



**Santa Monica-Malibu Unified School District
Board Committee
Financial Oversight Committee
Minutes**

Special Meeting: February 26, 2007

Time: 9:00 to 11:00 a.m.

**Location: Testing Room of the School District's
Administrative Offices - 1651 16th Street, Santa Monica, CA**

Attendance: (*Committee Members*) Paul Silvern [*Chair*], Patricia Hoffman, Denny Kernochan, Gordon Lee, Cynthia Torres. (*Board Liaisons*) Maria Leon-Vazquez, Kelly Pye. (*Staff*) Steve Hodgson, Virginia Hyatt, Harry Keiley, Dawn Smithfield. (*Public*) Jonathan Friedman (*Malibu Times*), Christina Hanford (*The Argonaut*), Chris Harding, Jim Jaffe, Rebecca Kennerly (*PTA*).

Absent: Carolyn Galantine, Craig Hamilton, Cheryl Stecher [*Co-Chair*].

I. Call to Order

The meeting was Called to Order at 9:15 a.m. by Chair Paul Silvern.

II. Approval of the Minutes:

The Minutes from the 2/6/07 FOC meeting were not available, but will be submitted for approval at a future meeting.

**III. FOC Priority Policy Issues (*Primary Discussion Items*)
(*Held for Future FOC Meeting*)**

IV. Discussion with Interim Chief Financial Officer Dr. Stephen R. Hodgson

A. Review of the FCMAT Report and Follow-Up to Initial 2/15/07 Board Discussion

Mr. Silvern explained that this special meeting was called because of a need to discuss budget-related matters prior to the regularly scheduled FOC meeting on March 6, 2007. He and FOC members Patricia Hoffman and Craig Hamilton met with Steve Hodgson to go over the FCMAT report and funding of the teachers' agreement, and shared his concerns about ongoing funding. Mr. Silvern spoke to the Board at the 2/15/07 Board Meeting about the FCMAT report, on his own behalf rather than the FOC's since the report had yet not been discussed by the Committee. He told them he felt the report was very thorough and helped identify a strategy for the Certificates of Participation (*COPs*) payment to raise additional revenue for the District. However, he was concerned that by the end of the three-year projection, there was barely enough money to cover the costs of the teachers' Tentative Agreement, and would completely exhaust Reserve Fund 17. The three to four million to be transferred to the General Fund to pay for the Tentative Agreement in the 2008-09 fiscal year would leave only \$900,000 in the undesignated fund balance to carry over to the next fiscal year. Since a three-year projection is required as part of the 2007-08 Budget, the results may show a dire result and it was requested that the FCMAT report extend the projections by one additional year. In addition, the report does not include any other classified or management salary increases.

Dr. Hodgson stated he is also concerned about the deficit spending which is made clear in the budget preparation materials, as is Superintendent Talarico, as evidenced by the District/enrollment size issue she brought to the Board. He said the reason for the FCMAT report is to take a look at our budget, the multi-year projections and Tentative Agreement within a "carefully defined scope"

and make suggestions. His summary of the findings is that the District can pay for the SMMCTA Tentative Agreement, however, a big unknown is enrollment. The FCMAT report assumed declining enrollment and attendance decrease of <176> which means the staffing must be reduced accordingly by <10> FTEs. One strategy employed by FCMAT and District staff was to use the redevelopment funds from Fund 40 to reimburse the General Fund for the COPs costs. The report also suggests that additional funds from developer fees be used to make up the difference since the redevelopment funds are not enough. The FCMAT report also noted that the District may keep just 56.7% of the redevelopment funds from the City of Sant Monica since 43.3% must be used to offset the Base Revenue Limit funding. FCMAT recommends that the District keep \$1.5 million for the past three years (2004-05, 2005-06 and 2006-07) until a determination can be made regarding retroactive payment requirements to the State because 100% of the redevelopment funds were apparently recorded in Fund 40. Mandated cost claims money is also being set aside in reserve for 2006-07 and 2007-08 until the time for a possible State audit has passed. Dr. Hodgson and Ms. Ho are working on the Developer Fee report and obtaining a legal opinion to ascertain if developer fees can be used to make lease payments.

Dr. Hodgson stated that Anthony Bridges from FCMAT will train Fiscal staff on the “Budget Explorer” software so the District can prepare its own version of the Multi-Year Financial Projections. Now the focus needs to be on enrollment, the corresponding staffing ratio and whether it’s being followed. Dr. Hodgson gave an example of 3,000 students with a staffing ratio of 30:1 would require 100 teachers. However, since teachers teach five periods while students attend six, that example would require 120 teachers. If that example exceeds 120 teachers, then the staffing ratio is not being followed. Current enrollment has declined by <940> students, however, staffing has increased. Dr. Staine, Superintendent Talarico, Dr. Chou and Mr. Walker are working to solve this.

GASB 45 and 34 require districts to have an actuarial study performed if they have retirement benefits for retirees; ASCIP is preparing an actuarial study at no costs for member districts. GASB 45 requires that districts fund the benefits at 30 years out and show the liability on the books as of December 2007, which means we must show \$1.0 million in reserve for that liability on our financial statement. This will impact cash flow, the District’s rating from Moody’s and Standard & Poor’s and the value of Measure “BB” bonds. The Legislative Analyst’s Office (LAO) is recommending an increase of Proposition 98 funds in the form of a block grant, and encouraging districts to reserve those funds for GASB 45 obligations.

FOC members again expressed their concerns about deficit spending, especially with the FCMAT report showing less than \$900,000 to begin the 2008-09 fiscal year, and stated that significant changes must be made. It was felt that the FCMAT report may be viewed as troubling and even dangerous to state the District can afford the certificated increase without acknowledging other problems. They’re also concerned about the District’s financial standing with rating agencies since there are current outstanding bonds as well as upcoming Measure “BB” bonds. Dr. Hodgson responded that these agencies check other criteria, such as the viability of bond repayment, the financial health of the Cities, assessed valuation, bargaining unit settlements, and other revenue streams which could be used to cushion expenditures. Members said using Fund 17 to balance budget may not be viewed as correct, and that a bond insurer will have a stricter outlook. Mr. Silvern stated that the delay in the Facilities Master Plan (FMP) has allowed the District time to prepare the 2007-08 Budget and resolve these budget issues before seeking a rating for the “BB” bonds.

- B. Revised AB 1200 and Process for Board's Action on the SMMCTA Tentative Agreement:
- C. Status of the 2006-07 2nd Interim Report:
- D. Issues for the 2007-08 Budget: (Item D.03 from the 2/15/07 Board Meeting: Considerations Regarding Development of the District's 2007-08 Budget)

Dr. Hodgson emphasized the need to know staffing and whether or not that can be used to address future deficits. Although the District can adjust the permit mechanism to allow more permits for increased attendance and funding, the situation is a political one within the community. If the Measure "S" parcel tax, which expires June 30, 2009, is not renewed and the Board does not increase the number of permits, there could be devastating fiscal impacts. The District planning needs to begin ASAP to get a good projection of 2009-10, which will be done in March 2007. The focus needs to be on what must be done now to protect the District in the future, and this decision must be made within the next few months. There is a lot of work to be done, but it must first start with staffing and enrollment.

Mr. Silvern encouraged the Board Liaisons to share with other Board Members a request to have a separate Board budget session as recommended by Dr. Hodgson, with the understanding that there may be changes after the May Revise. Committee members would like the Board to take advantage of the FOC members' expertise (in accounting, investment banking, consultancy, etc.) prior to Board decisions rather than being informed of the decision after the fact. Members stressed that they want to help the Board in an advisory capacity rather than being looked up as adversaries. Members agreed that there is a lot of work to do to address short and medium term needs, and that not enough attention has been paid to how to provide solutions. The Board needs to also focus on reducing expenditures, not just on increasing revenues. Ms. Leon-Vazquez thanked the FOC members and said she does take their recommendations seriously. She agreed there should be a special meeting in March, perhaps a joint meeting with the FOC. Ms. Pye also stated her appreciation for the FOC's advice, and also her concern for the urgency to create a strategy and plan now.

- V. **New Business** (*for Discussion*)
- VI. **Receive and File** (*Limited Discussion*)
FCMAT Management Letter (*Item D.02 from 2/15/07 Board Meeting*)
- VII. **Public Comments:**
Chris Harding (handout: *School District Fiscal Accountability and Transparency Recovery Plan*),
Jim Jaffe, Harry Keiley, Rebecca Kennerly.
- VIII. **Agenda Planning for the Next Meeting:**
March 6, 2007
- IX. **Adjournment.** Meeting adjourned at 11:08 a.m.