



SMMUSD Financial Oversight Committee Minutes

Date: Thursday, January 9, 2014

Time: 7:00 pm to 9:00 pm

Location: Testing Room, SMMUSD Administrative Offices
1651 16th Street, Santa Monica, CA 90404

I. Call to Order

7:00 pm

Committee Members: Patricia Hoffman
Joan Krenik
Paul Silvern
Shelly Slaugh Nahass
Peter Lippman

Craig Foster arrived @ 7:03 p.m.
Gordon Lee
DeAndre Parks arrived @ 7:07 p.m.
David Vukadinovich

Board Liaisons: Laurie Lieberman arrived @ 7:08 p.m.

Staff: Jan Maez Kim Nguyen

Absent: Jose Escarce Tom Larmore
Nimish Patel Cynthia Torres

Public: Gerardo Cruz Marc Sanschagrin, SMMCTA

II. Approval of Minutes

7:00 pm

A motion was made by Mr. Silvern and seconded by Mr. Lippman, and voted 6/0 to approve the December 5, 2013 minutes as amended to list Mr. Lippman as member of the Malibu Unification ad hoc committee.

Ayes: Ms. Hoffman, Ms. Krenik, Mr. Lee, **Mr. Lippman**, Mr. Silvern, Ms. Slaugh Nahass, Mr. Vukadinovich

Nays: None

Absences: Mr. Foster, Mr. Larmore, Mr. Parks, Ms. Torres

III. Staff Report: Chief Financial Officer Janece L. Maez (*Limited Discussion*)

7:15 pm

A. Budget Update: Ms. Maez provided the committee with CASBO NewsBreak "Governor releases proposed budget for 2014-15" dated January 9, 2014. The Governor suggested a reserve fund for Prop 98 to smooth out peaks and valleys for school funding. The most interesting piece of information was the GAP funding levels of about 28%. The District is currently at about 11% and estimated an additional 16% going into next year. That 28% was close to what was previously projected. Ms. Maez indicated that there were serious considerations for a transitional kindergarten program for all children who are age 4. However, the current transitional kindergarten program that provides for 4 year olds turning 5 in the months of September, October, and November will likely be the program that continues. There will be no more funding for common core.

The shift to Local Control Funding Formula requires a local control accountability plan (LCAP) be developed. Part of the requirement includes community engagement in the process with the formulation of a “committee”, public hearings and board adoption similar to the budget process. Districts will be expected to produce a LCAP plan for 2014-15 year. The District is beginning to plan and roll out very quickly our process for the local control accountability plan (LCAP) in conjunction with the budget. The committee will be very broad based to include PTA, DACs (to include a representative from FOC), school site council, labor organizations, teachers, classified employees, and site administrators. There will be an introductory meeting within the next few weeks. A Board of Education budget workshop is scheduled for January 25, 2014. The plan is to have the committee meet in front of that and once a month thereafter. The template for district LCAP plans from State Board is not yet finalized or available.

The impact of deferrals over the past several years has been a cashflow issue for many districts. It didn’t impact the total we received, only the timing. Cashflow is not that big of an issue for SMMUSD when compared to other districts. There were no TRANS borrowing this year as the requirement to show a cash deficit was not met.

Mr. Lippman wanted to know the interest yield for cash balance at the county that the treasurer manages. School districts traditionally do not have internal expertise to manage cash balances. There would be a cost to get the expertise and that would reduce any yield received. The question is whether it would be material gain and whether it is a benefit to put in place the entire infrastructure to get that going.

Ms. Maez reported that the District reached a conceptual tentative agreement with SMMCTA. Both parties will come together on January 24, 2014 to put everything in writing to sign off. It is expected to be presented to the Board of Education on February 6, 2014. *“Mr. Silvern commented that the agreement should come to the FOC first rather than otherwise. as it would be poor form on a major financial commitment.”*

7:25 pm

- B. Environmental Update: Ms. Maez reported that there has been a lot of activity on the campus at Malibu High School over winter break. The District conducted initial testing in November which triggered regulatory levels with the EPA. There was a Board study session on the subject in December, 2013. Regulatory agencies were in attendance and gave a lot of really good information. It was the first time in a public session where there was a workshop session to review everything. With the testing results, teachers and students were moved out of one wing and the music room. They were displaced to other locations. Over the winter break, working with the EPA, the District conducted pretesting in classrooms not previously tested was completed. Approximately eighteen (18) rooms had Best Management Practice (BMP) cleaning by NCR Environmental. There was post cleaning testing conducted. The five (5) areas that triggered the regulatory levels in the first round had verification sampling and review of how air sampling was conducted. Superintendent Lyon sent an update on January 5, 2014 and test results were well below the levels. Post-cleaning results have not received but it is expected to be better. All of the middle school wing, music, orchestra/band, library, and one of the offices of the old gym were tested. Part of the process is to hire an environmental engineering firm to help with the rest of the regulatory process, what needs to be done, how to implement and train staff on best management practices as well

as what further testing is needed. Updates are posted at: <http://www.smmusd.org/PublicNotices/Malibu.html>.

Most of the Malibu High School campus was built in 1968. The Hammerhead building was built in 2003. The key date is 1979 when PCBs were outlawed in building materials. In response to Ms. Krenik's question of how much this expense was, Ms. Maez reported that it was estimated to date spent approaching \$500,000. Of that, \$250,000 was cleaning and testing. Mr. Lee wanted to know whether some of the bond money could be used to consider modernization of the site. Ms. Maez reported that the District does not have Coastal Development Permit (CDP) approved to move forward. There is discussion of options that could potentially move modernization part of the project up as CDP is not needed to do modernization. Mr. Lee will check with bond counsel if reimbursement resolution needs to be passed by the Board since there is a window of time that it must be done within and will forward standard document to Ms. Maez for review. He suggested that passing the resolution is not a bad idea if any part of it was permissible. The Malibu Task Force is continuing to meet with the next meeting scheduled for the following week. Although the EPA has told the District at the study session publicly and continues to tell the District that the building is safe to occupy before the cleaning was done, teachers have not yet been asked to return.

IV. Discussion/Action Items

7:01 pm

- A. District Audit – Valerie McMaster-Shaw from Christy White Accountancy: Ms. McMaster-Shaw reported to the committee that the District worked very hard this year to address previous year's audit comments. There are changes to terminology such as "unmodified" instead of "unqualified." In response to Ms. Hoffman's comment that the report contained formulated narrative and request for separation of district versus generic narrative, the State Controller dictates standardized reporting. The FOC asked for clarification since Malibu High School was classified as "high school" although it contained middle school grades. Up until this year, the revenue received was the same revenue regardless of grade level but with LCFF, the District will get whatever middle school students generate by attendance. It is considered as a "school" to the district although other grades are present.

The FOC requested to speak to the auditor without the presence of staff. After a lengthy discussion with the district auditor, a motion was made by Mr. Silvern and seconded by Ms. Hoffman to recommend Board acceptance of the District Audit. The motion passed unanimously.

Ayes: Mr. Foster, Ms. Hoffman, Ms. Krenik, Mr. Lee, **Mr. Lippman**, Mr. Parks, Mr. Silvern, Ms. Slauch Nahass, Mr. Vukadinovich

Nays: None

Absences: Mr. Larmore, Ms. Torres

A motion was made by Mr. Silvern and seconded by Ms. Hoffman to commend Ms. Maez and the Fiscal staff for their work that resulted in a very clean audit. The motion passed unanimously.

Ayes: Mr. Foster, Ms. Hoffman, Ms. Krenik, Mr. Lee, **Mr. Lippman**, Mr. Parks, Mr. Silvern, Ms. Slauch Nahass, Mr. Vukadinovich

Nays: None

Absences: Mr. Larmore, Ms. Torres

V. Update from Ad Hoc Committees

- 7:45 pm A. Malibu Unification (C. Foster, T. Larmore, P. Lippman, P. Silvern, S. Slaugh Nahass): Mr. Foster reported that Marguerite Mary Leoni from Nielsen Merksamer Parrinello Gross & Leoni LLP issued a memo dated January 8, 2014 regarding questions pertaining to unification of a new school district. This was circulated to the subcommittee and has been placed in DropBox.
- 7:47 pm B. Detailed Budget Review (T. Larmore, G. Lee, C. Torres): No report.
- 7:47 pm C. Retiree Benefit Obligations (J. Krenik, P. Hoffman, D. Parks): Ms. Maez stated that there were pieces in the Governor's budget regarding shared long term plan of funding the unfunded liability that the ad hoc committee might want to take a look at. In response to Ms. Hoffman, the audit report reflected that the District has no liability because retiree benefit obligations are all on STRS and CalPERS.

7:49 pm **VI. Update regarding SMMEF**

Mr. Vukadinovich reported that SMMEF has \$2.73M towards the \$4M target approaching the January 31, 2014 deadline. Donors are continuing to be asked with escalating intensity of asks going out. SMMEF is working on big trickles and large asks. Ms. Krenik expressed concern that there is no sense of urgency or pressure since there are no meetings until January 29, 2014. Mr. Lippman suggested large service groups such as Eli Broad and Bill Gates. Mr. Silvern pointed out that the 30% participation rate at JAMS is higher than in the past and an increase in participation. Mr. Vukadinovich provided the school participation breakdown.

PARTICIPATION BY SCHOOL

School	# Families	# Family Donations	% of Families
Roosevelt	594	345	58.1%
Franklin	650	369	56.8%
SMASH	165	86	52.1%
McKinley	400	153	38.3%
Muir	235	85	36.2%
Grant	546	183	33.5%
Olympic	70	23	32.9%
JAMS	958	281	29.3%
Rogers	320	86	26.9%
Lincoln	988	225	22.8%
Edison	370	61	16.5%
Samohi	2163	351	16.2%
Webster	250	31	12.4%
Malibu	821	49	6.0%
Cabrillo	205	10	4.9%
Pt. Dume	183	2	1.1%
TOTAL	8918	2340	26.2%

VII. Receive and File (Limited Discussion):

- A. CASBO NewsBreak: Governor releases proposed budget for 2014-15

VIII. Public Comments: None

IX. Next Meeting: Thursday, February 13, 2014

X. Adjournment: The meeting adjourned at 8:06p.m.

From: CASBO [newsletter@casbo.org]
Sent: Thursday, January 09, 2014 1:52 PM
To: Maez, Jan
Subject: CASBO NewsBreak: Governor releases proposed budget for 2014-15

CASBO newsbreak

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2014-02

Governor releases proposed budget for 2014-15

By Jeff Vaca and Sara C. Bachez, Government Relations

For the second time in three years, the Governor's January budget proposal was leaked prior to the scheduled January 10 release, requiring fast action on the part of the Brown Administration to reschedule budget press conferences and briefings. The budget summary began to circulate in the education community on Wednesday afternoon, and by early evening it had been posted on the *Sacramento Bee* website.

In his budget letter to the members of the Legislature, Governor Brown stated, "California is poised to take advantage of the recovering economy and the tens of thousands of jobs now being created each month," but cautioned that, "given the vagaries of the business cycle, and particularly the volatility of capital gains income, we must be ever vigilant in the commitment of public funds." Noting that "wisdom and prudence should be the order of the day," the governor made note of "a mountain of long-term liabilities that totals hundreds of billions of dollars," specifically mentioning past budgetary borrowing, unfunded retirement obligations, bond costs, and deferred maintenance as challenges that must be overcome.

A key component of the governor's budget proposal is an effort to strengthen California's Budget Stabilization Account, also known as the "Rainy Day Fund." The governor proposes a constitutional amendment to strengthen the fund that includes the following components:

- * Creating a Proposition 98 reserve, whereby spikes in funding would instead be saved for future years of decline. According to the budget summary, "this would smooth school spending to prevent the damages caused by cuts."
- * Basing deposits to the fund on when capital gains revenue rise to more than 6.5 percent of General Fund tax revenues.
- * Doubling the maximum size of the Rainy Day Fund from 5 percent to 10 percent of revenues.
- * Allowing supplemental payments to the state's "Wall of Debt" or other long-term liabilities in lieu of a year's deposit.
- * Limiting the maximum amount that could be withdrawn in the first year of a

recession to half the fund's balance, to ensure that the state does not overly rely on the fund at the start of a downturn.

Proposed Budget for K-12 Education

The governor proposes Proposition 98 funding for 2014-15 of \$61.6 billion, an increase of \$6.3 billion over the 2013 Budget Act level. Taking into account combined Proposition 98 revenue increases of \$3.4 billion for the 12-13 and 13-14 fiscal years, this increase allowed the governor to say in his Thursday morning press conference that California was investing \$10 billion in the state's public schools.

Notably, the governor proposes to use the one-time revenues available from the previous and current fiscal years (along with some of the proposed 14-15 increase) to eliminate all remaining budget deferrals. The budget proposes repayment of approximately \$6.4 billion in remaining K-14 deferral payments, "providing certainty of funding for expected levels of programs and services, and eliminating any additional borrowing costs to be borne by schools and colleges as a result of deferrals."

The budget provides an investment of \$4.5 billion in the Local Control Funding Formula (LCFF), an amount projected to close the gap between 13-14 funding levels and LCFF funding targets by 28 percent. The infusion of funds would result in ongoing Proposition 98 per-pupil expenditures of \$9,194, and an average LCFF per-pupil base grant of \$7,829. The budget also proposes legislation to create a continuous appropriation for LCFF funding, to "ensure that the formula continues to be implemented on schedule in future years."

Other notable K-12 budget adjustments include the following:

- * An increase of \$25.9 million Proposition 98 General Fund for county offices of education LCFF in 2014-15.
- * An increase of \$74.3 million Proposition 98 General Fund to support projected charter school growth.
- * A decrease of \$2.2 million Proposition 98 General Fund to reflect a decline in Special Education ADA.
- * Cost-of-Living Adjustment increases of \$33.3 million to support a 0.86 COLA for categorical programs that remain outside the LCFF, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. COLAs for school districts and county offices of education are provided within LCFF increases.
- * An increase of \$188.1 million in one-time Proposition 98 General Fund resources for the Emergency Repair Program.
- * A decrease of \$214.5 million in 2013-14 for school district and county office of education LCFF as a result of a decrease in projected ADA from the 2013 Budget Act, and a decrease of \$42.9 million in 14-15 as a result of projected ADA decline for 2014-15.

California State Teachers Retirement System Liability

The budget summary makes prominent mention of the unfunded liability within the CalSTRS system, noting that the current unfunded liability of \$80.4 billion would, absent action, exhaust the retirement system's assets within 30 years. The budget notes that the Administration will begin working with the Legislature, school districts, teachers, and the pension system on "a plan of shared responsibility to achieve a fully funded, sustainable teachers' pension system

within 30 years. It is expected that this plan will be adopted as part of the 2015-16 budget." Questioned during his press conference Thursday why no funds for this purpose were proposed in the 14-15 budget, the governor stated that "quite frankly, these discussions will be contentious" and take time.

With regard to the liability, the budget summary goes on to note:

A new funding strategy should phase in contribution increases for employees, employers, and the state to allow parties to prepare for cost increases. Because retirement benefits are part of total compensation costs, school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement. The state's long-term role as a direct contributor to the plan should be evaluated.

K-12 Facilities

The governor does not propose placing a K-12 facilities bond on the 2014 ballot, and similar to last year's budget, proposes to "continue a dialogue on the future of school facilities funding, including consideration of what role, if any, the state should play in the future of school facilities funding." In those discussions, the budget summary notes the following problems in the current program that must be addressed:

- * It is overly complex with fragmented oversight responsibility, resulting in a cumbersome structure that is costly for the state and school districts.
- * It does not compel districts to consider facilities funding within the context of other educational costs and priorities, often resulting in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth.
- * It allocates funding on a first-come, first-served basis resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- * It does not provide adequate local control for districts designing school facilities plans, with program eligibility based largely on standardized facility definitions and classroom loading standards, thereby discouraging districts from utilizing modern educational delivery methods.

The budget summary states that any future program should be designed to "provide districts with the tools and resources to address their core facility gaps, but should also avoid an unsustainable reliance on state debt issuance that characterizes the current school facilities program."

On facilities, the budget also proposes to transfer \$211 million of remaining bond authority from specialized programs to core the new construction and modernization program (\$105.5 million each) to continue construction of new classrooms and modernization of existing classrooms for districts that have been waiting for funding.

Non-classroom based instruction: flexibility

To address "deficiencies in the existing independent study process and provide schools with additional instructional flexibility," the budget proposes legislation to both streamline *and* expand the instructional opportunities available through this process. The summary makes note of the administrative burdens currently associated with non-classroom based independent study, but states that schools offering instruction through the new streamlined process (which is not described in any detail within the summary) must ensure that independent study courses

meet the following requirements:

- * Are of the same rigor and educational quality as their classroom-based equivalent courses.
- * Maintain the same number of total educational minutes as their classroom-based equivalent courses.
- * Provide adequate teacher and student interaction, including at least one meeting per week to verify the student is working toward successful course completion.
- * Maintain classroom-based equivalent pupil-to-teacher ratios, unless a new alternative ratio is collectively bargained.
- * Do not result in the LEA claiming more than one total unit of ADA per year for each student enrolled in independent study.

Stay Tuned

We will continue to report on aspects of the governor's budget as events and further analysis warrant. The release of the budget is just the first leg of a marathon, and we will endeavor to keep CASBO members informed along each stage of the journey.

All CASBO NewsBreaks are posted on the CASBO website at www.casbo.org. The legislative status indicated for the bills in this report reflect the location of each of these measures as of the day the report was posted. To get up-to-the-minute status of bills including additional information on bills, bill text, analyses, legislative vote records, and veto messages, log on to the state's Official Legislative Information website at www.leginfo.ca.gov.

For other questions regarding topics covered, you may contact Jeff Vaca, Deputy Executive Director, Governmental Relations, at jvaca@casbo.org or Sara C. Bachez, Legislative Advocate, Government Relations, at sbachez@casbo.org.

