



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

**Minutes - Amended**

**November 14, 2006**

**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*], Carolyn Galantine, Craig Hamilton, Patricia Hoffman, Denny Kernochan, **Gordon Lee**, Cheryl Stecher [*Co-Chair*], Cynthia Torres. *(Staff)* Winston Braham, Angelita Dalan, Pat Ho, Harry Keiley, Larry Silvers, Dawn Smithfield, Superintendent Dianne Talarico, Deputy Superintendent Tim Walker, Board Member Kathy Wisnicki. *(Public)* Jorge Casuso (*Surf Santa Monica's The Lookout*), Shari Davis, Chris Harding, Linda Gross, Jim Jaffe, Ralph Mechur, Board Member-Elect Kelly Pye.

*Absent: (Board Liaisons) Julia Brownley, Oscar de la Torre.*

**I. Call to Order**

The meeting was Called to Order at 7:10 p.m. by Co-Chair Cheryl Stecher.

Due to the increase in meeting attendance, the members and staff were introduced to everyone.

**II. Approval of the Minutes:**

A motion was made by Ms. Torres and seconded by Ms. Hoffman to approve the Minutes from the 6/15/06 Joint Meeting with the Board. An additional motion was made by Ms. Torres and seconded by Ms. Hoffman to approve the Minutes from the 9/5/06 Meeting. Both motions passed unanimously.

**III. FOC Priority Policy Issues (*Primary Discussion Items*)**

(Held for Next FOC Meeting)

**IV. Staff Report:** Chief Financial Officer Winston A. Braham

**A. Governmental/Legislative Issues Concerning District Finances**

**1. Passage of Bond Measure "BB"**

- The District is awaiting the Election Certification from the Los Angeles County Registrar-Recorder's Office, but it appears that Measure BB won by a 67% margin, compared with the 55% minimum required.
- A special workshop has been proposed for 12/7/06 to begin planning for implementation of the Measure.

**B. Pending Board of Education Items with Financial or Financial Management Implications As Posted**

**1. Approval of Agreement Between SMMCTA & SMMUSD (*Item D.01*)**

- Copies of Board Agenda Item D.01 and signed *SMMCTA/SMMUSD Tentative Agreement* were distributed, along with the *AB 1200 and Treatment for District's Pending Financial Remediation & Recovery Plan to Mitigate New Ongoing Costs of SMMCTA's (TA) 7/06-6/08 Bargaining Agreement*. Superintendent Talarico apologized for not making these documents available sooner.

- Mr. Silvern summarized the content of the AB 1200 report. He noted that AB 1200 is a state requirement to disclose the terms of collective bargaining agreements and to present their implications for school district financial solvency. He noted that it includes a three-year projection showing whether the District would have enough of an ending balance in each fiscal year to meet the minimum levels required for the District's 3% General Fund Unrestricted reserve requirement. As a reminder, Fund 17 was established as a Special Reserve account, which LACOE has permitted the District to count towards the 3% Reserve for Economic Uncertainties requirement. With the proposed 5% increase for certificated staff, the AB 1200 projection shows that the District will have to use all of its ending balance for operations in the first year of the projection, leaving only Fund 17 to meet the 3% reserve requirement. The AB 1200 projection also shows a \$3.7 million General Fund operating deficit in Year 2, requiring an additional draw on Fund 17, but leaving enough to meet the reserve requirement. By the third year, however, another \$4.0 million operating deficit requires a further draw on Fund 17 such that it would be depleted. This situation will require the District to increase revenues, cut expenditures or both, in order to balance the budget and provide for the minimum reserve requirement.
- In addition, on the AB 1200 form, Mr. Braham checked the box "I am unable to certify," however, Superintendent Talarico checked "I hereby certify." The form states "The absence of one or both of the signatures should serve as a "red flag" to the district's Governing Board."
- Superintendent Talarico distributed a copy of the 11/1/06 letter from Jon London, Business Services Consultant at LACOE, in response to the AB 1200 document, which stated LACOE's concerns "...that the SMMCTA Agreement could endanger the fiscal stability of the District." LACOE requested that the Board adopt a Budget/Financial Remediation and Recovery Plan at the same meeting at which it approves the proposed SMMCTA settlement. The Plan must demonstrate the District's ability to afford the settlement. It must then make any required budget adjustments within 45 days of Board action to approve the Agreement (not 45 days from signing the Tentative Agreement, as clarified by Mr. Walker). Mr. Silvern noted that the AB 1200 did not include a Plan, but only a list of possible actions the District could consider to increase revenues and/or reduce expenditures. Members requested that a copy of the Plan be made available to them at the next FOC meeting on December 5<sup>th</sup> and Superintendent Talarico agreed.
- Members felt that it was problematic that the Tentative Agreement had already been signed. During discussion it was clarified that the Agreement is not final until it is approved by a majority of the Board. Members expressed very serious concern about the contents of the AB 1200 report, and particularly its implication that the District cannot afford it without making significant budget adjustments. Members also expressed concern about the fact that the AB 1200 report was not made available to the FOC or the public until two days prior to the Board Meeting to discuss it. They also expressed concern that the Board apparently had not formulated a way to fund the Tentative Agreement before allowing it to be signed by District staff.
- In response to a question from the Members about the status of SMMCTA voting to approve the Tentative Agreement, Harry Keiley, President of SMMCTA, stated that they have extended the timeline for returning ballots and he expects the contract to be ratified by the SMMCTA membership.

- Superintendent Talarico stated that she felt the proposed 5% salary increase was necessary in order to keep the most highly qualified work force and to help make it possible for teachers to reside within the District. Members emphasized that they would like to pay the teachers even more than that, however, they are required to look strictly at the budget numbers, and they expressed concern that the District may need to cut the budget deeply to pay for the teachers' salary increase, based on the AB 1200 analysis.
- Members expressed concern that the District's Chief Financial Officer and the Superintendent apparently came to opposite conclusions about the District's ability to fund the proposed increase, especially in light of Mr. Braham's experience administering the District's budget. Members raised concern that this situation could result in a "Qualified" First Interim certification.
- In response to a Member's question about how a "Negative" or "Qualified" certification could affect the District's credit rating (e.g., on bonds issued pursuant to Measure "BB"), Mr. Braham explained that either of those certifications could affect the District's credit rating and the cost of issuance. However, Superintendent Talarico stated that Kenneth Shelton, Assistant Superintendent at LACOE, assured her that the District will not receive a "Qualified" or "Negative" certification on the First Interim if the District submits the requested Recovery Plan, and if an outside financial expert signs off on it, because the AB 1200 problem is primarily in the third year.
- At the Superintendent's request, Mr. Braham summarized some of the elements in the "Treatment" document attached to the AB 1200 form, which could be used as a basis for the Recovery Plan. He noted, for example, strategies to flatten the growth rate of Special Education expenditures, which currently require a very large contribution from the General Fund. He also noted new pending expenditure issues, such as the requirement, under GASB 45, that the District's unfunded pension liability must be shown on its balance sheet beginning in FY 2007-08, and that the State may require that the District budget an additional \$1,000,000 per year into a reserve fund for this liability once the reporting requirement becomes effective in December 2007.
- Mr. Braham noted that subsequent to filing the AB 1200, staff began to look for funds to offset the projected deficit, including approximately \$600,000 in new State revenues for mandated costs and approximately \$250,000 from replacing retiring teachers with new teachers. Other items on the "Treatment" list include requesting the State, via LACOE, to reduce the District's reserve requirement from 3% to 1.5%. Health benefit costs could be reduced by increasing employees' co-pays by \$5.00 per employee, increasing in-hospital deductibles and changing from Cal-PERS (currently \$8,000,000 per year) to another plan, such as Aetna; however, if the District exits Cal-PERS, it would have to stay out for five years and they will not release any claims information. The District has already completed a clean-up of Workers' Compensation procedures and claims that may generate future savings. The District is exploring establishment of its own Medical Provider Network, which would give it control over treatment of employees who are injured. While it is a good idea to fund small claims from an escrow account Self Insured Retention (*SIR*) amount, small claims can turn into large claims, hence the risk for funding small claims. This will require careful consideration even though funding small claims from *SIR* could result in significantly reduced premiums.

- Following consideration of public comments, further discussion and questions of staff, Chair Silvern circulated a Draft Motion regarding Board Agenda Item #D.01 (SMMCTA Agreement), as follows:

The FOC recommends that the Board of Education defer consideration of and action on the proposed SMMCTA agreement until such time as:

1. The FOC and the public have had sufficient time to review the AB 1200 analysis and the County Office of Education response;
2. The District has obtained independent financial review of the budget impacts of the proposed settlement, and alternative salary increase percentages and/or compensation packages;
3. The District has obtained comparative certificated classroom teacher salary data for comparable school districts (e.g., School Services of California analysis);
4. The District resumes negotiations with the SMMCTA in light of the additional financial and comparable salary information.;
5. A new tentative agreement is reached;
6. A new AB 1200 analysis is prepared; and
7. If the new AB 1200 analysis indicates that the settlement may have an adverse impact on District finances, that a plan for balancing on-going costs with new revenues and/or expenditure reductions is formulated and made available for FOC and public review at least two weeks in advance of Board discussion of the plan.

- The **consensus sense** of the Committee was **not to adopt the Motion because that** it was unlikely that the Board would agree to reopen the Tentative Agreement and initiate renegotiation. After further discussion, it was agreed that Chair Silvern will formulate a statement for the November 16<sup>th</sup> Board Meeting reflecting the substance and tone of the FOC's comments on the proposed SMMCTA Agreement.

2. Review and Discussion, and Possible Action, Regarding the District's 2006-07 Budget Revisions (Item A.22 at 11/16/06)

- Chair Silvern distributed a Draft Motion for this Board item. With a slight revision, it was moved by Carolyn Galantine and seconded by Craig Hamilton to read as follows: *The FOC recommends that, in view of the fact that neither the SMMCTA nor the Board of Education has given final approval to the tentative labor agreement, and subject to the requirements of the California Education Code, the Board of Education should approve only the proposed revenue transfers and those expenditure transfers that are not associated with the proposed labor agreement.* Motion passed unanimously.

**V. New Business (*for Discussion*)**

**A. Welcoming of New Member, Mr. Gordon Lee**

Mr. Gordon Lee was introduced to members and welcomed at his first FOC meeting.

**VI. Receive and File (*Limited Discussion*)**

Board action re: FOC membership: *Acceptance of a New Member, Extension of Application Process, and Modification of Renewal Terms/Ending Dates (11/02/06 - A.17)*

School Services: *Fiscal Reports (9/29/06 and 10/13/06)*

Brown Act Workshop on 11/1/06: *Brown Act Basics and Parliamentary Procedure—A Matter of Order*

**VII. Public Comments:**

Chris Harding [handout: His November 14, 2006 letter to the Board regarding *Tentative Settlement with SMMCTA*], Jim Jaffe, Harry Keiley, Ralph Mechur.

**VII. Agenda Planning for the Next Meeting:**

December 5, 2006

**VII. Adjournment.** Meeting adjourned at 9:32 p.m.