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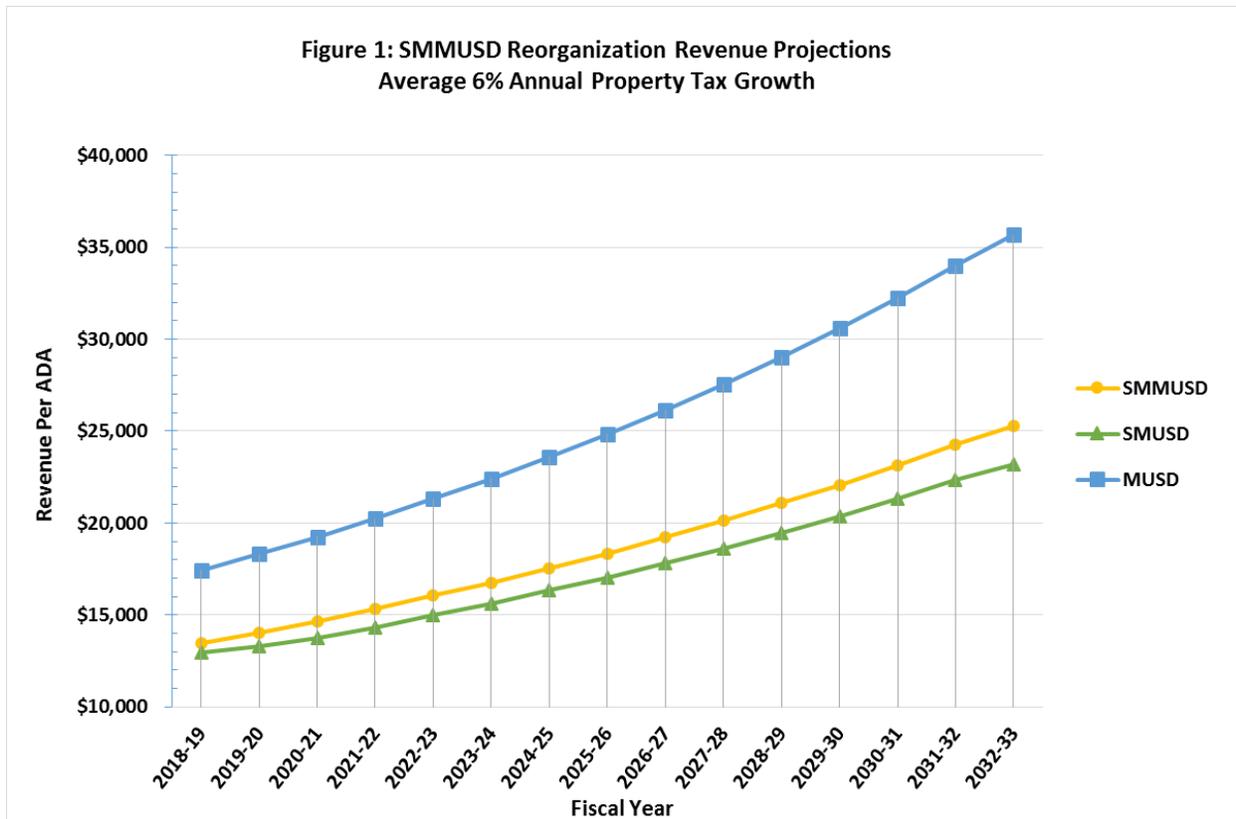
RE: Review of Revenue Options for District Reorganization

The Santa Monica-Malibu Unified School District (SMMUSD) contracted with School Services of California, Inc., (SSC) to conduct an independent analysis and assessment of different revenue options and the extent to which these options would mitigate the financial disparities arising from a reorganization of the SMMUSD into two separate unified school districts: the Santa Monica Unified School District (SMUSD) and the Malibu Unified School District (MUSD).

SMMUSD asked that in our review of the Malibu Unification Negotiations Committee's (MUNC) final report we specifically address: the viability of assumptions, risk assessment of the plan, effects of the "Delta" (i.e., the difference between the funding provided following reorganization and the funding that would have been provided had SMMUSD not been reorganized) in the early years, and the impact of the dip when payment from the proposed MUSD ends.

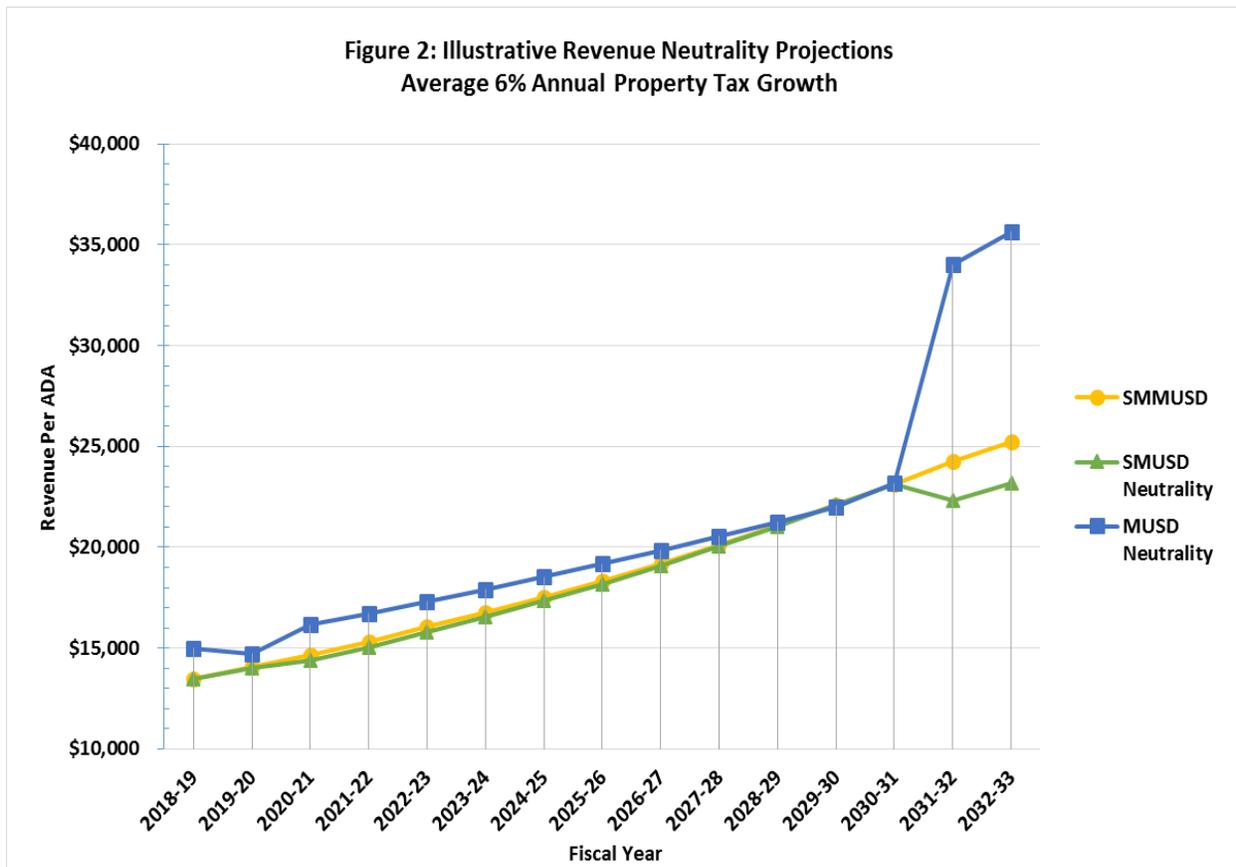
Impact of Separation Without Any Financial Adjustments to Mitigate Fiscal Consequences

- One of the key fiscal consequences of reorganization is that MUSD would immediately become a basic aid district with local property tax revenues exceeding its Local Control Funding Formula entitlement by an estimated \$9.8 million.
- An unintended consequence of this reorganization, however, is that SMUSD's transition to a basic aid district would be delayed several years compared to when SMMUSD would have become a basic aid district. This delay deprives SMUSD of resources that it would otherwise receive if no reorganization were to take place. This outcome is displayed in Figure 1.



Impact of Separation With Payment Adjustments From MUSD to SMUSD Pursuant to the Formula Proposed in the MUNC Supplemental Memorandum Report

- Our review validates that the MUNC 2.0 Revenue Neutrality Formula operates as intended and that the results presented in the July 11, 2017, MUNC Supplemental Memorandum Report are accurate and consistent with the methodology recommended by MUNC
- Beginning in 2019-20 and extending through 2029-30 (the last year of Delta calculation) MUSD’s ability to pay is insufficient to make the full Delta payment in each year, so a deferred Delta amount begins to accumulate (i.e., MUSD puts money aside for 13 years to pay SMUSD for a total of \$123.4 million).
- After an initial jump in operating revenues of 16% compared to the SMMUSD baseline, MUSD’s yearly increase is capped at 3.5% from 2021-22 through 2029-30.
- Under our baseline forecast, by 2032-33 all three district configurations would be basic aid districts, with projected per average daily attendance (ADA) funding in MUSD \$10,404 (41%) above the SMMUSD projected funding level of \$25,256 per ADA, while per-ADA funding in SMUSD would be \$2,086 (8%) below the SMMUSD level. The outcomes of the MUNC formula are displayed in Figure 2.

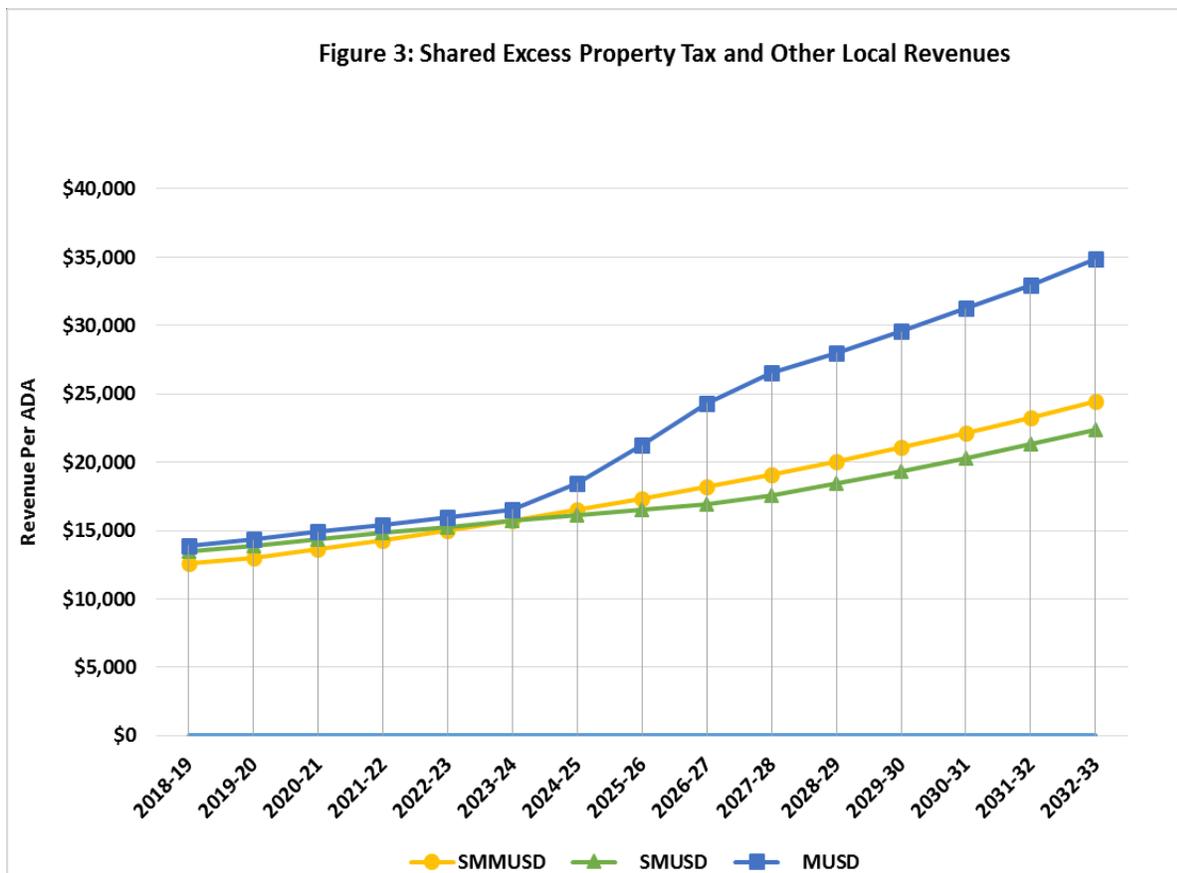


- If the MUNC 2.0 Revenue Neutrality Formula proposal is adopted, we make two recommendations:
 1. Adopt a series of transition payments to be made by MUSD to SMUSD after the Delta calculation period ends; and
 2. Provide estimated payments in the year that a Delta is incurred, followed by a “true-up” payment or credit, as needed, once final financial data is available.
- The MUNC 2.0 Revenue Neutrality Formula requires an annual benchmark calculation of the revenues that SMMUSD would have received had there never been a reorganization—essentially creating a “synthetic financial profile” for a school district that would no longer exist. This financial profile will be difficult to calculate and could result in disputes between the two districts.

Impact of Separation With Payment Adjustments According to Formula Set Forth in SSC Report

SSC Alternative Revenue Allocation Formula

- SSC developed an alternative revenue allocation formula which requires that the two districts share both excess property tax revenues generated in MUSD and other local revenues, which accrue primarily to SMUSD. The sharing of both these revenue sources yields per-ADA funding for both SMUSD and MUSD slightly greater than what would have been provided if the reorganization did not take place.
- The growth rates of the total funding provided to the two districts would be roughly the same until SMUSD becomes a basic aid district in 2023-24.
- From 2023-24 forward, MUSD's funding accelerates significantly until it receives 100% of its excess property tax commencing in 2027-28.
- SMUSD's funding would increase in line with expected cost-of-living adjustments for three years from 2024-25 through 2026-27, resulting from the supplemental transition payment from MUSD to SMUSD to maintain total revenues, adjusted for cost of living.



In Summary

Due to the loss of Malibu property tax base following reorganization, SMUSD revenues per ADA will necessarily fall below per-ADA funding of the current SMMUSD absent reorganization, once SMUSD is financially independent.

Both the MUNC revenue neutrality formula and the SSC alternative formula presented here provide for payments from MUSD to SMUSD to initially mitigate the relative reduction in SMUSD revenues per ADA following a separation from Malibu, and to smooth the SMUSD transition to its financially independent revenue level post-reorganization.

By 2032-33 all three district configurations would be basic aid districts, with projected per-ADA funding in MUSD \$10,404 (41%) above the SMMUSD projected funding level of \$25,256 per ADA, while per-ADA funding in SMUSD would be \$2,086 (8%) below the SMMUSD level. These trends will continue over time. In 2035-36, the final year reported for the MUNC neutrality formula, under our baseline forecast of 6% average annual growth in property tax revenues SMMUSD projected funding would be \$28,499 per ADA, with MUSD \$12,675 (44%) above and SMUSD \$2,534 (9%) below that level.