



## Financial Oversight Committee Report

*November 19, 2009*

### **The District is in a Serious Financial Predicament Due to State Budget Cuts**

As a result of cuts in state funding, the largest source of District revenues, the District's current financial outlook is bleak:

- The District is currently facing a \$10 million budget shortfall in 2009-2010 in our Unrestricted General Fund, and a \$12 million projected shortfall in each year thereafter.
- Further significant state revenue cuts are expected both at the mid-year point and for the 2010-2011 fiscal year due to continuing state budget problems. The state is projected to be facing a \$21 billion shortfall through the 2010-11 fiscal year.
- Economic recovery will not remove the dire budget problems for this year or next year. The state's financial problems predate the current recession.

## **The District is Burning Through Our Financial Reserves**

Because of the mismatch between revenues and expenditures, we are burning through our financial reserves at an alarming rate:

- Without further action, our District is projected to burn through \$22 million in reserves within 18 months. The Financial Oversight Committee finds this prospect totally unacceptable.
- The current multi-year forecast shows that without substantial expenditure cuts or significant new revenues, or some of each, we will not meet our required 3% Reserve for Economic Uncertainty, beginning next year.
- This puts the District on an unsustainable financial path and risks future autonomy in local financial decision making.

3

## **District Financial Strategy Recommendations**

To resolve our financial predicament and bring our budget into balance, the District needs to pursue three important strategies:

1. Adopt a process and timetable for making specific decisions concerning significant expenditure reductions.
2. In consultation with District bargaining units, aggressively pursue a range of cost savings strategies. 92% of the District's unrestricted expenditures are for salaries and benefits.
3. Implement new revenue enhancements to the maximum extent that is practical.

4

## **Expenditure Reduction Considerations**

Given our District's precarious financial outlook, it is imperative that the District develop a proposed budget cut list now along with a public education campaign.

- The District must submit a preliminary plan to the Los Angeles County Office of Education in December. The plan must demonstrate financial solvency, focusing primarily on expenditure reductions rather than more speculative revenue enhancements.
- The Financial Oversight Committee recognizes that significant expenditure reductions are inevitable. Philosophically, we are in favor of the type of reductions that leave our core instructional program intact.
- Our community needs to understand the difficult financial context in which the School Board will be asked to make some very tough decisions.

5

## **Revenue Enhancement**

The Financial Oversight Committee has investigated numerous revenue enhancement ideas:

- Potential revenue is estimated, which may take several years to fully develop
- Some of these items may require that the District bring in personnel with additional skill sets
- Some initiatives require an additional investment
- Ease of implementation should be considered
- Each initiative requires District commitment for success

6

**Revenue Generation Opportunity Initial Evaluation (1 of 8)**  
**School Funding Measure**

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>Parcel tax</li> <li>Mostly successful in other California school districts</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>POTENTIALLY HIGH (\$0 - \$12 million/year)</li> <li>Polling and research being done to inform strategy for most feasible measure</li> <li>Each \$100/parcel = \$3 million in annual funding</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>\$250,000 for the election campaign</li> <li>\$5,000 audit costs/year</li> <li>Possible exemption for senior citizens age 65 or older</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>POTENTIALLY HIGH after expenses have been paid</li> <li>Could generate additional revenue as early as 2009-2010</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>HIGH: Citizens Committee formed to determine feasibility</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>HIGH: Generally successful track record in District</li> <li>Current weak economy will require a strong election strategy</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>Citizens Committee research underway now</li> <li>School Board to discuss further; election possible during FY 2009-2010</li> </ul>

**Revenue Generation Opportunity Initial Evaluation (2 of 8)**  
**Targeted Fundraising**

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>Development Objective: Help preserve District's current operations</li> <li>Focus on Annual Giving</li> <li>Target: alumni, businesses, parents, District families</li> <li>Naming rights</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>HIGH: \$2 million/year (three year ramp up period)</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>\$12,000/month for a top Development Officer, initial 6 month project</li> <li>Staff support and communications budget</li> <li>\$250,000 annual budget expected within three years</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>HIGH: Up to \$400,000 in Year 1, and up to \$1.75 million by end of year 3</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>LOW: Need professional Development Officer, Core Campaign Committee, staff support (communications)</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>MODERATE: First time use of alumni for development purposes</li> <li>Need to separate Development from Relationship management</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>Will take six months to establish</li> <li>Could raise up to \$500,000 in Year 1, and up to \$2 million by end of year 3</li> </ul>

### Revenue Generation Opportunity Initial Evaluation (3 of 8)

#### Generate Licensing Fees

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Clothing and Merchandise Licensing Fees</li> <li>• “Santa Monica High” and/or “Malibu High” brand opportunity</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>• HIGH: \$300,000 expected in first year. Potential of \$1.5 million over 3 years.</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• No up front fees to licensee</li> <li>• Some legal contract review cost</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>• HIGH: \$300M 1<sup>st</sup> year. Potential of \$1.5MM over 3 years</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>• MODERATE: Need some contract licensing expertise</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>• HIGH: Example set by Beverly Hills USD</li> <li>• Turnkey licensee/distributor ready</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>• Initial revenue projected in 2011-2012</li> <li>• Immediate, negotiate terms and conditions of licensing agreement</li> </ul>

9

### Revenue Generation Opportunity Initial Evaluation (4 of 8)

#### Better Utilize District Assets

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Increase utilization of assets to maximize value to District</li> <li>• Accelerate selected SAMO Memorial Greek Amphitheater renovations</li> <li>• Establish for-profit summer school (with scholarships to needy District students)</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>• HIGH: \$500,000 -1.2 million/year</li> <li>• Renovate Amphitheater (\$300,000-\$1 million/year)</li> <li>• Aggressively market SAMO Barnum Hall to increase commercial use (\$160,000/year)</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Essential Renovations: \$500,000 for new loading area, temporary restrooms, tent anchors, lighting positions, cable runs would make the space much more appealing to production companies</li> <li>• Add'l Renovations: \$1 million for power cap., light/sound booth, spot, seats and ramps</li> <li>• Note \$3.9 million has been estimated as a total renovation cost as part of the CCJUP; this is an <i>acceleration</i> of those funds rather than new additional funds</li> <li>• Personnel \$50,000/year</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>• HIGH: Start at \$100,000 and increase to \$1.2 million/year</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>• MODERATE: Need outreach/communication/marketer to find/serve production cos.</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>• MODERATE: Renovation acceleration requires changing order of work in CCJUP</li> <li>• Public Use program recently updated; commercial use increased successfully</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>• If renovations start in 2010, revenue stream begins 2011 reaches peak in 4-6 years</li> </ul>

10

**Revenue Generation Opportunity Initial Evaluation (5 of 8)**  
**Attendance Campaign**

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>Implement District-wide attendance goal of 96%.</li> <li>This represents a 0.72% increase from prior year.</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>MODERATE: \$450,000/year</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>Minimal costs - \$10,000 (marketing materials, school site incentive awards)</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>MODERATE: \$440,000/year</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>HIGH: Can tap PTAs at sites but would need marketing expertise to drive the program.</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>HIGH: Relatively easy to implement.</li> <li>Awareness letter, School Site Tracking and Feedback mechanism and Incentive Program would need to be developed.</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>Should be started ASAP as economic benefit occurs immediately.</li> </ul>

11

**Revenue Generation Opportunity Initial Evaluation (6 of 8)**  
**Special Education Center of Excellence**

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>Build a Special Education facility of scale, infrastructure, and quality that would draw students from across the SELPA (bringing funds into the District)</li> <li>Drastically lower use of more expensive NPS therapy/counseling while increasing quality levels; provide continuity of services management</li> <li>Parent advocacy and support networking located on-site</li> <li>Potentially use Federal stimulus funds to jumpstart the faculty</li> <li>Use facility after school hours to run an autism or other private program</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>HIGH: 200 student center would bring in approximately \$6 million</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>\$4 million for 40 person staff at \$100,000/person</li> <li>\$1 million/year for operating expenses for school-hours use</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>HIGH: \$1 million/year</li> <li>After school use assumed to be separate (in costs and revenues) and additive</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>LOW: Would require major startup, credentialing, and operational effort</li> <li>However, builds key expertise that could be strategically important to District</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>LOW: Requires new center vision / design / operations excellence commitment on part of District</li> <li>Requires site availability</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>3 years to obtain site, plan and design facility, complete construction, and startup operations</li> </ul>

12

### Revenue Generation Opportunity Initial Evaluation (7 of 8)

#### *Generate Advertising Fees*

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Approved advertising on school buildings, buses, scoreboards, and/or websites</li> <li>• Banners hung from schools</li> <li>• School mailings, newsletters, District website</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>• MODERATE: (\$250,000 - \$500,000/year)</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Marketing officer (\$80,000/year) to cultivate sponsors and advertisers</li> <li>• Access to graphics software (\$10,000)</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>• MODERATE: \$160,000 - \$ 410,000</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>• MODERATE: Must add marketing skill set to District to identify and land clients</li> <li>• Need process and group responsible to ensure compliance with District's advertising policies</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>• MODERATE: Would need to determine appropriate use of school property for advertising</li> <li>• Need to establish relationships with advertising firms, sponsors</li> <li>• May need to order new scoreboards, bus signage, etc.</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>• May take up to six months to generate steady flow of clients</li> </ul>

13

### Revenue Generation Opportunity Initial Evaluation (8 of 8)

#### *Increase Number of Permit Students*

Descriptor	Evaluation
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>• Increase number of permit students back to 2007-2008 levels.</li> <li>• This equates to an increase of 200 students over what is currently budgeted.</li> </ul>
<b>Gross Revenue</b>	<ul style="list-style-type: none"> <li>• HIGH: \$1.2 million</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Teachers, student supplies, and additional hours allocated to attendance department.</li> <li>• ~\$700,000</li> </ul>
<b>Net Revenue</b>	<ul style="list-style-type: none"> <li>• MODERATE: \$500,000</li> </ul>
<b>Skill Set Available</b>	<ul style="list-style-type: none"> <li>• HIGH: Process and staff exist already.</li> <li>• May need to hire an additional clerk to assist with processing.</li> </ul>
<b>Ease of Implementation (Low = Difficult)</b>	<ul style="list-style-type: none"> <li>• MODERATE: Likely to draw opposition from community</li> </ul>
<b>Timeline</b>	<ul style="list-style-type: none"> <li>• Could be implemented mid-year</li> </ul>

14

## Revenue Enhancement - Next Steps

### Next Steps:

- Further develop financial projections and an implementation timeline
- Continue to meet with professionals who can guide us on how best to pursue revenue enhancement opportunities
- Consult with other school districts on how they are pursuing revenue enhancement
- Identify top revenue enhancement priorities for early implementation