



**Santa Monica-Malibu Unified School District
Board Committee**

Financial Oversight Committee

Minutes

June 5, 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*], Ben Allen, Craig Hamilton Patricia Hoffman, Gordon Lee, Cheryl Stecher [*Co-Chair*], Cynthia Torres, Carrie Wagner. (*Board Liaison*) Kelly Pye. (*Staff*) Steve Hodgson, Virginia Hyatt, Dawn Smithfield. (*Public*) Anthony Hsieh, Chet Wang (*Piper Jaffray & Co.*), Jim Jaffe. *Absent: Denny Kernochan, (Board Liaison) Maria Leon-Vazquez.*

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. Stecher and seconded by Ms. Hoffman to approve the Minutes from the 4/10/07 Meeting. Motion passed unanimously.

A motion was made by Ms. Torres and seconded by Ms. Hoffman to approve the Minutes from the 5/1/07 Meeting. Motion passed unanimously.

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

IV. Discussion with Interim Chief Financial Officer Steve Hodgson

- A. Discussion of BB Bond Issuance Strategy with Anthony R. Hsieh, Piper Jaffray & Co.: Dr. Hodgson welcomed Anthony Hsieh and Chet Wang of Piper Jaffray & Co., stating they would explain the various bond scenarios to FOC members. He referred to a recent email from the L.A. County Auditor-Controller giving a Board approval deadline of 6/22/07 if the bonds are to be issued in 2007-08. This is a change of the County's policy, not just for our District, and is set to give the County an idea of the tax levy for 2007-08. Approval of bond issuance will be submitted at the 6/7/08 Board Meeting.

Mr.Hsieh distributed three documents: the *Measure BB General Obligation Bond Program Issuance of Series A (2007)*, the *\$60,000,000 Debt Service Schedule* and an *Estimated Total Debt Service* spreadsheet. He explained that there are five stages of bond issuance: (1) evaluating District objectives, (2) financial structuring, (3) rating agency/insurer presentations, (4) marketing, and (5) distribution and delivery of funds and post-sale services. He further clarified that bond insurance should be purchased to enhance the attractiveness of the bonds to buyers, but the cost of insurance will depend on the bond rating. After the bonds are issued, the Measure BB oversight committee will review bond expenditures. Mr. Hsieh also stated that the District's bonding capacity allows for 2.5% of its assessed valuation in outstanding bonds, and the issuance schedule is dictated by the capital improvement plan. The District currently has over \$655 million in available bonding capacity.

The two rating agencies have rated the District at “AA² (Moody’s Investor Services) and A+ (Standard & Poor’s). As a reminder, S&P had lowered their initial rating of AA- after a reserves shortfall in the COPs was found a few years ago, which has since been corrected. In deciding on the Measure BB bond issuance, the District must decide whether or not to request a rating from both agencies or just Moody’s since S&P puts a heavier rating weight on district financial and management conditions than Moody’s does. Moody’s puts more weight on the tax base, how quickly bonds are repaid, the debt ratio and the underlying creditworthiness of the community. Dr. Hodgson said this will be decided in two months. Mr. Hsieh recommended going only to Moody’s, because of the current negative press on the District and especially because S&P previously downgraded their rating. Members suggested that we go to Moody’s after the District’s 2006-07 Unaudited Actual Financial Report becomes available in September.

Bond attorney David Casnocha (*Stradling, Yocca, Carlson & Rath*) will be at the 6/28/07 Board Meeting to explain the benefits of a “negotiated” versus a “competitive” sale. This information will be shared with the Board, FOC members, the Measure BB advisory committee and the public. Mr. Lee and Ms. Torres’ professional experience in investment banking may be helpful in advising the Board, and the FOC may want to make a recommendation to the Board.

Mr. Hsieh explained the four bond scenarios for the first issuance: Scenario 1 for \$40 million, Scenario 2 for \$60 million, Scenario 3 for \$80 million and Scenario 4 for \$100 million. Dr. Hodgson said the District must comply with the three-year or five-year expenditure rule. This is based on a “reasonable expectation” and we don’t want to issue more than can be spent over the next few years. Members agreed that Scenario 2 with a 2% debt service would be best for the District.

Mr. Hsieh reported that it’s customary to invest bond proceeds in a Los Angeles County pool, but maybe they should be put in a longer term investment. This enables the District to earn interest on unspent funds, although there are some limits on how much interest can be earned. Members agreed that it makes sense to issue more bonds now if it can be anticipated that future interest rates might increase.

Mr. Hamilton (also a member of the Measure BB advisory committee) stated that the Facilities Master Plan (*FMP*) is in an interim form and the program management firm should be approved at the 6/28/07 Board Meeting. To get the best dollar value, the architect should be selected over the summer, including going through the design process and obtaining the CEQA and DSA approval, in order to be at least halfway through the construction process in three years. The program management firms should be able to help in the decision on construction projects. There could then be another issuance in 2009, perhaps of \$100 million.

Mr. Hamilton said that because of the County deadline, a plan must be quickly formulated and a reasonable approximation must be made. There has been a community process which identified projects. The BB committee felt that Scenario 2 seems appropriate from an implementation standpoint. Yet, what level of construction disruption does the District want? Members cautioned not to over-pledge projects and suggested that the BB committee talk with Greg Runyon and teachers at Samohi. Internal staff needs to be augmented, which could be paid out of bond proceeds. A motion was made by Ms. Hoffman and seconded by Ms. Stecher to support the

recommendation of the BB committee of the Scenario 2 \$60 million issuance. Motion passed unanimously.

Dr. Hodgson responded to a question about the additional funding from the City of Santa Monica by saying that the dollars have been set aside by the City, but not yet appropriated. This should be discussed at the next Santa Monica City Council meeting on 6/12/07; passage will require five votes.

B. Discussion of 2007-08 Budget:

1. Projected Impact of Unrepresented Employee Salary Increases on the District's Budget: The *Multi-Year Projection-Unrestricted General Fund* spreadsheets were distributed. Dr. Hodgson told members that the AB1200 will be submitted for approval at the 6/12/07 Board Meeting and has already been approved by LACOE. Members were dismayed that the highest paid employees will earn disproportionately more as this increase is retroactive to 7/06, but at least there is no salary compression. However, they were concerned that no increase is reflected in the budget for SEIU, so this document is still an incomplete budget picture. Mr. Silvern said this should be one of the topics for the joint meeting with the Board, especially what information is considered in negotiating these settlements and what the Board does to increase revenues and decrease expenditures to pay for increases.
2. Approved and Potential Budgetary Solution Strategies: This document, dated May 17, 2007, was distributed to members, who had reviewed the previous versions.
3. Measure "S" 2007-08 Proposed Budget: Dr. Hodgson reviewed the *SMMUSD Parcel Tax-Measure "S" Budget Proposal for 2007-08*, noting that more teachers can be charged to Measure "S" in this year due to an additional \$300,000 from 2005-06 property tax penalties. Mr. Silvern noted that the expenditure categories have remained fairly consistent over the years, and will include a chart over several years for the FOC's report to the Board. A motion was made by Ms. Torres and seconded by Mr. Lee to accept the Measure "S" expenditures recommendations; motion passed unanimously.

C. Planning/Discussion for Joint Meeting with the Board of Education on 6/7/07: Mr. Silvern distributed a draft outline of the report, which acknowledged the good work done thus far by the District, but expressed concerns about low reserve levels, unknown SEIU settlement increases, and deficit spending. He praised the Fiscal Services staff for their hard work. The budget workshops were useful, but he was concerned that it was not a dialogue with the Board. Members believe the public would like a more understandable budget, with pie charts and graphs. Recommendations to the Board include improving the process for labor settlements, such as multi-year projections and other unified school district comparisons, as well as stressing the need to match salary increases with revenue increases and expenditure reductions. It was suggested to bring in the FOC as needed on items of significant financial impact. The current Board Meeting format allows this forum only in the public comments section. Additional comments to be added to the report to the Board include: there should be an independent third party review of Special Education expenditures, the FCMAT and FMP enrollment projections need to be reconciled, major action should be taken to extend the Measure "S" parcel tax and the Board should be encouraged to initiate a review and update of the Strategic Plan. Also, FOC members would like to be involved

in the process of selecting the new CFO.

V. New Business (for Discussion)

A. 2007-08 FOC Meeting Schedule: This was handed out to members.

VI. Receive and File (*Limited Discussion*)

School Services of California, Inc: *May Revision Workshop (Maya 18 and 21, 2007)*

LACOE Urgent Bulletin #417 - "*May Revision Update (May 25, 2007)*"

School Services of California, Inc: *Fiscal Reports: (3/30/07, 4/13/07, 4/27/07 and 5/11/07)*

VII. Public Comments:

Jim Jaffe

VIII. Agenda Planning for the Next Meeting:

June 7, 2007 (*Joint Meeting with the Board of Education*)

IX. Adjournment. Meeting adjourned at 9:55 p.m.