

SHUSD Board of Trustees
Background and Fact Sheet Regarding Issues Affecting Ongoing Budget Decisions
And Fiscal Goals

April 15, 2011

A) Long Term Issues

On December 3, 2001, the California Fiscal Crisis Management Team (FCMAT) completed a management assistance review which had been requested by SHUSD. FCMAT is a state-funded organization created under AB1200 in 1992 to provide school districts with advice in complying with fiscal accountability standards. At the time this review was requested, the District's reserves were projected to be below the minimums required in the following two years. In addition, the District's expenditures were exceeding revenues and projected to do so in the following two years, and the county office of education had determined that available reserves might not be adequate to offset this condition. A school board election had taken place on November 6 in which six of the seven board seats were in contention and there were 16 candidates vying for those seats, including four incumbents. Three of the incumbent trustees who were in place at the time the FCMAT report was completed (Dennis O'Sullivan, Susan Thompson, and Jim Baker) are still seated on the Board.

Among FCMAT's recommendations were the following:

1) District Reorganization

Because the District had been experiencing significant declining enrollment, it was recommended that the District should consider closing or consolidating existing school sites as warranted by ongoing evaluations of demographic and economic trends at each site. At the time of the FCMAT review, the total District enrollment was about 1240 students. It had declined from a high of about 1650 in 1995. The present enrollment is about 775, less than half of what it was fifteen years ago. In the prior year a partial reorganization had taken place to consolidate administrative costs by closing the junior high school and redistributing those students to an 8-12 high school and their respective elementary school sites. Since that time, the Board has not closed any of the outlying elementary sites and is in the process of designing a new junior high school facility on the South Fork High School campus with funds from a bond approved by voters in June, 2010. This facility is being designed to maximize the efficiency and effectiveness of administrative staff and large enough to accommodate increased enrollment due to possible demographic changes or consolidation of other sites.

No determination has yet been made by the Board for closing outlying sites in the immediate future. All of these sites have very active and dedicated parent groups who contribute considerable amounts of money and time to help offset decreases in state funding due to the present economic crisis. The Board is presently gathering data to evaluate the future fiscal and educational viability of each site before bond money is spent for capital improvements at these sites. The District will continue to closely monitor the situation as economic and demographic conditions evolve.

2) Parcel Tax Elections

FCMAT recommended consideration of putting a parcel tax on the ballot to augment general fund revenues and partially offset the continuing decrease in those revenues caused by declining enrollment. The necessary plurality to pass such a measure is a 2/3 (66.67%) approval by voters. Four parcel tax measures have been put before the voters over the past 20 years, all of which failed to attain the necessary plurality. One of them was placed on the ballot in 1997 and obtained a 55.5% yes vote. Another placed before the voters since the FCMAT report was issued obtained an even higher percentage, but still not high enough to pass. In light of the continuing deterioration of District facilities and a preliminary voter survey which indicated continued voter support over the 55% threshold level necessary to pass a bond measure, the Board elected to put such a measure on the ballot in June of 2010 instead of another parcel tax which would still have had a high probability of failing at the ballot box. As predicted, the bond measure passed with a comfortable margin of 64%, but still not above the

66.67% threshold which would have been required to pass a parcel tax. The bond revenues can be used for capital improvements and facility upgrades, but unfortunately cannot be used for staff compensation which would help keep class sizes reasonably low and a variety of elective classes available at South Fork High School.

3) Attendance

FCMAT recommended that strategies be developed to increase average daily attendance (ADA) from the 91% average of total enrollment measured in 2001. Such strategies have been implemented since then and attendance is regularly monitored by the District. There has been some improvement but there is room for more, and there should be continued emphasis by everyone in the District to increase ADA revenue by increasing attendance rates.

4) Cafeteria

The unaudited contribution from the general fund to the cafeteria fund in 2000-01 was \$103,406. FCMAT recommended changes to the cafeteria program to decrease this encroachment. Changes have been made in the interim, and the projected encroachment on the general fund has been reduced to \$43,560 as reported in the District's 2010-11 Second Interim Budget report. There should be further emphasis on reducing this encroachment, but it now compares more favorably with the cafeteria encroachments which are commonly experienced in other districts.

5) Retiree and Active Employee Insurance Benefits

FCMAT recommended that the District "explore the implementation of premium caps, higher deductibles or increased co-pays to generate cost savings with an effort to maintain the same level of benefits in an effort to contain future costs". Collective bargaining negotiations since that time have resulted in agreements with both the certificated and classified staff to accept medical plans with higher deductibles and increased co-pays. Our classified union (CSEA) has accepted a cap on the amount of health insurance premium increases which was previously borne entirely by the District. To date, our certificated union (SHTA) has not. According to data obtained by the District, the vast majority of the 34 districts in the North Coast Schools Medical Insurance Group JPA, of which we are a part, have caps in place for certificated insurance premiums. Of those with caps, at least five have no teacher contributions toward premiums at the present time.

At the time of the FCMAT review, qualifying retirees received the same benefits for medical, vision and dental insurance as active employees, including coverage of dependents and spouses, and was fully paid by the District for ten years after retirement or until the retiree reached the age of 70. According to the FCMAT report, in 2001-02 there were 25 retirees receiving these benefits. The annual amount paid out of the general fund for these benefits amounted to \$250,729 or about 2.4% of the total District budget of \$10,386,656 for that year. According to the latest (2010) audit of the District's finances, there were 42 qualified retirees, accounting for an annual contribution from the general fund of \$478,342, or 5.6% of the total budget in that year of \$8,604,830. Despite a collective bargaining agreement with SHTA in 1998 that removed dependents and spouses from post retiree insurance benefits and lowered the age at which the premiums would cease to be paid by the District from 70 to the age of Medicare eligibility for employees hired after that date, the percentage of the general fund allocated for post retiree insurance premiums has more than doubled in the 10 years since the FCMAT report. Another way to measure the rise in the proportion of the budget which is allocated to employee benefits is to compare that amount to the total of certificated and classified salaries. In 2001-02, that percentage was 33%. By 2010, it had increased to 52%.

In addition, the percentage of the total budget allocated for all employee benefits has increased from about 19.6% in 2001-02, (FCMAT report) to 28.1% in 2010 (District 2010 audit). Over the same time period, total certificated salaries have decreased from 38.7% of the budget in 2001-02 to 33.5% in 2010, and total classified salaries have decreased slightly from 21.0% in 01-02 to 20.2% in 2010. The total of classified and certificated salaries plus employee benefits, which together make up the total employee compensation for the District, increased from 79.3% of the budget in 01-02 to 81.8% in 2010.

The preceding statistics support the reasoning behind the FCMAT recommendation ten years ago to “explore the implementation of premium caps”. Without a negotiable cap, the District is obligated to pay the entire annual increase in insurance premiums, no matter how much it might happen to be in any particular year. CSEA and SHTA have both mitigated some of this increase by agreeing to transfer to insurance plans with higher deductibles and co-pays, but as long as there is no possibility of a shared sacrifice between certificated employees and the District to pay rapidly rising health insurance premiums, the percentage of the budget allocated to employee benefits will continue to rise in inverse proportion to the percentage of the budget which is available for teacher salaries. This will inevitably result in higher student/teacher ratios, higher class sizes and/or fewer class offerings at the secondary level.

A suggestion was made in writing by one district employee, representing many others, to explore the possibility of leaving the North Coast Schools JPA to join a larger health insurance group such as CalPers. A copy of an article in CTA’s “California Educator” magazine dated December, 2010, citing another school district which did just that to decrease its premium costs, was attached to the letter. Unfortunately, after a comparison of our JPA’s benefits package and premium rates with those of CalPers and the school district cited in the article, this does not appear to be a beneficial course of action for us. The District presently pays annual premiums of \$389 for vision, \$1172 for dental, and \$11,441 for Health insurance through our JPA for each full time employee. Our health insurance is the “Oak” plan, which covers the employee and all dependents. There is a \$250 annual deductible for each person covered, with a \$750 family maximum. In addition, there is a \$15 co-pay for doctor visits and a 10% co-pay for most other medical services furnished by network providers.

According to its website, CalPers offers three levels of PPO insurance programs. PERSCare is the most similar to the Oak plan provided by our JPA. Co-pays for in-plan providers are 10%, although the annual deductibles are higher than the Oak plan at \$500 per plan member and \$1000 per family. The annual rates for the plan vary between \$10,195 for the employee only to \$26,508 for employee and two or more dependents (232% of our premium for the same coverage). Employers’ annual contribution toward premiums for retired State PERS members are capped at \$15,912 for each employee with two or more dependents, according to the PERS website. The school district cited in the CTA article (Montebello Unified) also has a cap. The Montebello Unified district website indicates that full time teachers with family coverage presently contribute \$16,056 annually toward their insurance premiums for PERSCare coverage. Incidentally, according to their 2010-11 Second Interim Budget report, the percentage of the amount allocated to employee benefits compared to the total amount of the certificated and classified salaries is 34%, which is approximately the same as ours was at the time of the FCMAT report and which has since risen to 52% as noted above.

The California Education Coalition For Health Care Reform and CTA’s Health Benefits Advisory Coordinating Committee referenced in the “California Educator” article appear to be good sources of advice about keeping health insurance premiums to a minimum and maximizing health care quality. Until the District receives hard data to the contrary, it appears that our JPA is doing a good job on both counts right now. As the CECHCR website suggests, a collaborative effort between district management and employee labor groups is imperative if we are going to successfully manage the effects of the increasing costs of healthcare on our fiscal situation.

B) Short Term Challenges

The five recommendations listed above were suggested by FCMAT in 2001 for the purpose of dealing with long term, chronic fiscal issues in the District. During the intervening ten years they have all been addressed to some extent except for the sharing of insurance rate increases between District and certificated employees through the implementation of a cap. Unfortunately, the District also has significant short term fiscal challenges due to the severe economic downturn at the state and national level.

The District Second Interim Budget report for 2010-11 was presented to the Board on March 10, 2011. It was certified by the Board as being positive, meaning that the District will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years. This was only possible, however, by adopting a resolution reducing certificated staff (mainly teachers) by 10.15 F.T.E. (full-time equivalent) positions for the

2011-2012 school year. The resolution to send out layoff notices prior to March 15 is required by law. Budget calculations from which the number of layoffs (if any) are estimated in order to maintain a balanced budget in the following school year is based upon the State budget presented by the Governor in January. The Governor and state legislators are supposed to negotiate the final State budget between that time and July 1, when it is announced. In recent years, the State budget has not been finalized until well past that date, but usually includes a greater amount of funding for education than the Governor's budget stated. When that is the case, some of the layoff notices given out by the District could be rescinded by the School Board.

This year is likely to be quite different. Governor Brown has elected not to follow the lead of the previous administration by "kicking the can down the road" through the use of "creative accounting methods", deferral of State expenses and debt, and other temporary measures to avoid the real pain necessary to deal with a \$25 billion projected deficit. The Governor had suggested dealing with half of the deficit by reducing spending and the other half by putting a measure on the June ballot asking voters to extend temporary taxes which are due to expire next year. The initial spending cuts had been agreed upon as of March 29. State law requires a 2/3 vote of the legislature to allow the tax extension measure to be placed before the voters. This could not be done without the approval of at least two Republican legislators in each house. On March 29 Governor Brown announced that he was unable to find four Republicans that would allow the measure to be placed on the ballot to let voters decide the issue. That will mean that the entire deficit will have to be dealt with by spending cuts only, and much of those cuts will be to education.

It also means that, unlike normal times, this year's final budget will probably be as bad as, or worse than the Governor's proposed January budget upon which the District's present budget is based. Even based on the best case scenario of the budget that the Governor put forward in January, our district is projected to have over \$750,000 less revenue next year than we had this year. The dollar amount of our base revenue limit reduction for next year is \$248,314. This includes a \$330 reduction per ADA, an increased deficit factor, and our district's net loss of Necessary Small School revenue limit funding. We also need to factor in the reduction of the \$130,141 of "one time" ARRA money which we were able to utilize this year to defer some layoffs, and the deficit spending amount of \$382,375 for next year. The total comes to \$760,830. Celeste Boyd, the District's business manager, provided these numbers from 2nd Interim Revenue Limit calculations (prepared by the Humboldt County Office of Education) and the District's 2nd Interim report.

This decrease in revenues will translate directly into fewer employees, since over 80% of our total budget is allocated to personnel costs. We have to begin balancing ongoing revenues and expenditures without deficit spending in order to maintain our positive budget status. It is beginning to look very likely that the majority of the layoff notices sent out in March will not be rescinded when the final State budget comes out after July 1. This would mean larger class sizes at the elementary level and fewer elective offerings at the secondary level.

Some other districts in the state have negotiated temporary measures such as shorter school years, furlough days or salary rollbacks to deal with their budget crises until the economy recovers, but this is not the case in our district. The only way to deal with these realities is to understand that the state economy is hopefully near the bottom of a very severe recession which at some point will begin to recover and educational funding restored to an adequate level. In the meantime, it will be more important than ever that all the stakeholders in the SHUSD support each other, stay informed and share the sacrifices which will be necessary as we navigate the choppy waters ahead.

Jim Baker,
Clerk of the Board of Trustees
Southern Humboldt Unified School District