

TO: BOARD OF EDUCATION

DISCUSSION

FROM: SANDRA LYON / JANECE L. MAEZ

06/06/13

7:30pm

RE: JOINT MEETING WITH THE FINANCIAL OVERSIGHT COMMITTEE

DISCUSSION ITEM NO. D.02

As part of the requirements associated with the annual funds given to the School District from the City of Santa Monica, the Financial Oversight Committee (FOC) was appointed as an independent oversight committee regarding the financial matters of the District. This includes an annual report from the FOC to the School Board, reviewing the past year and offering its observations about the District's financial matters.

In addition, the FOC's charge was amended at the June 5, 2008, Board meeting (Item A.22) to include responsibilities associated with the Measure R parcel tax, approved by the voters at the February 2008 Special Election. Measure R requires that an Independent Citizens Oversight Committee monitor proposed and actual parcel tax expenditures each year.

Therefore, in compliance with the foregoing, the Board of Education will convene a joint session with the Financial Oversight Committee on June 6, 2013, at 7:30 p.m. for the purpose of addressing the following items:

- I. Report from the FOC as presented by Chair Tom Larmore
 - A. Introduction
 - B. Summary of FOC Activities During FY 2012-13
 - C. Report on Measure R Expenditures
 - D. Views on the Proposed 2013-14 District Budget
 - E. Proposed FOC Focus for FY 2013-14
- II. Discussion between the Board of Education and the FOC

The FOC Annual report can be found under Attachments at the end of these minutes. Ms. Maez introduced the FOC Chair and members present in the audience. FOC Chair Tom Larmore summarized the report.

In response to Mr. Allen's inquiry of known financial impacts to Malibu unification, Mr. Larmore stated that the idea is to create two school districts, resolving issues of bonded debt, parcel taxes while fairly splitting the assets, and considering employed and contractual obligations. Mr. Allen suggested that the FOC looks at Centinela Valley unification.

The Board thanked the committee and student representatives for their work and service. The Board accepted the proposed FOC Focus for FY 2013-14.

**Annual Report to the Santa Monica-Malibu Unified School District
Board of Education
by the
Financial Oversight Committee**

June 6, 2013

I. Introduction

Roles and Responsibilities

The District's Financial Oversight Committee, now in its twelfth year of operation, is an eleven-member committee appointed by the Board from residents in the District to provide Board members and District management with advice and counsel on a variety of financial topics. The current members of the Committee are:

Tom Larmore, Chair
David Vukadinovich, Vice Chair
Paul Silvern
Patricia Hoffman
Gordon Lee
Cynthia Torres
Shelly Slaugh Nahass
Craig Foster
DeAndre Parks
Joan Krenik

We currently have one vacant position due to the recent resignation of Stuart Smith.

We also were pleased to have two students participate in Committee meetings:

Elliot Baumohl – Santa Monica High School
Emma London – Malibu High School

In addition, the Committee benefits from insights and questions from the three Board liaisons: Laurie Lieberman, Jose Escarce and Nimish Patel. Most importantly, of course, is the excellent working relationship between the Committee and the District's professional staff, primarily Jan Maez and her assistant, Kim Nguyen. The Committee also appreciates the occasional assistance from other District staff members when there are agenda items relevant to their areas of expertise.

According to the charge the Committee received from the Board, our responsibilities include:

1. Review any matters potentially having a significant impact on District finances before the Board of Education takes action.
2. Assist the District in educating the general public concerning school finance issues, including creating reader friendly budget information.
3. Serve as the Measure R Independent Citizens Oversight Committee charged with reviewing the District's administration of and compliance with the terms of Measure R.
4. Provide monitoring and review of the joint-use agreement between the District and the City of Santa Monica, as per the terms of that agreement.
5. Provide monitoring and review of the joint-use agreement between the District and the City of Malibu, as per the terms of that agreement.
6. Review the District's annual audit and accompanying management letters and submit any comments or recommendations to the Board.
7. Review the annual budget, enrollment projections, revenue and expenditure forecasts, and the District's capital program, and submit any recommendations to the Board.
8. Serve as liaison to other District committees regarding financial implications of the proposed program or policy changes at the direction of the Board.

Topics

The specific topics we would like to discuss with the Board are:

1. A brief summary of the Committee's activities during 2012-2013.
2. Our report on Measure R expenditures during FY 2012-2013 and 2013-2014.
3. Comments on the current draft of the FY 2013-2014 District budget.
4. The proposed charges for FY 2013-2014.

II. Summary of the FOC's Activities During FY 2012-2013

During the current fiscal year, the Committee has accomplished the following:

1. Met with the District's auditor to review the FY 2011-2012 audit of the District financial statements and Measure R expenditures.

2. Met with Bruce Terry of DecisionInsite, the District's outside consultant regarding enrollment projections, and provided information with respect to those projections, primarily relating to the timing of certain housing projects.
3. Met with Tony Hsieh of Keygent to discuss issues relating to the BB bonds, including the District's bonding capacity, upcoming BB and refunding bonds, interest rates and the District's credit rating, including financial aspects of the District that affect that rating. The FOC recommended to the Board that it approve the financing structure recommended by Keygent for the final series of BB bonds.
4. Reviewed, discussed and provided comments to the Board with respect to:
 - a. The District's 2011-2012 audit.
 - b. The Measure R audit and plan.
 - c. The timing of appointments to the FOC. We greatly appreciate the Board's concurrence in making the appointments consistent with the District's fiscal year in order to maintain continuity in membership throughout the year.
5. Subcommittee activities:
 - a. *Malibu Unification Subcommittee.* This Subcommittee reviewed a feasibility analysis prepared by WestEd at the request of Advocates for Malibu Public Schools ("AMPS") and discussed the financial aspects of that report, including the allocation of assets and liabilities, particularly bonded indebtedness and developer fees, the survival of the Measure R parcel tax in a separate Malibu district, and the remaining bonding capacity of a separate Santa Monica district. The Subcommittee concluded that many questions remain open, and it is the FOC's understanding that a supplemental report has been commissioned by AMPS with the goal of providing further information. At this point, particularly given the state of uncertainty regarding how the State will fund public schools, it is premature to reach any conclusions regarding the financial viability of two separate districts. As discussed below, the FOC is requesting that this Subcommittee be continued for the next fiscal year.
 - b. *Detailed Budget Review Subcommittee.* This Subcommittee began its work by looking at other Districts' budgets and the way their budget information is presented to see if there are other practices that the District should consider. Due to the extensive detail involved in this Subcommittee's work, the FOC is requesting that it also be extended into the next fiscal year.

- c. *Per Pupil Budgeting Research Subcommittee.* The members of this Subcommittee initially determined that their efforts would be better spent looking at the Governor's Local Control Funding Formula proposal for funding public schools beginning in the 2013-2014 fiscal year. However, it soon became clear that the Subcommittee would not be able to provide information not available to Ms. Maez. Because Ms. Maez updates the FOC every month regarding developments with respect to the LCFF, the Subcommittee members recommended that the Subcommittee be dissolved and the members reassigned to one of the other two committees.
 - d. *Nominating Subcommittee.* Because the terms of four members of the FOC expired in December, 2013 and one member resigned in January, this Subcommittee interviewed several candidates to fill the five vacant positions and based on the FOC's recommendation, the Board made two reappointments and three new appointments. As mentioned earlier, one of the new appointees has since resigned and the FOC will be coming to the Board with a recommendation to fill that position in the Fall.
6. In addition to serving on special FOC subcommittees, FOC members serve on other District committees, especially the Superintendent's Advisory Committee regarding District-wide fundraising. The FOC was regularly advised by these members of the activities and accomplishments of the SAC and received feedback from the FOC. In addition, FOC members also serve on the Measure BB Advisory Committee and the Board of Directors of the Education Foundation.

III. Report on Measure R Expenditures

The Santa Monica-Malibu Schools Quality Education Funding Renewal Act of 2008, more commonly known as "Measure R," was the school funding measure approved by District voters in February, 2008. It consolidated and replaced two former parcel tax measures, Measure S and Measure Y, in the amount of \$358.91 as of June 30, 2012, and includes a "senior exemption" and an annual CPI adjustment.

Measure R generated about \$10.7 million for the District in this fiscal year. Under the terms of Measure R, these funds are to be used for the following purposes:

- To preserve programs and replace funds lost or reduced due to inadequate State funding;
- To sustain achievement in reading, writing and mathematics for all students at all grade levels and to fulfill the District's core curriculum which includes music, the arts, library services and athletics;

- To attract and retain highly qualified teachers; and
- To protect the taxpayers' investment in education and ensure District accountability by providing for special financial oversight and independent annual audits of revenues and expenditures.

Measure R requires that funds be deposited into a separate account, specifies that a "citizens financial oversight committee" review District administration of and compliance with Measure R, provides for public review of the expenditure plan, and requires an annual audit of expenditures.

The actual expenditures for Measure R in 2011-2012 totaled approximately \$10.5 million, as shown in the table below.

The FOC reviewed the audit of Measure R performed by the District's auditors, Christy White Associates, for the fiscal year ended June 30, 2012. This audit contained a "clean" accounting opinion and there were no findings reported in the schedule of findings and recommendations. A similar audit of Measure R revenues and expenditures through June 30, 2013 will be reviewed by the FOC next year.

SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT PARCEL TAX - MEASURE "R" BUDGET PLAN

SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT PARCEL TAX - MEASURE "R" BUDGET

	2012-13 2ND INTERIM		2013-14 PROPOSED	
	FTE		FTE	
REVENUE:		10,924,607		11,143,099
EXPENDITURES:				
COST TO ADMINISTER		27,821		28,500
PHYSICAL EDUCATION	13.5750	615,001	13.5750	617,666
COMMUNITY SERVICES	1.0000	62,595	1.0000	62,953
TECHNOLOGY	14.0000	1,665,909	14.0000	1,542,737
ART AND MUSIC PROGRAMS	15.7500	1,271,914	15.7500	1,281,693
LIBRARY PROGRAM	18.0000	1,225,030	18.0000	1,260,976
SUBTOTAL EXPENDITURES FOR MEASURE "R"	61.3250	4,868,270	61.3250	4,794,525
BALANCE USED TO PRESERVE PROGRAMS AND REPLACE FUNDS LOST DUE TO INADEQUATE STATE FUNDING		6,056,337		6,348,574
TOTAL BUDGET MEASURE "R"		10,924,607		11,143,099

IV. Views on the Proposed FY 2013-2014 District Budget

Due to uncertainties surrounding the State budget, it's difficult at this point to get a clear picture of the District's financial position for next year and even more difficult over the next three to five years. However, the FOC continues to believe that fiscal responsibility in the form of a balanced budget should be a significant consideration for the Board. This is especially true given the importance of maintaining the Board's excellent credit rating due to the passage of Measure ES authorizing increased bond indebtedness for various facilities upgrades and the fact that reserves of approximately 10% is a major factor for the continuation of the District's excellent rating by the rating agencies.

When the Board conducted its budget workshop in February, Ms. Maez displayed a multi-year budget projection based upon continued funding using the existing State revenue limit and categorical funding standards and existing expenditure patterns. This projection reflected continuing seven figure deficits through 2016-2017 and, more importantly, reduction in the general fund reserve to the minimum 3% level by the end of 2014-2015. If this were to occur, the Board would be faced with the need to make major reductions beginning in 2015-2016 and would almost certainly lose its favorable bond rating long before that.

Fortunately, the State's economy has apparently improved to the point where the Governor and the Legislature seem prepared to significantly increase State funding for public schools generally. While the Governor and the Legislature seem to agree with respect to certain aspects of a new funding mechanism, there remain several issues which haven't been resolved, such as the amount of the additional funding, when the extra funds will begin to be available, how the additional funds will be allocated, and whether additional funding will be restricted in any way.

The budget update given by Ms. Maez in May was more positive due to the application of the Governor's "Local Control Funding Formula" because it showed the District receiving around \$2,000,000 additional general fund revenue from the State on an annual basis through the 2016-2017 fiscal year, an amount which would obviously have a major impact on the operational deficit - in fact, it would become a small surplus by the last year. However, even these projections do not eliminate the reduction in reserves beginning by the end of 2013-2014 to well below the 10% level desired by the rating agencies - by the end of 2015-2016, the reserve level is projected to drop to around 7% of the budget. These projections did not include any salary increases beyond those associated with step and column movements.

The Legislature has shown an unwillingness to go along with the entirety of the Governor's LCFF structure. On May 23, the Assembly Budget Committee on Education Finance proposed its own variation of how additional State revenues should be allocated to school districts and assumed, based on a projection from the Legislative Analyst's Office, that the State's tax revenues would be higher than assumed by the Governor. On May 24, using the same revenue projections, the Senate Budget Committee recommended adding more money than the Governor proposed but voted to defer implementation of the LCFF approach

until 2014-2015. A conference committee has now been appointed to attempt to work through differences among the three approaches. The impact of such a result on the District is not clear but we commend the budgeting approach recommended by Jan Maez which utilizes, at least for the initial budget, the most conservative revenue numbers. Once the State sorts out its budget approach, the Board will have an opportunity to review its adopted budget to see whether modifications are appropriate.

However these events play out at the State level, the FOC continues to encourage the Board to establish balanced budgets with reserve levels that are necessary in order to maintain the District's favorable credit rating and protect against the possibility that all State revenue projections turn out to be overly optimistic.

V. Proposed FOC Focus for 2013 - 2014

Each year at this time, the FOC recommends a particular set of charges that its members would like the Board to approve in order to provide additional value to the District in addition to its regular duties. At our meeting on May 7, the FOC decided to recommend a continuation of two of the topics it has been focusing on during the current fiscal year and to add one additional topic:

- *Malibu Unification.* The FOC strongly believes that the financial issues surrounding any separation of the existing District into two separate districts will be of critical importance to any decision. Obviously, there is a great deal of work to be done in this area given the various legal and financial uncertainties described earlier. We strongly recommend that this subcommittee be continued at least for another year and anticipate that it will likely be needed for a longer period.

- *Detailed Budget Review.* This topic also requires more time for the FOC to complete its analysis, not only of the District's own budget but the comparative analyses with other Districts in its effort to identify best practices.

- *Retiree Benefit Obligations.* The impact of obligations to retired employees, through CalSTRS for certificated employees, CalPERS for classified employees, and the District's own health benefit program are likely to be major budget issues, as they are becoming with all public employees around the State. As we know, both CalSTRS and CalPERS are asking for significant increases in municipal contributions and the District's health benefit deficit grows annually. The FOC feels that it can provide value on this issue to the District through a focused study.

Of course, various FOC members will be continuing their participation in other District committees with David Vukadinovich, Craig Foster and Joan Krenik serving on the Superintendent's Advisory Committee working on the Vision for Student Success program and David serving on the Board of the Education Foundation.

The FOC members would like to express their appreciation for the opportunity to be of service to the Board and District staff and we look forward to a productive year in 2013-2014.