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TO: Mayor Weldon and Assembly
FROM: Katie Koester, City Manager
DATE: January 26, 2024
RE: JSD Deficit: Discussion of paths forward

The purpose of this memo is to help the Assembly and the School Board talk through options to get JSD through the current deficit the district is facing. It builds on the memo dated 1.29.2024 from Superintendent Hauser presented at the COW of the same date. CBJ staff has requested a formal request from JSD for consideration by the Assembly; what is presented below is not that but rather some components of the conversation staff have been working on. This memo is not exhaustive of all the things the Assembly could do. It would be helpful if as part of the Joint Meeting the Assembly gave the JSD School Board detail on what you need to facilitate Assembly decision making.

In summary, JSD is facing a current year deficit of around \$8M. This is down from the original projected deficit of \$9.5M due to over \$1.5M in savings the district has identified through operations costs, carryover allotment categorization, and health insurance expenses.

JSD has an \$8M problem. How can it be resolved in the short-term? A Loan.

CBJ cannot give JSD \$8M to fix this problem because CBJ already funds to the cap. Funding above the cap would jeopardize state funding. However, it is unrealistic to expect JSD to come up with enough additional cuts in the current year to dig out of an \$8M hole. JSD will likely need a loan up to the full \$8M deficit; DEED has agreed to this in concept (an agreement would need to be formalized with DEED).

JSD can pursue a loan through a number of means:

1. Loan via DEED/State. DEED can only advance JSD the outstanding foundation formula funding and a loan would require special legislation, which is not likely and too late to help
2. Traditional bank loan
3. (CBJ) Central Treasury Loan? [CBJC 57.05.045](#). The capital acquisition condition may be disqualifying.
4. Hybrid loan via a local bank with some security via CBJ
5. (CBJ) Unique CBJ Loan via ordinance

Of these options, a unique CBJ loan via ordinance is the most flexible and allows the Assembly to offer the most favorable terms to the district. Conversations with DEED have indicated a 5-year maximum term.

Conditions of a Loan

In addition to traditional terms and conditions of a loan, I recommend the Assembly discuss the following specific conditions:

-Financial Awareness. CBJ needs a greater understanding of and access to JSD finances. CBJ can have a staff person who reports to the CBJ Finance Director and has direct and

complete access to JSD finances for the term of the loan. This could be as simple as access for current staff, or as involved as shared services between JSD and CBJ where CBJ provides direct financial support. For example, a new position at the accountant level who is at and helps JSD with financial duties and acts as a liaison between CBJ and JSD staff.

-A plan to pay back CBJ. A payback plan will require significant budget cuts and difficult conversations with the community. Without this plan, JSD is at risk of running afoul of DEED.

Proposed Timeline of Loan:

Year 1 - FY 2024: CBJ issues loan to JSD

Year 2 - FY 2025: No payback required. JSD develops payback plan; submits it with FY26 budget

Year 3 - FY 2026: Payback year 1

Year 4 - FY 2027: Payback year 2

Year 5 - FY 2028: Payback year 3

Shared Services

In Superintendent Hauser’s 1.29.24 memo he states, “the district is interested in a conversation with the Assembly around non-instructional, shared services in the areas of maintenance, utilities, property insurance, and operational/custodial costs.” Any shared services CBJ takes on are expenditures the district does not have to make. You may be asking, but wait – CBJ already funds to the cap? There are likely non-instructional items the CBJ could pay for related to facilities. City Attorney Palmer is working on this legal analysis.

Keep in mind that creative approaches to shifting additional JSD operating costs to CBJ as ongoing operational expenditures will require revenue sources for those expenditures. Depending on magnitude, this will likely mean cuts to existing services or increasing property taxes.

Things CBJ Could take on for JSD

There are a number of services that are tangential to JSD’s core mission “to provide each student with meaningful, relevant, and rigorous learning experiences in order to graduate diverse, engaged citizens for a changing world.” Maintaining facilities and Community Schools are examples of two services that JSD currently provides outside of their core mission that have a nexus to current CBJ services. CBJ taking over facility maintenance provides direct fiscal relief to JSD; Community Schools has less financial impact but would increase JSDs administrative ability to focus on their core mission.

Building Maintenance

CBJ owns all JSD facilities and pays for major maintenance and deferred maintenance projects. However, knowing what major maintenance projects to prioritize and making sure proper preventative maintenance schedules are adhered to is beyond our control. Combining JSD maintenance and CBJ maintenance would have added efficiencies of being to take advantage of our multiple HVAC experts on staff, for example (a service JSD currently contracts out for). Taking on facility maintenance would be no small task: JSD has approximately double the square footage of CBJ and would add \$3.5M -\$4M to our budget. Currently our building maintenance operates where there are assigned experts to each building to develop deep knowledge and responsibility of the unique needs of facilities; we would maintain that model with JSD and ensure that there would be dedicated staff to tend to JSD specific facility needs. I would propose taking on these services in the future; there is not enough time in the current year for such an operational pivot and there are multiple things to care for, including caring for current employees. We recently learned of apparently

critical HVAC issues at a variety of JSD facilities and anticipate significant deferred maintenance needs in this area.

Community Schools

Community Schools is the program through which the community utilizes school facilities during non-instructional hours for everything from symphony concerts to theater productions. Scheduling community use of facilities is already something we do within Parks and Recreation. Similar to maintenance – expanding an already existing program is simpler than creating something new. After JSD, Parks and Recreation is also the largest user of JSD facility space. Particularly as JSD considers school consolidation, it will likely be in the public interest for community school uses to continue at JSD facilities that may have their primary use repurposed. Parks and Recreation would draft a prioritization policy for space use in close collaboration with JSD.

Timeline for Assembly Action

Without Assembly support, JSD will run out of money this spring and is required by charter to submit a budget to CBJ by April 5. Details, like a plan for repayment of a loan, will have to be worked out by the district after getting basic items in place like a loan agreement and shared services agreement for 2024. I have laid out a proposed timeline for Assembly action below.

1.30.2024 Joint JSD/ CBJ Meeting: Discuss options for a path forward. Assembly gives CBJ staff direction on alternatives they want flushed out.

2.07.2024 Assembly Finance Committee: Assembly considers official ask for assistance from JSD School Board. Assembly gives further direction to staff to draft two Ordinances: 1) loan and 2) shared services agreement for 2024, at a minimum. A conceptual agreement on shared services beyond FY25 is necessary for JSD to develop their budget, but it will take time to work out the details for an ordinance.

2.26.2024 Assembly Special meeting before the COW to introduce ordinances.

3.11.2024 Assembly Special meeting before the COW for Public Hearing and Final adoption of ordinances.

Recommendation:

Discuss and give staff direction on flushing out the concepts of:

What does a loan look like?

-Financial Awareness (CBJ staff access to JSD finances)

What could CBJ relieve JSD of operationally?

-CBJ taking over JSD Building Maintenance

-CBJ taking over Community Schools

Timeline for Assembly action – are you comfortable with the amount of public process for your decisions?

What does the Assembly need from the School Board to continue the conversation?