SMMUSD Financial Oversight Committee Minutes
Date: Thursday, February 12, 2015
Time: 5:00 pm to 7:00 pm
Location: Testing Room, SMMUSD Administrative Offices
1651 16th Street, Santa Monica, CA 90404

I. Call to Order

5:07 pm

Committee Members:	Jon Kean	Joan Krenik
	Tom Larmore	DeAndre Parks left @ 7:10pm
	Paul Silvern	Shelly Slaugh Nahass
	Cynthia Torres	Manel Sweetmore arrived @ 5:22pm
Board Liaisons:	Laurie Lieberman left @ 6:30pm	
Staff:	Jan Maez	Kim Nguyen
Absent:	Gordon Lee	Jose Escarce
	Jordan Golden-SAMOHI	Kennedy Myers-Malibu HS
Public:	Gerardo Cruz	

II. Approval of Minutes

5:08 pm

A motion was made by Mr. Larmore and seconded by Mr. Silvern to approve the January 8, 2015 minutes as amended.

Under District Audit, 1st paragraph, "The auditors informed the committee of new GASB ~~announcements~~ **requirement**."

Under District Audit, 3rd paragraph, "After a ~~lengthy~~ **brief** discussion… a motion was made by Mr. Larmore and seconded by ~~Ms.~~ **Mr.** Silver**n** …"

Under Updates from Ad Hoc Subcommittees - Budget Review for Malibu Unification, "Mr. Silvern reported that the subcommittee has not received WestEd's ~~revision~~ **proposal for revising its unification analysis**."

AYES: Seven (7) (Mr. Kean, Ms. Krenik, Mr. Larmore, Mr. Parks, Mr. Silvern, Ms. Slaugh Nahass, Ms. Torres)
STUDENT ADVISORY VOTE: None (0)
NOES: None (0)
ABSENT: Two (2) (Mr. Lee, Mr. Sweetmore)
ABSTAIN: None (0)

III. Staff Report

5:10 pm A. Budget Update

Ms. Maez reported that she and Senior Cabinet attended the Governor's Budget workshop presented by School Services of California (SSC) on January 14, 2015. She provided a brief overview of the budget update presented at the February 5, 2015 Board meeting. The presentation, developed from a SSC template, illustrates the progress toward LCFF implementation; Prop 98 minimum guarantees; and some of the major proposals for K-12. The District is expecting one-time discretionary money with strong recommendation for districts to use those funds toward implementation of common core. This will eliminate all past mandates as well as giving credit for common core. There is additional closure of the gap in 2015-16. Through 2014-15, about 58% of the gap is closed. Numbers provided in the PowerPoint are a statewide average and SMMUSD is much lower than the average. The SMMUSD deficit decreases from \$3.6M at the 1st interim to \$1.9M with this proposal. The last few slides show the expected rate increases from CalSTRS and CalPERS that will be built into the budget going forward. Employer contribution to CalSTRS has always been at 8% and 8.25%. This year is the first time it has increased in over 20 years. CalPERS have gone up and down but the district maintained a constant contribution of 13.02%. Ms. Maez will provide the committee with the dollar amount that is expected from the increase in contribution.

The Budget Update PowerPoint presentation from the February 5, 2015 Board of Education meeting may be found at the end of these minutes.

IV. Discussion/Action

5:19 pm A. ROP Funding

Ms. Maez informed the FOC the district has been doing a deep analysis of ROP, previously a categorical program that was part of a LACOE consortium. The funding previously went to LACOE and was then passed through to districts. As the ROP program sunset, it became a Tier III program. Since funding was going directly to LACOE and not to the district, the funds were swept by the county. Two years ago, the state got involved and the governor put in Maintenance of Effort Agreement and the legislature adopted it. This mandated the money to be spent on ROP so LACOE could not sweep the funds until the 2015-16 fiscal year. As LCFF becomes fully implemented and because it is part of the target number; LACOE will gradually step down the amount. In programmatic review, ROP is part of the master schedule at both high schools. The program is serving students as part of the general fund money so if it were eliminated the district would need to hire staff in the general fund to serve them. There are two types of teachers: those on contract teaching periods during the day (one period of teaching is .20 FTE) and are part of the schedule and the other are compensated hourly based on the teaching programs. There are different numbers of hours and salaries based on hours worked; and when equated to FTE, it varied. After a lengthy discussion, the Board took the action to limit the number of layoff notices to hourly teachers. The board action did not include classified staff because there is still time to provide notification to those employees.

In anticipation that the Board was going to add back the ROP cost, Ms. Maez's budget update included a slide that illustrates the estimated cost of ROP staff, to include some hourly positions. At full implementation of LCFF, ROP is not designated but a "CTE augmentation" is included. CTE is not a replacement for ROP but a programmatic course of study.

The ROP analysis is contained within the Budget Update PowerPoint presentation from the February 5, 2015 Board of Education meeting that may be found at the end of these minutes.

7:25 pm B. FOC vacancy

Ms. Slaugh Nahass reported that five (5) applications were from Santa Monica and three (3) applications from Malibu for a total of eight (8) applications were received. The subcommittee met with each applicant and recommended that Seth Jacobson, Mark Levis-Fitzgerald and Debbie Mulvaney be forwarded to the Board for appointment to the committee. Their applications and resumes were circulated and reviewed by the committee. After discussion, a motion was made by Mr. Silvern and seconded by Mr. Kean to recommend Seth Jacobson, Mark Levis-Fitzgerald and Debbie Mulvaney to the Board of Education as appointments to the Financial Oversight Committee.

AYES: Seven (7) (Mr. Kean, Ms. Krenik, Mr. Larmore, Mr. Silvern, Ms. Slaugh Nahass, Mr. Sweetmore, Ms. Torres)
STUDENT ADVISORY VOTE: None (0)
NOES: None (0)
ABSENT: Two (2) (Mr. Lee, Mr. Parks)
ABSTAIN: None (0)

5:50 pm C. 2012-13 and 2013-14 Measure R audit reports

Ms. Maez informed the committee that the 2012-13 and 2013-14 Measure R audit reports were completed by Christy White Accountancy and there were no findings.

A copy of the 2012-13 and 2013-14 Measure R audit reports may be found on the District's website at: http://www.smmusd.org/fiscal/FinancialReports.html.

A motion was made by Mr. Silvern and seconded by Ms. Torres to recommend the Board to accept the 2012-13 and 2013-14 audit reports.

AYES: Eight (8) (Mr. Kean, Ms. Krenik, Mr. Larmore, Mr. Parks, Mr. Silvern, Ms. Slaugh Nahass, Mr. Sweetmore, Ms. Torres)
STUDENT ADVISORY VOTE: None (0)
NOES: None (0)
ABSENT: One (1) (Mr. Lee)
ABSTAIN: None (0)

5:55 pm D. Meeting Schedule

Ms. Maez informed the committee April 23, 2015 Board of Education meeting was moved to April 16, 2015 and will conflict with the April FOC meeting. The previously scheduled meeting on June 17, 2015 will also conflict with the Board of Education meeting and will need to be rescheduled. The joint/study session with the Board of Education is confirmed for July 15, 2015. It was recommended to use an online scheduling tool, Doodle, to reschedule the April and June 2015 meeting dates.

V. Updates from Ad Hoc Subcommittees

A. Nominating Subcommittee *(Ms. Krenik, Ms. Torres, Mr. Larmore)*

Previously reported under FOC vacancy.

6:00 pm B. Retiree Unfunded Health Benefit Liability Review *(Mr. Parks, Mr. Kean)*

Mr. Parks thanked staff and the subcommittee for their time involved with compiling and conducting all of the analysis. The subcommittee's recommendation is to pre-fund the liability instead of continuing the "pay as you go" strategy. The pay as you go is costing about $1M per year and in order for the District to be funded, it would have been $2.5M. The way the product provided by CalPERS works is that once a trust is set up, the District may place the entire amount of money ($4M in cash) into the trust. The District is not getting credit for having $4M in cash because it is not in an irrevocable trust at this time. The long term plan is to step up the contribution as a gradual increase over time.

In response to the level of investment risk, Ms. Maez reported that the funds are being held now by the county earning a very low interest rate. Mr. Kean informed the committee that CalPERS' offering is a very conservative product. It is not heavily involved in any one offering or investment. LAUSD is a member but those who were part of making the decision are no longer available. It was suggested that the subcommittee memo be modified to show performance and risk of not participating.

The memorandum from the Retiree Unfunded Health Benefit Liability Review subcommittee may be found at the end of these minutes.

6:22 pm C. Bond Review for Malibu Unification *(Mr. Larmore, Mr. Lee, Ms. Slaugh Nahass, Mr. Sweetmore)*

Mr. Larmore reported that the bond subcommittee met with Tony Hsieh of Keygent to obtain some projections on the bond issues. Mr. Larmore and Ms. Maez also spoke with a San Diego law firm. The subcommittee does not believe there will be any impact on current bondholders. There was discussion on the allocation of bond indebtedness. One ancillary issue is future impact on bond capacity; however, Mr. Hsieh has indicated this should not be a significant issue. Some mechanism may be needed if there is a desire to refinance any of the bonds. The subcommittee looked at authorized but unissued bonds under Measure ES. The legal structure is somewhat unclear on this subject because it seems the authority to issue bonds remains with Santa Monica as it is the continuing district. It may be desirable to retain an 80/20 split. Special legislation may be needed. In regards to pending and threatened litigation, the issues surrounding Malibu field lights and environmental lawsuit could be an issue. Both are potential claims with substantial damages or court order that could require the district to do something substantial and still be drawn into the litigation. An alternative is to get an indemnity on future exposure and release of claim.

The memorandum from the Bond Review for Malibu Unification subcommittee may be found at the end of these minutes.

7:11 pm D. Budget Review for Malibu Unification *(Mr. Silvern, Ms. Krenik, Mr. Lippman, Mr. Sweetmore, Ms. Torres)*

Mr. Silvern reported that if there is going to be out of pocket expenditures paid for by the district, that the district expects AMPS to pay for these expenses and there should be some written agreement. WestEd requires twelve weeks from when they receive information to complete its report and that timeframe will put the completion of the WestEd report out of the timeline to report findings to the Board.

The memorandum from the Budget Review for Malibu Unification subcommittee may be found at the end of these minutes.

VI. Santa Monica-Malibu Education Foundation (SMMEF) Update – No report

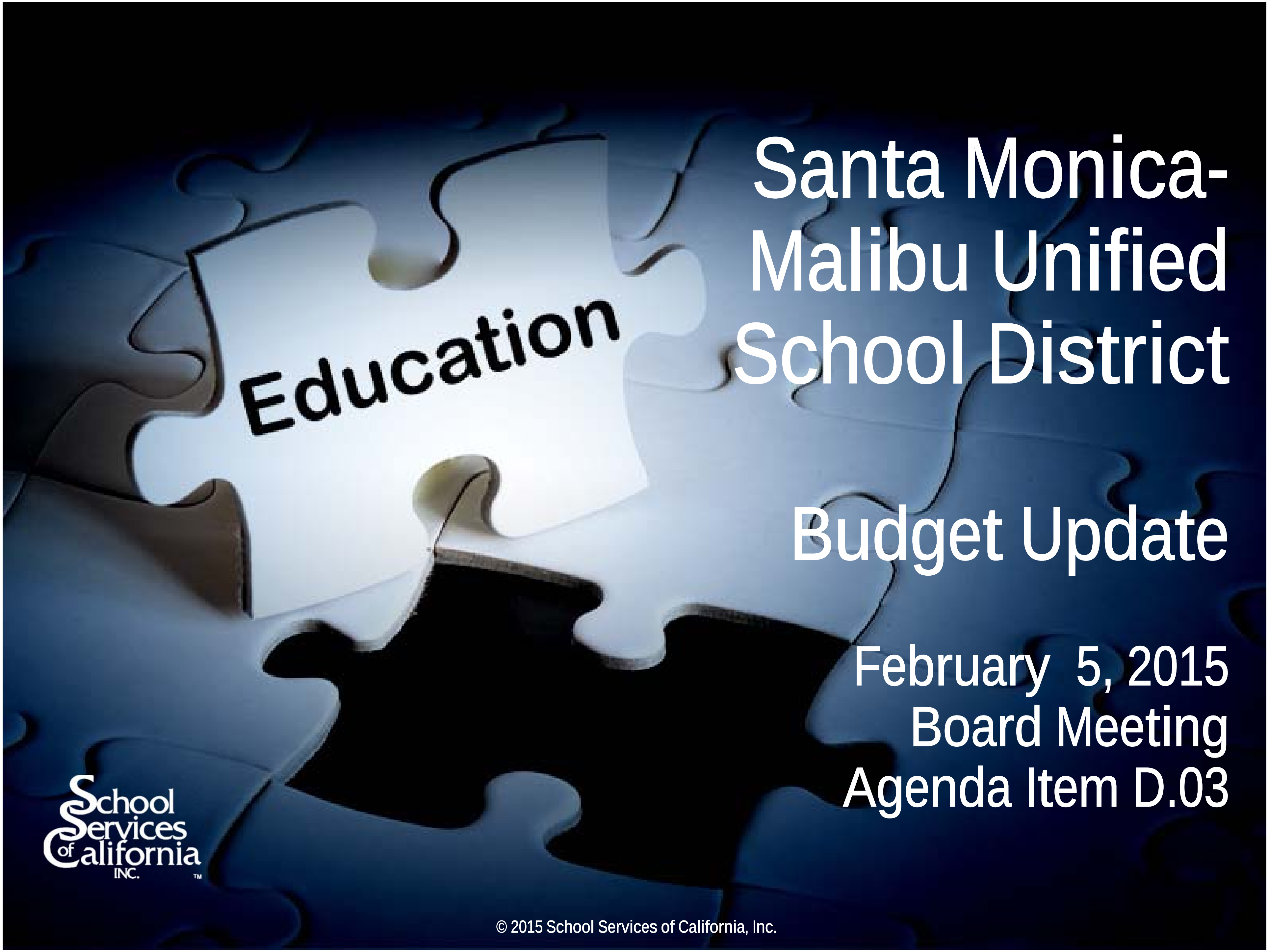
VII. Advocates for Malibu Public Schools (AMPS) Update – Addressed under Agenda Item V

VIII. Receive and File (Limited Discussion) – None

IX. Public / Committee Comments – None

X. Next Meeting: Thursday, March 12, 2015 at 7:00 p.m.

XI. Adjournment: The meeting adjourned at 7:41 p.m.



Santa Monica-Malibu Unified School District

Budget Update

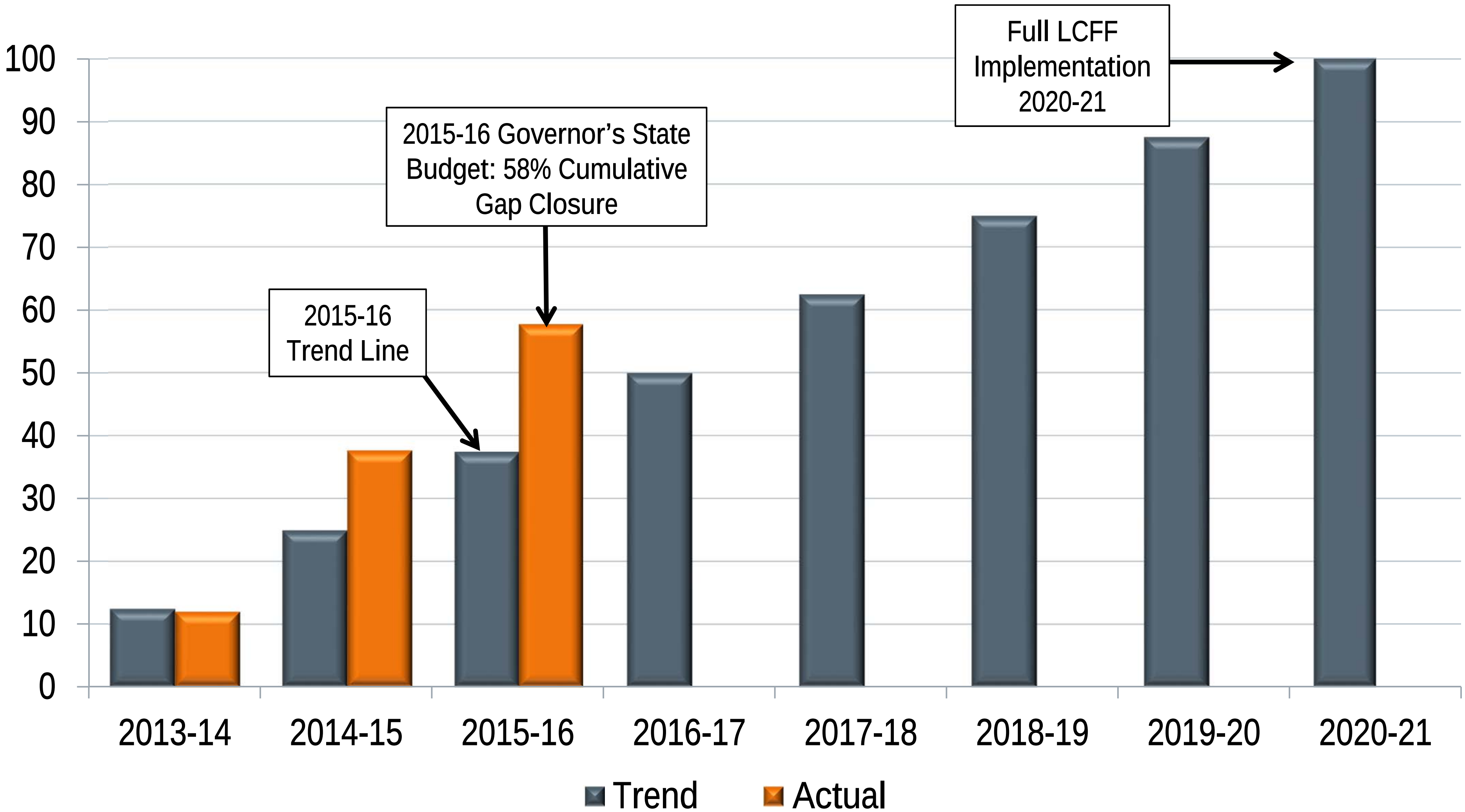
February 5, 2015
Board Meeting
Agenda Item D.03

School Services of California INC.™

Themes for the 2015-16 Governor's Budget

- Positive economic growth continues and fuels public education spending
- Proposition 98 continues to receive most of the new money
- Funding is tight for the non-Proposition 98 side of the State Budget
- Governor stays the course on the Local Control Funding Formula (LCFF) and the Local Control and Accountability Plan (LCAP)
- The Wall of Debt continues to come down and is replaced with the Rainy Day Fund
- Overall, a very good State Budget for public education

Progress Toward LCFF Implementation



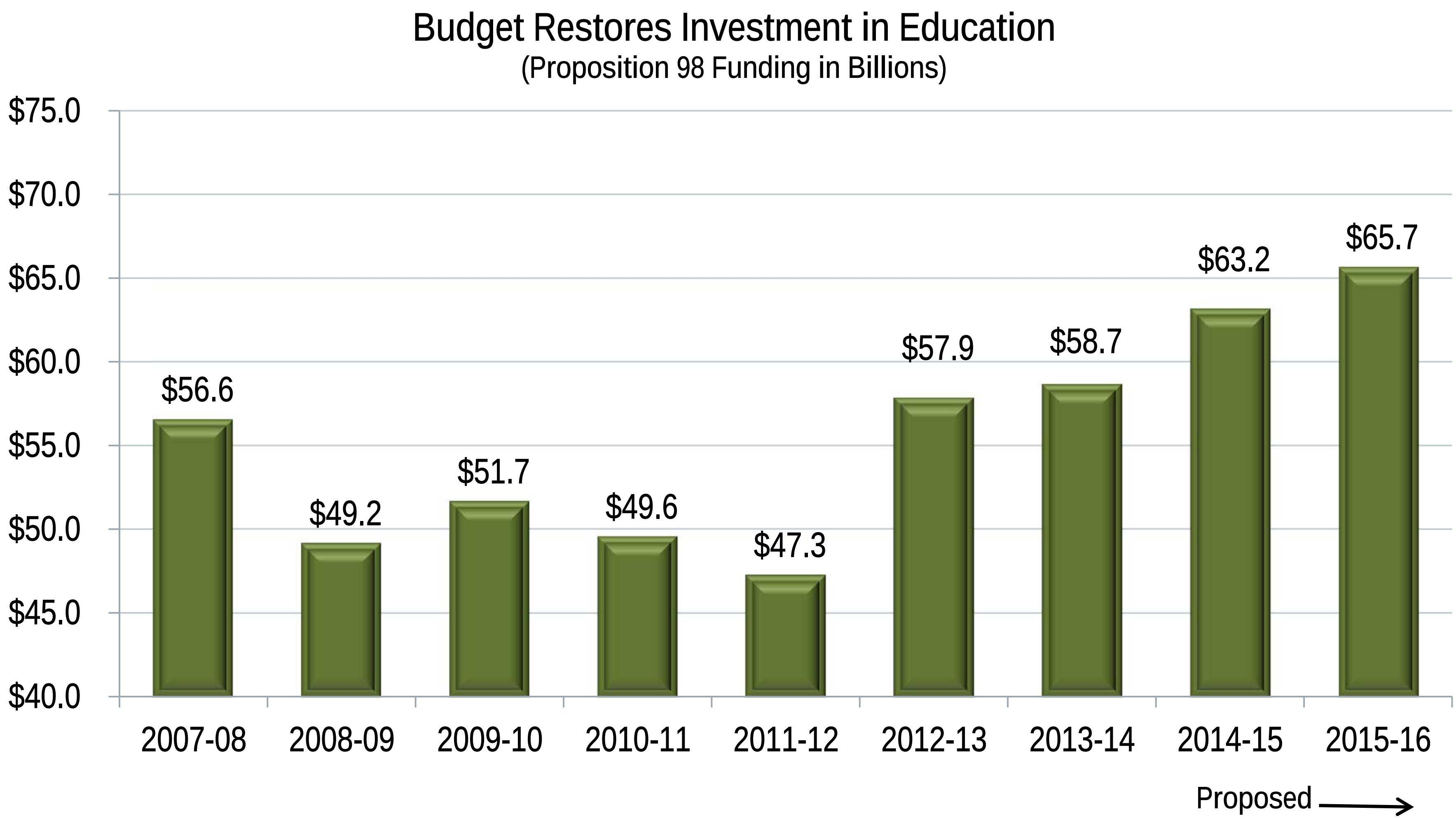
Overall, a Positive Year for Education

- The 2015-16 State Budget proposed by the Governor would be good news in any year but particularly coming after such a long and deep recession
  - The recovery is not complete
  - Won’t be until at least 2021 under the Governor’s plan
  - This incremental progress is significant – particularly for public education
- During the recession, we took more cuts than any other segment of the State Budget
  - The Governor acknowledges this and is keeping his commitment toward restoration of our losses

Proposition 98: The Minimum Guarantee

- The improving economy has boosted the Proposition 98 minimum funding guarantee
  - State revenues are up in the current year and moderate growth is projected for 2015-16
  - In turn, the state's obligation to K-12 education and community colleges increases
- For the current year, the minimum guarantee increases by $2.3 billion to $63.2 billion from the level adopted in the 2014-15 State Budget Act
- From this revised level, the Governor's State Budget proposes a 2015-16 Proposition 98 guarantee of $65.7 billion, an increase of $2.5 billion, or 4.1%
  - Funding is based on Test 2: (1) the growth in state per-capita personal income, which is projected to rise 2.91%, and (2) the change in K-12 ADA, which is expected to be flat

Proposition 98 Funding



Source: Governor's State Budget Summary, page 6

Proposition 98 and the Major K-12 Proposals

The Governor's State Budget proposes:

- $4 billion for LCFF gap closure
- $1.1 billion for discretionary one-time uses, including Common Core implementation (one time)
- $1 billion to eliminate the remaining K-14 apportionment deferrals
- $500 million for an Adult Education Block Grant
- $273 million for the Emergency Repair Program (one time)
- $250 million for one-time CTE incentive grants (each of the next three years)
- $198 million additional ADA growth in the current year and a $6.9 million decrease for ADA decline in 2015-16
- $100 million for Internet connectivity and infrastructure

Discretionary Funds

- The Governor's State Budget proposal provides more than $1.1 billion in discretionary one-time Proposition 98 funds, including $20 million for COEs
  - The allocation amounts to about $180 per ADA for districts
- The Governor suggests the one-time funds may be used to further investments in the implementation of Common Core State Standards (CCSS)
- Other uses detailed in the proposal are:
  - To support the implementation of newly adopted English language development and California's Next Generation Science standards, and
  - To support expenditures that occur due to the evolving accountability structure of the LCFF

2015-16 Local Control Funding Formula

- Budget proposes $4 billion for continued implementation of the LCFF
- New funding is estimated to close the gap between 2014-15 funding levels and LCFF full implementation targets by 32.19%
- When combined with 2013-14 and 2014-15 LCFF funding, implementation progress would cover almost 58% of the gap in just three years
- 2014-15 LCFF growth provides an average increase in per-pupil funding of 8.7%, or $675 per ADA
  - ***Individual LEA experiences will vary***

2015-16 LCFF Funding Factors

- Cost-of-living adjustment (COLA): The K-12 COLA is 1.58% for 2015-16, and is applied to the LCFF base grants for each grade span

Target

Grade Span	2014-15 Base Grant per ADA	1.58% COLA	2015-16 Base Grant per ADA
K-3	$7,011	$111	$7,122
4-6	$7,116	$112	$7,228
7-8	$7,328	$116	$7,444
9-12	$8,491	$134	$8,625

2015-16 LCFF Funding Factors

- Two grade span adjustments are applied as percentage increases against the adjusted base grants, and also receive a 1.58% COLA in 2015-16
  - Grade K-3 – 10.4% increase for smaller average class enrollments
  - Grades 9-12 – 2.6% increase in recognition of the costs of CTE coursework

Target

Grade Span	2015-16 Base Grant per ADA	Grade Span Adjustment	2015-16 Adjusted Grants
K-3 (10.4%)	$7,122	$741	$7,863
4-6	$7,228	--	$7,228
7-8	$7,444	--	$7,444
9-12 (2.6%)	$8,625	$224	$8,849

What Does the LCFF Mean for SMMUSD?

Santa Monica-Malibu USD 2015-16		
2015-16 LCFF per ADA Funding	Projected 2015-16 ADA	Projected 2015-16 LCFF Total Revenue
$7,514	10,804	$81,180,811

- Total SMMUSD Target $92,522,199
- Gap closure at 32.19%
- Includes $2,975,636 Supplemental Grant funds to be designated through the LCAP process ($976,563 new $$)
- Unrestricted LCFF revenue above 1st Interim projection = $1,890,696

Discretionary Funds – ONE TIME	Total
$180 (one-time) X 2014-15 P2 ADA =	$1,944,720

How does the Governor’s Budget Affect SMMUSD Multi-Year Projections?

MULTI-YEAR PROJECTION

UNRESTRICTED GENERAL FUND

2014-15 1st Interim

	2014-15	2015-16	2016-17
(Decrease) Fund Balance	(4,955,079)	(3,693,956)	(3,065,817)
Beginning Fund Balance	21,775,362	16,820,283	13,126,327
Ending Fund Balance	16,820,283	13,126,327	10,060,510

MULTI-YEAR PROJECTION

UNRESTRICTED GENERAL FUND

2014-15 1st Interim Adjusted for Governors 2015-16 Budget Proposal

(Decrease) Fund Balance	(4,955,079)	(1,890,696)	(1,262,557)
Beginning Fund Balance	21,775,362	16,820,283	14,929,587
Ending Fund Balance	16,820,283	14,929,587	13,667,030

What is the impact of ROP?

MULTI-YEAR PROJECTION

UNRESTRICTED GENERAL FUND

2014-15 1st Interim Adjusted for Governors 2015-16 Budget Proposal

(Decrease) Fund Balance	(4,955,079)	(1,890,696)	(1,262,557)
Beginning Fund Balance	21,775,362	16,820,283	14,929,587
Ending Fund Balance	16,820,283	14,929,587	13,667,030

MULTI-YEAR PROJECTION

UNRESTRICTED GENERAL FUND

2014-15 1st Interim Adjusted for Governors 2015-16 Budget Proposal PLUS ROP

	2014-15	2015-16	2016-17
(Decrease) Fund Balance	(4,955,079)	(2,775,132)	(2,146,993)
Beginning Fund Balance	21,775,362	16,820,283	14,045,151
Ending Fund Balance	16,820,283	14,045,151	11,898,158

CalSTRS Rate Increases

- Employer rates are increasing to 10.73% in 2015-16, up from 8.88% in 2014-15
  - No specific funds are provided for this cost increase
- Once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer and state contribution rates
- SMMUSD 1st Interim includes projected increases

Year	Employer	Pre-PEPRA* Employees	Post-PEPRA* Employees
2014-15	8.88%	8.15%	8.15%
2015-16	10.73%	9.20%	8.56%
2016-17	12.58%	10.25%	9.205%
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%

*Public Employees' Pension Reform Act

CalPERS Rate Increases

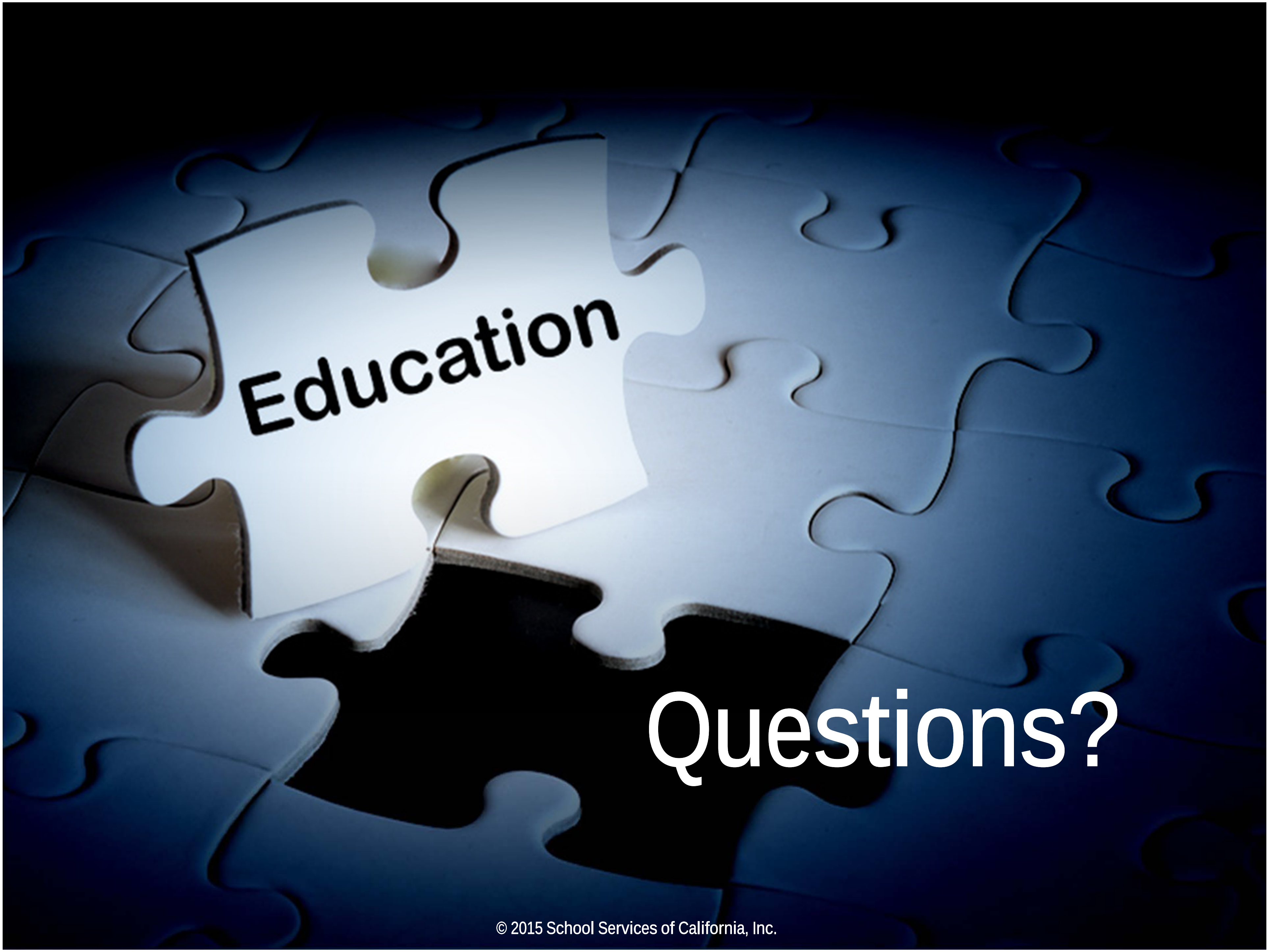
- The employer contribution to CalPERS is projected to increase from 11.771% in 2014-15 to 12.6% in 2015-16 (final rate awaiting CalPERS Board approval)
  - "Classic" members continue to pay 7.00%
  - New members pay 6.00%, which may fluctuate from year to year based on the PEPRA requirement to pay half the normal cost rate
- Estimates of the resulting future contribution rate increases for school employers are as follows (SMMUSD 1st Interim partially includes projected increases):

Actual	Projected					
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.771%	12.6%	15.0%	16.6%	18.2%	19.9%	20.4%

- In most cases, the base grant will need to cover increased operating expenses, including the employer's share of CalSTRS and CalPERS increases

Next Steps

- State level
  - Budget committee hearings
  - Next update – May Revision
- Local level
  - 2014-15 - 2nd Interim Report due by March 17
  - Regular Board Budget Updates
  - Board Budget Workshop – date to be determined
  - SMMUSD Budget Adoption – June 29, 2015



Questions?

M E M O R A N D U M

To: Financial Oversight Committee

From: Retiree unfunded health benefits (OPEB) Ad-Hoc Subcommittee

Date: February 9, 2015

The purpose of this communication is to provide the FOC with background information SMMUSD's Unfunded liability and a recommendation on what we view to be the most effective way to address the liability.

Summary & Recommendation: The subcommittee recommends prefunding versus the current pay-as-you-go strategy. An OPEB liability is not a measure of current costs, but rather, a discount of what benefits will likely cost in the future. Most OPEB plans in California have been funded on a pay-as-you-go basis since their inception. This approach has three main downfalls:

1. It is more expensive than prefunding over the long-term and shifts costs to future generations.

2. It injects significant future risk into overall budgets and funding.

3. It jeopardizes the ability to provide those benefits in the future.

For these reasons, government's that do not prefund are commonly referred to as "bad actors."

The subcommittee recommends prefunding

Three companies were reviewed for their expertise in overseeing GASB 45 trust including:

- California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS
- California School Board Association (CSBA) administered by Public Agency Retirement Services (PARS) and US Bank
- Self-Insured Schools of California (SISC) - A Joint Powers Authority administered by the Kern County Superintendent of Schools Office.

Several factors were considered in the review process following a sample request for proposal format. These factors included: number of customers serving, portfolio performance, administration fees, availability of financial reports, investment flexibility, accessibility to request withdraw of the funds, and termination clause and fees.

The subcommittee recommends prefunding the SMMUSD's OPEB by transferring the funds it currently sets aside into one of the three California Employers' Retiree Benefit Trust listed below. The board will choose the appropriate product based on the return requirement and risk constraints it deems suitable in forming an investment policy statement for its unfunded retiree healthcare liability.

Positives

--Opportunity to earn more interest income.
--Better discount rate.
--More favorable outlook from the rating agencies.
--Costs 10 basis points or **.10%** of AUM.
--CalPERS, the largest public multiple-employer trust in California
--CERBT will provide the following services publish the required annual complaint financial statements
--Accepts the fiduciary responsibility of the District's assets
--Provide online and reports on regular basis
--Provides education and representation about OPEB

Risks

The objective of the CERBT Strategy 3 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. This is the most conservative portfolio. However, it is not risk free and will perform broadly in-line with the underlying indices.

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	24%	± 2%	MSCI All Country World Index IMI (net)
Fixed Income	39%	± 2%	Barclays Capital Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	26%	± 2%	Barclays Capital Global: US TIPS Index
Real Estate Investment Trusts ("REITs")	8%	± 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 2%	S&P GSCI Total Return Index

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target
Global Equity	57%	+/- 2%	40%	+/- 2%	24%	+/- 2%
Fixed Income	27%	+/- 2%	39%	+/- 2%	39%	+/- 2%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 2%	10%	+/- 2%	26%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Real Estate Investment Trusts (REITs)	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Liquidity	0%	+ 2%	0%	+ 2%	0%	+ 2%
Total	100%		100%		100%	

The Charge of Retiree Unfunded Health Benefit Liability Review Subcommittee

This subcommittee will review SMMUSD's Other Post-Employment Benefits ("OPEB") unfunded liability to understand the potential affect this liability may have on SMMUSD's overall financial health. In addition, this subcommittee will explore a variety of approaches that may be used in addressing such unfunded liabilities, while also reviewing how similar-sized districts have effectively dealt with this issue.

SMMUSD OPEB

The SMMUSD administers a single-employer defined benefit OPEB plan that provides medical, dental, and vision insurance benefit to eligible retirees and their spouses. The SMMUSD implemented GASB #45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, in 2008-09.

The SMMUSD provides post-employment health care benefits in accordance with SMMUSD Employment contracts, to all employees who retire from the district on or after the age of 55 (certificated) /age 50 (classified) with at least 10 years of service. The district provides medical benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first. In addition, all retirees over the age of 65 receive a lifetime mother supplement of $115 per month. Membership of the plan consisted of the following in the last fiscal year:

Retirees and beneficiaries receiving benefits	358
Active plan members	1, 126
Total	1, 484

What Does the Unfunded Liability Mean?

The future costs of providing retiree healthcare to plan participants are unknown. Participants include retirees who currently receive benefits and active employees who have not yet begun drawing benefits. Future costs depend on each participant's years of service, the participant's remaining years of life after retirement, future healthcare prices, the plan's investment returns, and many other factors. Public entities work with actuaries who study the OPEB plan's membership data and make assumptions about these factors for each plan participant. By doing this for each plan member and adjusting these assumptions based on what actually happens, the actuary predicts the total cost of providing retiree current plan participants. Actuaries then discount this total to a present day value that represents the amount of money that is required to be invested now to have sufficient assets to pay for future benefits when they are due. This amount is referred to as the actuarial accrued liability (AAL). The AAL minus the assets on hand equals the unfunded actuarial accrued liability (UAAL).

SMMUSD Projected Unfunded Status for 2014 ($5,494,232)

SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT
2013-14 UNAUDITED ACTUAL SUMMARIES
SELF INSURANCE FUND (67)

	2013-14 ESTIMATED ACTUALS	2013-14 UNAUDITED ACTUALS	DIFFERENCE
REVENUE	1,075,753	1,817,692	741,939
EXPENDITURES	1,068,753	2,616,392	(1,547,639)
EXCESS OR (DEFICIENCY)	7,000	(798,700)	(805,700)
BEGINNING BALANCE	(4,695,532)	(4,695,532)	-
PROJECTED ENDING BALANCE	(4,688,532)	(5,494,232)	(805,700)

SMMUSD Funding Policy
Pay as you go.

Funding Policy Significance
"Pre-funding" is setting aside funds to pay for future benefits while the employee is working.
"Pay-as-you-go" is meeting the employers' OPEB1 cost obligation on a year to year basis with current revenue.

M E M O R A N D U M

To: Financial Oversight Committee

From: Malibu Unification Bond Subcommittee

Date: February 9, 2015

This Memorandum conveys the Subcommittee's thoughts to date relating to issues surrounding issued bonds, unspent proceeds of issued bonds, authorized but unissued bonds and future bonds not currently authorized. It also includes our thoughts relating to pending and threatened litigation involving certain Malibu matters.

In preparing this Memorandum, the Subcommittee met with Tony Hsieh of Keygent, the District's bond advisor, to discuss a Presentation he put together regarding future bond issues (the "**Hsieh Presentation**"). In addition, Jan Maez and Tom Larmore discussed these issues with attorneys Janet Mueller and Bill Tunick of the San Diego law firm of Dannis Woliver Kelley ("**DWK**"), the firm that represented Centinela Valley Union High School District in the Wiseburn unification. In connection with that call, DWK put together a matrix which provided a useful framework (the "**DWK Matrix**") and the Subcommittee met again to discuss the DWK Matrix. We had previously reviewed a memorandum dated November 12, 2013 from WestEd to Craig Foster (the "**WestEd Memo**") and a letter dated September 22, 2014 from Marguerite Leoni of the law firm of Nielsen Merksamer to Craig Foster (the "**Leoni Letter**"). Attached to this Memorandum are copies of all four of these documents.

A. Issued Bonds.

1. "General Obligation" Bonds. As of June 30, 2014, SMMUSD (the "**District**") had about $315MM in total outstanding "general obligation" bonds: about $68MM in pre-BB bonds and $247MM in BB bonds. In August, 2014, the District issued $30MM in bonds under Measure ES for a current total of about $345MM less any principal payments that have been made.[1] While these bonds are designated as "general obligation" bonds, the only source of payment is assessments against real property in the current District boundaries; they are not technically general obligations of the District payable from any other assets. Therefore, a separation into two districts would not affect bondholders - the bonds would continue to be paid based on property assessments as if there had been no separation and bondholders would have no access to assets of either a Santa Monica Unified School District ("**SMUSD**") or a Malibu Unified School District ("**MUSD**").

[1] Tony Hsieh used about $302MM in currently outstanding bonds. See Hsieh Presentation ("HP") p. 2.

2. Allocation of Indebtedness. Following a separation, SMUSD, as the continuation of the District, would be treated as having been the issuer of these bonds and, at least nominally, be fully liable for the aggregate outstanding debt. However, Section 35576(b) requires that a portion of that debt be paid by the new MUSD.[2] The portion of the debt required to be paid by MUSD would be determined in one of three ways, as may be specified in the unification petition:

(a) Section 35576(b)(1) uses the percentage of the aggregate assessed valuation of property in the District which is located in the MUSD area in the year immediately preceding the date of the separation. Currently, that percentage would be about 29.5%.[3] (For ease of discussion, this Memorandum assumes a 30% share for Malibu recognizing that it will be whatever it is at the date of separation.) The proportion allocable to MUSD would not change throughout the lives of the outstanding bonds irrespective of future changes in respective property values.

(b) Section 35576(b)(2) uses the portion of the outstanding bonded indebtedness incurred for the acquisition or improvement of school property located within the boundaries of new MUSD. Determining the MUSD portion on this basis presents practical difficulties, particularly with respect to expenditures made with pre-BB bond proceeds. Therefore, this does not appear to be a viable method.

(c) Section 35576(b), through a reference to Section 35738,[4] permits allocation in any other manner which would provide “greater equity.” Considerations may be “assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deems pertinent.”

Theoretically, the method of allocation can make a difference to property owners in the respective districts because they would be responsible for their proportionate share of the indebtedness, as determined. For example, if method (b) were used and it was determined that 20% of the bond proceeds had been used in the MUSD area, then property owners in that area would only be responsible for 20% of the payments due under the bonds each year and Santa Monica property owners 80%. Of course, the share borne by Malibu property owners would increase with a corresponding decrease for Santa Monica property owners if it were determined that 40% of the bond proceeds had been spent in Malibu. The Subcommittee recommends that the petition specify allocation method (a) because: (i) attempting to apply method (b) is not practical; (ii) we didn’t see any basis upon which to conclude that another allocation would provide “greater equity”; and (iii) method (a) would correspond to the current allocation.[5]

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[2] All references to “Sections” means provisions of the Education Code. The full text of Section 35576 is set forth on pages 1 and 2 of the Leoni Letter.

[3] Hsieh Presentation, p.1.

[4] The full text of Section 35738 is set forth on page 3 of the Leoni Letter.

[5] Although if there were no separation, the proportion paid by Malibu and Santa Monica taxpayers could change with changes in respective property values.

3. Certain Ancillary Issues. There two issues relating to outstanding bonds that the Subcommittee has briefly addressed but which need further attention:

(a) Impact on Bonding Capacity. The WestEd Memo raises the question whether the bonding capacity of SMUSD would be reduced by the full amount of the issued and outstanding bonds even though a portion of the indebtedness had effectively been allocated to MUSD.[6] (It's not clear whether this is an important issue because, as discussed below, Tony Hsieh believes that the restraint on the timing of new bond issues won't be the bonding capacity of SMUSD but the ability to keep the aggregate bond payments limited to $30/$100,000 of assessed valuation.) While it certainly seems reasonable to permit SMUSD to deduct the Malibu portion of outstanding indebtedness in calculating its bonding capacity, the mechanism for allowing it to do so isn't clear. WestEd suggested that this problem could be resolved in the petition but it's possible it might require special legislation.

(b) Future Refinancing. It's possible that refinancing of outstanding bonds would prove desirable at some point due to the movement of interest rates or other factors. However, the mechanism for doing so isn't clear to the Subcommittee at this point. SMUSD probably wouldn't have the authority to issue new bonds for this purpose which were backed, in part, by Malibu property even though the bonds being paid did have that support. Neither the Leoni Letter nor the DWK Matrix addresses this question and special legislation may be required.

B. Unspent Bond Proceeds.

Currently, there are unspent bond proceeds from both BB and ES bonds. (Of course, it is likely that the District will issue another series of ES bonds before any separation could become effective thereby generating more unspent proceeds - the June 5, 2014 Board Resolution authorizing the issuance of Series A authorized up to $75MM.) The Subcommittee believes that the allocation of these proceeds should be included in the petition. To the extent that the proceeds have been earmarked for specific projects, the funds could be divided in that manner. To the extent that they have not been earmarked, another method, such as the 80%/20% contemplated in the Board's ES resolution could be used with the split taking into account previous expenditures as well as the allocations of the earmarked funds. In any event, this appears to be an issue that can be resolved in the petition.

The Subcommittee assumes that if bond proceeds are transferred to MUSD, some Proposition 39 committee would be required to oversee the expenditures. We are unsure as to whether this would be a new committee created by MUSD or the existing committee.

[6] WestEd Memo, p.3-4

C. Authorized But Unissued ES Bonds.

At the moment, an additional $355MM remains in bonding authority under Measure ES. What happens to this authority in the context of a separation? How is this impacted, if at all, by the Board's ES resolution stating that not less than 20% of the net bond proceeds are to be spent on projects benefiting schools in Malibu?[7]

It is the Subcommittee's understanding that in the absence of special legislation directing a different result, it is likely that SMUSD, as the continuing district, would retain the authority to issue the remaining $355MM in bonds and they would be paid for through assessments solely against property in Santa Monica. This conclusion is based upon advice from DWK and is reflected on the DWK Matrix. However, there is apparently no provision in the Education Code directly on point, as noted in the discussion that starts on page 4 of the Leoni Letter. Ms. Leoni notes that in the somewhat, but not identical, situation where an existing district is divided and the original district ceases to exist, Section 35577 requires the board of supervisors to allocate the bonding authority between the two new districts based upon respective assessed valuations. She points out, however, that because a Malibu separation would not result in the District ceasing to exist, Section 35577 is not directly applicable.[8] Therefore, in order to allocate the bonding authority between SMUSD and MUSD, Ms. Leoni and DWK both believe that special legislation would be necessary.

In the absence of separation, Tony Hsieh demonstrates that it should be possible to issue the remaining bonds through five more series, one every two years in the amount of $71MM starting this year with all bonds being issued by 2023.[9] However, if separation occurs and SMUSD is to issue the remaining $355MM, it would obviously give SMUSD more money than Santa Monica schools would receive in the absence of separation – for example, $355MM instead of $284MM with Malibu schools receiving a minimum of 20% equaling $71MM – but, as demonstrated by the Hsieh Presentation, due to the 30% reduction in property values through the loss of Malibu property, it will take considerably longer to issue bonds in that amount, or even totaling $284MM. (Compare the schedule on page 5 of the Hsieh Presentation, which assumes Malibu property is included with that on page 6 which assumes only Santa Monica property backs up the bonds.) The limiting factor is maintaining a maximum tax rate of $30/$100,000 of assessed valuation in the aggregate. (Note that this is not a legal requirement but would be necessary in order to adhere to the tax rate estimate given to the voters in connection with the ballot measure. The legal maximum is $60/$100,000 for all ES bonds in the aggregate.)

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[7] Surprisingly, this mandatory minimum allocation did not appear in the ballot language itself, only in the Board resolution and in the County Counsel's impartial analysis. And, of course, it does not preclude spending more than 20% of the bond proceeds in Malibu.
[8] There's an assumption in this sentence that separation will not result in SMUSD also being treated as a new district with the District ceasing to exist. We understand that this has been discussed with the State Board of Education and the District has been assured that SMUSD would be a continuing district so that, for example, there would not need to be a new Board election.
[9] Hsieh Presentation, p.5

If the policy decision is to grant MUSD authority to issue a portion of the remaining ES bonds, it seems clear to both Ms. Leoni and DWK that special legislation would be necessary. Because this has been done before in other contexts, it shouldn't be a major hurdle to get someone like Richard Bloom who represents both Santa Monica and Malibu to carry a bill agreed on by all parties. There would be a need to discuss how much of the authority is given to each district since the assessed valuation split of 70%/30% differs from the 80%/20% split of bond proceeds contemplated by the Boards ES Resolution.

Neither solution leaves Santa Monica where it thought it was under Measure ES which was to have up to 80% of the ES bond proceeds available for Santa Monica schools with only 70% of the bonded indebtedness being paid for by Santa Monica property owners. The reasons for the mismatch are that there was (and is) a much greater perceived need for capital expenditures on Santa Monica schools, Santa Monica High School in particular, and the 80%/20% split roughly mirrors the pupil breakdown. The only way to achieve this result would be to have special legislation giving SMUSD the power to issue ES bonds backed by all property that was in the District prior to separation and requiring SMUSD to transfer a portion of the net bond proceeds to MUSD in amounts which would preserve the 20% allocation to Malibu schools. A similar structure was included as a part of the special legislation surrounding the Wiseburn/Centinela Valley separation.

One additional dilemma is the absence of any body with authority to negotiate this issue on behalf of Malibu property owners. Therefore, in addition to special legislation, it would probably be necessary to have the allocation be included as one item of the ballot measure authorizing the separation.

Another unknown is the impact of separation on the AA credit rating of the District since it is possible that neither SMUSD nor MUSD could achieve that same level. Tony Hsieh advised us that a one-level drop in the rating would probably equate to a 15 basis point increase in the interest rate that would be required to be paid on new bond issues.

D. <u>Future Bonds</u>. The preliminary master plan prepared for the District some years ago (and which is badly in need of an update) anticipated capital expenditures of around $1BB, or approximately another $347MM. As with the unissued ES bonds, SMUSD could issue those bonds more quickly if Malibu property were assessed than if not.[10] However, SMUSD could not gain this authority without special legislation and any such legislation would probably need to authorize the creation of a joint powers authority made of representatives of both SMUSD and MUSD.

[10] See Hsieh Presentation, p. 7-8

E. Litigation.

The Subcommittee is aware of one pending lawsuit against the District related to Malibu and one threatened.

The pending lawsuit challenges the adequacy of the CEQA analysis relating to installation of lights at Malibu High School - we do not believe it seeks monetary damages against the District. Presumably, if there were a separation, MUSD would step into the District's position with respect to this litigation and the District, now being SMUSD, would be dismissed - SMUSD would no longer have any jurisdiction over installation of the lights. Presumably and funds earmarked for this project would be transferred to MUSD as a part of the allocation of assets. However, we have not reviewed the Complaint or analyzed the legal procedures that would be involved.

The threatened lawsuit revolves around the disputed procedures followed by the District with respect to the investigation and remediation of PCBs in certain Malibu classrooms. It is the Subcommittee's position that any separation would need to be conditioned upon a release of any such claim to the extent that it might continue to apply to SMUSD. At least a majority, if not all, of the Subcommittee members believe that MUSD should be obligated to indemnify SMUSD for any exposure to future claims because any responsibility to deal with the Malibu facilities would, following a separation, be under the sole jurisdiction of MUSD. Whatever our position regarding the final outcome, we all believe that the presence of these claims is a major hindrance to the achievement of a separation. Clearly, this subject needs further analysis, not only as to the proper allocation of responsibility, but as to the means to achieve that allocation.

January 21, 2015

Santa Monica-Malibu Unified School District

Presentation to Financial Oversight Committee

Southern California Office
999 N. Sepulveda Blvd., Suite 500
El Segundo, CA 90245
(310) 322-4222

Northern California Office
338 Spear Street, Suite 23D
San Francisco, CA 94105
(415) 498-0144

KEYGENT ADVISORS
Public Finance & Management Consulting

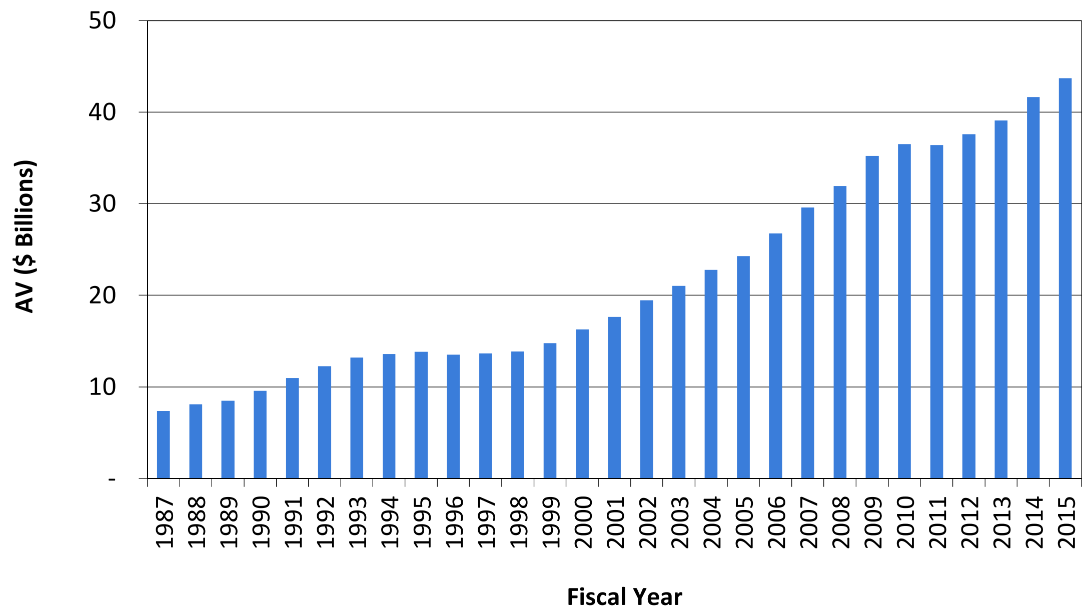
District Assessed Value (1)

The District's assessed value ("AV") has rebounded since the recent real estate decline

- The City of Malibu accounts for 29.47% of the District's 2014-15 AV

FY	Total AV (1)	Annual % Change
1987	$ 7,363,965,000	
1988	8,115,946,000	10.21 %
1989	8,497,040,000	4.70
1990	9,569,512,000	12.62
1991	10,959,403,000	14.52
1992	12,247,660,396	11.75
1993	13,212,295,256	7.88
1994	13,589,734,588	2.86
1995	13,831,788,934	1.78
1996	13,517,085,904	-2.28
1997	13,644,313,888	0.94
1998	13,879,224,941	1.72
1999	14,755,885,770	6.32
2000	16,268,617,035	10.25
2001	17,652,511,583	8.51
2002	19,440,867,781	10.13
2003	21,014,678,438	8.10
2004	22,755,683,025	8.28
2005	24,274,572,281	6.67
2006	26,750,651,775	10.20
2007	29,570,115,254	10.54
2008	31,926,254,125	7.97
2009	35,219,582,002	10.32
2010	36,517,722,578	3.69
2011	36,397,355,982	-0.33
2012	37,576,796,540	3.24
2013	39,101,560,390	4.06
2014	41,637,140,788	6.48
2015	43,691,489,591	4.93

District Total AV



Growth Statistics

Annualized Growth Rates:		*Lowest Rolling Averages:*	
1-year:	4.93 %	3-year:	0.11 %
5-year:	3.65	5-year:	0.99
10-year:	6.05	10-year:	4.73
15-year:	6.81	15-year:	6.05
20-year:	5.92	20-year:	5.57
25-year:	6.26	25-year:	6.26

(1) Source: California Municipal Statistics, Inc. and Los Angeles County.

KEYGENT ADVISORS

District Bonding Capacity

The District's bonding capacity is a ***statutory*** limit on the amount of general obligation bonds that can be issued

- Based on:
  - Current AV multiplied by statutory debt limit factor
  - Less: outstanding general obligation bonds
- Statutory debt limit factor of 2.50% of AV for unified school districts

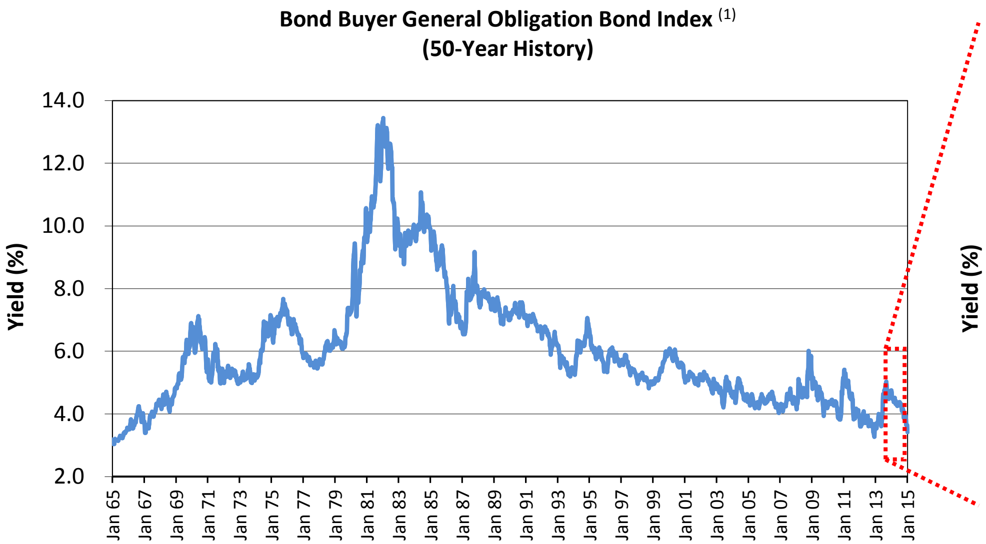
Estimated Current Bonding Capacity (1)

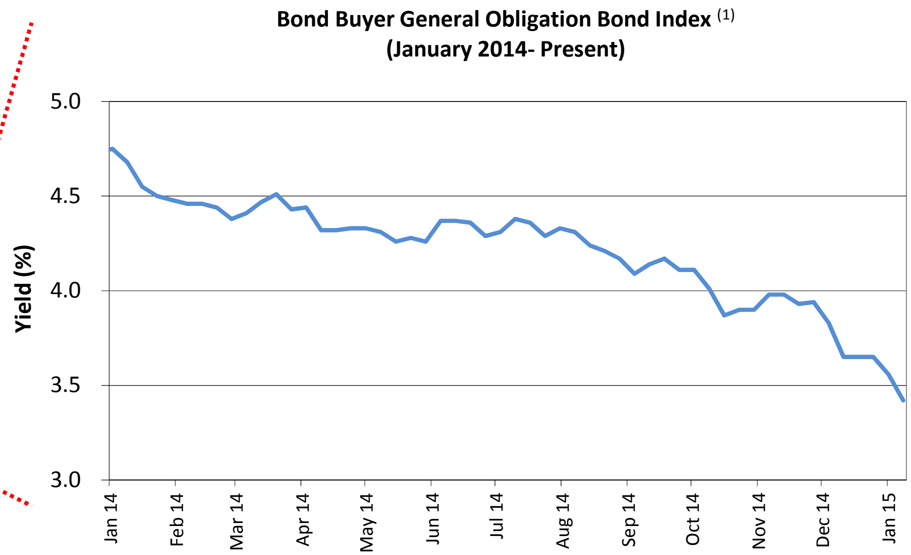
2014-15 Total AV	$ 43,691,489,591
Statutory Debt Limit Factor	x 2.50%
Bonding Capacity	1,092,287,240
Outstanding General Obligation Bonds	(301,983,055)
Available Bonding Capacity	$ 790,304,185

(1) Subject to confirmation by the Los Angeles County Auditor-Controller.

Interest Rates

Municipal bond interest rates have recently experienced significant declines





(1) Index reflects average yield to maturity of 20 general obligation bonds with 20-year maturities rated Aa2 by Moody's Investors Service and AA by Standard and Poor's. Source: The Bond Buyer & Bloomberg.

Summary of Measure ES

On November 6, 2012 the District was authorized by voters to issue $385 million of general obligation bonds under Proposition 39

- Passed with a 68.06% affirmative vote
  - 55% voter approval required
- Estimated tax rate of $30 per $100,000 of AV
  - Proposition 39 legal maximum: $60 per $100,000 of AV

On August 13, 2014 the District issued Series A of Measure ES for $30 million

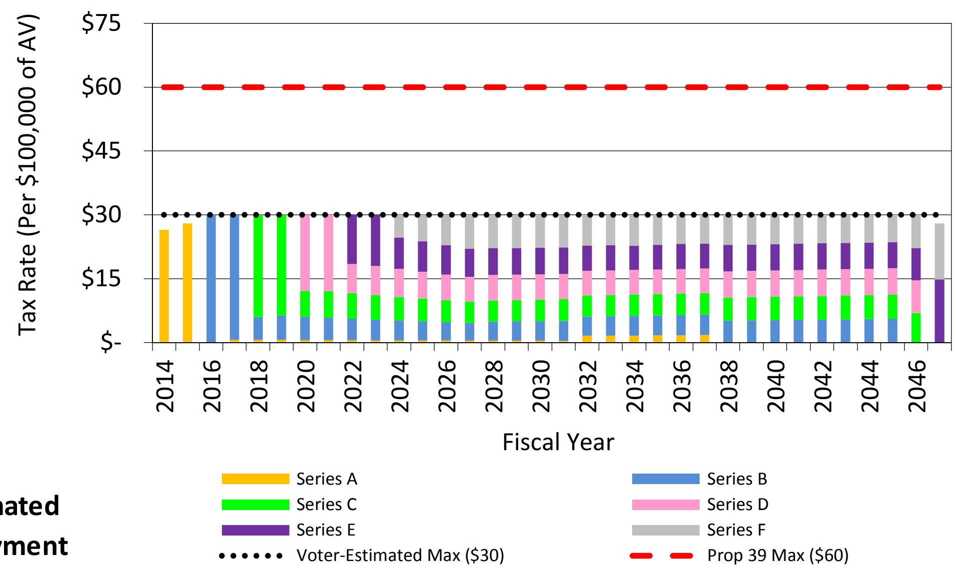
- 100% current interest bonds ("CIBs")
- All-inclusive cost: 3.499%
- Final maturity: July 1, 2037

Remaining Measure ES – Including Malibu

The District can access the remaining $355 million Measure ES authorization by 2023 using all CIBs under the below assumptions

- **Assumptions:**
  - Interest rates: 5.25% - 6.75%
  - Annual AV growth:
    - 2015-16: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0% (1)

Estimated Tax Rates



Prospective Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio
Series A	August 2014	$ 30,000,000	3.50 %	0.00 %	1.21 to 1 (3)
Series B	July 2015	71,000,000	5.25	0.00	1.99 to 1
Series C	July 2017	71,000,000	5.75	0.00	2.13 to 1
Series D	July 2019	71,000,000	6.25	0.00	2.22 to 1
Series E	July 2021	71,000,000	6.50	0.00	2.38 to 1
Series F	July 2023	71,000,000	6.75	0.00	2.44 to 1
Total		$ 385,000,000		0.00 %	2.15 to 1

(1) Per the Los Angeles County Auditor Controller's Office.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.
(3) Previously issued financing.

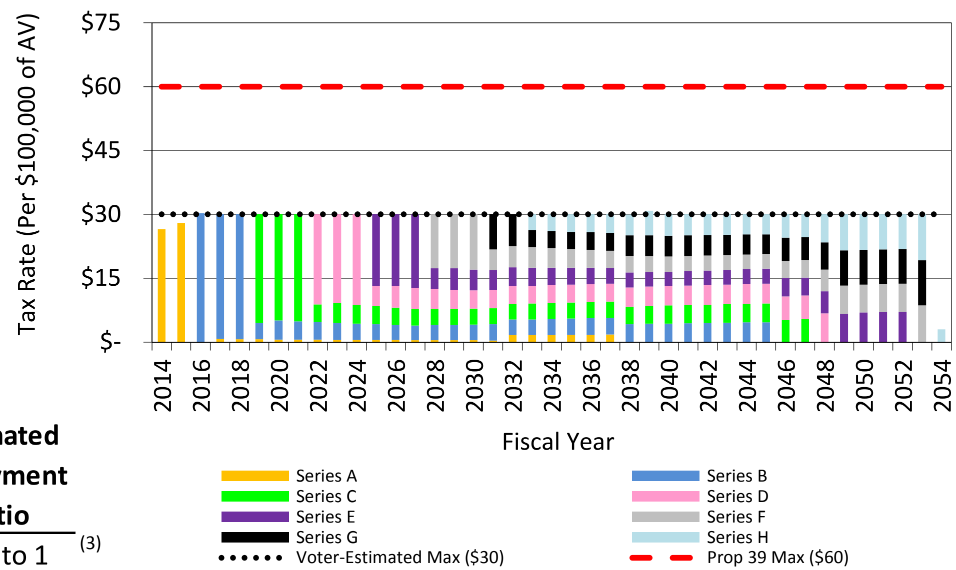
KEYGENT ADVISORS

Remaining Measure ES – No Malibu

The District can access the remaining $355 million Measure ES authorization by 2032 using CIBs and capital appreciation bonds ("CABs") under the below assumptions

- Assumptions:
  - Interest rates: 5.25% - 6.75%
  - Annual AV growth:
    - 2015-16: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0% (1)

Estimated Tax Rates



Prospective Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio
Series A	August 2014	$ 30,000,000	3.50 %	0.00 %	1.21 to 1 (3)
Series B	July 2015	50,800,000	5.25	0.00	1.83 to 1
Series C	July 2018	50,700,000	5.75	0.00	1.94 to 1
Series D	July 2021	50,700,000	6.50	0.00	2.07 to 1
Series E	July 2024	50,700,000	6.75	0.00	2.31 to 1
Series F	July 2027	50,700,000	6.75	0.00	2.32 to 1
Series G	July 2030	50,700,000	6.75	20.81	2.42 to 1
Series H	July 2032	50,700,000	6.75	19.21	2.41 to 1
Total		$ 385,000,000		5.27 %	2.11 to 1

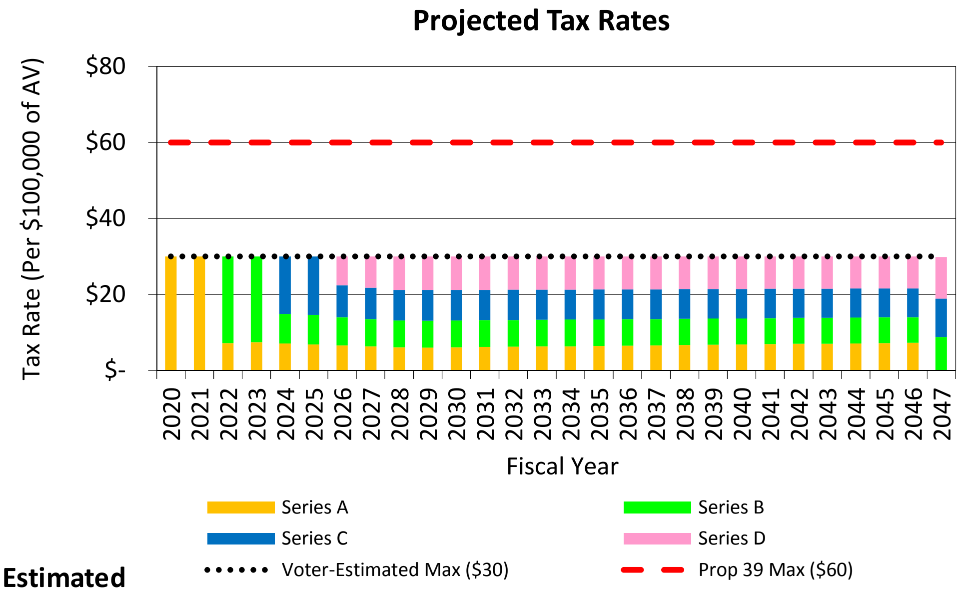
(1) Per the Los Angeles County Auditor Controller's Office.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs. Note: In order to avoid the usage of CABs, the issuance schedule would need to be extended to July 2035.
(3) Previously issued financing. Assumes the current boundaries of Santa Monica-Malibu USD would pay for the Series A debt service.

KEYGENT ADVISORS

2018 Bond – Including Malibu

Summary: Request voters to approve $347 million for bonds with a tax rate of $30 per $100,000 of AV and all CIBs

- Assumptions:
  - Interest rates: 5.75% - 6.75%
  - Annual AV growth:
    - 2015-16: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0% (1)



Illustrative Issuance Schedule (2)

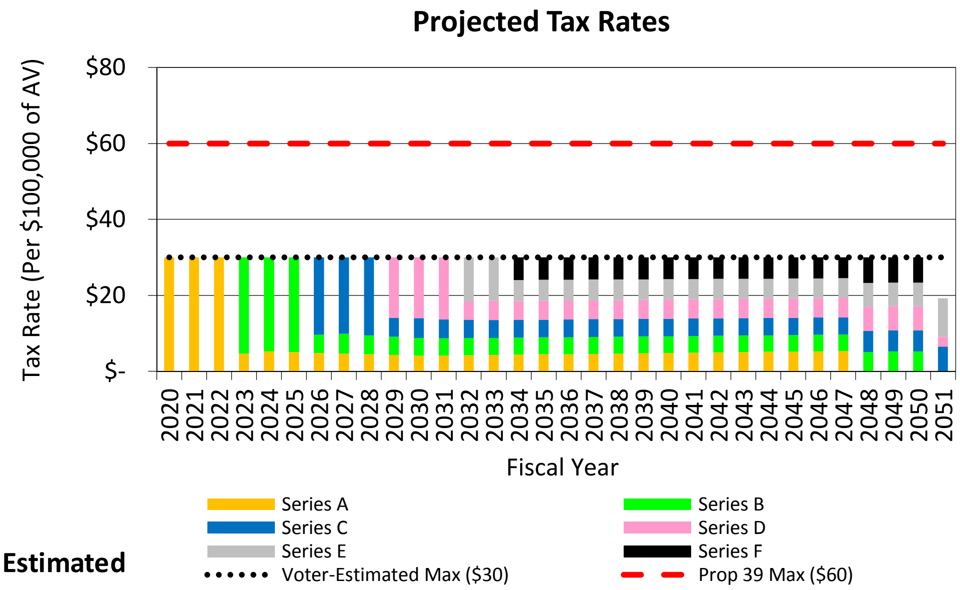
Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio
Series A	July 2019	$ 86,750,000	6.25 %	0.00 %	2.10 to 1
Series B	July 2021	86,750,000	6.50	0.00	2.16 to 1
Series C	July 2023	86,750,000	6.75	0.00	2.20 to 1
Series D	July 2025	86,750,000	6.75	0.00	2.20 to 1
Total		$ 347,000,000		0.00 %	2.17 to 1

(1) Per the Los Angeles County Auditor Controller's Office.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.

2018 Bond – No Malibu

Summary: Request voters to approve $347 million for bonds with a tax rate of $30 per $100,000 of AV and all CIBs

- Assumptions:
  - Interest rates: 5.75% - 6.75%
  - Annual AV growth:
    - 2015-16: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0% (1)



Illustrative Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio
Series A	July 2019	$ 57,900,000	6.25 %	0.00 %	1.94 to 1
Series B	July 2022	57,900,000	6.50	0.00	2.02 to 1
Series C	July 2025	57,800,000	6.75	0.00	2.07 to 1
Series D	July 2028	57,800,000	6.75	0.00	2.00 to 1
Series E	July 2031	57,800,000	6.75	0.00	2.10 to 1
Series F	July 2033	57,800,000	6.75	0.00	2.16 to 1
Total		$ 347,000,000		0.00 %	2.05 to 1

(1) Per the Los Angeles County Auditor Controller's Office.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.

Impact of Malibu Separation On Existing and Future Bonds of Santa Monica-Malibu USD

		Earlier Bonds (1998 & Measure BB) $310 million Issued (§ 35576)	Measure ES (2012) $385 million Issued $30 million (§ 35576)	Unissued $355 million Default Ed. Code	 Wiseburn-like Special Legislation	Future Bonds Default Ed. Code	 Wiseburn-like JPA & Special Legislation
Santa Monica	**Issuing Authority**	N/A (Fully issued)	N/A (Bond proceeds balance split in reorganization plan)	$355 million	$284 million 80% of unissued bonds (based on ADA)	Based on AV within Santa Monica ($24.6 billion)	Based on AV within Santa Monica and Malibu (~$35.9 billion)
	Repayment	70% of remaining payments*	70% of payments*	100% of payments	70% of payments (based on AV)	Paid by remaining property owners	Paid by property owners in Santa Monica and Malibu
Malibu	**Issuing Authority**	N/A (Fully issued)	N/A (Bond proceeds balance split in reorganization plan)	$0 (SBE does not consider authorized but unissued bonds as "bonded indebtedness" subject to statute)	$71 million 20% of unissued bonds (based on ADA)	Based on AV within Malibu ($11.3 billion)	TBD
	Repayment	30% of remaining payments*	30% of payments*	$0	30% of payments (based on AV	Paid by property owners in new district	TBD

*The division of repayment is based on the greater of: (1) the proportion of AV; or (2) expenditures on acquisition/improvements to facilities in territory. Section 35738 also gives County Committee or State Board authority to divide for "greater equity."

DWK
DANNIS WOLIVER KELLEY

MEMORANDUM

Date: November 12, 2013

To: Craig Foster, Advocates for Malibu Public Schools (AMPS)

From: Jannelle Kubinec, WestEd

RE: Reorganization Research Findings

At the request of the Advocates for Malibu Public Schools (AMPS), in the Fall of 2012 WestEd completed a feasibly review for a proposal to create two separate districts from the current Santa Monica-Malibu Unified School District (District). This review evaluated the proposed reorganization based on the fiscal and programmatic standards outlined in the California Education Code. This study raised several considerations for AMPS, the current District, and community stakeholders. At the request of AMPS, WestEd has conducted further research and analysis to address the following areas of interest:

1) ***Bonded Indebtedness:*** What options are there for distributing the District's current bonded indebtedness between the newly formed districts should a reorganization proceed? What, if any precedent exists for such options?

2) ***Parcel Tax:*** Given the District's unique parcel tax measure, what options exist for retaining the existing parcel tax and what would be required (e.g., time, effort, and cost) to pursue such options?

3) ***Employment Rights and Collective Bargaining.*** If the proposed reorganization were to occur, what specific protections and options are available to employees (e.g., rights of employment, length of protection, compensation levels, collective bargaining authority)? What precedent exists for such options?

4) ***Other Implementation Guidance.*** What other issues are essential to address in planning a successful reorganization process?

Based on the analysis completed to address the above questions, a viable pathway exists for pursuing the proposed reorganization while protecting the financial interests of the existing and proposed districts and employee groups. Following is an indepth explanation of findings and suggested action steps.

FINDINGS

To address the above questions, WestEd has conducted interviews with educational consultants from the California Department of Education and Madera County Office of Education, and analyzed data and other documents provided by AMPS.

The type of reorganization proposed by AMPS presents a unique situation. In recent history most district reorganizations resulted in an *existing* district changing boundaries, unifying by combining or transferring school(s), or transferring territory. The reorganization to create a Malibu district would result in the creation of a *new* school district. According to the California Department of Education the most recent example of this type of reorganization is the creation of Golden Valley (Madera County) approximately 15 years ago. Golden Valley provides an example of a new district formation and may be instructive to demonstrate options for successfully attending to employee group interests, bond management, and starting-up a new district. Several of the issues present in the potential Malibu district formation were present in the formation of Golden Valley.

The petition to create the Golden Valley School District was approved by the local county committee on district organization in August 1997 and approved by the State Board of Education in December 1997. The petition was brought to voters with potential Governing Board candidates in July of 1998 and the new district became operational July 1, 1999. The election resulted in approval of the petition and selection of Governing Board members. The Madera County Office of Education provided administrative and technical assistance to the new Golden Valley School District Governing Board to hire a Superintendent and apply for a state start-up loan to support the process of putting the necessary district infrastructure in place prior to serving students.

Soon after the new district was formed teachers were notified that they could elect to remain employees of Madera Unified School District (original district) or become employees of the newly formed Golden Valley School District per the provisions included in Education Code Section 35555. Most employees stayed at the sites where they were teaching. During the new district start-up period (July 1998 to June 1999) they remained employees of the Madera Unified School District, but once the start-up period was completed they became employees of the Golden Valley District. Teachers in the new district received support from their regional California Teacher Association representative to assist with organizing and negotiations prior to July 1, 1999 (operational date of new district). There were no reported issues with the process and by all accounts teachers and the community were pleased with the outcome. The Golden Valley example demonstrates that while reorganizations are inherently complex that it is possible to achieve a result that satisfies the many interests and needs in the communities where they occur.

Following are the key findings for each of the questions.

1) ***Bonded Indebtedness:*** What options are there for distributing the district's current bonded indebtedness between the newly formed Districts should a reorganization proceed? What, if any precedent exists for such options?

To date two interpretations have been rendered[1] regarding the method for distributing bonded indebtedness. To help guide further discussion in this area, given the stark differences in legal opinions, WestEd consulted the California Department of Education (CDE), which verified the opinion received from AMPS by its legal counsel. Specifically, CDE shared that in

[1] The Los Angeles County Office of Education presented information regarding distribution of bonded indebtedness, which offered a different interpretation that that offered by WestEd (see Fall 2012 report) and AMPS legal counsel.

reorganizations where outstanding bonded indebtedness exists Education Code Sections 35576 and 35738 clearly identify options for distributing such debt. Commonly allowed and applied methods include distributing outstanding debt based on the assessed valuation ratios between the districts post-reorganization or the amount spent on facilities. Other allowable methods include student counts or "other matters which the petitioners or county committee deems pertinent."

A related question that may be of interest is how would outstanding bond authority (from the existing Santa Monica-Malibu Unified School District's unexpended, but approved bond) be treated should the reorganization occur. The Education Code is silent on this issue, but does suggest among the criteria for evaluating the feasibility of a proposed reorganization that a reorganization does not adversely affect the bonding capacity of the local educational agencies. Furthermore, the treatment of division of bonded indebtedness would directly affect the remaining bond authority available to the districts post reorganization. Based on the research conducted an approach to consider as a means to retain available bond authority would be to reference within the petition for reorganization parameters for retention and division of the outstanding bond authority between the newly created Malibu district and remaining Santa Monica district. Given the lack of guidance in the Education Code, we advised AMPS consult legal counsel.

To the question of whether the petition could be used to specify a distribution of existing bonded indebtedness, AMPS legal counsel offered the following opinion:

> *Almost certainly. The Education Code does not specifically address including such a provision in the original petition for reorganization initiated by the electorate. On the other hand, it strongly implies that this is permissible. The Education Code specifically provides in Article 3 (commencing with Section 35730), that the Plans and Recommendations of the county committee for the reorganization of a school district may include "a method of dividing the bonded indebtedness ." that may be different from that provided by the Code in Section 35576. (§ 35738.) It appears that this is the provision under which the Madera County Committee included stipulations for the division of bonded indebtedness in the Plans and Recommendations for the reorganization.*
>
> *Hence, while the Education Code does not specifically address including a provision for the division of bonded indebtedness in the original petition initiated by the electorate, the Code strongly implies that this is permissible.*

With regards to whether the petition could be drafted to retain and split existing bonding authority, AMPS legal counsel noted that:

> *This scenario is not addressed in the Code. Interestingly, the Code addresses two different, but similar scenarios with the result that the authorization to issue bonds is divided. Section 35577 concerns the division of a district between two or more other districts so that the existing district "ceases to exist". In these circumstances the Code provides that "the board of supervisors shall, . , make and enter an order in the minutes of its proceedings that the authorization to issue the unsold bonds be divided between the districts in the ratio which the assessed valuation of the territory transferred to the districts bears to the total assessed valuation of the former district. The bonds, if issued*

by any new district, shall be considered a liability of the new district for purposes of computing the bonding capacity of the new district when applying the State School Building Aid Law of 1952, Chapter 8 (commencing with Section 16000) of Part 10."

The second scenario addressed by the Code in Section 35578 is when a district is included "as a whole" in a new school district. In such a case, the unsold bonds "may be issued by the board of supervisors in the name of the new district and the proceeds derived upon the sale thereof shall be the funds of the new district. However, the proceeds derived upon the sale thereof shall be expended only for the purpose, or purposes, for which such bonds were authorized."

While the Code does not specifically reference circumstances faced with the proposed reorganization, it does suggest allowance for retention of bonding authority post-reorganization.

Options:
- ***Distribute Existing Bonded Indebtedness***—Select between options for distributing existing bonded indebtedness. The most commonly used options are the greater of assessed valuation or expenses for facilities spent within each district. Based on prior analysis, both option appears viable and does not adversely affect either the proposed or existing districts.
- ***Retain Approved Bond Authority***—Reference within the petition how existing approved bond authority will be retained.

Suggested Course of Action:
- Meet with Santa Monica-Malibu School District officials to evaluate and select the best option for dividing existing indebtedness.
- Draft petition in consultation with legal counsel to include provisions for division of bonded indebtedness and retention of remaining approved bond authority. A point of reference may be the Golden Valley petition, which included some references to treatment of existing bonds. Seek input and advice from the California Department of Education regarding the language to inform final petition to include such provisions.

2) ***Parcel Tax:*** Given the District's unique parcel tax measure, what options exist for retaining the existing parcel tax and what would be required (e.g., time, effort, and cost) to pursue such options?

As noted in the feasibility report, the District's current parcel tax is fairly unique and critical to the financial viability to the current District. The Education Code lacks clear guidance regarding the treatment of the parcel tax. **There is precedence to suggest that since the Santa Monica District would remain, it would retain its portion of the parcel tax (i.e., the portion of the parcel tax generated by parcels within the Santa Monica attendance area), but for the Malibu area to retain the parcel tax additional action may be required.** Unlike the treatment of approved bond authority, AMPS legal counsel has advised that the Education Code provides little direction on this area and that it is probably not a viable option to rely on the petition to define how the parcel tax would be treated post-reorganization. Given the lack of legal direction and precedence for this the best option would be to seek special legislation. Such legislation would specify that the parcel tax for the districts in question would be retained and divided based on provisions adopted into California Education Code. There is precedent for special legislation in the case the creation of the Santa Barbara Unified school District, which retained a parcel tax that was in place prior to the reorganization.

Option:

- ***Develop Special Legislation***—Work with local representative (Assembly or Senate) to develop legislation that clarifies treatment of the parcel tax. The legislation could be drafted referencing unique conditions (e.g., a date in time by which a petition is approved or new district created, size or type of district formation, etc.) for which the retention and division of a parcel tax would apply. This would allow for passage of the legislation prior to the petition going into effect and limits its impact to only to the creation of the Santa Monica and Malibu districts.

Suggested Course of Action:

- Make local representative aware of the potential reorganization and gauge interest and information needs to consider options for special legislation.
- Draft special legislation referencing unique conditions that would allow for retention of the existing parcel tax once the reorganization occurs.

3) ***Employment Rights and Collective Bargaining.*** If the proposed reorganization were to occur, what specific protections and options are available to employees (e.g., rights of employment, length of protection, compensation levels, collective bargaining authority)? What precedent exists for such options?

The Education Code (§35555-35556 and 45121) recognizes that classified and certificated employees can be vulnerable to changes in employment status and agreements as a result of reorganizations. There are several provisions that provide classified and certificated employees protection and preferences in the reorganization process. Attachment A provides an overview of the process and rules outlined in the Education Code for classified, certificated, and administrative staff. This sense of vulnerability may be amplified in reorganizations that result in the creation of a new district since there is an inability to evaluate labor agreements until a petition for the new district is approve as there is no standing entity for employee groups to negotiate with until such time.

However, there are specific measures within the process outlined in law that provide protections for employees. For instance, classified employees are guaranteed in a new unified district (which would be created in this instance) continue employment for not less than two years following the original districts salaries, benefits, accumulated leave, and other rights from the original collective bargaining agreement. Rules for certificated employees specify that permanent employees assigned to a building located within the new district shall remain at their assigned site, unless they elect to remain with the original district. Employees must select the district in which they will work before February 1 of the year in which the reorganization becomes effective. In addition to these protections another important factor to remember is that when the petition is brought before voters so too would candidates for the Governing Board. This would be like any election where Governing Board members would provide public statements, discussion, and debate their positions and platforms. The process of electing representatives provides an important measure of transparency and opportunity for the community to vote based on their view of what will best support the needs of the new district's stakeholders.

Several questions have emerged regarding specific issues related to negotiations. Attachment B addresses some of these questions in a Frequently Asked Questions format.

Suggested Next Steps

In addition to the actions suggested within the answers to each question, the following course of action is suggested to prepare for reorganization.

- Develop a petition based on input from stakeholders including employee groups. While it is not possible to put specific language in the petition regarding negotiated items, it would be expected that Governing Board candidates would be asked to provide comment on their position during an election.
- Consider surveying teachers to gauge (non-binding) interest in employment options should a reorganization go forward.
- Bring the petition before voters. This can be done as part of a general election or special election. A special election would be costly so it is most practical to consider placing the petition on a general election ballot (usually June or November of each year). A late-Spring or early-Summer election timeline allows for the maximum start-up time and supports a schedule that would allow for the new district to be fully formed within the beginning of the school year following the election. (This is the time frame followed by Golden Valley. See above description.)
- If approved, once the Governing Board is in place begin the process of district start-up.
    - Secure a start-up loan from the state, if needed.
    - Hire a Superintendent and other district office staff to complete start-up activities (e.g., planning and developing programs, implementing infrastructure to manage budget and human resources, etc.).
    - Engage in labor negotiations.
    - For certificated employees, prepare permanent employees to elect by February 1 if the plan to stay at their site or remain with the Santa Monica Unified School District. (Note: This decision to elect allows employees time to evaluate their options and preferences with the benefit of time for the new district to have in place a collective bargaining agreement.)
- Finalize labor agreement and staffing assignments.

4) ***Other Implementation Guidance.*** What other issues are essential to address in planning a successful reorganization process?

Since the feasibility study was conducted in 2012 California has adopted a new funding model (i.e., Local Control Funding Formula [LCFF]). Under this formula the District is funded based on a simplified calculation that provides a base amount per student with additional funding provided based on grade span adjustments and demographic student characteristics. The question has been asked whether under this change in funding formula there will be any adverse affect to the financial status of the remaining Santa Monica and newly formed Malibu school districts. As noted in the feasibility report, a newly formed Malibu district would likely be funded as a basic aid district. The changes under LCFF do not appear to alter this expected status. Furthermore, under LCFF there remains a mechanism for basic aid districts to retain excess property tax. A change in law would be required to alter or eliminate basic aid and to date such changes have not materialized and appear unlikely given past history and the politics of basic aid. Based on an analysis of preliminary LCFF projections it does not appear that there will be any adverse financial impact on either district, but the exact impact is difficult to project until more accurate LCFF apportionment amounts are known for 2013-14. The California Department of Education does not expect this information to be available until July 2014.

ATTACHMENT A
Overview of Employee Rights and Collective Bargaining Provisions Related to District Reorganization

<table>
<tr><th>Area</th><th>Classified</th><th>Certificated</th><th>Management</th></tr>
<tr><td>Education Code Reference</td><td>Any reorganization of a school district shall not affect the rights of persons employed in positions not requiring certification to retain the status, leaves, and other benefits that they would have enjoyed, had the reorganization not occurred. (EC 35556, 45121)</td><td>The reorganization of school districts shall not affect the classification of certificated employees already employed by any affected school district. (EC 35555)</td><td>No reference in EC pertaining to Superintendents and other administrative staff would be subject to rules for classified or certificated.</td></tr>
<tr><td>Employment Status</td><td>Employees regularly assigned to a particular school shall be employees of the district in which the school is located, but employees may request transfers or apply to fill vacancies following the collective bargaining procedures of the original district. Employees without a regular site may select their district of preferred employment.

In a new unified district (which would be created in this instance), noncertificated employees are entitled to continue employment for not less than two years following the original districts salaries, benefits, accumulated leave, and other rights from the original collective bargaining agreement.</td><td>Permanent employees assigned to a building located within the new district shall remain at their assigned site, unless they elect to remain with the original district. Employees must select the district in which they will work before February 1 of the year in which the reorganization becomes effective. If, permanent employees elect to stay with the original district in such numbers that exceed the districts available positions, the surplus employees may be dismissed following the procedures outlined in the collective bargaining agreement.

Probationary employees also remain at their site, unless termination notice is provided prior to May 15.</td><td>No reference in EC pertaining to Superintendents and other administrative staff would be subject to rules for classified or certificated.</td></tr>
<tr><td>Compensation (level and schedule)</td><td>For at least two years follows the contract of the original district.</td><td rowspan="3">Addressed during design process and would include developing salary schedule, benefit package, etc. Certificated staff should be aware of such policies and structure prior to needing to declare the district where they will be employed (i.e., in advance of February 1 of the year in which the reorganization is to occur).</td><td rowspan="3">No reference in EC pertaining to Superintendents and other administrative staff would be subject to rules for classified or certificated.</td></tr>
<tr><td>Benefits – health and welfare</td><td>For at least two years follows the contract of the original district.</td></tr>
<tr><td>Benefits – retirement</td><td>For at least two years follows the contract of the original district; change not anticipated because this is managed by PERS.</td></tr>
<tr><td>Representation</td><td>New collective bargaining will be formed.</td><td>New collective bargaining will be formed.</td><td></td></tr>
</table>

ATTACHMENT B
Frequently Asked Questions
Related to District Reorganization and Employment Rights and Collective Bargaining

Q: What happens after the petition is passed? When will the Board be seated and staff hired?

A: When the petition is brought before voters, new board members should also be elected. This would allow for immediate formation of the district should the petition be approved. The first task of the new board is to hire a superintendent so that a management team can be assembled. The state offers start-up loans to help with this process.

Q: Who will select the Board and how will they handle negotiations during the transition to ensure classified and certificated staff are treated fairly?

A: As noted above, the Board should be elected at the same time that the petition is on the ballot. The process of electing new board members provides for potential board members to share their intentions and expectations to support public accountability. See Attachment A, "Overview of Employee Rights and Collective Bargaining" for more information.

Q: Assuming that the petition is approved, how soon will the new district begin operating? What are the implications for current staff?

A: Once the petition is approved and a Board is in place, the new district exists and has one year to begin operations. During this initial year it has time to plan and implement start-up activities such as hiring administrative staff, developing programs, putting in place business systems, and negotiating with employee groups. The Education Code provides current employees with many layers of protection during this transition period. Classified employees are entitled to continue employment for not less than two years following the original district's salaries, benefits, accumulated leave, and other rights continue during this time from the original collective bargaining agreement. Permanent certificated staff have until February 1 prior to the beginning of the new district operating to determine which district they wish to be employed by. If permanent employees elect to stay with the original district in such numbers that exceed the district's available positions, the surplus employees may be dismissed following the procedures outlined in the collective bargaining agreement.

Q: Can a teacher in a Santa Monica school choose to be assigned to a Malibu school during this transition period, or is it the case that Malibu teachers are the only ones allowed to elect a different placement?

A: There are two parts that need to be considered in answering this question. During the transition/start-up period the Santa Monica-Malibu Unified School District's collective bargaining agreement is in effect. As such, the provisions regarding request for change in assignment, bumping rules, etc. remain in place. In other words, if a teacher wishes to be reassigned in the year prior to the operations of the new district, they would do so following the contracts terms and conditions. The second part is that permanent teachers at a site within the new district may elect on or before February 1 to remain in the Santa Monica district (and move *to a Santa Monica school) or remain at the site in Malibu and become a Malibu district employee.*

Q: How is bumping and seniority affected by the reorganization? Will teachers loose seniority?

A: The Education Code Section 35555 states that "The reorganization of any school district or districts shall not affect the classification of certificated employees already employed by any school district affected. Those employees have the same status with respect to their classification by the district, including time served as probationary employees of the district, after the reorganization as they had prior to it." In other words, seniority must be honored following the reorganization. During the transition/start-up year, the existing Santa Monica-Malibu provisions regarding bumping and seniority will be in place. As noted in the question above, teachers at a Malibu sites may elect to remain at their site and become an employee of the new Malibu district. Once the new district becomes fully operational (within one year of the petition being approved by voters) the collective bargaining agreement created by the Malibu district will govern bumping, but must honor years of service earned.

Q: Will the reorganization affect pension contributions or payments?

A: The pension systems for certificated and classified staff are managed by the state. All certificated staff are in STRS and classified in PERS. These systems continue to manage all retirement savings and are unaffected by the reorganization.

Q: Are there any unique provisions that apply to teachers of specialized programs such as special education? How will special education services be provided by the new district?

A: Special education teachers are subject to the same provisions that apply to any certificated staff (see above). The new district must offer a comprehensive special education program.

Q: What provisions exist regarding employment of administrators?

A: There are no specific protections for administrators. Each district would need to evaluate their administrator needs and staff accordingly. Those administrators with prior certificated teaching experience may have return rights depending on the provisions included in the contract at the time of the transition.

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TO: Craig Foster
Advocates for Malibu Public Schools

FROM: Marguerite Mary Leoni

DATE: September 22, 2014

RE: Questions Pertaining To Formation Of Malibu Unified School District

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This memorandum summarizes my research to date on several questions you proposed to me concerning various aspects of the potential unification of the Malibu portion of Santa Monica Malibu Unified School District ("SMMUSD") to form Malibu Unified School District ("MUSD").

1. Upon unification of the Malibu portion of SMMUSD, can the bonded debt[1] be divided in a manner that is different from that specified in the Education Code.

Yes. The Education Code specifies two methods for dividing bonded debt, but also allows different methods to achieve greater fairness. Education Code section 35576 provides:

> (a) When territory is taken from one district and annexed to, or included in, another district or a new district by any procedure and the area transferred contains public school buildings or property, the district to which the territory is annexed shall take possession of the building and equipment on the day when the annexation becomes effective for all purposes. The territory transferred shall cease to be liable for the bonded indebtedness of the district of which it was formerly a part and shall automatically assume its proportionate share of the outstanding bonded indebtedness of any district of which it becomes a part.

[1] As we have previously discussed, your questions pertaining to the currently authorized bonds should also be reviewed by SMMUSD's bond counsel, which I have recommended be done to ensure that there is nothing in the bonding agreements that might affect the conclusions stated in this memorandum.

> (b) The acquiring district shall pay the original district the greatest of the amounts determined under provisions of paragraphs (1) or (2) or the amount determined pursuant to a method prescribed under Section 35738.
>
> (1) The proportionate share of the outstanding bonded indebtedness of the original district, which proportionate share shall be in the ratio which the total assessed valuation of the transferring territory bears to the total assessed valuation of the original district in the year immediately preceding the date on which the annexation is effective for all purposes. This ratio shall be used each year until the bonded indebtedness for which the acquiring district is liable has been repaid.
>
> (2) That portion of the outstanding bonded indebtedness of the original district which was incurred for the acquisition or improvement of school lots or buildings, or fixtures located therein, and situated in the territory transferred.
>
> (c) The county board of supervisors shall compute for the reorganized district an annual tax rate for bond interest and redemption which will include the bond interest and redemption on the outstanding bonded indebtedness specified in paragraph (1) or (2) of subdivision (b) or <u>the amount determined pursuant to a method prescribed under Section 35738</u>. The county board of supervisors shall also compute tax rates for the annual charge and use charge prescribed by former Sections 1822.2 and 1825 as they read on July 1, 1970 when such charges were established prior to November 23, 1970. All such tax rates shall be levied in excess of any other ad valorem property tax authorized or required by law and shall not be included in the computation of the limitation specified in subdivision (a) of Section 1 of Article XIII A of the California Constitution.

(Ed. Code § 35576, emphasis added.)

Section 35738[2], referenced in Section 35576, states:

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[2] All references are to the Education Code unless stated otherwise.

> Plans and recommendations may include a method of dividing the bonded indebtedness other than the method specified in paragraphs (1) and (2) of subdivision (b) of Section 35576 for the purpose of providing greater equity in the division. Consideration may be given to the assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deems pertinent.

(Ed. Code § 35738, emphasis added; see *Co. of Shasta v. Co. of Trinity*, 106 Cal.App.3d 30, 36, interpreting former provisions and stating that "[t]he legislative power over school districts is plenary and upon the reorganization or unification of districts the Legislature may make provision for the division of property and apportionment of the debts of the old district"; 93 Ops. Cal. Atty. Gen. 117, discussing constitutionality of Education Code provisions for the reapportionment of outstanding bonded debt when districts are merged.)

2. Can the petition for formation of Malibu Unified School District specify how existing bonded indebtedness will be split between the new district and the remaining SMMUSD?

Yes. Education Code section 35703 states: "Any petition filed under this article may include any of the appropriate provisions specified in Article 3 (commencing with Section 35730)."

As noted above, the Education Code specifically provides in Article 3 (commencing with Section 35730), that the Plans and Recommendations of the county committee for the reorganization of a school district may include "a method of dividing the bonded indebtedness …" that may be different from that provided in Section 35576. (§ 35738.) (See, e.g. 1997 Matter of the Unification Golden Valley Unified from the Territory of Madera Unified School District.)

3. Does the obligation of the newly formed MUSD to repay bonded debt incurred when it was a part of SMMUSD, constitute an ad valorem property tax on the properties that become part of the new district?

The Education Code does not use language to the effect that the portion of existing bonded debt apportioned for payment to the new district shall constitute an "ad valorem property tax" assessed against property in the new district. However, section 35576, quoted above, specifies: "All such tax rates [including that necessary to pay the bond interest and redemption on the outstanding bonded indebtedness allocated to the new district in the reorganization process] shall be levied in excess of any other ad valorem property tax authorized or required by law ...." This language and its reference to "any other ad valorem property tax", indicate that the obligation of the MUSD for payment of the bonded debt of the former SMMUSD is an ad valorem tax levied on the property in the new district and collected in the same manner as other property tax. (See also, § 35571: "When a school district is created, annexed, or abolished, or the boundaries thereof changed, the liability to taxation for the outstanding bonded indebtedness of the district or the territory affected thereby is as provided in this article. The authorities whose duty it is to levy taxes for the payment of principal and interest on the outstanding bonds shall levy the taxes upon the districts affected in such proportions as are provided in, or are determined under, the authority of this article," emphasis added; see, also, *County of Shasta v. County of Trinity*, 106 Cal. App. 3d 30, 36-37 (1980) "With the revision of the Education Code in 1976 (see Stats. 1976, ch. 1010), the Legislature extensively changed the apportionment of indebtedness upon reorganization of school districts. (Ed. Code, §§ 4140, 4152.) Under the current provisions of the Education Code a district acquiring property from another district becomes liable for taxation for the proportionate indebtedness of the district from which the property is acquired. (See Ed. Code, §§ 4142, 4143, 4144, 4146, 4147.)")

4. Can a petition for unification similarly specify how bonded indebtedness authorized by voters but not yet issued can be divided between the new district and the remaining part of the existing district?

The California Education Code does not address this question. While there appears to be some flexibility in statute (aided perhaps by the waiver process) for the inclusion of a provision in a reorganization petition specifying division of already authorized but unissued bonded indebtedness, because of the significant uncertainties, a surer route to achieving this goal would be through special legislation. For example, while factually distinguishable, recent legislation concerning the unification of Wiseburn School District (Ed. Code § 35580) suggests that special legislation would be the advisable route. Special legislation to address unique local circumstances is not unusual. There are numerous examples in the Education Code. The special legislation to facilitate the Wiseburn unification and the unification of the Santa Barbara districts, discussed below, are just two examples.

The Education Code does address two different scenarios with the result that the authorization to issue bonds is divided. Neither, however, fits the factual scenario of the formation of a new Malibu Unified. Section 35577 concerns the division of a district between two or more other districts so that the existing district "ceases to exist". In these circumstances the Code provides that “the board of supervisors shall, … , make and enter an order in the minutes of its proceedings that the authorization to issue the unsold bonds be divided between the districts in the ratio which the assessed valuation of the territory transferred to the districts bears to the total assessed valuation of the former district. The bonds, if issued by any new district, shall be considered a liability of the new district for purposes of computing the bonding capacity of the new district when applying the State School Building Aid Law of 1952, Chapter 8 (commencing with Section 16000) of Part 10.”

The second scenario addressed in Section 35578 is when a district is included “as a whole” in a new school district. In such a case, the unsold bonds “may be issued by the board of supervisors in the name of the new district and the proceeds derived upon the sale thereof shall be the funds of the new district. However, the proceeds derived upon the sale thereof shall be expended only for the purpose, or purposes, for which such bonds were authorized.”

Neither of the above scenarios addresses the formation of a new unified district with the former district remaining in existence. In the case of the unification of Wiseburn School District from Centinela Valley Union High School District, with Centinela remaining in existence, special legislation concerning bonded debt, among other topics, was enacted to facilitate the unification. (SB 477; Ed. Code § 35580 et seq.) The legislation is complex. In pertinent part, the legislation provides for the following with regard to the bonded indebtedness and authorization to issue bonds existing prior to the unification:

> (a) Any tax for repayment of bonds of the Wiseburn School District shall be levied on all taxable property of the Wiseburn Unified School District.
>
> (b) Any tax for repayment of bonds issued by the Wiseburn Unified School District, including bonds authorized by the Wiseburn School District, shall be levied on all taxable property of the Wiseburn Unified School District.

> (c) Commencing with the fiscal year that begins on the effective date of the reorganization of the Wiseburn School District by the formation of the Wiseburn Unified School District, any tax for repayment of voter approved bonds of the Centinela Valley Union High School District approved before January 1, 2012, shall be levied on both of the following:
>
> (1) All taxable property located within the Centinela Valley Union High School District as the district exists following the effective date of reorganization pursuant to this section.
>
> (2) All taxable property located within the Wiseburn Unified School District that was formerly part of the territory of the Centinela Valley Union High School District.
>
> (d) <u>In recognition of the authority for Centinela Valley Union High School District to continue levying property taxes on taxable property located within the Wiseburn Unified School District for repayment of bonds approved by voters before January 1, 2012, beginning on the effective date of reorganization of the Wiseburn School District by the formation of the Wiseburn Unified School District, the Centinela Valley Union High School District shall transfer to the Wiseburn Unified School District an amount equal to four million dollars ($4,000,000) from the proceeds of the sale of bonds approved by voters on November 2, 2010, and issued after January 1, 2012.</u> The transfer shall be made from the proceeds of the sale of the first series of bonds issued after January 1, 2012, unless the Centinela Valley Union High School District elects to allocate the transfers to more than one series of bonds, in which case the transfers shall aggregate to the amount of four million dollars ($4,000,000). Proceeds transferred pursuant to this subdivision shall be expended by the Wiseburn Unified School District for purposes consistent with the original voter authorization for the bonds.

(Ed. Code § 35581, emphasis added.)

5. <u>Does Measure R, SMMUSD's parcel tax, remain in place in the new unified district after the unification</u>?

Probably not. In my experience, reorganization results in the departing parcels losing any obligation for the parcel tax of the original home district.

(Compare, *Citizens Assoc. of Sunset Beach v. Orange County LAFCo*, 209 Cal.App.4th 1183 (2012), rev. denied [annexed parcels automatically liable for parcel taxes] & Gov. Code §57330: "Any territory annexed to a city or district shall be subject to the levying or fixing and collection of any previously authorized taxes, benefit assessments, fees, or charges of the city or district.".) I have again reviewed the Education Code and found nothing that clarifies the treatment of parcel taxes of the former district with regard to the departing parcels.

Because of this silence in the law regarding previously assessed parcel taxes when districts reorganize, special legislation was necessary to provide for the continuation in effect of taxes approved by the voters of the Santa Barbara Elementary School District, and the Santa Barbara High School District, upon their unification. Effective January 1, 2012, Education Code section 35560 was specifically amended to provide for the continued imposition of qualified special taxes after reorganization "pursuant to Section 50079.2 of the Government Code." (Ed. Code § 35560(b).)

A qualified special tax is defined as "special taxes that apply uniformly to all taxpayers or all real property within the school district, except that "qualified special taxes" may include taxes that provide for an exemption from those taxes for [specified taxpayers]." (Gov. Code § 50079 (b)(1).) Government Code section 50079.2, however, is special legislation limited to Santa Barbara County. It provides:

> Notwithstanding any other law, when any school district in the County of Santa Barbara is in any manner merged with one or more school districts so as to form a single district pursuant to subdivision (b) of Section 35542 of the Education Code, the district so formed may continue to impose any qualified special taxes imposed in any former district as defined by Section 35516 of the Education Code, provided that the revenues derived from those qualified special taxes remain segregated on a geographical basis conforming to the former boundaries of the school districts prior to unification."

6. <u>Can a parcel tax measure like Measure R be placed on the ballot only in the territory of the proposed new MUSD to become effective only if the unification is successful</u>.

The statutes authorizing a school district to impose special taxes appear intended to permit districts also to place special taxes on the ballot <u>on behalf of a new district in formation</u>. The evolution of the controlling statutes, however, have injected ambiguities into the law. Since special legislation is required to facilitate this unification, these ambiguities could be resolved in the special legislation.

a. Action to place special tax on ballot by SMMUSD.

The WestEd Fiscal Analysis provided with regard to Criterion 9, "No Substantial Negative Impact on District Fiscal Management or Status", as follows:

> This report finds that should the [Santa Monica Malibu] District reorganize, the resulting Santa Monica Unified and Malibu Unified School Districts would be financially viable so long as each district's management team adopt procedures to improve economies of scale and negotiate reasonable salary schedules with their employees that allow for long-term fiscal solvency. <u>The continuation of the Measure R parcel tax is critical to deem the reorganization viable.</u> For this reason, we recommend that legal counsel be consulted; and if necessary, special legislation be considered to delineate conditions for preserving the Measure R parcel tax revenue for the resulting districts. The continued level of uncertainty regarding state funding makes it difficult to fully evaluate this criterion; updates are likely necessary as the state's fiscal condition becomes clearer.

(Emphasis added.)

Article XIII A, Section 4 of the California Constitution provides:

> Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Proposition 62 was a statutory initiative that added a new article to the Government Code. Proposition 62 specified neither it, nor Proposition 13, authorized special districts to impose special taxes that were not authorized by law. In 1987, the Legislature provided that authorization to school districts in Government Code section 50079, which provides:

> (a) Subject to Section 4 of Article XIII A of the California Constitution, any school district may impose qualified special taxes

> within the district pursuant to the procedures established in Article 3.5 (commencing with Section 50075) and any other applicable procedures provided by law.
> (b)
> (1) As used in this section, "qualified special taxes" means special taxes that apply uniformly to all taxpayers or all real property within the school district, except that "qualified special taxes" may include taxes that provide for an exemption from those taxes for all of the following taxpayers:
> (A) Persons who are 65 years of age or older.
> (B) Persons receiving Supplemental Security Income for a disability, regardless of age.
> (C) Persons receiving Social Security Disability Insurance benefits, regardless of age, whose yearly income does not exceed 250 percent of the 2012 federal poverty guidelines issued by the United States Department of Health and Human Services.
> (2) "Qualified special taxes" do not include special taxes imposed on a particular class of property or taxpayers.

Subdivision (c) of Government Code section 50077, which is contained in Article 3.5 subdivision (c), provides that, in the context of the formation and reorganization of municipalities and special districts, the Board of the local agency may place on the ballot in the territory of the proposed new district a measure for the enactment of a special tax on behalf of the new district to be formed. Section 50077 provides, in full:

> (a) Except as provided in Section 7282 of the Revenue and Taxation Code, the legislative body of any city, county, or district may, following notice and public hearing, propose by ordinance or resolution the adoption of a special tax. The ordinance or resolution shall include the type of tax and rate of tax to be levied, the method of collection, and the date upon which an election shall be held to approve the levy of the tax. <u>The proposition shall be submitted to the voters of the city, county, or district, or a portion thereof, and, upon the approval of two-thirds of the votes cast by voters voting upon the proposition, the city, county, or district may levy the tax</u>.
>
> (b) The legislative body of a city, or district, may provide for the collection of the special tax in the same manner and subject to the same penalty as, or with, other charges and taxes fixed and collected by the city, or district, or, by agreement with the county, by the county on behalf of the city, or district. If the special taxes are

> collected by the county on behalf of the city, or district, the county may deduct its reasonable costs incurred for the service before remittal of the balance to the city.
>
> (c) <u>The legislative body of a local agency which is conducting proceedings for the incorporation of a city, the formation of a district, a change of organization, a reorganization, a change of organization of a city, or a municipal reorganization, may propose by ordinance or resolution the adoption of a special tax in accordance with the provisions of subdivision (a) on behalf of an affected city or district.</u>
>
> (d) As used in this section "district" means an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.

(Emphasis added.) In 2000, section 50075.5 was added to Article 3.5 defining "local agency", the term appearing in subsection (c) of Section 50077, to include "special districts". Special district, in turn, is specifically defined to include a school district. (Gov. Code § 50077.5(b).)

According to its legislative history, Section 50077(c) was specifically enacted in 1982 to allow public agencies to place special tax measures on the ballot to support the financial viability of a proposed new city or district. (Cf., 6/30/82 Rpt. of Sen. Com. on Local Govt. re AB 3039 (Farr): "Some proposed new cities and special districts may not be financially feasible unless the voters impose special taxes to pay for new services or facilities. Existing law is not entirely clear on whether the question of imposing a special tax can be put on the same ballot as the city incorporation or district formation. Assembly Bill 3039 allows local officials to put the question of a special tax to the voters at the same time they vote on incorporation or formation. The bill does not change the existing requirement for 2/3 voter approval.")

Despite the intent of Section 50077(c), there is ambiguity in the statutory language as applied to school districts. Section 50077(c) authorizes "[t]he legislative body of a local agency which is <u>conducting proceedings</u> for the incorporation of a city, the formation of a district," etc., to place such a tax measure on the ballot. There is no definition of the phrase, "conducting proceedings". Hence, while "local agency", is specifically defined to include a school district, a school district that is the subject of a petition for reorganization, is not generally understood as "conducting" those proceedings. The County Committee, and the State Board of Education are the two entities empowered to approve school district reorganization, but they are not included in the term, "local agency", and do not otherwise have taxing authority.

Furthermore, subdivision (c) of section 50077 was enacted simultaneously with amendments to District Organization Law of 1965 to permit an entity conducting proceedings for the formation or reorganization of a local agency to condition the approval on the enactment of benefit assessments or special taxes. School districts, however, have never been subject to the Government Code provisions concerning the formation and reorganization of public agencies. School districts are subject to the reorganization procedures in the Education Code. Hence, while school districts are authorized to enact special taxes in Section 50079 in accordance with Section 50075, et seq., it is unclear whether the authority in Section 50077, subdivision (c) was intended to apply in the case of the reorganization of school districts.[3]

Nevertheless, the intent of subdivision (c) of Section 50077 seems clear -- to facility the formation of local agencies by permitting the legislative body of a defined agency to propose the enactment of special taxes on behalf of the proposed new agency. One approach, consistent with the intent of Section 50077(c) would be for SMMUSD to place a contingent special tax measure on the ballot in the portion of the district that would eventually become MUSD, if the reorganization were successful. (See, also § 50077(a), which permits a school district to place a tax measure on the ballot in a "portion" of the district.) However, given the ambiguities, there

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[3] It is even unclear how section 50077, subdivision (c) now applies in the context of other local agency formations. At the time of enactment of subdivision (c) of Section 50077, one of various local agencies with taxing authority had the status of "conducting authority" depending on the type of reorganization as set forth in the District Reorganization Act of 1965, and later by the Cortese-Knox Local Government Reorganization Act of 1985. That has now changed. Proceedings for the formation of local agencies are conducted by the designated Local Agency Formation Commission. (Gov. Code § 56029.) A LAFCo is not within the statutory definition of "local agency", and it does not have taxing authority. Under current law, upon receipt of the order of the LAFCo, the Board of Supervisors of the affected County, or the council of the affected City is required to place the necessary special tax measures on the ballot. (Gov. Code § 57000(d).) But the County or the City are no longer defined to be the "conducting authority".

is risk that the authority of SMMUSD to do so could be challenged. Therefore, a safer approach would be to include clarifying provisions in the special legislation required to address the authorized but unissued bonds, discussed above. The special legislation would clarify the authority of SMMUSD, to place a special tax on the ballot identical to Measure R in the portion of SMMUSD that would become the new district.[4]

b. Conditional approval of the unification.

Since the goal is to have the unification of MUSD contingent upon the passage of the special tax, the special legislation should so specify to solve another ambiguity. While nothing in the Education Code prohibits the conditional approval of a unification, I am not aware of any such "conditional unification" ever being approved. This is a distinction from the formation of districts and cities under the LAFCo law, which specifically authorizes conditional approvals.

7. Can parcels in the newly formed MUSD continue to be included in the applicable bonding limits of the remaining SMUSD, and taxed as if the unification had not occurred.

Not under current law. You asked this question with reference to the special legislation applicable to the unification of the Wiseburn Unified School District, Education Code section 35582, and the Local Public

[4] I do want to mention a new case, decided this month, that may cast additional doubt on Section 50077(c). City of San Diego v. Shapiro, 2014 Cal. App. LEXIS 697 (August 1, 2014), held that the term, "qualified electors of such district" in Article XIIIA, section 4, meant all of the eligible voters of the jurisdiction. Hence, in proceedings for the formation of a community facilities district under the Mello-Roos Act, the City of San Diego could not limit the vote on the special tax only to the landowners in the district, even if only the landowners would pay the tax. Following the lead of this literal interpretation of Article XIIIA, section 4, it could be argued that subdivision (c) of Section 50077 is invalid because only the legislative body of the local agency that would be subject to the tax can place the measure on the ballot ("special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district.) Special legislation discussed in the preceding section to clarify SMMUSD's authority to place the special tax measure on the ballot pursuant to subdivision (c) of Section 50077, could not solve such a constitutional issue. Hence, the Measure R-continuation tax would need to be placed on the ballot by the board of the new district after its formation. The City of San Diego has recently requested that the California Supreme Court depublish the case so that is it not citable as legal authority.

Schools Funding Authority, a joint powers authority ("JPA") formed by the predecessor districts, Wiseburn School District and Centinela Valley Union High School District. As we discussed, the circumstances of the unification of the Wiseburn Unified School District are significantly different from those of the proposal to form MUSD. In the Wiseburn unification, there were two predecessor districts, both with taxing authority, that formed the JPA. The purpose was, generally speaking, to issue bonded debt, including with regard to certain commercial property within the jurisdiction of both districts. Here there is a single district, SMMUSD. I am not now aware of any entity with appropriate jurisdiction and taxing authority to negotiate such a JPA to which MUSD would become a successor member in the same manner that Wiseburn Unified became the successor to Wiseburn School District as a member of that JPA. An AMPS member recently suggested that possibly the Los Angeles County Board of Education or the Los Angeles County Board of Supervisors could fulfill that roll. At this point, I have not researched those options, but will do so if you wish for me to pursue that research.

M E M O R A N D U M

TO: FOC Members

FROM: Paul J. Silvern, Chair
Malibu Unification Budget Review Subcommittee

SUBJECT: Comments on the WestEd Proposal to Update the Unification Criteria Analysis

On February 2, SMMUSD received a copy of WestEd's proposal to AMPS to update the analysis of all nine "unification" criteria for considering formation of separate Malibu and Santa Monica Unified School Districts (copy attached). I reviewed the proposal, discussed it with Jan Maez, circulated it to the members of the Budget Review Subcommittee, the Chair of the FOC's Balance Sheet Subcommittee, and I received comments about it from a few FOC members. Subject to further discussion at the FOC meeting this evening, I recommend that the following comments be transmitted to AMPS and WestEd for consideration in finalizing the proposal, particularly as it relates to and Criterion #3 (balance sheet issues) and Criterion #9 (i.e., operating budget issues)

<u>Proposed Scope of Work</u>

- Consistent with the FOC's Balance Sheet Subcommittee charge and previous discussions with WestEd and AMPS legal counsel, the scope of work for Criterion #3 should be revised to include consideration of the Measure R parcel tax, school facility bond measures (including issued bonds, unspent bond proceeds, approved but unused bond authority and future bonds), as well as indemnification against any claims or litigation related to SMMUSD facilities located in Malibu.
- Consistent with the Subcommittee's charge and previous discussion with WestEd representatives, the scope of work for Criterion #9 should be revised to more clearly include the following tasks:
    - Include a set of operating cost assumptions that explicitly take into account separated school district scale economies;
    - Include annual budget projections for the Malibu district's initial operating year and two additional operating years, consistent with standard school district budgeting practice; and
    - Include a sensitivity analysis for the Malibu district budget showing the budget implications with and without parcel tax revenue.
- The scope should also include a few meetings with the SMMUSD's Chief Financial Officer and the two FOC Subcommittees to periodically review progress, discuss analysis issues and discuss preliminary draft report findings and conclusions with respect to Criteria #3 and #9. One meeting with the full FOC should also be included to discuss these findings and conclusions (i.e., Criteria #9 and #3).

<u>Information to be Provided by SMMUSD Staff and Consultants</u>

- Jan Maez reports that she and her staff are already formulating a Santa Monica-only set of budget projections, and will be available to meet with WestEd as needed to discuss these projections and related analysis issues, including a reasonable allocation of administrative overhead costs to each district.

- WestEd's scope of work anticipates that certain information will be provided by District bond counsel or other consultants. AMPS should agree to reimburse SMMUSD for any such costs for District counsel and consultants, including advance payment of any required retainer(s). If a formal agreement to reimburse these costs is required, that agreement should be executed at the same time as the agreement with WestEd to avoid any schedule delays.

<u>Schedule Issues</u>

- The WestEd proposal anticipates it will take about 12 weeks to prepare the analysis after receipt of certain information from SMMUSD. This probably means that the budget analysis should reflect information from the Governor's May Revision of the proposed State budget.
- It should also be noted that the schedule for completing the WestEd analysis may not coincide with the end of the school year, or the FOC's schedule for reporting to the Board of Education at the annual FOC-Board joint meeting, as previously hoped. Therefore, the two FOC subcommittees working on the unification issue may only be able to provide an interim or status report, rather than final recommendations.

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Proposal to Support Reorganization Planning of the Santa Monica-Mailbu Unified School District

January 30, 2015

The Local Control Funding Formula (LCFF) is a major shift in how the state calculates and provides funding to local education agencies (LEA) as a means to change the way LEAs and the state operate to better support outcomes for pupils. Prior to LCFF, WestEd completed a feasibly review for a proposal to create two separate districts from the current Santa Monica-Malibu Unified School District (District) as well as targeted research on bonded indebtedness, the District's unique parcel tax and employment rights. As a result of the implementation of LCFF, Criterion 9, No Substantial Negative Impact on District Fiscal Management or Status needs to be re-evaluated using the new funding model and the District and stakeholders have requested an updated review and analysis on the remaining 8 criteria.

This proposal outlines WestEd's approach to gathering and analyzing information provide updated analysis on the criteria to further dialogue amongst stakeholders. Criterion 9-No Substantial Negative Impact on District Fiscal Management or Status will be for the proposed Malibu Unified School District; the District will be preparing a separate analysis for the proposed Santa Monica Unified School District. Additionally, Criterion 2-The Districts are Each Organized on the Basis of a Substantial Community Identity, Criterion 6-The Proposed Reorganization Will not Significantly Disrupt the Educational Programs in the Proposed Districts and Criterion 8-The Proposed Reorganization is not Primarily Designed to Result in a Significant Increase in Property Values will also rely on information and analysis from agencies other than WestEd. The information provided through this proposed work would complement the information presented in the feasibly report, the addendum report and work from other agencies (on criterion 2, 6, 8, and 9) to provide a complete analysis of the 9 criteria.

About WestEd and Partners

WestEd (www.wested.org) is a preeminent educational research, development, and service organization with 600 employees and 17 offices nationwide. WestEd has been a leader in moving research into practice by conducting research and development programs, projects, and evaluations; by providing training and technical assistance; and by working with policymakers and practitioners at state and local levels to carry out large-scale school improvement and innovative change efforts. WestEd's mission—to work with education and other communities to promote excellence, achieve equity, and improve learning for children, youth, and adults—is addressed through a full range of projects. Over the past 45 years, WestEd and its two predecessors, Far West Laboratory for Educational Research and Development and Southwest Regional Laboratory, have carried out nearly 2,000 successful projects representing major contributions to the nation's R&D resources. WestEd has from

450 to 700 active contracts and grants at any given time. Current work extends to include most states in the nation and an increasing number of other countries.

PROJECT APPROACH

Our approach to answering the questions identified below aims to be both efficient and efficacious. Our team has prior understanding of the unique conditions faced by the Santa Monica and Malibu communities that affect decisions regarding reorganization. We also have experience conducting similar studies, which will expedite the process for identifying options and examples that may be referred to as part of the reorganization planning. Our goal is to provide information that is useful and informs further dialogue and decision making by stakeholders. Following are specific steps we propose to address the questions described above.

State Criteria	Proposed Action Steps
(1) The new districts will be adequate in terms of number of pupils enrolled.	▪ Update enrollment data analysis from the 2013 Feasibility Report; taking into account intradistrict and interdistrict transfers, develop enrollment projections based on reconfiguration
(2) The districts are each organized on the basis of a substantial community identity.	▪ Provide guidance on developing protocols to validate background information about each community so that the Advocates for Malibu Schools (AMPS) can complete interviews with with students and parents from both attendance areas to confirm the presumption that there are indeed ties to their community as defined by their high school and elementary school district enrollment areas.
(3) The reorganization will result in an equitable division of property and facilities of the original district or districts.	▪ Review and validate the District's assets such as; properties, funds and obligations ▪ Develop and confirm a methodology for property division based on reorganization boundaries
(4) The reorganization will not result in any substantial increase in cost to the state.	▪ Review and validate the District's the LCFF revenue calculation ▪ Calculate LCFF calculation for the proposed Malibu Unified School District, including assessing potential Basic Aid status
(5)The proposed reorganization will not promote racial or ethnic discrimination or segregation.	▪ Update enrollment data analysis from the 2013 Feasibility by race/ethnicity for each school

	▪ Review detailed breakdown of students that request intradistrict and interdistrict transfers provided by the District ▪ Review current board policies related to racial integration
(6) The proposed reorganization will not significantly disrupt the educational programs in the proposed districts and districts affected by the proposed reorganization will continue to promote sound educational performance in those districts.	▪ Review and validate any drafts of educational program outlines or proposals prepared by other vendor/s to ensure that proposed programs are robust, comprehensive and address the needs of all students ▪ Review and validate capacity to provide centralized programs such as special education, English language development, alternative education, student health services, home-to school transportation maintenance and operations, district business services ▪ Work with the District to develop shared assumptions on proposed centralized service plans ▪ Develop staffing and compensation models to support education and operational programs outlined by other vendor/s
(7) The proposed reorganization will not result in a significant increase in school housing costs.	▪ Review enrollment and facility plan
(8) The proposed reorganization is not primarily designed to result in a significant increase in property values causing financial advantage to property owners because territory was transferred to one school district to an adjoining district.	▪ The District will be contracting/ consulting with Bond Council to determine that the proposed reorganization will not significantly affect current assessed values for each proposed district. This information will be made available to WestEd for inclusion in this report.
(9) The proposed reorganization will not cause a substantial negative effect on the fiscal management or fiscal status of the district.	▪ Quantify potential costs that may result from the proposed reorganization, including operational costs for the proposed Malibu Unified School District ▪ Work with the District to develop a shared set of assumptions for revenue, enrollment and average daily attendance ▪ Create multi-year operational budget

	models, that includeds parcel tax revenue using the program, staffing and compensation models developed for Criterion 6

To support our approach requires commitments from our partners. As a result, to support the steps/activities outlined above involves the following expectations for AMPS and the District:

- Providing copies of all requested documentation that includes but is not limited to; copies other work/reports that would inform this analysis, position control reports, financial reports, debt obligations, audit reports and student attendance and testing information.
- WestEd will provide guidance on protocols to validate Criterion 2- AMPS will provide follow up outreach to each community to gather feedback.
- The District's Bond Council will provide all data and analysis on the effect on assessed value related to Criterion 8
- Prior work from other vendors for Criterion 6 will be provided as a resource for this work
- The Santa Monica Malibu Unified School District will work with WestEd to develop a shared set of assumptions for criterion 1,3,5,6 and 9.
- The Santa Monica-Malibu Unified School District will prepared the analysis for the Criterion 9-No Substantial Negative Impact on District Fiscal Management or Status for the proposed Santa Monica Unified School District
- Preparing all internal communications
- Completing agreed upon preplanning activities to support and inform consultation with WestEd staff
- Completing follow-up activities that are determined as a result of the analysis

Anticipated Timelines

Within 12 weeks of receiving an executed contract and all requested data, WestEd expects to complete the analysis and documentation proposed above. WestEd will deliver electronic copies of a report and present information and answer questions via video or phone conference.

Cost of Project

WestEd proposes completing the work described in this proposal for $18,500 inclusive of all project staff time and expenses. After reviewing the proposal, if you decide the proposed scope should be expanded or contracted, we would be happy to make modifications and provide a revised estimated fee. If the proposal meets with your approval, please let us know and we can send over a contract for services. Our proposal is valid for 60 days from the date of this letter.

PROPOSAL CONTACT

We hope you find that WestEd is uniquely qualified to assist you with this important project. WestEd's Educational Finance Specialist, Ann Hern would lead this project and may be contacted with any questions regarding this proposal (ahern@wested.org, 209-814-3605).