Santa Monica-Malibu Unified School District Review of Revenue Options for District Reorganization

Report Prepared for the Santa Monica-Malibu Unified School District

October 6, 2017

Prepared by:

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Introduction

The Santa Monica-Malibu Unified School District (SMMUSD) has contracted with School Services of California, Inc., (SSC) to conduct an independent analysis and assessment of different revenue options and their effects that would mitigate the financial disparities arising from a reorganization of the SMMUSD into two separate unified school districts, one serving students in Santa Monica and one serving students in Malibu and surrounding areas. The SMMUSD asked SSC to do the following:

- Conduct a review and analysis of the Malibu Unification Negotiations Committee's (MUNC) final report on a proposed formula to allocate resources between a proposed Santa Monica Unified School District (SMUSD) and Malibu Unified School District (MUSD)

- Propose a funding formula to allocate local resources equitably between the two unified school districts following reorganization

- Prepare multiyear revenue forecasts for both SMUSD and MUSD, including revenues from the Local Control Funding Formula (LCFF), local property taxes and other local sources

- Assess allocations of forecasted revenues under the proposed funding formulas

- Prepare a sensitivity analysis of the forecasts to changing factors

The SMMUSD asked that in our review of the MUNC final report we specifically address the viability of assumptions, risk assessment of the plan, effects of the Delta in the early years, the impact of the dip when payment from MUSD ends, and the net present value of the total amount of Delta payments. We have included the MUNC Supplemental Memorandum Report in its entirety as Attachment A to this report for reference.

Executive Summary

Review and Analysis of MUNC's Final Report

Our previous work for the SMMUSD and the MUNC included preparation of a long-term multiyear forecast of LCFF and Other Local Revenues for the SMMUSD, SMUSD, and MUSD. For this report, we updated that forecast using the most recent actual and budgeted financial data from the SMMUSD, current estimates of LCFF factors provided by the state Department of Finance (DOF), and revised property tax growth estimates based on more recent information of historical and current assessed valuations. The updated forecast shows the following:

- MUSD starts as a fully basic aid school district in 2018-19, receiving only the minimum state aid required by law.
- SMUSD would be a state aid school district in 2018-19 and 2019-20. SMUSD becomes a minimum state aid district in 2020-21 and fully basic aid in 2023-24.
- As a state aid school district, SMUSD generates an additional \$3.5 million of state aid in the first two years of reorganization, partially offsetting the reduction in its property tax.
- Due to the loss of the Malibu property tax base following reorganization, SMUSD revenues per average daily attendance (ADA) will necessarily fall below per-ADA funding of the SMMUSD absent reorganization, once SMUSD is financially independent.
- Under our baseline forecast, by the end of the forecast period of the MUNC report in 2035-36 all three district configurations would be basic aid districts, with projected per-ADA funding in MUSD that is \$12,675 (44%) above the SMMUSD projected funding level of \$28,499 per ADA, while per-ADA funding in a financially independent SMUSD would be \$2,534 (9%) below the SMMUSD level.

We used the updated long-term revenue forecast to model the effects of the MUNC Revenue Neutrality Formula and the expected results for an alternative formula based on local revenues accruing to SMUSD and MUSD. For this analysis, our baseline estimate of average annual property tax growth is 6% for both districts. We also looked at two alternatives with differential growth rates between the two districts to assess the effect on our local revenue allocation model.

Our analysis of the MUNC Revenue Neutrality Formula began with validation of the projections in the MUNC final report. We independently developed a model for the MUNC formula based on the principles and conditions of the formula established by the MUNC as identified in its report. We then ran that model with the input values upon which the MUNC projection was based. Our resulting output—the Delta values, MUNC ability to pay, deferred Delta and payoff schedule—were virtually identical with those shown by the MUNC in its report. We believe that this both validates the reported results of the MUNC Revenue Neutrality Model as well as confirms that our independently developed model is working consistent with its intended operation.

We then applied the MUNC Revenue Neutrality Formula to our updated long-term revenue forecast. The results are detailed in the following section and summarized below:

- The Delta in the first year of reorganization can be fully paid within the MUSD net ability to pay.
- Beginning in 2019-20 and extending through 2029-30 (the last year of Delta calculation) MUSD's ability to pay is insufficient to make the full Delta payment in each year, so a deferred Delta amount begins to accumulate.
- Deferred Delta grows to a maximum of $15.7 million in 2028-29 and 2029-30, but is fully paid in the following year, 2030-31.
- During the Delta payment period, SMUSD revenues on average increase each year by between 4% and 5%.
- After an initial jump in operating revenues of about 16% compared to the SMMUSD baseline, MUSD revenues increase at the formula's capped rate of 3.5% from 2021-22 through 2029-30.
- SMUSD receives at least 98% of the SMMUSD revenue per ADA post-reorganization during the adjustment period. This is consistent with the outcome of the analysis that MUNC performed.
- After the final neutrality payment in 2030-31, SMUSD revenues decline by 3.56% in 2031-32, to its post-reorganization trend line supported solely by its property tax base.
- Similarly, MUSD now benefits from the full amount of its property tax revenues, and returns to its post-reorganization trend line with a 47% increase in revenues for 2031-32.
- Total Delta paid by MUSD to SMUSD during the 13-year period 2018-19 through 2030-31 would be approximately $122.4 million, plus an additional $1 million of interest paid on the deferred Delta.

Our review of the MUSD revenue neutrality model also focused on two specific areas: the effect of ending MUSD payments to SMUSD, and the cash flow impact of delayed Delta payments. We make two recommendations:

SSC Recommendation—Transition Funding

- We recommend considering a series of transition payments to be made by MUSD to SMUSD after the Delta calculation period ends, to assure some minimal level of annual revenue growth for SMUSD as it transitions to financial independence. Such an approach would provide a smoother and gentler off-ramp for SMUSD to adjust to a fully independent, but reduced, level of future revenues.

SSC Recommendation—Estimated Payments

- If the MUNC revenue neutrality formula is used, we recommend considering implementing a process that provides estimated payments in the year that the Delta is incurred, followed by a "true up" payment or credit, as needed, once final financial data is available in the following year. The state apportionment provides a precedent for this type of process, where payments based on estimated data are made during a fiscal year and trued up the following year as adjustments to the estimated payments for that year. Currently, the MUNC recommended payment process results in a one-year lag between when a Delta shortfall is incurred by SMUSD and when MUSD would make a Delta payment.

The SMMUSD asked what the net present value of the stream of Delta payments would be under the Revenue Neutrality Formula. We applied a discount rate of 2.6%—approximately the estimated K-12 cost-of-living adjustment (COLA)—to the series of cash flows represented by the Delta payments to estimate a net present value of approximately $100 million.

Alternative Revenue Allocation Model

The proposed alternative revenue allocation model attempts to address the fiscal challenges posed by the creation of a unified school district in Malibu from territory in the SMMUSD. The reorganization would create two new districts: SMUSD and MUSD.

Immediately upon unification, MUSD would be a basic aid district with local property tax revenues exceeding its LCFF entitlement by an estimated $9.8 million. An unintended consequence of this reorganization, however, is that SMUSD's transition to a basic aid district would be delayed several years compared to when the SMMUSD would have become a basic aid district. This delay deprives SMUSD of resources that it would otherwise receive if no reorganization were to take place.

In order to address this situation, SSC developed an alternative revenue allocation model which requires that the two districts share both excess property tax revenues generated in MUSD and other local revenues which accrue primarily to SMUSD. The sharing of both these revenue sources combined with revenues provided under the LCFF for SMUSD and from property taxes for MUSD yields per-ADA funding for both SMUSD and MUSD slightly greater than what would have been provided if the reorganization did not take place.

If this model were adopted, the following results would be occur:

- The growth rates of the total funding provided to the two districts would be roughly the same until SMUSD becomes a basic aid district in 2023-24.

- From 2023-24 forward, MUSD's funding accelerates significantly until it receives 100% of its excess property tax commencing in 2027-28.

- SMUSD's funding would increase in line with expected COLAs for three years from 2024-25 through 2026-27, resulting from the supplemental transition payment from MUSD to SMUSD to maintain total revenues, adjusted for cost of living.

- From 2027-28 and beyond, SMUSD's funding, based on its basic aid status and no further payments from MUSD, exceeds the rate of inflation and increases roughly in line with property tax growth in the district.

In addition, this model allows the two districts to be fully fiscally independent from one another at the end of the last transition payment. This transition payment, however, can be extended or made higher or lower at the discretion of the two districts.

In addition, the amount of revenue shared between the two districts is only dependent upon the actual collections that occur in the districts. Payments are not dependent upon measurements against the funding level that would have been provided had the SMMUSD not been reorganized. The determination of LCFF entitlements and all of the other funding sources for a "synthetic district" would likely become increasingly difficult as the years go by.

Review and Analysis of the Malibu Unification Negotiations Committee Final Report

We have reviewed the assumptions, methodology, and results of the MUNC's Revenue Neutrality Formula as presented in the Supplemental Memorandum Report (Report) from the MUNC to Dr. Benjamin Drati, Superintendent, Santa Monica-Malibu Unified School District dated July 11, 2017. In accordance with the specifications of our engagement for the SMMUSD, SSC consultants (1) reviewed the assumptions underlying the formula; (2) revised and updated our long-term revenue and property tax forecast; (3) modeled and assessed the Revenue Neutrality Formula; and (4) calculated the net present value of the annual Delta payments.

Viability of Assumptions

MUSD Operating Revenues in the First Year of Reorganization

The MUNC estimate of MUSD operating revenues necessary in the first year of reorganization is $26,300,000 in 2018-19, or $15,054 per ADA. This is 12% more than the imputed revenue for a separate MUSD if it received funding at the average of the SMMUSD revenues per pupil for the same period. However, as documented in the Report, SMMUSD data shows that per-pupil operational costs for MUSD schools would be significantly higher than for SMUSD schools. The Report also notes that school-based costs averaged 53.2% of total costs, which would imply that approximately $8,000 per ADA would be available for school-based expenses from a total of $15,054 per ADA in revenues. This is generally consistent with the $7,732 per ADA student cost attributed to MUSD schools in the MUNC analysis of SMMUSD data. Based on this information, we find that the starting amount assumed by the MUNC as operating revenues needed by MUSD in the first year of reorganization is reasonable.

MUSD Annual Cost-of-Living Adjustment

The Report amended the terms of the annual COLA applied to MUSD operating revenues, which are used to determine the MUSD ability to compensate SMUSD for its loss of revenue each year over the 12-year period following reorganization. The Report sets the annual MUSD operating revenue COLA at a fixed 3.5%—previously, the COLA was set at 50% of the percentage growth in assessed value (AV) of properties within the boundary of MUSD, with a lower limit of no less than the annual K-12 LCFF COLA percentage, but not to exceed 80% of the percentage growth in AV.

Assuming annual revenue growth of 3.5% as necessary to maintain a current-services budget for K-12 school districts over the coming years is reasonable. School districts face cost pressures from inflationary factors affecting operational requirements, benefit cost increases, and employee movement on salary schedules, which, taken together, can account for 2.4% to 4.0% annually. State-required increases for California Public Employees' Retirement System and California State Teachers' Retirement System participation intended to bring both retirement systems to full funding are placing added cost pressures on school districts.

However, the previous method recommended by the MUNC had the virtue of dividing equally the gain in revenues each year that MUSD would experience under a reorganization, with half being used to support MUSD operating expenses and half to mitigate SMUSD's revenue loss.

Other Assumptions

Year of Reorganization. The MUNC assumed for planning purposes that a reorganization would occur beginning in 2018-19. With this year's legislative session already concluded, it is likely that the earliest a reorganization could occur is now 2019-20, assuming legislative action is necessary. We have continued to use 2018-19 as the first year of reorganization for consistency and because the long-term forecast is not materially affected by a short delay.

MUSD Beginning General Fund Balance. The Illustrative Revenue Neutrality projections for MUNC 2.0 assume a starting General Fund balance for MUSD of $2.4 million, which we have also used in our projections of the Revenue Neutrality Formula. We have not independently validated this assumption.

Interest Rate. The MUNC 2.0 projection assumes 0.90% average annual returns from the Los Angeles County Office of Education (LACOE) pooled investment fund for MUSD and SMUSD, which the formula uses as the benchmark for interest generated on deferred Delta balances. The fourth quarter 2016-17 LACOE interest rate for school district accounts is 1.29%, and over the past five years the rate has varied, at one point as low as 0.58%. We continue to use the MUNC 2.0 rate of 0.90% in our projections. Our analysis shows that small variations in the interest rate do not have a material effect on the formula results.

SMMUSD, SMUSD, and MUSD Revenue Forecasts. The MUNC 2.0 Illustrative Revenue Neutrality Projections use SSC revenue forecasts from December 2016, updated for revisions to redevelopment agency dissolution distributions that reflect recent higher than anticipated receipts by the SMMUSD. Given the available information, we believe that these data and updates were appropriate to use for the re-estimate of the neutrality formula as shown in MUNC 2.0. For the analysis in this report we have further updated our prior forecast, as described below.

Updated Forecast

We updated our previous long-term forecast of LCFF revenues and Other Local Revenues for the SMMUSD and for the two offspring districts, SMUSD and MUSD. This update revised (1) LCFF

2015-16 funding for available actual apportionment data and actual amounts of Other Local Revenues; (2) LCFF 2016-17 funding with second principal apportionment data and unaudited actual local revenues; and (3) property tax growth estimates for 2017-18 and future years, and used the most recent SMMUSD five-year forecast of revenues for Other Local Revenue sources.

We continue to assume full implementation of the LCFF beginning in 2020-21, consistent with DOF estimates. We use the most recent DOF estimates of LCFF funding during the transition to full implementation, and assume that the LCFF grows annually thereafter by a statutory COLA, estimated at 2.57%.

We have extended our full forecast to 2032-33 so that it now covers each year from 2015-16 through that endpoint. We used a modified growth factor applied to prior year revenues when we expand our forecast beyond 2032-33.

Revised Property Tax Estimates

For this analysis we reviewed the property tax growth estimates and the estimated division of property taxes between SMUSD and MUSD that we used in our previous model. In that forecast we used average annual growth rates of 5.04% for SMUSD and 4.22% for MUSD in our baseline estimates, based on a three-year average of percentage changes in assessed valuation for Santa Monica and the city of Malibu over the four-year period from 2012-2015[1].

Subsequent to our forecast, the SMMUSD provided the MUNC with revised assessed valuation data for the SMMUSD and the city of Santa Monica, with the difference allocated to the proposed MUSD. The data was provided by Keygent Advisors, LLC., and was updated through 2016-17. The most recent four years of data from the Keygent table, 2014 through 2017, showed average annual property tax growth of 5.9% for MUSD and 6.4% for SMUSD. The long-term annual averages over 15 years (2002-2017), which included both economic boom and bust cycles, were 7.2% for MUSD and 6.0% for SMUSD.

Based on these values, we revised this report's property tax growth percentages for our baseline forecast to 6% for both districts. We also analyzed two variants based on the revised assessed valuation averages: a high-low version with 7.2% MUSD growth compared with 6% for SMUSD, and a low-high variation with 6% for MUSD and 6.5% for SMUSD growth.

Keygent data shows 66.44% of total assessed valuation in Santa Monica and 33.56% in Malibu for 2016-17. The data for 2014-15 and 2015-16 are similar. This division is basically unchanged from the split used in our earlier forecast.

[1] 2015 was the most recent year of available assessed valuations at the time of our original forecast.

Illustrative Neutrality Formula Projections

SSC consultants independently developed an Excel spreadsheet for our revised forecast that models the revenue neutrality formula proposed by the MUNC. We first replicated the assumptions and revenue inputs of MUNC 2.0, and in doing so we obtained substantially identical results as those presented by the MUNC in their Supplemental Report. We believe that this both validates the modeling that the MUNC has done as it developed its recommended neutrality formula as well as the working of the SSC spreadsheet that we developed to evaluate the MUNC formula.

Our Baseline Neutrality Formula Forecast—6% Average Annual Property Tax Growth

After we validated the MUNC results and the operation of our model, we revised the input values to reflect our latest forecast of SMMUSD revenues, and the division of those revenues between SMUSD and MUSD. Our baseline forecast assumes 6% annual average property tax growth for both districts. Figure 1 below summarizes our baseline Illustrative Neutrality Formula projections for the years 2018-19 through 2035-36 in a format similar to the MUNC 2.0 projection shown in *Attachment A* (Revised Appendix D) of the MUNC Supplemental Report.

Figure 1: SSC Illustrative Revenue Neutrality Projections—MUNC 2.0 Model Assumptions, SSC Revised Revenue and Property Tax Forecast

Year	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
SMMUSD Revenue	$140,744,257	$146,933,817	$153,448,328	$160,308,890	$167,785,760	$175,395,893	$183,427,330	$191,906,214	$200,998,188	$210,450,409
Percentage Change	3.66%	4.40%	4.43%	4.47%	4.66%	4.54%	4.58%	4.62%	4.74%	4.70%
SMMUSD Revenue Per ADA	$13,453	$14,045	$14,667	$15,323	$16,038	$16,765	$17,533	$18,343	$19,212	$20,116
	5.35%	4.40%	4.43%	4.47%	4.66%	4.54%	4.58%	4.62%	4.74%	4.70%
SMUSD Revenue	$112,997,314	$115,740,250	$119,819,773	$124,946,008	$130,583,905	$136,248,306	$142,221,215	$148,521,741	$155,308,490	$162,320,583
SMUSD Revenue Per ADA	$12,966	$13,281	$13,749	$14,337	$14,984	$15,634	$16,319	$17,042	$17,821	$18,625
Percentage Change	1.54%	2.43%	3.52%	4.28%	4.51%	4.34%	4.38%	4.43%	4.57%	4.51%
SMUSD Required Revenue	$117,242,024	$122,397,992	$127,824,735	$133,539,684	$139,768,033	$146,107,324	$152,797,655	$159,860,727	$167,434,410	$175,308,326
SMUSD Difference From SMMUSD	$4,244,710	$6,657,742	$8,004,962	$8,593,676	$9,184,128	$9,859,018	$10,576,440	$11,338,986	$12,125,920	$12,987,743
SMUSD Required Revenue Per ADA	$13,453	$14,045	$14,667	$15,323	$16,038	$16,765	$17,533	$18,343	$19,212	$20,116
MUSD Revenue Before Payments	$30,440,714	$31,989,843	$33,628,555	$35,362,882	$37,201,855	$39,147,587	$41,206,115	$43,384,473	$45,689,698	$48,129,826
MUSD Revenue Per ADA	$17,425	$18,311	$19,249	$20,242	$21,295	$22,408	$23,587	$24,834	$26,153	$27,550
Percentage Change	36.45%	5.09%	5.12%	5.16%	5.20%	5.23%	5.26%	5.29%	5.31%	5.34%
MUSD Beginning Balance	$2,700,000	$2,596,004	$1,088,820	$1,126,929	$1,166,371	$1,207,194	$1,249,446	$1,293,177	$1,338,438	$1,385,283
MUSD COLA Allowance		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
MUSD Operating Revenues	$26,300,000	$27,220,500	$28,173,218	$29,159,281	$30,179,856	$31,236,151	$32,329,416	$33,460,946	$34,632,079	$35,844,202
Minimum Ending Balance (4%)	$1,052,000	$1,088,820	$1,126,929	$1,166,371	$1,207,194	$1,249,446	$1,293,177	$1,338,438	$1,385,283	$1,433,768
MUSD Revenues & Beginning Balance	$33,140,714	$34,585,847	$34,717,375	$36,489,811	$38,368,226	$40,354,781	$42,455,561	$44,677,650	$47,028,136	$49,515,109
MUSD Operating Revs & Min Ending Bal	$27,352,000	$28,309,320	$29,300,147	$30,325,652	$31,387,050	$32,485,597	$33,622,593	$34,799,384	$36,017,362	$37,277,970
Difference = Net Ability to Pay	$5,788,714	$6,276,527	$5,417,228	$6,164,159	$6,981,176	$7,869,184	$8,832,968	$9,878,266	$11,010,774	$12,237,139
SMUSD Delta	$4,244,710	$6,657,742	$8,004,962	$8,593,676	$9,184,128	$9,859,018	$10,576,440	$11,338,986	$12,125,920	$12,987,743
Payment to SMUSD	$4,244,710	$6,276,527	$5,417,228	$6,164,159	$6,981,176	$7,869,184	$8,832,968	$9,878,266	$11,010,774	$12,237,139
Cumulative SMUSD Delta Deferred	$0	($381,215)	($2,972,380)	($5,428,648)	($7,680,458)	($9,739,416)	($11,570,543)	($13,135,398)	($14,368,764)	($15,248,687)
Interest Accrued in Period (0.90%)		$0	($3,431)	($26,751)	($48,858)	($69,124)	($87,655)	($104,135)	($118,219)	($129,319)
MUSD Revenue Less Payment	$26,196,004	$25,713,316	$28,211,327	$29,198,723	$30,220,679	$31,278,403	$32,373,147	$33,506,207	$34,678,924	$35,892,687
Percentage Change		-1.84%	9.71%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
MUSD Revenue Per ADA	$14,995	$14,719	$16,148	$16,714	$17,299	$17,904	$18,531	$19,179	$19,851	$20,545
SMUSD Revenue Plus Payment	$117,242,024	$122,016,777	$125,237,001	$131,110,167	$137,565,081	$144,117,490	$151,054,183	$158,400,007	$166,319,264	$174,557,722
Percentage Change		4.07%	2.64%	4.69%	4.92%	4.76%	4.81%	4.86%	5.00%	4.95%
SMUSD Revenue Per ADA	$13,453	$14,001	$14,370	$15,044	$15,785	$16,537	$17,333	$18,176	$19,084	$20,030

Figure 1 (continued): SSC Illustrative Revenue Neutrality Projections—MUNC 2.0 Model Assumptions, SSC Revised Revenue and Property Tax Forecast

Year	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Selected Totals
SMMUSD Revenue	$220,434,529	$230,978,707	$242,118,105	$253,884,889	$264,224,834	$275,031,630	$286,335,430	$298,161,083	
Percentage Change	4.74%	4.78%	4.82%	4.86%	4.07%	4.09%	4.11%	4.13%	
SMMUSD Revenue Per ADA	$21,070	$22,078	$23,143	$24,267	$25,256	$26,289	$27,369	$28,499	
	4.74%	4.78%	4.82%	4.86%	4.07%	4.09%	4.11%	4.13%	
SMUSD Revenue	$169,721,630	$177,531,754	$185,777,078	$194,480,727	$201,926,833	$209,701,016	$217,816,445	$226,289,505	
SMUSD Revenue Per ADA	$19,475	$20,371	$21,317	$22,316	$23,170	$24,062	$24,993	$25,966	
Percentage Change	4.56%	4.60%	4.64%	4.69%	3.83%	3.85%	3.87%	3.89%	
SMUSD Required Revenue	$183,625,224	$192,408,637	$201,687,933	$211,489,868	$220,103,164	$229,105,410	$238,521,619	$248,372,532	
SMUSD Difference From SMMUSD	$13,903,594	$14,876,883	$15,910,855	$17,009,141	$18,176,331	$19,404,394	$20,705,174	$22,083,027	
SMUSD Required Revenue Per ADA	$21,070	$22,078	$23,143	$24,267	$25,256	$26,289	$27,369	$28,499	
MUSD Revenue Before Payments	$50,712,898	$53,446,952	$56,341,027	$59,404,162	$62,298,001	$65,344,373	$68,552,782	$71,932,434	
MUSD Revenue Per ADA	$29,029	$30,594	$32,250	$34,004	$35,660	$37,404	$39,240	$41,175	
Percentage Change	5.37%	5.39%	5.41%	5.44%	4.87%	4.89%	4.91%	4.93%	
MUSD Beginning Balance	$1,433,768	$1,483,950	$1,535,888	$2,247,938	$20,520,054	$40,246,387	$61,529,084	$84,478,031	
MUSD COLA Allowance	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
MUSD Operating Revenues	$37,098,749	$38,397,205	$39,741,107	$41,132,046	$42,571,668	$44,061,676	$45,603,835	$47,199,969	
Minimum Ending Balance (4%)	$1,483,950	$1,535,888	$1,589,644	$1,645,282	$1,702,867	$1,762,467	$1,824,153	$1,887,999	
MUSD Revenues & Beginning Balance	$52,146,666	$54,930,902	$57,876,915	$61,652,100	$82,818,055	$105,590,760	$130,081,866	$156,410,465	
MUSD Operating Revs & Min Ending Bal	$38,582,699	$39,933,093	$41,330,751	$42,777,328	$44,274,535	$45,824,143	$47,427,988	$49,087,968	
Difference = Net Ability to Pay	$13,563,967	$14,997,809	$16,546,164	$18,874,772	$38,543,520	$59,766,617	$82,653,878	$107,322,497	
SMUSD Delta	$13,903,594	$14,876,883	$0	$0	$0	$0	$0	$0	$122,353,802
Payment to SMUSD	$13,563,967	$14,997,809	$15,887,870	$0	$0	$0	$0	$0	$123,361,777
Cumulative SMUSD Delta Deferred	($15,725,551)	($15,746,155)	$0	$0	$0	$0	$0	$0	
Interest Accrued in Period (0.90%)	($137,238)	($141,530)	($141,715)	$0	$0	$0	$0	$0	($1,007,975)
MUSD Revenue Less Payment	$37,148,931	$38,449,143	$40,453,157	$59,404,162	$62,298,001	$65,344,373	$68,552,782	$71,932,434	
Percentage Change	3.50%	3.50%	5.21%	46.85%	4.87%	4.89%	4.91%	4.93%	
MUSD Revenue Per ADA	$21,264	$22,009	$23,156	$34,004	$35,660	$37,404	$39,240	$41,175	
SMUSD Revenue Plus Payment	$183,285,598	$192,529,564	$201,664,948	$194,480,727	$201,926,833	$209,701,016	$217,816,445	$226,289,505	
Percentage Change	5.00%	5.04%	4.74%	-3.56%	3.83%	3.85%	3.87%	3.89%	
SMUSD Revenue Per ADA	$21,031	$22,092	$23,140	$22,316	$23,170	$24,062	$24,993	$25,966	

The MUNC 2.0 Revenue Neutrality Formula, under our revised forecast assumptions, results in the following outcomes assuming equal annual 6% increases in tax revenues beginning in 2018-19 and holding ADA constant at the 2018-19 level.

- MUSD starts as a fully basic aid school district in 2018-19, receiving only the minimum state aid required by law. SMUSD is a state aid school district in 2018-19 and 2019-20. SMUSD becomes a minimum state aid district in 2020-21 and fully basic aid in 2023-24.
- As a state aid school district, SMUSD generates an additional $3.5 million of state aid in the first two years of reorganization, partially offsetting the reduction in its property tax revenues and reducing the Delta that MUSD would otherwise owe to SMUSD.
- The Delta in the first year of reorganization can be fully paid within the MUSD ability to pay calculation.
- Beginning in 2019-20 and extending through 2029-30 (the last year of Delta calculation) MUSD's ability to pay is insufficient to make the full Delta payment, so a deferred Delta amount begins to accumulate.
- Deferred Delta grows to a maximum of $15.7 million in 2028-29 and 2029-30, but is fully paid in the following year, 2030-31.
- During the Delta payment period, SMUSD revenues on average increase each year by between 4% and 5%.
- After an initial jump in operating revenues of about 16% compared to the SMMUSD baseline, MUSD revenues increase at the capped rate of 3.5% from 2021-22 through 2029-30.
- After the final neutrality payment in 2030-31, SMUSD revenues decline by 3.56%, to its post-reorganization trend line supported primarily by its own property tax base beginning in 2031-32.
- Similarly, MUSD is now reliant on the full amount of its property tax revenues, and returns to its post-reorganization trend line with a 47% increase in revenues for 2031-32.
- Total Delta paid by MUSD to SMUSD during the 13-year period 2018-19 through 2030-31 would be approximately $122.4 million, plus an additional $1 million of interest paid on the deferred Delta.

The following charts show the effect of the Revenue Neutrality Formula on revenues for both SMUSD and MUSD compared with the SMMUSD. Figure 2 displays the trend line of unrestricted revenues per ADA by school year for each district configuration without adjustments. It shows the relative increase for MUSD and decrease for SMUSD of revenues per pupil across all years when compared with the estimated revenues of the SMMUSD.

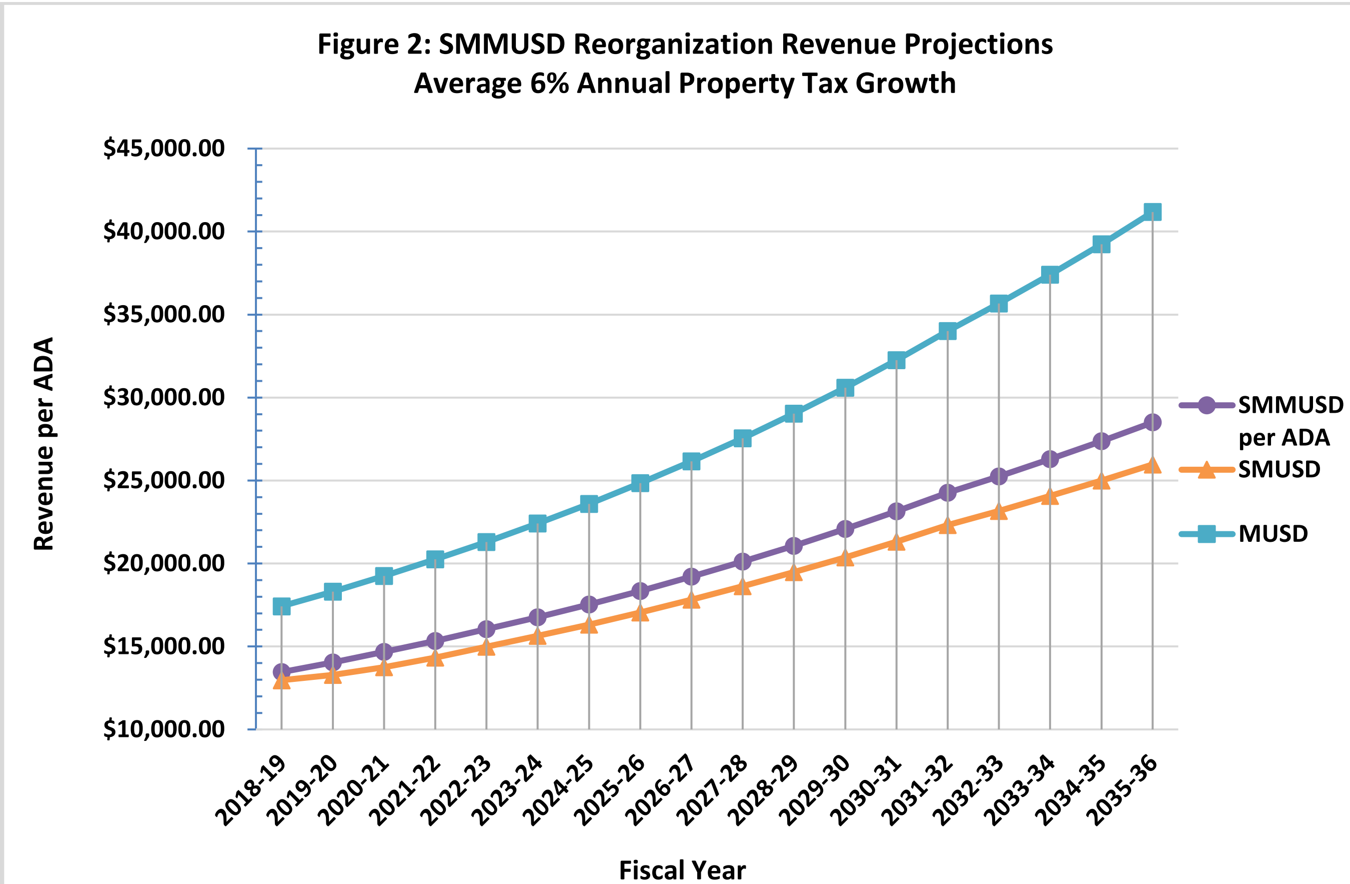
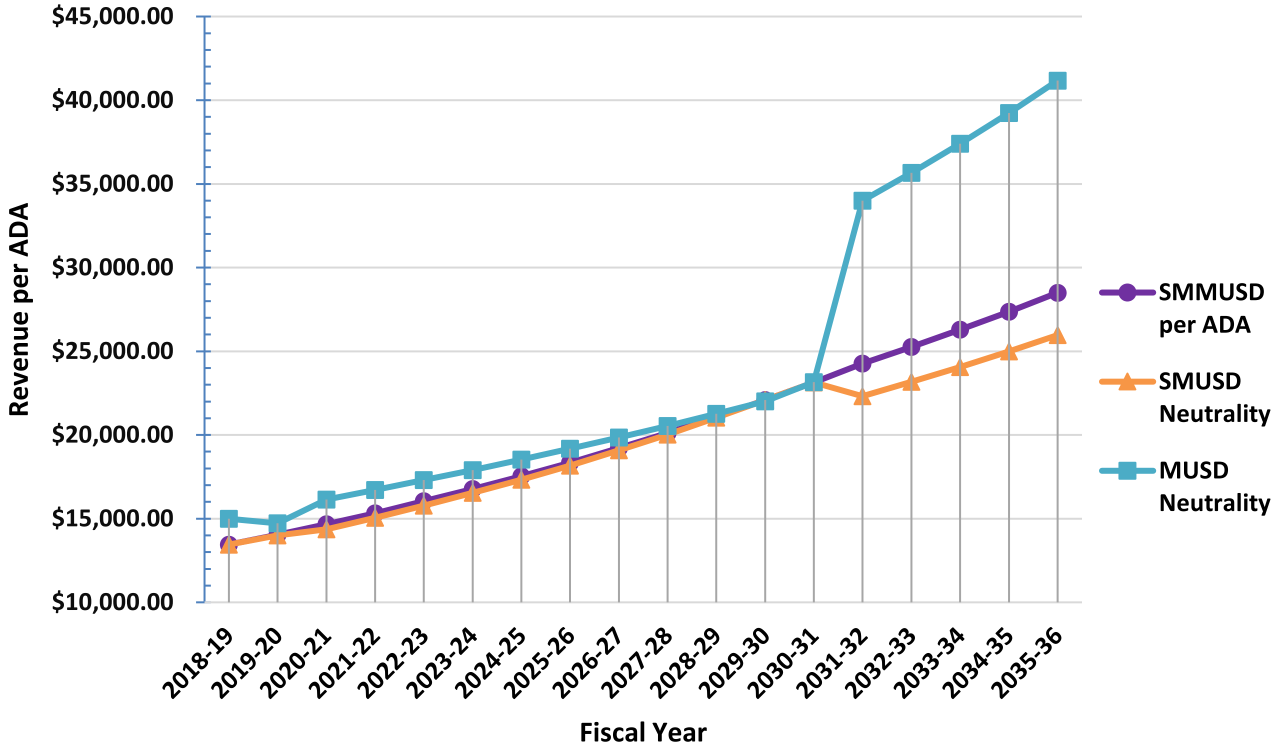


Figure 3 graphically shows the effect of the Revenue Neutrality Formula on the per-pupil revenues for both MUSD and SMUSD compared with the SMMUSD.

Figure 3: Illustrative Revenue Neutrality Projections
Average 6% Annual Property Tax Growth



As shown in Figure 3, the SMUSD neutrality trend line is only slightly below the SMMUSD revenue per ADA reference line, with SMUSD per-pupil revenues never falling more than a maximum of 2% below the revenues per pupil that a combined SMMUSD would realize in any of the years during the adjustment period. This is consistent with the outcome of the analysis that the MUNC performed, which showed that SMUSD would receive at least 98% of the SMMUSD revenue per ADA post-reorganization during the adjustment period.

The chart also shows that MUSD, after the initial increase in revenues per ADA compared with the SMMUSD, is on a flatter growth trajectory at 3.5% annually than the combined SMMUSD average. By 2029-30 and 2030-31 the average revenue per ADA is essentially the same for MUSD as for the hypothetical SMMUSD.

The SMUSD revenue support and MUSD revenue drag from the Delta payments ends for both districts in 2031-32, when SMUSD falls 8%, or about $2,000 per ADA, and MUSD increases 40%, or about $10,000 per ADA, when compared with the revenue per ADA estimate for the SMMUSD.

This point in the time series marks full financial independence and autonomy for both school districts going forward.

Revenue Neutrality Formula Assessment

Post-Delta Transition Funding

The formula as proposed in the Report is designed to sustain SMUSD for 12 years post-reorganization at a funding level that acts as if the reorganization had not happened in its first year. Instead, for SMUSD, it happens after the final year of mitigation payments. At the same time, MUSD receives a small and, in the short term, diminishing share of the benefit that it will ultimately realize once those payments cease.

The effect of this is apparent as SMUSD's revenue declines almost 4% year over year after the payments end, before resuming what will become its normal growth pattern from that reduced level forward.

SSC Recommendation—Transition Funding

We recommend considering a series of transition payments to be made by MUSD to SMUSD after the Delta calculation period ends, to assure some minimal level of annual revenue growth for SMUSD as it transitions to financial independence. We did some preliminary modeling of such a transition, first by applying to SMUSD revenues the MUSD 3.5% annual minimum growth factor that was sustained during the Delta calculation and payment phase. Our initial test indicated that to achieve this goal annual payments would be required for more than an additional ten years beyond the end of the Delta calculation before SMUSD would grow out of the need for supplemental funding—a period that exceeded our expanded forecasting model.

We then looked at minimum annual growth instead pegged to the K-12 COLA—about 2.6%. Our preliminary modeling showed that this would require supplemental payments to SMUSD through 2036-37, at an approximate cost of $40 million.

While not an inconsequential expense for MUSD, such a model would provide a smoother and gentler off-ramp for SMUSD to adjust to a fully independent, but reduced, level of revenues when compared to the option of retaining the existing district configuration.

Payment Schedule Cash Flow Effect

The MUNC Illustrative Revenue Neutrality Projection shows delta payments made in the year in which the required payment is incurred. For example, in 2018-19, the first year of reorganization, our baseline model shows a Delta of $4,244,710 which is paid to SMUSD from MUSD "ability to

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pay" revenues in that same year. However, as the Report details in its illustration of the process for calculating the Delta and making associated payments, a Delta payment is not made until after unaudited actual revenues have been compiled and verified for the year in which a Delta is calculated. According to the MUNC example, that process is not completed until March of the year following the year the Delta is incurred, and the payment is not required until June 30 of that year. This is a full 12 months after the year in which the revenue loss that triggers the Delta occurs. Because the payments are lagged by one year, the full effect of this delay will be experienced by SMUSD in the first year of reorganization. In that year, our estimates show a depressed 1.5% year-over-year increase in per-pupil funding prior to a Delta payment for SMUSD versus a 36% increase for MUSD when compared to the 2017-18 SMMUSD revenues per ADA.

We did not model payments that are lagged for this analysis, but given that high property tax districts already face cash flow challenges because of the usual twice per year property tax payment schedule, this delay in mitigating the effect of the reorganization on SMUSD revenues may create additional financial distress.

<u>SSC Recommendation—Estimated Payments</u>

If the SMMUSD chooses to adopt the MUNC 2.0 formula, we recommend considering implementing a process that provides estimated payments in the year that the Delta is incurred, followed by a "true up" payment or credit, as needed, once final financial data is available in the following year. The state apportionment provides a precedent for this type of process, where payments based on estimated data are made during a fiscal year and trued up the following year as adjustments to the estimated payments for that year.

Net Present Value of Delta Payments

The SMMUSD asked what the net present value of the stream of Delta payments would be under the Revenue Neutrality Formula. Our baseline analysis estimated Delta payments totaling $122,353,802, made annually in varying amounts from 2018-19 through 2030-31. We applied a discount rate of 2.6%—approximately the estimated K-12 COLA—to the series of cash flows represented by the Delta payments. Using that rate, the net present value of the Delta payments is approximately $100 million. Of course, assuming different discount rates would yield different results.

Need for a "Synthetic District" in the Formula

The forecasting model we developed assumes the continued existence of the SMMUSD after reorganization as a necessary basis for identifying and quantifying the changes that would result from dividing the SMMUSD into a separate SMUSD and MUSD. In a similar way, the proposed Revenue Neutrality Formula would operate each year by synthetically calculating the values for a combined district that no longer exists. However, we think that building needed planning by modeling the future is different than establishing equity in real time, for real districts, but against values determined for a district which at that time would no longer exist. We have confidence that the MUNC neutrality formula will work as proposed, but we also believe that an approach to equitable financial adjustments post-reorganization that does not require making calculations for a synthetic district may be viable. The following section explores that concept in more detail.

Alternative Revenue Allocation Model

One of the key issues facing the Santa Monica-Malibu USD community is the impact on revenues following the creation of a unified school district in the Malibu community. Specifically, because of the high assessed values per ADA in the Malibu area, MUSD would be a basic aid district immediately upon unification. (Note: A basic aid district receives no state aid to fund its LCFF entitlement because local property tax revenues exceed the entitlement level.)

Our analysis shows that absent the proposed reorganization, the SMMUSD would become a basic aid district in 2019-20, assuming a 6% property tax growth rate. However, the loss of the Malibu area property tax, assuming the establishment of MUSD effective in the 2018-19 fiscal year, will delay the transition to a basic aid district for SMUSD until 2023-24. This delay results in less funding available to support SMUSD programs than would be available had the Malibu community not formed its own school district.

Alternative Model: Revenue Sharing

In light of this fiscal challenge, SSC developed an alternative revenue allocation model designed to smooth the transition of SMUSD to basic aid status and at the same time allow both SMUSD and MUSD to become fiscally independent of one another just a few years following SMUSD's becoming a basic aid district.

This alternative revenue allocation model rests on the premise that revenues outside of the LCFF entitlement that accrue to SMUSD and MUSD should be shared during the period between MUSD's unification and SMUSD's transition to basic aid status.

Two specific adjustments are proposed:

1) *Sharing of excess property tax revenues generated in MUSD*. MUSD will generate property tax revenues in excess of the district's LCFF entitlement of an estimated $9.8 million in the year of reorganization. This alternative model proposes that these revenues will be split between the two districts based on their proportionate share of assessed valuation until SMUSD becomes a basic aid district. For three subsequent years, the model also provides for a supplemental transition payment from MUSD's excess property tax to SMUSD to ensure that SMUSD's funding level increases in line with a COLA.

2) *Sharing of Other Local Revenue*s. Currently, the SMMUSD enjoys support from a number of local revenue sources which supplement state funding under the LCFF. These local revenues include support from the Measure R parcel tax, Measure YY, 2016 use tax Measure GSH, ground lease revenues, and tax revenues transferred from the city of Santa Monica. This sharing proposal, however, does not include foundation support.

The analysis that follows examines the allocation of revenues to SMUSD and MUSD and compares these amounts to what would be provided to the SMMUSD if no reorganization were to occur. These comparisons are made assuming three scenarios of property tax growth:

- *Scenario 1:* A baseline case of 6% property tax growth in both SMUSD and MUSD.
- *Scenario 2:* Property tax growth in SMUSD outpacing MUSD at 6.5% versus 6%, respectively.
- *Scenario 3:* Property tax growth in MUSD outpacing SMUSD at 7.2% versus 6%, respectively.

These scenarios were selected based on assessed valuations in the two jurisdictions over a 15-year period from 2002-03 to 2016-17.

Assumptions and Projections

Key Input Factors

Figure 4 displays the key input factors used to simulate the allocation of revenues under the proposed alternative funding model for the three district configurations: the SMMUSD as it is today, SMUSD, and MUSD. For each district, the figure shows the ADA, entitlement under the LCFF, and Other Local Revenues.

For this analysis, the ADA for each of the three districts is assumed to be flat over the forecast period. Each district's LCFF entitlement is adjusted for the projected COLA, which is assumed at 2.57% annually. Because these projections assume no enrollment growth, the workload component of the LCFF (i.e., the change in a district's ADA) is zero.

Other local revenues are supplemental revenues currently accruing to the SMMUSD outside of the LCFF calculations, which include revenues from the Measure R parcel tax, Measure YY, 2016 use tax Measure GSH, ground lease revenues, and tax revenues transferred from the city of Santa Monica. These revenue sources taken together are assumed to grow at an annual average rate of 2.0% through 2032-33. Other local revenues, however, do not include revenues provided by district foundations.

Also, it is important to note that this analysis assumes passage of a local parcel tax in the Malibu community, which is estimated to generate approximately $3.8 million in 2018-19 for MUSD. These funds are included in other local revenues for MUSD.

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Figure 4 Key Input Factors ($ in Thousands)									
	ADA			LCFF Entitlements			Other Local Revenues		
Year	SMMUSD	SMUSD	MUSD	SMMUSD	SMUSD	MUSD	SMMUSD	SMUSD	MUSD
2018-19	10,462	8,715	1,747	$90,838	$76,126	$14,712	$41,028	$36,872	$4,156
2019-20	10,462	8,715	1,747	$93,181	$78,100	$15,080	$41,876	$37,640	$4,236
2020-21	10,462	8,715	1,747	$96,840	$81,173	$15,667	$42,728	$38,412	$4,316
2021-22	10,462	8,715	1,747	$99,295	$83,231	$16,064	$43,586	$39,187	$4,399
2022-23	10,462	8,715	1,747	$101,814	$85,343	$16,471	$44,700	$40,213	$4,487
2023-24	10,462	8,715	1,747	$104,401	$87,512	$16,889	$45,566	$40,989	$4,576
2024-25	10,462	8,715	1,747	$107,053	$89,735	$17,318	$46,448	$41,780	$4,668
2025-26	10,462	8,715	1,747	$109,773	$92,015	$17,758	$47,349	$42,588	$4,761
2026-27	10,462	8,715	1,747	$112,560	$94,351	$18,209	$48,409	$43,552	$4,856
2027-28	10,462	8,715	1,747	$115,420	$96,749	$18,671	$49,347	$44,394	$4,954
2028-29	10,462	8,715	1,747	$118,358	$99,211	$19,146	$50,305	$45,253	$5,053
2029-30	10,462	8,715	1,747	$121,363	$101,731	$19,632	$51,282	$46,129	$5,154
2030-31	10,462	8,715	1,747	$124,451	$104,320	$20,132	$52,280	$47,023	$5,257
2031-32	10,462	8,715	1,747	$127,618	$106,974	$20,644	$53,297	$47,935	$5,362
2032-33	10,462	8,715	1,747	$130,862	$109,694	$21,168	$54,334	$48,865	$5,469

Property Tax Assumptions

Figure 5 displays property tax projections for the three districts under three scenarios of property tax growth. The three scenarios were based on the historical performance of assessed valuation growth in the Santa Monica jurisdiction and the Malibu jurisdiction over a 15-year period from 2002-03 to 2016-17. These assessed valuations are displayed in Figure 6.

Figure 5
Property Tax Projections
(In Thousands)

	Scenario 1: Baseline			Scenario 2: SMUSD Stronger			Scenario 3: MUSD Stronger		
Year	SMMUSD	SMUSD	MUSD	SMMUSD	SMUSD	MUSD	SMMUSD	SMUSD	MUSD
2018-19	$89,038	$64,537	$24,501	$89,342	$64,841	$24,501	$89,316	$64,537	$24,779
2019-20	$94,380	$68,409	$25,971	$95,026	$69,055	$25,971	$94,972	$68,409	$26,563
2020-21	$100,042	$72,513	$27,529	$101,073	$73,544	$27,529	$100,989	$72,513	$28,476
2021-22	$106,045	$76,864	$29,181	$107,506	$78,325	$29,181	$107,390	$76,864	$30,526
2022-23	$112,408	$81,476	$30,932	$114,348	$83,416	$30,932	$114,200	$81,476	$32,724
2023-24	$119,152	$86,364	$32,788	$121,626	$88,838	$32,788	$121,444	$86,364	$35,080
2024-25	$126,301	$91,546	$34,755	$129,368	$94,613	$34,755	$129,152	$91,546	$37,606
2025-26	$133,879	$97,039	$36,840	$137,603	$100,763	$36,840	$137,353	$97,039	$40,314
2026-27	$141,911	$102,861	$39,050	$146,363	$107,313	$39,050	$146,078	$102,861	$43,217
2027-28	$150,425	$109,032	$41,393	$155,682	$114,289	$41,393	$155,361	$109,032	$46,329
2028-29	$159,451	$115,574	$43,877	$165,595	$121,718	$43,877	$165,239	$115,574	$49,665
2029-30	$169,018	$122,508	$46,510	$176,139	$129,629	$46,510	$175,749	$122,508	$53,241
2030-31	$179,160	$129,859	$49,301	$187,356	$138,055	$49,301	$186,933	$129,859	$57,074
2031-32	$189,910	$137,651	$52,259	$199,288	$147,029	$52,259	$198,834	$137,651	$61,183
2032-33	$201,305	$145,910	$55,395	$211,981	$156,586	$55,395	$211,498	$145,910	$65,588

Figure 6
Assessed Valuation Growth

Year	MUSD		SMUSD		SMMUSD	
	Assessed Value	Growth	Assessed Value	Growth	Assessed Value	Growth
2002-03	$6,340,588,022		$14,674,090,416		$21,014,678,438	
2003-04	$6,969,498,555	9.9%	$15,786,184,470	7.6%	$22,755,683,025	8.3%
2004-05	$7,651,513,052	9.8%	$16,623,059,229	5.3%	$24,274,572,281	6.7%
2005-06	$8,576,555,735	12.1%	$18,174,096,040	9.3%	$26,750,651,775	10.2%
2006-07	$9,789,877,402	14.1%	$19,780,237,852	8.8%	$29,570,115,254	10.5%
2007-08	$10,728,680,123	9.6%	$21,197,574,002	7.2%	$31,926,254,125	8.0%
2008-09	$11,731,608,038	9.3%	$23,487,973,964	10.8%	$35,219,582,002	10.3%
2009-10	$12,421,769,212	5.9%	$24,095,953,366	2.6%	$36,517,722,578	3.7%
2010-11	$12,516,074,931	0.8%	$23,881,281,051	-0.9%	$36,397,355,982	-0.3%
2011-12	$12,933,576,249	3.3%	$24,643,220,291	3.2%	$37,576,796,540	3.2%
2012-13	$13,336,729,306	3.1%	$25,764,831,084	4.6%	$39,101,560,390	4.1%
2013-14	$14,123,821,322	5.9%	$27,513,319,466	6.8%	$41,637,140,788	6.5%
2014-15	$14,646,090,350	3.7%	$29,045,399,241	5.6%	$43,691,489,591	4.9%
2015-16	$15,722,234,940	7.3%	$31,154,496,570	7.3%	$46,876,731,510	7.3%
2016-17	$16,751,190,290	6.5%	$33,159,005,934	6.4%	$49,910,196,224	6.5%

Under Scenario 1, property tax revenues are assumed to grow at an average annual rate of 6% for both SMUSD and MUSD. Since the depths of the Great Recession in 2009-10, assessed valuation growth in Santa Monica and Malibu has been roughly equivalent, outpacing 6% in the most recent years.

Under Scenario 2, property tax revenue growth in SMUSD is projected to outpace the growth rate in MUSD. Specifically, SMUSD property tax revenues are assumed to grow at an average annual rate of 6.5% compared to growth in MUSD which is assumed at 6% annually. Given these assumptions, the resulting growth rate for the SMMUSD is 6.4%. Since 2012-13, assessed valuation growth in Santa Monica has slightly outpaced growth in Malibu.

Finally, under Scenario 3, property tax revenues in MUSD are assumed to exceed SMUSD, 7.2% versus 6%, respectively. These rates generally mirror the assessed valuation growth in the two jurisdictions from the 2002-03 through 2016-17 period.

Other Local Revenues

The alternative revenue allocation model proposes two revenue sources that, following reorganization of the SMMUSD, would be shared between SMUSD and MUSD. The first is the excess property taxes accruing to MUSD upon its unification (Figure 7). Assuming the unification of MUSD were to occur in 2018-19, the district would have property taxes in excess of its LCFF entitlement of $9.8 million, increasing annually thereafter. Rather than have these revenues accrue solely to MUSD, the proposed model would have these revenues shared between the two districts, based on the proportionate share of property tax revenues generated in the two jurisdictions. Based on this allocation, SMUSD would receive about 72.5% of the excess property tax revenues and MUSD would receive about 27.5%.

This arrangement would continue until SMUSD becomes a basic aid district. For three years commencing with SMUSD's reaching basic aid status, the model would provide a supplemental transition payment to SMUSD to ensure that the district's annual funding total keeps pace with the projected COLA. Without these payments, SMUSD's funding would lag inflation-adjusted revenues from the prior year. The supplemental transition payment to SMUSD would be $7.2 million in 2024-25, $4.5 million in 2025-26, and $1.4 million in 2026-27. Then from 2027-28 and each year thereafter, SMUSD would receive no property tax transfer from MUSD.

In turn, MUSD would receive $2.7 million of the $9.8 million generated in excess property taxes. This amount would gradually increase through 2023-24 in line with overall property tax growth. Then in 2024-25 MUSD would see a $5.9 million gain in this revenue source as the amount shared with SMUSD declines. By 2027-28, MUSD would receive all of the property tax revenue accruing to the district, as no further sharing of excess property taxes would be provided.

Figure 7 Shared Revenues Excess Property Taxes			
	Excess Property Taxes		
Year	MUSD'S Excess Property Tax	SMUSD's Share	MUSD's Share
2018-19	$9,789,214	$7,095,516	$2,693,698
2019-20	$10,890,573	$7,893,814	$2,996,759
2020-21	$11,862,418	$8,598,236	$3,264,182
2021-22	$13,117,417	$9,507,766	$3,609,651
2022-23	$14,461,007	$10,481,627	$3,979,380
2023-24	$15,898,638	$11,523,651	$4,374,987
2024-25	$17,436,859	$7,186,288	$10,250,571
2025-26	$19,082,042	$4,496,933	$14,585,109
2026-27	$20,841,309	$1,414,162	$19,427,147
2027-28	$22,721,742	$0	$22,721,742
2028-29	$24,730,757	$0	$24,730,757
2029-30	$26,877,746	$0	$26,877,746
2030-31	$29,169,319	$0	$29,169,319
2031-32	$31,615,267	$0	$31,615,267
2032-33	$34,226,606	$0	$34,226,606

In addition to sharing the excess property tax, the model proposes sharing other local revenues currently accruing to the SMMUSD (Figure 8). Upon reorganization of the SMMUSD, the majority of these revenues, absent any sharing arrangement, would continue to flow to SMUSD by the terms under which these supplemental revenues were approved (shown under the heading "By Ordinance"). MUSD, on the other hand, would receive about $360,000 related to ground lease revenues and revenue sharing from the city of Malibu under existing ordinances. However, for the purpose of this analysis, Malibu voters are assumed to approve a parcel tax to replace parcel tax revenues currently accruing to the SMMUSD under the terms of Measure R. The Malibu parcel tax is assumed to generate about $3.8 million, increasing at a rate of 2% annually through the forecast period.

Figure 8 Shared Revenues Other Local Revenues						
	SMUSD			MUSD		
Year	By Ordinance	Transfer to MUSD	SMUSD's Share	By Ordinance	Transfer From SMUSD	MUSD's Share
2018-19	$36,871,536	$2,695,201	$34,176,335	$4,156,478	$2,695,201	$6,851,679
2019-20	$37,639,967	$2,757,614	$34,882,353	$4,235,607	$2,757,614	$6,993,221
2020-21	$38,411,766	$2,819,271	$35,592,495	$4,316,319	$2,819,271	$7,135,590
2021-22	$39,187,001	$2,880,157	$36,306,844	$4,398,646	$2,880,157	$7,278,803
2022-23	$40,212,898	$2,978,201	$37,234,697	$4,486,619	$2,978,201	$7,464,820
2023-24	$40,989,299	$3,033,113	$37,956,186	$4,576,351	$3,033,113	$7,609,464
2024-25	$41,780,208	$0	$41,780,208	$4,667,879	$0	$4,667,879
2025-26	$42,587,734	$0	$42,587,734	$4,761,237	$0	$4,761,237
2026-27	$43,552,483	$0	$43,552,483	$4,856,462	$0	$4,856,462
2027-28	$44,393,576	$0	$44,393,576	$4,953,590	$0	$4,953,590
2028-29	$45,252,623	$0	$45,252,623	$5,052,662	$0	$5,052,662
2029-30	$46,128,747	$0	$46,128,747	$5,153,716	$0	$5,153,716
2030-31	$47,023,071	$0	$47,023,071	$5,256,791	$0	$5,256,791
2031-32	$47,934,720	$0	$47,934,720	$5,361,926	$0	$5,361,926
2032-33	$48,864,826	$0	$48,864,826	$5,469,165	$0	$5,469,165

The proposed sharing arrangement of other local revenues would increase funding to MUSD by approximately $2.7 million in 2018-19, increasing at a rate of 2% annually. At the same time, SMUSD's share of other local revenues would be reduced by the same amount received by MUSD. By 2024-25, the sharing of other local revenues would be terminated, as SMUSD would become a basic aid district in that year.

Revenue Allocation Results—Total District Funding

Figures 9, 10, and 11 display the total funding for the SMMUSD, SMUSD, and MUSD, respectively, under the proposed alternative revenue allocation model.

Figure 9 shows projected funding for the SMMUSD from 2018-19 through 2032-33 under the three scenarios of local property tax growth. Under Scenario 1, the baseline projection, in which property tax revenues grow at an annual average rate of 6%, total revenue to the SMMUSD increases from $132 million in 2018-19 to $256 million at the end of the forecast period. Within this timeframe, the SMMUSD is projected to become a basic aid district when property tax revenues of $94.4 million (see Figure 5) exceeds the LCFF entitlement of

$93.2 million (see Figure 4.) Total revenues to the SMMUSD are essentially the same under the three scenarios, and at the end of the forecast period, only $11 million separates the three scenarios. The totals include other local revenues, which by 2032-33 provide $54.3 million to the SMMUSD. These revenues are not affected by the differences in property tax growth rates under the three scenarios.

Figure 9
SMMUSD
Total Funding

	Scenario 1: Baseline		Scenario 2: SMUSD 6.5%/MUSD 6%		Scenario 3: SMUSD 6%/MUSD 7.2%	
Year	Amount	Change	Amount	Change	Amount	Change
2018-19	$131,865,535	1.2%	$131,865,535	1.2%	$131,865,535	1.2%
2019-20	$136,255,574	3.3%	$136,901,574	3.8%	$136,847,574	3.8%
2020-21	$142,770,085	4.8%	$143,801,085	5.0%	$143,717,085	5.0%
2021-22	$149,630,647	4.8%	$151,091,647	5.1%	$150,975,647	5.1%
2022-23	$157,107,517	5.0%	$159,047,517	5.3%	$158,899,517	5.2%
2023-24	$164,717,650	4.8%	$167,191,650	5.1%	$167,009,650	5.1%
2024-25	$172,749,087	4.9%	$175,816,087	5.2%	$175,600,087	5.1%
2025-26	$181,227,971	4.9%	$184,951,971	5.2%	$184,701,971	5.2%
2026-27	$190,319,945	5.0%	$194,771,945	5.3%	$194,486,945	5.3%
2027-28	$199,772,166	5.0%	$205,029,166	5.3%	$204,708,166	5.3%
2028-29	$209,756,286	5.0%	$215,900,286	5.3%	$215,544,286	5.3%
2029-30	$220,300,464	5.0%	$227,421,464	5.3%	$227,031,464	5.3%
2030-31	$231,439,862	5.1%	$239,635,862	5.4%	$239,212,862	5.4%
2031-32	$243,206,646	5.1%	$252,584,646	5.4%	$252,130,646	5.4%
2032-33	$255,638,991	5.1%	$266,314,991	5.4%	$265,831,991	5.4%

Figure 10 shows the total revenues accruing to SMUSD following reorganization. The figure shows that SMUSD funding increases from $117 million under Scenario 1 (6% annual property tax growth) to $195 million.

Figure 10 SMUSD Total Funding						
	Scenario 1: Baseline		Scenario 2: SMUSD 6.5%/MUSD 6%		Scenario 3: SMUSD 6%/MUSD 7.2%	
Year	Amount	Change	Amount	Change	Amount	Change
2018-19	$117,397,629	3.5%	$117,406,733	3.5%	$117,576,380	3.7%
2019-20	$120,876,450	3.0%	$120,896,815	3.0%	$121,253,648	3.1%
2020-21	$125,363,925	3.7%	$125,397,140	3.7%	$125,963,235	3.9%
2021-22	$129,045,818	2.9%	$129,094,877	3.0%	$129,889,527	3.1%
2022-23	$133,059,509	3.1%	$133,127,042	3.1%	$134,173,590	3.3%
2023-24	$136,991,807	3.0%	$136,548,407	2.6%	$138,404,246	3.2%
2024-25	$140,512,496	2.6%	$140,057,701	2.6%	$141,961,235	2.6%
2025-26	$144,123,667	2.6%	$143,657,184	2.6%	$145,609,639	2.6%
2026-27	$147,827,645	2.6%	$150,865,483	5.0%	$149,351,807	2.6%
2027-28	$153,425,576	3.8%	$158,682,576	5.2%	$153,425,576	2.7%
2028-29	$160,826,623	4.8%	$166,970,623	5.2%	$160,826,623	4.8%
2029-30	$168,636,747	4.9%	$175,757,747	5.3%	$168,636,747	4.9%
2030-31	$176,882,071	4.9%	$185,078,071	5.3%	$176,882,071	4.9%
2031-32	$185,585,720	4.9%	$194,963,720	5.3%	$185,585,720	4.9%
2032-33	$194,774,826	5.0%	$205,450,826	5.4%	$194,774,826	5.0%

Under Scenario 2 which assumes property tax growth of 6.5% in Santa Monica, SMUSD's total revenues reach $205 million by the end of the forecast period. It reaches basic aid status in 2023-24. Note that under Scenario 3, SMUSD's property tax is assumed to grow at 6% annually, the same rate as in Scenario 1; therefore, total revenues for SMUSD are the same under Scenarios 1 and 3. Total funding to SMUSD will be about 75% greater in 2032-33 than in 2018-19.

Total funding for MUSD is displayed in Figure 11. The figure shows that under Scenario 1, MUSD's total revenues grow from $24.3 million to almost $61 million. This result is also reflected in Scenario 2, which assumes the same 6% annual property tax growth rate as in Scenario 1. Under Scenario 3, MUSD's total revenue increases to $71 million, based on the 7.2% annual property tax growth rate assumed in this scenario.

The figure also shows the substantial growth in total revenues in 2023-24 (Scenario 2) and in 2024-25 (Scenarios 1 and 3) as the revenue sharing arrangement with SMUSD phases out. In other words, as the amount of excess property taxes transferred to SMUSD is reduced, funding to MUSD increases on a dollar-for-dollar basis since these funds would then be retained by MUSD.

Figure 11 MUSD Total Funding						
	Scenario 1: Baseline		Scenario 2: SMUSD 6.5%/MUSD 6%		Scenario 3: SMUSD 6%/MUSD 7.2%	
Year	Amount	Change	Amount	Change	Amount	Change
2018-19	$24,257,163	3.9%	$24,248,059	3.9%	$24,356,412	4.4%
2019-20	$25,070,407	3.4%	$25,050,042	3.3%	$25,285,209	3.8%
2020-21	$26,066,354	4.0%	$26,033,139	3.9%	$26,414,044	4.5%
2021-22	$26,952,037	3.4%	$26,902,978	3.3%	$27,453,328	3.9%
2022-23	$27,915,193	3.6%	$27,847,660	3.5%	$28,593,112	4.2%
2023-24	$28,873,813	3.4%	$30,643,243	10.0%	$29,753,374	4.1%
2024-25	$32,236,591	11.7%	$35,758,386	16.7%	$33,638,852	13.1%
2025-26	$37,104,304	15.1%	$41,294,787	15.5%	$39,092,332	16.2%
2026-27	$42,492,300	14.5%	$43,906,462	6.3%	$45,135,138	15.5%
2027-28	$46,346,590	9.1%	$46,346,590	5.6%	$51,282,590	13.6%
2028-29	$48,929,662	5.6%	$48,929,662	5.6%	$54,717,662	6.7%
2029-30	$51,663,716	5.6%	$51,663,716	5.6%	$58,394,716	6.7%
2030-31	$54,557,791	5.6%	$54,557,791	5.6%	$62,330,791	6.7%
2031-32	$57,620,926	5.6%	$57,620,926	5.6%	$66,544,926	6.8%
2032-33	$60,864,165	5.6%	$60,864,165	5.6%	$71,057,165	6.8%

Over the 15-year period, total funding to MUSD will be two and one-half times greater than in 2018-19, with revenues far outpacing projected cost-of-living increases.

Revenue Allocation Results—Revenues Per ADA

This section presents district funding on a per ADA basis to allow for easier comparisons among the three districts and across the forecast period. For purposes of this presentation, the baseline assumptions of Scenario 1 are used. This section presents the effects of (1) no revenue sharing between SMUSD and MUSD, (2) sharing only excess property taxes, and (3) sharing both excess property taxes and other local revenues.

No Revenue Sharing

Figure 2 (page 14) shows per ADA funding if no sharing of revenues between SMUSD and MUSD were to occur. These amounts are compared to per-ADA funding for the SMMUSD. The chart shows that per-ADA funding in MUSD far outpaces per-ADA funding in the SMMUSD and SMUSD over the projection period. As previously noted, MUSD would become a basic aid district immediately upon unification, and its revenue growth would follow the growth in property tax collections in the district. The SMMUSD would become a basic aid district, absent reorganization, in 2018-19 or 2019-20 under the assumption of a 6% average annual property tax growth rate. SMUSD's transition to a basic aid district would follow the SMMUSD's since the assessed valuation in the Malibu community would not be available in SMUSD.

Sharing Excess Property Tax Only

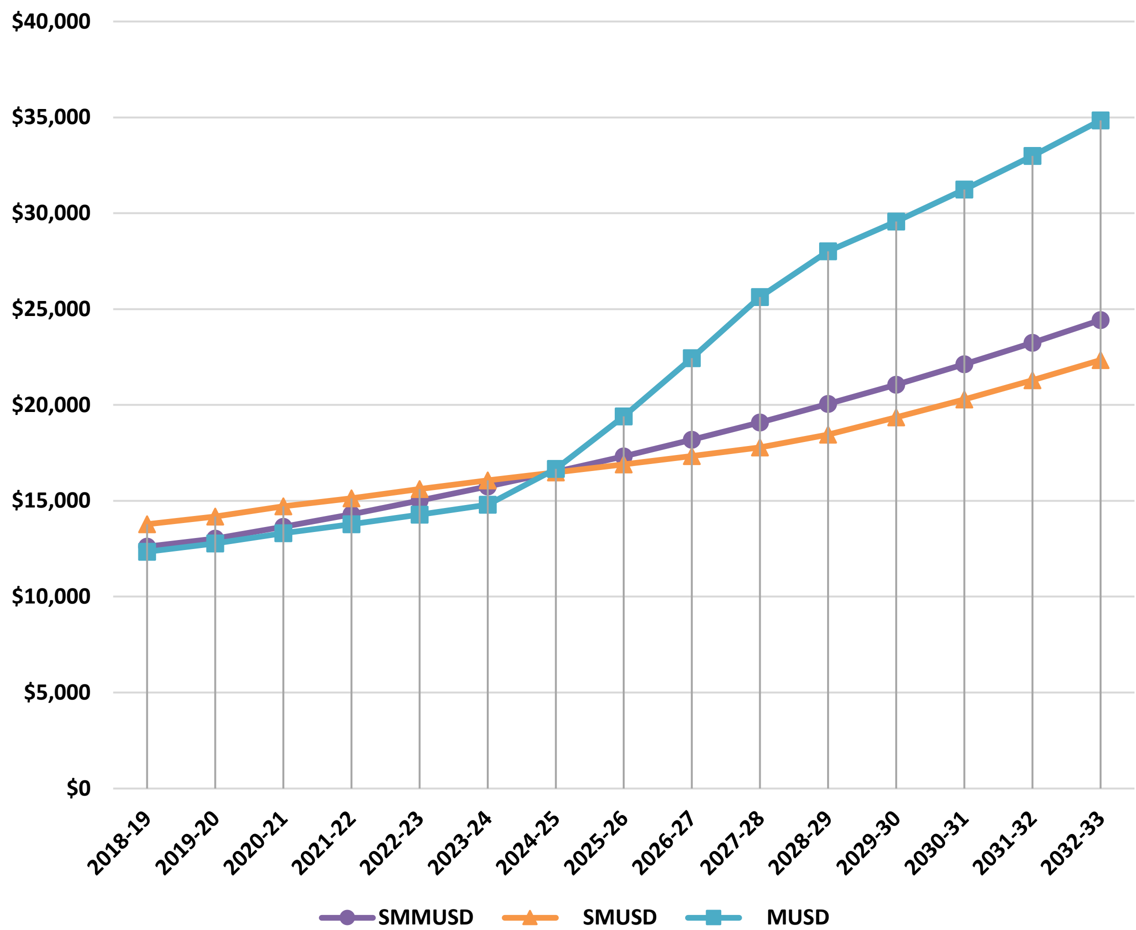
Figures 12 and 13 show per-ADA funding if only the excess property tax is shared between SMUSD and MUSD. The data reveals that funding for both SMUSD and MUSD closely parallels the per-ADA funding of the SMMUSD thorough 2024-25. At that point, as a basic aid district, SMUSD transfers from MUSD begin to be reduced. At the same time, funding for MUSD increases significantly.

Figure 12
Sharing Excess Property Tax
Funding Per ADA

Year	SMMUSD	SMUSD	MUSD
2018-19	$12,604	$13,780	$12,342
2019-20	$13,024	$14,186	$12,772
2020-21	$13,647	$14,708	$13,307
2021-22	$14,302	$15,138	$13,779
2022-23	$15,017	$15,610	$14,274
2023-24	$15,744	$16,067	$14,791
2024-25	$16,512	$16,480	$16,672
2025-26	$17,322	$16,904	$19,412
2026-27	$18,192	$17,338	$22,449
2027-28	$19,095	$17,784	$25,637
2028-29	$20,049	$18,454	$28,008
2029-30	$21,057	$19,350	$29,573
2030-31	$22,122	$20,296	$31,229
2031-32	$23,247	$21,295	$32,983
2032-33	$24,435	$22,349	$34,839

Figure 13 illustrates the effects of the transfer of excess property taxes in SMUSD, which significantly boosts funding above the levels without the transfer. At the same time, MUSD's funding is reduced below the level of both the SMMUSD and SMUSD until 2024-25. From that year forward, MUSD's funding accelerates significantly, far outpacing the current unified district and resulting SMUSD.

Figure 13: Shared Excess Property Tax
(Funding Per ADA)



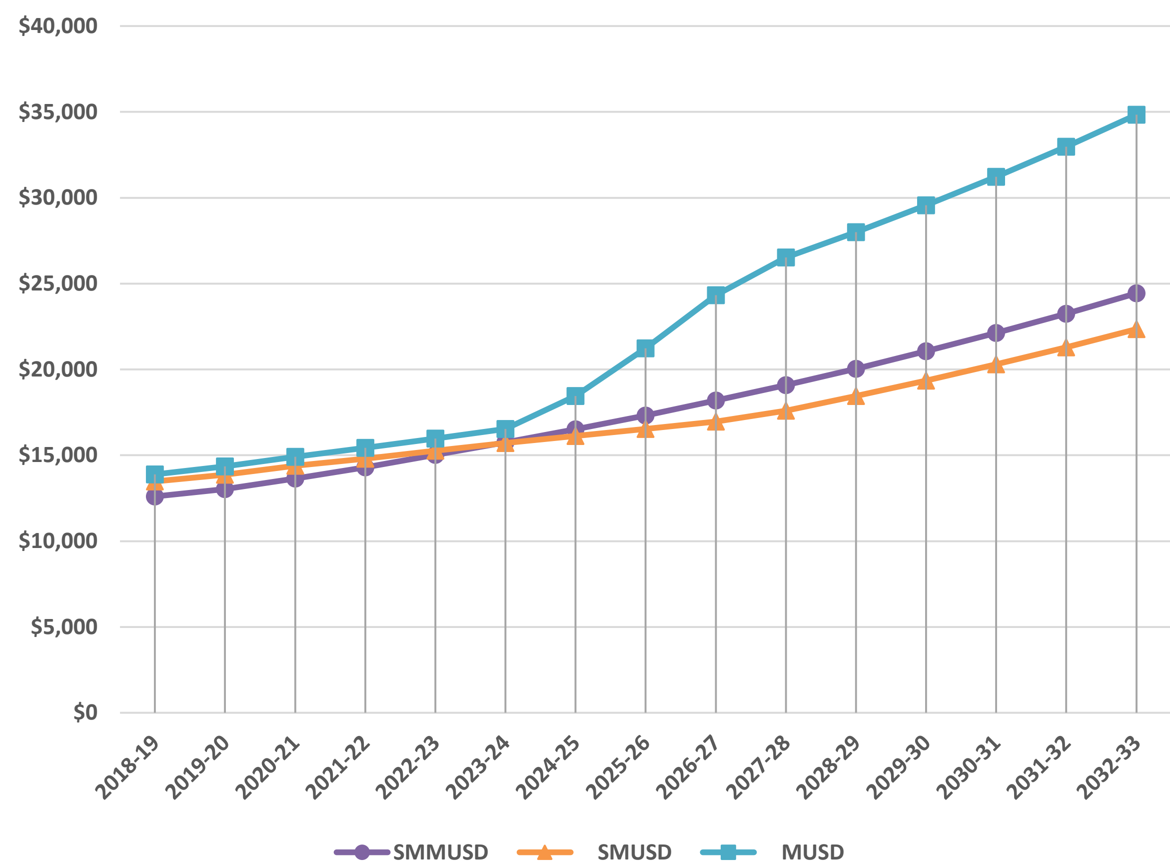
Sharing Both Excess Property Tax and Other Local Revenues

Figures 14 and 15 show the combined effects of sharing both the excess property taxes generated by MUSD and other local revenues which, absent this arrangement, accrue primarily to SMUSD. The data shows that with both of these revenue sources shared between the two districts, per-ADA funding in the initial year of the reorganization for both SMUSD and MUSD is above the level of the SMMUSD. The SMMUSD would be expected to receive $12,604 per ADA absent any reorganization of the SMMUSD. With the reorganization in place, SMUSD would receive $13,471 per ADA, while MUSD would receive $13,885. These gains against the SMMUSD's funding level assume that property taxes generated in MUSD above its LCFF entitlement are retained and available for sharing between the two reorganized districts.

Figure 14 Sharing Excess Property Tax and Other Local Revenues Funding Per ADA			
Year	SMMUSD	SMUSD	MUSD
2018-19	$12,604	$13,471	$13,885
2019-20	$13,024	$13,870	$14,351
2020-21	$13,647	$14,385	$14,921
2021-22	$14,302	$14,807	$15,428
2022-23	$15,017	$15,268	$15,979
2023-24	$15,744	$15,719	$16,528
2024-25	$16,512	$16,123	$18,453
2025-26	$17,322	$16,537	$21,239
2026-27	$18,192	$16,962	$24,323
2027-28	$19,095	$17,605	$26,529
2028-29	$20,049	$18,454	$28,008
2029-30	$21,057	$19,350	$29,573
2030-31	$22,122	$20,296	$31,229
2031-32	$23,247	$21,295	$32,983
2032-33	$24,435	$22,349	$34,839

The data shows that sharing these two revenue sources increases the per-ADA funding level for MUSD compared to sharing only the excess property tax (Figures 12 and 13). This advantage continues until 2027-28 when the sharing arrangement is fully terminated and MUSD receives all of its excess property taxes and no transfer of other local revenues from SMUSD.

Figure 15: Shared Excess Property Tax and Other Local Revenues (Funding Per ADA)



SMUSD, on the other hand, receives less under the sharing arrangement when both excess property tax and other local revenues are shared compared to sharing only the excess property tax. However, sharing both revenue sources provides SMUSD significantly more funding compared to the case in which no revenues are shared between the two districts (Figure 2 on page 14).

Ultimately, the two districts are funded based on their local property tax, thus becoming basic aid school districts fully independent of one another commencing in 2027-28.

Sensitivity Analysis—Property Tax Growth Rate Differences

The revenue outcomes over the long run are generally unaffected by different assumptions of property tax growth. Figures 16 and 17 present the effects of sharing both the excess property tax and other local revenues under Scenarios 2 and 3, respectively. This sensitivity analysis shows that MUSD's funding level is greater under Scenario 3, which assumes average annual growth of 7.2% in MUSD's property tax revenues compared to 6% growth under the other two scenarios. Specifically, by 2032-33, per-ADA revenues for MUSD would be $40,674 under Scenario 3 and $34,839 under Scenario 2. Similarly, SMUSD does better under Scenario 2, which assumes 6.5% growth in property tax revenues compared to 6% under Scenarios 1 and 3. Under Scenario 2, SMUSD would receive $23,574 per ADA compared to $22,349 per ADA under Scenario 3.

These differences notwithstanding, the overall path of per-ADA revenue growth for each district is the same under all three property tax growth scenarios.

Figure 16: Scenario 2
Shared Excess Property Tax
and Other Local Revenues
(Funding Per ADA)

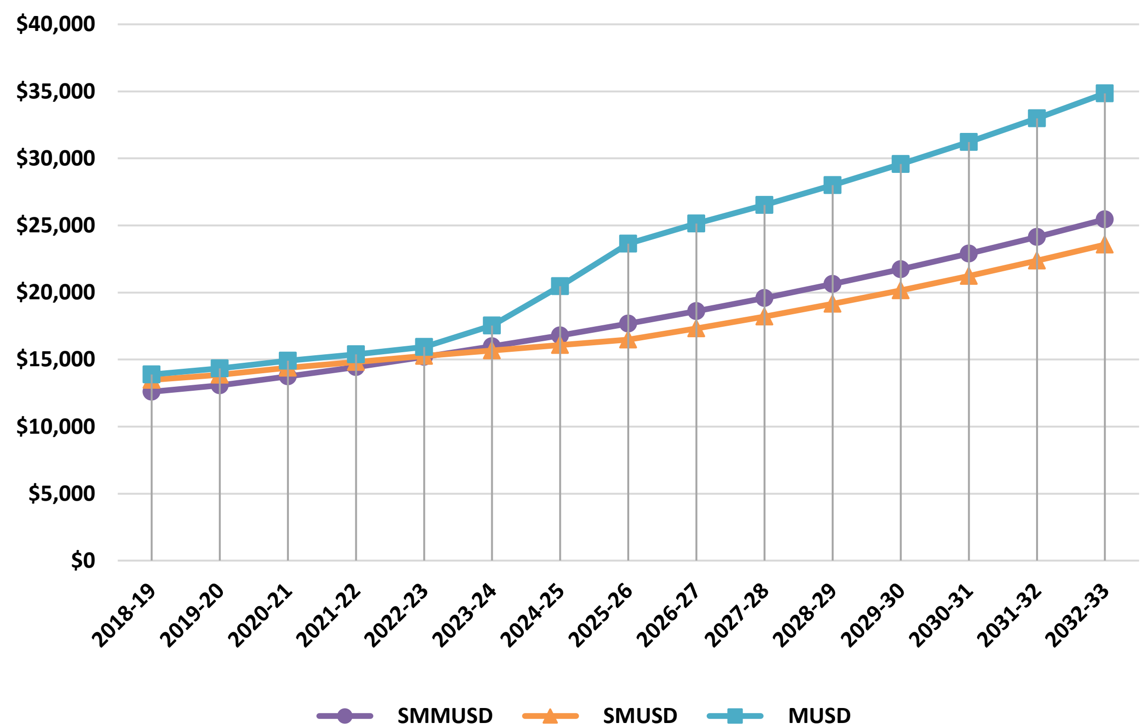
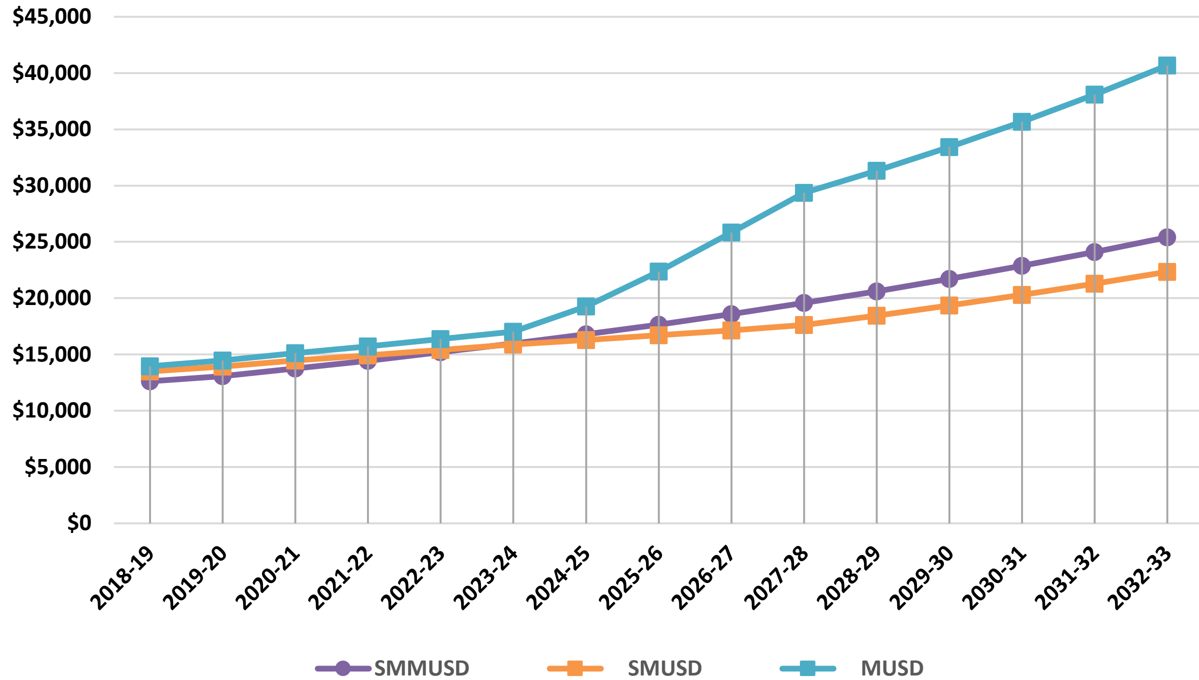


Figure 17: Scenario 3
Shared Excess Property Tax and Local Revenues
(Funding Per ADA)



Attachment A

MUNC July 11, 2017, Supplemental Memorandum Report

Attachment A is the Supplemental Memorandum Report from the MUNC to Dr. Benjamin Drati, Superintendent, Santa Monica-Malibu Unified School District dated July 11, 2017.