

Glossary

This glossary contains definitions and explanations for the acronyms, words, and phrases that the Committee used during the course of its work. The glossary includes four sections:

- Section A: Acronyms
- Section B: Terms Related to Schools and the Financing of California Schools
- Section C: Terms Adopted for Negotiations and Drafting the Agreement
- Section D: Explanations of Assessed Value of Property, Parcel Tax, and Property Value Within the Context of Reorganization

Section A: Acronyms

ADA	Average Daily Attendance
AMPS	Advocates for Malibu Public Schools
COLA	Cost-of-Living Adjustment
COPs	Certificates of Participation
EPA	Education Protection Account- Proposition 30
FOC	SMMUSD's Financial Oversight Committee
LACOE	Los Angeles County Office of Education
LCFF	Local Control Funding Formula
MBG	Mandated Cost Block Grant Revenue
MUSD	Malibu Unified School District
OPEB	Other Post-Employment Benefits
PCB	Polychlorinated Biphenyl
SBE	California State Board of Education
SMMEF	Santa Monica-Malibu Education Foundation
SMMUSD	Santa Monica-Malibu Unified School District
SMUSD	Santa Monica Unified School District
SSC	School Services of California, Inc.
TK	Transitional Kindergarten

Section B: Terms Related to Schools and the Financing of California Schools

Average Daily Attendance (“ADA”)

ADA is the average number of pupils actually attending class each school day, and generally equals 95-98% of enrollment. The State requires school districts to collect and report ADA data at two times during the school year: P1 (October) and P2 (April). Whenever ADA is referenced in this Report, it means the P2 ADA.

Local Control Funding Formula (“LCFF”)

The Local Control Funding Formula (LCFF), enacted in 2013-2014, is the primary mechanism for distributing State funds to TK-12 school districts in California. It replaced the previous Revenue Limit financing approach, which had been operating for about 40 years. (LCFF definition continues on the next page.)

For school districts and charter schools, the LCFF establishes base, supplemental, and concentration grants in place of many previously separate tax revenue categories, general-purpose block grants, and categorical programs. Under LCFF:

- The State sets a target amount of revenue for each school district based upon ADA and certain other factors. Each district's share of local property taxes is subtracted from this target and the State funds the difference;
- Any school district that receives enough local property tax revenue to come close to its LCFF target amount, as SMMUSD does today, is entitled to also receive an additional amount of State funding, which is known as "Minimum State Aid." A district that receives a combination of local property tax revenue, some State LCFF funding and Minimum State Aid is known as a Minimum State Aid district;
- A school district whose property tax revenue meets or exceeds its LCFF target amount (i.e. a "Basic Aid" district), as would be the case for MUSD immediately upon reorganization, but which would not occur in SMMUSD in the absence of reorganization or in SMUSD for many years, also receives Minimum State Aid; and
- A Minimum State Aid or Basic Aid district can provide a higher level of funding for its schools than a district that does not qualify for Minimum State Aid (e.g., SMUSD, at least for several years).

The relevance of the State's funding formula to reorganization is that SMMUSD would likely maintain Minimum State Aid status and then achieve Basic Aid status sooner than would SMUSD alone due to the disproportionate amount of property tax revenue generated in MUSD on a per ADA basis that would no longer be available to SMUSD. MUSD is likely to become a Basic Aid district immediately. (See Appendix B.7 for a link to SSC's presentation on school finance in California, which contains more explanation of these issues, including how LCFF affects the finances of reorganization.)

Minimum Guarantee for K-14 Education

The Minimum Guarantee is a formula, established in 1987 by Proposition 98 that determines the minimum amount of State aid that must be allocated to K-14 educational agencies each year out of the state budget.

Other Postemployment Benefits ("OPEB")

OPEB is a term coined by the Governmental Accounting Standards Board (GASB) that refers to benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but may include other services such as life insurance and disability.

Proposition 30

Proposition 30, approved by California state voters in 2012, established higher temporary tax rates for the sales tax and personal income tax on high-income taxpayers. The sales tax rate increase generated about \$1.5 billion/year and expired at the end of 2016. The high-bracket income tax increase generates about \$6 billion/year and was scheduled to expire at the end of 2018, but under Proposition 55 approved by the voters in 2016, was extended until 2030.

Transitional Kindergarten

SMMUSD is considered a Transitional Kindergarten (“TK”) through 12th grade school district. TK is a public school educational opportunity for children who turn five between September 2 and December 2, and is the first-year of a two-year Kindergarten program. TK evolved from the Kindergarten Readiness Act of 2010, which changed the Kindergarten and First Grade entrance date beginning in the 2012-2013 school year. Current SMMUSD locations for TK are McKinley Elementary, Will Rogers Learning Community and Webster Elementary.

Unification

Under California State law, the organization or reorganization of a school district is referred to as “unification,” regardless of whether it combines existing separate school districts into a new district, or divides an existing school into separate districts.

Unified School District

In California, a unified school district operates both primary schools, from kindergarten through middle school, and high schools.

Section C: Terms Adopted by the Committee for Negotiations and Drafting the Agreement

ADA Method

A method developed by the Committee for dividing Fund Balances between SMUSD and MUSD at the time of reorganization that accounts for changes in ADA between now and the time of reorganization. The ADA Method is the three-year average of the percentage share of ADA in each district. The three years will be the three fiscal years immediately preceding the fiscal year when reorganization becomes effective. The current Santa Monica/Malibu community ADA ratio is 84%/16%.

Agreement

The Committee’s integrated set of principles, terms, conditions, and related provisions for addressing the topics assigned to it by the Board pursuant to a December 17, 2015 Action Item. The substance of the Agreement is detailed in the Committee’s Report to the Board, which consists of a Memorandum and five Appendices.

Board

SMMUSD’s Board of Education

Committee

The Malibu Unification Negotiations Committee

Compensated Absences

The Governmental Accounting Standards Board defines “compensated absences” as an accrued liability for absences that public sector employees will be paid for, such as vacation and sick leave.

Cumulative Delta

The sum of the Delta for any fiscal year added to any amount of the Delta, plus interest where applicable, remaining unpaid from prior years. A positive Cumulative Delta balance represents a credit to MUSD that will be applied against future negative Deltas. A negative Cumulative Delta balance represents the amount of money owed to SMUSD by MUSD.

Delta

The annual measurement of the Financial Effect multiplied by SMUSD's ADA. A *negative* value (i.e., the revenue per ADA for SMUSD is less than that which would have been realized by a theoretical SMMUSD) creates an obligation on the part of MUSD to make a payment in that amount to SMUSD. A *positive* value (the revenue per ADA for SMUSD exceeds that which would have been realized by a theoretical SMMUSD) will result in a credit to MUSD offsetting future payment obligations.

Delta Tracking Provision

This is a provision in the Agreement for ending the annual calculation of the Delta before fiscal year 2029-2030 if relatively small amounts are owed to SMUSD by MUSD for a specified period of time, because that would demonstrate that the two districts are operating independently with no significant adverse Financial Effect on SMUSD. (Appendix C contains the details on the mechanics of the Delta Tracking Provision.)

District

Santa Monica-Malibu Unified School District

Financial Effect

The difference in Unrestricted General Fund revenue per ADA in SMUSD vs. what that revenue per ADA would have been if reorganization had not occurred and SMMUSD continued to exist.

Formula

The Revenue Neutrality Formula (see definition below).

Group One

The first of two transition/implementation groups that the Committee recommends be appointed. Specifically, the Committee recommends the SMMUSD Board appoint Group One to work on the things that need to happen between the time the Board approves moving forward with reorganization and the time that reorganization becomes effective.

Group Two

The second of two transition/implementation groups that the Committee recommends be appointed. Specifically, after reorganization becomes effective, the Committee recommends that the respective Boards of Education of SMUSD and MUSD appoint Group Two to work on the logistics and any outstanding issues that need to be resolved to ensure a smooth transition to the interactions of the two districts.

Illustrative Revenue Neutrality Formula Projection (the “Illustrative Projection”)

This is the spreadsheet in Appendix D that illustrates the application of the Revenue Neutrality Formula. The Committee developed the Illustrative Projection based on the best information available at the time of this writing.

Malibu Ability-to-Pay Cost-of-Living Adjustment (“COLA”)

The Malibu Cost-of-Living-Adjustment used in the Formula. The COLA will be the published State Revenue COLA, but if necessary, will be adjusted so that it is no less than 50% and no more than 80% of the annual percentage change in the total assessed value of real property within MUSD.

Measure BB Funds

The facility bond funds made available to SMMUSD as a result of Measure BB, which was approved by District voters in November 2006. Approval of Measure BB authorized the Board to issue bonds backed by assessments on real property in both Santa Monica and the Malibu community in an aggregate amount of \$268,000,000.

Measure ES Funds

The facility bond funds made available to SMMUSD as a result of Measure ES, which was approved by District voters in November 2012. Approval of Measure ES authorized the Board to issue bonds backed by assessments on real property in both Santa Monica and the Malibu community in an aggregate amount of \$385,000,000. At least 20 percent (\$77,000,000) was to be made available for Malibu public schools.

Procopio

Procopio, Cory, Hargreaves & Savitch LLP is the law firm retained by the Committee to provide advice and legal support.

Reorganization

The reorganization of SMMUSD into two separate Transitional Kindergarten (TK) through 12th grade public school districts: Santa Monica Unified School District (SMUSD) and Malibu Unified School District (MUSD).

Note: While the Committee chose to adopt the term “reorganization” for its negotiations and Agreement, this process is also referred to in other contexts as “unification” or “separation.”

Revenue Neutrality

The Board’s objective to eliminate any significant adverse Financial Effect on SMUSD from the reorganization of the District into two separate districts (SMUSD and MUSD).

Revenue Neutrality Formula (the “Formula”)

The Committee’s agreed-upon method for calculating the Financial Effect of reorganization and related payment schedule that, in the aggregate, results in Revenue Neutrality in SMUSD.

School Services of California, Inc. (“SSC”)

SSC is the education finance consulting firm retained by the Committee.

State

The word “State” refers to the State of California.

Theoretical SMMUSD

After a reorganization of SMMUSD becomes effective, “theoretical SMMUSD” is the term used to refer to what would have been SMMUSD had reorganization not occurred.

Topics

The Committee’s Plan of Work organized the issues the Board directed the Committee to address into five major “topics:” Topic #1: Impact of Reorganization on SMUSD and MUSD Revenues; Topic #2: Division of the District’s Assets; Topic #3: Bond-related Items and Other Liabilities; Topic #4: Environmental Liability; and Topic #5: Implementation.

Section D: Explanations of Assessed Value of Property, Parcel Tax, and Property Value Within the Context of Reorganization

Assessed Value of Property

Assessed Value is the taxable value of property, which includes land and any improvements made to the land, such as buildings, landscaping, or other developments; it is generally not the market value. The Assessed Value of land and improvements is the basis for the 1.0 percent tax rate (the so-called “general levy”) and voter-approved debt rates which are levied as a percentage of this value and account for most of the annual total property tax bill (see **Property Tax**). Thus, owners of properties with higher Assessed Values pay higher property taxes. The County Assessor determines the Assessed Value of individual properties.

Assessed Value of vacant land and property with existing improvements is generally equal to the price of the property at the time of sale (i.e., market value at that time) and adjusted upward by a maximum of two percent per year (pursuant to Proposition 13), until resold, at which point the Assessed Value is re-set at the new purchase price. Assessed Value of single-family homes and certain other land uses is generally increased by the cost of new construction. The Assessed Value of newly constructed income-producing properties (e.g., apartment buildings, office buildings and shopping centers) is based on factors related to their projected annual net operating income.

Factors that affect the overall Assessed Value of property within a school district (and hence the general levy component of its Property Tax revenue), and the degree to which the total Assessed Value (and associated Property Tax revenue) changes year-over-year, include the mix of residential and non-residential properties and vacant land, the overall proportion and mix of properties that remain unsold versus sold, the number and type of properties that are re-sold and newly constructed, and the market value of properties that are re-sold and newly constructed.

Post-reorganization, the Assessed Value of properties within SMUSD and MUSD, and the degree of change year-over-year, will be a function of how the factors noted above play out within each new district. The SSC projections of each new district’s future Property Tax revenues assume, based on historical trends, that SMUSD would account for about 66.4 percent of SMMUSD’s current Assessed Value and would grow at an annual average rate of 5.04 percent; MUSD would account for about 33.6 percent, and grow at an annual average rate of 4.22 percent. The SSC projections used for estimating the Delta assume that in the absence of reorganization, SMMUSD’s Assessed Value would have continued to grow at an annual average rate of 4.78 percent.

Parcel Tax

A Parcel Tax is an annual tax on all parcels of real property within a designated geographic area to pay for a specified governmental purpose. In order to become effective, a Parcel Tax must be approved by at least two-thirds of the voters within that geographic area voting in the election. SMMUSD’s Measure R is a Parcel Tax that is based on a fixed amount charged on all land parcels located within SMMUSD, which is adjusted each year for changes in inflation. The

Measure R Parcel Tax is a “local revenue” separate from LCFF revenue that is also recorded in SMMUSD’s Unrestricted General Fund.

Post-reorganization, the SSC revenue projections assume that SMUSD would continue to levy the existing Measure R parcel tax on the land parcels located within that new school district, and that voters within MUSD would approve a new parcel tax in an amount equal to Measure R, which would be applied to the land parcels in that new school district.

Property Tax

State law imposes a tax on owners of real property and certain other assets (e.g., office equipment). The annual tax amount on real property includes three categories: (1) the “general levy” equal to 1.0 percent of Assessed Value (see **Assessed Value**); (2) voter-improved indebtedness, also based on Assessed Value (e.g., school facility bonds); and (3) special assessments, which are based on particular formulas as approved by voters within particular geographic areas where the special assessment applies (e.g., parcel taxes). Certain properties—including property owned by governments, hospitals, religious institutions, and charitable organizations—are exempt from the general levy, but not necessarily the other Property Tax categories.

Property Tax revenue remains within the county in which it is collected and is used exclusively by local governments. Each dollar of the general levy (i.e., 1.0% x Assessed Value) component of property tax is divided among a number of local government agencies, whose mix and particular allocation varies by location within a county. SMMUSD currently receives approximately 17.0 percent of each dollar from the general levy, which represents the largest source of its LCFF funding (see **Local Control Funding Formula**). SMMUSD also receives an annually-determined amount from the Property Tax to help retire outstanding debt on issued school facility bonds (the revenue from which is recorded in a special Fund). In addition, SMMUSD receives Property Tax revenue from the Measure R parcel tax (see **Parcel Tax**), which is a special assessment.

SMMUSD receives additional property tax associated with the former City of Santa Monica Redevelopment Agency. Although the Agency is in the process of dissolution, these revenues will continue after reorganization becomes effective.

Post re-organization, SMUSD and MUSD would receive Property Tax revenue based on their respective Assessed Values, amounts of bond debt and approved parcel taxes. Because all of the properties generating redevelopment-related property tax revenues are located in the City of Santa Monica, the Agreement allocates all of these revenues to SMUSD.