

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

July 16, 2014

I. Introduction

Roles and Responsibilities

The District's Financial Oversight Committee, now in its thirteenth 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 Slauch Nahass
Craig Foster
DeAndre Parks
Joan Krenik
Peter Lippman

In addition, the Committee benefits from insights and questions from the three Board liaisons: Laurie Lieberman and Jose Escarce. 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

This report covers the following matters:

1. A brief summary of the Committee's activities during 2013-2014.
2. Our report on Measure R expenditures during FY 2013-2014 and 2014-2015.
3. Comments on the current draft of the FY 2014-2015 District budget.
4. The proposed charges for FY 2014-2015.

II. Summary of the FOC's Activities During FY 2013-2-14

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

1. Received and discussed monthly financial reports and budget projections from Ms. Maez.
2. Met with the District's auditor to review the FY 2012-2013 audit of the District financial statements and Measure R expenditures.
3. Met with Harry Keiley, Vice-Chairman of the California State Teachers Retirement Board, to discuss proposed methods for addressing the existing unfunded CalSTRS liability.

4. Reviewed, discussed and provided comments to the Board with respect to:
 - a. The District's 2012-2013 audit.
 - b. The Measure R audit and plan.
 - c. The Public Disclosure of Proposed Collective Bargaining Agreement relating to the Santa Monica-Malibu Teachers Association prepared in accordance with AB 1200.

5. Subcommittee activities:
 - a. *Malibu Unification Subcommittee.* During 2012 - 2013, 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. Because many questions remained, AMPS commissioned a supplemental report from WestEd which was reviewed by this Subcommittee. Following a discussion of this supplemental report, the Subcommittee agreed that there were a series of legal issues that needed to be addressed before it would be in a position to make any recommendations to the full FOC and Mr. Foster agreed to solicit a legal memorandum from AMPS' counsel addressing these issues. That memorandum has not yet been received. Therefore, the FOC is requesting that this Subcommittee be extended into 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. *Retiree Benefit Obligations Subcommittee.* This Subcommittee arranged to have Harry Keiley meet with the FOC to discuss the existing unfunded CalSTRS liability and proposed methods for addressing that liability. The FOC is requesting that this Subcommittee be extended into the next fiscal year.
 - d. *Nominating Subcommittee.* Because of a resignation from the FOC, this Subcommittee interviewed several applicants and recommended the appointment of Peter Lippman to fill that vacancy.
 - e. *Bond Subcommittee.* Met with district bond advisor Tony Hsieh.

6. In addition to serving on special FOC subcommittees, FOC members serve on other District committees and the Board of Directors of the Education Foundation. The FOC was regularly advised by these members of the

activities and accomplishments of those bodies and received feedback from the FOC.

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 \$374.51 as of June 30, 2013, and includes a “senior exemption” and an annual CPI adjustment.

Measure R generated about \$11 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 2013-2014 totaled approximately \$11 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, 2013. 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, 2014 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**

	2013-14 BUDGET		2014-15 PROPOSED	
	FTE		FTE	
REVENUE:		11,164,948		11,388,247
EXPENDITURES:				
COST TO ADMINISTER		27,984		28,737
PHYSICAL EDUCATION	13.5750	626,154	16.0000	777,893
COMMUNITY SERVICES	1.0000	61,190	1.0000	62,953
TECHNOLOGY	14.0000	1,599,446	18.0000	1,945,151
ART AND MUSIC PROGRAMS	15.7500	1,271,914	15.7500	1,281,693
LIBRARY PROGRAM	18.0000	1,245,939	18.0000	1,295,964
SUBTOTAL EXPENDITURES FOR MEASURE "R"	61.3250	4,840,933	67.7500	5,426,427
BALANCE USED TO PRESERVE PROGRAMS AND REPLACE FUNDS LOST DUE TO INADEQUATE STATE FUNDING		6,324,015		5,961,820
TOTAL BUDGET MEASURE "R"		11,164,948		11,388,247

IV. Views on the Proposed FY 2014-2015 District Budget

Preparing the District Budget is always a complicated task, particularly as it looks forward to future years. This year has been particularly difficult given uncertainties about the manner in which the State's new Local Control Funding Formula system will be implemented and, with respect to future years, the extent to which the State will actually fund the "gap" between prior fiscal years and the amount the District would receive at full funding. Much of this is, of course, dependent upon the success of the State's economy which, fortunately, has shown signs of recovery.

The FOC has, in the past, expressed concern over continued operating deficits and urged the Board to implement a financial plan that looks forward to a balanced budget. While this year's budget also reflects a deficit, it has been proposed as a part of a multi-year projection that, if realized, will eliminate deficits within two or three years. It also allows the District to make valuable progress towards the smaller class sizes mandated by the State, particularly in the TK - 3 years. Therefore, the FOC believes this is a prudent and responsible budget.

However, we do wish to remind the Board that continued vigilance over financial issues is essential because the State funding levels may be reduced if the State's economy were to weaken. Also, the temporary Proposition 30 taxes will expire in 2017 and renewal or replacement cannot be assumed.

Finally, as the Board is aware, legislation is almost certain to be adopted to establish a method for addressing the \$70 billion unfunded liability of the CalSTRS retirement fund. While the details haven't been resolved, it is almost certain that the District will be required to significantly increase its annual contribution to this fund.

V. Proposed FOC Focus for 2014 - 2015

In the past, the FOC annual report has recommended a particular set of charges that its members would like the Board to approve for the following fiscal year in order in addition to its regular duties. We discussed this topic at our May 8 meeting and concluded that this year it would be preferable to defer this topic until the special workshop meeting with the Board to be held this summer. However, we do believe that the subcommittee focusing on the financial aspects of the proposed Malibu unification should be continued.

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 2014-2015.