



Conceptual San Diego Unified School District School Bond Measure

Board Action:

OPPOSE

Rationale:

The San Diego County Taxpayers Association (SDCTA) is opposed to the San Diego Unified School District's (District) conceptual proposal to place a school bond measure on the 2012 ballot because the District has not demonstrated its ability to managed taxpayer dollars prudently. Since passage of Proposition S in 2008, the District has adopted labor contracts and bond expenditures inconsistent with SDCTA principles and has not fulfilled commitments made to the Association regarding the management of the Proposition S bond measure.

Background:

Past Ballot Measures

In November 2008, voters approved Proposition S, a \$2.1 billion Proposition 39 school bond measure. The ten-year bond program was proposed to be divided into eight work periods with various start dates. The first work period was expected to begin in December 2008, immediately following the November election. The expected completion date for the entire bond program during the San Diego County Taxpayers Association's (SDCTA) review was August 2018. SDCTA ultimately supported Proposition S.

During SDCTA review of Proposition S, the San Diego Unified School District (District) indicated they expected the bond would eliminate the total deferred maintenance backlog as well as modernize campuses, and construct three new campuses (one in downtown and two in Miramar).

In 2010, the District put forward Proposition J, a five-year parcel tax measure that was expected to raise \$48.1 million annually by charging a \$98 flat rate for residential parcels, a \$60/unit rate for multi-family, and \$450 for commercial and industrial parcels. SDCTA opposed this measure because 1) the District was proposing a temporary tax with no long-term plan for addressing its structural deficits; 2) the District had not achieved adequate concessions through labor negotiations; and 3) the District had a poor track record of fiscal and governance leadership. The measure failed with 50% of voters in opposition.

District Deferred Maintenance

In 2006, the District hired DMJM+Harris, Inc. to conduct a Facilities Condition Assessment Study of all the school sites and provide a ten-year plan to address those needs. The total needs of the District were placed into the following five categories:

1. Capital Improvement
2. Major Repair & Replacement (20 or more years)
3. Repair & Replacement
4. Regular Maintenance
5. Preventive Maintenance

The ten-year plan incorporated facility data from 2002, as well as on-site assessment surveys for 16 representative schools. These 16 locations were chosen to represent the various locations and sizes of all the schools within the District. In order to restore the conditions of the facilities to a Facility Condition Index (FCI)¹ of 0%, the report states the District needs to dedicate \$755 million over the next ten years. The District decided to use a FCI of between 5%-7% as an acceptable milestone.

Table 1 below outlines the total need, annual requirement, and funding source for the funding repairs and renovations during the 10-year life of the Proposition S bond program.

Table 1: Proposed Funding for Deferred Maintenance Projects

	Total Estimated Annual Projection	Total Estimated 10-Year Projection	Funding Source
Capital Improvements(CI) (CI projects that have a MRR component)	\$14.3 million	\$143 million	Bond funds
Major Repair & Replacement (MRR)	\$35.8 million	\$358 million	Bond funds
Subtotal	\$50.1 million	\$501 million	Bond Funds
Repair & Replacement (RR)/Regular Maintenance (RM)	\$19 million	\$190 million*	Non-bond/district funds via State School Facilities Funds, State Deferred Maintenance Program, and general funds
Total	\$69.1 million	\$691 million	Bond and non-bond/district funds

*The projection for the Repair & Replacement/Regular Maintenance category includes \$104 million in identified projects from the state's Deferred Maintenance program (state matching funds)

The total facility needs were then broken down into the five categories listed above. The District did not provide SDCTA the breakdown of the \$501 million of deferred maintenance funding needs into these various priorities.

The District has stated the \$501 million in bond funds will eliminate the current deferred maintenance backlog and allow facilities to reach a 5%-7% facilities condition index. Over the next 10 years the District stated its intent to allocate \$190 million towards the repair and replacement/regular maintenance of facilities. A total of \$86 million (from the general fund) of the \$190 million was proposed go to the Maintenance Account to fund replacement/regular maintenance. The remaining funds would be dedicated to preventive maintenance, maintenance overhead, and unidentified repair

¹ The FCI is a calculated value of the ratio of the total cost of facility needs to the current replacement value. FCI numbers or facility condition less than 5% is good, 5-50% is fair, and greater than 50% is considered poor.

and replacement/regular maintenance projects (items such as response to vandalism and graffiti, emergency and unforeseen repairs, etc).

For Fiscal Year 2012, the District did not budget expenditures from its Deferred Maintenance Fund.

Between FY 2008 to FY 2011, the District expended \$20.2 million from the Deferred Maintenance Fund. While the current State Budget provides the same amount of deferred maintenance funding as in FY 2011, the funding may be used for any educational purpose and school agencies are not required to match the funding level due to the waiver provided by the State through 2014-15.²

District Labor Contracts

The District achieved \$30.1 million in savings for fiscal year 2011 through labor concessions with all of its labor groups. This was primarily achieved through increasing co-payments for healthcare from \$5 to \$10 and implementing a five-day furlough in fiscal years 2011 and 2012. It is important to note that salaries will be increased later at the following schedule:

- In 2010, the District approved a 14% salary increase over a single fiscal year period. Salaries will increase as follows: 2% (July 1, 2012), 2% (January 1, 2013), and 3% (June 30, 2013). This will increase costs by at least \$25 million in FY 2013. It is important to note that in FY 2013, work days will be restored, resulting in an additional salary increase.³

Example:

- Assume after furloughs are in effect, a teacher is making \$50,000 in FY 2012.
- Once furlough days are restored (in FY 2013), the teacher would receive a 2.7% increase—amounting to \$51,350.
- At the beginning of FY 2013, another 2% salary increase is scheduled. This means the teacher would be making \$52,377.
- On January 1, 2013, another salary increase is scheduled for 2%. The teacher would be making \$53,425.
- An additional 3% increase is scheduled for the end of FY 2013, which means that the teacher would be making \$55,027.
- The teacher is also eligible for a step increase, which is close to 3.75%. This means that they would be making \$57,091 at the start of FY 2014.

Calculations	
FY 2012 salary =	\$50,000
Start of FY 2013	
\$50,000 + 2.7% =	\$51,350
\$51,350 + 2% =	\$52,377
January 1, 2013	
\$52,377 + 2% =	\$53,425
June 30, 2013	
\$53,425 + 3% =	\$55,027
Additional Step Increase	
\$55,027 + 3.75% =	\$57,091
Total Increase: 14.18%	

² San Diego Unified School District FY 2011-12 Budget Overview. pp. 25.

³ Updated agreements for labor groups.

While salary schedules remained unchanged in FY 2009 and FY 2010, in FY 2007, salaries increased by 5.78%.⁴ In FY 2008, salaries increased between 2.75% and 3%, depending upon the labor group.⁵

The District could have achieved additional cost savings through reform and/or elimination of benefits awarded in employee contracts. Examples of these include:⁶

- Changes made to longevity bonuses.
- Changes made to additional annual bonuses in many labor groups.
- Elimination of yearly automatic step increases (which amount to approximately three (3) to five (5) percent each year on top of other salary increases and bonuses). Freezing step and column increases for a one year period would have saved the District \$19 million in FY 2010.
- Reduction in vacation time and vacation time accrual (maximum accrual of vacation time that can be “cashed out” is currently set at 41 days or 328 hours for most labor groups).
- Increasing eligibility dates for medical, dental and vision benefits from the currently used term (approximately one month following start date).

Previously, the District’s employees had a \$5 copayment for healthcare. The District increased this copayment to \$10 through collective bargaining. If the District would have changed the co-pay from \$5 to \$20, it would have saved the District an additional \$7.5 million over a six month period in FY 2010.

Proposals:

On November 1, 2011 the District Board of Education was presented a proposal to place on the November 2012 ballot a potential Proposition 39 Bond Measure. The presentation noted that an initial evaluation by the District’s bond advisors determined that a property tax increase between \$30 to \$40 per \$100,000 of assessed valuation would generate between \$1.5 to \$2 billion. A preliminary list of needs indicated a potential bond could include the following:

- Major repair and replacement
- Deferred major maintenance
- I21 (interactive classrooms) sustainability and expanded technology
- Energy efficiency retrofits/renewable energy projects
- Neighborhood school facility realignment (new classrooms and facilities in underserved areas)
- Career Technical Education Projects
- Seismic upgrades/ADA improvements
- Expansion of air conditioning into climate zone two
- Portable replacement/certification
- Site-specific projects

⁴ Past District Memorandums of Understanding with labor groups.

⁵ District salary schedules.

⁶ Cost savings provided by the District on May 12, 2009. “Updated 2009/2010 Budget Forecast with Potential Solutions for a Balanced Budget General Fund.”

The intent of the measure would be to have new bond monies pay for projects that would otherwise be funded by General Fund dollars, thereby freeing those funds to pay for teachers and salaries.

Analysis:*School Bond Tax Rate*

Under Propositions MM and S, the District's tax rate per \$100,000 of assessed value must not exceed \$67.70. Based on current projections, the District is expected to exceed this limit each year between FY 2013 and FY 2027. As assessed values continue to either decline or remain relatively flat, the District will use its current tax limit to only pay off debt for Proposition MM, thus not allowing for the issuance of authorized debt from Proposition S to pay for construction projects. The District currently has \$50 million of Proposition S cash on hand that has been programmed but not contractually obligated. It is expected a new financing plan and cash flow projections will be developed to maintain the bond program. As of September 29, 2011 the District has issued approximately \$370 million of Proposition S bonds. This means they have \$1.73 billion in remaining authorized Proposition S bonds.

Increasing the tax by \$30 to \$40 per \$100,000 of assessed value (\$97.70 to \$107.70) is anticipated to raise between \$1.5 to \$2 billion in additional bond capacity to address the District's needs. What is unclear is whether this additional capacity will allow the District to complete projects on top of Proposition S projects in the short term. As mentioned previously, if assessed values continue to remain stagnant, the current \$67.70 rate will only be able to cover Proposition MM debt. Therefore no new dollars would be going to address Proposition S projects, only new projects under the new bond.

Use of Long-Term Financing

The District is contemplating the use of bond funds for routine maintenance and upgrades of facilities and equipment. This includes funding for technology such as upgrading of student laptops and interactive whiteboards for teachers. It is estimated the useful life of these items to be between four to seven years. It is the intention of the proposal to use long-term debt financing (30-year financing) to pay for the estimated \$10.5 million annual cost to maintain this infrastructure.

District Finances

The current FY 2012 budget anticipates \$2.009 billion in total revenues, and has decreased by approximately 10 percent since FY 2008. FY 2012 budgeted total expenditures equals \$1.8 billion, and have decreased by 18 percent since FY 2008.⁷ The District has cut approximately \$395 million from its total budget since FY 2008, and currently faces a \$65 million budget deficit for FY 2013. For the District's General Fund, expenditures have been reduced by \$113.8 million since FY 2008.⁸ The state budget signed in June 2011 includes automatic cuts to schools of \$1.5 billion if revenues fall short of

⁷ San Diego Unified School District FY 2011-2012 Budget Overview. pp. 35.

⁸ San Diego Unified School District FY 2011-2012 Budget Overview. pp. 38.

projections by more than \$2 billion. State revenues are approximately \$705 million below projections for the first three months of the fiscal year. If this trend continues, the District will be required to make an additional \$30 million in mid-year budget cuts. District officials have stated they can withstand \$24 million in midyear cuts by tapping reserves, selling property and laying off nonteaching employees. If the District is required to make these cuts and uses its reserves as part of the solution, the District would face a deficit of up to \$118 million for FY 2013.

Savings Mechanisms

As a means to help address the District's budget deficit, a 22-person committee headed by the Deputy Superintendent recommended the closure of 12 schools throughout the District. It is estimated this plan could save approximately \$5 million annually. The Board voted down moving forward with the plan. In addition, the District proposed modifying busing within the District that could have potentially saved at least \$1 million. This proposal was voted down by the Board 3-2.

Proposed Schoobrary

The cost of the new Downtown Main Library/Charter School (Schoobrary) is \$185 million. Currently the project is short \$35 million. The San Diego Library Foundation has raised around \$9 million dollars to contribute to the remaining \$35 million, which leaves the remaining cost of \$26 million yet to be raised. During staff's review of Proposition S, documents submitted to SDCTA by the District indicated its intent to build a new elementary school in the downtown area. During discussions about moving forward on the Library project, the District entered into a long-term lease with the City to place a Charter high school within two floors of the Downtown Library. The 40-year lease, worth \$20 million, will be funded by Proposition S. The \$20 million will be paid during construction of the project, and other projects originally committed to voters will have to be modified to pay for the cost of the project. In addition, the \$20 million lease does not include costs for tenant improvements to the two floors.

Taxpayer Representative on Independent Citizen's Oversight Committee

Following passage of Proposition S, the District appointed Deanna Spehn to serve as the Taxpayer Representative on the Proposition S Independent Citizen's Oversight Committee (ICOC). After serving her first term, SDCTA sent a request to the District to appoint George Hawkins as the new Taxpayer Representative. She also shared her concerns regarding the oversight governance processes with SDCTA and District Board members. Immediately following the proposed resignation and recommendation for the Taxpayer Representative appointment, the District modified its bylaws pertaining to the membership and composition of the ICOC. In addition, SDCTA was made aware that the Board of Trustees had no interest in appointing Mr. Hawkins to serve on behalf of SDCTA on the ICOC. Ms. Spehn reluctantly continues to serve on the ICOC because of the circumstances.

Proposition S Project Labor Agreement

Following passage of Proposition S, the District Board of Trustees approved a project labor agreement (PLA) for all Proposition S projects. The Board did so without first presenting this topic to the Proposition S ICOC, which is required under the SDCTA ICOC Best Practices, as the decision pertains to the expenditure of bond monies. In 2010, SDCTA adopted a position of opposing mandated PLAs on government projects. Thus, SDCTA today would be in opposition to the PLA that was adopted by the Board for Proposition S.

Proposition J Parcel Tax Campaign

During the Proposition J campaign in 2010, two campaign mailers were sent to voters that were misleading in nature. On one of the mailers, supporters stated, "SD Taxpayers Advocate Supports Prop J." On another, the campaign stated "San Diego Taxpayers Assn. gave 3 'Golden Watchdog' Awards to our San Diego City Schools for cutting needless bureaucracy, overhead and waste." Further, a quote was used from Ronnie Delaney, indicating her title as a "San Diego Taxpayers Advocate".

Both mailers were intended to mislead voters. Two of the three watchdog awards that the District has received in the past pertained to Proposition MM management (2002) and the refinancing of Proposition MM bonds (2005), not for "cutting needless bureaucracy, overhead and waste." A third watchdog award was given to the District in 1998 for its busing system. The mailers also failed to note the two Fleece Awards the District has received since 2002.