

To: SMMUSD Board of Education

From: Debbie Mulvaney, Chair, Financial Oversight Committee

Subject: FOC Annual Report

Date: July 18, 2019

The SMMUSD Financial Oversight Committee (FOC) was established to serve as the Measure R Independent Citizens Oversight Committee as well as to provide monitoring and review of the District budget, the City of Santa Monica Joint Use Agreement, the City of Malibu Joint Use Agreement, the District Audit, enrollment projections, revenue and expenditure forecasts, the capital program and public education regarding district finances. In addition to its regular oversight duties, the SMMUSD Financial Oversight Committee forms subcommittees to handle special finance-related issues posed by the Board and CBO. For the fiscal year 2018-19 we had 4 subcommittees.

District Budget - (Ms. Krenik, Mr. Farivar, Mr. Jacobson, Mr. Levis-Fitzgerald; Ms. Slaugh-Nahass) - This subcommittee was formed to allow for FOC representation at District Budget Committee meetings and Board Budget Workshops as well as to provide research and guidance as requested on budget related issues. Their task was to evaluate the types of spending at Samohi relative to other similarly sized high schools in comparable districts to determine how their spending patterns (in all areas of operations) compared to ours. It became apparent early on that this was too broad an area of research and there were too many different types of programs at the various high schools to make this research meaningful. With the agreement of the FOC Board Liaisons, we discontinued this work. The sub-committee, however, has been monitoring the Superintendent's proposed framework for reductions and have discussed ways they can participate in this process.

Sustainability - (Mr. Jacobson) - This subcommittee was originally tasked with identifying potential cost savings through sustainability measures. The subcommittee explored the potential long-term financial benefits as well as upfront costs of sustainability recommendations. The sub-committee also participated in the development of the District's Sustainability Policy. Mr. Jacobson represents the FOC on the District committee on Sustainability and he will report to you on the work they have done this year.

Special Ed – (Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Mulvaney) – The charge of this subcommittee was to evaluate areas of excess capacity within our Special Ed department with an eye towards potential revenue to be gained from our SELPA partners, or in establishing ourselves as a distinct SELPA. As the sub-committee began its research, our task veered from this original mandate. Ms. Maniar will report on the work done this year.

Bond Oversight - (Mr. Lee, Mr. Kremer) - The purpose of this committee is to be involved with any type of financing the district is planning whether it involves the bond authorizations for Measure ES, SMS or M or other contemplated district financing. Mr. Lee will report on the status.

Attached are the subcommittee reports. A summary of the findings and conclusions will be presented at the Board meeting on July 18, 2019.

2019-20 Suggested topics of study

On-going:

Sustainability; Bond; Spec Ed.

Revamped:

Revised Budget Committee in 3 parts:

- a) Follow and review ERAF calculations;
- b) Follow and review Redevelopment Fund calculations;
- c) Review assessed valuation reports from both cities as well as review the projections for sales tax in City of Santa Monica to help budget for YY and GS.

Respectfully submitted,
Debbie Mulvaney
Chair, Financial Oversight Committee

Financial Benefits of Sustainability

Submitted by: Mr. Jacobson (Chair), Ms. Slauch Nahass, Mr. Levis-Fitzgerald)

The FOC Sustainability Subcommittee spent 2018-19 involved in the implementation of many of the goals and strategies we developed in the previous years. These included:

- Initiating an evaluation of the power use and potential savings that SMMUSD could accrue with sustainable practices
- Review and evaluation of financial benefits of a districtwide sustainability program/policy
- Assistance in the development of the policy, including providing any economic data and background that the committee had developed over the last 18 months
- Ongoing involvement in the efforts to fund the Board approved Sustainability Policy

Finally, the subcommittee was an active member of the Sustainability Working Group, which has evolved into the SMMUSD Sustainability Steering Committee. As members, we shared out thoughts, and insight into what would eventually become the Districts Sustainability policy.

Throughout our work over the last four years we have maintained a particular focus on economic impact, power and water use.

Sustainability is and should continue to be a major initiative and priority for SMMUSD. As a result of the efforts of the Sustainability Subcommittee and the parallel efforts of District staff and the SMMUSD Board of Education (“Board”) many of the goals brought to the Board in 2018 and 2019 have been accomplished.

In particular:

1. The FOC Sustainability Subcommittee worked to implement the development of the SMMUSD Sustainability Policy
2. The FOC Sustainability Subcommittee has supported and continues to support the concept of a full-time sustainability coordinator. And has coordinated our efforts with Caroline Costers as a consultant to the district.
3. The FOC Sustainability Subcommittee also recommended the district push for a strategy of creating a “Green Fund” to defray that costs of the sustainability programs and minimize the general fund costs for any programs. This concept was included in the final Sustainability Policy adopted by the board in May 2019.
4. The FOC Sustainability Subcommittee also continues on the SMMUSD Sustainability Steering Committee – and has been involved in all elements of their deliberations.
5. Work with the full FOC to determine cost savings that can benefit the district in its efforts to address the budget deficits.

FOC AND SUSTAINABILITY

The FOC Sustainability Subcommittee has requested that the Sustainability Committee continue its efforts in the 2019-2020 year, with a focus on supporting the districts efforts to implement the Sustainability policy, but from the perspective of how to fund the program, costs savings, and ongoing review and assistance on finding ways to reduce costs and increase sustainability.

The elements our involvement in the ongoing Sustainability program would include:

- a. Continued involvement in the Sustainability Steering Committee and engagement in programs where we can assess and participate in providing a financial or budgetary perspective
- b. Review of budgeting practices for the District that take into account sustainable practices;
- c. Reviewing the process for power and water negotiations and assist where

- appropriate;
- d. District-wide rules regarding use of appliances in the classroom;
 - e. Consistent recommendations around water usage and maintenance, including to encourage the development of regular annual water audits for all District facilities;
 - f. Monitor plans for new construction and HVAC and other efforts such as solar power and other programs
 - g. Work collaboratively with staff to find way to find the financial resources to fund an individual or group of individuals to monitor and enact sustainable practices;
 - h. Work with the Sustainability Steering Committee to review the districts transportation fleet and the costs related to the use of buses and most importantly employee commuting and vehicle use.

COST SAVINGS FOR THE DISTRICT

The FOC Sustainability Subcommittee recommends that we also work with the Sustainability Coordinator to do a quarterly evaluation of the cost savings of sustainability programs. The FOC along with the District sustainability coordinator would participate in those audits. It is also recommended the Board provide resources to accomplish this.

Recommendations

- Direct the FOC and SMMUSD staff to continue to work (as noted) on implementing, and funding the development and monitoring of sustainable practices for the Board to review in the 2018-19 year.
- Work with the Sustainability Steering Committee to find creative funding sources to implement and enact sustainable practices.
- Provide financial reviews of sustainable practices that will help empower SMMUSD staff to present options to the Board for school site changes that could generate significant savings for over several years.
- Assist as appropriate with a process for individuals and parents to provide input in the financial implementation of the ongoing sustainability program.

Financial Oversight Committee: Special Education Charge

Progress Update: June 2019

FOC Sub-committee: Debbie Mulvaney, Michael Kremer, Payal Maniar, Shawn Landres

- **Initial Charge:** FOC's initial special education charge was to evaluate areas of excess capacity within special education services that could be converted to potential sources of revenues to offset district's current special education related costs. Initial hypothesis was there may be services we could offer at the SELPA level thereby generating potential revenue streams.
- **Information Gathering:** The sub-committee met with fiscal team and special education director over several meetings to build high level understanding of (a) special education funding sources and budget and (b) to get insights on current areas of capacity. We also asked questions to gather high level information on the other 2 Tri-City SELPA districts (Beverly Hills and Culver City). Information for requested related to:
 - a. SPED students as proportion of total students across the 3 SELPA districts over past 3 years
 - b. Local General Fund Contributions of each Tri-City SELPA district over the past 3 years
 - c. Details on any recent 'needs assessments' of our students versus programs currently offered (incl. data on enrollment by school level/ disability area and program type)
 - d. Reasons for high turnover within the SPED teachers and paraeducators
 - e. Programs currently run at the Tri-city SELPA level
 - f. Patterns and trends in legal settlements over the past 3-5 years
- **Initial Findings:** This information gathering exercise led to realization that
 - a. While some high information was available, other data was not immediately available due to issues related to systems of tracking (e.g., special education staff/ resource utilization, profiling of current legal settlements)
 - b. Many of our questions overlapped with data requested by the FCMAT study

Based on the above, sub-committee decided proceed further on this charge after the FCMAT findings were available.
- **Post FCMAT Follow-ups:** After reviewing FCMAT findings, the sub-committee identified areas for further analysis and requested follow-up data from the Fiscal team/ special education department. Priority areas for further analysis included:
 - a. **Legal Liabilities:**
 - i. Understanding long-term liabilities related to legal settlements
 - ii. Cost analyses, if available, on private placements versus building programming
 - b. **Paraeducators:**
 - i. Recent compensation analysis for our classified special education staff (paraeducators) to compare our rates versus market
 - ii. Skills levels/ Training of our classified special education staff to understand how well trained our paraeducator hires are versus market for similar roles
 - c. **Systems of Tracking:**
 - i. Information on how SPED dollars are being spent by key expense areas/ program type
 - ii. Understand process of reconciliation between SEIS and District's Accounting system (e.g. SEIS data translating to spend tracking)

- d. **Transportation:** Current utilization data for sped students transportation staff (buses and taxis) to identify areas for better utilization

Recommendations:

- Based on (a) available data, (b) discussions with our fiscal + special education teams, and (c) FCMAT findings, this sub-committee recommends further analyses across many of the areas discussed above.
- Some recommended areas for further analyses:
 - a. Develop detailed legal settlement profiles to identify trends and gaps and to inform reasonable budget planning strategies
 - b. Assess paraeducator compensation and skills/ training versus relevant market data to identify gaps and inform recruiting efforts (i.e., hire appropriate skills at competitive compensation)
 - c. Assess costs and distribution of our paraeducators by site, program type and paraeducator designation/ level
 - d. Conduct special education program analysis: bottom-up analysis to match student needs with programs offered (e.g. develop heat map of disabilities and resources utilized by program offered)
 - e. Study private placements costs versus costs of building programs for any identified gaps from legal settlements assessments
- This sub-committee recommends that the **FOC continue to work on a special education charge that will support recommended analyses (above) and find insights to drive further cost efficiencies in Special Education.**

Next Steps:

- Based on an initial discussion with newly appointed Director of Special Education, the sub-committee **plans a follow-up discussion with the Director prior to start of the new school year to build upon and refine the FOC's special education charge**

Bond Oversight Committee

Submitted by: Gordon Lee (Chair), Tom Larmore, & Mike Kremer

The bond subcommittee is chaired by Gordon Lee, who is a member of the FOC and former Vice Chair for the Prop 39 committee. The committee meets to discuss topics related to any type of financing the district is planning. This would include the Bond Authorizations, Measure BB, Measure ES, Measure SMS and any other contemplated district financing.

The Committee meets as needed to support the bond issuance program for the district. The most recent financing was \$120 million of General Obligation bonds, Election of 2012, Series D (the "Bonds"), which funded the renovation, construction and improvement of school facilities authorized under the Measure ES election that was approved by the District's voters on November 6, 2012.

Some highlights of this financing:

- The pricing date occurred on August 22, 2018, and closed on September 6, 2018. The Bonds were structured with various principal amounts from August 1, 2020, through August 1, 2043, with coupons ranging from 3% to 5%. The Bonds were structured with multiple optional redemption features of five and seven years: August 1, 2025, at 100% (August 1, 2020, to August 1, 2035) and 8/1/2023 at 100% (August 1, 2036, to August 1, 2043). The Bonds have various early redemption features of 5 and years to take advantage of any interest rate drops.
- The District's outstanding Moody's Aaa rating achieved in 2017 was affirmed and the District's S&P (Standard & Poors) rating was upgraded one notch to AA+. The upgrade lowered interest rates at pricing that perhaps saved District taxpayers approximately \$1,500,000 over the life of the Bonds.
- Raymond James served as senior manager along with RBC, and Isome Advisors as Financial Advisors to the transaction. Although Raymond James is a new underwriter to the SMMSD, John Baracy had joined this firm and has been the districts banker since 2008.
- This financing leaves us with a remaining authorization of \$115 million left in Measure ES. The district may contemplate a financing sometime in early 2020.
- There is an anticipation of issuing in 2019/2029 Series A for both Measure SMS and Measure M in the amounts of \$110 and \$35 million, respectfully.

The district and committee consistently look for opportunities to refinance debt to take advantage of interest savings (as we have in the past) to benefit our generous tax payers. With the budget stress on district, both the rating agencies will be conducting their internal annual review sometime soon and will hopefully not make any adjustments to the districts ratings. Inquiries by the rating agencies would be directed to the district, in which staff is prepared to answer such questions.

Most recently, it was determined that a TRANs financing is needed to help in the shortfall of cash flow during the year. A presentation was made to the FOC on May 7th by Annette Yee of Montague DeRose. A TRANs are short term loans, usually 9-12 months, when expenditures must be incurred prior to collection of tax revenues. This TRAN's pool is administered by the LACOE. Many of the schools in this pool vary in credit and in name prestige. Santa Monica certainly being one of the preeminent districts within that pool. The district will have RBC (who is underwriter to the District and LACOE pool) do an analysis to determine the cost and rate if the district were to issue a TRAN's independently for comparison.

The district has borrowed a TRAns in the past with the California Education Notes Program.

- 2012-13 for \$9,873,000
- 2011-12 for \$4,945,000
- 2010-11 for \$2,779,000

In closing, what makes SMMSD a great credit risk to the markets?

- The district's exceptionally large, diverse and growing tax base.
- High resident wealth levels.
- A sales tax which has no sunset providing the district with a significant unrestricted revenue source.
- Increasing local revenues.
- Voter-approved unlimited property tax pledge securing the bonds.
- Manageable pension and OPEB liabilities
- Average debt burden when compared to other Aaa-rated districts.

We request that the Bond Subcommittee be continued as next year's FOC directive. Thank you for your attention.

Sincerely Yours,
Bond Subcommittee