

Fiscal Recovery Plan

Board Meeting

December 16, 2021

Agenda Item No. 9.3

Agenda

- Background/History on District's Budget
- 2021-22 Budget update and Multi-Year Projection
- Cash Flow Update
- Budget Reductions to Date
- Fiscal Recovery Plan (FRP) Overview
- Proposed FRP – Action Items
- Proposed FRP – Additional Considerations
- Summary and Q&A

Background

Definitions

- **Structural Deficit:** occurs when on-going expenditures exceed on-going revenues
- **One-time Resources:** funding that is one-time and not recurring, examples are donations, a one-time grant, unexpended funds (carryover)
 - **BP 3100 Revised 3/4/21 Use of One-Time Funds** – Not to be used for ongoing expenditures unless Board approved
- **Reserves:** Reserves are created when revenues exceed expenditures. K-12 Districts maintain reserves for multiple reasons, two most common:
 - 1. Satisfy the State required % reserve - Reserve for Economic Uncertainties for SCUSD is 2% of the total general fund budgeted expenditures
 - 2. To maintain a prudent level above the required % to protect against the need to reduce service levels due to temporary revenue shortfalls or unpredicted expenditures (safety net)
 - **BP3100 Revised 3/4/21 Reserves** - Increased from minimum 2% to 5% effective 2022-2023 or after deficit is eliminated

History/Background

- District's budget has been operating a structural deficit for several years due to on-going expenditures exceeding on-going revenues
 - Fiscal year 2019-20 and 2020-21 surpluses were a result of one-time savings due to less spending during COVID-19
- The District has managed the deficit with one-time sources and reserves – a non-sustainable plan as these resources will eventually be depleted
- Employee salaries and benefits account for approximately 90% of the *unrestricted* budget
- The District's benefit structure for active employees and retirees is one of the highest in the region
- Salaries and benefits continue to increase year over year yet revenue has not increased at the same rate or remains flat

2021-22 Budget Update

- MYP based on 38,044 enrollment, adjustments to state enacted budget and other adjustments shown in the 2021-22 First Interim Report
 - Projected to spend down 38% of fund balance over next two years

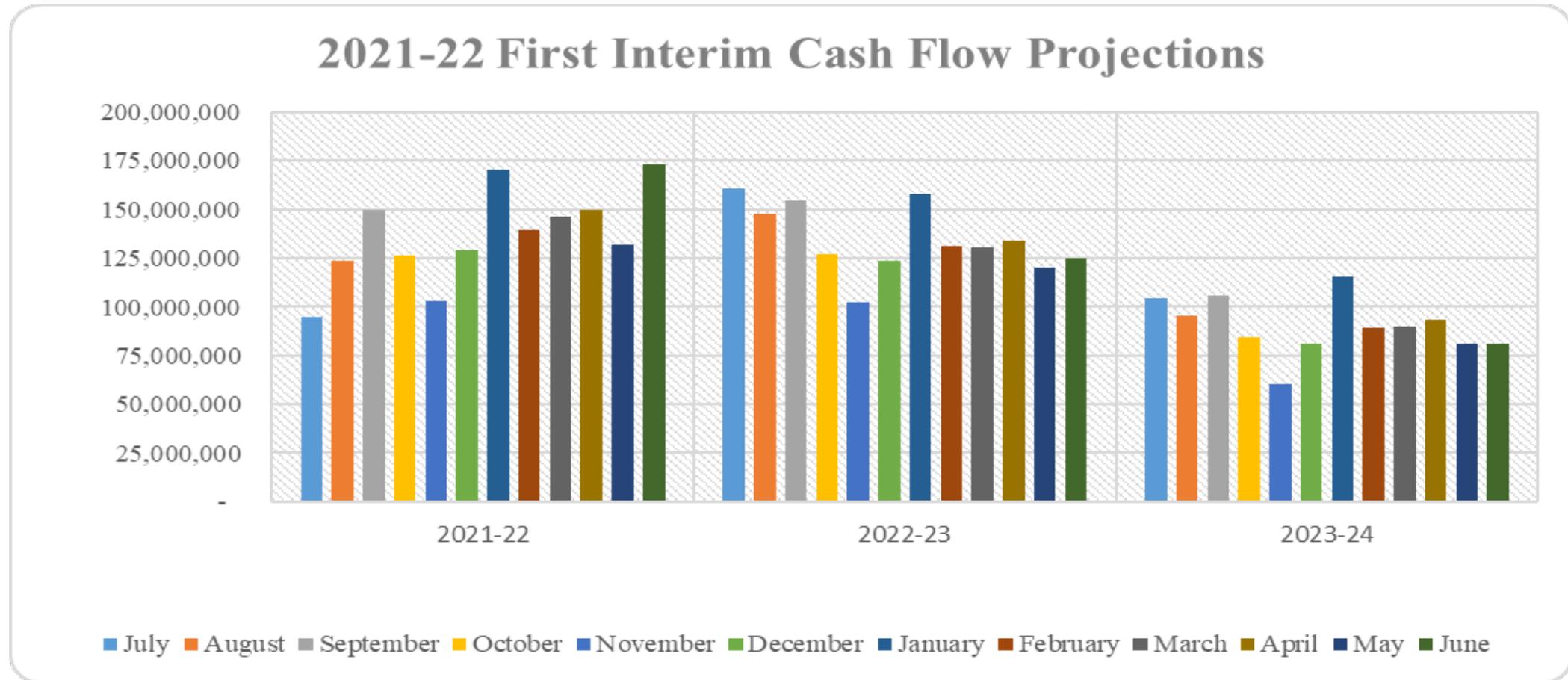
2021-22 First Interim Multi-Year Projections			
Description	Proposed 2021-22	Projected 2022-23	Projected 2023-24
Total Revenues	711,345,307	597,075,014	606,905,302
Total Expenditures	715,746,748	618,584,156	635,156,851
Excess/(Deficiency)	(4,401,442)	(21,509,142)	(28,251,549)
Other Sources/Uses	2,050,301	2,050,301	2,050,301
Net Increase/(Decrease)	(2,351,141)	(19,458,841)	(26,201,248)
Add: Beginning Fund Balance	125,906,717	123,555,577	104,096,736
Ending Fund Balance	123,555,577	104,096,736	77,895,487

2021-22 MYP Without One Time Funds

- 2021-22 First Interim MYP excluding CARES/COVID funds

2021-22 First Interim Multi-Year Projections Without One Time Funds			
Description	Proposed 2021-22	Projected 2022-23	Projected 2023-24
Total Revenues	577,603,070	545,824,550	555,654,838
Total Expenditures	570,639,213	568,247,242	584,819,937
Excess/(Deficiency)	6,963,857	(22,422,692)	(29,165,099)
Other Sources/Uses	2,050,301	2,050,301	2,050,301
Net Increase/(Decrease)	9,014,158	(20,372,391)	(27,114,798)
Add: Beginning Fund Balance	110,862,766	119,876,924	99,504,533
Ending Fund Balance	119,876,924	99,504,533	72,389,735

2021-22 First Interim Cash Flow Projections



Budget Reductions to Date



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	

Fiscal Recovery Plan Overview

- Student centered budget decisions guided by core values
- Proposed budget reductions to address ongoing deficit target of \$26.2M and achieve balanced budget
- If deficit persists, districts cash balance will deteriorate and ending fund balance will diminish
- Five-part plan that includes negotiated and non-negotiated items
 - Part I, II and III – Action items
 - Part IV and V – For Additional Consideration
- Board action by December 16, 2021

FRP Action Items

- **FRP Part I - Proposed Budget Adjustments, Effective July 1, 2022**

Implement Effective 7/1/2022		
Item	Potential Cost Savings	Notes
Textbook Adoption Budget - LCFF BASE	\$5,054,000	One-time expense allocate to allowable restricted resources
New Teacher Induction - LCFF BASE	\$243,174	On-going expense allocate to Educator Effective Block Grant through 2025-2026
TOTAL UNRESTRICTED GENERAL FUND	\$5,297,174	
Staffing Adjustment to Enrollment Decline - LCFF Base	\$7,900,000	On-going expense reduction to align to decline in enrollment included in MYP*

FRP Action Items

- The multi-year projections below show the impact of implementing the \$5.3M in budget solutions effective July 1, 2022. The staffing adjustment of \$7.9M is already accounted for in the multi-year projections as an expenditure reduction.

Description	Proposed 2021-22	Projected 2022-23	Projected 2023-24
Total Revenues	711,345,307	597,075,014	606,905,302
Total Expenditures	715,746,748	618,584,156	635,156,851
Excess/(Deficiency)	(4,401,442)	(21,509,142)	(28,251,549)
Other Sources/Uses	2,050,301	2,050,301	2,050,301
Surplus/(Deficit)	(2,351,141)	(19,458,841)	(26,201,248)
Add: FRP Textbook Adoption Savings 1x		5,054,000	0
Add: FRP New Teacher Induction		243,174	243,174
Revised Surplus/(Deficit)	(2,351,141)	(14,161,667)	(25,958,074)
Add: Beginning Fund Balance	125,906,717	123,555,577	109,393,910
Ending Fund Balance	123,555,577	109,393,910	83,435,835

FRP Action Items

FRP Part II

- Approve reserving one-time unrestricted general fund savings that result from unexpended budget categories.
 - The 2021-22 First Interim Financial Report projects unrestricted general funds savings of \$14.2M due to vacancies and operational savings

FRP Part III

- Approve applying any additional unrestricted general funds provided by the State Budget to the deficit
 - Additional unrestricted funds will not be allocated to new expenditures until the deficit is resolved
- The 2022-23 State Budget Proposal is expected to be available in January 2022

FRP Additional Considerations

FRP Part IV

- Achieve a negotiated solution to address the deficit

DISTRICTWIDE - 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-lieu of Benefits assuming 3% participation	\$1,152,703
CompleteCare (Keenan Program)	\$500 Cash In-lieu of Benefits assuming 3% participation	\$1,071,209

FRP Additional Considerations

FRP Part V

- Revisit additional items for reconsideration to address the deficit as needed
 - Impact of lost services and purchases to be identified prior to reduction

Central Office Potential Reductions

Item	Potential Cost Savings	Notes
15% Central Office Staffing Reductions - LCFF BASE	\$3,640,000	UGF Base - Object Codes 1000s -3000s, for every 5% = \$1.2M
20% Central Office Discretionary - LCFF BASE	\$3,200,000	UGF Base - Object Codes 42xx-6xxx excludes 55xx (utilities), every 5% = \$800K
TOTAL LCFF BASE	\$6,840,000	On-going Expense Reduction - Reduces the Deficit On-going

FRP Additional Considerations

FRP Part V (Continued)

- Items to Review for Alternative Funding Sources

SCHOOL SITE PROGRAMS - STAFFING CONSIDERATIONS	
Item	Review for Alternative Funding Sources
8.0 FTE Assistant Principal - Middle School - LCFF Base	\$1,244,800
14.0 FTE Assistant Principal - High School - LCFF Base	\$2,245,600
3.0 FTE Assistant Principal - K-8 Schools - LCFF Base	\$452,400
9.3 FTE Counselor, High School - LCFF Base	\$1,203,420
1 FTE Counselor, High School Continuation - LCFF Base	\$129,400
15.9 FTE Counselor, Middle School - LCFF Base	\$2,057,460
TOTAL LCFF BASE	\$7,333,080
VAPA Music Equipment - LCFF Base	\$78,500

Summary

- Budget reduction target of \$26.2M excluding 1X COVID Relief Funds
- Negotiated and non-negotiated budget reductions needed to address deficit
- Board Action by December 16, 2021 – **Approve Fiscal Recovery Plan**
- Next Steps
 - Implement proposed FRP action items effective July 1, 2022
 - Review Additional Considerations & Update at 2nd Interim

Q&A