

FCMAT

Potential Fiscal Impact of Unification

Escondido Union School District

and

Escondido Union High School District

FCMAT – WHO ARE WE??

Fiscal Crisis and Management Assistance Team

Created by legislation in 1992 as an independent,
external state agency

FCMAT's Mission:

Provide proactive and preventive fiscal, business and management services that help local educational agencies comply with fiscal accountability standards and incorporate best practices.



FCMAT STUDY TEAM

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**As a member of this study team, this consultant was not representing his employer but was working solely as an independent contractor for FCMAT*

THE PROCESS OF UNIFICATION

The process by which an entire elementary district and high school district – *or* portions of them are reorganized into a unified district serving students in kindergarten through grade 12.

WHY CONSIDER UNIFICATION?

Increased organizational efficiency and economies of scale

- Reduces expenditures through consolidation of services
- Eliminates some staffing redundancies

THE PROCESS OF UNIFICATION

Initiated either by:

Voter petition

OR

Petitions of affected districts' governing boards

Waiver Option:

Shortens the timeframe

Requires approval

THE PROCESS OF UNIFICATION

Requires the determination of impact based on criteria established by Education Code Section 35753 by:

The county committee on school district organization

AND

The State Board of Education (SBE)

This study does not include the assessment of these criteria

FCMAT STUDY SCOPE

Conduct a review of the fiscal impact of potential unification of Escondido Union School District and Escondido Union High School District.

Excludes San Pasqual Union School District

- Would be allowed, but not required

FISCAL IMPACT

- Calculate potential increase in Revenue Limit funding (*new revenue*)
- Estimation of potential “level up” costs for movement to common salary schedules and health benefits (*not required by law*)
- Assessment of consolidation of assets and liabilities
- Snapshot in time (2009-10)

NEW REVENUE LIMIT

- Calculated in accordance with Education Code section 35735.1
- Two step process:
 1. A blending of the base revenue limits of affected districts
 2. An adjustment made as a revenue limit add-on for the difference between the two districts' average salary and benefit costs
- Computed based on the second fiscal year prior to the effective date of unification (2009-10= July 1, 2011 unification)
- Revenue Limit adjustment may not be sufficient to cover costs of developing a common salary schedule

STEP 1 – BLENDING THE BASE REVENUE LIMITS

- Calculates each districts Base Revenue Limit;
2009-10 Base Revenue Limit per average daily attendance
X
2009-10 Revenue Limit ADA
- Add each Base Revenue Limit together;
- Divide by total combined Revenue Limit ADA

STEP 1 – BLENDING THE BASE REVENUE LIMITS

District	2009-10 Base Revenue Limit per ADA	2009-10 Revenue Limit ADA	Affected ADA	Percent of District in Reorganization	Computed Total Base Revenue Limit
	(A)	(B)	(C)	(D) = (C) / (B)	(E) = (A) x (C)
Escondido Union Elementary	\$ 6,099.60	17,248.73	17,248.73	100%	\$ 105,210,354
Escondido Union High	\$ 7,372.53	7,719.75	7,719.75	100%	\$ 56,914,088
Total			24,968.48		\$ 162,124,442

Total Computed Total Base Revenue Limit	\$ 162,124,442
Total Affected ADA	24,968.48
Blended Base Revenue Limit Per ADA (before add on)	\$ 6,493.16

STEP 2 – RAISING THE LOWER AVERAGE SALARY COSTS

Calculates separately the average cost of salaries and benefits for certificated and classified staff for each district

No state law or regulation providing definitive guidance for this calculation

FCMAT approach:

Excludes 2009-10 expenses related to other post employee benefits (OPEB) payments, school board stipends/benefits, personnel commission stipends/benefits and adult education costs

STEP 2 – RAISING THE LOWER AVERAGE SALARY COSTS

Calculation for Certificated Salary and Benefits Adjustment

District	Total Salaries & Benefits	Certificated FTE	Average Salaries & Benefits per FTE	% of District in Reorganization	Affected FTE	Affected ADA	25% Test Met	Level Up	Adjustment to Highest Average Salary
	(A)	(B)	(C) = (A) / (B)	(D)	(E) = (B) / (D)			\$ 98,480	
Escondido Union Elementary	\$ 93,790,299	1003.6	\$ 93,454	100%	1,003.60	17,248.73	YES	\$ 5,026	\$ 5,044,491.08
Escondido Union High	\$ 38,683,046	392.80	\$ 98,480	100%	392.80	7,719.75	YES	\$ -	\$ -
					<u>1,396.40</u>	<u>24,968.48</u>			<u>\$ 5,044,491.08</u>

Total certificated salaries and benefits include *all* salaries and benefits for *all* certificated staff members actually paid during the 2009-10 fiscal year.

Excludes:

- Current retiree OPEB payments (Pay-as-you-go)
- Board stipends
- Salaries & benefits for adult education

Total certificated FTE – based upon actual total FTE employed during the 2009-10 fiscal year.

STEP 2 – RAISING THE LOWER AVERAGE SALARY COSTS

Calculation for Classified Salary and Benefits Adjustment

District	Total Salaries & Benefits	Classified FTE	Average Salaries & Benefits per FTE	% of District in Reorganization	Affected FTE	Affected ADA	25% Test Met	Level Up	Adjustment to Highest Average Salary
	(A)	(B)	(C) = (A) / (B)	(D)	(E) = (B) / (D)			\$ 73,540	
Escondido Union Elementary	\$ 32,236,801	525.50	\$ 61,345	100%	525.50	17,248.73	YES	\$ 12,195	\$ 6,408,450.96
Escondido Union High	\$ 17,406,175	236.69	\$ 73,540	100%	236.69	7,719.75	YES	\$ -	\$ -
					<u>762.19</u>	<u>24,968.48</u>			<u>\$ 6,408,450.96</u>

Total classified salaries and benefits include *all* salaries and benefits for *all* classified staff members actually paid during the 2009-10 fiscal year.

Excludes:

- Current retiree OPEB payments (Pay-as-you-go)
- Board stipends
- Salaries & benefits for adult education

Total classified FTE – based upon actual total FTE employed during the 2009-10 fiscal year.

REVENUE LIMIT ADD-ON FUNDING

Certificated Adjustment	\$ 5,044,491.08		
Classified Adjustment	\$ 6,408,450.96	<u>09-10 Deficit</u>	<u>Net After Deficit</u>
Total Salary Adjustment	\$ 11,452,942.04	-18.3550%	\$ 9,350,754.53
Affected ADA	24,968.48		
Total Add-on Per ADA	\$ 458.70		

OTHER FACTORS AFFECTING ADD-ON FUNDING

Calculation for Revenue Limit add-on is dependent upon the differences in total average salaries and benefits *and* FTE for *each* school district involved in the unification.

Changes in ANY of the following by either district will have a direct affect on the calculation and/or actual funding received.

- Staffing
- Salaries
- Benefits
- Enrollment/ADA
- State funding deficit

PROJECTED SALARY AND BENEFIT COSTS

- Actual costs are separate and unrelated to the new funding generated
- No obligation exists requiring the new school board to “level up” salaries and benefits
- Education Code Section 45121 prohibits the release of any classified employee from employment or the reduction in benefits
- A conscientious approach to restructuring salaries and benefits is necessary to avoid employee opposition to unification
- Cost projections are examples only based upon one set of possible assumptions
- All salary and benefit matters are subject to collective bargaining

EXAMPLE SALARY AND BENEFIT COSTS

Certificated salary and benefit cost projections \$4,780,000

- FTE placed on certificated salary schedule

Classified salary and benefit cost projections \$2,150,852

- Numerous variables associated with moving classified employees to common schedules
- FCMAT's analysis did not include specific assessment of classified employee level-up costs
- Estimated as a percentage of certificated costs

Other Certificated Positions

- placed on other certificated schedules
</= \$2,419,903

CALCULATION ASSUMPTIONS

Certificated Salaries:

- Comparison of certificated salary schedules
- Position certificated FTE to the same position on the highest salary schedule
- Column 1-3 highest on the Escondido Union High School District Schedule
- Column 4 varied by step – Advanced all elementary FTE to higher 5th column of high school district
- Column 5 – high school district only, higher educational unit requirements

CALCULATION ASSUMPTIONS

Certificated Benefits:

- Assumes that elementary school district employees who work at least half time (.50 FTE) will receive full benefits at the higher rate established by the high school district of \$11,878.40
- Assumes that elementary school district employees working less than half time will receive a straight proration of benefits

CALCULATION ASSUMPTIONS

ESCONDIDO UNION SCHOOL DISTRICT

CERTIFICATED

Total Salaries	\$ 72,507,140	
Total Benefits (Excluding OPEB & Early Retirement, Board & Personnel Commission)	21,283,159	
	<u>\$ 93,790,299</u>	

CLASSIFIED

Total Salaries (Excluding Governing Board)	\$ 21,613,438	
Total Benefits (Excluding OPEB & Early Retirement, Board & Personnel Commission)	10,623,363	
	<u>\$ 32,236,801</u>	34%

ESCONDIDO UNION HIGH SCHOOL DISTRICT

CERTIFICATED

Total Salaries (excluding Board and Adult Ed)	\$ 29,626,208	
Total Benefits (excluding OPEB & Board)	9,056,839	
	<u>\$ 38,683,046</u>	

CLASSIFIED

Total Salaries (excluding Board and Adult Ed)	\$ 12,303,870	
Total Benefits (excluding OPEB & Board)	5,102,304	
	<u>\$ 17,406,175</u>	45%

Total Projected "Level Up" Cost - Certificated Staff \$ 4,780,000

Total Projected "Level Up" Costs - Classified Staff \$ 2,150,852



CONSOLIDATION OF ASSETS & DEBT

Unification of 100% of each district results in the consolidation of assets and liabilities

Bonds; Bonded Indebtedness; and Bonding Capacity

Funds from the sale of previously issued school bonds may be used only to acquire, construct or improved the school property that was part of the former district, or for such use in that same district.

Education Code 35561 permits the use of funds anywhere in the new district and for the same purpose *if* the newly formed district accepts the former district's bonded indebtedness.

Because each district is completely incorporated in the unification, use of bond proceeds may be used as stated in EC 35561.

CONSOLIDATION OF ASSETS & DEBT

Post Employment Benefits, and Retiree Incentives

- Different benefit structures will require in depth analysis
- FCMAT did not perform a detailed assessment of outstanding obligations and/or established structures for meeting future obligations for retiree benefits.

Non-Voter-Approved Debt and Compensated Absences

- Shared responsibility for outstanding obligations
- Debt without a dedicated revenue source designated for annual payments becomes dependent on the unrestricted General Fund

CONSOLIDATION OF ASSETS & DEBT

- Petition must include acknowledgement of all current liabilities, including those related to post-employment medical benefits, compensated absences and retirement incentive annuities
- Conduct a thorough analysis of outstanding unfunded liabilities of both districts
- Adoption of a debt management policy to guide the board in making decisions regarding non-voter approved debt

OTHER FACTORS TO CONSIDER

- ENROLLMENT
- TRANSPORTATION
- FOOD SERVICE
- FACILITIES
- MERIT SYSTEM
- RETIREE BENEFIT PLANS

WHAT NEEDS TO BE DONE?

1. Ensure unification meets the nine criteria for reorganization listed in Education Code Section 35753
2. Complete updated analysis of the unified districts Revenue Limit based upon the second preceding year
 - Differences in average daily attendance, staffing, salary and benefit costs due to budget reductions all affect funding calculation.
 - Cost projections are based upon multiple factors many of which require collective bargaining and board action

RESOURCES

District Organization Handbook

- California Department of Education

<http://www.cde.ca.gov/re/lr/do/>

QUESTIONS?