Malibu Unification Negotiations Committee
Meeting Minutes

Thursday, July 14, 2016
Malibu City Hall, 23825 Stuart Ranch Road, Malibu, CA

I. Call to Order / Roll Call

- *The committee called the meeting to order at 7:12 p.m. with the following committee members present:*

Tom Larmore	*Laura Rosenthal*
Debbie Mulvaney	*Manel Sweetmore*
Paul Silvern	

- *Committee member Makan Delrahim was absent.*

II. Approve June 28, 2016 Meeting Minutes

- *Mr. Larmore corrected page 3 of the minutes to replace two references to "Basic Aid" to read "Minimum State Aid."*
- *By consensus, the committee approved the corrected minutes.*

III. Follow-up Business from Previous Meetings

A. Status report on Procopio contract (Larmore/Delrahim)
   - *Mr. Larmore announced the contract with Procopio was signed.*
   - *Ms. Orlansky stated Procopio is working on the bond-related assignments, which are scheduled for Committee discussion on July 26.*
   - *Mr. Larmore and Mr. Delrahim signed off on the memo to Procopio outlining the environmental liability issues. Ms. Orlansky will obtain an estimated cost of this work, and Mr. Larmore and Mr. Delrahim will need to provide their approval of the cost before Procopio is given the green light to proceed.*

B. Agenda Planning - update from June 28 meeting (Orlansky)
   - *The Committee received a handout that reflected the Committee's agenda-planning decisions from June 28, and a draft agenda for the Committee's meeting on July 19.*
   - *Ms. Rosenthal announced that the City of Malibu staff finished its technical edits on the videotape of SSC's presentation at the June 14, 2016 meeting; and that SSC had just signed off on it. The videotape will be provided to the District for posting on the MUNC page of SMMUSD's website.*

IV. Presentation by School Services of California, Inc. (SSC)

- *Mr. Robert Miyashiro, Vice President, SSC, and Mr. Mike Ricketts, Associate Vice President, SSC, provided a briefing (via teleconference) on SSC's two DRAFT reports, dated July 13, 2016: "Review of Prior Reports and Analysis of District Reorganization" and "Report Prepared for the Malibu Unification Negotiating*

Committee" (This second report contained the draft results of SSC's sensitivity analysis and long-term projections.)

- *Mr. Miyashiro clarified that the reports are still in draft form, and that SSC prepared the two draft reports for MUNC's evaluation. He stated SSC's practice is not to answer any questions from the public or media related to anything in a draft report.*

Mr. Miyashiro's summary overview on the draft report, "Review of Prior Reports and Analyses of District Reorganization," included the following points:

- *SSC reviewed the multiyear unrestricted operating budget projects (related to the proposed reorganization of the District (SMMUSD) into two unified school districts (MUSD and SMUSD) provided in: WestEd's Feasibility Analysis prepared in January 2013; WestEd's revised Feasibility Analysis dated July 16, 2015; the District's Financial Oversight Committee's July 2015 memorandum to the Board of Education; the FOC's November 2015 update to the Board of Education, and projections prepared by the District for SMMUSD and SMUSD.*
- *The County Committee on School District Organization and the State Board of Education exercise judgment on whether the nine school district reorganization criteria are met. However, it is SSC's opinion that the proposed reorganization will face challenges in meeting Criterion 5, which specifies that any costs to the State from the proposed reorganization will be insignificant or otherwise incidental to the reorganization, and Criterion 9, which specifies that the reorganization shall not have a substantial adverse effect on the fiscal management and fiscal status of the districts involved in the reorganization.*
- *Criterion 5 may be challenging to meet because the reorganization will create a basic aid district in the proposed MUSD and increase state aid costs in the proposed SMUSD. Depending on which assumptions are made, the increase in state aid from the reorganization is estimated to range from $4.5 million to potentially more than $12 million per year.*
- *Criterion 9 may be challenging to meet because of the current structural budget deficit that faces SMMUSD. SMMUSD projects ongoing budget shortfalls that will eventually exhaust the District's fund balance because projected expenditures outpace projected revenues. When the reorganization is executed, both of the two new districts will inherit this budget problem.*

Mr. Miyashiro explained SSC's approach to examining opportunities for cost savings. He stated that, specifically, SSC looked at the District's expenditures relative to similar school districts in Southern California and to the statewide average for unified school districts. The results of SSC's comparative analysis pointed to a number of areas that the District may wish to explore when considering expenditure plans for future years.

Mr. Ricketts' summary overview of the draft report that contained the results of SSC's sensitivity analysis and long-term projections included the following points:

- *SSC's forecasting model was based on a spreadsheet SMMUSD uses for multiyear forecasting. SSC extended the spreadsheet to 2028-2029 for generating forecasts in two time frames: (1) Near term - 2017-2018, when the District separation is* *expected, through 2020-2021, when the implementation of Local Control Funding Formula (LCFF) is planned to be completed; and (2) Long term - 2021-2022 through 2028-2029. For both time periods, SSC compared the projected funding for the two proposed districts compared to the projected funding for the current SMMUSD.*

- *SSC forecasted the relative change in revenues under different conditions, and assessed the impact of these conditions on each school district, as well as on state costs under LCFF.*
- *It is important to recognize that the reports are only a forecast and that the numbers the forecasting model produces are not exact. Different assumptions and different starting conditions, even if slight, will result in different numbers. The value of the forecast is not in the exactness of the numbers, but instead in the trends and relationships the model illuminates, and that other reasonably made assumptions will yield different results.*
- *To enable comparisons with previous projections, SSC maintained some of the same factors used in earlier reorganization studies. In particular, SSC used the same proportional allocation of property tax revenue between SMUSD and MUSD, the same proportional distribution of ADA (average daily attendance), and the same division of students eligible for LCFF supplemental grants. However, as a result of determining that the division of enrolled students (based on 2015-2016 enrollment data) shows that the percentage of students in MUSD schools is higher than in prior years, SSC used the higher proportion of students to assess the sensitivity of MUSD's revenues to enrollment growth.*
- *With respect to allocations of LCFF state aid, SMMUSD (as currently configured) is currently a minimum state aid district, but is projected to become a basic state aid district in the future. (The term "basic aid district" refers to school districts largely funded from local property tax revenues.)*
- *A separate SMUSD would retain approximately 80% of the current District's students, but generate only about two-thirds of the property tax revenue. As a result of the relative per-pupil decrease in revenue, SMUSD would become a state aid district in the near term. The projected loss in per-pupil revenue from the LCFF during the near term forecast (2017-2018 through 2020-2021) ranges from $141 to $391 per student. However, because this reduction is offset by other revenue that SMUSD would retain in whole or in part, the net loss in the near term is considered relatively minor, meaning no more than $140 per ADA in one year.*
- *Over the longer term (2021-2022 through 2028-2029), the reduction in net revenues for SMUSD compared to the Districts, increases from about $200 per ADA in 2020-2021 to more than $1,300 per ADA in 2028-2029. During this time, SMUSD is projected to change its LCFF status from a state aid district to a minimum state aid district, and eventually to a basic aid district.*
- *A separate MUSD would begin as a basic aid district. The near term forecast shows that MUSD would see an increase in LCFF per-pupil funding (when compared to SMMUSD) of $5,046 to $6,342 per ADA. This increase is offset in part by losses of revenue that would accrue only to SMUSD (e.g., sales tax Proposition Y funds). If Malbu voters do not approve a parcel tax to continue revenue equivalent to parcel tax revenue from Measure R, MUSD would lose more than*

$1,000 per ADA. Because of these offsetting reductions, the net gain per ADA in MUSD is estimated to be between $2,541 and $2,954 between 2017-2018 and 2020-2021.

- *Over the longer term (2021-2022 through 2028-2029), MUSD is projected to continue as a basic aid district, with net revenue gains above current funding levels estimated to range between $3,094 per ADA to $4,225 per ADA.*

Issues raised and comments made during the committee's discussion with SSC on the two draft reports included:

- *A caution to be careful about drawing definitive conclusions when speculating about numbers.*
- *The unique qualities of the proposed reorganization of SMMUSD into two separate school districts, which means there is a lack of precedents in the state for how certain things would work.*
- *The fact that the District has taken steps to reduce expenditures over the years, and has plans for addressing the structural budget deficit referenced in SSC's report. A suggestion was made that SSC should consult with SMMUSD's Chief Financial Officer (CFO) to confirm certain projected revenue numbers.*
- *How the changes over time and uncertainty surrounding various revenue sources complicate the forecasting scenarios.*
- *How and why the SMMUSD adopted budget differs from the SSC forecast.*
- *That the reason MUSD reaches the status of a basic aid district so quickly is that MUSD would retain a relatively higher percentage of the tax revenue currently collected by SMMUSD, combined with the fact that MUSD has a comparatively lower percent of the students.*
- *That a number of different variables may point to an "optimum" time for a separation of the two districts to occur.*
- *That the list of non-LCFF revenue sources in SSC's forecasts does not include the revenue from a renewed hotel lease. (In response to this comment, it was noted that hotel revenue or other local revenue considerations, such as a potential new sales tax in Santa Monica, could be added into forecasts, if deemed to be significant. Mr. Silvern suggested that SMMUSD CFO Jan Maez, or the SMMUSD consultant, is the best resource for information about the hotel lease.*

By consensus, the committee agreed with a proposal from Mr. Sweetmore that a subcommittee consisting of Mr. Sweetmore and Mr. Silvern would follow up with SSC by telephone to discuss the two draft reports in more detail. The subcommittee would then report the results of their meeting to the full Committee.

Mr. Miyashiro denied Mr. Sweetmore's request for copies of SSC's model (in spreadsheet form), explaining that the scope of SSC's contract was to provide forecasts and not to build a model for the committee's own use. He confirmed SSC is fully prepared to run different scenarios as requested by the committee. Mr. Silvern suggested committee members who want to see the different scenarios submit those requests to SSC to develop results that would be presented to the committee. The *committee agreed to discuss identification of different scenarios at its July 19, 2016 meeting.*

The Committee talked briefly about next steps:

- *Ms. Orlansky advised the committee that when it was deciding what scenarios to run to also consider what possible end decisions could be made from the results. She reminded the committee it was time to consider acting on the results, not just gathering data.*
- *Mr. Larmore suggested the committee must consider whether or not the split will be feasible depending on the results of the various scenarios. He stated it is worth assessing how big a problem might be and how long the problems may last.*
- *Ms. Mulvaney expressed concern about the constant flux of data. She suggested the committee stop worrying so much about the different components of the revenue and focus more on the bottom lines of comparing SMMUSD with SMUSD and MUSD. She suggested structuring a strategy by establishing differential benchmarks for making decisions and simplifying the methodology for evaluating the numbers. She reminded the committee that the agreement could stipulate that any major shift in specific revenues would cause a reopener.*
- *Several members talked about how the timeframe of seeking revenue neutrality will be an important subject for the committee to wrestle with. Mr. Larmore stated he was not comfortable with only short-terms evaluations due to how often the forecasts change and by how much.*
- *Ms. Mulvaney stated it should be understood that both sides were acting in good faith for the good of all the students. Mr. Sweetmore agreed, but stated it should be recognized that voters (who must approve the separation) might look at the issue of potential disincentives.*

V. Public Comments

None.

VI. Topics for Next Agenda: July 19 meeting, 6:00-9:00 PM at District Offices

- *6:00-7:00 PM: Education on SMMUSD's insurance, provided by Jan Maez, CFO, and a representative from the Alliance of Schools for Cooperative Insurance Programs (ASCIP)*
- *7:00-9:00 PM: Work session with SSC for the purpose of exploring and defining SSC's Phase 2 assignment(s).*

VII. Adjournment

- *The committee adjourned the meeting at 8:59 p.m.*

Upcoming Meeting Dates and Locations:

July 19 at District Offices
July 26 at Malibu City Hall
August 2 at District Offices
August 9 at Malibu City Hall
August 16 at District Offices

Revised by MUNC
6/28/2016

Malibu Unification Negotiations Committee
Agenda Planning V4

The table below shows the revised schedule of topics for upcoming MUNC meetings, as discussed and approved by the Committee on June 28, 2016. Unless otherwise noted, all meetings are from 7-9 PM. For easy reference, the MUNC's most recently adopted Plan of Work is attached, beginning on page 3.

Meeting Date and Location	Agenda Topic(s)	Other Information
~~July 5~~ ~~Santa Monica~~	Meeting cancelled.	Session with Procopio on bond-related issues is rescheduled for July 26, 2016. See below.
July 14 (Thursday) Malibu	Presentation by SSC (Mr. Miyashiro and Mr. Ricketts) and Q&A with Committee on SSC's remaining Phase 1 tasks: • Review of previously completed reports and projections; and • Sensitivity analysis and long-term projections.	SSC's written report for this item is scheduled to be done and distributed (electronically) on July 8, 2016. MUNC members should send Karen any questions on the report so that she can provide them to SSC before July 14. SSC (Mike and Robert) will participate in the July 14 meeting by speakerphone.
July 19 Santa Monica Meeting begins at 6:00 PM	*******PLEASE NOTE EARLIER START TIME******* 6-7 PM: Education on SMMUSD's insurance, provided by Jan Maez, Chief Financial Officer, and Russell O'Donnell, Chief Operating Officer, Alliance of Schools for Cooperative Insurance Programs (ASCIP). 7-9 PM: SSC (Mr. Miyashiro and Mr. Ricketts) will participate in an on-site worksession with the MUNC to explore and define SSC's Phase 2 assignment(s). For billing purposes, the MUNC's meeting with SSC on July 19 is considered part of SSC's Phase 1 work.	SSC's contract states that, "Phase 2 work will encompass hourly technical assistance working closely with Committee members to (1) assess solutions and develop formulae as needed to address disparities in financial impact that may occur through a reorganization of the District; and (2) identify and evaluate alternatives that are effective in implementing and enforcing the preferred solution."
July 26 Malibu	Worksession on Topic 2. Allocation of Bond Debt and Authorization to Issue New Bonds, with participation from Procopio (responding to issues identified by the MUNC on June 21 for Procopio's review and comment).	Procopio (Mr. Lemmo) has agreed to have a written document prepared in time to go out with the agenda on Friday, July 22. He will participate in this meeting by speakerphone. This is the item rescheduled from July 5.
August 2 Santa Monica	Education/worksession with Procopio on environmental liability (Topic 4). Participation by Procopio will again be by speakerphone.	KO will work with Mr. Larmore and Mr. Delrahim to clarify the scope of work related to environmental liability and obtain approval for Procopio's estimated cost of performing that work.

August 9 Malibu	To be determined.	
August 16 Santa Monica	To be determined.	
Next meeting date (TBD)		
Next meeting date (TBD)		
Next meeting date (TBD)		

Malibu Unification Negotiations Committee Plan of Work
Issues and Sub-Issues by Topic, As of May 24, 2016

Topic 1. Balance Sheet Allocations
Issues for Committee to Address

1. Determine allocation method for SMMUSD's cash assets, i.e., pro rata ADA basis or some specified alternative.

    a. Major governmental funds
        i. General Fund (unrestricted): LCFF Revenues; City of SM funding; Prop. R Parcel Tax funds; lease income; SMMEF funding
        ii. General Fund (restricted)
        iii. Building Fund – undisbursed bond proceeds
        iv. Bond Interest and Redemption Fund

    b. Special Revenue Funds
        i. Adult Education Fund
        ii. Child Development Fund
        iii. Cafeteria Special Revenue Fund
        iv. Deferred Maintenance Fund

    c. Capital Project Funds
        i. Capital Facilities Fund – developer fees
        ii. Special Reserve Fund – tax increment from RDA

    d. Self Insurance Fund – relates to OPEB liability

    e. Fiduciary Funds – agency funds held for benefit of employees or student groups

2. Determine allocation method for SMMUSD's physical assets

    a. Land and buildings
    b. Personal property – vehicles

3. Determine which of SMMUSD's liabilities (other than bond debt and environmental liability) need to be allocated and the recommended allocation method.

    a. Certificates of Participation
    b. Compensated absences
    c. OPEB

4. Determine whether there are any additional financial items related to balance sheet allocations or off balance sheet items that need to be addressed. (Per the Board's December 17, 2015 action, the Committee will notify the Superintendent, the City Manager of Malibu, and the Board of Education, during monthly presentations, of any additional financial issues identified by the Committee.)

5. Determine whether to include a procedure for revisiting any of the agreements reached on balance sheet allocations and, if so, what might be the appropriate procedures and triggering mechanism

Topic 2. Allocation of Bond Debt and Authorization to Issue New Bonds
Issues for Committee to Address

1. Determine method of allocating SMMUSD's indebtedness under issued and outstanding bonds.

2. Establish a mechanism that would permit refinancing of SMMUSD's outstanding bonds.

3. Establish mechanism for allocating authority to issue future bonds that have already been authorized. This issue includes analyzing legal issues associated with mechanisms considered, including the possibility of new State legislation.

4. Determine whether there any additional financial items related to bonds that need to be addressed. (Per the Board's December 17, 2015 action, the Committee will notify the Superintendent, the City Manager of Malibu, and the Board of Education, during monthly presentations, of any additional financial issues identified by the Committee.)

5. Determine whether to include a procedure for revisiting any of the agreements reached on bond-related issues and, if so, what might be the appropriate procedures and triggering mechanism.

Topic 3. Financial (Operating Budget) Impacts
Issues for Committee to Address

1. Using agreed-upon assumptions, develop a mechanism for eliminating any significant adverse financial impact on the operating budget of SMUSD from separation. *Adverse financial impact* is defined as the difference in revenue per student in SMMUSD (if the governance structure remains the same) vs. revenue per student in a Santa Monica only district.

    a. Committee review of and discussion about 11/15/15 Updated FOC Financial Information

    b. Committee review of and discussion about independent consultant's comments on 11/15/15 Updated FOC Financial Information, and any recommendations for a revenue neutrality recommendation

    c. What to measure:
        i. Focus on revenues (not operating costs)
        ii. Focus on revenues in the Unrestricted General Fund (not Restricted General Fund or other Fund Accounts)
        iii. Specific revenue metric for definition of "adverse impact" (e.g., annual and cumulative difference in per-ADA revenue to SMUSD vs. SMMUSD, or "revenue neutrality")
        iv. Time period for measurement of revenue impact (e.g., at least 3 years applicable to district budgeting; maybe a longer view consistent with State budget forecast if K-12 revenue parameters can be determined)
        v. Key revenue drivers likely to have the largest impact on future annual revenues (e.g., LCFF; local property tax revenue; SaMo RDA revenue; Minimum State Aid)
        vi. Variance range for key revenue drivers in light of uncertainty and analysis time horizon

    d. Measurement of the revenue neutrality amount (based on above factors and considerations)
        i. Annual
        ii. Cumulative

    e. Options for funding the measured revenue neutrality, for example:
        i. Annual payments and over a specified number of years
        ii. One-time payment (e.g., net present value of future payments)
        iii. Others to be determined

    f. The recommended revenue neutrality mechanism

2. Determine the appropriate legal structure for implementing the agreed-upon mechanism to insure legality and enforceability.

    a. Criteria for a "legal and enforceable" mechanism

    b. Candidate mechanism options (e.g., Memorandum of Understanding; contract; special State legislation)
    c. Pros and cons for each mechanism

    d. Recommend a preferred legal structure

3. Determine the effect of any non-operating budget revenue benefits to SMUSD arising from separation.

    a. Identify specific examples of non-operating revenues that merit consideration

    b. Assess any impacts on recommended mechanism and implementation approach

    c. If necessary, such non-operating revenue

    d. Determine whether any adjustments to recommended mechanism and implementation approach should be made

    e. If applicable, recommend adjustments

4. Determine whether there any additional financial items related to operating budget impacts that need to be addressed (e.g., costs of CEQA compliance required for Unification process).[1]

    a. Identify any such additional financial items or issues

    b. Assess any impacts on recommended mechanism and implementation approach

    c. If necessary, such non-operating revenue

    d. Determine whether any adjustments to recommended mechanism and implementation approach should be made

    e. If applicable, recommend adjustments

[1] Per the Board's December 17, 2015 Action Item, the Committee will notify the Superintendent, the City Manager of Malibu, and the Board of Education, during monthly presentations, of any additional financial issues identified by the Committee.

5. Determine whether to include a procedure for revisiting any of the agreements or related payment practices reached on operating budget impacts, and, if so, what might be the appropriate procedure(s) and triggering mechanism.

    a. Identify candidate changes in circumstances that could justify reconsideration of the revenue neutrality mechanism and/or enforcement mechanism

    b. Determine whether any such changes in circumstances would justify reconsideration

    c. Formulate options for reconsideration (e.g., annual review or event-driven)

    d. If applicable, recommend a reconsideration procedure

Topic 4. Litigation
Issues for Committee to Address

1. Determine how to accomplish the objective (as stated in the Board's December 17, 2015 action) to establish a structure under which MUSD assumes responsibility for any remaining remediation of any contamination in Malibu schools and indemnifies SMUSD for any future claims arising from such remediation work or failure to undertake appropriate work.

2. Determine how to accomplish the objective (as stated in the Board's December 17, 2015 action) for dismissal of the pending lawsuit against SMMUSD or an enforceable agreement from the plaintiffs that SMUSD will be dismissed from the lawsuit.

Listing of Sub issues:

- Allocation of current and potential liabilities
    - Existing Lawsuit: Terms and process of relief
    - Potential future lawsuits for injunctive relief: owner of liability and how to indemnify
    - Remediation Costs: owner of financial liability
    - Temporary housing: owner of financial liability
    - Future lawsuits challenging sufficiency of post separation mediation: owner of liability and how to indemnify
    - Current/Future lawsuits asserting personal injury: owner of liability and how to indemnify
    - Any other Legal process/issues by which agreed upon division of liabilities is executed
- Timing of start of remediation
    - Discuss potential for starting remediation post-agreement but pre executed separation

Santa Monica-Malibu Unified School District

Review of Prior Reports and Analyses of District Reorganization

July 13, 2016

Prepared By:

Robert D. Miyashiro
Vice President

Michael Ricketts
Associate Vice President

Santa Monica-Malibu Unified School District

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Executive Summary

The Santa Monica-Malibu Unified School District (the District) and Advocates for Malibu Public Schools (AMPS) has contracted with School Services of California, Inc., (SSC) to provide the Board of Education's Malibu Unification Negotiating Committee (Committee) with independent and impartial consulting services to assist in the development of a formula to address fiscal disparities that may arise from the reorganization of the District into two unified school districts.

Over the past five years the District has analyzed the impact of reorganizing into two separate districts: the Santa Monica Unified School District (SMUSD) and the Malibu Unified School District (MUSD). Through the course of that review and analysis, projections suggest that SMUSD may experience a material decline in revenues when compared to the current configuration.

To assist the Committee, SSC has reviewed the multiyear unrestricted operating budget projections that relate to the proposed reorganization of the District into two unified school districts. This review included five specific documents: projections prepared by WestEd in January 2013, projections prepared by the District for SMUSD, the District's Financial Oversight Committee's (FOC) July 2015 memorandum to the Board of Education, the revised Feasibility Analysis of Proposed Santa Monica-Malibu Unified School District Reorganization dated July 16, 2015, and the FOC's November 2015 update to the Board of Education.

Summary of Major Findings

Document Review and Analysis

SSC conducted a review of five key documents that have informed the Committee regarding the fiscal effects of establishing two unified districts from the District. Our review focused on an examination of the revenue assumptions in the respective analyses, including the calculations and procedures used to estimate the impact of the Local Control Funding Formula (LCFF), property tax growth, Measure R funds, and other revenues. The review also includes a general examination of operating expenditure assumptions and related to the potential structural change from one to two school districts, assuming continuation of the current education program now delivered by the District to all schools.

Below is a summary of our findings.

1. **WestEd, *Feasibility Analysis of Proposed Santa Monica-Malibu Unified School District Reorganization*, January 2013; Updated July 16, 2015**

   - **Division of Revenues and Expenditures**—The January 2013 WestEd report displays the District's budget as of 2011-12 actuals and the division of revenues and expenditures between the two proposed districts. The division of revenues and expenditures—with the exception of property taxes, the corresponding reduction to categorical aid, and other local revenue—on the basis of the relative share of the District enrollment to be served by the two districts is a reasonable assumption. The division of capital outlay expenditures could be made on the basis of the location of the capital structures for which the expenditures are made. This method of allocation would more closely correspond with the actual costs to be faced by the two newly created districts.

- **Criterion 5: No New State Costs**—The January 2013 report acknowledges that the reorganization will create a basic aid district in the proposed MUSD, and thus increase state costs in the proposed SMUSD. The report concludes, however, that these costs are "well below the 10% threshold applied as the standard by the state." Therefore, the proposed reorganization will substantially meet Criterion 5. The report cites California Code of Regulations (CCR), Title 5, Section 18573(a)(2) as providing this threshold. However, this section was deleted from Title 5 following the state's enactment of Senate Bill (SB) 1537 (Chapter 1186/1994), which provided for a maximum 10% revenue limit increase to address salary differentials following unification and is no longer in effect. The July 16, 2016, report does not cite Title 5 as basis for concluding that Criterion 5 would be met. Instead, the report notes that the estimated $4.3 million in additional state aid to SMUSD appears to be insignificant as measured against "the statewide level of state aid" and therefore this criterion appears to be met.

- **Criterion 9: District Fiscal Status**—WestEd's updated fiscal analysis released on July 16, 2015, provides a multiyear budget projection for MUSD. The projection shows that MUSD would be fiscally solvent and experience a rising fund balance from $3.6 million at the beginning of the first year of the reorganization to $5.4 million by the end of the fourth year. Over this period, revenues exceed expenditures by about $450,000 annually. The projection, however, assumes that Measure R parcel taxes of $3.2 million annually, or an equivalent amount from another local source, would be provided to MUSD.

- **Measure R Parcel Taxes**—If Measure R revenues or an equivalent amount from another source are not available to MUSD, the proposed district will not only face an immediate budget deficit in the first year of unification, drawing down more than half of its beginning fund balance, it faces a structural budget shortfall with expenditure growth outpacing revenue increases. In the year following reorganization, MUSD would see expenditures of $19.5 million compared to revenues of $17 million, resulting in a shortfall of almost 2.5 million. The new district's fund balance would be exhausted by the third year of the reorganization.

- **Mandate Block Grant**—The multiyear projection (MYP) assumes that MUSD will receive revenues from the mandate block grant (MBG) of $188,000 in the first year of the reorganization dropping to $67,000 in the second year. In the third and fourth years, the projections assume no funding for the MBG. Based on State Budget appropriations since the enactment of the MBG, MUSD can assume revenues of $28/average daily attendance (ADA) for students in grades K-8 and $56/ADA for students in grades 9-12 through the forecast period, which totals to approximately $67,000 annually.

- **One-Time Discretionary Funds**—The July 16, 2015, report shows that other state revenues will drop in 2016-17 with the elimination of the one-time funding provided in 2015-16. The 2016-17 Budget Act provides $214 per ADA in one-time funding, which in turn would boost MUSD's revenues under the projections by approximately $380,000 in 2016-17.

- **Expenditures for Employee Benefits**—The July 16, 2015, report shows employee benefits increasing over 9% annually. This growth rate indicates that costs for health and welfare benefits and retirement expenditures are expected to increase at a substantially higher rate than the cost of salaries, which are assumed to increase 1.5%. For the District, health and welfare benefits increased from $7,364/full-time equivalent (FTE) in 2005-06 to $13,069/FTE in 2014-15, an average annual increase of 6.6%. Similarly, both California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) employer contribution rates are scheduled to more than double from 2014-15 through 2020-21. The WestEd projections for these costs are reasonable.

2. Staff's Forecast for the District, July 15, 2015 and June 29, 2016

- **Operating Deficit**—District staff provided a multiyear forecast for the District on June 29, 2016. This forecast was based on the 2016-17 proposed District budget, which is consistent with the Governor's May Revision. This forecast, which includes $4.5 million in unspecified, ongoing cuts commencing in 2017-18, shows substantial operating deficits through 2018-19 of over 6% of total expenditures. If this imbalance is not corrected, the foundation for creating two new unified districts jeopardizes the fiscal outlook for both proposed districts.

- **CalSTRS and CalPERS Rate Increases—**The multiyear forecast for the District based on the 2016-17 proposed budget shows the cost of employee benefits growing 3.6% in 2017-18 and 3.9% in 2018-19. These increases are lower than the increases presented in the multiyear forecast of July 15, 2015, for the proposed SMUSD. The forecast for SMUSD shows the cost of employee benefits increasing 8.5% in both 2016-17 and 2017-18. These higher cost increases appear more consistent with scheduled employer contribution rate hikes scheduled for CalSTRS and CalPERS and the District's historical pattern of outlays for health and welfare benefits.

3. **Staff's Forecast for the Proposed SMUSD, July 15, 2015**

- **Operating Deficit**—The multiyear forecast for the proposed SMUSD, based on the 2015-16 adopted District budget, shows that SMUSD will experience a growing structural imbalance with expenditures outpacing revenues by $4.5 million in 2016-17 and $5 million by 2017-18. This represents about 5% of the SMUSD's expenditures. This forecast would suggest that Criterion 9 would not be met.

4. **FOC Update on the Budgetary Implications of Malibu Unification, November 15, 2015**

- **Upward Revision to MUSD Revenue Projections**—The November 15, 2015, projections show that revenues for MUSD are more than $7 million higher than the projections of July 15, 2015. Specifically, the July forecast showed MUSD's total revenues of $15.6 million in 2015-16, increasing to $16.3 million in 2017-18. The revised forecasts show MUSD revenues of $22.7 million in 2015-16 increasing to $23.6 million two years later. This adjustment appears to be related to the $7 million increase in 2014-15 revenues associated with minimum state aid.

- **Criterion 5 and Minimum State Aid**—We warn that the assumption that minimum state aid would be allocated solely to MUSD is tenuous. The State Board of Education (SBE) has yet to render a decision regarding the allocation of minimum state aid among districts that are splitting apart. Moreover, the addition of $7 million in state aid to a basic aid district, plus the required state aid backfill for the loss of property tax revenue in SMUSD, would compound the challenge in meeting the requirements of Criterion 5, which specifies that "Any increase in costs to the state as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization."

- **Per Average Daily Attendance Calculations**—The November 15, 2015, update present revenues, expenditures, and fund balances in terms of both total dollars and dollars per ADA. The per-ADA calculations, however, did not extend to calculations made when determining the amount remaining after deducting revenues and expenditures for the proposed district from the existing the District. In our view, the amount remaining should be denominated on a per-ADA basis using the residual ADA, after accounting for the ADA served by the proposed district.

Opportunities for Cost Savings

The review of the various MYPs provides an opportunity to examine the assumed rates of change in revenues and expenditures from one year to the next. These projections, however, do not provide an assessment of the current level of revenues and expenditures which then form the basis of the projections. To identify opportunities for cost savings, this study examined the District's expenditures relative to similar districts in the Southern California area and relative to the statewide average for unified school districts, based on state-certified data for 2014-15. Some of the major findings from this comparison are as follows:

- **Student to Teacher Ratio**—The District currently provides a richer student-to-teacher ratio than the group of comparative districts and the statewide average for unified districts. At 18.07 ADA per FTE, the District has 18% fewer students per FTE than the comparative group and 10% fewer than the statewide average.

- **Health Benefit Costs**—The District maintains a higher maximum contribution for health benefits, with the District providing a maximum contribution of $19,706, or almost $3,700 more than the comparative group average and just over $5,250 more than the statewide average.

- **Insurance and Other Operating Expenses**—The District's insurance costs per ADA are more than double the insurance outlays for the comparative group and the statewide average for unified districts. In addition, the District's per-ADA expenditures for services and other operating expenses are almost 50% higher than the comparative group average and 17% higher than the statewide average.

Background

District Reorganization Proposal

The proposal before the District's Board of Education's Unification Negotiating Committee is to assess the feasibility of reorganizing the District into two unified districts. The boundaries of these two districts would follow the city boundaries of the city of Santa Monica and the city of Malibu.

SMUSD—The proposed SMUSD would have as its boundaries the boundaries of the city of Santa Monica, which is located on the western side of Los Angeles County, bordering the Pacific Ocean. Pacific Palisades lies to the north, West Los Angeles lies to the east, and Marina Del Rey lies to the south of Santa Monica.

MUSD—The proposed MUSD would have the same borders as the city of Malibu, which lies to the north and west of Santa Monica, plus the unincorporated areas of Los Angeles County that are included in the District's boundaries. MUSD also lies on the southwestern edge of Los Angeles County with the Pacific Ocean as its southern border.

Legal Requirements

The California Education Code governs the process of school district reorganization, including unifications. Commencing with Education Code Section (E.C.) 35500, the code defines the various types of district reorganizations; describes the overall processes to initiate a district reorganization; specifies the duties and responsibilities of the county committee on school district reorganization (county committee) and other relevant public agencies and organizations; prescribes the timelines for public hearings, governing board actions, and voting; specifies the employment rights of district employees; and lists the criteria upon which the SBE must evaluate reorganization proposals. In addition, the courts have ruled that a district reorganization falls within the scope of the California Environmental Quality Act (CEQA); therefore, the reorganization of the District into two unified school districts must also take into consideration any environmental impacts.

Through the division of the District into two unified districts, both SMUSD and MUSD would serve students in grades K through 12. The reorganization would change the boundaries of the District, which currently consists of two noncontiguous regions, one serving the Santa Monica area and one serving the Malibu area. An unincorporated area of Los Angeles County separates these two regions.

The contemplated reorganization would fall under one of two Education Code provisions: (1) 25% petition specified in E.C. 35700, or (2) 10% petition specified in E.C. 35721. At this juncture, no reorganization has been submitted for consideration. Instead, the Committee is evaluating numerous fiscal and operational issues that confront the proposed reorganization.

Under the law, a reorganization petition should include a description of the territory to be transferred, a list of the school districts affected, a designation of no more than three chief petitioners, and an affidavit that all signatures on the petition are genuine.

The 25% Reorganization Petition—E.C. 35700 specifies that a petition to initiate the reorganization of one or more districts may be signed by (a) at least 25% of the registered voters in the districts from that territory proposed for reorganization, (b) a number of registered voters residing in the territory proposed for reorganization equal to at least 8% of the votes cast for all candidates for Governor in the last gubernatorial election, (c) the owner(s) of uninhabited territory, or (d) a majority of the members of the governing boards of each affected school district. The county committee on school district organization must advance the reorganization petition to the SBE with a recommendation for approval or disapproval.

Public Hearings—Following the determination by the county superintendent of schools that the reorganizing petition is sufficient and that the minimum number of signatures has been obtained, the petition is transmitted to the county committee and the SBE. The county committee is then responsible for holding public hearings on the proposal. Specifically, within 60 days of receiving a petition to reorganize a district, the county committee must hold a public hearing on the reorganization in each affected district. The public must be given at least ten days' notice of the hearing.

County Committee on School District Organization—The county committee is charged with evaluating the reorganization proposal based on the same criteria that will be followed by the SBE. These criteria are specified in E.C. 35753 and are often referred to as the "nine reorganization criteria." WestEd, in collaboration with District staff, prepared a report titled "Feasibility Analysis of Proposed Santa Monica-Malibu Unified School District Reorganization," which was released in January 2013 and updated on July 16, 2015. This study specifically addressed the nine reorganization criteria.

Following the public hearings on the reorganization proposal, the county committee is charged with evaluating the proposal against the nine reorganization criteria. Based on this evaluation, the county committee either recommends approval or disapproval of the petition. The county committee's report is required to be completed within 120 days of the first public hearing. The petition then moves forward to the SBE, along with the county committee's report, regardless of the recommendation of the county committee.

In addition to the information included in the petition, E.C. 35730 et. seq. and the California Department of Education (CDE) suggest that the following information also be included in the county committee's report:

- The legal structure of the district governing board (i.e., controlled by a city charter or a separate board governed by general laws) and the number of board members
- The territory in which the election for reorganization will be held (i.e., who will vote on the reorganization)
- Whether members of the governing board will be elected at large or by trustee area; and if by trustee area, how the trustee areas are to be drawn (population or geographic factors) and the boundaries of the trustee areas
- The computation of the district revenues under LCFF following the reorganization
- A proposal for dividing the property (other than real property) and obligations
- Whether the first governing board will be elected at the same election as the reorganization proposal, in which case a method for determining the length of the initial terms must be specified, or elected at the first regular election after the passage of the reorganization proposal
- A method for dividing the bond indebtedness other than that specified in the Education Code

SBE's Responsibilities—Once it has received the reorganization/unification proposal and recommendation of the county committee, the SBE must hold a public hearing on the proposal. Upon a finding that the proposal substantially meets the state's nine reorganization criteria, the

SBE may approve the reorganization. Current law authorizes the SBE to also consider criteria by regulation when evaluating the proposal, even though the criteria are not specified in statute (E.C. 35753[a][10]).

In 1982, the State Supreme Court ruled that the reorganization of school district boundaries is within the scope of the CEQA and that the SBE is the lead state agency on this issue. CEQA requires that the environmental impacts of district reorganizations be evaluated. The CCR, Title 14 Section 15378(b)(5) states that "Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment" are not projects under CEQA.

Election—Following the SBE hearing on the reorganization petition, the SBE notifies the county superintendent of the SBE's decision to approve or disapprove the petition. If the SBE disapproves the petition, the process is terminated. If the SBE approves the petition, the county superintendent is then required to call an election and prepare a statement of official information and statistics. The county superintendent must also compile and present arguments for and against the reorganization.

The area of election is established by the SBE, with possible input from the county committee. The area must include the entire proposed unified districts, which would include the residents of the current District. We note that there have been numerous lawsuits challenging the election area in prior cases involving district reorganizations, and the county committee should be aware that this could be a point of contention in its consideration of the unification proposal.

In addition, an election will need to be held for the governing board if the reorganization proposal is approved. E.C. 35737 specifies that, in their recommendation to the SBE, if they choose to provide one, a county committee can specify that the election for the first governing board will be held at the same time as the election for the reorganization. In the absence of such a provision, the election will take place on the first regular election following the passage of the reorganization proposal.

It is worth noting that a different section of the Education Code provides for the county superintendent to call an election for newly formed unified districts. E.C. 35101 specifies that for newly formed unified districts, the county superintendent of schools shall call for an election to select the first governing board of the new district. Unlike new elementary or high school districts, an interim appointed board is not permitted for new unified districts, nor is it permissible for the board members of the elementary district to be deemed board members of the new unified district without an election. However, the prohibition of an interim appointed board can be waived by the SBE.

SBE's District Reorganization Criteria

The county committee on school district organization and the SBE evaluate proposals to reorganize school districts based on nine statutory criteria specified in E.C. 35753(a)(1-9). Before approving petitions, the county committee and the SBE must find that the following nine statutory criteria are substantially met:

1. The reorganized districts will be adequate in terms of number of pupils enrolled.

2. The districts are each organized on the basis of a substantial community identity.

3. The proposal will result in an equitable division of property and facilities of the original district or districts.

4. The reorganization of the districts will preserve each affected district's ability to educate students in an integrated environment and will not promote racial or ethnic discrimination or segregation.

5. Any increase in costs to the state as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization.

6. The proposed reorganization will continue to promote sound education performance and will not significantly disrupt the educational programs in the districts affected by the proposed reorganization.

7. Any increase in school facilities costs as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization.

8. The proposed reorganization is primarily designed for purposes other than to significantly increase property values.

9. The proposed reorganization will continue to promote sound fiscal management and not cause a substantial negative effect on the fiscal status of the proposed district or any existing district affected by the proposed reorganization.

It is important to recognize that some of these nine criteria involve varying degrees of subjective judgment. As is the case with this petition, if the reorganization proposal arises from a petition signed by 25% or more of the registered voters, the proposal will be forwarded to the SBE whether or not it is approved by the county committee. But in all cases, the SBE ultimately decides whether the state's nine criteria are substantially met and whether the proposal is to be placed on the ballot at the next general election.

Document Review and Analysis

As part of the evaluation of the reorganization of the District into two new unified school districts, SSC conducted a review of five key documents. Our review focused specifically on the fiscal effects of the reorganization as presented in these documents, which included an examination of the revenue assumptions in the respective analyses including the calculations and procedures used to estimate the impact of the LCFF, property tax growth, Measure R funds, and other revenues. The review also includes a general examination of operating expenditure assumptions as it related to the potential structural change from one to two school districts, assuming continuation of the current education program now delivered by the District to all schools.

To the extent possible, the tables present the fiscal data from the various reports in a common format in order to facilitate comparisons among the three local educational agencies (LEAs)—the District, SMUSD, and MUSD—and across fiscal years. As a result, some the detail contained in the original reports may be consolidated to fit the common format. Nevertheless, the key fiscal variables (i.e., total revenues, total expenditures, and fund balance) are displayed as in the original reports.

WestEd Reports

1. ***Feasibility Analysis of Proposed Santa Monica-Malibu Unified School District Reorganization*, January 2013**

2. **Updated *Feasibility Analysis of Proposed Santa Monica-Malibu Unified School District Reorganization*, July 16, 2015**

The WestEd report of January 2013 evaluated the proposed reorganization against the nine statutory criteria governing school district reorganization. The SSC review focused specifically on the fiscal aspects of the proposed reorganization as they pertain to Criterion 5 (no substantial increase in state costs) and Criterion 9 (no substantial negative effect on the fiscal status of the districts affected by the reorganization).

Table 1, below, presents WestEd's summary of the budget for the District based on 2011-12 actuals.

Table 1 WestEd Analysis, January 2013 Santa Monica-Malibu USD 2011-12 Unaudited Actuals	
Revenues	
Revenue Limit (including add ons)	$57,786,231
Federal Revenue	$5,577,472
Other State Revenue	$10,204,156
Other Local Revenue	$41,075,170
Other Financing Sources	$1,560,873
Total Revenues	**$116,203,902**
Expenditures	
Certificated Salaries	$54,731,938
Classified Salaries	$22,479,449
Employee Benefits	$25,115,709
Books and Supplies	$3,289,462
Services and Contracts	$13,272,724
Capital Outlay	$564,392
Transfers and Other Outgo	-$438,372
Total Expenditures	**$119,015,302**
Net Change in Fund Balance	**-$2,811,400**
Beginning Fund Balance	**$23,354,108**
Ending Fund Balance	**$20,542,708**
Percent Reserve	17.3%
Enrollment	11,468
Assessed Valuation (x $1,000)	$35,951,000

The January 2013 WestEd report did not present a forecast of the impact of reorganization on the two districts, but rather provided a reasonable approximation of the division of revenues and expenditures between the two districts based on the relative enrollment of each. Table 2 shows the budgets for the two districts, including the percentage split of each budget component.

Table 2
WestEd Analysis, January 2013
Proposed Malibu USD and Santa Monica USD
2011-12 Allocation

	Malibu USD		Santa Monica USD	
	Amount	Percent Share	Amount	Percent Share
Revenues				
Revenue Limit (including add ons)	$10,267,046	17.8%	$47,519,186[1]	82.2%
Excess Property Tax	$5,800,687	N/A	$0	N/A
Basic Aid Reduction Categorical	-$1,238,610	N/A	$0	N/A
Federal Revenue	$991,117	17.8%	$4,586,355	82.2%
Other State Revenue	$1,813,279	17.8%	$8,390,877	82.2%
Other Local Revenue [2]	$5,391,028	13.1%	$35,684,079	86.9%
Other Financing Sources	$277,367	17.8%	$1,283,506	82.2%
Total Revenues	**$23,301,914**	**20.1%**	**$97,464,003**	**83.9%**
Expenditures				
Certificated Salaries	$9,725,865	17.8%	$45,006,073	82.2%
Classified Salaries	$3,994,598	17.8%	$18,484,851	82.2%
Employee Benefits	$4,463,061	17.8%	$20,652,648	82.2%
Books and Supplies	$584,537	17.8%	$2,704,925	82.2%
Services and Contracts	$2,358,563	17.8%	$10,914,161	82.2%
Capital Outlay	$100,292	17.8%	$464,100	82.2%
Transfers and Other Outgo	-$77,899	17.8%	-$360,473	82.2%
Total Expenditures	**$21,149,017**	**17.8%**	**$97,866,285**	**82.2%**
Net Change in Fund Balance	**$2,152,897**	N/A	**-$402,282**	N/A
Beginning Fund Balance	**$4,150,025**	**17.8%**	**$19,204,083**	**82.2%**
Ending Fund Balance	**$6,302,922**	N/A	**$18,801,801**	N/A
Percent Reserve	29.8%		19.2%	
Enrollment	2,037	17.8%	9,431	82.2%
Assessed Valuation (x $1,000)	$11,307,000	29.8%	$26,643,000	70.2%

1. Corrected for $894,201 overstatement in WestEd report of January 2013.
2. Allocation based on the number of parcels at $346 per parcel.

The table shows that most revenue sources are divided proportionately, based on the expected enrollment to be served by each district. The table shows, however, that $5.8 million in excess property taxes and the corresponding reduction of $1.238 million in categorical funds for basic aid districts is credited to MUSD, based on the assessed valuation of the proposed district. (Note: The categorical aid cut is related to the "fair share" reduction imposed on basic aid districts during the Great Recession in recognition of the cuts imposed on state aid revenue limit districts.) We agree with this allocation to MUSD.

We note that WestEd's January 2013 report displays the allocation of revenue limit funds between the two proposed districts (Figure 13, page 40 of the WestEd's January 2013 report). The amount displayed for SMUSD is overstated by $894,201, based on the totals shown in the table and the revenue limit funding available to the existing District as shown in Figure 12 on page 38 of the WestEd report. The revenue limit amount for SMUSD in Table 2 corrects for this overstatement.

Table 2 shows that MUSD gets less than its proportionate share of other local revenue, 13.1% versus 17.8%, which would result based on enrollment. The report notes that lease revenue from school property in the Santa Monica boundary and revenue sharing agreements with the city of Santa Monica are assumed to remain in place following the reorganization, and therefore, these revenues would accrue to SMUSD and not be allocated proportionately to MUSD.

The WestEd report acknowledges that splitting the existing district between the Santa Monica area and the Malibu area would create a basic aid district in MUSD. In other words, property taxes that currently accrue to the entire District would instead be divided between SMUSD and MUSD based on the property within the boundaries of the two districts, with a disproportionate share of the assessed valuation and associated property tax revenues located in MUSD as compared to SMUSD. Table 2 shows that MUSD would retain almost one-third of the assessed valuation while serving less than one-fifth of the students. Because of the high assessed valuation per ADA in MUSD, the new district would be a basic aid district, which means that property tax revenues would exceed the district's revenue limit entitlement (Note: The LCFF has replaced revenue limits effective 2013-14; however, the computation and effect of property taxes on a district's entitlement to state aid remains unchanged.)

The creation of a basic aid district in MUSD in turn increases the obligation of the state to maintain funding in SMUSD since its relative share of property tax revenues would drop on a per-ADA basis following reorganization. The WestEd report notes that after adjusting for the "fair share" reduction, the net increase in state to SMUSD would be approximately $4.6 million annually. The WestEd report concludes that notwithstanding Criterion 5, which specifies that "any increase in cost to the state will be insignificant and otherwise incidental to the reorganization," this criterion would be met because "the cost is well below the 10% threshold applied as the standard by the state."

The January 2013 report cites CCR, Title 5, Section 18573(a)(2) as providing this threshold. This section, however, was deleted from Title 5 in 1996 following the state's enactment of SB 1537 (Chapter 1186/1994), which provided for a maximum 10% revenue limit increase to address salary differentials following unification. (Note: CCR, Title 5, Section 18573[a][2] addresses community identity.) As a result, the state no longer recognizes a 10% increased state costs as defining a threshold under which Criterion 5 could be met.

We find that the division of revenues and expenditures, with the exception of property taxes and the corresponding fair share reduction to categorical aid and other local revenue, on the basis of the relative share of the District enrollment to be served by the two districts to be a reasonable assumption. We would note, however, that the division of capital outlay expenditures could be made on the basis of the location of the capital structures for which the expenditures are made. This method of allocation would more closely correspond with the actual costs to be faced by the two newly created districts.

In their July 16, 2015 updated report, WestEd provided new information and analyses with regard to the proposed MUSD, including a three-year budget forecast for the proposed district. Table 3a presents the forecast for MUSD based on data for the District for the Second Interim Report for 2014-15. This table includes revenues associated with Measure R. However, we note that there is some question about the legal authority to support the allocation of these revenues to MUSD. Table 3b that follows shows the impact on MUSD's budget if Measure R revenues or revenues from an alternative source are not included.

Table 3a WestEd Forecast Proposed MUSD Projections July 16, 2015							
	2014-15	2015-16		2016-17		2017-18	
	2nd Interim	Amount	% Change	Amount	% Change	Amount	% Change
Revenues							
LCFF Sources							
Property Tax	$17,371,428	$18,658,500	7.40%	$19,218,255	3.00%	$19,794,803	3.00%
LCFF State Aid	$0	$0	N/A	$0	N/A	$0	N/A
Other LCFF	$571,061	$557,261	-2.40%	$551,861	-1.00%	$538,861	-2.40%
Other State Revenues	$425,636	$302,252	-29.00%	$226,594	-25.00%	$215,338	-5.00%
Other Federal Revenues	$0	$0	N/A	$0	N/A	$0	N/A
Local Sources							
Measure R Parcel Tax	$3,188,480	$3,188,480	N/A	$3,188,480	N/A	$3,188,480	N/A
Other Local Revenue	$941,185	$826,817	-12.20%	$846,817	2.40%	$867,417	2.40%
Local General Fund Contribution	-$3,235,031	-$3,348,257	3.50%	-$3,455,401	3.20%	-$3,590,162	3.90%
Total Revenue	**$19,262,759**	**$20,185,053**	**4.80%**	**$20,576,606**	**1.90%**	**21,014,737**	**2.10%**
Expenditures							
Certificated Salaries	$8,981,235	$9,115,954	1.50%	$9,252,693	1.50%	$9,391,483	1.50%
Classified Salaries	$3,157,748	$3,205,114	1.50%	$3,253,191	1.50%	$3,301,989	1.50%
Employee Benefits	$4,110,785	$4,487,807	9.20%	$4,911,351	9.40%	$5,433,018	10.60%
Books and Supplies	$796,477	$815,592	2.40%	$837,613	2.70%	$861,067	2.80%
Other Operational Costs	$1,695,387	$1,736,076	2.40%	$1,782,950	2.70%	$1,832,873	2.80%
Other Expenditures	$50,000	$118,148	136.30%	$52,582	-55.50%	$54,055	2.80%
Total Expenditures	**$18,791,632**	**$19,478,691**	**3.70%**	**$20,090,380**	**3.10%**	**$20,874,485**	**3.90%**
Revenues less Expenditures	**$471,127**	**$706,362**	**49.90%**	**$486,226**	**-31.20%**	**$140,252**	**-71.20%**
Beginning Fund Balance	**$3,636,485**	**$4,107,612**	**13.00%**	**$4,813,974**	**17.20%**	**$5,300,200**	**10.10%**
Ending Fund Balance	**$4,107,612**	**$4,813,974**	**17.20%**	**$5,300,200**	**10.10%**	**$5,440,452**	**2.60%**
Dedicated Reserves	$5,000	$5,000	0.00%	$5,000	0.00%	$5,000	0.00%
3% Res. for Econ. Uncertanties	$696,600	$718,563	3.20%	$739,178	2.90%	$765,596	3.60%
Unappropriated Fund Balance	$3,406,012	$4,090,411	20.10%	$4,556,022	11.40%	$4,669,856	2.50%

Table 3a shows that property tax revenues are assumed to increase 3% annually in the third year following district reorganization, which is a reasonable assumption, although conservative by historical standards. Other state revenues drop in 2016-17 with the elimination of the one-time funding provided in 2015-16. However, the 2016-17 Budget Act provides $214 per ADA in one-time funding, which in turn would boost MUSD's funding under the projections by approximately $380,000 in 2016-17.

The MYP assumes that MUSD will receive revenues from the MBG of $67,000 in the second year of the reorganization. In the third and fourth years, the projections assume no funding for the MBG. Based on budget appropriations since the enactment of the MBG, MUSD can assume revenues of $28/ADA for students in grades K-8 and $56/ADA for students in grades 9-12 through the forecast period, roughly equal to the $67,000 included in the projection for 2015-16.

Table 3a also shows employee benefits increasing over 9% annually. This rate of growth indicates that costs for health and welfare benefits and retirement expenditures are expected to increase at a substantially higher rates than the cost of salaries, which are projected to increase 1.5% annually. For the District, health and welfare benefits increased from $7,364/FTE in 2005-06 to $13,069/FTE in 2014-15, an average annual increase of 6.6% over the nine-year period. Similarly, both CalSTRS and CalPERS employer contribution rates are scheduled to more than double from 2014-15 through 2020-21. The WestEd projections for these costs are reasonable.

Table 3b WestEd Forecast Proposed MUSD Projections Without Measure R Parcel Taxes July 16, 2015							
	2014-15	**2015-16**		**2016-17**		**2017-18**	
	2nd Interim	**Amount**	**% Change**	**Amount**	**% Change**	**Amount**	**% Change**
Total Revenue	$19,262,759	$20,185,053	4.80%	$20,576,606	1.90%	$21,014,737	2.10%
Less Measure R Parcel Taxes	$3,188,480	$3,188,480	0.00%	$3,188,480	0.00%	$3,188,480	0.00%
Net Revenues	**$16,074,279**	**$16,996,573**	**5.70%**	**$17,388,126**	**2.30%**	**$17,826,257**	**2.50%**
Total Expenditures	**$18,791,632**	**$19,478,691**	**3.70%**	**$20,090,380**	**3.10%**	**$20,874,485**	**3.90%**
Revenues Less Expenditures	**-$2,717,353**	**-$2,482,118**	**-8.70%**	**-$2,702,254**	**8.90%**	**-$3,048,228**	**12.80%**
Beginning Fund Balance	$3,636,485	$919,132	-74.70%	-$1,562,986	-270.10%	-$4,265,240	172.90%
Ending Fund Balance	**$919,132**	**-$1,562,986**	**-270.10%**	**-$4,265,240**	**172.90%**	**-$7,313,468**	**71.50%**

Table 3b shows that if Measure R revenues or an equivalent amount from another source are not available to MUSD, the proposed district will not only face an immediate budget deficit in the first year of unification, drawing down more than half of its beginning fund balance, it faces a structural budget shortfall with expenditure growth outpacing revenue increases. For example, in the year following reorganization, MUSD would see expenditures of $19.5 million compared to revenues of $17 million, resulting in a shortfall of almost $2.5 million. The new district's fund balance would be exhausted by the third year of the reorganization.

We note that local property tax revenues are budgeted to grow at a rate of 3% annually, which is a conservative assumption by historical standards. Stronger property tax growth will relieve some of this structural shortfall. If property tax growth should reach 6%, this additional increment would add about $600,000 in revenues annually. However, we would note that the cost of negotiated certificated and classified salary increases would also add to the expenditure projections above the 1.5% cost of step and column which are included in the WestEd assumptions.

WestEd notes that AMPS has shared a plan to include a special tax as a condition of unification to address the budget shortfall. If Measure R revenues of $3.188 million annually are allocated to MUSD or an equivalent amount generated by a special tax, then the budget shortfall would be mitigated in the near term. However, unless these additional revenues grow in line with expenditures, budget deficits could emerge nevertheless. The WestEd forecast reveals total MUSD revenues, including Measure R parcel taxes, would increase 1.9% in 2016-17, the second year following unification, compared to expenditure growth of 3.1%. One year later, WestEd shows revenues growing 2.1% compared to expenditure growth of 3.9%.

Based on this forecast, without at least $3.2 million in additional revenue, or a combination of new revenue and ongoing spending cuts of an equivalent amount, MUSD would face an immediate budget challenge upon unification.

Staff's Forecast for SMUSD, July 15, 2015

The staff of the District prepared two budget forecasts for the proposed SMUSD, which were presented to the Board of Education on July 15, 2015. One was based on the District's 2014-15 Second Interim Report (Table 4a) and the second was based on the District's 2015-16 adopted budget (Table 4b).

Table 4a
Santa Monica-Malibu USD Staff Forecast
Proposed Santa Monica USD
Baseline: 2014-15 2nd Interim Report
July 15, 2015

	2014-15	2015-16		2016-17	
	2nd Interim	Amount	Percentage Change	Amount	Percentage Change
Revenues					
LCFF Sources	$62,666,277	$67,368,278	7.50%	$70,122,658	4.10%
(Property Tax)	($46,995,932)	($46,995,931)	(0.00%)	($46,995,931)	(0.00%)
(LCFF State Aid)	($14,365,973)	($7,145,092)	(-50.30%)	($9,348,595)	(30.80%)
(Other LCFF)	($1,304,372)	($13,227,255)	(914.10%)	($13,778,132)	(4.20%)
Other State Revenues	$2,040,312	$3,120,432	52.90%	$1,500,432	-51.90%
Other Federal Revenues	$8,000	$8,000	0.00%	$8,000	0.00%
Local Sources					
Measure R Parcel Tax	$8,072,813	$8,153,541	1.00%	$8,153,541	0.00%
Other Local Revenue	$18,776,307	$19,052,269	1.50%	$19,324,614	1.40%
Local General Fund Contribution	-$19,195,421	-$19,195,421	0.00%	-$19,195,421	0.00%
Total Revenue	**$72,368,288**	**$78,507,099**	**8.50%**	**$79,913,824**	**1.80%**
Expenditures					
Certificated Salaries	$37,922,447	$38,491,284	1.50%	$39,068,653	1.50%
Classified Salaries	$12,556,255	$12,744,599	1.50%	$12,935,768	1.50%
Employee Benefits	$16,681,346	$18,124,962	8.70%	$19,753,980	9.00%
Books and Supplies	$1,799,683	$1,800,000	0.00%	$1,800,000	0.00%
Other Operational Costs	$6,936,632	$7,000,000	0.90%	$7,000,000	0.00%
Other Expenditures	-$460,437	$2,179,595	N/A	$1,058,044	-51.50%
Total Expenditures	**$75,435,926**	**$80,340,440**	**6.50%**	**$81,616,445**	**1.60%**
Revenues less Expenditures	**-$3,067,638**	**-$1,833,341**	**-40.20%**	**-$1,702,621**	**-7.10%**
Beginning Fund Balance	**$16,600,000**	**$13,532,362**	**-18.50%**	**$11,699,021**	**-13.50%**
Ending Fund Balance	**$13,532,362**	**$11,699,021**	**-13.50%**	**$9,996,400**	**-14.60%**
Dedicated Reserves	$3,630,588	$1,802,621	-50.30%	$100,000	-94.50%
3% Reserve for Economic Uncertainties	$4,046,569	$4,050,085	0.10%	$4,178,984	3.20%
Unappropriated Fund Balance	$5,855,205	$5,846,315	-0.20%	$5,717,416	-2.20%

Table 4b Santa Monica-Malibu USD Staff Forecast Proposed Santa Monica USD Projections Baseline: 2015-16 Adopted Budget July 15, 2015					
	2015-16	2016-17		2017-18	
	Adopted Budget	Amount	Percentage Change	Amount	Percentage Change
Revenues					
LCFF Sources	$70,039,429	$72,247,851	3.20%	$74,625,266	3.30%
(Property Tax)	($51,434,743)	($51,434,743)	(0.00%)	($51,434,743)	(0.00%)
(LCFF State Aid)	($17,137,886)	($19,362,108)	(13.00%)	($21,739,523)	(12.30%)
(Other LCFF)	($1,466,800)	($1,451,000)	(-1.10%)	($1,451,000)	(0.00%)
Other State Revenues	$6,908,831	$1,496,232	-78.30%	$1,496,232	0.00%
Other Federal Revenues	$8,000	$8,000	0.00%	$8,000	0.00%
Local Sources					
Measure R Parcel Tax	$8,080,963	$8,161,773	1.00%	$8,243,390	1.00%
Other Local Revenue	$21,226,823	$21,409,614	0.90%	$21,685,407	1.30%
Local General Fund Contribution	-$19,547,444	-$19,938,393	2.00%	-$20,337,161	2.00%
Total Revenue	**$86,716,602**	**$83,385,077**	**-3.80%**	**$85,721,134**	**2.80%**
Expenditures					
Certificated Salaries	$40,972,000	$41,145,440	0.40%	$41,625,353	1.20%
Classified Salaries	$14,318,771	$14,533,553	1.50%	$14,751,556	1.50%
Employee Benefits	$19,371,325	$21,022,644	8.50%	$22,816,545	8.50%
Books and Supplies	$2,431,667	$2,400,000	-1.30%	$2,400,000	0.00%
Other Operational Costs	$8,746,270	$8,700,000	-0.50%	$8,700,000	0.00%
Other Expenditures	-$28,849	$95,938	-432.60%	$431,669	349.90%
Total Expenditures	**$85,811,184**	**$87,897,575**	**2.40%**	**$90,725,123**	**3.20%**
Revenues less Expenditures	**$905,418**	**-$4,512,498**	**-598.40%**	**-$5,003,989**	**10.90%**
Beginning Fund Balance	**$19,282,082**	**$20,187,500**	**4.70%**	**$15,675,002**	**-22.40%**
Ending Fund Balance	**$20,187,500**	**$15,675,002**	**-22.40%**	**$10,671,013**	**-31.90%**
Dedicated Reserves	$4,612,498	-$4,903,989	-206.30%	$100,000	-102.00%
3% Res. for Economic Uncertainties	$4,050,085	$4,178,984	3.20%	$4,178,984	0.00%
Unappropriated Fund Balance	$11,524,917	$16,400,007	42.30%	$6,392,029	-61.00%

While the budget data displayed in Tables 4a and 4b for the proposed SMUSD were compiled starting with different fiscal years, the conclusions that can be drawn are the same. The staff projections show that while the new district would begin with a significant fund balance in the year of reorganization, expenditures outpace revenues over the forecast period, with the fund balance dropping significantly. Table 4a shows that the fund balance declines from $16.6 million at the beginning of the first year of reorganization—2014-15 in this forecast—to $10 million by the end of the 2016-17 fiscal year, a decline of almost 40%.

Similarly, Table 4b, which begins in 2015-16 with the adopted budget, shows SMUSD's beginning fund balance at $19.3 million. Although the absolute level of revenues and expenditures are different than utilizing the 2014-15 Second Interim Report as shown in Table 4a, the results are the same. SMUSD's ending fund balance two years later has dropped 44.6% to $10.7 million.

The tables also display the percentage change between years for each component of revenues and expenditures. In general, these assumptions seem reasonable and can be supported by historical patterns or budgeting factors provided by the Department of Finance (DOF) for purposes of determining LCFF revenues.

We would note, however, that in both forecasts, staff assumed no growth in property tax revenues, which as a state aid district would not affect the total revenues received by SMUSD. However, depending upon the actual level of property tax growth, SMUSD could become a minimum state aid district and as a result be entitled to revenues above the LCFF calculated entitlement. SSC had previously estimated the minimum state aid for the District to be approximately $7 million.

We would also note that projections of the costs of employee benefits exceeds the expected growth in the cost of certificated and classified salaries. This is appropriate given the scheduled increases in employer contribution rates for CalSTRS and CalPERS. CalSTRS rates for employers will rise from 10.73% in 2015-16 to 19.1% in 2020-21, and CalPERS rates will increase from 11.847% in 2015-16 to 20.4% in 2020-21. In addition, assuming SMUSD's costs for health and welfare benefits parallel the historical costs experienced by the District, staff's assumption of benefit cost increases above 8% annually appears reasonable. For the District, health and welfare benefits increased from $7,364/FTE in 2005-06 to $13,069/FTE in 2014-15, an average annual increase of 6.6% over the nine-year period.

Staff's Forecast for Santa Monica-Malibu USD, June 29, 2016

On June 29, 2016, staff presented the budget for the District along with an MYP of the budget through 2018-19 as required by law. Table 5 displays the District's MYP.

The table shows total LCFF Sources of $87.2 million in 2016-17 growing modestly at about 1.5% annually. The table also shows the three components of these funds, which include property taxes, LCFF state aid, and other state aid (Education Protection Account funds, transfers to Fund 14, and transfers to charter schools and specialized secondary schools). This projection assumes property tax revenue growth of about 5% annually, which in turn offsets LCFF state aid. In fact, over the three years, state aid drops 26% due to the projected rise in local revenues.

The table also shows the significant drop in other state revenues in 2017-18 due to the elimination of one-time discretionary funds included in the 2016-17 State Budget.

Table 5
Santa Monica-Malibu USD Staff Projections
Santa Monica-Malibu USD Projections
Baseline: 2016-17 Proposed Budget
June 29, 2016

	2016-17	2017-18		2018-19	
	Proposed Budget	Amount	Percentage Change	Amount	Percentage Change
Revenues					
LCFF Sources	$87,245,352	$88,750,370	1.70%	$89,891,111	1.30%
(Property Tax)	($73,477,874)	($77,343,943)	(5.30%)	($81,113,671)	(4.90%)
(LCFF State Aid)	($11,949,878)	($9,342,827)	(-21.80%)	($8,866,440)	(-5.10%)
(Other LCFF)	($1,817,600)	($2,063,600)	(13.50%)	(-$89,000)	(-104.30%)
Other State Revenues	$4,438,154	$1,900,000	-57.20%	$1,900,000	0.00%
Other Federal Revenues	$13,000	$13,000	0.00%	$13,000	0.00%
Local Sources					
Measure R Parcel Tax	$11,563,041	$11,794,302	2.00%	$12,030,188	2.00%
Other Local Revenue	$23,300,000	$23,700,000	1.70%	$24,100,000	1.70%
Local General Fund Contribution	-$25,691,208	-$25,764,726	0.30%	-$26,300,000	2.10%
Total Revenue	**$100,868,339**	**$100,392,946**	**-0.50%**	**$101,634,299**	**1.20%**
Expenditures					
Certificated Salaries	$53,475,766	$54,277,902	1.50%	$55,092,071	1.50%
Classified Salaries	$18,501,715	$18,779,241	1.50%	$19,060,930	1.50%
Employee Benefits	$26,317,027	$27,263,972	3.60%	$28,320,556	3.90%
Books and Supplies	$3,501,779	$3,000,000	-14.30%	$3,000,000	0.00%
Other Operational Costs	$9,116,473	$8,700,000	-4.60%	$8,700,000	0.00%
Other Expenditures	$175,664	-$5,166,604	N/A	-$5,220,000	1.00%
Total Expenditures	**$111,088,424**	**$106,854,511**	**-3.80%**	**$108,953,557**	**2.00%**
Revenues less Expenditures	**-$10,220,085**	**-$6,461,565**	**-36.80%**	**-$7,319,258**	**13.30%**
Beginning Fund Balance	**$28,590,016**	**$18,369,931**	**-35.70%**	**$11,908,366**	**-35.20%**
Ending Fund Balance	**$18,369,931**	**$11,908,366**	**-35.20%**	**$4,589,108**	**-61.50%**
Dedicated Reserves	$100,000	$100,000	0.00%	$100,000	0.00%
3% Res. Econ. Uncertainties	$4,514,382	$4,389,352	-2.80%	$4,473,757	1.90%
Unappropriated Fund Balance	$13,755,549	$7,419,014	-46.10%	$15,351	-99.80%

It is important to note that the MYP assumes that $4.5 million in ongoing expenditure reductions will be implemented commencing in 2017-18.

Unfortunately, even with this assumed reduction in District expenditures, the projections show that a significant imbalance between revenues and expenditures will remain. Deficit spending of $10.2 million is projected for 2016-17, which is reduced to $6.5 million in the following year assuming the 2017-18 expenditure reduction plan is implemented. However, over the three years the projection indicates that the District's fund balance will drop from $28.6 million at the beginning of 2016-17 to $4.6 million by the close of 2018-19, a drop in the fund balance of 84%. Reorganizing the District into two unified districts in this fiscal environment would place at risk the fiscal status of both new districts.

We would also note that scheduled increases in employer contribution rates for CalSTRS and CalPERS will increase the costs of employee benefits faster than the overall cost of certificated and classified salaries. These contributions are increasing at about 13% annually. While the amount projected for employee benefits may be sufficient to cover these costs, we would note that the District also anticipates 7% annual growth in health and welfare costs and 3.8% annual increase in Workers' Compensation costs. The overall increase in employee benefit expenditures of just under 4% annually would appear to require reductions in other areas to accommodate these rising costs if this projection is to remain accurate.

FOC's Update on the Budgetary Implications of Malibu Unification, November 15, 2015

On November 15, 2015, the District's FOC presented revised forecasts for the proposed SMUSD and MUSD, which updated the forecasts from July 16, 2015. These updates appear to reflect increased revenues related to minimum state aid calculations, which were presented to the District Board of Education on September 2, 2015. Tables 6a and 6b present the revised forecasts for SMUSD and MUSD, respectively.

The tables presented by SSC, however, differ from the November 15, 2015, presentations with respect to the calculations for the per-ADA amounts for the residual difference between the District and the proposed SMUSD and MUSD, as will be explained below.

Tables 6a and 6b display the same fiscal data for the District, which appear at the top of each table. Funding is presented in dollars and also denominated on a per-ADA basis. The table shows that the District's revenues and expenditures are generally in alignment, with little change in the fund balance over the three-year period. The District's beginning fund balance in 2015-16, which is based on the unaudited actuals, is $31.5 million, and by the end of 2017-18 the projections show a slight increase in the fund balance to $32.2 million.

If the reorganization were effective in 2015-16, the table shows that the proposed SMUSD would serve 8,999 of the District's 10,795 ADA, or about 83% of the total. Its beginning fund balance would be $26.3 million, an amount proportional to the ADA served by the District, which would fall to $15.4 million by the end of 2017-18, a drop of 41%. The newly established district would face a structural budget imbalance of $5.3 million in 2017-18, with per-ADA revenues of $9,579 compared to per-ADA expenditures of $10,170.

Table 6a
Santa Monica-Malibu USD Fiscal Oversight Committee
Updated Forecasts - Santa Monica USD
November 15, 2015
(Dollars in Thousands)

	2015-16		2016-17			2017-18		
	Amount	Per ADA	Amount	Percentage Change	Per ADA	Amount	Percentage Change	Per ADA
Santa Monica-Malibu USD								
District ADA	$10,795	N/A	$10,678	-1.10%	N/A	$10,678	0.00%	N/A
LCFF Revenues	$86,611	$8,023	$90,419	4.40%	$8,468	$94,395	4.40%	$8,840
Other Revenues	$17,820	$1,651	$12,028	-32.50%	$1,126	$11,917	-0.90%	$1,116
Total Revenues	$104,431	$9,674	$102,447	-1.90%	$9,594	$106,312	3.80%	$9,956
Total Expenditures	$102,112	$9,459	$103,631	1.50%	$9,705	$106,766	3.00%	$9,999
Revenues less Expenditures	$2,319	$215	-$1,184	-151.10%	-$111	-$454	-61.70%	-$43
Beginning Fund Balance	$31,534	$2,921	$33,853	7.40%	$3,170	$32,669	-3.50%	$3,059
Ending Fund Balance	$33,853	$3,136	$32,669	-3.50%	$3,059	$32,215	-1.40%	$3,017
Santa Monica USD								
District ADA	$8,999	N/A	$8,920	-0.90%	N/A	$8,920	0.00%	N/A
LCFF Revenues	$69,829	$7,760	$71,977	3.10%	$8,069	$74,346	3.30%	$8,335
Other Revenues	$16,038	$1,782	$11,137	-30.60%	$1,249	$11,096	-0.40%	$1,244
Total Revenues	$85,867	$9,542	$83,114	-3.20%	$9,318	$85,442	2.80%	$9,579
Total Expenditures	$86,671	$9,631	$87,888	1.40%	$9,853	$90,719	3.20%	$10,170
Revenues less Expenditures	-$804	-$89	-$4,774	493.80%	($535)	-$5,277	10.50%	-$592
Beginning Fund Balance	$26,300	$2,923	$25,496	-3.10%	2,858	$20,722	-18.70%	$2,323
Ending Fund Balance	$25,496	$2,833	$20,722	-18.70%	2,323	$15,445	-25.50%	$1,732
Amount Remaining								
District ADA	$1,796	N/A	$1,758	-2.10%	N/A	$1,758	0.00%	N/A
LCFF Revenues	$16,782	$9,344	$18,442	9.90%	$10,490	$20,049	8.70%	$11,404
Other Revenues	$1,782	$992	$891	-50.00%	$507	$821	-7.90%	$467
Total Revenues	$18,564	$10,336	$19,333	4.10%	$10,997	$20,870	8.00%	$11,871
Total Expenditures	$15,441	$8,597	$15,743	2.00%	$8,955	$16,047	1.90%	$9,128
Revenues less Expenditures	$3,123	$1,739	$3,590	15.00%	$2,042	$4,823	34.30%	$2,743
Beginning Fund Balance	$5,234	$2,914	$8,357	59.70%	$4,754	$11,947	43.00%	$6,796
Ending Fund Balance	$8,357	$4,653	$11,947	43.00%	$6,796	$16,770	40.40%	$9,539

The bottom third of the table displays the amount remaining after subtracting the budget requirements of SMUSD from the budget projections for the existing District. The two tables, which represent the revised forecasts for SMUSD and MUSD in this report, however, differ from the information presented by the FOC in November 2015 with respect to the per-ADA amounts. Our report presents the residual difference on a per-ADA basis by dividing the dollar amounts by

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the ADA that remain unserved, after taking into consideration SMUSD's ADA. In other words, for 2015-16, there would be 1,796 ADA that would have to be served (i.e., 10,795 ADA for the District less the 8,999 served by SMUSD) with the remaining revenues and expenditures. Thus, revenues, expenditures, and fund balance are all denominated by this residual ADA. In contrast, the November 2015 FOC presentation shows the per-ADA differences subtracting the District amount from the SMUSD, resulting in a difference that would not correspond with the per-ADA amounts.

Table 6b
Santa Monica-Malibu USD Fiscal Oversight Committee
Updated Forecasts - Malibu USD
November 15, 2015
(Dollars in Thousands)

	2015-16		2016-17			2017-18		
	Amount	Per ADA	Amount	% Change	Per ADA	Amount	% Change	Per ADA
Santa Monica-Malibu USD								
District ADA	10,795	N/A	10,678	-1.10%	N/A	10,678	0.00%	N/A
LCFF Revenues	$86,611	$8,023	$90,419	4.40%	$8,468	$94,395	4.40%	$8,840
Other Revenues	$17,820	$1,651	$12,028	-32.50%	$1,126	$11,917	-0.90%	$1,116
Total Revenues	$104,431	$9,674	$102,447	-1.90%	$9,594	$106,312	3.80%	$9,956
Total Expenditures	$102,112	$9,459	$103,631	1.50%	$9,705	$106,766	3.00%	$9,999
Revenues Less Expenditures	$2,319	$215	-$1,184	-151.10%	-$111	-$454	-61.70%	-$43
Beginning Fund Balance	$31,534	$2,921	$33,853	7.40%	$3,170	$32,669	-3.50%	$3,059
Ending Fund Balance	$33,853	$3,136	$32,669	-3.50%	$3,059	$32,215	-1.40%	$3,017
Malibu USD								
District ADA	1,783	N/A	1,756	-1.50%	N/A	1,692	-3.60%	N/A
LCFF Revenues	$21,761	$12,205	$22,357	2.70%	$12,732	$22,964	2.70%	$13,572
Other Revenues	$969	$543	$807	-16.70%	$460	$681	-15.60%	$402
Total Revenues	$22,730	$12,748	$23,164	1.90%	$13,191	$23,645	2.10%	$13,975
Total Expenditures	$19,422	$10,893	$20,031	3.10%	$11,407	$20,813	3.90%	$12,301
Revenues Less Expenditures	$3,308	$1,855	$3,133	-5.30%	$1,784	$2,832	-9.60%	$1,674
Beginning Fund Balance	$5,266	$2,953	$8,574	62.80%	$4,883	$11,707	36.50%	$6,919
Ending Fund Balance	$8,574	$4,809	$11,707	36.50%	$6,667	$14,539	24.20%	$8,593
Amount Remaining								
District ADA	9,012	N/A	8,922	-1.00%	N/A	8,986	0.70%	N/A
LCFF Revenues	$64,850	$7,196	$68,062	5.00%	$7,629	$71,431	4.90%	$7,949
Other Revenues	$16,851	$1,870	$11,221	-33.40%	$1,258	$11,236	0.10%	$1,250
Total Revenues	$81,701	$9,066	$79,283	-3.00%	$8,886	$82,667	4.30%	$9,200
Total Expenditures	$82,690	$9,176	$83,600	1.10%	$9,370	$85,953	2.80%	$9,565
Revenues Less Expenditures	-$989	-$110	-$4,317	336.50%	-$484	-$3,286	-23.90%	-$366
Beginning Fund Balance	$26,268	$2,915	$25,279	-3.80%	$2,833	$20,962	-17.10%	$2,333
Ending Fund Balance	$25,279	$2,805	$20,962	-17.10%	$2,349	$17,676	-15.70%	$1,967

Table 6b displays the same data for the District, but compares these projections to the budget for the proposed MUSD.

The updated projections show that revenues for MUSD are more than $7 million higher than the projections of July 15, 2015. Specifically, the July forecast showed MUSD's total revenues of $15.6 million in 2015-17, increasing to $16.3 million in 2017-18. The revised forecasts show MUSD revenues of $22.7 million in 2015-16, increasing to $23.6 million two years later. This adjustment appears to be related to the $7 million increase in 2014-15 revenues associated with minimum state aid.

The assumption that minimum state aid would be allocated solely to MUSD, however, is tenuous. The SBE has yet to render a decision regarding the allocation of minimum state aid among districts that are splitting apart. Moreover, the addition of $7 million in state aid to a basic aid district on top of the required state aid backfill for the loss of property tax revenue in SMUSD would compound the problem presented in meeting the requirements of Criterion 5, which specifies that "Any increase in costs to the state as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization." Revenues for MUSD as presented in Table 6b suggest that the state's costs for this reorganization could exceed $12 million.

Opportunities for Cost Savings

The review of the various MYPs provides an opportunity to examine the assumed rates of change in revenues and expenditures from one year to the next. MYPs focus on the factors that drive revenues—such as enrollment growth, inflation indices, changes in state and federal policy—and expenditures—such as enrollment-related hiring, step and column costs, CalSTRS and CalPERS rates, and health benefit costs. These projections, however, do not provide any assessment of the current level of revenues and expenditures, which then form the basis of the projections.

To identify opportunities for cost savings, this study examined the District's expenditures relative to similar districts in the Southern California area and relative to the statewide average for unified school districts. These expenditures were based on financial data for California school districts for 2014-15 as reported to and certified by the CDE in Standardized Account Code Structure (SACS), J-380, J-385, California Longitudinal Pupil Achievement Data System (CALPADS) and Form J-90 Teachers' Salary and Benefits. Table 7 displays the comparative districts for purposes of this review.

Table 7
Comparative Districts

District	ADA	Unduplicated Percentage
Arcadia USD	9,504	28.70%
Bonita USD	9,828	37.87%
Burbank USD	14,772	39.16%
Conejo Valley USD	19,466	24.69%
Las Virgenes USD	10,859	12.13%
Los Alamitos USD	9,725	15.10%
Palos Verdes Peninsula USD	11,418	9.10%
Redondo Beach USD	9,071	23.52%
Santa Monica-Malibu USD	**10,849**	**29.71%**
Simi Valley USD	17,580	32.62%
Walnut Valley USD	14,304	23.24%

Source: 2014-15 SACS and CalPads

Table 8 shows several measures of staffing expenditures, which may suggest opportunities for future cost savings. These comparisons are provided not as recommendations for reductions in these areas, but rather they are offered as areas for further exploration as the District develops its plans for the $4.5 million in expenditure reductions scheduled for 2017-18.

We also note that the District benefits from local revenues that are not available to most districts, such as Measure R parcel taxes, foundation contributions, and support from the city of Santa Monica. These supplemental revenues allow the District to offer a richer educational program than is available in most districts. These revenues also support total compensation packages for District staff that are more generous than other districts. Nevertheless, these comparisons provide a starting point for further review and analyses of expenditures that may warrant the attention of District leadership.

Table 8 shows that the District currently provides a richer student-to-teacher ratio than the group of comparative districts and the statewide average for unified districts. At 18.07 ADA per FTE, the District has 18% fewer students per FTE than the comparative group, and 10% fewer than the statewide average. This richer staffing ratio results in higher certificated salary expenditures, all else being equal.

Table 8 also shows that the District maintains a higher maximum contribution for health benefits, with the District providing a maximum contribution of $19,706, or almost $3,700 more than the comparative group average, and just over $5,250 more than the statewide average.

The District also has a greater percentage of its staff—almost three in ten—earning in excess of $90,000 than the statewide average and the comparative group average. This outcome, however, is not necessarily solely due to a higher salary schedule. The District may also have more of its certificated staff in the senior ranks versus newly hired teachers who earn less because of their lower seniority.

Table 8
Comparative Staffing Costs
2014-15 Unrestricted

	ADA to FTE Ratio	Maximum Contribution to Health Benefits	% FTE at >$90,000 Salary	Administrator Salary per ADA	Classified Salaries per ADA
Statewide Average	20.12	$14,454	13.84%	$465.74	$990.21
Comparative Group Average	22.04	$16,013	11.49%	$400.17	$909.29
Santa Monica-Malibu USD	**18.07**	**$19,706**	**29.23%**	**$600.18**	**$1,503.18**

Source: 2014-15 SACS, J-380, J-385, CalPads and Form J-90 Teachers' Salary and Benefits

Finally, the table shows that the District incurs higher costs for administrators and classified staff as measured on a per-ADA basis. As is the case with certificated staff, this data does not suggest that expenditure reductions should be made in these areas, but rather that based on the Board of Education's priorities and its plans for reductions in 2017-18, these areas may warrant further examination.

Table 9 displays other areas of District expenditures which are not directly related to staffing costs. The data suggest that expenditure reductions may not be as compelling for books and supplies and utility and housekeeping. For these two expenditure centers, the District's outlays are generally in line with the statewide average and the average for the comparative group. In fact, the District expends 16.7% less on books and supplies per ADA than the statewide average and 2% less on utility and housekeeping.

Table 9 Other Unrestricted Expenditures 2014-15 Unrestricted				
	Books and Supplies	Services and Other Operating Expenses	Insurance Expense	Utility and Housekeeping
Statewide Average	$237.81	$623.50	$56.39	$221.81
Comparative Group Average	$185.07	$494.54	$54.50	$205.50
Santa Monica-Malibu USD	$197.96	$729.83	$115.16	$217.09

Source: 2014-15 SACS and CalPads

On the other hand, District insurance costs per ADA are more than double the insurance outlays for the comparative group and the statewide average. Table 9 also shows that the District's per-ADA expenditures for services and other operating expenses are almost 50% higher than the comparative group average and 17% higher than the statewide average.

Summary and Conclusions

SSC reviewed the budget projections for the current Santa Monica-Malibu Unified School District, the proposed Santa Monica Unified School District, and the proposed Malibu Unified School District. While the projections may have assumed different fiscal years for the purposes of the analyses or may have incorporated different assumptions about the rates of growth of the various components of revenues and expenditures, several broad conclusions can be drawn from these projections as they reflect the proposed district reorganization.

First, the District is facing a significant imbalance between revenues and expenditures, with expenditures far outpacing the resources available to support the current program. While the District enjoys a large fund balance which allows the District to deficit spend and yet remain solvent, this situation cannot persist.

The current budget outlook, therefore, threatens the ability of the reorganization proposal to meet Criterion 9, which specifies that the reorganization shall not have a substantial adverse effect on the fiscal management and fiscal status of the districts involved in the reorganization. While this adverse fiscal situation would not be a direct consequence of the reorganization, if left uncorrected, the two newly formed districts would inherit this budget imbalance and face an immediate threat to their solvency.

To address this problem, the District has developed a multiyear budget projection that includes $4.5 million in ongoing, but as yet unspecified, expenditure reductions commencing in 2017-18. Similarly, WestEd's MYP for MUSD assumes enactment of a local revenue measure, which is expected to generate $3.2 million annually, an amount roughly equal to the per-pupil amount attributable to students residing in the Malibu area from the District's Measure R parcel tax. To the extent that the District's structural budget imbalance can be fully remedied prior to the effective date of the reorganization, the greater the chances that Criterion 9 will be met.

Second, the proposed reorganization will result in additional state costs, ranging from just under $5 million to potentially over $12 million annually, depending upon the level of property taxes per pupil in MUSD and the allocation of minimum state aid between the two proposed districts. Criterion 5 specifies that any costs to the state from the proposed reorganization will be insignificant or otherwise incidental to the reorganization.

While we acknowledge that the county committee on school district organization and the SBE exercise judgement in rendering their decisions on each of the nine reorganization criteria, meeting Criterion 5 will be a significant challenge, given the multi-million dollar cost to the state to implement this proposal.

Santa Monica-Malibu Unified School District Reorganization Review and Analysis

Report Prepared for the Malibu Unification Negotiating Committee

July 13, 2016

Prepared By:

Robert D. Miyashiro
Vice President

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Introduction

The Santa Monica-Malibu Unified School District (the District) and Advocates for Malibu Public Schools (AMPS) has contracted with School Services of California, Inc., (SSC) to provide the Board of Education's Malibu Unification Negotiating Committee (Committee) with independent and impartial consulting services to assist in the development of a formula to address fiscal disparities that may arise from the reorganization of the District into two unified school districts.

Over the past five years the District has analyzed the impact of reorganizing into two separate districts: the Santa Monica Unified School District (SMUSD) and the Malibu Unified School District (MUSD). Through the course of that review and analysis, projections suggest that SMUSD may experience a decline in revenues when compared to the current configuration.

To assist the Committee, SSC has prepared an independent forecast of the financial effects that may result from a reorganization of the District into two independent unified school districts, SMUSD and MUSD. The forecast covers a 14-year period from 2015-16 through 2028-29 for the District, and 12-year periods from 2017-18—the first full year of a reorganization—through 2028-29 for SMUSD and MUSD.

Summary

The effect on revenues of the potential reorganization of the District into two separate school districts, one centered in Santa Monica and one in Malibu, requires a comparison of the funding for the two proposed new districts relative to funding for the District over time. This report forecasts the relative change in revenues under different conditions, and assesses the impact of those conditions on each school district and on state costs for the Local Control Funding Formula (LCFF). We have projected LCFF for each new district configuration over a 12-year period, from 2017-18 through 2028-29, and for the District beginning with 2015-16. We have established a baseline forecast using change in property tax revenues for each district configuration based on recent changes in assessed value. To allow for comparative consistency with past work, we maintain some of the same factors used in previous reorganization feasibility studies. We have used the same proportional allocation of property tax revenue between SMUSD and MUSD. We also maintained the same proportional distribution of average daily attendance (ADA), and division of students eligible for LCFF supplemental grants. We did, however, also determine the division of enrolled students using 2015-16 enrollment data among the schools that would be served by SMUSD and MUSD and found that the percentage of students in MUSD schools is higher than in prior years. We have also used that higher proportion of students to assess the sensitivity of MUSD's revenues to enrollment growth.

Our forecast provides insights about the effects on the three different district configurations of property tax growth, distribution of other revenue sources, and the rules governing the calculation of LCFF revenues. Because of relatively high local property tax revenues received by the District and the interaction of property tax revenues with the LCFF calculation, the District and the proposed reorganization are particularly sensitive to changes in local revenues. While we believe that our forecast is reasonable and analytically supportable, other assumptions that also could be reasonably made will yield different results.

This a forecast. The numbers shown are exactly what our forecasting model produces, but the numbers our forecasting model produces are not exact. Different assumptions and different starting conditions, even if slight, will result in different numbers. Therefore, it is important to bear in mind that the value of the forecast is not in the exactness of the numbers and differences that are calculated, but instead in the trends and relationships the model illuminates.

The Santa Monica-Malibu Unified School District

The District currently flirts with allocations of LCFF state aid that are at the minimum level required by law. While local property tax revenues that offset state aid do not exceed the District's LCFF entitlement—if it did, the District would be a basic aid school district—local taxes are in some years sufficient to assure that the District's actual allocation of state aid would be higher than the District's calculated LCFF entitlement to state aid.

Largely driven by growth in local revenues, the District as it is currently configured will almost certainly become a basic aid school district in the future. A basic aid school district is a state-centric term for school districts largely funded from local property tax revenues. Basic aid school districts must receive the constitutionally required minimum amount of state aid, called basic aid, irrespective of how much revenue is received from local taxes. Basic aid school districts are more accurately known as community-funded school districts, and we will use both terms synonymously in this report.

The Santa Monica Unified School District

SMUSD would retain more than 80% of the students but generates only about two-thirds of the property tax revenue that currently accrues to the District. With relative per-pupil decrease in revenues from local property taxes, SMUSD becomes a state aid school district in the near term.

When compared with the District, which during the forecast period is either in minimum state aid status or basic aid status, SMUSD would experience a loss in per-pupil revenues from the LCFF during the four-year period 2017-18 through 2020-21 from $141 to $391 under our baseline forecast assumptions. Offsetting this reduction are gains from other revenue sources that will be retained in whole or in part by SMUSD. The net impact of the reorganization during the first four years is relatively minor, varying from a slight gain per ADA in some years to a loss in others, the highest being $130 per ADA in one year.

The longer term forecast from 2021-22 through 2028-29 shows SMUSD experiencing a growing reduction in net revenues when compared with the District, growing from approximately $200 per ADA in 2021-22 to more than $1,300 per ADA in 2028-29.

Over that period, SMUSD also is projected to move from state aid status to minimum state aid in 2026-27, and, if the same trends continue, would become a basic aid school district at some point in the following decade.

The Malibu Unified School District

MUSD will begin life as a basic state aid school district, largely funded through local property tax revenues. With less than 20% of the students but one-third of the property tax base of the existing district, MUSD property taxes will exceed the MUSD LCFF calculated entitlement in each year of our forecast.

Over the 2017-18 through 2020-21 period, MUSD would see an increase in LCFF per-pupil funding when compared with the District of $5,046 to $6,342 per ADA. These increases are partially offset by losses in per-pupil funding resulting from retention by SMUSD of many of the other local revenue sources, such as the city of Santa Monica sales tax Proposition Y funds and the Santa Monica joint use revenues. Absent a new Malibu voter-approved parcel tax to continue the existing parcel tax revenue from Measure R, MUSD will lose more than $1,000 per ADA in other local revenue. With these offsetting reductions, the net gain for MUSD is estimated at $2,541 to $2,954 over the four-year period.

The longer term forecast shows MUSD continuing as a basic aid school district, with net revenues above current funding levels growing from $3,094 per ADA in 2021-22 to $4,225 per ADA in 2028-29.

The revenues of community-funded school districts like MUSD that rely primarily on local property tax revenue for their unrestricted resources are insensitive to changes in enrollment, in contrast to state aid school districts that will receive additional funding for each new student enrolled. Since revenues in any given year are fixed by the level of property taxes collected, an increase of enrollments for MUSD results in a decrease in average funding per pupil, making MUSD gains particularly sensitive to changes of enrollment. We modeled the impact of a 16% increase of enrollment on MUSD funding per pupil. Over the initial four-year period of our forecast, this percentage enrollment increase would cut the per-ADA gain for MUSD by more than 50%, to a net gain from $1,174 to $1,358 per ADA.

State Costs

Our baseline forecast shows net state costs resulting from the establishment of an SMUSD and MUSD ranging from $7 million to $9 million annually during the first four years of a reorganization, beginning in 2017-18. The increase in state costs is due to additional state aid that is needed for the LCFF in SMUSD as result of the loss of Malibu property tax revenues. Net state costs fall annually thereafter, and are eliminated by 2026-27 under our baseline forecast as local property tax growth moves SMUSD toward basic state aid status in the future, and in the process reduces state LCFF expense.

Alternative Scenarios

We assessed the effect on our baseline forecast of higher or lower average annual growth in property tax revenues. We used a 6% annual growth factor for the high side, and faster growth in property tax revenues increases funding for MUSD, increases the relative reduction in funding for SMUSD compared with the District, and increases funding for the District above its calculated LCFF entitlement, moving the District basic state aid status more quickly. SMUSD also reaches basic state aid status sooner, and state costs are reduced and ultimately eliminated at a faster rate.

As expected, slower property tax growth has consequences that are the reverse of faster growth. We used 3% as our annual "slow growth" factor, and it causes the District to remain a state aid district for much of the forecast period, moving to minimum state aid only in the final years. SMUSD does not become a basic aid school district during the forecast period under a slow property tax growth scenario, and relative to the District, actually experiences an increase in per-pupil funding due to the retention of other local revenues within the District. MUSD is still a basic state aid district, but with lower property tax growth revenues in excess of the LCFF calculated entitlement are significantly lower than under our baseline forecast.

The Revenue Forecast

We divided our estimation of the financial impact of reorganizing the District into two parts. We first looked at the immediate future, from the first year a reorganization would be effective, which we set at 2017-18, through the planned full implementation of the LCFF in 2020-21. We used the most current published factors that affect LCFF implementation, outlined in detail in the LCFF Factors and Assumptions section of this report, and recent information about other local revenues to forecast changes in the LCFF and other revenue sources during this four-year period.

We also extended our forecast for eight more years, through 2028-29. Beginning with 2021-22, the first year after the assumed full implementation of the LCFF, the LCFF entitlement for every school district will be based on target grant amounts that change annually only by a statutory inflation adjustment. For that eight-year period we simplified the analysis by maintaining the same annual cost-of-living adjustment (COLA) percentage and percentage increase in local property tax revenues, the two key drivers of calculated state aid under the LCFF. Our baseline forecast sets the annual increase to LCFF grants during this period at 2.67% for the three district configurations. The annual increase to property tax revenue for the District is 4.78%; for SMUSD it is 5.04%; and for MUSD it is 4.22%. We explain the assumptions and factors used in our baseline forecast of the LCFF and other revenue sources in sections of the report following our summary of findings.

Findings, 2017-18 through 2020-21

The following three tables display our estimates of LCFF and other local revenues for each of the years 2017-18 through 2020-21 for each district configuration. The tables show ADA for each year, which is held constant during the forecast period. LCFF state aid is the amount of state funding that the LCFF would provide in each year followed by: the amount of minimum state aid, if any; the Education Protection Account (EPA) funding in 2017-18 and 2018-19, after which it expires; and property tax revenue and RDA funds. The total of these five revenue source is the total LCFF entitlement—the amount of funding a district will receive through the LCFF. The LCFF Calculated Funding is the amount that the LCFF calculation determines a school district should receive before EPA and local revenues are applied and before minimum state aid is determined. The next row is the difference between the LCFF Calculated Funding and LCFF revenue—the amount of revenue above calculated funding. For a school district that is state aid funded this amount will be zero. It is a positive amount when a school district is minimum state aid or basic state aid.

Under our forecast assumptions, Table 1 shows that LCFF funding for the District during the period is based on minimum state aid, which provides an amount above the LCFF calculated funding. The amount above calculated funding varies across the four-year implementation period between $1.5 million and $4.1 million.

Table 1
Santa Monica-Malibu USD
Revenues by Source
Fiscal Years 2017-18 through 2020-21

	2017-18		2018-19		2019-20		2020-21	
	Amount	Per ADA	Amount	Per ADA	Amount	Per ADA	2020-21	Per ADA
Average Daily Attendance (ADA)	10,462		10,462		10,462		10,462	
LCFF State Aid	$7,077,580	$677	$4,494,943	$430	$5,905,997	$565	$ 5,238,154	$501
Minimum State Aid	$1,508,263	$144	$4,090,900	$391	$2,679,846	$256	3,347,689	$320
Education Protection Account (EPA)	$2,092,400	$200	$2,092,400	$200	$0	$0	-	$0
Property Tax*	$68,664,238	$6,563	$71,946,389	$6,877	$75,385,426	$7,206	78,988,849	$7,550
Redevelopment Agency (RDA) Distributions	$10,928,942	$1,045	$11,377,921	$1,088	$11,710,654	$1,119	12,270,424	$1,173
Subtotal, LCFF Revenue	**$90,271,423**	**$8,629**	**$94,002,553**	**$8,985**	**$95,681,923**	**$9,146**	**$ 99,845,116**	**$9,544**
LCFF Calculated Funding	$88,763,160	$8,484	$89,911,653	$8,594	$93,002,077	$8,890	96,497,427	$9,224
Amount Above Calculated Funding	**$1,508,263**	**$144**	**$4,090,900**	**$391**	**$2,679,846**	**$256**	**3,347,689**	**$320**
% Above	1.70%		4.55%		2.88%		3.47%	
Santa Monica-Malibu Education Foundation (SMMEF)	$2,500,000	$239	$2,500,000	$239	$2,500,000	$239	$2,550,000	$244
Parcel Tax - Measure "R"	$11,795,497	$1,127	$12,089,205	$1,156	$12,374,510	$1,183	$12,666,548	$1,211
Measure "YY"	$8,200,000	$784	$8,400,000	$803	$8,600,000	$822	$8,772,000	$838
City of Santa Monica	$9,000,000	$860	$9,200,000	$879	$9,400,000	$898	$9,588,000	$916
City of Malibu	$200,000	$19	$200,000	$19	$200,000	$19	$204,000	$19
TOTAL REVENUES	**$121,966,920**	**$11,658**	**$126,391,758**	**$12,081**	**$128,756,433**	**$12,307**	**$133,625,664**	**$12,772**

*Assumes annual property tax growth of 4.78%
Assumes LCFF growth of 2.67% annually beginning in 2019-20
Assumes 2017-18 as the earliest first year of reorganization

Table 2 shows estimated revenues for SMUSD, which is a solidly state aid school district with local property taxes falling short of the LCFF entitlement by about $28 million annually. The table also shows the allocation of other local revenues to SMUSD, which gains the majority of continued funding from the sales tax increment, the parcel tax, the joint use revenues, and the education fund (see the Other Local Revenues section for detail on the allocation methodology.)

Table 2
Santa Monica USD
Revenues by Source
Fiscal Years 2017-18 through 2020-21

	2017-18		2018-19		2019-20		2020-21	
	Amount	Per ADA	Amount	Per ADA	Amount	Per ADA	2020-21	Per ADA
ADA	8,715		$8,715		$8,715		$8,715	
LCFF State Aid	$15,891,329	$1,823	$14,095,862	$1,617	$15,628,550	$1,793	$15,462,027	$1,774
Minimum State Aid	-		-		-		-	
Education Protection Account	$1,742,968	$200	$1,742,968	$200	-	-	-	-
Property Tax*	$45,819,602	$5,258	$48,128,910	$5,523	$50,554,607	$5,801	$53,102,559	$6,093
RDA Distributions	$10,928,942	$1,254	$11,377,921	$1,306	$11,710,654	$1,344	$12,300,871	$1,411
Subtotal, LCFF Revenue	**$74,382,842**	**$8,535**	**$75,345,661**	**$8,646**	**$77,893,812**	**$8,938**	**$80,865,457**	**$9,279**
LCFF Calculated Funding	$74,382,842	$8,535	$75,345,661	$8,646	$77,893,812	$8,938	$80,865,457	$9,279
Amount Above Calculated Funding	-	-	-	-	-	-	-	-
% Above	0.00%		0.00%		0.00%		0.00%	
SMMEF	$2,500,000	287	$2,500,000	$287	$2,500,000	$287	$2,550,000	$293
Parcel Tax - Measure "R"	$8,492,758	975	$8,704,228	$999	$8,909,648	$1,022	$9,119,916	$1,046
Measure "YY"	$8,200,000	941	$8,400,000	$964	$8,600,000	$987	$8,772,000	$1,007
City of Santa Monica	$9,000,000	1,033	$9,200,000	$1,056	$9,400,000	$1,079	$9,588,000	$1,100
TOTAL REVENUES	**$102,575,600**	**$11,770**	**$104,149,889**	**$11,951**	**$107,303,460**	**$12,313**	**$110,895,373**	**$12,725**

*Assumes annual property tax growth of 5.04%
Assumes LCFF growth of 2.67% annually beginning in 2019-20
Assumes 2017-18 as the earliest first year of reorganization

Table 3 displays revenue estimates for MUSD. MUSD has high property tax revenues relative to its calculated LCFF entitlement, and so becomes a community-funded, or state basic aid, school district. All of the district's LCFF funding comes from the minimum state aid component of the formula, accounting for about $1.4 million annually in state funding. When combined with property tax revenues, the LCFF funding provides more than $14 thousand per ADA, compared with calculated LCFF funding of $8 thousand to $9 thousand per ADA for the district.

Table 3
Malibu USD
Revenues by Source
Fiscal Years 2017-18 through 2020-21

	2017-18		2018-19		2019-20		2020-21	
	Amount	Per ADA	Amount	Per ADA	Amount	Per ADA	2020-21	Per ADA
ADA	1,747		1,747		1,747		1,747	
LCFF State Aid	-	-	-	-	-	-	-	$0
Minimum State Aid	$1,433,836	$821	$1,433,836	$821	$1,433,836	$821	$1,433,836	821
Education Protection Account	$349,432	$200	$349,432	$200	-	-	-	-
Property Tax*	$22,825,234	$13,064	$23,788,459	$13,616	$24,792,332	$14,190	$25,838,568	$14,789
RDA Distributions	-	-	-	-	-	-	-	-
Subtotal, LCFF Revenue	**$24,608,502**	**$14,085**	**$25,571,727**	**$14,636**	**$26,226,168**	**$15,011**	**$27,272,404**	**$15,610**
LCFF Calculated Funding	$14,405,735	$8,245	$14,581,273	$8,346	$15,062,149	$8,621	$15,632,291	$8,947
Amount Above Calculated Funding	**$10,202,767**	**$5,840**	**$10,990,454**	**$6,290**	**$11,164,019**	**$6,390**	**$11,640,113**	**$6,662**
% Above	70.82%		75.37%		74.12%		74.46%	
SMMEF	-	-	-	-	-	-	-	-
City of Malibu	$200,000	$114	$200,000	$114	$200,000	$114	$204,000	$117
TOTAL REVENUES	**$24,808,502**	**$14,199**	**$25,771,727**	**$14,751**	**$26,426,168**	**$15,125**	**$27,476,404**	**$15,726**

*Assumes annual property tax growth of 4.22%
Assumes LCFF growth of 2.67% annually beginning in 2019-20
Assumes 2017-18 as the earliest first year of reorganization

The effect of the change in district organization is best shown through a comparison of changes in revenue sources on a per-ADA basis. The following two tables show the difference between the estimated revenues per ADA from each revenue source for the District shown in Table 1, and the same revenue sources per ADA for both the SMUSD from Table 2, shown below in Table 4, and MUSD from Table 3, shown below in Table 5.

Table 4 shows that SMUSD is affected by the loss of minimum state aid, but that this loss is partially offset by per-ADA gains from other revenue sources that will continue to accrue to SMUSD after a reorganization. In some years there is a loss and in others a slight gain to SMUSD of per-pupil revenues during this four-year period.

Table 4
Per-ADA Change: Santa Monica USD from Santa Monica-Malibu USD
Revenues by Source
Fiscal Years 2017-18 through 2020-21

	2017-18	2018-19	2019-20	2020-21
LCFF State Aid	$1,147	$1,188	$1,229	$1,274
Minimum State Aid	-$144	-$391	-$256	-$320
EPA	-	-	-	-
Property Tax*	-$1,306	-$1,354	-$1,405	-$1,457
RDA Distributions	$209	$218	$224	$239
Subtotal, LCFF Revenue	-$93	-$339	-$208	-$265
LCFF Calculated Funding	$51	$52	$49	$55
Amount Above Calculated Funding	**-$144**	**-$391**	**-$256**	**-$320**
% Above				
SMMEF	$48	$48	$48	$49
Parcel Tax - Measure "R"	-$153	-$157	-$160	-$164
Measure "YY"	$157	$161	$165	$168
City of Santa Monica	$172	$176	$180	$184
City of Malibu	-$19	-$19	-$19	-$19
Change, TOTAL REVENUES	**$112**	**-$130**	**$6**	**-$48**

Table 5 displays the per-ADA differences for MUSD, showing large gains from additional local property tax revenues that are significantly offset by the loss of other local revenue. In particular, the suspension of the existing parcel tax reduces per-pupil funding by more than $1,000. However, restoration of an equivalent parcel tax, if proposed to and approved by Malibu voters, would more than offset this loss. In net, the establishment of a separate MUSD would increase per-pupil funding for students in the MUSD by $2,500 to $3,000 per ADA during the four-year period of this forecast.

Table 5
Per-ADA Change: Malibu USD from Santa Monica-Malibu USD
Revenues by Source
Fiscal Years 2017-18 through 2020-21

	2017-18	2018-19	2019-20	2020-21
LCFF State Aid	-$677	-$430	-$565	-$501
Minimum State Aid	$677	$430	$565	$501
EPA	-	-	-	-
Property Tax*	$6,501	$6,739	$6,984	$7,239
RDA Distributions	-$1,045	-$1,088	-$1,119	-$1,173
Subtotal, LCFF Revenue	$5,456	$5,651	$5,865	$6,066
LCFF Calculated Funding	-$239	-$248	-$269	-$276
Amount Above Calculated Funding	**$5,695**	**$5,899**	**$6,134**	**$6,342**
% Above				
SMMEF	-$239	-$239	-$239	-$244
Parcel Tax - Measure "R"	-$1,127	-$1,156	-$1,183	-$1,211
Measure "YY"	-$784	-$803	-$822	-$838
City of Santa Monica	-$860	-$879	-$898	-$916
City of Malibu	$95	$95	$95	$97
Change, TOTAL REVENUES	**$2,541**	**$2,670**	**$2,818**	**$2,954**

The Long-Term Forecast: 2021-22 through 2028-29

As previously described, we have simplified the long-term forecast by maintaining a fixed percentage of annual increases to LCFF base grants and property tax revenues. We also hold ADA constant at the estimate of 2019-2020 ADA. Minimizing variability from other sources allows us to see the effect of the key factor in revenue changes for each school district configuration. Holding these factors constant means that comparative changes in revenues among the three district configurations reflect the annual change in the relationship between growth in the LCFF target entitlements and growth in offsetting local property tax revenues.

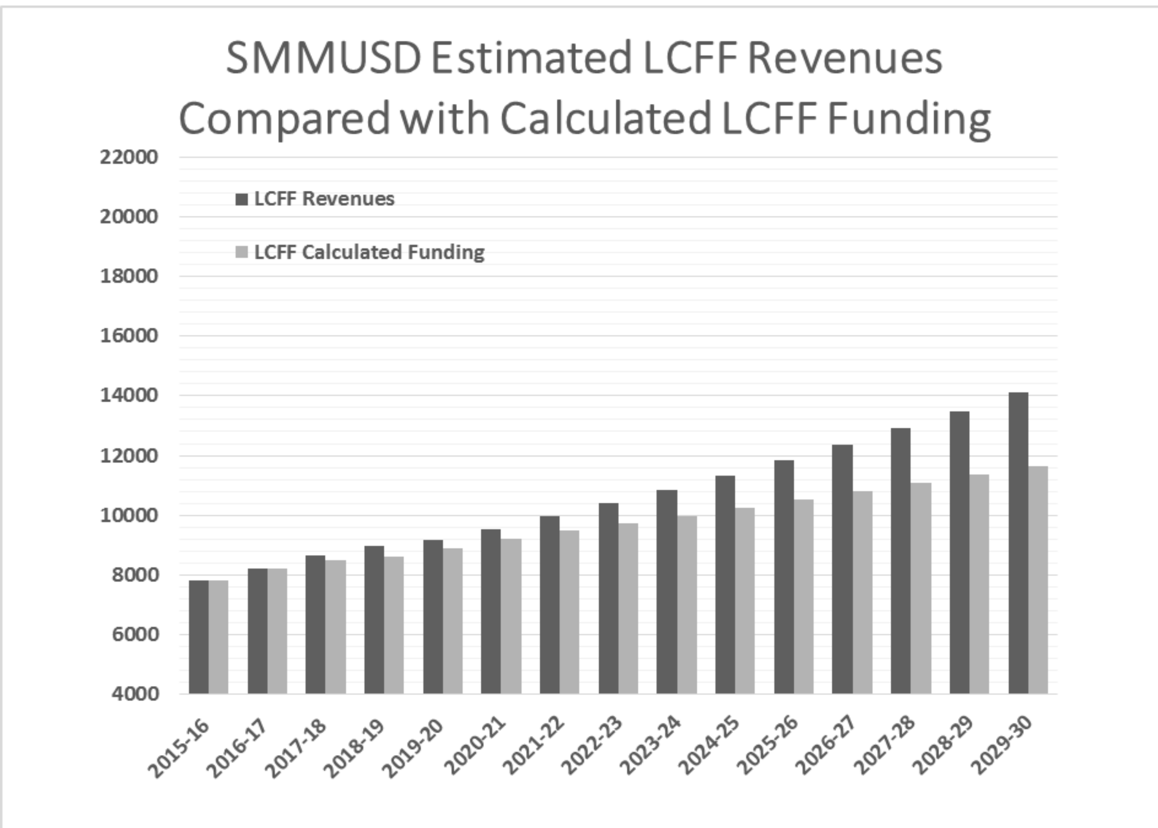
The following three graphs display the relationship between the calculated LCFF funding and actual LCFF funding for each of the three district configurations. Actual LCFF funding will equal the calculated LCFF funding when local revenues are sufficiently below the LCFF calculated amount so that the minimum state aid or basic aid provisions of state law are not triggered.

Once minimum state aid or basic aid come into play because of high local revenue compared to the LCFF calculated entitlement, then actual LCFF funding will be higher than the calculated LCFF amount.

Santa-Monica Malibu Unified School District

Graph 1 shows that the District becomes minimum state aid funded in 2017-18, and becomes a fully community-funded (basic aid) school district in 2023-24 as local revenue growth completely overtakes growth in the LCFF target, providing additional revenues from local property taxes over and above the LCFF entitlement of the District.

Graph 1

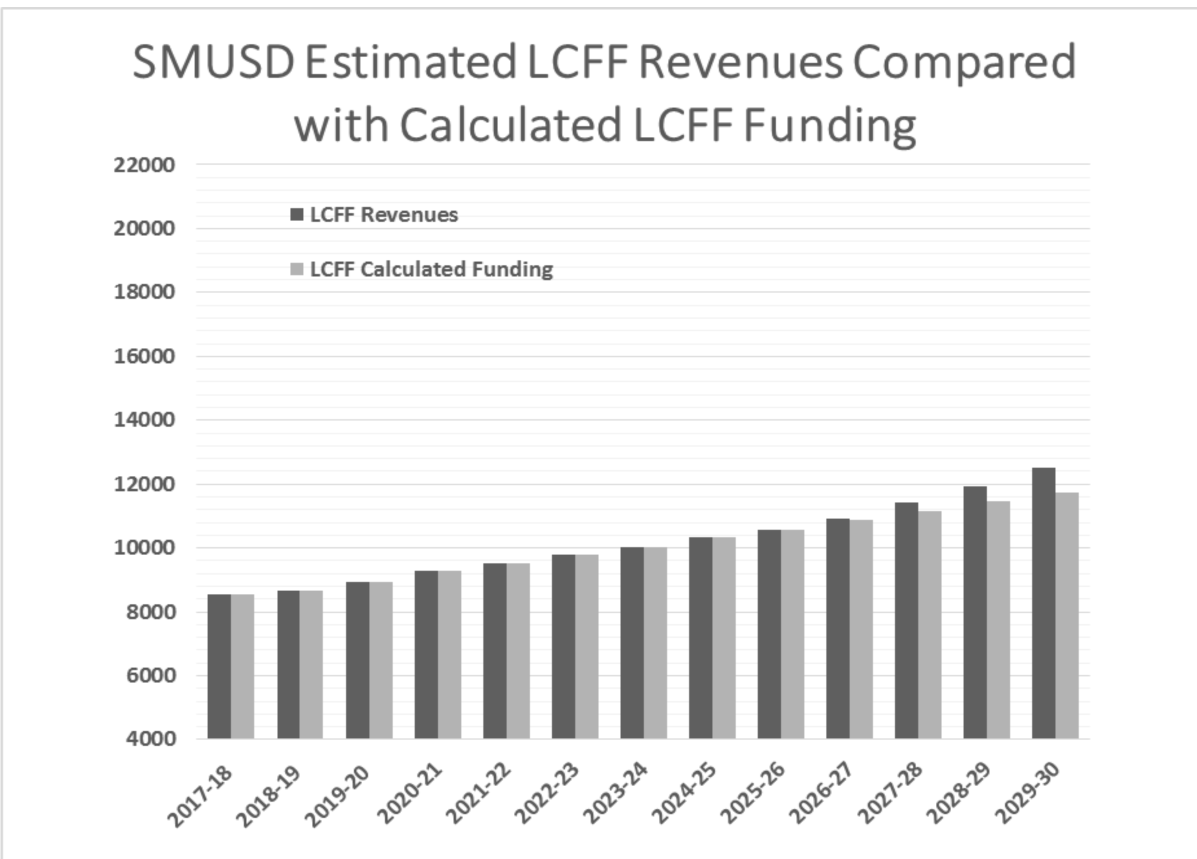


The difference between the calculated LCFF entitlement and actual LCFF funding is attributed to the receipt of higher property tax revenues, and the state terms this difference to be "excess" taxes. What factors in our forecast affect the level of excess taxes forecast for any of the three district configurations? If the state grows the LCFF at a faster rate, providing higher annual increases, then the excess taxes will be reduced or eliminated. If local property tax revenues grow faster, then excess taxes will also grow faster and may appear in the forecast sooner. Conversely, slower property tax growth reduces excess taxes.

Santa Monica Unified School District

Graph 2 displays the same information as Graph 1, but for SMUSD. Although immediately post-reorganization the district is state funded, average annual compounded growth in local property taxes exceeds growth in the LCFF entitlement and SMUSD would, under these forecast assumptions, become a minimum state aid district beginning in 2026-27, ultimately becoming a basic aid school district in the future.

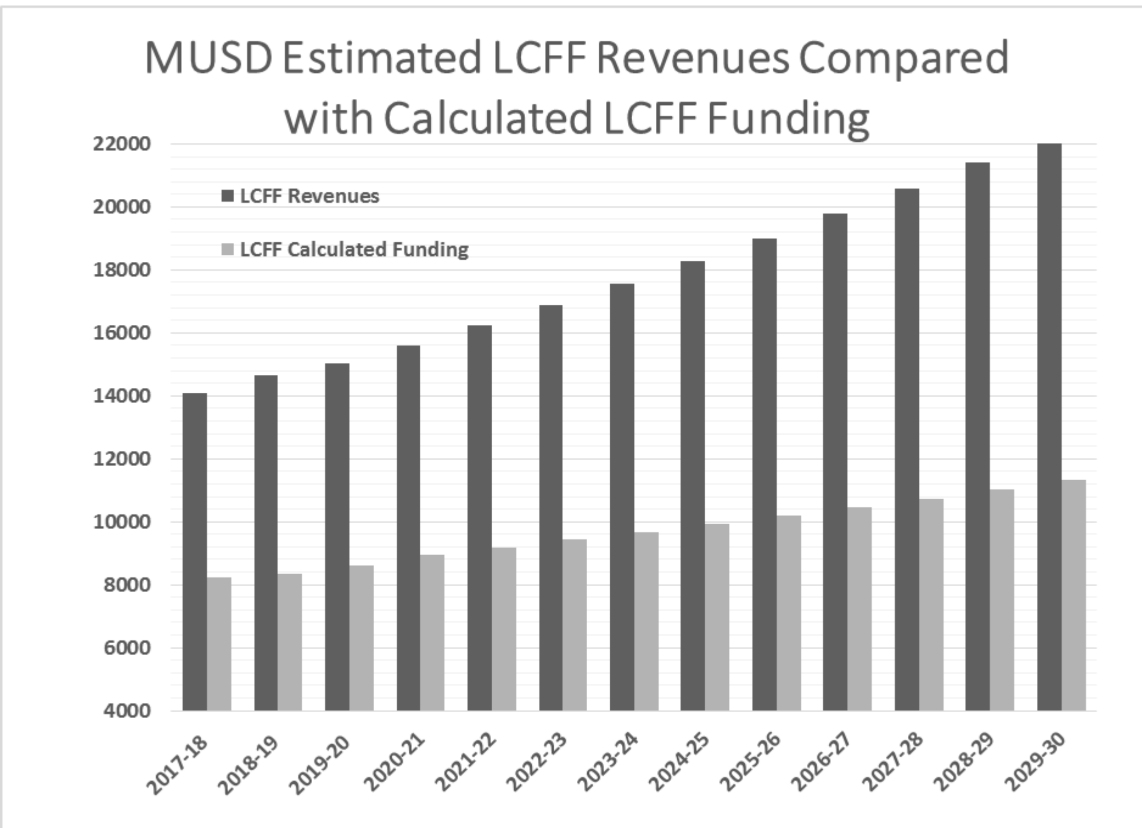
Graph 2



Malibu Unified School District

Graph 3 shows that MUSD would begin reorganization as a solidly community-funded district, dependent on local revenues as the primary source of support. As a community-funded school district, MUSD would face the unique opportunities and challenges that come when primary funding is most sensitive to local, rather than state, budget constraints. Among those challenges is managing district operations as enrollment changes. We have modeled the effect of applying the division of enrollment between Santa Monica schools and Malibu schools from the 2015-16 enrollmment reports. It shows that Malibu schools will account for about 19.4% of total enrollment and Santa Monica for 80.6%. This contrasts with the 16.7% and 83.4% proportions of ADA, respectively, that were allocated to the two districts in the prior feasibility study and in our baseline forecast.

Graph 3



Unlike state aid school districts, which earn additional funding for each additional student and lose funding for each student lost, the revenues of community-funded school districts are insensitive to changes in student enrollment. Revenues do not increase when new students come into the district, nor do they decline when students leave.

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As a result, an increase in the number of enrolled students will reduce the average funding per pupil available to serve all students in the district. Distributing 19.4% of the District ADA, rather than 16.7%, to MUSD would increase ADA to 2,028 from 1,747 in 2017-18 and future years—16% more students enrolled. That increase reduces 2017-18 average per-pupil funding for MUSD from $14,085 to $12,278—a reduction of $1,807 per ADA. As long as enrollment stays higher, this effect will persist into future years with the average revenues per pupil reduced by about 13% when compared with our baseline estimate.

Total MUSD LCFF revenues did not change, but because the number of students enrolled grew, then funding per pupil declined.

Long-Term Revenue Impact

The loss of the Malibu property tax base and the compounding effect of property tax growth becomes the primary driver of growing differences in funding for SMUSD when compared with the District. Table 6 shows the difference in total revenues for each of the newly formed school districts for the eight-year period of the long-term forecast when compared with the District over the same period.

Table 6
Difference in Total Revenues Per ADA When Compared with the District Forecast

Year	SMUSD	MUSD
2021-22	-$216	$3,094
2022-23	-$374	$3,240
2023-24	-$594	$3,390
2024-25	-$781	$3,546
2025-26	-$1,032	$3,708
2026-27	-$1,223	$3,874
2027-28	-$1,262	$4,046
2028-29	-$1,303	$4,225

Change in State Aid

Over the 2017-18 through 2020-21 forecast period, the proposed reorganization increases state cost for the LCFF when compared with funding for the existing District. This occurs because a portion of the local tax revenue that will be allocated to MUSD is no longer available to offset state aid. The increased state cost is reflected in additional state aid provided to SMUSD. Table 7 shows the comparison of state aid for the District, which is minimum state aid funded during the forecast period, with the combined state aid for SMUSD and MUSD. Additional cost to the state varies across years, from about $7 million to $9 million.

Table 7 Annual Net Change in LCFF State Aid Fiscal Years 2017-18 through 2020-21								
	2017-18		2018-19		2019-20		2020-21	
	Amount	Per ADA	Amount	Per ADA	Amount	Per ADA	2020-21	Per ADA
SMMUSD State Aid	**$8,585,843**	**$821**	**$8,585,843**	**$821**	**$8,585,843**	**$821**	**$8,585,843**	**$821**
SMUSD State Aid	$15,891,329	$1,823	$14,095,862	$1,617	$15,628,550	$1,793	$15,462,027	$1,774
MUSD State Aid	$1,433,836	$821	$1,433,836	$821	$1,433,836	$821	$1,433,836	$821
Subtotal, SMUSD and MUSD	**$17,325,165**	**$1,656**	**$15,529,698**	**$1,484**	**$17,062,386**	**$1,631**	**$16,895,863**	**$1,615**
Change in State Aid	**$8,739,322**	**$835**	**$6,943,855**	**$664**	**$8,476,543**	**$810**	**$8,310,020**	**$794**

However, over the longer-term forecast period, state costs begin to decline, falling from $7 million in 2021-22 to $3.2 million in 2024-25. By 2026-27, additional state costs are wholly offset by local property tax growth since in that year both SMUSD and MUSD are community-funded (basic aid) school districts that receive only the minimum state aid required by law.

Sensitivity to Changing Factors

As previously noted, the financial impact of a reorganization on LCFF funding over time is heavily influenced by two primary factors: annual change in LCFF grants per ADA and changes in local property tax revenues. Our baseline assumptions are reasonable given historical changes in local revenues and historical practices in state support for school district funding formulas. In addition to our baseline forecast, we have looked at the effect of more conservative and more optimistic growth in property taxes while holding LCFF growth constant at our baseline percentage of 2.67%.

Sensitivity Analysis: The Conservative View—3% Average Annual Increase in Property Tax Revenues

The following changes result from a 3% annual rate of growth in property tax revenues for each of the three district configurations:

- The District briefly moves into minimum state aid status in 2018-19, but then remains a state aid school district in each of the following years of the forecast period
- SMUSD is a state aid district during the full forecast period, and MUSD is a community-funded school district
- MUSD, as would be expected with lower average property tax growth, gains less additional per-ADA funding than it does under the baseline forecast

- SMUSD gains about $300 per ADA in net revenues per pupil relative to the District

- The increased cost of state aid under the reorganization grows from about $10 million to more than $13 million during the 12-year forecast period

Sensitivity Analysis: The Optimistic View—6% Average Annual Increase in Property Tax Revenues

The following changes result from a 6% annual rate of growth in property tax revenues for each of the three district configurations:

- The District becomes basic aid in 2021-22, and is minimum state aid during the years prior to 2021-22

- SMUSD becomes a minimum state aid district in 2023-24 and a basic aid school district in 2026-27

- Relative to the District, SMUSD revenue per pupil quickly diverges, starting with a deficit of $42 per ADA in 2017-18 that grows to nearly $2,000 by 2028-29

- MUSD experiences a greater increase in per-pupil funding through accelerated property tax growth, moving from more than $14 thousand per ADA in 2017-18 to almost $27 thousand per ADA in 2028-29

- Annual state cost increases fall rapidly from a high of nearly $8 million in the first year of reorganization to zero by 2023-24

LCFF Factors and Assumptions

Key drivers of LCFF revenues for school districts are annual COLAs applied to the LCFF target grants, changes in local revenues that offset state aid, temporary tax revenue that supplements state aid, changes in ADA, and gap closure funding during the transition years to full LCFF implementation. Our analysis of the financial effect of dividing the District into two separate school districts, one serving Santa Monica city students and the other serving students in Malibu and surrounding areas, is based on estimations of the division of property tax revenue, student enrollment, and other assumptions that we have used regarding forecasts of future conditions among the existing and proposed school districts. Where our analysis supports the assumptions used in previous feasibility studies and reports about the proposed reorganization of the District, we have used those earlier assumptions to provide analytic consistency. Following are the factors we have used in this report to estimate and project the future financial effects of reorganizing the

District, and an identification of the key differences in our estimates compared with the District adopted budget and multiyear forecast.

- **Differences Between the District Adopted Budget and the SSC Forecast**—We have based our forecast on estimated actual revenue data provided by the District for the 2015-16 budget year and estimates that formed the basis for the District's 2016-17 adopted budget. We have used the LCFF multiyear spreadsheet tool provided by the District as the foundation for building out our short-term and long-term forecasting model. Although we have used District-provided tools and data as our starting point, we have used updated information when it was available so that our forecast reflects the most recent actual data at this time.

  Our forecast is consistent with the District's budget and multiyear estimates, but it is not our intent to replicate the work the District performed in preparation of their budget. Following are key differences between the District's LCFF budget/multiyear estimates and our forecast:

  - The District has received additional allocations of property taxes since the budget estimates were prepared, increasing property tax revenue in 2015-16 by about $3 million. We use the most recent report of actual tax proceeds in our forecasting model.

  - This report uses the most recently updated gap closure percentages provided by the Department of Education for 2015-16 and estimated by the Department of Finance (DOF) for future years.

  - The District has used a 5% annual property tax growth estimate, while our baseline forecast employs a slightly lower 4.78% estimate of future growth in property taxes

    How does this affect our forecast when compared with current District estimates? Because of high local revenues, the District is very close to the line between being in state aid status and minimum state aid status. The combination of higher initial property taxes in 2015-16 and slightly lower gap closure percentage estimates from the DOF for future years causes our forecast to show the District returning to minimum state aid status in 2017-18, earlier than estimated by the District at the time of budget adoption. Following is a table that compares the gap closure percentages that were the latest available when the District prepared its 2016-17 budget and the gap closure percentages we have used in our forecast.

	2015-16	2016-17	2017-18	2018-19
District Budget	51.97%	54.84%	73.96%	41.22%
SSC Forecast	52.56%	54.18%	72.99%	40.36%

- **COLA and Gap Closure Percentages**—We have used actual values or DOF estimates of the annual statutory COLA applied to LCFF target grants, and LCFF gap closure percentages in each year from 2015-16 through 2019-20, the last year for which DOF estimates are available. In subsequent years we annually increase the LCFF grants by the COLA percentage estimated for 2019-20. The Administration's plan for LCFF assumes full implementation in 2020-21, and for that reason we have used a 100% gap closure percentage in that year.

Table 8
Department of Finance Estimates
Cost of Living Annual Percentage and LCFF Gap Closure Percentage

	2015-16*	2016-17*	2017-18	2018-19	2019-20	2020-21
COLA	1.02%	0.00%	1.11%	2.42%	2.67%	2.67%
Gap Closure	52.56%	54.18%	72.99%	40.36%	73.98%	100.00%

* 2015-16 and 2016-17 COLA percentages, and the 2015-16 gap closure percentage, are actuals

- **Division of Property Tax Revenues**—The total assessed value (AV) on the secured and unsecured tax rolls of Los Angeles County for the city of Malibu and the city of Santa Monica is shown in Table 9. In 2015, Malibu accounted for about 31% and Santa Monica for 69% of the total value of taxable property in the two cities. The WestEd feasibility study attributed 33.6% of the District property tax revenue, excluding Redevelopment Agency (RDA) distributions, to Malibu and the surrounding unincorporated area that would be part of a newly formed Malibu district. We believe this estimate is consistent with the proportional AV shares for each city and have used a division of 33.6% of District property tax revenues initially allocated to MUSD and 66.4% allocated to SMUSD, based on 2015-16 property tax revenues reported by the District.

- **Property Tax Growth**—Property tax collections are based on AV, so there is a high correlation between changes in AV and changes in the amount of property tax revenues received by a school district. We have reviewed changes in AV over time for the two cities that comprise the District to establish estimates for annual changes in property tax revenues for each of the school district configurations.

  Table 9 shows AV for both Santa Monica and Malibu during the 12-year period from 2003 through 2015. Over that time period, which includes the Great Recession of 2008-09, change in AV for both communities can be seen to vary widely. The table also shows the annual average percentage change for each city and the cities combined over three time periods: for 12 years from 2003-2015; for 6 years from 2009-2015; and for the most recent 3-year period from 2012-2015. The 12-year average shows the highest percentage growth in AV, more than 6% annually across both communities, reflective of the boom years of growth in property values prior to the Recession. The 6-year average reflects the heavy influence of the "bust" in the property valuation balloon during the Recession, with average annual change dropping below 4%.

Our report uses the 3-year average annual percentage growth in AV as the baseline estimate of annual property tax increases that are applied to our forecast for each of the three school district configurations. This average reflects the most recent trends in AV for the communities involved, absent the impact of both the real estate bubble and subsequent bursting of that bubble during the Recession. For MUSD we assume a 4.22% annual increase in property tax revenue, for SMUSD we use 5.04%, and for the District we use 4.78%.

In addition to the baseline forecast we will assess the impact of higher or lower average annual rates of property tax growth on LCFF entitlements for the school districts under alternative scenarios. Although for the purpose of forecasting future financial impact we believe that applying averages to govern annual changes in key factors allows us to identify trends, as seen in the 12-year AV history, actual annual changes in property tax revenues for any given year can vary significantly.

Table 9
Assessed Value by Year, City of Malibu and City of Santa Monica

*Assessed Valuation**

Year	Malibu	% Change	% of Total	Santa Monica	% Change	% of Total	Total
2015	$12,860,626,193	3.79%	30.74%	$28,974,388,499	5.29%	69.26%	$41,835,014,692
2014	$12,373,220,982	5.79%	31.08%	$27,440,683,662	6.38%	68.92%	$39,813,904,644
2013	$11,657,332,875	3.14%	31.21%	$25,690,700,032	4.37%	68.79%	$37,348,032,907
2012	$11,290,899,099	3.46%	31.49%	$24,567,866,023	3.10%	68.51%	$35,858,765,122
2011	$10,899,776,633	1.17%	31.41%	$23,805,129,858	-0.90%	68.59%	$34,704,906,491
2010	$10,772,366,532	5.60%	30.96%	$24,019,678,863	2.53%	69.04%	$34,792,045,395
2009	$10,168,585,670	8.76%	30.28%	$23,411,970,205	9.78%	69.72%	$33,580,555,875
2008	$9,277,803,520	8.75%	30.52%	$21,121,981,564	6.71%	69.48%	$30,399,785,084
2007	$8,465,602,275	12.58%	30.05%	$19,704,867,414	8.16%	69.95%	$28,170,469,689
2006	$7,400,873,218	10.80%	29.02%	$18,097,807,433	8.59%	70.98%	$25,498,680,651
2005	$6,601,919,481	9.23%	28.52%	$16,543,617,285	5.05%	71.48%	$23,145,536,766
2004	$5,992,675,814	9.40%	27.62%	$15,708,094,524	7.07%	72.38%	$21,700,770,338
2003	$5,429,554,435		27.11%	$14,597,773,567		72.89%	$20,027,328,002

	Malibu period	Malibu avg		Santa Monica period	Santa Monica avg		Total period	Total avg
Average	*2003-2015*	7.45%		*2003-2015*	5.88%		*2003-2015*	6.33%
	2009-2015	4.00%		*2009-2015*	3.62%		*2009-2015*	3.73%
	2012-2015	4.22%		*2012-2015*	5.04%		*2012-2015*	4.78%

** Secured and Unsecured, net of exemptions*

- **Redevelopment Agency-Related Income**—The District receives additional local revenues from the tax increment that formerly accrued to the RDA within its boundaries. The former RDA was in the city of Santa Monica, so all revenues received from that source are credited to the SMUSD under a reorganization. We have used the most recent district estimates of RDA pass through and residual distribution income provided by the District through 2019-20. Thereafter, we annually increase post-RDA income by the SMUSD annual average increase to local property taxes.

- **Enrollment and Average Daily Attendance**—To be consistent with previous feasibility study work regarding a reorganization of the District we used an historical division of enrollment between Santa Monica schools and Malibu schools of 84.3% and 16.7%, respectively, and applied those percentages to the District estimates of ADA that we used in our baseline forecast. For our long-term forecast we carried forward the District's 2017-18 ADA estimate and held it constant for each additional year of the forecast period. We also reviewed California Basic Educational Data System (CBEDS) fall enrollment reported for 2015-16, and we allocated the 2015-16 enrollment of each school within the District to either SMUSD or MUSD. Based on the CBEDS data, the proportional division of enrollment between the two districts was 80.6% for SMUSD and 19.4% for MUSD in that year. We modeled this percentage allocation of ADA to each district, noting MUSD's sensitivity to the impact of enrollment swings in a basic aid school district.

- **Unduplicated Pupil Percentage**—The percentage of students enrolled in a district who are English learners, from low-income families, or foster youth determines the additional revenues a school district receives through the supplemental and concentration grant provisions of the LCFF. That percentage is called the Unduplicated Pupil Percentage (UPP), and the District's UPP is 29.03%. The SMUSD attendance area includes a higher proportion of eligible pupils than MUSD relative to enrollment, so the SMUSD has a higher UPP than the District. We use an estimated UPP of 32.25% of enrollment for SMUSD and 12.97% for MUSD in each year of the forecast. While supplemental grants are calculated for both of the newly formed school districts based on these percentages, the UPP for the districts is below the threshold to qualify for concentration grant funding.

- **Minimum State Aid**—The District's LCFF minimum state aid is $8,585,843. There is no statutory requirement or administrative guidance regarding how the entitlement to minimum state aid should be divided among school districts in the event of a reorganization. We have assumed that a proportional division based on the allocation of student enrollment and ADA among the school districts is reasonable and would likely be an acceptable approach for those charged with reviewing a proposed reorganization. We have allocated 83.3%, or $7,152,007, to SMUSD and 16.7%, or $1,433,836, to MUSD. Although we believe this is a reasonable approach, it may not be the only acceptable method for allocating minimum state aid.

- **Education Protection Account Proposition 30 Revenues**—The existing school district and both newly proposed school districts qualify for the $200 per-ADA minimum allocation of EPA funds. We show EPA funding through 2018-19 for the three district configurations, at which time the temporary taxes enacted through Proposition 30 will have expired. Proposition 55 on the November 2016 ballot will, if approved, extend the income tax surcharge on high-income earners and the minimum allocation of $200 per ADA for each school district from the revenues generated by the tax.

The LCFF Model

Beginning with the LCFF calculator spreadsheet used by the District for budgeting and multiyear forecasts, SSC staff developed a model that we then used to estimate future allocations of state and local revenue for the District and the proposed SMUSD and MUSD using the assumptions outlined above. The model uses as its starting point LCFF funding for the District as determined by the California Department of Education (CDE) for the June 2015-16 Second Principal Apportionment, adjusted for actual local property tax revenues and RDA trust fund distributions received by the District as of July 6, 2016.

Other Local Revenues

The District receives a significant amount of additional resources that are outside of the state LCFF system. Unlike property taxes, these revenues do not offset state aid and are provided in addition to funds received from other state and federal sources.

Other local revenues include a parcel tax, a locally approved sales tax increment, joint-use facilities revenues from the cities of Santa Monica and Malibu, and a school district education fund. In a reorganization of the District, these revenue streams would divide in different ways among a Santa Monica and a Malibu school district.

- **Proposition Y** is a measure approved by more than 60% of the voters in Santa Monica on November 2, 2010, increasing the sales tax for the city of Santa Monica ". . . to offset severe state budget cuts, protect and stabilize city finances, and maintain essential services including: police, fire, paramedic and emergency 911 response, school, educational and afterschool programs, public transit, services for the disabled, gang and drug prevention programs, environmental, library and other general fund services, by enacting a city of Santa Monica ½ percent transactions and use tax."

  On the same ballot, Measure YY posed a "Santa Monica Sales Tax Proceeds for Schools Advisory Question." Measure YY was a companion measure to Measure Y, which raised the city's sales tax from 9.75% to 10.25%. The advisory question asked voters if they thought that 50% of the approximately $12 million that the sales tax hike was estimated to generate annually should be earmarked to support public education in the city. Both measures were approved. Proposition Y currently provides approximately $8 million per year to the District.

In a division of existing revenues, allocations resulting from Proposition Y would continue to flow to the proposed SMUSD, and would not be shared with MUSD since the increased sales tax applies only to city of Santa Monica residents. As a result, SMUSD would see an increase in funding per ADA attributable to the sales tax revenues since the revenue stream would remain the same and ADA for a Santa Monica-only school district would decline by approximately 17% under the reorganization. We estimate the net impact of this change would be to increase per-pupil revenues for a new SMUSD by approximately $170, and reduce revenues for MUSD by $800 per ADA.

- **Measure R**, adopted by an overwhelming majority of the voters in Santa Monica and Malibu on February 5, 2008, combined two existing school parcel taxes into a single tax, intended ". . . To preserve quality schools despite inadequate state funding, and prevent program cuts." Funds were intended to be used to retain highly qualified teachers and reduce class size; protect excellence in math, science, technology, arts, music, and reading; and sustain libraries. At the time of adoption, the parcel tax was $346 per year, to be adjusted annually for inflation [the All Urban Consumer Price Index (CPI)], and was expected to generate approximately $12 million of additional revenues for the District. We use an estimate of 2.36% for the annual change in the CPI when determining future revenues from Measure R.

For the SMUSD, total Measure R parcel tax revenues would be reduced by the loss of the Malibu parcels and those in the unincorporated area surrounding the city of Malibu. Based on the number of parcels in Santa Monica and the 2016-17 tax rate of $386 per parcel, we estimate that SMUSD would receive approximately $8.3 million from Measure R revenues were the reorganization to occur in the current year. This compares with estimated revenues from Measure R for the existing District of $11.5 million in the current year. Because the parcel tax revenues for a newly formed SMUSD would be approximately 73% of the total current Measure R revenues, but SMUSD would retain about 83% of the ADA, then revenues per pupil in SMUSD from Measure R would decline by approximately $150 per ADA under current tax rates.

As previous analyses have concluded, existing law regarding the division of assets and liabilities is unclear about the treatment of voter-approved parcel tax revenues, and Malibu is likely to need to adopt a new parcel tax to make up for revenue that would otherwise have been generated through Measure R if that revenue is needed for the new unified school district. Absent continuation of the parcel tax in Malibu, MUSD would face a reduction of $1,100 to $1,200 per pupil from lost parcel tax revenues.

- **"Joint Use" Revenues**—The city of Santa Monica currently provides the District with about $9 million annually through joint use facilities agreements. That funding would be retained in whole within the SMUSD, and, when compared with the per-pupil average revenues from this source for the existing District, SMUSD revenues per ADA would increase by at least $175. The loss of these revenues to the MUSD would reduce per-pupil funding by more than $860.

  Conversely, retention by MUSD of the full $200 thousand in facilities-related revenues from the city of Malibu would increase funding by about $95 per ADA, with SMUSD experiencing a corresponding loss per pupil of $19.

- **The Santa Monica-Malibu Education Foundation**—The District budget reflects $2.5 million in annual revenues from various fundraising activities that contribute to the SMMEF. We have allocated the full $2.5 million to SMUSD, increasing SMUSD per-pupil funding by about $50 and decreasing MUSD revenues by $250 per ADA, with the understanding that MUSD may establish a separate education fund in the future.

- **Other Local Revenue Considerations**—Proposals are currently being considered that could materially increase local revenues for both of the proposed school districts. An additional sales tax increment is under consideration for the city of Santa Monica that would, if adopted, increase funds available to the SMUSD by $8 million, or more than $900 per pupil. The MUSD may ask Malibu voters to authorize continuation of a parcel tax to restore the revenues lost from Measure R, making up for the more than $1,000 per-pupil reduction that results from the inability to continue to apply Measure R parcel taxes to Malibu area properties.

  Recent agreements to lease school properties for private use will increase future revenues for the SMUSD but are not reflected in this analysis because the information needed to estimate the financial impact on the school district was not available at the time of publication.