



Los Angeles County Office of Education

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Debra Duardo
Superintendent

January 12, 2024

Los Angeles County
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Ms. Jennifer Smith, Board President
Santa Monica-Malibu Unified School District
1717 4th Street
Santa Monica, CA 90401

Dear Ms. Smith:

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) 2023-24 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.

DEFICIT SPENDING

The District is projecting an operating deficit of approximately \$6.71 million, representing 4.74 percent of the Unrestricted General Fund budgeted expenditures and other outgo for fiscal year 2023-24. The District is also projecting operating deficits of \$3.11 million and \$6.64 million for 2024-25 and 2025-26, representing 2.21 percent and 4.63 percent, respectively. 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 increased costs of salaries and benefits. The District's Unrestricted General Fund balance is projected to decrease as illustrated in the table below.

Unrestricted General Fund Projection (\$ millions)

	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>
Beginning Fund Balance	\$34.88	\$28.17	\$25.06
Projected Deficit	(\$6.71)	(\$3.11)	(\$6.64)
Ending Balance	\$28.17	\$25.06	\$18.42

We are concerned about the projected trend of deficit spending and its impact on the District’s ability to maintain the minimum required Reserve for Economic Uncertainties (REU) in future years. We recommend the District monitor deficit spending in order to keep it manageable and to minimize further erosion of the fund balance.

ENROLLMENT/ATTENDANCE AND STATE FUNDING

The District’s 2023-24 First Interim Report reflects declining enrollment of 8,634 for 2023-24, 8,302 for 2024-25 and 7,983 for 2025-26, with projected average daily attendance (ADA) of 8,159, 7,845 and 7,544, respectively. The estimated impact on the District’s projected ADA reflects a two-year loss of 615, representing a 7.54 percent decrease from the District’s 2023-24 ADA as reflected in the following table.

Declining Enrollment / ADA					
	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2-Year Decline</u>	<u>Percent Decline</u>
Enrollment	8,634	8,302	7,983	(651)	(7.54%)
ADA	8,159	7,845	7,544	(615)	(7.54%)

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. Therefore, we recommend that the District continue to assess and adjust its staffing needs and facilities planning for the upcoming years based on the projected declines in enrollment and ADA.

LABOR CONTRACT NEGOTIATIONS

According to our review of the District’s First Interim Report, certificated and classified labor contract negotiations for 2022-23 **and** 2023-24 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. 6733, dated

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July 25, 2023, and titled "2023-24 Forms for Assembly Bill 1200: Public Disclosure of Proposed Collective Bargaining Agreements." This document can be found at the following website:

<https://www.lacoe.edu/content/dam/lacoeedu/bulletin/6733.pdf>

CASHFLOW

The District's cash flow projection submitted with the 2023-24 First Interim Report reflects sufficient cash balances to meet financial obligations during the year. 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 position and assumptions as of October 31, 2023, 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 2023-24, and update your projections for 2024-25 and 2025-26. 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 12, 2024 10:20 PST)

Sean Lewis
Business Services Consultant
Business Advisory Services

SL:lm

c: Dr. Antonio Shelton, Superintendent
Melody Canady, Assistant Superintendent of Business and Fiscal Services
Gerardo Cruz, Director of Fiscal Services & Business Services

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Karen Kimmel, Los Angeles County Office of Education (LACOE)
Octavio Castelo, LACOE
Jeff Young, LACOE
Jennifer Kirk, LACOE
Nkeiruka Benson, LACOE