



San Diego Unified
SCHOOL DISTRICT

Budget Update

Board of Education

January 24, 2012

Today's Agenda

- **Economic Outlook**
- **Governor's January Budget Proposal**
- **Impacts to San Diego Unified**
- **Multi Year Perspective**
- **Staff Budget Recommendations**
- **Revised Budget Solutions List**
- **Budget Development Timeline**
- **Recommended Action**

ECONOMIC OUTLOOK

U.S. Economic Outlook



© 2012 School Services of California, Inc.

- The nation is now two and a half years into the economic recovery, at least according to the Bureau of Economic Analysis, the agency officially charged with declaring when recessions begin and end
 - For the average American, it has not felt like a recovery
 - The pace of job creation has been slow and the unemployment rate has remained high
 - Home prices crashed and are only now showing signs of stabilizing
 - Lending standards have tightened, making it more difficult to borrow even though interest rates are at all-time lows
- Signs of a real recovery are finally emerging
 - The Index of Leading Indicators for October 2011 posted the largest monthly increase since November 2010
 - Exports in September were up 16% over the prior year
 - In November, the Consumer Confidence Index (CCI) posted its largest monthly gain in over eight years

U.S. Economic Outlook



© 2012 School Services of California, Inc.

- Risks to the economic expansion are evident as well
 - While consumers have repaired their balance sheets, this trend may have bottomed out, with the personal savings rate dropping in October by 2%
 - The Congressional “super committee” failed to come to agreement on reducing the federal deficit
 - The European debt crisis has not been solved, with several countries still on the brink of defaulting on their financial obligations
- In this environment, the Governor’s Budget presumes that the U.S. economy will continue its slow, but steady pace of expansion

Economic Factor	2012	2013
Gross Domestic Product	3.0%	3.7%
Employment	0.9%	1.4%
Unemployment Rate	9.2%	9.0%
Housing Starts	11.1%	43.6%

California's Economic Outlook



© 2012 School Services of California, Inc.

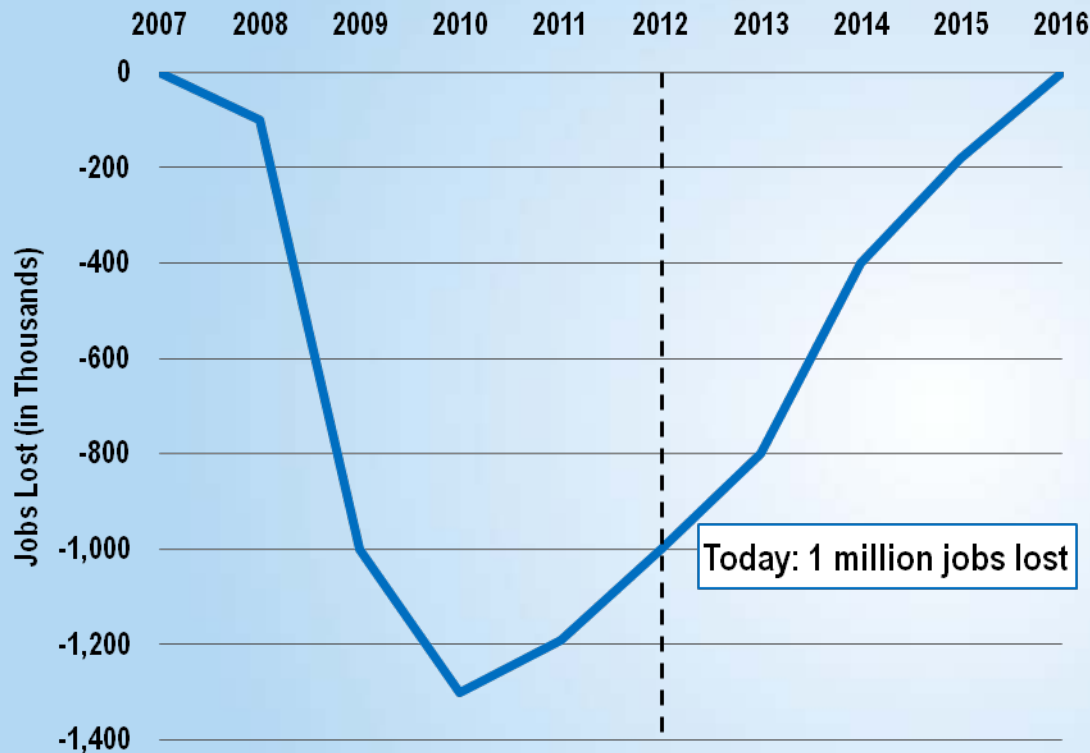
- Accounting for about 12% of the U.S. economy, California's fate is tied closely to the national recovery
- The Governor's Budget describes two state economies
 - The winning sectors
 - High tech – high paying jobs and constant innovation
 - Export markets – expanding global economy and California's strategic position with the Pacific Rim
 - Professional services – high paying jobs serving both domestic and international markets
 - The lagging or low wage sectors
 - Housing – overbuilt housing supply and continuing foreclosures
 - Construction – closely tied to the housing market
 - Retail trade & food services – expanding job market, but generally low wage employment

California's Labor Market



© 2012 School Services of California, Inc.

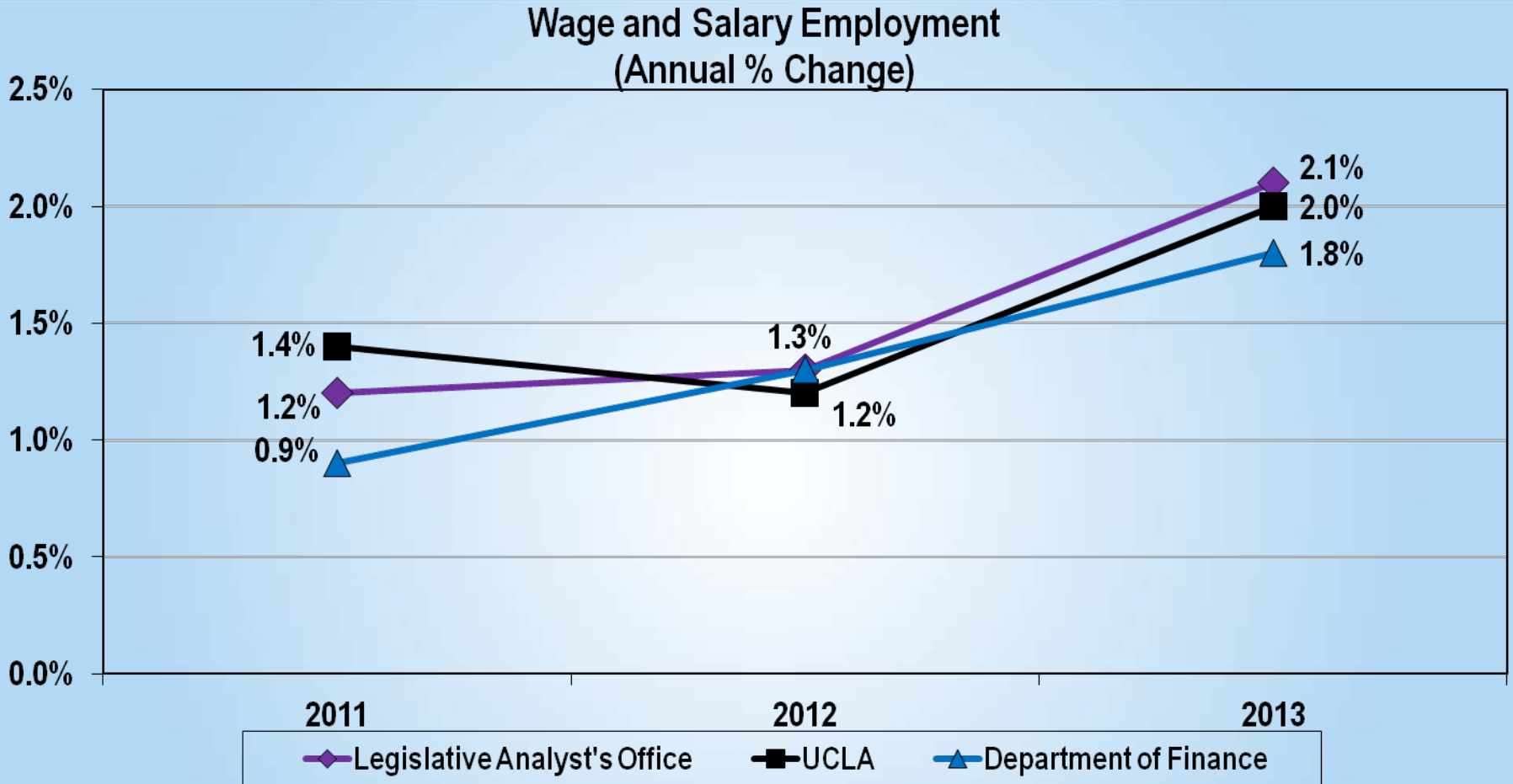
Jobs Lost During Recession Not Recovered Until 2016



- California lost 1.3 million payroll jobs in the recession
- About one-third of this job loss has been recovered
- It may take four and a half more years to reach California's prerecession employment peak

Comparing the Forecasts – Jobs

© 2012 School Services of California, Inc.



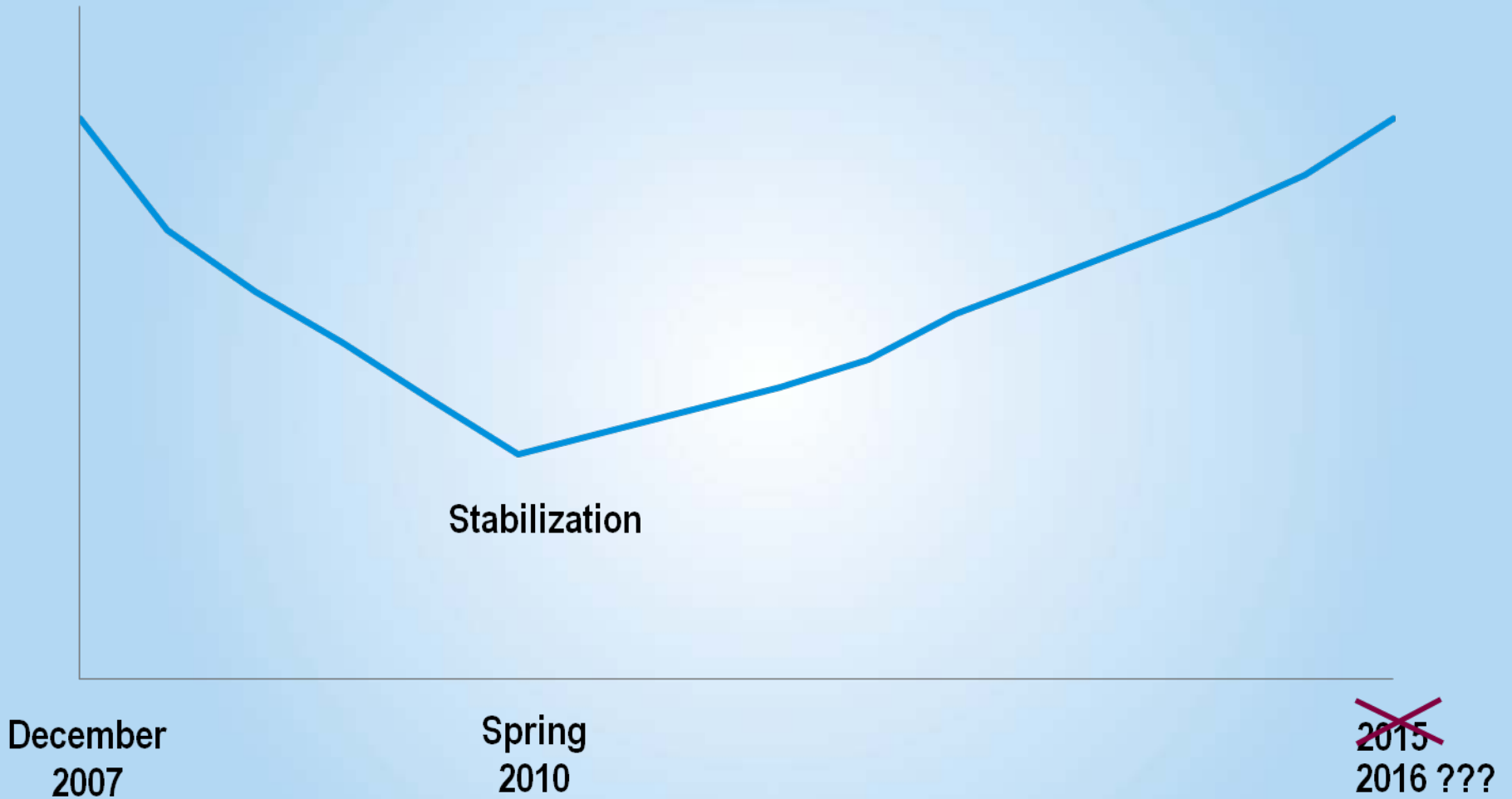
Sources: LAO, *California's Fiscal Outlook*, November 2011; *UCLA Anderson Forecast for the Nation and California*, December 2011; 2012-13 Governor's Budget, January 2012

Recovery Takes a Long Time



© 2012 School Services of California, Inc.

The Economic Cycle



Recovery Takes a Long Time



© 2012 School Services of California, Inc.

- Recovery for education funding requires:
 - First, the threat of more current or future cuts must end
 - Then, the state must have the money to begin funding current-year cost-of-living adjustments (COLAs) and other program growth
 - Then, the state must fund at least some portion of the deficit factor, now at 21.666% in addition to funding the current-year COLA
 - Then, the state must deal with restoration of the deferrals
- During the recession of the early 1990s, the deficit was smaller and there were no deferrals, but recovery still took six years
 - So, the state has a lot of work to do and it will take time
- And at the point of full restoration, we would perhaps rise to 46th in the nation again!
 - Only after that would California be in a position to increase its level of effort to begin to match other states



GOVERNOR'S JANUARY BUDGET PROPOSAL

Governor's Temporary Tax Proposal



© 2012 School Services of California, Inc.

- The Governor's Budget assumes that voters will approve \$6.9 billion in temporary taxes in November 2012
 - Of this total, \$2.2 billion would count in 2011-12 and \$4.7 billion would count in 2012-13
 - The higher taxes would continue through 2016
- The Governor's tax proposal includes the following:
 - Income tax increase
 - Single filers tax increase of 1% for income above \$250,000; up to 2% for income over \$500,000
 - Joint filers tax increase of 1% for income above \$500,000; up to 2% for income over \$1 million
 - Head of household increase of 2% for income above \$680,000
 - Sales and use tax increase of 0.5%

Budget Contingency Plan



© 2012 School Services of California, Inc.

- The Governor's Budget assumes that new temporary taxes are approved by the voters for five years at the November 2012 ballot
- The Budget also proposes severe additional reductions in funding for schools in the event that the tax initiative is not approved
- This leaves schools in a position of needing at least two plans
 - Governor Brown's Proposal: Flat funding – continues the funding level contained in the enacted Budget for 2011-12, except for transportation
 - Alternative: A \$2.4 billion reduction in K-14 funding – results in a loss of about \$370 per ADA for the average district
- Districts will need to plan for both eventualities until the fate of the tax initiative is determined
- Additionally, economic changes between now and enactment of the 2012-13 Budget could cause a revision, up or down

What Does it Mean to be Protected?



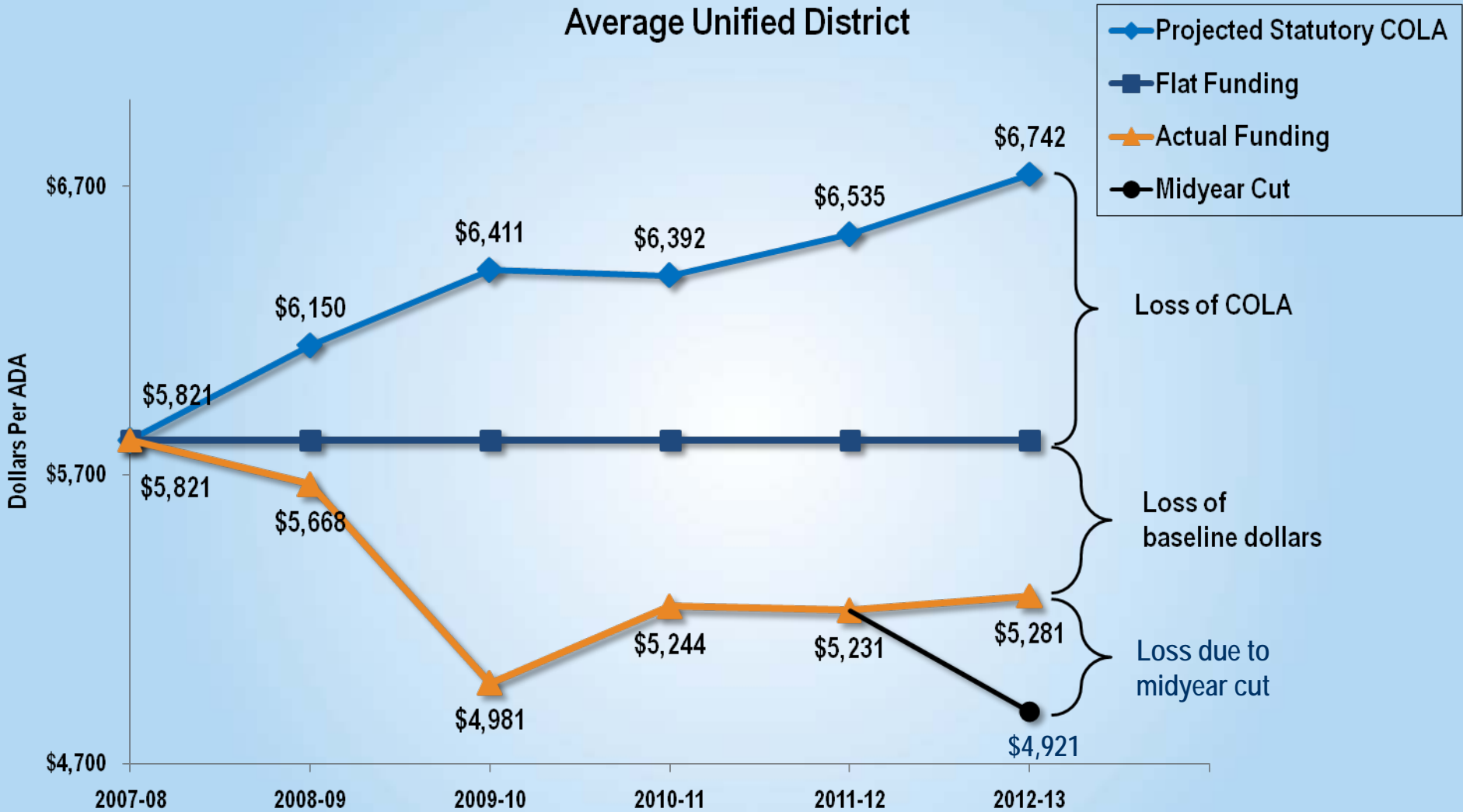
© 2012 School Services of California, Inc.

- Governor Brown again features “protecting education” as a theme
 - He acknowledges that education had taken the brunt of past cuts, and Proposition 98 funding has fallen by 16% since 2007-08
- Similar to last year, protection in 2012-13 means:
 - Holding general purpose funding for schools flat
 - But only if new temporary tax increases are passed in November
 - Home-to-school and special education transportation funding is totally eliminated whether the initiative passes or not
- It means that we will have to fight for approval of a tax initiative just to minimize the cuts
- We think, in light of past cuts and a straightforward reading of the requirements of Proposition 98, education should be protected whether the taxes pass or not

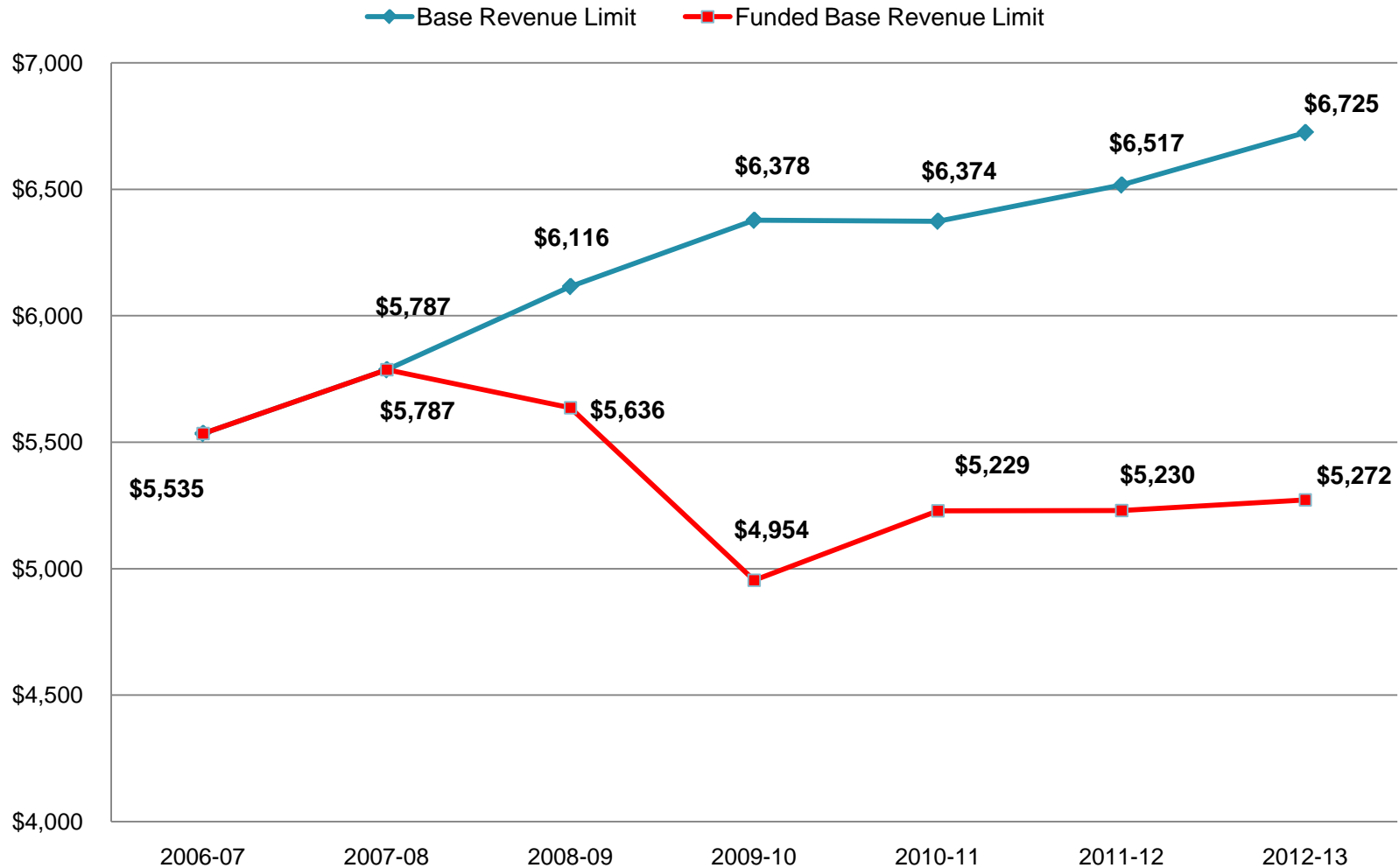
Funding Per ADA – Actual vs. Statutory Level



Average Unified District



San Diego Unified School District Statutory versus Actual Per ADA Funding

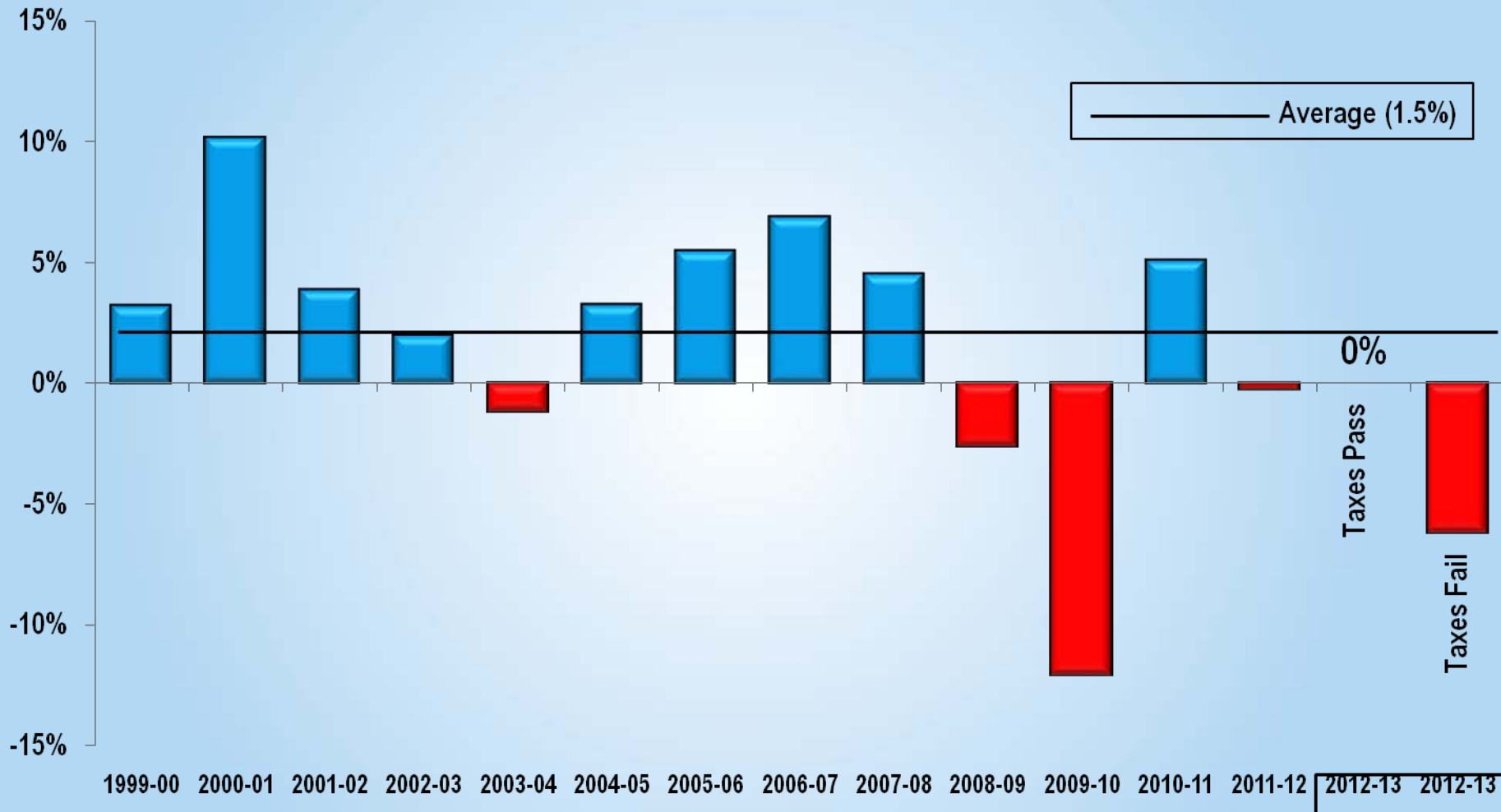


Per-ADA Revenue Volatility



© 2012 School Services of California, Inc.

Per-ADA Revenue Change

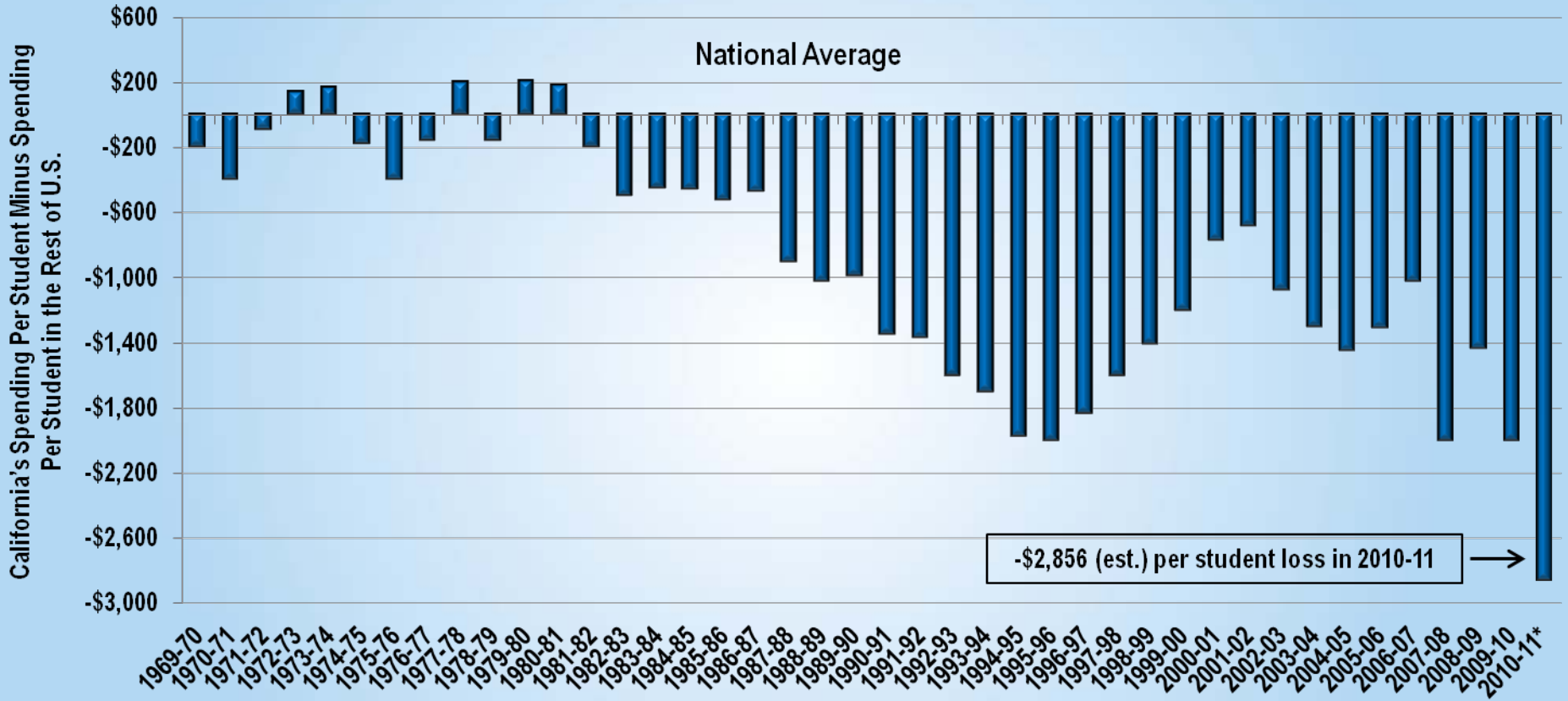


California's Education Spending Continues to Lag



© 2012 School Services of California, Inc.

California's K-12 Spending Per Student Lags Behind That of the Rest of the U.S. More Than at Any Time in 40 Years



* 2010-11 data estimated

Note: Rest of U.S. excludes the District of Columbia

Source: National Education Association

Choices and Priorities Matter



© 2012 School Services of California, Inc.

- California demands and deserves a “world-class” education system
- The top five states, in terms of student performance, are Vermont, Rhode Island, Wyoming, New Jersey, and Maine
- The bottom five are California, Idaho, Mississippi, Nevada, and Arizona
- What’s different?

	Top Five	Bottom Five
Per-student spending	\$16,000 – \$22,000	\$6,700 – \$8,700
Percent of state resources	4.2% – 6.0%	3.2% – 3.9%
4 th Grade NAEP*	32% – 44%	22% – 33%
8 th Grade NAEP*	34% – 47%	19% – 37%
*National Assessments of Educational Progress		

- California has fallen from number one to number 46 in per-ADA funding; and the results bear that out



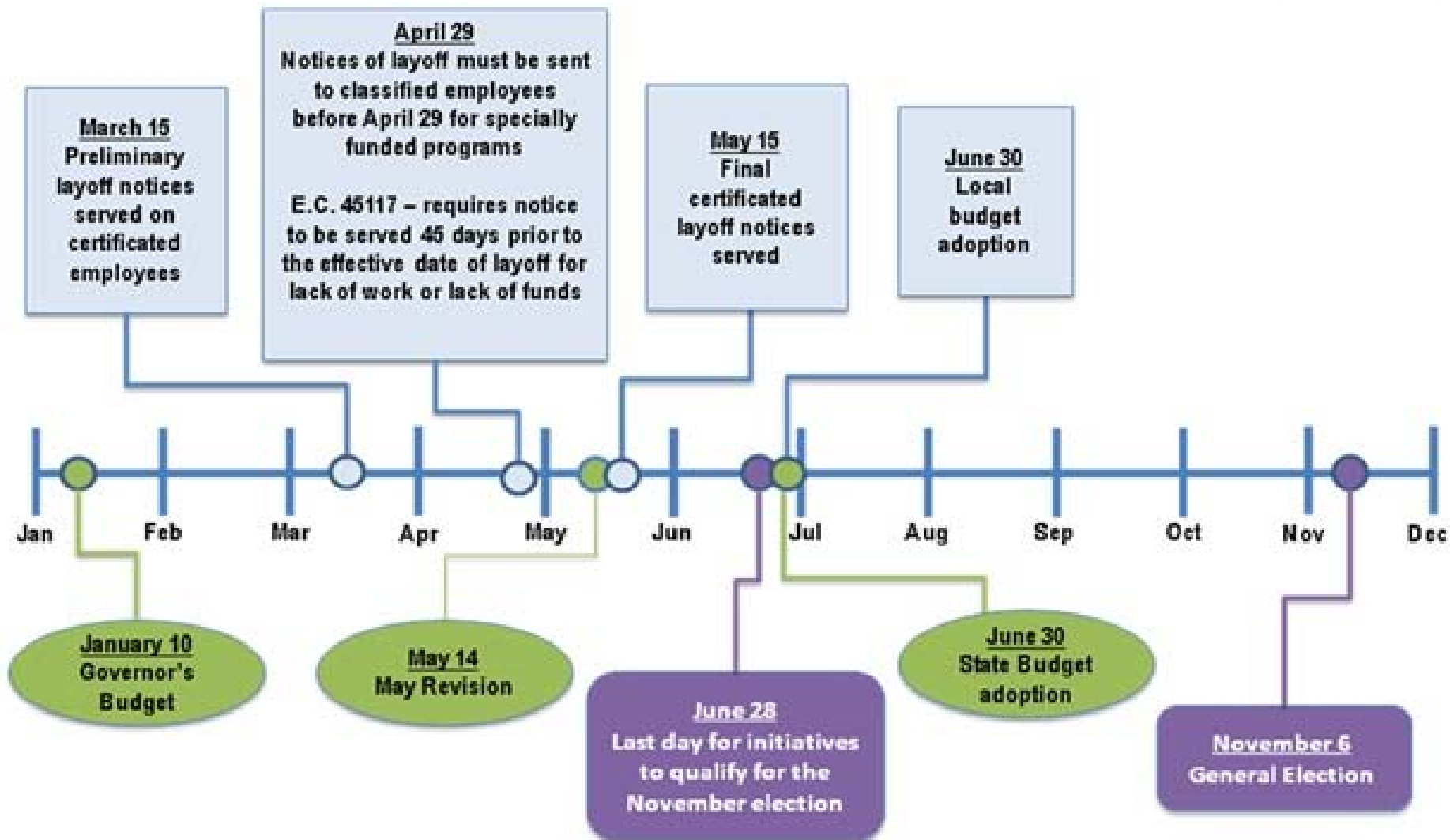
BUDGET IMPACTS TO SAN DIEGO UNIFIED

Governor's Proposed Budget: Impacts to SDUSD

Scenario Based on Successful Nov 2012 Tax Initiative: Flat Funding for K-12 Education

- Flat Funding is NOT a good Budget for SDUSD
 - Flat Revenues & Increasing Expenditures Result in an Increased General Fund Budget GAP (**No COLA**)
 - Tax Initiative Revenues Used to Restore Cash Deferrals
- Flat Funding is NOT really Flat
 - Elimination of Home-to-School Transportation Funding (**\$2.8 Mil**)
 - Elimination of Special Education Transportation Funding (**\$6.4 Mil**)
 - For a total of **\$9.2 Mil Loss** of Transportation Funding

Governor's Proposed Budget: Tax Initiative Timing



Governor's Proposed Budget: Impacts to SDUSD

Scenario Based on Unsuccessful November 2012

Tax Initiative : **-\$370 per ADA**

- 2012/13 Mid Year Cuts estimated at \$370 per ADA
 - SDUSD ongoing cuts estimated at **\$40.5 Million**
 - Equivalent to approximately **3 weeks of school**
- No tools yet to help districts implement mid year cuts
 - Legislation needed or more Layoffs will be only solution
- This Scenario Required by San Diego County Office of Education and Recommended by School Services of CA

Governor's Proposed Budget: Impacts to SDUSD

Other Reductions/ Changes:

- **No New Revenues**
- No Funding for Transitional Kindergarten Programs
- Increased Categorical Flexibility through a Weighted Student Formula (...details to follow...)
 - Cost Neutral or Funding Loss

The Recent Decisions by the Supreme Court on RDAs further obfuscate the argument that CA Schools would see more Revenues if RDAs ceased to exist. The Governor has said these potential RDA revenues are factored into his Budget Proposal.

Governor's Proposed Budget: Impacts to SDUSD

Unanswered Budget Questions +/- \$15 Mil ?

- CSR Revenues “grandfathered in” at Current Year Levels
- Weighted Student Formula Details
- Transportation Funding Reductions to Revenue Limit
- Transitional Kindergarten Mandate

MULTI YEAR PERSPECTIVE

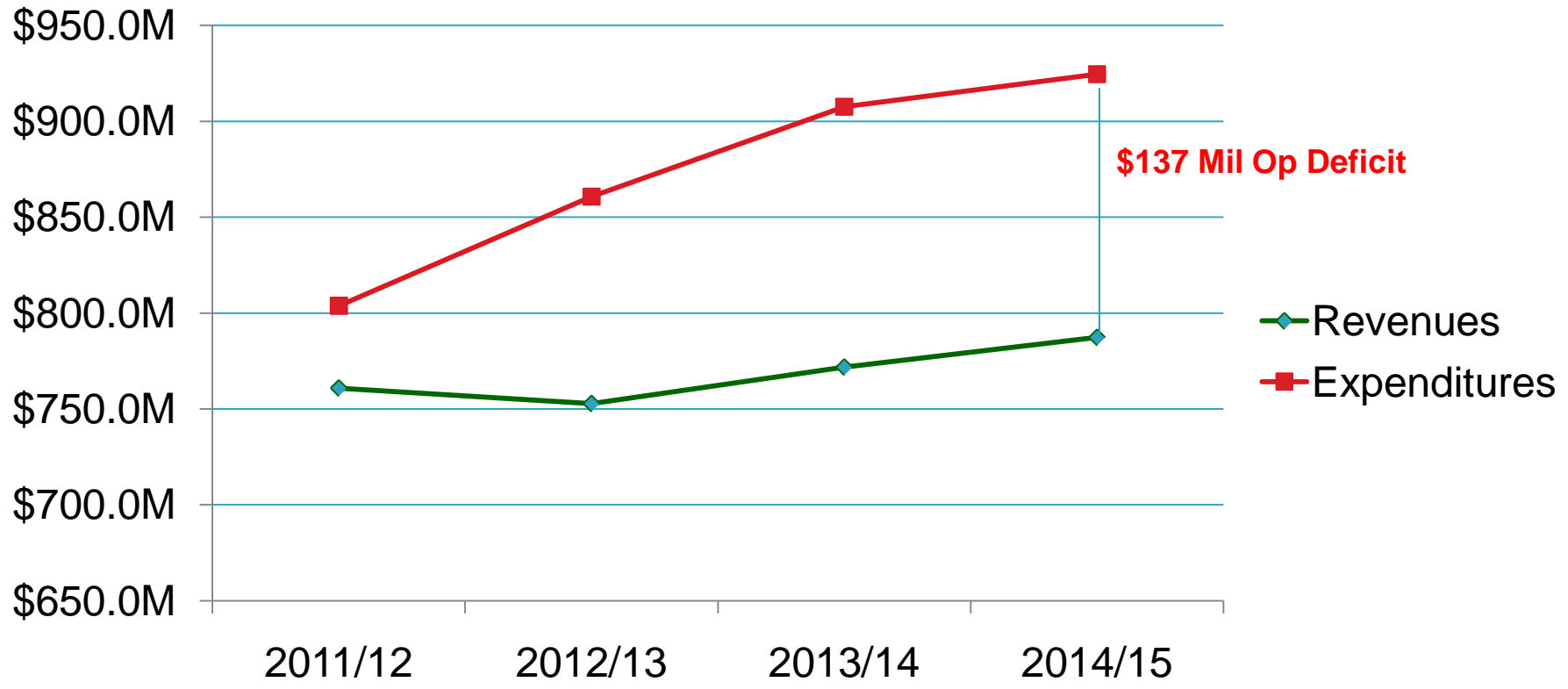
Multi Year Perspective is Critical

“Regarding the biggest threats and dangers facing your enterprise, *how much time before the risk profile changes?*”

- Jim Collins, author of Good to Great,
in his new book (2011) Great by Choice

General Fund Unrestricted 4-Year View*

Successful Tax Measure with No Budget Solutions implemented

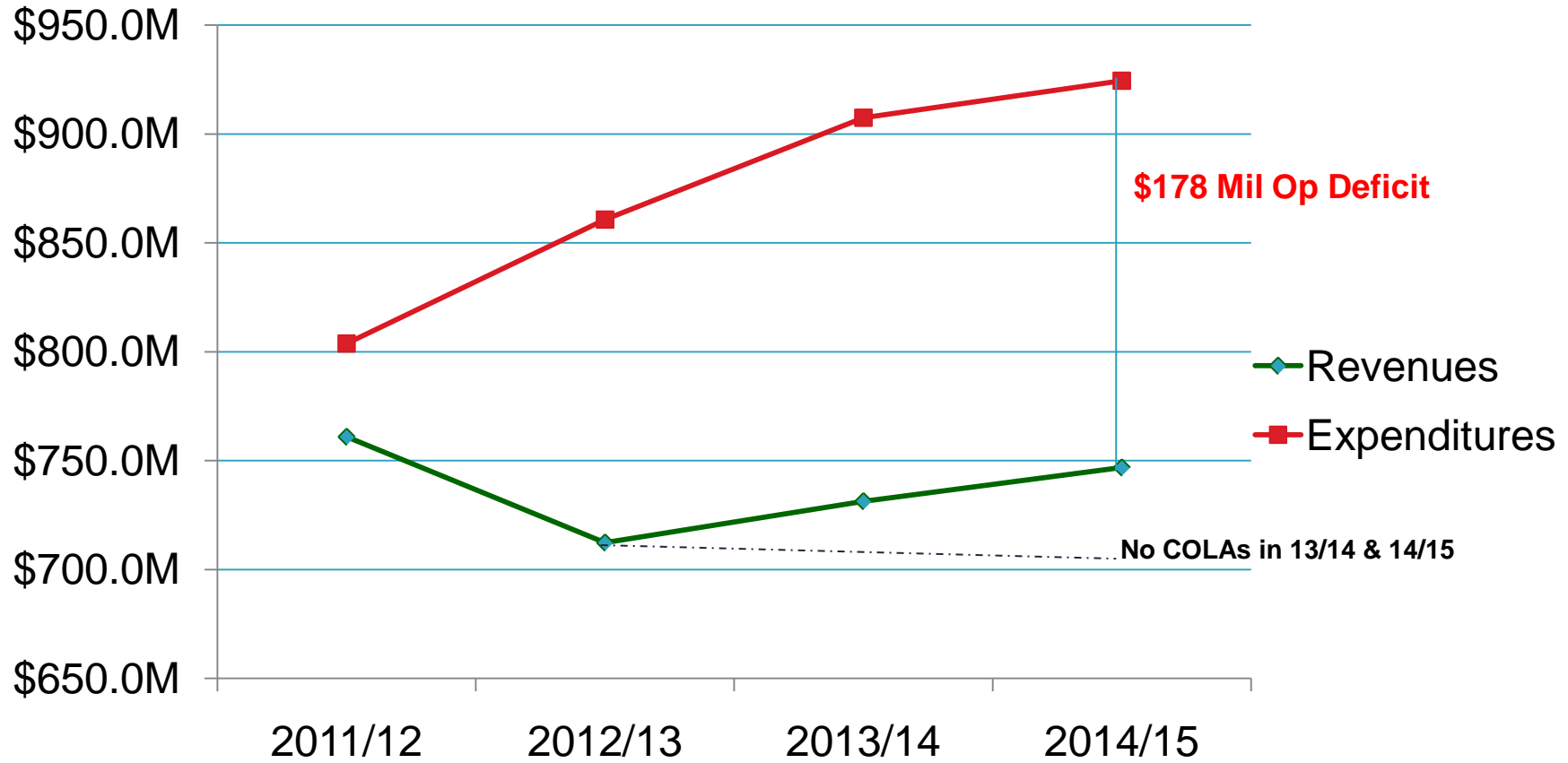


Inaction is Not an Option

* - Includes State COLAs in 2013/14 & 2014/15 (app. \$37.9 Mil)
* - Includes No Budget Solutions implemented

General Fund Unrestricted 4-Year View*

with Mid Year Reductions of \$370/ ADA & No Budget Solutions



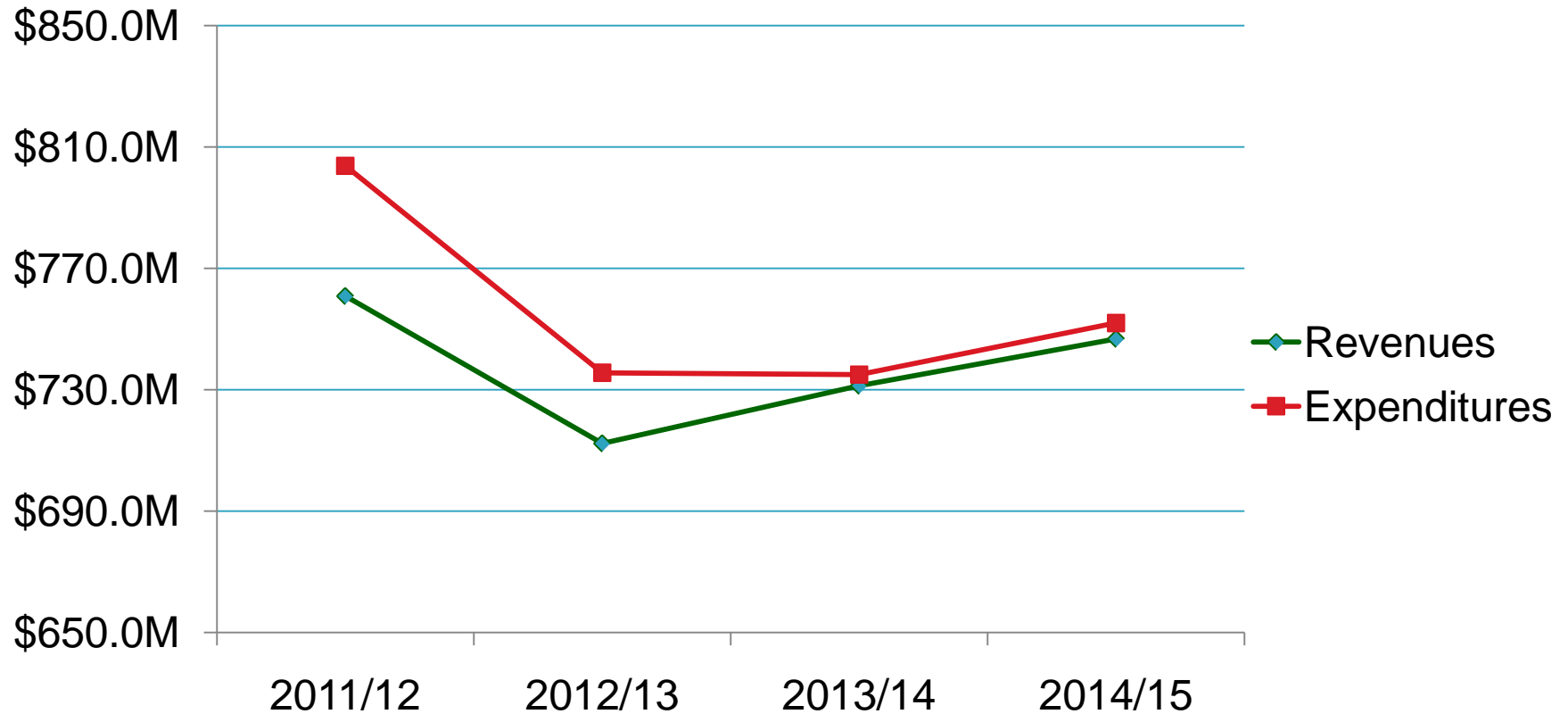
Inaction is Not an Option

* - Includes State COLAs in 2013/14 & 2014/15 (app. \$37.9 Mil)

* - Includes No Budget Solutions implemented

General Fund Unrestricted 4-Year View*

with Mid Year Reductions of \$370/ ADA & Implemented Budget Solutions of \$124 Mil in 2012/13 and \$73 Mil in 2013/14



* - Includes State COLAs in 2013/14 & 2014/15 (app. \$37.9 Mil)

STAFF RECOMMENDATIONS

District Staff Recommendation

1. Take the Long-View in Developing District Budgets

- **Assume significant ongoing/ multi year financial challenges imposed by the State & National Economies and by the District's own fiscal realities**
- **Assume No Employee Concessions Until We Receive Them**
- **Consider All District Funds (e.g.- significantly more of PPO/ RRM must move to General Fund in the next few years)**

Physical Plant Operations

2012/13 Estimated Operating Budget = \$37.4 Mil



2012/13	\$11.75 Mil	+	\$25.6 Mil	=	\$37.4 Mil
2013/14	\$11.75 Mil	+	\$25.6 Mil	=	\$37.4 Mil
2014/15	\$11.75 Mil	+	\$11.6 Mil	=	\$23.4 Mil

On-Going Budget **Shortfall** Effective 2014/15 : **\$14 Million**

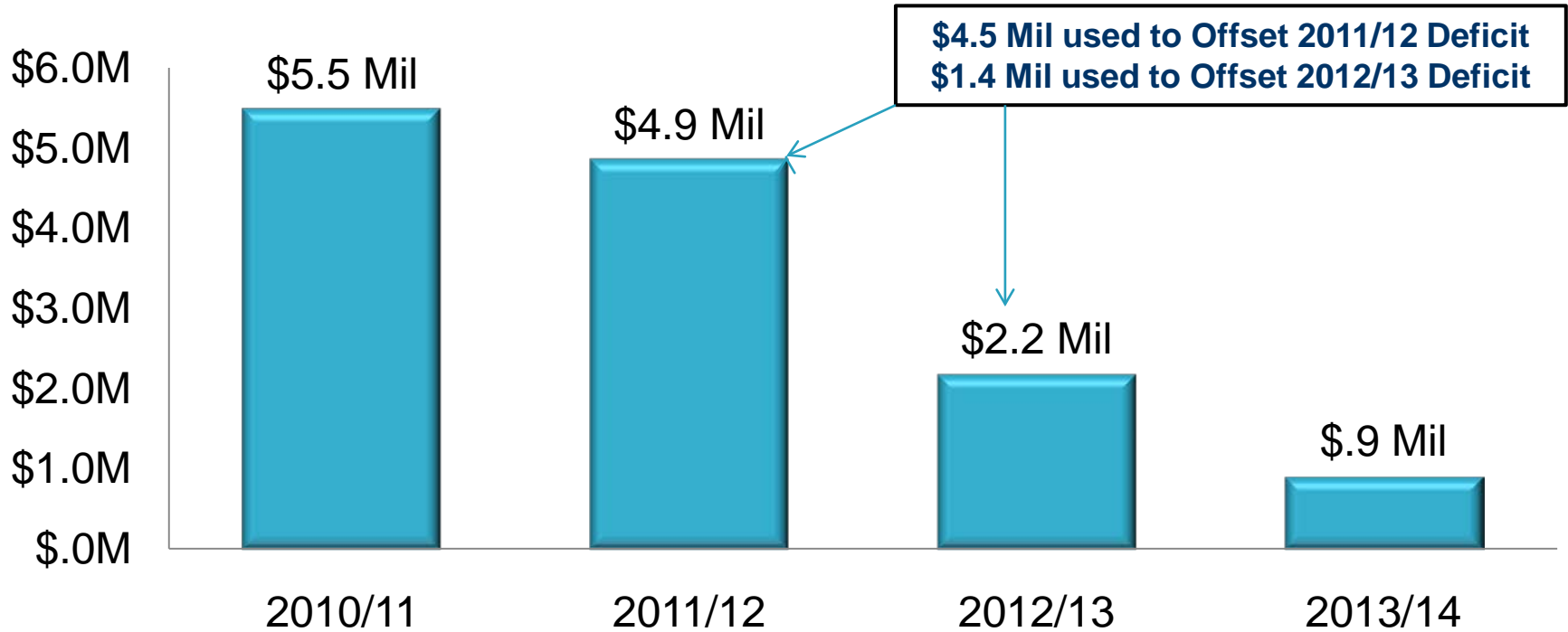
District Staff Recommendation

2. Generate the Maximum Amount of ongoing “savings” in the 2012/13 budget

- For every \$1 of the gap solved with one-time solutions \$2 will be required in 2013/14
- Once depleted, one-time funds are gone
- Depleting one-time funds diminishes our internal borrowing capacity and our “alternative liquidity” options

Fund 40 – Reserve for Capital Expenditures

4-Year View of Projected Ending Fund Balance



Fund 40 Balances Reflect One-Time Property Sales Proceeds in 2011/12 Estimated at \$6 Million

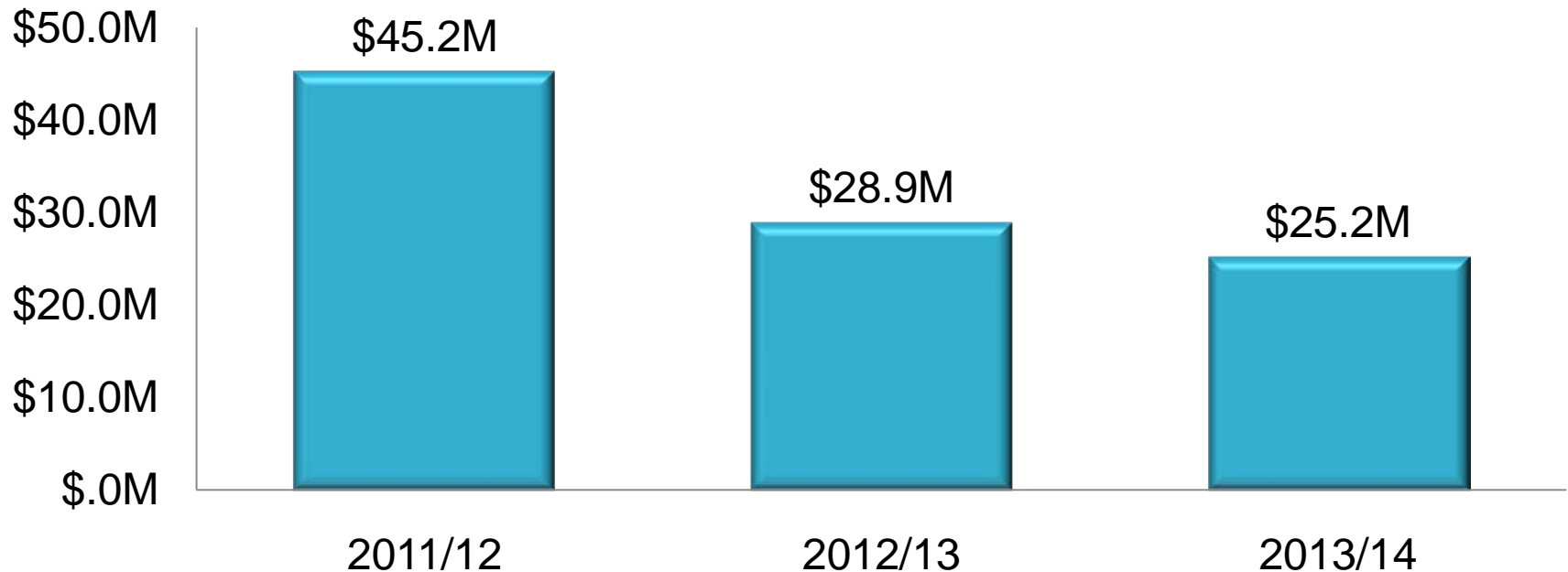
District Staff Recommendation

3. Shore up all Cash Reserves to the Extent Possible to Maximize Future Flexibility

- **Cash Flow Management Remains Critical**
- **TRANS/ Financial Markets / Credit Agencies**
- **Hiring Freeze in place Currently**
- **Set Asides for Risk Factors**
- **Best Practices**
 - “Prudent Reserves”
 - Comparables

Available General Fund Reserve Levels

with Budget Solutions Implemented in 2012/13 & 2013/14



% of Total General Fund Expenditures	2011/12	2012/13	2013/14
	4.5%	3.2%	2.9%

On average one month of District salaries & benefits costs approximately \$78 Million

X-Factor Recommendation

X Factor Allocation

- Utilize Recommended Budget Solutions List
- Centralized Counseling Allocation Model (non Title I funds)
- Enhanced Academic Support of Site Budget Development
- Implement X-Factor Model changes recommended by the Track #2 Team (Area Superintendents, Principals, HR and Finance members)
- Formula “normalized” to Equalize X Allocation
- Utilize General Fund 2011/12 Available Reserves
- ‘X’ is in the Range of **\$69 Million**
 - Includes \$8 Mil for Counselors + \$61 Mil of Discretionary X

Title I – Incentive Program

- \$2 Mil Reserved for Competitive Grant Program
 - 20 schools at 75+% FRPM
 - \$1 Mil from central office funds
 - \$1 Mil from 40 to 74% FRPM schools
- Competitive grant program requires
 - Establishing criteria and application process
 - Forming an application review committee
- Ranking Report provides Scenarios with & without \$2 Mil Grant Program
- Any Reduction in 2012/13 Title I Entitlement / Award will be offset by the \$2 Mil Reserve



REVISED 2012/13 BUDGET SOLUTIONS LIST

Budget Solutions

See Attached



BUDGET DEVELOPMENT TIMELINE

Budget Development Timeline

January 27	Budget Workbooks to Schools
February 3	Central Office Budget Reductions Due
February 6	Budget Workbooks Due From Schools
March 13	Second Interim Presentation to the Board
March 15	Deadline to Notice Certificated Employees
June 26	2012/13 Budget Adoption

Recommended Board Action

Accept Superintendent's Recommendation for 2012/13 Budget Preparation Process

- Use Budget Solutions to Develop School Site and Central Office Budget Workbooks
- Expand / Finalize Solutions List for Second Interim and Budget Submittal
- \$2 Mil Incentive Program – Title I

Questions?