



# MAGNOLIA PUBLIC SCHOOLS

## Board Of Directors

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Board Agenda Item #	II A
Date:	June 28, 2016
To:	MPS Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Adoption of the 2016-17 Budget

### Proposed Board Recommendation

I move that the board adopt the 2016-17 budget as presented. It includes a five percent reserve in the home office that is specifically set aside for emergencies and system-wide needs and can only be drawn down with the express approval of the board. I also move that during the months of July and August the CEO be delegated the authority to approve contracts and expenditures over \$25,000 with a co-signature of either the board president or treasurer in order to expedite school opening in the event a board quorum is unavailable in a timely way. The CEO will report to the board all expenditures and contracts made under this provision at the September 2016 meeting.

### Background

Magnolia is headed into an exciting year, one in which we now have the opportunity to institutionalize the processes put in place during 2015-16. We aim to make routine items routine as we deepen our focus on the instructional program. This budget includes expenditure and revenue plans for ten schools and the home office. Enrollment is projected to rise from 3,433 to 3,813. This budget presents an expenditure plan of \$47.4 million in operating expenditures. Non-capital program direct school site expenditures account for \$41.3 million of the overall budget, and collectively funded school support (CMO allocation) includes \$6.1 million, or 12.9 percent of the total non-capital budget. The 2016-17 budget anticipates \$48,6579,203 in revenue, a decrease of \$2.4 million (-4.7%), primarily due to the state not yet providing the same one-time revenue they announced last September for the 2015-16 fiscal year and the one time 2015-16 receipt of \$13.3 million in capital funds. The budget yields \$1.3 million in net operating income (after depreciation).

Thirty-one (30.5 FTEs) staff work as part of the Home Office staff, most of who spend a significant amount of time across multiple school sites, and 350 staff (92%) work directly on school sites for individual schools.

The major changes from 2015-16 represented in this budget are a significant increase in school site personnel salaries, previously adopted by the board, completion of the MSA Santa Ana academic buildings, reduction in state one-time funds, and the anticipated 2016-17 closure of MSA Santa Clara due to the decline in enrollment cause by our facilities loss. Accounting

treatment of the closure of MSA Santa Clara will be addressed through the closure audit and may require an update of this budget in November 2016 reflecting any changes. The November 2016 revision also will true up the budget to align with the state adopted budget and our actual enrollment.

Staff is continuing to assess the CMO fee as compared with other similar CMOs. It turns out that it is not a simple question because it is not merely a matter of comparing 990s of other CMOs. At the time we established the CMO allocation formula in January 2015, the financial firm advising us, VLS, told us that average CMO fees range between ten and twenty percent of CMO budgets. One challenge in benchmarking is that CMO legal structures vary greatly, often including multiple nested 501c3 organizations, foundations, and facilities financing structures. In addition, CMOs do not define the scope of services provided by their “home offices” in the same way, in some cases the centralized function include more or fewer responsibilities compared with Magnolia. While the average CMO fees may average between ten and twenty percent, the process of allocating them to individual schools varies tremendously often using a combination of direct and indirect cost structures, higher or lower allocations based on school size and longevity, and shifts relating to facilities. Finally, easily accessible publically available data has been difficult to come by.

This is true even for Magnolia. In 2013-14, Magnolia’s home office equivalent (based on the services the home office currently provides) was provided by the home office budget, which included Accord’s support fees, and several single site staff supporting all campuses but not funded by all campuses. In 2014-15, the Accord fees were pulled out of the home office budget and charged separately to the schools, and the same single site staff provided system-wide support.

The main concern expressed by the board is a desire to ensure that home office expenditures remain as lean as possible in order to maximize school site funding and to avoid becoming ineffective or bureaucratic. The Finance Committee is continuing to consider how to address this, as we are able to find data to guide the analysis. In the meantime, attached to this agenda item (besides the budget) is the data uncovered by our senior financial analyst, Steven Kao and chief financial officer, Oswaldo Diaz. We will be in touch with CFOs of several relatively comparable CMOs over the next two months in order to get more specificity and address the challenges listed above.

### Budget Impact

This is the proposed operating budget for 2016-17.

### Lead Staff

Oswaldo Diaz, Chief Financial Officer