



SMMUSD Financial Oversight Committee – Minutes-Amended

Date: Tuesday, January 13, 2009

Time: 7:00 pm to 9:00 pm

**Location: Testing Room, SMMUSD Admin. Offices
1651 16th Street/Santa Monica, CA 90404**

Attendance: (Committee Members) Cynthia Torres [Chair], Patricia Hoffman, Gordon Lee [Vice Chair], Paul Silvern; (Board Liaison) Jose Escarce; (Staff) Jan Maez, Dawn Smithfield, Christy White, Auditor. Absent: Craig Hamilton, Carrie Wagner, Barry Snell (Board Liaison)

I. Call to Order

The meeting was Called to Order at 7:09 p.m. by Ms. Torres.

II. Approval of Minutes: 12/02/08

Due to the lack of a quorum, the Minutes are tabled until the next FOC meeting.

III. Staff Report: Chief Financial Officer Janece L. Maez (*Limited Discussion*)

A. Harry Keiley – SMMCTA Salary Compression Response: Mr. Keiley reminded FOC members about the historical working relationship between the SMMCTA and the District, including the teachers' support of the Measure R parcel tax. He explained that the salary compression is a SMMCTA goal to have teachers reach their maximum potential earlier. He believes the salary compression should happen with teachers who've been here at least five years. He noted that SMMCTA is committed to equitable salary schedules, but doesn't want to compromise the fiscal integrity of the District, and will be looking at alternative compensation models.

FOC members were supportive and offered their assistance with analyzing alternative compensation models. Ms. Torres explained that the FOC wants to look at data that show how salary compression has worked and that includes a comparison with other districts. The FOC is concerned that since the salary compression took place at the upper end of the salary schedule, more teachers are retiring, leaving fewer teachers in that range. FOC members stated a belief that more emphasis should be put into the fifth year teacher. It was noted that due to declining enrollment and the State budget, things will change greatly regarding our resources.

B. Update on State and District Budget: Ms. Maez attended the *School Services of California's Governor's Budget Workshop* earlier today and said there was more bad news. A copy was distributed of an SSC *Special Fiscal Report: Governor's Proposals for the 2009-10 State Budget and K-12 Education*. Ms. Maez stated there is a 5.6% COLA with a deficit factor of 4.7% as projected in the First Interim Report. With a deficit of 9.685% now, our net Revenue Limits will be adjusted downward by over 4.5%. Next year, this grows to over 16% so they are beginning to become extremely concerned about cash. The Governor's Budget proposes deferral of cash payments to school districts. The State Facility Program has stopped sending apportionments altogether. Ms. Maez noted that the District has less than \$1 million at stake with the Boys & Girls Club project at John Adams. She believes the projections given in the First Interim Report are closer now to the worst case scenario. Flexibility of categorical funds will be allowed, but the prior year carryovers and class size reduction may be affected. FOC members stated that according to the press, the Governor's proposal is being met with political refusals to increase taxes and possibly for more delays, so we should continue to follow LACOE and SSC recommendations. Ms. Maez said

that we have some short-term luxury with our ending balance, but staff is looking at everything for possible reductions, to be handled over time if possible, to ensure prudent reserve levels. FOC members asked if a budget development timeline has been developed, noting the 3/15/09 deadline for the Second Interim Report. It was also questioned whether there will be a budget workshop in February. Ms. Maez said the deadline for the final recommendations of layoffs, if needed, would be at the 3/5/09 Board Meeting. The 1/15/09 Board Meeting will include an item about an “early declaration incentive” for employees who sign an irrevocable letter by 2/6/09 to retire by 6/30/09. This will help with budget projections. At each BOE meeting, Ms. Maez will have some projections to share with the Board as well as a regular budget-related item. A copy of the positive certification letter from LACOE on the First Interim was distributed.

Dr. Escarce stated that the Board should review the enrollment permit policy at the 2/5/09 Board Meeting. Regarding enrollment, Ms. Maez reminded FOC members that DecisionInsite had prepared both conservative and moderate enrollment projections (a copy was included in the meeting packets). In projecting last year’s enrollment, we budgeted according to the conservative projection. The enrollment reality, including permits, was closer to the moderate projections, and we expect that trend to continue. Staff will bring a recommendation to the Board to follow the moderate projections as they were more closely aligned to what actually happened. By using these enrollment projections and offering the early declaration incentive, the District is trying to avoid the layoff of employees.

C. Historical Analysis of Reserve Balances: A copy of the spreadsheets, *SMMUSD Ending Balances Over Time*, was handed out; Ms. Maez noted the timeline was from 2001-02 through the 2007-08 fiscal years, with a comparison of the projected and actual ending balances. In 2001-02, Fund 17 Special Reserve Fund was established,, and the chart shows the combined General Fund and the Special Reserve Fund. Last year, there were some Workers Compensation rate changes that caused a difference to occur.

D. Update of Discussions with City of Santa Monica RE: Joint Use Agreement: Ms. Maez said that conversations are beginning about the Master Facilities Agreement. The declining economy has affected the City of Santa Monica’s funding sources, and all their bargaining units are up for contract negotiation this year. At tonight’s City Council meeting, they will vote on the prior year’s money being withheld from the District. There are options that would extend for another three years, with five-year extensions, but with opportunities to review the financials along the way. Ms. Maez reminded everyone that LACOE expects a report on the progress of these negotiations when the Second Interim Report is due.

E. Update on 12/17/08 Measure BB Board Workshop: Ms. Maez spoke about the BB Board Workshop, which took place on 12/17/08. The Parsons staff reviewed the history, budget, program, major issues, technical issues, phases, contractors and how decisions will be made. That document is on the District’s website [*Measure BB, Campus Improvement, Workshop 12/17/08*]. Ms. Maez showed a new brochure, *Santa Monica-Malibu USD Measure BB Bond Program*, which included a list of projects and the scope of work; FOC members requested a copy.

F. Update on the Santa Monica High School Project: We are working with the City’s Redevelopment Agency regarding the community usage portion. We expect to be requesting that the project be included in the Agency’s next five-year implementation plan, which the City Council, acting as the Agency Board, will be considering in April 2009.

IV. Update from Subcommittees:

A. District Bond Program: Ms. Maez and Mr. Lee met with Tony Hsieh of Keygent. The District staff is developing a preliminary financial projection for the FOC to review as the Board has not officially had any conversations about future bond elections. This information will be brought to the FOC for review prior to a report to the Board.

B. Review of Special Education Budget: Two documents were distributed: *Special Education: 6-Year Comparison* (previously distributed) and *Special Education Legal Costs*. A working group has been formed; Ms. Maez is preparing information for them and giving that same information to the FOC and the Board of Education. The next level task is to review expenditures over the last three years, checking the adopted versus the actual expenditures, including reviewing the budgeting for positions that have not been filled. It was requested to agendaize this discussion for the next FOC meeting.

C. Public Education Program Related to District Finances:

V. Update of Status of the Measure BB Facilities Bond Program (Craig Hamilton): No report.

VI. New Business (for Discussion)

A. Review of 2007-08 Audit Reports: Ms Maez introduced our new Auditor, Christy White, from Nigro Nigro & White who has performed both the Measure S and regular audits and who reviewed the reports with FOC members. The final Measure S audit results in an Unqualified audit opinion that all revenues and expenditures are presented fairly, and there are no findings. A previous audit finding noted that a separate resource code was needed for expenditures, and the District now uses that separate code. Approximately half the expenditures for Measure S are for salaries and benefits for teachers.

The main audit also gave an Unqualified audit opinion that it is free of any material misstatement. Assets have increased, mainly due to bonds. Revenues increased 8% while expenditures declined 4%. Generally, we're reducing staffing as enrollment decreases. Changes in long-term debt are due to the \$60 million in bonds and paying down the Certificates of Participation (COPs). Fund balances increased by \$4.6 million last year. Ms. White reviewed the Schedule of Financial Trends and Analysis (page 47), pointing out the reserves of 17.5%, well over the 3% minimum reserve requirement. Other school districts with just 3-5% reserves are having a much tougher time. The Governor is proposing delaying apportionments until October. Audit findings include: CDS cash receipts were not reconciled (the recommendation has been implemented) and Payroll not being notified when employees were terminated (the recommendation has been implemented). A prior year's finding included that the previous CFO found that 41 terminated people were still carried on health & welfare. A process of verifying marriage licenses and birth certificates has been implemented this year. A termination notice will help with both the notification of payroll and termination of benefits. Prior year finding recommendations on ASB and instructional minutes were implemented. FOC members commended Ms. White on the first NNW audit report, especially the format and beginning explanation of how the report is prepared and how the funding system works. A request was made for future reports to include both revenues and expenditures in each fund in more detail, and that future audit reports are duplexed. Importantly, page 10 shows that the adopted budget included a projected deficit of \$2 million, but the ending balance showed a surplus of \$5 million, with differences occurring in reduced expenditures as shown on page 43.

This points out how the budget needs to be aligned with actual expenditures. FOC members also appreciate the trends and analysis, showing a healthy reserve.

B: FOC Applicants-Recommendations to the Board of Education: On behalf of the FOC, Mr. Lee recognized the exemplary service of the outgoing FOC members (*Denny Kernochan, Cheryl Stecher and new Board Member, Ben Allen*) and Board Liaisons (*Maria Leon-Vazquez and Kelly Pye*), noting they will be dearly missed. He welcomed Jose Escarce and Barry Snell as our new Board Liaisons. Mr. Lee stated that 11 FOC applications were received and paper screened by him and the other three members of the interview subcommittee, Ms. Hoffman, Ms. Torres and Ms. Wagner. The subcommittee was looking for applicants with financial and analytical ability, which is critical in the current environment, especially with the bond program, financial transactions, and the public education program related to District finances.

Six individuals were interviewed by the subcommittee and two were unanimously recommended: Joan Chu Reese for a three-year term and Patty Mulvey for a one-year term. Ms. Reese is a Global Client Manager at the Monitor Group with expertise in driving growth, financial success and building strategic plans. She holds an MBA from Stanford, lives in Santa Monica and is the mother of a 4th grader at Franklin. Ms. Mulvey has commercial banking experience, and was a CFO at a nursery school. She holds a degree in economics with a concentration in Finance and Accounting, lives in Malibu and has three children in Malibu schools. Other candidates were discussed, and the general consensus of the subcommittee was to report to the Board that two outstanding candidates are enthusiastically recommended. Their names will be included on an update to the 1/15/09 Board Meeting Agenda item A.34, *Appointments to the Financial Oversight Committee*. Absent a quorum of the FOC, this recommendation will be forwarded to the Board as the subcommittee's recommendation only. This leaves one position open on the FOC, so an additional revision will be included in that Board item, requesting to extend the application process to interview for the final position. FOC members encouraged the Board, staff and the community for suggestions of potential applicants. Mr. Gordon will send letters to the other candidates, and Ms. Torres will send letters to the outgoing FOC members and Board Liaisons.

C. Revision of FOC Meeting Schedule through 6/31/09: A copy of the current FOC meeting schedule through 6/31/09 was distributed. Given the range of issues and severity of cuts, the FOC may need an additional meeting in February, and possibly in March. Ms. Torres and Ms. Maez will coordinate the meeting date(s).

VII. Receive and File

- EdSource Report: *School Finance 2008-09 - Fiscal Crisis Meets Political Gridlock*
- School Services of California, Inc: *Fiscal Reports (11/21, 12/5 and 1/21/08)*

VIII. Public Comments: None

IX. Agenda Planning for Next Meeting: February 10, 2009

X. Adjournment: Meeting adjourned at 9:33 pm