The following is a list of questions and answers based on feedback from the recent Superintendent’s Cabinet Forums at District high schools…

Q: What is the District’s current financial situation?

A: As of the 2012-13 Second Interim Report (presented to the Board on 3/19/2013), revenue is projected to be $235.3 million and expenditures are projected at $243.5 million resulting in deficit spending of $8.2 million. After adjusting for one-time expenditures planned for the current year, assuming future funded COLA’s (Cost of Living Adjustments), continuing district enrollment growth and assuming all state programmatic flexibility continues, the budget projections for 2013-14 and 2014-15 include deficit spending of $2.4 million and $519,000 respectively.

After last year’s books were closed and audited, the district spent $3.2 million more than it received and the total general fund reserve was 12.3%. Since deficit spending is currently expected to continue as mentioned above, the general fund reserves for the current (2012-13) and two subsequent years are estimated to decline to 10.9%, 10.3% and 9.8% respectively.

Q: What is a “structural deficit” and is SRVUSD operating from a “structural deficit?”

A: Yes. Due to the recent recession, the district has received either reductions or no increase in per-pupil state revenue each year beginning in 2008-09. This has resulted in a cumulative loss of $166 million in unrestricted revenue relative to the amount we were entitled to under current law. During the worst of these years, the federal government provided one-time funds (Federal Stimulus Funds) to help districts avoid making even deeper cuts to balance their budgets. The last significant payment of these federal one-time funds was received in 2010-11 (a very small final payment was received in 2011-12). In 2011-12 the district spent $3.2 million more than it received and after adjustments for one-time expenses this year, we anticipate a true structural deficit of between $2 million and $3 million.

Each year we experience increases in employment-related expenses associated with step and column, health and welfare premiums, as well as increased costs related to utilities, services, books and other supplies. Our revenues have not increased as noted above to offset these increased costs, further deepening our structural deficit. With the anticipation of increased per-student revenue in future years predicated on the improving California economy and assuming continuing district growth, we project this deficit to continue but decrease in future years. Any increase in ongoing expenditures that are not currently a part of the District’s budget (on-going compensation increases or other unanticipated costs) will increase the structural deficit.
Q: What impact did the passage of Proposition 30 have on our budget this year and in the future?

A: Proposition 30 was passed by California voters in November, 2012. This temporary tax measure increased sales tax by ¼ cent for 4 years and increased income tax on incomes in excess of $250,000 for 7 years. Proposition 30 did not result in new revenue, but did allow our district to avoid an additional $13.2 million ongoing cut in unrestricted state revenue. When SRVUSD adopted the 2012-13 budget, reserves were set aside in case Prop 30 failed but this set-aside would only have addressed the revenue reduction in 2012-13. If Prop 30 had failed, deep, ongoing budget cuts in the range of $13 million would have been necessary to balance the district budget moving forward. In short, Prop 30 did not improve our financial situation, it kept it from getting much worse.

Q: How much does the cost to operate the district change from one year to the next?

A: The district’s expenses increase each year. One of the largest automatic increases each year is the cost to fund changes in employee placement on the various salary schedules (known as step and column costs). The net cost of step and column each year is calculated by adding the compensation increases that occur as employees progress on the salary schedule and subtracting from that amount any savings the District achieves when more senior employees that leave the district are replaced by new, less senior personnel. The net cost of step and column is approximately $1.5 million. Other significant changes include inflationary increases in employee health and welfare benefits of approximately $1 million each year and the increasing cost of goods and services purchased by the district. The district must fund these increased costs even in years when there is no increase (or in bad years, a decrease) in district revenue.

Because the 2012-13 state budget and the SRVUSD budget assumed Prop 30 would pass, Prop 30 did not add any unanticipated new revenue to the district budget. Prop 30 revenues will be reduced in 4 years and eliminated in 7 years, but this temporary tax measure did effectively “stop the bleeding” in public education in California and will hopefully allow the state time to fully recover from the recession before tapering off and then fully expiring in 2019.

Q: How much revenue does our District’s Parcel Tax raise, and when is it set to expire?

A: The District’s current parcel tax (Measure C) generates approximately $6.8 million dollars each year and expires in 2016. Measure C intentionally does not protect specific programs as the Board wisely anticipated that the funds would be needed simply to offset some of the loss of state funding. Absent an extension or new and on-going revenue sources of this magnitude, the expiration of the parcel tax will result in a reduction in funding of $6.8 million annually.

Q: What is the governor’s proposed Local Control Funding Formula (LCFF) and what impact will it have on SRVUSD’s budget? Short term? Long term?
A: The LCFF sets the 2007-08 statewide average district funding level as a target and then adds some additional funding for K-3 and 9-12 grade levels. There is a 35% increase for English learner, free and reduced lunch eligible and foster students (non-duplicated count). If a district has more than 50% of its students in these categories, each student over the 50% mark receives an additional 35% (on top of the original 35%). SRVUSD’s estimated unduplicated count of English learner, free and reduced lunch and foster students is only about 5%. Aside from significant concerns with using the 2007-08 funding level as the target, the LCFF in its current form does not recognize and fund growing districts properly and has very stringent requirements and financial penalties regarding K-3 class size reduction progress. If the LCFF is adopted in its current form, our district will receive less from the state in the future than we stand to receive under the current K-12 school funding formulas (which include revenue limit and categorical program funding). In its current form, we have very significant concerns about LCFF and the impact on our district’s financial future.

Q: How much does the District pay for employee health benefits?

A: The District currently contributes 100% of employees’ health and welfare benefit premium costs based on Kaiser plan rates. Employees who select the other available healthcare plans pay the additional cost beyond the Kaiser cost. Employees who are covered by other insurance (their spouse’s plan for example) may elect the cash-in-lieu option. The chart below shows the health and welfare rates pertaining to SRVEA members. The chart reflects the District’s contribution for individual employees based on three different places on the Salary Schedule.
Q: How much has the cost of benefits increased, and what are the projected increases in the coming years?

A: In recent years, the total cost of benefits has increased approximately 7% annually and our budget projections assume this rate of increase will continue for the foreseeable future.

Q: What is SRVEA’s (San Ramon Valley Education Association) most recent proposal for the 2012-13 year?

A: SRVEA has proposed a 2.0% on-going increase to the salary schedule and a 2.0% one-time payment with the district continuing to pay 100% of employee health benefits.

Q: What is the projected impact of the current SRVEA proposal on the district’s finances?

A: If the SRVEA proposal were implemented for all district employees, a one-time payment of $3.2 million would be disbursed and an additional $3.2 million in on-going expenditures would be added to the District’s budget. Due to the District’s current structural deficit, combined with the deficit spending projected for the next two years, the District projects a general fund reserve level of approximately 4% by 2014-15 and on-going deficit spending of approximately $4 million per year. Further, this June when the district adopts the 2013-14 budget and the required multi-year projection (for the next
two years), the district could be assigned a “qualified” budget status if it is unable to maintain the required state reserves in the 2015-16 timeframe. If the district budget becomes “qualified”, the County Office of Education will become progressively more involved in financial decisions impacting the district budget. The County Office would likely require and oversee the development and implementation of a list of planned budget cuts necessary to rectify the district’s unsustainable deficit spending. Another consequence of letting reserves drop this low is that the District’s excellent bond rating could be downgraded, negatively impacting the interest rates for the issuance of Measure D bonds and increasing the debt burden on the district’s property taxpayers.

Q: Is the District proposing to eliminate district paid employee health benefits?
A: No.

Q: Is the District proposing to place a “cap” on employee health benefits?
A: No. The District’s current proposal on Salary and Benefits includes a commitment to cover 95% of the cost for Kaiser coverage. The District would continue to pay 100% of the cost for dental, vision, life insurance and the employee assistance program.

Q: If employees were to contribute 5% of the cost of health benefits, how much would it cost the employee?
A: Assuming Kaiser rates increase by 7% next year, an employee electing the Kaiser Single plan, would contribute approximately $29/month beginning January 2014. Employees electing the Kaiser Employee+1 plan would contribute approximately $57/month, and employees electing the Kaiser Family plan would contribute about $81/month.

Q: The district has paid for the annual increases in health benefits costs each year during the recent financial crisis that began in 2008-09, so why is the district now proposing that employees begin to share in the cost of health benefits?
A: The district received no increase in funding from the State again this year, the district is spending more than it will receive in revenue for the current year and deficit spending is forecasted for the next two years as well. No additional one-time funds are expected from the federal government and the district’s future revenue stream is uncertain, especially with the possible implementation of the Governor’s proposed Local Control Funding Formula. Therefore, the district believes that for both long-term fiscal solvency and future salary competitiveness it is critical for employees to share in the cost of health and welfare benefits, even in a small way.

Q: Is the District proposing a salary increase?
A: The District’s proposal on Salary and Benefits includes a one-time payment of 4.25% based on the employee’s annual base salary.
Q: What is the general effect on the District’s budget of a “one-time” payment vs. “on-going” salary increase?

A: A one-time payment is not reflected on the Salary Schedule and depending on the amount, may be a payment the District can absorb through its one-time reserves. An on-going salary increase results in an increase to all salaries on the District’s Salary Schedules and impacts the District’s general fund budget every year. Since the district projects to continue deficit spending for the foreseeable future, an ongoing salary increase would make this situation worse.