



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.3

Meeting Date : December 16, 2021

Subject : Approve Fiscal Recovery Plan

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
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Board of Education Executive Summary

Business Services

2021-22

Board approved the 2021-22 Adopted Budget which was conditionally approved by the Sacramento County Office of Education (SCOE) in a letter dated September 15, 2021. SCOE conditionally approved the District's 2021-22 Adopted Budget with a lack of going concern determination primarily due to the on-going structural deficit. As part of the conditional approval, the District must submit a viable board approved Fiscal Recovery plan by December 15, 2021 to address the ongoing structural deficit. The Fiscal Advisor assigned by SCOE has continued to work with the District to develop a plan to address the ongoing structural deficit. As required in 202-2022, the District is at risk of fiscal insolvency if the required reductions are not implemented for 2022-23 and 2023-24.

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2021-22 Fiscal Recovery Plan

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External Audits of District's Budget

In the last few years, the District's budget has been reviewed by FCMAT, bond 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 expenditures
3. The District must implement significant on-going budget reductions to create a balanced budget, and eliminate deficit spending to avoid fiscal insolvency

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III. Fiscal Recovery Plan – Proposed Plan

Budget development assumptions are fluid and change throughout the fiscal year due to fluctuations in enrollment, revenue, expenditures, Federal, State or local decisions. The District revises the current budget and multi-year projections to reflect these changes appropriately and then reports updated budgets at each interim reporting period. Budget adjustments will also impact the projected deficit and the Fiscal Recovery Plan.

Additionally, it is important to note that over the past two years, the District's budget has fluctuated to a greater extent due to the impact of COVID. For example, prior to the pandemic, the District's combined operating budget was approximately \$555 million and as of the 2021-2022 1st Interim, the projected combined budget is approximately \$711 million, representing a swing of about \$154 million. This artificially large budget will return to pre-pandemic levels in two years once the one-time revenues and expenditures are removed.

Due to school closures and remote work, the District realized one-time savings in operating costs. The District was also awarded a significant amount of one-time restricted COVID relief funds. Both the one-time savings and one-time relief funds resulted in increasing combined reserves and revenues but these adjustments are temporary and not ongoing. Also, COVID relief funds are restricted for COVID related expenses only and cannot be used to address the deficit.

One-time restricted COVID relief funds account for approximately 91% of the \$154 million budget increase and the remaining 9% of the increase is due to carryover and COLA. The 1st Interim report presents a budget table that excludes the one-time funds to illustrate that the District's deficit has not been resolved but is simply masked by the one-time savings and funds.

Therefore, the District must continue to work towards implementing a fiscal recovery plan that addresses the deficit and achieves a balanced budget.

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The District proposes a five-part Fiscal Recovery Plan as follows:

- I. Approve to implement the identified reductions and adjustments listed in Table 1 effective July 1, 2022.**

Table #1 Proposed Budget Adjustments [(d)404(t)-2(A)1648 o() 82(s)13(t)7(e)18(d)10(i)1240

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Table #3 Additional Considerations for Budget Reductions

Item	Potential Cost Savings	Notes
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Table #4 below is a list of proposed funding adjustments to utilize alternative funding sources as appropriate. These proposed adjustments will require additional review and approval once an alternative funding source is identified.

Table #4 Review for Alternative Funding Sources

VAPA Music Equipment - LCFF Base	\$78,500
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IV. Driving Governance

- a. 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.
- b. 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.
- c. 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 of Education's (ofTc 0.014 edej -00.0c)-60