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

January 17, 2023

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Board of Education**

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

Dear Ms. Leon-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 School District's (District) 2022-23 First 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 2022-23 First 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. The resolution and FSP addresses the District's structural deficit spending, and commits the District to implementing budget reductions and revenue enhancements for 2022-23 and 2023-24. We appreciate the District's continued efforts to address its structural deficit spending and **request that the District provide any updates to the FSP, with the 2022-23 Second Interim Report, due to our office by March 17, 2023.**

DEFICIT SPENDING

The District is projecting an operating deficit of \$19.59 million, representing 13.15 percent of the District's Unrestricted General Fund budgeted expenditures and other outgo for fiscal year 2022-23. According to our review of the District's First Interim Report, and as confirmed by the District, the projected deficit is primarily due to the recent collective bargaining agreement settlement of 10 percent retroactive to July 1, 2021. While the District projects it will maintain the required level of reserves, this level of deficit spending should be recognized and monitored so that it remains manageable.

RESERVE FOR ECONOMIC UNCERTAINTIES/UNALLOCATED REDUCTIONS

The District is projecting a Reserve for Economic Uncertainties (REU) of 3.04 percent for 2022-23, 3.31 percent for 2023-24, and 3.32 percent 2024-25. While the projected REU meets the State Criteria and Standards minimum reserve requirement, the District included nonspecific and unallocated expenditure reductions in the 2023-24 and 2024-25 multi-year projections 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 \$21.95 million for 2023-24, and \$19.80 million for 2024-25. The corresponding REU for 2023-24 and 2024-25 decreases to negative 0.03 percent and negative 3.16 percent, respectively, as illustrated below.

Reserve for Economic Uncertainties (REU) (\$ millions)

<u>District Adopted Reserves</u>	<u>2023-24</u>	<u>2024-25</u>
Ending Fund Balance	\$28.40	\$32.69
Assignments	\$22.00	\$26.17
Reserve Amount	\$6.38	\$6.50
Reserve Percent	3.31%	3.32%
<u>Reserves Without Reductions</u>		
Unallocated Expenditure Reductions	(\$6.45)	(\$6.45)
Adjusted Ending Fund Balance	\$21.95	\$19.80
Assignments	\$22.00	\$26.17
Adjusted Reserve Amount	(\$0.07)	(\$6.39)
Adjusted Reserve Percent	(0.03%)	(3.16%)

The adjusted reserves for 2023-24 and 2024-25 are below the State Criteria and Standards minimum reserve requirement. However, the First Interim Report includes assigned fund balances of \$22.00 million in 2023-24, and \$26.17 million in 2024-25. While these amounts have been designated for specific future uses, they may be available to support reserves upon Board-approval of the re-designation if needed.

We are requesting the District submit an updated Board-approved FSP, and reflect the identified and implemented cost savings and expenditure reductions in the 2022-23 Second Interim Report and multi-year projections, due to our office by March 17, 2023.

DECLINING ENROLLMENT/ATTENDANCE AND REDUCTED STATE FUNDING

The District's 2022-23 First Interim Report reflects declining enrollment of 8,835 for 2022-23, 8,495 for 2023-24 and 8,168 for 2024-25, with projected average daily attendance (ADA) of 8,393, 8,070 and 7,760, respectively. The estimated impact on the District's projected ADA reflects a two-year loss totaling 633 ADA, representing a 7.54 percent decrease from the District's 2022-23 ADA.

While Basic Aide districts are primarily funded through local property taxes, the decline in enrollment and ADA may represent a loss of some revenue for the district in future years. We recommend that the District carefully monitor its enrollment and attendance trends, and adjust financial projections for the current and subsequent fiscal years accordingly to reflect the resulting impact. Staffing needs and facilities planning should also be assessed and adjusted based on the projected rate of decline in enrollment.

CASHFLOW

The District's cash flow projection reflects sufficient cash balances for 2022-23 to meet its financial obligations by utilizing \$11.00 million of inter-fund borrowing in November 2022 to be repaid in January 2023. The District has a Board-approved inter-fund borrowing resolution in place with 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.

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

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position and assumptions as of October 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 2022-23, and update your projections for 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) 922-6779.

Sincerely,


[Sean Lewis \(Jan 17, 2023 14:53 PST\)](#)

Sean Lewis
Business Services Consultant
Business Advisory Services

SL:lm

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