

To: SMMUSD Board of Education
From: Seth Jacobson, Chair, Financial Oversight Committee
Subject: FOC Mid-Year Report
Date: February 6, 2020

The following is a recap of the key committees and activities of the FOC. As noted, we have been expressly following the Board's directive of looking at the finances of the district as it relates to the work of the following committees:

- A. Budget Recommendations: *Mr. Covington, Mr. Jacobson, Ms. Maniar*
- B. Tax Revenue and Assessed Valuation: *Mr. Kremer, Ms. Mulvaney, Ms. Slaugh Nahass*
- C. Review of Prop YY and GSH projections: *Mr. Crawford, Mr. Farivar*
- D. Financial Benefits of Sustainability: *Mr. Jacobson, Mr. Covington, Mr. Crawford*
- E. Special Education: *Ms. Maniar, Mr. Kremer, Mr. Levis-Fitzgerald*
- F. Bond Oversight: *Mr. Lee, Mr. Covington, Mr. Crawford, Mr. Kremer*

Additionally, as noted, the FOC has expanded its number of committees per the direction of the Board, and is also reviewing and discussing the ongoing issues related to the district budget.

Subcommittee Reports:

Budget Recommendations

The Budget Committee has met on two occasions and has reviewed the Superintendent's proposed budgetary strategy. The committee members have debated our involvement in the process and will be participating in the Superintendent Budget Advisory Committee meetings. The committee will then take the information and data received and report out to the full FOC and the board after we have reviewed the proposals as a full Committee.

Tax Revenue and Assessed Valuation

The committee has met and has made the following mid-year updates:

1. We are not addressing ERAF calculations, as at this point, unless something changes in Nov 2020, it no longer effects the District, as we seem to be solidly in Basic Aid.
2. We are looking to the County to get information regarding calculating RDA monies, to help us better budget for the amount due to us each year.

Review of Prop YY and GSH projections

The committee has been meeting, and has the following mid-year updates:

1. The subcommittee met and reviewed existing City of Santa Monica projections from prior years.
2. We also began compiling a list of experts, within the City of Santa Monica and elsewhere, to interview as part of our information collection process.
3. Lastly, we extended the request for recommendation to the FOC on 1/23/20 and will follow-up with Shawn Landres regarding the latest City of Santa Monica projections.

Financial Benefits of Sustainability

Per the direction of the Board, the committee has been engaged in the review of the negotiations on electricity use and the contract with Southern California Edison. The committee also reviewed the proposed work plan for the 2019-2020 year for the Sustainability Task Force, and has been involved in promoting it to the various key stakeholders. Much of the committee's work is now on hold pending the determination of the district as to staffing of the sustainability programs.

Special Education

The subcommittee mid-year report addressed their charge to review the special education budget and programs. As part of this, they requested data of legal settlements and cases from the past few years to include other special education program liabilities and comparison to other school districts. Some data was received but the subcommittee already have follow-up questions.

As reference the following comments reflect the committee's thoughts on issues they are addressing: the majority of the outcome in special education budgeting is payment to parents of legal judgements with just a lump sum. The biggest struggle is that basic trends and information are not readily available. Each type of liability needs to be looked up case by case and extrapolated from paperwork.

The committee requested a presentation on Special Education budget/expenditures; and in particular, budgeting for legal costs.

Bond Oversight

The FOC Bond Subcommittee met on October 2, 2019. The district's Financial Advisor, John Isom (FA) and underwriter from Raymond James, John Baracy were in attendance as well as Assistant Superintendent Melody Canady.

The FOC was asked by the Board of Education to look at the issuance of new money which is the 5th and final series of the Measure ES Bonds for \$115 million. We were asked to look at how to properly structure the bonds with the spirit to keep tax rates in accordance to the taxpayer promise by the Board of Education.

We also revisited the refunding of bonds from Election of 2006 & 2012 Series D as well as the recent execution of the two (2) SFID's.

The subcommittee reviewed the refunding recommendation and determined it did not need to be reviewed, so the subcommittee just updated the FOC on the current status of the refunding. Since there are two series of bonds, one clearly should be refunded. That is Election 2012 Series D with an estimated Net Present Value Savings of \$6.5 million. Election of 2006 Series D was questionable at the meeting on whether it should be refunded. The Net Present Value savings was on the borderline at \$1.6 million. We looked to see the savings efficiency being above 50% in which they were 73% and 51%, respectfully. We asked the FA and underwriter to keep us apprised to see if rates would stay favorable. The refunding occurred on October 7, 2019 and you have the summary attached of the closing (<http://www.smmusd.org/fiscal/FinancialReports.html>).

That savings had increased to \$7.1 million and \$3.1 million in NPV savings and 75% and 51% savings efficiency.

As for the SFID's, we discussed them in general, but the committee felt the FA should come before the FOC as in the past to present the execution of the issuance. Our FA should include in the presentation the aforementioned final execution of the two series of bond refunding's.

Now let's turn our attention to the final issuance of Measure ES for \$115 million. The question posed by the Board of Educations was to discuss a 16-year term vs. a 25-year term for the Board to discuss on October 17, 2019 in which they will give direction to staff at that time. The decision to issue these bonds have already been determined by staff.

We had asked Mr. Isom and Mr. Baracy to give the committee its pros and cons to the question. Two structures were discussed. 1) A level tax rate with the bonds amortized over 25 years and 2) Accelerating the principal to keep the estimated Measure ES tax rate at or below the \$30 per \$100,000 of Assessed Value and amortize over 16 years.

The committee concluded to favor option #2 with an additional change. Begin the amortizing of principal in year 2021 for 17 years so not to overburden the taxes being levied for Measure SMS and M which commence in 2020 and 2021. By deferring the principal to 2022 on the final issuance of ES, the cost of the loan increases by 6 basis points (.06%). The committee continued to discuss other matters further during the meeting after staff and advisors left.

We had recently looked to our Debt Policy for answering some of the metric questions on why we should refund and at what point. We found it not giving us clear direction on many fronts. Rather than looking to what is generally accepted within industry, we consider Santa Monica and Malibu unique as it Aaa rating. The committee decided to come back to the FOC with some updates and recommendations to the existing policy.

Respectfully submitted,
Seth Jacobson
Chair, Financial Oversight Committee