

**Presentation to the Board of Education by the
Santa Monica-Malibu Unified School District Financial Oversight Committee**

Paul J. Silvern, Chair

June 5, 2008

Good evening Members of the Board of Education. On behalf of your Financial Oversight Committee (FOC), we welcome this opportunity to review the FOC's work during the past year and to offer our observations about certain District financial matters.

Introduction

The Financial Oversight Committee, now in its seventh year of operation, is a nine-member committee of professional and community members appointed by the Board to provide you and District management with advice and counsel on a variety of financial matters. According to the charge you gave us, our responsibilities include:

- Reviewing and commenting on the District's annual financial audit, the interim financial reports to the Los Angeles County Office of Education, the proposed annual budget and annual enrollment projections;
- Assisting in the development of a long-term financial plan for the District;
- Reviewing issues that could have a significant impact on District finances before the Board makes decisions about them, including proposed labor settlements;
- Serving as the Taxpayer Oversight Committee charged with reviewing the District's administration of and compliance with the terms of Measure S, the 2003 parcel tax approved by District voters in June 2003 (and, pending Board action, an equivalent new responsibility for the replacement Measure R);
- Monitoring and advising about the funding agreements between the District and the City of Santa Monica and the City of Malibu; and
- Assisting the District to educate the general public about school finance issues.

We believe that the District is on a relatively firm financial footing as it approaches the adoption of its budget for FY 2008-09, but there are, as usual, many significant financial challenges that the Board will need to confront. On the positive side, the District has received independent confirmation from municipal bond rating agencies that its general financial condition is improving. In October, the District received an upgraded rating for the Measure "BB" facilities bonds from Moodys Investors Service. Even more impressively, in April 2008, Standard & Poor's upgraded its rating on all District debt instruments by two notches, to AA from A+. In doing so, Standard & Poor's highlighted voter approval of Measure "R," the District's funding contract with the City of Santa Monica, growth in its unreserved fund balance, and the general strength of the Santa Monica, Malibu and general Los Angeles metro area economies.

On the other hand, the State's \$15 billion (and growing) budget deficit, and the protracted debate that is likely to occur this summer between the Governor and the Legislature about how to close the fiscal gap, raise significant concerns about the fate of funding for K-12 education in California. More specific to the District, the Los Angeles County Office of Education continues to raise concerns about the District's deficit financing practices, funding of labor settlements by drawing down reserves, the expiring term of the contract with the City of Santa Monica, and the budgetary impacts of the continuing decline in student enrollment.

Against that general backdrop, the topics we want to discuss with you tonight include the following:

1. A brief summary of FOC's activities during FY 2007-08;
2. Our report on audited Measure S expenditures during FY 2006-07, which is our final report on this subject due to the replacement of this parcel tax with Measure "R."
3. Comments about the proposed plan for use of revenues from the new Measure R parcel tax for FY 2008-09;
4. Comments on the current draft of the FY 2008-09 District budget; and
5. Recommendations on several specific District financial issues.

FOC's Activities During FY 2007-08

This year has been another busy one for the FOC, during which we accomplished the following:

- Participated in two series of interviews with candidates for the permanent CFO position, culminating in the selection of Jan Maez in September 2007;
- Met with the District's auditor to review the FY 2006-07 audit of District finances and Measure S expenditures;
- Reviewed the 1st and 2nd Interim Reports, the P-1 and P-2 enrollment counts, District staff projections of enrollment and Average Daily Attendance (ADA), and various proposed budget transfers;
- Reviewed, discussed and provided comments to the Board on a variety of other financial matters, including three labor settlements and their associated AB 1200 analyses; the Barber & Associates Report on the District's Special Education program; and the new DecisionInsite enrollment forecast.
- Monitored the implementation of the Measure "BB" facilities bond program, including participation of a subcommittee that advises the CFO and Program Manager on the overall financial strategy for the program; and

- Reviewed and discussed the initial draft of the District's FY 2008-09 budget, including plans for expenditures from Measure "R" revenues;

In addition, several of our members were actively involved in recommending a strategy to replace the two previous parcel taxes (Measures "S" and "Y") and the successful campaign for Measure "R."

The FOC's work this year benefited from a productive working relationship with the Superintendent, former Interim CFO Dr. Steve Hodgson, new CFO Jan Maez, the District's outstanding fiscal staff, and other senior District staff. Once again, we want to acknowledge Dawn Smithfield, in particular, who provides administrative support to the FOC and who continues to handle the parcel tax senior exemption program with unusual diligence and tact.

We were again very fortunate to have active participation in our meetings by our Board liaisons, Maria Leon-Vazquez and Kelly Pye, who provided valuable insights about Board policy. Other members of the Board also attended our monthly meetings from time to time. Although our meetings this year did not attract quite as many members of the public and press as last year, public knowledge about our work was enhanced by regular posting of our agendas and minutes on the Board's Web site.

Measure "S" Expenditures

The Quality Public Education Preservation Act of 2003, more commonly known as Measure "S," was the parcel tax approved by District voters in June 2003. Measure "S" imposed a \$225 tax on each parcel of land in Santa Monica and Malibu within the District's boundaries, with exemptions for qualifying seniors. The tax was rescinded in February 2008 as part of voter approval of Measure "R." As such, this is the FOC's final report on Measure "S."

With a total of about 32,400 property parcels in the District, and after deductions for the estimated number of senior exemptions and tax payment delinquencies, Measure "S" generated about \$6.5 million annually for the District. Under the terms of Measure "S" these funds were to be used to:

- Restore/replace programs cut due to State funding reductions;
- Sustain student achievement and fulfill the District's core curriculum, including music, arts and athletics; and
- Provide independent expenditure accountability.

The Board assigned the independent expenditure accountability role to the FOC. Each year we reviewed the proposed annual expenditure plan for the following year, and reviewed the actual, audited expenditures from the prior year, all in terms of their consistency with the Measure's purposes.

Inasmuch as Measure "S" has now been rescinded, our final review is limited to actual Measure "S" expenditures for last year (i.e., FY 2006-07). The District's auditor concluded that actual expenditures were consistent with the Board's adopted expenditure plan that was included in the FY 2006-07 budget, both as to dollar amounts and distribution by category. That spending plan included the allocations shown in Table 1.

**Table 1
Measure "S" Expenditure Plan vs. Actual Expenditures, FY 2006-07**

	Budgeted			Reported		
	FTEs	Amount	Percent	FTEs	Amount	Percent
Revenues Collected		\$ 6,573,000	100.0%		\$ 6,861,964	100.0%
Expenditures						
Teachers Salaries & Benefits						
K-3 Class Size Reduction	19.00	\$ 1,554,371	23.6%	23.00	\$ 1,881,483	27.4%
Middle Schools	10.00	\$ 818,090	12.4%	10.00	\$ 827,383	12.1%
High Schools	16.00	\$ 1,308,944	19.9%	16.00	\$ 1,305,395	19.0%
Subtotal	45.00	\$ 3,681,405	56.0%	49.00	\$ 4,014,261	58.5%
Music Program		\$ 1,023,906	15.6%		\$ 1,080,725	15.7%
Physical Education Program		\$ 603,484	9.2%		\$ 478,862	7.0%
Library Program		\$ 1,211,236	18.4%		\$ 1,229,841	17.9%
Measure "S" Admin.		\$ 47,969	0.7%		\$ 53,419	0.8%
Audit Cost		\$ 5,000	0.1%		\$ 4,856	0.1%
Subtotal		\$ 2,891,595	44.0%		\$ 2,847,703	41.5%
Total Expenditures		\$ 6,573,000	100.0%		\$ 6,861,964	100.0%
Total Revenues (Over)/Under Expenditures		\$ -			\$ -	

Source: Roy J. Blair, CPA, FY 2006-07 Measure "S" Audit, p.2

Accurate tracking of these expenditures was made possible by assigning them the specific account code number 91221. There were no audit exceptions or recommendations from the auditor for changes to Measure "S" accounting procedures or practices. Thus, the Board and public can be assured that, once again, last year's expenditures were consistent with what the expenditure purposes that District voters approved in 2003. Proposed expenditures from Measure "S" for this year (i.e., FY 2007-08) were reviewed by FOC last June and included in the adopted budget.

Two issues with respect to administration of Measure "S" arose in FY 2007-08. First, the Board agreed to waive the parcel tax on those properties that sustained 50 percent or greater damage to property as a result of the winter fires in Malibu. The number of such cases was expected to be small. Second, a communication error between the District and the Los Angeles County Assessor's Office caused some seniors who were eligible for the Measure "S" exemption to be incorrectly charged for the parcel tax. The District promptly made refunds to property owners as warranted. Again, the number of parcels involved was very small.

Table 2 provides an historical overview of actual Measure "S" expenditures since the FOC has been reviewing them. It shows that since FY 2004-05, Measure "S" provided a total of about \$19.8 million to support District classroom programs (not including unaudited expenditures in FY 2007-08), including class-size reduction, music and the arts, physical education and the library program. This enabled the District to provide the kinds of high-quality programming that District voters expect, but for which there is insufficient State funding.

Table 2
Measure "S" Expenditures, FY 2004-05 through FY 2006-07

Expenditure Category	FY 2004-05 Actual			FY 2005-06 Actual			FY 2006-07 Actual ¹			TOTALS ²	
	FTEs	Amount	Percent	FTEs	Amount	Percent	FTEs	Amount	Percent	Amount	Percent
Teachers Salaries & Benefits											
K-3 Class Size Reduction	19.500	\$ 1,502,812	23.0%	21.000	\$ 1,664,505	25.9%	23.000	\$ 1,881,483	27.4%	\$ 5,048,800	25.5%
Middle Schools	10.000	\$ 771,333	11.8%	10.000	\$ 784,111	12.2%	10.000	\$ 827,383	12.1%	\$ 2,382,827	12.0%
High Schools	20.000	\$ 1,542,666	23.6%	20.000	\$ 1,267,631	19.7%	16.000	\$ 1,305,395	19.0%	\$ 4,115,692	20.8%
Subtotal (49.5 FTEs)	49.500	\$ 3,816,811	58.3%	51.000	\$ 3,716,247	57.7%	49.000	\$ 4,014,261	58.4%	\$ 11,547,319	58.3%
Music Program	NA	\$ 952,239	14.6%	NA	\$ 977,725	15.2%	NA	\$ 1,080,725	15.7%	\$ 3,010,689	15.2%
Physical Education Program	NA	\$ 602,013	9.2%	NA	\$ 541,802	8.4%	NA	\$ 478,862	7.0%	\$ 1,622,677	8.2%
Library Program	NA	\$ 1,165,647	17.8%	NA	\$ 1,155,952	18.0%	NA	\$ 1,229,841	17.9%	\$ 3,551,440	17.9%
Measure "S" Admin.		\$ -	0.0%		\$ 39,000	0.6%		\$ 57,469	0.8%	\$ 53,419	0.3%
Audit Costs		\$ 4,686	0.1%		\$ 4,750	0.1%		\$ 5,000	0.1%	\$ 4,856	0.0%
Subtotal		\$ 2,724,585	41.7%		\$ 2,719,229	42.3%		\$ 2,851,897	41.5%	\$ 8,243,081	41.7%
Total		\$ 6,541,396	100.0%		\$ 6,435,476	100.0%		\$ 6,866,158	100.0%	\$ 19,790,400	100.0%

¹ Includes unanticipated periodic "catch up" revenue resulting from property tax penalties and other adjustments made by the County Auditor-Controller.

² Not including unaudited expenditures for FY 2007-08.

Sources: Measure "S" Audits.

Proposed Measure "R" Expenditures for FY 2008-09

In anticipation of Board action to assign the FOC with independent oversight responsibilities under Measure "R," the FOC also reviewed the District staff's plan for expenditures of those revenues next year.

Measure "R" is a replacement parcel tax for the previous Measure "Y" and Measure "S" parcel taxes, which were rescinded with the adoption of Measure "R." The Measure "R" tax amount is \$346 per parcel this year. Like the previous Measure "Y" (but not Measure "S"), it will be adjusted in future years for inflation by the change in the local Consumer Price Index. Like Measure "S" (but not Measure "Y"), it provides an exemption for qualifying seniors, but has no sunset date.

Revenues from Measure "R" are to be used for the following purposes:

- To preserve programs and replace funds lost or reduced due to inadequate state funding;
- To sustain achievement in reading, writing, and mathematics for all students at all grade levels and to fulfill the District's core curriculum which includes music, arts, and athletics;
- To attract and retain highly qualified teachers; and
- To protect the taxpayers' investment in education and ensure District accountability by providing for special citizen financial oversight and independent annual audits of revenues and expenditures.

Measure "R" also requires that funds be deposited into a separate account, that a "citizen financial oversight committee" review District administration of and compliance with Measure "R," provides for public review of the expenditure plan, and requires an annual audit of expenditures.

The proposed Measure “R” expenditure plan for FY 2008-09 totals \$10.3 million and is shown on the following page. It funds 71.3 FTE teacher positions at all grade levels, and provides \$1.1 million for the Art & Music Program, about \$580,000 for the Physical Education Program, \$1.3 million for the Library Program, about \$1.0 million for technology expenditures, and \$66,000 for administrative costs, including the annual audit. This expenditure plan was reviewed by the FOC at its regular meeting on June 3, 2008. The plan is very similar to the expenditure priorities applied to Measure “S” revenues, but also adds expenditures for technology management. This appropriately supports the technology capital investment being made through the Measure “BB” bond program. The FOC concludes that the expenditure plan is consistent with the stated purposes of Measure “R,” and recommends that the Board approve it.

*Financial Oversight Committee Presentation to the Board of Education
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Table 3
SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT
PARCEL TAX - MEASURE "R" PROPOSED BUDGET
2008-09

REVENUE:			
	\$/PARCEL	\$	346.00
			TOTAL PARCEL 32,527
			SENIOR EXEMPTION 2,767 (9/2007 RECORD)
PROJECTED REVENUE:		\$	10,296,960
EXPENDITURE:			
CLASS SIZE REDUCTION:		FTE	BUDGET
TEACHING POSITIONS			
		21.86	1,885,865
		5.00	432,139
		17.40	1,513,937
		27.00	2,317,310
TOTAL BUDGET FOR TEACHING POSITIONS:		71.257	6,149,252
MEASURE "R" AUDIT 5,000			
01-00001-0-00000-72000-2430-050-1501			
MEASURE "R" EXEMPTION PROCESSING COST 8,796			
01-00001-0-00000-72000-4310-050-1500 42,000			
01-00001-0-00000-72000-5710-050-1500 3,000			
NEWSLETTER MAILER			
01-00001-0-00000-72000-5802-050-1500 7,500			
ADMINISTRATION COST			66,296
01-00001-0-17100-10000-1110-030-1501			
ART & MUSIC PROGRAM			
MUSIC COORDINATOR 1.000 101,784			
ELEMENTARY MUSIC TEACHERS 7.420 542,271			
EXTRA DUTY UNIT -EDU 10,240			
OTHER HOURLY 552			
BENEFITS 159,541			
ACCOMPANIST/MUSIC AIDES			
ADAMS 1.4375 63,342			
LINCOLN 1.375 53,898			
MALIBU 1.500 66,198			
SAMOHI 1.125 55,325			
SECURITY O/T STAIRWAY 2,927			
SUPPLIES 5,510			
MILEAGE 3,760			
CONFERENCE 1,000			
DUES AND MEMBERSHIP 300			
REPAIR BY VENDOR 50,000			
DIRECT COST-PRINTING & SCHOOL BUS 6,187			
TRANSPORTATION 918			
CONSULTANT 17,500			
COMMUNICATION 480			
TOTAL BUDGET FOR MUSIC PROGRAM:		12.858	1,141,733
01-00001-0-19480-10000-2xxx-030-1501			
PE PROGRAM			
ELEMENTARY			
PHYSICAL ACTIVITY SPECIALIST 7.6875 242,180			
PE AIDES 3.680 102,053			
PE SUB - TEACHER 15,000			
PE AIDES -SUB 11,411			
BENEFITS 144,642			
PE SUPPLIES 3,500			
SECONDARY			
ADAMS 0.875 33,437			
LINCOLN 0.750 25,556			
CONFERENCE AND TRAVEL 1,000			
COMMUNICATION 400			
INTERFUND TRANSFER 500			
TOTAL BUDGET FOR PE PROGRAM:		12.9925	579,679
01-00001-0-19530-24200-1210/2410/2910			
LIBRARY PROGRAM			
ELEMENTARY			
LIBRARIANS 1.000 68,963			
LIBRARY ASSISTANT 9.000 321,812			
SECONDARY			
LIBRARIANS 5.000 346,634			
LIBRARY ASSISTANT 3.375 85,859			
TEXTBOOK COORDINATOR/SAMOHI 1.000 67,389			
MEDIA SERVICES/SAMO 1.000 41,922			
BENEFITS 339,491			
MAINTENANCE AGREEMENT 18,000			
OTHER OPERATING COST 26,000			
PROQUEST INFORMATION & LEARNING			
TOTAL BUDGET FOR LIBRARY PROGRAM:		20.375	1,316,070
TECHNOLOGY SUPPORT ASSISTANT 8 360,921			
NETWORK ENGINEER 1 72,708			
TECHNICIAN 2 136,605			
BENEFITS 226,674			
SUPPLY 3,022			
NON-CAPITAL EQUIPMENT 5,000			
MILEAGE 4,500			
CONFERENCE 2,000			
INTERFUND TRANSFER 500			
MAINTENANCE AGREEMENT 42,000			
REPAIR - APPLE COMPUTER 100,000			
CONSULTANT (MARINA DATA SOLUTION) 60,000			
OTHER OPERATING COST 30,000			
TOTAL BUDGET FOR TECHNOLOGY		11	1,043,930
TOTAL EXPENDITURE FOR MEASURE "R":		128.48	10,296,960

Proposed FY 2008-09 District Budget

The general financial context for considering the District's FY 2008-09 budget is unusually uncertain. As noted above, the \$15 billion State deficit, and the budget debate that will take place this summer, forces all California school districts to plan for next year without a complete understanding about State revenues and program requirements. Although the Governor's May Revision of the proposed State budget retracted some of the more draconian cuts that were initially proposed in January, guidance from the Los Angeles County Office of education is to expect no growth in Revenue Limit funding and zero Cost of Living Adjustment (COLA) funding for next year, assume reductions in some categorical program revenues, to shy away from using some of the cost reduction options discussed in the May Revision because they are simply poor financial practice (e.g., reducing the Reserve for Economic Uncertainty and the Routine Restricted Maintenance set-aside), and to be very cautious about assuming any COLAs for the next couple of years. Whether the Legislature will accept the Governor's latest proposals, including the State lottery securitization strategy that is central to the financing plan, or move in the direction recommended by the Legislative Analyst's Office which is more favorable to K-12 education funding, or pursue some completely different approach, is all very much in question. It will undoubtedly be a long, hot summer of budget negotiations in Sacramento.

Nevertheless, the District must adopt its budget by the end of this month. The FOC's ability to provide comment to the Board on the proposed budget is aided by the excellent work of Ms. Maez and the fiscal staff, who work diligently to keep up with ever-changing circumstance in Sacramento, and the fact that the Board continued its recent practice of discussing the draft budget at several Board meetings and special workshops. This is a significant improvement in the budget preparation process.

The FOC applauds the District staff's continuing effort to analyze staffing ratios and the Board's support for making the staffing reductions that are needed to correspond with the continued decline in student enrollment, most of which is related to Board policy to limit out-of-District permits. And, in light of the negative revenue impacts from declining enrollment and State funding uncertainty, we also support the Board's decision to add additional student permits for next year.

We remain very concerned, however, about the projected scale and growth of the operating deficit in the Unrestricted General Fund, which is the District's primary operating account. The three-year projection shows a deficit of about -\$2.6 million next fiscal year and a cumulative total deficit over the three-year projection period of -\$4.7 million. This is at odds with the Board's very first adopted budgeting principle, which is to maintain balance between current and future year income and expenditures so as to ensure the long-term financial integrity of the District. The Los Angeles County Office of Education has routinely cautioned the District about the need to reduce its projected operating deficit. As we noted in our report last year, new research by School Services of California shows that persistent deficit spending may be a better indicator of future fiscal difficulty than an inability to meet the minimum three percent reserve benchmark. We urge the staff and Board to continue searching for ways to reduce costs, increase revenues, or both, including the identified, but not fully quantified "budgetary solution strategies" list initiated last year.

The deficit is, in part, a result of generous labor settlements approved this year with all three of the District's bargaining units, but without any commensurate reductions in expenditures or identification of new on-going revenues. Instead, the operating deficit is financed by drawing down reserves. While the proposed budget indicates that the District will be able to fund the minimum required three percent reserve for economic uncertainties throughout the projection period, there will be steady erosion of the unallocated fund balance at a rate that is between \$2 million and \$3 million each year. In addition to being poor financial practice, this trend threatens to undermine one of the key reasons that Standard & Poor's upgraded its rating on District debt instruments.

Further, it should also be remembered that the proposed District budget is a best case scenario. It assumes, for example, no additional cost increases resulting from future labor negotiations with any of the District's bargaining units over the next three years, and assumes renewal of the City-District contract, which is far from a certainty for many reasons. The Board will need to be vigilant about maintaining District reserves, controlling costs and aggressively searching for new revenues in order for the District to remain financially sound.

Although we are mindful of the time pressure that staff faces each year in preparing the budget, we want to reiterate several suggestions about the budget process that have not yet been acted on:

- *Budget to Meet Specific District Objectives.* We continue to recommend that the budget be presented in the context of the educational and management objectives and priorities for the coming year. We believe that doing so will assist the Board to better align expenditure decisions with its planning objectives, and provide more clarity to the public.
- *Show Information on All Funds.* We continue to recommend that the budget presentation include a summary of *all* District funds, and not just the Unrestricted General Fund. While the General Fund, including both its unrestricted and restricted funds is clearly the most significant component of the total budget, we believe the Board and public should see a more complete picture of the District's total budget.
- *Improve Public Communication.* Finally, we once again recommend that the budget presentation make better use of graphics to help explain the proposed District budget. School district finance in California is particularly complicated and difficult for the average citizen to grasp. Although the school- and program-based budgets have been useful, the agenda reports to the Board do not explain the budget structure as clearly as it could. We should be using every opportunity to educate voters and the public in general about the condition of District finances.

Specific Recommendations for Future Action

In our joint meeting with the Board last year, we made six specific recommendations for your consideration. We are pleased to report that progress has been made on four of them:

- *Redouble Efforts to Identify and Select a Highly Qualified CFO.* We urged the District to continue its search for a highly-qualified CFO, a search made more difficult by the controversy surrounding Mr. Braham's resignation. Some of our members participated in

two rounds of selection interviews and we were pleased with the selection of Jan Maez last September. The FOC has had a very good working relationship with Jan in the intervening months.

- *Reconcile Conflicting Enrollment Forecasts.* Because the short-term enrollment projection prepared for the District by FCMAT in 2007 was at serious odds with the more optimistic projection prepared for the draft Facilities Master Plan, and because the District's financial and facilities strategies depend heavily on an accurate picture of future enrollment changes, we urged more careful attention to this matter. The District commissioned a new enrollment forecast from DecisionInsite, which confirmed FCMAT's concerns about continuing future enrollment declines. Although we have some reservations about certain aspects of this new forecast, we believe it provides a better basis for District financial and program planning.
- *Initiate a Financial Evaluation of the Special Education Strategy.* We have consistently recommended that the District initiate a complete evaluation of the plan that was put in place a few years ago to slow the rate of increase in the costs of Special Education. The recently completed Barber & Associates Report sheds important new light on the historical pattern of program revenue and costs and that will assist the District to achieve a better balance between service delivery and the cost of services.
- *Minimum Analysis Required for Future Labor Negotiations.* We recommended that, at minimum, the Board require staff or other experts to prepare multi-year financial projections for a range of settlement scenarios using either the AB1200 process and/or FCMAT's Budget Explorer software to project financial impacts before reaching a tentative agreement. Although the FOC is not privy to exactly what information is provided to District negotiators and union representatives, Jan Maez reports to us that multi-year scenarios are being considered.

On the other hand, not much progress was made on the other two FOC recommendations:

- *Plan to Eliminate the Operating Deficit Within Five Years.* We recommended that the Board set this objective and fashion its budget strategy around it. Instead, the District continues to spend more than it receives in revenue, and balances its books by drawing down reserves. This is an unsustainable practice and should be ended in a planned manner.
- *Strengthen the "Accountability" Provisions in the City-District Agreement.* Finally, we recommended that the "accountability" provision in the Master Facilities Use Agreement between the City and the District should be strengthened. No progress was made on this issue. In light of events during this school year, movement on this issue will be essential to win renewal of the City-District contract.

For FY 2008-09, the FOC proposes to focus on the following two issues, in addition to the other responsibilities assigned by the Board:

- *Explore an Appropriate FOC Role in District Financial Condition Evaluation Prior to the Commencement of Labor Negotiations.* Salaries and benefits now account for 91 percent of the Unrestricted General Fund. Thus, settlements with the bargaining units are among the most significant financial decisions the Board makes each year. Yet the FOC plays no role in this process until after settlements have been reached. As FOC Vice Chair Cynthia Torres has observed, this is financial “hindsight,” not “oversight.” The FOC believes there is a constructive role it can play in developing neutral analytic information that will assist the parties in their deliberations without interfering with the Board’s responsibilities or the rules that govern the collective bargaining process. We propose that the Board, District staff and FOC consult with experts in the field to identify options for constructive roles that the FOC can play to inform the front end of this process.

- *Assist in the Development of a Financial Management Plan for Special Education.* As noted above, the Barber & Associates Report shed important new light on the costs and revenues associated with the District’s Special Education program. Consistent with the direction articulated by Superintendent Talarico in mid-March, the FOC proposes to play a constructive role in helping to develop a financial management plan for Special Education. This may involve, for example, working with District staff and any outside consultant retained by the District to develop a work plan and schedule for this task so that it is coordinated with the development of the program plan, developing quarterly program revenue and expenditure reporting that can serve as both a useful information and management tool, and continuing to clarify the overall picture of Special Education revenues and costs.

On behalf of the FOC, thank you for the opportunity to serve the Santa Monica-Malibu Unified School District.