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

September 11, 2020

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

Dear Mr. Kean:

Under Education Code (EC) Section 42127, the Los Angeles County Superintendent of Schools (County Superintendent) has completed our review of Santa Monica-Malibu Unified School District's (District) 2020-21 Adopted Budget. The District's budget was prepared based on assumptions contained in the Governor's May Revision and guidance from our office, which assumed a significant reduction in Local Control Funding Formula (LCFF) revenue. However, the State's Enacted Budget removes the deficit factor from the LCFF revenues and provides for additional one-time revenues from the Federal CARES Act. **Our review has resulted in approving the District's Adopted Budget** with the following comments and concerns.

FISCAL STABILIZATION PLAN

In our review of the District's 2019-20 Second Interim Report, we noted that the District provided an update to their Fiscal Stabilization Plan (FSP) that addressed its structural deficit spending and the impact of certificated and classified labor group settlement agreements on the District's fund balance. We requested that the District provide a status update on implementing the FSP, and incorporate the related savings in the 2020-21 Adopted Budget.

The District submitted an updated FSP with the 2020-21 Adopted Budget, which identified total ongoing savings of \$8.49 million beginning 2020-21, for total savings of \$25.47 million over three years. The FSP included revenue enhancements, and expenditure reductions composed of elimination of certificated and classified positions, hiring freezes, reductions in conference and travel expenditures, reduction in contracted services and postponement of certain District actions. We note that the District continues to be guided by resolution (#19-13) that the Governing Board adopted on December 12, 2019, that commits the District to implementing necessary budget reductions and/or revenue enhancements for 2020-21, 2021-22 and 2022-23 in order to address the structural deficit spending.

RESERVE FOR ECONOMIC UNCERTAINTIES

The District is projecting a Reserve for Economic Uncertainties (REU) of 3.09 percent for 2020-21, 4.54 percent for 2021-22, and 4.40 percent for 2022-23. While the projected reserves meet the State Criteria and Standards minimum reserve requirement, the District included nonspecific and unallocated expenditure reductions of \$4.79 million and \$2.92 million in 2021-22 and 2022-23, respectively, that are yet to be determined and approved by the Governing Board.

When the District’s projections are adjusted for these nonspecific and unapproved expenditure reductions, the Unrestricted General Fund balance in each of the two years is negatively impacted and decreases to approximately \$2.70 million for 2021-22 and approximately negative \$218,000 for 2022-23. The corresponding reserve for 2021-22 and 2022-23 decreases to 1.59 percent and negative 0.13 percent, respectively, as shown in the table below.

Reserve for Economic Uncertainties (REU)		
Unrestricted General Fund		
(\$ millions)		
	<u>2021-22</u>	<u>2022-23</u>
<u>District Adopted Reserves</u>		
Ending Fund Balance	\$7.49	\$7.49
Reserve Amount	\$7.49	\$7.49
Reserve Percent	4.54%	4.40%
<u>Reserves without Reductions</u>		
Unallocated Expenditure Reductions	(\$4.79)	(\$2.92)
Adjusted Reserve Amount	\$2.70	(\$0.22)
Adjusted Reserve Percent	1.59%	(0.13%)

The adjusted reserves for 2021-22 and 2022-23 are below the State Criteria and Standards minimum reserve requirement. However, we recognize that the District’s adopted budget projections were developed based on the 2020-21 Governor’s May Revision assumptions, which have since been revised with enactment of the State’s 2020-21 budget. The Enacted Budget provides additional one-time revenues to school districts from the federal CARES Act and removes the deficit factor from the LCFF revenues as was included in the May Revision budget.

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We further recognize that when the District revises its Adopted Budget to reflect the additional revenues made available by the Enacted Budget, the projected ending fund balances and corresponding REUs should significantly increase for the current and two subsequent fiscal years. **We request that the District update its budget and multi-year projections to reflect these changes by processing the necessary budget adjustments. We also request that the District make any additional Board-approved adjustments to the 2020-21 budget that are necessary to restore and maintain the required reserves for 2021-22 and 2022-23. Should the District be unable to project sufficient REUs in either the current or two out years with the budget adjustments incorporated, the District is requested to provide a FSP with the First Interim Report that reflects revenue enhancements and/or expenditure reductions that will enable the District to meet the required level of REU, due to our office by December 15, 2020.**

DECLINING ENROLLMENT AND REDUCED STATE FUNDING

The District's 2020-21 Adopted Budget reflects declining enrollment with projected funded average daily attendance (ADA) of 9,683 for 2020-21 and 2021-22, and 9,518 for 2022-23. The estimated impact of the declining enrollment on the District's projected ADA reflects a one-year loss totaling 165 ADA, representing a 1.70 percent decrease from the District's 2020-21 ADA. This rate of decline in enrollment, if continued as projected, represents a loss of revenue for the District in the current and future years. We recommend that the District continue to assess and adjust its staffing needs and facilities planning for upcoming years based on the projected rate of decline in enrollment.

COVID-19 OPERATIONS WRITTEN REPORT

Executive Order N-56-20 requires that all districts complete a written report to explain the changes to program offerings that the district has made in response to school closures to address the COVID-19 emergency, the major impacts of such closures on students and families, and a description of how the district is meeting the needs of its unduplicated students.

While the COVID-19 Operations Written Report does not require approval by the County Superintendent, the Written Report must be submitted in conjunction with the District's Adopted Budget. This letter serves as an acknowledgement that our office has received the District's COVID-19 Operations Written Report for fiscal year 2020-21.

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CONCLUSION

We wish to express our appreciation to the District's staff for their cooperation during our review of the District's Adopted Budget for fiscal year 2020-21. If you have questions regarding your District's budget approval, please call me at (562) 940-1705.

Sincerely,

Hoyt Yee

[Hoyt Yee \(Sep 11, 2020 13:01 PDT\)](#)

Hoyt Yee
Business Services Consultant
Business Advisory Services

cc: Ben Drati, Ed.D., Superintendent
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