

Board of Education Executive Summary

Administrative Services

Approve 2013-14 District Budget Update and Revision –

State Budget Approval

August 1, 2013



Corrected
08/01/2013 07:00 AM
Pages 8,9,10,11,12,13 Contain Corrections

I. OVERVIEW/HISTORY:

On June 27, 2013, Governor Jerry Brown signed the main state budget bill and on July 1, 2013, he signed all of the trailer bills. These bills collectively enacted a historic shift in how California funds education. We have presented to the Board and posted to our website on several occasions (June 13th, June 20th, and July 18th) the impact of this legislation on our District. In addition, attached to this Executive Summary is the letter from the California Department of Education regarding the 2013–14 Budget Act. There is significant additional detailed information contained within this letter as well as references to more information contained on State web sites.

The District's adopted budget was approved by the Board on June 20, 2013. The adopted budget revenue assumptions were based on calculations using the previous Revenue Act. Expenditure assumptions were based on the information believed to be accurate at that time.

As additional analysis of the District's budget systems was performed, it became obvious that there are major business process and system inconsistencies associated with many of our business support systems. A review of budget, accounting, and human resource operations has revealed significant challenges that must be overcome before consistent usable data can be produced. Our work has revealed that inconsistencies exist within our reporting systems and that our current business processes do not support the timely reporting of information for decision makers. Our current budget development and budget control system lacks adequate detail, flexibility, and reporting capability to ensure that our customers -- the schools, our departments, the Board of Education, and the public--have access to up-to-date, consistent, comparable data that can be used to make important decisions in support of District priorities and operations.

In addition to correcting system issues, the District must also increase budget discipline. It has been the practice within the District to make every effort to do wonderful things for kids. Many times this has been done in spite of the difficult budget realities that existed. The systems and procedures do not exist to ensure that staff identifies additional revenue sources or reduces existing expenditures to support expenditure increases. Processes must be implemented to ensure that expenditures do not exceed revenues and that reasonable reserves are established. Going forward, until expenditures are curtailed to match revenues, the District will have to acknowledge that we must concentrate our resources on the core mission while reducing expenditures in supporting programs.

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What must be done to ensure that the District can live within its means? While we will continue to work on ways to improve our systems, we have identified the following things that must be done if we are to ensure that our current situation, having to immediately reduce expenditures in some areas to cover unanticipated expenditures in others, does not happen again.

Recommended operational changes to ensure budget integrity and consistent timely reporting of data:

- Require timelier posting of all transactions, personnel actions, and accounting/budget entries. (Complete by October 31, 2013)
- Require a month-end reconciliation of all accounts. (Start by October 31, 2013)
 - Produce month-end reports.
 - Provide user friendly, understandable operational reports to all users of the business systems.
 - Post month-end reports to District website.
- Code all transactions immediately to the correct Standardized Account Code Structure (SACS) District modified expenditure account and make correcting entries for all transactions coded to the old accounts. (Complete by October 31, 2013)
 - Align the budget to reflect District organizational structure.
 - Align budget authority and accountability to reflect District organizational structure.
- Post transactions currently only posted after year-end close in a timely manner ensuring accurate and up-to-date expenditure information. (Post in appropriate manner not later than October 31, 2013)
- Automate workflow process for personnel transactions, position control, and expenditure requisitions to significantly reduce the delay in updating District data. (Complete by April 2014)
- Rework District chart of accounts to more appropriately reflect District operations, chain of command, and operational imperatives. (Complete by January 2014)
 - Improve existing reporting and train budget managers to review:
 - All of their budgets easily and quickly.
 - Staffing information.
 - Outstanding requisitions and purchase orders.
- Improve existing budget system or purchase (utilizing Bond Funds) new budget system that provides immediate, detailed, and accurate information related to the use of every budget line item. (Complete by January 2014)
 - Provide reports to budget managers with adequate detail associated with each line item.
 - Provide multi-year -- two prior years, current year, and two future years (when appropriate) -- reports to all budget managers during the budget development process.
- Require that a budget source is properly identified and encumbered before initiating any new program or expenditure. (Immediately)

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- Conduct a complete review of all budgets to identify shortfalls and overages within the current budget year. (Immediately)
 - Zero base budgets and establish new baseline to emphasize District priorities.
 - Have budget manager's approve their budget.
 - Have budget manager's approve their staffing.
- Develop a comprehensive budget calendar and requirements list to ensure that all operational costs are considered in time to ensure proper prioritization during the budget planning process. (Immediately – complete by October 31, 2013)
 - Utilize calendar to schedule meetings to obtain input for budget priorities.
 - Schedule meetings with ALL stakeholders.
 - Schedule Board work sessions.
- Provide professional development for staff to increase their level of proficiency.
- Upgrade training materials and post to website so public has access to "How To Read & Use" Sacramento City Unified financial and budget information.
- Develop "in District" reporting capabilities.
- In response to a question from the Board at the June 20th Board Meeting it is our recommendation that the District change the budget revision process to require Board approval to:
 - Increase overall expenditures within a fund.
 - Increase overall anticipated revenue within a fund.
 - Significantly alter a program or budget within a fund.
 - Establish a new program without an identified ongoing revenue source.
 - Accept a grant or donation that requires matching funds that have not been identified or funded from an existing budget or supplemental funding source.
- Maintain Board ratification of routine budget transactions.
- Develop multi-year reports and forecasts.
- Formalize and document the District forecasting system for enrollment/attendance.
- Continue to evaluate methods for system improvement.
- Develop and present to the Board both operational and fund balance reserve policies.

II. DRIVING GOVERNANCE:

- Education Code Section 42127(i)(4) states that "Not later than 45 days after the Governor signs the annual Budget Act, the school district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect the funding made available by that Budget Act."

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III. BUDGET:

Since the adoption of the budget, revenues have changed due to the adoption of Local Control Funding Formula (LCFF) and difficulty in obtaining our MediCal Reimbursement. A summary of the adopted budget and proposed revisions is provided below:

BUDGET AS ADOPTED

Adopted Revenue Limit Totals FY 2013-14 Budget		% of Type
Revenue		
Revenue Limit	\$ 223,357,740	58.6%
Federal Revenue	\$ 43,413,836	11.4%
Other State Revenue	\$ 112,872,978	29.6%
Other Local Revenue	\$ 1,476,660	0.4%
Total Revenue	\$ 381,121,214	

Adopted Expenditure Totals FY 2013-14 Budget		% of Type
Expenditures By Object		
Certificated Salaries	\$ 164,744,256	42.8%
Classified Salaries	\$ 48,498,232	12.6%
Employee Benefits	\$ 107,848,057	28.0%
Books & Supplies	\$ 14,496,788	3.8%
Services/Other Operating Expenses	\$ 48,701,731	12.6%
Capital Outlay	\$ 249,877	0.1%
Other Expenses	\$ 2,125,000	0.6%
Indirect Support	\$ (1,642,764)	-0.4%
Total Expenses	\$ 385,021,177	
Total Compensation 1+2+3	\$ 321,090,545	83.4%

Adopted Total FY 2013-14 Budget Summary		
Revenue	\$ 381,121,214	+
Transfers In	\$ 1,617,168	+
Sub-Total Anticipated Available Funds	\$ 382,738,382	=
Less Expenditures	\$ 385,021,177	-
Net Increase (Decrease) In Fund Balance	\$ (2,282,795)	=

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Adopted Change In Ending Fund Balance		
Beginning Fund Balance July 1	\$ 11,807,617	+
Change In Fund Balance	\$ (2,282,795)	-
Projected Ending Fund Balance June 30	\$ 9,524,822	=

Adopted Components Of Ending Fund Balance		
Revolving Cash	\$ 225,000	+
Stores Inventory	\$ 320,000	+
Reserve For Economic Uncertainty	\$ 8,979,822	+
Total Non-Spendable	\$ 9,524,822	= +
Unappropriated Fund Balance	\$ -	+
Projected Ending Fund Balance June 30	\$ 9,524,822	=

Next page contains recommended revisions.

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Detail Of Proposed Revisions To Expenditures

Proposed Revised Expenditure Increase	Total	Certificated Salaries	Classified Salaries	Employee Benefits	Books & Supplies	Services/ Other Operating Expenses
10 Full Time Substitutes	\$ 750,000	\$ 547,500		\$ 202,500		
Teacher Moving Stipend For Closed Schools	\$ 45,000	\$ 45,000				
Library Technician For Receiving School	\$ 20,000		\$ 20,000			
Additional Funding For After School Programs	\$ 150,000	\$ 70,000	\$ 35,000	\$ 24,150	\$ 5,850	\$ 15,000
Penalty For Kindergarten Audit Exceptions	\$ 54,000					\$ 54,000
Late Identification Of Additional Special Education Needs	\$ 1,100,000	\$ 794,309	\$ 100,000	\$ 205,691		
Special Education Not Funded Within Adopted Budget	\$ 500,000					\$ 500,000
Librarian Settlement	\$ 1,400,000	\$ 1,138,211		\$ 261,789		
Expansion of Early Kindergarten Pacific, Elder Creek, AM Winn	\$ 125,000	\$ 101,626		\$ 23,374		
Priority Schools Evaluation	\$ 70,000					\$ 70,000
Priority Schools Evaluation Grant Offset	\$ (30,000)					\$ (30,000)
Grant Offset To Linked Learning Expenses	\$ (300,000)					\$ (300,000)
Eliminate Increase To Athletic Transportation Funding	\$ (120,000)					\$ (120,000)
Reduce Increase To BTSA/PAR	\$ (100,000)	\$ (81,301)		\$ (18,699)		
Eliminate Increase To Connect Center	\$ (50,000)	\$ (26,000)	\$ (13,000)	\$ (8,970)	\$ (2,030)	
Eliminate Funding For Additional SRO's	\$ (155,000)					\$ (155,000)
Reduce Increase For Summer Fitness Programs	\$ (12,500)				\$ (12,500)	
Reduce Funding For Enrollment Center	\$ (150,000)	\$ (70,000)	\$ (35,000)	\$ (24,150)	\$ (5,850)	\$ (15,000)
Eliminate Utility Reserve	\$ (150,000)				\$ (150,000)	
Reduce Non-School Supplies	\$ (250,000)				\$ (250,000)	
Eliminate Funding For Teachescape	\$ (45,000)				\$ (45,000)	
Totals	\$ 2,851,500	\$ 2,519,345	\$ 107,000	\$ 665,685	\$(459,530)	\$ 19,000

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In addition to the above proposed revisions, the following items were also reviewed:

Additional Expenditures Reviewed But NOT Funded						
Proposed Revised Expenditure Increase	Total	Certificated Salaries	Classified Salaries	Employee Benefits	Books & Supplies	Services/ Other Operating Expenses
Affordable Care Act Transition Fee Moved To Next Fiscal Year	\$ 740,000					\$ 740,000
Men's Leadership Academy Expansion .2 FTE @ 3 Sites	\$ 60,000	\$ 48,780		\$ 11,220		
School Additional Supplies & Materials	\$ 500,000				\$ 500,000	
Affordable Care Act Consideration Health Benefits For Non-Covered Employees	\$ 900,000			\$ 900,000		
Totals	\$ 2,200,000	\$ 48,780	\$ -	\$ 911,220	\$ 500,000	\$ 740,000

Proposed Revenue Revision Due To Changes In School Funding From Revenue Limit Projection FY 2013-14 Budget		
Revenue		
Revenue Limit	\$ 2,701,967	+
Federal Revenue	\$ (720,000)	-

Proposed Revised Revenue Totals FY 2013-14 Budget		% of Type
Revenue		
Revenue Limit	\$ 226,059,707	59.3%
Federal Revenue	\$ 42,693,836	11.2%
Other State Revenue	\$ 112,872,978	29.6%
Other Local Revenue	\$ 1,476,660	0.4%
Total Revenue	\$ 383,103,181	

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**Explanation
 Added**

Proposed Revisions To Expenditures FY 2013-14 Budget		% of Type
Expenditures By Object		
Certificated Salaries	\$ 2,519,345	88.4%
Classified Salaries	\$ 107,000	3.8%
Employee Benefits	\$ 665,685	23.3%
Books & Supplies	\$ (459,530)	-16.1%
Services/Other Operating Expenses	\$ 19,000	0.7%
Total Expenses	\$ 2,851,500	

Proposed Revised Expenditure Totals FY 2013-14 Budget		% of Type
Expenditures By Object		
Certificated Salaries	\$ 167,263,601	43.1%
Classified Salaries	\$ 48,605,232	12.5%
Employee Benefits	\$ 108,513,742	28.0%
Books & Supplies	\$ 14,037,258	3.6%
Services/Other Operating Expenses	\$ 48,720,731	12.6%
Capital Outlay	\$ 249,877	0.1%
Other Expenses	\$ 2,125,000	0.5%
Indirect Support	\$ (1,642,764)	-0.4%
Total Expenses	\$ 387,872,677	
Total Compensation 1+2+3	\$ 324,382,575	83.6%

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Proposed Revised Total FY 2013-14 Budget Summary		
Revenue	\$ 383,103,181	+
Transfers In	\$ 1,617,168	+
Sub-Total Anticipated Available Funds	\$ 384,720,349	=
Less Expenditures	\$ 387,872,677	-
Net Increase (Decrease) In Fund Balance	\$ (3,152,328)	=

Proposed Revised Change In Ending Fund		
Beginning Fund Balance July 1	\$ 11,807,617	+
Change In Fund Balance	\$ (3,152,328)	-
Projected Ending Fund Balance June 30	\$ 8,655,289	=

Proposed Revised Components Of Ending Fund Balance Ending Fund Balance		
Revolving Cash	\$ 225,000	+
Stores Inventory	\$ 320,000	+
Reserve For Economic Uncertainty	\$ 8,007,454	+
Total Non-Spendable	\$ 8,552,454	= +
Unappropriated Fund Balance	\$ 102,835	+
Projected Ending Fund Balance June 30	\$ 8,655,289	=

Updated

The proposed revisions present a balanced budget that does not utilize any of our State required Reserve for Economic Uncertainty. It should be noted that our remaining Unencumbered Fund Balance is only \$102,835.

Multi-year forecasts are provided below. As you will see, since our FY 2013-14 Proposed Revised Budget spends significantly more than our anticipated income, we have a very serious budget issue to tackle in the FY 2014-15 fiscal year.

Three scenarios are presented that assume funding increases over the next two fiscal years. The first scenario assumes a 3% increase, the second assumes a 4% increase, and the third assumes a 6% increase.

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Multi-Year Forecast - No Use of Reserve 3% Annual Increase

	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	42,149	41,749		41,620	
Average Daily Attendance	40,449	39,539		39,539	
Revenue Description	Amount	Amount	% Change	Amount	% Change
All Revenue Objects Adopted Budget and Transfers In	\$ 384,720,349	\$ 389,463,959	1.2%	\$ 401,147,878	3.0%
Yellow Cells Corrected Anticipated Beginning Fund Balance	\$ 11,807,617	\$ 8,655,289	-26.7%	\$ 8,619,282	-0.4%
Total Anticipated Revenue & Beginning Fund Balance	\$ 396,527,966	\$ 398,119,248	0.4%	\$ 409,767,160	2.9%
Expenditure Description	Amount	Amount		Amount	
Certificated Salaries	\$ 167,263,601	\$ 167,936,237	0.4%	\$ 169,615,599	1.0%
Classified Salaries	\$ 48,605,232	\$ 49,494,074	1.8%	\$ 49,890,026	0.8%
Employee Benefits	\$ 108,513,742	\$ 115,157,483	6.1%	\$ 122,465,598	6.3%
Books & Supplies	\$ 14,037,258	\$ 14,496,788	3.3%	\$ 14,496,788	0.0%
Services & Other Operating Expenses	\$ 48,720,731	\$ 47,083,271	-3.4%	\$ 48,083,271	2.1%
Capital Outlay	\$ 249,877	\$ 249,877	0.0%	\$ 249,877	0.0%
Other Outgo/Indirect Costs	\$ 482,236	\$ 482,236	0.0%	\$ 482,236	0.0%
		Expenditure Reduction From Previous Year		\$ (5,400,000)	
Expenditure Reduction/Additional Revenue Increase Above 3% To Balance		\$ (5,400,000)		\$ -	
Amount Available To Build Reserves & Address Expenditure Requirements	\$ -	\$ -		\$ 1,000,000	
Total Adopted Budget Expenditures	\$ 387,872,677	\$ 389,499,966	0.4%	\$ 400,883,396	2.9%
Anticipated Ending Fund Balance	\$ 8,655,289	\$ 8,619,282	-0.4%	\$ 8,883,764	3.1%
Required Reserves	Amount	Amount		Amount	
Yellow Cells Updated Reserve For Economic Uncertainties	\$ 8,007,454	\$ 8,039,999	0.4%	\$ 8,267,668	2.8%
Revolving Cash	\$ 225,000	\$ 225,000	0.0%	\$ 225,000	0.0%
Stores Inventory	\$ 320,000	\$ 320,000	0.0%	\$ 320,000	0.0%
Total Required Reserves	\$ 8,552,454	\$ 8,584,999	0.38%	\$ 8,812,668	2.65%
Anticipated Unreserved Ending Fund Balance	\$ 102,835	\$ 34,283	-66.7%	\$ 71,096	107.4%
Salaries include step and column increase for FY 2014-15 and FY 2015-16					
Health Benefits are projected to increases by 10% for FY 2014-15 and FY 2015-16.					
Utilities increase by 10% for FY 2014-15.					

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Multi-Year Forecast - No Use of Reserve 4% Annual Increase

	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	42,149	41,749		41,620	
Average Daily Attendance	40,449	39,539		39,539	
Revenue Description	Amount	Amount	% Change	Amount	% Change
All Revenue Objects Adopted Budget and Transfers In	\$ 384,720,349	\$ 393,245,163	2.2%	\$ 408,974,969	4.0%
Yellow Cells Corrected Anticipated Beginning Fund Balance	\$ 11,807,617	\$ 8,655,289	-26.7%	\$ 9,000,485	4.0%
Total Anticipated Revenue & Beginning Fund Balance	\$ 396,527,966	\$ 401,900,452	1.4%	\$ 417,975,455	4.0%
Expenditure Description	Amount	Amount		Amount	
Certificated Salaries	\$ 167,263,601	\$ 167,936,237	0.4%	\$ 169,615,599	1.0%
Classified Salaries	\$ 48,605,232	\$ 49,494,074	1.8%	\$ 49,890,026	0.8%
Employee Benefits	\$ 108,513,742	\$ 115,157,483	6.1%	\$ 122,465,598	6.3%
Books & Supplies	\$ 14,037,258	\$ 14,496,788	3.3%	\$ 14,496,788	0.0%
Services & Other Operating Expenses	\$ 48,720,731	\$ 47,083,271	-3.4%	\$ 48,083,271	2.1%
Capital Outlay	\$ 249,877	\$ 249,877	0.0%	\$ 249,877	0.0%
Other Outgo/Indirect Costs	\$ 482,236	\$ 482,236	0.0%	\$ 482,236	0.0%
		Expenditure Reduction From Previous Year		\$ (2,000,000)	
Expenditure Reduction/Additional Revenue Increase Above 4% To Balance		\$ (2,000,000)		\$ -	
Amount Available To Build Reserves & Address Expenditure Requirements	\$ -	\$ -		\$ 5,500,000	
Total Adopted Budget Expenditures	\$ 387,872,677	\$ 392,899,966	1.3%	\$ 408,783,396	4.0%
Anticipated Ending Fund Balance	\$ 8,655,289	\$ 9,000,485	4.0%	\$ 9,192,059	2.1%
Required Reserves	Amount	Amount		Amount	
Yellow Cells Updated Reserve For Economic Uncertainties	\$ 8,007,454	\$ 8,107,999	1.3%	\$ 8,425,668	3.9%
Revolving Cash	\$ 225,000	\$ 225,000	0.0%	\$ 225,000	0.0%
Stores Inventory	\$ 320,000	\$ 320,000	0.0%	\$ 320,000	0.0%
Total Required Reserves	\$ 8,552,454	\$ 8,652,999	1.18%	\$ 8,970,668	3.67%
Anticipated Unreserved Ending Fund Balance	\$ 102,835	\$ 347,486	237.9%	\$ 221,391	-36.3%
Salaries include step and column increase for FY 2014-15 and FY 2015-16					
Health Benefits are projected to increases by 10% for FY 2014-15 and FY 2015-16.					
Utilities increase by 10% for FY 2014-15.					

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Multi-Year Forecast - No Use of Reserve 6% Annual Increase

	FY 2013-14	FY 2014-15		FY 2015-16	
Enrollment	42,149	41,749		41,620	
Average Daily Attendance	40,449	39,539		39,539	
Revenue Description	Amount	Amount	% Change	Amount	% Change
All Revenue Objects Adopted Budget and Transfers In	\$ 384,720,349	\$ 400,807,570	4.2%	\$ 424,856,024	6.0%
Yellow Cells Corrected Anticipated Beginning Fund Balance	\$ 11,807,617	\$ 8,655,289	-26.7%	\$ 8,862,892	2.4%
Total Anticipated Revenue & Beginning Fund Balance	\$ 396,527,966	\$ 409,462,859	3.3%	\$ 433,718,917	5.9%
Expenditure Description	Amount	Amount		Amount	
Certificated Salaries	\$ 167,263,601	\$ 167,936,237	0.4%	\$ 169,615,599	1.0%
Classified Salaries	\$ 48,605,232	\$ 49,494,074	1.8%	\$ 49,890,026	0.8%
Employee Benefits	\$ 108,513,742	\$ 115,157,483	6.1%	\$ 122,465,598	6.3%
Books & Supplies	\$ 14,037,258	\$ 14,496,788	3.3%	\$ 14,496,788	0.0%
Services & Other Operating Expenses	\$ 48,720,731	\$ 47,083,271	-3.4%	\$ 48,083,271	2.1%
Capital Outlay	\$ 249,877	\$ 249,877	0.0%	\$ 249,877	0.0%
Other Outgo/Indirect Costs	\$ 482,236	\$ 482,236	0.0%	\$ 482,236	0.0%
		Expenditure Additions From Previous Year		\$ 5,700,000	
Amount Available To Build Reserves & Address Expenditure Requirements		\$ 5,700,000		\$ 13,400,000	
Total Adopted Budget Expenditures	\$ 387,872,677	\$ 400,599,966	3.3%	\$ 424,383,396	5.9%
Anticipated Ending Fund Balance	\$ 8,655,289	\$ 8,862,892	2.4%	\$ 9,335,520	5.3%
Required Reserves	Amount	Amount		Amount	
Yellow Cells Updated Reserve For Economic Uncertainties	\$ 8,007,454	\$ 8,261,999	3.2%	\$ 8,737,668	5.8%
Revolving Cash	\$ 225,000	\$ 225,000	0.0%	\$ 225,000	0.0%
Stores Inventory	\$ 320,000	\$ 320,000	0.0%	\$ 320,000	0.0%
Total Required Reserves	\$ 8,552,454	\$ 8,806,999	2.98%	\$ 9,282,668	5.40%
Anticipated Unreserved Ending Fund Balance	\$ 102,835	\$ 55,893	-45.6%	\$ 52,852	-5.4%
Salaries include step and column increase for FY 2014-15 and FY 2015-16					
Health Benefits are projected to increase by 10% for FY 2014-15 and FY 2015-16.					
Utilities increase by 10% for FY 2014-15.					

Looking at these three scenarios you can begin to understand the fiscal challenges that the District continues to face. School Services of California is recommending that districts establish a separate reserve to deal with the uncertainty associated with LCFF. Based on their recommendations we have calculated that we would need to establish an additional reserve of approximately \$9 million. School Services also recommends that districts use only an anticipated funding increase of 1.95% for FY 2014-15, and a 2.46% increase for FY 2015-16. Many of the political LCFF presentations are assuming a 6% annual increase in funding.

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In our discussions with the Sacramento County Office of Education (SCOE) they have agreed to allow our District to use an anticipated LCFF funding increase of 3% in our multi-year projections for planning purposes.

When you compare the FY 2014-15 budget challenges between the three presented scenarios you have the following results:

- 3% funding increase translates into a \$5.4 million shortfall
- 4% funding increase translates into a \$2.0 million shortfall
- 6% funding increase translates into \$5.7 million available to address District needs.

Due to our projected lack of any substantive reserves beyond our legally required mandates, we are in agreement with SCOE that we must be conservative in our future year budget estimates. While we are not as conservative as School Services suggests, we are utilizing 3% which we believe is reasonably obtainable.

Because only a 6% anticipated funding increase would completely solve our anticipated budget shortfall for FY 2014-15 we are recommending that we immediately take the following steps to begin reducing expenditures:

- Begin a “zero based” review of all FY 2013-14 budgets to determine what reductions can be made in the current and subsequent fiscal years.
- Begin a review of all non-core General Fund programs to determine where reductions or eliminations can be made.
- As part of the FY 2014-15 budget development process, involve all stakeholder groups in the discussions related to budget reductions.

Recommend the establishment of the following FY 2014-15 budget reduction goals by the Board:

- Identify and report to the Board \$1 million in ongoing reductions by the October 17, 2013, Board meeting. Obtain Board approval at subsequent meeting.
- Identify and report to the Board an additional \$2 million in ongoing reductions by the December 19, 2013, Board meeting. Obtain Board approval at subsequent meeting. (Total to date \$3 million)
- Identify and report to the Board an additional \$2 million in ongoing reductions by the January 23, 2014, Board meeting. Obtain Board approval at subsequent meeting. (Total to date \$5 million)
- Identify and report to the Board current estimates of projected revenue for FY 2014-15 and remainder of budget reductions required to maintain state mandated reserves, establish additional reserves recommended by Board fund balance and reserve policy, and designate funds necessary to balance the budget by the February 20, 2014, Board meeting.

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CURRENT EVALUATED RISKS ASSOCIATED WITH THIS REVISED BUDGET

There is, of course, significant risk associated with this budget. Three areas of immediate concern:

1. We are continuing to evaluate the level of funding for Special Education expenditures within this proposed revised budget to ensure that we will be able to meet all of our obligations in this area. This will require a careful review throughout the year.
2. We are evaluating whether or not our level of funding for maintenance and operations is sufficient:
 - a. Specifically, the legislation implementing LCFF did not make any change to the School Facility Program (SFP) requirements stipulated in Education Code Section 17070.75, et seq., regarding maintenance of facilities. School districts that receive funds under the SFP are required to annually deposit a minimum of 3% of total general fund expenditures into a Routine Restricted Maintenance Account. This requirement persists for 20 years after receipt of SFP funds. Through prior budget flexibility provisions (Education Code Section 17070.766), the Routine Restricted Maintenance contribution requirement was reduced to 1% or waived if facilities are maintained in good repair, per the Williams Act. This flexibility expires at the end of FY 2014-15, and the 3% Routine Restricted Maintenance contribution requirement returns in FY 2015-16.
 - b. We will be evaluating if we have appropriately allocated 1% or that all of our facilities can be certified as meeting all of the Williams Act requirements.
3. Infrastructure, both facilities and information systems, continues to be underfunded within this budget and there is little reserve available to fund a major infrastructure failure.
4. The FY 2012-13 has not closed but estimates for the FY 2012-13 ending fund balance indicate that we are very close to our projections. Should expenditures that must be charged to FY 2012-13 accrue faster than projected and/or we fail to receive all forecasted revenue our ending fund balance may not meet our projection. Should this happen we would be forced to reduce FY 2014-15 expenditures immediately to offset this funding source shortfall.
5. PERS contribution is anticipated to increase by 1.858%, approximately \$805,000.

There continues to be significant areas that can't be addressed under these fiscal conditions. These areas must always be remembered as we attempt to reduce expenditures now to ensure the future fiscal health of the District:

- Funds to address adequate funding of our employee benefits.
- Funds to address salary increases for our employees.
- Funds to address retiree health care costs.
- Funds to address unfunded accrued leave.
- Funds to address increasing our fund balance.
- Funds to address unanticipated budget and operational emergencies.

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Qualified or Negative Status

School Services of California, Inc. produced in January 2009, a very informative Fiscal Report concerning Qualified or Negative Budgets. It is provided in its entirety for your information over the next few pages.

Additional information may also be found, along with a list of all districts currently having a qualified or negative report, at the California Department of Education website listed below:

<http://www.cde.ca.gov/fg/fi/ir/interimstatus.asp>

The FISCAL REPORT *an informational update*

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What Happens With a Qualified or Negative Budget?

When a school district files an interim budget report with the county office of education (COE), that report indicates one of three levels of certification:

- "Positive," meaning that the district is able to meet its financial obligations for the remainder of the fiscal year and subsequent two fiscal years
- "Qualified," meaning that the district may not be able to meet its financial obligations for the current year or two subsequent fiscal years
- "Negative," meaning that the district will not be able to meet its financial obligations for the remainder of the current year or the subsequent year

The COE then has the responsibility of reviewing the report and either confirming or changing the certification. It is also possible for a school district that does not maintain its required reserve levels to run out of cash for operations. What follows is a description of what happens to the district if any of these conditions occur. Note that the interventions get more severe with each condition below.

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Budget is Certified as "Qualified"

Whether the district self-certifies as "qualified" or the COE changes the certification from "positive" to "qualified," interventions are triggered, and one or more of the following may be enacted by the COE according to Education Code Section 42127.6:

- Assign a fiscal expert to provide assistance to the district in resolving its budgetary issues; if outside assistance is required, the cost is paid for by the COE
- Conduct a financial study of the district, including a review of internal controls; if outside assistance is required, the cost is split between the district (75%) and the COE (25%)
- Require the district to:
 - Submit projections of all fund and cash balances as of June 30 of the current year and subsequent years as specified
 - Encumber all contracts and other obligations
 - Prepare appropriate cash flow analyses
 - Prepare monthly or quarterly budget revisions
 - Appropriately record all receivables and payables
 - Submit a proposal to address the financial issues causing the "qualified" status
- Withhold compensation of the members of the governing board and the superintendent for failure to provide requested financial information
- Assign the Fiscal Crisis and Management Assistance Team (FCMAT) to review and make recommendations to improve the teacher hiring process, teacher retention rate, extent of teacher misassignment, and provision of highly qualified teachers; the district must then follow the recommendations or show good cause for not doing so

Once the district's financial situation improves to the point where a subsequent budget indicates that the district will once again meet its financial obligations for the current and subsequent two years, the district's

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Budget is Certified as "Negative"

Once a district either self-certifies as "negative" or receives a "negative" certification from the COE, significant interventions are available. The COE must choose to enact one or more of the following:

- Develop and impose, in consultation with the Superintendent of Public Instruction (SPI) and the district board, a revised budget that will enable the district to meet its financial obligations in the current year
- Stay or rescind any action of the district's board that is inconsistent with the ability of the school district to meet its obligations
- Assist in developing, in consultation with the district's board, a financial plan that will enable the district to meet its obligations
- Assist in developing, in consultation with the district's board, a budget for the subsequent fiscal year
- Appoint a fiscal advisor to perform any or all of the above duties on the COE's behalf

The costs of the above interventions, plus any other costs associated with improving the district's financial status, are shared by the district (75%) and the COE (25%).

Cash is Exhausted

If the district is unable to pay its employees and other debts as they come due, there are some choices:

- The district may transfer cash from another fund to its General Fund
- The district may borrow cash using Tax and Revenue Anticipation Notes (TRANs)
- The district may borrow cash from the COE, as long as the COE has the funds available
- The district may borrow cash from the county treasurer

All of the above are local borrowing options, and they require that the district pay back the cash borrowed within specified time frames-a year at the longest. Before borrowing locally, the district will likely need to implement sufficient budget reductions to demonstrate that the local borrowing can be paid back in time and that the district can meet its other obligations as well.

If the district is unable to borrow locally, then the only other option is to request a loan from the state of California, which comes with significant strings attached. Loans are extremely rare and remove elements of local control for many years, until the loan is fully repaid. Some of the more onerous provisions are:

- The district's board loses all of its powers and becomes advisory only.
- The state assigns a State Administrator, who replaces the district's superintendent and assumes the powers of both the board and the superintendent.
- The district pays the cost of the State Administrator, as well as any additional staff or other expenses that the Administrator deems necessary in order to ensure fiscal recovery.
- The State Administrator reports directly to the state-not the community or the board.
- The State Administrator's job is to restore fiscal solvency as soon as possible so that the loan can be paid back to the state, but the district will be under the oversight of a State Administrator or Trustee until the loan is paid in full-often a period of 15 years or more.

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- The State Administrator cannot set aside any contractual obligations that the district has already entered into, including vendor contracts and bargaining unit contracts, without renegotiating them. If modifying provisions of these contracts is critical to gaining fiscal solvency, the State Administrator has the power to invoke the timelines available in the contracts or by law, including the ability to use the impasse/factfinding process to unilaterally impose changes in collective bargaining agreements.
- Loans cannot be granted by the state except by passage of a specific piece of legislation, which is then signed by the Governor. The districts that have received loans have been required by the legislation granting the loan to undergo a comprehensive study of these areas of local governance:
 - Community relations and governance
 - Pupil achievement
 - Financial management
 - Personnel management
 - Facilities management
- Then, every six months, the district undergoes a follow-up study of the five areas to measure the district's progress in meeting the standards established. In the areas where the district has progressed enough in meeting the standards, the board receives its powers back and a superintendent is hired to administer those areas. It is normally several years before the board regains any of its powers. The State Administrator/State Trustee remains, and has stay or rescind power over board action that affects finances until the state loan is paid off.
- The typical state loan is established to be a 20-year payback. The district remains under some level of state control until that payback is complete. Generally, recovery costs more, takes longer, and has a greater impact on students, employees, and the community if a state loan is required.
- Ultimately, the district will regain fiscal solvency. It will do so by reducing its expenditures to match its revenues and rebuilding its reserves. It will not be an easy process, but the expenditure reductions will be made. If the appropriate actions are not taken locally, the same actions to reduce costs will be taken by the state. In the long term, taking these actions locally and avoiding a state loan will result in greater local control, less outside intervention, and better long-term outcomes for students and employees.

Conclusion

The interventions above come at additional expense and additional work on behalf of the district, at the very least. While your district should do what can be done locally to maintain a "positive" certification on your budget, that may not be possible in a situation such as the one we find ourselves in now. A number of districts in California have needed these interventions and many times the actions have helped these districts to avoid a state loan. Remember that, if you need them, the interventions are there to help your district with its financial recovery. The more quickly your district's financial issues are resolved, the better off your students and employees will be.

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AB 1200

The Fiscal Crisis and Management Assistance Team (FCMAT) has an excellent summary on their website regarding AB 1200, provided below. Yellow highlighting has been provided to emphasize some important points relevant to our current situation.

FCMAT

Quick Links:

Request Our Services

On-Site Fiscal Support

NEW! Budget Explorer with Cash Flow

Special Education Resources

RDA Successor Agencies

Home

- NEW - On-Site Fiscal Support
- County Office Advisories
- Teleconferences
- About FCMAT
- FCMAT/CSIS Job Opportunities
- Contact FCMAT

Help and Services

- Request Our Services
- Online Help
- Fiscal Tools
- Professional Development

About AB1200

Why AB1200 was created

AB1200 was created because of the need to ensure that local educational agencies throughout California adequately prepare to meet their financial obligations. The law was rooted in the concerns that arose following the bankruptcy of Richmond School District, and the fiscal collapse of a few other districts that were preparing to seek emergency loans from the state. Through the passage of AB1200, the legislature proclaimed that even in a time of tight revenues, the vast majority of California's 1,000-plus school districts have been able to maintain balanced budgets, and that local educational agencies should not expect to be bailed out by the state when they exhibit a pattern of unacceptable fiscal management. While only a handful of the state's school districts have reached this extreme stage of fiscal failure, the disturbing trend has shown an increasing number of school districts dipping into general fund reserves and spending more than they receive. The passage of AB1200 sent a strong message to local educational agencies to put and keep their finances in order.

What AB1200 Does

AB1200 is a statewide plan for county offices of education and school districts to work together on the local level to improve fiscal procedures, standards and accountability. AB1200 expands the role of county offices of education in monitoring school districts and mandates that they intervene, under certain circumstances, to ensure districts can meet their financial obligations. In crisis situations county offices can call upon the Fiscal Crisis and Management Assistance Team (see "The Role of FCMAT") to help determine appropriate steps toward fiscal recovery. AB1200 provisions also apply to the state in its monitoring role over county offices of education. In short, no publicly-funded K-12 school operation has been left unaffected by this innovative effort to ensure fiscal solvency throughout the state's school system.

How AB1200 works

There are several defined "fiscal crises" that can prompt a county office of education to intervene in a district: a disapproved budget, a qualified or negative interim report or recent actions by a district that lead the county office to conclude that the district will not be able to meet its financial obligations. AB1200 spells out the procedures by which a county office monitors, assists, warns, or intervenes in the fiscal operation of a school district. A district can appeal a disapproved budget or a negative or qualified interim certification all the way up to the State Superintendent of Public Instruction. In any of these situations, a county office or even the state could ask for FCMAT's assistance and assessment.

View the AB 1200 Legislation

Print

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Also provided below is an extract from AB 1200 that may assist in your understanding of the County role in assisting us at this time. I encourage you to go to this link if you desire a copy of AB 1200. <http://wwwstatic.kern.org/gems/fcmat/1200.pdf>

The bill also would impose a state-mandated local program by directing the county superintendent of schools to monitor the operation of each school district pursuant to an adopted budget and, if he or she determines that a school district will be unable to meet its financial obligations, to recommend appropriate remedial action and, if necessary, to notify the Superintendent of Public Instruction. The bill would authorize the county superintendent of schools, subsequent to that notification, to request additional information regarding the district's budget or operations, to revise the school district budget, as specified, and to stay or rescind any action that is inconsistent with those revisions. The bill would impose a state-mandated local program by requiring the district to pay for the resulting administrative costs.

In addition to these actions the County Office of Education may also appoint a Fiscal Advisor.

IV. GOALS, OBJECTIVES AND MEASURES:

Provide information to the Board and the public on a monthly basis starting October 2013, including required reporting periods such as First, Second and Third Interim reports. Develop significantly improved budget development process.

V. MAJOR INITIATIVES:

- Immediate efforts to reduce expenditures.
- Reworking the District chart of accounts.
- Development of business processes that provide more timely, consistent, and accurate reporting of financial data.
- Implementation of significantly improved budget development process.
- Implementing full accountability within our budget process.

VI. RESULTS:

Continued review and updates given to the Board, staff and community will provide information needed to make knowledgeable fiscal decisions.

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VII. LESSONS LEARNED/NEXT STEPS:

- Current business processes and budget systems are inadequate to serve the needs of the District.
- Work closely with the Sacramento County Office of Education to ensure that the District does not come under “stay and rescind” provisions and downgrade to negative status.
- Provide a budget calendar for FY 2014-15.
- **We are continuing to evaluate the 2013-14 budget and there may be additional budget revisions and adjustments until we can stabilize the District’s fiscal situation.**