showing declines of approximately 227 students in 2020-2021 and 190 in 2021-22. Staffing adjustments will be implemented as needed but these adjustments are not expected to be as significant as in prior years.

As of the 2019-20 Second Interim Financial report, the District was in need of a \$27 million on-going solution that could not be resolved without negotiated solutions. However, the district's projected budget deficit has been exacerbated due to the impact the COVID-19 pandemic has had on the State's economy which will result in severe funding reductions for K12 districts. If corrective action is not taken, the District's risk for fiscal insolvency will be accelerated and may face having to receive a State loan.

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The following tables show the impact of three funding scenarios on the District's financial projections as of 2019-20 Third Interim.

2019-20 3rd Interim Multi-Year Projections Assuming 0% COLA		
	2020-21 Combined	2021-22 Combined
Total Revenue	566,425,688	530,894,668
Total Expenditures	603,511,187	592,283,822
<i>Deficit/Surplus</i>	(37,085,499)	(61,389,154)
Ending Balance	26,893,345	(34,899,081)
2019-20 3rd Interim Multi-Year Projections Assuming -5% COLA		
	2020-21 Combined	2021-22 Combined
Total Revenue	546,244,668	510,868,616
Total Expenditures	603,511,187	592,283,822
<i>Deficit/Surplus</i>	(57,266,519)	(81,415,206)
Ending Balance	6,712,325	(75,106,153)
2019-20 3rd Interim Multi-Year Projections Assuming -10% COLA		
	2020-21 Combined	2021-22 Combined
Total Revenue	526,055,643	490,834,576
Total Expenditures	603,511,187	592,283,822
<i>Deficit/Surplus</i>	(77,455,544)	(101,449,246)
Ending Balance	(13,476,700)	(115,329,218)

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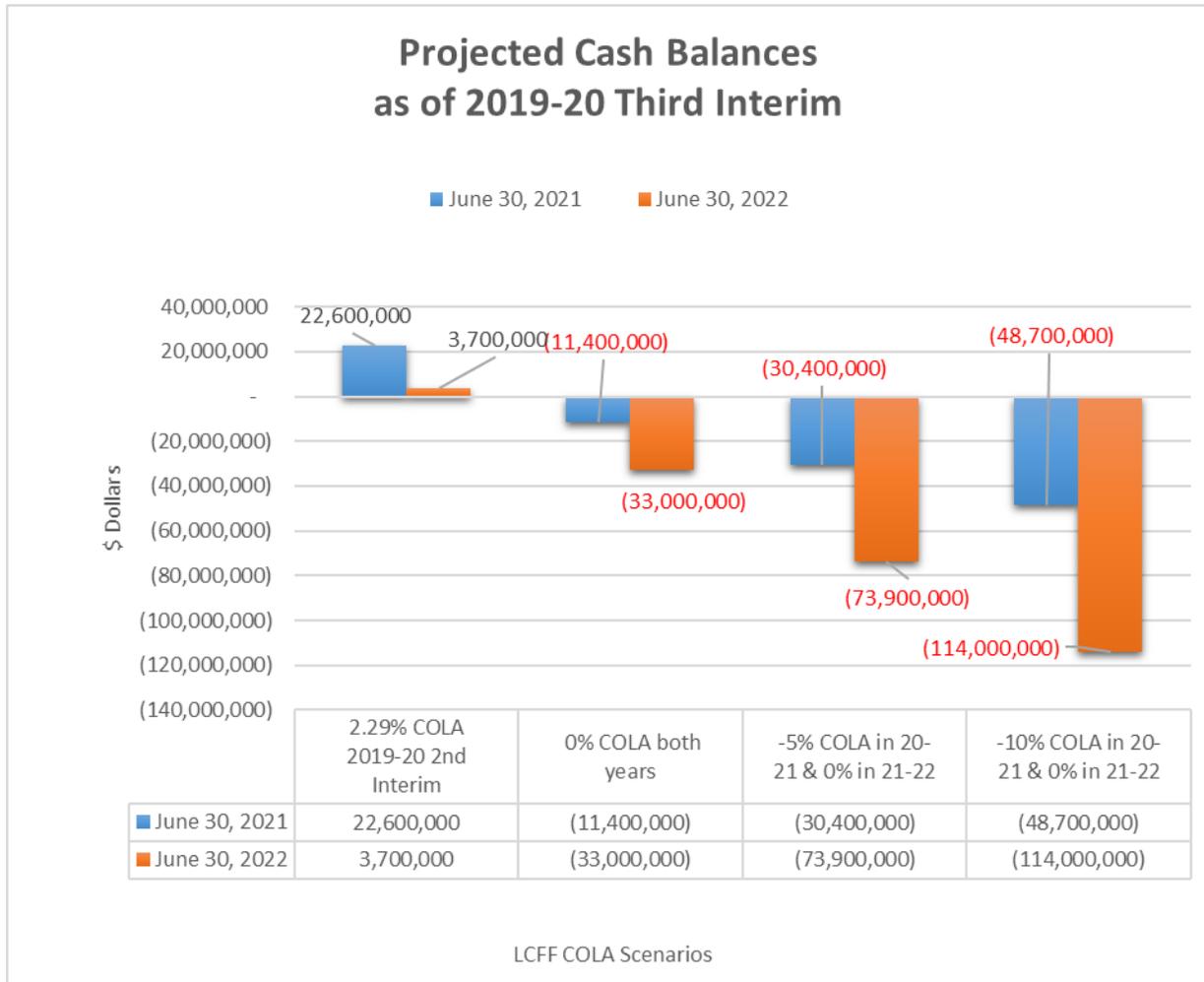
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The following graph compares the District’s projected cash balances for the budget year 2019-20 through the future years 2020-21 and 2021-22 as of the 2019-20 Third Interim Financial Report assuming a 0% funded COLA scenario.



Student Centered Fiscal Recovery Plan

The District is committed to identifying areas where savings may be achieved in a manner that is fair and equitable without substantial disruptions to our educational programs. Students should be at the center of all budget decisions and 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 evaluated its programs and staffing levels, and other operating expenditures in order to

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determine if additional savings may be achieved. This review will be presented at the May 21, 2020 Board Meeting. However, identifying further savings from non-negotiable items is extremely limited or may adversely affect student achievement. The District's on-going fiscal solution will not be resolved without negotiated solutions.

II. DRIVING GOVERNANCE:

- Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1st. 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.
- 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 31st. 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 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.
- Education Code section 42131 (3)(e) directs districts to provide additional reports to the County Office of Education as of June 1st, if a Qualified or Negative Certification is reported as of the Second Interim Report.

III. BUDGET:

The Fiscal Recovery Plan identifies areas for potential savings to achieve fiscal solvency.

IV. Goals, Objectives, and Measures:

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

V. Major Initiatives:

VI. Results:

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The Fiscal Recovery Plan update presented at the May 21, 2020 Board Meeting identifies potential savings to achieve budget reductions and avoid a State take over.

VII. Lessons Learned/Next Steps:

- Follow the approved calendar with adjustments made as necessary.
- Update District Budget Timeline
- Continue to monitor the state budget and its impact on the district finances.
- Continue to engage stakeholders in the budget development process through community budget meetings.
- Work to complete negotiations with bargaining unit partners.
- Ensure compliance with all LCFF and LCAP requirements.