



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.1

Meeting Date: November 4, 2021

Subject: Fiscal Recovery Plan

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: 12/16/21)
- Conference/Action
- Action
- Public Hearing

Division: Business Services

Recommendation: First presentation of the Fiscal Recovery Plan.

Background/Rationale: The current financial status as of the 2021-22 Budget Update, using enrollment projections of 38,0039, projects that on-going reductions of \$39,300,000 are required in order to balance the budget, satisfy the state-mandated 2% reserve and avoid fiscal insolvency. On June 24, 2021 the Sacramento City Unified School District's ("District") Board approved the 2021-22 Adopted Budget which was conditionally approved by the Sacramento County Office of Education (SCOE). SCOE conditionally approved the District's 2021-22 Adopted Budget with a lack of going concern determination primarily due to the on-going structural deficit. As part of the conditional approval, the District must submit a viable board-approved plan by December 15, 2021 to address the on-going structural deficit.

Financial Considerations: The District's Fiscal Recovery Plan includes proposed budget solutions.

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

Documents Attached:

1. Executive Summary

Estimated Time: 30 Minutes

Submitted by: Rose Ramos, Chief Business Officer

Approved by: Jorge A. Aguilar, Superintendent

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I. OVERVIEW/HISTORY:

On June 24, 2021 the Sacramento City Unified School District's ("District") Board approved the 2021-22 Adopted Budget which was conditionally approved by the Sacramento County Office of Education (SCOE) in a letter dated September 15, 2021. SCOE conditionally approved the District's 2021-22 Adopted Budget with a lack of going concern determination primarily due to the on-going structural deficit. As part of the conditional approval, the District must submit a viable board-approved Fiscal Recovery Plan by December 15, 2021 to address the on-going structural deficit. 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 2021-2022, the District is at risk of fiscal insolvency if the required reductions are not implemented for the 2022-23 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:

2021-2022 Budget Update

The current financial status as of the 2021-22 Budget Update, which was presented on August 19th, projected that on-going reductions of \$39.3M would be required in order to balance the budget, satisfy the state-mandated 2% reserve, and avoid fiscal insolvency. The following multi-year table is based on projected enrollment of 38,039 students and the adjustments related to the 2021-22 State Enacted budget. These adjustments included changes in the Local Control Funding Formula concentration grant increase, lottery increase, unemployment insurance rate decrease and increased special education funding.

Sacramento City Unified School District	2021-22 Budget Update	2022-23 Projected	2023-24 Projected
Beginning Fund Balance - <i>Unaudited Actuals</i>	\$103,708,114	\$101,513,250	\$66,787,538
Surplus/(Deficit) Spending	(\$2,194,864)	(\$34,725,712)	(\$39,292,599)
Ending Fund Balance	\$101,513,250	\$66,787,538	\$27,494,939
Less: Assignments & Reserves	\$79,281,726	\$44,556,014	\$10,263,415
2% Reserve for Economic Uncertainty	\$11,920,193	\$12,335,433	\$12,307,291
Net Available Fund Balance after 2% REU	\$10,311,331	\$9,896,091	\$4,924,233

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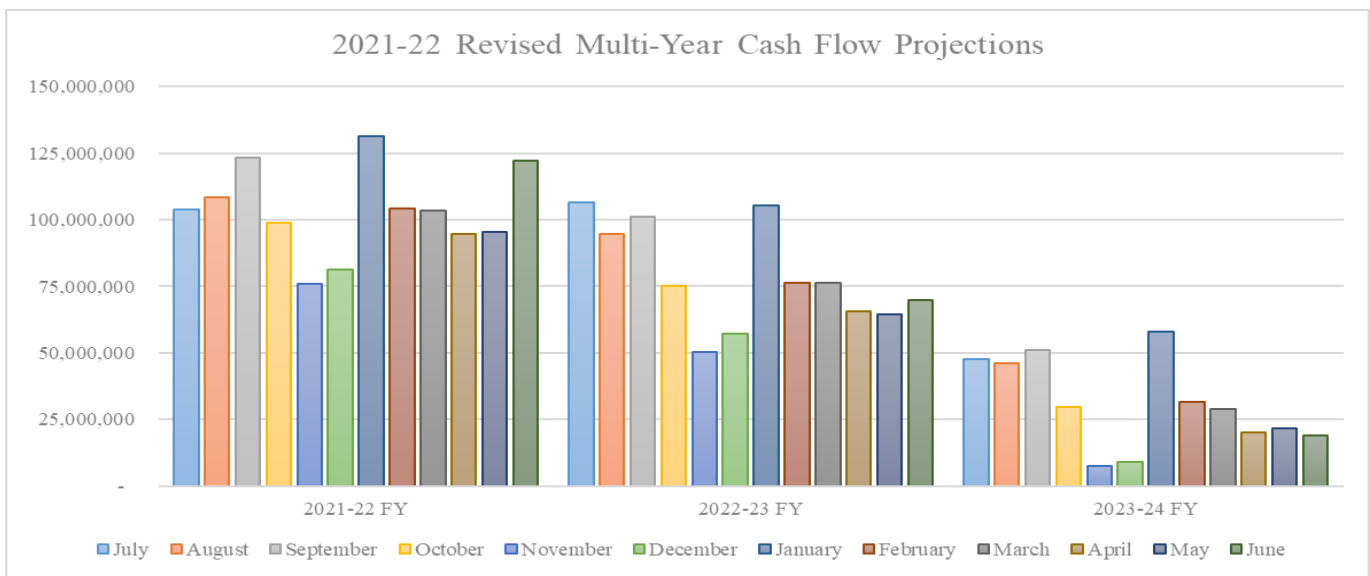
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Cash Flow

The District's cash flow reports project a positive cash balance through the current fiscal year and two subsequent years. However, due to the deficit spending, cash balances are also projected to decline significantly. Therefore, the District must implement reductions in order to bolster its cash balances and continue to meet its financial obligations. The following graph compares the District's projected cash balances for the budget year 2021-22 through the future years 2022-23 and 2023-24 as of October 2021:



The above chart includes estimated changes from the 2021-22 State Budget, 2020-21 Unaudited Actuals, and projected lower enrollment. These estimated changes include:

- Projected Enrollment of 38,039 students
- Change in revenue recognition of COVID funds in the 2020-21 Unaudited Actuals report compared to the 2020-21 Estimated Actuals report presented during the 2021-22 Adopted Budget
- Removal of LCFF deferral in June 2022
- Change in starting cash balance, assets and liabilities per the 2020-21 Unaudited Actuals Report

An additional cash flow projection report will be provided during the 2021-22 First Interim Report.

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Budget Reductions Implemented To Date

Over the past four years, the District has identified and implemented \$54.7 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:

2018-19, 2019-20 & 2020-21 Budget Adjustments

Approval Date	Ongoing (in millions)	One-Time (in millions)	Items
December 2018	17.5	3.6	Position Control, Debt Service, OPEB, Central Office Personnel, Supplies, Services & Utilities
February/March 2019	7.8	0.0	Staffing adjustments - aligning to enrollment for 2019-2020
May 2019	21.0	2.5	Special Education expenditures, LCFF, Utilized Restricted Funds, Charter Oversight Revenue & Interest
June 2019	2.9	0.0	Special Education Revenue, District Services revenue (custodial, utilities from charters)
September 2019	1.0	6.0	Interest revenue, One-time expenditures savings
February 2021	4.5	0.0	Central Office Supplies, Professional Development, Travel, Transportation (Non Special Education), College & Career Visits, Social Workers, Counselors, After School/Youth Development, Preschool Contribution
Totals	54.70	12.10	

External Audits of District's Budget

In the last few years, the District's budget has been reviewed by FCMAT, bond 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

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3. the District must implement significant on-going budget reductions to create a balanced budget, and eliminate deficit spending to avoid fiscal insolvency
4. the District’s personnel costs are the largest on-going expense and these must be reduced
5. The District’s escalating healthcare costs are a main driving factor that must be reduced

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 address the on-going structural deficit. *Yet, the District’s potential \$39 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.

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 a balanced budget.

DISTRICTWIDE PROPOSALS - SUBJECT TO NEGOTIATIONS		
Item	Action	Potential Cost Savings
Health Benefits	Reduce District Contribution to 100% employee only (any plan) & 75% of Kaiser Rate for ee plus1 or ee plus family plan	\$17,708,933
Health Benefits	Reduce District Contribution to Kaiser rate:100% employee only & 75% for ee plus1 and 75% for ee plus family plan	\$18,744,093
Dental & Vision Benefits	Reduce to 80% per Tier	\$1,421,022
Dental & Vision Benefits	Reduce to employee only	\$2,986,951
CompleteCare (Keenan Program)	\$400 Cash In-leiu of Benefits assuming 3% participation	\$1,152,703
CompleteCare (Keenan Program)	\$500 Cash In-leiu of Benefits assuming 3% participation	\$1,071,209
Furlough Days - General Fund	Currently 181, reduce by 1 day	\$1,822,752
1% Salary Reductions - General Fund	Reduce	\$3,498,368

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

CENTRAL DEPARTMENT PROGRAMS		
Item	Action	Potential Cost Savings
Staffing Adjustment to Enrollment Decline - LCFF BASE	Reduce 55.50 FTE for 1664 Enrollment decline	\$6,900,000
15% Central Office Staffing Reductions - LCFF BASE	Reduce	\$3,640,000
20% Central Office Discretionary - LCFF BASE	Reduce	\$3,200,000
Textbook Adoption Budget - LCFF BASE	Alternative Funding Source - going to online textbooks	\$5,054,000
New Teacher Induction - LCFF BASE	Alternative Funding Source - Educator Effectiveness Block Grant	\$243,174
15% Central Office Staffing Reductions - LCFF S&C	Reduce	\$1,930,000
20% Central Office Discretionary - LCFF S&C	Reduce	\$551,000
	TOTAL LCFF BASE	\$19,037,174
	TOTAL LCFF S&C	\$2,481,000
	TOTAL UNRESTRICTED GENERAL FUND	\$21,518,174

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SCHOOL SITE PROGRAMS

Item	Action	Potential Cost Savings
Charters - LCFF BASE	Eliminate	266,000
20% Site Discretionary Supplies - LCAP BASE	Reduce	555,000
College & Career Visits - LCFF S&C	Eliminate	690,598
Small Schools/Specialty Programs - LCFF S&C	Eliminate	3,930,863
Alternative Ed - LCFF S&C	Eliminate	1,606,151
Waldorf/Specialty Programs - LCAP S&C	Eliminate	869,558
Inclusive Practices/Specialty Programs - LCAP S&C	Eliminate	1,689,905
Elementary Sports - LCFF S&C	Eliminate	379,192
VAPA - LCFF S&C	Eliminate	785,444
VAPA Music Equipment - LCFF Base	Eliminate	78,500
Dual Immersion - LCFF S&C	Eliminate	953,227
	TOTAL LCFF BASE	\$899,500
	TOTAL LCFF S&C	\$10,904,938
	TOTAL UNRESTRICTED GENERAL FUND	\$11,804,438

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SCHOOL SITE PROGRAMS - ADDITIONAL STAFFING CONSIDERATIONS

Item	Action	Potential Cost Savings
1.33 FTE Assistant Principal - Elementary - LCFF S&C	Eliminate/Reduce to CBA - not subject CBA	\$200,564
8.0 FTE Assistant Principal - Middle School - LCFF BASE	Eliminate/Reduce to CBA - not subject CBA	\$1,244,800
14.0 FTE Assistant Principal - High School - LCFF BASE	Eliminate/Reduce to CBA - not subject CBA	\$2,245,600
16.0 FTE Assistant Principal - High School - LCFF S&C	Eliminate/Reduce to CBA - not subject CBA	\$320,800
3.0 FTE Assistant Principal - K-8 Schools - LCFF BASE	Eliminate/Reduce to CBA - not subject CBA	\$452,400
1.5 FTE Assistant Principal - K-8 Schools - LCFF S&C	Eliminate/Reduce to CBA - not subject CBA	\$226,200
11.6 FTE Librarian - LCFF S&C	Eliminate/Reduce to CBA - TBD	\$1,557,330
9.3 FTE Counselor, High School - LCFF BASE	Eliminate/Reduce to CBA - TBD	\$1,203,420
23.65 FTE Counselor, High School - LCFF S&C	Eliminate/Reduce to CBA - TBD	\$3,060,310
1 FTE Counselor, High School Continuation - LCFF BASE	Eliminate/Reduce to CBA - TBD	\$129,400
19.4 FTE Counselor, Middle School - LCFF BASE	Eliminate/Reduce to CBA - TBD	\$2,057,460
19.4 FTE Counselor, Middle School - LCFF S&C	Eliminate/Reduce to CBA - TBD	\$51,760
7.26 FTE Social Worker - LCFF S&C	Eliminate/Reduce to CBA - not subject CBA	\$1,129,656
	TOTAL LCFF BASE	\$7,333,080
	TOTAL LCFF S&C	\$6,546,620
	TOTAL UNRESTRICTED GENERAL FUND	\$13,879,700

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The tables below show the impact of implementing budget solutions effective July 1, 2022.

Fiscal Recovery Plan Scenario #1 - \$39.3M On-Going Budget Reductions

Sacramento City Unified School District	2021-22 Budget Update	2022-23 Projected	2023-24 Projected
PROJECTED Deficit Spending as of the 2021-22 Budget Update (<i>Enrollment projections @ 38,039</i>)	(\$2,194,864)	(\$34,725,712)	(\$39,292,599)
<i>On-going budget reductions 2022-23</i>		\$39,300,000	\$39,300,000
<i>On-going budget reductions 2023-24</i>			
<i>On-going budget reductions 2024-25</i>			
Cummulative On-Going Budget Reductions	\$0	\$39,300,000	\$39,300,000
REVISED Surplus/(Deficit) Spending		\$4,574,288	\$7,401

Fiscal Recovery Plan Scenario #2 - \$19.65M On-Going Budget Reductions **EACH YEAR**

Sacramento City Unified School District	2021-22 Budget Update	2022-23 Projected	2023-24 Projected
PROJECTED Deficit Spending as of the 2021-22 Budget Update (<i>Enrollment projections @ 38,039</i>)	(\$2,194,864)	(\$34,725,712)	(\$39,292,599)
<i>On-going budget reductions 2022-23</i>		\$19,650,000	\$19,650,000
<i>On-going budget reductions 2023-24</i>			\$19,650,000
<i>On-going budget reductions 2024-25</i>			
Cummulative On-Going Budget Reductions	\$0	\$19,650,000	\$39,300,000
REVISED Surplus/(Deficit) Spending		(\$15,075,712)	\$7,401

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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 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.

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 4, 2021 Board Meeting identifies potential savings to address the deficit and achieve a balanced budget. The District must submit a viable board-approved plan by December 15, 2021 to address the on-going structural deficit.

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.