

TO: BOARD OF EDUCATION

DISCUSSION

06/07/12

FROM: SANDRA LYON / JANECE L. MAEZ

7:00pm

RE: JOINT MEETING WITH THE FINANCIAL OVERSIGHT COMMITTEE

DISCUSSION ITEM NO. D.02

As part of the requirements associated with the annual funds given to the School District from the City of Santa Monica, the Financial Oversight Committee (FOC) was appointed as an independent oversight committee regarding the financial matters of the District. This includes an annual report from the FOC to the School Board, reviewing the past year and offering its observations about the District's financial matters.

In addition, the FOC's charge was amended at the June 5, 2008 Board meeting (Item A.22) to include responsibilities associated with the Measure R parcel tax, approved by the voters at the February 2008 Special Election. Measure R requires that an Independent Citizens Oversight Committee monitor proposed and actual parcel tax expenditures each year.

Therefore, in compliance with the foregoing, the Board of Education will convene a joint session with the Financial Oversight Committee on June 7, 2012 at 7:00 p.m. for the purpose of addressing the following items:

- I. Report from the FOC as presented by Chair Carrie Wagner
 - A. Introduction
 - B. Summary of FOC Activities During FY 2011-12
 - C. Report on Measure R Expenditures
 - D. Views on the Proposed 2012-13 District Budget
 - E. Proposed FOC Focus for FY 2012-13
- II. Discussion between the Board of Education and the FOC

The FOC's annual report and presentation can be found under Attachments at the end of these minutes. Ms. Maez introduced the FOC members present in the audience. The FOC Chair, Carrie Wagner, summarized the report.

Mr. Mechur commented on the FOC's 2012-13 focus. Mr. Silvern answered questions regarding the effects the demise of RDA funds have had on the district. Mr. Hamilton commented on the special education portion of the budget. The board requested a copy of the report from the FOC's Comparative District Subcommittee. Mr. Patel would like more information regarding what other school districts are doing for fundraising and forming partnerships with local businesses. Dr. Escarce requested that the FOC agendize this topic at their next meeting.

The board thanked the FOC for their collaborative and cooperative relationship with the district.

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

Carrie Wagner, Chair

June 7, 2012

I. Introduction

Roles and Responsibilities

The Financial Oversight Committee, now in its eleventh year of operation, is a twelve-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:

1. Review any matters potentially having a significant impact on District finances before the Board of Education takes action.
2. Assist the District in educating the general public concerning school finance issues, including creating reader friendly budget information.
3. Serve as the Measure R Independent Citizens Oversight Committee charged with reviewing the District's administration of and compliance with the terms of the Measure.
4. Provide monitoring and review of the City of Santa Monica joint-use agreement with the District, as per the terms of that contractual agreement.
5. Provide monitoring and review of the City of Malibu joint-use agreement with the District, as per the terms of that contractual agreement.
6. Review the District's annual audit and accompanying management letters, and submit any comments or recommendations to the Board of Education.
7. Review the annual budget, enrollment projections, revenue and expenditure forecasts, and the District's capital program, and submit any recommendations to the Board of Education.
8. Serve as liaison to other District committees regarding financial implications of proposed program or policy changes at the direction of the Board.

Topics

The specific topics we want to discuss with you tonight include the following:

1. A brief summary of the Financial Oversight Committee's activities during FY 2011-12.
2. Our report on Measure R expenditures during FY 2011-12 and 2012-13.
3. Comments on the current draft of the FY 2012-13 District budget.
4. The proposed FOC charges for 2012-13.

II. Summary of FOC's Activities During FY 2011-2012

This year the Financial Oversight Committee has accomplished the following:

- Met with the District's auditor to review the FY 2010-11 audit of District finances and Measure R expenditures.
- Reviewed the 1st and 2nd Interim Reports, 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 matters, including:
 - a) Comments on District-wide fundraising;
 - b) Comments on the FOC Statement of Purpose;
 - c) Comments on the 2010-11 Audit Report;
 - d) Comments on the FOC Nomination Policy;
- Our comparative District Subcommittee performed an analysis and prepared a report on the financial benchmarks for several similar districts in California.
- Our Revenue Enhancement Subcommittee researched other districts' Education Foundations. This analysis included a review of the formal agreements between the educational foundations and their respective Districts, and an understanding of the implementation process of centralized fundraising.
- Our Public Education on District Finances Subcommittee prepared a user-friendly presentation that was given to several stakeholders including four PTAs, the board of the Education Foundation, and the PTA Council.
- Our Special Education Subcommittee completed work with Chief Financial Officer Jan Maez and a subcommittee of the District's Special Education District Advisory Committee (SEDAC) to improve knowledge, access, and understanding of the District's Special Education expenditures. Specific outcomes included:
 - Clarifying and understanding District expenditures consistently across years to create a better understanding of spending patterns;
 - Educating SEDAC members concerning revenue sources and expenditures, including an analysis of historical trends
 - Establishing a financial framework for understanding expenditure patterns as they relate to delivering Special Education services more cost-effectively.

In addition, several of our members are active on other District committees including the Special Advisory Group on District-wide Fundraising, the Funding Feasibility Committee, and the Measure BB Advisory Committee.

The FOC's work this year benefitted from a productive working relationship with Chief Financial Officer Jan Maez, the District's outstanding fiscal staff, and other senior District staff.

We want to acknowledge Kim Nguyen, in particular, who provides administrative support to the FOC with excellent administrative skills and response time.

Our Committee was very fortunate to have active participation in our meetings by our board liaisons. Our board liaisons, who include Oscar de la Torre, Jose Escarce, Laurie Lieberman, and Nimish Patel have provided us with valuable insights about board policy. Our meetings are open to the public and the press, and our agendas and minutes are posted on the Board's web site.

III. Report on Measure R Expenditures

The Santa Monica-Malibu Schools Quality Education Funding Renewal Act of 2008, more commonly known as Measure R, was the school funding measure approved by District voters in February 2008. The measure consolidated and replaced two former parcel taxes, Measure S and Measure Y, in the amount of \$350.84 per parcel this year, and includes both a "Senior Exemption" and an annual CPI adjustment.

With a total of about 32,500 property parcels in the District, and after deductions for the estimated number of senior exemptions and tax payment delinquencies, Measure R generated about \$10.7 million for our District in 2011-12. Under the terms of the Measure, these funds 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, the arts, library services, 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 financial oversight and independent annual audits of revenues and expenditures.

Measure R requires that funds be deposited into a separate account, that a "citizens 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 actual expenditures for Measure R in 2011-12 totaled approximately \$10.7 million and are shown below.

The Financial Oversight Committee reviewed the audit of Measure R that was performed by the District's auditors, Christy White Accountancy (formerly Nigro, Nigro & White) for the FY ended June 30, 2011. This audit contained a "clean" accounting opinion, and there were no findings reported in the schedule of findings and recommendations. A similar audit of Measure R through June 30, 2012 will be reviewed by the FOC next year.

**SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT
PARCEL TAX - MEASURE "R" BUDGET / PLAN**

2012-13 2 nd Interim			2012-13 PROPOSED	
REVENUE:	10,685,827		10,920,915	
EXPENDITURES:				
	FTE	AMOUNT	FTE	AMOUNT
COST TO ADMINISTER		26,154		26,300
PHYSICAL EDUCATION	13.50	606,220	13.50	621,485
COMMUNITY SERVICES	1.00	59,709	1.00	59,709
TECHNOLOGY	14.00	1,486,280	14.00	1,516,774
ART AND MUSIC PROGRAMS	15.75	1,322,471	15.75	1,343,393
LIBRARY PROGRAM	18.25	1,181,181	18.25	1,203,229
SUBTOTAL EXPENDITURES FOR MEASURE "R"		4,682,015		4,770,890
BALANCE USED TO PRESERVE PROGRAMS AND REPLACE FUNDS LOST DUE TO INADEQUATE STATE FUNDING (Approx. \$20MM since 07-08)		6,003,812		6,150,025
TOTAL BUDGET/PLAN MEASURE “R”	61.50	10,685,827	61.50	10,920,915

IV. Views on the Proposed FY 2012-2013 District Budget

Before launching into a description of the FOC's assessment of the District's current financial situation, it is important for the public to understand the extremely difficult nature of the economic environment that has affected California's public schools over the past five years. The State's fiscal crisis has cut revenues to our District by approximately \$20 million since 2007-2008. While SMMUSD has cut \$11 million of expenses from the budget and Propositions Y&YY have added \$6 million of revenue during this period, a gap of \$3 million still remains.

We want to recognize the efforts by the SMMUSD Board of cutting an additional \$2.5MM from the budget for the 2012-13 school year in an effort to balance the budget. Unfortunately, we must recognize that even with these cuts, a \$2 million - \$5 million structural deficit exists that will continue forward into future years, even if one of the pending tax initiatives is successful in November. At this rate, the District's reserves will be reduced to the 3% mandatory level within two years. If both pending tax initiatives fail, SMMUSD will face an additional \$4.8 million revenue shortfall.

We also want to note that there are risks in the current projections, including (a) failure of the tax initiatives, (b) inaccurate projections regarding the results of negotiations with bargaining units, (c) the impact of the weighted student formula which would become effective on a phased basis if the Governor's tax initiative is successful, and (d) additional reductions in school funding by various State actions, such as further deficits, continued refusal to make COLA increases, and budget gimmicks to reduce the Proposition 98 guarantee. There are also significant cash flow issues resulting from assumptions made by the State regarding the level of property tax revenues that will flow to the District as a result of the demise of the Redevelopment Agencies. These assumptions will force the District to increase borrowing, thereby adding to the cost of financing

debt. For example, our Chief Financial Officer currently expects that our cash flow borrowing needs will be at twice the level next year that they were during the current year.

While we appreciate that the Board always needs to strike a balance between cutting staff and overspending revenues, we are concerned that the reserves continue to shrink every year and may well be reduced below the required 3% level within two years at the current rate of spending, particularly if the tax initiatives fail in November. The sooner necessary cuts are made, the less SMMUSD will have to cut in the future.

In addition to cutting staff and increasing class sizes, we also want to encourage the Board to consider all other options available to reduce or control operating costs. Careful consideration should be given to reserving the District's ability to implement furlough days or negotiating other concessions with our bargaining units, particularly in the event that the November tax initiatives fail.

While we recognize that there are many moving parts to the revenue projections this year, we want to urge the Board to develop a financial strategy now that will enable the District to maintain adequate reserves in the future. Finally, as the Board is well aware, continued deficit spending may cause control issues with both the Los Angeles County of Education and the State Board of Education.

V. Proposed FOC Focus for FY 2012-13

Each year at this time, the Financial Oversight Committee recommends a particular set of charges that we would like the Board to approve in order to provide additional value to the District. At our meeting on May 29, the Financial Oversight Committee decided to bring forward three specific topics that we would like to concentrate on during the next school year, in addition to our other regular duties:

1. *Per Pupil Budgeting Research.* With the possibility of the weighted student funding formula being implemented at the State level over the next several years, we would like SMMUSD to get ahead of the curve. We would propose to spend this summer and next year researching per-pupil budgeting initiatives throughout the State, and also review models that have already been implemented.
2. *Detailed Budget Review.* The subcommittee would complete a more detailed review of the budget in order to increase knowledge and expertise of members serving on the FOC and its ability to educate District stakeholders about the budget. The subcommittee would also undertake a comparative analysis of other District's budgets, in an effort to identify best practices.
3. *Malibu Separation.* This FOC subcommittee would analyze all reports and research related to the proposed Malibu separation.

.....

Financial Oversight Committee Annual Report to the Board of Education
June 7, 2012

On behalf of the FOC, I thank you for the opportunity to serve the Santa Monica-Malibu Unified School District. We are available to answer any questions you may have about this opening statement, and look forward to a discussion with the Board.

Santa Monica-Malibu Unified School District

2011-12
Financial Oversight Committee Report
June 7, 2012

Public Announcement

- Thank you to Jan Maez and Kim Nguyen!
- Thank you to our Board Liaisons!
 - Oscar de la Torre
 - Jose Escarce
 - Laurie Lieberman
 - Nimish Patel

Year in Review

2011-12 FOC Accomplishments

- Met with the District's auditor to review the FY 2010-11 audit of District finances and Measure R expenditures.
- Reviewed the 1st and 2nd Interim Reports, District staff projections of enrollment and Average Daily Attendance (ADA) and various proposed budget transfers.
- Our comparative District Subcommittee performed an analysis and prepared a report on the financial benchmarks for several similar districts in California.

2011-12 FOC Accomplishments

- Reviewed, discussed, and provided comments to the Board on a variety of other matters, including:
 - Comments on District-wide fundraising;
 - Comments on the FOC Statement of Purpose;
 - Comments on the 2010-11 Audit Report;
 - Comments on the FOC Nomination Policy;
- Our Public Education on District Finances Subcommittee prepared a user-friendly presentation that was given to several stakeholders including four PTAs, the board of the Education Foundation, and the PTA Council.

2011-12 FOC Accomplishments

- Our Revenue Enhancement Subcommittee researched other districts' Education Foundations. This analysis included a review of the formal agreements between the educational foundations and their respective Districts, and an understanding of the implementation process of centralized fundraising.
- Our Public Education on District Finances Subcommittee prepared a user-friendly presentation that was given to several stakeholders including four PTAs, the board of the Education Foundation, and the PTA Council.
- Our Special Education Subcommittee completed work with Chief Financial Officer Jan Maez and a subcommittee of the District's Special Education District Advisory Committee (SEDAC) to improve knowledge, access, and understanding of the District's Special Education expenditures.

Measure R

- The Santa Monica-Malibu Schools Quality Education Funding Renewal Act of 2008, more commonly known as Measure R, was the school funding measure approved by District voters in February 2008. The measure consolidated and replaced two former parcel taxes, Measure S and Measure Y, in the amount of \$350.84 per parcel this year.
- Measure R generated about \$10.7 million for our District in 2011-12.
- The FOC reviewed the audit of Measure R that was performed by the District's auditors which contained a "clean" accounting opinion, and there were no findings reported.

Opinion on 2012-13 Budget

- We understand the difficult nature of the economic environment affecting public schools funding over the past five years. SMMUSD has lost approximately \$20 million in State funding since 2007-2008. While SMMUSD has cut \$11 million and Propositions Y&YY have added \$6 million, a gap of \$3 million still remains.
- We want to recognize the efforts by SMMUSD Board of cutting \$2.5 million from the budget. We must recognize that a \$2 - \$5 million structural deficit still exists. If the tax initiatives fails, SMMUSD will face an additional \$4.8 million revenue shortfall.

Opinion on 2012-13 Budget

- There are risk in the current projections including:
 - (a) failure of the tax initiatives,
 - (b) inaccurate projections regarding the results of negotiations with bargaining units,
 - (c) the impact of the weighted student formula which would become effective on a phased basis if the Governor's tax initiative is successful, and
 - (d) additional reductions in school funding by various State actions, such as further deficits, continued refusal to make COLA increases, and budget gimmicks to reduce the Proposition 98 guarantee.
- There are also significant cash flow issues resulting from assumptions made by the State regarding the level of property tax revenues that will flow to the District as a result of the demise of the Redevelopment Agencies.

Opinion on 2012-13 Budget

While we recognize there are many moving parts to the revenue projections this year, we ask that the Board develop a financial strategy now that will enable the District to maintain adequate reserves in the future.



FOC 2012-13 Focus

1. Per Pupil Budgeting Research
2. Detailed Budget Review
3. Detailed Analysis of Malibu Separation Financial Information