

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") providing fiscal oversight and guidance.

The District must implement sufficient reductions to resolve the on-going structural budget deficit 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 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 non-negotiable items will reduce the deficit, these reductions alone will not be sufficient and 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.

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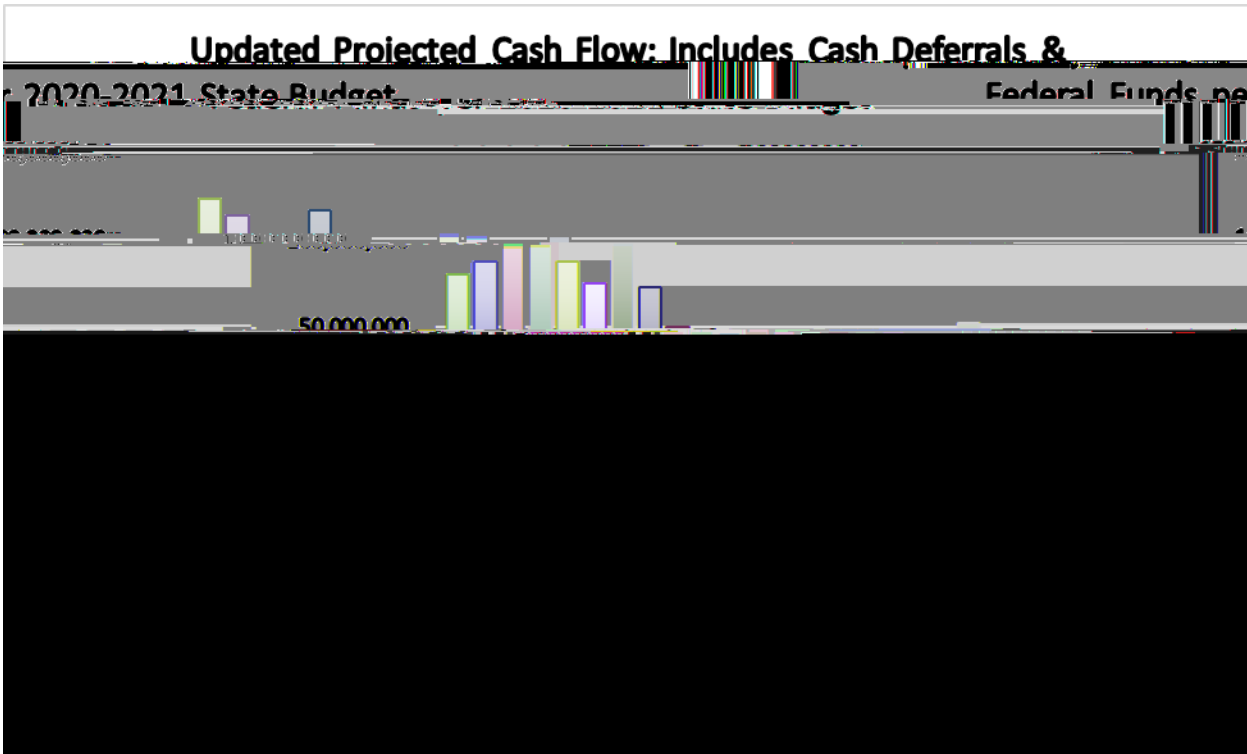
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Cash Flow

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.

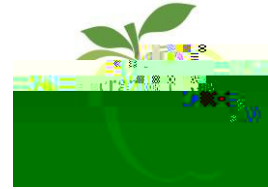


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Fiscal Updates

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

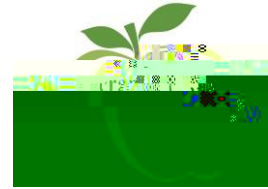
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External Audits of District's Budget

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

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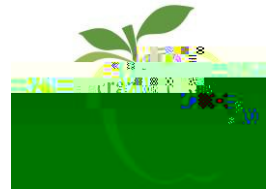
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For the board’s consideration, the District has developed a Fiscal Recovery Plan (FRP) that includes both negotiable and non-negotiable items. Savings from the non-negotiable items will help reduce the deficit, but the proposed reductions alone will not be sufficient, thus additional reductions will be required to eliminate deficit spending and achieve fiscal solvency.

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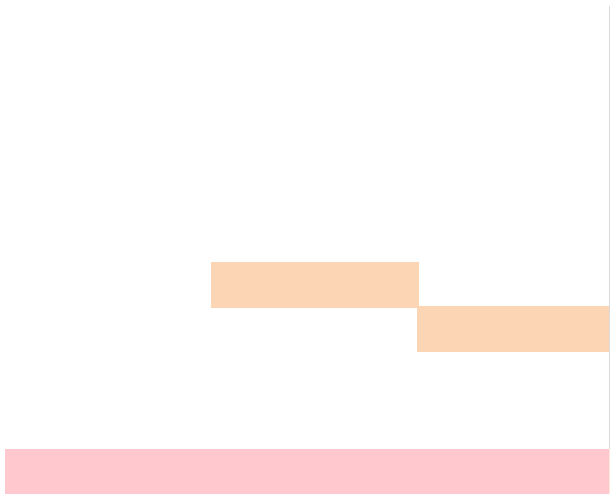
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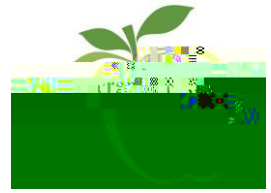
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Updated Deficit for Multi-Year Projections Adjusted for: Governor’s Proposed COLA for the 2021-2022 Budget, Unduplicated Percentage and Projected Enrollment.

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





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