



Minutes-Amended

June 16, 2005

**Santa Monica-Malibu Unified School District
Joint Meeting of the Financial Oversight Committee and
Board of Education**

**Location: Santa Monica City Council Chambers
1685 Main St., Santa Monica, CA**

Attendance: (*Committee Members*) Paul Silvern [*Chair*], Craig Hamilton, Chris Harding, Patricia Hoffman, Denny Kernochan, Mike Phillips, Cheryl Stecher [*Vice-Chair*], Cynthia Torres. (*Staff*) Winston Braham, Pat Ho, Dawn Smithfield, Tim Walker. *Absent: Carolyn Galantine.*
(*Board Members*) Emily Bloomfield (*President*), Julia Brownley (*Vice President & FOC Board Liaison*), Oscar de la Torre, Jose Escarce, Maria Leon Vazquez, Shane McCloud, Kathy Wisnicki (*FOC Board Liaison*).

Meeting was called to order at 6:00 p.m. The Board President welcomed the Members of the Financial Oversight Committee, and Chair Silvern introduced the members of the Financial Oversight Committee.

**Presentation to the Board of Education by the
Santa Monica-Malibu Unified School District Financial Oversight Committee
Paul J. Silvern, Chair
June 16, 2005**

Good evening, Members of the Board of Education. On behalf of your Financial Oversight Committee (FOC), I want to thank you for the opportunity to share the dais with you to review the FOC's work during the past year, and make observations on certain District financial matters.

The following remarks represent a general consensus among the FOC members, but I am confident that any FOC member who feels otherwise will not hesitate to say so.

I. Introduction

The FOC is concluding its fourth year of operation. This represents a clear and continuing commitment of this Board to public accountability. That commitment is all the more important now that about 20 percent of District's General Fund revenues for next year are scheduled to come from local sources, including two Parcel Taxes and the very significant new annual contribution from the City of Santa Monica.

School district financing in California continues to be extremely difficult and insufficient, as clearly demonstrated by the recent study published by the RAND Corporation. This District has been forced to make very painful funding reductions over the past several years, only some of which have been offset by ongoing expenditure reductions and new revenue sources.

Based on monthly meetings and extensive discussions with District management and financial staff, FOC believes District is making significant progress in improving its management of District financial matters. This includes significant efforts to identify new revenue sources, contain costs and improve management of expenditures in an uncertain fiscal environment, which has been made even more unclear by the Governor's decision to place measures on this November's ballot, including one that could severely undercut Proposition 98, the key source of District revenue.

The FOC is particularly pleased with District's selection of Winston Braham as its new CFO. In a short time he has demonstrated great skill in managing the District's financial affairs and relationships with the County Office of Education and other external financial entities. He demonstrates a thorough command of District finances, the unusual thicket of public education financial requirements, and a clear commitment to the FOC's oversight role. We also appreciate the contribution by Dawn Smithfield in Winston's office, who provides administrative support to the FOC and handles the Measure S senior exemption program with unusual care and tact.

We also want to acknowledge and thank others who make it possible for FOC to do its work. These include the Superintendent, for his regular availability to meet with us and for his openness about financial matters and their interrelationships with the District's educational mission. We also appreciate the time of other District financial, accounting, personnel and program staff who attended FOC meetings to explain their programs and discuss various issues.

Last, but certainly not least, we want to thank our Board liaisons Julia Brownley and Kathy Wisnicki, who attended nearly every regular and special FOC meeting, and provided invaluable insights about Board policy and clear support for FOC's role. Board President Emily Bloomfield also attended FOC meetings from time to time, or met with FOC leadership, to discuss financial matters.

Next, I will address four specific topics, which we hope will be the basis for discussion with the Board this evening:

- , A summary of FOC activities during FY 2004-05.
- , The status of Measure S expenditures.
- , General comments on the pending FY 2005-06 budget.
- , FOC's proposed focus for next year.

II. FOC Activities During FY 2004-05

We dealt with a number of important organizational issues this year. With your help, we filled three vacancies and increased our membership to nine. Per the Board's request, the FOC was directly ~~involvement~~ **involved** in evaluating candidates through a process coordinated by FOC Member Cynthia Torres. FOC now has an excellent balance of accounting, management, legal and other professional talent to draw on. Membership includes residents from both Santa Monica and Malibu, and parents of children in the District

We also updated, and the Board approved, FOC's Statement of Purpose for first time since 2000. The revised statement added new responsibilities, such as Measure S oversight, clarified certain operating procedures, and updated FOC member selection criteria and the selection process. We restructured ~~the~~ FOC meeting schedule to better correspond with Board meetings, in order to permit timely commentary on fiscal matters. We also clarified procedures for the Board to specifically request FOC comments on specific issues, such as the new City-District funding contract.

Other FOC activities during the year included:

- , Participation in the Chief Financial Officer selection process.
- , Monitoring the Malibu separation proposal as to its fiscal impacts on the District.
- , Supporting creation of the Ad Hoc Committee on Facilities, which now **included includes** FOC members Christopher Harding and Craig Hamilton among its members.
- , Reviewing the draft Proposition X (school construction bond) close-out report, including the expenditure accounting detail and recommendations for future ~~bind~~ **bond** programs.
- , Monitoring and discussing plans to achieve cost savings in the Special Education program.
- , Meeting with the District's auditor to review the FY 2003-04 audit of District finances and Measure S expenditures.
- , Reviewing and commenting on the draft District-City contract for new revenues.
- , Reviewing information and plans related to development of the FY 2005-06 District budget, including 1st and 2nd Interim Reports, the P-1 and P-2 enrollment counts, and projections of enrollment and Average Daily Attendance (ADA); **and** preliminary and revised budget documents, including the proposed Measure S expenditure plan

III. Measure S

As to Measure S oversight, specifically, this is a new role that you assigned to FOC. Measure S is the parcel tax that was approved by District voters in June 2003, by 67.6 percent, barely exceeding the minimum two-thirds threshold needed for adoption. Measure S imposes 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 remains in effect through 2009.

With a total of about 32,400 parcels, and after deductions for the estimated number of senior exemptions and tax payment delinquencies, Measure S generates about \$6.5 million annually for the District. Under the terms of the Measure, these funds are 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 FOC a role in providing independent expenditure oversight, including review of the proposed annual expenditures, and prior year actual expenditures, for consistency **with** the Measure's purposes.

Our first review of Measure S expenditures, for FY 2003-04, was informal, because the expenditure plan had already been developed as part of the pending budget, so that voters would see **how** the benefits of a favorable vote. The expenditures were part of what was referred to as the "First Restoration Package," or a group of budget cuts that would be restored with a favorable vote on Measure S. This package totaled \$6,287,853, and was allocated as follows:

- , 69.9% for K-12 classroom teachers
- , 2.1% for nurses
- , 12.7% for the music and arts program
- , 3.4% for the library program
- , 11.9% for District administration and staff

The first audit of Measure S expenditures, as required by the terms of the ballot measure, was completed this year, covering the program's first year (i.e., FY 2003-04). The audit shows that actual revenues were \$6,256,829, which was very close to, but slightly less than (-\$31,024), the amount budgeted for the year. For reasons that are not entirely clear from the record before FOC, the actual expenditures from Measure S were a mix of Restoration Package 1 and Package 2. All of the expenditures, however, are clearly consistent with the Measure's stated purposes. These included:

- , 56.3% for K-12 classroom teachers
- , 0.0% nurses
- , 15.4% for the music and arts program
- , 18.5% for the library program
- , 0.0% for District administration and staff
- , 9.8% for the physical education program

The audit also shows that actual expenditures assigned to Measure S exceeded revenues by about \$326,000, and this difference was presumably funded from other District sources.

The auditor made two specific recommendations for future Measure S accounting, and the FOC endorses both of them. They are:

- , Implement a Measure S expenditure account coding, so it is clear in the District's financials which expenditures are associated with Measure S. Mr. Braham reports that this recommendation has been implemented.
- , Produce a draft and final Measure S expenditure ~~plans~~ **plan** each year to provide for a clear audit trail between planned and actual expenditures. It appears that the budget documents prepared for your consideration for FY 2005-06 respond to this recommendation.

In addition to these recommendations, the FOC also suggests that future audits include a more explicit accounting of actual versus budgeted revenues, rather than focusing almost exclusively on expenditures. This should include ~~documentation~~ **documenting** gross potential revenues, deductions for senior exemptions and delinquencies, and the net revenues available for expenditures.

For FY 2004-05, the FOC reviewed the proposed Measure S expenditure plan, which was developed in the course of preparing this year's budget, and we recommended its approval. The planned Measure S expenditures are nearly identical, in percentage terms, to the FY 2003-04 actual expenditures, and totaled \$6,581,925. The focus, once again was on K-12 classroom teachers, the District's music and arts programs, the library program and physical education, all of which are consistent with the purposes of Measure S. FOC will review the audit of these expenditures during FY 2005-06.

For FY 2005-06, FOC reviewed the proposed Measure S expenditure plan developed as part of the budget that is now before the Board. We found that the proposal is, once again, very similar to the expenditure plan in each of the last two years, with some shifts in the percentages of funds for each category. For example, next year, the proportion of the estimated \$6,572,082 in Measure S revenues that would be devoted to K-12 classroom teachers is 55.5% (versus 56.3% in past years); 16.5% for music and arts (vs. 15.4%); 19.0 percent for the library program (vs. 18.5%); and 9.1 percent for the physical education program (vs. 9.8%).

The FOC ~~recommend~~ recommends that the Board approve the FY 2005-06 Measure S expenditure plan in general, but ~~suggest~~ suggests that the Board consider other funds for certain music program operating expense line items (e.g., supplies, mileage, attendance at conferences), even though these were funded in the past two years with Measure S proceeds. While these line items are important to the overall functioning of the music program, ~~its~~ it is FOC's opinion that the voters probably expected these funds to be focused on more core program needs, such as instructional staff.

IV. Proposed FY 2005-06 District Budget

Next, we provide some general comments on the proposed FY 2005-06 District budget. First, the FOC applauds publication, and Board adoption, of the Budget Planning Guide and Budget Planning Calendar, which ~~makes~~ make responsibilities and timelines explicit. For the most part, the schedule has been followed. We hope that in the future, however, more effort will be made to add time for FOC, Board and public review of the proposed budget before the Board is scheduled to adopt it.

The proposed budget succeeds in meeting currently known State financial mandates, - as demonstrated by the recent certification of the District's 2nd Interim Report by the Los Angeles County Office of Education, which includes a multi-year budget projection. This is an important vote of confidence by the State in the District's management of its finances. We are aware that 14 school districts in the State received negative certifications of their budget plans (i.e., will not meet financial obligations for FY 2004-05 or FY 2005-06), and that 48 districts received only qualified certifications (i.e., may not be able to meet their financial obligations through FY 2006-07).

The draft budget appears to carefully balance the Board's instructional and program priorities with a need to provide for higher reserve levels and to maintain a sufficient General Fund undesignated fund balance. The budget documents provide some improvement in public explanation of the District budget by including school site and departmental budgets.

We do, however, have a few concerns. First, from a strictly financial perspective, it is not acceptable for the District to continue having an operating deficit in its General Fund. Efforts to eliminate it should continue. Otherwise, the year-to-year undesignated fund balance will be completely eroded, leaving the District in a precarious fiscal position should there be significant unanticipated expenses during the year.

Second, though we understand the decision not to reduce staffing any further, and in fact to add staffing at many schools to reduce the achievement gap and meet other educational objectives, doing so at a time when the Board also seeks to trim enrollment to reduce class sizes, will be difficult to sustain in the future.

It is critical, we believe, that the Board ~~maintains~~ maintain the proposed undesignated funds balance, due to significant uncertainties, including, but not limited to, the outcome of the November election, and a ballot measure that would give the Governor the authority to impose mid-year budget cuts.

V. Proposed FOC Focus for FY 2005-06—similar to FY 2004-05

In addition to Measure S responsibilities and general advice on fiscal matters as requested by the Board from time to time, the FOC proposes to focus on the following issues next year.

- A. Continue assisting staff with further budget process improvements, including:
 - 1. A more generous budget development schedule;
 - 2. Improving public communication about the District budget and — its financial position;
 - 3. Developing more consistent budget and financial reporting formats; and
 - 4. Producing a more focused analysis of long-range enrollment trends
- B. Continue assisting staff to evaluate cost containment strategies.
- C. Continue to support the Ad Hoc Committee on Facilities process.

On behalf the Financial Oversight Committee, thank you for the opportunity to serve the Santa Monica-Malibu Unified School District.

I would also like to personally thank all of the FOC members for their hard work and dedication during the past year, and for some FOC members, their continuing service over many years.

Public Comments: Jim Jaffe

Joint Meeting adjourned at 7:05 p.m.