FINAL REPORT OF THE COMMUNITY BUDGET ADVISORY COMMITTEE

THURSDAY JUNE 16, 2005

TO: The GUHSD Governing Board

FROM: THE COMMUNITY BUDGET ADVISORY COMMITTEE

PURPOSE OF THE COMMITTEE

The purpose of the Committee was initially established by the GUHSD Governing Board by Resolution dated February 10, 2005. The Committee subsequently restated the Resolution into a Mission Statement.

MISSION STATEMENT AS DEFINED BY THE COMMITTEE

To review the District's current budget and multi-year budget projections and to assist the District in making appropriate budgetary recommendations in order to ensure financial solvency; to enhance transparency in the District's financial activities, reporting and record keeping.

FINANCIAL SOLVENCY

We define Financial Solvency as the result of a communicated planned budget process whereby Revenues are determined and known as to which are short term and those predictable amounts as on-going; Expenses are base lined –fully understood and controlled given defined purposes and scopes; Reserves reflect realistic contingencies, accounting for timing considerations and may be beyond State legal minimums -if reality warrants and the Governing Board concurs.

PURPOSE OF THE FINAL REPORT

The purpose of this report is

1) to advise the Board that we have met our Mission and
2) to provide the Board with the Committee's analysis while
3) encouraging the Board to seize the opportunity for further investigation, administration reporting and continued public input on our specific recommendations for action.

This Final Report is based solely upon *our* review of various financial records, requested information and independent research*. We are not auditors. We are not consultants.* We do appreciate those members of the public who met with us after the Interim Report was published, providing comment and questions for clarification**.** The information presented should provide the Governing Board relevant facts for its consideration in conjunction with the required adoption of any Budgets going forward.

COMMITTEE OVERVIEW/PROCESS & METHODOLOGY/MEMBERS

A. OVERVIEW

The Committee held eight duly "Noticed" public meetings. We requested and received materials and clarification in the course of our discussions to narrow our focus to address the Board's purposes in establishing this Community Committee. You will note that we have determined our Mission Statement from your purposes and our perspective. We deem ourselves to be independent and objective.

Previously we advised you of our need to hold a public hearing on our work to the Interim report date. We did so on Tuesday May17, 2005 @ 6:30 PM. We received public input and clarifying questions. Fortunately, there developed a free exchange of questions and answers/promises to provide follow up information between the public (Messrs. Aaron Landau, Brian Wilbur, Jason Lee, Mike Ritter and Ms Nicki Summers), the Superintendent, Dr. Ryan, Dr. Bob Cornelius and Ms Patty Floyd. Mr. Leonel Sanchez of the Union Tribune was also in attendance. Despite the temptation, we avoided using the media as a substitute for an open, face-to-face public process.

Frankly, we remain disappointed in the lack of public/parent "involvement," journalistic coverage and academic community interest in our efforts and processes - despite our meetings being "publicly noticed." Given what is at stake for the District/Students, we would have hoped for more direct professional-solution oriented involvement by all vested interested parties. We specifically requested that the Superintendent not attend any of our meetings beyond the first meeting where we confirmed the resources and process needed to proceed. We did so in order to convey our independence and avoid the potential appearance of influence.

Finally, one theme we have established is "enhancing communications and transparency recognizing that the algorithm of public education finances and methodologies have changed." We believe that this will assist members and organizations within the District Community to base discussions on mutually available facts and data.

B. FULL COMMITTEE PROCESS AND METHODOLOGY

All meetings are "noticed' and subject to the Brown Act.

As the agendas and minutes reflect, we focused our efforts within five areas with a committee member assigned to take the "point" as follows:

Ken Sobel-Revenue/General Research
Phil Jankola-Expenses
Ernest Ewin-Reserves
Mark Lewis-Communication
Ron Pennock- Ancillary items

C. COMMUNITY COMMITTEE MEMBERS

The Committee Members and their relevant biographical information is as follows:

† Ernest Ewin, Chairman

Member La Mesa City Council; Chrm Prop "R" Citizens Bond Oversight Committee for the Grossmont Cuyamaca Community College District; Member, Board of Directors, Metropolitan Transit System (MTS); Member, Board of Directors, Metro Reusable Water JPA; Chairman, Harry Griffen Park Joint Powers; Board Member of the Grossmont College Foundation; Past service to the GUHSD includes Prop H Steering Committee and BRC-Finance items; Presently a local Realtor; Former Local Banking Executive; Resident of East County since 1951

† Phil Jankola
Retired County Administrator and Budget Analyst; Member, Prop "H" Bond Oversight Committee; Past member, GUHSD Blue Ribbon Commission; Parent of a senior attending Granite Hills High School

† Mark Lewis
Mayor, City of El Cajon; Chair, City of El Cajon Redevelopment Agency; Member, SEIU; Member, SANDAG; Member, Board of Directors, Metropolitan Transit System (MTS); Former Councilmember, City of El Cajon

† Ron Pennock
32 years professional experience in the Land Title Insurance business; Former police officer; Chairman, GUHSD Blue Ribbon Commission; Chairman, GUHSD Prop H Bond Committee, Member, GUHSD Bond Oversight Committee; Chairman, East County Construction Council; Member, Political Policy Committee of the Building Industry Committee; Chairman, El Cajon Condo Conversion Task Force, Graduate, El Capitan High School; Grossmont Community College, and San Diego State University; Parent of three GUHSD graduates; Founding member of the El Cajon Hotspurs Soccer Club; Past coach, wrestling and baseball

† Ken Sobel-Vice Chairman
President, Grossmont College Foundation; Vice-Chairman, Grossmont/Cuyamaca College District Bond Oversight Committee; Immediate Past Chairman, La Mesa/ Spring Valley School District Bond Oversight Committee; Former Vice-President and Founding Member, La Mesa Parks and Recreation Foundation; Immediate Past President, La Mesa Athletic Council; President, Grossmont High School ("GHS") Athletic Booster Club; GHS Assistant Athletic Director; Recipient, California PTSA Volunteer of the Year Award (Spring Valley Middle School and GHS); ROSE Award recipient, La Mesa/Spring Valley School District; Project Coordinator: GHS: Raised $1,000,000 for artificial turf field & track; LM/SV: Raised over $2,000,000 for new athletic fields & facilities at various schools; Member of GUHSD Blue Ribbon Commission: Member, Steering Committee; Member of Sub-Committee on Revenue; Chairman of Sub-Committees on Extended Curricular Programs and District Transportation; AV Rated Attorney in Private Practice since 1980; Licensed in California and Arizona; Parent of recent GHS graduate (Alex, 2003), and son, Nick, a junior at Grossmont High School

We have included a tabbed binder including an Appendix listing of the various sources and materials we reviewed. The materials include the following:

† GUHSD, Formation of a Community Budget Advisory Committee
† Members, Community Budget Advisory Committee
† Purpose, Community Budget Advisory Committee
† Financial Impact of the Collective Bargaining Process on GUHSD Budget
† GUHSD Process for Communications
† San Diego County Office of Education Response—First Interim Report, 2004-05
† GUHSD First Interim Report, 2004-05
† San Diego County Office of Education Response—Second Interim Report, 2004-05
† GUHSD Second Interim Report, 2004-05
† GUHSD, Financial Analysis for the Forecasted Multi-year Projection by Vavrinek, Trine, Day & Co. LLP, March 3, 2005
† GUHSD Annual Financial Report, June 30, 2004
† Comprehensive Review, Phase II
† Master Schedule Review (Fiscal Crisis & Management Assistance Team)
† California Department of Education News Release: District Program Improvement
† Blue Ribbon Commission Report

GENERAL BACKGROUND INFORMATION

We acknowledge the continued current state of District contract negations but continue to believe that our purpose is best served by recognizing the more common ground as to financial issues. That said, as we noted in our Interim Report presentation, the financial and educational challenge to the District is neither unique nor isolated to this County or District. We cited the

recent Rand Corporation Report (5/2/05), which describes the California school funding woes and concomitant declining student performance level. We have provided a copy as *Exhibit "A"*

OTHER LOCAL DISTRICTS AND THE BUDGET CRISIS

Similar financial and budget problems have been widely reported in San Diego County. For example, please refer to the San Diego City Schools website, www.sandi.net, recent San Diego Union articles, e.g., "Declining enrollment hits city schools in the wallet," SDU-T, 4/07/2005, and the budget reductions in the Sweetwater Union High School District; see SDU-T article, 4/20/05: "South County high school board slashes budget again."

In addition, the reader may also wish to consider the articles published by the AFT regarding public employee and teacher salaries. The 2003 Survey of Salary Trends reports that a 3.3% increase in 2002-03 salary was "dwarfed by staggering increases in the cost of health insurance benefits – which spiked an astounding 13 percent, the Bureau of Labor Statistics reports." The 2004 Survey notes that "[public employees] salaries are at a standstill – a result of continuing budget pressures plaguing the states…" and that "states still are struggling to rebound from the nation's economic slump," and that "states have significantly reduced salary increases…to 0.45% in 2003-2004."

In light of the foregoing, we are certainly not alone when it comes to finance and budget issues.

GUHSD STARTING POINTS AND OVERVIEW

The initial starting points included an analysis of the recent District Audits, and an analysis of the District's Budget and Financial Statements. This process, within the context of San Diego County Office of Education oversight, cannot be underestimated. It is key, and encapsulates the key issue facing this District. Does the District have an understanding of its finances and that further *deficit spending is not an option*? How does the District navigate the narrow financial straits and improve student performance to weather "The Perfect Storm," as described in Exhibit B.

Thereafter, each of five areas' (Revenue, Expenses, Reserves, Communication & Ancillary Items) were discussed along with clarifying materials. We have quickly narrowed our focus to the realities of key components and required legal oversight.

We asked ourselves:

A) Is the financial information requested and provided accurate and reliable to the extent that 3rd parties have performed their due diligence?
B) Are there legal reporting requirements that the District must now perform; ones that we can rely upon those results?
C) Are there circumstances that have arisen beyond the scope and since the BRC made its report?

D) What is financial solvency?

AUDITS

The 2003-2004 District Audit was prepared by Vavrinek, Trine, Day & Co., LLP, an accounting firm with specialized expertise in public schools and school districts. The audit was carefully reviewed by the Committee.

The audit disclosed no "material weakness" involving the internal control over financial reporting and its operation.

There were some instances of "reportable conditions" which essentially relate to non-compliance but do not arise to the level of a material weakness. Those generally relate to time documentation for employees applicable to Special Education, Title II, and Medi-Cal programs, which are categorical programs. The District is taking steps to bring those matters into compliance.

BUDGETS AND FINANCIAL STATEMENTS: REVIEW BY SAN DIEGO COUNTY OFFICE OF EDUCATION (SDCOE)

The committee carefully reviewed and analyzed the SDCOE's interim reports of January 3, 2005, and March 29, 2005, as a starting validation point. The SDCOE reports analyze the financial and operational condition of the District, and such analysis is authorized by State law. The information provided by SDCOE is evaluated and ratified by the committee.

The SDCOE provides oversight of 42 school districts in San Diego, including GUHSD. Such oversight is mandated by Education Code Section 4213, et. seq. (generally known as "AB 1200"). Administrative regulations adopted pursuant to the Education Code establish a mandatory 3% contingency reserve, which is calculated upon the gross expenditures of the District.

Revenue Chair, Mr. Sobel, conferred with Victoria Carreon, the consultant for SDCOE. The meeting confirmed the information and data set forth in the first and second interim reports of January 3, 2005, and March 29, 2005.

Additional information gleaned is as follows:

1. District continues to get a positive report.

2. District would likely get a qualified or negative report if submitted budget or the actual end of year resulted in a negative contingency. Such an outcome would trigger a number of actions by SDCOE including a Receivership-type situation.

3. District experienced a deficit during the 2003-2004 fiscal year, and is currently in deficit for 2004-2005, although the extent to such deficit currently is somewhat of a "moving target" until fiscal year end (i.e., June 30, 2005).

4. Major components in 2003-2004 Loss:
   a. Spike in health care costs (+$1 mil.)
   b. State NEGATIVE COLA (Ca. took back 1.2%)
   c. Cuts in Categorical Programs
   d. Costs > Projected Costs

5. Major components in '04-'05 Loss:
   a. Carryover expense
   b. Enrollment projection off (+300 v. +3 = -297)
   c. Staffing Plan Faulty (Refer to FCMAT report)
      (i) Too many classes/teachers
      (ii) Value adjustment (Units/$)
   d. Example: revenue based on ADA of 5 periods; teachers work 5 period with 1 prep. period per day; student takes 6 classes; teacher paid "6/5th", or 20% on top of regular pay plus benefits.

REVENUE SUB-COMMITTEE PROCESS

The following specific review process was undertaken by the Revenue Sub-Committee, Chaired by Ken Sobel:

1. Review and analyze critical books and records of GUHSD.

2. Committee discussions regarding "big picture" concerning budget, finance and transparency.

3. Interview sessions:
   a. Meet and confer with Victoria Carreon Consulting Business Advisory Services, San Diego County Office of Education and author or SDCOE letters dated January 3, 2005 and March 29, 2005; Meet and confer with Patty Floyd, GUHSD Fiscal Services Director; Meet and confer with Bob Cornelius, Assistant Superintendent, GUHSD business services, Patty Floyd, Phil Jankola, Member of "Baby Blue" and Expense Sub-Committee Chairman.
   b. Meet and confer with Superintendent Terry Ryan (5/05/05)
   c. Review FCMAT Reports re: Master Schedule and related issues.
4. Review selected Budget items identified as "categorical".

REVENUE ANALYSIS

Reviewed Sources of Revenues- can they be increased?

A. Based upon review of relevant documents, interviews with the individuals identified above, and with committee discussions (5 separate two-hour discussions), and review of the BRC findings/conclusions/recommendations of 2002, the following observations are made:

Documentation

GUHSD Annual Financial Report/Audit dated June 30, 2004.

The report is comprehensive, complete and establishes that the District's Financial Statement, and all material respects are in conformity with accounting principles generally accepted in the United States of America. (Independent Auditor's Report, 6/30/2004 at p. 2)

The actual deficit in revenue against Expenditure in the amount of $4.467 million (2003-2004).

B. Revenues are broken down into four (4) categories:

a. Revenue limit sources
b. Federal Sources
c. Other State Sources
d. Other Local Sources.

Generally, the revenue limit sources are based upon Attendance (ADA).

EXPENSES

The Committee Reviewed Major Categories of Expenses. We asked ourselves what percentages/ amounts are fixed and what are variable? What legal requirements require specific minimums be maintained such as 3% of General operating Budget for maintenance as required by Senate Bill 50 (introduced 2/25/97) and Chaptered under Ed. Code Section 17070. Please refer to Blue Ribbon Commission Report, pp 92 – 93. These items remain "key" in the Expenses analysis.

A. Availability of Certain Categorical Funds for Program Improvement

In our initial evaluation of the budget, certain conclusions and recommendations were based upon items in the budget that were identified as "categorical." The working definition of the Committee with respect to "categorical" programs is based upon the premise that such funds/revenue is limited by Federal or State law or regulation (i.e.,

"external" control) i.e., that any expenses against such revenue were limited by "scope" of the applicable regulation.

Further research and evaluation suggests that there may be certain budget items previously identified as "categorical" under the above definition, that in reality are only subject to "internal policy" of the Board, written or unwritten, but otherwise would be available for other School/District uses subject to board approval. It is imperative that we identify all of the budget items that may be subject solely to "internal" categorical restriction, so that current district needs can be met. Of course, such expenditures still must be subject to the governing principle that care must be taken in determining what expenditures can be made when the revenue sources in future years to support future claims are either unavailable or uncertain.

In any event, these "internal" categorical items may include, but are not necessarily limited to the following:

1. 1.1 million power school/student system
2. 700,000 health/benefit category
3. Portion of books/supplies budget item

B. A Clear and Transparent Budget Process

One additional way the district could provide a clearer, more transparent budget process to all concerned parties is to create a database that lists all mandated and non- mandated activities at the subprogram level. It would also include the District's required match and any overmatch by revenue source. Such a data base should clearly show where the Board has financial flexibility.

The data base would have four categories: Mandated Programs/ Mandated Service Levels (MMSL); Mandated Programs/ Discretionary Service Levels (MDSL); Discretionary Programs/ Mandated Service Levels (MDSL); Discretionary Programs/Discretionary Service Levels (DDSL).

MMSL are subprogram activities where the District Board has limited direct authority to eliminate or reduce the service level. An activity is considered mandatory if the function and service level are required by either Federal, State statue, court ruling or District Charter. A service level is considered mandated if the legislation/ regulation dictates caseload size, staffing requirements or timeliness of service.

MDSL subprograms are activities which are required by law (Federal, State, Court ruling or District Charter) but the service level is left to the discretion of the District Board.

DMSL subprograms are activities which the District is not required to operate. However, if the District chooses to operate these programs, the law generally stipulates the service level as a condition of funding.

DDSL subprograms are activities which the District is not required to operate and for which the service level is optional.

RESERVES

Revenue–Expenses = Reserves Adjustment//Surplus or Deficit/Encumbered but not expended.

The Committee process reviewed the Board's written policy regarding reserves, focusing upon the San Diego County Office of Education communications dated January 3, 2005, and March 29, 2005, addressing Deficit Spending. California Education code section 33128 establishes the minimum reserves requirement.

By reviewing the current composition of the "Reserves" one can address a number of key questions about the process. There have been questions raised by individuals outside of the Committee regarding specific balances at static points in time. These are best addressed within the context of time period sequences and hopefully by attending future Budget Study Sessions. Any amounts in the Reserves are **not** available for incurring additional on-going expenses. With the exception of "Insurance Benefits" and "Undesignated", the other funds are spoken for/pre-designated. The funds earmarked "Student System" reflects an amount set aside previously to be applied to a new system to replace Power School.

The Balances in the line item "Undesignated" at year-end will basically reflect the financial performance results. We look forward to a public disclosure and explanation as to the sources of any account performance variances reflected in the "Undesignated" component of Reserves.

We believe that the readers will soon see an additional category to reflect current year's budgeted Maintenance amounts, not spent. With the passage of Prop H under Prop 39 (55% provision), the district is now required to expend/ set aside 3% yearly for maintenance (2005-06 reflects an additional $700,000 from 2004 levels) to meet this requirement.

Amounts in the Reserves need to be continually documented by a separate exhibit to the Monthly Financials so as to avoid the confusion that the funds are available for on-going expenditures.

BUDGETS/DEFICITS

GUHSD experienced a deficiency (Expenditures over Revenues) as follows:

a. 2002 - 2003 Actuals: ($1.722 million)
b. 2003 - 2004 Actuals: ($4.467 million)
c. 2004 - 2005 Projection as of 3/29/05: ($3.236 million)

Under current projections, the District's deficit spending will produce an unappropriated balance of an estimated $311,849 over the ***minimum*** 3% contingency required by law. As with our own

household budgets when we don't have enough income to cover our expenses, we seek ways to increase revenue (get a second job, new job that pays more, temporary loan) cut our discretionary expenses (eat out less, don't buy the dirt bikes) and hope we don't get seriously ill. There is an eventual "pay the Piper" reckoning when living beyond one's means.

COMMUNICATIONS

Requested and Reviewed the District's summary of how it communicates with the public. The District provided the following summary:

> "The Grossmont Union High School District (GUHSD) communicates with members of the public in the following ways:
>
> † Utilization of the District's automatic telephone caller.
> † The establishment of two telephone message lines where parents can call and receive updated district voice recorded messages.
> † School newspapers
> † School Accountability Report Cards
> † Bulletins and newsletters
> † Posting of graduation requirements
> † Posting of Blue Ribbon Commission reports
> † Posting of a variety of issues on the District website (www.guhsd.net) such as news events and updates, Governing Board meeting agendas and minutes, District curricular programs and sporting events, Collective Bargaining reports.
> † Utilization of public announcements on San Diego radio stations: 760.KFMB, KSON 97.3, XLTN 104.5 (Spanish-speaking station), KLTN 104.5 (Spanish-speaking station), KSNDM, local artist, KGB FM 101.5, classic rock, KFMB
> † Utilization of public announcement son television, KGTV – Channel 10, XETV – Channel 6, NBC – Channel 39, KPBS, and on Instructional Television
> † Utilization of print and electronic media: San Diego Union Tribune, East County Herald news, The East county Californian, The View of San Diego, Internet Newspaper, La Prensa (Hispanic newspaper), Voice and Viewpoint (African-American newspaper).
> † Utilization of large public events where parents and members of the community are present.
> † Football announcements, program announcements and other District events
> † Community organizations (Rotary, Lions, Kiwanis, etc.)"

ANCILLARY ITEMS

In the course of our meeting discussions, issues of importance have been cataloged. We have listed those as follows: To not address them would be intellectually dishonest.

ISSUES/CONCERNS/CHALLENGES/REQUESTS

1. PROP "H" Repair/Renovate/Construct on School Sites:
(for Bond text please go to Appendix List)

We believe that there is an expectation on the part of the taxpayers (and Law 3%) that the General fund budget will be used to maintain school facilities as on-going maintenance (no deferred Maintenance). We expect that an attitude of care and respect will be a by-product of the Bond expenditures and that the facilities never be allowed to deteriorate to the levels that were prior to Prop H being approved by the voters/taxpayers.

We believe that anticipated cost savings attributed to efficiencies associated with repairs and renovations should be directed towards current maintenance items not to the General Fund. However, savings realized may be more from minimizing operational expense *increases* vs. direct *reductions/savings.* Prop H Bond expenditures are not to be viewed as freeing up monies for use for salaries, programs or wish list items.

However, it is critical that the District specifically identify the sources of funds used to pay COPs, the amount of such revenues that will be then available once all COPs are retired by bond proceeds or special fee assessments, the restrictions, if any, upon the use of such proceeds, a commitment to use such proceeds for repair or maintenance, and finally, whether such permutations may result in "unrestricted" income for educational purposes.

Also, the District should carefully consider additional permanent improvements as it relates to energy usage on a lease finance basis to maximize the utility of bond funds for other purposes? Recent e.g., see article, San Diego Union, 4/05: "14 S.D. Unified buildings get solar panels."

2. Fully document and breakdown the 3.93% State COLA; but, when talking about salary increase reflect the 1.4% automatic upward adjustment based upon "Step/Column" years of service/education. In other words, all parties should present compensation issues in terms of the "Total Compensation package" so as to accurately determine budgetary increase impacts in all categories including automatics.

3. Spiraling Health Care Costs: 10-12% x 3 years. Whatever is agreed to needs to be reflected in the "Total Compensation Package values. It should be reflected that currently, a significant portion of the healthcare premiums are paid for by the District. A join effort needs to be looking for programs that provide good coverage but may be available at a lower cost.

4. State may shift about $1.5 million of retirement costs to school districts? District needs to identify now how this or like reductions will be addressed in the future.

5. Declining enrollment impacts in each of the next 10 years needs to be realistically addressed by all community parties (Santee crisis): See article 4/7/05 *(Related issue of spending Prop. H on schools in light of declining enrollment)*

6. Disclose the Financial Consequences Related to Student Performance: GUHSD is one of about 15% of School Districts statewide recently identified for Program Improvement relating to "NO CHILD LEFT BEHIND."("NCLB").What is the cost/benefit of increasing student performance? See Exhibit B, "The Perfect Storm." What are the financial risks if performance is not improved?

7. Unfunded/Under-funded State Mandated Programs: The net effect upon the district is currently estimated to be $6,088,000 (primarily special education). We are not judging the merits of these programs. There needs to be a unified effort of members of the GUHSD Community addressing this impact starting with elected representatives in Sacramento.

8. Offering More Classes than Reimbursed: Financial times and circumstances dictate that the District not provide more programs than the State of California funding covers. Currently that is 6 periods a day. Can additional revenue sources be identified? [Question: Whether GUHSD students can take college courses at Grossmont College (e.g. Grossmont Middle College) vs. AP courses in High School?]

9. School Sites: Has a reasonable review of Feeder School districts been undertaken so as to evaluate current school sites use and continuance **before** Prop H and maintenance funds are allocated?

10. Busing and Transportation Costs: We believe that serious efforts be undertaken with other local districts for mutual efficiencies

11. Absenteeism: Alternatives and efforts to decrease to a zero tolerance is critical. Annual cost/revenue lost is estimated to be $2.8 million.

12. Review and update the recommendations of the BRC. Please!

13. Reserves Methodologies: Need to be viewed exactly for what they are as necessary by definition-per category/line item and not subject to negotiations.

14. Deficit Spending: Recent legal changes take this past reality/strategy out of the equation. PERIOD!

15. Improving Student Performance (#6) and reducing Absenteeism (#11) will be enhanced by the "Paradigm Shift," as described in Exhibit C and related material from the Blue Ribbon Commission Report.

RECOMMENDATIONS

1. Establish an ACTION Committee on efficiencies and waste with teacher, staff administration representatives chaired by a representative of the public/taxpayer. Establish or revitalize community groups to assist and participate with shared governance philosophy.

2. Enhance Communications Systems. The Web site needs to be rebuilt professionally with the objectives of transparency, timely updates and enhanced communications having abilities and capabilities to interact with the public. We note that this process of revision has begun.

3. Simple Financial/Budget Statements. We believe that many of the misunderstandings and impasses result from not communicating simple financial statements with the abilities to drill down as needed. Utilizing the Web is an effective system if used and understood by the general public. There are disagreements as to whether funds are "hidden" or were not properly represented. We did not see this. The Board receives monthly financial reports. We believe that Parties with questions need to avail themselves of district informational opportunities such as the Budget Study Sessions. The Public needs to be more actively invited to attend.

4. Revenue Recommendations

   a. Third Party/Private Fund Raising: GUHSD Umbrella Foundation
      i. Alumni Database/GHS Pilot Project
      ii. The "Big" Grossmont:
      iii. Proper Staffing and Funding leads to Greater Gain

   b. Re-Examine Tardy/Absentee Policy

   c. Extended Curricular/Co-Curricular Program Enhancement; See Exhibit C, "The Paradigm Shift."

   d. Sell/Lease Surplus Property.

   e. Explore and present the Parcel Tax as an option for additional revenues to fund specific classes/activities.

   f. Consolidation of East County School Districts and/or consolidation of specific programs: transportation, special education, etc. Consider "EAST COUNTY SUMMIT" to deal with these issues.

   g. ZERO TOLERANCE FOR UNFUNDED MANDATES.

   h. Holistic approach to sharing future revenues: build 3 year budgets with consensus from all constituent groups, i.e. how much can be spent on material v. salary...better to employ more at a lower salary (younger/less credentialed) v. higher salary (older/more credentialed).

5. Public taxpayers have a right to know bargaining positions. All parties to bargaining should be willing to provide written back up to substantiate claims and positions at the onset. No "spaghetti" approach of throwing out statements to see what sticks. If the

media is going to receive financially referenced text, it should be accompanied by back up materials. It would greatly assist this Committee in cross verification.

6. All new and on-going District programs should be evaluated within a total cost recovery/revenue assurance basis/going-forward approach.

7. Expenses are generally ongoing and any increases should be viewed as part of a new going forward fixed total. Future impacts must be taken into account. If funding sources cannot be substantiated for the next two years, the increase should be subject to reversal or not go forward at all.

8. Revenues have a reliable component and need to negotiated from a position of transparency. Temporary funding items are not eligible for long-term expense/financial commitments.

9. Trades and Vocational Educational training programs need to be given a priority along with the College Prep programs. This is an opportunity to return to the community a skill set that can provide stability in the employment base as well as taxpaying contributors. These programs also encourage continued school attendance by students not interested in the norm for college prep. We suggest developing a two-year test program to monitor the effect on attendance (hence ADA) of this focus.

11. Before Prop H funds are expended further and after quickly reviewing demographics, would a campus such as El Cajon, for example, be suited as a vocational and technology hub campus?

CONCLUSIONS

Within the context of the District's recent significant deficit spending to fund ongoing programs with declining year-end balances, serious strategic planning and multi-year budgeting is absolutely essential to maintain the future fiscal stability and the financial integrity of GUHSD. Future costs of doing business are not only subject to rising inflation and interest rates, but also to supply and demand. The state and federal economies most likely will continue to limp along. Volatile costs related to energy, health care, transportation and construction materials are here to stay. Current revenues will for the most part remain flat at best. We cannot wait in the middle of Sacramento's current political quagmire for a hasty financial fix. Nor can we rationally expect assistance from Washington given their all too familiar situation. All facets of the District including but not limited to the Board, administration, employee bargaining units, teachers, classified employees, students, parents and concerned citizens must cooperatively explore innovative, outside the envelope, creative programmatic solutions to control costs and enhance revenues. The District's future is now!

1. We find that the financial methodologies/reports (we reviewed) and the concurrence of independent auditors, as well as the San Diego County Board of Education, are reliable.

2. We find that sources of revenue are extremely tight and well defined. Times have changed and all reasonable means of providing needed, unfunded courses/programs should be explored and explained to the community.

3. We find that immediate action is warranted in order to find outside revenue sources (third party fundraising) and to increase extended curricular activity/ vocational /trades education in order to improve attendance, retention and student performance.

4. Develop a better website that is comprehensive, user friendly and enables the District and related entities to fully and effectively communicate with **all** community members all relevant information concerning the District, secondary education, and to provide transparent financial information (noted some development recently initiated).

5. We need to utilize multiple modalities to communicate our methodology and goals of educating the students keeping in mind the finalized impact upon the district.

6. Please continue to review the findings and points of the BRC but ensure that the teachers, staff and parents have input in the progress reports

Lastly, we commend the developing current approach of the District Administration in seeking community input on the issues confronting this District, including budget and finance. Revenues are too unpredictable to allow site discretion to continue without fully understanding the long and short term effect of each and every taxpayer dollar spent. An increase in expenditures this year-any year- may stay with the District for years to come when revenues may slacken off.

In view of significant under-funding of public education, spiraling costs, unfunded mandates and shifting regulations limiting school choices, proven private sector principles need to be employed to ensure future financial solvency. All of this said, we believe that future budget balancing strategies and multi-party negotiating positions should reconsider the past practice of placing the compensation/employment risk on the newest teachers/employees-who may in fact be among the best. We call upon all parties to periodic negotiations to seek ways to identify and focus on common causes for the sake of the students.

EXHIBIT A

THE RAND CORPORATION, "CALIFORNIA'S K-12 PUBLIC SCHOOLS: HOW ARE THEY DOING?" (5/2005)

The *Rand Report* is quoted as follows:

California's public school system lags behind most of the nation on almost every objective measurement of student achievement, funding, teacher qualifications and school facilities, according to a new RAND Corporation analysis that is the first comprehensive examination of measurable dimensions of the state's education system.

The study issued today chronicles how the state's K-12 school system has fallen from a national leader 30 years ago to its current ranking near the bottom in nearly every objective category. It was funded by the William and Flora Hewlett Foundation, which is working to build support for improving California schools.

While the assessment of California schools is generally negative, researchers also note several positive trends, including significant improvement in student math achievement in recent years, and funding increases for school construction and repair.

"A lot of people have expressed concern about the state of K-12 education in California,' said Stephen Carroll, a RAND senior economist and lead author of the report. "We found that those concerns are well placed. California schools are lagging behind most other states and these findings suggest policymakers need to make major changes in order to repair the problems. Despite some improvements, the state has a long way to go to reclaim its standing as a national leader in K-12 education."

"This report makes the scope of the California education crisis crystal clear," said Marshall S. Smith, director of the Hewlett Foundation's education program. "We need so much more than short-term Band-Aids — we need long-term solutions that deal with the system's underlying problems. To secure California's future, we need serious school finance reform to ensure that all children have the educational resources to achieve high standards."

California currently spends more than $50 billion each year to educate about 6 million elementary and secondary students - about 12.8 percent of the nation's school-age population.

RAND researchers examined the status of K-12 education in California across several broad measures, including student academic achievement, teacher qualifications, school facilities and non-educational benchmarks such as teenage pregnancy rates. Among the findings:

- *California student achievement on national standardized tests is near the bottom of the 50 states, ranking above only Louisiana and Mississippi. California's low scores cannot be accounted for by a high percentage of minority students, who generally have lower scores because many come from low-income families and sometimes must learn English as a second language. Controlling for students' background, California's scores are the lowest of any state.*
- *California students have made gains on national achievement tests in both math and reading. In particular, the improvement seen among 4th graders in California in the past seven years has been greater than their peers in other states.*
- *California has the second highest ratio of students per teacher in the nation, even after a major effort began in 1996 to reduce ratios for K-3 and 9th grade. California K-12 schools have an average of 20.9 students per teacher, compared with a national average of 16.1.*
- *California school districts' teacher standards are generally lower than in other states. Just 46 percent of school districts in California require teachers to have full standard certification in the subjects they teach, compared with 82 percent nationally.*
- *The real average annual teacher salary in California during the 2000-2001 school year was about the same as it was in 1969-70, when adjusted for inflation. The adjusted annual average salary of about $39,000 (in today's dollars) places California last among the five largest states and 32nd nationwide.*
- *While California spent less per pupil on school facilities than other states during the 1990s, progress has been made in recent years with passage of both state and local bond measures. However, schools in central cities and in rural areas still have a high number of inadequate facilities.*

The decline of California's K-12 system has paralleled the shrinking of per pupil financial support for education during the past three decades, according to the RAND report.

The decline began about 30 years ago when the state became the first to implement school finance reform that moved responsibility for school funding from local jurisdictions to the state. The change helped to make spending per pupil more equal across the state. While there is evidence the change narrowed the gap between rich and poor districts, it also contributed to lower spending levels overall.

While California's annual per student spending was about $400 above the national average in 1969-70, it fell to more than $600 below the national average in 1999-2000, according to the report. The state ranked 27th in per pupil spending in 2001-2002.

Support for K-12 education as a proportion of the per capita income of Californians has fallen as well. California spent about 4.5 percent of the personal income of state residents on public education in the early and middle 1970s — about the same as the rest of the country. But from the late 1970s through the middle 1990s, California's support lagged about 1.2 percentage points behind the national average, according to the report. "

RAND Education conducts research and analysis on a variety of topics, including school reform, educational assessment and accountability, and trends among teachers and teacher training.

A printed copy of "California's K-12 Public Schools: How Are They Doing?" (ISBN: 0-8330-3716-1) can be ordered from RAND's Distribution Services (order@rand.org or call toll-free 877-584-8642).

About the RAND Corporation

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world.

EXHIBIT B

THE PERFECT STORM

Budget Crises and Sub-Standard School Performance

In March 2005, the GUHSD was placed in a category known as "Program Improvement" based on its failure to achieve necessary improvement in student performance. Apparently, the California Department of Education ("CDE") has been in negotiations since the passage of the "No Child Left Behind"("NCLB") with the federal regulators. Such negotiations from the state perspective have been undertaken in order to relax the NCLB standards, and avoid an even greater number of school districts and schools placed on Program Improvement. Nevertheless, the "negotiated" standards resulted in 150 school districts being placed on the "Program Improvement list." GUHSD is one of those 150 school districts. There are 1059 school districts in the State of California. Thus, GUHSD finds itself in the company of the bottom 15% of school districts statewide.

The CDE continues to seek "flexibility" in increments but ultimately this is based upon further negotiations to relax the standards. One representative of CDE stated that if all of NCLB was implemented, it would eventually result in most California school districts being designated "Program Improvement" during the next five years. *www.ca.cde.gov*

Currently, two schools within GUHSD are on the five-year NCLB "Program Watch." Monte Vista is in its second year and Chaparral is in its first year. In August 2005, the data will be released that will show whether or not these schools will continue on to their third and second year respectively, (or be removed), and will also determine whether or not other schools in the District would be in their first year in the program. *www.ca.cde.gov* Schools within the program watch are required to revise their school plan, including review process/peer review which may consist of a panel including PTA and other representatives; notification to parents regarding the status of the school and requiring them to offer "school choice" which means students must be allowed to transfer to another school within the LEA and the LEA is required to pay the transportation costs (some title I costs can be set aside for such purposes). The costs increase the longer the school is on the program improvement list.

In the second year, schools are required to comply with everything from the first year plus supplemental services such as tutoring and some mechanism to hire "improved providers" with a selection process including the parents.

A third year in the program requires additional corrective action including at least one corrective action to 1) replace staff/principal; 2) a new curriculum; 3) an outside expert retained and; 4) extend the school year/day.

The fourth year requires a re-structuring either to 1) become a charter school/replace most if not all staff and principal; 2) outside entity brought in to manage the school for a planning process with an "alternative governance plan."

The fifth year requires the approved alternative governance plan to be instituted which means essentially: "out with the old and in with the new."

It is important to note that the District or LEA is required to pay these costs unless other funds are provided by the State or Federal Government. (Note: Some professionals estimate that LNCB is $2 - 4 billion behind funding California; California's budget woes have been well published.)

With regard to GUHSD, a school district which finds itself as a "charter member" of the Program Improvement list, a three-year process generally follows (unless the LEA/District is removed from the list):

1. In the first year, the District must devise an LEA plan to deal with the issue, give a written notice to all parents and implement the plan in September 2005. A copy of the written notice by Superintendent Ryan dated 5/4/05 is attached.
2. In the second year, if the District remains on program improvement, it must fully implement its plan for improvement.

3. During year three, if the District remains on the program improvement, then the State can take action against the District including the following measures:
    a. Replace District Staff
    b. Remove schools from the jurisdiction of the district.
    c. Appoint a trustee in place of the superintendent and governing board.
    d. Abolish/re-structure the LEA (District).

Information on the program improvement in the District may be found at www.cde.ca.gov/ta.

As previously mentioned, it is uncertain of all the additional measures; however, it is quite certain that significant costs may be incurred. The District is ultimately responsible for such costs, although there may be State and Federal funds available to offset at least a portion.