



Los Angeles County Office of Education

Serving Students ■ Supporting Communities ■ Leading Educators

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

April 20, 2022

Los Angeles County
Board of Education

Betty Forrester
President

James Cross
Vice President

Judy Abdo

Yvonne Chan

R. Michael Dutton

Stanley L. Johnson, Jr.

Monte E. Perez

Ms. Maria Leon-Vazquez, Board President
Santa Monica-Malibu Unified School District
1651 16th Street
Santa Monica, CA 90404

Dear Ms. Vazquez:

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) 2021-22 Second 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 2021-22 Second Interim Report, we noted that the District submitted an updated Fiscal Stabilization Plan (FSP), and continues to be guided by Resolution #19-13 that the Governing Board adopted on December 12, 2019, which addresses the District's structural deficit spending, and commits the District to implementing budget reductions for 2020-21, 2021-22 and 2022-23. The updated FSP is projected to generate cumulative savings of \$50.33 million through 2023-24. We appreciate the District's continued efforts to address its structural deficit spending and **request that the District provide another updated FSP, with the 2022-23 Adopted Budget, due to the County office by July 1, 2022.**

LOCAL RESERVE CAP

EC 42127.01 prohibits school districts from having assigned and unassigned fund balances in excess of 10 percent in the fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account, also known as the Proposition 98 Rainy Day Fund, exceeds 3 percent of the combined total of General Fund revenues appropriated for school districts statewide. This provision is commonly known as the reserve cap.

The reserve cap is operative for the 2022-23 fiscal year. Districts will have to certify that they have complied with this requirement on the Budget Certification (Form CB) in the new SACS Web Application Software as part of the 2022-23 Adopted Budget submission. **School districts identified as Basic Aid or that have fewer than 2,501 ADA are exempt from the reserve cap.**

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2021-22 Second Interim Report reflects declining enrollment with projected funded average daily attendance (FADA) of 9,683 for 2021-22, 9,531 for 2022-23, and 9,362 for 2023-24. The estimated impact of the declining enrollment on the District's projected ADA reflects a two-year loss totaling 321 ADA, representing a 3.32 percent decrease from the District's 2021-22 ADA. This rate of projected decline in enrollment represents a loss of revenue for the District in the current and future years. We recommend that the District continue to assess and adjust staffing needs and facilities planning for upcoming years based on the projected rate of decline in enrollment. We remind the District that EC Section 42238.5(a)(1) allows districts with declining attendance to continue to receive funding based on **the greater of** prior year or current year actual attendance. This provides a one-year delay for loss of revenue due to declining enrollment/attendance. However, the District will continue to lose State funding over time as enrollment declines, and it must carefully monitor enrollment trends and adjust its financial projections accordingly for the current and subsequent fiscal years if further material reductions in enrollment occur or are expected to occur.

LABOR CONTRACT NEGOTIATIONS

According to our review of the District's Second Interim Report, certificated and classified labor contract negotiations for 2021-22 remain unsettled and potential changes have not been calculated and incorporated into projected salary and benefit expenditures. We are concerned that any salary and benefit increase could adversely affect the financial condition of the District. As a reminder, before the District's Board of Education takes any action on a proposed collective bargaining agreement, the District must meet the public disclosure requirements of Government Code Section 3547.5 and the California Code of Regulations Title V, Section 15449. The document used for this analysis is included in Informational Bulletin No. 5405, dated July 16, 2021, and is titled "2021-22 Forms for Assembly Bill (AB) 1200: Public Disclosure of Proposed Collective Bargaining Agreements." This document can be found at the following website:

<https://www.lacoe.edu/Portals/0/zBulletins/5405.pdf>

CASH FLOW

The District is projecting a positive General Fund cash balance through June 2022 by utilizing inter-fund borrowing of \$10.0 million from the District's Special Reserve Fund for Capital Outlay Projects (Fund 40) in October 2021 with repayment in January 2022. Information included with the 2021-22 Second Interim Report indicates the District has an inter-fund borrowing resolution in

Ms. Maria Leon-Vazquez, Board President
Santa Monica-Malibu Unified School District
April 20, 2022
Page 3

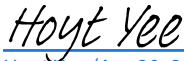
place and cash available in other funds in order to address any potential shortfalls during the year. We request that the District closely monitor cash and notify our office immediately if a cash shortfall is projected that cannot be covered through local means.

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 January 31, 2022, and further adjustments will be made during the year as additional data becomes available.

We hope these comments are helpful to the District's administration and Board as you plan for the remainder of 2021-22, and develop your projections for 2022-23, 2023-24 and 2024-25. 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 \(Apr 20, 2022 09:43 PDT\)](#)

Hoyt Yee
Business Services Consultant
Business Advisory Services

HY:lm

c: Ben Drati, Ed.D., Superintendent
Melody Canady, Assistant Superintendent, Business and Fiscal Services
Gerardo Cruz, Director of Fiscal Services
Patricia Smith, Los Angeles County Office of Education (LACOE)
Octavio Castelo, LACOE
Jeff Young, LACOE
Jennifer Kirk, LACOE
Nkeiruka Benson, LACOE