

TO: BOARD OF EDUCATION

DISCUSSION

11/19/09

FROM: TIM CUNEO / JANECE L. MAEZ

7:00pm

RE: REPORT FROM THE FINANCIAL OVERSIGHT COMMITTEE (FOC) AND THE SUPERINTENDENT'S BUDGET ADVISORY COMMITTEE ON THE PROGRESS OF THEIR DISCUSSIONS RELATED TO THE 2010-11 DISTRICT BUDGET

DISCUSSION ITEM NO. D.01

COMMENT: The seriousness of the state's financial condition and the impact that it has had on the district's budget has created a need to begin evaluating long-term solutions to a \$12 million annual deficit. While the district, in the current year, is using reserve balances accumulated over time, those "rainy-day" funds will be depleted before December 2010. To assist the board in determining a resolution to this problem, the Superintendent has asked the district's Financial Oversight Committee (FOC) to assist by reviewing of our budget, concentrating on revenue enhancements. He also established a Superintendent's Budget Advisory Committee (SBAC) to look at possible expenditure reduction areas. Both committees have met regularly since September and have preliminary information to share with the board.

During this item, representatives from the FOC will provide the board with a progress report on their activities and preliminary recommendations related to revenue enhancement, expenditure reductions and projected or suggested reserve levels for future district budgets. The FOC has met regularly since the beginning of the year, and has established a subcommittee working specifically on revenue enhancements. The FOC will meet on November 10 to finalize comments for this agenda.

The SBAC last met on November 4 and will share the format they are using to evaluate reduction recommendations and outline some of the data they are gathering to make those recommendations.

Board members will have the opportunity to ask clarifying questions during this item. There will be a study session on Saturday, November 21, 2009, for the board to have a more in depth conversation regarding the information provided during this agenda item.

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Public Comments:

- Harry Keiley, SMMCTA President, commented on this item.

*Ms. Maez's and Ms. Torres's presentations can be found under Attachments at the end of these minutes. The board members thanked both groups for their hard work.*

*In response to Dr. Escarce, Mr. Cuneo said staff would need more time to respond to these potential suggestions. Staff might be able to bring something back after the first of the year.*

*Mr. de la Torre inquired about estimates regarding staffing and implementing some of these suggestions. Mr. Cuneo said that staff's current work loads are pretty full. He said the attendance piece is already being addressed.*

*Ms. Pye asked how the FOC arrived at the gross revenue projections. Ms. Torres said projections were gathered from existing models, input was received from district staff professionals in specific fields.*

*This conversation will be continued at a special meeting on Saturday, November 21 at 9:00am.*

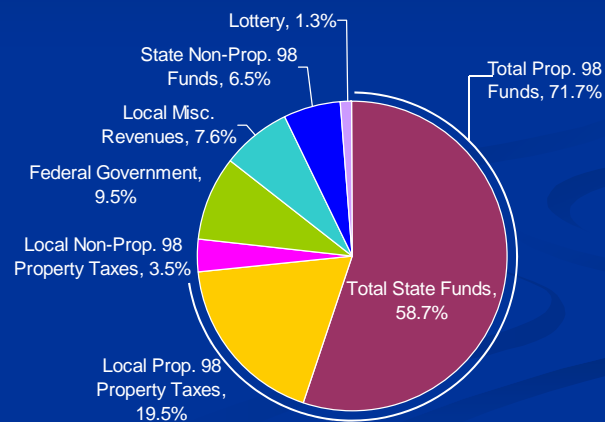
# SMMUSD Budget Board Joint Session

with the  
Superintendent's Budget Advisory Committee  
Financial Oversight Committee

November 18, 2009

## California's School Finance System

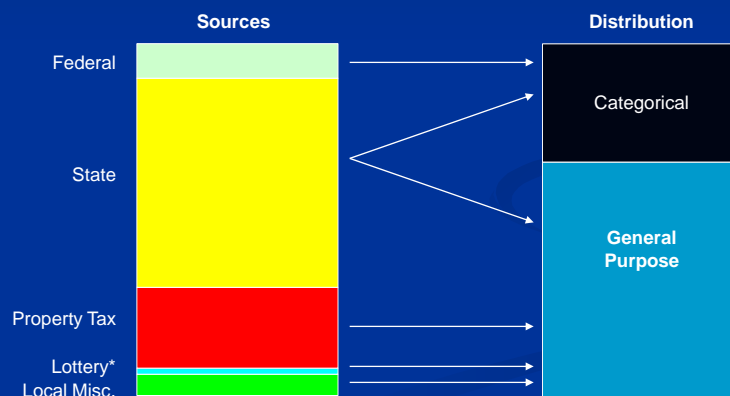
2008-09 Revenue for K-12 Education



Source: EdSource January 2009 Report on  
California's School Finance System

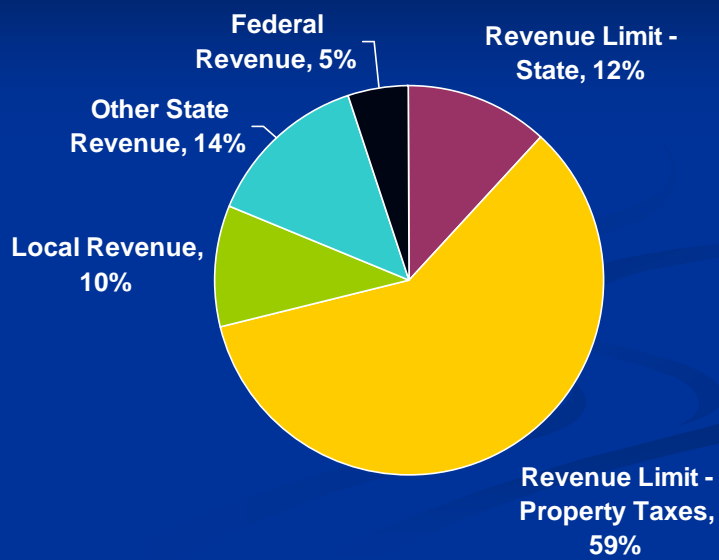
# California's School Finance System

## Distribution of Funds for K-12 Education

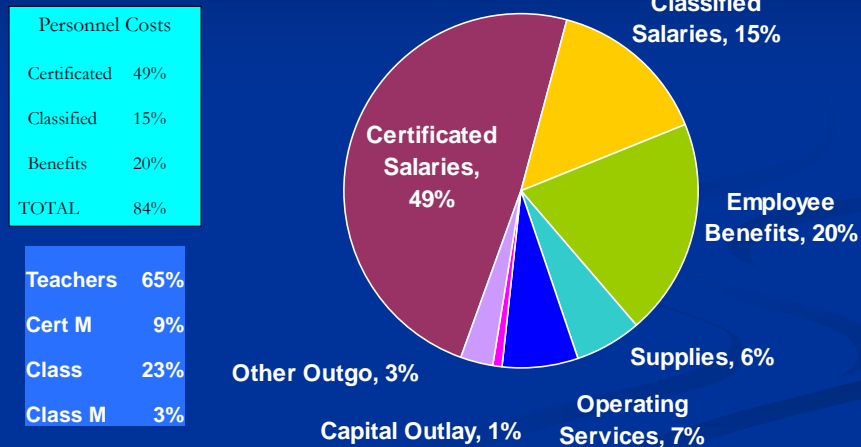


Source: EdSource January 2009 Report on California's School Finance System

## SMMUSD 2009-10 Revenue



## SMMUSD 2009-10 Expenditures



## District Budget Cycle

- Begins with current year projections
- Using information from various sources
  - Governor's Office
  - California Department of Education - CDE
  - Los Angeles County Office of Education – LACOE
  - School Services of California –SSC
- Budget is built with projections for the next fiscal year and 2 additional

## District Budget Cycle - continued

- Typically begins in January – BUT this year - because the severity and magnitude of anticipated adjustments the District began planning in June
- The FOC and Superintendent's Budget Advisory Committee have also been working on recommendations
- Tonight is the first opportunity for both groups to report activities

## Multi-Year Projection Assumptions

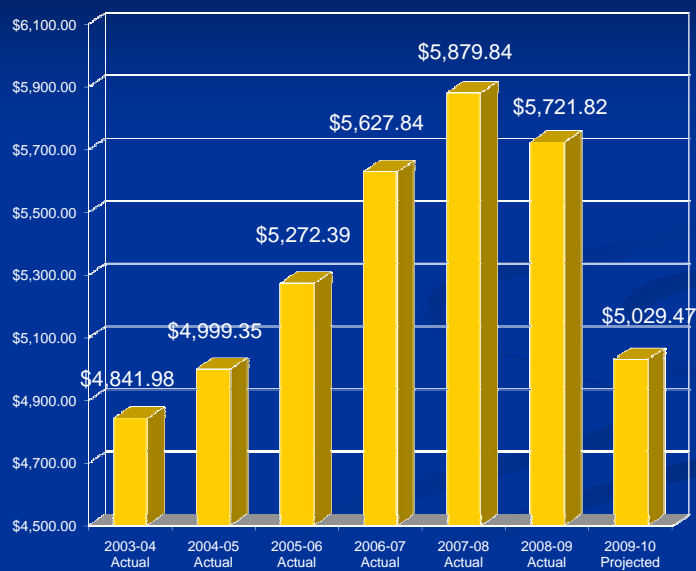
- COLA's over the next four years will range between .50 and 3.00%
- The revenue limit deficit will remain constant at 18.355%
- No additional Federal Stimulus funding
- Enrollment will remain at 11,565
- Other costs increased by
  - Step and Column - 1.5 to 2.2%
  - Health Benefits - 7%
  - Workers Compensation – 2%
  - No Salary Schedule Changes

| <b>Current Year Plus Two</b>       | <b>2009-10</b>    | <b>2010-11</b>    | <b>2011-12</b>    |
|------------------------------------|-------------------|-------------------|-------------------|
|                                    | <b>BUDGET</b>     | <b>PROJECTED</b>  | <b>PROJECTED</b>  |
| <b>Revenue:</b>                    |                   |                   |                   |
| Revenue Limit                      | 54,365,565        | 57,421,209        | 58,731,349        |
| Other Federal                      | 100,000           | 100,000           | 100,000           |
| Other State Apportionments         | 748,847           | 752,166           | 767,516           |
| Class Size Reduction               | 2,817,533         | 2,817,533         | 2,817,533         |
| Other State (Lottery...)           | 1,270,460         | 1,270,460         | 1,270,460         |
| Meas. "R"                          | 10,264,436        | 10,367,080        | 10,574,422        |
| All Other Local Income             | 10,947,440        | 11,337,584        | 11,389,440        |
| Interfund Transfer In              | 108,335           |                   |                   |
| Local General Fund Contribution    | (16,521,933)      | (17,115,616)      | (17,115,616)      |
| TIER III - Categorical Flexibility | 3,187,700         | 3,187,700         | 3,187,700         |
| <b>TOTAL REVENUE</b>               | <b>67,288,383</b> | <b>70,138,117</b> | <b>71,722,804</b> |

| <b>Current Year Plus Two</b> | <b>2009-10</b>    | <b>2010-11</b>    | <b>2011-12</b>    |
|------------------------------|-------------------|-------------------|-------------------|
|                              | <b>BUDGET</b>     | <b>PROJECTED</b>  | <b>PROJECTED</b>  |
| <b>Expenditure:</b>          |                   |                   |                   |
| Certificated Salary          | 43,858,700        | 46,467,127        | 47,489,404        |
| Classified Salaries          | 11,162,806        | 11,579,192        | 11,752,880        |
| Benefits                     | 16,396,162        | 17,565,286        | 18,443,550        |
| Supplies/Books               | 1,369,732         | 1,369,732         | 1,300,000         |
| Other Operational Costs      | 5,679,671         | 6,000,000         | 6,000,000         |
| Capital Outlay               | 25,000            |                   |                   |
| Indirect                     | (1,205,965)       | (850,000)         | (850,000)         |
| Transfer Out                 | 75,000            | 75,000            | 75,000            |
| <b>TOTAL EXPENDITURES</b>    | <b>77,361,106</b> | <b>82,206,337</b> | <b>84,210,834</b> |

| <b>Current Year Plus Two</b>            | <b>2009-10</b>      | <b>2010-11</b>      | <b>2011-12</b>      |
|---|---------------------|---------------------|---------------------|
| <b>Fund Balance:</b>                    | <b>BUDGET</b>       | <b>PROJECTED</b>    | <b>PROJECTED</b>    |
| <b>Increase (Decrease) Fund Balance</b> | <b>(10,072,723)</b> | <b>(12,068,220)</b> | <b>(12,488,030)</b> |
| <b>Beginning</b>                        | <b>22,456,389</b>   | <b>10,355,293</b>   | <b>(1,712,928)</b>  |
| <b>Repayment to Fund 21</b>             | <b>(2,028,373)</b>  |                     |                     |
| <b>Fund Balance</b>                     | <b>10,355,293</b>   | <b>(1,712,928)</b>  | <b>(14,200,958)</b> |
| <b>Reserve- Revolving Cash, Store</b>   | <b>96,000</b>       | <b>96,000</b>       | <b>96,000</b>       |
| <b>Total Available Fund Balance</b>     | <b>10,259,293</b>   | <b>(1,808,928)</b>  | <b>(14,296,958)</b> |
| <b>3% Contingency Reserve</b>           | <b>3,672,666</b>    | <b>3,672,666</b>    | <b>3,672,666</b>    |
| <b>Unappropriated Balance</b>           | <b>6,586,627</b>    | <b>(5,481,594)</b>  | <b>(17,969,624)</b> |

## SMMUSD 7-Year Funded Revenue Limits



## Superintendent's Budget Advisory Committee

### Areas Committee is Studying

- Administration
- Athletics
- Class sizes - K – 12
- Clerical Support
- Contracted Services
- Counseling /Advisors
- District Office Departments
- Energy management
- Library Services
- Maintenance/Operations
- Music programs
- Other Operating Costs
  - Travel/Conference
  - Legal Costs
  - Consultants
  - Cell Phones
- Nursing
- Physical Education
- Reading Specialists
- Summer School programs



Superintendent's Budget Advisory Committee  
Recommendation Format  
2010-11 Budget

Area of Consideration  
Total District Cost  
Describe Present Status  
Recommended Change  
Potential Cost Savings  
Evaluate Pros and Cons



## **Financial Oversight Committee Report**

*November 19, 2009*

1

### **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.

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## **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.

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## **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.

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## **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

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**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>  |

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**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>  |

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### 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> |

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### 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>   |

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

| Descriptor                               | Evaluation   |
|--|--|
| Opportunity                              | <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>   |
| Gross Revenue                            | <ul style="list-style-type: none"> <li>MODERATE: \$450,000/year</li> </ul>   |
| Costs                                    | <ul style="list-style-type: none"> <li>Minimal costs - \$10,000 (marketing materials, school site incentive awards)</li> </ul>   |
| Net Revenue                              | <ul style="list-style-type: none"> <li>MODERATE: \$440,000/year</li> </ul>   |
| Skill Set Available                      | <ul style="list-style-type: none"> <li>HIGH: Can tap PTAs at sites but would need marketing expertise to drive the program.</li> </ul>   |
| Ease of Implementation (Low = Difficult) | <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> |
| Timeline                                 | <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  |
|--|---|
| Opportunity                              | <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> |
| Gross Revenue                            | <ul style="list-style-type: none"> <li>HIGH: 200 student center would bring in approximately \$6 million</li> </ul>   |
| Costs                                    | <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>   |
| Net Revenue                              | <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>  |
| Skill Set Available                      | <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>  |
| Ease of Implementation (Low = Difficult) | <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>   |
| Timeline                                 | <ul style="list-style-type: none"> <li>3 years to obtain site, plan and design facility, complete construction, and startup operations</li> </ul>   |

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## 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>   |

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## 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>  |

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## **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