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# Los Angeles County Office of Education

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

April 16, 2020

Los Angeles County  
Board of Education

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

James Cross  
President

Monte E. Perez  
Vice President

Dear Mr. Kean:

Douglas R. Boyd

Betty Forrester

Alex Johnson

Ellen Rosenberg

Thomas A. Saenz

Under Education Code 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) 2019-20 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.

## FISCAL STABILIZATION PLAN

In our review of the District's 2019-20 First Interim Report, we noted that the District projected operating deficits of \$8.83 million, \$4.80 million and \$3.03 million, for 2019-20, 2020-21 and 2021-22, respectively. As a result, the Unrestricted General Fund was projected to decline by \$16.67 million, or 74.29 percent over three years, from a beginning fund balance of \$22.44 million in 2019-20 to an ending fund balance of \$5.77 million in 2021-22. We requested that the District address its structural deficit spending in a Board-approved Fiscal Stabilization Plan (FSP) and submit it with the 2019-20 Second Interim Report.

In addition, in our letter dated February 13, 2020, we noted the District's "Public Disclosure of Proposed Collective Bargaining Agreement" regarding tentative agreements with its certificated and classified labor groups included unallocated expenditure reductions of \$4.0 million in 2020-21, and \$6.0 million in 2021-22, which enabled the District to project the minimum reserves required by the State Criteria and Standards in the multi-year projections. We requested that should the agreements be ratified by the District Board and the increases implemented, the District submit a board-approved FSP to restore the minimum the reserve levels for 2020-21 and 2021-22, with the Second Interim Report.

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The information provided with the Second Interim Report included a FSP that identified revenue enhancements and expenditures reductions that are expected to generate savings of \$469,000, \$5.40 million, and \$10.80 million, for 2019-20, 2020-21 and 2021-22, respectively, and when incorporated into the multi-year projections, are projected to enable the District to meet the minimum reserve requirements. In addition, as part of the District's FSP, the District Board adopted Resolution #19-22 on February 20, 2020, and subsequently amended it on March 5, 2020, for a reduction or discontinuance of particular kinds of services that identified a total of 46.0 full-time equivalent certificated staff reductions for 2020-21. **We request that the District provide an update of the implementation of its FSP, and incorporate the realized savings in the 2020-21 Adopted Budget, due to the County Office by July 1, 2020.**

### **DEFICIT SPENDING**

The District is projecting an operating deficit of \$7.29 million, representing 5.73 percent of the District's unrestricted General Fund projected expenditures and other outgo for fiscal year 2019-20. The District is also projecting an operating deficit of \$2.76 million, representing 2.21 percent for 2020-21. The District is addressing deficit spending in its FSP discussed in the previous section.

### **IMPACT OF LOCAL PROPERTY TAXES ON BASIC-AID DISTRICTS**

The District was designated as a Basic-Aid District in 2017-18, and District revenue is subjected to the volatility of local property taxes, including the Redevelopment Agency (RDA) funds, that affect the District's final property tax tabulation for a given year. Due to this uncertainty, we urge the District to exercise caution when projecting revenues in future years while the District continues to be designated as a Basic-Aid District.

### **CASH FLOW**

The District is projecting sufficient General Fund ending cash balances for 2019-20. Information included with the 2019-20 First Interim Report, and confirmed by District staff, indicates that the District issued a \$23.50 million tax and revenue anticipation note (TRAN) for 2019-20, with repayments of \$11.75 million scheduled for January and June 2020. The District is also projecting another TRAN issuance of \$10.0 million for 2020-21, with repayment in January 2021. The District has an inter-fund borrowing resolution in place and cash available in other funds in order to address any potential shortfalls during the year. We request that the District notify the County Office immediately if a cash shortfall is projected that cannot be covered through local means.

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## **FINANCIAL UNCERTAINTIES**

While the magnitude of the economic impact of the COVID-19 pandemic is unknown, we do know that the State is anticipating a significant decline in revenues, and Districts should be prepared to respond to the financial challenges that lie ahead accordingly. It is crucial that districts establish fiscal priorities, and carefully monitor and evaluate program spending. As the negative economic impact on State revenues becomes known, it will be critical that districts act quickly in evaluating and adjusting their current budget and multiyear projections to align with available resources to ensure fiscal solvency.

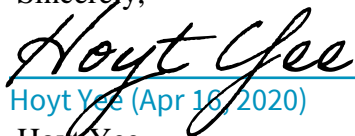
Districts should carefully monitor their cash flow projections, and plan to address any potential cash deficiencies in 2020-21. We strongly recommend that districts have Board-approved borrowing resolutions in place. In addition, for those districts who anticipate issuing Tax and Revenue Anticipation Notes (TRANs) to cover temporary cash shortfalls for 2020-21, the deadline to participate in the LACOE pooled TRANs is April 17, 2020.

## **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 of the 2019-20 Second Interim Report and in verifying the District's financial condition.

The information provided reflects the District's financial position and assumptions as of January 31, 2020, 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 2019-20, and develop your projections for 2020-21, 2021-22 and 2022-23. We express our appreciation to the District staff for their cooperation during the review of the 2019-20 Second Interim Report. If our office may be of further assistance, please call me at (562) 940-1705.

Sincerely,



Hoyt Yee (Apr 16, 2020)

Hoyt Yee  
Business Services Consultant  
Business Advisory Services

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Santa Monica-Malibu Unified School District  
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cc: 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)  
Jeff Young, LACOE  
Jennifer Kirk, LACOE  
Tracy Minor, LACOE  
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