PRELIMINARY REPORT TO

THE LOS ANGELES COUNTY COMMITTEE

ON SCHOOL DISTRICT ORGANIZATION

CONCERNING A PROPOSAL TO FORM

THE MALIBU UNIFIED SCHOOL DISTRICT

FROM TERRITORY IN THE

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

SEPTEMBER 2, 2021

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I. EXECUTIVE SUMMARY

This preliminary report to the Los Angeles County Committee on School District Organization (County Committee) is provided in support of their responsibility to examine the proposal to form a Malibu Unified School District (USD) from territory currently within the Santa Monica-Malibu USD.

Under EC 35721, the County Committee is required to review and conduct a preliminary public hearing, at which they will vote on proposals submitted from parties other than school districts or residents of the impacted area (in this case, the City of Malibu), to determine whether or not to approve bringing such proposal into the regular school district organization review process under EC 35753.

The County Committee convened the first part of its required preliminary public hearing on April 17, 2021. The second part of its required preliminary public hearing is scheduled for September 18, 2021, at which the expectation is that the County Committee will approve or deny moving the proposal forward into its regular review process.

The preliminary review required under EC 35721 does not articulate a standard of review nor specific criteria by which the County Committee must analyze any proposal – this is in contrast to the review standards and criteria that the County Committee uses as guidance in its regular proposal review, the so-called "Nine Conditions" articulated in EC 35753. In order to facilitate dialogue and provide information that is available at this time in support of the preliminary public hearing's conclusion on September 18, 2021, this report incorporates a preliminary discussion of the Nine Conditions as an analytical framework. It is further supported by a fiscal analysis performed by School Services of California (SSC) (Appendix A).

Staff Preliminary Recommendation

In examining the facets of this proposal, staff has found that eight of the Nine Conditions may not be found to be substantially met, based on information we have at this preliminary stage. Those conditions are 1, 2, 3, 4, 5, 6, 7 and 9. Further, the fiscal analysis conducted by SSC had concerns about several conditions (3, 5 and 7) and found that an examination of Condition 9 indicates that the creation of a Malibu USD would have a significant negative fiscal impact on the Santa Monica-Malibu USD (which would become the Santa Monica USD following any such reorganization).

Despite concerns about several of the conditions, and significant indication that fiscal issues would have a negative impact on the Santa Monica-Malibu USD, **staff recommends that the County Committee approve moving this proposal forward from the preliminary examination stage under EC 35721, into its regular review process under EC 35753.** This would allow the County Committee to engage with the parties and the impacted community, to request specific information that may inform its ultimate decision on the proposal that is not currently available, and to request that staff gather additional information or answer questions they may have that they have not had a chance to inject into the review process to date.

TABLE 1
SUMMARY OF CONDITIONS, FINDINGS, AND RATIONALE

#	Condition	Preliminary Finding	Rationale
1.	Adequacy in number of students.	May Not Be Substantially Met	The resulting Malibu USD may not have, nor may not be able to maintain, enrollment of at least 1,501 students.
2.	Community identity.	May Not Be Substantially Met	Because the area proposed for a Malibu USD has been a part of the Santa Monica-Malibu USD for 70+ years, and has sent students to Santa Monica area schools for more than 100 years, they have longstanding inclusion in Santa Monica-Malibu USD and do not need to start a new school district to establish community identity.
3.	Equitable division of assets and liabilities.	May Not Be Substantially Met	Reorganization would require a division of assets or liabilities; it is not possible to determine the financial impact at this time, but significant questions have been raised.
4.	Will not promote ethnic discrimination or segregation.	May Not Be Substantially Met	Reorganization would affect student enrollment or attendance significantly in both a new Malibu USD and what would result as the Santa Monica USD, to a degree that there would likely be dramatic shifts in racial/ethnic demographics of enrolled students.
5.	Will not substantially increase costs to the state.	May Not Be Substantially Met	Reorganization is likely to impact state funding significantly in terms of current and potential new buildings and other fiscal obligations.
6.	Will not significantly disrupt educational programs in either district.	May Not Be Substantially Met	It is not clear how any reorganization would impact the educational program of both a new Malibu USD and the resulting Santa Monica USD.
7.	Will not result in a significant increase in school housing costs.	May Not Be Substantially Met	Reorganization would likely impact school housing costs substantially in terms of new school and administrative facilities needed, as well as potential remediation of existing facilities for a Malibu USD.

#	Condition	Preliminary Finding	Rationale
8.	Proposal is not primarily designed to substantially increase property values.	Substantially Met	While property values may increase in Malibu as a result of the creation of a Malibu USD, there is no evidence that a desire to increase property values is the *primary* motive for the reorganization request.
9.	Will not affect the fiscal management or status of the affected districts.	May Not Be Substantially Met	Reorganization is likely to lead to a significant impact to the fiscal management of both a new Malibu USD and the resulting Santa Monica USD.

II. INTRODUCTION AND BACKGROUND

On September 1, 2017, the Los Angeles County Office of Education (LACOE) received a proposal in the form of a 2015 resolution from the City of Malibu to form a separate Malibu USD from territory within the boundaries of the existing Santa Monica-Malibu USD. The proposal was introduced at the November 1, 2017 regular County Committee meeting, and at least one public hearing was to be scheduled. Under EC 35721, a preliminary public hearing was required because the petitioner submitting the proposal was a city. For purposes of this preliminary report, the term proposal and petition will be used interchangeably. The term petitioners will refer to the City of Malibu, as the proponents of the proposal. Further the terms 'remaining Santa Monica USD' and 'Resulting Santa Monica USD' both refer to any entity remaining after a Malibu USD may be formed. Should a reorganization be approved, the Santa Monica USD would be an augmentation of the current Santa Monica-Malibu USD, with altered district borders and a different name.

After this local agency proposal was introduced, , the City of Malibu sent a letter requesting that the County Committee postpone the scheduling of its preliminary hearing to allow the stakeholders more time to discuss further options and details regarding the proposal. On February 28, 2018, however, the City of Malibu apprised the County Committee of their interest in pursuing the preliminary public hearing.

Then, in April 2018, the City resolved to further investigate options before asking the County Committee to proceed. At its May 2, 2018 regular meeting, the County Committee voted to delay scheduling the preliminary public hearing until after receiving an update from the City and the District on negotiations at its regularly scheduled meeting on September 5, 2018. On September 5, 2018, representatives from the City of Malibu and the Santa Monica-Malibu USD apprised the County Committee of their negotiations; they did so again at the March 6, 2019 meeting.

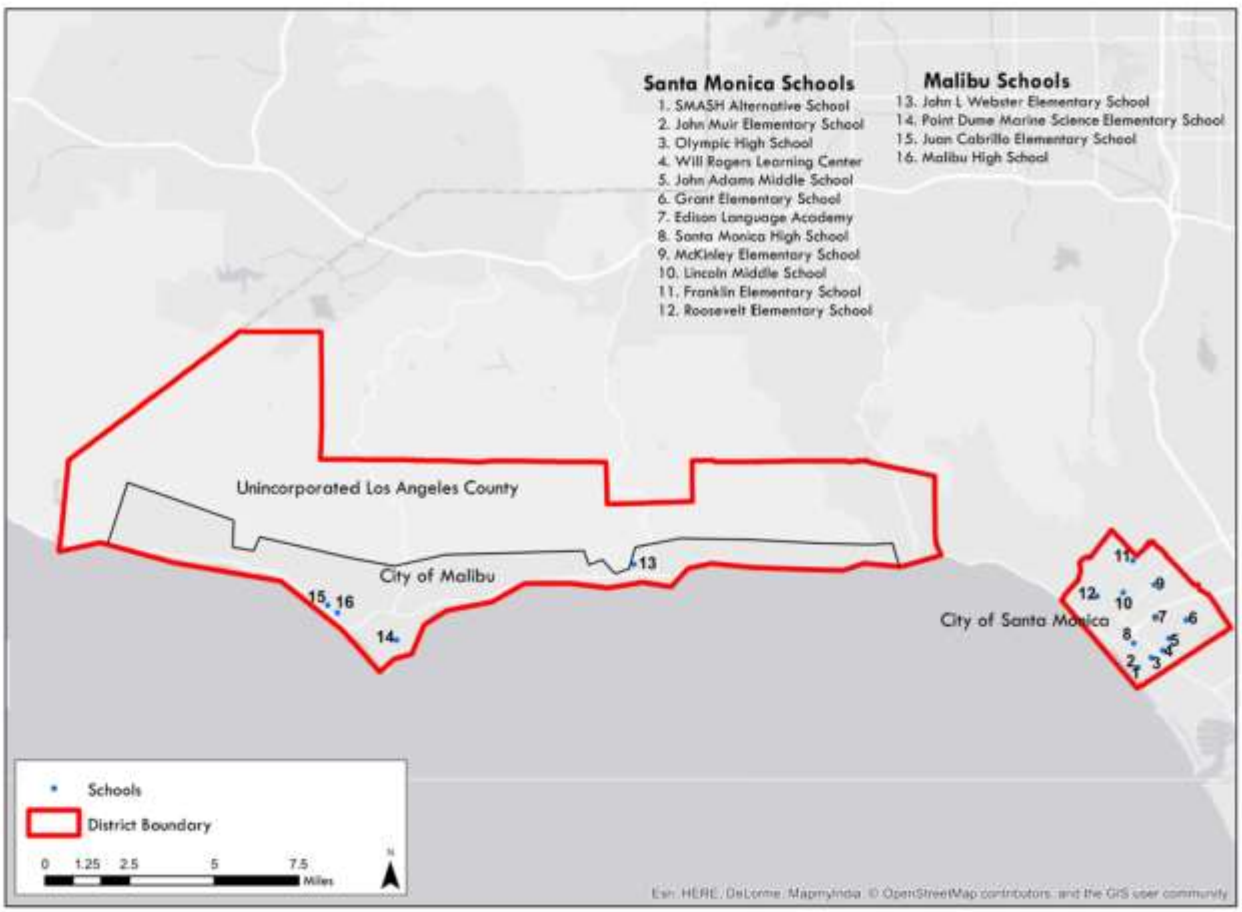
On May 10, 2019, staff met with the District to ascertain the status of its ongoing study and analyses. The parties to the proposal returned to the County Committee on September 4, 2019, October 2, 2019, November 6, 2019, January 8, 2020, and March 4, 2020 to provide updates on their studies, and on August 5, 2020, the District's attorney apprised the committee that the impacts of the COVID-19 public health crisis on the school district and on the City had put a pause on their negotiations. On October 7, 2020, counsel for the City of Malibu said the pursuit of a legislative solution on the splitting of a current parcel tax in the Santa Monica-Malibu USD had stalled, and that on October 12, 2020, the City of Malibu would be considering hiring a third consultant to provide a new fiscal review on the proposal. On October 29, 2020, the Malibu city manager sent the city council's request that the proposal be reactivated and that the County Committee's process move forward.

At the County Committee's regularly scheduled meeting on December 2, 2020, the initial preliminary public hearing was scheduled for Saturday, April 17, 2021, pending public health concerns about the viability at that time of having an in-person public hearing. On March 3, 2021, the County Committee voted to conduct a virtual preliminary public hearing on April 17, 2021. The intent was articulated by the County Committee that staff present findings as well, so the preliminary public hearing was split into two parts to allow for staff adequate time to conduct an analysis.

The initial part of the preliminary public hearing was held virtually on April 17, 2021 and was attended by more than 300 people. The County Committee heard testimony from the City of Malibu, the Santa Monica-Malibu USD, and both proponents and opponents of the proposal. Subsequently, the County Committee set the conclusion of the preliminary public hearing for September 18, 2021. At that hearing, under EC 35721, the expectation is that the County Committee will decide whether or not to move the proposal to form a Malibu USD from the current preliminary review stage into its regular review process under EC 35753. If the County Committee votes no at the conclusion of the preliminary public hearing, the matter is ended. If the County Committee votes yes at the preliminary public hearing, the proposal will enter the regular review process under EC 35753, which requires public hearing(s), a feasibility study on the Nine Conditions and a vote that serves as a recommendation to the State Board of Education (SBE).

III. DESCRIPTION OF PROPOSAL AREA

The area proposed for unification, to form a Malibu USD within, is contained in the boundaries of the City of Malibu and additional unincorporated territory of Los Angeles territory that falls currently within the Santa Monica-Malibu USD that abuts the City of Malibu to the north.



Santa Monica-Malibu Unified School District Date: 2/21/2017

IV. DESCRIPTION OF IMPACTED SCHOOL DISTRICT

SANTA MONICA-MALIBU USD

According to the website of the Santa Monica-Malibu USD, it describes itself as follows:

> "The Santa Monica-Malibu Unified School District is headquartered in Santa Monica and serves the diverse coastal communities of Santa Monica and Malibu. It is located in Los Angeles County and serves 10,625 students in Transitional Kindergarten through 12th grade in nine elementary schools, three middle schools, two comprehensive high schools, a continuation high school, a K - 8th grade alternative school and Project-Based Learning High School pathway. SMMUSD employs approximately 1,600 staff members including about 750 certificated and 850 classified employees. The district is also home to 11 early childhood education centers and an adult school. The first classroom opened with 52 students in March 1876. SMMUSD's annual unrestricted general fund budget for the 2019-20 school year is $150 million.
>
> SMMUSD is proud to be supported by the Santa Monica Education Foundation. The Education Foundation is an independent 501(c)(3) nonprofit organization that exists solely to raise funds for programs in SMMUSD, for Santa Monica schools. Each year, annual donations and the Ed Foundation's endowment fund millions of dollars of programs for students, including visual and performing arts, STEM, instructional assistants, student wellness, library support and other enrichment programs. A similar foundation is in formation stages to support Malibu schools.
>
> U.S. News and World Report has named both Santa Monica High School and Malibu High School as Top High Schools in the nation and state, reporting Samohi with the ranking of 914 in the nation and 134 in the state and Malibu High School for rankings of 817 and 125, respectively in 2019.
>
> Extra-curricular programs including visual and performing arts and athletics at the high school level are focal points within each campus. Students begin their visual and performing arts instruction in elementary school and access continues through high school."

The City of Malibu has 10,654 residents, and the City of Santa Monica has 93,076 residents, according to the 2020 U.S. Census.

The City of Santa Monica is a small city bordering the Pacific Ocean and is both a recreational and entertainment destination for Southern California. It contains areas that range from infilled city neighborhoods to canyon and mountain areas, as well as large undeveloped parklands.

The City of Malibu is a more suburban/semi-rural city bordering the Pacific Ocean. It contains significant canyon and mountain areas (both residential and recreational/undeveloped). The area covered by this proposal includes territory currently in the Santa Monica-Malibu USD that is outside the City of Malibu (see map above), and that area is significantly more rural than the area of the city abutting the Pacific Ocean coast.

V. PETITIONERS' RATIONALE

The rationale for this proposal was articulated in the resolution submitted by the Malibu City Council:

1. The city centers of Malibu and Santa Monica are separated by several miles, and Santa Monica and Malibu have become distinct communities.

2. Santa Monica-Malibu USD's central office is located in Santa Monica, a significant distance from even the closest portions of Greater Malibu.

3. Residents of Malibu have expressed concern and frustration that they are not adequately represented by the Santa Monica-Malibu USD governing board due to its at-large system of election, and that their concerns about the policies and practices of Santa Monica-Malibu USD go largely unaddressed.

4. The unification of a Malibu USD from the existing territory of Santa Monica-Malibu USD will benefit all children in Santa Monica, as well as Greater Malibu.

5. Organization of a Malibu USD enables all residents of Greater Malibu to have representation on their local school board through adoption of by-trustee-area elections.

VI. POSITIONS OF THE MALIBU CITY COUNCIL AND THE SANTA MONICA-MALIBU USD GOVERNING BOARD

As effaced by the language above from a city resolution, the City Council of Malibu supports the unification proposal. As effaced by their consistent lack of agreement to support this proposal, the governing board of the Santa Monica-Malibu USD has not expressed support for the proposal. At the first part of the preliminary public hearing on April 17, 2021, the parties expressed similar sentiments, which the City of Malibu was in support and the Santa Monica-Malibu USD was not in support of what had been proposed to date. The Santa Monica-Malibu USD has expressed support for the creation of a Malibu USD, but not under circumstances that it believes would negatively impact its district and students.

VII. HISTORICAL BACKGROUND AND EDUCATIONAL PLAN

According to the Santa Monica-Malibu USD, students residing in Malibu area have attended the district since its formation in 1875 and the Santa Monica-Malibu USD, in historical and current form, has existed for more than 70 years.

Much has been made by the City of Malibu, both in its public materials and in its presentations before the County Committee, that the geographic composition of the district would not be allowed today, given that the City of Malibu and the City of Santa Monica are separated by almost 20 miles along the coast of the Pacific Ocean. The implication that the Santa Monica-Malibu USD is some sort of rogue or illegal composition is false. It is a legally chartered district by the State of California, charged with responsibility for educating all of the students within its territory. Throughout its existence, while various petitioners have sought to create a Malibu USD, the State of California has not sought to remedy any aspect of the composition of the Santa Monica-Malibu USD.

Again, despite charges to the contrary in its proposal, other presentation materials and public statements by the City of Malibu, the education provided by the Santa Monica-Malibu USD, by all metrics required to be analyzed by the State of California, is more than adequate. Staff is well aware that public opinions on the quality of school districts and individual school sites, especially as they apply to specific students or groups of students, may vary widely. We are guided by state-mandated metrics of sufficiency and performance, not public opinion polls. Santa Monica-Malibu USD is a high-performing district according to the most recent assessments (which have been suspended during the COVID-19 pandemic), noting that the district has a graduation rate of 94.6% out of all students, compared to a statewide graduation rate of 86.6%, according to the CDE.

It is also a district that serves both students of high academic achievement and those of significant need (including English Language Learners (ELL) (8.2%), foster youth (.2%), homeless youth (.5%), students with disabilities (12.5%) and youth from families categorized as low socioeconomic status (SES) (27.5%)), according to the CDE's school dashboard (https://www.caschooldashboard.org/reports/19649800000000/2020).

It is not possible to opine of the educational success of the City of Malibu because it is not a local educational agency (LEA), nor did any of its submitted or presented materials include any form of educational plan. It is not clear nor has it been articulated what kind of school district the City of Malibu intends to support in the form of a Malibu USD, who will be charged with guiding it, what educational approach will be taken, what particular programs will be emphasized, etc. Instead, the City of Malibu, in its proposal, merely lists a series of complaints about the Santa Monica-Malibu USD (the office and schools are too far, the Malibu community is an afterthought, there is not adequate representation on the school board even though there is one Malibu resident on the seven-member board requisite with the percentage of the district's population who reside in Malibu, etc.). There are also consistent complaints about Malibu-sourced money (tax revenues, foundation donations, etc.) not being utilized to support Malibu students only.

The EC does not require that petitioners such as the City of Malibu submit a complete prospective educational plan prior to submitting a proposal. However, the lack of any indication of what a Malibu USD would do, and what educational issues it would cure or do better than the Santa Monica-Malibu USD, is telling in its absence, especially given the length of time some in the City of Malibu have advocated for a Malibu USD. In comparison with a school district like the Santa Monica-Malibu USD, with a 94.6% graduation rate, a new Malibu USD would be charged with increasing student success beyond that metric, and would need to implement very specific educational measures, which the City of Malibu has not hinted at. Under the Nine Conditions required to be analyzed by the County Committee under EC 35753 if it chooses to move this proposal into the regular review process, the sufficiency of educational programs and whether the proposed reorganization would negatively impact them are critical. Likewise, the County Committee is also entitled to inquire exactly what the educational plan is for a Malibu USD. These are outstanding questions the County Committee may want to explore if it chooses to move this proposal from the preliminary public hearing into the regular proposal review process.

VIII. PRELIMINARY ANALYSIS OF MANDATED CONDITIONS AND RECOMMENDATIONS

EC §35753 identifies Nine Conditions which must be reviewed by the County Committee as part of the decision-making process related to proposed school district reorganizations. If this proposal moves from the current preliminary public hearing stage under EC 35721 into the regular review stage under EC 35753, the County Committee must determine if all of these conditions are substantially met. Thus this report provides a preliminary review of the Nine Conditions based on information that is currently available, discussed in reference, in part, with the fiscal analysis conducted by SSC.

For the current stage, the County Committee is only required to vote yes or no to move the proposal from the preliminary public hearing into the regular review process. If the County Committee does so, the Nine Conditions and any other relevant material will be reexamined in greater detail during a later review process to provide guidance on whether or not each of the Nine Conditions is substantially met, under EC 35753(a). However, the Education Code (EC) does not mandate that the County Committee approve proposals where any, a majority or all of the conditions are substantially met. Likewise, the EC does not mandate that the County Committee deny a proposal where all, many or some of the conditions are not substantially met. The EC provides the County Committee with broad authority to analyze factors it deems relevant and to assign to those factors the requisite weight they choose to determine how to vote on the proposals that come before it.

According to the California Department of Education (CDE), in their School District Organization Handbook (https://www.cde.ca.gov/re/lr/do/#chapter6), there is broad discretion for the County Committee in making decisions about proposals presented to it with the regular review process under EC 35753. Please note that in this context, the CDE refers to "the Board" which indicates the SBE. On a local level, we infer similar authority and discretion to the County Committee:

> "In considering proposals for district reorganization, county committees and the State Board of Education must determine whether the nine conditions in *Education Code* (*EC*) Section 35753(a) are substantially met. Those conditions are further clarified by *California Code of Regulations (CCR),* Title 5, Section 18573. By its own terms, *EC* Section 35753 provides that, if the conditions set forth in subdivisions (a)(1) through (10) are met, the State Board of Education (and the county committee) "may" approve a proposal for the reorganization of a district.
>
> The term "may" denotes discretion. Thus, the conditions in *EC* Section 35753 constitute a minimum threshold, which must be met before the State Board of Education or county committee is even vested with discretion to act. There is no requirement of approval when the conditions have been met. Similarly, there is no requirement of disapproval when the

> conditions have not been met. (*Hamilton v. State Board of Education (1981) 117 Cal. App. 3d 132; Burch v. State Board of Education (1998) Los Angeles Superior Court Case Mo. B5034463*). Subdivision (b) of Section 35753 gives the State Board of Education authority to depart from the conditions when it determines that exceptional circumstances exist."

Please note that the last sentence of this excerpt does not apply to the County Committee.

CONDITION 1

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

The County Committee may approve a proposal for reorganization of districts if the new district is adequate in terms of the number of students enrolled. Section 18573(a)(1)(a) of Title V, California Administrative Code (CAC), specifies that a unified district must have a projected enrollment of at least 1,501 students.

Staff has been informed anecdotally that wildfires (which occurred before the COVID-19 pandemic) have driven the population of students enrolled in Malibu area schools below 1501 because families who lost their homes have not yet been able to return. It is not clear if those families returned to Malibu area schools' enrollment lists during the pandemic, nor is it clear what overall enrollment was in the district while it moved to online classes. Current enrollment would need to be confirmed, both in person and online students, as soon as figures for Fall 2021 are available to verify students at all Malibu school sites (Malibu High School, Malibu Middle School, Malibu Elementary School and Webster Elementary School).

In addition, recently released U.S. Census data indicated a drop in the overall population in the City of Malibu, which may impact the City's ability to yield enough students to enroll in a Malibu USD in order to meet the 1,501 total enrollment threshold. While additional data would be needed, there would be legitimate concern that this condition could be met. In addition, the widespread experience of declining enrollment in many school districts in Los Angeles County may also impact a newly formed Malibu USD and its ability to enroll an adequate number of students to field a USD. The State of California has determined a threshold of 1501 in order for a USD, indicating that this is the minimum threshold required to have sufficient students to field and finance the programs that a comprehensive school district requires.

Further, while some local districts have a significant number of permitted students, which bolster their enrollment numbers, given the geographic challenges cited consistently by proponents of a Malibu USD, it seems unrealistic to expect hundreds of permitted students who are not residents of the Malibu area to drive or be driven there for school each day. It is not clear if online enrollment could address any shortfalls in enrollment. Trends in online enrollment, both before and during the pandemic, would need to be gathered. If the proposal is moved to the regular review process, this Condition will need further review.

PRELIMINARY RECOMMENDATION

Because there is a strong indication that current enrollment in Malibu area schools would be fewer than 1,501 students, staff finds this condition, at this time, not substantially met.

CONDITION 2

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

The CAC, Title V, Section 18573(a)(2)(A-G), provides guidance that community identity should be determined using criteria such as: isolation; geography; distance between social centers; distance between school centers; topography; weather; community, school, and social ties; and other circumstances peculiar to the area. The County Committee may determine which aspects of community life and description constitute relevant community identity for its review purposes.

The proposal area, historically a part of the Santa Monica-Malibu USD, includes the City of Malibu and territory to its north, unincorporated Los Angeles territory, which is currently part of the Santa Monica-Malibu USD. Because the proposal to form a Malibu USD concerns a current school district that contains two distinct cities within its territory (Malibu and Santa Monica), it is natural to expect that residents of each city would efface affinity with their specific city. However, as stated earlier, residents of Malibu have always been educated by the Santa Monica-centric school district since its formation more than 100 years ago and have been part of the district formally for more than 70 years. Unlike transfer of territory proposals, where a group of homeowners states that they have greater affinity and community identity with a community they seek to relocate into, in this case the homeowners and residents of Malibu have always been a part of the Santa Monica-Malibu USD, thus there can be no claim that they are not members of that school district community. That they seek an exclusive community comprised of Malibu-area only, is the clear intention of this proposal.

While it is stated that the petitioners and their supporters feel a sense of community identity within Malibu, the region in general shares the same coastline, transportation arteries, commercial, recreational, shopping and entertainment centers and, most importantly, students. It is unrealistic to believe that Malibu residents (and thus Malibu students) never leave Malibu (notwithstanding COVID-19 pandemic restrictions), and vice versa, that residents and students of Santa Monica never partake of recreational, civic, commercial and other offerings in Malibu.

The notion that proposal area students are being excluded from their true school district, and all that they could avail themselves from it, is not supported since they have always been part of the Santa Monica-Malibu USD, known as a high-performing district. It is true that many families and students want different things from their school district that may be on offer, but that is not the same thing as categorizing the Santa Monica-Malibu USD as inadequate. Students assigned to the Santa Monica-Malibu USD attend that district currently because their homes are located in that district and they have access to the full offerings of any student in the district. Concerns about fewer languages being offered at one site or another (at Santa Monica-area schools as opposed to

Malibu schools) are similar to concerns about personal preferences voiced in virtually every school district. It is clear that the City of Malibu perceives that offerings are not adequate or similar in the few items they have cited, but that view is not supported. Additional information will need to be gathered about the access that Malibu-area students have to various school-based and non-school programs if this proposal is moved into the regular review process.

School district boundaries and city boundaries are rarely coterminous in Los Angeles County, and in much of California, and the County Committee has never been directed by the State of California to reconcile these disparate borders. Nearly every district within Los Angeles County contains territory outside of its largest city, and nearly every city in Los Angeles County has multiple school districts running through it. Sometimes the disparity between the various cities contained with a school district is stark, for example Duarte USD, which contains the City of Duarte and the City of Bradbury, very different communities, or the ABC USD, which contains both Cerritos and Hawaiian Gardens, also very different communities. There are several school districts that contain more than 5 cities within their borders, and several cities that contain more than 5 school districts. This is not problematic in our region, it is the norm. The idea of a Malibu-only school district as a necessity for sufficient educational purposes is not supported. Like most other school districts, the Santa Monica-Malibu USD contains more than one city within its boundaries.

While there may be differences between the City of Malibu and the City of Santa Monica, whether actual or perceived by their respective residents, there is no indication that these differences are damaging to the educational plan of the Santa Monica-Malibu USD. Nor is there any need to reconcile these differences by separating groups of students who have been part of the same school district historically, and currently exhibit significant academic success.

PRELIMINARY RECOMMENDATION

Residents of the proposal area, like all residents of Los Angeles County, likely share a strong community identity with their locality in general (including the cities of Malibu and Santa Monica and other surrounding areas to the north, east and south), as well as with whatever school district their children are enrolled in, because that is where they live near. Community identity becomes an amalgam rather than a specific, definable sentiment or status. Los Angeles County contains schools with large geographic footprints, small footprints, hundreds of thousands of students and hundreds of students, and all of them exhibit a cohesiveness based in part by their shared school district residence, not just based on their city or town or area residence. It is reasonable to like or feel a part of any broader locality when one lives in or near any border. It is clear that the petitioners and their supporters feel otherwise, to the point of claiming City of Malibu as their true district, but their impressions are not determinative here. While boundary areas in any city or district will always have some elements in common with the areas they border, community identity must consider the city and the school district independent entities.

The residents living within the proposal area do not evidence greater community identity with the City of Malibu to the degree that they cannot remain a part of the Santa Monica-Malibu USD, specifically because they are residents of both entities equally. Proximity to school sites does not, in and of itself, establish community identity.

Proposals to form unified school districts are requests for changes to permanent boundaries. They should only be undertaken based on evidence of a compelling reason to make such changes related to educational concerns and guided by the mandated nine conditions of review. No such compelling reason has been presented in this case to date that cannot be mitigated by the current collaborative practices of the Santa Monica-Malibu USD. The implication that this proposal should be approved simply because the City of Malibu wants it, because they feel more a part of their city than their school district, should not be remedied by a process as serious and with such significant consequences as forming a new USD and taking territory from a high-performing current USD, especially given the potential fiscal impacts. Therefore, it is recommended that the County Committee deem this condition to not be substantially met at this time.

CONDITION 3

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

The division of real and personal property, funds, and obligations, except bonded indebtedness, shall be determined as provided in EC §§35560(a), 35561, 35564, 35565, and 35736.

Pursuant to EC §35736, all property, funds, and obligations, other than real property and bonded indebtedness, shall be divided pro rata between the districts based on the number of affected students as a percentage of the Santa Monica-Malibu USD's total student population in order to result in an equitable division of the property, funds, and obligations of the districts. In this proposal, those calculations are complicated by differing perceptions among the impacted districts and parties, despite the engagement of multiple teams of fiscal consultants. The Santa Monica-Malibu USD has stated that the creation of a Malibu USD would place it at a fiscal disadvantage due to loss of assessed valuation and enrollment-based student funds, and that these factors are the rationale for its lack of support for the proposal. They have alerted reviewers to the fact that there would be a "cliff" to fall off of in approximately 10 years. The proponents of the proposal by the City of Malibu have disputed this assessment. To date there is no definitive answer.

SSC examined Condition 3, beginning on page 9 of Appendix A, attached. Readers of this preliminary report are directed to review that in-depth analysis, which covers real property, personal property, debt/bond obligations and employee-related obligations (such as retirement), all of which are required to be reviewed by the County Committee with a reorganization is under consideration. SSC concluded:

> "This criterion is likely the most critical given the assets noted that would need to be divided. This has also been one of the main points of contention between the two parties over the years. It is likely that—as called for in the Education Code—should the Los Angeles County Committee vote to approve the proposed reorganization, an arbitrator or board of arbitrators will need to be convened to arrive at an equitable division of property."

PRELIMINARY RECOMMENDATION

In light of the SSC analysis, and the difficulty the parties have had to date finding any joint solutions, especially as they may indicate the financial costs of creating a Malibu USD out of territory currently within the Santa Monica-Malibu USD, it seems certain that a protracted financial examination and negotiation or arbitration would have to be undertaken if the proposal is approved in the regular review process under EC 35753. At this preliminary public hearing stage, under EC 35721, there is not enough definitive information about exactly how such a financial workout would be implemented to find this condition currently substantially met.

CONDITION 4

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

The CAC, Title V, Section 18573(a)(4)(A-E), states that:

"To determine whether the new districts will promote racial or ethnic discrimination or segregation, the effects of the following factors will be considered:

> The current number and percentage of pupils in each racial and ethnic group in the affected districts and schools in the affected districts, compared with the number and percentage of pupils in each racial and ethnic group in the affected districts and schools in the affected districts, if the proposal or petition is approved.
>
> The trends and rates of present and possible future growth or change in the total population in the districts affected, in each racial and ethnic group within the total district, and in each school of the affected districts.
>
> The school board policies regarding methods of preventing racial and ethnic segregation in the affected districts and the effect of the proposal or petition on any desegregation plan or program of the affected districts, whether voluntary or court ordered, designed to prevent or alleviate racial or ethnic discrimination or segregation.
>
> The effect of factors such as distance between schools and attendance centers, terrain, and geographic features that may involve safety hazards to students, capacity of schools, and related conditions or circumstances that may have an effect on the feasibility of integration of the affected schools.
>
> The effect of the proposal on the duty of the governing board of each of the affected districts to take steps, insofar as reasonably feasible, to alleviate segregation of minority students in schools regardless of its cause."

As a matter of County Committee policy, the County Committee may also consider:

- participation in extracurricular activities;
- equipment of affected school districts;
- state of facilities of affected school districts;
- perception of staff, administrators, and community regarding whether schools are segregated; and,
- racial/ethnic make-up of staff and administration.

Beginning on page 14 of Appendix A, SSC examined the current ethnic/racial data available about students in the Santa Monica-Malibu USD. SSC stated:

> "The Education Code requires that proposed reorganizations preserve the districts' ability to educate students in an integrated environment and "not promote racial or ethnic discrimination or segregation." Title 5 regulations provide further guidance, calling for an assessment of (1) the relative proportions of the racial and ethnic groups in the district(s), (2) the growth rates of these populations, (3) the school board policies to address racial and ethnic segregation and discrimination, and (4) the location and traffic patterns among schools that could affect efforts to integrate affected schools.
>
> In addition, the CDE Handbook describes segregation as a condition in which a disproportionate percentage of minority students in a district or affected school(s) occurs as a result of a proposal, making it unrealistic to provide integrated educational experiences. It further states that "any change that significantly increases the percentage of minority group students could be the controlling factor in the determination of a promotion of segregation." "

Further, SSC presented the most current CDE data:

Figure 1: Enrollment by Ethnicity

District	Malibu USD	Santa Monica USD	Santa Monica-Malibu USD
African American	2.0%	6.7%	6.1%
American Indian or Alaska Native	0.3%	0.2%	0.2%
Asian	2.4%	6.7%	6.2%
Filipino	0.5%	0.7%	0.7%
Hispanic or Latino	13.7%	31.9%	29.5%
Pacific Islander	0.1%	0.2%	0.2%

District	Malibu USD	Santa Monica USD		Santa Monica-Malibu USD
White	77.1%	45.4%		49.5%
Two or More Races	3.6%	7.4%		6.9%
Not Reported	0.3%	0.8%		0.8%

Source: CDE DataQuest 2020-21 Enrollment

While enrollment for Fall 2021 is not yet known, and enrollment projections into the future for both a resulting Santa Monica USD and a newly formed Malibu USD cannot be made without that underlying data, it is clear that, even on the highest-level analysis, the Malibu USD, if created, will be an entity that is vastly more White than the resulting Santa Monica USD or the current Santa Monica-Malibu USD.

PRELIMINARY RECOMMENDATION

The potential shift of the students from the proposal area within the Santa Monica-Malibu USD to the City of Malibu would have a discernable impact on the ethnic or racial distribution at both a newly formed Malibu USD and at the resulting Santa Monica USD, as compared to the current composition of the Santa Monica-Malibu USD. If the proposal is approved to move to the regular review process under EC 35753, current enrollment district-wide and in Malibu-area schools would need to be examined based on Fall 2021 enrollment. Indicators are that, given the ethnic/racial shift in student population should a Malibu USD be created, there may be discriminatory impacts on students. Therefore, it is recommended that the County Committee deem this condition to not be substantially met at this time.

CONDITION 5

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

Ultimate approval of this proposal could shift more than 10% of the students in the Santa Monica-Malibu USD to the Malibu USD (depending on verification of Fall 2021 enrollment and detailed enrollment projections into the future). In that regard, costs to the state need to be examined. Because the current Santa Monica-Malibu USD is a state basic aid district, meaning it derives the majority of its revenues from local taxes and not from state support, maintaining that status would be a critical goal of the district following any creation of a Malibu USD, given that it would represent a loss of taxable property and a loss of enrolled students.

Readers are directed to examine the detailed analysis prepared by SSC, beginning on page 15 of Appendix A, which includes an explanation of the Local Control Funding Formula (LCFF), the mechanism by which school districts receive most of their state-supported aid:

> "The LCFF for each LEA is calculated based on a number of factors including ADA, unduplicated pupil percentage, and property taxes. Currently, Santa Monica-Malibu USD is a basic aid district.[i] And based on the analysis completed for Criterion Number 9, both the resulting Santa Monica USD and the proposed Malibu USD would remain basic aid school districts post reorganization for the immediate future. The financial effect of growth or decline in student enrollment on revenues per pupil in a basic aid school district are different, and opposite, from those of state-funded school districts. State-funded school districts receive additional funding for each additional student in attendance and, conversely, can lose funding when student enrollments decline. In contrast, the local tax revenues that are the primary support for basic aid school districts are insensitive to student enrollment. For basic aid school districts, higher enrollments result in lower average per pupil funding and lower enrollments increase average funding per pupil. In addition, basic aid status results in reduced costs to the state as the majority of funding is provided by local property taxes."

Given the uncertainty about Santa Monica USD's ability to maintain basic aid status after a Malibu USD is formed, it is not clear whether or not additional state aid would be needed, or when. The Santa Monica-Malibu USD cites that in approximately 10 years, any offered remuneration from a Malibu USD would be used up keeping it at current parity and significant fiscal shortfalls could occur. The district has stated that, following any reorganization without further financial assurances in place, it would need to begin making cuts to programs and staffing immediately to prepare for that out-years shortfall. At this time, it is not possible to know whether or not these concerns are valid or whether a negotiated financial settlement about debt, facilities, etc. would bring clarity to the process.

PRELIMINARY RECOMMENDATION

Given the many financial unknowns at this time, it is not possible to predict whether or not additional state costs/support would be necessary to maintain the resulting Santa Monica USD, should a Malibu USD be formed from territory of the current Santa Monica-Malibu USD. Funding based on enrollment would be lost for the Santa Monica-Malibu USD, as would ability to tax property in Malibu, if students are transferred to a Malibu USD. Absent another negotiated settlement, it is not clear if both resulting districts could maintain basic aid status or if a resulting Santa Monica USD would need additional support from the state. Therefore, it is recommended that the County Committee deem this condition to be not substantially met at this time.

[i] Santa Monica-Malibu USD became a basic aid district for the first time in 2018–19. As further discussed under Criterion Number 9: Effect on Fiscal Status and Management, the basic aid status is tenuous and, in the near term, the district could fall in and out of basic aid status on a year-to-year basis depending on the funding increases allocated through the LCFF and revenues received from property taxes.

CONDITION 6

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

Condition 6 considers the effect of the proposed unification on the educational programs of the districts affected by the reorganization, in this case the current Santa Monica-Malibu USD, a newly formed Malibu USD and the resulting Santa Monica USD.

There was much testimony assailing the educational plan of the Santa Monica-Malibu USD as it impacts students resident in the Malibu area, with claims of inadequate offerings and disparate treatment. The Santa Monica-Malibu USD stated emphatically that educational quality is robust throughout the district, that facilities in the Malibu area have been significantly invested in, and that the district continues to be recognized as one of high-performance. Staff did not find any legitimate assessment that spoke to academic insufficiency in any of the schools in Santa Monica-Malibu USD, including those located in City of Malibu.

In their analysis of Condition 6, SSC indicated that there is naturally a connection between a district's educational programs and its fiscal soundness, including the availability of resources and an expectation of those resources being available in the future. The proposal to form a Malibu USD does not appear to be necessary in order to continue to promote sound education performance. Even without an articulated educational plan, it seems highly likely that a new Malibu USD will have the resources it needs to adequately educate its enrolled students. However, according to the Santa Monica-Malibu USD, their ability to promote sound education performance will be threatened by the creation of a Malibu USD due to the loss of resources the district states will likely occur. Additional, definitive, information about the fiscal impacts of such a reorganization would need to be gathered before it can be translated into actual programs offered or programs cut by either of the districts.

PRELIMINARY RECOMMENDATION

At this time, it cannot be determined whether the creation of a Malibu USD would negatively impact the ability of the resulting Santa Monica USD to promote sound education (in terms of its ability to finance current programs and educational offerings). Until it is clear how this reorganization would be worked out on a fiscal basis, the impact on educational programs is not known. Therefore, it is recommended that the County Committee deem this condition to be not substantially met at this time.

CONDITION 7

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

There would be a significant division of facilities, all of which have current bond obligations related to them, should a Malibu USD be created from territory currently in the Santa Monica-Malibu USD. In its analysis, beginning on page 17 of Appendix A, SSC found:

> "The criteria for district reorganization require an analysis to determine if there will be any increase in school facilities costs as a result of the proposed reorganization and whether the costs will be insignificant and otherwise incidental to the reorganization. This analysis would take into consideration both current and projected enrollment as well as the current available and planned capacity of the facilities. Should either the resulting Santa Monica USD or the proposed Malibu USD have more students currently attending within their respective boundaries, or projected to attend, than available capacity to house those students, then either new facilities, or facilities modified to increase capacity, would be required, which would result in increased costs.
>
> If new or modified facilities are necessary, the districts would likely fund any construction through a combination of local and state bond dollars, as well as developer fees and other local sources. As it pertains to the state bond dollars, the funding would be received through the state's School Facility Program. State bond funds, however, are currently not available. The last state facilities bond was approved by voters in November of 2016 and the funds have effectively been depleted, and the bond measure included on the March 2018 ballot did not garner sufficient votes to pass. The districts' eligibility for future bonds funds, should an additional state facilities bond be passed, will be dependent on the eligibility requirements of the program at that time."

In linking the necessity of increased costs for school facilities (beyond insignificant or incidental) to student enrollment (including projected enrollment), SSC found that there would be no increased costs. However, they founded that assessment on a potential decline in student enrollment in a Malibu USD. There are additional school facilities costs that may be realized by a new Malibu USD, such as administrative offices, bus/utility yards, building remodeling or environmental remediation/upgrading, etc. Some of those expenses may be the minimum operational footprint that a functioning USD needs to have, and others are entirely dependent on student enrollment or enrollment projections, as SSC found. Given yet another layer of uncertainty about what a Malibu USD would need, how many students it is likely to have, and what the workout cost would be for the facilities it seeks to acquire from the Santa Monica-Malibu USD, it is not possible to know if additional school facilities costs would be indicated by this reorganization. Further, it is not possible to know at this time if the resulting Santa Monica USD would have school facilities costs based on its loss of enrollment or other fiscal losses.

PRELIMINARY RECOMMENDATION

Because of the uncertainty regarding student enrollment and projected student enrollment into the future, it is not possible to predict what school facilities costs a new Malibu USD would have, or any residual facilities costs that may befall the Santa Monica USD following a reorganization. Therefore, it is recommended that the County Committee deem this condition to be not substantially met at this time.

CONDITION 8

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

To evaluate this condition, the County Committee should analyze the rationale presented in the proposal for transfer. In addition, if the proposed reorganization creates a significant change in local property values, the County Committee should consider whether increasing property values is the *primary reason for the proposal*. However, in the case of the proposal to form a Malibu USD, it is clear that property values are generally much higher in Malibu than in Santa Monica, in many cases significantly so. Thus, it is clear that there is no demonstrated motive to raise real estate values as a result of the formation of a Malibu USD as the primary purpose of the proposal by the City of Malibu. Values may go up if buyers privilege the notion of a Malibu USD, but any rise would be built on values that are already higher than most in Santa Monica.

PRELIMINARY RECOMMENDATION

EC §35753(a)(8) does not state that transfers should be denied if property value increases are projected. This section states that a proposal may be approved if ". . . the proposed reorganization is *primarily designed for purposes other than to significantly increase property values* . . ." [emphasis added.]

It can be reasonably projected that most residents of the City of Malibu already have higher property values than most residents in Santa Monica, but there is no evidence that a significant increase in property values represents the primary motive for the proposal. Therefore, it is preliminarily recommended that the County Committee deem this condition to be substantially met at this time.

CONDITION 9

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

The County Committee should consider financial trends of the affected districts and revenue gains and/or losses that may result from the proposed reorganization when examining Condition Nine. This information will be used to evaluate the proposal's effect on the viability of the reorganized districts to operate educational programs and to assess any negative impact to the fiscal management or status of the reorganized district(s).

In SSC's comprehensive analysis of Condition Nine and the financial implications of the proposed reorganization, which begins on page 19 of Appendix A, should be reviewed in detail. It outlines critical financial assumptions and highlights information that is not known at this time. In summary, in examining the likely LCFF assessments and revenues of both a new Malibu USD and a resulting Santa Monica USD, compared to the current Santa Monica-Malibu USD, vastly different fiscal pictures emerge. No case is being made that the two districts, should the reorganization take place, move into the future independent of one another, need to have the same money, the same LCFF per student or the same access to any local revenues (which include both a current parcel tax within the Santa Monica-Malibu USD and a tax on residents of the City of Santa Monica that benefits, in part, all of the Santa Monica-Malibu USD). The financial pictures of districts in Los Angeles County differ vastly from region to region. However, it is not prudent to create a new school district if such a reorganization would visit financial challenges that are unreasonable on the district of origin, especially in a situation where there is no compelling reason to make the change (such as significant educational disparities).

It is a difficult task, especially with the information currently available, to predict fiscal and educational impacts of this proposed reorganization, both immediately and into the future. Since it is expected that the entity of a Santa Monica USD, following a reorganization that creates a Malibu USD, would still exist and still need to field adequate educational programs in a prudent financial manner, the best analysis possible must be advanced. In that regard, SSC's analysis of Condition Nine makes a dire prediction about a financial future (and the related educational impacts that may result from such financial situation) for a Santa Monica USD following reorganization and the formation of a Malibu USD. Staff concurs with those concerns and would advise the County Committee, should it move this proposal from the preliminary review stage under EC 35721 into the regular review process under EC 35753, to request additional financial assurances from the parties, up to and including requiring specific components of any negotiated settlement among the City of Malibu (as current petitioners) and the Santa Monica-Malibu USD (as the district currently charged with educating all of the students who reside in the district), to assure that adequate educational programs, fiscal solvency, community transparency and a more accurate predictive analysis of what the potential future would look like should the reorganization be approved be included as part of any approval of this proposal.

PRELIMINARY RECOMMENDATION

It is preliminarily concluded that this reorganization would negatively affect the fiscal management or status of the resulting Santa Monica USD, should it be approved. Therefore, it is recommended that the County Committee deem this condition to be not substantially met at this time.

IX. STAFF PRELIMINARY RECOMMENDATIONS

After examining material currently available related to this reorganization proposal, both provided by or gathered by the relevant parties and from local or state sources and public events, and informed to a significant degree by the material and analyses provided by SSC, staff finds that eight of the Nine Conditions are not likely to be substantially met at this time (Conditions 1, 2, 3, 4, 5, 6, 7 and 9). Staff finds that one condition (Condition 8) to be preliminarily substantially met.

Under the EC, the number of conditions met *in staff's assessment,* does not determine what recommendation or decision the County Committee will make. The County Committee may find all, a majority or some of the conditions met and still vote to deny the proposal. Similarly, the County Committee may find that none, few or some of the conditions are met, yet still has authority to vote to approve the proposal. The County Committee's authority lies in its assessment of what is best for this specific situation and proposal, both in regard to individual Conditions and in the totality of the proposal, and its overall assessment that the Nine Conditions are substantially met.

In light of the significant authority vested in the County Committee by the EC, staff has examined the implications of both approval and denial of the current proposal at this preliminary public hearing stage under EC 35721.

At this stage, staff recommends that the County Committee take note of the concerns outlined above under the Nine Conditions and vote yes at the preliminary public hearing to move this proposal into the regular review process under EC 35753, devoting significant attention to asking additional questions and directing staff to gather additional information, so that the County Committee may make a fully informed decision on the merits of the proposal, within the full and regular review process.

The implications to this reorganization relate to the elements of the City of Malibu's original proposal, which were based on asserting distance and political concerns about representation of Malibu residents in the Santa Monica-Malibu USD. Subsequently, the SSC fiscal analysis found significant potential negative fiscal impacts and described the insufficiencies that may occur following any unification that takes Malibu territory out of the Santa Monica-Malibu USD.

Staff is informed and believes that resident students in the area proposed for a Malibu USD have access to enrollment in Santa Monica-Malibu USD schools now, and always have. Whether or not they find the Santa Monica-Malibu USD insufficient for their particular needs does not merit the creation of a new USD, especially in light of the potential negative fiscal impacts such reorganization would have on the resulting Santa Monica USD (meaning the current Santa Monica-Malibu USD). School boundaries are necessarily permanent and intended both to define overlapping and distinct communities and impart to districts the ability to manage their fiscal and enrollment affairs with as much certainty as possible, but also to honor the civic decisions made by authorities who mapped out and populated our County long before it was nearly fully built out, as it is today. However, if these differences, both fiscal and otherwise, may be overcome or resolved by negotiation among the parties, there may be a pathway to approving the proposal that does not visit financial burdens on the Santa Monica-Malibu USD or any resulting Santa Monica USD, and that does not have remaining concerns about the sufficiency of a new Malibu USD (especially in terms of likely enrollment).

Staff's understanding of the City of Malibu and the proposal area is not bounded by any definitive information. This preliminary analysis is informed by perceptions gleaned through the many years during which this proposal has been under consideration by the County Committee (recognizing that much of that time has been comprised of the parties attempting to negotiate and that no delays can be attributed to the County Committee's actions), as well as additional information that is available today. It is clear that additional information is needed for the County Committee to complete a full analysis of this proposal to form a Malibu USD, should it approve moving this proposal into the regular review process. It is also clear that, though they have hit roadblocks numerous times, the City of Malibu and the Santa Monica-Malibu USD still have the opportunity to negotiate and to come to the County Committee with a joint solution. A negotiated solution that honors the needs and concerns of both parties remains the best recommendation.

X.

ATTACHMENTS

Los Angeles County Office of Education Reorganization Financial Feasibility Study

Santa Monica-Malibu Unified School District

May 21, 2021

Prepared by:

Brianna García
Vice President

Robert McEntire
Director, Management Consulting Services

Los Angeles County Office of Education Reorganization Financial Feasibility Study

Santa Monica-Malibu Unified School District

May 21, 2021

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Executive Summary

The Los Angeles County Office of Education (LACOE) contracted with School Services of California Inc. (SSC) to provide a Reorganization Financial Feasibility Study on the proposed creation of a new Malibu Unified School District (USD) from territory that is currently a part of Santa Monica-Malibu USD.

For a unification, a county committee must determine whether the nine statutory criteria as set forth in Education Code Section 35753 et seq. have been substantially met prior to rendering a decision. The analysis is based on the specific parameters of the petition submitted by the City of Malibu to reorganize Santa Monica-Malibu USD and create the proposed Malibu USD. This Reorganization Financial Feasibility Study is not evaluating whether each of the nine criteria have been substantially met. Instead, this analysis is focused on the fiscal impacts of the proposed reorganization as outlined in Criterion Number 9: Effect on Fiscal Status and Management. With regards to the remaining criteria, this analysis will discuss how the outcome of each may be impacted by the fiscal realities of a reorganization.

SSC staff has determined that, as it pertains to Criterion Number 9: Effect of Fiscal Status and Management, the proposed reorganization would cause a substantial negative effect on the fiscal status of the remaining district—Santa Monica USD—and would not promote sound fiscal management. As to the evaluation of the financial impacts on the remaining criteria, SSC staff has determined that while all criteria would— in some way—be impacted by the fiscal realities of the proposed reorganization, the following three criteria would be most directly impacted:

- Criterion Number 3: Equitable Division of Property/Facilities—This criterion is likely the most critical as the proposed reorganization will include the division of real and personal property, debt, fund balance reserves and liabilities, student funds, and postretirement benefits. Given the two school districts have been unable to reach agreement to date, it is likely that should the proposed reorganization be approved, an arbitrator or board of arbitrators will need to be convened—as called for in the Education Code—to arrive at an equitable division of property.

- Criterion Number 5: No Substantial Increase in State Costs—An increase in state costs would typically be a result of greater funding from the state under LCFF. Based on the analysis conducted for Criterion Number 9, both districts would be basic aid districts post reorganization and, therefore, would not result in an increase in state costs.

- Criterion Number 7: No Substantial Increase to School Facilities Costs—An increase would only occur if additional facilities are needed to accommodate existing or projected enrollment post reorganization, which is unlikely given the current and projected enrollment of the proposed and remaining districts.

Study Purpose

The Los Angeles County Office of Education (LACOE) contracted with School Services of California Inc. (SSC) to provide a Reorganization Financial Feasibility Study on the proposed creation of a new Malibu Unified School District (USD) from territory that is currently a part of Santa Monica-Malibu USD.

For a unification, a county committee must determine whether the nine statutory criteria as set forth in Education Code Section (EC §) 35753 et seq. have been substantially met prior to rendering a decision. This Reorganization Financial Feasibility Study is not evaluating whether each of the nine criteria have been substantially met. Instead, this analysis is focused on the fiscal impacts of the proposed reorganization as outlined in Criterion Number 9: Effect on Fiscal Status and Management. With regards to the remaining criteria, this analysis will discuss how the outcome of each may be impacted by the fiscal realities of a reorganization.

Background

Petition

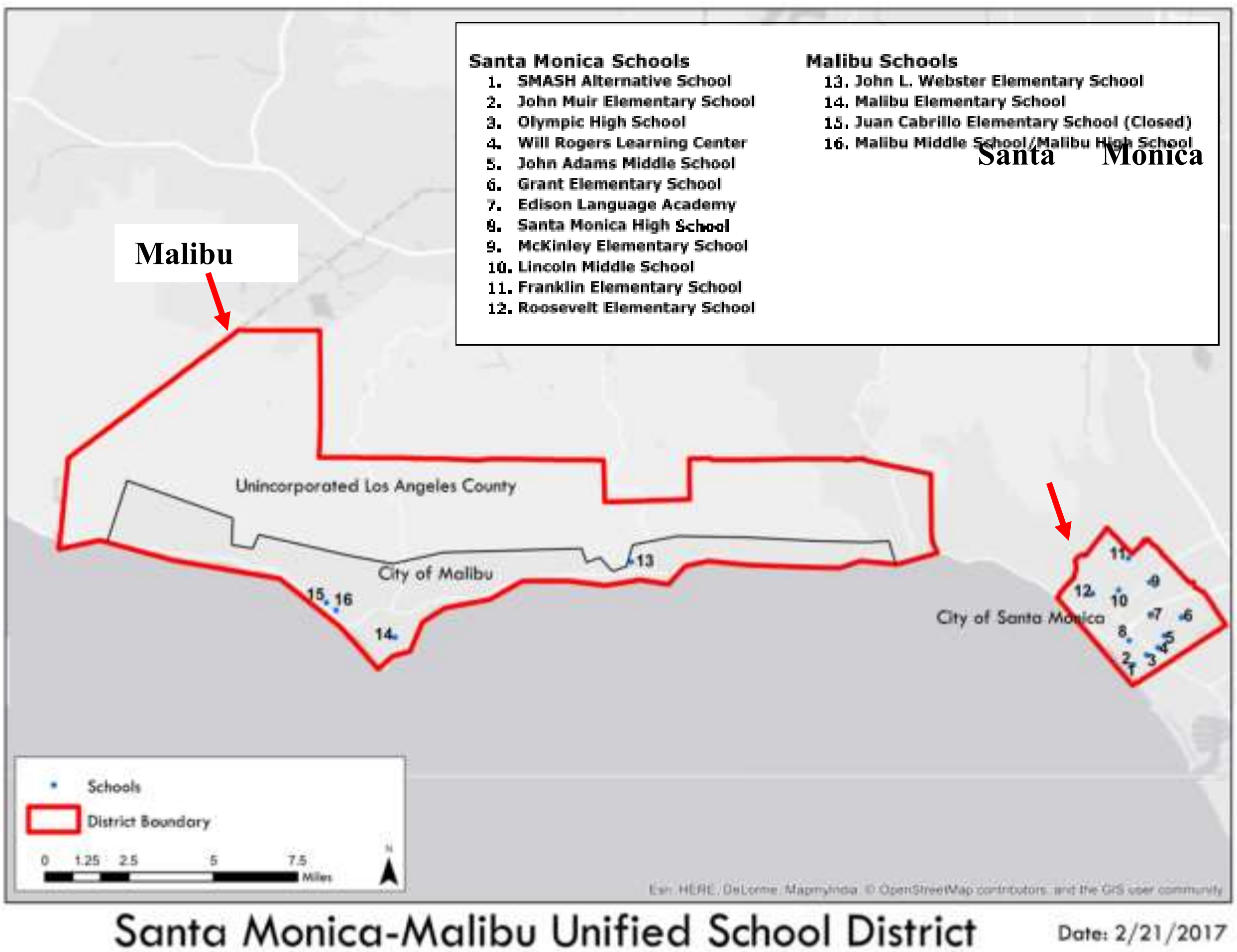
On August 31, 2017, the City of Malibu submitted a resolution, approved by its city council on September 16, 2015, to the Los Angeles County Office of Education (LACOE) for the creation of a new unified school district to be known as the Malibu Unified School District (USD). The petition was put on hold so that Santa Monica-Malibu USD and the City of Malibu could negotiate a jointly agreed upon separation. However, they were unable to reach an agreement and on October 29, 2020, the City of Malibu requested that the petition move forward.

The territory in question is now part of Santa Monica-Malibu USD and, per the resolution, consists of all of the territory within the boundaries of the City of Malibu as well as the unincorporated area surrounding the City of Malibu, which the resolution refers to as Greater Malibu (figure 1). The territory includes three elementary schools (one of which is closed), one middle school, and one high school as follows:

- Cabrillo Elementary School (ES) (closed school site)
- Malibu ES
- Webster ES
- Malibu Middle School (MS)
- Malibu High School (HS)

The proposed unification would change the boundaries of Santa Monica-Malibu USD and transfer responsibility for the education of students enrolled at these four schools from Santa Monica-Malibu USD to the proposed Malibu USD.

Figure 2: Map of Santa Monica-Malibu USD—Outlining Resulting Santa Monica USD and Proposed Malibu USD Boundaries[2]



Source: City of Malibu

The resolution submitted by the Malibu City Council states the following reasons for submitting the petition:

[2]Includes City of Malibu as well as portions of unincorporated Los Angeles County—Greater Malibu

6. The city centers of Malibu and Santa Monica are separated by several miles, and Santa Monica and Malibu have become distinct communities.

7. Santa Monica-Malibu USD's central office is located in Santa Monica, a significant distance from even the closest portions of Greater Malibu.

8. Residents of Malibu have expressed concern and frustration that they are not adequately represented by the Santa Monica-Malibu USD governing board due to its at-large system of election, and that their concerns about the policies and practices of Santa Monica-Malibu USD go largely unaddressed.

9. The unification of a Malibu USD from the existing territory of Santa Monica-Malibu USD will benefit all children in Santa Monica, as well as Greater Malibu.

10. Organization of a Malibu USD enables all residents of Greater Malibu to have representation on their local school board through adoption of by-trustee-area elections.

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

Santa Monica-Malibu USD

Santa Monica-Malibu USD is located in Los Angeles County and encompasses the cities of Santa Monica and Malibu. It serves approximately 9,929 students in Transitional Kindergarten through grade 12 in nine elementary schools, three middle schools, two comprehensive high schools, one continuation high school, one K–8 alternative school, and one project-based learning high school. In addition, Santa Monica Malibu USD also offers early childhood education at 11 centers, as well adult education.

Based on 2020–21 enrollment data, Santa Monica-Malibu USD's ethnic make-up is 49.5% White, 29.5% Hispanic/Latino, 6.9% two or more races, 6.2% Asian, 6.1% African American, 0.7% Filipino, 0.2% American Indian/Alaska Native, and 0.2% Pacific Islander, with 0.8% not reported. Per the Santa Monica-Malibu USD's 2017–20 Local Control and Accountability Plan, its students are characterized by several factors: 25.1% of the student population is socioeconomically disadvantaged; 8.7% are English learners; 11.9% are students with disabilities; 0.2% are in foster care placements; and 0.5% are homeless.

Study

For a unification, a county committee must determine whether the nine statutory criteria that govern school district reorganizations, as set forth in EC § 35753(a)(1-9), have been substantially met. The nine statutory criteria are as follows:

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

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

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

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

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

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

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

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

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

This analysis is not evaluating whether each of the nine criteria have been substantially met. Instead, this analysis is focused on the fiscal impacts of the proposed reorganization as outlined in Criterion Number 9: Effect on Fiscal Status and Management. As it pertains to the remaining criteria, this analysis will discuss how the outcome of each may be impacted by the fiscal realities of a reorganization.

Legal Requirements

The California Education Code governs the process of school district reorganization, including unifications. Commencing with EC § 35500, the code defines the various types of district reorganizations; describes the overall processes to initiate a district reorganization; specifies the duties and responsibilities of the county committee on district reorganization and other relevant public agencies and organizations; prescribes the timelines for public hearings, governing board actions, and voting; specifies the employment rights of district employees; and lists the criteria upon which the State Board of Education (SBE) must evaluate reorganization proposals.

Unification Initiated by 10% Petition or Local Agency—EC § 35721 specifies three ways in which a unification may be initiated:

(a) Submittal of a petition signed by at least 10% of the registered voters of the entire school district; or

(b) Submittal of a petition signed by at least 5% of the registered voters to reorganize a district with over 200,000 average daily attendance (ADA) into two or more districts; or

(c) Submittal of a resolution approved by a majority of the members of a city council, county board of supervisors, governing board of a special district, or local agency formation commission.

Given these options, the contemplated unification would fall under subsection (c) as a resolution was submitted by the Malibu City Council with all five members in favor.

Public Hearings—Following the determination by the county superintendent of schools that the reorganization petition is sufficient and signed as required by law, the petition is transmitted to the county committee and the SBE. The county committee is then responsible for holding a preliminary hearing and subsequently granting or denying the petition. If the county committee grants the petition, it must adopt a tentative recommendation and then hold one or more public hearings in the area proposed for reorganization no later than 60 days after the committee's adoption of a tentative recommendation.

The first part of the preliminary public hearing was held virtually on April 17, 2021, at 9:30 a.m. The Los Angeles County Committee anticipates holding a second preliminary public hearing at a future date.

County Committee on School District Reorganization—Following the public hearings on the reorganization proposal, the county committee is charged with evaluating the reorganization proposal based on the same criteria that would be followed by the SBE. These criteria are specified in EC § 35753 and are often referred to as the "nine reorganization criteria." Based on this evaluation, the county committee adopts a final recommendation—within 120 days of the first public hearing or within 120 days of compliance with the California Environmental Quality Act (CEQA).

SBE's Responsibilities—Once it has received the reorganization proposal and recommendation of the county committee, the SBE must hold a public hearing on the proposal. Upon a finding that the proposal substantially meets the state's nine reorganization criteria, the SBE may approve the reorganization. Current law authorizes the SBE to also consider any other criteria when evaluating the proposal, even though the criteria are not specified in statute (EC § 35753[a][10]).

Further, CEQA requires that the environmental impacts of district reorganizations be evaluated. The California Code of Regulations (CCR), Title 14 Section 15378(b)(5) states that "Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment" are not projects under CEQA. That said, in 1982, the State Supreme Court ruled that the reorganization of school district boundaries is within the scope of the CEQA; therefore, the proposed reorganization of the Santa Monica-Malibu USD into two unified school districts must also take into consideration any environmental impacts.

An environmental review of the impacts of the reorganization may need to be completed before the SBE may make a decision. SSC staff note that the California Department of Education (CDE), as staff to the SBE, has indicated that the CDE's ability to fund the CEQA analysis has been constrained as a result of state funding reductions. Therefore, the costs associated with completing the CEQA may fall on the agencies pursuing the reorganization.

Election— Per EC § 35722, once the county committee adopts a final recommendation, it will transmit the recommendation together with the resolution approved by the city council to the SBE for its approval (per EC § 35750 et seq.). If approved by the SBE, it will notify the county superintendent who is then required to call an election and prepare a statement of official information and statistics, as well as compile and present arguments for and against the reorganization. The area of election is established by the SBE, with possible input from the county committee. If the SBE disapproves the petition, the process is terminated.

Analysis of Nine Criteria

Criterion Number 1: Adequate Number of Pupils

EC § 35753(a)(1) specifies that the reorganized districts must be adequate in terms of number of pupils enrolled. Section 18573 of Title 5 of the CCR expands on this and stipulates that the projected enrollment should be at least 1,501 pupils for unified school districts, 901 for elementary school districts, and 301 pupils for high school districts, unless unusual circumstances exist. The CCR further specifies that enrollment projections are to be included in the analysis. The intent of this section is to discourage district reorganizations that result in districts that, because of small size and reduced revenues, become more dependent upon the local COE or the state for administrative support or funding.

Analysis and Comment

While enrollment and ADA are the main drivers for funding and will impact the ability of each district to offer comprehensive educational programs and conduct other operations, the financial impact from this criterion is moot as the newly created school district (Malibu USD) would be a basic aid district[3]—producing over two times the revenue per ADA than the statewide average. However, recent fires have driven down enrollment below the 1,501 pupil threshold, and statewide pupil enrollment is estimated to decrease an additional 6% by 2027–28, which would likely further impact the enrollment of the proposed Malibu USD.

Criterion Number 2: Community Identity

The Education Code specifies that the districts must be organized on the basis of substantial community identity. The CCR expands on this requirement and states that, to determine whether the new district is organized on the basis of substantial community identity, the following factors should be considered: (1) isolation; (2) geography; (3) distance between social centers; (4) distance between school centers; (5) topography; (6) weather; and (7) community, school, social ties, and other circumstances peculiar to the area.

The CDE further expanded on this criterion in its District Organization Handbook (Handbook), which provides additional considerations to evaluate whether a proposed district reorganization meets the community identity criterion. Some of these considerations include topography and electoral boundaries; usage patterns for parks and school facilities for recreation; traffic patterns and public transportation routes; neighborhood and regional shopping patterns; and the architecture, size, and style of homes.

Analysis and Comment

There should be no fiscal impacts on this criterion from the proposed reorganization. That said, both cities are incorporated cities with established identities and, per the resolution, the

[3]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.

unincorporated area surrounding the City of Malibu strongly identifies and considers itself, in conjunction with the City of Malibu, a part of the Greater Malibu area.

Criterion Number 3: Equitable Division of Property/Facilities

EC § 35753(a)(3) requires that proposed school district reorganizations result in the equitable divisions of property and facilities. The CCR and the CDE Handbook suggest that an equitable division must include not only facilities, land, and other property, but also debt and monies due but not collected. Further, EC § 35565 states that if a dispute arises concerning the division of funds, property, or obligations, a board of arbitrators shall be appointed to resolve the dispute, or the districts may mutually agree to the appointment of a sole arbitrator by the county superintendent of schools.

This criterion applies when a school district reorganization results in the division of an existing district. The criterion does not apply when whole districts merge.

Analysis and Comment

If the proposed creation of a new unified school district is successful, there would be a transfer of land and facilities from Santa Monica-Malibu USD to the proposed Malibu USD. Therefore, there would have to be an equitable division of property, assets, liabilities, and fund balance reserves between the proposed Malibu USD and resulting Santa Monica USD.

It is important to note that, while the Education Code provides direction on how property, assets, and liabilities should be divided, and the county committee's recommendation, if provided, is given weight, the ultimate decision on the division of property rests solely with the SBE. Therefore, the discussion provided below is based strictly on the Education Code and provided to the Los Angeles County Committee for its consideration should it prepare a recommendation to the SBE.

Division of Property—EC § 35560 provides a general rule to guide how the division of property is to be carried out. Essentially, the Education Code provides that real and personal property situated within the boundaries of a district will be the property of the district in which the real property is located. All other property, funds, and obligations, except bond indebtedness, are to be divided pro rata among the districts. The basis for the division and allocation will be the assessed valuation of the part of the original district which is included within each of the districts.

- Real Property

  EC § 35575 and 35576 distinguish between the annexation of territory containing no public school property or buildings and the annexation of territory that does contain public school property or buildings. In this case, the territory to be transferred clearly contains public school property. As such, per EC § 35576, the proposed Malibu USD would take possession of the school sites on the day that the reorganization becomes effective. The proposed Malibu USD will automatically assume a proportionate share of Santa Monica-Malibu USD's outstanding bonded indebtedness (see **Division of Debt** for more detail).

- Personal Property

  Personal property of Santa Monica-Malibu USD that is used for districtwide purposes and not located at or designated for use by a specific school site is subject to division of property pursuant to EC § 35560. For example, school buses are used districtwide and would, therefore, be subject to division, while desks at a school site would not. A detailed list of personal property will need to be developed and agreement will need to be reached between the two parties as to its division.

Division of Debt—EC § 35576 states that when property is taken from one district and annexed to another district and the area transferred contains public school property or buildings, the district to which the territory is annexed takes possession of the property, buildings, and equipment on the day when the annexation becomes effective. The total amount of bonds a district is able to sell is determined by the total value of the property within the district's boundaries. In addition, the debt for which each property is liable is tied to the outstanding bonded indebtedness of the district in which it is located. Therefore, when property is taken from one district and annexed to another, the property transferred ceases to be liable for the outstanding bonded indebtedness of the original district and automatically assumes its proportionate share of the outstanding bonded indebtedness of the district to which it is annexed.

However, the new district is required to pay the original district the greater of 1) the proportionate share of the outstanding bonded indebtedness of the original district, which proportionate share will be the ratio of the total assessed valuation of the transferred property to the total assessed valuation of the original district in the year immediately preceding the date on which the transfer is effective; or 2) that portion of the outstanding bonded indebtedness of the original district which was incurred to acquire and improve the school lots or buildings, or fixture located therein, and situated on the transferred property.

EC § 35738 provides alternative methods of dividing the bonded indebtedness other than that specified above. It provides for consideration of assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deem pertinent.

Figure 2 displays two bases for allocating assets between the resulting Santa Monica USD and the proposed Malibu USD—enrollment and assessed valuation.[4] On an enrollment basis, an estimated 1,284 students who attend Santa Monica-Malibu USD would be transferred to the proposed Malibu USD. This represents 13.0% of the Santa Monica-Malibu USD enrollment.

On an assessed valuation basis, property within the proposed Malibu USD boundary is valued at $20.8 billion compared to $42.2 billion for the resulting Santa Monica USD. The property in the proposed Malibu USD, therefore, accounts for 33.0% of the assessed valuation of the property of Santa Monica-Malibu USD.

Figure 3: Allocation of Assets—Enrollment and Assessed Valuation Basis

	Enrollment[1]		Estimated Assessed Valuation[2]	
Total	9,914		$62,953,458,191	
District	**Value**	**Percentage**	**Value**	**Percentage**
Santa Monica USD	8,630	87.0%	$42,201,799,642	67.0%
Malibu USD	1,284	13.0%	$20,751,658,549	33.0%

[1]2020–21 CDE DataQuest
[2]2020–21 estimate provided by HdL Coren & Cone

As previously mentioned, Santa Monica-Malibu USD currently owns property within the proposed Malibu USD, which, as noted in EC § 35576, will be transferred as part of the reorganization. Malibu residents are, therefore, required to assume a portion of Santa Monica-Malibu USD's outstanding bond indebtedness, which is either the greater of the bond indebtedness attributed to the property or the proportionate share of Santa Monica-Malibu USD's bonded indebtedness. As of June 30, 2020, Santa Monica-Malibu USD had $780.6 million in outstanding bonded indebtedness, and the proposed Malibu USD's proportionate share as calculated on the assessed valuation basis would be approximately $257.3 million, and $101.1 million on an enrollment basis (figure 3).

[4]Information was not available regarding the bond indebtedness incurred to acquire and improve school lots or buildings pertinent to the property that will be transferred, therefore, a proposed split on this basis was not calculated.

Figure 4: Allocation of Outstanding Bond Indebtedness

		Allocation to Malibu USD	
	Santa Monica-Malibu USD[1]	By Enrollment (13.0%)	By Assessed Valuation (33.0%)
Bonded Indebtedness	$780,584,702	$101,096,506	$257,307,981

[1]Santa Monica-Malibu USD-provided data

The reorganization proposal and the new outstanding bond indebtedness should have no effect on the amount due by property owners, as the property owners within the proposed Malibu USD's boundaries are already paying debt service on Santa Monica-Malibu USD bonds. They should see no net change in payments due on outstanding General Obligation bonds as a result of the reorganization. However, should the proposed Malibu USD voters choose to approve local debt to match the Santa Monica-Malibu USD previously approved funding levels, there may be additional obligations for new general obligation bonds and/or parcel taxes.

As previously noted, upon unification, the property being transferred will cease to be liable for the outstanding bond indebtedness of Santa Monica-Malibu USD. EC § 35572 places a restriction on the transfer of territory from one school district to another. The code states that no territory can be taken from a school district having outstanding bond indebtedness if the taking would reduce the last equalized assessed valuation so that the outstanding bond indebtedness would exceed 5% of the assessed valuation remaining in the district on the date the reorganization is effective. As shown in figure 4, the current bond indebtedness represents 1.24% of the current assessed value and would increase to 1.85% with the transfer of property to the proposed Malibu USD—well below the 5% threshold.

Figure 5: Bond Indebtedness as a Percent of Assessed Value

Santa Monica-Malibu USD		
Bond Indebtedness		$780,584,702
	Estimated Assessed Value	**Bond Indebtedness as a Percent of Assessed Value**
Santa Monica-Malibu USD	$62,953,458,191	1.24%
Remaining Santa Monica USD	$42,201,799,642	1.85%

Lastly, Santa Monica-Malibu USD at any given time has unspent bond proceeds in its building fund(s). Per EC § 35560(a)(2), bond proceeds are funds that are subject to a pro rata division between the districts. The proposed Malibu USD is entitled to a portion of such unspent bond proceeds for use within the new unified district. Further, EC § 35561 states that funds derived from the sale of bonds issued by the former district must be used "for the purposes for which the bonds were originally voted." Therefore, the use of such funds received by the proposed Malibu USD would be restricted to projects consistent with the measure approved by the Santa Monica-Malibu USD voters.

Division of Fund Balance Reserves and Liabilities—Santa Monica-Malibu USD's fund balance reserves, both restricted and unrestricted, and liabilities would be subject to division. The basis for the division would be either proportional ADA or assessed valuation. A reasonable basis upon which to divide fund balance reserves would be in accordance with how the funds were generated. For example, the General Fund unrestricted reserves and liabilities likely should be divided based on proportional ADA, while the capital project reserves should be divided based on proportional assessed valuation. Special allocations may be made for other funds. For instance, developer fee funds might be allocated based on where the levied property was located, while categorical funds might be allocated based on the location, enrollment, or ADA that generated those funds.

Division of Student Funds and Scholarships—All student funds and those scholarship funds not restricted to a specific school site would be divided based on proportional enrollment. Districtwide property is usually divided pro rata, on the basis of assessed value in each district. In most cases, however, ADA is used as the basis for the division of non-real estate assets. Student funds are also generally divided on the basis of location but may be further prorated by students. The division of non-real estate assets and student funds would be divided by ADA for those currently enrolled students within the four schools and will transfer to the proposed Malibu USD.

Postretirement Benefits—EC § 35556 states that, when a portion of the territory of a school district becomes part of another district, the employees assigned to perform their duties in the affected territory shall become employees of the acquiring district. (Please note that, while the Education Code presumes employees currently assigned to the four schools subject to this unification will automatically become employees of the proposed Malibu USD, seniority rights and other provisions of Santa Monica-Malibu USD's existing collective bargaining agreements could alter the specific individuals that will transfer to the proposed Malibu USD.)

The proposed Malibu USD is responsible for its proportionate share of historic other post-employment benefits and compensated absences offered by Santa Monica-Malibu USD, as employees of Santa Monica-Malibu USD will be employees of the proposed Malibu USD should the reorganization proceed. Proportional full-time equivalents employed, ADA, or enrollment might be a reasonable basis for division. Benefits to retirees, as of the date of the proposed unification, would not be affected by the reorganization. Costs for future retiree benefits would be borne solely by the respective new employers and the proposed Malibu USD could negotiate different benefit packages.

This criterion is likely the most critical given the assets noted that would need to be divided. This has also been one of the main points of contention between the two parties over the years. It is likely that—as called for in the Education Code—should the Los Angeles County Committee vote to approve the proposed reorganization, an arbitrator or board of arbitrators will need to be convened to arrive at an equitable division of property.

Criterion Number 4: Discrimination/Segregation

The Education Code requires that proposed reorganizations preserve the districts' ability to educate students in an integrated environment and "not promote racial or ethnic discrimination or segregation." Title 5 regulations provide further guidance, calling for an assessment of (1) the relative proportions of the racial and ethnic groups in the district(s), (2) the growth rates of these populations, (3) the school board policies to address racial and ethnic segregation and discrimination, and (4) the location and traffic patterns among schools that could affect efforts to integrate affected schools.

In addition, the CDE Handbook describes segregation as a condition in which a disproportionate percentage of minority students in a district or affected school(s) occurs as a result of a proposal, making it unrealistic to provide integrated educational experiences. It further states that "any change that significantly increases the percentage of minority group students could be the controlling factor in the determination of a promotion of segregation."

Analysis and Comment

As with enrollment and ADA, the demographic make-up of the districts will impact the revenues received by the districts and the ability of each district to offer comprehensive educational programs and conduct other operations. Using 2019–20 student demographic information provided in state-certified data, Santa Monica-Malibu USD had an unduplicated pupil percentage (UPP) of 29.07% (three-year average). If reorganization were approved, the remainnig Santa Monica USD would have a UPP of 32.77%, while the proposed Malibu USD would have a UPP of 17.43%. To the extent that each school district is required to spend supplemental grant dollars generated in proportion to its UPP, the expenditure requirement would increase for the remainnig Santa Monica USD from the current per student average.

The UPP is utilized for funding purposes (discussed later in this report) and accounts for students that are identified as English learners, eligible for free or reduced-price meals, or foster youth. To focus more specifically on the racial and ethnic make-up of the two districts after reorganization, current-year demographic information can be utilized. As shown in figure 5, the existing Santa Monica-Malibu USD is almost 50% White with Hispanic/Latino making up the next largest group at 29.5%. After reorganization, the remaining Santa Monica USD's racial and ethnic make-up would change only slightly. White students would decrease from 49.5% to 45.4% of the district—a minimal decline that would result in a larger percentage of non-White students. Malibu USD, on the other hand, would be a predominantly White district with 77.1% of the students identifying as White. The next largest—though significantly smaller—population would be Hispanic/Latino at 13.7%.

Figure 6: Enrollment by Ethnicity

District	Malibu USD	Santa Monica USD	Santa Monica-Malibu USD
African American	2.0%	6.7%	6.1%
American Indian or Alaska Native	0.3%	0.2%	0.2%
Asian	2.4%	6.7%	6.2%
Filipino	0.5%	0.7%	0.7%
Hispanic or Latino	13.7%	31.9%	29.5%
Pacific Islander	0.1%	0.2%	0.2%
White	77.1%	45.4%	49.5%
Two or More Races	3.6%	7.4%	6.9%
Not Reported	0.3%	0.8%	0.8%

Source: CDE DataQuest 2020-21 Enrollment

Criterion Number 5: No Substantial Increase in State Costs

EC § 35753(a)(5) specifies that "any increase in costs to the state as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization."

Analysis and Comment

In 2013-14, the state enacted an historic reform of its school finance system. In the early 1970s, in response to the California State Supreme Court's decision in the *Serrano v. Priest* case, the Legislature enacted a system of general purpose funding under revenue limits and need-based or program-based funding established through numerous categorical programs. Over time, per-pupil differences in general purpose funding have been narrowed considerably through the revenue limit system; however, funding differences related to categorical programs remained.

As part of the 2013 State Budget Act, the Legislature passed the Local Control Funding Formula (LCFF). This historic reform of the state's school finance system eliminated revenue limits and more than 40 categorical programs. In its place, the state established a system of funding local educational agencies (LEAs) through base grants, add-on funding for K–3 class-size reduction and career technical education, and supplemental and concentration grants to provide extra funding to districts with students from low-income families, students who are English learners, and foster youth.

The model itself was enacted in June 2013 with the signing of Assembly Bill (AB) 97 (Chapter 47/2013), and revisions and clarifications were enacted in September 2013 through Senate Bill 97 (Chapter 357/2013)—the "clean-up" measure to AB 97. The revenue analysis for the proposed district reorganization, therefore, reflects the LCFF system.

The state, under the minimum guarantee established by Proposition 98, allocates more than $80 billion to the K–14 community on an annual basis. This is split between K–12 and community colleges at an approximate rate of 89% and 11%, respectively. The 2021–22 proposed budget estimates the minimum guarantee to be $93.7 billion, with approximately $80.4 billion allocated for K–12 schools. Of the $80.4 billion, $65.7 billion is earmarked to be distributed through the LCFF.

The LCFF for each LEA is calculated based on a number of factors including ADA, unduplicated pupil percentage, and property taxes. Currently, Santa Monica-Malibu USD is a basic aid district.[5] And based on the analysis completed for Criterion Number 9, both the remaining Santa Monica USD and the proposed Malibu USD would remain basic aid school districts post reorganization for the immediate future. The financial effect of growth or decline in student enrollment on revenues per pupil in a basic aid school district are different, and opposite, from those of state-funded school districts. State-funded school districts receive additional funding for each additional student in attendance and, conversely, can lose funding when student enrollments decline. In contrast, the local tax revenues that are the primary support for basic aid school districts are insensitive to student enrollment. For basic aid school districts, higher enrollments result in lower average per pupil funding and lower enrollments increase average funding per pupil. In addition, basic aid status results in reduced costs to the state as the majority of funding is provided by local property taxes.

[5]Santa Monica-Malibu USD became a basic aid district for the first time in 2018–19. As further discussed under Criterion Number 9: Effect on Fiscal Status and Management, the basic aid status is tenuous and, in the near term, the district could fall in and out of basic aid status on a year-to-year basis depending on the funding increases allocated through the LCFF and revenues received from property taxes.

Criterion Number 6: Sound Educational Program

The Education Code specifies that "the proposed reorganization will continue to promote sound **education** performance and will not significantly disrupt the educational programs in the districts affected by the proposed reorganization." Title 5 regulations further specify a duty of the CDE to describe districtwide and school site programs, in school sites excluded from the reorganization proposal, that could be adversely affected by a district reorganization.

Analysis and Comment

As previously noted, the ability of each district to provide sound and comprehensive educational programs, is directly impacted by their fiscal resources and practices. However, the analysis for this criterion looks to an examination of the educational programs based on programs offered, and their distribution across school sites. In addition, it asks that an examination be conducted to determine whether the reorganization will continue to promote sound education performance, which can be completed by reviewing data from sources such as the California School Dashboard and results on the California Assessment of Student Performance and Progress. There is no fiscal analysis that would need to be completed to address this criterion.

Criterion Number 7: No Substantial Increase to School Facilities Costs

The Education Code specifies that "any increase in school facilities costs as a result of the proposed reorganization will be insignificant and otherwise incidental to the reorganization." There are no accompanying Title 5 regulations that provide further definition or guidance for this criterion.

Analysis and Comment

The criteria for district reorganization require an analysis to determine if there will be any increase in school facilities costs as a result of the proposed reorganization and whether the costs will be insignificant and otherwise incidental to the reorganization. This analysis would take into consideration both current and projected enrollment as well as the current available and planned capacity of the facilities. Should either the remaining Santa Monica USD or the proposed Malibu USD have more students currently attending within their respective boundaries, or projected to attend, than available capacity to house those students, then either new facilities, or facilities modified to increase capacity, would be required, which would result in increased costs.

If new or modified facilities are necessary, the districts would likely fund any construction through a combination of local and state bond dollars, as well as developer fees and other local sources. As it pertains to the state bond dollars, the funding would be received through the state's School Facility Program. State bond funds, however, are currently not available. The last state facilities bond was approved by voters in November of 2016 and the funds have effectively been depleted, and the bond measure included on the March 2018 ballot did not garner sufficient votes to pass. The districts' eligibility for future bonds funds, should an additional state facilities bond be passed, will be dependent on the eligibility requirements of the program at that time.

Ultimately, the criterion would need to determine whether the construction of new facilities or the modification of existing facilities to accommodate students, which would constitute a significant expense, is a direct result of the reorganization. Conservative and liberal enrollment projections for the remaining Santa Monica USD and the proposed Malibu USD schools show expected decline of students into the foreseeable future, making a substantial increase in facilities cost as a result of the reorganization unlikely.

Criterion Number 8: Increased Property Values

EC § 35753(a)(8) specifies that "the proposed reorganization is primarily designed for purposes other than to significantly increase property values."

The CDE Handbook further suggests that the county committee should analyze the petition for reorganization to see if the rationale for the reorganization appears "questionable or not compelling." If the rationale does not appear compelling, the handbook suggests that the committee "should at least consider whether increased property values might be the primary reason for the petition," and further suggests that the county tax assessor or local real estate firms be consulted for advice on whether a proposed transfer would affect property values.

Analysis and Comment

This criterion requires that a determination be made as to whether an increase in property values is the purpose of the reorganization, which is not a fiscal matter. That said, property values are inherently a fiscal matter that, for basic aid districts, directly impacts the funding available to districts. For the Los Angeles County Committee's consideration, it is unlikely that the reorganization would increase property values in either city or the unincorporated area encompassed by Santa Monica-Malibu USD as they are both existing, established communities. Though, as discussed in detail in Criterion Number 9, it is clear that the reorganization will affect the split of property taxes between the remaining Santa Monica USD and the proposed Malibu USD.

Criterion Number 9: Effect on Fiscal Status and Management

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

Analysis and Comment

This section reviews the fiscal effects of establishing the proposed Malibu USD from Santa Monica-Malibu USD. It begins with an examination of Santa Monica-Malibu USD's budget over the current year and the prior two years, noting trends in revenues and expenditures and highlighting issues that could be of fiscal concern in the future. This review is followed by an analysis of the fiscal effects of establishing the proposed Malibu USD, commencing in 2021–22. While this is an aggressive timeline and the processes inherent with a reorganization of this magnitude ensure that implementation could not happen by this date, the 2021–22 fiscal year is considered in Santa Monica-Malibu USD's multiyear projections and, therefore, provides a reasonable point from which to evaluate the effects of the reorganization proposal.

Santa Monica-Malibu USD's Current Budget and Multiyear Projections

Figure 6 displays Santa Monica-Malibu USD's General Fund revenues, expenses, and fund balance for the current year against the 2018–19 and the 2019–20 audited actuals based on its 2020–21 Second Interim Report. The figure shows that, for 2020–21, Santa Monica-Malibu USD has budgeted revenues of $168.4 million, an increase of 4.67% from the 2018–19 fiscal year. Expenditures are budgeted at $170.9 million, an increase of 5.98% from 2018–19. As a result, Santa Monica-Malibu USD anticipates a deficit of expenditures over revenues of $2.5 million. This deficiency notwithstanding, Santa Monica-Malibu USD expects to end the current fiscal year with an ending fund balance of $20.6 million—of which $3.8 million is restricted, leaving an ending balance of $16.7 million (equivalent to 10.5% of budgeted expenditures).

School Services of California

Figure 7: Santa Monica-Malibu USD General Fund Budget Summary (Unrestricted and Restricted Funds)

	2018–19	2019–20	2020–21	Change from 2018–19	
	Audited Actuals	Audited Actuals	Second Interim Report	Amount	Percent
Revenues					
LCFF Revenues	$96,068,194	$101,501,395	$104,515,664	$8,447,470	8.79%
Federal Revenues	$4,381,856	$4,375,910	$10,217,772	$5,835,916	133.18%
Other State Revenues	$5,600,902	$3,611,083	$5,018,789	-$582,113	-10.39%
Other Local Revenues	$54,827,692	$53,849,229	$48,645,318	-$6,182,374	-11.28%
Total Revenues	$160,878,645	$163,337,618	$168,397,573	$7,518,898	4.67%
Expenditures					
Certificated Salaries	$66,053,345	$66,265,719	$65,956,551	($96,794)	-0.15%
Classified Salaries	$30,761,323	$30,149,434	$31,768,687	$1,007,364	3.27%
Employee Benefits	$29,298,838	$40,611,172	$42,476,806	$13,177,968	44.98%
Books and Supplies	$6,399,487	$3,390,929	$9,636,923	$3,237,436	50.59%
Service/Other Operating Expenses	$18,662,389	$20,046,092	$21,069,559	$2,407,170	12.90%
Capital Expenses	$349,532	$256,911	$264,565	($84,967)	-24.31%
Other Outgo Expense	$56,674	$16,488	$75,000	$18,326	32.34%
Direct Support/ Indirect Costs	($527,522)	($596,455)	($342,023)	$185,499	-35.16%
Total Expenditures	$161,255,332	$160,140,250	$170,906,068	$9,650,736	5.98%
Excess/Deficiency	($376,687)	$3,197,367	($2,508,525)	($2,131,838)	565.94%
Other Financing Sources/Uses					
Transfers In	$0	$0	$0	$0	N/A
Transfers Out	($2,059,035)	($2,850,000)	($4,748,000)	($2,688,965)	130.59%
Other Sources	$0	$0	$0	$0	N/A
Other Uses	$0	$0	$0	$0	N/A
Contributions	$0	$0	$0	$0	N/A
Total, Other Financing Sources/Uses	($2,059,035)	($2,850,000)	($4,748,000)	($2,688,965)	130.59%
Fund Balance Change	($2,435,722)	$347,367	($7,256,525)	($4,820,803)	197.92%
Reserves					
Beginning Fund Balance	$38,798,312	$27,501,458	$27,848,825	($10,949,487)	-28.22%
Audit Adjustments	$0	$0	$0	$0	N/A
Other Restatements	($8,861,132)	$0	$0	$8,861,132	-100.00%
Adjusted Beginning Balance	$29,937,180	$27,501,458	$27,848,825	($2,088,355)	-6.98%
Ending Balance	$27,501,458	$27,848,825	$20,592,300	($6,909,158)	-25.12%

Source: Santa Monica-Malibu USD-provided data

Santa Monica-Malibu USD's large ending fund balance, which reached $27.5 million at the close of the 2018–19 fiscal year, allows it to deficit spend in 2020–21. In 2019–20 and 2020–21, it received substantial one-time state and federal funds to support the safe reopening of schools, and to address learning loss, which in turn has supported its ending fund balance. Santa Monica-Malibu USD acknowledges, however, that it must implement budget reductions in the next several years in order to avoid future deficit spending and bring ongoing revenues and expenditures into alignment.

Figure 7 displays Santa Monica-Malibu USD's multiyear projections for the General Fund (both unrestricted and restricted funds) from 2020–21 through 2022–23. This figure shows total revenues for Santa Monica-Malibu USD increasing slightly in both 2021–22 and 2022–23, at 1.47% and 1.16% respectively. Expenditures, on the other hand, are expected to be reduced significantly as of the 2020–21 Second Interim Report including a $4 million unspecified reduction in 2021–22 and a $3.5 million unspecified reduction in 2022–23. Santa Monica-Malibu USD has committed to submitting a solvency plan that identifies specific reductions with the 2021–22 First Interim Report. Additionally, a trend analysis shows a substantial planned reduction in books and supplies for the two projection years of -37.74% for 2021–22 and -33.0% for 2022–23 when compared to 2020–21.

If Santa Monica-Malibu USD can identify appropriate cuts to achieve the value identified in the Second Interim Report—$7.5 million for fiscal years 2021–22 and 2022–23—this will bring revenues and expenditures in close alignment for 2021–22, with revenues outpacing expenditures by just over $1.0 million, and, in the following year, Santa Monica-Malibu USD will experience a small but manageable deficit.

Figure 8: Santa Monica-Malibu USD Multiyear Projections (Unrestricted and Restricted Funds)

	Projections				
	2020–21	2021–22	% Change from 2020–21	2022–23	% Change from 2021–22
Revenues					
LCFF Revenues	$104,515,664	$108,476,505	3.79%	$112,635,388	3.83%
Federal Revenues	$10,217,772	$8,093,359	-20.79%	$4,359,786	-46.13%
Other State Revenues	$5,018,789	$3,435,535	-31.55%	$3,354,030	-2.37%
Other Local Revenues	$48,645,318	$50,862,663	4.56%	$52,495,254	3.21%
Total Revenues	$168,397,543	$170,868,062	1.47%	$172,844,458	1.16%
Expenditures					
Certificated	$65,956,551	$66,945,899	1.50%	$67,950,088	1.50%
Classified	$31,768,687	$32,488,667	2.27%	$32,975,997	1.50%
Employee Benefits	$42,476,806	$44,079,591	3.77%	$46,993,209	6.61%
Books and Supplies	$9,636,923	$6,000,157	-37.74%	$6,458,154	7.63%
Services/Other Operating Expenses	$21,069,559	$20,334,956	-3.49%	$19,125,745	-5.95%
Capital Expenses	$264,565	$374,000	41.36%	$320,000	-14.44%
Other Outgo Expense	$75,000	$75,000	0.00%	$75,000	0.00%
Direct Support/Indirect Costs	($342,023)	($484,211)	41.57%	($475,343)	-1.83%
Transfers Out	$4,748,000	$4,000,000	-15.75%	$3,100,000	-22.50%
Other Adjustments (Solvency Plan)		-$3,953,803		-$3,538,060	
Total Expenditures	$175,654,068	$169,860,256	-3.30%	$172,984,790	1.84%
Fund Balance Change	($7,256,525)	$1,007,806	-86.11%	($140,332)	-113.92%
Reserves					
Beginning Fund Balance	$27,848,825	$20,592,300	-26.06%	$21,600,106	4.89%
Ending Fund Balance	$20,592,300	$21,600,106	4.89%	$21,459,774	-0.65%

Source: Santa Monica-Malibu USD-provided data

Proposed Reorganization

The LCFF provides school districts in California the majority of their general purpose revenues. As discussed previously, the state replaced the revenue limit funding model with the LCFF commencing in 2013–14. This funding model allocates revenues to school districts based on student attendance in four grade spans, as well as the school district's unduplicated count of students who are from low-income families, English learners, or foster youth (UPP).

Figure 8 estimates the LCFF revenue for the proposed Malibu USD and the remaining Santa Monica USD following reorganization, assuming implementation in 2021–22. The figure displays:

1. the ADA for each district by grade span using the estimates produced by Santa Monica-Malibu USD's demographer (Decision Insite—conservative option with 95% enrollment to ADA ratio, not including the ADA hold harmless from COVID-19);

2. the LCFF target funding levels (base grant, supplemental grant, concentration grant, and add-ons such as transportation and Targeted Instructional Improvement Grants, as published in the 2021–22 May Revision);

3. minimum state aid;

4. local revenue/property tax;

5. excess revenue over the LCFF entitlement after minimum state aid is subtracted; and

6. the LCFF funding amount for 2021–22 per ADA with the calculated UPP for each newly created district and the current district pre-reorganization.

7. the removal of the effects of the ADA hold harmless (EC § 43502[b]) which requires the CDE to use actual attendance reported at the 2019–20 Second Principal Apportionment and Annual Apportionment reporting periods as the basis for funding in 2020–21 and 2021-22.

The figure shows that the proposed Malibu USD could be expected to receive approximately $32.8 million in LCFF funding (property tax and minimum state aid) in the first year of the reorganization. This is approximately $33,759 per ADA. The remaining Santa Monica USD would receive an estimated $74.7 million, or about $9,964 per ADA. As noted previously in the discussion regarding Criterion Number 5, the proposed Malibu USD's per-ADA funding is considerably higher than the rate for the remaining Santa Monica USD, though both districts would remain basic aid districts after reorganization based on current assumptions. However, this is not guaranteed in the medium- to long-term. If the rapid proposed growth for the LCFF in 2021–22 was sustained for a couple more years, the remaining Santa Monica USD could drop into state aid status. Part of this is due to the treatment of Minimum State Aid (MSA) when school districts go through a reorganization. Per the Education Code, Santa Monica USD is the "remaining portion" of Santa Monica-Malibu USD and would keep the categorical portion of the MSA calculation pursuant to EC § 35735.2(c)(1), while the proposed Malibu USD would not retain any categorical MSA. Both districts, though, would still be eligible for MSA under the revenue limit (RL) MSA calculation pursuant to EC § 42238.03(e)(1)(A). The RL rates in these calculations for the new and remaining portions of the district would be identical to that of Santa Monica-Malibu USD.[6]

Santa Monica-Malibu USD has a 1.45 coverage ratio of property tax/total LCFF less 2012–13 Minimum State Aid, which shows the extent to which property tax revenues exceed the LCFF entitlement. Higher coverage expresses the depth to which an LEA is in basic aid. Examination of the remaining Santa Monica USD, without the benefit of the property taxes from the City of Malibu, shows that the coverage ratio drops to 1.15, trending toward state aid status. Admittedly, transitioning from basic aid to state aid would take several years of growth in LCFF funding that outpaces the growth in property taxes in Santa Monica, but it remains a possibility.

Figure 9: Projected LCFF Revenues (Estimate for 2021–22)

	Malibu USD	Santa Monica USD
Grade Span ADA		
TK–3	215.65	2,100.45
4–6	213.75	1,710.95
7–8	132.05	1,147.60
9–12	411.35	2,535.55
Total ADA	972.80	7,494.55
LCFF		
Base Grant	$8,936,185	$68,025,591
Supplemental Grant	$311,432	$4,458,321
Concentration Grant	$0	$0
Add-ons	$150,873	$1,099,157
Total LCFF Entitlement	**$9,398,490**	**$73,583,069**
Funding Sources		
Minimum State Aid (MSA)	$194,560	$8,391,283
Total LCFF Less MSA	$9,203,930	$65,191,786
Local Revenue/Property Tax	**$32,646,128**	**$66,281,534**
Excess Revenue Over LCFF	$23,442,198	$1,089,748
Funded LCFF Per ADA	**$33,759**	**$9,964**
Unduplicated Pupil Percentage (UPP)	**17.43%**	**32.77%**
Santa Monica-Malibu USD LCFF/UPP Prior To Reorganization	**$12,697 / 29.07%**	

[6]For most districts, the revenue limit portion of MSA does not generate additional funding. Unlike categorical MSA, RL MSA is offset by local revenue and Education Protection Account funding.

Santa Monica-Malibu USD has a UPP of 29.07%. Reorganization would require that the UPP for each new district be recalculated. As previously noted, using state-certified data from 2019–20, the proposed Malibu USD's UPP would be 17.43% versus 32.77% for the remaining Santa Monica USD. As a matter of state policy, the LCFF provides additional funds to districts with a greater proportion of students in the targeted groups (low socio-economic, English learner, and foster youth)—accounted for in the UPP calculation. While basic aid school districts do not receive state funds to serve unduplicated pupils, they are required to use the calculated value of the supplemental and concentration grants to increase or improve services and student outcomes from local property tax revenues. This creates an unfunded state requirement of property tax dollars proportionate to the UPP of each district. The value of property taxes that the proposed Malibu USD and the remaining Santa Monica USD would be required to carve out from local property taxes to meet this obligation is $311,432 and $4,458,321, respectively. The difference is stark, but given the size difference, a better comparison would be on a per-ADA basis, in which case, the amount the proposed Malibu USD would be required to utilize for these purposes would be $320.14 per ADA, while the remaining Santa Monica USD would be $594.88 per ADA. In this case, the proposed Malibu USD receives substantially more revenue per-ADA, but has the smaller requirement to meet under the LCFF.

The results of the LCFF analysis are incorporated into the multiyear budget projections for 2021–22 for the two districts. These results are displayed in figure 9. The sum of each revenue, expense, and fund balance category for the proposed Malibu USD and the remaining Santa Monica USD are compared to the 2020–21 Second Interim Report estimated balances. LCFF revenue was assumed to match the Santa Monica-Malibu USD's projection from figure 7 and prorated based on the calculated revenue share from figure 8. The LCFF revenue in figure 8 is $963,000 less than the Santa Monica-Malibu USD's projected amount.

Expenditures were prorated and assigned on a per-student basis using the Decision Insight conservative estimate for 2021-22 whereby 11.49% of the student population would reside in Malibu USD and 88.51% would remain with Santa Monica USD.

Figure 9 shows that the proposed Malibu USD would receive total revenues of approximately $36.6 million in 2021–22. This revenue level assumes the LCFF funding displayed in figure 8 but takes advantage of the ADA hold harmless from the COVID-19 pandemic. The proposed Malibu USD would also receive a proportionate share of Santa Monica-Malibu USD's revenues from other sources—with the exception of those exclusive to Santa Monica USD (e.g., Santa Monica sales tax and parcel taxes)—based on the proposed Malibu USD's proportionate share of ADA, property tax revenue, and location of revenue in 2019–20.

Similarly, expenditures for the proposed Malibu USD are based on a proportionate share of Santa Monica-Malibu USD's expenditures, which based on 2019–20 expenditures, would be approximately $19.5 million for 2021–22. Under these assumptions, the proposed Malibu USD would experience an increase in its fund balance of $17.1 million, resulting in an ending fund balance in its first year of operation of approximately $19.4 million.

Figure 10: 2021–22 Projected General Fund Budget Summary (Unrestricted and Restricted Funds)

	Malibu USD	Santa Monica USD
Revenues		
LCFF Revenues	$33,134,843	$75,341,662
Federal Revenues	$929,927	$7,163,432
Other State Revenues	$394,743	$3,040,792
Other Local Revenues[1]	$2,139,520	$44,924,477
Total Revenues	$36,599,033	$130,470,363
Expenditures		
Certificated Salaries	$7,692,084	$59,253,815
Classified Salaries	$3,732,948	$28,755,719
Employee Benefits	$5,064,745	$39,014,846
Books and Supplies	$689,418	$5,310,739
Service/Other Operating Expense	$2,336,486	$17,998,470
Capital Expenses	$42,973	$331,027
Other Outgo Expense	$8,618	$66,383
Direct Support/Indirect Costs	($55,636)	($428,575)
Total, Other Financing Sources/Uses	$459,600	$3,540,400
Other Adjustments (Solvency Plan)	($454,292)	($3,499,511)
Total Expenditures	$19,516,943	$150,343,313
Fund Balance Change	$17,082,090	($19,872,950)
Reserves		
Beginning Fund Balance	$2,366,055	$18,226,245
Ending Fund Balance	$19,448,145	($1,646,705)

[1]Deducts proposed Malibu USD Measure R parcel tax revenues (explained in more detail later in this report)

Santa Monica USD would experience a significant reduction in LCFF revenues compared to the amount received in 2020–21; however, this loss would be proportionately more than Santa Monica-Malibu USD's loss of ADA to the proposed Malibu USD. Specifically, Santa Monica-Malibu USD's LCFF revenue decline would be approximately 21.52%, while its loss in ADA to the proposed Malibu USD would be about 11.49%. The reason that Santa Monica-Malibu USD's revenue loss is higher is that the per-pupil property tax revenue in Malibu is higher.

Finally, Figure 9 shows the funded LCFF per-ADA amount for the proposed Malibu USD and the remaining Santa Monica USD for 2021–22 at $33,759 and $9,964, respectively. As a combined unified district, the LCFF revenues were estimated at $12,697 per-ADA. Calculating the pre-reorganization LCFF revenues of $12,697 and subtracting the new lower LCFF revenues for the remaining Santa Monica USD of $9,964, finds that the remaining Santa Monica USD would experience a 21.52% drop in revenues on a per-ADA basis.

Figure 9 demonstrates the catastrophic impact of a 21.52% revenue drop resulting from reorganization on the remaining Santa Monica USD. Extrapolating that figure across the remaining 7,494.55 ADA, the remaining Santa Monica USD would lose $19.9 million dollars, which is almost the same amount of the shortfall created for the remaining Santa Monica USD in figure 10. Maintaining the current cost structure on a per-student basis would require Santa Monica USD to spend 109.0% of its unrestricted General Fund reserves, falling well below the state-required reserve for economic uncertainty of 3%, or $5,095,708, resulting in a negative cash balance after one year of operation.

Figure 11: Estimated 2021–22 LCFF Revenues

Grade Span ADA	Malibu USD	Santa Monica USD
Total ADA	972.80	7,494.55
Funded LCFF per ADA	$33,759	$9,964
Santa Monica-Malibu USD LCFF Prior to Reorganization	**$12,697**	
Cost of Reorganization to the remaining Santa Monica USD		**($20,482,605)**

One of the critical assumptions of this analysis, however, is that Santa Monica-Malibu USD will be able to implement the budget reductions detailed in its 2021–22 Adopted Budget, not detailed in this study, but included as published and planned. As shown in figure 7, significant expenditure reductions are scheduled for 2021–22, including certificated and classified salary reductions, as well as other reductions. Without these and other cuts, Santa Monica-Malibu USD's budget would be significantly out of balance, which would jeopardize the fiscal solvency of both the proposed Malibu USD and the remaining Santa Monica USD commencing in 2021–22.

Lastly, SSC staff understand that an area subject to some discussion is the allocation of Other Local Revenues. This line item in figure 9 includes parcel taxes, sales taxes, joint use agreements, donations, leases, and interest revenues. Most revenues could reasonably be allocated based on the location of the activity or the location of the revenue generated. Other revenues could be allocated on a per-pupil basis or as a percentage of revenues generated by agency. However, it is not as simple with the allocation of parcel tax revenues generated by Measure R. Since statues are silent on how a parcel tax is handled in a district reorganization, there is no definitive answer as to if and how these revenues can be split between the two districts. While SSC staff recommend that direction from legal counsel be obtained should the reorganization be approved, past practice may provide a lens from which to evaluate the likely financial impact of the treatment of parcel taxes.

Past practice has been that whenever territory transferred from District A—which had a parcel tax—to District B, the territory ceased being responsible for the parcel tax of District A. If District B had a parcel tax, then the transferred territory assumed responsibility for the parcel tax of District B. Moreover, District A retained its parcel tax for the remaining parcels within its boundary.

Based on this past practice, should the reorganization be approved, Santa Monica-Malibu USD would continue to exist (though it is assumed throughout this report that the name would change to Santa Monica USD). Therefore, it would be reasonable to assume that the remaining Santa Monica USD would retain its parcel tax and parcels within the boundary of the now smaller district would continue to be assessed the parcel tax. The proposed Malibu USD, however, would have no parcel tax. Therefore, parcels within its boundary would not be assessed a parcel tax unless and until two-thirds of this new district's voters approve a new parcel tax.

As such, figure 11 shows the split and allocation basis for each revenue stream included in Other Local Revenue in figure 9.

Figure 12: 2021–22 Allocation of Other Local Revenues (Unrestricted and Restricted Funds)

Other Local Revenues	Malibu USD	Santa Monica USD	Total	Allocation Basis
Measure 'R' - Parcel Tax[1,2]	$0	$9,021,016	$9,021,016	Location
Measure 'Y' & 'GSH' - City of Santa Monica	$0	$14,292,750	$14,292,750	Location
Joint Use Agreement - City of Santa Monica	$0	$9,995,154	$9,995,154	Location
Joint Use Agreement - City of Malibu	$246,827	$0	$246,827	Location
Santa Monica Education Foundation Donation	$0	$1,871,644	$1,871,644	Location
Malibu Fundraising Entity Donation	$337,534	$0	$337,534	Location
Lease Rental[3]	$0	$2,450,000	$2,450,000	Location
Interest Earned (based on tax revenue %)	$56,166	$143,834	$200,000	Student Population
Miscellaneous local revenues	$1,498,993	$7,150,079	$8,649,072	Property Tax Percentage
Total	**$2,139,520**	**$44,924,477**	**$47,063,997**	

[1]$3.8 million previously received by Santa Monica-Malibu USD is "lost" with the transfer of the territory to the proposed Malibu USD

[2]Santa Monica USD might experience an additional reduction of approximately $1.2 million to account for the parcels within unincorporated Los Angeles county

[3]Assumed all leases pertain to Santa Monica schools

However, should it be determined that the proposed Malibu USD could in fact retain their portion of Measure R, this could have a substantial financial impact on the district as its share would increase its ending fund balance by $3.8 million (figure 12). Note that figure 12 shows the value of parcel taxes within the City of Malibu only. The "Other Local Revenues" value might increase by the value of parcel taxes attributable to Malibu USD from unincorporated Los Angeles County territory assumed in the proposed reorganization.

Figure 13: Fiscal Impact of Measure R Parcel Tax Revenues

	Malibu USD	Santa Monica USD
Revenues		
Other Local Revenues[1]	$3,798,666	$0
Fund Balance Change	$17,082,090	($19,872,950)
Reserves		
Beginning Fund Balance	$2,366,055	$18,226,245
Ending Fund Balance	$23,246,811	($1,646,705)

[1]Malibu USD might experience an increase of approximately $1.2 million to account for the parcels within unincorporated Los Angeles County

Based on the financial impact, it would be difficult to argue that the district, and more importantly the students, of the remaining Santa Monica USD would not be harmed by the precipitous drop in per-ADA revenue, as well as loss in parcel tax revenues, caused by the reorganization of Santa Monica-Malibu USD to Malibu USD and Santa Monica USD. Absent a plan that creates a mitigated path (soft landing) for Santa Monica USD, the proposed reorganization will cause a substantial negative effect on the fiscal status of the remainder of the existing district affected by the proposed reorganization.

Summary and Conclusions

The main focus of this analysis is Criterion Number 9: Effect on Fiscal Status and Management and the fiscal impacts of the proposed reorganization on both the remaining Santa Monica USD and the proposed Malibu USD.

The analysis clearly illustrates that the proposed reorganization would have a substantial negitive effect on the fiscal health of the remaining Santa Monica USD. The reorganization would result in significant revenue loss for the remaining district both in terms of one-time losses from the division of assets as well ongoing losses in per-ADA funding. The impact would be disproportionate given the number of students that would remain within the district as compared to the number of students that would become part of the proposed Malibu USD. The funding disparities between the two districts would be stark, and the losses that would be experienced by the remaining Santa Monica USD would undoubtedly affect the educational programs currently being offered to students within the current Santa Monica-Malibu USD.

In addition, SSC staff was also asked to provide, to the extent possible, an evaluation of the financial impacts as they apply to the remaining criteria. While all criteria would be in some way impacted by the fiscal realities of the proposed reorganization, Criterion Number 3: Equitable Division of Property/Facilities, Criterion Number 5: No Substantial Increase in State Costs, and Criterion Number 7: No Substantial Increase to School Facilities Costs are the three criteria that would be most directly impacted.

- Criterion Number 3: Equitable Division of Property/Facilities—Requires that the proposed reorganization result in the equitable divisions of property and facilities, including facilities, land, other property, debts and monies due but not collected. This criterion is likely the most critical as the proposed reorganization will include the division of real and personal property—with the added complication of staff currently assigned to school sites within Malibu—debt, fund balance reserves and liabilities, student funds, and postretirement benefits. This has also been one of the main points of contention between the two parties over the years. Given this fact, it is likely that should the Los Angeles County Committee vote to approve the proposed reorganization, an arbitrator or board of arbitrators will need to be convened—as called for in the Education Code—to arrive at an equitable division of property.

- Criterion Number 5: No Substantial Increase in State Costs—Requires an analysis to determine if there will be any increase in costs to the state as a result of the proposed reorganization and whether it will be significant and otherwise incidental to the reorganization. An increase in state costs would typically be a result of greater funding from the state under LCFF. Based on the analysis conducted for Criterion Number 9, both districts would be basic aid district post reorganization and, therefore, would not result in an increase in state costs.

- Criterion Number 7: No Substantial Increase to School Facilities Costs—Requires an analysis to determine if there will be any increase in school facilities costs as a result of the proposed reorganization and whether the costs will be insignificant and otherwise incidental to the reorganization. An increase would only occur if additional facilities are needed to accommodate existing or projected enrollment post reorganization, which is unlikely given the current and projected enrollment of the proposed and remaining districts.

Finally, it is important to note that should this matter go before the SBE, it is granted broad authority to specify the conditions of district reorganizations. The SBE has the final word in defining key issues, such as the area of election, the methodology for determining the division of district assests, application of CEQA regulations, and any other criteria the SBE deems relevant whether or not the criteria is specified in statute. In its deliberative process, the SBE places considerable weight upon the input provided by the county committee evaluating the petition to reorganize the district. This study provides data and anlyses from which the Los Angeles County Committee can make reasonable recommendations and provide reasoned arguments to support its ultimate recommendation to the SBE.