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Debra Duardo
Superintendent

April 15, 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:

The Los Angeles County Superintendent of Schools (County Superintendent) reviewed the Santa Monica-Malibu Unified School District's (District) 2023-24 Second Interim Report. We concur with the District's **positive** certification as our analysis indicates the District should meet its financial obligations for the current fiscal year and two subsequent fiscal years. We offer our comments and concerns below.

UNRESTRICTED GENERAL FUND DEFICIT SPENDING

The District projected operating deficits in 2023-24, 2024-25, and 2025-26 of the Unrestricted General Fund expenditures and other outgo. Below is the impact of the operating deficits over three years.

Unrestricted General Fund Projection (\$ millions)

	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>
Beginning Fund Balance	\$34.88	\$28.68	\$23.65
Projected Deficit Spending	(\$6.20)	(\$5.03)	(\$8.06)
Ending Fund Balance	\$28.68	\$23.65	\$15.60
Reserve Amount	\$6.29	\$6.43	6.93
Reserve Percentage	3.00%	3.20%	3.48%

The Unrestricted General Fund balance is projected to decline by approximately \$19.28 million, or 55.28 percent over three years. We are concerned about the projected deficit spending trends and impact on the District's ability to maintain

the minimum required reserve levels in future years. The District should monitor deficit spending causes and identify actions to prevent additional fund balance erosion.

ENROLLMENT/ATTENDANCE AND STATE FUNDING

The District reflected declining enrollment and average daily attendance (ADA) for 2023-24, 2024-25 and 2025-26. The estimated impact of the declining enrollment on the District's projected ADA reflects a two-year loss of 615 or 7.54 percent decline. Below is the impact of declining enrollment and ADA.

Declining Enrollment and Funded 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. We recommend 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.

LABOR CONTRACT NEGOTIATIONS

According to our review, certificated and classified labor contract negotiations for 2022-23 and 2023-24 remain unsettled, and the potential impact was not incorporated into projected salary and benefit expenditures. We are concerned that potential salary and benefit increases could adversely affect the financial condition of the District. As a reminder, before the District's Board of Education takes 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 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>

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CONCLUSION

Thank you for providing documentation supporting the District's positive certification. The information provided reflects the District's financial position and assumptions as of January 31, 2024, and we expect further adjustments during the year as additional data becomes available. The multiyear projections and narrative and assumptions were helpful in our analysis and verifying the District's financial condition.

We hope these comments are helpful to the District's administration and Board in planning for the remainder of 2023-24, and updating 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 (Apr 15, 2024 19:23 PDT)

Sean Lewis
Business Services Consultant
Business Advisory Services

SL:lm

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