

Overview of the Budget's Structural Deficit

Presented January 28, 2020 to the
Board of Trustees



Agenda

- Review Board Policy 3100 Budget
- Declining Reserves Trend
- What Is A Structural Deficit?
- Why Does A Structural Deficit Occur?
- How Do We Correct The Structural Deficit?
- Next Steps...



Review Board Policy 3100 - BUDGET

- The governing board is responsible for adopting a sound budget, aligned with the district's vision, goals and priorities as stated in the Local Control Accountability Plan (LCAP)
- The district's annual budget shall:
 - Guide decisions and actions throughout the year
 - Serve as a tool for monitoring the fiscal health of the district

Question: What do we know for certain about the budget?

Answer: The budget is always changing due to changes in revenues and expenditures.



What Is A Structural Deficit?

Bottom line: Revenues are less than expenses on an on-going basis, resulting in a deficit. The use of reserves is required to balance the deficit, which, over time, is not financially sustainable.

Why can't you continue to use reserves to balance the deficit?
Because reserves are one-time in nature, meaning once you use them, they are gone!

- A structural deficit **excludes one-time revenues** received from the state.
- It **excludes one-time expenses** used from the one-time revenues.
- It gets down to the **recurring base operation** that school districts are obligated to provide.



Why Does A Structural Deficit Occur?

- There are many and various reasons structural budget deficits occur
- For MJUSD, the main reasons are listed below:

REVENUES

1. LCFF revenues are reduced to “COLA Only” after several years of annual increases to reach the LCFF target

EXPENSES

1. Huge pension cost increases each year since 2014
2. Special Education Program is severely underfunded and costs continue to rise
3. Employee salary increases and step/column costs are ongoing



Why Does A Structural Deficit Occur?

- More information about ongoing EXPENSE increases:
 - **Pension Costs** – the state is striving to fully fund the pension funds for both the State Teachers Retirement System (STRS) and the Public Employees Retirement System (PERS). This is a good thing, **however**; it hurts school district budgets because there is no additional funding to cover the added costs.
 - Recently, the state budget reduced the size of the STRS cost increase which was helpful.



Why Does A Structural Deficit Occur?

- More information about ongoing EXPENSE increases:
 - **Special Education Program Costs – MJUSD is proud of its efficient and effective Special Education Program.** State/federal governments have underfunded the needs of ALL Special Education Programs for many years. The result is that school districts must increase their contribution from the unrestricted side of the budget to balance the Special Education Program each year, because expenses continue to grow faster than the revenue.



Why Does A Structural Deficit Occur?

- More information about ongoing EXPENSE increases:
 - **Employee Salary Increases – MJUSD has amazing employees!** The District strives to provide as much in salary increases as possible, while maintaining a balanced budget, which is critical to the financial stability of the District.



How Do We Correct The Structural Deficit?

- **REVENUES must increase** and/or **EXPENSES must decrease** to create a balanced budget. Some examples are:

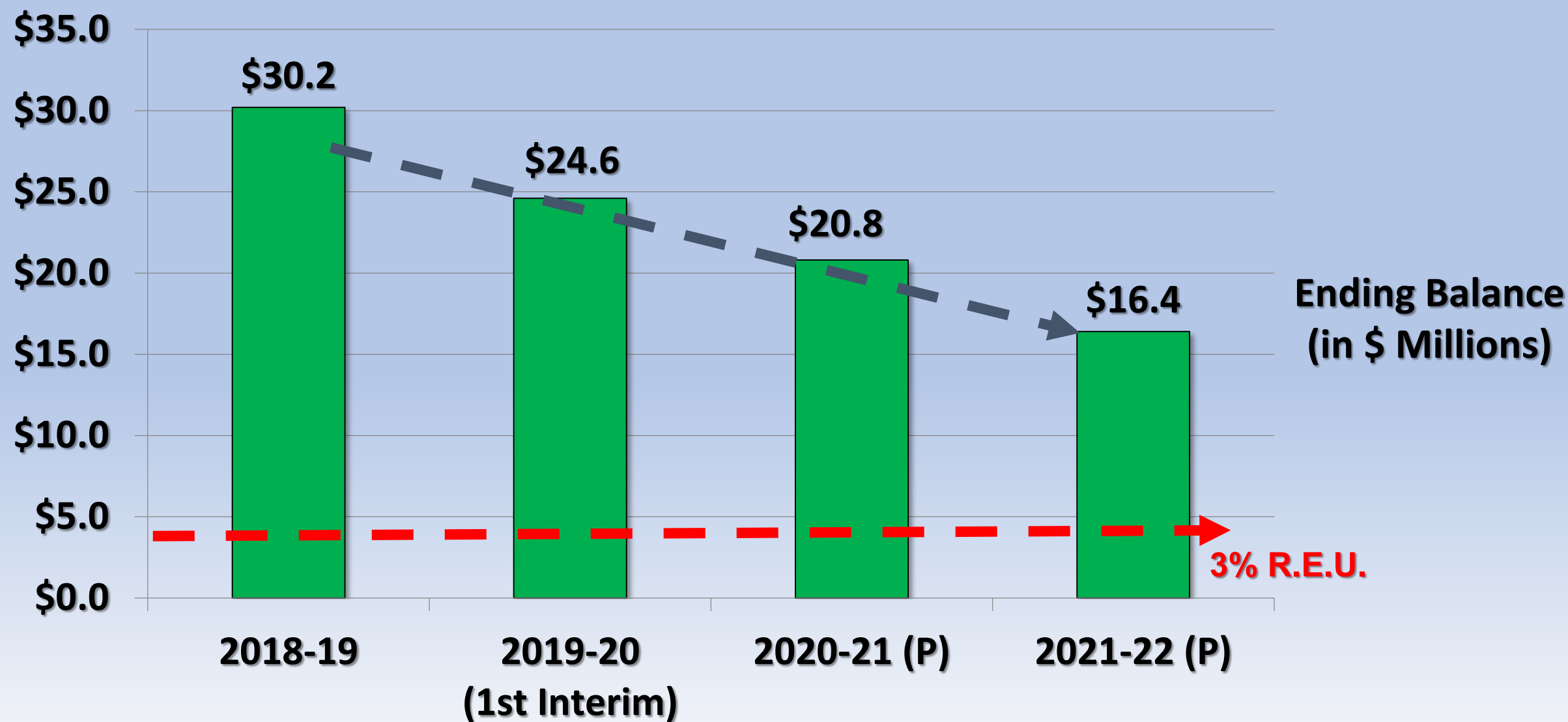
REVENUES

1. Increase student attendance
2. Increase student enrollment
3. State increases COLA % or approves new LCFF target to provide more revenue

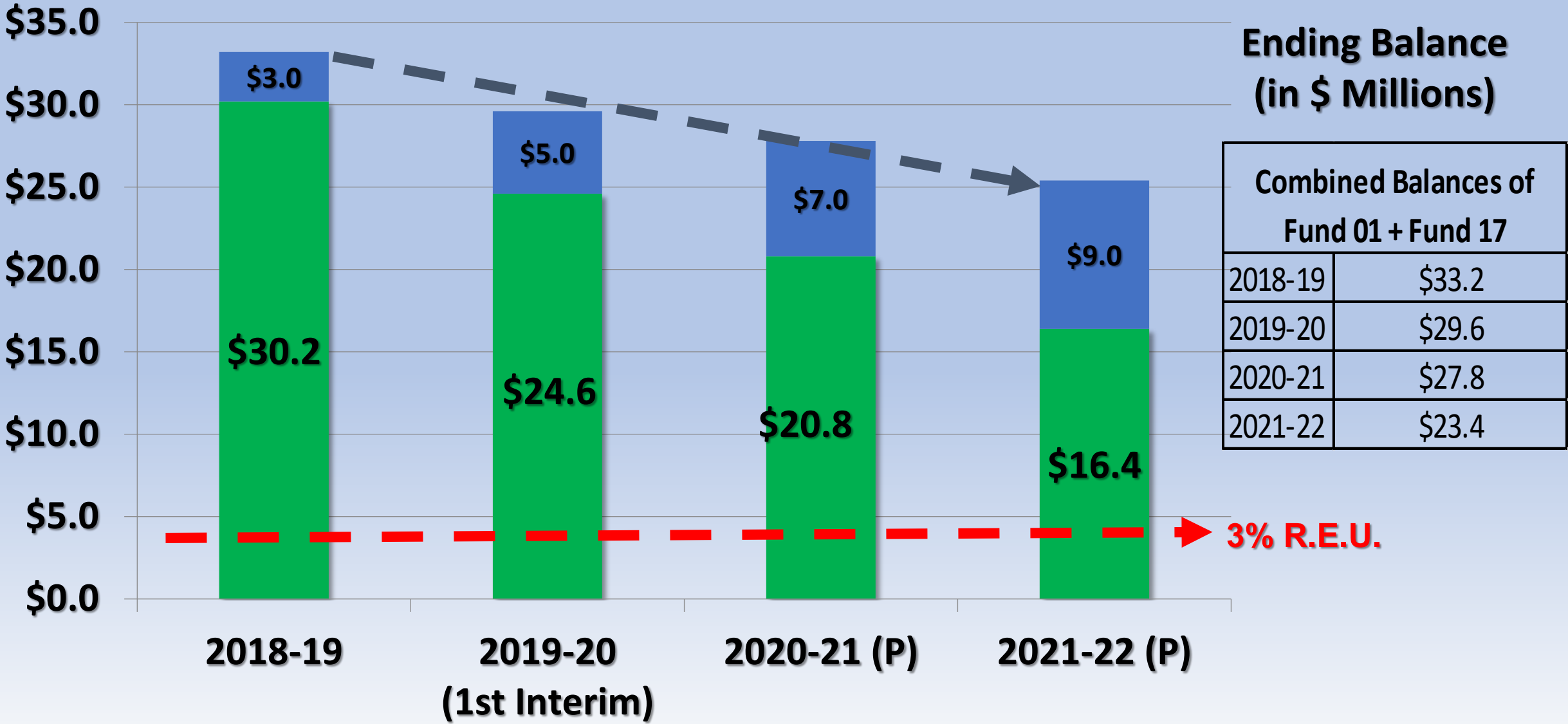
EXPENSES

1. Decrease unrestricted general fund expenses

Declining Reserves – Unrestricted General Fund Only



Reserves: Unrestricted General Fund + Fund 17





Declining Reserves Trend - Notes

- Please be aware the previous two slides show **combined estimated fund balances**, which include all of the components of the general fund ending fund balance, including:
 - Revolving cash
 - Stores (inventory)
 - Restricted
 - Committed
 - Assigned
 - Reserve for Economic Uncertainty
 - Unassigned/Unappropriated

Remember, the budget and projections are always changing, because they are developed based on information known at the time.



Next steps...

At the March 10, 2020 Regular Board Meeting:

- Present the 2nd Interim Financial Report
- Continue Discussion of the Budget's Structural Deficit
 - Review a 5-year Multi-Year Projection (MYP)
 - Review a draft plan to address the ongoing deficit in an inclusive, transparent and collaborative manner, including a timeline



Questions?