

Santa Barbara's School Finances: From Bad to Worse

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Santa Barbara's schools frequently seem to be in dire financial straits. Revenues are shrinking, bureaucracy is growing, and teachers are having to absorb increases in health insurance costs, resulting in less take-home pay.

This is the bad. The worse is yet to come. Forthcoming and foreseeable additional costs could drive the Santa Barbara Elementary District under. On August 8th, in her last statement to the School Board, Mary Stark (Chief Business Officer) recommended that a fiscal crisis management team be brought in to conduct a *solvency audit*. That is serious language. It is fitting for a serious situation. As one who has been trying to get the District's budget problems on the public agenda for months, I commend Ms. Stark for her courageous statement.

Here are some of the problems Ms. Stark identified.

1. Un-funded liabilities for retiree health benefits. For years, the District has made commitments to pay part of the health care premiums for retirees. Few realized until recently how these negotiated commitments affect current and future budgets, because the information has not been included in budget reports.

This is about to change. Over this year and next, the District must implement new accounting standards that require this kind of long-term commitment to be reported as un-funded liabilities. For the Santa Barbara Districts, actuarial projections yield a total of \$18,525,000 in un-funded liabilities.

Here is the crunch. Beginning in July, 2007, the Districts will have to set aside \$977,000 annually to cover these future commitments. The Elementary District's share will be \$277,000 per year. At the moment, this is not a legal requirement. But, allowing un-funded long-term liabilities to grow will have far-reaching consequences for the District's financial position. It is only a matter of time before set-asides into an irrevocable trust become a legal requirement.

2. Reserves for Economic Uncertainty. For the past two years, the Elementary District has failed to meet the requirement for a 3% reserve for economic uncertainty. Its fiscal overseer, the County Office of Education, has been pressing the District to set aside the mandatory 3% plus a cushion. Mary Stark suggested 5%, which would cost the Elementary District an additional \$828,438.

3. The Cafeteria Fund. Bad management over a period of several years ran the Cafeteria operation deeply into the red. From 2004 through 2006, some \$936,000 that would normally have been available for educational programs was used to bail out the Cafeteria Fund. The operation is still not solvent. Mary Stark suggested a regular set-aside for "future special fund solvency/settlement costs." I asked the Director of Fiscal Services, Robert Wolfe, about the "settlement costs" part of this, and he explained that the District has used some monies from its Self Insurance Fund for other purposes. This fund could run into solvency problems if the District were to be hit by large claims and settlements. No suggestions were made as to the amount that should be set aside for possible future insolvencies.

Ironically, the District Administration is now proposing a new “super-kitchen” to make the Cafeteria operation financially viable. The cost? \$1,500,000 to \$2,000,000.

3. Possible Salary Increases. Salary negotiations are now underway with both the teachers union and the staff union. The negotiations are confidential. But the budgetary impacts of various scenarios are public knowledge.

- A 1% increase for Elementary District teachers and administrators would cost \$201,000 a year for the foreseeable future.
- A 1% increase for High School District teachers and administrators would cost \$395,000 a year for the foreseeable future.
- For 2% increases, the amounts are double, for 3%, triple, and so on.

Ms. Stark explained that the way districts anticipate their financial needs for collective bargaining is to increase their reserves. As noted, she advised a 2% increase from the 3% minimum requirement to 5%. In June, I urged the board to heed Ms. Stark’s advice and make necessary budget cuts to increase reserves. The board majority decided against doing so. In effect, this meant that the District entered collective bargaining virtually empty-handed.

4. Possible Budget Cuts. While I agree with most of Ms. Stark’s recommendations, I reject out of hand her list of possible budgetary savings. Here it is.

- the Elementary Music program
- Health Assistant services at 10 schools
- Library/Media services
- Nurses and nurses’ supplies
- Psychologists and psychologists’ supplies
- Increasing class size (to reduce the number of teachers)

I have been arguing since February for full disclosure of the District’s financial situation and public debate on the budget, with all budgetary trade-offs on the table. Unfortunately, this seems to be something that the administration and the board majority want to avoid. I am convinced that significant savings may be made at the district level without such major impacts on kids. How much of what is done at the district offices is simply a reflection of Parkinson’s Law? *“Work expands to fill the time available for its completion.”*

5. Closing an Elementary School. Ms. Stark hinted at another possibility—closing an elementary school. She listed unused capacity at district schools resulting from declining enrollment, some schools being at only two-thirds capacity. She estimated potential savings between \$350,000 and \$450,000 in annual administrative and overhead costs, not to mention the possibility of enhancing district revenues via renting out the facilities. Teachers and students would be consolidated into the excess capacity of the remaining schools.

The possibility of closing a school is called “the third rail” by some School Board members. But, in a district that faces insolvency, it must be considered. There are computer-based models that can generate alternative consolidation scenarios to minimize disruption on families. Such technical solutions can help. However, at heart, closing a school is a human problem requiring human sensitivity. It will test the mettle of each board member.

6. New Monies from the State. What about the new monies for education in the state's 2006-07 budget? Most of them are either earmarked for specific purposes or are one-time funds. After reviewing what can be expected from the new state budget, Robert Wolfe (Director of Fiscal Services) concluded that:

- the "Elementary district is in trouble,"
- "the secondary district needs a plan before they reach the elementary school district's situation," and
- "next year's outlook is not as rosy."

I have asked that Mary Stark's recommendation for a "fiscal solvency audit" be placed on the School Board's agenda for public discussion and debate. The outside group she suggested – the Fiscal Crisis Management and Assistance Team - is highly regarded for its professionalism and expertise. But, expertise alone will not solve the Districts' financial problems. There must also be political will.

Thanks to Mary Stark and Robert Wolfe for telling it as it is.