

Budget Reduction Rationale For 2007-08 Budget



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Presentation Goal



Understand the Need for Continued Budget Cuts in 2007-08

- Identify What's Happening Today
- Identify the Key Items Related to the 2006-07 Budget



Point #1: 2006-07 State & District Budgets



School Services of California: *"There is no argument - this is a great budget for education."*

However:

- A large portion of the dollars we are to receive are restricted, and their use is designated by the State for specific uses
- SAUSD continues to lose enrollment which results in necessary budget cuts for the 2007-08 fiscal year!

2006-07 SAUSD Budget



 *The District's Budget includes:*

■ *Unrestricted Dollars from:*

■ *Cost Of Living Adjustment (5.92%) +\$17 million*

■ *Equalization** (\$75.27 per ADA) *+\$4 million*

■ *Elimination of Deficit Reduction* *+\$3 million*

(State made last payment)

■ ADA loss of **(1,852)**** **<\$10 million>**



*** Additional revenue funding aimed at reducing historical inequities in revenue limit funding between districts.**

**** Each year the projected loss for the following year will be updated to the actual of the current year.**

2006-07 Revenue Assumptions



✚ New categorical programs currently budgeted are:

■ Additional EIA Revenues =	\$5.4 million *
■ Arts & Music Block Grant =	\$.7 million *
■ CAHSEE – Supplemental Instruction =	\$.5 million
■ Supplemental School Counseling =	\$1.3 million *
■ Discretionary Block Grant / Site =	\$2.4 million *
■ Discretionary Block Grant / District =	\$.8 million *
■ Instructional & Library Material, and Educational Technology =	\$.7 million *

✚ Others will be budgeted as soon as the State provides detailed information on funding and application methodology.

✚ Federal Revenue Projected to be Flat

* Budgeted at 80% of District estimates pending State specifics on funding levels.

Point #2: We Continue To Lose Students



20 of the 27 Orange County school districts are experiencing declining enrollment (74%)

Reasons:

- Slowdown in birth rates
- It takes four minimum wage earners' income to rent a two bedroom apartment in Santa Ana
- High home prices in urban and suburban regions (i.e. affordability)
- Families are moving to more affordable areas



Every student lost = approx. \$5,500 in lost revenues.

CBEDS / Enrollment Change



Fiscal Year	CBEDS Change
2000-01	+1,794
2001-02	+951
2002-03	+185
2003-04	(1,138)
2004-05	(1,003)
2005-06	(2,293)*
2006-07 Budget	(1,950)
2006-07 Prelim*	(1,662)

**We have 288 students more than we anticipated!
We had projected losing 1,950.**

**1,662 students @ \$5,500 =
<\$9 million>**

* Includes one-time loss of 343 SAUSD students to OCEAA Charter School.

Reason for Additional Cuts

Example of ADA Revenue Loss



Income Loss

120 student decline at
\$5,500 each – yields
marginal revenue loss

Lost Revenue: **\$660,000**

Less Corresponding Teachers

Four teachers required for 120
students at 30:1

Four teachers times cost per
“average pay” teacher yields
savings of \$336,000 (\$84,000 each
teacher)

Misc. savings(\$400/ADA) \$48,000

Total proportional savings: **\$384,000**

\$660,000 minus **\$384,000** = **\$276,000** shortfall which needs to be
covered from somewhere else in budget.

Good News / Bad News



✚ **Good News:** Enrollment Loss is less than anticipated.

✚ **Bad News:** From a Multi-Year Projection (MYP) perspective, it doesn't help us much. For example, if we lose 300 students

(all \$s in 000s)	Year 1	Year 2	Year 3	Total
Incremental Revenue	\$0	\$1,650	\$1,650	\$3,300
Incremental Cost				
Teachers (Salary & Benefits)	\$970	\$970	\$970	\$2,910
Non-Salary	\$120	\$120	\$120	\$360
Total Incremental Cost	\$1,090	\$1,090	\$1,090	\$3,270
Excess/<Shortfall>	<\$1,090>	\$560	\$560	\$30

We receive \$3.3 million, but after expenses we basically break even.



Comparison of Teacher Salaries and Staffing Ratios

The following slides are provided courtesy of School Services of California (SSC) and utilized with their permission.

Staffing Ratios Have an Enormous Cost Influence (big 20 school districts)



<u>District</u>	<u>Students Per Employee</u>	<u>Percent State Average</u>
San Francisco	16.92	117.49%
San Diego	17.25	115.25%
Oakland	17.48	113.73%
Sacramento	17.89	111.12%
Stockton	18.09	109.89%
Fresno	18.72	106.20%
Long Beach	19.19	103.60%
Mt. Diablo	19.29	103.06%
Big 20 District Average	19.43	102.32%
Los Angeles	19.47	102.11%
Clovis	19.85	100.15%
All Unified	19.88	100.00%
Elk Grove	19.95	99.65%
Corona Norco	20.00	99.40%
San Bernardino	20.15	98.66%
San Juan	20.29	97.98%
Fontana	20.71	95.99%
Riverside	21.60	92.04%
Montebello	22.10	89.95%
Garden Grove	22.17	89.67%
Capistrano	22.22	89.47%
Santa Ana	22.48	88.43%

Services and staffing ratios can make or break a district

Source: Compiled by School Services of California, Inc. using CBEDS, October 2004 data

Staffing Ratios Have an Enormous Salary Influence (big 20 school districts)



- ✚ The districts with the highest teacher-to-pupil ratios have the highest salaries

District	Pupil to Teacher Ratio	Salary Rank BA + 60	Salary Rank Maximum
Riverside	16	8	6
Montebello	17	11	5
Garden Grove	18	2	4
Capistrano	19	9	1
Santa Ana	20	4	7

Of the big 20 school districts, SAUSD ranks 20th in pupil-to-teacher ratio, 4th in BA+60 Salary, & 7th in Maximum Salary. Salaries do not reflect the salary restoration that occurred on 7/1/2006.

Point #4: Salary Restoration



- ✚ SAUSD Restored Salaries Effective July 1, 2006
 - Certificated & Management: 11.19%
 - Classified: 7.82% (*Salary Schedule Adj. = 6.74%*)
 - **\$29 million impact**

- ✚ Tentative Final Salary Agreement for 2005-06
 - Certificated & Management: Increase to 13.44%
 - Classified: Increase to 10.01% (*Salary Schedule Adj. = 8.90%*)
 - **Additional \$7 million impact**

Major Cost Increases

Point #5: New Schools



- ✚ Two New Schools Opened (Segerstrom & Esqueda)
- ✚ One New School Opening This Year (Lorin Griset)
- ✚ Plans to Open Two Additional Schools in 2007-08
(Godinez & Heroes)
- ✚ Schools Sorely Needed but Incremental Costs are High
 - Comprehensive High School - \$5 million
 - Elementary - \$1 million

Major Cost Increases

Point #6: Escalating Benefit Costs



+ Health & Welfare Cost

- If uncurbed expected to continue to grow at double digit rates

- Per Mercer, costs increased by \$9.6 million this year!

+ GASB 45 Amortization of Accrued Retiree Benefits

Major Cost Increases

Escalating Benefit Costs



Historical Blue Cross PPO Cost (per Mercer)

Tier	2004/2005	2005/2006	2006/2007
Employee	\$4,273	\$4,914	\$6,079
2 Party	\$8,927	\$10,265	\$12,698
Employee + Children	\$12,818	\$14,741	\$18,235
Family	\$12,811	\$14,732	\$18,224

Costs increased from \$25.6 million in 2005/2006 to \$31.7 million in 2006/07. An increase of **\$6.1 million.**

Point #7: District Budget Reductions



What we have done and still need to do!

+ 2004-05 cut, \$29 million

+ 2005-06 cut, \$14 million

+ 2006-07 cut, \$15 million

+ 2007-08 projected cuts, \$22 million

* Note: The above figures includes reduction for teachers commensurate w/ enrollment decline.

2006-07 BRC Reductions = <\$7.8 Million>

Reductions to Date = <\$6.7 Million>



No.	Orig. Savings	Revised Savings		Proposal
1	\$3,900,000	\$3,900,000	●	Defer Godinez High School Opening
2	\$1,000,000	\$1,000,000	●	Common Traditional Calendar
3	\$850,000	\$180,000	●	Reduce School Site Allocations per Historical Carryover %
4	\$356,000	\$356,000	●	Reallocate Instructional Material Funds
5	\$100,000	\$100,000	●	Adjust Teen Parent Program Teacher Allocation
6	\$200,000	\$200,000	●	BCLAD Stipend
7	\$200,000	\$200,000	●	Portable Savings
8	\$120,000	\$120,000	●	Reassign Word Processing Dept. Responsibilities
9	\$113,000	\$113,000	●	Offer In-House Occupational & Physical Therapy Services
10	\$100,000	\$100,000	●	Reduce Teacher Substitute Pay Budget
11	\$95,000	\$95,000	●	-5% Department Budget Reduction
12	\$80,000	\$80,000	●	Eliminate Unrestricted Funding of Academic Pentathlon Prg
13	\$70,000	\$70,000	●	Eliminate Unrestricted Funding of ESL Programs
14	\$80,000	\$40,000	●	Relocate Community Day School
15	\$225,000	\$112,500	●	Elimination of Select Vacant Positions

● = On target ● = Variance within \$250,000 ● = Variance above \$250,000

AB1200 & the Multi-Year Projection



- ✚ The State of California (via AB1200) mandates that districts the size of Santa Ana Unified maintain a 2% minimum reserve for economic uncertainties.
- ✚ To ensure AB1200 compliance, the District utilizes the Multi-Year Projection (MYP) which covers the current year and 2 future years (i.e. 2006-07 through 2008-09).

Important Reminders



- ✚ MYP is Revenue Generous. Revenues include adjustments for COLA, Equalization, and No Deficit Reduction for current & 2 future years.
- ✚ MYP does not include:
 - CTA Lawsuit Settlement for 2007-08 & future years.
 - Any salary increase for 2006-07 & beyond as negotiations are still in process. (Salary & benefit expenditures reflect only previously negotiated salary increases including the tentative agreements for Certificated & Classified for 2005-06.)
 - Amortization of Accrued Retiree Benefits (GASB-45)

Projected Reserve at Dual Adoption

Combined Restricted/Unrestricted



The State mandates a 2% minimum reserve for SAUSD.

	2006-07	2007-08	2008-09
Reserve Prior to Reduction	6.7%	3.6%	-0.6%
Budget Reduction Amount (excludes teacher reductions due to declining enrollment)	\$7.8 million	\$11.25 million	\$9.25 million
Shortfall after Reduction	(\$5.3 million)	(\$11.1 million)	(\$11.7 million)
Reserve After Budget Reduction	6.7% *	6.0% *	5.7% *

*** Salary increases for these years have not yet been negotiated and are thus not included. However, all revenues associated with COLAs for these years are included.**

Projected Reserve after Revisions*

Combined Restricted/Unrestricted



The State mandates a 2% minimum reserve for SAUSD.

	2006-07	2007-08	2008-09
Reserve Prior to Reduction	6.7%	1.8%	-3.0%
Budget Reduction Amount (excludes teacher reductions due to declining enrollment)	\$7.8 million	\$16.0 million	\$12.0 million
Shortfall after Reduction	(\$12.6 million)	(\$10.4 million)	(\$9.0 million)
Reserve After Budget Reduction	6.0% **	5.1% **	5.6% **

* Revisions for: (1) Tentative 2005-06 Certificated & Classified Settlements
(2) Preliminary 2006-07 CBEDS

** Salary increases for these years not yet negotiated and are thus not included.
However, all revenues associated with COLAs for these years are included.

Our Dilemma & Concern



- ✚ Cuts are significantly greater than in the prior 2 years.
- ✚ We previously kept the cuts "*as far away from the classroom as possible.*"
 - The easy cuts have been made.
 - The more difficult cuts remain (81.4% of our budget is staff related).
- ✚ The Orange County Department of Education continues to closely monitor the District's financial health.
 - If we fail to make the required cuts, the District is at risk of receiving a qualified or negative opinion, thus restricting our financial autonomy.

Budgetary Reductions



To achieve our budgetary reduction goals, the District will reconvene the Budget Reallocation Committee (BRC) on November 16th.



BRC Committee Process



✚ The BRC will be:

- Comprised of approx. 59 members

- Site Admin. (11), Parent / Parent Group Reps (10), Community Reps. (2), Association Reps. (4), Dept. Heads (25), Fiscal Rep. (1), & Cabinet/PIO (6) {non-voting}.

- Identifying & recommending potential reductions that allow the District to meet the State's 2% reserve requirement

- Directed to keep the cuts as far away from the classroom as possible.



BRC Committee Process (cont'd)



- ✚ BRC will use an open & inclusive process
- ✚ Committee members (w/ budgetary responsibilities) will bring forward suggestions to reduce their own budgets while maintaining district's goal of educating students.
- ✚ Anyone desiring to offer suggestions can submit them on budget reduction suggestion forms. (Available on the District's website and at school sites)
- ✚ Per prior BRC Committees, we anticipate spending in excess of **800 person hours** identifying, evaluating & deliberating.

BRC Committee Process (cont'd)



- ✚ BRC will recommend budget cuts to Interim Superintendent/Cabinet
- ✚ Recommended cuts will be reviewed & approved by Interim Superintendent/Cabinet
- ✚ Interim Superintendent/Cabinet recommended cuts will be submitted for Board approval
- ✚ In January, the Board will receive an update list of recommended cuts to date
- ✚ A finalized budget reduction recommendation list will be submitted for Board approval in February 2007.

