Santa Monica-Malibu Unified School District

Review of Revenue Options for District Reorganization

Report Prepared for the Santa Monica-Malibu Unified School District

February 22, 2018

Prepared by:

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Vice President

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Executive Summary

The Santa Monica-Malibu Unified School District (SMMUSD) previously contracted with School Services of California, Inc., (SSC) to conduct an independent analysis and assessment of different revenue options and their effects that would mitigate the financial disparities arising from a reorganization of SMMUSD into two separate unified school districts, one serving students in Santa Monica and one serving students in Malibu and surrounding areas. SMMUSD has now asked SSC to model a 50-year shared revenue arrangement between the two unified school districts following reorganization, including an option in which all revenues are shared and one in which only local tax revenues are shared. In addition, SMMUSD requested an analysis exploring an option to convert the schools in the Malibu community into a charter school.

SMMUSD asked SSC to complete the following:

- Provide a model to allocate revenues between Santa Monica Unified School District (SMUSD) and Malibu Unified School District (MUSD) over a 50-year period under two specific scenarios: (1) all revenues are shared between the two districts, and (2) only property tax revenues are shared. (Previous analyses have reviewed revenue sharing options between MUSD and SMMUSD that end after 10-13 years, after which SMUSD revenues per average daily attendance (ADA) revert to the lower level of funding that the district would receive when financially independent.)

- Examine the impact of establishing an endowment for SMUSD, which would receive revenues set aside during the 50-year period, and where, at the end of the period, the endowment revenues would be available to supplement SMUSD's own revenue sources once fiscally independent of MUSD

- Outline the process to convert the Malibu area schools into a charter school with multiple school sites and evaluate the fiscal impact of this conversion on SMMUSD and the funding level to be provided to the charter school

Major Findings

Review and Analysis of a 50-Year Shared Revenue Arrangement

- Absent a revenue sharing arrangement, establishing two new unified school districts effective in 2018-19, one serving Santa Monica (SMUSD) and one serving Malibu and surrounding areas (MUSD), would reduce revenues per ADA in SMUSD to $13,046 per ADA and dramatically increase revenues per ADA for MUSD to $20,357 when compared with SMMUSD's revenues of $13,726 per ADA.

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- Equalizing all discretionary revenues per ADA would provide $14,104 per ADA to both SMUSD and MUSD in 2018-19. To equalize revenues, MUSD would make a revenue neutrality payment to SMUSD, and the per-ADA amount of the payment made by MUSD would equal $6,253 and the revenue received by SMUSD would equal $1,058 per ADA.
  - MUSD's cost per ADA for its revenue neutrality payment is 5.91 times higher than SMUSD's revenue received per ADA because SMUSD's ADA is 5.91 times greater than MUSD's.
- After 50 years of revenue growth averaging nearly 6% annually, equalized revenue per ADA is $171,659 for both districts, with MUSD providing a revenue neutrality payment of $141,029 per ADA that gives SMUSD supplemental revenue per ADA of $23,856 per ADA.
- Per-ADA revenue increases for both districts significantly outpace inflation because of robust local property tax growth.
- Equalizing discretionary revenues that exclude other locally generated revenues, such as the parcel tax and supplemental use taxes, increases the revenue neutrality payment from MUSD to SMUSD. This is because SMUSD receives a larger amount of locally generated funds than MUSD. Funds under the full revenue sharing model would offset a portion of the MUSD neutrality payment.
- The longer period of revenue sharing increases SMUSD's dependence on the supplemental revenues because those revenues constitute a larger share of the District's total revenues over time. In 2018-19, the revenue neutrality payments received by SMUSD equal 5.2% of the district's total discretionary revenues; in 2068-69 that percentage is 16.1%.
- One way to mitigate the impact of financial independence after 50 years of revenue sharing is to set aside a portion of the supplement revenues received during the 50-year sharing period in a trust fund, the proceeds of which would be used to replace the MUSD revenue neutrality payments once they are discontinued.
- Setting aside 25% of the revenue neutrality payment in a trust fund earning an average of 6% annually would be sufficient to replace in perpetuity an amount equal to the net neutrality revenue (the neutrality payment less the share allocated to trust fund investment) received by SMUSD in 2068-69. Under these assumptions, the trust fund would reach $2.6 billion by 2068-69. More conservative rates of return would require a larger set aside and provide lower supplemental payments.

Review and Analysis of a Charter school

- For the purposes being explored by SMMUSD, the conversion of the existing public schools into a charter school would be the appropriate method to establish an independent charter school encompassing the four schools currently located within the city of Malibu.[1]
- In 2018-19, it is projected that the 12 schools[2] that would remain part of SMMUSD would have 8,767 ADA while the Malibu charter school's ADA would be 1,483.
- The establishment of a charter school would result in SMMUSD retaining all local revenues, including property taxes, and making an in lieu of property tax transfer to the charter school of $12.3 million in 2018-19 (this amount increases each year as the charter school's Local Control Funding Formula [LCFF] base grant target increases based on the established cost-of-living adjustment [COLA] provided in any given year).
- SMMUSD is only required to make the in lieu of property tax transfer to the charter school and is not required to share any additional revenues. If the charter school were established in 2018-19, SMMUSD would have higher per-ADA funding with the charter school ($14,482) than the per-ADA funding that prevails without the charter school ($13,726) because property taxes and other local revenues remain with SMMUSD.
- Under the state's funding model, the Malibu charter school would receive $8,580 per ADA in 2018-19 and would increase in subsequent years only by the statutory COLA.

Review and Analysis of a 50-Year Shared Revenue Arrangement

Introduction

In October 2017, SSC completed a report pursuant to a request by SMMUSD to conduct an independent analysis and assessment of different revenue sharing options, and the extent to which those options could mitigate financial disparities arising in the event of a reorganization of SMMUSD into two separate unified school districts: SMUSD and MUSD. Absent an agreement to share revenues, the loss of the Malibu property tax base following a reorganization will necessarily cause SMUSD revenues per unit of ADA to fall below the per-ADA funding anticipated if no reorganization were to occur.

[1]Juan Cabrillo Elementary School (ES), Point Dume ES, Webster ES, and Malibu Middle (MS)/High School (HS)—which includes grades 6-12
[2]Edison ES, Franklin ES, Grant ES, John Muir ES, McKinley ES, Roosevelt ES, Will Rogers ES, John Adams MS, Lincoln MS, Olympic HS, Santa Monica HS, and SMASH

In the October 2017 report, SSC reviewed a revenue neutrality formula developed by the Malibu Unification Negotiating Committee (MUNC) that would provide supplemental mitigation payments from MUSD to SMUSD for a period of 12 years following separation. SSC also presented an alternative for sharing property tax revenues and other local revenues intended to transition both districts to complete financial independence once SMUSD becomes a basic aid school district. After becoming a basic aid school district, the model assured that while SMUSD transitions to financial independence, its revenues would grow annually by no less than the percentage increase provided to school districts through the LCFF.

Financial independence occurs at the point where supplemental payments from MUSD to SMUSD are terminated—approximately 10 to 13 years after a 2018-19 reorganization under the models reviewed in our previous report. However, one of the tenets of the SMMUSD Governing Board's direction in reviewing a separation of SMMUSD into two new unified school districts was that SMUSD not be adversely financially affected, specifically with the goal of eliminating ". . . any significant adverse financial effects of separation on SMUSD."

After completion of our prior analysis, SMMUSD requested in January 2018 that SSC explore additional options that could provide longer-term protection for SMUSD against the financial dislocation of a reorganized school district: A 50-year revenue sharing arrangement between SMUSD and MUSD, and a Malibu charter school option that would establish separate governance.

A 50-Year Revenue Sharing Model

This section will analyze the extended period of revenue neutrality resulting from equal per-ADA sharing of LCFF revenues (primarily property tax payments received after both school districts are basic aid) over a 50-year period. It will also model the option of an SMUSD trust fund in which a portion of the shared revenues received during the 50-year period would be set aside and invested. At the end of the period, the trust would provide a revenue stream available to supplement SMUSD's own continuing revenue sources once fiscally independent of MUSD.

Changes Since Our Last Report

For this analysis, we updated our revenue forecasting model to account for new information provided by the California Department of Finance regarding implementation of the LCFF and to include revised estimates of ADA provided by SMMUSD business office staff.

In our previous report, we assumed that full implementation of the LCFF would occur in 2020-21. The 2018-19 Governor's Budget proposes to fully implement the LCFF in 2018-19, two years earlier than previously assumed. We updated our model to reflect this proposal and to be consistent with newly provided estimates of LCFF funding and COLA from the Governor's Budget for other fiscal years.

We also updated ADA to reflect more recent actual and estimated data provided by SMMUSD staff. The following figure shows the lower ADA compared with our previous forecast.

Figure 1: 2018-19 ADA Comparison				
District	October 2017 Report		February 2018 Report	
	ADA	Proportion	ADA	Proportion
SMMUSD	10,492	100.0%	10,250	100.0%
SMUSD	8,715	83.3%	8,767	85.5%
MUSD	1,747	16.7%	1,483	14.5%

As Figure 1 shows, total ADA is less than previously estimated, and the distribution has changed, with proportionately less ADA now attributed to MUSD and more to SMUSD. The effect of the ADA change on SMMUSD is that we now forecast that SMMUSD will be fully basic aid beginning in 2017-18, rather than in 2019-20. (In our previous report, SMMUSD would be a minimum state aid, but not basic aid, district in 2017-18.) Practically, the difference is not significant since in either case SMMUSD is funded primarily with local property tax revenue. For this reason, the financial impact of the decline in ADA on total SMMUSD revenues is inconsequential and does not materially affect our analysis or conclusions.

50 Years of Revenue Sharing

This analysis models the effects of annual revenue growth and revenue sharing on SMUSD and MUSD over a 50-year period extending from a base year of 2018-19, set as the first year of reorganization, through 2068-69. The result of our modeling is not a prediction or forecast of what will happen. It is an extension of existing conditions and reflects the result of extending those conditions, as outlined in the following assumptions, 50 years into the future.

- Average annual property tax revenue grows at 6.0% for all school district configurations
- ADA is fixed at the 2018-19 level
- Long term cost-of-living increases are applied to the LCFF base rates at 3.0% annually
- Unduplicated pupil percentages (UPPs) reported by the District for the 2018-19 school year, and applied each year thereafter, for the three district configurations are: 28.4% for SMMUSD; 30.52% for SMUSD; and 16.44% for MUSD
- Base property tax revenues are allocated 66.5% for SMUSD and 33.5% for MUSD

- All post-redevelopment agency (RDA) distributions are credited to SMUSD, and increased 6.0% annually[3]

- Local discretionary revenues from other sources, such as parcel taxes and supplemental sales tax increments, are increased annually by 2.0%

- The estimates of property taxes and other local revenues for SMMUSD, which form the basis for our projections of those revenue streams for SMUSD and MUSD into the future, are unchanged from our previous report

Findings

The SSC model is predicated on stable annual increases in the various revenue sources supporting SMUSD and MUSD. This creates a smooth and predictable change in revenues each year, so to simplify the presentation of data, the figures and tables in this section of the report are displayed in five-year increments.

There are four sources of discretionary funds at play in any revenue sharing arrangement among the districts:

- Local property tax revenues
- Minimum state aid
- Additional state aid above the minimum
- Other locally generated revenues[4]

Discretionary revenues for SMUSD and MUSD come primarily from local property taxes, supplemented by a smaller amount of state aid provided through the LCFF. Both school districts also receive other local revenues from a variety of sources, as enumerated in our previous reports. MUSD is a basic aid school district for the entire period, and SMUSD becomes a minimum state aid school district in 2020-21 and a fully basic aid district in 2024-25, six years after

[3]Other assumptions about the impact of RDA revenues as they relate to base property taxes would cause the results of our modeling to change, including delaying the point at which SMUSD becomes a basic aid school district and increasing state costs. Appendix A provides a more detailed analysis of this issue.

[4]Other Local Revenues include parcel taxes; Santa Monica-approved use tax increments; joint-use facility revenues; and allocations from the cities of Santa Monica and Malibu designated for support of the schools, and exclude education foundation revenues. The analysis assumes the passage of a new tax per parcel in Malibu comparable to the existing tax.

reorganization. SMUSD receives state funding above the minimum in the years prior to 2020-21, resulting in $5.7 million of additional cost to the state.[5]

Figure 2 shows total revenues from the four sources we cited above for both school districts, as well as revenues per ADA. As noted previously, the primary driver of growth is property tax revenues, which compound at 6.0% annually in our model. The impact of compounded growth at this rate is evident from the notable increase of revenues per ADA across the 50-year span, as shown in Figure 2 and graphically in Figure 3. The data also shows the disparity in per ADA funding that will occur after this reorganization, absent revenue sharing.

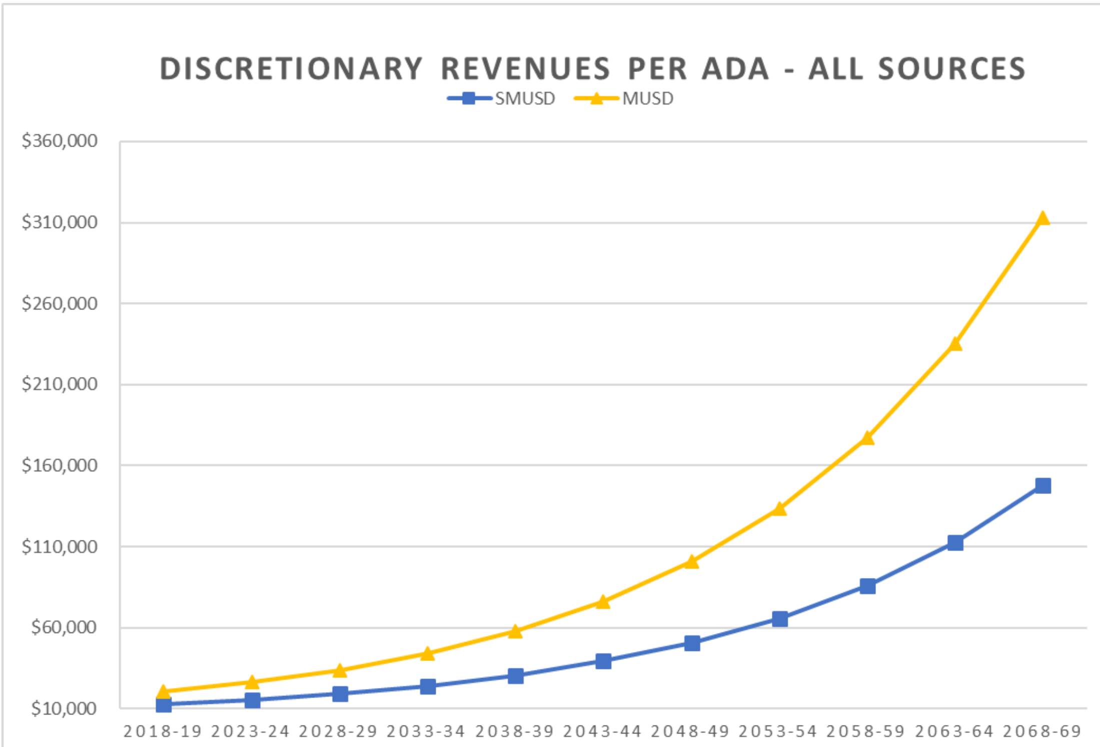
Figure 2: Total Discretionary Revenues From All Sources and Per ADA, by Year—Baseline

Year	SMUSD	Per ADA	MUSD	Per ADA
2018-19	$114,376,265	$13,046	$30,196,523	$20,357
2023-24	$136,450,171	$15,564	$38,903,322	$26,233
2028-29	$169,923,495	$19,382	$50,468,633	$34,031
2033-34	$211,850,195	$24,165	$65,539,619	$44,194
2038-39	$269,349,327	$30,723	$85,980,404	$57,977
2043-44	$345,081,488	$39,361	$113,198,837	$76,331
2048-49	$445,087,125	$50,768	$149,473,140	$100,791
2053-54	$577,436,575	$65,865	$197,850,622	$133,412
2058-59	$752,915,234	$85,881	$262,407,635	$176,944
2063-64	$985,940,355	$112,460	$348,597,469	$235,062
2068-69	$1,295,787,768	$147,803	$463,715,867	$312,688

Figure 3 graphically shows the growing difference in revenues per ADA between the two districts over the years. This increasing disparity is apparent in the absolute dollar differences, but the disparity also increases proportionally over time, as shown in Figure 7.

[5]The additional state cost attributable to a reorganization will decline each year that the reorganization is delayed. For example, reorganizing in 2019-20 reduces additional state costs to $1.8 million; a reorganization in 2020-21 or any year thereafter would incur no additional state costs. Our modeling also shows that these estimates are likely the minimum costs to the state of a reorganization, depending upon how revenues from Santa Monica's former RDA are treated.

Figure 3: Discretionary Revenues Per ADA for SMUSD and MUSD, 50-Year Period



Equality can be defined in different ways and can consider various factors justifying differences in per-ADA revenues that reflect legitimate differences between districts. For example, the previously reviewed MUNC formula acknowledged the higher up-front cost of establishing a new district and the ongoing cost increases associated with operating a smaller school district in Malibu. The state LCFF provides higher funding for school districts with higher proportions of English learners and children from low income families, which would justify higher revenue per ADA in Santa Monica.

These and possibly other factors can be considered and incorporated into a revenue sharing formula if a reorganization goes forward. However, for the purposes of this analysis, we did not include modifying factors in our definition of revenue equality. We apply an equalization model that shifts funding so that the per-ADA revenues of those revenues included in the analysis for each district are exactly equal. This simplifies the presentation and understanding of our findings.

We analyzed two revenue sharing scenarios. Scenario 1 has both school districts equally sharing revenues on a per-ADA basis from all four sources. Scenario 2 has the districts sharing equally, on a per-ADA basis, all revenues except other locally generated revenues. Under this scenario, other local revenues from the cities are retained by the school district that serves that city.

Scenario 1: Sharing All Discretionary Revenues Equally

A revenue sharing model requires that MUSD make payments to SMUSD because MUSD receives a larger per-ADA share of local revenues than SMUSD after any reorganization. To equalize per-ADA revenues, the MUSD payments needed to neutralize revenue differences must be significantly higher per ADA simply because SMUSD retains far more students. The difference in the per-ADA amount that MUSD must pay compared to the amount per ADA that SMUSD receives is inversely proportional to the ratio of their ADA. The ADA attributed to SMUSD is higher than MUSD's by a factor of 5.91—8,767 ADA versus 1,483. Therefore, the per-ADA payment from MUSD to SMUSD will be 5.91 times greater than the revenue per ADA that SMUSD will receive. This relationship is presented in Figure 4.

Figure 4 shows (1) revenue per ADA for each district after equalization, (2) the gain in revenues per ADA compared to baseline revenues for SMUSD, and (3) the corresponding reduction in revenues per ADA for MUSD.

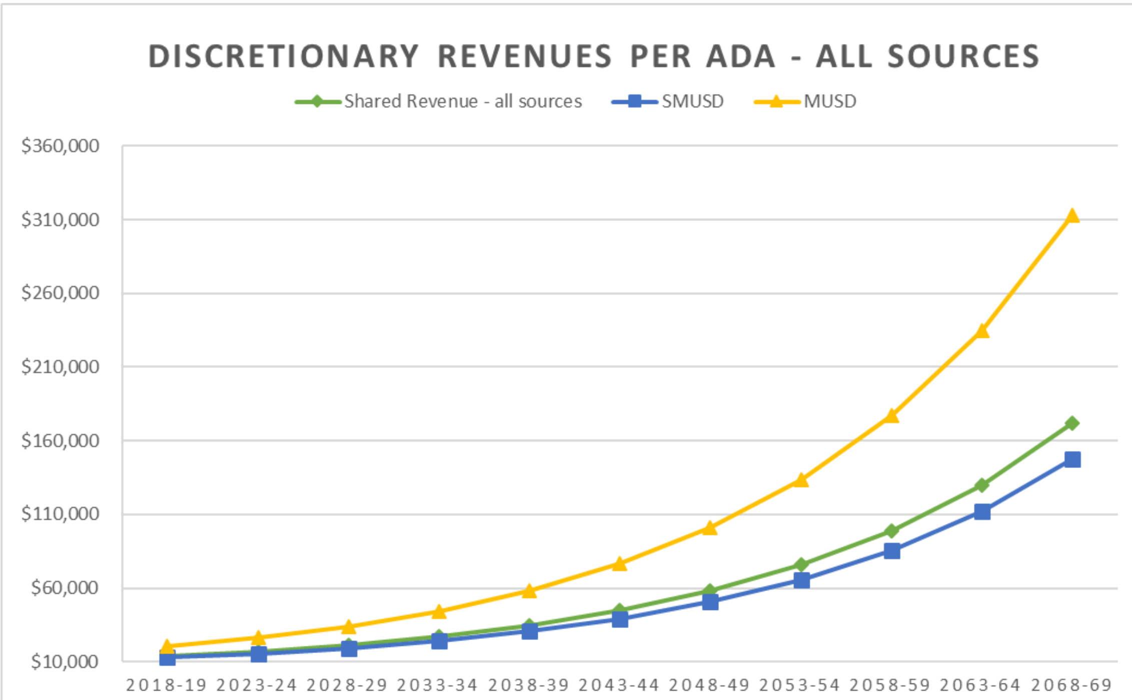
Figure 4: Revenue Sharing—Equalizing Per-ADA Revenues From All Discretionary Sources

Year	Equalized Revenue Per ADA (both districts)	Change Per ADA From Baseline (Figure 2)	
		SMUSD	MUSD
2018-19	$14,104	$1,058	-$6,253
2023-24	$17,108	$1,544	-$9,125
2028-29	$21,502	$2,120	-$12,530
2033-34	$27,062	$2,898	-$17,132
2038-39	$34,666	$3,943	-$23,311
2043-44	$44,710	$5,349	-$31,621
2048-49	$58,006	$7,237	-$42,785
2053-54	$75,638	$9,773	-$57,775
2058-59	$99,056	$13,175	-$77,888
2063-64	$130,199	$17,738	-$104,864
2068-69	$171,659	$23,856	-$141,029

The equalized revenue per ADA shown in Figure 4 applies to both districts and is realized because of the revenue sharing from MUSD to SMUSD shown in the "Change Per ADA From Baseline" columns. For the reasons already noted, the per-ADA reduction in funding for MUSD necessary to equalize discretionary revenues is larger than the per-ADA increase in revenues received by SMUSD by a factor of 5.91.

Figure 5 adds Figure 4's trend line for equalized per-ADA revenue to the chart in Figure 3 to provide a graphical comparison of equalization with the baseline revenues for each district from Figure 2.

Figure 5: Revenues Per ADA—SMUSD, MUSD Baseline and Shared Revenue From All Sources



Inflation

From the perspective of today's funding levels, the increases in revenue per ADA for both MUSD and SMUSD can seem eye-popping. In part, this is because of the compounding effect of consistent robust growth in property tax revenues applied at 6.0% annually over a long period of time. Another factor that will be at work is inflation. The revenue figures do not account for inflation—the value of a dollar in 50 years will likely be noticeably eroded over time when compared to a dollar today.

If the SMUSD 2018-19 baseline rate of $13,046 per ADA grew to account for inflation by 3.0% annually, then by 2068-69, it would equal $57,190 per ADA. Similarly, if the MUSD 2018-19 revenue per ADA of $20,357 increased by the same inflationary rate, it would equal $89,242 in 2068-69. For comparison, under our model, the 2068-69 per-ADA revenue for SMUSD is $147,803—2.6 times the inflation-adjusted amount. MUSD 2068-69 revenues per ADA of $312,688 are 3.5 times the rate adjusted only for inflation.[6]

[6]See Figure 2 for baseline average revenues per ADA for each district.

Increasing Divergence

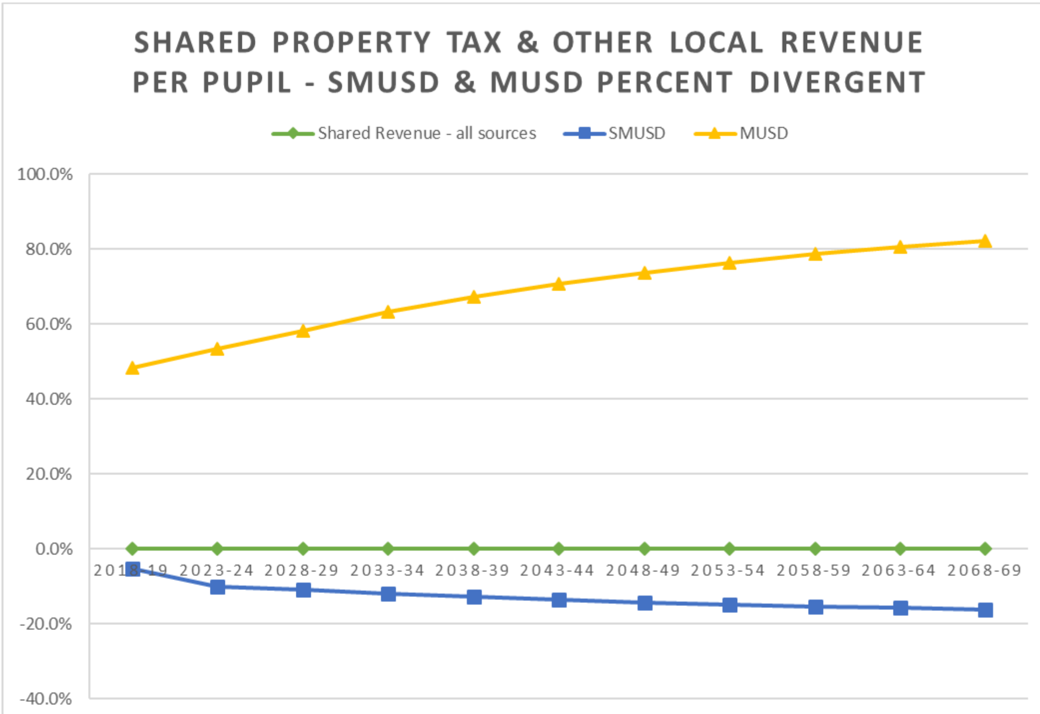
A 50-year time horizon reveals the growing divergence of MUSD and SMUSD discretionary revenues per ADA, not just in dollar terms (Figure 5) but in the increasing percentage differences from the average revenues per ADA of the combined districts—the trend line in Figure 5 labeled "Shared Revenue—All Sources." Figure 6 displays the percentage deviation from the shared revenue trend line for both SMUSD and MUSD over the 50-year period.

Figure 6: Percentage Baseline Revenue Per ADA Deviates From Shared Revenue—All Sources		
Year	SMUSD % Below Shared Revenue Trend Line	MUSD % Above Shared Revenue Trend Line
2018-19	-5.2%	48.3%
2023-24	-9.9%	53.3%
2028-29	-10.9%	58.3%
2033-34	-12.0%	63.3%
2038-39	-12.8%	67.2%
2043-44	-13.6%	70.7%
2048-49	-14.3%	73.8%
2053-54	-14.8%	76.4%
2058-59	-15.3%	78.6%
2063-64	-15.8%	80.5%
2068-69	-16.1%	82.2%

As Figure 6 shows, and as illustrated graphically in Figure 7, the divergence of the baseline per ADA revenue for both districts from the shared revenue trend line grows dramatically over time, and in opposite directions. This means that the "cliff effect" resulting from ending revenue sharing for SMUSD, at which point SMUSD's revenues per ADA would revert to the lower trend line reflecting full financial independence, becomes more pronounced the longer revenue sharing continues.

This effect was raised in our prior report as we analyzed the effects of the MUNC revenue neutrality formula, and for that reason the SSC alternative proposed slowly phasing out the MUSD payments to SMUSD so that SMUSD would not experience a year-over-year decline in per-ADA revenues as its funding transitioned to financial independence. This analysis shows that extending revenue sharing over a 50-year timeframe only compounds this problem.

Figure 7: Percentage Baseline Revenue Per ADA Deviation From Shared Revenue—All Sources



As part of a long-term revenue sharing arrangement, SMUSD will need to prepare for the day when revenue sharing ends and financial independence begins. In the section titled "A Trust Fund—Mitigating SMUSD Revenue Shock After Year 50" we explore the option of establishing a trust fund to sequester a portion of district revenues over a 50-year span of revenue sharing so that distributions from the fund could supplement ongoing revenues after financial independence occurs.

Scenario 2: Sharing Revenues, Exclusive of Other Locally Generated Funds

We previously identified the four sources of discretionary revenue modeled for this report, three of which are part of the LCFF—property taxes, state aid, and minimum state aid. The fourth source is other locally generated revenues (see footnote 4) which are available to the districts at the discretion of voters or by the actions of local government in the communities served by the districts, as shown in Figure 8.

Figure 8: Other Locally Generated Revenues[7]				
Year	**SMUSD**	**Per ADA**	**MUSD**	**Per ADA**
2018-19	$36,871,536	$4,205	$4,156,478	$2,802
2023-24	$40,989,299	$4,675	$4,576,351	$3,086
2028-29	$45,252,623	$5,162	$5,052,662	$3,407
2033-34	$49,842,123	$5,685	$5,578,548	$3,762
2038-39	$55,029,730	$6,277	$6,159,167	$4,153
2043-44	$60,757,270	$6,930	$6,800,218	$4,585
2048-49	$67,080,934	$7,652	$7,507,989	$5,063
2053-54	$74,062,771	$8,448	$8,289,427	$5,590
2058-59	$81,771,284	$9,327	$9,152,197	$6,171
2063-64	$90,282,105	$10,298	$10,104,766	$6,814
2068-69	$99,678,739	$11,370	$11,156,477	$7,523

These community-based revenues may be unique to a particular area, so we modeled equalizing only LCFF revenues between the districts and excluding the other locally generated revenues that are provided at local discretion.

As the comparison in Figure 9 shows, the payment provided by MUSD to SMUSD to equalize LCFF-related revenues is higher when other locally generated revenues are excluded. This is because SMUSD has more local revenues per ADA from Santa Monica sources than MUSD does from Malibu sources (See Figure 8). Under Scenario 1, which shares all discretionary revenues equally, the higher Other Local Revenues per ADA in SMUSD reduces the revenue neutrality payment from MUSD.

[7]Other locally generated revenues are increased an average of 2% annually in our model.

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Figure 9: Sharing Amount Per ADA: All Shared Revenues Compared With Revenues Excluding Other Local Revenues				
Year	All Revenues Shared (Figure 4)		Excluding Other Local Revenues	
	SMUSD	MUSD	SMUSD	MUSD
2018-19	$1,058	-$6,253	$1,261	-$7,454
2023-24	$1,544	-$9,125	$1,774	-$10,485
2028-29	$2,120	-$12,530	$2,373	-$14,031
2033-34	$2,898	-$17,132	$3,176	-$18,777
2038-39	$3,943	-$23,311	$4,251	-$25,128
2043-44	$5,349	-$31,621	$5,688	-$33,626
2048-49	$7,237	-$42,785	$7,612	-$44,999
2053-54	$9,773	-$57,775	$10,187	-$60,219
2058-59	$13,175	-$77,888	$13,632	-$80,587
2063-64	$17,738	-$104,864	$18,243	-$107,844
2068-69	$23,856	-$141,029	$24,413	-$144,319

Scenario 2 still equalizes most of the revenues received by the districts. But, because the scenario does not share other local revenues, under this revenue sharing model, SMUSD *total* revenue per ADA is higher than MUSD. The existing parcel tax is assumed to continue for both districts, but Santa Monica residents also supplement school district resources through, among other resources, additional local-option sales and use taxes and allocations from the city of Santa Monica. The fact that other revenues in Malibu are not currently comparable does not preclude the possibility of the city raising additional local revenues for its schools in the future that may equal or exceed Santa Monica's.

Other than the differences noted, Scenario 2 conforms to the trends and findings presented in Scenario 1.

A Trust Fund—Mitigating SMUSD Revenue Shock After Year 50

After 50 years, as revenue sharing ends, the revenue neutrality transfer to SMUSD will account for 16% of total discretionary revenues accruing to the district. A reduction of this magnitude in any one year would seriously disrupt the SMUSD's educational program, absent action to mitigate the loss. A long-term payment schedule like the 50-year sharing arrangement modeled in this analysis provides an opportunity to set aside a portion of the discretionary revenues received by SMUSD to help reduce or eliminate the impact of transitioning to financial independence after 50 years of revenue sharing. To that end, we explored establishing a trust fund, functioning in a way like a retirement fund that could take over the role of providing supplemental resources for SMUSD after transfers from MUSD end.

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A trust fund has three basic components:

- An investment policy that specifies contributions to the fund, the types of investments the fund can make and how aggressive those investments can be to meet return targets
- A withdrawal policy setting the amount that can be taken from the fund and when
- A usage policy that explains the purpose of the fund and how it may be used

The purpose of this trust fund would be to accumulate sufficient resources over the 50-year period so that the combined annual contributions to principal and the investment returns on that principal, compounded over 50 years, will provide an endowment sufficient to allow annual withdrawals beginning in the 51st year that equal the "net" supplemental payment[8] received by SMUSD from MUSD in the 50th year of revenue sharing, and so that average annual investment returns on the remaining fund balance would be expected to sustain the ability of the fund to support annual withdrawals of this amount in perpetuity.

Investment Policy

A moderately aggressive investment policy would be necessary for a trust fund to meet the goal we have set, in large part, because the fund is "chasing" a withdrawal amount that is itself compounding nearly 6% per year over 50 years—the annual revenue neutrality transfer. Currently the California Public Employees' Retirement System, which sustains a large, professionally managed fund, assumes a long-term average annual investment return of 7%. However, the recent structure of investments in the fund are expected to return slightly less than 6% annually. We consider a long-term return averaging 6% annually to be moderately aggressive.

We have modeled a trust fund assuming both a 6% annual return on investments and a more conservative 4% return. Both assumptions require that annual principal contributions to the fund equal a significant share of the revenue neutrality payment, because that payment is also compounding at about 6% per year. More conservative investment policies with lower returns on funds invested would require even larger payments into the fund in order to provide for withdraws commencing in the 51st year sufficient to equal the net MUSD transfer payment in perpetuity.

School districts are by law limited in how public funds may be invested, largely for reasons of fiduciary responsibility for public monies and the expectation that school districts use current revenues to serve students rather than sequester revenues for future gain. Unexpended school

[8]Net supplemental payment means the amount transferred to SMUSD as a revenue neutrality payment, less the amount SMUSD must set aside for investment in the trust fund.

district revenues are generally held in county-administered accounts intended to provide safe, albeit modest, returns and high liquidity. However, holding a portion of revenues in a county treasury's pooled money investment account, for example, would not be appropriate for this purpose since those accounts are specifically designed for short-term use and generally have a low rate of return, exactly the opposite of what would be required for a trust fund of this type.

For this reason, SMUSD would need to look to revenue sources that could legally be set aside for longer term investment, or state law would have to be changed in a way narrowly tailored to the financial requirements of this reorganization.

Withdrawal Policy

The purpose of the trust fund is to be self-sustaining after the initial 50-year investment period ends, while supporting annual withdrawals that equal the net neutrality payment made in the 50th year. For this analysis, we assume that the fund balance at year 50 must be sufficient to support withdrawing the specified amount annually beginning in 2069-70 and that this amount will be restored through investment returns on the remaining balance during the year of withdrawal.

For example, the trust fund can support withdrawing 6% of the fund balance annually without diminishing principal, assuming the fund balance grows 6% each year through investment returns. The fund balance at year 50 will need to be 17 times larger than the withdrawal amount, so annual principal contributions and investment returns, all compounded at 6% annually, must be sufficient to achieve the necessary fund balance in 2068-69: $2.6 billion. The net neutrality payment in 2068-69 is the payment amount ($209 million) less the investment transferred to the trust fund ($53 million), a net of $156 million. The withdrawal amount in 2069-70 would, therefore, be $156 million to supplement discretionary revenues received by SMUSD from other sources.

Assuming a more conservative annual rate of return on investment of 4%, and corresponding withdrawal rate of 4% to generate an amount equal to the net neutrality payment, then the fund balance at year 50 will need to be 25 times larger than the withdrawal amount. Therefore, a 4% return and withdrawal rate will require a greater investment than would a 6% return, lowering the net neutrality payment supported by the trust fund. Under these assumptions, the trust fund balance in 2068-69 would be $2.9 billion and the withdrawal amount beginning in 2069-70 would be $117 million—the neutrality payment of $209 million less a higher annual investment of $92 million needed to sustain the fund at a 4% rate of return.

Usage Policy

A school district that intends to maintain a trust fund held for 50 years prior to any withdrawals must make a clear commitment to the purpose of the fund and its use if there is to be any hope of withstanding pressure to expend those funds for other purposes during the period of fund accumulation. The expression of this commitment is reflected in clear fund policies adopted by the Governing Board when the fund is established and the commitment to those policies sustained through subsequent boards and administrations.

Trust Fund Finances

Our analysis identified a fixed annual percentage of the revenue neutrality payment that would be necessary to invest to meet the fund requirements within the assumed rates of return and withdrawal. Assuming a 6% investment return and 6% withdrawal rate, an amount equal to approximately 25% of the annual revenue neutrality payment would be required to achieve the trust fund objects, as shown in Figure 10. Assuming a lower 4% rate of return and withdrawal, an annual investment in the trust fund of 44% of the revenue neutrality payment would be necessary. Figure 11 shows the estimated investment amounts needed to meet investment objectives for a 4% rate of return.

Figure 10: Required Trust Fund Investments for a 6% Rate of Return

Year	Revenue Neutrality Payment, Invested Share, and Net Neutrality Payment			Investment as a Share of Total Discretionary Revenues	
	Neutrality Payment	Invested Share (25%)	Net	Per ADA	Percent
2018-19	$9,276,000	-$2,373,000	$6,903,000	$271	1.9%
2023-24	$13,533,000	-$3,462,000	$10,071,000	$395	2.3%
2028-29	$18,582,000	-$4,753,000	$13,829,000	$542	2.5%
2033-34	$25,406,000	-$6,499,000	$18,907,000	$741	2.7%
2038-39	$34,570,000	-$8,843,000	$25,727,000	$1,009	2.9%
2043-44	$46,893,000	-$11,995,000	$34,898,000	$1,368	3.0%
2048-49	$63,450,000	-$16,230,000	$47,220,000	$1,851	3.2%
2053-54	$85,680,000	-$21,917,000	$63,763,000	$2,500	3.3%
2058-59	$115,508,000	-$29,547,000	$85,961,000	$3,370	3.4%
2063-64	$155,513,000	-$39,780,000	$115,733,000	$4,537	3.5%
2068-69	$209,146,000	-$53,500,000	$155,646,000	$6,102	3.6%

Figure 11: Required Trust Fund Investments for a 4% Rate of Return					
Year	Revenue Neutrality Payment, Invested Share, and Net Neutrality Payment			Investment as a Share of Total Discretionary Revenues	
	Neutrality Payment	Invested Share (44%)	Net	Per ADA	Percent
2018-19	$9,276,000	-$4,092,000	$5,183,000	$467	3.3%
2023-24	$13,533,000	-$5,970,000	$7,562,000	$681	4.0%
2028-29	$18,582,000	-$8,198,000	$10,384,000	$935	4.4%
2033-34	$25,406,000	-$11,209,000	$14,197,000	$1,279	4.7%
2038-39	$34,570,000	-$15,252,000	$19,318,000	$1,740	5.0%
2043-44	$46,893,000	-$20,689,000	$26,205,000	$2,360	5.3%
2048-49	$63,450,000	-$27,994,000	$35,457,000	$3,193	5.5%
2053-54	$85,680,000	-$37,801,000	$47,879,000	$4,312	5.7%
2058-59	$115,508,000	-$50,961,000	$64,547,000	$5,813	5.9%
2063-64	$155,513,000	-$68,611,000	$86,902,000	$7,826	6.0%
2068-69	$209,146,000	-$92,273,000	$116,873,000	$10,525	6.1%

The Figures 10 and 11 show that the per-ADA amount needed for the trust fund increases as a percentage of SMUSD discretionary revenues each year, which is consistent with the revenue neutrality payments which also grow annually as a percentage of discretionary revenues. Figure 11 also shows that lower rates of expected investment return will substantially increase the annual investment required to meet fund objectives, even though the payout (neutrality payment less principal investment) will also be less with a lower rate of return.

Even with the higher 6% rate of return, 2%-3% of discretionary revenues must be set aside for the fund each year over 50 years, reducing funds available to support school district operations and instructional programs below the revenue neutrality level. Adoption of the sharing arrangement outlined in Scenario 2 may be one way to limit the impact of the trust fund on SMUSD services by allowing SMUSD to retain locally generated revenues outside of the revenue sharing arrangement.

Finally, this analysis uses a set of investment rules and assumptions that are simplified for the purposes of illustrating the concept. Real world administration of a long-term investment fund such as is contemplated here can provide opportunities for more finely attuning fund management to district needs, but also will require careful oversight and a strong commitment to assure that adopted fund policies are followed and goals are met.

Review and Analysis of a Charter School

Overview

Charter Schools

A charter school is an independently run public school that is allowed greater flexibility in its operations in exchange for greater performance-based accountability. Charter schools are exempt from the laws governing school districts, except those specifically noted in the law. For example, charter schools must comply with all state laws that apply to all public agencies or that are of general application, as well as all provisions of their charter—which may include references to specific provisions of the Education Code as well as local agreements.

Charter Authorizers—Charter schools can be authorized by a school district, county office of education (COE), or the State Board of Education (SBE) with slightly different requirements and processes for each.[9]

- School districts—A school district can authorize a charter school that will be located within its geographic boundaries, though there are some exceptions to this requirement

- COEs—A COE can authorize: 1) a charter school on appeal after denial by a school district; 2) a charter school that will serve pupils for whom the county office would otherwise be responsible for providing direct education and related services; or 3) a countywide charter school that provides educational services not generally provided by the county office if it cannot be operated by a charter school that operates in a single district

- SBE—The SBE can authorize a charter school: 1) on appeal after denial by a county board of education; or 2) directly if the charter school will be providing services of a statewide benefit that cannot otherwise be provided by a charter school in only one school district or county

Charter Petition—In order to establish a charter school, a charter petition must be submitted by one or more persons seeking to establish the charter school. The two most common means by which a person or entity can establish a charter school are: 1) as a new start-up charter school, which requires the signatures of either at least one-half of the parents or legal guardians of the students estimated to enroll at the charter school or at least one-half of the teachers estimated to be employed by the charter school; or 2) a conversion charter which proposes the conversion of an existing public school, which requires the signatures of not less than 50 percent of the permanent status teachers currently employed at the public school to be converted. (It should be noted that neither an employee of the school district nor a student enrolled in the school district can be

[9]Education Code Section (E.C.) 47605 et seq.

required to be employed or to attend, respectively, a charter school. Alternative arrangements must be made by the authorizing school district for these employees and students.)

A charter petition submitted to a school district, must contain:

- Identification of a single charter school that will operate within the geographic boundaries of the school district to which the petition is submitted, or if the charter proposes to operate at multiple sites, identification of each location
- Signatures of parents or legal guardians, or teachers, as appropriate
- Reasonably comprehensive description of the "15 Requirement Elements (A-O elements)" detailed in the Education Code[10]
- Affirmation of the "four conditions," which require that the programs be nonsectarian, that tuition not be charged, that no pupils will be discriminated against, and that admission be determined according to the place of residence[11]
- Proposed charter
- Information regarding the proposed operation and potential effects, including the proposed location of the facilities, how administrative services will be provided, potential civil liability, detailed financial information, and details on the special education program

Hearing Process—A school district has 30 days from the receipt of the petition to hold a public hearing and an additional 30 days to either grant or deny the petition. (Note that an extension of up to 30 calendar days can be granted if both parties agree.) If the petition is denied by the school district, the decision can be appealed to the county board of education and, if denied, to the SBE. Charter schools are authorized for an initial period of up to five years with subsequent renewals subject to five-year terms.

Independent and Dependent Charter Schools—While the Education Code defines a charter school and the ways in which one is created, in practice, local educational agencies (LEAs) have taken an additional step and established what are commonly referred to as independent and dependent charter schools. There are no definitions within the Education Code for these terms, but generally speaking, an independent charter school is a charter school that has its own governing board, is not affiliated with its authorizing school district, and is directly funded by the state.[12] With the

[10]E.C. 47605(b)(5)
[11]E.C. 47605(d)(1)
[12]Funds for direct-funded charter schools are deposited into a charter school's account in the county treasury.

exception of the oversight provided by the authorizer and any contractual obligations agreed to by both parties, there is no fiscal or legal connection between the two entities.

A dependent charter school, however, has the same governing board as its authorizing district, receives its funding through its authorizing district,[13] and holds closer ties to and may overlap services with said district. In many cases, a dependent charter school is treated as another school of the district, though it is typically granted more flexibility than the traditional district school in terms of programs, staff selection, budget allocation, etc.

Whether independent or dependent, the Education Code requires the authorizing district to provide oversight of its charter schools.[14] Oversight requires the authorizing district to ensure that its charter schools are held accountable academically and submit all reports required by law. In addition, the authorizing district is required to monitor the fiscal condition of the charter school. Each charter school is required to annually submit a budget, a Local Control and Accountability Plan (LCAP), First and Second Interim reports, and the final unaudited financial report.[15] These requirements apply even when the charter school is considered dependent by the authorizing district. The authorizing district can charge the charter school for actual costs of supervisorial oversight, not to exceed 1% of the revenue of the charter school, or up to 3% if it is providing substantially rent-free facilities.[16]

Fiscal Considerations

The LCFF allocates funding to charter schools in the same way as to school districts. However, there are three differences that should be further explained.

1. When the LCFF was initially implemented, it required the calculation of an LEA's gap funding based on the difference between the target per-ADA amount at full implementation and the prior-year funding amount. For newly operational charter schools, there is no prior-year funding amount on which to complete this calculation, but the Education Code provides a methodology by which to determine it.[17] A newly operational charter school's prior year per-ADA funding amount is equal to the lesser of : 1) the prior-year funding amount per unit of ADA for the school district in which the charter school is physically located;[18] or 2) the charter school's LCFF rate.

[13]Funds for locally funded charter schools are deposited in the authorizing district's or county office's account in the county treasury.
[14]E.C. 47604.32
[15]E.C. 47604.33
[16]E.C. 47613
[17]E.C. 422308.03(f)(1)(A)-(B)
[18]If the charter school is physically located in more than one school district, the charter school will use the amount per unit of ADA of the school district with the highest prior-year funding amount.

2. Concentration grant funding for charter schools is determined by the UPP in a manner similar to school districts; however, a charter school's UPP is limited to no more than the UPP of the school district in which the charter school is physically located.[19,20] Therefore, if a charter school were to have a higher UPP than its authorizing school district—within whose boundaries it is physically located—it would be capped at the lower percentage. For example, Charter School A has a UPP of 76%, but is physically located within a district that has a UPP of 65%. Charter School A can only receive concentration grant funding based on the 65% UPP.

3. As with school districts, charter schools must use supplemental and concentration grant funding to increase or improve services for unduplicated pupils. However, charter schools do not need to meet a certain percentage threshold in order to use the funds on a charterwide basis. In order to expend supplemental and concentration grant funds on a charterwide basis, charter schools must, in their LCAP, identify those services that are being funded and provided on a charterwide basis and describe how such services are principally directed toward, and effective in, meeting the school's goals for its unduplicated pupils in the state and any local priority areas, as applicable.[21]

The other fiscal consideration that should be noted is the in lieu of property tax transfer. School districts are funded through a combination of state and local revenues. Similarly, charter schools are also entitled to receive state revenues and their share of local revenues. The Education Code requires a sponsoring LEA—in most cases the school district that granted the charter school—to annually transfer to each of its charter schools funding in lieu of property taxes equal to the lesser of: 1) the average amount of property taxes per unit of ADA, including the ADA attributable to charter schools, received by the LEA, multiplied by the charter school's ADA; or 2) the LCFF base grant funding amount per ADA, multiplied by the charter school's ADA in each of the four grade level ranges.[22]

For most school districts which are state funded,[23] the lesser of these two amounts is likely the first option with the remaining funding, including any supplemental and concentration grant dollars, being provided directly by the state. However, basic aid districts[24] fall under the second option, and there is an additional provision that is worth noting. For state funded districts, the in lieu property tax transfer is generally of no fiscal consequence as the state will backfill the school

[19]E.C. 42338.029f)(2)(A)
[20]If the charter school is physically located in more than one school district, the charter school's UPP cannot exceed that of the school district with the highest UPP.
[21]California Code of Regulations Section 15496(b)(5)
[22]E.C. 47635(a)
[23]Districts whose local property taxes are supplemented by funding from the state, which in aggregate provides the total LCFF revenues.
[24]A basic aid school district is one in which the district's property tax revenue exceeds its LCFF funding level, so that the state provides minimum state aid and nearly all of its general purpose funding is generated from local property taxes.

district up to its LCFF funding level. In the case of basic aid districts, however, the in lieu of property tax transfer may prove to be a financial disadvantage as the basic aid district must transfer property taxes to the charter school for both resident and nonresident students. This reduces the revenue available to the basic aid school district for the education of resident students attending the basic aid district's schools. To offset this fiscal disadvantage, statute provides for the partial backfilling of the property taxes transferred on behalf of the nonresident students—referred to as the Basic Aid Supplement Charter School Adjustment (Basic Aid Supplement).

The Basic Aid Supplement compensates basic aid districts for nonresident students that are attending the charter school, and would otherwise be eligible to attend a state funded school district, by providing the basic aid district an amount equal to 70% of the LCFF base grant per ADA that would have been apportioned to the school district in which the student resides and would otherwise have been eligible to attend.[25] In this way, the Basic Aid Supplement partially compensates the basic aid district for lost property taxes that are transferred to the charter school through the in lieu of property taxes transfer.

Analysis

For the purposes being explored by SMMUSD, a conversion would be the appropriate method to establish an independent charter school that would encompass the four schools currently located within the city of Malibu. There are two options available. The first would require the establishment of multiple charter schools, and therefore the development and approval of a separate charter petition, for each school site with a nonprofit entity—typically referred to as a charter management organization—as the umbrella organization that oversees the four individual charter schools. This option would provide each school site greater independence as attendance and other data would be collected and submitted per school site and therefore funding would be apportioned separately to each site. Any available grants or other funding sources could be maximized in that each charter school would be eligible to apply and receive funding. However, all reporting requirements (e.g., submittal of the LCAP, adopted budgets, and audits, or the reporting of enrollment and ADA) would have to be prepared for each independent charter school.

The second option would be the establishment of a single charter school operating at multiple sites within the school district, which is allowed by the Education Code as long as each location is identified within the charter school petition. The charter petition would therefore be for the establishment of a K-12 charter school encompassing and converting four school sites. This charter petition would require the development of only one charter petition, but would still require the signatures of not less than 50 percent of the permanent status teachers currently employed at each of the four schools. This option reduces the administrative costs associated with operating the

[25]E.C. 47663

charter school and complying with reporting requirements in comparison to the first option, but provides less flexibility and autonomy for the individual school sites. If it is determined that the establishment of a charter school is viable, a detailed analysis and review of the potential pros and cons of the two options would need to be undertaken. However, the remainder of this analysis assumes that a single K-12 charter school with multiple school sites will be established.

The establishment of a charter school is an involved process that is typically started several years before the proposed start of instruction. This would be especially true given the scope and complexities of simultaneously converting four school sites. A detailed charter petition, as described previously in this analysis, would be developed and submitted to SMMUSD—the proposed authorizing district—for review and approval. Once approval is granted, various administrative steps would be taken prior to the start of instruction (e.g., request a charter number from the SBE and a County-District-School code from the California Department of Education [CDE], submit documents for receipt of a special advance apportionment, etc.). SMMUSD and the charter school would also need to execute a memorandum of understanding outlining the relationship between the two entities and memorializing any services to be provided by SMMUSD (e.g., who would be responsible for the maintenance of the facilities, etc.).[26]

Based on the time required to complete the necessary processes to establish a charter school, and particularly in this case given the complexities involved with the conversion of four schools simultaneously, it is unlikely that instruction for the Malibu charter school could begin prior to 2020-21. However, for the purposes of this report and the analysis to follow, the 2018-19 fiscal year has been utilized as the start date as much of the fiscal data necessary to complete the analysis is either known or more easily and accurately projected. Utilizing the data included in the October 6, 2017, School Services of California, Inc., report titled *Santa Monica-Malibu Unified School District Review of Revenue Options for District Reorganization*, and updating it per the latest available ADA projections as well as the latest financial projections provided for in the Governor's 2018-19 January Budget proposal, the following analysis evaluates the fiscal impacts of the establishment of a charter school on both the charter school and the remaining SMMUSD.

In 2018-19, it is projected that the 12 schools that would remain part of SMMUSD would have 8,767 ADA while the Malibu charter school's ADA would be 1,483. The establishment of a charter school would require SMMUSD to make an in lieu of property tax transfer to the Malibu charter school. As previously noted, SMMUSD would be required to provide the Malibu charter school with the lesser of: 1) the average amount of property taxes per unit of ADA, including the ADA attributable to charter schools, received by the LEA, multiplied by the charter school's ADA; or 2) the LCFF base grant funding amount per ADA, multiplied by the charter school's ADA in each

[26]CDE has developed a website with information on what is needed to start a charter school as well helpful tips, guides, webinars, resources, and frequently asked questions—https://www.cde.ca.gov/sp/cs/re/csabout.asp.

of the four grade level ranges. Given that SMMUSD became a minimum state aid district in 2016-17 and is projected to be a basic aid district in 2017-18,[27] SMMUSD would transfer its in lieu of property tax based on option 2 (see Figure 12) for a total of $12.3 million in 2018-19.

Figure 12: 2018-19 In Lieu of Property Tax Transfer

Option 1	
Property tax revenues	$89,038,000
Total ADA	10,251
Average amount of property taxes per ADA	$8,686
Charter school ADA	1,483
In lieu due to charter school	**$12,884,437**

Option 2			
Grade	Base Grant Funding	ADA	In Lieu of Property Tax Transfer[1]
K-3	$8,141	355	$2,890,136
4-6	$7,484	377	$2,823,189
7-8	$7,707	188	$1,449,224
9-12	$9,163	563	$5,159,594
	Total	1,483	**$12,322,144**

[1]Numbers may not total due to rounding.

(Note that SMMUSD would be eligible for a Basic Aid Supplement for nonresident students enrolled at the Malibu charter school to the extent that those students reside in and would otherwise be eligible to attend a school in a state aid district.) The remaining LCFF funding—supplemental and concentration grants—due to the charter school would be provided by the state. Other funding sources (e.g., federal funds, lottery funding, mandate block grant, etc.) would be apportioned directly to the charter school. One major area of funding—special education—will be dependent on whether the charter school elects to be a school of the district for special education purposes or apply to a Special Education Local Plan Area as its own LEA.

As SMMUSD is making an in lieu of property tax transfer based on the Malibu charter school's LCFF base grant and not the higher average per ADA of property taxes, SMMUSD would retain the difference between option 1 (the average amount of property taxes per unit of ADA) and option 2 (the LCFF base grant funding amount per ADA for each grade level). Figure 13 illustrates this difference both as a total and on a per-ADA basis.

[27]Based on the assumptions utilized for ADA and local revenues

Figure 13: Difference Between Option 1 and Option 2 for the In Lieu of Property Tax Transfer							
			In Lieu of Property Tax Transfer				
	Total Property Tax		Option 1	Option 2		Difference Retained by SMMUSD	
		Per ADA			Per ADA		Per ADA
2018-19	$89,038,000	$8,686	$12,884,437	$12,322,143	$8,307	$562,294	$64
2019-20	$94,380,000	$9,207	$13,657,462	$12,616,039	$8,505	$1,041,423	$119
2020-21	$100,043,000	$9,759	$14,476,939	$12,968,863	$8,743	$1,508,076	$172
2021-22	$106,046,000	$10,345	$15,345,616	$13,380,267	$9,020	$1,965,349	$224
2022-23	$112,409,000	$10,966	$16,266,388	$13,798,166	$9,302	$2,468,222	$282
2023-24	$119,153,000	$11,624	$17,242,293	$14,212,159	$9,581	$3,030,134	$346
2024-25	$126,303,000	$12,321	$18,276,949	$14,638,224	$9,868	$3,638,725	$415
2025-26	$133,881,000	$13,060	$19,373,540	$15,077,426	$10,164	$4,296,114	$490
2026-27	$141,913,000	$13,844	$20,535,828	$15,530,181	$10,470	$5,005,647	$571
2027-28	$150,427,000	$14,675	$21,767,865	$15,995,718	$10,783	$5,772,147	$658
2028-29	$159,453,000	$15,555	$23,073,992	$16,476,291	$11,107	$6,597,701	$753
2029-30	$169,020,000	$16,488	$24,458,405	$16,969,834	$11,440	$7,488,571	$854
2030-31	$179,161,000	$17,478	$25,925,880	$17,478,560	$11,783	$8,447,320	$963
2031-32	$189,911,000	$18,526	$27,481,482	$18,003,242	$12,137	$9,478,240	$1,081
2032-33	$201,306,000	$19,638	$29,130,421	$18,543,711	$12,501	$10,586,710	$1,207

In addition, the Education Code only requires SMMUSD to provide the in lieu of property tax transfer and does not require the sharing of any additional revenues. Therefore, per code, all other local revenues (e.g., parcel tax measures, ground leases, contributions from city, etc.) would remain with SMMUSD unless the two entities agree on a separate revenue sharing agreement. Figure 14 provides a summary of the difference in revenues that will be experienced by SMMUSD between its existing configuration as a school district with 16 school sites and no charter school and the alternative configuration with the four schools within the city of Malibu converting to a charter school. Figure 15 provides a detailed look at the revenue differences for the 2018-19 fiscal year.

Figure 14: LCFF and Local Revenues									
	SMMUSD Revenues (without charter school)		SMMUSD Revenues (with charter school)		*Difference*			*Malibu Charter School*	
ADA	10,251		8,767					1,483	
		Per ADA		Per ADA		Per ADA			Per ADA
2018-19	$140,702,025	$13,726	$126,968,110	$14,482	*($13,733,915)*	*$756*		$12,727,295	$8,580
2019-20	$146,891,417	$14,330	$132,866,716	$15,155	*($14,024,701)*	*$825*		$13,030,854	$8,785
2020-21	$153,406,928	$14,965	$139,033,047	$15,858	*($14,373,881)*	*$893*		$13,395,279	$9,030
2021-22	$160,267,490	$15,635	$145,486,454	$16,594	*($14,781,036)*	*$959*		$13,820,210	$9,317
2022-23	$167,744,360	$16,364	$152,545,741	$17,399	*($15,198,619)*	*$1,035*		$14,251,850	$9,608
2023-24	$175,354,493	$17,106	$159,742,077	$18,220	*($15,612,415)*	*$1,114*		$14,679,455	$9,896
2024-25	$183,386,930	$17,890	$167,348,688	$19,087	*($16,038,242)*	*$1,198*		$15,119,529	$10,193
2025-26	$191,865,814	$18,717	$175,388,662	$20,004	*($16,477,152)*	*$1,287*		$15,573,172	$10,499
2026-27	$200,957,788	$19,604	$184,030,314	$20,990	*($16,927,473)*	*$1,386*		$16,249,568	$10,954
2027-28	$210,410,009	$20,526	$193,015,303	$22,015	*($17,394,705)*	*$1,489*		$16,521,657	$11,138
2028-29	$220,394,129	$21,500	$202,519,309	$23,099	*($17,874,820)*	*$1,599*		$17,018,031	$11,473
2029-30	$230,938,307	$22,529	$212,570,447	$24,245	*($18,367,860)*	*$1,717*		$17,527,802	$11,816
2030-31	$242,076,705	$23,615	$223,200,686	$25,458	*($18,876,018)*	*$1,843*		$18,053,255	$12,170
2031-32	$253,843,489	$24,763	$234,443,428	$26,740	*($19,400,061)*	*$1,977*		$18,595,189	$12,536
2032-33	$264,225,834	$25,776	$244,582,611	$27,897	*($19,643,224)*	*$2,121*		$19,153,428	$12,912

As illustrated in Figure 14, while SMMUSD with the charter school in place will have less total revenues due to fewer students and the in lieu of property tax transfer, it would have a higher per-ADA amount that will increase each year as property tax revenues increase. The Malibu charter school however, will increase only by the established COLA provided in any given year.

Figure 15: 2018-19 Revenue Detail			
	SMMUSD (without charter school)	SMMUSD (with charter school)	Malibu Charter School
ADA	10,251	8,767	1,483
LCFF State Aid	$0	$0	$108,478
Minimum State Aid	$8,585,843	$7,343,472	$0
Education Protection Account	$2,050,168	$1,753,494	$296,674
Property Tax[1]	$73,138,000	$73,138,000	$12,322,143
RDA Distributions	$15,900,000	$15,900,000	$0
Subtotal, LCFF Revenue	$99,674,011	$98,134,966	$12,727,295
In Lieu of Property Tax Transfer	$0	-$12,322,143	$0
Subtotal, Local Tax Revenue	*$89,038,000*	*$76,715,857*	*$12,322,143*
Santa Monica Education Foundation	$0	$0	$0
Parcel Tax—Measure "R"	$12,205,124	$12,205,124	$0
Measure "YY"	$8,400,000	$8,400,000	$0
2016 Use Tax—Measure GSH	$8,400,000	$8,400,000	$0
Ground Lease Revenue—Santa Monica	$2,450,000	$2,450,000	$0
Ground Lease Revenue—Malibu	$172,890	$172,890	$0
City of Santa Monica	$9,200,000	$9,200,000	$0
City of Malibu	$200,000	$200,000	$0
1% Oversight Fee[2]	$0	$127,273	$0
Subtotal, Other Local Revenue	$41,028,014	$41,155,287	$0
TOTAL REVENUES	$140,702,025	$126,968,110	$12,727,295
Total revenues per ADA	$13,726	$14,482	$8,580

[1]Property tax for the charter school is the in lieu of property tax transfer from SMMUSD
[2]While not displayed as a reduction in revenues, the 1% oversight fee would be an expense to the Malibu charter school

One additional item should be noted with regards to the ADA shift from SMMUSD to the Malibu charter school. School districts utilize the higher of either their prior-year ADA or current-year ADA when determining apportionment in a given year. Charter schools, however, are apportioned based on current-year ADA only. The state will not pay for the same student twice by apportioning funds based on the school district's prior-year ADA and the charter school's current-year ADA, which encompasses some of the same students as they transfer from one LEA to the other. (Note that this ADA shift must also be accounted for those students who attended a charter school in the prior year, but are attending a school district school in the current year.) State law requires an adjustment be made to the school district's prior-year ADA.[28] The above analysis utilizes current-year funded ADA and has therefore accounted for the ADA shift in the 2018-19 and subsequent

[28]E.C. 42238.051

fiscal years. However, SMMUSD needs to be aware of this requirement and make any necessary ADA adjustments, particularly in the year in which the charter school is established.

Final Thoughts

Per the direction provided by SMMUSD, this analysis provides an overview of the charter process and focuses on the fiscal implications of the conversion of the four SMMUSD schools located within the city of Malibu. However, given the scope of the proposed undertaking, it should be made clear that the potential conversion will be a time intensive process in which many other aspects (e.g., academics, continuity and transfer of students records, data, and test scores, parent engagement, etc.) will need to be clearly understood and agreements reached between SMMUSD and the Malibu charter school. Each one of these other points are as critical to the success of the charter school and the relationship between the two entities as the fiscal implications and will affect no one more than the students themselves.

If it is determined that the establishment of a charter school is a viable path forward, a detailed study and a thoughtful, stakeholder inclusive process should be undertaken with sufficient time to ensure that the impacts to the day-to-day operations and to the students are minimized.

Appendix A

Local Property Taxes—The Treatment of RDA Revenues

The actual division of current SMMUSD property tax revenues between those generated by Santa Monica and those generated by Malibu and surrounding areas is not available to us. Therefore, to model the financial effects of property tax revenues when creating two new districts we have used the historical data of assessed valuations within the boundaries of SMMUSD and assessed valuations for the city of Santa Monica, with the difference attributed to Malibu, as the basis for allocating property tax revenues among them. The allocation we use, based on the distribution of assessed value, is 66.5% for SMUSD and 33.5% for MUSD. This analysis applies those percentage allocations against SMMUSD property tax revenues to estimate those revenues for each district.

SMMUSD also receives revenues accruing from the dissolution of a Santa Monica RDA. Under prior law, redevelopment agency activity was funded from the property tax increment attributable to the geographic area bounded by the agency. Since RDAs were terminated, property tax revenues previously allocated to an RDA become incrementally available to support the schools as the RDAs continuing obligations are concluded.

Because the RDA operated solely within the boundaries of Santa Monica, for our report, all Santa Monica RDA revenues received by SMMUSD are allocated to SMUSD. As a result, 72.5% of revenues received from the property tax and RDA distributions accrue to SMUSD, and 27.5% go to MUSD when those revenues are combined.

However, we don't know how much, if any, of the assessed valuation underlying the RDA revenues distributed to SMMUSD may already be included in the 66.5% of the total SMMUSD assessed valuation that we attribute to Santa Monica. If RDA revenues arise from properties already valued in the historical assessed value data of Santa Monica, then our methodology would overstate the proportion of property tax revenues attributed to SMUSD and understate the proportion going to MUSD.

For example, if 100% of RDA properties are already reflected in the reported AV for Santa Monica, then the distribution of the combined property tax and RDA revenues among the two districts would be closer to 66.5% (rather than 72.5%) for SMUSD and 33.5% (rather than 27.5%) for MUSD. Without knowing the specific answer to this question, we believe that these percentage distributions reflect the outer boundaries of possible proportional distributions for SMMUSD property tax revenues among the districts.

If all, rather than none, of the RDA revenues are assumed to come from property already included in the assessed valuation data then some of our findings would change:

- Cost to the state for SMUSD LCFF state aid would increase to $30.8 million, compared with $5.7 million under our current model

- SMUSD would become a minimum state aid district in 2024-25 rather than 2020-21, and a basic aid district in 2027-28 rather than 2024-25

- MUSD revenue per ADA would increase by over 17%, from $20,357 to $23,948 per ADA in 2018-19, and continuing in future years

- Revenue neutrality payments from MUSD to SMUSD would increase for MUSD because of the higher level of property tax revenues accruing to the district and the correspondingly lower revenues allocated to SMUSD

Although a change in the distribution of property tax and RDA revenues would change specific findings as outlined above, it would not change the trends identified or the conclusions drawn from those trends in this report.