



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 10.4

Meeting Date: February 20, 2014

Subject: 2014-2015 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 information and discuss an update of the current District projected budget based on information available to date.

Background/Rationale: The budget cycle is an evolutionary process that is refined as new information becomes available, this is especially true given our first year roll out of the Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP). As the district executes the current year budget, the process begins to develop the budget for the next two fiscal years and the LCAP for the first time. It is important to remember that the LCAP is a three year plan that must be updated annually prior to the passage of the budget. The first event of the new budget cycle was the presentation of the Governor's Proposed Budget that became public in the middle of January.

Financial Considerations: Board review and preparation for actions required to effectively balance the 2014-2015 and 2015-2016 budgets.

Documents Attached:

1. Executive Summary

<p>Estimated Time of Presentation: 10 Minutes</p> <p>Submitted by: Ken A. Forrest, Chief Business Officer</p> <p>Approved by: Sara Noguchi, Ed.D., Interim Superintendent</p>
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I. OVERVIEW/HISTORY:

Sacramento City Unified School District has been in a budget reduction mode since the 2002-03 school year. In addition, the District has been spending more than the revenue it has received to the point that we no longer have sufficient reserves above the State mandated 2%. Our projected reserve level at the end of the 2013-2014 fiscal year is only 0.23% above the State minimum. Enrollment projections continue to indicate a dramatically declining enrollment over the next two fiscal years which will continue to place a significant burden on District finances.

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

With the release of the Governor’s Proposed Budget for the 2014-2015 fiscal year, we are hopeful that we have already hit the bottom and we can begin the recovery process. Key points of the Governor’s Budget are provided below:

- The proposed budget eliminates all remaining education funding deferrals hopefully eliminating our need to borrow funds for cash flow each year.
- The Budget proposes \$4.5 billion of additional funding allocated through the Local Control Funding Formula (LCFF), an average increase of 10.9% or \$755 per pupil.
 - To put this into perspective, we calculated that this fiscal year our increase was \$334 per pupil which was a 4.81% increase for our District.
- 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. Therefore, the results for our district may be significantly different than the average increase above, currently we are estimating that our per pupil increase will be approximately \$760 per pupil slightly above the average State increase.
- The Department of Finance staff estimates that the additional funding proposed in the budget will eliminate more than 28% of the remaining gap between the 2013-2014 funding level and the LCFF funding target for each school district.
- The Governor’s Budget contains \$363 million for energy efficiency project grants from Proposition 39.
- Budget proposes a cost-of-living adjustment (COLA) of 0.86% for categorical programs outside the LCFF, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program.

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- In addition to the spending proposals, the Governor makes several other policy proposals, including:
 - Legislation to create a continuous appropriation for LCFF funding, to ensure that it is "implemented on schedule."
 - Legislation to streamline and expand instructional opportunities available through non-classroom based independent study.
- Absent from the proposal is any mention of expanding Transitional Kindergarten, as has been introduced by legislative Democrats.
 - Should Transitional Kindergarten (TK) be funded by the Legislature, it is probable that the LCFF per pupil increase will be reduced to fund TK.
- The Governor also does not propose additional funding for the implementation of the Common Core State Standards.

To offset the positive news from the Governor's Proposed Budget utilizing additional expertise and current year enrollment data we have updated our enrollment forecasts. The news is not positive.

Contained within the Board of Education Meeting Packet for January 9, 2014, within the Enrollment and Attendance report, is the news that the District's enrollment is already 753 students less than last year. Our budgeted forecast for this fiscal year, 2013-2014, was a loss of approximately 362 students. Given the trend for enrollment decline throughout the year we are now forecasting that we will lose 1,218 students this fiscal year.

Obviously, the forecasted reductions of approximately 1,200 students per year will have a significant impact on our projected funding (approximately \$9.9 million) so we will once again face another difficult budget process.

In an effort to address the concerns of the financial industry and the County Office of Education, and to instill fiscal responsibility into District budgeting, we will be recommending that the Board of Education consider the adoption of a Fund Balance Policy that will, over time, rebuild our ending fund balance to 7.5% of anticipated expenditures, including the 2% state required reserve.

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.

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- 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 15th to certificated employees who are designated for layoff for the subsequent year. The final decision for layoff must occur before May 15th.
- 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 time of the budget process.

Provided on the next page is our initial projected budget for 2014-2015 fiscal year along with an estimate for 2015-2016. This projection is our best estimate at this time but we wish to remind the reader that this is only the very initial phase of the budget process and most of these numbers will change based on the final legislative outcome.

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The available funds for FY 2014-2015 have been allocated as follows at this point depending on the outcome of the LCAP process.

Multi-Year Forecast - Information Available Week of February 10, 2014							
Enrollment	FY 2013-14	FY 2014-15			FY 2015-16		
	41,405	40,205			39,005		
Funded* Average Daily Attendance	40,449	39,177			38,042		
Revenue Description	Amount	Amount	% of Revenue	% Change	Amount	% of Revenue	% Change
LCFF Sources [8010-8099]	\$ 289,181,719.00	\$ 315,119,024.90	72.4%	9.0%	\$ 316,761,882.78	72.8%	0.5%
Loss Due To Declining Enrollment LCFF Sources	\$ (4,807,170.00)	\$ (9,909,385.24)	-2.3%	106.1%	\$ (9,909,385.24)	-2.3%	0.0%
Federal Revenue [8100-8299]	\$ 52,306,676.54	\$ 47,304,850.54	10.9%	-9.6%	\$ 47,304,850.54	10.9%	0.0%
Other State Revenue [8300-8599]	\$ 56,588,892.21	\$ 63,132,427.21	14.5%	11.6%	\$ 59,294,327.21	13.6%	-6.1%
Other Local Revenue [8600-8799]	\$ 9,713,898.62	\$ 9,438,426.36	2.2%	-2.8%	\$ 9,438,426.36	2.2%	0.0%
Transfers In [8900-8929]	\$ 1,617,168.00	\$ 776,168.00	0.2%	-52.0%	\$ 776,168.00	0.2%	0.0%
All Revenue Objects and Transfers In	\$ 404,601,184.37	\$ 425,861,511.77	97.9%	5.3%	\$ 423,666,269.65	97.3%	-0.5%
Beginning Fund Balance	\$ 19,409,344.80	\$ 9,206,382.77	2.1%	-52.6%	\$ 11,658,764.47	2.7%	26.6%
Total Anticipated Revenue & Beginning Fund Balance	\$ 424,010,529.17	\$ 435,067,894.54	100.0%	2.6%	\$ 435,325,034.12	100.0%	0.1%
Expenditure Description	Amount	Amount	Budget	Change	Amount	Budget	Change
Certificated Salaries	\$ 173,799,058.53	\$ 175,923,984.29	41.5%	1.2%	\$ 176,873,984.29	41.7%	0.5%
Classified Salaries	\$ 49,884,203.79	\$ 50,141,393.59	11.8%	0.5%	\$ 50,441,393.59	11.9%	0.6%
Employee Benefits	\$ 89,104,242.31	\$ 94,217,745.19	22.2%	5.7%	\$ 99,217,745.19	23.4%	5.3%
OPEB - Current Year Payments	\$ 21,410,742.26	\$ 22,053,064.32	5.2%	3.0%	\$ 22,714,656.25	5.4%	3.0%
Books & Supplies	\$ 26,038,468.63	\$ 17,176,470.05	4.0%	-34.0%	\$ 17,360,627.88	4.1%	1.1%
Services & Other Operating Expenses	\$ 52,898,352.68	\$ 54,834,170.38	12.9%	3.7%	\$ 54,834,170.38	12.9%	0.0%
Capital Outlay	\$ 287,655.25	\$ 287,655.25	0.1%	0.0%	\$ 287,655.25	0.1%	0.0%
Other Outgo/Indirect Costs/Other Adjustments	\$ 1,381,422.95	\$ (533,015.47)	-0.1%	-138.6%	\$ 310,319.95	0.1%	-158.2%
Dedicated Amount Towards OPEB	\$ -	\$ 1,000,000.00	0.2%		\$ 1,000,000.00	0.2%	0.0%
Dedicated Amount Towards Operating Reserve	\$ -	\$ 1,000,000.00	0.2%		\$ 1,000,000.00	0.2%	0.0%
Excess or Deficit	\$ -	\$ 8,307,662.47	2.0%		\$ 110,419.34	0.0%	-98.7%
Total Adopted Budget Expenditures	\$ 414,804,146.40	\$ 424,409,130.07	100.0%	2.3%	\$ 424,150,972.12	100.0%	-0.1%
Anticipated Ending Fund Balance	\$ 9,206,382.77	\$ 10,658,764.47	2.5%	15.8%	\$ 11,174,062.00	2.6%	4.8%
Required Reserves	Amount	Amount	% of Budget	% Change	Amount	% of Budget	% Change
Reserve For Economic Uncertainties	\$ 8,296,082.93	\$ 8,488,182.60	2.0%	2.3%	\$ 8,483,019.44	2.0%	-0.1%
Revolving Cash	\$ 225,000.00	\$ 225,000.00	0.1%	0.0%	\$ 225,000.00	0.1%	0.0%
Stores Inventory	\$ 320,000.00	\$ 320,000.00	0.1%	0.0%	\$ 320,000.00	0.1%	0.0%
Dedicated Ending Fund Balance Reserve	\$ -	\$ 1,000,000.00	0.2%		\$ 2,000,000.00	0.5%	100.0%
Total Required Reserves	\$ 8,841,082.93	\$ 10,033,182.60	2.4%	13.5%	\$ 11,028,019.44	2.6%	9.9%
Anticipated Unreserved Ending Fund Balance	\$ 365,299.84	\$ 625,581.87	0.1%	71.3%	\$ 146,042.56	0.0%	-76.7%
Cumulative Increase In Ending Fund Balance	\$ -	\$ 1,000,000.00	0.2%		\$ 2,000,000.00	0.5%	
Total Ending Fund Balance / As A % Of Expenditures	\$ 9,206,382.77	\$ 11,658,764.47	2.7%		\$ 13,174,062.00	3.1%	3.1%
Estimated Total On Deposit For OPEB / As A % Of Obligation	\$ 14,000,000.00	\$ 15,000,000.00		2.3%	\$ 16,000,000.00		2.5%
Estimated Contingent Liability Based On Accrual Study	\$ 653,000,000.00						
Salaries include step and column increase for FY 2014-15 and FY 2015-16							
Health Benefits are projected to increase by 2% for FY 2014-15 and FY 2015-16 Plus \$1 Million Into OPEB Reserve.							
Utilities increase by 10% for FY 2014-15.							
*In accordance with existing statute declining enrollment districts may use previous year ADA if it is higher.							

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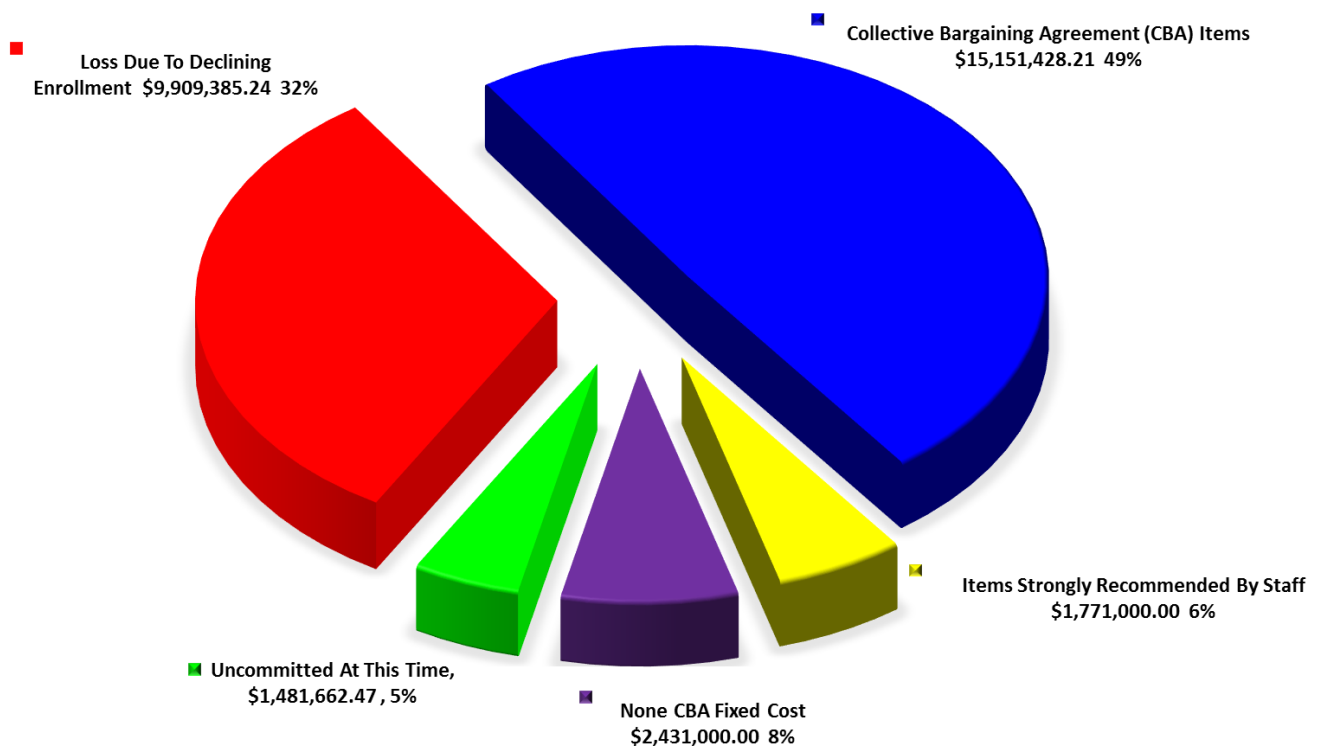
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PROJECTED DISTRIBUTION OF NEW FUNDING



The next page provides a detailed reconciliation of projected expenditures and shows how the \$8.3 million currently available may be used.

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REVENUE * Forecast based on conservative unduplicated count. Possible Increase of \$2.6 Million		Amount	% of Total New Revenue	% of Net New Revenue
Additional Revenue		\$ 30,744,475.92	100.00%	
Loss Due To Declining Enrollment		\$ (9,909,385.24)	-32.23%	
Total Projected Increase Available		\$ 20,835,090.68	67.77%	
Fixed Costs Embedded In The Budget				
COLLECTIVE BARGAINING AGREEMENT (CBA) EXPENDITURES	LCAP Priority	Amount	% of Total New Revenue	% of Net New Revenue
Increase in Utilities, Electric, Water	Conditions of Learning	\$ 350,000.00	1.14%	1.68%
Fund School Resource Officers In Accordance With Current Contract	Conditions of Learning	\$ 300,000.00	0.98%	1.44%
Fund Legal Budget In Accordance With Current Level Of Expenditures	None	\$ 281,000.00	0.91%	1.35%
Certificate of Participation Payment Due To Shortage of Developer Fees	None	\$ 500,000.00	1.63%	2.40%
Increase In Ending Fund Balance County Request Badly Needed	None	\$ 1,000,000.00	3.25%	4.80%
Increase in Step and Column - Certificated	CBA	\$ 2,402,690.92	7.82%	11.53%
UPE Benefits - New in 2013-14- District pays 75%	CBA	\$ -	0.00%	0.00%
Increase in Step and Column - Classified	CBA	\$ 215,737.28	0.70%	1.04%
Increase in Health Benefits- 10%	CBA	\$ 4,978,000.00	16.19%	23.89%
Librarians - Brought Back in FY 2013-14	CBA	\$ 1,000,000.00	3.25%	4.80%
15 FTE Reserve for Fall Enrollment Changes (Maintain Class Size)	CBA	\$ 1,500,000.00	4.88%	7.20%
Sub-Total of Collective Bargaining Agreement Items Fixed Cost		\$ 12,527,428.21	40.75%	60.13%
Items Strongly Recommended By Staff				
COLLECTIVE BARGAINING AGREEMENT (CBA) EXPENDITURES	LCAP Priority	Amount	% of Total New Revenue	% of Net New Revenue
Counselors	CBA	\$ 3,000,000.00	9.76%	14.40%
End of Furloughs Days - Maintain Class Size	CBA	\$ 2,055,000.00	6.68%	9.86%
Custodial Operational Supplies Restored FY 2013-2014	Conditions of Learning	\$ 650,000.00	2.11%	3.12%
Restore Partial Custodial Staffing	Conditions of Learning	\$ 2,000,000.00	6.51%	9.60%
Concessions Program	Conditions of Learning	\$ 21,000.00	0.07%	0.10%
Reduction in Teachers (12FTE)	NA	\$ (900,000.00)	-2.93%	-4.32%
Sub-Total of Collective Bargaining Agreement Items Staff Recommendations		\$ 6,826,000.00	22.20%	32.76%
Total Expenses Already Committed		\$ 19,353,428.21	62.95%	92.89%
Uncommitted at this time. Budget Reductions Could Free More Funds		\$ 1,481,662.47	4.82%	7.11%
CBA items must be honored by law.				

IV. Goals, Objectives and Measures:

Maintain a balanced budget for 2013-2014 and continue to follow the timeline to ensure a balanced 2014-2015 budget.

V. Major Initiatives:

- Support implementation of LCFF and the LCAP process.
- Fiscal stability for 2014-15, 2015-2016 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, 2014.

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.