



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

Minutes

April 10, 2007 Time: 7:00 to 9:00 p.m.

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

Attendance: (*Committee Members*) Paul Silvern [*Chair*], Craig Hamilton, Patricia Hoffman, Denny Kernochan, Gordon Lee, Cheryl Stecher [*Co-Chair*], Cynthia Torres. (*Board Liaisons*) Maria Leon-Vazquez. (*Staff*) Steve Hodgson, Virginia Hyatt, Dawn Smithfield. (*Public*) Dan Kreinbring, Chuck Terhune (*SGI*). *Absent:* Carolyn Galantine, (*Board Liaison*) Kelly Pye.

I. Call to Order

The meeting was Called to Order at 7:06 p.m. by Chair Paul Silvern.

II. Approval of the Minutes:

A motion was made by Ms. Hoffman and seconded by Ms. Torres to approve the Minutes from the 2/26/07 Meeting. Motion passed unanimously.

A motion was made by Ms. Stecher and seconded by Ms. Hoffman to approve the Minutes from the 3/1/07 Meeting. Motion passed unanimously.

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. Discussion and Follow-Up to 3/15/07 Board Meeting

1. Approval of District's 2006-07 2nd Interim Report (Item A.13): Dr. Hodgson informed FOC members that, although he has not received the official letter, he received a telephone call stating that LACOE approved the 2006-07 2nd Interim Report, with the same concerns as noted in the AB 1200 letter. Members requested that the AB 1200 letter be forwarded to them.

2. 2006-07 Budget Transfers (Item A.14): Dr. Hodgson summarized this Board action. There was no discussion.

3. Approval of AB 1200 Public Disclosure Document Regarding the Costs Associated with the Collective Bargaining Agreement between the District and the Santa Monica-Malibu Classroom Teachers Association (Item A.15): Dr. Hodgson summarized this item, which was discussed at a previous FOC meeting.

4. Ratification of Agreement Between SMMUSD and SMMCTA (Item A.16): Dr. Hodgson summarized this item, which was discussed at a previous FOC meeting.

5. Considerations Regarding Development of the District's 2007-08 Budget (Item D.01): See item B.1, below.

B. Discussion and Follow-Up to 3/21/07 Board Workshop/Budget Study Session

1. Revised Multi-Year Financial Projection (MYFP): Dr. Hodgson explained that lottery funding decreased from \$148 to \$137.75 per ADA which translates to over \$400,000, less

revenue, over four years. The continuing enrollment decline affects the indirect costs rate, which nearly doubles and is a draw-down on categorical funding. Regarding the mandated cost funds held in reserve, the State Controller's office has said that the State may no longer require districts to repay audit exceptions, but will exclude them from future reimbursements. He also stated that Anthony Bridges of FCMAT trained Fiscal staff on the "Budget Explorer" software, which may take a few weeks to implement and may affect budget projections. In response to a questions regarding which projection would be used, he answered that the FCMAT software would be used. Mr. Silvern pointed out the fact that the MYFP showed zero percent increase over the next three years for classified and management staff. Dr. Hodgson said the Board has been in discussion about this and will begin negotiations in May with SEIU, whose contract expires in June 2007. He further cited the LACOE AB 1200 workshop at which time it was stated that no funding should be listed for Measure "S" parcel tax renewal for the 2009-10 year until actually approved by the voters, but that Mr. Bridges had advised District staff that LACOE would probably agree to listing two scenarios, with and without the Measure "S" funding.

Dr. Hodgson went over the expenditures, which include step and column increases, and benefits increase by 5%. Members questioned whether the District is pursuing a possible exit strategy from PERS, and Dr. Hodgson responded that the Board is looking carefully at all benefits. Members were concerned about reserves and that the District spending \$3 million more than it receives in the next three years, citing the cost of the teachers contract increases.

2. Potential Budgetary Solution Strategies - Revised: Dr. Hodgson said that the Superintendent and Senior Cabinet gave initial recommendations, but since many other groups were not consulted, these recommendations may not happen. There is \$500,000 from Prop X funds which go toward ongoing major maintenance, however, FCMAT suggests that amount should be increased to \$1.0 million. There is a Retiree Benefits deferral of \$1,377,000 which has been approved by the Board but not yet transferred. GASB 34 won't take effect until December 2009 as the District is a "Phase 2 District". He and Fiscal staff met with an ASCIP representative to discuss the change in methodology for GASB 45, which is to take 1/30th of the liability in the first year, 2/30th in the second year, etc. over 30 years. The previous actuarial study was in 2005, so a new study is being completed, a copy of which will be shared at a future FOC meeting.

To comply with class size reduction requirements, staffing ratios will be reduced from 19.31:1 to 20:1, which will result in a reduction of 6.0 FTEs across the District, however, those positions will be held back to allocate on a site-by-site basis. We need to ensure that staffing ratios are followed. To that end, seven positions are already reflected as reductions and 24 more are proposed for a total of 31 fewer teaching positions. We would like to increase staffing ratios to 32:1 for Grades 6-12 (34:1 for Grades 6-8 and 35:1 for Grades 9-12), with a few exceptions. At John Adams, the teachers teach four periods and have two planning periods so we would lose too many teachers. Staff hopes these reductions will this be able to be accomplished through attrition. According to Dr. Staine, there are approximately 60-80 teachers hired per year. Enrollment is projected to decline by <181> in 2007-08, by <164> in 2008-09 and by <181> in 2009-10. There is no current scenario to increase enrollment to 11,500 or 12,000 or to increase the number of permit students. The strategy includes a decrease of three administrators as well as a reorganization of the District administration offices.

Dr. Hodgson stated that if all quantified suggestions are implemented, the reductions would be more than required to fund required reserves, but still leaves an annual operating deficit in the Unrestricted General Fund . Not all challenges need to be solved in 2007-08, but a reasonable, forward-looking solution is needed, however, he emphasized that changes should be done in a non-fearful, professional manner. Members feel this list may be too narrow and suggested a broader focus is needed, including some of the suggestions from the list distributed to the FOC members in October 2006 [*Treatment for District's Pending Financial Remediation & Recovery Plan...*] should be included, such as capping benefits and reviewing energy usage. A copy of that Plan was requested by Board Liaison Leon-Vazquez and Dr. Hodgson and will be emailed to all FOC and Board Liaison members. Mr. Silvern pointed out that the Board now sees what FOC members have been saying in requesting that the 2009-10 fiscal year be included in the projections. Members asked if the arbitrage funds can be used to offset ongoing maintenance.

Dr. Hodgson said that action will be taken on these items as well as others, a preliminary budget will be brought forth in May. Members wondered if the Board understands the difficult situation we're in, and although the list can be augmented, it must be done in a timely manner. They encouraged Board discussions at the May 3, 2007 Board Meeting to include additional suggestions in the preliminary budget at the May 17, 2007 Board Meeting. Members felt these are temporary solutions to a long-term, underlying structural problem of deficit spending. It was suggested that the District pursue significant new private funding since state and federal funds are not enough to pay for the education we must provide. A plan should be made so that within five years the District has private sources to enhance revenues to ensure quality education. Members stressed that the District also must now lay the groundwork for the Measure "S" parcel tax renewal, and they need to speak to the Board about these issues rather than just budget details. Members also expressed concerns about the underlying programmatic changes necessitated by the staffing ratio decreases. Dr. Hodgson responded that Dr. Chou and Dr. Staine are reviewing, on a class by class basis, possible changes to programs including high school classes with only 10-15 enrolled students. Members felt there is a need for the Board to ascertain the priority of classes in alignment with the Strategic Plan, to specify the types of reductions in tough financial times, and to do so without emotion. The Board is encouraged to rely on the financial expertise of the FOC members.

3. Budget Development Schedule: Dr. Hodgson stated that there will be additional budget discussions at the Budget Study Session on April 25 in addition to the Board Meetings on April 19, May 3, May 17, June 7, with the Final 2007-08 Budget to be adopted on June 28, 2007.

V. New Business (for Discussion)

VI. Receive and File (*Limited Discussion*)

School Services of California, Inc: *Fiscal Reports: (2/16/07) and (3/2/07)*

VII. Public Comments:

VIII. Agenda Planning for the Next Meeting:

May 8, 2007

IX. Adjournment. Meeting adjourned at 9:11 p.m.