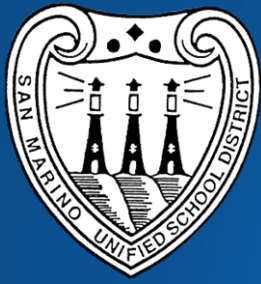


San Marino Unified School District
Board Presentation—Budget Review
January 28, 2020



San Marino Unified School District

Budget Review

January 28, 2020

Presented By:

Robert McEntire, EdD
Director, Management Consulting Services

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Overview

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Scope and
Methodology



Budget
Review
Results



Questions

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Scope of Work

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- **School Services of California Inc. (SSC) was asked to prepare an independent analysis of the San Marino Unified School District (District) finances, which included:**
 - ▣ **An examination of projected enrollment and average daily attendance (ADA)**
 - ▣ **A review of budget assumptions for state revenues from the Local Control Funding Formula (LCFF)**
 - ▣ **Verification of State Budget assumptions for one-time sources and other state and categorical funds**
 - ▣ **A review of budget assumptions for the expenditures of salaries, benefits, supplies, operational items, capital outlay, as well as for federal revenues, interest income, and other local sources**
 - ▣ **A review of fund balances and potential sources of funds**



Scope of Work

3

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- **The main focus of our review was on the unrestricted side of the General Fund**
 - ▣ **The source of fiscal solvency**
 - ▣ **Discretionary resources**
- **Other programs and funds were reviewed to the extent that they have an impact on the unrestricted General Fund, such as:**
 - ▣ **Special education, Cafeteria Fund, and substantial community donations**
- **Our detailed analysis was focused on the District's 2018–19 Unaudited Actuals, the 2019–20 Adopted Budget, and the 2019–20 First Interim report along with the District's multiyear financial projections**

**San Marino Unified School District
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Methodology

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- **SSC requested a list of documents and information required, such as:**
 - ▣ **Current and prior budgets**
 - ▣ **Budget assumptions**
 - ▣ **Multiyear projections (MYP) and related assumptions**
 - ▣ **Records supporting the salary and benefits expenditure budget**
 - ▣ **Historical enrollment and ADA information**
 - ▣ **Many more financial documents**
- **Telephone interviews were conducted as needed with select District office staff members in order to clarify information during our analysis**
- **SSC prepared a report with:**
 - ▣ **Findings and conclusions based upon our independent analysis**
 - ▣ **Recommendations to address the findings**



Notes

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Budget Review Results

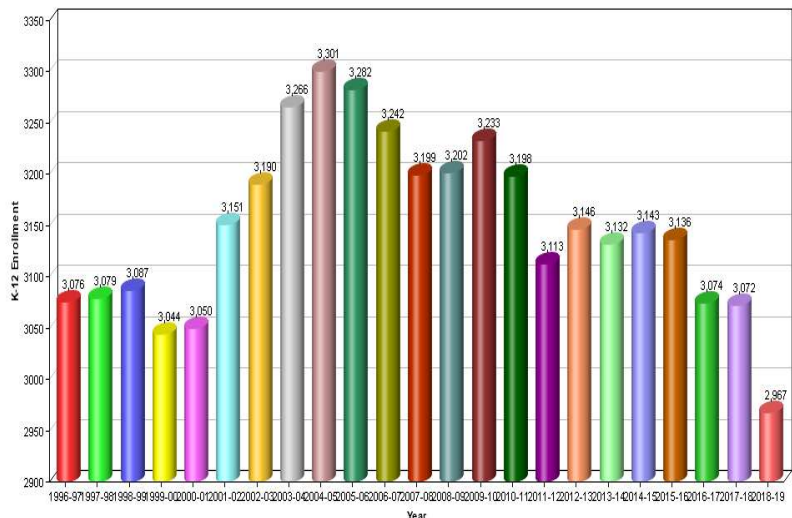


Enrollment and ADA

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- Enrollment projections form the basis for most school district revenues and expenditures
 - ▣ Enrollment drives ADA and unduplicated student counts, which generate the main source of revenues from the LCFF
 - ▣ Enrollment also drives the number and types of staff members required to serve the student population



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Enrollment and ADA

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- Enrollment has been relatively unpredictable and declining for twelve of the last fifteen years, including the most recent three years
 - ▢ Notice how enrollment does not automatically equate to ADA

	2016–17	2017–18	2018–19
Enrollment	3,074	3,072	2,967
Actual ADA*	3,004	2,986	2,900
ADA Change from Prior Year		(18)	(86)
ADA-to-Enrollment Ratio	97.72%	97.20%	97.74%

*LCFF-funded ADA is the actual ADA for the prior year when declining

Source: District Standardized Account Code Structure (SACS) reports and additional financial data



Enrollment and ADA

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- Enrollment and attendance projections are conservative and realistic
 - ▢ To be cautious, the District prudently budgeted for a slight decline in enrollment for 2019–20
 - ▢ Prior three-year ADA-to-enrollment ratio was 97.55%
- The District's enrollment and ADA projections are as follows:

Projected Enrollment and ADA			
	2019–20	2020-21	2021-22
Enrollment	2,916	2,869	2,808
Actual ADA*	2,833	2,788	2,728
ADA Change from Prior Year	(67)	(45)	(60)
ADA-to-Enrollment Ratio	97.15%	97.18%	97.15%

*LCFF-funded ADA is the actual ADA for the prior year when declining

Source: District SACS reports

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Unrestricted General Fund Revenues

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- As part of its LCFF revenues, the District receives supplemental grant funds generated by 16.27% of its students
 - ▣ Unduplicated counts of:
 - English learners
 - Foster youth
 - Eligible for free or reduced-price meals
- Regulations require that the District include supplemental and concentration grant funds in its Local Control and Accountability Plan
 - ▣ To increase or improve services to the students that generated the funds



Unrestricted General Fund Revenues

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- The District's entitlement under the LCFF is calculated each year based upon its ADA and unduplicated count as well as a number of state-determined factors, as follows:

Actual and Projected LCFF Revenues				
	2018–19 Unaudited Actuals	2019–20 Budget	2020–21 Projected	2021–22 Projected
LCFF Revenue	\$26,167,032	\$26,283,696	\$26,312,460	\$26,575,894
Change from Prior Year		\$116,664	\$28,764	\$263,434
Percent Increase/(Decrease) from Prior Year		0.4%	0.1%	1.0%

Source: District SACS reports and LCFF calculations

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Unrestricted General Fund Revenues

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- The District is the recipient of generous community support for staffing, programs, and student support
- Funding is used to pay permanent teachers, counselors, and instructional support salaries and benefits that would otherwise need to be cut under the state funding model alone

Actual and Projected LCFF Revenues			
Source	2019–20 Budget	2020–21 Projected	2021–22 Projected
San Marino Schools Foundation	\$2,000,000	\$2,000,000	\$2,000,000
Measure E Parcel Tax (expires 6/30/21)	\$4,073,918	\$4,196,136	\$4,196,136*
Measure R Parcel Tax (expires 6/30/25)	\$1,565,016	\$1,611,966	\$1,660,325

*A new ballot measure has been proposed; however, it has not passed yet, so these dollars are not guaranteed.

Source: District SACS reports and LCFF calculations

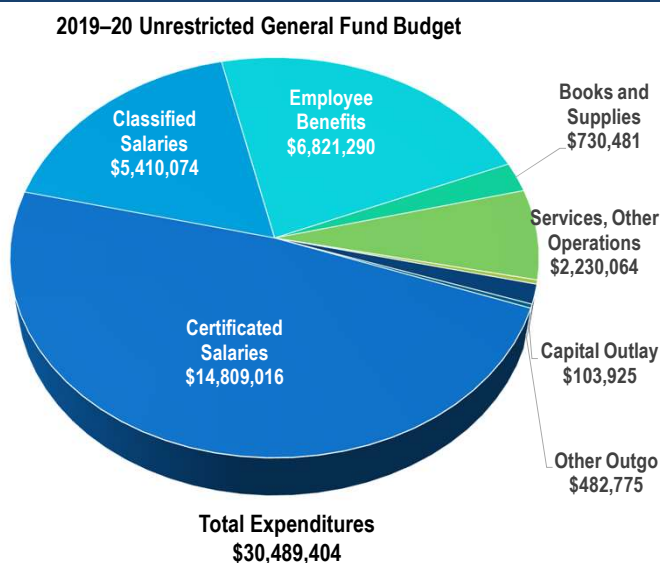


Unrestricted General Fund Expenditures

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- Almost 89% of the District's budget is committed to salaries and benefits
- Increasing pension contributions and step and column movement costs will continue to increase pressure on the District's resources
- As will increasing contributions to restricted programs and operating costs
 - Special education
 - Health and welfare benefits
 - Utilities



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Expenditure Trend Analysis

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Comparison of Expenditures: Second Interim to Unaudited Actuals					
	Major Object Code/Year	Second Interim	Unaudited Actuals	Increase/ (Decrease)	Percent
Certificated Salaries	2016-17	\$14,327,746	\$14,077,609	(\$250,137)	-1.7%
	2017-18	\$14,285,003	\$14,168,186	(\$116,817)	-0.8%
	2018-19	\$14,402,942	\$14,298,422	(\$104,520)	-0.7%
Classified Salaries	2016-17	\$5,337,908	\$5,193,076	(\$144,832)	-2.7%
	2017-18	\$5,334,163	\$5,236,093	(\$98,070)	-1.8%
	2018-19	\$5,493,229	\$5,401,136	(\$92,093)	-1.7%
Employee Benefits	2016-17	\$6,486,480	\$6,599,759	\$113,279	1.7%
	2017-18	\$6,112,528	\$6,138,707	\$26,179	0.4%
	2018-19	\$6,517,711	\$6,364,253	(\$153,458)	-2.4%
Books and Supplies	2016-17	\$1,027,989	\$826,482	(\$201,507)	-19.6%
	2017-18	\$839,366	\$485,564	(\$353,802)	-42.2%
	2018-19	\$865,178	\$407,104	(\$458,074)	-52.9%
Services and Other Operating Expenditures	2016-17	\$2,792,030	\$2,707,332	(\$84,698)	-3.0%
	2017-18	\$2,486,372	\$2,998,172	\$511,800	20.6%
	2018-19	\$3,176,260	\$3,110,793	(\$65,467)	-2.1%
Capital Outlay	2016-17	\$498,107	\$450,208	(\$47,899)	-9.6%
	2017-18	\$563,986	\$358,326	(\$205,660)	-36.5%
	2018-19	\$461,228	\$212,588	(\$248,640)	-53.9%



Multiyear Projections

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- The First Interim report included conservative estimates (and projections) with the District deficit spending, reducing reserves to near the statutory minimum by 2021-22
 - ▣ And a cash flow shortage, whereby the District runs out of cash to cover payroll at least four months this year, requiring borrowing from external sources
- Special education costs are escalating, but level in the out-year projections
- The Board of Education has not approved specific reductions necessary to maintain the solvency illustrated in the First Interim report

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Contributions to Restricted Programs

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Contributions to Restricted Programs—Actuals and Projections						
	2016–17 Unaudited Actuals	2017–18 Unaudited Actuals	2018–19 Unaudited Actuals	2019–20 Budget	2020–21 Projected	2021–22 Projected
Special Education	\$3,974,180	\$4,051,201	\$4,557,163	\$5,308,463	\$5,376,463	\$5,444,463
Routine Restricted Maintenance Account	\$1,510,539	\$1,667,295	\$1,583,606	\$1,643,769	\$1,655,769	\$1,667,769
Emergency Supplies Program	\$25,308	\$0	\$0	\$0	\$0	\$0
Special Education Transportation*	\$92,884	\$155,534	\$184,050	\$0	\$0	\$0
Total	\$5,602,911	\$5,874,030	\$6,324,819	\$6,952,232	\$7,032,232	\$7,112,232
Percent Increase/(Decrease) from Prior Year		5%	8%	10%	1%	1%

*Included in special education starting in 2019–20

Source: District SACS reports and additional financial data

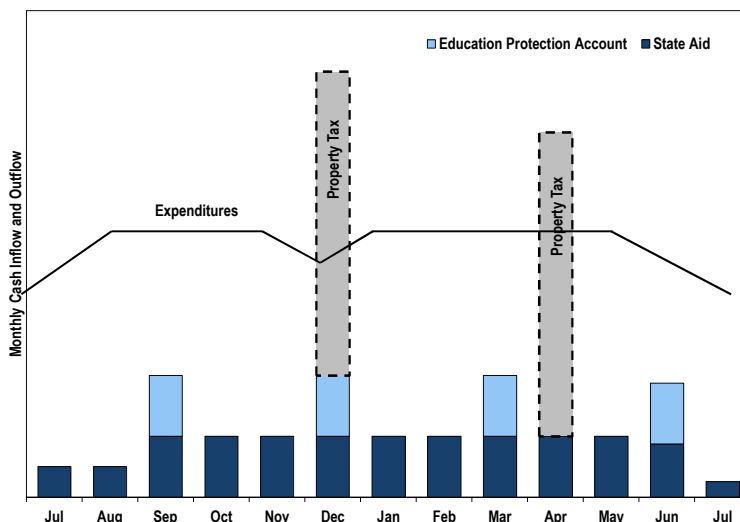


Reserves and Cash

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- Note the District's heavy reliance on property taxes as its primary revenue source
- District borrows "dry period financing" through Tax and Revenue Anticipation Notes
- Increasing reserves to at least 17%, or two months' expenditures, will make the District more self-reliant during a challenging economy



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Multiyear Projections: Unrestricted General Fund

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- The District's Unrestricted General Fund MYP is as follows:

Unrestricted General Fund			
	2019–20	2020–21	2021–22
Beginning Fund Balance	\$2,421,145	\$1,652,779	\$1,409,742
Revenues	\$36,673,270	\$35,591,331	\$35,445,736
Expenditures	(\$30,489,404)	(\$28,802,136)	(\$28,116,995)
Contributions to Restricted Programs	(\$6,952,232)	(\$7,032,232)	(\$7,112,232)
Surplus/(Deficit)	(\$768,366)	(\$243,037)	\$216,509
Assigned/Unassigned Ending Fund Balance*	\$1,549,640	\$1,306,603	\$1,523,112
Percent Assigned/Unassigned (of total General Fund Expenditures)	3.4%	3.1%	3.6%

*Ending fund balance less committed and \$103,139 non-spendable

Source: District SACS Reports and additional financial information



Multiyear Projections: On the Natural (Adjusted by SSC)

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- The District's Unrestricted General Fund MYP reflecting SSC's adjustments:

Unrestricted General Fund			
	2019–20	2020–21	2021–22
Beginning Fund Balance	\$2,421,145	\$1,652,779	\$1,409,742
Revenues	\$36,673,270	\$35,591,331	\$35,445,736
Expenditures	(\$30,489,404)	(\$28,802,136)	(\$28,116,995)
Contributions to Restricted Programs	(\$6,952,232)	(\$7,032,232)	(\$7,112,232)
Reverse Budget Reductions in 1 st Interim			
<i>Certificated Salaries</i>		(\$1,377,300)	(\$692,000)
<i>Classified Salaries</i>		(\$521,000)	(\$349,500)
<i>Employee Benefits</i>		(\$672,841)	(\$358,323)
Surplus/(Deficit)	(\$768,366)	(\$2,814,178)	(\$1,183,314)
Assigned/Unassigned Ending Fund Balance*	\$1,549,640	(\$1,264,538)	(\$2,447,852)
Percent Assigned/Unassigned (of total General Fund Expenditures)	3.4%	-3.2%	-6.0%

*Ending fund balance less committed and \$103,139 non-spendable

Source: District SACS Reports and additional financial information

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Comparative Data

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- A group of eighteen school districts was used to prepare comparisons of financial, staffing, and teacher compensation information
 - ▣ The most recent statewide data available is for 2017–18
 - ▣ Compensation data from 2018–19 reported on the J–90 Teacher Salaries and Benefits survey was used in the compensation comparison tables
- The comparative districts are:
 - ▣ Unified school districts in the geographic area with an Unduplicated Pupil Percentage between 0% and 30%
 - ▣ Greater than 2,500 enrollment
 - ▣ Surrounding districts with whom the District competes for students and talent



Comparative Data

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- Overall, the comparisons illustrate that:
 - ▣ The District ranks relatively low in LCFF revenue compared to the group (14 of 19) receiving 19.5% less per-ADA funding than the average of unified districts in the state
 - ▣ The District would be unable to provide the current level of student support without the generous support of the local community through donations and parcel taxes
 - ▣ The District has prioritized its investment in personnel, primarily in the number of staff members relative to its student population (3 of 19)
 - Teachers, certificated support staff, classified support staff, and site administration
 - ▣ The District has also prioritized investment in the contribution to employee health and welfare benefits (6 of 19)

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Comparative Data

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- Overall, the comparisons illustrate that:
 - ▣ The District has minimized expenditures away from the school sites
 - Central office administration is lean (15 of 19)
- In California's woefully underfunded public education system, school districts must choose between:
 - ▣ Paying each staff member well, or
 - ▣ Providing enough staff members to adequately serve their student population
 - Recognizing that there is inadequate funding to do both



Summary

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- To summarize:
 - ▣ The District should take action by the Second Interim report to identify specific future-year expenditure cuts and program reductions that will be made to achieve the current expenditure reduction plan
 - The District should exercise caution at the bargaining table in order to maintain an appropriate level of reserves
 - The District should develop contingency plans in case community donations decline
 - ▣ The District's cash will also decline
 - The District should prepare extended cash flow projections for the next eighteen to twenty-four months to ensure that payroll and other obligations can be met
 - The District should endeavor to meet its own cash needs

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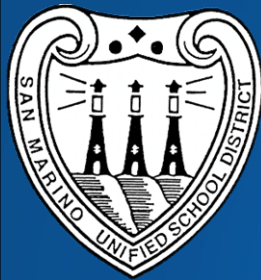


Summary

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- We recommend that the District exercise caution going forward in addressing employee compensation
 - ▣ The District will need to make some difficult decisions in the short run to ensure fiscal stability in the long run
- The next budget juncture will be the Second Interim report, to be presented to the Board of Education in March
 - ▣ A fiscal solvency plan should be incorporated into the report with specific cuts identified



Thank you!

Robert McEntire
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