# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
# BOARD OF EDUCATION

Agenda Item# 10.1

**Meeting Date**: February 2, 2012

**Subject**: **Governor's Budget Proposal and 2011-12 and 2012-13 Budget Recommendations and Reductions**

- ☐ Information Item Only
- ☐ Approval on Consent Agenda
- ☐ Conference (for discussion only)
- ☐ Conference/First Reading (Action Anticipated: ______________)
- ☐ Conference/Action
- ☒ Action
- ☐ Public Hearing

**Division:** Administrative Services

**Recommendation:** Discuss for approval recommendations for maintaining a balanced 2011-12 and 2012-13 budget. Discuss updated information regarding the Governor's January budget proposal.

**Background/Rationale:** At the December 14, 2011 Board meeting, staff provided the First Interim Financial Report for approval. At that time, a representative from School Services of California, Inc. and the Sacramento County Superintendent of Schools presented information to the Board outlining the critical need for early identification and approval of budget balancing reductions.

A first review of potential recommendations was provided at the January 12 Board meeting. At that time, items to balance 2011-12 and 2012-13 were identified for approval.

**Financial Considerations**: Board review and action on recommendations for budget balancing.

**Documents Attached:**
1. Executive Summary

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| **Estimated Time of Presentation**: 20 Minutes |
| **Submitted by**: Patricia A. Hagemeyer, Chief Business Officer |
| **Approved by**: Jonathan P. Raymond, Superintendent |

# Board of Education Executive Summary

**Administrative Services**

Governor's Budget Proposal and 2011-12 and 2012-13
Budget Recommendations and Reductions
February 2, 2012

## I. Overview/History:

Starting with mid-year reductions in 2002-03, Sacramento City Unified School District has reduced expenditures, enhanced revenues or used one-time funds for a total of $185.8 million dollars to maintain balanced budgets. This shortfall was caused mostly by reductions in state revenue, increased employee costs and declining enrollment. One-time funds are virtually gone and employee salaries and benefits make up 90 percent of our unrestricted general fund dollars. Any economic recovery by the state appears to be several years down the road.

Reductions have been made to all employee groups, supplies, services, utilities and capital outlay. Decisions considered "away from the classroom" were made many years ago. Recent budget savings included increasing class sizes, reducing central office staff, the reduction or elimination of many Tier III programs, reduced staffing at school sites and the implementation of furlough days.

Based on the best information available, the district is faced with a $2.50 million shortfall in the current year and a projected $27.93 million shortfall in 2012-13. It is important to note that this amount is a best case scenario. Under Governor Brown's January budget proposal, public school districts will receive "flat funding" that is contingent on voters passing a statewide initiative to raise taxes in November. Revenue raised would be used to restore cash deferrals to districts – it appears there would be no new dollars for schools generated by the measure's passage. If voters reject the measure, districts would face mid-year "trigger cuts" in early 2013. Education finance experts are recommending that school districts budget for a $370 per Average Daily Attendance (ADA) reduction in revenue. Thirteen dollars ($13) of that reduction has already been accounted for in the 2011-12 mid-year reductions. The remaining $357 per ADA reduction means another $15 million in lost revenue. That would bring our total shortfall to $42.93 million.

Of particular concern to California school districts is the shortage of cash due to state deferrals. The state recognizes that they owe districts money, but they have put off paying the cash, in other words, deferring the cash owed to districts. Included with this document is a cash flow report generated from the district's finance system (see attached). This report will be provided monthly to the Board as an information item. Cash flow reports are used to determine when and how much money must be borrowed to continue to pay our bills.

## II. Driving Governance:

- Education Code section 42130 requires the Superintendent to submit two Interim 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. The second report shall cover the period ending January 31. 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 future fiscal year. 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 Sections 44919, 44951 and 44955 require school districts to provide notice on or before March 15th to certificated employees who are designated for layoff for the subsequent year. The final decision for layoff must occur before May 15th.

- Education Code Sections 45114, 45115, 45117, 45298 and 45308 require school districts to provide not less than 45 day's notice to classified employees of a layoff.

- Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1. 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 determines if the district will be able to meet its financial obligations during the fiscal year and ensures a financial plan that will enable the district to satisfy its multiyear financial commitments.

## III. Budget:

As presented at the January 12, 2012 Board meeting, the shortfall for the current year is $2.5 million. Staff recommend the following actions to balance the 2011-12 budget:

**Use of Reserve Funds $1,828,000**

When the 2011-12 district budget was developed, it was anticipated that the district would receive flat revenue funding from the state. That was based on very ambitious revenue projections by the state. When the district budget was adopted in June, it included a reserve of $13.95 million in case the flat funding did not materialize. When the final state budget was signed, districts were advised to spend funds as if flat funding would materialize; however, if the state did not generate enough revenue to provide flat funding, there could be mid-year reductions. This was known as the "trigger" language. Based on state guidance to spend our funds, $12 million of the reserve was used to reinstate positions that had been reduced. This left a reserve of $1.95 million. Staff propose to use $1.8 million to offset the $2.5 million mid-year reductions that actually occurred due to the "trigger" language.

**Reduction in Central Office Operating and Contract Costs $672,000**

Central Office operating costs and contract services will be reduced this year as a one-time budget savings. The reductions are not all sustainable as the elimination of these funds prevents the district from performing critical services. For example, assistance from our external auditors will be eliminated for the remainder of this year. Non-emergency expenses will be eliminated. Training and staff development will be reduced or eliminated.

**TOTAL RECOMMENDATIONS FOR APPROVAL FOR 2011-12 $2,500,000**

As presented at the January 12, 2012 Board meeting, the shortfall for the 2012-13 year is $27.93 million, not including the impact of the latest Governor's January Budget. While these are very difficult decisions, staff recommend the following actions to balance the 2012-13 budget:

**PARS Payments Charged to Retiree Benefits Fund $3,740,000**

During the 2007-08 and 2008-09 fiscal years, an early retirement incentive was approved using Public Agency Retirement Services (PARS). As a result of that incentive which saved the district money over time, payments totaling $3.74 million are made once each year. This recommendation would shift the funding of these payments to the Retiree Benefits Fund thereby relieving the general fund of this obligation. The payment for $2.7 million will end after 2012-13 and the payment for $1.04 million will end after 2013-14.

**Reduce Contracts and Central Office Operating Budgets $1,000,000**

All contracts and central office operating budgets will be under review with non-mandated contracts reduced or eliminated. Operating budgets will be reduced or eliminated. This will leave limited budgets for future expenses. Antiquated equipment replacement will be non-existent. Training and staff development will be severely limited.

**Use of Reserve for Unfunded Retiree Health Benefits Liability $1,000,000**

Many years ago, the Board set aside one-time dollars in a reserve to help pre-fund the liability for retiree benefits. These funds are included in the general fund ending balance. Despite best efforts to keep these funds set aside, the district budget situation is so severe, these funds must now be used for on-going expenses. This is a one-time funding source.

**Central Office Staffing Reductions/Pay Reductions $690,000**

This recommendation includes staffing reductions in the Central Office and five furlough days for all unrepresented management, supervisors and confidential staff. In addition, salary schedule maintenance (step increases) will be frozen for the 2012-13 year. As unrepresented employees (as well as United Professional Educators and Classified Supervisors Association) do not receive district paid health and welfare benefits, any increased costs for benefits are passed along to these employees in addition to these pay reductions.

**Reduction of Board of Education Monthly Stipend** **$33,700**

Based on discussion at the January 12 Board meeting, the monthly stipends paid to Board members would be reduced by 50%. The current stipend amount is $787.50. Approval of this recommendation would reduce the monthly stipend amount to $393.75.

**Tier III Reductions** **$5,040,000**

Starting in 2008-09, the state provided complete flexibility of approximately 26 formerly restricted state-funded programs. The projected revenue for these programs was $32.58 million. In balancing the 2010-11 budget, $15.0 million was reduced from some Tier III programs. (See list of programs below). Further reductions were made in 2011-12. This recommendation will continue the reduction or elimination of Tier III programs.

The first recommendation will eliminate the Adult Education Program Tier III funding. While the amount listed on the programs below show that Adult Education funding is currently $5.094 million, the Adult Education program currently contributes $2.19 million in Adult Education fees to the general fund. With the elimination of the program, they will not be able to contribute $2.19 million so the net savings to the district is $2.90 million. ($5.09 - $2.19 = $2.90).

The elimination of the deferred maintenance contribution would save $750,000. This item was reduced in 2010-11 from the Tier III funding but reinstated in the budget projections for 2012-13. This reduction for 2012-13 means that there will be no general fund dollars for deferred maintenance at the school sites. Deferred maintenance needs are significant, this would delay on-going maintenance.

The School Library Improvement Block Grant currently funds approximately 3.6 FTE librarians at the middle schools. In addition, funds are used for literacy support at the K-8 schools. The elimination of these positions and the literacy support would save $724,000.

The Arts and Music Grant currently funds 5.6 FTE music teacher positions. The elimination of these positions would save $565,000.

The Regional Occupational Program and Gifted and Talented Education program would each be reduced by 5% for a savings of $100,000.

| Tier III Program | Original Funding | 2010-11 Funding | 2011-12 Funding | 2012-13 Funding | 2012-13 Savings |
|---|---|---|---|---|---|
| Adult Education Program | $12,452,096 | $8,093,862 | $5,093,862 | $0 | $5,093,862 |
| Arts and Music Grant | $620,318 | $565,000 | $565,000 | $0 | $565,000 |
| Cal Safe Academic Support | $190,262 | $0 | $0 | $0 | $0 |
| California High School Exit Exam | $439,001 | $0 | $0 | $0 | $0 |
| Certificated Staff Mentoring | $86,771 | $0 | $0 | $0 | $0 |
| Child Oral Health Assessment | $24,550 | $0 | $0 | $0 | $0 |
| Class Size Reduction – 9th Grade | $442,363 | $0 | $0 | $0 | $0 |
| Community Based English Tutoring | $365,620 | $0 | $0 | $0 | $0 |
| Community Day School | $39,164 | $39,164 | $39,164 | $39,164 | $0 |
| Deferred Maintenance* | $1,550,422 | $0 | $0 | $0 | $750,000* |
| Gifted and Talented Education | $311,839 | $311,839 | $311,839 | $296,247 | $15,592 |
| Instructional Materials Block Grant | $2,206,123 | $1,500,000 | $1,000,000 | $1,000,000 | $0 |
| PE Teacher Incentive Grant | $159,392 | $0 | $0 | $0 | $0 |
| Peer Assistance and Review | $152,530 | $0 | $0 | $0 | $0 |
| Professional Development Block Grant | $2,358,344 | $1,572,229 | $1,572,229 | $1,572,229 | $0 |
| Pupil Retention Block Grant | $840,175 | $0 | $0 | $0 | $0 |
| Regional Occupational Program | $1,885,702 | $1,618,226 | $1,618,226 | $1,537,315 | $80,911 |
| School Library/ Improvement Block Grant | $3,361,349 | $953,663 | $723,663 | $0 | $723,663 |
| School Safety Competitive Grant | $531,667 | $531,667 | $531,667 | $531,667 | $0 |
| Staff Development – Administrator Training | $33,472 | $0 | $0 | $0 | $0 |
| Staff Development – Math and Reading Professional Development | $195,647 | $0 | $0 | $0 | $0 |
| Supplemental School Counseling | $1,164,990 | $896,150 | $896,150 | $0 | $896,150 |
| Targeted Instructional Improvement Block Grant | $2,419,063 | $1,406,000 | $1,406,000 | $1,406,000 | $0 |
| Teacher Credentialing Block Grant | $756,940 | $100,000 | $0 | $0 | $0 |
| **Sub-Total** | **$32,587,800** | **$17,587,800** | **$13,757,800** | **$6,382,622** | **$8,125,178** |
| **Less Adult Education Offset for Fees Paid to GF** | | | | | **-$2,193,862** |
| **Less Supplemental School Counseling Included in Other Proposed Recommendations** | | | | | **-$896,150** |
| **Total** | | | | | **$5,035,166** |

*Deferred Maintenance included in projected budget deficit as a one-time reduction.

**Increase Class Sizes to Contract Maximum $4,790,000**

Class sizes are currently staffed at grades K-1 at 24.9:1, grades 2-3 at 29:1, grades 4-6 at 33:1, grades 7-8 at 31:1 and grades 9-12 at 35:1. This proposal would staff at contract maximums of kinder at 32:1, grades 1-3 at 31:1, grades 4-6 at 33:1, grades 7-8 at 31:1 and grades 9-12 at 35:1. The savings takes into consideration K-3 Class Size Reduction funding. The change in class sizes would result in a loss of 87 FTE teaching positions.

**Eliminate 50% of Custodial Staff and 50% of School Plant Operations Managers $5,490,000**

This proposal would result in a reduction of 60 FTE custodians and 37 FTE plant managers. A different approach to cleaning and maintaining school sites would have to be implemented.

**Eliminate Middle and High School Counselors $1,680,000**

The elimination of middle and high school counselors means the reduction of approximately 19.8 FTE positions. Unless counselor positions are funded with school site categorical funds, there would be no counselors at the middle and high schools. The savings from these positions includes $896,150 from Tier III Supplemental School Counseling funds.

**Reduce Maintenance Staff by 20% $1,270,000**

This proposal would reduce 17 FTE positions. The condition of our buildings will certainly suffer with limited maintenance done on a timely basis.

**Elimination of Co-Curricular Support $1,261,000**

The elimination of co-curricular support would mean the elimination of all extra pay for extra duty stipends which includes such things as athletic coaching, band, choir, drama and yearbook as well as other activities. It would also mean the elimination of uniform replacement funds, athletic trainer funds and co-curricular transportation funds. This would impact K-8, middle and high school activities.

**Reduce 50% of the Middle and High School Assistant Principals $1,130,000**

This proposal would reduce Assistant Principals by 9.5 FTE positions. Middle schools currently have 1.0 Assistant Principal. They would be reduced to a half-time position. High schools currently have 1.0, 2.0 or 3.0 Assistant Principals depending on the enrollment of the site. High school positions would be reduced by half.

**Eliminate Home-to-School Transportation $981,000**

The elimination of home-to-school transportation would leave transportation only for Special Education students and program improvement choice. All routes established for the 1.5 mile walking distance, safety routes and concapping routes would be eliminated. The elimination of these routes would result in approximately 18 FTE fewer bus drivers.

**Eliminate Middle and High School Librarians $820,000**

In addition to 3.6 FTE middle school librarians eliminated under the Tier III programs, this proposal would eliminate approximately 7.9 FTE librarians at the middle and high schools. Any librarian positions would need to be funded out of school site categorical funds.

**TOTAL RECOMMENDATIONS FOR APPROVAL FOR 2012-13 $28,925,700**

## IV. Goals, Objectives and Measures:

Maintain a balanced budget for 2011-12 and continue to follow the timeline to ensure a balanced 2012-13 budget.

## V. Major Initiatives:

- Support implementation of the Strategic Plan 2010-2014.
- Fiscal stability for 2011-12, 2012-13 and outlying years.
- Utilizing funds prudently and effectively.

## VI. Results:

Required Board actions will take place in order to ensure a balanced Adopted Budget is in place on or before July 1, 2012.

## VII. Lessons Learned/Next Steps:

- Follow the approved calendar with adjustments made as necessary.
- 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.
- Meet and communicate with bargaining unit partners.

**Fund 01 - Actuals through December** **Fiscal Year 2011/12**

| | Object | July | August | September | October | November | December | Total |
|---|---|---|---|---|---|---|---|---|
| **A. BEGINNING CASH** | 9110 | **7,280,382.29** | **15,275,245.25** | **34,704,612.00** | **54,584,410.61** | **23,256,505.06** | **38,081,773.42-** | |
| **B. RECEIPTS** | | | | | | | | |
| Revenue Limit | | | | | | | | |
| Property Tax | 8020-8079 | 668,826.94 | 14,567.41 | 682.05 | 438,787.48 | 6,156.68 | 1,983,637.01 | 3,112,657.57 |
| State Aid | 8010-8019 | | 8,200.00- | 17,953,145.00 | | 13,632,737.00 | 13,667,871.00 | 45,245,553.00 |
| Other | 8080-8099 | 48,864.23 | 44,268.80- | 136,283.55- | 15,725.06- | 59,380.85- | 42,837.70- | 249,631.73- |
| Federal Revenues | 8100-8299 | 3,459,202.63 | 1,362,781.56 | 2,056,617.60 | 1,913,235.37 | 624,502.48 | 969,730.34 | 10,386,069.98 |
| Other State Revenues | 8300-8599 | 1,333,480.20 | 3,043,424.70 | 9,879,887.00 | 9,509,253.00 | 5,516,494.09 | 8,285,392.44 | 37,567,931.43 |
| Other Local Revenues | 8600-8799 | 998,204.03 | 235,357.22 | 897,734.70 | 1,093,576.72 | 636,104.39 | 708,454.45 | 4,569,431.51 |
| Interfund Transfers In | 8910-8929 | | | | | | | .00 |
| All Other Financing Sources | 8931-8979 | | | | | | | .00 |
| Other Receipts/Non-Revenue | | | | | | | | .00 |
| **TOTAL RECEIPTS** | | 6,508,578.03 | 4,603,662.09 | 30,651,782.80 | 12,939,127.51 | 20,356,613.79 | 25,572,247.54 | 100,632,011.76 |
| **C. DISBURSEMENTS** | | | | | | | | |
| Certificated Salaries | 1000-1999 | 1,570,676.48 | 3,303,812.28 | 15,806,702.80 | 16,318,389.52 | 16,663,805.58 | 16,507,809.91 | 70,171,196.57 |
| Classified Salaries | 2000-2999 | 2,296,855.52 | 3,468,136.14 | 4,378,785.55 | 4,533,298.91 | 4,719,154.94 | 4,696,476.26 | 24,092,707.32 |
| Employee Benefits | 3000-3999 | 1,883,830.29 | 2,753,576.34 | 10,112,029.97 | 10,421,713.99 | 10,589,841.69 | 10,621,926.00 | 46,382,918.28 |
| Supplies and Services | 4000-5999 | 4,502,169.21 | 3,011,447.34 | 4,755,074.69 | 5,680,256.67 | 3,930,447.52 | 5,845,935.88 | 27,725,331.31 |
| Capital Outlays | 6000-6599 | 7,467.50 | 12,995.51 | 267,976.47 | 116,353.40 | 35,909.94 | 611,597.54 | 1,052,300.36 |
| Other Outgo | 7000-7499 | 34,899.09- | 11,184.75- | 70,149.56- | 91,852.23- | 82,728.19- | 71,706.18- | 362,520.00- |
| Interfund Transfers Out | 7600-7629 | | | | | | | .00 |
| All Other Financing Uses | 7630-7699 | | | | | | | .00 |
| Other Disbursements/Non Expenditures | | | | | | | | .00 |
| **TOTAL DISBURSEMENTS** | | 10,226,099.91 | 12,538,782.86 | 35,250,419.92 | 36,978,160.26 | 35,856,431.48 | 38,212,039.41 | 169,061,933.84 |
| **D. PRIOR YEAR TRANSACTIONS** | | | | | | | | |
| Accounts Receivable | | 24,310,876.08 | 32,098,737.87 | 24,687,089.96 | 12,050,092.18 | 4,165,127.72 | 731,267.66 | 98,043,191.47 |
| Accounts Payable | | 12,598,491.24- | 4,734,250.35- | 208,654.23- | 19,338,964.98- | 50,003,588.51- | 25,061.18- | 86,909,010.49- |
| **TOTAL PRIOR YEAR TRANSACTIONS** | | 11,712,384.84 | 27,364,487.52 | 24,478,435.73 | 7,288,872.80- | 45,838,460.79- | 706,206.48 | 11,134,180.98 |
| **E. NET INCREASE/DECREASE** B - C + D | | **7,994,862.96** | **19,429,366.75** | **19,879,798.61** | **31,327,905.55-** | **61,338,278.48-** | **11,933,585.39-** | **57,295,741.10-** |
| **F. ENDING CASH (A + E)** | | **15,275,245.25** | **34,704,612.00** | **54,584,410.61** | **23,256,505.06** | **38,081,773.42-** | **50,015,358.81-** | |