Subject: Our Four Budget Realities

Colleagues,

At the onset of 2012, our school district continues to face significant financial challenges stemming from the deep and prolonged state budget crisis. Five years of K-12 education cuts has taken its toll on everyone. All of us who care deeply about preserving the quality of education will struggle with balancing tough trade-offs in the weeks and months ahead.

In this letter, I provide a first look at the 2012/13 budget to establish a common appreciation of the district’s fiscal realities. During this very difficult time, it is critical that we all comprehend the realities that we must face together and that we openly communicate with one another about our concerns. I believe that it is important for every employee to understand the basics of our budget situation and to appreciate the difficult work underway by the Board and our staff to balance our budget. I am very concerned about Board meeting testimony and casual conversation that suggests that this will be a better budget cycle with new resources and minimal cuts. That is not the case based on current information.

The fiscal landscape is a very sobering one as outlined below.

**Budget Reality #1: The Governor’s Budget Does Not Increase School Funding.** The proposed November Ballot Measure Does Not Improve K-12 Education Funding.

Contrary to some early media reports, the proposed 2012/13 budget IS NOT a good one for school districts. The great ambiguity associated with state revenues, the legislative turmoil in Sacramento, and the high stakes gamble of a November ballot measure has put us out on a limb.

- **School districts will not receive new or additional funds for educational programs or staffing.**
  The proposed K-12 state budget is one of flat funding. San Diego Unified will experience about the same funding level next year as this year. A flat budget is a negative budget because there are no cost-of-living adjustments for fact-of-life expense growth tied to utilities, health care, fuel, and the like. With flat funding from the state, our district will still face a significant deficit which I explain below. Rather than provide any real increase in resources, the proposed state budget is shifting money to remove previously planned deferred payments to school districts. This means we may receive our General Fund allocations in a timelier manner, but no additional money from redevelopment agency accounts or other sources.

- **School districts face a potentially HUGE midyear cut dependent on the passage of a tax measure by California voters in November 2012.** The Governor’s strategy for a November ballot measure also has NO additional money for schools; it would just keep our funding at the current threshold. Simply put, a successful ballot measure only preserves the status quo for K-12 funding. But, per the proposed state budget, a failed ballot measure could result in a $4.8 billion cut to education. The governor’s staff has said that a funding reduction of this magnitude would be the equivalent of cutting three more weeks off school next year. Such an outcome translates into a devastating resource cut halfway through the school year.
Budget Reality #2: Our Expenses Exceed Our Revenues.

For several years, San Diego Unified has been able to partially offset our revenue shortfall by using one-time funds and reserves. This amounts to deficit spending and it must stop. We continue to face a reality that the district’s total operating expenses significantly exceed our total annual revenues. Given that there are no additional monies forthcoming from the state, we must significantly cut district costs again, recognizing that more than 90% of our expenses are connected to salaries and benefits.

The fiscal facts are straightforward:

- San Diego Unified is projecting an operating deficit of more than $90 million for the 2012/13 fiscal year and more than $125 million in 2013/14 if budget reductions are not made.
- There no longer are adequate reserve funds to accommodate revenue deficiencies.
- Our expenses must be realigned to match our revenues for the district to become financially stable.
- Our Board of Education is committed to balancing the district budget and will do everything necessary to maintain the district in a solvent position, thereby avoiding a state takeover.
- Positive cash management remains a crucial and challenging element of the district’s budget.

Budget Reality #3: We Have to Fix a Multi-Year Structural Deficit Problem.

To achieve and sustain a stable financial footing, it is necessary to solve our multi-year structural deficit with ongoing expense reductions and limit the use of one-time solutions like proceeds from the sale of real estate. My goal is to guide the Board to a plan that can stabilize our budget not just for next year, but for the foreseeable future to avoid the annual trauma of program cuts and layoffs.

Financial stability is dependent on making very difficult reductions for the 2012/13 and 2013/14 budget years. Our list of cuts, reviewed by the Board at the first interim financial report presentation on December 13, will serve as the basis for more than $150 million in reductions to our General Fund Unrestricted budget over the next two years. These adjustments include significant class size increases and educational and support services decreases, actions that no one wants to even consider…but unfortunately that is our reality.

Budget Reality #4: Given No New Revenues in Sight, Both Employee Concessions and Layoffs Must Be Considered.

With flat budgets looming in the “best case” scenario and expenditures exceeding revenues, the District has few options with which to overcome the budget shortfalls. We are at a crossroads where the choices are bleak and severely impact both central office and campus operations.

At this juncture, the Board has asked that we reach out to our unions to address a package of employee concessions that can help the district mitigate the number of layoffs needed to balance the budget and safeguard our academic and administrative programs so critical to student achievement.

We are hopeful that the conversation with the employee collective bargaining teams will begin in the very near future. Some suggested concessions include deferring the negotiated salary increases in current contracts, continuing the current five-day furlough of the last two years, applying salary rollbacks, and/or reshaping health benefit contributions. Contingencies also have to be considered in
response to mid-year cuts. We all must approach these negotiations open minded and committed to equitable agreements that lessen the blow of personnel reductions and personal sacrifices.

What’s Next?

On January 24th, Chief Financial Officer Ron Little and I will present a budget overview to the Board of Education. In preparation for that meeting, we are collecting technical information, analyzing the proposed state budget, and updating our financial projections. A key element of this work will be the direction received from the County Office of Education about factoring midyear cuts into our proposed district budget.

We are also stepping up advocacy with our elected representatives in Sacramento. “The devil is in the details” and that is very true for the state budget. We are awaiting specific legislative budget language forthcoming in early February. It will provide more details about how school districts can be expected to implement a possible midyear cut, such as legislative authorization for a three-week school reduction as a contingency.

We will continue to face great uncertainty about our budget for the next six months. The state budget will evolve and change during a time when school districts are required to make layoff notice decisions. This is a terribly disconnected process where local agencies act on and react to State government decisions with no synchronization between the two parties. We are likely to face the reality of issuing March 15 certificated layoff notices in unprecedented numbers and subsequently rescinding some number as budget details are updated and employee group negotiations become finalized.

In conclusion, the budget situation is very serious, but one we can overcome through our demonstrated past resiliency and commitment to expending our best efforts. Let me assure all of you that I will continue to present complete and factual budget information to you and the Board. I will devote all of my energies to finding solutions that can minimize the impacts of these difficult fiscal realities.

All that I can ask of each of you is to help and support your team mates and stay focused on our mission to provide a quality education to our students each and every day. We are a team and by working collectively and collaboratively, we will get through the worst of times in California public education.

Sincerely,

[Signature]

William Kowba
Superintendent