

“The Learning Curve”

Business Practices in the Santa Barbara School Districts

Introduction

Over the years, the Santa Barbara Elementary School District and the Santa Barbara High School District (“the Districts” or “SBSD”) have developed and operated under a form of governance that is unique in the state. The resulting structure, described in the following report, is unwieldy. Specifically, the two separate geographic districts share a common Superintendent and elected Board of Education. The Elementary School District serves 6,094 students enrolled on fourteen campuses in the City of Santa Barbara. The High School District has eight campuses serving 9,841 students from Montecito to western Goleta. While there were six other “dual districts” in the state, these others have either unified or passed a resolution to create a “single district with common administration” under Education Code 35110. SBSB is the only one to continue the difficult process of administering two separate districts with a single Board and Superintendent.

SBSD leadership values its autonomy. Changes sometimes come only as the result of persistent criticism and litigation. The Board and Superintendent often respond to critics by hiring expensive consultants, thus patching over a problem without addressing the structural weakness in the administration. One notable exception to this reliance on outside contractors is the recent SBSB contract with legal counsel. This is money well spent because it provides legal guidance to deal with potential problems before they become major issues.

The 2003-2004 Grand Jury investigated several complaints regarding SBSB management practices. The Jury found governance and management in some areas to be inefficient, wasteful and in some instances shortsighted. Irregularities were found in the following areas: response to auditors regarding fiscal accountability, union negotiations, bond money management, and governance. The Jury also found that there has been high turnover in key administrative positions and unmanageable workloads placed on staff.

School funding is limited. The Districts’ leadership - five elected members of the Board of Education, the Superintendent and the Superintendent’s staff - face the ongoing challenge of meeting the expectations of taxpayers and parents regarding the management of funds. The annual Elementary School District budget is approximately \$50 million and that of the High School District is \$70 million. The voter has the right to expect monies from the Districts’ funds to be managed well.

Methods of Investigation

The Grand Jury undertook the following:

- Interviewed the Superintendent of the County Office of Education, the SBSB Superintendent, SBSB Board of Education members current and past, the Assistant Superintendent for Business Services, the Assistant Superintendent of Elementary Education and Research and Technology, past members of the Business Office, a past insurance consultant, and the Fiscal Consultant at the School Fiscal Service Division (California Department of Education)
- Attended Board meetings
- Reviewed audits by the County Board of Education and the SBSB contracted auditor
- Reviewed a consultant's report titled *Utilization of Proposition 47 Modernization Funds*
- Reviewed several complaints

Observations

Unique Set Up - Unique Challenges

Fiscal Accountability Status

In regular school finances, tax money comes from the State into the County Treasury. The County Superintendent of Education is the guardian of the funds. When paying its bills, the district requests that the County Office of Education write a check. This process provides a layer of fiscal oversight. SBSB successfully petitioned the State and County for *Fiscal Accountability* status in 1985. A fiscally accountable district essentially skips the County Office of Education review process and writes its own checks. The Santa Barbara Elementary School and High School Districts are the only districts in the County with Fiscal Accountability status.

Under the Education Code, Fiscal Accountability status is granted and maintained at the discretion of the State and County Offices of Education. Fiscal Accountability requires that SBSB have an annual financial audit and meet criteria set out in a "checklist" from the County Office of Education. To accomplish this, the District must have a stand-alone business office to undertake the functions that would otherwise have been done by the County. Few SBSB Board Members were aware of these unique obligations. Fiscal Accountability places greater responsibility on SBSB Board members and the Superintendent's Office to manage the Districts' budgets. In particular, this status requires that there be an *internal auditor* on staff to objectively assess the Districts' finances. The Districts' leadership has failed to provide for an internal auditor, despite repeated requests from the County Office of Education to do so.

Dual Districts

SBSD is unique in the State of California as it is comprised of two completely separate Districts managed by a single Superintendent, administrative office and elected Board of Education. This means that every function performed for the Elementary School District's administration must be "done again" for the High School District's administration. Staff and leadership explained that they must "switch hats" often in the decision-making process. More than one person interviewed commented that it was sometimes "hard to remember which hat you're wearing." This problem is exacerbated when the Districts are at odds with each other over limited resources and Board members must decide how to best represent each District.

The dual district situation raises several issues. First is the workload for staff and Board members since most administrative functions are done twice. Secondly, dual districts make union negotiations difficult. For example, when the Board finds that one District's budget can afford a salary increase, that increase can only go forward if the other District can fund an identical increase. The District with the lesser budget would need to "find" the money somehow. This could lead to deficit spending or to layoffs in the more cash-strapped district. An additional consequence of the two Districts' sharing one board is that board representation does not reflect the demographics of each school district. The demographics of the High School District are markedly different from the demographics of the Elementary School District.

The dual district arrangement frustrates staff and board members alike. There have been periodic attempts to "fix" the situation. Past administrations have looked at unification of the two Districts. This, however, would result in an unfavorable funding allocation based on the difference between the two Districts' enrollment figures. Some years ago, there was an effort to separate the High School District such that junior high and high schools located in Goleta would be part of the Goleta School District. The separation effort did not go forward. The idea had merit and the changing demographics of the Goleta area could make it worth revisiting. In the 1970's there was an unsuccessful lawsuit to allow the Elementary School District the ability to elect its own Board of Education. The expense of each District running its own office is usually cited as a reason not to consider the option of two independent Districts. There has never been a financial analysis of separating the two Districts. Nevertheless, SBSB is considering operating two offices, one in Goleta and one in the City of Santa Barbara.

<p>The combined elements of Fiscal Accountability and dual districts are unique in the State and create vulnerability to mismanagement of business practices.</p>
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Ready or Not

All other dual districts have passed resolutions to administratively unify. Such a resolution could be passed by a simple majority vote of the Board under Education Code 35110. SBSB is considering such a resolution. This would not create a unified school district but rather two separate districts that have one budget. This resolution came before the Board in the 1980's. However, it failed due to public concern that families in the elementary school districts that are not part of the Santa Barbara Elementary District ("feeder districts" such as Montecito, Hope and Goleta) would be subsidizing the Santa Barbara Elementary School District families. Currently the Santa Barbara administration uses a cost-sharing ratio to determine how charges are allocated to each District for central administrative services. When both Districts utilize a service, the larger High School District pays 70% of the cost and the smaller Elementary District pays 30%. If the Board adopts the resolution under Education Code 35110, cost sharing ratios would not necessarily be observed in the same way.

While the resolution has merit in terms of simplifying the workload of staff and the Board, the issue of one District paying for the other remains. A driving force behind the Superintendent's suggested adoption of the resolution is the desire to enlarge one of the elementary schools - the Santa Barbara Community Academy. The Academy is located in a wing and basement of the SBSB office building. The building is owned by the High School District, which in past years has received \$200,000 in annual commercial rental income for the parts of the building that were not used for school functions. When the Academy moved in, the Elementary District reimbursed the High School District for that loss of outside revenue.

One of the first actions that the Superintendent proposes to take if the Board adopts the resolution would be to stop the \$200,000 of "rent" currently paid by the Elementary School District. This action will consequently diminish the High School District budget by \$200,000 per year. This is an example of how the dual districts must fight for resources in the deliberations of the one Board.

A second action under consideration is the sale of property owned by the High School District, the Tatum Property, valued at \$16 million. SBSB describes this sale as a "one time" opportunity to realize full value for the property. The expansion of the Academy is also forcing the SBSB decision to move its administrative offices out of its office building. SBSB is currently looking to rent office space elsewhere, most likely in Goleta. Further down the road SBSB will build a new office building, perhaps with some of the anticipated proceeds from the Tatum property.

The related decisions to pass a resolution under 35110 and to sell the Tatum property have been under discussion for only a short time and are seen as part of the immediate solution to the Superintendent's and Board's decision to expand the Academy. The

decision has been described in meetings as having a “ticking clock” due to the Board’s choice to begin expansion of the Academy by September of 2004.

Follow the Money

Bond Money

The voters passed two local school bond measures totaling \$92 million in recent years. These were I-98, \$25,000,000 for the Elementary District in 1998 and Measure V, \$67,000,000 for the High School District in 2000. Management of the funds was “dumped” onto already overworked employees. There was no one person to oversee project development. While the funds were managed well under the circumstances, this was a poor business practice that lacked foresight and created unnecessary vulnerabilities.

SBSD was subsequently criticized for lack of planning when matching funds became available in 2002 through California Proposition 47. According to Proposition 47, the State would provide matching funds to each district based on projects that were ready for approval by the State Board of Control during a funding window of opportunity. In response to criticisms that the Board could have obtained more matching money, the Districts hired an independent consultant to examine the Districts’ practices. The report was generally favorable, finding that SBSB acquired a fair amount of matching funds and “avoided mistakes frequently made by other districts that tried to move too fast.” However, it noted, “there is a lack of a meaningful [management] time line that encompasses the planning, design and funding process.” The Jury found that the Board could have hired a manager to oversee the \$97 million of construction funding and the development of schedules. Such a hire would not have incurred any cost to the Districts’ general budget since the position could be funded by the bond money. The Board’s and Superintendent’s decision to delay hiring a manager proved to be penny wise and pound foolish. Following the consultant’s report and news media attention, the Districts contracted with a management firm to oversee some of the bond funds and timelines for project development.

Union Negotiations

The Jury received complaints regarding the process for negotiating with unions, where there have been procedural irregularities. Prior to 2004 the bargaining proposals in the negotiations between the unions and SBSB have not been made public. Following vocal criticism, the Board contracted with legal counsel and subsequently requested training workshops on union negotiations and on the Brown Act. The Brown Act ensures that the decisions of a public body shall be made during public meetings. The Board’s new legal counsel has advised SBSB on several appropriate procedural changes. For example, 2004 is the first year the Districts have made the negotiation proposals public.

The Jury received two related complaints about the Districts' Insurance Committee. The Insurance Committee, consisting of union representatives, administration representatives and an insurance company broker, met to consider an impending 23% increase in the 2001-022 SBSB Blue Cross contract. The committee was able to agree that some costs would be passed on to employees in the form of increased co-payments. This reduced the contract increase to 16%, and it was understood that the savings would be applied to a salary increase in the 2002-2003 school year. Despite the approximate 7% "savings," the final Blue Cross contract still cost \$500,000 more than the previous year's contract. Some members of the public and one Board member felt they were not sufficiently informed of the negotiations and the resulting cost to the general fund. Newly improved negotiation processes have corrected the situation. However, it is still of concern that critics had to be so forceful and persistent to gain the administration's attention.

**The Grand Jury commends SBSB for acquiring
on site legal counsel. This is money well spent.**

Governance

The Board and the Superintendent endure more than their share of criticism. However, many times, the critics have valid points. SBSB has organized itself in such a manner that every decision seems an arduous step up the learning curve. While the administration claims that it is breaking new ground, the facts do not always support this. It appears that leadership and staff are overworked and lack the time to fully develop the best solutions.

The effort to plan and to develop operational policy does not receive enough attention. SBSB auditors stated, "During our review of Board Policies, we observed that many of the policies were not current, or were in the process of being revised." SBSB should consider renewing its lapsed membership in the California School Boards Association. This organization offers access to current legislation, policy updates and sample language. SBSB is a public body and is obligated to put policies into writing that are accessible, enforceable, and effective. Relying on habit, happenstance, and clean-up operations is expensive in both time and money.

Conclusion

Voters in California approved Proposition 98 which guarantees schools approximately 40% of the State's General Fund Tax Revenues. Even so, California ranks next to last in the nation for education spending per student. Money is in short supply. Our school districts must demonstrate sound business practices, good accounting and long-range planning.

The Jury recognizes that the Santa Barbara Elementary and High School Districts are accomplishing a lot with limited resources. SBSB must continue to seek and retain the best and most highly trained people to administer the Districts' funds and programs. In addition, policies must be put into place to guide the Districts' actions into the future. Learning on the fly and repairing situations after they break down are not good business practices.

Findings and Recommendations

Finding 1

Fiscal Accountability status requires that there be an *internal auditor* on staff to objectively assess the Districts' finances. SBSB leadership has failed to provide for an internal auditor, despite repeated requests from the County Office of Education to do so.

Recommendation 1a

SBSB should immediately hire a qualified, full-time internal auditor.

Recommendation 1b

The County Office of Education should rescind Fiscal Accountability status if an internal auditor is not put in place.

Finding 2

The combination of Fiscal Accountability status, dual district structure and no board resolution to administratively unify is unique in the state and creates vulnerability to mismanagement.

Recommendation 2

The Board should consider alternate scenarios: unification, separation or administrative unification under Education Code 35110, preferably with the advice of an expert. These scenarios should be compared to one another objectively and with an eye towards simplification and long-range planning.

Finding 3

The SBSB Superintendent and the Board are considering adopting a resolution to create a single district with common administration under Education Code 35110. The proposal will have long-term consequences to the High School and Elementary School Districts, as well as the surrounding "feeder" districts.

Recommendation 3

The Jury recommends the Board continue to actively encourage public dialogue on this issue and its potential consequences. The Board should hold a public meeting, inviting each "feeder district's" Board and PTA to attend.

Finding 4

Management of bond funds has, in the past, been assigned to already overworked employees. The assignment of a manager for bond funds would incur no cost since bond funds are specifically available for this prudent level of supervision.

Recommendation 4

The Board should adopt a standard policy, in coordination with the SBSB Bond Oversight Committee, to utilize a professional to manage bond monies and schedules for expenditures. This position would automatically occur whenever there are bond monies to manage.

Finding 5

Recently, the SBSB Board has initiated new processes in union negotiations to comply with legal requirements.

Recommendation 5

The Board should continue its new practices relating to union negotiations and bring the negotiating proposals to public light, especially as they affect the Districts' budgets.

Finding 6

Many SBSB policies are not current.

Recommendation 6

The Board should update its policies and hold training workshops on policy and affected operations. The Board should renew its membership in the California School Boards Association. Such membership comes with access to valuable policy language and training workshops.

Affected Agencies

**Santa Barbara Elementary District and
Santa Barbara High School District:**

Findings:	1, 2, 3, 4, 5, 6
Recommendations	1a, 1b, 2, 3, 4, 5, 6

Santa Barbara County Office of Education:

Finding:	1
Recommendation:	1b