

Board of Education Executive Summary

Business Services

Proposed Fiscal Recovery Plan

February 4, 2021



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 First Interim Report

The current financial status as of the 2020-21 First Interim Report projects that on-going reductions of \$56M 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 1st Interim	2021-22 Projected	2022-23 Projected	2023-24 Potential
Beginning Fund Balance	93,048,611	62,569,699	24,335,902	(31,064,661)
Surplus/(Deficit) Spending	(31,150,477)	(38,905,362)	(56,072,127)	(60,000,000)
Ending Fund Balance	62,569,699	24,335,902	(31,064,660)	(91,064,661)
Less: Assignments and Reserves	330,662	330,662	330,662	330,662
2% Reserve for Economic Uncertainty	12,765,701	11,291,803	11,480,966	12,000,000
Net Available Fund Balance after 2% REU	49,473,336	12,713,437	(42,876,288)	(103,395,323)

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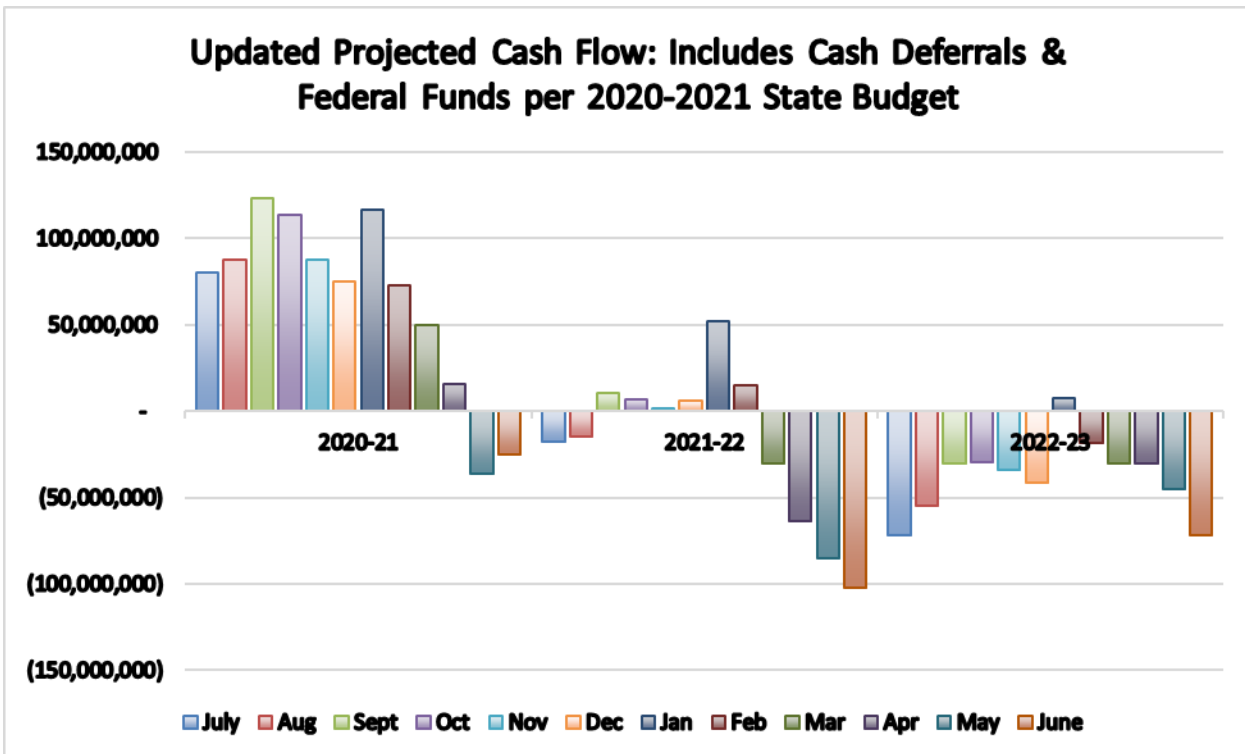
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Cash Flow

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 cash challenges that will be managed with temporary interfund transfers, short term borrowings and/or possibly a waiver of the cash deferrals. However, if a Fiscal Recovery Plan is not implemented by July 1, 2021, the District is projected to experience serious cash issues by March 2022.



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Fiscal Updates

Projected Enrollment for 2021-2022

The District's enrollment for 2021-2022 is projected at 39,800 which is about 600 students less than the 2019-2020 school year. This represents a difference of 400 students approximately since the projections used at First Interim. As stated in the 2020-2021 First Interim Financial Report, the District's current year enrollment is trending significantly lower than projected which may be a result of COVID-19. The current lower enrollment is utilized (trend analysis) in projecting the multi-year enrollment projections. Therefore, unless enrollment improves, the District's multi-year budgets will be negatively impacted. The fiscal impact of a 600 enrollment decline is approximately \$3.8M. for fiscal year 2022-23 compared to the First Interim Report. SB 98 includes a hold harmless provision and maintains the 2019-20 ADA for funding purposes for fiscal years 2020-2021 and 2021-2022.

The District's multi-year projections will be revised to reflect the decline in enrollment for the Second Interim Financial Report.

Federal COVID-19 Relief Funds

The latest allocation of federal stimulus was signed into law in December 2020 and this includes an allocation for school districts, Elementary and Secondary School Emergency Relief Fund (ESSER). The allocation is based on Title I awards (similar to the first allocations) and it is estimated that the District may receive approximately \$69 million. While the unrestricted funds of the district reflect significant need for budget reductions, the new Restricted Federal dollars can be used, One-Time, to help offset the additional burdens caused by the COVID-19 crisis. The funds will be subject to the same allowable uses as the previous ESSER funds plus two additional uses:

1. School facility repairs and improvements to enable operation of schools to reduce risk of virus transmission and exposure to environmental health hazards, and to support student health needs
2. Inspection, testing, maintenance, repair, replacement, and upgrade projects to improve the indoor air quality in school facilities, including mechanical and non-mechanical heating, ventilation, and air conditioning systems, filtering, purification and other air cleaning, fans, control systems and window and door repair and replacement

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Updated Multi-Year Projections Adjusted for: Governor’s Proposed COLA for the 2021-2022 Budget, Unduplicated Percentage changes and Projected Enrollment. The new target for balancing the budget (eliminate deficit spending) is \$33.5M as noted in this revised chart.

COMBINED General Fund Multi-Year Projection			
Per 1st Interim 2020-21			
	2020-21 1st Interim	2021-22 Proj	2022-23 Proj
Beginning Fund Balance	93,048,611	62,569,699	24,335,902
Surplus/(Deficit) Spending	(31,150,477)	(38,905,362)	(56,072,127)
Ending Fund Balance	62,569,699	24,335,902	(31,064,661)
2% Reserve for Economic Uncertainty	12,765,701	11,291,803	11,480,966
Net Available Fund Balance after 2% REU	49,473,336	12,713,437	(42,876,289)
Deficit Spending as of 1st Interim Budget (from above)	(31,150,477)	(38,905,362)	(56,072,127)
<i>Adjust for UPP% @ 71.8%</i>	6,246,111	5,970,550	5,661,571
<i>Adjust for potential COLA +3.84% in 21-22</i>		15,475,765	15,373,574
<i>Adjust for potential COLA +1.28% in 22-23</i>			5,305,580
<i>Adjust for potential enrollment decline 600</i>			(3,817,970)
Revised Deficit Reduction Target	(24,904,366)	(17,459,047)	(33,549,372)

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:

2018-2019 and 2019-2020 Budget Adjustments			
(in millions)			
Approval Date	Ongoing	One-Time	Items
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

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

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 save our schools from a takeover. *Yet, the District's \$56 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 help 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.

Negotiable Items and Potential Savings		
Item	Example	Potential Cost Savings
Health Benefits	Reduce District Contribution to Employee only/75% other	17,286,000
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 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.

Non-Negotiable Unrestricted General Fund Budget Reduction Options	
Total Potential Cost Savings Reductions	3,186,000
Total Potential Cost Savings Alternative Funding	1,620,000
Total Potential Cost Savings	\$4,806,000

Reduction Item/Alternative Funding Source	Potential Cost Savings
15% Centralized Supplies	455,000
Professional Development	108,000
Travel	90,000
Transportation - Non-Spec Ed (elim school closure ro	1,100,000
GATE (elim paying for IB & AP tests)	500,000
Elementary Sports	370,000
College & Career Visits	288,000
Site Discretionary Supplies (15% reduction)	275,000
Total Potential Cost Savings	\$3,186,000

Reduction Item/Alternative Funding Source	Potential Cost Savings	Potential Alternative Funding Source
Social Workers	885,000	Temporary CARES Funding
Counselors above staffing ratio	235,000	Temporary CARES Funding
After School /Youth Development	500,000	Temporary CARES Funding
Total Potential Cost Savings	1,620,000	

Proposed Items Pending the State Budget/Further Review by 7/1/2021	Potential Cost Savings			
Preschool Contribution (Unfunded portion)*	\$564,000			
<i>*Amount does not include the Preschool Parent Participation Program (PPPP), effective 7/1/20, a contribution for PPPP is not budgeted as the program is self-sustaining</i>				

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Updated Deficit for Multi-Year Projections Adjusted for: Governor's Proposed COLA for the 2021-2022 Budget, Unduplicated Percentage and Projected Enrollment.

Fiscal Recovery Plan Scenario #1 \$33M On-Going to Eliminate Deficit Spending			
Sacramento City Unified School District	2020-21 1st Interim	2021-22 Projected	2022-23 Projected
Deficit Spending as of 2020-2021 1st Interim Financial Report	(31,150,477)	(38,905,362)	(56,072,127)
Revised Deficit Reduction Target	(24,904,366)	(17,459,047)	(33,549,372)
On-going budget reductions 2020-21		33,000,000	33,000,000
On-going budget reductions 2021-22			-
On-going budget reductions 2022-23			-
Cummulative On-Going Budget Reductions	-	33,000,000	33,000,000
Revised Surplus/(Deficit)	(24,904,366)	15,540,953	(549,372)
Net Available Fund Balance after 2% REU	49,473,336	45,713,437	45,164,065

Fiscal Recovery Plan Scenario #2 \$15M On-Going Budget Reductions			
Sacramento City Unified School District	1st Interim 2020-21	2021-22 Projected	2022-23 Projected
Deficit Spending as of 2020-2021 1st Interim Financial Report	(31,150,477)	(38,905,362)	(56,072,127)
Revised Deficit Reduction Target	(24,904,366)	(17,459,047)	(33,549,372)
On-going budget reductions 2020-21		15,000,000	15,000,000
On-going budget reductions 2021-22			-
On-going budget reductions 2022-23			-
Cummulative On-Going Budget Reductions	-	15,000,000	15,000,000
Revised Surplus/(Deficit)	(24,904,366)	(2,459,047)	(18,549,372)
Net Available Fund Balance after 2% REU	49,473,336	27,713,436	9,164,065

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Fiscal Recovery Plan Scenario #3 \$5.3M On-Going Budget Reductions			
Sacramento City Unified School District	1st Interim 2020-21	2021-22 Projected	2022-23 Projected
Deficit Spending as of 2020-2021 1st Interim Financial Report	(31,150,477)	(38,905,362)	(56,072,127)
Revised Deficit Reduction Target	(24,904,366)	(17,459,047)	(33,549,372)
On-going budget reductions 2020-21		5,370,000	5,370,000
On-going budget reductions 2021-22			-
On-going budget reductions 2022-23			
Cummulative On-Going Budget Reductions	-	5,370,000	5,370,000
Revised Surplus/(Deficit)	(24,904,366)	(12,089,047)	(28,179,372)
Net Available Fund Balance after 2% REU	49,473,336	18,083,436	(10,095,935)

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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 December 10, 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 budget meetings.
- Work to complete negotiations with bargaining unit partners.
- Ensure compliance with all LCFF and LCAP requirements.