



SMMUSD Financial Oversight Committee Meeting Minutes

Date: Wednesday, June 23, 2021

Time: 6:00 pm to 8:00 pm

Location: Zoom

https://drive.google.com/file/d/1QE_Uzr9Pu7oxAcibBsOOGSNsoW8tMWRc/view

I. Call to Order

6:03 pm Committee Members: Matthew Crawford Matthew Covington – *arrived at 6:05 pm*
 Alex Farivar Seth Jacobson – *arrived at 6:08 pm*
 Michael Kremer Payal Maniar – *departed at 8:14 pm*
 Melinda Newman Shawn Landres

Staff: Melody Canady Gerardo Cruz – *departed @ 7:22 pm*
 Kim Nguyen Bonnie Kung

Board Liaison: Jon Kean – *departed at 8:22 pm*

Absent: Renu Mevasse Marc Levis-Fitzgerald
 Craig Foster Keith Coleman

Public: JW Beekman Michael Rotgin

II. Approval of Agenda

6:04 pm A motion was made by Ms. Maniar and seconded by Mr. Crawford to approve the meeting agenda.

 AYES: Seven (7) (Mr. Covington, Mr. Crawford, Mr. Farivar, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Newman)
 STUDENT ADVISORY VOTES: None (0)
 NOES: None (0)
 ABSENT: Three (3) (Mr. Jacobson, Ms. Mevasse, Mr. Levis-Fitzgerald)
 ABSTAIN: None (0)

III. Approval of FOC Meeting Minutes

6:07 pm A motion was made by Ms. Maniar and seconded by Mr. Covington to approve the February 11, 2021; March 11, 2021; April 15, 2021; and May 12, 2021 meeting minutes.

 AYES: Seven (7) (Mr. Covington, Mr. Crawford, Mr. Farivar, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Newman)
 STUDENT ADVISORY VOTES: None (0)
 NOES: None (0)
 ABSENT: Three (3) (Mr. Jacobson, Ms. Mevasse, Mr. Levis-Fitzgerald)
 ABSTAIN: None (0)

IV. Assistant Superintendent, Business and Fiscal Report: Melody Canady (30 min)

6:08 pm

2021-22 Preliminary budget documents

Ms. Canady provided the committee with an overview of the 2021-22 Adopted Budget that will be presented at the June 24, 2021 Board of Education meeting.

The presentation and the preliminary budget documents may be found in the following links:

Presentation: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=142330&MID=6288>

Attachment: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=142329&MID=6288>

Multi-year Projection: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=142331&MID=6288>

Unrestricted General Fund Budget: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=137999&MID=6288>

Fiscal Stabilization Plan: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=137998&MID=6288>

Interim Report Review: <https://simbli.eboardsolutions.com/Meetings/Attachment.aspx?S=36030435&AID=137997&MID=6288>

The 2021-22 Adopted Budget overview included the budget process, the LCFF budget assumptions and calculation, multiyear assumptions & projections, ending fund balance & reserve, cashflow & interfund borrowing, COVID-19 funding summary and next steps. The committee discussed the \$1.6M increase in property tax revenues which were offset by a \$1.8M decrease in Measure Y & GSH revenues, the delay in data and funds received, and the possibility of adjusting future projections. Staff informed the committee that revisions will be made to the outyear projections and that the revised estimated actuals will be taken to the Board to ratify the adjustments as a 4th budget revision. Ms. Canady informed the committee that the anticipated donations to be received from the Malibu Fundraising Entity will be updated in the 45-day revision.

Ms. Canady and Mr. Cruz answered committee questions concerning declining student enrollment and the deficit in Food Services Department. Staff will provide the committee with data re: student enrollment across Santa Monica and Malibu schools. Mr. Kean provided clarification regarding the transfer of 23.40 FTE from the General Fund to COVID-19 funds. For the 2021-22 school year, the district chose to remain overstaffed for continuity and support for the returning students. The District anticipated that regular attrition will fill the vacancies in the 2022-23 school year and will assess the budget if needed. The committee inquired of the increasing trend in STRS and PERS contribution and suggested the need to build into consideration of the structural deficit reduction. The District's current reserve is at 12.5%, a decrease from 13.53% at the end of the 2019-20 fiscal year; the reserve is under the State recommended 17%.

The committee discussed the allocation of the \$28M COVID-19 relief funds and the impact it had on offsetting the General Fund. Mr. Cruz explained that without the relief funds, the allocations would have come from the unrestricted general fund and the deficit would have been exacerbated. Mr. Jacobsen informed the committee of a report published by School

Services of California re: district funding analysis in COVID. The Board of Education on May 20, 2021 by Dr. Mora detailing the allocation of the COVID-19 funds (Agenda Item II.G.1), and comparisons of traditional budget line items vs. COVID-19 items published in the interim budget reports will be distributed to the committee.

V. Discussion/Action Items

A. Public Private Partnership (15 min)

No committee discussion/action was taken on this item. (Item will be agendaized for the next FOC meeting.)

7:27 pm

B. Committee report to the Board of Education on July 15, 2021 (15 min)

The committee discussed each of the respective draft subcommittee reports to be presented to the Board of Education at the July 15, 2021 joint meeting:

- Budget Recommendations: Ms. Maniar, *Mr. Covington, Mr. Jacobson, Ms. Newman*
- Tax Revenue and Assessed Valuation: *Mr. Farivar, Mr. Crawford, Mr. Kremer, Ms. Newman*
- Bond Oversight: *Mr. Kremer, Mr. Crawford, Mr. Landres, Ms. Mevasse*

The draft subcommittee reports may be found at the end of these minutes.

A motion was made by Mr. Landres and seconded by Mr. Kremer to recommend that the Board of Education continue the existing charges for the three subcommittees: Budget Recommendation, Bond Oversight, and Tax Revenue and Assessed Valuation for 2021-22.

AYES: Eight (8) (Mr. Covington, Mr. Crawford, Mr. Farivar, Mr. Jacobson, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Newman)

STUDENT ADVISORY VOTES: None (0)

NOES: None (0)

ABSENT: Two (2) (Ms. Mevasse, Mr. Levis-Fitzgerald)

ABSTAIN: None (0)

The committee discussed new charges they would like to bring forward to the Board of Education, specifically pertaining to Measure R and Financial Communication.

A motion with a friendly amendment was made by Mr. Landres and seconded by Mr. Crawford to recommend 1) the Board of Education charge the FOC to establish a subcommittee to assess and make recommendations related to the evaluation, and 2) accounting and reporting process for 2021-22 Measure R expenditures, with the initial deliverables to be an updated reporting template and review process.

AYES: Eight (8) (Mr. Covington, Mr. Crawford, Mr. Farivar, Mr. Jacobson, Mr. Kremer, Mr. Landres, Ms. Maniar, Ms. Newman)

STUDENT ADVISORY VOTES: None (0)

NOES: None (0)

ABSENT: Two (2) (Ms. Mevasse, Mr. Levis-Fitzgerald)

ABSTAIN: None (0)

Ms. Newman provided an overview of the draft proposal for a Financial Communication ~~subcommittee~~. ~~The committee discussed their concerns and clarified the subcommittee's focus on clarity and accuracy,~~ rather than promotion. Mr. Kean suggested meeting with Steve Massetti and Gail Pinsker to discuss ways that the FOC can assist in the areas of bond construction projects and public communications. The draft proposal for a Financial Communications subcommittee may be found at the end of these minutes.

A motion was made by Mr. Landres and seconded by Ms. Newman to recommend to the Board the establishment of a Financial Communication and Reporting subcommittee, with specifics to be finalized at the Board's study session on July 15, 2021.

AYES: Seven (7) (Mr. Covington, Mr. Crawford, Mr. Farivar, Mr. Jacobson, Mr. Kremer, Mr. Landres, Ms. Newman)

STUDENT ADVISORY VOTES: None (0)

NOES: None (0)

ABSENT: Three (3) (Ms. Maniar, Ms. Mevasse, Mr. Levis-Fitzgerald)

ABSTAIN: None (0)

The committee will finalize their report and provide summary slides to be presented for the Board of Education. The finalized report will be circulated to the committee.

VI. Receive and File (Limited Discussion)

8:25 pm

- A. The Preliminary Official Statement General Obligation Bonds of School Facilities Improvement District No. 1 (Santa Monica Schools) Election of 2018, Series B dated 6/11/21
<https://www.smmusd.org/cms/lib/CA50000164/Centricity/Domain/300/FinReports/SFID1PreliminaryOfficialStatement061121.pdf>
- B. The Preliminary Official Statement General Obligation Bonds of School Facilities Improvement District No. 2 (Malibu Schools) Election of 2018, Series B dated 6/11/21
<https://www.smmusd.org/cms/lib/CA50000164/Centricity/Domain/300/FinReports/SFID2PreliminaryOfficialStatement061121.pdf>
- C. S&P Global Ratings Direct Summary: SMMUSD SFID No. 1 (Santa Monica Schools) and No. 2 (Malibu Schools), California: Appropriations; General Obligation – 06/11/21
<https://www.smmusd.org/cms/lib/CA50000164/Centricity/Domain/300/FinReports/SandPGlobalRatingsDirectSummarySFID1and2.pdf>
- D. SFID 1 Election of 2018 General Obligation Bonds, Series B Assumes Aa1/AA+ Underlying Rating Subject to Optional Redemption on 8/1/2029 at 100% - 6/16/21
<https://www.smmusd.org/cms/lib/CA50000164/Centricity/domain/300/finreports/SFID1-DBCElectionof2018SeriesB.pdf>
- E. SFID 2 Election of 2018 General Obligation Bonds, Series B Assumes Aa1/AA+ Underlying Rating Subject to Optional Redemption on 8/1/2029 at 100% - 6/16/21
<https://www.smmusd.org/cms/lib/CA50000164/Centricity/domain/300/finreports/SFID2-DBCElectionof2018SeriesB.pdf>
- F. 062321 Committee Discussion Receive and File

VII. Public Comments None

VIII. Committee Comments

7:22 pm

Mr. Jacobson noted that there was a series of email discussion regarding budget subcommittee and financial communications subcommittee proposal on June 23, 2021. Since six (6) members meets the minimum number of voting members for the FOC, this triggered quorum and was considered a meeting according to the Brown Act. Therefore, this correspondence was submitted under Receive and File for public notice.

The committee requested participation and to be notified when Brown Act training is scheduled.

IX. Next Meeting: Thursday, July 15, 2021 – * Please note: This is a Joint Meeting / Study Session with the Board of Education

X. Adjournment: 8:28 p.m.

Budget Recommendations Sub-Committee
End of Year Report
Financial Oversight Committee
June 2021

2020-21 Charge and Context

The Budget Recommendations Charge for 2020-2021 was to serve as FOC representation at Superintendent Budget Advisory Committee meetings as well as to provide research and guidance as requested on budget related issues.

Due to the COVID-19, the district's structural deficit was not the primary focus this school year. Factors contributing to the operating budget included benefits from property taxes, reduced expenses due to distance learning and access to COVID relief special funding. As a result, the Budget Recommendations Ad-Hoc committee primarily worked with staff to review the proposed and interim budget and addressed relevant issues as and when they arose.

Proposed charges for the Budget Recommendations Ad Hoc Committee:

As the SMMUSD emerges from the pandemic and transitions to in person school programming, this ad-hoc committee proposes an expanded role with focus on some critical areas for the 2021-22 school year. Note that SMMUSD is still working with a large structural deficit as well as continued declining enrollment.

Proposed areas of focus for next year include

- **Ongoing interim and operating budget Review:**
 - Work with staff to review budgets and participate in budget workshops to develop a deeper understanding of factors impacting operating budget, along with a review of comparable school districts budgets
- **Support Fiscal Stabilization Efforts:**
 - Work with staff (or any special committees such as SBAC) to review and analyze current fiscal stabilization plans to address the district's structural deficit
 - Make recommendations on additional areas that could address the structural deficit including research or benchmarking to help inform fiscal stabilization efforts
 - Work with staff to analyze already identified areas for cost efficiencies. For example (not limited to): *analysis of data and trends analysis on Special Education*

General Observation and Recommendation: *We recommend this ad-hoc committee quarterly with Fiscal Staff. This will allow the committee to have a chance to adequately review and analyze relevant issues/ pieces of data.*

Tax Revenue & Assessed Valuation Subcommittee

Annual Report

2020 - 2021 School Year

Alex Farivar, Michael Kremer, Melinda Newman, Matthew Crawford

Executive Summary

The tax revenue & assessed valuation subcommittee was tasked by the Board to review and report back relevant updated information regarding the City's redevelopment funds, assessed valuation report, and sales tax revenue impacting YY and GSH funds. Property tax (82%) and YY & GSH (11%) comprise over 92% of the district's \$119M total revenue per the 3rd budget revision on April 30, 2021.

Top recommendations include:

- Execute the Tax Revenue Subcommittee recommendations made last year
- Segment RDA projections to better parse each component and help to improve the predictability of RDA funds
- Request the county auditor's property tax report directly when available to include adjustments prior to the 3rd interim report
- Continue direct communication with the City regarding updated sales tax projections

Redevelopment (RDA) Fund Calculations & Property Tax

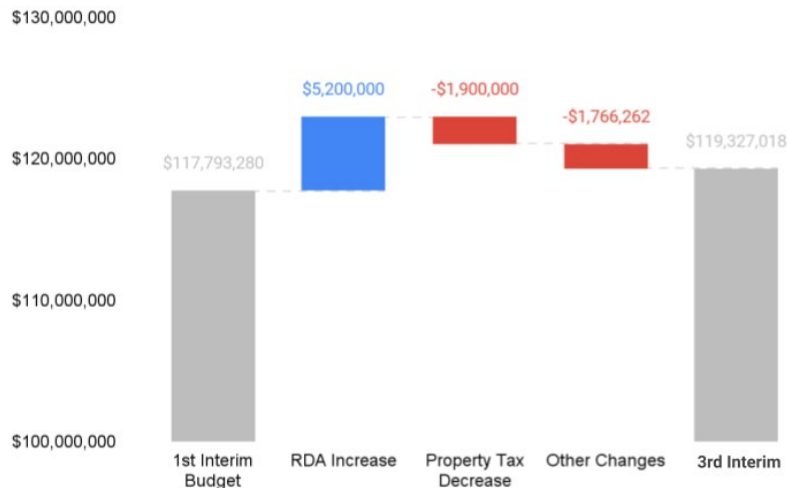
The subcommittee recommends timely follow-through on recommendations made in last year's (July 16, 2020) FOC presentation to:

- Contact the City regarding refinance options for the Enforceable Obligations in a low interest rate environment
- Retain an experienced development consulting firm to prepare RPTTF financial projections through FY 2041-42 for use in the District's multi-year budget planning
- See Appendix A for more details

Recommendation: Execute the recommendations made last year

The subcommittee also worked together with the SMMUSD finance team to discuss how to present a \$5.2M surplus from RDA funds and -\$1.9M Property Tax adjustment for this year's third budget revision on 4/30/21¹, also depicted below. This was based on an updated projection from the audit controller in April 2021.

¹ Presentation to the board on 5/20/21, [Slide 6](#)



Recommendation: The subcommittee recommends breaking down the RDA projections further within the district’s budget (e.g. separating pass-throughs and residual distributions) to provide more visibility into the projections and what elements, if any, change for interim budget adjustments. Related to property tax, we advise requesting the property tax report from the county auditor earlier in the year to account for any adjustments prior to the 3rd interim report if possible. Finally, we recommend maintaining the current FOC charges to evaluate how to improve the projections of RDA funds going forward to reduce material changes in the budget during revisions.

Sales Tax Revenue

The subcommittee continued to assist with direct communication with the City of Santa Monica and bring any updates regarding anticipated sales tax revenue changes to the attention of the Board and the district’s finance team.

Recommendation: Continue ongoing communications with the City of Santa Monica regarding sales tax projections prior to each interim budget update to improve accuracy and predictability

Measure YY & GSH Context Context

Measure YY

Measure YY was a companion advisory measure to Measure Y, both of which were passed by voters in 2010. Measure Y raised the City of Santa Monica’s sales tax from 9.75% to 10.25%, with an estimated annual increase in revenue of \$12M. Measure YY advised that approximately 50% of that revenue should be allocated to SMMUSD.

Measure GSH

Measure GSH, passed by voters in 2016, raised the City’s transactions and use tax from 0.5% to 1%. An accompanying measure, also passed, stated that half of new revenues should be allocated to SMMUSD for:

- Attracting and retaining high-quality teachers
- Expanding access to pre-schools
- Assisting at-risk students
- Improving school technology, arts, music, math, and science instruction

Appendix

A. Recommendations to the Board, FOC Tax Revenue Subcommittee, Slide 10, July 2020

Recommendations to the Board

- Contact the City ASAP regarding refinancing options for the Enforceable Obligations in this very low interest rate environment
 - The 2006 and 2011 Tax Allocation Bonds totaling \$75 million can be refunded now for significant debt service savings to the benefit of the District and the local taxing agencies
 - \$38 million of EOs have a high interest rate of 6.82% through 2042
- Retain an experienced redevelopment consulting firm to prepare RPTTF financial projections through FY 2041-42 for use in the District's multi-year budget planning
 - These projections are typically required for tax allocation refunding bond credit ratings and offering statements
- Continue this Subcommittee's engagement into FY 2020-21 to assist as needed on ROPS matters

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B. Subcommittee Charges

This subcommittee will research, follow and review Redevelopment (RDA) Fund calculations, the assessed valuation reports from the Cities of Malibu and Santa Monica, and the financial projections for sales tax revenue in the City of Santa Monica to help understand the budget implications of sales taxes on Prop YY and Measure GS

C. Last year's FOC report

[2019 - 2020 Report](#)

FOC Bond Subcommittee

Proposed Changes to the District's

Debt Issuance and Management Policy

Prepared June 20, 2021

FOC Bond Subcommittee's Debt Policy Review

- The Board adopted the five-page Debt Issuance and Management Policy (the “Policy”) on May 4, 2017
- While the Policy fully complies with the minimum requirements of Senate Bill 1029 signed into law in Sept. 2016, it could be improved into a more robust, comprehensive example of best practices in debt management through implementation of the changes proposed by the FOC Bond Subcommittee
 - In its credit report dated June 11, 2021, Standard and Poor’s commented “we view its guidelines as lacking significant quantitative constraints” in a reference to the Policy
- The FOC Bond Subcommittee’s proposed changes would clarify some of the vagaries in the Policy and improve transparency regarding the District’s debt issuance decision-making, yet maintain adequate flexibility for unforeseen circumstances
- In the following pages, sections of the Policy are in *italicized text* and the FOC Bond Subcommittee’s suggestions are indicated by **bold, blue font**

Policy Section: Introduction and Goals

The Governing Board is committed to long-term capital and financial planning and recognizes that the issuance of debt is a key source for funding the improvement and maintenance of school facilities and managing cash flow. Any debt issued by the district shall be consistent with law and this policy. This policy provides written guidelines for the issuance of indebtedness by the Santa Monica-Malibu Unified School District in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

The Assistant Superintendent of Business & Fiscal Services is the designated administrator of the Policy and has overall responsibility, with the Board's approval, for decisions related to the structuring and sale of all District debt issues. While the District may engage outside municipal advisors, legal counsel, and underwriters, all applicable findings, recommendations, and decisions communicated to the Board shall be issued over his/her/the signature of the Assistant Superintendent of Business & Fiscal Services.

The Assistant Superintendent of Business & Fiscal Services will review this Policy on an annual basis. If there are proposed changes to the Policy, staff will submit an updated Policy to the Board for consideration.

Policy Section: Introduction and Goals (cont'd)

This Policy provides a framework for debt management and capital planning by the District. This Policy has been developed to meet the following goals:

- 1) Identifying the purposes for which the debt proceeds may be used.*
- 2) Identifying the types of debt that may be issued.*
- 3) Describing the relationship of the debt to, and integration with, the District's capital improvement program or budget.*
- 4) Establishing **debt** policy goals related to the District's planning goals and objectives.*
- 5) Implementing internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use upon completion of the issuance.*
- 6) Maintaining full and complete financial disclosure and reporting.**
- 7) Ensuring compliance with applicable State and Federal laws.**

Policy Section: Purposes for Which Debt Proceeds May Be Used

The laws of the State of California (the “State”) authorize the District to incur debt to make lease payments, contract debt, borrow money, and issue bonds for school improvement projects. The District is authorized to contract debt to acquire, construct, reconstruct, rehabilitate, replace, improve, extend, enlarge, and equip such projects; to refund existing debt; or to provide for cash flow needs.

Section 18 of Article XVI of the State Constitution contains the “debt limitation” formula applicable to the District.

There are a number of State laws that govern the issuance of general obligation bonds (“GO Bonds”) by school districts. Sections 1(b)(2) (Proposition 46) and 1(b)(3) of Article XIII A (Proposition 39) of the State Constitution allow the District to issue GO Bonds. The statutory authority for issuing GO Bonds is contained in Education Code Section 15000 et seq. Additional provisions applicable only to Proposition 39 GO Bonds are contained in Education Code Section 15264 et seq. An alternative procedure for issuing GO Bonds is also available in Government Code Section 53506 et seq.

Policy Section: Purposes for Which Debt Proceeds May Be Used (cont'd)

The statutory authority for issuing Tax and Revenue Anticipation Notes (“TRANS”) is contained in Government Code Section 53850 et seq. Authority for lease financings is found in Education Code Section 17455 et seq. and additional authority is contained in Education Code Sections 17400 et seq., 17430 et seq. and 17450 et seq. The District may also issue Mello-Roos bonds pursuant to Government Code Section 53311 et seq.

*The District may deem it necessary **to issue TRANS** to finance cash flow requirements under certain conditions **such as a projected negative cash position in anticipation of revenues to come from state or local sources**. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued.*

General operating costs include, but are not limited to, those items normally funded in the District’s annual operating budget.

*The District’s Superintendent, or designee, will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include, but are not limited to tax and revenue anticipation notes, temporary borrowing from the Los Angeles County Treasurer and Tax Collector, and internal temporary interfund borrowing. **The Superintendent shall consult with the Financial Oversight Committee on such financing methods for counsel on best practices.***

Policy Section: Types of Debt That May Be Issued

- 1) *Short-Term: The District may issue fixed-rate and/or variable rate short-term debt, which may include TRANs, when such instruments allow the District to meet its cash flow requirements. The District may also issue bond anticipation notes (“BANs”) to provide interim financing for bond projects that will ultimately be paid from GO Bonds.*
- 2) *Long-Term: Debt issues may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt **will should** not be used to fund District operations.*

*Long term debt in the form of GO Bonds may be issued under Article XIII A of the State Constitution, either under Proposition 46, which requires approval by at least a two-thirds (66.67%) majority of voters, or Proposition 39, which requires approval by at least 55% of voters, subject to certain accountability requirements and additional restrictions. **GO Bonds issued pursuant to a Proposition 39 voter authorization have a maximum tax levy of \$60 per \$100,000 of taxable assessed value. There is no tax rate limitation for GO Bonds issued under Proposition 46. The District’s total outstanding GO Bond debt is limited to 2.5% of the taxable assessed value within its boundaries.***

School Facilities Improvement District (“SFID”) bonds are GO Bonds approved by voters residing in a subset of a school district and repaid from taxes levied on the taxable assessed value of the SFID. On November 6, 2018, voters in Santa Monica authorized the issuance of \$485 million of GO Bonds for SFID No. 1 (Santa Monica Schools) and voters in Malibu authorized the issuance of \$195 million of GO Bonds for SFID No. 2 (Malibu Schools).

Policy Section: Types of Debt That May Be Issued (cont'd)

*The District may also enter into long-term leases and/or participate in the sale of certificates of participation or lease revenue bonds for public facilities, property, and equipment. **These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.***

- 3) *Lease/Equipment Financing: Lease-purchase obligations or appropriation leases are a routine and appropriate means of financing capital equipment and certain capital facilities. However, **because lease obligations reduce ~~may impact on~~ budget flexibility, the District will seek to limit aggregate annual payments on all long-term leases to 3.0% of unrestricted general fund revenues.** Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority capital purchases will be funded with lease obligations. In particular, long-term lease financing for facilities is appropriate when there is insufficient time to obtain voter approval or in instances where obtaining voter approval is not feasible. The District will consider the future refinancing of long-term leases with GO Bonds.*
- 4) *Use of General Obligation Bonds: A significant portion of the District's capital projects are expected to be funded by GO Bond proceeds. Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters. **GO Bonds will be sized and repaid in accordance with the tax rate limits presented to voters at election. If unique circumstances dictate that projected tax rates exceed the presented limits, the District will provide an independent third-party analysis demonstrating a net financial benefit of this structure relative to alternative structures.***

Policy Section: Policy Goals Related to District's Planning Goals and Objectives

In following this Policy, the District shall pursue the following goals:

- 1) The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.*
- 2) To the extent applicable, the District shall endeavor to attain the best possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.*
- 3) The District shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.*
- 4) The District shall, with respect to GO Bonds, remain mindful of its statutory debt limit in relation to assessed value growth within the school district and the tax burden needed to meet long-term capital requirements.*
- 5) The District shall consider market conditions and **the projected spend-down of bond proceeds** ~~District cash flows~~ when timing the issuance of debt.*
- 6) The District shall determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.*

Policy Section: Policy Goals Related to District's Planning Goals and Objectives (cont'd)

- 7) *The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economical, while considering repair and replacement costs of those assets to be incurred in future.*
- 8) *The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, categorical grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.*
- 9) **The District may utilize taxable financing structures permitted by the federal government which are alternatives to the issuance of tax-exempt obligations, such as tax credit or tax subsidy obligations, if they are projected to result in sufficiently lower financing costs versus traditional tax-exempt obligations. The analysis shall consider the additional risks and compliance costs of the alternative financing structure, including the partial reduction or full loss of the federal tax subsidy.**
- 10) *The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner **in accordance with IRS "spend-down" requirements for tax-exempt obligations, as applicable.***

Policy Section: Refunding and Restructuring

Periodic reviews of outstanding debt will be undertaken to identify refunding (refinancing) opportunities. Economic refundings, reducing overall debt service requirements for cost savings, will be considered when there is a net economic benefit of the refunding. Non-economic refundings (restructurings) may be undertaken to achieve objectives related to changes in covenants, repayment or optional redemption provisions, and operational flexibility.

A “current refunding” occurs when tax-exempt refunding bonds are issued 90 or fewer days before the optional redemption date of the refunded bonds. An “advance refunding” occurs when tax-exempt refunding bonds are issued 91 or more days in advance of the refunding bonds’ optional redemption date. In 2017, the IRS code was modified to preclude the issuance of tax-exempt bonds to advance refund existing bonds when there was previously a one-time exception. There is no limit on the number of times that bonds may be current refunded.

~~The District shall consider the following when making a decision regarding refunding or restructuring existing debt.~~

~~1) District’s Best Interest. Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility.~~

Policy Section: Refunding and Restructuring (cont'd)

~~2) Net Present Value Analysis. The District shall review a net present value (NPV) savings analysis of any proposed refunding to make a determination regarding the cost-effectiveness of the proposed refunding. The District will proceed with an economic refunding only when both of the requirements below are met. Refundings which do not meet these two requirements, but have the potential to achieve other financing objectives, will be considered on a case-by-case basis.~~

- 1) The projected NPV savings, expressed as a percentage of the par amount of refunded bonds, are no less than three percent (3%) for a tax-exempt current refunding and five percent (5%) for a taxable or tax-exempt advance refunding. The higher NPV savings threshold for an advance refunding takes into consideration its often one-time only nature as well as the longer refunding escrow period wherein the escrow investment rate is usually less than the interest cost of the refunded debt, thereby creating negative arbitrage.
- 2) The refunding must be minimally efficient with the projected NPV savings exceeding the amount of any negative arbitrage in the refunding escrow.

~~3) Maximize Expected Net Savings. Another consideration in deciding which debt to refinance and the timing of the refinancing shall be to maximize the District's expected net savings over the life of the debt.~~

- This item #3 is unnecessary considering the preceding text.

~~4) Comply with Existing Legal Requirements. The refunding of any existing debt shall comply with all applicable State and Federal laws governing such issuance.~~

- This item #4 is unnecessary as all debt issued by the District must comply with state and federal laws and regulations. See policy goal #7.

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds

- 1) *Maturity of Debt: The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. In addition, the average life of tax-exempt financing shall not exceed 120% of the average life of the assets being financed. The District shall also consider the overall impact of the current and future debt burden of the financing when determining the duration of the debt issue.*
- 2) *Debt Structure:*
 - A. *GO Bonds:*
 1. *New Money Bond Issuances: For tax-exempt new money bond issuances, the District shall size the bond issuance consistent with the “spend-down” requirements of the Internal Revenue Code, **taking into account unexpended proceeds of prior issues at the time an issue is sized**, and within any limits approved by the District’s voters. To the extent possible, the District will also consider credit issues, market factors (e.g. bank qualification) and tax law when sizing the District’s bond issuance.*
 2. *Refunding Bond Issuances: The sizing of refunding bonds will be determined by the amount of money that will be required to cover the principal of, accrued interest (if any) on, and redemption premium for the bonds to be defeased on the call date and to cover appropriate financing costs.*

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

3. Maximum Maturity: All bonds issued by the District shall mature within the limits set forth in applicable provisions of the Education Code or the Government Code. The final maturity of tax-exempt bonds will also be limited to the average useful life of the assets financed or as otherwise required by tax law.
4. Taxable Bonds: Taxable bonds shall be considered for funding projects which do not satisfy the “spend-down” requirements of the Internal Revenue Code **and for refunding when the issuance of tax-exempt refunding bonds is not a viable option in the near term.**

*B. Lease-Purchase Obligations: The final maturity of equipment or real property lease obligations will be limited to the useful life of the assets to be financed. **Unless required for structuring purposes, the District will avoid the use of capitalized interest which increases the bond size and interest expense. New money lease financings may require capitalized interest until the District has use and possession of the leased asset. However, the District may pledge assets other than the facility under construction using an asset-transfer structure to eliminate the need for capitalized interest.***

- 3) *Debt Service Structure: The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or maximize its debt capacity for future use.*

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

- 4) Method of Sale: There are three primary methods of sale: competitive, negotiated, and private placement. The preferred method of sale shall be the method which is likely to result in the lowest all-in borrowing cost to the District. All three methods of sale shall be considered for all debt issuances, because each method has the potential to achieve the lowest financing cost given the right conditions. Any award through negotiation shall be subject to approval by the District, generally by the Assistant Superintendent of Business & Fiscal Services, to ensure that interest costs are in accordance with comparable market interest rates. When a competitive bidding process is deemed the most advantageous method of sale for the District, award will be based upon, among other factors, the lowest offered True Interest Cost ("TIC"). A private placement sale is appropriate when the financing can or must be structured for a single or limited number of purchasers or where the terms of the private placement are more beneficial to the District than either a negotiated or competitive sale.
- 5) Engagement of Financing Team Members: Municipal advisors, bond counsel, disclosure counsel, and underwriters will be selected through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process. In isolated instances, such contracts may be awarded on a sole source basis if an RFP or RFQ process would not be in the District's interests. The term of the contracts for municipal advisors, underwriters, bond counsel and disclosure counsel will be for up to five years including extensions at the District's option.

All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. Any financing team members involved in preparing proposed District debt issuances or who have outside agreements with members so involved may not provide independent analyses of said debt issuances. All financing team members shall abide by the Board's code of ethics.

Policy Section: Internal Control Procedures for Issuance of Debt to Ensure Intended Use of Proceeds (cont'd)

- 6) Disclosure Requirements: The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12 and to ensure compliance with applicable laws, regulations and agreements. The Assistant Superintendent of Business & Fiscal Services shall be responsible for the District's disclosure compliance functions, in conjunction with the disclosure counsel engaged by the District.
- 7) IRS Compliance: The Assistant Superintendent of Business & Fiscal Services will establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by federal tax regulations. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the District's outstanding tax-exempt obligations. The Assistant Superintendent of Business & Fiscal Services may retain a firm to prepare arbitrage rebate calculations and communicate with the IRS.
- 8) Rating Agency Relations: The District shall maintain effective relations with the rating agencies. The Assistant Superintendent of Business & Fiscal Services shall meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and as appropriate basis to keep the agencies informed about the District's capital plans, debt issuance program, and other appropriate financial information.

Policy Section: Use of Proceeds

The District shall be vigilant in using bond proceeds in accordance with the stated purposes at the time such debt was incurred. In furtherance of the policy, and in connection with the issuance of all GO Bonds:

- 1) As required by Government Code Section 53410, the District shall only use GO Bond proceeds for the purposes approved by the District's voters; and*
- 2) District staff shall have the responsibility, no less often than annually, to provide to the District's Board of Education a written report which shall contain at least the following information: **Note: If previously prepared in compliance with the Policy, these written reports are not publicly available.***
 - i. The amount of the debt proceeds received and expended during the applicable reporting period; and*
 - ii. The status of the acquisition, construction or financing of the school facility projects, as identified in any applicable bond measure, with the proceeds of the debt.*
 - iii. These reports may be combined with other periodic reports which include the same information, including but not limited to, periodic reports made to the California Debt and Investment Advisory Commission, or continuing disclosure reports or other reports made in connection with the debt. These requirements shall apply only until the earliest of the following: (i) all the debt is redeemed or defeased, but if the debt is refunded, such provisions shall apply until all such refunding bonds are redeemed or defeased, or (ii) all proceeds of the debt, or any investment earnings thereon, are fully expended.*

Policy Section: Use of Proceeds (cont'd)

- 3) *The District shall post on the District website the Annual Report of the District's Independent Bond Oversight Committee which has been given the responsibility to review the expenditure of GO Bond proceeds to assure the community that all GO Bond funds have been used for the construction, renovation, repair, furnishing and equipping of school facilities, and not used for teacher or administrator salaries or other operating expenses.*
- 4) *The District shall hire an independent auditor to perform an annual independent financial and performance audit of the expenditure of GO Bond proceeds, and to post such audits on the District website.*

Proposal: Create New FOC Financial Communications Sub-Committee for 2021-2022

The purpose of the Financial Communications Sub-Committee is to study and offer recommendations related to SMMUSD communications to the public regarding major financial matters. In addition to FOC members, it would be helpful for the subcommittee to have access to facilities staff to provide input on capital project-related financial communications, as well as District communications staff. FOC Financial Communications Sub-Committee charges for 2021-2022 will be:

- Identify major district financial matters for which enhanced communications could help to educate stakeholders, and make recommendations, as may be appropriate, in order to increase public understanding of District finances
- Review financial communications related to operating budgets and special budgets and recommend changes as may be appropriate
- Assess and make recommendations regarding voluntary District reporting to summarize activity and provide the community with basic facts. Information might include project progress vs. projected timelines, costs vs. budgeted cost, etc, sources of funding, etc. The goal of the reports would be to answer commonly asked questions from stakeholders and to address community concerns
- Assess and make recommendations regarding best practices for reporting on one-time items, such as purchase of new SMMUSD headquarters
- Assess and make recommendations regarding the possible establishment and ongoing maintenance of an open data portal for District financial data

COMMITTEE DISCUSSION RE: FOC FINANCIAL COMMUNICATIONS SUBCOMMITTEE PROPOSAL

From: Payal S M

Date: Thursday, June 17, 2021 at 11:34 AM

To: Melinda Newman

Cc: Matthew Covington, Matt Crawford, Seth Jacobson, Shawn Landres

Subject: Re: FOC Financial Communications Sub-Committee Proposal - Invitation to edit

Hi there Melinda, Here are the comments I had layered on.

For bullet 2:

My two cents: We don't need to become the Comms/PR team for the district. I would rather review the process/ level of details that financial communications related to op budgets/ sp budgets should have vs. actually have to review each financial comms that goes out.

This way we review/ collaborate on the financial communications process/ strategy from the onset. Let me know if you want to hop on a call @shawnlandres or @melindajnewman

For last bullet (bullet 5)

Payal S M

I like this! Its critical component of transparency that people can easily access relevant financial data

On Mon, Jun 7, 2021 at 10:45 AM Melinda Newman (via Google Docs) wrote:

melindajnewman has invited you to **edit** the following document:

FOC Financial Communications Sub-Committee Proposal

Here's my initial stab at proposal for Financial Communications sub-committee for FOC. Please feel free to edit. I'd like to send to Jon, Craig, Keith and staff ahead of meeting if possible to optimize chance of people accepting idea.

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1

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COMMITTEE DISCUSSION RE: FOC FINANCIAL COMMUNICATIONS SUBCOMMITTEE PROPOSAL

----- Forwarded message -----

From: **Matt Crawford**

Date: Mon, Jun 7, 2021 at 11:23 AM

Subject: Re: FOC Financial Communications Sub-Committee Proposal - Invitation to edit

To: Melinda Newman

Cc: Matthew Covington, Payal S M, Seth Jacobson, Shawn Landres

I see where you're going with this and I'm supportive.

On top of this issue-based and direct communication focus, I would also like to include a direction to report on more passive financial transparency, focusing on online open data. Many of the things we hear complaints about stem from people feeling like the district is hiding things. Good communications are one effective way of addressing this -- comprehensive financial transparency is another.

LAUSD has a pretty nice set of dashboards combined with a pretty comprehensive (if clunky) library of financial information here: <https://achieve.lausd.net/opendata>

The City of LA has what is (in my humble opinion) a very nice site too, here: <https://lacontroller.org/controlpanel-la/>

SMMUSD may not need anything as extensive as either of these, but they are just good examples of what can be done. LAUSD built their site internally, but the City's site is built on Socrata, which is pretty easy to set up and maintain (we have one person who maintains all of our active data sets and it's not a full time job). There are a couple other similar products on the market which provide similar services.

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