



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 10.1c

**Meeting Date:** June 5, 2014

**Subject:** Approve 2013-2014 Third Interim Financial Report

- ☐ 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:** Approve the 2013-14 Third Interim Financial Report.

**Background/Rationale:** Education Code Section 42130 requires school districts to prepare Interim Financial Reports each year. The intent of these reports is to provide an “early warning” system to indicate whether a district can meet its current or future year financial obligations. This is the third of three interim financial reports presented to the Board of Education for the 2013-14 year. The report provides financial information as of April 30, 2014.

Although The Governor May Revise projects state revenues to be \$2.4 billion more than in January, there is no additional funding for schools and the CalSTRS employer rate will increase by 1.25% starting July 1, 2014. Employers are expected to pay the increase from existing revenue sources. Based on information from School Services of California, the Governor’s May Revise will not stay unamended.

**Financial Considerations:** The district will take all necessary actions to ensure balanced budgets that maintain the required Economic Uncertainties Reserve as specified for the 2013-14, 2014-15 and 2015-16 fiscal years. The Board approved recommendations to address the projected deficit for 2013-14 and we will be requesting the Board take the appropriate action for 2014-15.

**Documents Attached:**

1. Executive Summary
2. 2013-14 Third Interim Financial Report

**Estimated Time of Presentation:** None

**Submitted by:** Ken A. Forrest, Chief Business Officer

Gerardo Castillo, CPA, Director III, Fiscal Services

**Approved by:** Sara Noguchi, Ed.D., Interim Superintendent

# Board of Education Executive Summary

## Business Services

Third Interim Financial Report 2013-2014

June 5, 2014



### I. OVERVIEW/HISTORY:

School districts in qualified status are required to file three Interim Financial Reports during the year. The First Interim Report, as of October 31, requires Board approval by December 15<sup>th</sup>. The Second Interim Report, as of January 31<sup>st</sup>, requires Board approval by March 15<sup>th</sup>, the third is as of April 30<sup>th</sup> and requires Board approval by June 15<sup>th</sup>.

When interim reports are submitted, a district must designate a certification as to their financial condition. A positive certification would indicate that the district would 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 would mean that the district is unable to meet its financial obligations for the remainder of the current fiscal year or for the future fiscal year.

At this time we are forecasting that the 2013-14 budget is balanced and we believe the district will end the current year once again in a **qualified** financial condition. This status indicates that the district cannot certify that it will meet its financial obligations for the current fiscal year and two subsequent years. While we believe that the district will meet all financial obligations for the current fiscal year and most probably next fiscal year, it is not possible for the district to certify that it will be able to meet its obligations for both FY 2014-2015 and FY 2015-2016 with absent complete information related to funding for the next two fiscal years. As required for a “positive” certification by the Sacramento County Office of Education, Board action must be taken on all necessary budget adjustments for FY 2014-15 and FY 2015-16 and the district must maintain its required 2% reserve for economic uncertainties. Until more is known about upcoming expenditures as related to contract negotiations with all labor partners and the revenue to be received for the next two fiscal years the district believes that maintaining the required reserves and meeting all of its obligations without significant expenditure reductions especially in FY 2015-2016 will be impossible.

Documents attached are primarily state-required reports. Key information includes the budget assumptions, multi-year projections and Average Daily Attendance reporting.

### II. DRIVING GOVERNANCE:

- Education Code section 42130 requires the Superintendent to submit three 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 financial and budgetary status of the district for the period ending January 31. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.

# Board of Education Executive Summary

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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 subsequent 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 section 42131 (3)(e) directs districts to provide additional reports to the County Office of Education as of June 15 if a Qualified or Negative Certification is reported as of the Second Interim Report.

### III. BUDGET:

The budget is a fluid document and while the budget is balanced for FY 2013-2014, there are many unknowns at this time for fiscal year FY 2014-2015 and FY 2015-2016. Two items of major concern are the possible increase of State Teachers Retirement System (CalSTRS) and California Personnel Retirement System (CALPERS) rates for future years. In preparing the assumptions for the multi-year projections items such as one-time funds used to balance FY 2013-2014, increased costs for step and column salary increases as well as health benefit increases have been factored in the projections. Revenue increases based on state projections as well as declining enrollment are included in the multi-year projections. Staff continues to closely monitor enrollment, average daily attendance, state revenue and other areas that could impact the budget in the current or outlying years. The Third Interim Financial Report includes assumptions and projections made with the best available information.

### IV. Goals, Objectives and Measures:

Maintain a balanced budget for FY 2013-2014 and continue to follow the budget timeline and Local Control Accountability Plan (LCAP) to ensure a balanced FY 2014-2015 budget. Begin planning to deal with anticipated revenue shortfalls and excess expenditures for the FY 2015-2016 budget. It will be important to eliminate the reliance of one-time funds used to balance the budget, increase reserve and follow the Local Control Funding Formula (LCFF) and LCAP requirements.

### V. Major Initiatives:

Use the Third Interim Financial Report information to help guide budget development for FY 2014-2015 and FY 2015-2016.

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### VI. Results:

Budget development for FY 2014-2015 will follow the calendar approved by the Board. 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.
- Continue to engage stakeholders in the budget development process through community budget meetings.
- Meet and communicate with bargaining unit partners.
- Ensure compliance with all LCFF and LCAP requirements.