



Malibu Unification Negotiations Committee Report to the Board of Education

Board of Education Special Meeting
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Presented by:

Santa Monica Team

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(*through January 2017)

Presentation Outline

Introduction

Topic 1: Impact of Reorganization on SMUSD & MUSD Revenues

Topic 2: Division of SMMUSD Assets

Topic 3: Division of School Bonds & Other Liabilities

Topic 4: Environmental Liability Responsibilities

Topic 5: Implementation Issues

Concluding Remarks

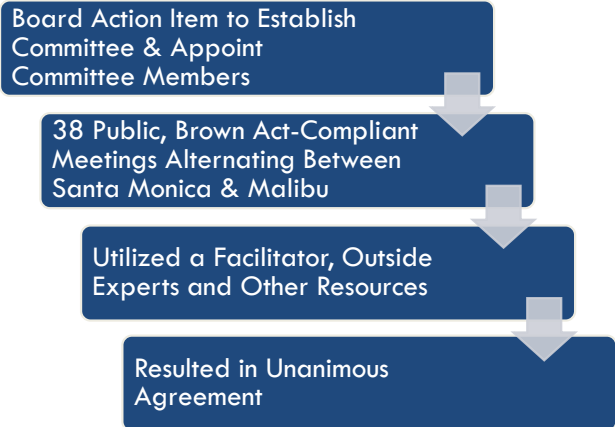
The School Board’s charge to the Committee involved specified financial issues for potential reorganization of the District into two separate TK-12 districts

- Eliminate any significant adverse financial impacts on a new Santa Monica Unified School District (SMUSD)
- Allocate SMMUSD assets to SMUSD and a new Malibu Unified School District (MUSD) in a fair and equitable manner
- Allocate school bond debt in a fair and equitable manner and establish a mechanism to refinance outstanding bonds
- Establish a mechanism to revisit the above issues as needed
- Provide a structure for addressing environmental remediation responsibilities
- Requirements:
 - Produce a report on a unanimous agreement that achieves the Board’s objectives
 - Conduct public review of the report and amend it as needed
 - Secure report approval by City of Malibu

(Board Action Item, Recommendation No. A.16, December 17, 2015)

The negotiation was an arduous process, but ultimately resulted in a consensus agreement

The Negotiation Process



Adopted Guiding Principles



1. Must be **financially viable districts**
2. Ensure a degree of **predictability**
3. Enable each district to plan ahead with **resource certainty**
4. Avoid **potential negative incentives**
5. Be **clear, understandable, legal, and enforceable**

The Committee's work was organized into five discrete topics reflecting the Board's charge

Topic 1: Impact of reorganization on SMUSD and MUSD revenues

Topic 2: Division of the District's assets between SMUSD and MUSD in a fair & equitable manner

Topic 3: Division of bond debt & other liabilities in a fair & equitable manner

Topic 4: Structure for dealing with post-reorganization environmental liability

Topic 5: Recommendations for various post-agreement implementation issues



Malibu High School

The structure of the Committee's Report on its unanimous agreement includes six sections and five appendices

Part I – Executive Summary

Part II – Background

Part III – Overview of Committee's Process

Part IV – Summary of Negotiated Agreement

Part V – Acknowledgements

Part VI – Signatures of Committee Members

Appendices:

1. District Map
2. Resources Documents (with on-line links)
3. Term Sheets on Each of the Five Topics
4. An Illustrative Revenue Neutrality Formula Projection
5. Glossary of definitions



John Adams Middle School

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$$\text{SMMUSD \$} \neq \text{MUSD \$} + \text{SMUSD \$}$$

- School Services of California projected that SMUSD would receive less revenue per student (measured by Average Daily Attendance or “ADA”) than in SMMUSD, starting several years after reorganization
- The reasons for this are complex, including:
 - ✓ The particulars of the State’s Local Control Funding Formula, including the concepts of “State Aid,” “Minimum State Aid” and “Basic Aid”
 - ✓ A slower SMUSD trajectory to Basic Aid status than either SMMUSD or MUSD
 - ✓ The post-reorganization shift of 34% of SMMUSD’s property tax to SMUSD, and a loss of 27% of the Measure R parcel tax revenue, while SMUSD recaptures only 16% of local revenues provided by the City of Santa Monica that are now shared with the Malibu community

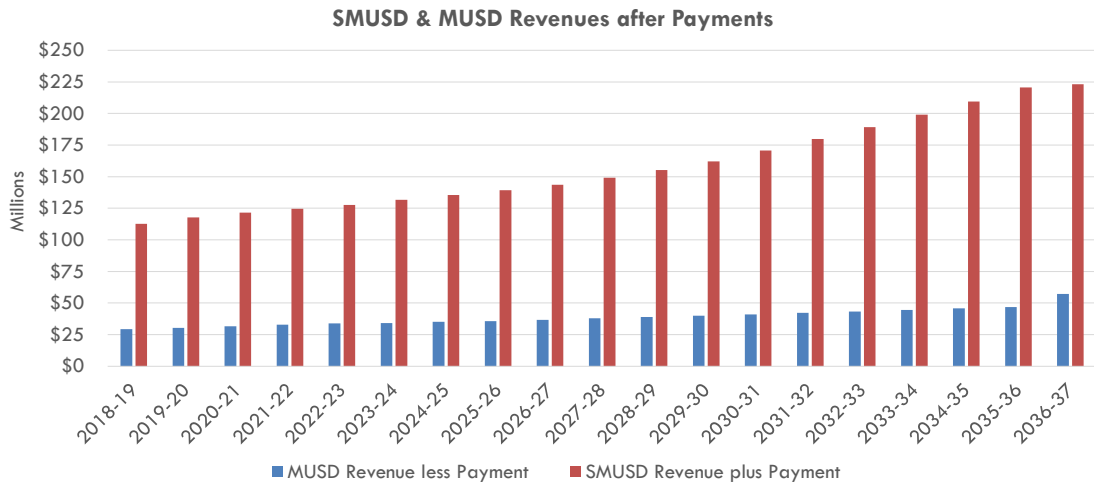
Topic 1: How to eliminate any significant adverse financial effect of reorganization on SMUSD?

- The Committee's approach: Implement a **Revenue Neutrality Formula** applied to Unrestricted General Fund revenues
 - ✓ Specifies how to **calculate** the annual financial effect of reorganization on SMUSD through FY 2029-30 by measuring the difference (the "Delta") between SMUSD revenues and SMMUSD revenues (absent reorganization) on a per-ADA basis
 - ✓ Establishes a **schedule of annual Delta payments** to SMUSD from MUSD that maintains predictable and stable revenue growth for both districts, including:
 - Consideration for MUSD's **ability to pay** based on an annual Cost-of-Living Adjustment that falls within a band of its annual property tax revenue growth
 - **Accruing (and paying in full) the balance due plus interest** on any MUSD payments that are less than the scheduled annual Delta amount, due to the MUSD ability to pay factors

The Revenue Neutrality Formula includes a number of additional implementation provisions

- Ends the payments arrangement early if Delta measurements show that **for three consecutive years SMUSD is not suffering significant adverse financial effects** from the reorganization
- Establishes **methods and timetables** for performing the annual Delta calculations using audited financial statements, and making any required payments by MUSD consistent with the annual school district budgeting process
- Provides **processes for reconsidering the formula** in the event of significant changes in circumstances underlying the Agreement (e.g. major changes in the State's school funding system), **or a one-year payment postponement** by MUSD in the event of a severe natural or other disaster that prevents MUSD from making a required payment.

The Committee's illustrative projection indicates that the Revenue Neutrality Formula can result in reasonable revenue growth for SMUSD and MUSD



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Topic 2: How to divide SMMUSD's physical and cash assets in a fair and equitable manner?

The approach for allocating school facility assets was among the easiest decisions:



Schools → to district where schools are located



Buses → to district where students are transported



Bus Yards → up to each district to house its own bus fleet

Other buildings and land should be allocated considering how they came into the District's inventory and how they are used

- Certain former school sites located in Santa Monica (e.g., Washington West)
→ SMUSD
- Hillside residential lot on Malibu Canyon Road, which was donated to SMMUSD
→ MUSD
- District HQ and all revenue producing properties located in Santa Monica
→ SMUSD (but if sold, any net cash proceeds would be shared with MUSD based on the ADA Method)

The agreed approach for dividing SMMUSD Fund Balances depends on sources and/or uses of funds in each account

- **Use “ADA Method”** (i.e., 3-year ADA average) when source/use of revenue mirrors number of students in Santa Monica and Malibu (84%/16%)
- **Use alternative methods** when source/use of revenue is based on other factors (e.g., Child Development Fund; Adult Ed. Fund; Building Fund)
- Dividing other Funds will **require data at the time of reorganization** (e.g., Retiree Benefit Fund)



McKinley Elementary School

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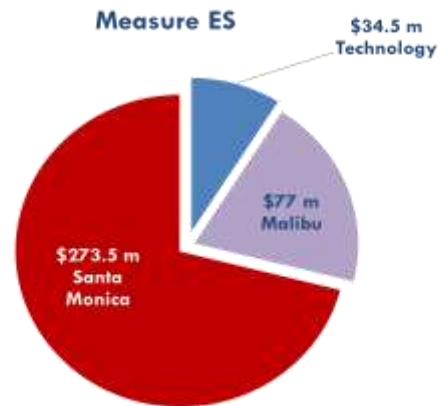
Topic 4: Environmental Liability

Topic 5: Implementation

Concluding Remarks

Topic 3: How to allocate school bond debt and remaining voter-approved bond issuance authority, and enable refinancing of existing debt?

- **Measure BB:** \$268 million – fully issued
- **Measure ES:** \$385 million
 - ✓ \$90 million issued
 - ✓ \$295 million authorized, but not-yet-issued



Based on legal advice, resolving some of these issues will require State legislation; others will require calculations at the time of reorganization

- Existing Bond Debt
 - ✓ Allocate based on assessed property values in each new district
 - ✓ Seek legislative authority to refinance each district's share of the issued debt independently
- Authorized but not yet issued Measure ES bonds:
 - ✓ Allocation to be determined at the time of reorganization, considering: (1) percentage share commitments to each community; and (2) the status of projects and plans in each community



Santa Monica High School

Certain other SMMUSD liabilities should be allocated using other approaches

- SMUSD, which would assume District HQ site, will continue payment of the COPs for that site
- Payments for compensated Certificated and Classified staff absences would be allocated on the basis of where existing staff is located at the time of reorganization
- Payments for Other Post-Employment Benefits (“OPEB”) will require actuarial analysis at the time reorganization is approved

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Topic 4: How to create a structure for dealing with post-reorganization environmental remediation responsibilities?

- A **Court order directed the District to complete** its remediation plans for PCBs in certain Malibu schools by 12/31/19. If reorganization occurs prior to that date:
 - ✓ SMUSD would be obligated to complete the remediation plan
 - ✓ Funds generated from ES bonds would be allocated to SMUSD from MUSD's share of ES funds to complete the remediation work
- **Each district would be responsible** for any additional remediation in their respective properties, and **each will indemnify the other** for any costs
- For personal injury claims, **each district assumes its own responsibilities** when the first exposure occurs post-reorganization. For any **pre-reorganization claims, each district will reserve rights against the other.**

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Topic 5: Post-agreement implementation issues identified by the Committee

Recommendation: Process reorganization entirely through State legislation in order to better ensure a comprehensive and enforceable result

Group 1

After Board Approval to Pursue Reorganization

- Monitoring State reorganization legislation
- Dividing fund balances and allocating capital project fund balances along with Measure ES bonds
- Allocating the Retiree Benefit Fund, Compensated Absences and OPEBs

Group 2

At time reorganization is approved

- Selecting neutral third-party to perform annual Delta calculations
- Monitoring completion of Court-ordered remediation of Malibu schools

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The Committee's Report acknowledges valuable assistance from many parties, but in particular:

- SMMUSD Board of Education & Superintendents
- Jan Maez, SMMUSD Chief Financial Officer
- City of Malibu City Council & City Managers
- Advocates for Malibu Public Schools
- Karen Orlansky (Committee's facilitator)
- School Services of California, Inc. (school finance consultant)
- Procopio, Cory, Hargreaves & Savitch, LLP (legal counsel)

For more information, see the following:

Full Committee Report on the District's website:

<http://www.smmusd.org/superintendent/MalibuUnification/MalibuUnificationReport.pdf>

SSC's presentation on California school district financing:

<https://www.youtube.com/watch?v=E5oUtnYqlzw&feature=youtu.be>

Questions?