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MEMORANDUM

DATE: May 13, 2008

TO: Board of Education, San Diego Unified School District

CC: Terry Grier, Superintendent, San Diego Unified School District

FROM: Murtaza H. Baxamusa, Ph.D.

SUBJECT: FY2008-09 Budget of SDUSD

This is a critical time in the history of the District. The impacts of the SDUSD budget will be felt in the economy of the San Diego region for years. The budget needs to focus on outcomes, both in terms of students' performance and the fiscal sustainability of the district. However, several questions in regard to impacts of the proposed layoffs remain unanswered. This memorandum suggests that there may be reserves and restricted money that can be freed up temporarily in order to overcome the current uncertainty. In addition, the district should implement a hiring freeze and normalize administrative staffing ratios. Implementation of these measures should provide a sufficient cushion in the process of instituting a performance-based budget.

BACKGROUND

According to a Brookings Institution survey of business location decisions, the top three reasons for choosing a city are "Education, Education and Education".¹ The desirability of a city is dependent on both the education level of the potential workforce and on the quality of the education system at lower levels where employees can send their children.

Spending on education is investing in "human capital" in our children. Academic studies² show that a 10% cut in spending per pupil will impact almost one-in-five workers in the

¹ Cohen, Natalie. 2000. "Business Location Decision-Making and the Cities: Bringing Companies Back." *Brookings Institution*. Working Paper.

² Luce, Thomas. 1994. "Local Taxes, Public Services, and the Intrametropolitan Location of Firms and Households." *Public Finance Quarterly* 22(2): 139-68.

local labor force in the long-run.³ This can be the difference between whether a current student will have a job in the future or not. A 10% reduction in school expenditures could yield a 1 to 2 percent decrease in post-school annual earnings in the long run. A 10% increase in the student–teacher ratio would lead to a 1 to 2 percent decrease in high school graduation rates and to a decrease in standardized test scores.⁴ Thus with a 10% sizable cut, not only are students expected to perform poorly in academic tests, but also expect lower earnings after they leave school.

Cuts in education spending affect not just our children, but the entire economy. A professor in economics at the University of California (Davis) found that every \$1 cut in education spending leads to a decrease in the state’s personal income by \$3 in the short-run and \$32 in the long-run (out of \$1,000).⁵ According to the Bureau of Economic Analysis, state personal income is income that is received by, or on behalf of, persons who live in the state. It includes wages and salaries, business and private capital income, rental income, personal dividends and interest. These ripple effects are felt in every sector of the economy, from output in the manufacturing sector⁶ to new business startups.⁷ A 10% cut in education spending in California will result in a loss of over 120 thousand jobs in education and almost an equal number in its multiplier effect on other businesses.⁸

UNANSWERED QUESTIONS

1. What is the educational impact on SDUSD students of the budget cuts?

In San Diego, for each of the proposed cuts in programs and teacher layoffs, we do not know the number of students that will be directly or indirectly affected. A scenario analysis for critical budget paths would inform the Board about the outcomes of each option they exercise. In terms of dollars, the proposed cuts statewide are about \$750 per student or about \$18,750 per classroom.⁹

In terms of students performance, the figures are undetermined. Students will be directly impacted when their own teachers are laid off. They will be indirectly impacted when the spiraling effect of teacher layoffs in other classes and programs result in lesser resources for their own classrooms. Impacts include scoring on tests and academic performance

³ Luce (1994) shows that a 1 percent change in K-12 Education Spending/Pupil influences the Total Labor Force by Local Residence by 0.47% in the short-run and 1.84% in the long-run. It does not influence total employment.

⁴ Hungerford, Thomas L. and Robert W. Wassmer. 2004. “K–12 Education in The U.S. Economy”. National Education Association, Research Working Paper.

⁵ Helms, L. Jay. 1985. “The Effect of State and Local Taxes on Economic Growth: A Time-Series–Cross-Section Approach.” *Review of Economics and Statistics* 87: 574–82.

⁶ Mofidi, Alaeddin, and Joe A. Stone. 1990. “Do State and Local Taxes Affect Economic Growth?” *Review of Economics and Statistics* 72(4): 686–91.

⁷ Bartik, Timothy J. 1989. “Small Business Start-Ups in the United States: Estimates of the Effects of Characteristics of States.” *Southern Economic Journal* 55(4): 1004–18.

⁸ See Sims, Richard G. 2004. “School Funding, Taxes, and Economic Growth: An Analysis of the 50 States.” National Education Association, Research Working Paper.

⁹ <http://www.californiaschoolfinance.org/>

(e.g. NCLB standards) to crime rate. Impacts will vary by grade and level of participation in various programs. Impacts can also be categorized demographically.

Table 1: Sample of Scenario Analysis

	Scenario 1	Scenario 2	Scenario 3
Input Variables			
Class Size in grades 3-5			
Class Size in grades 5-8			
Librarians			
Output Variables			
API scores in Math at 3 rd grade			
Graduation rate for high school			
Percent of free-lunch eligible children impacted			
Juvenile crime rate			

Note: These are sample variables for demonstration only.

2. What is the fiscal impact of state legislation on the SDUSD budget?

Top concerns about the quality of education among Californians¹⁰ have created a political crisis that both parties want resolved this year. Among the key solutions being proposed are the raising of revenues, re-allocation of other expenditures and flexibility among reserved funds. The effect of each of these proposals on the SDUSD budget needs to be anticipated by the district. Not only will this allow the district to estimate a realistic impact of the state budget, but could also inform the district’s lobbying efforts at the state level.

3. Which reserves are usable?

SDUSD’s second interim financial report shows that the district will have \$127 million in restricted and unrestricted reserves at the end of the fiscal year.¹¹ Almost \$100 million of this is in designations other than the state mandated reserve for economic uncertainties. These “reserves” include salary vacancy factor savings, school site ending balances and other unexpended balances. SDUSD must do a thorough analysis of which of these “reserves” are usable with Board direction.

4. How much will it cost the district to recover from the cuts?

The San Francisco Chronicle reported that Fort Worth, Texas is advertising in San Diego, and plans to send recruiters to this district with \$3,000 signing bonuses.¹² In addition, almost one-third of the state’s teacher workforce are baby boom teachers who are

¹⁰ Public Policy Institute of California survey (April 2008) found that more than half (53%) of the state’s residents say the quality of K-12 public schools is a major problem.

<http://www.ppic.org/main/publication.asp?i=814>

¹¹ 2007-08 Second Interim General Fund Summary – Unrestricted/Restricted Fund Balance, Reserves. Fund Ending Balance, June 30.

¹² San Francisco Chronicle (April 18, 2008). [Other states woo California teachers amid wave of pink slips.](#)

expected to retire in the next ten years.¹³ At the same time, the number of people taking the teaching profession's state entrance exam has declined by 32 percent in the past five years.¹⁴ As we lose experienced and award-winning teachers to other school districts and other professions, the cost of recruiting to the level we currently have is unknown. In precaution, seven of the ten largest school districts in the state (including San Francisco, Los Angeles and Long Beach) are not laying off teachers.

RECOMMENDATIONS

1. Identify usable reserves.

The district is required by state law to keep a 2% reserve fund, but its latest budget update shows unrestricted reserves of almost twice that much, with an extra \$22 million primarily in vacancy savings and unspent school budget balances.¹⁵ Keeping the reserve at the 2% level approved by the state is more than adequate; the district has even operated for several years with just a 1% reserve.

2. Flexibility in restricted revenue.

The budget should present alternative scenarios with certain restricted revenues that can be freed up either with or without state legislative action. San Diego Unified receives almost half a billion dollars in restricted funds, and \$80 million will be left over in June in restricted reserves.¹⁶ The board should join other educators in lobbying the legislature to make sure flexibility in spending these funds is part of the state budget act. The board should consider these scenarios seriously in its current spending, particularly since the state legislature has allowed flexibility in the use of restricted reserve funds in the past. This may entail temporarily suspending certain programs or deferring the implementation of those programs that are getting revenue from restricted funds.

3. Implement a hiring freeze.

The district could save an estimated \$20 million¹⁷ by moving teachers from non-classroom jobs to fill normal classroom vacancies that result from retirement and attrition -- about 275 vacancies a year. The district now has about 460 certificated teachers working in non-classroom jobs, mostly resource teachers, who could fill those spots.

¹³ The Center for the Future of Teaching and Learning (April 2008). [Focusing on Teaching: A New Perspective to Drive Teaching Quality](#).

¹⁴ San Diego Union Tribune (April 7, 2008). [Will layoff notices spook potential teachers?](#)

¹⁵ San Diego Unified School District 2007/08 Second Interim Financial Report, March 11, 2008 pg. 9. Targeted Reserves = \$46.1 million; Economic Uncertainties Reserves (2%) = \$23.8 million. The \$22 million is the difference between the Targeted Reserves and the 2% Reserves.

¹⁶ 2007-08 Second Interim General Fund Restricted (Resources 2000-9999) Ending Find Balance, Reserves, June 30 (E+F1e) is \$80,696,201.77.

¹⁷ Reduced certificated staffing by 175 positions based on normal retirement at salary of \$70,000 with 13% covering mandated district costs tied to salary, and \$9,000 for benefits package will yield \$15.4 million ($=[\$70,000 \times 1.13 + \$9,000] \times 175$). Reduced certificated staffing by 100 position by not replacing temporary contract employees at salary of \$40,000 with 13% covering mandated district costs tied to salary, and \$9,000 for benefits package will yield \$5.4 million ($=[\$40,000 \times 1.13 + \$9,000] \times 100$).

4. Normalize administrative staffing.

San Diego Unified spends only 56% of its operating budget on instruction.¹⁸ That's compared to an average of 62% at districts statewide, according to the State Education Data Center.¹⁹ Shifting San Diego's ratio to the statewide average would mean a conservative estimate of \$73 million more to be spent on instruction.²⁰ This can be accomplished with zero-based budgeting methods in which every expense is justified within the frame of maintaining educational quality in the classrooms.

In conclusion, best practices in public budgeting call for budgets based on results and outcomes²¹ rather than on a meaningless headcount. Implementation of the above measures should provide sufficient cushion in the process of instituting a performance-based budget.

¹⁸ Phone interview with Gamy Rayburn, SDUSD Budget Director (8 May, 2008) confirmed that SDUSD spends 55.4% on instruction.

¹⁹ State Education Data Center service <http://www.schooldatacenter.org/> defines the amount of money spent on activities occurring directly between teachers and students as **Instruction Expenditures**. This includes activities within a classroom and other teacher-student settings covering regular, special, and vocational programs offered during the school year and summer school. Instruction Expenditures also include payments from all funds for salaries, employee benefits, supplies, materials, and contractual services related to instruction. At the district level, this expenditure includes only money spent on students taught in the district. It excludes money paid to other school systems for the education of students outside the district.

²⁰ \$1.3 billion x (61.65%-56.04%) = \$72.99 million. The percentages refer to the proportion of operating expenditures spent on instruction per pupil in 2005 by California school districts and SDUSD.

²¹ Government Finance Officers Association (GFOA) recommended practice: Budgeting for Results and Outcomes (2007).