



Memo

To: SMMCTA Board of Directors
From: Tim Cuneo, Superintendent
Copy to: Board of Education, SMMUSD Management Team, Superintendent's Budget Committee, Financial Oversight Committee
Date: Monday, July 6, 2009
Re: Response to SMMCTA Memo of June 24, 2009 to the Board of Education

I would like to thank the SMMCTA Board of Directors for your interest in helping SMMUSD have a balanced budget for the next three years. We are in the midst of an unprecedented budget crisis – a crisis that may remain, and even worsen, over the years to come. We are fortunate that our District came into this difficult budget era with a sound budget and a healthy reserve. However, this reserve will be totally eliminated in just two years if we do not take drastic steps to either reduce expenditures or increase revenues. The Board of Education has reduced approximately \$4.5 million from the 2009-10 school year budget. Staff is now working on planning further budget reductions for the 2009-10 school year, and will be proposing additional reductions and potential revenue enhancements for the 2010-11 school year as the budget crisis continues to loom on the horizon.

While I certainly appreciate SMMCTA's budgetary suggestions, I want to again extend an invitation to SMMCTA to participate in the Superintendent's Budget Advisory Committee, which is the task force I have assembled to address this difficult issue. Even though I have invited SMMCTA to attend, there has been limited SMMCTA presence so far. The SMMCTA President informed me that no SMMCTA member could attend this summer, as teachers were on vacation during the summer. I am hopeful that the SMMCTA President or a designee will attend, even during the summer, and participate in the budget development process.

Below, I have summarized each of the suggestions from SMMCTA to the Board of Education, and provided some thoughts about each one.

Sacrifices being made by teachers

- 1. The number of teachers has been reduced by 24 this year and by a total of 63 over the last 6 years.*
 - Over the last six years, District student enrollment has dropped 10%, with only a 7% reduction in teachers. During this same period of time, student support services (counselors, librarians, nurses, psychologists, and speech therapists) have grown 19%.
 - This reduction has primarily been caused by a decline of student enrollment over the past six years. SMMCTA is quite aware of this, as the President of SMMCTA

spoke repeatedly about the need to realign the teaching force with student enrollment at board meetings.

- Although the District may have initiated some layoffs in years past (but not in 2008-09), not one single teacher has lost a job due to a layoff action since 2003. Any reduction has been accomplished through normal attrition.
- This school year (2009-10), class size in grades K-3 has been increased from twenty to twenty-three. This is still a very low number and well below many of our surrounding districts.

2. *The District has eliminated two professional development days, called buy back days, for a potential loss of up to \$540 per teacher.*

- This was never guaranteed income for teachers, nor was it ever a part of teacher salary. Only teachers who chose to attend the activities for these two days were compensated; not all have participated in the past.
- This is not a salary reduction; rather, it is a lost opportunity for additional income and additional professional development activities, which is a natural result of a budget crisis such as this.

Additional Budget Reductions

1. *Offer an early retirement incentive – the estimated savings would be \$300,000 to \$500,000.*

- There is a misconception that retirement incentives save money for the District. That is not always true.
- Retirement incentives only save money if a much larger number of teachers retire than is typical, and if those typically higher-paid teachers are replaced by less-paid and less experienced teachers.
- The District does not believe that this scenario will occur in this budget year, thus we foresee little or no savings with this type of retirement incentive. In fact, it could result in an added expense for the District.

2. *Make additional reductions in consultants – the estimated savings would be \$500,000 to \$1 million.*

- The District has already reduced contracts by \$300,000 for the 2009-10 school year.
- I agree that additional reductions can be made, but I do not believe that the savings would be as high as the estimate above.
- The District will continue to work with the Financial Oversight Committee and the Superintendent's Budget Advisory Committee to examine existing contracts.

3. *Place a moratorium on conferences and travel outside of the District – an estimated savings of \$200,000.*

- The District has and will continue to examine travel and conferences and may approve fewer for the 2009-10 school year.
- Conferences are an important part of our professional growth, and this amount is only 0.16% of the District's budget. We do not plan to eliminate all professional growth opportunities outside of the District. The total amount also represents much of the categorical funding, which requires professional development for our teachers, classified staff, and administrators, as well as private schools who participate in the categorically funded programs.

4. *Reduce communications expenditures by \$200,000.*
 - The bulk of these expenditures go towards phone service in our District schools and offices. The District has no plans to reduce expenditures for basic communications.
5. *Renegotiate the Superintendent's contract – the estimated savings would be \$100,000.*
 - The members of my senior cabinet and I, including the Chief Academic Officer, the Chief Financial Officer, and the Assistant Superintendent of Human Resources, are proactively voluntarily taking a 2% reduction in pay and a reduction in health insurance benefits. This voluntary reduction reflects what we will be asking our unions and management team to accept during the 2009-10 year. We believe that these reductions, if agreed to by all employee groups, will have a dramatic and positive impact on the budget in the years to come.
 - Although I have potential bonuses written into my contract, I have already informed the Board that during these difficult budget times, I will not accept any bonus. This was also the true for the 2008-09 school year.
6. *Eliminate District testing and professional development – estimated savings: \$100,000.*
 - Over the past two years, the district has eliminated two district administrator positions whose primary responsibility was professional development.
 - Over the past two years, the district has reduced the amount and cost of district-based testing.
 - The District is examining other ways to reduce costs, but we believe that professional development and student assessment are critical responsibilities of the District.
 - Assessments provide important data to inform instruction and monitor students' progress in meeting District, State, and Federal standards.
 - The estimated cost stated by SMMCTA also included portions of the state mandated testing programs which cannot be eliminated.
7. *Suspend all district paid cellular phones, car allowances and contributions to 403(b) retirement accounts. Estimated savings: \$50,000.*
 - Some of these contributions are already part of agreements with employees and employee groups and cannot be reduced outside of the collective bargaining process.
 - When driving an automobile as a required part of the position, whether it is for certificated, classified, or management positions, the District will continue to provide reimbursements.
 - Certain positions are required to be in constant communication, and schools/departments do provide reimbursements for the cell phone usage. This practice will continue.
8. *Renegotiate all contracts with district legal firms. Estimated savings - \$50,000.*
 - The District has already been reviewing all contracts with legal firms and believes that this is a good practice annually.
 - We will also be aiming to reduce legal costs through mediation and other means of dispute resolution.

9. *Reduce work year for district office administrators by a minimum of ten days or reduce administrative work year by two days.*
 - The rationale for a work year beyond 183 days (the school year for teachers) is to provide time for additional responsibilities above and beyond the 183-day school year, such as implementing summer programs, school enrollment, and planning for fall.
 - In the past, after examining and/or reducing the scope of work of some administrators, the District did reduce the number of days of some administrators.

Budget actions to build outer year reserves.

1. *Defer purchasing new student information system – estimated delayed spending: \$1 million.*
 - The District is already committed to purchasing a new student information system to use current technology much more efficiently for all stakeholders, including teachers, counselors, clerical employees, administrators, and parents.
 - Our current system is no longer being supported by the company that created it, therefore it is critical to replace it.
 - The state has placed new reporting requirements on school districts, and because our current system is not state compliant, the District had to pay consultants over \$30,000 to maintain state compliance.
2. *Reduce by \$1.2 million the funds the District has set aside to fund post retirement benefits.*
 - Our employees are entitled to post retirement benefits in the amount of approximately \$4,400 per year until age sixty-five, and an inflation-adjusted \$1,200 a year for the rest of their lives.
 - This fund, which is dramatically underfunded, is intended to help us fund those retirement health benefit costs in the years to come.
 - GASB 45 requires the District to address what is now a \$21 million unfunded liability to fully cover these lifetime benefits for our employees.
 - It is fiscally irresponsible to arbitrarily reduce reserves at a time when we may need those reserves in the outer years.

Potential additional revenue sources to explore

1. *Research the possibility of re-negotiating all district lease agreements.*
 - The District is constantly examining and re-examining all lease agreements and is making recommendations to the Board that provide the best financial stability for the District.
2. *Research the sale of the Madison Site and Double Tree Hotel Site.*
 - The District has investigated these topics and will make recommendations to the Board that provide the best financial stability for the District.
3. *Engage city officials in a discussion about the current district office property.*
 - The District has investigated this idea, and will continue to do so. Again, staff will make recommendations to the Board that provide the best financial stability for the District.

4. *Explore a new parcel tax.*

- I will be recommending the establishment of a Citizens Committee at the July 16, 2009, Board meeting to explore the feasibility of an emergency parcel tax.

5. *Increase enrollment over the next two years by two hundred students.*

- The Board of Education has already taken actions to expand the number of interdistrict permits by up to 200 students per year.
- The full 200 permits have not yet materialized, so it is not clear that allowing more permits would attract additional students to the District. In addition, neighboring districts are facing the same financial challenges and are now reluctant to release their students to our district.
- The Board of Education has successfully reduced the number of students on interdistrict permit in our district, reduced the size of many of our schools, and stabilized enrollment in the District.

Summary

Please be reassured that the District is committed to reduce spending and enhance revenue while continually focusing on the needs of all children. We continue to monitor state budgetary actions to make adjustment in our district's finances to ensure we stay solvent. I have been working with our Chief Financial Officer, other senior staff, the Financial Oversight Committee, the Superintendent's Budget Committee, and the community to develop strategies for expenditure reductions and revenue enhancement. This is complicated work. I am seeking ways to reduce our costs without significantly impacting programs. This will take a great deal of collaboration and cooperation. It will not be easy and all of us will have to make sacrifices during these difficult and unprecedented financial times. I am hopeful that SMMCTA will join other district employees in working with me on the Superintendent's Budget Advisory Committee. Together, I am confident we can continue to maintain high quality programs and continue to improve student achievement while remaining financially solvent.