Multiyear Financial Projections

Planning Factor	2019-20	2020-21	2021-22
Statutory COLA (Department of Finance)	3.26%	2.31%	2.48%
LCFF COLA	3.26%	0.00%	0.00%
State Categorical COLA	3.26%	0.00%	0.00%
Recommended Planning COLA	3.26%	0.00%	0.00%
California CPI	2.34%	0.98%	1.59%
Interest Rate for Ten-Year Treasuries	1.25%	0.89%	1.24%
California Lottery, U4 Td1 Tw5.339 4/TT0.7 (9u5.36uo)-99I(Td[(R)9Td1 TL)-2 (ot)-36 -2teia L5)			

with the prior year actual amount received and the current amount received to date. Smaller increases or decreases were made to various other programs.

One-time and carryover revenues included in the 2019-20 budget were eliminated from FCMAT's projections in subsequent years. Revenues were reduced by $8.1 million in 2020-21 including $4.9 million in School Improvement Grant (SIG), $3.1 million in CSI program funding, which ends in 2019-20, and smaller reductions to various other federal programs. Further reductions of $12.9 million to federal revenues were made in 2021-22 for the termination of SIG funding, which ends in 2020-21.

One-time revenues of $15.8 million for Elementary and Secondary School Emergency Relief (ESSER) funds were added in 2020-21 and eliminated in 2021-22. The district must complete an application to receive these revenues, and the CDE website indicates that the district submitted the required assurances on June 22, 2020. The funds are to be used to address the impact that COVID-19 has had on the district and may be used for any allowable expenditure incurred on or after March 13, 2020 through September 30, 2022.

One-time Learning Loss Mitigation revenues of $37.0 million were added in 2020-21 and eliminated in 2021-22. The funds must be spent on activities that directly support pupil academic achievement and mitigate learning loss related to COVID-19 school closures. The majority of the funds must be used on expenditures occurring from March 1, 2020 through December 30, 2020. Approximately $3 million must be used on expenditures occurring from March 13, 2020 through September 30, 2021.

Other State Revenue

State grant award amounts for 2019-20 were confirmed and carried forward to 2020-21 and 2021-22 with no COLA. Reductions totaling approximately $125,000 were made to the 2019-20 revenues to match budget amounts to award notifications and to adjust some revenues to actual amounts received.

One-time and carryover revenues were eliminated from the projection in 2020-21 and 2021-22. Revenue projections were decreased by $10.7 million in 2020-21, including $4.2 million in Special Education Early Intervention funds, $3.4 million in Career Technical Education Incentive Grant revenues, $860,000 in Strong Workforce Program revenues, approximately $666,000 in COVID-19 funds and $916,000 in one-time Low Performing Students Block Grant revenues. An increase in the special education base rate and low incidence funding results in a projected increase of $3.35 million in 2020-21 and is assumed to be ongoing. One-time Learning Loss Mitigation Funds of $3.5 million were added to the projection in 2020-21 and eliminated in 2021-22.

Mandate Funding

The district received $7.1 million in one-time funds for previous years' mandate claims in 2018-19 that will not be received in 2019-20 or subsequent years. FCMAT's projection for the ongoing Mandate Block Grant for 2019-20 remains unchanged from the district's third interim budget. Funding in subsequent years is projected based on per ADA amounts from the SSC Dartboard with no COLA applied. Receipt of Mandate Block Grant funds is contingent on the district filing a funding application each year with the CDE.

Lottery

FCMAT projected lottery revenues for 2019-20 based on projected annual ADA, multiplied by $148.78 for unrestricted and $48.41 for restricted lottery instructional materials, per the CDE. Revenues in the subsequent years were based on projected annual ADA multiplied by $150 for unrestricted and $49 for restricted, per the SSC Dartboard. These are the most current assumptions available for projecting lottery revenues. Lottery funding is initially allocated using the prior year's annual ADA and adjusted in the subsequent fiscal year based on current year annual ADA.

Other Local Revenue

The district receives local revenues from interest earnings, leases and rentals, fees and contracts, donations, and other miscellaneous sources. Because these revenues cannot be guaranteed year to year, budgets and MYFPs for these items should be conservative, consider historical trend data and identify revenue streams that are one-time. These budget items should also be monitored and updated throughout the year based on amounts received to date.

FCMAT reviewed the district's budgeted amounts for reasonableness using the prior two years' actual revenues and 2019-20 year-to-date actual receipts. Amounts attributed to leases and rentals, fees and contracts, and interest were found to be reasonable and were considered to be ongoing in the subsequent years of the projection. Amounts attributed to donations and other local grants were adjusted in 2019-20 based on grant or award letters, contracts, or actual amounts received. Most of these sources were considered to be one-time and were eliminated in the subsequent years of the projection unless documentation was provided that identified the funding as ongoing.

Although FCMAT's projections assume a static level of funding in subsequent years for leases and rentals and fees and contracts, the ongoing closure of school facilities may negatively affect these revenue sources. Additionally, except for the June 2020 to July 2020 deferral, FCMAT's projection for interest earnings assumes the district will be granted an exemption from all state apportionment deferrals. However, if the deferral exemption is not granted, cash balances and therefore interest revenues will decrease.

Expenditures

The district's 2019-20 third interim expense assumptions were reviewed and assessed based on prior year history and 2018-19 third interim expenditures as a percentage of unaudited actuals. Expenses to date were reviewed for all resources as of April 30, 2020, and all major resources were reviewed again as of May 31, 2020. Information provided by the district was used to support items such as the transfer of teacher salaries between resources, insurance refunds, special education expenses, charter services, legal costs, debt service, capital expenditures and other outgo. Documents provided by the district, the third interim MYFP, budget report narratives, historical spending, and interviews were used to support expenditure additions and reductions in FCMAT's analysis.

Attempts to tie the position control reports provided by the district to the budget were unsuccessful. This lack of readily available accurate data from the software system could hinder management's ability to analyze salary-related expenses and require additional staff time to complete its analysis throughout the year. The position control database, in its current state, does not properly report and maintain the number of full-time equivalent (FTE) positions, assignment changes, and vacancy information required to support the budget. Therefore, the position control reports provided to FCMAT cannot be relied upon for staffing or MYFPs. One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, and FCMAT's analysis shows that salaries and benefits account for 94% of Sacramento City's 2019-20 unrestricted general fund expenditure budget.

The district's position control report listed 551 vacancies. FCMAT's analysis includes adjustments for those positions on the Human Resources Department lists for active recruiting as of June 2020 and certificated staffing decreases due to declining enrollment, as shown in the district's third interim Form

Benefit accounts are maintained in a web-based system, supported by the insurance provider, and accounted for in the district's financial system. No budget monitoring report that included each employee, his or her position information and the amount paid by the district for his or her health benefits was provided to the study team. Interviews indicated that employee benefit databases and the general ledger are not reconciled on a regular and ongoing basis.

FCMAT's analysis of expenditures through May 31, 2020 and projected expenditures through June 2020 indicates that 2019-20 unrestricted general fund expenses for health and welfare costs and other postemployment benefits (OPEB) levies are overbudgeted by $2.6 million, and restricted resources are overbudgeted by $1.5 million. In addition, the analysis indicates that STRS and PERS are overbudgeted by $200,000 in the unrestricted general fund and $900,000 in restricted resources. All other benefits budgets combined are overbudgeted by approximately $400,000.

As discussed above, the district's third interim report includes the addition of $2.4 million in unrestricted general fund certificated salaries in 2020-21, due to positions being shifted from Title I funding, but it appears this amount was not reduced from the district's restricted resources. FCMAT's MYFP adjusted for the reduction of $600,000 in Title I for employee benefits associated with this salary shift.

culation include the addition of textbook adoptions totaling $10 million in 2020-21 and $5 million in 2021-

Other Outgo/Indirect Costs

In 2019-20, the district applied indirect costs to its restricted programs including special education. FCMAT reduced the indirect cost earnings in the unrestricted general fund by $1.4 million based on the reduced expenditures included in its analysis.

FCMAT's MYFP applies an indirect cost rate of 3.79% in 2020-21 and 3.91% in 2021-22 based on the 2018-19 unaudited actuals indirect cost rate worksheet (Form ICR).

Other Financing Sources/Uses

Transfers In

The district transfers funds from the charter schools fund to the general fund for fees and oversight costs. In FCMAT's MYFP, this transfer is assumed to be ongoing at the third interim $2.2 million budgeted amount.

Transfers Out

The third interim report included contributions to the charter schools, adult education and child development funds. In FCMAT's MYFP, these transfers are assumed to be ongoing at the third interim $2.6 million budgeted amount.

Contributions

When revenues in restricted programs are insufficient to support program expenditures, a contribution from the unrestricted general fund is required. Restricted programs should be self-supporting, with the exception of special education, routine restricted maintenance, and any restricted program the district has made a deliberate decision to support with unrestricted general funds. The special education program typically has insufficient state and federal funding support, and the district is required to make a 3% contribution to the routine restricted maintenance account.

Due to increasing costs year-over-year, the district may need to reduce expenditures in several of its restricted resources to remain within the projected revenue estimates. When restricted resource expenditure budgets exceeded projected revenue in the subsequent years of the MYFP, FCMAT reduced expenditures in the 4000 (books and supplies) and 5000 (services and other operating) object codes where possible to remain within the projected revenue estimates. However, this action may also affect programs by the reduction of expenditures for these items. No reductions were made in salary and benefit budgets. A contribution was made from the unrestricted general fund to balance any restricted resource where expenditures still exceeded revenue after these adjustments.

The following table shows projected contributions to the district's restricted resources.

	Resource Code	Base Year 2019-20	Year 1 2020-21	Year 2 2021-22
Unrestricted Resources				
Unrestricted	0000	($89,249,124)	($95,584,657)	($111,646,314)
Total Unrestricted		($89,249,124)	($95,584,657)	($111,646,314)
Restricted Resources				
School Improvement Grant	3180	$0	$0	$11,373,694
ESSA: School Improvement Funding (CSI)	3182	$0	$0	$280,213
Department of Rehabilitation: Workability	3410	$7,086	$13,028	$23,582
Medi-Cal Billing Option	5640	$0	$276,036	$895,270
Special Education	Various	$73,127,742	$77,341,620	$82,507,613
Ongoing & Major Maintenance Account (RRMA)	8150	$16,114,296	$ 17,953,973	$ 16,565,942
Total Restricted		$89,249,124	$95,584,657	$111,646,314

The 2019-20 third interim report includes a contribution of $17.5 million to the RRMA. After the application of FCMAT's adjustments, this amount was reduced to $16.1 million. As provided in the 2020-21 state budget, FCMAT's MYFP excludes the on-behalf pension contributions (resource 7690) from the 3% RRMA calculation each year, beginning in 2020-21.

Restricted Resources

Expenditures that qualify to be charged against restricted resources should be appropriately coded to the

-

The restricted general fund summary below shows FCMAT’s analysis of the district’s restricted resources and includes a column showing the study team’s adjustments to the base year.

Other Funds

In addition to analyzing the general fund, FCMAT completed a basic review of the district's other funds to determine their possible financial impact on the unrestricted general fund. The third interim report included transfers to the charter schools, adult education and child development funds totaling $2.6 million. Interviews indicated that some steps, such as closing the Parent Participation Preschool program in the adult education fund, are being taken to reduce costs or eliminate programs in funds that are not self-supporting. However, without an adequate increase in revenue and/or decrease in projected expenditures, these funds may require an increased contribution from the unrestricted general fund in future years. No other funds are expected to require a contribution from the unrestricted general fund in 2019-20 or the two subsequent fiscal years.

A review of the district's financial system report dated May 28, 2020 found that some resources with a 2018-19 ending balance also include the balance in 2019-20 as budgeted carryover revenue, thereby overstating 2019-20 revenue. Examples include fund 09 unrestricted and restricted lottery, California Clean Energy Jobs Act and the Classified School Employee Professional Development Block Grant, and fund 11 CalWORKs.

Capital Facilities Fund

The district uses the capital facilities fund (fund 25) to deposit developer fees and the portion of funds received from redevelopment agencies (RDAs) that are not subject to the LCFF deduction. Annual debt service payments of approximately $5.5 million for the district's lease revenue bonds are split funded between fund 25 and the capital projects fund for blended component units (fund 49).

The district's most recent developer fee justification report was completed in September 2015. The State Allocation Board adjusts Level 1 developer fees every two years based on the construction cost index, and as of January 2020, the maximum rate for Level 1 fees is $4.08 per square foot for residential and $0.66 per square foot for commercial/industrial construction. To ensure it can collect the maximum allowable rate, the district should review and update its developer fee justification report, as necessary. In addition, interviews indicated that a study has not been completed to analyze the district's projected annual RDA revenues. Such a study should be completed for planning purposes and to determine if this funding stream can continue to be relied upon for lease revenue bond debt service payments.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement shows the district's liquidity and ability to meet its current payroll and other financial obligations. The cash flow analysis should not be confused with the district's budget and fund balance; it is a different analytical tool. The cash flow statement excludes transactions that do not directly affect cash receipts and payments.

Any projection of financial data for cash flow purposes has inherent limitations because of issues such as unanticipated changes in the timing of receipts and expenses and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help a district make more informed decisions and enable it to better project the fiscal impact of current decisions. The cash flow projections should be updated at least monthly to accurately account for all revenues, expenditures and other changes related to cash.

Given the uncertainties of the pandemic, the resulting state budget crisis, and the possibility for a protracted economic recovery, cash management is one of the main concerns in every LEA. The state has a history of deferring payments to LEAs, and the 2020-21 state budget again includes cash deferrals with the first being the June to July 2020 apportionment deferral. The following table shows the 2020-21 apportionment deferral schedule as provided by CDE on September 9, 2020. These deferrals are assumed to be ongoing in FCMAT's cash flow projection for the district.

To complete the cash flow projections, FCMAT reviewed the district's 2018-19 and 2019-20 financial system Cashflow Summary reports that show all transactions that affect the general fund cash balance and the district's 2019-20 third interim cash flow projection. To calculate the projected monthly receipt and disbursement percentages, the study team compared the actual monthly totals by object code range, as shown on the 2019-20 CashFlow Summary report, to FCMAT's adj (e 2-3 (i)-)eo 5.2 (o)(d)-12 (y t)8.2 (e)-0.7 (a

2020-21 Cash Flow with Deferra

Descriptior	Budge	July	Augus	Septembe	Octobe	Novembe	Decembe	Januar	Februar	March	April	May	June	Accrua	Adjustment	Total	Variance
A. BEGINNING CA	45,268,115.8	45,268,115.8	79,905,595.6	65,424,553.5	96,999,549.2	72,349,872.5	56,747,604.3	47,749,270.3	86,114,137.3	49,455,847.1	21,265,790.3	21,324,684.2	(24,317,776.44				
B. RECEIP																	
LCFF Sourc																	
Principal Apportionme	316,379,901.0	14,180,714.4	14,180,714.4	33,716,689.0	25,525,286.0	25,525,286.0	33,716,689.0	25,525,286.0	11,996,884.4	12,785,954.4	4,594,551.4	4,594,551.4	8,191,403.0	101,845,891.1	-	316,379,901.0	-
Property Taxe	106,091,809.9	-	-	-	-	1,060,918.1	-	61,013,3ET (									

2021-22 Cash Flow with Deferr

Descriptior	Budget	July	Augus	Septembe	Octobei	Novembei	Decembe	January	February	March	April

Pursuant to Education Code Section 14041.8, for the 2020-21 fiscal year only, school districts and charter schools may receive an exemption from the principal apportionment deferrals if certain criteria are

2020-21 Cash Flow - NO Defer

Description	Budget	July	August	September	October	November	December	January	February	March	April	May	June	Accrual	Adjustment	Total	Variance
A. BEGINNING CASH	45,268,115.86	45,268,115.86	79,905,595.63	65,424,553.52	96,999,549.23	72,349,872.58	56,747,604.36	47,749,270.32	86,114,137.38	64,255,487.91	58,962,988.60	81,919,439.88	59,174,536.66				
B. RECEIPTS																	
LCFF Sources																	
Principal Apportionment	316,379,901.00	14,180,714.45	14,180,714.45	33,716,689.01	25,525,286.01	25,525,286.01	[illegible]										

Other Items to Consider

Indirect Costs

Beginning in 2021-22, indirect costs can no longer be applied to food expenses (object code 4700). Based on the projected food costs for the cafeteria fund, as shown in the 2019-20 second interim report, indirect costs paid to the unrestricted general fund may be reduced by more than $400,000 per year.

Class Size

Education Code Section 41376 prescribes maximum class sizes and penalties. For grades four through eight, the average number of students per teacher is not to exceed the greater of 29.9 – the statewide average in 1964 – or the district's 1964 average. Based on information from CDE, the district's average number of students per teacher in 1964 was 32.8. The district's 2018-19 and 2019-20 Class Size Penalties reports show the average number of students per teacher in fourth through eighth grade was 22.5 and 21.3, respectively. These averages are well below the state limit and those shown in the certificated collective bargaining agreement, which requires maximum class sizes not to exceed 33 students per teacher for grades four to six and 31 students per teacher for grades seven to eight.

Independent Charter Schools

In addition to the district-operated charter schools, the district has authorized ten independently operated charter schools. A review of the documents provided for these charter schools showed that Aspire Capitol Heights' 2019-20 first interim report projected deficit spending in each year of the projection and a negative fund balance in 2021-22. Education Code Section 47604.32 requires districts that authorize charter schools to perform fiscal and operational oversight functions. To ensure the charter schools it has authorized are fiscally solvent and avoid possible fiscal responsibility for a charter school in fiscal distress, the district should ensure it fulfills and has evidence showing fulfillment of its oversight respon

7. Ensure unearned revenues received in the prior year are included in current year budgets upon completion of the unaudited actuals and eliminated from the subsequent two years of the projection.

8. Review all budgets monthly and make adjustments as necessary to minimize variances between budgeted and actual expenditures at year end.

9. Develop and implement procedures to update position control and reconcile it to budget and payroll on a periodic basis, and no less than at each financial reporting period.

10. If not actively recruiting for positions listed as vacant in position control, determine if they should be frozen or eliminated and ensure they are not included in the budget and MYFP, where applicable.

11. Annually perform a review of the actual historical costs for employee step and column increases to determine if the percentage applied for forecasting should be updated.

12. Ensure that information is consistently presented in budget documents and report pop asisng fo-3.t.1 (l c)

incpe if thd be 4ui trol.
a (r)-20 -192 Tdw -5-1.5 (s (0)15.3(-3.t.1 (l c)8.7))-2 (e i) e thl ccensisp2.6 (ie)-hr foloyl his (e).7 (o10c)-0.cen13

27. Take immediate action to identify all internal and external borrowing options and apply for a state apportionment deferral exemption as soon as the application is available.
28. Analyze the effect of no longer being able to charge indirect costs to food expenses, as of 2021-22.
29. Review its class sizes and make adjustments as necessary to ensure fiscal solvency.
30. Ensure it fulfills and has evidence showing fulfillment of its charter school oversight responsibilities.

Based on the assumptions used in FCMAT's analysis, an emergency appropriation will likely be necessary in 2020-21 if internal and external borrowing options are not available and/or the district does not receive apportionment deferral exemptions. Furthermore, even if borrowing options are available and/or deferral exemptions are received in 2020-21, without substantial corrective action an emergency appropriation is likely needed in 2021-22.

FCMAT appreciates the opportunity to serve the Sacramento City Unified School District and extends thanks to all the staff for their assistance during this review.

Sincerely,

Diane Branham
Chief Analyst