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Debra Duardo, M.S.W., Ed.D.
Superintendent

January 13, 2021

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Board of Education**

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Mr. Jon Kean, Board President
Santa Monica-Malibu Unified School District
1651 16th Street
Santa Monica, CA 90404

Dear Mr. Kean:

Pursuant to Education Code (EC) Section 42131, the Los Angeles County Superintendent of Schools (County Superintendent) has completed our review of the Santa Monica-Malibu Unified School District's (District) 2020-21 First Interim Report. Our analysis of the data provided indicates that the District should be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years. **We therefore concur with the District's positive certification** and offer our comments and concerns below.

FISCAL STABILIZATION PLAN

In our review of the District's 2020-21 First Interim Report, we note that the District continues to address its structural deficit spending and has submitted an update of its Fiscal Stabilization Plan (FSP). The updated FSP includes expenditure reductions composed of elimination of certificated and classified positions, hiring freezes, reductions in conference and travel expenditures, reduction in contracted services and postponement of certain District actions. The District continues to be guided by Resolution #19-13 that the Governing Board adopted on December 12, 2019, and that commits the District to implementing necessary budget reductions and/or revenue enhancements for 2020-21, 2021-22 and 2022-23 in order to address the structural deficit spending. We further note that the District's multi-year projections include unallocated reductions of \$3.95 million for 2021-22 and \$3.54 million for 2022-23, as placeholders for the FSP expenditure reductions.

We appreciate the efforts of the District staff and the commitment of the District Board to address its structural deficit spending in a methodical and transparent approach. **We request that the District provide another update of its FSP with the 2020-21 Second Interim Report, due to the County Office by March 17, 2021.**

DEFICIT SPENDING

The District is projecting an operating deficit of approximately \$5.27 million, representing 4.28 percent of the District's Unrestricted General Fund projected expenditures and other outgo for fiscal year 2020-21. While the District projects it will maintain the required level of Reserve for Economic Uncertainties (REU), this level of deficit spending should be recognized and monitored.

CASH FLOW

As indicated in our memorandum entitled "2020-21 Updated Enacted Budget Guidance," dated July 21, 2020, the Enacted Budget includes significant principal apportionment payment deferrals from 2020-21 to 2021-22. The estimated effects of these deferrals on the principal apportionment schedule for February 2021 through June 2021 are as follows:

- 53 percent from February 2021 to November 2021
- 82 percent from March 2021 to October 2021
- 82 percent from April 2021 to September 2021
- 82 percent from May 2021 to August 2021
- 100 percent from June 2021 to July 2021

The scheduled payment deferrals will have a significant negative impact on district cash flows, and if not addressed, may cause disruptions in districts' ability to meet their financial obligations and/or cash reserve requirements for 2020-21.

The District's First Interim cash flow projections reflect the scheduled payment deferrals while indicating sufficient ending cash balances for the remaining periods in 2020-21 with projected inter-fund borrowing from Fund 40. **We request that the District continue to monitor its cash flow projections on a monthly basis and submit updated projections with the 2020-21 Second Interim Report, due to our office by March 17, 2021.**

BUDGET OVERVIEW FOR PARENTS

Senate Bill 98 requires that all districts local Governing Board adopt and submit the Budget Overview for Parents (BOP) on or before December 15, 2020. While the BOP does not require approval by the County Superintendent, it should align with the District's First Interim Report.

The County Superintendent has received the District's BOP as submitted and will continue to work with the District to ensure alignment with the First Interim Report, the Learning Continuity Plan (LCP) and the 2019-20 Local Control and Accountability Plan (LCAP). The District is advised that they will be required to provide detailed information in the upcoming Annual Update to document their implementation of this year's LCP and the 2019-20 LCAP. Ensuring that the BOP

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aligns to these plans will position the District to address the sections required in the Annual Update, to be submitted to the County Superintendent by July 1, 2021, with the 2021-22 LCAP, and which requires approval by the County Superintendent.

As a reminder, districts Supplemental and Concentration (S&C) grant funding is included in the Local Control Funding Formula to increase and/or improve services to low-income, English learner and foster youth student populations. To properly serve these targeted student groups who generated the funding, it is expected that S&C grant dollars be fully expended each fiscal year.

CONCLUSION

Thank you for providing documentation that supports the District's positive certification. The multiyear projections, with narrative and assumptions, were helpful in our analysis and verifying the District's financial condition. The information provided reflects the District's financial position and assumptions as of October 31, 2020, and further adjustments will be made during the year as additional data becomes available.

We express our appreciation to the District staff for their cooperation during our review. If our office may be of further assistance, please call me at (562) 940-1705.

Sincerely,

Hoyt Yee
Business Services Consultant
Business Advisory Services

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cc: Ben Drati, Ed.D., Superintendent
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