



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.2

Meeting Date: February 6, 2020

Subject: Approval of First Interim 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: Approve the Fiscal Recovery Plan presented at the February 6, 2020 Board Meeting.

Background/Rationale: The current financial status as of the 2019-20 First Interim Financial Report projects that on-going reductions of twenty-seven million dollars (\$27,000,000) are required in order to balance the budget, satisfy the state-mandated 2% reserve and avoid the fiscal crisis (State takeover).

Financial Considerations: The total proposed budget solutions to achieve \$27,000,000.

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

Documents Attached:

1. Executive Summary

<p>Estimated Time: 5 Minutes Submitted by: Rose Ramos, Chief Business Officer Approved by: Jorge A. Aguilar, Superintendent</p>
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Board of Education Executive Summary

Business Services

First Interim Fiscal Recovery Plan

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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.

As of now, the District has not achieved sufficient reductions to resolve the on-going structural budget deficit which is projected to increase in future years. If corrective action is not taken, the District is at risk of fiscal insolvency and potentially a State takeover.

The current financial status as of the 2019-20 First Interim Financial Report projects that on-going reductions of twenty-seven million dollars (\$27,000,000) are required in order to balance the budget, satisfy the state-mandated 2% reserve and avoid the fiscal crisis (State takeover).

Multi-Year Projection (Total GF)			
Description	First Interim 2019-20	Projected 2020-21	Projected 2021-22
Total Revenues	561,334,394	556,950,111	552,604,542
Total Expenditures	573,091,478	585,657,947	582,323,644
Excess/(Deficiency)	(11,757,085)	(28,707,836)	(29,719,102)
Other Sources/Uses	573,850	85,666	(109,496)
Net Increase/(Decrease)	(11,183,234)	(28,622,170)	(29,828,598)
Add: Beginning Fund Balance	70,329,345	59,146,111	30,523,941
Ending Fund Balance	59,146,111	30,523,941	695,344
2% Required Reserve	11,569,964	11,756,481	11,694,706

The District's cash flow reports (2019-20 First Interim SACS multi-year report) project a positive cash balance through October 2021 but starting in November 2021 the District is projected to have major cash challenges. Although Districts can manage temporary negative cash balances through interfund transfers until cash is received, the District's projected cash flow needs exceed this temporary solution. Therefore, the District must implement reductions of \$27 million 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 2019-20

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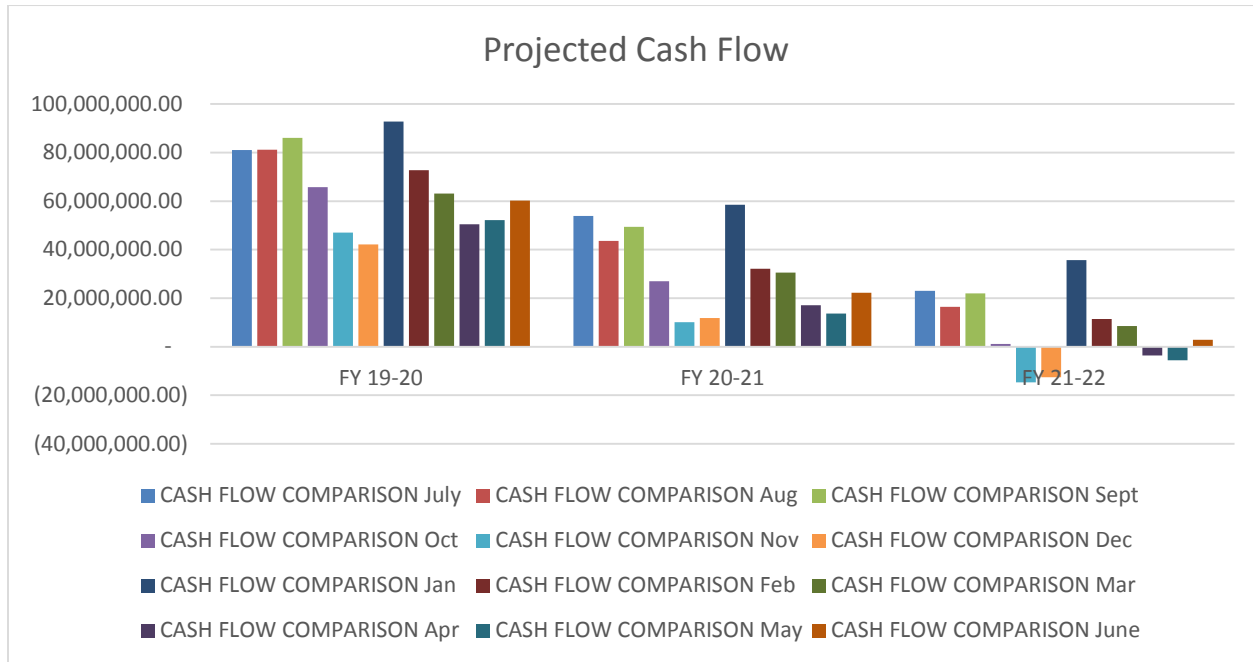
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through the future years 2020-21 and 2021-22 as of the 2019-20 First Interim Financial Report.



Budget Reductions Implemented

Over the past year, the District has identified and implemented more than \$30 million in on-going non-negotiable budget reductions. Identifying further savings from non-negotiable items will be extremely limited or adversely affect student achievement. The additional non-negotiable items considered for budget reductions revealed that any possible budget savings would be inconsistent with the District’s budget balancing priorities and would also result in unintended financial consequences. SCOE supported the District’s conclusion that eliminating any of these programs would negatively impact students and, therefore, should no longer be considered to be part of the budget balancing plan.

Programs No Longer Considered for Budget Reductions	
Athletics	Leadership Positions for:
Music Equipment	Master Schedule and Instruction
Instructional Technology	Social/Emotional Learning
PSAT/SAT Test Fees	Innovative Schools
College & Career Visits	Gate/AP Programs
Student Interventions for students not demonstrating grade readiness	Research and Data
	New Teacher Induction

The District’s prior reductions also included positions at the District office, administrator level and

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staffing adjustments consistent with 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.

State Auditor Budget Recommendations

The District has reviewed and analyzed the following recommendations from the State Auditor.

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

Student Centered Fiscal Recovery Plan

We believe 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 save our schools from a takeover. The District’s \$27 million shortfall will not be resolved without negotiated solutions. While we have considered the type of options proposed by the Auditor, the District has determined not to propose a reduction to employee salaries, but rather to modify health care premium contributions consistent with other comparable districts. The District is seeking to return to District healthcare benefit contributions that are in parity to comparable school districts while maintaining high quality benefit plans for employees.

The table on the following page shows the impact of implementing a \$27 million budget solution effective July 1, 2021.

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Projections Assuming \$27M Ongoing Solution Effective July 1, 2021		
	2020-21	2021-22
Total Revenue	556,950,111	552,604,542
Total Expenditures	585,657,947	555,323,644
Deficit/Surplus	(28,707,836)	(2,719,102)
Ending Balance	30,523,941	27,695,344

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. The District will continue to evaluate its programs and staffing levels, and other supply and services expenditures in order to determine whether additional non-negotiable savings may be achieved. This analysis will continue throughout the Second Interim period for its report to the Board. The following table provides a list of options.

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%	
Employees Contribution 2% - (does not reduce employers contribution but addresses the OPEB liability)	3,300,000

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

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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 Board must take action on all necessary budget adjustments for 2019-20, 2020-21 and 2021-22, and the District must maintain its required 2% reserve for economic uncertainties. The Fiscal Recovery Plan identifies areas for potential savings to achieve the \$27 million solution.

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:

Approve the Fiscal Recovery Plan presented at the February 6, 2020 Board Meeting to achieve the total proposed \$27 million budget solution.

VI. Results:

The Fiscal Recovery Plan update presented at the February 6, 2020 Board Meeting identifies potential savings to achieve the \$27 million budget reduction 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.