

TO: BOARD OF EDUCATION

DISCUSSION

05/03/12

FROM: SANDRA LYON / JANECE L. MAEZ

**7:30pm**

RE: FISCAL IMPLICATIONS OF A MALIBU UNIFICATION PROPOSAL

DISCUSSION ITEM NO. D.01

At the March 1, 2012, Board of Education meeting, representatives from Los Angeles County Office of Education (LACOE) presented a summary of the role and authority of the Los Angeles County Committee on School District Organization and the criteria that is considered for unification. That discussion was in response to the City of Malibu's petition with the Los Angeles County Committee on School District Organization (County Committee) for the purpose of forming a unified school district from territory currently within the Santa Monica-Malibu Unified School District. After an in depth discussion, the Board directed staff to draft a scope of work that would be needed to analyze a petition and any associated costs.

Upon that direction, staff contacted two firms regarding assisting and preparing an analysis of the fiscal impact of unification on the remaining portion of the District. Specifically, the firms were asked to propose studies that would provide information on the budgetary and bonding impacts. The resulting proposals varied from a full feasibility study costing in excess of \$39,000 to a smaller scoped proposal that addressed revenue and bonding changes at a cost of \$9,000. Neither proposal answered the specific budget impact on the remaining Santa Monica Unified School District. In order to provide the Board the requested information, staff then contacted the district's financial advisor, Keygent, and has worked with them to provide information regarding bonding capacity of the remaining district. Representatives from Keygent will be present at the Board meeting to describe how the unification of Malibu will (1) impact the tax rates of residents in the remaining Santa Monica portion of the district, (2) impact the issuance of the remaining Measure BB bond authorization, and (3) limit the bonding capacity for future bonds in the remaining district.

Staff internally prepared an estimated budget for a Santa Monica (only) Unified School District. The preparation of that budget made several assumptions that are important to note. Direct site costs that included all classroom teacher, counseling, library, administrative, clerical, custodial, noon aides, PE specialists, security, and outreach specialists for sites in Santa Monica only. District-wide utility costs that were adjusted for Malibu usage. The estimated budget included maintenance and grounds staffing levels without reductions. A general fund contribution for programs that encroach was adjusted on a pro rata basis of enrollment. The final category of costs was those costs incurred by the district not specific to a site. These could be referred to as overhead. They include the following: Superintendent/Board, Human Resources, Educational Services, Fiscal Services, Personnel Commission, Computer Services, Purchasing Services, Pupil Services, Health Services, Insurance, Theater Operations, and Business Services. For the initial proposed budget, these costs remained with a few exceptions. Adjustments were made reducing these costs proportionally for the loss of Malibu students in the following areas: music, PE aides, independent study, substitutes, nurses, and computer technicians.

After revenue projections for the remaining Santa Monica Unified were completed, the final resulting budget reflected an operational deficit of nearly \$3.5 million dollars. To prepare a balanced budget, the Santa Monica Unified District would be faced with a reduction in excess of 23.3% of overhead costs.

Staff will provide a summary level budget document for the Board to discuss. In order to demonstrate the impact of a 23+% cut in overhead, information will be provided to the board

showing a projected budget for the remaining Santa Monica Unified School District, the resulting reduction of staff, and preliminary projections for a Malibu Unified School District.

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Public Comments:

- *Craig Strachad, Laura Rosenthal, Seth Jacobson, Craig Foster, Lou LaMonte, John Sibert, Steve McKenzie, Marty King, Karen Farrer, Ken Miller, John Miller, Deborah LaGorce-Kramer addressed the board regarding this item.*

*Ms. Maez's presentation can be found under Attachments at the end of the minutes. She answered board members' questions regarding specific financials. Mr. Gene Yee from Keygent explained the bond indebtedness portion. Mr. Patel asked the superintendent about programmatic implications. Ms. Lyon said a Malibu Unified School District would provide its own curriculum, programs, and services.*

*The board directed staff to move forward with the analyses proposed on the final slide. Dr. Escarce suggested that staff work with AMPS to figure out how much of the analysis cost they would be willing to cover. He also emphasized the need for an independent entity to conduct the analysis. Mr. Allen agreed, adding that it would be helpful to have a former school district CFO conduct the analysis. He also thought it was important to poll residents in Malibu and the unincorporated areas regarding unification. Mr. Mechur emphasized the need to keep the well-being of all the students in mind.*

*The superintendent suggested that Board President Allen, Mayor Rosenthal, an AMPS representative, Ms. Maez, and she meet to discuss next steps. Mr. Allen suggested including someone from the county to ensure the unincorporated areas of Malibu are also represented.*

# **SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT**

Financial Implications of a Malibu Unification

Board of Education Presentation

Janece L. Maez, Chief Financial Officer

May 3, 2012

Agenda Item D.01.

## **Background and Assumptions**

## Malibu Unification Proposal

- On March 1, 2012, the Board of Education held a study session on the topic of a Malibu Unification proposal.
- Representatives from the Los Angeles County Committee on School District Organization described in detail various steps in this process.
- Staff was directed to take necessary steps to analyze a petition and any associated costs.

## Purpose of this Analysis is:

- To project the fiscal impact of a Malibu unification on the remaining Santa Monica district (SMUSD) and the new Malibu district (MUSD) by:
  - Reviewing how revenue streams are impacted;
  - Estimating the expenditures for each district;
  - Describing how the division of bonded indebtedness is provided for in law and suggest alternatives; and
  - Explain how the division of the bond debt could impact the property owners of the district.

## Assumptions used in this Analysis

- SMUSD would cover the current contiguous geography of the city of Santa Monica;
- MUSD would cover the contiguous geography of the city of Malibu and unincorporated LA County;
- Each district would retain all real estate and real estate revenues in its new boundaries;
- Each district would retain revenues from all joint use agreements from its own city;

## Assumptions used in this Analysis (cont'd)

- Each district would retain all its own students;
- The division of bonded debt and parcel taxes would follow current law;
- Employment status and relationships with CTA and SEIU would follow current law; and
- SMMUSD will not incur direct expense caused by this process.

## Santa Monica / Malibu

### Student Enrollment - Number of Parcels - Assessed Valuation Comparisons

*(Based on December 2011 Information)*

	Student Enrollment	
Santa Monica	9,161	83%
Malibu	1,891	17%
Total	11,052	

	Number of Parcels	
Santa Monica	21,293	72%
Malibu	8,480	28%
Total	29,773	

	Assessed Valuation	
Santa Monica	24,643,379,283	69%
Malibu	11,307,826,952	31%
Total	35,951,206,235	

## Financial Data



## 2012-13 Revenue Limit Projections Unrestricted General Fund

(2011-12 2<sup>nd</sup> Interim)

SMMUSD

SMUSD

MUSD

Enrollment	11,344	9,416	1,928
ADA	10,807	8,969	1,838
Revenue Limit	57,785,914	47,962,308	9,823,606

## Would Malibu Become Basic Aid if they Unified??

Revenue Limit Entitlement - Malibu Unified

9,823,606

Current District Property Taxes

47,654,739

Malibu pro-rated Share of Property Taxes

14,988,970

Malibu Unified - Basic Aid Calculation

Revenue Limit Estimate

9,823,606

Malibu Property Taxes

14,988,970

(5,165,364)

if negative = Basic Aid

Total Revenue Projections			
Unrestricted General Fund			
	SMMUSD	SMUSD	MUSD
Revenue Limit	57,785,914	47,962,308	9,823,606
Excess Property Taxes			5,165,364
Federal Revenue	300,000	200,000	100,000
State Revenue			
Class Size Reduction	2,202,811	1,828,333	0
Mandated Costs	157,443	130,678	26,765
Lottery	1,301,852	1,080,537	221,315
All Other - Tier III	4,396,548	3,649,134	0
	8,058,654	6,688,682	248,080
Local Revenue			
Parcel Taxes	10,685,827	7,694,000	0
Other Taxes	67,515	46,500	20,000
Lease/Rental Revenue	2,610,748	2,600,000	0
Interest Income	274,768	200,000	75,000
City Contributions	13,868,266	13,700,000	100,000
	27,507,124	24,240,500	195,000
TOTAL REVENUE	93,651,692	79,091,490	15,432,050
Combined Revenue \$94,523,540			

## Expenditure Budget Development

- Using 2011-12 Budget and 2<sup>nd</sup> Interim Report information
- Budget line items were divided into two categories:
  - Direct Expenditures including: Site Costs, Utilities, Maintenance and Operations, and Transportation / Special Education Contributions
  - District Wide Costs described in the next slides



## What is Included in Site Costs?

- Classroom Teachers
- Principal / Asst. Principal
- Counselor / Advisors
- Site Clerical Staff
- Custodians
- Noon Aides
- Security Personnel
- Library Staff
- Site Music Aides
- Physical Activity Specialists
- Employee Benefits for site staff
- Supply Allocation
- Tier III Allocation
- Lottery Allocation
- Other Services - Site

## What is Included in District Wide Costs?

- District Programs
  - Elementary Music
  - Nursing
  - Independent Study
- Teacher Substitutes
- District Departments
  - Superintendent
  - Ed Services
  - Human Resources
  - Personnel Commission
  - Business Services
  - Fiscal Services
  - Purchasing
  - Technology Services
  - Insurance Services

## Projected Budget for Santa Monica USD

	SMUSD
REVENUE	79,091,490
Less DIRECT EXPENDITURES:	
Site Costs	48,640,000
Utilities	2,250,000
Maintenance and Operations	5,000,000
Transportation/Special Ed Contributions	<u>12,500,000</u>
Balance to Cover District Wide Costs	10,701,490
District Wide Costs: SMUSD w/o Reductions	<u>14,832,949</u>
Operational Surplus (Deficit): SMUSD	<b>(4,131,459)</b>

## Santa Monica General Fund Impact:

- School Sites would be staffed and funded as they are now;
- Maintenance and Operations staffing and costs would be proportionally reduced;
- District wide programs, such as Elementary Music, Nursing, Independent Study, PE Aides would be proportionally reduced;
- SMUSD would have a **\$4.1 million operational deficit**; and
- In order to balance the budget, reductions at the District Department level would be necessary.

SANTA MONICA USD			
IMPACT ON DISTRICT WIDE DEPARTMENTS - STAFFING			
	Current Staffing	28% Reduction	Staffing Change
DISTRICT DEPARTMENT	FTE	FTE	FTE
Superintendent/Board	3.0	2.5	(0.5)
Ed Services	9.0	7.0	(2.0)
Human Resources	11.0	8.5	(2.5)
Personnel Commission	5.5	4.0	(1.5)
Pupil Services	3.2	2.5	(0.7)
Business/Fiscal Services	16.5	13.0	(3.5)
Computer Services	6.0	4.5	(1.5)
Purchasing Department	5.0	4.0	(1.0)
	59.2	46.0	(13.2)
Maintenance / Operations	35.0	27.0	(8.0)
TOTAL	94.2	73.0	(21.2)

Projected Budget for Malibu USD	
REVENUE	Malibu 15,432,050
Less DIRECT EXPENDITURES:	
Site Costs	10,900,000
Utilities	550,000
Maintenance and Operations	1,000,000
Transportation/Special Ed Contributions	2,812,000
Balance to Cover District Wide Costs	170,050
District Wide Costs: MUSD	2,521,601
Operational Surplus (Deficit): MUSD	(2,351,551)

## Malibu General Fund Impact:

- School Sites would be staffed and funded as they are now;
- After expending funds for Direct Site Costs, Maintenance and Operations, Utilities, Transportation and Special Education, MUSD would have \$170,050 to cover District Wide Costs;
- Current District Wide programs, such as Elementary Music, Nursing, Independent Study, PE Aides have not been included in direct sites costs;
- A proportional amount for District Wide Costs would be \$2,521,601; and
- Using an estimated amount for District Wide Costs, the **operating deficit would be \$2,351,551.**

## Combined General Fund Impacts:

- Additional revenue of approximately \$1,000,000
  - Net Gain due to Basic Aid status of MUSD = \$4,00,000
  - Loss of Parcel Tax Revenue in MUSD = \$3,000,000
- Potential added overhead costs of \$2.4 million in MUSD;
- Combined operational **deficit of \$6.5 million** (as compared to \$4.6 for SMMUSD at 2<sup>nd</sup> Interim); and
- Both districts would immediately face the reality of creating reduction plans.



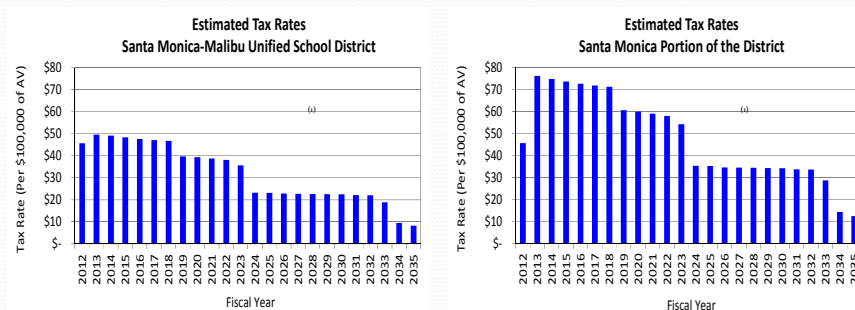
# Presentation by Gene Yee

## Keygent

### Bond Indebtedness

### Issues

## Tax Rates for Outstanding Bonds



Malibu constitutes 30% of the assessed value ("AV") for the Santa Monica-Malibu Unified School District; losing the Malibu portion of the District's AV may cause a dramatic increase in the bond tax rates

(i) Includes previously issued Proposition X and Measure BB bonds.



## Remaining Measure BB

Measure BB was approved with an estimated tax rate of \$30 per \$100,000 of AV

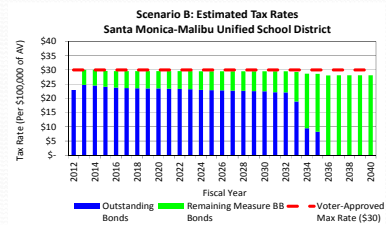
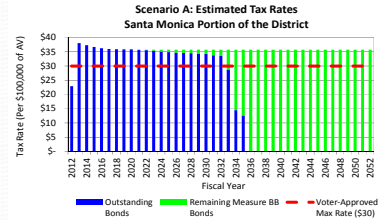
- ♦ Losing the Malibu AV would increase the tax rate to over \$30 per \$100,000 of AV
- ♦ The issuance of the remaining Measure BB (\$83 million) would be constrained

Prospective Issuance Schedule <sup>(1)</sup>

Scenario	Issuer	Issue Date	Proceeds	Financing Term	Total Debt Service
A	Santa Monica Portion	July 2012	\$83,000,000	40 Years	\$527,602,059
B	Santa Monica-Malibu USD	July 2012	83,000,000	28 Years	246,751,837

### Assumptions:

- ♦ Interest rates:
  - Interest rate for Santa Monica portion: 6.00%
  - Interest rate for current District: 5.50%
- ♦ Annual AV growth rates:
  - Growth rate for 2012-13 through 2013-14: 3.0%
  - Growth rate thereafter: 4.0%



(1) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.

## Remaining Measure BB

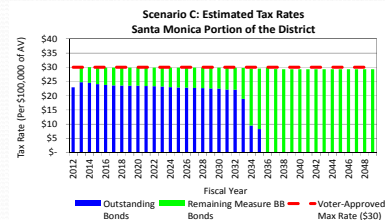
Below is an illustrative issuance schedule of the balance of Measure BB (\$83 million) assuming that the Santa Monica-Malibu Unified School District pays the outstanding debt and the Santa Monica portion issues the remaining Measure BB

Prospective Issuance Schedule <sup>(1)</sup>

Scenario	Issuer	Issue Date	Proceeds	Financing Term	Total Debt Service
C	Santa Monica Portion	July 2012	\$83,000,000	37 Years	\$388,699,575

### Assumptions:

- ♦ Interest rates:
  - Interest rate for Santa Monica portion: 5.90%
- ♦ Annual AV growth rates:
  - Growth rate for 2012-13 through 2013-14: 3.0%
  - Growth rate thereafter: 4.0%



(1) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.

## Prospective 2012 Election – New \$60 Tax

Request voters to authorize a new tax in an amount of \$60 per \$100,000 of AV

Assumptions:

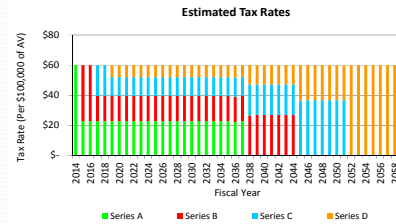
- ♦ Interest rates: 5.0-6.5%
- ♦ Annual AV growth rates:
  - Growth rate for 2012-13 through 2013-14: 3.0%
  - Growth rate thereafter: 4.0%
- ♦ Maximum financing term of 40 years

Prospective Issuance Schedule <sup>(1)</sup>			
Santa Monica-Malibu Unified School District			
Issue	Issue Date	Proceeds	Financing Term <sup>(2)</sup>
Series A	February 2013	\$ 183,030,000	25 Years
Series B	July 2014	183,030,000	30 Years
Series C	July 2016	183,030,000	35 Years
Series D	July 2018	183,030,000	40 Years
Total		\$ 732,120,000	

Prospective Issuance Schedule <sup>(1)</sup>			
Santa Monica Portion of the District			
Issue	Issue Date	Proceeds	Financing Term <sup>(3)</sup>
Series A	February 2013	\$ 120,040,000	25 Years
Series B	July 2014	120,040,000	30 Years
Series C	July 2016	120,040,000	35 Years
Series D	July 2018	120,040,000	40 Years
Total		\$ 480,160,000	

- (1) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's facility needs.  
 (2) 25-year financings would generate proceeds of \$560,560,000.  
 (3) 25-year financings would generate proceeds of \$367,600,000.



AVs:

- ♦ Santa Monica-Malibu Unified School District: \$37,576,796,540
- ♦ Santa Monica Portion of the District: \$24,643,220,291

## Potential Next Steps

ACTIVITY	Estimated COSTS
Contract for a Feasibility Study on State Unification Criteria	\$30,000 – \$40,000
Contract for preparation of detailed budget documents	\$20,000 – \$30,000
Prepare detailed property tax allocations to verify distribution of property taxes and verification of Basic Aid status	\$9,000 – \$10,000
Explore legislation and poll voter opinion on parcel tax issues	\$20,000 – \$25,000
Explore legislation and poll voter opinion on bonded debt issues	\$20,000 – \$25,000