

# CEO Report

## **DRAFT Deficit Reduction Plan for Ohio Dept of Ed. & Workforce (DEW)**

Feb. 13, 2024, CMSD Board Work Session



## Background Summary



- The Board adopts a 5-year forecast by Nov. & May of each school year, showing revenues & expenditures for the current fiscal year + the next four years to follow
- If the forecast shows a negative cash balance in either the current or two upcoming fiscal years, the OH Dept of Education and Workforce (DEW) requires a Deficit Reduction Plan
- Since FY2020-21, the American Rescue Plan/Elementary and Secondary School Emergency Relief Fund (ARP/ESSER) has funded a total of \$465M in temporary CMSD expenditures
- With 2024 ARP/ESSER sunset and an assumption that 100% of ARP/ESSER expenditures are picked up by the General Fund, Nov. 2023 forecast projects a 2-yr. negative cash balance of \$168M
- The district is required to submit a Deficit Reduction Plan to the DEW by February 29, 2024

# 5-Year Forecast, Adopted Nov. 2023



## CMSD General Fund

\$ in millions

	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
<b>Total Revenues</b>	\$697.8	\$722.4	\$662.9	\$678.1	\$683.7	\$695.4
<b>Total Expenditures</b>	\$682.8	\$691.0	\$806.2	\$827.8	\$850.7	\$874.4
<b>Net Excess (Shortfall)</b>	\$15.0	\$31.4	(\$143.3)	(\$149.7)	(\$167.0)	(\$179.0)
<b>Ending Fund Cash Balance</b>	\$109.5	\$141.1	(\$2.3)	(\$152.0)	(\$319.0)	(\$498.0)
<b>Encumbrances</b>	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
<b>Unencumbered Fund Cash Balance</b>	\$93.5	\$125.1	(\$18.3)	(\$168.0)	(\$335.0)	(\$514.0)

FY25 expenditures would exceed revenue by \$143M, wiping out cash reserves.

Projecting a healthy cash balance of \$125M at the close of FY23-24, the final year of ARP/ESSER funding.

DEW plan requires enough savings to forecast a positive cash balance for at least two years out. These measures alone would not address the underlying deficit.



## **The DEW Plan consists of three elements:**

- Workbook (spreadsheet)
    - Changes in assumptions in the 5-year forecast
    - Revenue enhancements
    - Expenditure reductions
    - Revised projected forecast
  - Narrative (word document)
    - Context
    - Written explanation of the workbook elements
  - Board resolution
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## **Critical indicators of financial health include:**

- Line 06.010 – Annual budget surplus or deficit
- Line 12.010 – Cash balance

## Changes in Assumptions, 1 of 2



DEW Plan allows for revisions to financial assumptions used in Nov. 2023 forecast. Assumptions are neither savings nor expenditures but impact the forecasted cash balance and savings target.

### **School-based budgets**

- Nov. 2023 forecast reflected annual 2% increases to school-based budget pool.
- Revised assumption: holding school-based budget pool flat for FY24-25 and FY25-26; resume 2% increases in FY26-27 and FY27-28.
- Improves 2-yr forecasted cash position by **\$21.1M**.

## Changes in Assumptions, 2 of 2



DEW Plan allows for revisions to financial assumptions used in Nov. 2023 forecast. Assumptions are neither savings nor expenditures but impact the forecasted cash balance and savings target.

### **Health insurance plan funding**

- CMSD operates a self-funded health insurance plan. Claims are paid out of a reserve funded by premiums, largely covered by the district as employer. Reserves have grown substantially over FY23 & FY24 due to lower-than-expected claims.
- Revised assumption: temporarily reduce employer premiums paid into the fund while maintaining a reserve of at least 75 days of claims, per guidance from plan administrator.
- No impact to employee benefits or employee share of premiums.
- Improves 2-yr forecasted cash position by **\$15M**.

# Revenue Enhancements



- The plan asks the district to identify any known future revenue enhancements that would improve the forecasted cash balance
- No revenue enhancements have been identified or included in the plan
- We remain open to exploring additional revenue sources with our private partners

## **A note on the MacKenzie Scott gift**

- The district received an unrestricted \$20M gift from MacKenzie Scott in 2022-23
- Because the gift was unrestricted, it was deposited to the General Fund, increasing the cash balance and reducing the deficit by \$20M
- The cash deposit was reflected in Nov. '23 forecast
- Any future expenditure against the gift occurring outside of the regular budget process would increase the forecast deficit and require offsetting savings to be identified in the state plan

# **DRAFT: Plan Decisions**





**LISTEN  
AND  
LEARN**

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## What Did Our Community Tell Us?



We have heard from thousands of stakeholders between community input sessions for the CEO search as well as nearly 40 Listen and Learn sessions and 52 school visits conducted by the CEO. These are some of the emerging trends our community prioritized for CMSD improvement.

- Equitably improve safety, resourcing and facilities across CMSD schools.
- Strengthen SEL and academic supports to students. (Improve academic performance and student attendance).
- Create more opportunities for active community feedback and collaboration.
- Strengthen transparent communication from central office leadership.
- Enrich and enhance the academic and extracurricular experience, including expansion of CTE programs.
- Increase access to rigorous instruction.
- Concerns with current K-8 model.

# Core Values



**EQUITY &  
INCLUSION**



**STUDENT &  
COMMUNITY  
FOCUSED**



**GROWTH &  
LEARNING**



**CARE &  
WELL-BEING**



**EXCELLENCE &  
ACHIEVEMENT**

# CMSD Strategic Priorities



- **SP1 Safe & Supportive Culture:** Establish a values-based organizational culture that ensures physical and emotional safety, promotes equity and excellence, and fosters authentic belonging and relationships for all scholars and adults.
- **SP2 A Strong & Engaging Instructional Core:** Increase scholar engagement in rigorous and engaging learning by deeply and consistently implementing high quality instructional materials and practices.
- **SP3 Educator Learning:** Establish professional learning experiences and opportunities that empower each CMSD educator to model our values and improve their craft, with emphasis on opportunities related to instruction and instructional leadership.
- **SP4 Coherent Central System:** Strengthen central office processes to ensure financial sustainability, increase responsiveness to schools, and promote equity, clarity, and coherence.
- **SP5 Engaged Community:** Establish and maintain strong partnerships with scholars, families, staff, and other community members (including residents, civic leaders, local businesses, and nonprofits) that foster authentic engagement aligned to CMSD's mission, values, and strategic plan.





## Communication Objectives

- **Transparency:** Clearly communicate (internally and externally) rationale behind cuts and reductions to foster understanding among stakeholders.
- **Clarity on Impact:** Provide specific details on how any changes implemented will affect certain programs, department's workflow, resources, and productivity; minimizing uncertainty and rumors.
- **Future Plans:** Outline CMSD's strategy moving forward, specifically, the vision for recovery, growth and long-term sustainability to instill confidence in stakeholders.
- **Compassion:** Emphasize empathy and support for impacted employees by demonstrating a human approach.
- **Employee Assistance:** Communicate the outplacement plan and services for impacted employees transitioning out.

## Key Stakeholders

- CMSD Board of Education
- Directly Impacted Staff
- Scholars (Students)
- Senior Leadership Team (SLT)
- All staff (Central Office & Schools)
- Labor Partners (Including the Cleveland Teacher's Union (CTU))
- Elected officials (Local & State)
- Afterschool Providers
- Media Outlets/Editorial Boards
- All Cleveland Residences
- Principals
- Clergy
- Parent Groups
- Philanthropic Partners

# Where We Are Today, In Context

## 2020-2023

- Era of supplemental ARP/ESSER funding
- Biannual 5-year financial forecasts consistently reflect budget deficits beginning 2024-25
- Nov. 2022 forecast assumes elimination of 70% of ARP/ESSER non-personnel expenses; still shows \$109M FY25 deficit

## Nov. 2023

- 5-year forecast reflects \$143M deficit for 2024-25 and negative cash balance of \$168M by end of 2025-26
- State of OH places CMSD in “fiscal precaution”; orders Deficit Reduction Plan by 2/29/24

## Dec. '23 – Jan. '24

- District leadership identifies, evaluates large cost drivers for potential inclusion in DEW plan
- Cost Center Managers submit preliminary, Round 1 budgets, identifying savings for plan inclusion

## Feb. 2024

- Draft Deficit Reduction Plan presented to Board at 2/13/24 Work Session
- Board vote on Deficit Reduction Plan at 2/27/24 Business Meeting
- Approved plan due to state by 2/29/24

## Mar. – Apr. '24

- FY25 budget process continues to its conclusion, including final specification of reductions and conclusion of Central Office restructuring
- Cross functional CMSD teams closely evaluate select cost drivers for possible savings

# Guiding Principles for Identifying Savings



## **Guiding principles for CMSD leaders in developing plan:**

- Lead with central office reductions, fulfilling Board goal of reducing FY24 Central Office administration by 10% while preserving essential support functions.
- School-based budget pool is held flat and spared from reductions, apart from any changes dictated by enrollment.
- Align go-forward investments with Core Values, Measures and Strategic Priorities developed from CEO Listen and Learn Tour.
- Include only measures within our sphere of control, and that we can fully commit to.

# DRAFT: Central Office Reductions, Phase 1



- The pool of funds directed by school leaders (School-based budgeting) will not be reduced.
- Reductions will come from Central Office-directed budgets.
- With FY25 budget reviews and a Central Office restructuring still underway at this time, the plan includes two phases of Central Office savings:
  - **Phase 1** reflects a conservative, quantifiable commitment to minimum savings for certain categories
  - **Phase 2** reflects the balance of savings that must be realized to meet DEW targets by close of budget process.
- Phase 1 includes
  - Minimum reduction of 25 FTE staffed at Central Office (1111 Superior and East Professional Center)
  - Controls on Central Office travel, conferences and staff food.
- 2-yr. savings vs. forecast (phase 1): **\$5.3M.**



## DRAFT: Summer Learning



- ARP/ESSER enabled the rapid expansion of summer learning (see table at right).
- With ARP/ESSER expiring, we are committed to investing at levels substantially higher than pre-pandemic.
- Current year allocation for summer learning has been adjusted, noted in plan as FY24 savings (see next slide).
- We are working closely with partners and city agencies to coordinate on summer opportunities for scholars through the CPL, Recreation Centers, summer jobs & internships.
- 2-yr savings vs. forecast: **\$31.9M.**

Year	Expenditure	
FY20	\$1.2M	Actual
FY21	\$4.3M	
FY22	\$10.1M	
FY23	\$15.5M	
FY24	\$6.6M	Budgeted, per DEW plan
FY25	\$6.6M	
FY26	\$6.6M	



- 2023 Summer Learning Experience snapshot
  - **4,225** average daily attendance
  - **90 minutes instructional time** per day, with balance of time on enrichment
  - No mechanism for measuring impact
- Pending review of Summer Learning MOU with CTU, plans for 2024 include
  - Capacity for **3,500 students**
  - Doubling amount of instructional time to **180 minutes per day**
  - Introduce MAP testing at beginning and end of summer learning to measure program impact

## DRAFT: Out of School Time (OST)



- OST budget did not exist prior to ARP/ESSER.
- Created to temporarily support external partners with funding to address pandemic-related needs.
- CMSD will continue offering extracurricular, athletic and other afterschool programming.
- With the loss of funding source that made OST possible, return to previous practice of supplemental providers securing own funding.
- 2-yr. savings vs. forecast: **\$34.1M.**

### Centrally funded external partners (OST Budget)

Year	Expenditures	
FY20	\$0M	Actual
FY21	\$0M	
FY22	\$0.3M	
FY23	\$10.5M	
FY24	\$17.0M	Budgeted, per DEW plan
FY25	\$0M	
FY26	\$0M	

# DRAFT: Aligning School Calendars



- CMSD currently operates with a high degree of calendar variance across our portfolio
  - 8 schools with Year-Round Calendar (20 additional days)
  - 13 schools with Extended-Year Calendar (10 additional days)
  - 24 schools with Extra Minutes (30 additional daily minutes)
- Schools with extended calendars receive disproportionately more resources, while academic performance varies.
- With limited exceptions, we propose to remove extra days and minutes beginning in 2024-25.
- We are currently reviewing impact and implementation specifics, with final details to be presented as part of 2024-25 calendar resolution at March 2024 Board Work Session.
- Estimated 2-yr. savings vs. forecast: **\$13.7M.**

# DRAFT: Student Technology



- ARP/ESSER funds enabled CMSD to make devices and wireless hotspots to all students, approaching a 1:1 student to device ratio.
- Our experience to date with 1:1 device implementation has varied across schools and grade levels, causing us to rethink our student device strategy.
- We are in the process of reviewing to ensure that we are investing responsibly while ensuring that all students have access to grade-appropriate technology.
- Expected to include elimination of free wireless hotspots, and more shared technology in earlier grades.
- We will continue working with the city and external partners to find ways to help our families with connectivity.
- Preliminary estimate of savings vs. forecast: **\$6.4M.**

## Phase 2 Reductions



- Recap of adjustments described thus far:
  - Changes to assumptions reduce the forecasted deficit by **\$36.1M** over 2 yrs.
  - Reductions in expenditures described thus far save a total of **\$91.4M** over 2 yrs.
- Division Chiefs will designate at least **\$41M** in additional 2-yr savings during FY25 budget to ensure a positive cash balance by FY26; identified in the plan as “Phase 2 reductions”
  - To be reflected in both final FY25 budget and May 2024 5-yr forecast.
- Phase 2 savings will be realized in both personnel and non-personnel categories.
- Proportions for categories are estimates only; we anticipate a greater proportion of savings from professional services contracts, which grew disproportionately during ARP/ESSER era.
- Thank you to our partners, staff, community members and others for contributing your ideas to identifying savings.

# Revised 5-Year Forecast Reflected in Draft DEW Plan



## CMSD General Fund

<i>\$ in millions</i>	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
<b>Total Revenues</b>	\$697.8	\$722.4	\$662.9	\$678.1	\$683.7	\$695.4
<b>Total Expenditures</b>	\$682.8	\$676.0	\$723.6	\$746.9	\$774.0	\$797.0
<b>Net Excess (Shortfall)</b>	\$15.0	\$41.4	(\$65.7)	(\$68.8)	(\$90.3)	(\$101.6)
<b>Ending Fund Cash Balance</b>	\$109.5	\$151.9	\$85.3	\$16.4	(\$73.9)	(\$175.5)
<b>Encumbrances</b>	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0
<b>Unencumbered Fund Cash Balance</b>	<b>\$93.5</b>	<b>\$134.9</b>	<b>\$69.3</b>	<b>\$0.4</b>	<b>(\$89.9)</b>	<b>(\$191.5)</b>

The measures identified in the plan achieve the DEW requirement of a positive 2-yr. cash balance.

However, we must identify further savings to address the budget deficit and achieve fiscal sustainability.

## In Closing



- Sustaining a positive cash balance through FY25-26 has required some difficult, but necessary decisions
- We are confident that we are addressing reductions in a way that protects the classroom, promotes equity and aligns with our strategic priorities for delivering for our scholars
- The challenge of addressing the underlying budget deficit remains ahead, and will likely involve a multi-year process