



SMMUSD Financial Oversight Committee – Minutes

Date: Tuesday, April 21, 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*], Joan Chu Reese, Craig Hamilton, Patricia Hoffman, Gordon Lee [*Vice Chair*], Nimish Patel, Paul Silvern, Manel Sweetmore, Carrie Wagner; (*Board Liaison*) Jose Escarce, Barry Snell; (*Staff*) Tim Cuneo, Jan Maez, Mike Matthews, Dawn Smithfield; (*Public*) Harry Keiley, Tony Hsieh (*Keygent LLC*)

I. Call to Order

The meeting was called to order at 7:03 p.m. by Ms. Torres.

II. Approval of Minutes 3/10/09

A motion was made by Mr. Silvern and seconded by Ms. Hoffman to approve the Minutes, as amended. Motion passed unanimously.

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

- A. LACOE Certification of 2nd Interim Report: Ms. Maez stated that LACOE gave a positive certification on the District's 2nd Interim Report. The letter included the same precautionary note about the City of Santa Monica funding, and the impact on budget if the City did not approve the agreement. Members suggested that once the City Council has approved the agreement, a letter should be sent to LACOE. Ms. Maez agreed.
- B. CASBO Workshop Update: Ms. Maez told members that she attended the CASBO conference in San Diego and workshops on the budget and federal stimulus money. Most of the presenters were from School Services of California and School Innovations. The news is not good for school funding, especially if the May 19th Election propositions don't pass.
- C. Federal Stimulus Dollars: The application is on the California Department of Education website, passwords were issued today and the funding is on its way, although it's not yet clear what the contribution is for SMMUSD. There is conflicting advice from different sources regarding the one-time money, but Ms. Maez clarified that it must be spent over the next two years. The State budget is already out of balance by \$12-\$14 billion and its fate rests on the May Election. The advice is to be cautious about using Federal stimulus money, and to keep as much as possible in reserve.
- D. Measure R: Proposed Annual Plan/Board Items/Public Notices: Ms. Maez noted that the Annual Plan will continue to fund music, physical education and library services, with the balance being used to "...preserve programs and replace funds lost or reduced due to inadequate state funding." Members requested that dollar amounts be included in each category to be added to the presentation at the 4/23/09 Board meeting. The Consumer Price Index-All Urban Consumers (*CPI-U*) has not increased, so the parcel tax remains at \$346 per parcel for 2009-10, and income projections have been readjusted. Ms. Smithfield said public notices for the public hearing have been published in two newspapers, and a senior exemption press release will go out this week, with the mailing to begin in May.

- E. EdSource: May 19, 2009 Election-Budget Agreement Propositions: A handout regarding the importance of Propositions 1A through 1E was distributed, and members agreed how critical this election is for schools. Superintendent Cuneo stated that this information has been provided to schools through the PTAs. Dr. Matthews stated that in previous years, an outgoing message from schools encouraged everyone to take time to educate yourself about the issues and participate in the Election.

IV. Update from Subcommittees:

- A. District Bond Program (*G. Lee, N. Patel, M. Sweetmore, C. Torres*): Mr. Lee, Mr. Patel and Ms. Torres met with Mr. Hsieh to discuss the upcoming rating agency meetings.
- B. Review of Special Education Budget (*C. Hamilton, P. Hoffman, P. Silvern*): Mr. Hamilton and Mr. Silvern met with the ad hoc committee of the Special Education District Advisory Committee (*SEDAC*). A handout, *Special Education Analysis by Year*, was distributed which showed historically where money has been spent and where revenues were categorized. There has been an underspending of \$1.3 to \$1.4 million per year so the reserve has increased over the past several years. The final pages, *Account Number 58xx*, was the contract information (including indirect contracts, legal services and NPS contracts) previously provided by Ms. Maez, was reviewed by the SEDAC. All of NPS and NPA used to be charged on one line item, but have now been separated into two line items. Some questions still need resolution, such as some line items had dramatic swings from year to year, especially in legal costs and settlements. Mr. Silvern noted that the SEDAC and FOC have received different documents in the past, appreciating that this information attempts to combine that information. The SE analysis was prepared to answer Board questions about the large carryover. The six-year comparison prepared a different level of detail, but no federal funding is included. The 58xx report was prepared to answer questions about contracts and legal expenses. More information is needed and more work needs to be done for the historical piece with caseloads noting more detailed expenditures. SEDAC's general consensus is that we're getting closer. Other committee chairs could be referred to Ms. Maez to send reports to get to their committees. Ms. Maez said that updated reports will be brought to the FOC. Members suggested that these reports be prepared on a per-student basis.
- C. Public Education Program Related to District Finances (*J. Chu, C. Torres, C. Wagner*):. This subject should be seriously studied. Ms. Maez said that the Superintendent's Budget Advisory Committee has been formed, comprised of both classified and certificated employees as well as an FOC and PTA member. The goal is to have a concrete proposal by next February 2010, so much work is ahead.
- V. **Measure BB Update: Tony Hsieh - Keygent LLC**: Mr. Hsieh, the District's financial advisor, distributed and reviewed the 4/21/09 document, *Measure BB Update to Financial Oversight Committee*. He noted that the District historically has had strong assessed value growth, and although the tax base increased 10% last year, he is projecting 0% growth for the next three years. The District's current rating is AA1, allowing for better interest than an A rating. The District was authorized to issue \$268 million of general obligation bonds in 11/06, with Series A of \$60 million issued in 10/07 and the Series B to be issued in 8/09. Mr. Hsieh and District senior staff will meet with the rating agencies in New York before the May Election. Since the District has a history of managing its finances well, it's better to meet sooner rather than later, and there is a possibility of an upgrade. Ms. Hsieh stated

that at one point in the future, we'll be able to issue \$10.4 million against COPs. He went over the bond program scenario which phases out the remaining Measure BB bonds to meet the cashflow provided by Parsons and to maintain the GO bond tax rates. Next steps include: reviewing the cash flow projections with Parsons, drafting of the necessary documents by the bond counsel, evaluating additional funding options, meeting with the rating agencies (Standard & Poor's, Moody's Investor Services, and bond insurer Assured Guaranty), requesting LA county to levy property taxes for Series B, and determining the appropriate bond sale method.

Mr. Hsieh further stated that the rating agencies look at a district's general fund, tax base and fiscal management, but the most important indicator is the tax base. S&P puts more weight on the general fund than Moody's. They'll also look at historical reserves, and want an explanation and plan to build up reserves if they drop. Ms. Maez noted that the Board approved the reserve to be kept at 5% instead of the minimum required 3%. In response to a member's question, he answered that many AA-rated bonds are going uninsured, and we won't buy insurance unless necessary. Members were concerned that the Parsons cash flow is accurate prior to issuing bonds in 8/09.

VI. New Business (for Discussion)

- A. Welcome Manel Sweetmore, New FOC Member: Ms. Torres welcomed Manel Sweetmore, new FOC member from Malibu, and members introduced themselves to him.
- B. Report on Alternative Compensation Models (M. Matthews, H. Keiley, C. Wagner): Ms. Wagner, Dr. Matthews and Mr. Keiley attended an alternative compensation conference and distributed *Alternative Teacher Compensation: A Primer*. The main idea is for teachers to earn more money by working longer or earning more college degrees/units. The term "merit pay" has been too subjective so it is no longer used. There are five ways to increase compensation: 1) by increasing knowledge and skills; 2) by staffing hard-to-staff schools (not a problem at SMMUSD); 3) by staffing hard-to-staff subjects (such as special education, math and Spanish); 4) by career structures (mentor teacher, master teacher and National Board stipend); and 5) by student performance (outcome based/value adding). Examples of alternative compensation include the Nationwide Teacher Advancement Program (TAP) as well as state and district level programs. Lessons from Innovative Programs: 1) Be clear about purpose; 2. Meet multiple challenges; 3. Include multiple options for teachers to increase pay; 4. Represent joint union/management undertakings; and, 5. Encourage all teachers to participate. Ms. Wagner noted that these are new programs so there's no historical data, but she preferred TAP, though it's expensive for additional compensation.
- C. Santa Monica High School Reorganization: Spreadsheets on the current administrative structure, various house structures and proposed reductions for Samohi funding were distributed.
- D. Reducing District Contracts: Proposed reductions were discussed.
- E. Development of Prioritized Expenditure Reduction Lists: Proposed reductions were discussed.

- F. Projected District Reserve Levels: The group discussed whether 3% (the legal minimum) was an adequate reserve.
- G. Measure BB Facilities Program (C. Hamilton): Mr. Hamilton stated that they're looking for additional members for the BB Committee. They're moving forward on a process for budget management with elements in the program, by building as much as we can in a prudent manner. They're also exploring other funding opportunities.
- H. Discussion of Upcoming Budget Workshop and FOC Meetings: Ms. Maez talked about the 5/5/09 Board Budget Workshop, which will be similar in format to the previous workshop and will include four items: current projections, May Election ballot measures and ramifications if they pass or fail, a more in-depth discussion of categorical funding flexibility, and the big picture.

VII. Receive and File

- School Services of California Inc.: *Fiscal Reports (3/6/09, 3/20/09 and 4/3/09)*

VIII. Public Comments

IX. Agenda Planning for Next Meeting:

- May 5, 2009 Board Budget Workshop
- May 19, 2009 Regular Meeting
- May 21, 2009 Joint Meeting

X. Adjournment: Meeting adjourned at 9:42 p.m.