

# Board of Education Executive Summary

## Business Services

Proposed Fiscal Recovery Plan

November 19, 2020



### I. OVERVIEW/HISTORY:

On October 1, 2020 the Sacramento City Unified School District's ("District") Board approved the 2020-21 revised adopted budget which was disapproved by the Sacramento County Office of Education (SCOE) in a letter dated October 28, 2020. SCOE disapproved the District's 2020-21 revised adopted budget due to the on-going structural deficit, cash flow issues, negative fund balance projections and the recent FCMAT assessment (FCMAT letter dated September 15, 2020). At the November 5, 2020 Board Meeting, the District's Board voted to waive the formation of the Budget Review Committee. 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 2020-2021, the District is at risk of fiscal insolvency if the required reductions are not implemented for the 2021-2022 fiscal year. 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:

#### 2020-2021 Revised Adopted Budget

The current financial status as of the 2020-21 Revised Adopted Budget projects that on-going reductions of \$51M are required in order to balance the budget, satisfy the state-mandated 2% reserve, and avoid fiscal insolvency.

Sacramento City Unified School District	2020-21 Revised Adopted Budget	2021-22 Projected	2022-23 Projected	2023-24 Potential
Beginning Fund Balance	93,048,611	66,644,611	32,621,611	(18,340,389)
Surplus/(Deficit) Spending	(26,404,000)	(34,023,000)	(50,962,000)	(60,000,000)
Ending Fund Balance	<b>66,644,611</b>	<b>32,621,611</b>	<b>(18,340,389)</b>	<b>(78,340,389)</b>
Less: Assignments and Reserves	369,537	329,537	329,537	329,537
2% Reserve for Economic Uncertainty	12,804,000	11,330,000	11,514,000	12,000,000
Net Available Fund Balance after 2% REU	53,471,074	20,962,074	<b>(30,183,926)</b>	<b>(90,669,926)</b>

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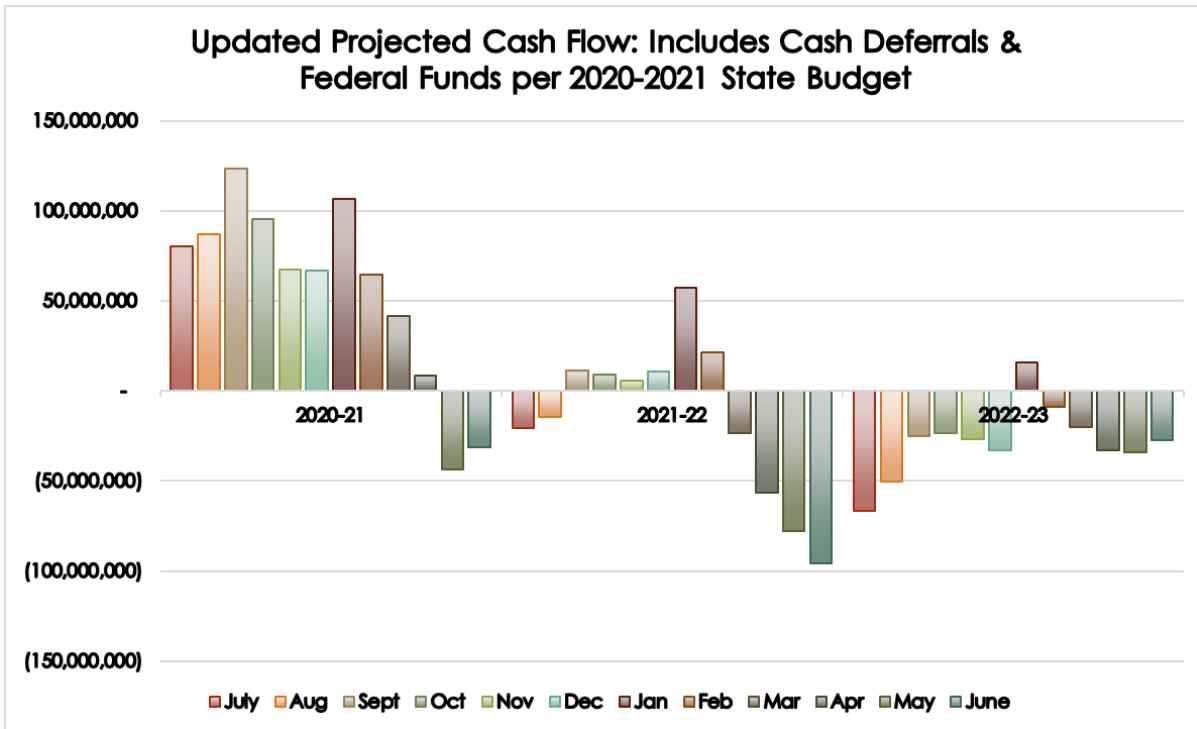
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### Cash Flow

The District's cash flow reports project a positive cash balance through April 2021 but starting in May 2021 the District is projected to have major cash challenges and is projected to have a negative cash balance of \$31M in June 2021. Although Districts can manage temporary negative cash balances through interfund transfers, temporary short term borrowings and a possible waiver of deferrals, the District's projected cash flow needs exceed these temporary solutions. Therefore, the District must implement reductions no later than July 2021 in order to prevent a zero cash balance and avoid a fiscal crisis. The following graph compares the District's projected cash balances for the budget year 2020-21 through the future years 2021-22 and 2022-23 as of October 2020.



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### **Budget Reductions Implemented To Date**

Over the past two years, the District has identified and implemented more than \$50 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:

<b>2018-2019 and 2019-2020 Budget Adjustments</b>			
<i>(in millions)</i>			
<b>Approval Date</b>	<b>Ongoing</b>	<b>One-Time</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		Staffing adjustments - aligning to enrollment for 2019-2020
May 2019	21	2.5	Special Ed expenditures, LCFF, Utilized Restricted Funds, Charter Oversight Revenue and Interest
June 2019	2.9		Special Ed Revenue, District Services revenue (custodial, utilities from charters)
September 2019	1.0	6.0	Interest revenue, One-time expenditures savings

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### External Audits of District's Budget

In the last few years, the District's budget has been reviewed by FCMAT, 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 expenses
3. the District must implement significant on-going budget reductions to create a balanced budget, and eliminate deficit spending to avoid fiscal solvency
4. the District's personnel costs are the largest on-going expense and these must be reduced
5. The District's escalating healthcare costs is a main driving factor that must be reduced

Below is an example of the recommendations from the State Auditor's report.

### State Auditor Budget Recommendations

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

### 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 delay a state takeover, yet the District's \$51 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.

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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 fiscal solvency. The following budget reduction options are for the Board's consideration and feedback. Thereafter, on December 10th, the Board will take action on the Fiscal Recovery plan and provide direction on the areas of savings the Board has determined to pursue.

<b>Negotiable Items and Potential Savings</b>		
<b>Item</b>	<b>Example</b>	<b>Potential Cost Savings</b>
Health Benefits	Reduce District Contribution to Employee only/75% other	18,793,471
Dental & Vision Benefits	Reduce District Contribution to Employee only	3,132,000
Cash In-Lieu of Benefits	Assume 3% Participation	1,400,000
Other Contract Items	Escalation factors, OPEB	2,020,000
Furlough Day	Cost of 1 day, Districtwide	1,736,000
Cost of 1%	Cost of 1% Salary increase/decrease Districtwide	3,476,000

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The summary below reflects countless hours of staff collaboration identifying possible reductions to the budget. While none of these items are desired, there is recognition that difficult decisions must be made.

<b>Summary of Budget Reduction Options</b>		
<b>Non-negotiable Items</b>		
<b>Item</b>	<b>Potential Cost Savings</b>	
APs, Social Workers, Counselors Over Ratio (A)	1,749,000	
Central Depts - PD, Staff, Supplies	2,253,000	
Programs/Sites Staff Over Formula	9,633,000	
Dual Immersion, UGF portion	25,000	
<b>Staff Recommendations</b>	<b>13,660,000</b>	
Special Programs - To Discuss (B)	4,941,000	
<b>List of Potential Reductions</b>	<b>18,601,000</b>	
<b>(A) Note that counselors and librarian staffing ratios are included in the SCTA CBA. CBA prevents the reduction of 57.1 FTE in this area, or \$7.5M</b>		
<b>(B) Staff does not recommend, but possible:</b>		<b>Consider Including on List</b>
VAPA/Music Teachers	837,000	837,000
Career Technical Education	925,000	925,000
Safe Schools	939,590	940,000
GATE	302,000	302,000
Social/Emotional learning	175,840	-
New Teacher Induction	236,579	237,000
Improvement, Accountability and School Support	1,200,000	1,200,000
Alternative Ed	897,457	-
After School /Youth Development	500,000	500,000
		4,941,000

The components of these summary items will be presented at the board meeting.

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Fiscal Recovery Plan Scenario #1 \$51M On-Going to Eliminate Deficit Spending				
	2020-21 Revised Adopted Budget	2021-22 Projected	2022-23 Projected	2023-24 Potential
Deficit Spending as of Revised Adopted Budget (from above)	(26,404,000)	(34,023,000)	(50,962,000)	(60,000,000)
<b>Revised Deficit Reduction Target</b>	<b>(26,404,000)</b>	<b>(34,023,000)</b>	<b>(50,962,000)</b>	<b>(60,000,000)</b>
On-going budget reductions 2020-21		51,000,000	51,000,000	51,000,000
On-going budget reductions 2021-22			-	-
On-going budget reductions 2022-23			-	-
<b>Cummulative On-Going Budget Reductions</b>	<b>-</b>	<b>51,000,000</b>	<b>51,000,000</b>	<b>51,000,000</b>
<b>Revised Surplus/(Deficit)</b>	<b>(26,404,000)</b>	16,977,000	38,000	<b>(9,000,000)</b>
<b>Net Available Fund Balance after 2% REU</b>	<b>53,471,074</b>	<b>71,962,074</b>	<b>72,000,074</b>	<b>63,000,074</b>

The tables below show the impact of implementing budget solutions effective July 1, 2021.

Scenario #2 \$15 million in on-going reductions reflects most of the non-negotiable items but the District will

Fiscal Recovery Plan Scenario #2 \$15M On-Going Budget Reductions				
	2020-21 Revised Adopted Budget	2021-22 Projected	2022-23 Projected	2023-24 Potential
Deficit Spending as of Revised Adopted Budget (from above)	(26,404,000)	(34,023,000)	(50,962,000)	(60,000,000)
<b>Revised Deficit Reduction Target</b>	<b>(26,404,000)</b>	<b>(34,023,000)</b>	<b>(50,962,000)</b>	<b>(60,000,000)</b>
On-going budget reductions 2020-21		15,000,000	15,000,000	15,000,000
On-going budget reductions 2021-22			-	-
On-going budget reductions 2022-23				-
<b>Cummulative On-Going Budget Reductions</b>	<b>-</b>	<b>15,000,000</b>	<b>15,000,000</b>	<b>15,000,000</b>
<b>Revised Surplus/(Deficit)</b>	<b>(26,404,000)</b>	<b>(19,023,000)</b>	<b>(35,962,000)</b>	<b>(45,000,000)</b>
<b>Net Available Fund Balance after 2% REU</b>	<b>53,471,074</b>	<b>35,962,074</b>	<b>74</b>	<b>(44,999,926)</b>

need to identify an additional \$36 million in on-going reductions to eliminate the projected deficit.

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### III. Driving Governance:

- 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.
- 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.
- 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 1<sup>st</sup>, if a Qualified or Negative Certification is reported as of the Second Interim Report.

### IV. 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.

### V. Major Initiatives:

Continued analysis of information from the State and its impact on District finances.

### VI. Results:

The Fiscal Recovery Plan presented at the November 19, 2020 Board Meeting identifies potential savings to address the deficit and avoid a State loan.

### 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



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budget meetings.

- Work to complete negotiations with bargaining unit partners.
- Ensure compliance with all LCFF and LCAP requirements.