



Financial Oversight Committee 2014-2015 Year End Summary



2014-2015 Committee Members

- Shelly Slaugh Nahass – Committee Chair
- Joan Krenik – Committee Vice Chair
- Paul Silvern
- Cynthia Torres
- Gordon Lee
- Tom Larmore
- Jon Kean
- Manel Sweetmore
- Debbie Mulvaney
- Marc Levis-Fitzgerald
- Seth Jacobson
- Peter Lippman (resigned January 2015)
- DeAndre Parks (resigned March 2015)



2014 – 2015 FOC Board and Staff Liaisons

- Laurie Lieberman
- Craig Foster
- Jan Maez
- Kim Nguyen



2014 – 2015 FOC Charges

- Provide the SMMUSD School Board information regarding the financial implications of forming a new “Malibu Unified School District” (“MUSD”) from parts of the existing Santa Monica Malibu Unified School District (the “Existing District”). Review and comment on Unification Criteria Numbers 3 and 9 for any potential “deal breakers” for Unification.
- MUSD would consist of all geographic areas currently served by the Existing District which are outside the boundaries of the City of Santa Monica with the Existing District continuing to serve the City of Santa Monica under the name of “Santa Monica Unified School District” (“SMUSD”).
- The FOC divided this task between two subcommittees, one focusing on the division of assets and liabilities, and the other focused on the review of hypothetical operating budgets for the two districts.



2014-2015 FOC Charges, continued

- The SMMUSD School Board also requested the FOC to review strategies for funding the SMMUSD unfunded retiree healthcare liability.
- SMMUSD administers a single-employer defined benefit Other Post- Employment Benefits (“OPEB”) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. SMMUSD implemented GASB #45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, in fiscal year 2008-2009. Adoption of GASB #45 requires SMMUSD to accrue the unfunded liability in its financial statements. As the liability is accruing faster than payment is being made, the financial statements of the district may at some point become significantly distorted due to this large unfunded liability. As such, it is important for the district to fund this liability in order to maintain a healthy balance
- The FOC established a subcommittee to review and recommend a strategy for SMMUSD in regards to funding retiree healthcare benefits.



FOC Review of Separate District Financial Information Subcommittee

- Paul Silvern – Subcommittee Chair
- Cynthia Torres – Subcommittee Member
- Joan Krenik – Subcommittee Member
- Manel Sweetmore – Subcommittee Member
- Debbie Mulvaney – Subcommittee Member



Division of Assets/Liabilities Subcommittee

- Tom Larmore – Subcommittee Chair
- Gordon Lee – Subcommittee Member
- Shelly Slaugh Nahass – Subcommittee Member
- Manel Sweetmore – Subcommittee Member
- Seth Jacobson – Subcommittee Member



FOC Unfunded Liability for OPEB Subcommittee

- Jon Kean – Subcommittee Chair
- Marc Levis-Fitzgerald – Subcommittee Member
- DeAndre Parks – Subcommittee Member (resigned March 2015)



FOC 2014-2015 Subcommittee Chairs' Summaries

- Paul Silvern
- Tom Larmore
- Jon Kean

MEMORANDUM

To: Board of Education

From: Financial Oversight Committee

Date: July 15, 2015

Subject: Proposed Action to Reorganize the Existing Santa Monica-Malibu Unified School District by Forming a New Malibu Unified School District from Parts of the Existing District – Implications Relating to Annual Operating Budgets

This Memorandum responds to another of the charges given by the Board of Education (“Board”) to the Financial Oversight Committee (“FOC”) at a joint Board-FOC meeting in July 2014. At that meeting, the Board requested that the FOC provide information regarding the financial implications of the California Education Code (“Ed Code”) concept of “unification,” as it might apply to the formation of a new “Malibu Unified School District” (“MUSD”) from parts of the existing Santa Monica-Malibu Unified School District (the “Existing District”). MUSD would consist of the geographic areas currently served by the Existing District which are outside the boundaries of the City of Santa Monica, with the Existing District continuing to serve the City of Santa Monica under the name “Santa Monica Unified School District (“SMUSD”).

The FOC divided this task between two subcommittees, one focusing on the division of assets and liabilities (i.e., Ed Code unification criterion #3 of 9), which is addressed in a separate memorandum, and the other focusing on annual operating budgets for the hypothetical new school districts (i.e., Ed Code unification criterion #9 of 9), which is the focus of this Memorandum.

Summary

Based on careful review of updated annual operating budget forecasts for the Unrestricted General Fund is a hypothetical new MUSD prepared by WestEd, the financial consultants retained by advocates for a new MUSD, and updated forecasts for the Unrestricted General Fund in a new SMUSD prepared by the Existing District’s Chief Financial Officer (“SMMUSD CFO”), where these forecasts were derived from the Existing District’s FY 2014-2015 Second Interim financial status report and a set of analysis assumptions mutually agreed to by the FOC, the SMMUSD CFO and WestEd, the FOC concludes as follows:

- ***The only potential “deal breaker” is the need for a new MUSD Parcel Tax.*** In its charge to the FOC, the Board expressed particular interest in learning whether there were any financial issues sufficiently material to preclude support by the Board for the proposed unification – i.e., any so-called “deal breakers.” The FOC concludes that the only potential “deal breaker” is the need for the voters in Malibu to enact a new parcel tax that is roughly equivalent to the parcel tax that now applies in the Existing District, or alternatively the enactment of new State legislation permitting the current parcel tax to continue to be applied within the MUSD. The unification proponents have indicated that they intend to seek voter approval of a parcel tax as a condition of forming a new MUSD.
- ***Assuming a new parcel tax in Malibu, the proposed reorganization would not cause a substantial negative effect on the fiscal status of a new MUSD or SMUSD.*** As explained below, the FOC further concludes that, so long as the new MUSD obtains annual revenue

from a new parcel tax, both separate school districts would be financially solvent, as defined by the Ed Code, in the base year (FY 2014-15) and two succeeding fiscal years of operation, based on their respective forecasted year-end cash position and fund balances, and ability to fund the minimum three percent reserve for economic uncertainties.

- **Updating the WestEd forecast for a new MUSD to match the adopted FY 2015-16 SMMUSD Budget will not alter these conclusions.** Although the financial forecast for a new MUSD should be further updated to reflect increases in State funding for the current and next fiscal year, and certain operating cost increases imbedded in the Existing District's adopted budget for FY 2015-16, the FOC does not believe the update will materially alter the solvency conclusions derived from the Existing District's Second Interim, and may actually show some financial improvement over the current WestEd forecast.

The principal reasons for these positive financial solvency conclusions are that: (1) a new MUSD would become a "basic aid" school district, enabling it to utilize about \$4.8 million in allocated property tax revenue in excess of its State-determined Local Control Funding Formula ("LCFF") entitlement, even using a conservative assumption about annual growth in the assessed value of property; (2) SMUSD would keep a much larger share of the Existing District's roughly \$33 million in locally generated revenues it now shares with schools in Malibu (e.g., from the Measure R parcel tax, the City of Santa Monica joint use agreement, the City of Santa Monica Measure Y/YY sales tax measure, and lease revenue from joint occupancy developments); and (3) forecasted revenues exceed the scale diseconomies of operating two separate smaller school districts. MUSD would operate on an essentially break-even basis and exhibit a fund balance of about \$5 million in each of its first three years (again assuming new parcel tax revenue). SMUSD would exhibit an annual operating deficit in the outer years of the forecast, but would still have a healthy fund balance each year to draw against, just as the Existing District does now, such that its annual ending fund balance is \$10 million or more in each year of the forecast. Diligent financial stewardship to reduce SMUSD's annual operating deficit would still be needed.

Changes to the Financial Forecast Modeling Assumptions

In order to respond to the Board's direction with regard to the annual operating budgets for MUSD and SMUSD after unification, the FOC requested that WestEd and the SMMUSD CFO update previous forecasts for separate school districts that were initially prepared in 2013. The updates were intended to account for key changes in State funding for K-12 public education during the intervening years, and certain FOC and SMMUSD CFO questions about WestEd modeling assumptions used in the prior work. The requested changes, all of which were agreed to by WestEd and the MUSD proponents, included:

- Using the LCFF budgeting approach and related SMMUSD calculation assumptions, rather than the Revenue Limit approach that previously applied;
- A revised set of overhead operating cost assumptions that more explicitly takes into account separated school district scale economies;
- Including annual budget projections for an MUSD and SMUSD initial operating year and two additional operating years, consistent with standard school district budgeting practice, rather than the initial year only;
- Using updated enrollment forecasts and staffing for each school; and

- Including a sensitivity analysis for an MUSD budget showing the budget implications with and without new parcel tax revenue, which all parties understood to be a critical financial variable.

Accordingly, the SMMUSD CFO and WestEd then jointly developed a set of detailed revenue and operating cost calculation assumptions that were based on SMMUSD's FY 2014-15 Second Interim financial condition report. These assumptions were provided to and discussed by the FOC subcommittee focused on the operating budget issues. The resulting financial forecasts are included in the Appendices to this Memorandum. Appendix A includes the WestEd forecast for a new MUSD, using the SMMUSD Second Interim as the baseline. Appendix B includes the SMMUSD CFO's forecast for SMUSD also using the SMMUSD Second Interim as the baseline. Appendix C includes the SMMUSD CFO's forecast for SMUSD using the SMMUSD's adopted FY 2015-16 budget assumptions as the baseline.

Annual Revenues

The revenue profile of separate school districts post-unification would differ in many respects from SMMUSD today. As noted above, because of the scale of the assessed value of property in Malibu, and associated annual property tax revenue, a new MUSD would become a Basic Aid District, whereas SMMUSD would continue to rely on LCFF State Aid through Proposition 98 funding to make up the difference between its LCFF allocation and local property tax revenue. In fact, the SMUSD share of total revenue from LCFF State Aid funding would be somewhat larger than for SMMUSD today, due to a smaller assessed value/property tax revenue base within Santa Monica only. On the other hand, as also noted above, SMUSD would benefit by keeping nearly all of SMMUSD's extraordinary share of "local revenue," much of which derives from within Santa Monica and is now shared with schools in Malibu.

Table 1 summarizes forecasted total revenue for MUSD (with and without its share of current parcel tax revenue) and SMUSD, using SMMUSD's Second Interim as the baseline; and for SMUSD using the SMMUSD's adopted FY 2015-16 budget as the baseline.

Table 1
MUSD and SMUSD Revenue Forecasts Under Alternative FY 2014-15 Baselines

Revenue Category	2014-15	2015-16	2016-17	2017-18
Baseline = SMMUSD Second Interim				
Malibu Unified School District, With Parcel Tax				
LCFF Revenue				
Property Tax	\$ 17,371,428	\$ 17,892,571	\$ 18,429,348	\$ 18,982,228
LCFF State Aid	\$ -	\$ -	\$ -	\$ -
Other LCFF ¹	\$ 571,061	\$ 557,261	\$ 551,861	\$ 538,861
Other State Revenues ²	\$ 425,636	\$ 291,716	\$ 216,448	\$ 205,696
Other Federal Revenues	\$ -	\$ -	\$ -	\$ -
Local Revenues				
Measure R Parcel Tax	\$ 3,188,480	\$ 3,188,480	\$ 3,188,480	\$ 3,188,480
Other Local Revenue ³	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Local General Fund Contribution	\$ (3,235,031)	\$ (3,348,257)	\$ (3,455,401)	\$ (3,590,162)
Total Revenue	\$ 18,521,574	\$ 18,781,771	\$ 19,130,736	\$ 19,525,103
Malibu Unified School District, Without Parcel Tax				
LCFF Revenue				
Property Tax	\$ 17,371,428	\$ 17,892,571	\$ 18,429,348	\$ 18,982,228
LCFF State Aid	\$ -	\$ -	\$ -	\$ -
Other LCFF ¹	\$ 571,061	\$ 557,261	\$ 551,861	\$ 538,861
Other State Revenues ²	\$ 425,636	\$ 291,716	\$ 216,448	\$ 205,696
Other Federal Revenues	\$ -	\$ -	\$ -	\$ -
Local Revenues				
Measure R Parcel Tax	\$ -	\$ -	\$ -	\$ -
Other Local Revenue ³	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Local General Fund Contribution	\$ (3,235,031)	\$ (3,348,257)	\$ (3,455,401)	\$ (3,590,162)
Total Revenue	\$ 15,333,094	\$ 15,593,291	\$ 15,942,256	\$ 16,336,623
Santa Monica Unified School District				
LCFF Revenue				
Property Tax	\$ 46,995,932	\$ 46,995,931	\$ 46,995,931	N/A
LCFF State Aid	\$ 14,365,973	\$ 7,145,092	\$ 9,348,595	N/A
Other LCFF ¹	\$ 1,304,372	\$ 13,227,255	\$ 13,778,132	N/A
Other State Revenues ²	\$ 2,040,312	\$ 3,120,432	\$ 1,500,432	N/A
Other Federal Revenues	\$ 8,000	\$ 8,000	\$ 8,000	N/A
Local Revenues				
Measure R Parcel Tax	\$ 8,072,813	\$ 8,153,541	\$ 8,153,541	N/A
Other Local Revenue ³	\$ 18,776,307	\$ 19,052,269	\$ 19,324,614	N/A
Local General Fund Contribution	\$ (19,195,421)	\$ (19,195,421)	\$ (19,195,421)	N/A
Total Revenue	\$ 72,368,288	\$ 78,507,099	\$ 79,913,824	N/A
Baseline = Adopted SMMUSD FY 2015-16 Budget				
Santa Monica Unified School District				
LCFF Revenue				
Property Tax	N/A	\$ 51,434,743	\$ 51,434,743	\$ 51,434,743
LCFF State Aid	N/A	\$ 17,137,886	\$ 19,362,108	\$ 21,739,523
Other LCFF ¹	N/A	\$ 1,466,800	\$ 1,451,000	\$ 1,451,000
Other State Revenues ²	N/A	\$ 6,908,831	\$ 1,496,232	\$ 1,488,232
Other Federal Revenues	N/A	\$ 8,000	\$ 8,000	\$ 8,000
Local Revenues				
Measure R Parcel Tax	N/A	\$ 8,080,963	\$ 8,161,773	\$ 8,243,390
Other Local Revenue ³	N/A	\$ 21,226,823	\$ 21,409,614	\$ 21,685,407
Local General Fund Contribution	N/A	\$ (19,547,444)	\$ (19,938,393)	\$ (20,337,161)
Total Revenue	N/A	\$ 86,716,602	\$ 83,385,077	\$ 85,713,134

Sources: SMMUSD CFO, WestEd

According to the forecasts, a new MUSD would, with parcel tax revenue, generate about \$18.5 million in revenue in the FY 2014-15 base year, increasing to \$19.1 million over the succeeding two years (FY 2016-17), due largely to increases in local property tax revenue, which were conservatively estimate to increase at the rate of three percent per year. Lack of a parcel tax would reduce revenues by about \$3.2 million to \$3.5 million in each year of the forecast. Over the same period, SMUSD would generate a total of \$72.4 million in total revenue in the base year, increasing to \$79.9 million two years later, due largely to increases in LCFF State Aid. Using the adopted SMMUSD budget for FY 2015-16 instead as the analysis baseline, SMUSD would generate revenues of \$83.4 million by FY 2016-17, due to higher estimates for both property tax revenue and LCFF State Aid.

More detail about each revenue forecast is included in the Appendices.

Annual Operating Expenditures

School-level operating cost assumptions were based on FY 2014-15 operating cost estimates for each school located in Malibu and Santa Monica, including their respective staffing levels, and the forecasts assume continuation of essentially the same educational programs and offerings as currently provided in these schools by SMMUSD. WestEd and the SMMUSD CFO agreed on appropriate assumptions for centralized overhead cost increases that would apply to a new MUSD (e.g., a new Superintendent and new centralized department staffing), whereas the SMMUSD CFO made certain assumptions about modest reductions in centralized staffing costs for operating a smaller SMUSD (e.g., in Human Resources, Educational Services, Health Services, Special Education, Theater Operations, Computer Services, Purchasing, Grounds and Operations, and Maintenance). All certificated and classified school personnel now assigned to operation of each school in Malibu and Santa Monica were assumed to remain in place, with any actual post-unification changes to be subject to collective bargaining.

Based on these and other calculation assumptions, the annual expenditure forecasts for MUSD and SMUSD using the FY 2014-15 Second Interim baseline are summarized in Table 2, along with forecasts for SMUSD using the adopted 2015-16 budget as the baseline.

Table 2

MUSD and SMUSD Expenditure Forecasts Under Alternative FY 2014-15 Baselines

Revenue Category	2014-15	2015-16	2016-17	2017-18
Baseline = SMMUSD Second Interim				
<i>Malibu Unified School District</i>				
Certificated Salaries	\$ 8,674,819	\$ 8,804,941	\$ 8,937,015	\$ 9,071,071
Classified Salaries	\$ 2,961,948	\$ 3,006,377	\$ 3,051,473	\$ 3,097,245
Employee Benefits	\$ 3,941,600	\$ 4,290,999	\$ 4,695,797	\$ 5,193,017
Supplies/Books	\$ 796,477	\$ 815,592	\$ 837,613	\$ 861,067
Other Operational Costs	\$ 1,570,479	\$ 1,608,170	\$ 1,651,591	\$ 1,697,836
Other Expenditures ¹	\$ 50,000	\$ 51,200	\$ 52,582	\$ 54,055
Total Expenditures	\$ 17,995,323	\$ 18,577,279	\$ 19,226,071	\$ 19,974,291
<i>Santa Monica Unified School District</i>				
Certificated Salaries	\$ 37,922,447	\$ 38,491,284	\$ 39,068,653	N/A
Classified Salaries	\$ 12,556,255	\$ 12,744,599	\$ 12,935,768	N/A
Employee Benefits	\$ 16,681,346	\$ 18,124,962	\$ 19,753,980	N/A
Supplies/Books	\$ 1,799,683	\$ 1,800,000	\$ 1,800,000	N/A
Other Operational Costs	\$ 6,936,632	\$ 7,000,000	\$ 7,000,000	N/A
Other Expenditures ¹	\$ (460,437)	\$ 2,179,595	\$ 1,058,044	N/A
Total Expenditures	\$ 75,435,926	\$ 80,340,440	\$ 81,616,445	N/A
Baseline = Adopted SMMUSD FY 2015-16 Budget				
<i>Santa Monica Unified School District</i>				
Certificated Salaries	N/A	\$ 40,972,000	\$ 41,145,440	\$ 41,625,353
Classified Salaries	N/A	\$ 14,318,771	\$ 14,533,553	\$ 14,751,556
Employee Benefits	N/A	\$ 19,371,325	\$ 21,022,644	\$ 22,816,545
Supplies/Books	N/A	\$ 2,431,667	\$ 2,400,000	\$ 2,400,000
Other Operational Costs	N/A	\$ 8,746,270	\$ 8,700,000	\$ 8,700,000
Other Expenditures ¹	N/A	\$ (28,849)	\$ 95,938	\$ 431,669
Total Expenditures	N/A	\$ 85,811,184	\$ 87,897,575	\$ 90,725,123

¹ Includes capital outlay, debt service, indirect costs, inter-fund transfers, LCAP increase above 2015-16, and mandated/common core program.

Sources: SMMUSD CFO, WestEd

According to the forecasts, a new MUSD would incur about \$18.0 million in operating expenditures in the FY 2014-15 base year, increasing to \$19.2 million over the succeeding two years, due largely to “step and column” salary increases and rising costs of employee benefits. Over the same period, a new MUSD would incur about \$75.4 million in operating expenditures in the base year, increasing to \$81.6 million two years later, also due primarily to personnel-related cost increases. Using the adopted SMMUSD budget for FY 2015-16 instead as the analysis baseline, SMUSD would incur expenditures of \$87.9 million by FY 2016-17.

More detail about the annual expenditure forecasts is included in the Appendices.

Annual Net Operating Results

Table 3 shows that after netting forecasted annual expenditures against forecasted annual revenues, a new MUSD would show a modest positive net operating revenue in the base year (about \$526,000) and slightly negative net operating revenue (about -\$95,000) two years later, assuming parcel tax revenue. Absent MUSD's share of the current parcel tax revenue, the net operating budget for a new MUSD would be negative in all future years of the forecast (i.e., from -\$2.7 million in FY 2014-15 to -\$3.3 million in FY 2016-17). SMUSD's net operating budget would be negative in all years of the forecast (i.e., from -\$3.1 million in FY 2014-15 to -\$1.7 million in FY 2016-17), reflecting the structural operating deficit in the SMMUSD. Using the adopted SMMUSD budget for FY 2015-16 instead as the analysis baseline, SMUSD's net operating revenue would be -\$4.5 million by FY 2016-17. More detail about net operating results for each forecast is included in the Appendices.

Table 3
MUSD and SMUSD Net Operating Revenue Forecasts Under Alternative FY 2014-15 Baselines

Revenue Category	2014-15	2015-16	2016-17	2017-18
Baseline = SMMUSD Second Interim				
<i>Malibu Unified School District, With Parcel Tax</i>				
Total Revenues	\$ 18,521,574	\$ 18,781,771	\$ 19,130,736	\$ 19,525,103
Total Expenditures	\$ (17,995,323)	\$ (18,577,279)	\$ (19,226,071)	\$ (19,974,291)
Net Operating Revenues	\$ 526,251	\$ 204,492	\$ (95,335)	\$ (449,188)
<i>Malibu Unified School District, Without Parcel Tax</i>				
Total Revenues	\$ 15,333,094	\$ 15,593,291	\$ 15,942,256	\$ 16,336,623
Total Expenditures	\$ (17,995,323)	\$ (18,577,279)	\$ (19,226,071)	\$ (19,974,291)
Net Operating Revenues	\$ (2,662,229)	\$ (2,983,988)	\$ (3,283,815)	\$ (3,637,668)
<i>Santa Monica Unified School District</i>				
Total Revenues	\$ 72,368,288	\$ 78,507,099	\$ 79,913,824	N/A
Total Expenditures	\$ (75,435,926)	\$ (80,340,440)	\$ (81,616,445)	N/A
Net Operating Revenues	\$ (3,067,638)	\$ (1,833,341)	\$ (1,702,621)	N/A
Baseline = Adopted SMMUSD FY 2015-16 Budget				
<i>Santa Monica Unified School District</i>				
Total Revenues	N/A	\$ 86,716,602	\$ 83,385,077	\$ 85,713,134
Total Expenditures	N/A	\$ (85,811,184)	\$ (87,897,575)	\$ (90,725,123)
Net Operating Revenues	N/A	\$ 905,418	\$ (4,512,498)	\$ (5,011,989)

Sources: SMMUSD CFO, WestEd

Fund Balance Results

The MUSD forecast assumes that its beginning balance in FY 2014-15 would be about \$4.6 million, based on a fair share allocation of SMMUSD assets. This, in combination with the forecasted net operating results discussed above (including parcel tax revenue), means that a new MUSD would have a positive ending fund balance of about \$5.1 million each year of the forecast, and about a \$4.0-\$4.5 million unappropriated balance after designated reserves and the three percent contingency for economic uncertainties. The ending fund balances and

unappropriated balances would both be negative after the initial forecast year without MUSD's share of the existing parcel tax. Both outcomes are based on using the SMMUSD Second Interim as the baseline. For SMUSD, and also using the Second Interim baseline, the ending fund balance would be about \$10 million or more in each year of the forecast, and the unappropriated balance would be about \$5.8 million. Using the adopted SMMUSD budget for FY 2015-16 instead as the analysis baseline, a new SMUSD's ending fund balanced would be about \$15.7 million by FY 2016-17, and the unappropriated balance would be about \$16.4 million by FY 2016-17. These results are summarized in Table 4. More detail about forecasted fund balance results is provided in the Appendices.

Table 4
MUSD and SMUSD Fund Balance Forecasts Under Alternative FY 2014-15 Baselines

Revenue Category	2014-15	2015-16	2016-17	2017-18
Baseline = SMMUSD Second Interim				
Malibu Unified School District, With Parcel Tax				
Beginning Fund Balance	\$ 4,555,328	\$ 5,081,579	\$ 5,219,121	\$ 5,123,785
Ending Fund Balance	\$ 5,081,579	\$ 5,219,121	\$ 5,123,785	\$ 4,674,598
Dedicated Reserves ¹	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
3% Reserve for Economic Uncertainties	\$ 696,600	\$ 718,563	\$ 739,178	\$ 765,596
Unappropriated Fund Balance	\$ 4,379,979	\$ 4,495,558	\$ 4,379,607	\$ 3,904,002
Malibu Unified School District, Without Parcel Tax				
Beginning Fund Balance	\$ 4,555,328	\$ 1,893,099	\$ (1,157,838)	\$ (4,441,654)
Ending Fund Balance	\$ 1,893,099	\$ (1,157,838)	\$ (4,441,654)	\$ (8,079,320)
Dedicated Reserves ¹	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
3% Reserve for Economic Uncertainties	\$ 696,600	\$ 718,563	\$ 739,178	\$ 765,596
Unappropriated Fund Balance	\$ 1,191,499	\$ (1,881,401)	\$ (5,185,832)	\$ (8,849,916)
Santa Monica Unified School District				
Beginning Fund Balance	\$ 16,600,000	\$ 13,532,363	\$ 11,699,022	N/A
Ending Fund Balance	\$ 13,532,363	\$ 11,699,022	\$ 9,996,401	N/A
Dedicated Reserves ¹	\$ 3,630,588	\$ 1,802,621	\$ 100,000	N/A
3% Reserve for Economic Uncertainties	\$ 4,046,569	\$ 4,050,085	\$ 4,178,984	N/A
Unappropriated Fund Balance	\$ 5,855,206	\$ 5,846,316	\$ 5,717,417	N/A
Baseline = Adopted SMMUSD FY 2015-16 Budget				
Santa Monica Unified School District				
Beginning Fund Balance	N/A	\$ 19,282,082	\$ 20,187,501	\$ 15,675,002
Ending Fund Balance	N/A	\$ 20,187,501	\$ 15,675,002	\$ 10,671,014
Dedicated Reserves ¹	N/A	\$ 4,612,498	\$ (4,903,989)	\$ 100,000
3% Reserve for Economic Uncertainties	N/A	\$ 4,050,085	\$ 4,178,984	\$ 4,178,985
Unappropriated Fund Balance	N/A	\$ 11,524,917	\$ 16,400,007	\$ 6,392,029

¹ Includes revolving cash, stores, and reserves for deficit spending.

Sources: SMMUSD CFO, WestEd

APPENDIX A

WestEd Forecasts for a New Malibu Unified School District

(SMMUSD Second Interim Baseline)

Criterion 6: No Disruption to Educational Programs or Performance

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

- *Education Code Section 35753(a)(6)*

The proposal or petition shall not significantly adversely affect the educational program of districts affected by the proposal or petition. In analyzing the proposal or petition, the California Department of Education shall describe the districtwide programs and the school site programs in schools not a part of the proposal or petition that will be adversely affected by the proposal or petition.

- *California Code of Regulations, Title 5, Section 18573(5)*

Description & Findings

According to the Education Code, analysis of this criterion should include academic performance of students at the impacted schools as well as program offerings available to these students. In order to best understand potential future opportunities and performance at the schools, the County Committee on School District Organization (SDO) Handbook recommends reviewing past performance and programs and then projecting possible adjustments due to the proposal.

The key areas to explore include academic performance as reflected by standardized test scores and accreditation reports, program offerings at schools within each of the proposed district areas, and shared programs that might be disrupted by reorganization. Considering that students generally attend neighborhood schools, the proposed reorganization would have limited impact on the general education support provided to students assuming that current staff and curriculum remain similar to that which is currently in place. However, for those programs and opportunities for which there is a significant centralized role in operating and supporting (e.g., special education, English Language Learner services, alternative education), the reorganization could have a moderate to significant impact. This section focuses primarily on the impact the proposed reorganization may have on specialized programs and highlights considerations for AMPS and the District as it evaluates the feasibility of reorganization.

Analysis

The analysis of the above criterion's application to the proposal focuses on the following:

- Academic performance
- Advanced Placement/Honors course offerings and success rates
- Special needs programs, including special education, courses for English Language Learners, and alternative education
- Other opportunities and challenges presented by the proposal.

Academic Performance

While the state is currently undergoing a change in its accountability system, it is important to note that this analysis relies on the most current data available for Academic Performance Index (API) scores. Overall the academic performance of District students is above state and county averages. The District's overall API score for 2013 of 865 places it among the top tier of performers in the state. As shown in Table 1, the level of performance is fairly consistent between all schools within the District. Performance of students classified as English Language Learners and Students with Disabilities lags that of their peers, but is consistent with trends observed statewide.

Table 1: Academic Performance

School	API (2013)	Percent at or above Proficient English-Language Arts (2013)		
		All Students	English Learners	Students with Disabilities
Proposed Malibu District				
Cabrillo Elementary	878	69.0%	33.3%	47.8%
Point Dume Elementary	929	84.1%	N/A	86.7%
Webster Elementary	944	87.7%	N/A	50.0%
Malibu High	883	82.2%	60.8%	59.2%
Remaining Santa Monica District				
Edison Elementary	884	67.0%	48.5%	54.8%
Franklin Elementary	949	90.5%	75.0%	74.7%
Grant Elementary	878	72.7%	38.1 %	42.9%
John Muir Elementary	816	54.6%	31.6%	31.7%
McKinley Elementary	883	75.4%	65.2%	55.8%
Roosevelt Elementary	951	87.4%	77.8%	75.4%
Will Rogers Elementary	830	57.1%	47.5%	35.2%
John Adams Middle	839	66.4%	45.1%	17.1%
Lincoln Middle	907	82.6%	68.9%	52.7%
Santa Monica High	823	75.5%	59.3%	24.1%

Source: California Department of Education-Dataquest 2012-13

Other ways to measure performance include examination of Scholastic Aptitude Test (SAT) data. This data is typically available for students preparing to enter college. As shown in Table 2, students who took the SAT performed evenly over time at both high schools, with both groups consistently scoring above national and state averages.

Table 2: Scholastic Aptitude Test Performance, 2010-2013

		Malibu High	Santa Monica	CA
2010-11	Reading	548	526	495
	Math	552	545	513
	Writing	556	538	494
2011-12	Reading	554	536	491
	Math	556	552	510
	Writing	556	545	491
2012-13	Reading	538	532	492
	Math	544	541	508
	Writing	544	533	489

Source: California Department of Education, DataQuest

Schools within the Malibu and Santa Monica areas show proof of solid educational programs. Students perform well on standardized tests, participate and achieve at high levels on Advanced Placement courses and tests, and score well on the SAT when compared with national and state averages. Furthermore, the achievement and outcomes results are fairly comparable between the two areas, with slightly higher results at schools within the Malibu area. For this reason, we anticipate that reorganization would not negatively impact students’ educational performance, presuming that programs remain comparable. While responses to the proposed reorganization cannot be predicted, nor can the impact of such responses, this report does not find any violations of the criterion when considering core educational performance alone.

Advanced Placement/Honors Programs

Participation and success in Honors or Advanced Placement (AP) classes provides another basis for comparing educational programs at the two comprehensive high schools.¹ Both Malibu High and Santa Monica High offer a wide range of honors and AP classes in English, math, science, social science, foreign language, and the arts. While Santa Monica High has far more students in grades 9 through 12 than Malibu High, participation levels in the AP courses and the AP test process are comparable. See Table 3 below. Notably, compared to the statewide AP test passage rate of 58.1 percent, both Malibu High and Santa Monica High have significantly higher AP test passage rates. Current programs are proposed to be continued at both districts, therefore there is no anticipated impact on the availability of AP courses.

Table 3: Advanced Placement (AP) Test Participation and Performance, 2012-13

	Malibu High	Santa Monica High
Number of Exam Takers	259	942
Passage Rate (Score of 3, 4, or 5)	72.5%	71.2%

Source: California Department of Education

Special Programs

School districts are responsible for teaching every student within their boundaries, with few exceptions. In order to do so, they must provide special programs for students with physical, mental, and learning disabilities; English Language Learners; gifted and talented students; and students otherwise unable to succeed in the traditional school setting without additional counseling, assistance, and opportunities. The District currently meets the needs of all such students. However, as noted earlier, the current approach includes a moderate to significant centralized support function. As a result, the proposed reorganization would require the newly formed Malibu school district to address how it will develop programs of support for such students as in most cases. The budget (see Attachment A) includes all current site level staffing as well as positions that are centralized to provide support for English Language Learners, students with disabilities, and students in need of alternative education programs. Comparable programs can continue to be offered with smaller subsets of students, but there will be a financial impact based on the loss of program scale.

Special Education

The District is currently a member of the Tri-City Special Education Local Planning Area (SELPA), which also includes Culver City Unified and Beverly Hills Unified School Districts. Under the proposed reorganization, the newly formed Malibu district would be presented with the option to either become a member of the existing SELPA or seek membership in another SELPA. However, the newly formed Malibu district must address how it will provide services to students who currently attend a school that post-reorganization would be in the Santa Monica district. For instance, this would include preschool students who are enrolled in the severe autism preschool program located in Santa Monica. Similarly, for those students who live within the Santa Monica attendance area that currently attend Malibu High, in order to access a smaller school community as an accommodation to meet a special need (e.g., anxiety disorder, school phobia), an alternative placement or inter-district transfer option would be necessary. The scope of this analysis did not include reviewing the SELPA allocation and it appears that the District has allocated special education revenue and costs based a split of overall enrollment. This methodology will need to be confirmed to ensure both revenue and costs are accurately included in both the district’s budget estimates.

¹ Advanced Placement (AP) programs, administered by The College Board, allow high school students to take college-level classes at their high schools and then opt out of similar classes in college by passing the AP exams.

English Language Learners

In 2013-14, there were approximately 972 students, 8.6 percent of all students, classified as an English Language Learner (EL) student. There are significant variations in the number and density of ELs within the District's schools. Under the proposed reorganization, approximately 9.5 percent of the students attending the Santa Monica district area would be ELs compared to 4.4 percent in the proposed Malibu district area. While the reorganization would have little to no impact on the distribution of EL students, there could be some impact on the approach taken to address the needs of such students. Given the small numbers of ELs at some schools, it can be challenging to design a program of support. Under the current model of support, there are centralized supports, such as a Bilingual Community Liaison Program and EL professional development, which benefit all schools, including those with small number of ELs and these supports are included in the proposed budget for Malibu Unified School District. Additionally, there are well documented and highly effective models for addressing the needs of small and dispersed EL populations that can also be considered as an alternative to the services included in the proposed budget to offer required services for this population.

Alternative Schools

The District currently operates one continuation high school (Olympic) and one alternative K-8 school (Santa Monica Alternative). Both programs are on campuses within the area that would become the Santa Monica district area. As a result, it would be necessary for the Malibu district area to create options for students requiring alternative education placements. Given the small numbers of students likely to be served by such programs, it may be most cost-effective to develop an inter-district agreement to provide such support. However, if such an agreement cannot be developed, or there is a strong preference to operate such programs within the newly formed district, there are several operating considerations. The considerations include identifying space within an existing facility where programs can be offered in a self-contained manner, cost-effective staffing, and selecting and implementing an effective program of support. The proposed budget includes funding for a student intervention specialist that could support coordinating services for students needing alternative education placements.

Conclusion

The proposed reorganization would not result in shifting of programs or necessarily require restructuring of existing program offerings within schools as shown in the budget proposal in Attachment A. The proposed budget includes continuation of all programs and staffing levels that are currently in place in Malibu, and additionally, offers a similar level of centralized services to complement site level services. It is difficult to predict other impacts reorganization could have upon instructional quality and student outcomes. Such impacts would largely result from administrative decisions, not from the reorganization itself. However, there needs to be further analysis on the special education program revenue and district of residence data to determine if the proposed budget can support actual needs. Additionally, the provision of an alternative education option for students in the Malibu district area will likely need to be met in a school within a school model or on an inter-district basis with neighboring districts.

This study finds that if provisions are made to ensure that all students' learning needs are met, then this criterion is substantially met.

Sources Consulted

- California Department of Education online databases (Dataquest, EdData)
- Santa Monica-Malibu Unified School District administration officials
- AMPS representative

Criterion 9: No Substantial Negative Impact on District Fiscal Management or Status

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

- Education Code Section 35753(a)(9)

Description

In addition to Education Code Section 35753(a)(9) and CCR, Title 5, Section 18573(a)(2), the State Board of Education recommends that Education Code Section 33127, the State Standards and Criteria, be used to evaluate the financial condition of school districts affected by proposed reorganizations. Three basic criteria are used for these State Standards and Criteria to determine the district's solvency:

- Cash position at the end of the year
- Fund Balance position at the end of the year
- Three-year projection of fund balance.

To comply with these criteria, an initial budget is projected for each of the new districts Unrestricted General Fund based on 2014-15 2nd Interim financial information. This projected budget directly addresses the year-end fund balance position and assumes a similar impact on the cash position. This study includes a three-year fund balance for the proposed Malibu Unified School District. The analysis for the proposed Santa Monica Unified School District is being prepared by staff at the Santa Monica-Malibu Unified School District (District) and will be provided for consideration under separate cover.

Analysis

The District's 2014-15 2nd Interim budget reflects a positive ending balance for the combined general fund (restricted and unrestricted funds). It is important to note that while the reserve level for the combined fund is approximately 14.2 percent, the unrestricted general fund is deficit spending by approximately \$4.2 million dollars in 2014-15. Table 4 below provides a summary of the 2014-15 revenue and expenditures for the District.

**Table 4: Summary of Baseline Financial Data Santa Monica-Malibu USD
2014-15 2nd Interim Restricted and Unrestricted Sources**

REVENUES	UNRESTRICTED	RESTRICTED	TOTAL
LCFF /State	75,609,284		75,609,284
Federal Revenues		4,775,614	4,775,614
Other State Revenues	2,587,916	937,031	3,524,947
Other Local Revenue	33,758,154	10,315,278	44,073,432
Total Revenue	111,955,354	16,027,923	127,983,277
EXPENDITURES	UNRESTRICTED	RESTRICTED	TOTAL
Certificated Salaries	47,147,825	12,246,804	59,394,629
Classified Salaries	16,310,179	9,160,467	25,470,646
Employee Benefits	20,784,898	7,183,805	27,968,703
Books and Supplies	2,610,644	4,445,762	7,056,406
Services & Other Operating Costs	8,717,669	7,031,041	15,748,710
Capital Outlay	201,619	234,526	436,145
Other Outgo	-1,010,533	558,332	-452,201
Total Expenditures	94,762,301	40,860,737	135,623,038
Excess (Deficiency) of Revenues to Expenditures	17,193,053	-24,832,814	-7,639,761
OTHER FINANCING SOURCES	UNRESTRICTED	RESTRICTED	TOTAL
Interfund Transfers	-445,494		-445,494
Other Sources	137,119		137,119
Contributions	-21,172,610	21,172,610	0
Total Other Financing Sources	-21,480,985	21,172,610	-308,375
Net Increase (Decrease) In Fund Balance	-4,287,932	-3,660,204	-7,948,136
Beginning Balance	21,775,362	5,502,052	27,277,414
ENDING FUND BALANCE JUNE 30, 2015	17,487,430	1,841,848	19,329,278

Source: 2014-15 Second Interim Report Santa Monica-Malibu Unified School District

Criterion 5 of this report discussed changes in revenue for the proposed reorganization. While the transition to basic aid status increases the per ADA funding there are expenditure increases for the proposed reorganization that include costs for establishing centralized administration and creating programs to meet the needs of English Language Learners, students with disabilities, alternative education options, home-to-school transportation, and establishing facilities and infrastructure for a district office, maintenance yard, and possibly a central kitchen. Additionally, it is important to note that there is the potential for costs associated with contract negotiations for both districts post reorganization. Attachment B includes an excerpt from The Handbook that explains the legal rights of employees under reorganization.

As noted under the analysis in Criterion 5, Malibu Unified School District would be considered a basic aid district in that its local property tax revenue would exceed its state determined LCCF entitlement. The transition to basic aid status would result in approximately \$4,825,347 in excess property tax revenue.

The financial viability of the newly formed Malibu Unified and Santa Monica Unified School Districts following reorganization would be largely dependent upon management decisions. The analysis for the multi-year budget in the report is focused on the proposed Malibu Unified School District. The assumptions, reflected in Table 5 below, include annual adjustments for the cost of step/column and health and welfare. It is important to note that post unification, there could be potential adjustments to salary schedules which would increase compensation costs. However, any changes would be subject to negotiations between the newly elected school boards and the newly established collective bargaining units following a decision to reorganize.

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Table 5. Multi-year Assumptions: Proposed Malibu USD (Post-Reorganization)

Factor	2014-15	2015-16	2016-17	2017-18
Statutory COLA-Department of Finance (DOF)	0.85%	1.58%	2.17%	2.43%
LCFF FUNDING BASE- FCMAT Calculator Universal Assumptions				
Grades K-3	7,011	7,122	7,277	7,454
Grade Span Adjustment, Grades K-3-10.4%	729	741	757	775
Grades 4-6	7,116	7,228	7,385	7,564
Grades 7-8	7,328	7,444	7,606	7,791
Grades 9-12	8,491	8,625	8,812	9,026
Grade Span Adjustment, Grades 9-12-2.4%	221	224	229	235
% OF GAP FUNDING /DOF	29.15%	32.19%	23.71%	26.43%
Enrollment Projection	1,886	1,836	1,768	1,692
P2 ADA Projection	1,783	1,756	1,691	1,607
Funded ADA(higher of current or prior year P2 ADA)	1,852	1,783	1,756	1,691
Federal Revenues	0	0	0	0
Property Tax increase		3%	3%	3%
Mandated Block Grant K-8 per ADA	28	28	28	28
Mandated Block Grant 9-12 per ADA	56	56	56	56
Prior Year Mandated Costs per ADA	60	60	60	60
Unrestricted Lottery(annual ADA)	128	128	128	128
City of Santa Monica	0	0	0	0
Measure "R"	0	0	0	0
City of SM /Prop. Y	0	0	0	0
Vision For Student Success (VSS)	0	0	0	0
Salary Increase - Certificated	0	0	0	0
Salary Increase - Classified	0	0	0	0
Step and Column Incr. Certificated	1.50%	1.50%	1.50%	1.50%
Step & Column Incr. - Management	1.50%	1.50%	1.50%	1.50%
Step & Column Incr. - Classified	1.50%	1.50%	1.50%	1.50%
STRS Rate	8.88%	10.73%	12.58%	14.43%
PERS Rate	11.77%	11.80%	13.05%	16.60%
Health/Welfare/FTE for proposed centralized FTE	13,000	13,000	13,000	13,000
Health/Welfare - Annualized	3.00%	7.00%	7.00%	7.00%
State Unemployment	1.00%	1.00%	1.00%	1.00%
Workers' Compensation	3.00%	3.00%	3.00%	3.00%
Other Postemployment Benefits	1.25%	1.25%	1.25%	1.25%
Indirect Cost Rate	5.73%	6.28%	6.28%	6.28%
Interest Rate	0.70%	0.70%	0.70%	0.70%
Consumer Price Index	2.00%	2.40%	2.70%	2.80%
Ongoing Maintenance	3.00%	3.00%	3.00%	3.00%
Reserve for Uncertainties	3.00%	3.00%	3.00%	3.00%

Source: FCMAT Calculator, School Services of California Dartboard, District provided data

The multi-year projection in Table 6 below includes staffing for centralized services that are scaled for the size of the District, as well as site level services that are detailed in Attachment A. While there is a wide array of well staffed centralized programs, support, and services included in the multi-year projections, the cost of the proposed services reflects that the Malibu Unified School District would be deficit spending in each year of the projection. In order to create a viable multi-year projection, additional local financial support (e.g., parcel tax) would be necessary.

The multiyear projection in Table 8 includes parcel tax revenue and while the proposed expenditures exceed revenues, in two out of four years of the projection the District would maintain the required level of reserve for economic uncertainties in each year of the projection. Additional evaluation and expenditure decisions could identify further reductions to reduce the level of deficit spending. There are several potential long-term costs, such as changes to salary schedules, as well as several one-time, or limited term costs, for the Malibu Unified School District that would be necessary as a result of the reorganization that will need to be considered. Such costs would include the need to have facilities for a district office, maintenance and transportation, and possible child nutrition services. A possible funding source for such expenditures might be the ending fund balance/reserves, but caution needs to be exercised when considering expenditures funded from ending funding or reserves.

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Table 6. Multi-year Projection Unrestricted General Fund for Proposed Malibu USD (Post-Reorganization-no parcel tax)

Description	2014-15 2nd INTERIM BUDGET	2015-16 PROJECTED BUDGET	2016-17 PROJECTED BUDGET	2017-18 PROJECTED BUDGET
Revenue				
Property Tax	17,371,428	17,892,571	18,429,348	18,982,228
Education Protection Account (EPA)	370,400	356,600	351,200	338,200
LCFF Transfer to Fund 11 & Fund 14	-73,084	-73,084	-73,084	-73,084
LCFF Transfer to Charter School & County Specialized secondary school	0	0	0	0
LCFF Minimum State Aid	273,745	273,745	273,745	273,745
Subtotal LCFF Funding	17,942,489	18,449,832	18,981,209	19,521,089
Other Federal	0			
Lottery	237,107	224,768	216,448	205,696
Mandated Reimbursement Block Grant	188,529	66,948	0	0
Other State Revenue	0	0	0	0
Parcel tax	0	0	0	0
Prop. Y / City of SM	0	0	0	0
Joint Use Agreement/ City of SM	0	0	0	0
All Other Local Income	200,000	200,000	200,000	200,000
Vision for Student Success (VSS)	0	0	0	0
Other Sources /Proceed from Capital Lease	0	0	0	0
Local General Fund Contribution	-3,235,031	-3,348,257	-3,455,401	-3,590,162
TOTAL REVENUE	15,333,094	15,593,291	15,942,256	16,336,624
Expenditure				
Certificated Salary	8,674,819	8,804,941	8,937,015	9,071,071
Classified	2,961,948	3,006,377	3,051,473	3,097,245
Benefits	3,941,600	4,290,999	4,695,797	5,193,017
Supplies/Books	796,477	815,592	837,613	861,067
Other Operational Costs	1,570,479	1,608,172	1,651,591	1,697,836
Capital Outlay	50,000	51,200	52,583	54,054
State Special Schools	0	0	0	0
Debt Services	0	0	0	0
Indirect	0	0	0	0
Interfund Transfer Out to FUND 12	0	0	0	0
Interfund Transfer Out to FUND 13	0	0	0	0
LCAP Minimum Proportionality Percentage	Need to establish	Need to establish	Need to establish	Need to establish
Mandated / Common Core Program		66,948	0	0
TOTAL EXPENDITURE	17,995,323	18,644,229	19,226,072	19,974,290
Increase (Decrease) Fund Balance	-2,662,229	-3,050,937	-3,283,816	-3,637,666
Beginning Fund Balance	4,555,328	1,893,099	-1,157,838	-4,441,654
Ending Fund Balance	1,893,099	-1,157,838	-4,441,654	-8,079,320
Reserve - Revolving cash, Store	5,000	5,000	5,000	5,000
Reserve - 50% of Gap Funding 16-17	0	0	0	0
Reserve - Deficit Spending 15-16	0	0	0	0
Reserve - Deficit Spending 16-17	0	0	0	0
3% Contingency Reserve	696,600	718,563	739,178	765,596
Unappropriated Balance	1,191,499	-1,881,401	-5,185,832	-8,849,916

Source: 2014-15 2nd Interim Report Santa Monica-Malibu Unified School District, District provided data

Additional assumptions for the data reflected in Table 6, include the following:

- Property tax calculation based on division of assessed value (AV), City of Malibu and unincorporated Los Angeles County equal 33.6 percent AV and 33.6 percent of 2014-15 estimated property tax revenue
- All redevelopment agency revenue remains with the proposed Santa Monica Unified School District
- No parcel revenue
- No local revenue except for, \$200,000/year from City of Malibu for facility use
- \$200/ADA for Education Protection Act
- Minimum state aid for categorical aid subsumed by LCFF
- Local contribution funds the Maintenance/Grounds and Special Education Programs
- Indirect cost rate not included in model
- Transfers to support Adult Education and Deferred Maintenance
- 2014-15 site level budgets for Cabrillo, Point Dume, Webster, Malibu Middle, and Malibu High school were used to estimate site level staff and operation costs.
- Costs for centralized programs are included and scaled for the size of the District. Centralized costs track to the centralized program staffing budget created by Santa Monica-Malibu Unified School District (see Attachment A).

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Table 7. Multi-year Assumptions: Proposed Malibu USD (Post-Reorganization) Parcel Tax

Factor	2014-15	2015-16	2016-17	2017-18
Statutory COLA-Department of Finance (DOF)	0.85%	1.58%	2.17%	2.43%
LCFF FUNDING BASE- FCMAT Calculator Universal Assumptions				
Grades K-3	7,011	7,122	7,277	7,454
Grade Span Adjustment, Grades K-3-10.4%	729	741	757	775
Grades 4-6	7,116	7,228	7,385	7,564
Grades 7-8	7,328	7,444	7,606	7,791
Grades 9-12	8,491	8,625	8,812	9,026
Grade Span Adjustment, Grades 9-12-2.4%	221	224	229	235
% OF GAP FUNDING /DOF	29.15%	32.19%	23.71%	26.43%
Enrollment Projection	1,886	1,836	1,768	1692
P2 ADA Projection	1,783	1,756	1,691	1607
Funded ADA(higher of current or prior year P2 ADA)	1,852	1,783	1,756	1691
Federal Revenues	0	0	0	0
Property Tax increase		3%	3%	3%
Mandated Block Grant K-8 per ADA	28	28	28	28
Mandated Block Grant 9-12 per ADA	56	56	56	56
Prior Year Mandated Costs per ADA	60	60	60	60
Unrestricted Lottery(annual ADA)	128	128	128	128
City of Santa Monica	0	0	0	0
Parcel Tax TBD	376	376	376	376
City of SM /Prop. Y	0	0	0	0
Vision For Student Success (VSS)	0	0	0	0
Salary Increase - Certificated	0	0	0	0
Salary Increase - Classified	0	0	0	0
Step and Column Incr. Certificated	1.50%	1.50%	1.50%	1.50%
Step & Column Incr. - Management	1.50%	1.50%	1.50%	1.50%
Step & Column Incr. - Classified	1.50%	1.50%	1.50%	1.50%
STRS Rate	8.88%	10.73%	12.58%	14.43%
PERS Rate	11.77%	11.80%	13.05%	16.60%
Health/Welfare/FTE for proposed centralized FTE	13,000	13,000	13,000	13,000
Health/Welfare - Annualized	3.00%	7.00%	7.00%	7.00%
State Unemployment	1.00%	1.00%	1.00%	1.00%
Workers' Compensation	3.00%	3.00%	3.00%	3.00%
Other Postemployment Benefits	1.25%	1.25%	1.25%	1.25%
Indirect Cost Rate	5.73%	6.28%	6.28%	6.28%
Interest Rate	0.70%	0.70%	0.70%	0.70%
Consumer Price Index	2.00%	2.40%	2.70%	2.80%
Ongoing Maintenance	3.00%	3.00%	3.00%	3.00%
Reserve for Uncertainties	3.00%	3.00%	3.00%	3.00%

Source: FCMAT Calculator, School Services of California Dartboard, District provided data

Table 8: Multi-year Projection Unrestricted General Fund for Proposed Malibu USD (Post-Reorganization-Parcel tax)

Description	2014-15 2nd INTERIM BUDGET	2015-16 PROJECTED BUDGET	2016-17 PROJECTED BUDGET	2017-18 PROJECTED BUDGET
Revenue				
Property Tax	17,371,428	17,892,571	18,429,348	18,982,228
Education Protection Account (EPA)	370,400	356,600	351,200	338,200
LCFF Transfer to Fund 11 & Fund 14	-73,084	-73,084	-73,084	-73,084
LCFF Transfer to Charter School & County Specialized secondary school	0			
LCFF State Aid	273,745	273,745	273,745	273,745
Subtotal LCFF Funding	17,942,489	18,449,832	18,981,209	19,521,089
Other Federal	0			
Lottery	237,107	224,768	216,448	205,696
Mandated Reimbursement Block Grant	188,529	66,948	0	0
Other State Revenue	0	0	0	0
Parcel Tax-Measure TBD	3,188,480	3,188,480	3,188,480	3,188,480
Prop. Y / City of SM	0	0	0	0
Joint Use Agreement/ City of SM	0	0	0	0
All Other Local Income	200,000	200,000	200,000	200,000
Vision for Student Success (VSS)	0	0	0	0
Other Sources /Proceed from Capital Lease	0	0	0	0
Local General Fund Contribution	-3,235,031	-3,348,257	-3,455,401	-3,590,162
TOTAL REVENUE	18,521,574	18,781,771	19,130,736	19,525,103
Expenditure:				
Certificated Salary	8,674,819	8,804,941	8,937,015	9,071,071
Classified	2,961,948	3,006,377	3,051,473	3,097,245
Benefits	3,941,600	4,290,999	4,695,797	5,193,017
Supplies/Books	796,477	815,592	837,613	861,067
Other Operational Costs	1,570,479	1,608,170	1,651,591	1,697,836
Capital Outlay	50,000	51,200	52,582	54,055
State Special Schools		0		
Debt Services				
Indirect				
Interfund Transfer Out to FUND 12				
Interfund Transfer Out to FUND 13				
LCAP Minimum Proportionality Percentage	Need to established	Need to established	Need to established	Need to established
Mandated / Common Core Program		66,948	0	0
TOTAL EXPENDITURE	17,995,323	18,644,229	19,226,072	19,974,290
Increase (Decrease) Fund Balance	526,251	137,542	-95,336	-449,187
Beginning Fund Balance	4,555,328	5,081,579	5,219,121	5,123,785
Ending Fund Balance	5,081,579	5,219,121	5,123,785	4,674,598
Reserve - Revolving cash, Store	5,000	5,000	5,000	5,000
Reserve - 50% of Gap Funding 16-17				
Reserve - Deficit Spending 15-16				
Reserve - Deficit Spending 16-17				
3% Contingency Reserve	696,600	718,563	739,178	765,596
Unappropriated Balance	4,379,979	4,495,558	4,379,607	3,904,002

Source: 2014-15 2nd Interim Report Santa Monica-Malibu Unified School District, District provided data

Additional assumptions for the data reflected in Table 8, include the following:

- Property tax calculation based on division of assessed value (AV), City of Malibu and unincorporated Los Angeles County equal 33.6 percent AV and 33.6 percent of 2014-15 estimated property tax revenue
- All redevelopment agency revenue remains with the proposed Santa Monica Unified School District
- **Parcel revenue-\$379/parcel based on 8,480 parcels**
- No local revenue except for \$200,000/year from City of Malibu for facility use
- \$200/ADA for Education Protection Act
- Minimum state aid for categorical aid subsumed by LCFF
- Local contribution funds the Maintenance/Grounds and Special Education Programs
- Indirect cost rate not included in model
- Transfers to support Adult Education and Deferred Maintenance
- 2014-15 site level budgets for Cabrillo, Point Dume, Webster, Malibu Middle, and Malibu High school were used to estimate site level staff and operation costs.
- Costs for centralized programs are included and are scaled for the size of the District. Centralized costs track to the centralized program staffing budget created by Santa Monica-Malibu Unified School District (see Attachment A).

Other Factors

As noted above, Table 6 does not include measure “R” parcel tax revenue. While Education Code 35560 does address the allocation of funds, property and qualified special taxes, it does not explicitly address how to treat a parcel tax given the circumstances of the proposed reorganization, nor is there known precedent that can be followed. A parcel tax is a critical element to deem the reorganization viable as illustrated in Table 8. AMPS has consulted legal counsel (see Attachment C) which has offered an opinion on including a special tax as a condition of unification.

Conclusion

Based on 2014-15 and Interim Report, the financial condition of the current Santa Monica-Malibu Unified School District appears to be financially viable for 2014-15 and the next two fiscal years. The multi-year budget for the proposed Malibu Unified School District reflects deficit spending in all years without the inclusion of a parcel tax. As such, AMPS has shared that they plan to include a special tax as a condition of the unification. Additionally, decisions on the overall level of staffing for central administrative and centralized programs will need to be made in order to maintain the required level of reserves for economic uncertainties in each year of projection. Lastly, the management of each district will need to be mindful that staffing and programmatic decisions and contract negotiations will need to maximize organizational efficiencies and maintain fiscal solvency in order to optimize the educational opportunities for its students.

Sources Consulted

- 2014-15 2nd Interim Budget-Santa Monica-Malibu Unified School District
- Dataquest and California Department of Education Funding exhibits
- District provided data and staffing estimates
- Fiscal Crisis Management Assistance Team-LCCF Calculator

Attachment A

UNRESTRICTED GENERAL FUND				
Superintendent/Board	FTE	Object Code	Cost	Assumptions
Superintendent	1	1310	200,000	Suggested salary for Superintendent and average cost/FTE for clerical. Board member stipends \$4,800/year plus full benefits. Health and welfare estimated at \$13,000/FTE. Statutory benefits estimated at 16% for certificated and 25% for classified. Supplies and contracts 20% of Santa Monica-Malibu budget.
Board Stipends	5	2300	24,000	
Clerical Support	1	2410	61,000	
Benefits		3XXX	144,250	
Supplies		4XXX	158,040	
Contracts/Services		5XXX	291,660	
TOTAL			878,950	

Human Resources	FTE	Object Code	Cost	Assumptions
Teachers Subs-District wide		1160	204,756	Substitute costs 20% of Santa Monica-Malibu. Statutory benefits estimated at 16% for certificated and 25% for classified. Supplies and contracts 20% of Santa Monica-Malibu budget.
Assistant Superintendent		1311	0	
BTSA Coordinator- see Director of Education Services		1316	0	
Clerical Support**		2410	0	
Classified Substitutes District-wide		2XXX	15,000	
Benefits		3XXX	36,511	
Supplies		4XXX	5,430	
Contracts/Services		5XXX	35,420	
TOTAL			297,117	

Assuming no Personnel Commission and employee relations costs

Educational Services	FTE	Object Code	Cost	Assumptions
Independent Study Teacher	1	1110	78,300	Suggested salary for CAO. Average cost/FTE for Director, clerical, ROP, and independent study. Elementary Summer School estimate at 6 teachers, 1 Administrator, 1 clerical; 4 hours/day 4 week session. Health and welfare estimated at \$13,000/FTE. Statutory benefits estimated at 16% for certificated and 25% for classified. Textbooks estimated at 25%, Music Coordinator, bilingual stipends, supplies and contracts 20% of Santa Monica-Malibu budget.
ROP Teachers	1.2	1100	93,960	
Elementary Summer School-teacher hourly		1130	30,000	
Sub Teachers PD		1160	17,000	
Bilingual Stipends		1190	10,000	
Director- Student Services/SpEd/Alternative Ed.	1	1314	112,000	
Music Coordinator-stipend	0.2	1190/1316	21,656	
Chief Academic Officer	1	1321	140,000	
Clerical Support **	2	2410	104,000	
Summer School- Clerical hourly		2430	2,500	
Bilingual Community Liaison-included in Malibu Site Cost	1	2925	0	
Benefits		3XXX	187,692	
Textbooks		41XX	250,000	
Supplies		4XXX	8,350	
Contracts/Services		5XXX	28,700	
TOTAL			1,084,158	
** possible area of reduction				
Community Liaison	FTE	Object Code	Cost	Assumptions
Sub Teachers		1160	20,000	Community Liaison, 1 FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 16% for certificated, 25% for classified. Substitute teachers, students assistants, supplies and services 20 % of Santa Monica-Malibu budget.
Bilingual Community Liaison	1	2925	42,500	
Student Assistants		2933	12,400	
Benefits		3XXX	23,625	
Supplies		4XXX	33,160	
Contracts/Services		5XXX	42,840	
TOTAL			174,525	

Music	FTE	Object Code	Cost	Assumptions
Elementary Music Teachers	1.6	1110	120,108	Elementary Music FTE, 1.6 FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 16% for certificated, 25% for classified. Hourly, substitute teachers, activity specialists, special services and security , supplies and services 20 % of Santa Monica-Malibu budget.
Hourly		1130	500	
Sub Teachers		1160	1,600	
Extra duty		1170	2,140	
Physical Activity Specialist		2161	6,000	
Security-Overtime		2244	500	
Special Services-classified		2917	100	
Benefits		3XXX	42,346	
Supplies		4XXX	1,212	
Contracts/Services		5XXX	21,492	
TOTAL			195,998	
Resource 07090				
Resource 07090	FTE	Object Code	Cost	Assumptions
Teacher	0.6	1110	42,270	Support Teacher/Coach .6 FTE, Instructional Assistant, 1 FTE, Student Intervention Specialist 1FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 16% for certificated, 25% for classified, supplies 20 % of Santa Monica-Malibu budget.
Coordinator -See Ed Services				
Instructional Assistants- non FT		2120	0	
Student Intervention Specialist	1	2914	30,758	
Bilingual Community Liaison-see above				
Benefits		3XXX	28,490	
Supplies		4XXX	1,774	
TOTAL			103,292	

Student Services	FTE	Object Code	Cost	Assumptions
Director	0	1314	0	Home Hospital hourly teachers, supplies and services 20 % of Santa Monica-Malibu budget. Statutory benefits 16% for certificated, 25% for classified. Director and clerical support are included in Educational Services budget.
Home Hospital Teachers Hourly		1130	20,000	
Clerical Support	0	2410/2910	0	
Benefits		3XXX	3,200	
Supplies		4XXX	1,400	
Contracts/Services		5XXX	19,200	
TOTAL			43,800	

Health Services	FTE	Object Code	Cost	Assumptions
Nurse	1	1214	89,223	Nurse 1 FTE, Nurse Asst. 1.3, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 16% for certificated, 25% for classified, hourly supplies 20 % of Santa Monica-Malibu budget.
Nurse Hourly		1234	2,500	
Clerical-Nurse Asst	1.3	2420	39,896	
Clerical Support	0	2900	0	
Benefits		3XXX	54,551	
Supplies		4XXX	1,100	
Contracts/Services		5XXX	1,020	
TOTAL			188,290	

Insurance	FTE	Object Code	Cost	Assumptions
Supplies		4XXX	13,800	Supplies, contracts and equipment 20% of Santa-Monica Budget. Malibu Unified School District will need to procure property/liability insurance.
Contracts/Services		5XXX	270,407	
Equipment		6XXX	5,000	
TOTAL			289,207	

MALIBU UNIFIED SCHOOL DISTRICT-
PROPOSED BUDGET 2014-15

Theater Operations and Facilities	FTE	Object Code	Cost	Assumptions
Physical Activity Specialist	1.4	2111	46,488	Physical Activity Specialist 1.4 FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 25% for classified, hourly supplies 20 % of Santa Monica-Malibu budget.
Benefits		3XXX	29,822	
Supplies		4XXX	15,000	
TOTAL			91,310	

Business/Fiscal Services	FTE	Object Code	Cost	Assumptions
CBO	1	2300	140,000	Suggested salary CBO, 1FT current salary, Technicians 2 FT average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 25% for classified, hourly supplies 20 % of Santa Monica-Malibu budget.
Technicians	2	2410	113,930	
Purchasing Technician	0	2410	0	
Benefits		3XXX	102,483	
Supplies		4XXX	4,900	
Contracts/Services		5XXX	87,470	
TOTAL			448,783	

Information Technology	FTE	Object Code	Cost	Assumptions
Coordinator*	1	2300	133,000	Coordinator current salary, Technicians 3 FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 25% for classified, hourly supplies 20 % of Santa Monica-Malibu budget. Equipment flat amount estimate.
Technicians	3	2910	152,857	
Benefits		3XXX	123,464	
Supplies		4XXX	7,875	
Contracts/Services		5XXX	99,260	
Equipment		6XXX	20,000	
TOTAL			536,456	

* salary could be adjusted

Home to School and Special Education Transportation	FTE	Object Code	Cost	Assumptions
Director-shared position with Maintenance and Operations	0	2314	0	1 FTE of a Director level position and clerical support will be shared between Maintenance, Operations and transportation(MOT). There are no home to school transportation services offered in Santa Monica; therefore all costs of home to school transportation budget assumed by Malibu. Sp Ed. transportation costs based on split of routes.
Clerical Support-Dispatch	1	2410	62,208	
Bus Drivers	11.25	2218	406,275	
Bus Driver Mechanic-hourly		2238	20,000	
OT		2248	20,000	
Benefits		3XXX	259,205	
Supplies		4XXX	160,000	
Contracts/Services		5XXX	150,000	
Equipment		6XXX	25,000	
TOTAL			1,102,688	

Utilities	FTE	Object Code	Cost	Assumptions
Natural Gas		5XXX	34,060	20% of SMMUSD budget
Light and Power		5XXX	249,950	
Water		5XXX	140,000	
Stormwater Use		5XXX	8,000	
Waste Disposal		5XXX	52,000	
Alarm Fire/Silent		5XXX	4,000	
Communication		5XXX	35,000	
TOTAL			523,010	

Site Budget-Current Staffing Costs-District Provided Data	FTE	Object Code	Cost	Assumptions
Certificated		1XXX	7,426,306	Consider staffing reserve for K-3 Grade Span. Budget model follows current level for base site staff. Costs for Vision for Student Success are not included. Current per student site supply allocation are included.
Classified		2XXX	1,571,036	
Benefits		3XXX	2,905,961	
Supplies		4XXX	134,436	
Services		5XXX	0	
Total			12,037,739	

TOTAL UNRESTRICTED RESOURCE			17,995,323
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RESTRICTED GENERAL FUND

Facilities, Maintenance and Grounds	FTE	Object Code	Cost	Assumptions
Maintenance Workers	2	2210	120,000	Director of MOT, 1 FTE current salary, Maintenance workers 2 FTE, Grounds 2 FTE, Clerical 1 FTE, average salary cost/FTE. Health and welfare estimated at \$13,000/FTE. Statutory benefits 25% for classified, hourly supplies 20 % of Santa Monica- Malibu budget.
Custodian-included in site costs	0	2212	0	
Grounds	2	2213	83,600	
Director Maintenance Operations Transportation*	1	2300	85,020	
Clerical Support	1	2410	48,744	
Benefits		3XXX	162,341	
Supplies		4XXX	91,035	
Contracts/Services		5XXX	119,326	
Total			710,066	

Special Education-split on ADA not on student count

	FTE	Object Code	Cost	Assumptions
Compensation includes certificated, classified and benefits		1110	3,482,229	Revenue and staffing are split based on enrollment. This model will need to be examined in more detail to ensure that both revenue and costs are allocated based on current SELPA revenue allocation plan and student of residence data.
Supplies		4XXX	4,000	
Contracts/Services		5XXX	398,874	
Unrestricted			67,721	
Total			3,952,824	

Restricted site budgets-current models used

	FTE	Object Code	Cost	Assumptions
Certificated		1110	14,607	Budget is based on District provided data.
Classified		2XXX	28,325	
Benefits		3XXX	6,774	
Supplies		4XXX	204,454	
Services		5XXX	136,819	
Total			390,979	

*salary could be adjusted

Local Contributions

3,235,031

APPENDIX B

SMMUSD CFO Forecast for a Santa Monica Unified School District

(SMMUSD Second Interim Baseline)

2013-14 & 14-15 P2 ADA

	2013-14 CBEDS	2013-14 P2 ADA	RATE	2014-15 FUNDING		2014-15 CBEDS		
MALIBU								
PRE K - 3	504	473.54	0.940	7740	3,665,199.60	503	477.79	0.9499
4-6	486	465.51	0.958	7116	3,312,569.16	418	397.82	0.9517
7-8	297	285.42	0.961	7238	2,065,869.96	295	287.08	0.9732
9-12	701	621.01	0.886	8712	5,410,239.12	659	607.62	0.922
	7	6.95	0.993	7701.5	53,510.02	11	11.00	1
	1988	1852.428			14,453,877.84	1886	1781.31	0.9445
SANTA MONICA								
PRE K-3	2807	2720.86	0.969	7740	21,059,456.40	2807	2703.60	0.9632
4-6	2045	1982.71	0.970	7116	14,108,964.36	2134	2054.49	0.9627
7-8	1435	1378.15	0.960	7238	9,975,049.70	1399	1335.72	0.9548
9-12	3039	2891.62	0.952	8712	25,191,793.44	3049	2873.72	0.9425
NPS	27	31.65	1.172	7701.5	243,767.88	20	20.00	1
SPECIAL ED EXTENDED							13.30	
	9353	9004.99	0.963		70,579,031.78	9409	9000.83	0.9566
	11341	10857.42	0.957			11295	10782.1404	0.9546
		17%						
2014-15								
CALPAD	ENROLL	FREE & REDUCE	EL	UNDUPLICATED	FOSTER FAMILY			
MALIBU	1886	190	93	249	1.00	250	0.13255567	
SANTA MONICA	9409	2722	927	3094	12.00	3,100.00	0.32947178	
TOTAL	11295	2912	1020	3343	13	3350		
MALIBU	0.167		0.100323625			0.08064516		
SANTA MONICA	0.834							

SANTA MONICA UNIFIED SCHOOL DISTRICT

MULTI-YEAR UNRESTRICTED REVENUE PROJECTIONS

4/15/15

	2014-15 BUDGET	2015-16 BUDGET	2016-17 BUDGET
LCFF /REVENUE	14,365,973	7,145,092	9,348,595
EPA 8012	1,800,000	13,535,256	13,304,920
PROPERTY TAX	46,995,932	46,995,932	46,995,932
LCFF TRANSFER TO ADULT ED	(262,628)		
LCFF TRANSFER TO DEFERRED MAINT.	(175,000)	(250,000)	(250,000)
ADA TRANSFER TO COUNTY SCHOOLS	(58,000)	(58,000)	(58,000)
OTHER FEDERAL REVENUE	8,000	8,000	8,000
MANDATED REIM	873,528	1,953,648	333,648
LOTTERY -UNRESTRICTED	1,158,784	1,158,784	1,158,784
OTHER STATE REVENUE	8,000	8,000	8,000
PARCEL TAX - MEASURE "R"	8,072,813	8,153,541	8,235,076
MEASURE "YY"	7,400,000	7,500,000	7,600,000
LEASE AND RENTALS	2,403,004	2,410,000	2,410,000
CITY OF SANTA MONICA	8,448,303	8,617,269	8,789,614
OTHER LOCAL INCOME	475,000	475,000	475,000
INTEREST	50,000	50,000	50,000
LGFC - SPECIAL ED	(19,195,421)	(19,195,421)	(19,195,421)
TOTAL REVENUES	72,368,288	78,507,100	79,214,148

**SANTA MONICA UNIFIED SCHOOL DISTRICT
MULTI-YEAR PROJECTION
UNRESTRICTED GENERAL FUND -ASSUMPTIONS**

4/15/2015

Factor	2014-15	2015-16	2016-17
Statutory COLA	0.85%	1.58%	2.17%
LCFF FUNDING BASE			
K-3 + 10.4% CSR	\$ 7,740	\$ 7,863	\$ 8,034
4-6	\$ 7,116	\$ 7,272	\$ 7,428
7-8	\$ 7,328	\$ 7,488	\$ 7,648
9-12 + 2.6% CTE	\$ 8,712	\$ 8,849	\$ 9,041
AVERAGE LCFF FUNDING PER ADA	\$ 7,047	\$ 7,514	\$ 7,807
% OF GAP FUNDING /DOF	29.15%	32.19%	23.71%
Enrollment Projection*	9,409	9,409	9,409
P2 ADA Projection	8,999	8,999	8,999
FUNDING ADA	8,999	8,999	8,999
Federal Revenues	0%	0%	0%
Mandated Block Grant K-8 per ADA	\$ 28.00	\$ 28.00	\$ 28.00
Mandated Block Grant 9-12 per ADA	\$ 56.00	\$ 56.00	\$ 56.00
Prior Year Mandated per ADA	\$ 60.00	\$ 180.00	\$ -
Unrestricted Lottery per ADA	\$ 128.00	\$ 128.00	\$ 128.00
City of Santa Monica	\$ 8,448,303	\$ 8,617,269	\$ 8,789,614
Measure "R"	\$ 8,072,813	\$ 8,153,541	\$ 8,235,077
City of SM /Prop. Y	\$ 7,400,000	\$ 7,500,000	\$ 7,600,000
Salary Increase - Certificated	0%	0%	0%
Salary Increase - Classified	0%	0%	0%
Step & Column Incr. - Mgmt.	1.50%	1.50%	1.50%
Step & Column Incr. - Classified	1.50%	1.50%	1.50%
STRS Rate	8.88%	10.73%	12.58%
PERS Rate	11.771%	12.60%	15.00%
Health/Welfare - Annualized	3%	7%	7%
Workers' Compensation	3.00%	3.00%	3.00%
Other Postemployment Benefits	1.25%	1.25%	1.25%
Indirect Cost Rate	5.73%	6.28%	5.57%
Interest Rate	0.70%	0.70%	0.70%
Ongoing Maintenance	3%	3%	3%
Reserve for Uncertainties	3%	3%	3%

STRS will increase 1.85% every year to 7/1/2020 (ED Code 22950.5)

Ssanta Monica Unified School District

DEPARTMENT BUDGETS

	2nd Interim		SMUSD		NOTES
	Budget	FTE	BUDGET	FTE	
SUPERINTENDENT /BOARD					
1310	239,204	1.000	239,204	1.000	BOARD MEMBERS 6 MONTHS FOR 14-15 90% Services and Other Cost
2300	33,600	7.000	33,600	7.000	
2300	47,010	1.000	47,010	1.000	
2410	121,920	2.000	121,920	2.000	
2937/47	2,912		2,912		
3XXX	210,652		210,652		
4XXX	12,800		12,800		
5XXX	790,200		682,844		
TOTAL	1,458,298	4.0	1,350,942	4.000	
HUMAN RESOURCES					
1110	47,250	0.500	47,250	0.500	STRS Paid
1130	10,936		10,936		
1160	1,023,782		859,977		84% of Sub Teachers
1311	165,074	1.000	165,074	1.000	
1314	115,091	1.000	115,091	1.000	
1316	91,629	1.000	76,968	0.840	BTSA COORDIANTOR
2317	74,224	1.000	74,244	1.000	
2410	370,802	6.500	370,802	6.500	
2262/2460/2430	83,000		75,000		90% of Classified Subs
3XXX	476,669		451,936		
4XXX	27,150		26,326		
5XXX	177,100		161,611		90% Contractor, Ad, Others
TOTAL	2,662,707	11.000	2,435,215	10.840	
EMPLOYEE RELATIONS					
1900	92,701	1.000	92,701	1.000	.5 PAID BY SEIU 90% of Legal Cost
2900	85,452	1.000	84,452	1.000	
3XXX	54,603		54,603		
4XXX	12,500		12,500		
5XXX	286,700		261,700		
TOTAL	531,956	2.000	505,956	2.000	

PERSONNEL COMMISSION					
2300	117,942	1.000	117,942	1.000	
2317	57,887	1.000	57,887	1.000	HR ANALYST
2319	1,800	3.000	1,800	3.000	COMMISSION MEMBER
2410	209,180	3.500	209,180	3.500	
2430	500		500		
3XXX	154,077		154,077		
4XXX	7,000		7,000		
5XXX	15,500		15,500		
TOTAL	563,886	5.50	563,886	5.500	

EDUCATIONAL SERVICES					
RES. 00000					
1110	235,087	3.000	178,714	2.000	INDEPENDENT STUDY & OPC
1130	155,000		155,000		ELEM. SUMMER SCHOOL
1160	85,000		85,000		
1190	50,000		50,000		BILINGUAL STIPEND
1314	447,795	4.000	447,795	4.000	
1316	108,281	1.000	108,281	1.000	MUSIC COORDINATOR
1321	156,494	1.000	156,494	1.000	
2115	14,077	0.625	14,077	0.625	INDEPENDENT STUDY
2410	242,839	4.700	242,839	4.700	
2430	8,652		8,652		SUMMER SCHOOLS
2925	229,643	6.000	185,544	5.000	1 MALIBU
OTHERS	8,700		8,700		EXTRA HOURS..
3XXX	560,004		524,844		
41XX	998,370		838,711		84% OF TEXT BOOKS
4XXX	41,750		41,750		SUPPLIES
5630	204,000		204,000		RENT FOR OFFICE
5XXX	143,530		143,530		
	3,689,222	20.325	3,393,931	18.325	

RES.00001					
1110	750,657	10.000	630,552	8.400	ELEM. MUSIC TEACHERS
1130	2,420		2,420		
1160	8,106		6,809		SUB TEACHERS
1170	10,680		8,971		EDU FOR MUSIC TEACHERS
2161	30,000		25,200		84% OF SUB FOR PAS
2244	2,463		2,463		
2917	599		599		
3XXX	226,250		191,355		
4XXX	6,061		6,061		
5XXX	119,400		107,460		90% OF SERVICES AND OTHER COSTS
TOTAL	1,156,636	10	981,890		

		RES.00030			
1130/1160	100,000		100,000		
2130	5,000		5,000		
2410	5,795		5,795		
2925	106,420	2.500	106,420	2.500	
2933	62,000		62,000		
3XXX	84,372		84,372		
4XXX	165,800		127,956		
5XXX	214,198		214,198		
TOTAL	743,585	2.500	705,741	2.500	
		RES.07090			
1110	269,714	3.800	222,617	3.200	.6 FTE FOR MALIBU SCHOOL
1316	108,281	1.000	108,281	1.000	
2120	46,462	1.688	46,462	1.6875	
2410	5,925	0.100	5,925	0.100	
2914	30,758	0.500			
2925	38,690	1.000	38,690	1.000	
3XXX	170,078		155,933		
4XXX	8,872		8,872		
TOTAL	678,780	8.088	586,780	6.988	
STUDENT SERVICES					
1314	127,759	1.000	127,759	1.000	
1130	100,000		100,000		HOME/HOSPITAL TEACHERS
2410	73,318	1.800	73,318	1.800	1.8 ADM. ASST.
2910	57,160	1.000	57,160	1.000	STUDENT INFO SYS TECHNICIAN
2XXX	3,911		3,911		
3XXX	123,032		123,032		
4XXX	7,000		7,000		
5XXX	96,000		96,000		
TOTAL	588,180	3.800	588,180	3.800	
HEALTH SERVICES					
1214	535,338	6.000	440,397	5.000	DECREASE 1 NURSE
1234	12,500	0.900	11,250		
2900	43,710	1.000	43,710	1.000	
2420	134,278	4.375	94,000	3.063	-1.3125 NURSE ASST.
2917	8,000		8,000		
3XXX	209,583		174,973		
4XXX	5,500		5,500		
5XXX	5,100		5,100		
TOTAL	954,009	12.275	782,930	9.063	
INSURANCE SERVICES					
4XXX	69,000		55,200		
5XXX	1,352,036		1,083,629		
6XXX	10,000		8,000		
TOTAL	1,362,036		1,146,829		80% OF TOTAL SMMUSD LIABILITY

THEATER OPERATIONS & FACILITY					
2111	103,767	3.125	60,192	1.750	1.375 for Malibu DECREASE \$200,000 REVENUE FROM CITY OF MALIBU
2212	37,272	1.000	37,272	1.000	
2213	59,244	1.000	59,244	1.000	
2317	33,702	0.500	33,702	0.500	
2910	103,621	2.000	103,621	2.000	
3XXX	162,008		134,621		
4XXX	26,700		30,000		
5XXX	3,300				
TOTAL	529,614	7.625	458,652	6.250	
BUSINESS SERVICES					
2300	177,810	1.000	177,810	1.000	
2410	57,864	1.000	57,864	1.000	
2430	5,000		5,000		
3XXX	73,384		73,384		
4XXX	4,700		4,700		
5XXX	349,320		249,320		
TOTAL	668,078	2.000	568,078	2.000	
FISCAL SERVICES					
2300	158,002	1.000	158,002	1.000	
2317	152,116	2.000	152,116	2.000	
2410	569,368	10.000	569,368	10.000	
24XX	10,000		10,000		
3XXX	386,335		386,335		
4XXX	19,800		-		
5XXX	88,030		88,030		
TOTAL	1,383,651	13.000	1,363,851	13.000	
COMPUTER SERVICES					
					RES. 00000/00001
2300	133,670	1.000	133,670	1.000	
2410	127,524	2.000	127,524	2.000	
2910	968,099	19.000	797,891	16.000	3 TECH FOR Malibu
2930/2940	10,000		10,000		
3XXX	489,029		427,479		
4XXX	31,500		31,500		
5XXX	496,300		496,300		
6XXX	29,500		29,500		
TOTAL	2,285,622	22.000	2,053,864	19.000	

PURCHASING						
2300	131,234	1.000	131,234	1.000	NO MALIBU SCHOOLS	
2216	28,049	0.875	20,321	0.625		
2410	211,890	4.000	211,890	4.000		
3XXX	169,909		159,492			
4XXX	33,000		33,000			
5XXX	(24,757)		(22,582)			
	549,325	5.875	533,355	5.625		
TRANSPORTATION						
HOME TO SCHOOL						
2314	47,829	0.500	-		.5 DIRECTOR	
2410	31,104	0.500	-		.5 ADMIN. ASST	
2218	301,049	8.500	-		.5 MECHANIC, 8 BUS DRIVER	
2238	12,500		-			
2248	20,000		-			
3xxx	219,054		-			
4xxx	140,800		-			
5xxx	(24,000)		-			
6xxx	25,000		-			
TOTAL	773,336		-			
SPECIAL ED TRANSPORTATION						
				3 buses for Malibu 11 buses for SM		
2314	95,658	1.000	95,658	1.000	NO REGULAR HOME TO SCHOOL	
2410	62,208	1.000	62,208	1.000		
2218	796,469	20.813	393,546	9.563		
2238	50,000		42,000			84%
2248	20,000		16,800			84%
2268	5,000		5,000			
3XXX	598,887		336,796			
4XXX	240,800		80,000			80%
5XXX	290,200		301,880			
7XXX	53,400		53,400			
TOTAL	2,212,622		1,387,288			
RENT	240,000	22.813	240,000	11.563		
UTILITY						
NATURAL GAS	170,300		153,000		90% OF SMMUSD COST	
LIGHT & POWER	1,249,750		1,119,375			
WATER	700,000		630,000			
STORMWATER USES	40,000		40,000			
WASTE DISPOSAL	260,000		234,000			
ALARM-FIRE/SILENT	20,000		18,000			
COMMUNICATION	175,000		157,500			
TOTAL	2,615,050		2,351,875			

FACILITY MAINTENANCE			per work order there is 23% cost for malibu		
2210	1,014,367	17.000	912,930	15.300	90% OF SMMUSD FTES
2218	68,016	1.000	68,016	1.000	MECHNIC
2300	85,020	1.000	85,020	1.000	CONSTRUCTION & MAINTENANCE MANAGER
2317	107,950	2.000	107,950	2.000	1 FTE STARTS FROM 2/2015
2410	48,744	1.000	48,744	1.000	ADMIN. ASST
2XXX HOURLY, OT	8,893		8,893		
3XXX	560,919		523,859		
4XXX	359,370		323,433		90%
5XXX	529,374		496,482		90%
7310	200,111		182,990		
TOTAL	2,982,764	22.000	2,758,317	20.300	
GROUND & OPERATION					
2212	428,458	10.250	385,612	9.225	90% OF SMMUSD COST
2232/2242/2262	205,000		184,500		90% OF SMMUSD COST
2213	519,864	12.400	466,304	11.000	
2243/2263	27,000		27,000		
2300	84,540	1.000	84,540	1.000	
2317	61,441	1.000	61,441	1.000	
2410	38,795	1.000	38,795	1.000	
3XXX	627,411		581,642		
4XXX	95,816		61,934		-\$30,000 FOR MALIBU FIELD
5XXX	67,256		58,403		
TOTAL	2,155,581	25.650	1,950,171	23.225	
M & O TOTAL	5,138,345		4,708,488		

**SANTA MONICA USD
MULTI-YEAR PROJECTION
UNRESTRICTED GENERAL FUND**

4/21/2015

Description	2014-15 2ND INTERIM BUDGET	2015-16 PROJECTED BUDGET	2016-17 PROJECTED BUDGET
Property Tax	46,995,932	46,995,931	46,995,931
Education Protection Account (EPA)	-1,800,000	13,535,256	14,086,132
LCFF Transfer to Fund 11 & Fund 14	(437,628)	(250,000)	(250,000)
LCFF Transfer to Charter School & County Specialized secondary school	(58,000)	(58,000)	(58,000)
LCFF State Aide	14,365,973	7,145,092	9,348,595
Subtotal LCFF Funding	62,666,277	67,368,278	70,122,658
Other Federal	8,000	8,000	8,000
Lottery	1,158,784	1,158,784	1,158,784
Mandated Reimbursement Block Grant	873,528	1,953,648	333,648
Other State Revenue	8,000	8,000	8,000
Meas. "R"	8,072,813	8,153,541	8,153,541
Prop. Y / City of SM	7,400,000	7,500,000	7,600,000
Joint Use Agreement/ City of SM	8,448,303	8,617,269	8,789,614
All Other Local Income	525,000	525,000	525,000
Lease and Rental	2,403,004	2,410,000	2,410,000
Other Sources /Proceed from Capital Lease			
Local General Fund Contribution	(19,195,421)	(19,195,421)	(19,195,421)
TOTAL REVENUE	72,368,288	78,507,099	79,913,824
Certificated Salary	37,922,447	38,491,284	39,068,653
Classified	12,556,255	12,744,599	12,935,768
Benefits	16,681,346	18,124,962	19,753,980
Supplies/Books	1,799,683	1,800,000	1,800,000
Other Operational Costs	6,936,632	7,000,000	7,000,000
Capital Outlay	37,500	50,000	50,000
Debt Services	53,400	53,400	53,400
Indirect	(996,831)	(850,000)	(850,000)
Interfund Transfer Out to Fund 12	185,494	110,000	110,000
Interfund Transfer Out to Fund 13	260,000	260,000	260,000
LCAP Increase above 2014-15		936,195	1,434,644
Mandated/Common Core Program		1,620,000	
TOTAL EXPENDITURE	75,435,926	80,340,440	81,616,445
Increase (Decrease) Fund Balance	(3,067,638)	(1,833,341)	(1,702,621)
Beginning Fund Balance	16,600,000	13,532,363	11,699,022
Ending Fund Balance	13,532,363	11,699,022	9,996,401
Reserve - Revolving cash, Store	94,570	100,000	100,000
Reserve - Deficit Spending 15-16	1,833,341		-
Reserve - Deficit Spending 16-17	1,702,621	1,702,621	
3% Contingency Reserve	4,046,569	4,050,085	4,178,984
Unappropriated Balance	5,855,262	5,846,316	5,717,417

SPECIAL EDUCATION

	SMMUSD REV.	SANTA MONICA	
REVENUE			
AB 602	5,410,704	\$ 4,488,179	82.95%
PROGRAM SPECIALIST	109,153	90,542	82.95%
MENTAL HEALTH	530,000	439,635	82.95%
WORKABILITY	62,031	51,455	82.95%
LOW INCIDENCE	3,475	2,883	82.95%
IDEA	2,259,179	1,873,989	82.95%
LGFC	17,480,168	15,451,664	
TOTAL REVENUES:	25,854,710	\$ 22,398,347	

	SMMUSD EXPENDITURE	SANTA MONICA	
FTES	293	-	0.00%
SALARY AND BENEFITS	21,763,929	18,281,700	
SUPPLIES	56,046	50,441.40	90%
ELECTROINC DEVICES	9000	8,100.00	90%
NON-CAPITAL EQUIP	37,000	33,300.00	90%
SERVICES	3,988,735	3,589,861.50	90%
UNRESTRICTED	434,944	434,944	84.43%
TOTAL COST	26,289,654	22,398,347	
GENERAL FUND CONTRIBUTION:	17,480,168	15,451,664	
	434,944	367,223	
	17,915,112	15,818,887	

APPENDIX C

SMMUSD CFO Forecasts for a Santa Monica Unified School District

(Adopted SMMUSD FY 2015-16 Budget Baseline)

**SANTA MONICA USD
MULTI-YEAR PROJECTION
UNRESTRICTED GENERAL FUND -Updated to Match 2015-16**

6/15/2015

Description	2015-16 PROJECTED BUDGET	2016-17 PROJECTED BUDGET	2017-18 PROJECTED BUDGET
Revenue:			
Property Tax	51,434,743	51,434,743	51,434,743
Education Protection Account (EPA)	1,799,800	1,784,000	1,784,000
LCFF Transfer to Fund 11 & Fund 14	(250,000)	(250,000)	(250,000)
LCFF Transfer to Charter School & County Specialized secondary school	(83,000)	(83,000)	(83,000)
LCFF State Aide	17,137,886	19,362,108	21,739,523
Subtotal LCFF Funding	70,039,429	72,247,851	74,625,266
Other Federal	8,000	8,000	8,000
Lottery	1,158,784	1,158,784	1,158,784
Mandated Reimbursement Block Grant	5,742,047	329,448	329,448
Other State Revenue	8,000	8,000	8,000
Meas. "R"	8,080,963	8,161,773	8,243,390
Prop. Y / City of SM	7,500,000	7,600,000	7,700,000
Joint Use Agreement/ City of SM	8,617,269	8,789,614	8,965,407
All Other Local Income	2,699,554	2,610,000	2,610,000
Lease and Rental	2,410,000	2,410,000	2,410,000
Local General Fund Contribution	(19,547,444)	(19,938,393)	(20,337,161)
TOTAL REVENUE	86,716,602	83,385,077	85,721,135
Expenditure:			
Certificated Salary	40,972,000	41,145,440	41,625,353
Classified	14,318,771	14,533,553	14,751,556
Benefits	19,371,325	21,022,644	22,816,545
Supplies/Books	2,431,667	2,400,000	2,400,000
Other Operational Costs	8,746,270	8,700,000	8,700,000
Capital Outlay	657,000	200,000	200,000
Debt Services	53,400	53,400	53,400
Indirect	(1,054,744)	(900,000)	(900,000)
Interfund Transfer Out to FUND 12	185,494	110,000	110,000
Interfund Transfer Out to FUND 13	130,000	130,000	130,000
LCAP Increase above 2015-16		502,539	838,269
TOTAL EXPENDITURE	85,811,184	87,897,575	90,725,123
Increase (Decrease) Fund Balance	905,419	(4,512,498)	(5,003,989)
Beginning Fund Balance	19,282,082	20,187,501	15,675,002
Ending Fund Balance	20,187,501	15,675,002	10,671,014
Reserve - Revolving cash, Store	100,000	100,000	100,000
Reserve - Deficit Spending 15-16		(5,003,989)	-
Reserve - Deficit Spending 16-17	4,512,498		
3% Contingency Reserve	4,050,085	4,178,984	4,178,985
Unappropriated Balance	11,524,917	16,400,007	6,392,029

DEPARTMENT BUDGET

	PROPOSED Budget	FTE	SMUSD BUDGET	FTE	NOTES	
SUPERINTENDENT /BOARD						
1310	239,204	1.000	239,204	1.000	7 BOARD MEMBERS	
2300	33,600		33,600			
2300	111,462	1.000	111,462	1.000		
2410	121,920	2.000	121,920	2.000		
2937/47	2,200		2,200			
3XXX	231,603		231,603			
4XXX	13,300		13,300			
5XXX	497,940		448,146			90% Services and Other Cost
TOTAL	1,251,229	4.0	1,201,435	4.000		
HUMAN RESOURCES						
1110	47,250	0.500	47,250	0.500	STRS Paid	
1130	10,900		9,156		84% OF HOURLY	
1160	1,023,000		859,320		84% of Sub Teachers	
1311	154,695	1.000	154,695	1.000		
1314	125,000	1.000	125,000	1.000		
1316	97,475	1.000	81,879	0.840	BTSA COORDIANTOR	
2317	74,226	1.000	74,226	1.000		
2410	549,892	7.000	388,172	7.000		
2262/2460/24	93,000		83,700		90% of Classified Subs	
3XXX	549,892		520,484			
4XXX	32,700		32,700			
5XXX	149,800		134,820		90% Contractor, Ad, Others	
6XXX	200,000		200,000		TIME CLOCK	
TOTAL	3,107,830	11.500	2,511,402	11.340		
EMPLOYEE RELATIONS						
1900	94,501	1.000	94,501	1.000	.5 PAID BY SEIU	
2900	85,452	1.000	85,452	1.000		
3XXX	59,082		59,082			
4XXX	12,000		12,000			
5XXX	313,520		282,168			90% of Legal Cost
TOTAL	564,555	2.000	533,203	2.000		
PERSONNEL COMMISSION						
2300	121,260	1.000	121,260	1.000	HR ANALYST 3 COMMISSION MEMBER	
2317	69,464	1.000	69,464	1.000		
2319	1,800		1,800			
2410	210,120	3.500	210,120	3.500		
2430	1,500		1,500			
3XXX	164,318		164,318			
4XXX	10,000		10,000			
5XXX	18,300		18,300			
TOTAL	596,762	5.50	596,762	5.500		

EDUCATIONAL SERVICES			RES. 0000		
1110	366,750	5.000	282,564	3.840	INDEPENDENT STUDY & TOSA
1130	156,858		131,761		ELEM. SUMMER SCHOOL
1160	25,000		21,000		
1190	50,000		50,000		BILINGUAL STIPEND
1314	477,338	4.000	477,338	4.000	
1316	108,281	1.000	108,281	1.000	MUSIC COORDINATOR
1321	156,495	1.000	156,495	1.000	
2115	15,975	0.625	15,975	0.625	INDEPENDENT STUDY
2232	9,900		6,600		SUMMER SCHOOLS
2410	244,509	4.700	244,509	4.700	
2430	8,340		4,920		SUMMER SCHOOLS
29XX	2,000		2,000		
3XXX	504,388		482,140		
41XX	800,000		672,000		84% OF TEXT BOOKS
4XXX	182,511		164,260		90% OF TOTAL COST
5630	207,060		207,060		RENT FOR OFFICE
5750	(133,746)		(133,746)		TF TECH DIRECTOR TO FUND 84
5XXX	126,100		113,490		90% OF OTHER SERVICES
	3,307,759	16.325	3,006,646	15.165	
RES.00001					
1110	764,857	10.000	642,480	8.400	ELEM. MUSIC TEACHERS
1130	500		420		
1160	5,000		4,200		SUB TEACHERS
1170	10,680		8,971		EDU FOR MUSIC TEACHERS
2161	20,000		16,800		84% OF SUB FOR PAS
2244	2,463		2,463		
2917	599		599		
3XXX	249,002		191,355		
4XXX	8,100		8,100		
5XXX	120,400		108,360		90% OF SERVICES AND OTHER COSTS
TOTAL	1,181,601	10	983,748	8.400	
RES.00020					
1130	11,120		9,341		84% OF STUDENT POPULATION
1160	6,189		5,199		84% OF STUDENT POPULATION
3XXX	2,922		2,454		84% OF STUDENT POPULATION
4XXX	13,159		11,054		84% OF STUDENT POPULATION
5XXX	634,815		533,245		84% OF STUDENT POPULATION
TOTAL	668,205	-	561,292	-	

		RES.00030				
1110	807,272	10.420	682,720	8.82	1.6 FTE FOR MALIBU 92% SUPPLEMENTAL POPULATION	
1130	440,466		405,229			
1160	32,000		32,000			
1316	107,801	1.000	107,801	1.000		
2120	47,641		47,641			
2130	42,243		5,000			
2410	5,924	0.100	5,795	0.100		
2914	180,015	3.000	180,015	3.000		
2917	121,693		121,693			
2925	369,525	9.500	332,675	8.500		1 FOR MALIBU
29XX	24,500		62,000			
3XXX	686,259		604,843			
4XXX	107,347		107,347			
5XXX	635,363		608,244			
TOTAL	3,608,049	9.500	3,303,003	21.420		
STUDENT SERVICES						
1314	127,759	1.000	127,759	1.000	HOME/HOSPITAL TEACHERS 1.8 ADM. ASST. STUDENT INFO SYS TECHNICIAN 90% OF THE TOTAL COST	
1130	100,000		84,000			
2410	74,646	1.800	74,646	1.800		
2910	72,078	1.000	72,075	1.000		
2XXX	4,960		4,960			
3XXX	141,765		139,064			
4XXX	10,500		10,500			
5XXX	117,650		105,885			
TOTAL	649,358	3.800	618,889	3.800		
HEALTH SERVICES						
1214	549,543	6.000	457,952.50	5.000	DECREASE 1 NURSE 84% -1.3125 NURSE ASST.	
1234	23,657		19,872			
2900	43,710	1.000	43,710	1.000		
2420	139,446	4.375	95,000	3.063		
2460	5,000		4,200			
2917	4,000		3,333			
3XXX	233,014		198,245			
4XXX	5,650		5,650			
5XXX	5,400		5,400			
TOTAL	1,009,420	11.375	833,363	9.063		
SPECIAL ED/PSYCHOLOGISTS						
1211	342,009	3.450	288,758	2.910	84.43%	
3XXX	102,985		86,950			
TOTAL	444,994	3.450	375,708	2.910		
INSURANCE SERVICES						
4XXX	65,000		58,500		90% OF TOTAL BUDGET	
5XXX	1,421,000		1,136,800		80% OF TOTAL BUDGET	
6XXX	10,000		8,000		80% OF TOTAL BUDGET	
TOTAL	1,362,036		1,203,300			

THEATER OPERSTIONS & FACILITY						
2111	106,364	3.125	62,789	1.750	1.375 for Malibu DECREASE \$200,000 REVENUE FROM CITY OF MALIBU 90% OF TOTAL BUDGET	
2212	37,272	1.000	37,272	1.000		
2213	59,244	1.000	59,244	1.000		
2317	35,373	0.500	35,373	0.500		
2910	103,621	2.000	103,621	2.000		
3XXX	169,638		141,220			
4XXX	36,000		32,400			
5XXX						
TOTAL	547,512	7.625	471,919	6.250		
BUSINESS SERVICES						
2300	177,810	1.000	177,810	1.000		
2314	130,000	1.000	130,000	1.000		
2410	57,864	1.000	57,864	1.000		
2430	5,000		5,000			
3XXX	114,885		114,885			
4XXX	4,700		4,700			
5XXX	309,575		309,575			
TOTAL	799,834	3.000	799,834	3.000		
FISCAL SERVICES						
2300	160,844	1.000	160,844	1.000		
2317	154,152	2.000	154,152	2.000		
2410	570,140	10.000	570,140	10.000		
24XX	10,000		10,000			
3XXX	409,085		409,085			
4XXX	16,000		16,000			
5XXX	90,365		90,365			
TOTAL	1,410,586	13.000	1,410,586	13.000		
COMPUTER SERVICES						
RES. 00000/00001						
2300	133,670	1.000	133,670	1.000	3 TECH FOR Malibu	
2410	127,524	2.000	127,524	2.000		
2910	1,165,305	18.000	997,412	15.000		
3XXX	588,704		509,079			
4XXX	29,000		29,000			
5XXX	647,300		647,300			
6XXX	30,000		30,000			
TOTAL	2,721,503	21.000	2,473,985	18.000		
PURCHASING						
2300	131,234	1.000	131,234	1.000		NO MALIBU SCHOOLS
2216	30,408	0.875	21,720	0.625		
2410	213,372	4.000	213,372	4.000		
3XXX	177,800		168,868			
4XXX	42,000		42,000			
5XXX	(14,400)		(14,400)			
TOTAL	580,414	5.875	562,794	5.625		

TRANSPORTATION					
HOME TO SCHOOL					
2314	47,829	0.500	-		.5 DIRECTOR
2410	31,104	0.500	-		.5 ADMIN. ASST
2218	304,934	7.500	-		.5 MECHANIC, 8 BUS DRIVER
2238	12,500		-		
2248	20,000		-		
3xxx	240,731		-		
4xxx	140,000		-		
5xxx	(14,000)		-		
6xxx	25,000		-		
TOTAL	808,098		-		
SPECIAL ED TRANSPORTATION					
				3 buses for Malibu 11 buses for SM	
2314	47,829	0.500	95,658	1.000	
2410	31,104	0.500	62,208	1.000	
2218	496,709	12.313	447,038	11.125	
2238	50,000		42,000		90%
2248	20,000		16,800		90%
2268	5,000		5,000		
3XXX	417,461		565,687		
4XXX	10,000		90,000		90%
5XXX	61,600		55,440		90%
RENT	244,800		244,800		
7XXX	53,400		53,400		
TOTAL	1,437,903	13.313	1,678,031	13.125	
UTILITY					
NATURAL GAS	150,000		135,000		90% OF SMMUSD COST
LIGHT & POW	1,300,000		1,170,000		
WATER	750,000		675,000		
STORMWATER	40,000		40,000		
WASTE DISPOS	275,000		247,500		
ALARM-FIRE/S	20,000		18,000		
COMMUNICAT	175,000		157,500		
TOTAL	2,710,000		2,443,000		
GROUND & OPERATION					
2212	429,124	10.250	385,612	9.225	90% OF SMMUSD BUDGET
2232/2242/22	255,000		229,500		90% OF SMMUSD BUDGET
2213	161,592	3.000	161,592		
2243/2263	27,000		27,000		
2300	84,540	1.000	84,540	1.000	
2410	37,580	1.000	37,580	1.000	
3XXX	424,457		424,457		
4XXX	350,000		320,000		-\$30,000 FOR MALIBU FIELD
5XXX	29,500		29,500		
TOTAL	1,798,793	15.250	1,699,781	11.225	

DISTRICTWIDE SERVICES			
34XX	(209,296)	(205,296)	
5XXX	188,200	169,380	90% OF SMMUSD BUDGET
6XXX	392,000	392,000	
73XX	(1,161,544)	(1,141,981)	

RES. 81500

ON GOING MAINTENANCE		per work order there is 23% cost for malibu			
2210	1,013,627	17.000	912,264	15.300	90% OF SMMUSD FTES
2213	371,849	9.400	334,664	8.460	90% OF SMMUSD FTES
2218	68,016	1.000	68,016	1.000	MECHNIC
2240	40,000		36,000		90% OF BUDGET
2248	3,000	-	3,000		90% OF BUDGET
2300	85,536	1.000	85,536	1.000	CONSTRUCTION & MAINTENANCE MANAGER
2317	217,412	3.000	217,412	3.000	
2410	48,744	1.000	48,744	1.000	ADMIN. ASST
3XXX	795,616		713,992		
4XXX	307,000		276,300		90% OF TOTAL BUDGET
5XXX	566,500		509,850		90% OF TOTAL BUDGET
6XXX	365,037		250,000		
7310	220,886		201,323		
TOTAL	4,103,223	32.400	3,657,101	29.760	

DEPARTMENT BUDGET

1XXX	6,461,600	48.37	5,715,146	42.31
2XXX	8,264,845	130.16	7,313,794	110.51
3XXX	5,258,695	-	4,808,523	-
4XXX	1,875,967	-	1,627,510	-
5XXX	8,366,542	-	7,543,132	-
6XXX	657,000	-	630,000	-
7XXX	(1,108,144)	-	(1,088,581)	-
76XX	315,494		315,494	
	30,091,999	179	26,865,019	

SMUSD

1XXX	41,718,454	471.62	40,972,000	462.65
2XXX	15,269,822	300.34	14,318,771	280.69
3XXX	19,821,497		19,371,325	
4XXX	2,431,667		2,431,667	
5XXX	8,746,270		8,746,270	
6XXX	657,000		657,000	
7XXX	(1,108,144)		(1,108,144)	
76XX	315,494		315,494	
	87,852,060		85,704,384	
			2,147,676	

MEMORANDUM

To: Board of Education, Santa Monica Malibu Unified School District

From: Financial Oversight Committee

Date: July 15, 2015

Subject: Proposed Action to Reorganize the Existing Santa Monica Malibu Unified School District by Forming a New Malibu Unified School District from Parts of the Existing District - Implications Relating to the Division of Assets and Liabilities

This Memorandum responds to one of the charges given by the Board to the Financial Oversight Committee (“FOC”) at our joint meeting in July, 2014. At that meeting, the Board requested that the FOC provide information regarding the financial implications of forming a new “Malibu Unified School District” (“MUSD”) from parts of the existing Santa Monica Malibu Unified School District (the “Existing District”). MUSD would consist of all geographic areas currently served by the Existing District which are outside the boundaries of the City of Santa Monica with the Existing District continuing to serve the City of Santa Monica under the name “Santa Monica Unified School District” (“SMUSD”).

The FOC divided this task between two subcommittees, one focusing on the division of assets and liabilities, which is addressed in this Memorandum, and the other looking at hypothetical operating budgets for the two districts which will be addressed in a separate memorandum.

Summary

The Board expressed particular interest in learning whether there were any financial issues sufficiently material to preclude support by the Board for the proposed unification - so-called “deal breakers.” Based on research and analysis carried out by this subcommittee and discussions by the full FOC, the FOC identified the existing claim and potential future claims against the District and certain of its officials arising from alleged toxic substances and remediation practices at certain Malibu schools as the only potential “deal breaker” within the context of the allocation of assets and liabilities. While we have some preliminary thoughts on how that issue might be satisfactorily resolved, advice from legal counsel will be necessary and we’ve had neither the time nor the resources to investigate their feasibility.

The California Education Code contains certain default provisions regarding the method to be used for allocating assets and liabilities. It also provides, however, that other methods may be used if found to be more equitable. Therefore, the suggested

allocations discussed in this Memorandum are based upon the FOC's conclusions regarding equitable allocations. In some instances we were unable to reach a solution absent more information; however, we are confident that mutually agreeable results can be reached through further analysis and discussion.

A. Division of Assets.

1. Land and Improvements.

In addition to existing school sites, the District owns (a) the land and the building in which the District offices are housed, (b) the land underneath the Doubletree Hotel and the adjacent office building, but not the buildings, (c) the land underneath a single-story multi-tenant building at 9th and Colorado, but not the building, (d) the site previously used for Madison School which is leased to Santa Monica College and the buildings on that site except for the Broad Stage and other buildings constructed by SMC, (e) the site and the buildings previously used for Washington School on 4th Street in Ocean Park and a children's center across the street, and (f) a few additional small parcels, some in Malibu and some in Santa Monica.

The Education Code provides that real property plus the improvements, FF&E, and books and supplies normally situated on that property are to be allocated to the district in which the property is located. The Subcommittee believes this to be a reasonable method of allocation so that, in essence, all real property owned by the District located outside the City of Santa Monica, as well as the associated improvements, etc. located on that property, would be allocated to MUSD with the balance being retained by SMUSD. We are not aware of any real property for which it would be inappropriate to make such an allocation.

2. Personal Property Other Than Cash. We did not have an inventory of personal property but believe that the only major items that are not associated with a particular school site or the District office, all of which would run with that property, are vehicles, primarily large and small buses. In general, the large buses and perhaps some small buses are housed in Malibu and are used almost exclusively in Malibu while most of the small buses are housed in Santa Monica and are used there. The FOC believes that the appropriate allocation should be based on how these buses are used so that, in essence, the ones housed in Malibu would probably be allocated to MUSD and the ones housed in Santa Monica would remain with the District. To the extent buses used in Malibu are currently maintained in Santa Monica, a new MUSD could enter into a maintenance agreement with SMUSD until it was prepared to provide its own maintenance facility.

3. Cash. The FOC believes that cash cannot be allocated using any single method because there are differing sources of money and different restrictions as to how it is permitted to be used. We discussed these issues by looking at the individual funds maintained by the District.

a. Major Governmental Funds.

(1) General Fund (Unrestricted). The easiest way to allocate cash in the unrestricted portion of the General Fund would be based on respective ADA for the last year of operation of the District. Such a method would, however, disregard the different funding sources which we believe are relevant in certain cases. Therefore, we believe that further discussions are needed regarding allocation of the cash in this Fund.

- LCFF Funding. The bulk of the unrestricted general fund money comes from local property taxes and the State. Malibu's share of property tax funding will be disproportionately higher than Santa Monica's share when compared to ADA allocations. However, due to supplemental grants under LCFF, it is likely that a disproportionate amount of State money is due to Santa Monica enrollment.

- City of Santa Monica. Through the joint use agreement and Prop. Y, the City of Santa Monica and its taxpayers are expected to contribute approximately \$16,000,000 to the General Fund during the next fiscal year. Therefore, it does not seem appropriate to allocate General Fund cash derived from these payments through use of ADA.

- Prop. R Parcel Tax. Prop. R is expected to generate approximately \$11,000,000 for the General Fund during the next fiscal year. There are two ways to look at these dollars. The first would be to assume that none of the cash in the unrestricted portion of the General Fund at the end of the year was derived from Prop. R because it is all legally required to be spent during the year. The other would assume all General Fund dollars are fungible and allocate accordingly, either based on ADA or another method, such as the respective number of parcels for which the owners did not take advantage of the senior exemption.

- Other Local Income. This catch-all category is expected to contribute approximately \$3,500,000 to the General Fund over each of the next few years. Much of this money comes from leases, such as the ground leases for the Doubletree Hotel and Madison School. These funds could be allocated based on ADA or allocated based upon the location of the property generating the income.

- SMMEF. Funds contributed by SMMEF will be spent during the fiscal year in which they were contributed. Therefore, as with Prop. R, cash in the unrestricted portion of the General Fund at the end of a fiscal year will not contain any of these dollars. Depending upon the principle used, these funds could either be disregarded or treated as a part of fungible cash and allocated. If they are to be allocated, it would seem inappropriate to allocate much, if any, to MUSD given the history of SMMEF's lack of success in raising contributions in Malibu.

(2) General Fund (Restricted). Funds in this account must be used for specific purposes, such as the acquisition of instructional material from lottery

proceeds. It is not clear whether these restrictions will impact the allocation method but, if not, ADA may be appropriate.

(3) Building Fund - \$45,800,000. This fund contains unspent bond proceeds from both BB and ES bonds which are restricted for use in accordance with the bond program. (Of course, it is likely the District will issue one or more additional series of ES bonds before any separation would become effective thereby generating more unspent proceeds.) The FOC believes that to the extent the proceeds have been earmarked for specific projects, the funds should be divided in that manner. To the extent that they have not been earmarked, another method, such as the 80%/20% contemplated in the Board's resolution authorizing the placing of the ES bonds on the ballot could be used with the split taking into account previous expenditures as well as the allocations of the earmarked funds.

We assume that if bond proceeds are transferred to MUSD, some Proposition 39 committee will be required to oversee the expenditures. We are unsure as to whether this would be a new committee created by MUSD or the existing committee.

(4) Bond Interest and Redemption Fund - \$40,498,000. This fund contains property tax receipts used to make payments on outstanding bonds as well as any accrued interest received at the time the bonds were sold. It is maintained by the county and should be allocated in a manner consistent with the bond indebtedness.

b. Non-Major Governmental Funds - Special Revenue Funds. These Funds are generally restricted for certain specific purposes and, to that extent, should be allocated based upon use rather than ADA.

(1) Adult Education Fund. This fund accounts for revenue received for adult education and can be used for only that purpose.

(2) Child Development Fund. This fund is legally restricted for child development programs and should be allocated based on use. Most of the child development programs are in Santa Monica with a minor element in Malibu.

(3) Cafeteria Special Revenue Fund. This fund is for operation of the food service programs. Since these programs exist in both SM and Malibu and provide service to all students, an allocation based on ADA may be appropriate.

(4) Deferred Maintenance Fund. This fund holds State and local contributions for deferred maintenance. Rather than ADA, the proper allocation may be based upon square footage of the improvements to be held by each district.

c. Non-Major Governmental Funds - Capital Project Funds.

(1) Capital Facilities Fund. This Fund holds proceeds from developer fees and is likely to be significantly higher than was the case on January 31, 2015, the date of the 2nd Interim Report, when it was approximately \$34,000. To some extent, the proceeds of the Fund have already been reserved to assist in the payment of construction costs for Measure BB projects and for the payment of costs associated with environmental remediation in Malibu; those allocations should be preserved. To the extent that the fund contains excess proceeds, we believe it should be allocated on a pro-rata basis measured by the location of the projects giving rise to the developer fee deposits rather than ADA.

(2) Special Reserve for Capital Outlay Projects. This Fund contains that portion of tax increment funds received by the District from the Santa Monica Redevelopment Agency which is required by law to be used for capital expenditures. This Fund has also been allocated to pay a portion of the cost of BB projects and should continue to be available for that purpose. To the extent there remain excess amounts in this Fund, they should remain with SMUSD given the fact that they are attributable to Santa Monica projects.

d. Proprietary Fund - Self Insurance Fund. The negative fund balance in this Fund (almost \$5,800,000 at the end of 2013- 2014) represents the difference between the OPEB liability discussed below and the \$3,000,000 which has been set aside by the District for future funding of those liabilities. Allocation of the \$3,000,000 in cash will depend upon the manner in which the Board responds to the FOC's recommendation that this \$3,000,000 be placed in a reserve account handled by CalPERS, as was recently done by the City of Santa Monica.

e. Fiduciary Funds. These are "agency" funds used to account for funds held by the District for the benefit of employees or student groups. Presumably, a portion would be transferred to MUSD for deposit into newly-created agency funds for the benefit of MUSD employees and students with the balance retained by SMUSD.

B. Division of Liabilities.

1. Bonds. This Section addresses indebtedness created by previously issued bonds, unspent proceeds of issued bonds, authorized but unissued bonds and future bonds not currently authorized.

In preparing this Memorandum, members of the Subcommittee (x) met with Tony Hsieh of Keygent, the District's bond advisor, (y) discussed relevant legal issues with attorneys Janet Mueller and Bill Tunick of the San Diego law firm of Dannis Woliver Kelley ("DWK"), the firm that represented Centinela Valley Union High School District in the Wiseburn unification, and which the FOC recommends be retained by the District, and (z) reviewed memoranda prepared by WestEd at the request of AMPS and Marguerite Leoni of the law firm of Nielsen Merksamer to Craig Foster, counsel to AMPS.

a. Issued Bonds.

(1) Status. As of June 30, 2014, the District had about \$315MM in total outstanding “general obligation” bonds: about \$68MM in pre-BB bonds and \$247MM in BB bonds. In August, 2014, the District issued \$30MM in bonds under Measure ES for a current total of about \$345MM less any principal payments that have been made. While these bonds are designated as “general obligation” bonds, the only source of payment is assessments against real property in the current District boundaries; they are not technically general obligations of the District payable from any other assets. Therefore, a separation would not affect bondholders - the bonds would continue to be paid based on assessments against property in Santa Monica and Malibu as if there had been no separation and bondholders would have no access to assets of either SMUSD or MUSD.

(2) Allocation of Indebtedness. Following a separation, SMUSD, as the continuation of the District, would be treated as having been the issuer of these bonds and, at least nominally, be fully liable for the aggregate outstanding debt. However, Section 35576(b) of the Education Code would require MUSD to be liable for a portion of that debt and Section 35576(c) requires the county to assess property in both Santa Monica and Malibu based upon the manner in which the bond indebtedness is allocated.

MUSD would be liable for that portion of the bond debt equal to the larger of (a) and (b) below or determined in accordance with Section 35738 described in (c) below:

(a) Section 35576(b)(1) uses the percentage of the aggregate assessed valuation of property in the District which is located in the MUSD area in the year immediately preceding the effective date of the separation. Currently, that percentage would be about 29.5%. (For ease of discussion, this Memorandum assumes a 30% share for Malibu recognizing that it will be whatever it is at the time.)

(b) Section 35576(b)(2) uses the portion of the outstanding bonded debt incurred for the acquisition or improvement of school property located within the boundaries of MUSD. Determining the MUSD portion on this basis presents practical difficulties, particularly with respect to expenditures made with pre-BB bond proceeds.

(c) Section 35738, permits allocation in any other manner which would provide “greater equity” taking into account “assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deems pertinent.”

The FOC recommends that the petition focus on method (a) - using respective percentages of assessed valuation on the effective date of the separation - because

attempting to apply method (b) is not practical and we didn't see any basis upon which to conclude that another allocation method would provide "greater equity."

There is a theoretical effect on property taxes in the respective districts compared to taxes absent a separation. If, for example, the bond debt were allocated 70% to SMUSD and 30% to MUSD, property in Santa Monica would be responsible for 70% of all future payments and property in Malibu 30% irrespective of changes in relative assessed valuations. If the relative assessed valuations were to change to 65% - 35%, Santa Monica property would still be responsible for 70% of the bond payments whereas such property would only be responsible for 65% in the absence of a separation. And, of course, were the shift to be in the other direction, say 75% - 25%, Malibu property would absorb a disproportionately higher percentage of the future payments.

(3) Impact on Bonding Capacity. The FOC considered whether the separation or the manner in which the outstanding bond debt is allocated would affect bonding capacity. Preliminarily, it is important to recognize that, as discussed below, Tony Hsieh believes that the restraint on the timing of new bond issues won't be the bonding capacity of SMUSD but the ability to keep the aggregate bond payments limited to \$30/\$100,000 of assessed valuation. However, if bonding capacity becomes an issue, separation and allocation might be significant.

(a) Separation. In the absence of separation, the bonding capacity of the District would be limited to 2.5% of the aggregate assessed valuation of all Santa Monica and Malibu property. Separation would limit each district to 2.5% of the assessed valuation of property in that district. To the extent that bond proceeds are needed in one district in a greater proportion than the ratios of assessed valuation, the district requiring more bond proceeds would be negatively affected by a separation.

(b) Allocation. Section 33574 provides that the bond debt liability assumed by MUSD would be considered a liability of MUSD for purposes of computing bonding capacity with, presumably, the liability retained by SMUSD affecting its capacity. Therefore, the manner in which the bond debt is allocated between the two districts may have some residual effect on bonding capacity of the two districts.

(4) Future Refinancing. From time to time, most recently on May 7, 2015, the Board has authorized the refinancing of outstanding bonds due to the movement of interest rates or other factors. The mechanism for taking similar action following a separation isn't clear to us. SMUSD probably wouldn't have the authority to issue new bonds for this purpose which were backed, in part, by Malibu property even though the bonds being paid did have that support. Therefore, special legislation may be required to either give SMUSD that authority or create some other vehicle for issuing the refunding bonds.

b. Authorized But Unissued ES Bonds.

At the moment, an additional \$355MM remains in bonding authority under Measure ES. This amount could be reduced by up to another \$45MM remaining from the Board's 2014 resolution under which \$30MM were issued in August and up to an additional \$60MM based on the Board's May 7 resolution. For purposes of this Memorandum, we have assumed the remaining \$45MM authorization will not be utilized but that the recently authorized \$60MM will be issued, thereby reducing the unissued amount to \$295MM. (Of course, this amount may be further reduced prior to separation to the extent additional bonds are authorized and issued.)

In the absence of separation, the District would have authority to authorize the issuance of additional ES bonds in the aggregate amount of \$295MM. At a time when the remaining authority was \$355MM, Tony Hsieh concluded that it should be possible to issue bonds in that aggregate amount through five more series, one every two years in the amount of \$71MM starting this year with all bonds being issued by 2023. Assuming the District issues the full \$60MM, this schedule might be adjusted somewhat but would probably permit the District to issue bonds in the aggregate amount of \$295MM by no later than 2025. According to Tony, the limiting factor is maintaining a maximum tax rate for all ES bonds of \$30/\$100,000 of assessed valuation, as promised to the voters in the ballot measure. Assuming the proceeds of these future bonds were split 80%/20% between Santa Monica and Malibu schools, Santa Monica schools would receive \$236MM and Malibu schools \$59MM over the remaining 10-year period. (Note that this is a simplistic assumption because (a) the 80%/20% split related to the entire \$385MM ES authorization and the assumption doesn't attempt to take into account the manner in which the issued bond proceeds have been, or will be split, and (b) there was nothing in the Board's resolution limiting Malibu's share to 20% - that number was only a minimum.)

In connection with a separation, the FOC considered two questions relating to potential future bonds:

- What happens to the bonding authority?
- What is the impact of the Board's original ES resolution stating that not less than 20% of the net bond proceeds are to be spent on projects benefiting schools in Malibu?

It is the FOC's understanding, based on discussions with DWK, that in the absence of special legislation directing a different result, SMUSD, as the continuing district, would probably retain the authority to issue the remaining bonds with any new bond debt being paid for through assessments solely against Santa Monica property. However, there is apparently no provision in the Education Code directly on point. Ms. Leoni noted in her memorandum that in the somewhat, but not identical, situation where an existing district is divided and the original district ceases to exist, Section 35577 requires the board of supervisors to allocate the bonding authority between the two new districts based upon respective assessed valuations. She points out, however, that

because a Malibu separation would not result in the District ceasing to exist, Section 35577 is not directly applicable. Therefore, in order to allocate the bonding authority between SMUSD and MUSD, Ms. Leoni and DWK both believe that special legislation would be necessary.

If separation occurs and SMUSD is to issue the remaining bonds, it would obviously give SMUSD more money than Santa Monica schools would receive in the absence of separation because none of the proceeds would need to be shared with MUSD - the full \$295MM rather than \$236MM. However, due to the 30% reduction in assessed valuation resulting from the loss of Malibu property, it will take considerably longer to issue bonds in the aggregate amount of \$236MM and even longer to realize the full \$295MM.

Alternatively, if separation occurs and special legislation gives MUSD the authority to issue some portion of the ES bonds backed solely by property Malibu, SMUSD would retain authority to issue bonds in the aggregate amount of about \$206.5MM (70% of the \$295MM total based on assessed valuation) and MUSD the remaining \$88.5MM (30%).

Neither solution leaves Santa Monica voters where they thought they were under Measure ES which was to have up to 80% of the ES bond proceeds available for Santa Monica schools with only 70% of the bonded indebtedness being paid for by Santa Monica property owners. The reasons for the mismatch are that there was (and is) a much greater perceived need for capital expenditures on Santa Monica schools, Santa Monica High School in particular, and the 80%/20% split roughly mirrors the pupil breakdown. The only way to achieve this result would be to have special legislation giving SMUSD the power to issue ES bonds backed by all property that was in the District prior to separation and requiring SMUSD to transfer a portion of the net bond proceeds to MUSD in amounts which would preserve the 20% allocation to Malibu schools. A similar structure was included as a part of the special legislation surrounding the Wiseburn/Centinela Valley separation.

Another unknown is the impact of separation on the AA credit rating of the District since it is possible that neither SMUSD nor MUSD could achieve that same level. Tony Hsieh advised us that a one-level drop in the rating would probably equate to a 15 basis point increase in the interest rate that would be required to be paid on new bond issues.

2. Certificates of Participation. These certificates were issued as a method to finance certain lease obligations in connection with property in Santa Monica. Two series are currently outstanding:

2001 Series C maturing 5/1/2025 - \$8,548,000
2010 Series B maturing 2/1/2024 - \$7,925,000

The FOC believes that the indebtedness under these instruments should remain with the District because it will continue to own that property.

3. Compensated Absences. This liability is primarily for untaken sick leave and, with respect to classified employees, untaken vacation leave. The FOC believes that allocation of this liability may be feasible based on which employees ultimately work for which district.

4. OPEB. The 2015 actuarial study concludes that the District's unfunded liability is around \$36,000,000, an increase of almost \$10,000,000 from that contained in the 2013 report. GASB 68 requires, beginning with the current fiscal year, that the unfunded liability be reported on the financial statements. As explained in connection with the Self-Insurance Fund above, the \$5,800,000 negative balance reflected in that Fund represents the difference between the amount the District should have been contributing annually in order to retire the unfunded liability over a 30-year period - \$8,800,000 - over the \$3,000,000 the District has set aside rather than utilizing the pay-as-you-go system. Because the District has contributed about \$3,000,000 to the Self-Insurance Fund, as reflected above, the net deficit is \$5,487,000. The allocation of this liability will require further discussion because it is a combination of obligations to current employees and retired employees.

C. Litigation.

The Subcommittee is aware of two pending lawsuits against the District and, in one case, against certain officers of the District.

1. School Lights. One pending lawsuit challenges the adequacy of the CEQA analysis relating to installation of lights at Malibu High School - we do not believe it seeks monetary damages against the District. Presumably, if there were a separation, MUSD would step into the District's position with respect to this litigation and the District, now being SMUSD, would be dismissed - SMUSD would no longer have any jurisdiction over installation of the lights. Presumably any funds earmarked for this project would be transferred to MUSD as a part of the allocation of assets. The trial court held in favor of the District but the plaintiffs have recently appealed.

Related to this lawsuit is an appeal of the City's approval of the project under the Coastal Act to the Coastal Commission; that appeal is also pending. If there were a separation, presumably MUSD would assume control of this appeal and SMUSD would no longer be involved.

2. Toxic Substances Control Act. A lawsuit has recently been filed against the District, Board members, Sandy and Jan associated with the disputed procedures followed by the District with respect to the investigation and remediation of PCBs in certain Malibu classrooms. The suit alleges failure to comply with the Toxic Substances Control Act and may have certain other allegations - the Subcommittee has not reviewed the Complaint.

It is the Subcommittee's position that any separation would need to be conditioned upon a release of any such claim to the extent that it might continue to apply to SMUSD, its Board members and officers. The Subcommittee believes that MUSD should be obligated to indemnify SMUSD for any exposure to future claims based upon any failure to properly remediate any existing conditions because responsibility to deal with the Malibu facilities would, following a separation, be under the sole jurisdiction of MUSD. However, we are not clear on what other exposure might remain to SMUSD, such as personal injury claims, and, if any, to what extent it is appropriate for MUSD to provide an indemnity and how a meaningful indemnity would be crafted. Clearly, this subject needs further legal analysis by competent counsel as to the nature of any continuing exposure to SMUSD, the proper allocation of responsibility, and the appropriate means to achieve that allocation.

From: The Financial Oversight Committee of the Santa Monica-Malibu Unified School District	
To: The Board of Education of the Santa Monica-Malibu Unified School District	
Prepared by: DeAndre' Parks, Jon Kean and Marc Levis-Fitzgerald	
Regarding: Unfunded Liability for Other Post-employment Benefits (OPEB)	

SMMUSD OPEB

SMMUSD administers a single-employer defined benefit OPEB plan that provides medical, dental, and vision insurance benefit to eligible retirees and their spouses. SMMUSD implemented GASB #45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, in 2008-09.

SMMUSD provides postemployment health care benefits in accordance with SMMUSD Employment contracts to all employees who retire from the district on or after the age of 55 (certificated)/ age 50 (classified) with at least 10 years of service. The district provides medical benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first. In addition, all retirees over the age of 65 receive a lifetime medical supplement of \$115 per month. Membership in the plan consisted of the following for the past fiscal year:

Retirees and beneficiaries receiving benefits	358
Active plan members	1, 126
Total	1, 484

What Does the Unfunded Liability Mean?

The future costs of providing retiree healthcare to plan participants are unknown. Participants include retirees who currently receive benefits and active employees who have not yet begun drawing benefits. Future costs depend on each participant's years of service, the participant's remaining years of life after retirement, future healthcare prices, the plan's investment returns, and many other factors. Public entities work with actuaries who study the OPEB plan's membership data and make assumptions about these factors for each plan participant. By doing this for each plan member and adjusting these assumptions based on what actually happens, the actuary predicts the total cost of providing retiree health care benefits for current plan participants. Actuaries then discount this total to a present day value that represents the amount of money that is required to be invested now to have sufficient assets to pay for future benefits when they are due. This amount is referred to as the actuarial accrued liability (AAL). The AAL minus the assets on hand equals the unfunded actuarial accrued liability (UAAL).

SMMUSD Projected Unfunded Status for 2014 (\$5, 494,232)

SANTA MONICA MALIBU UNIFIED SCHOOL DISTRICT			
2013-14 UNAUDITED ACTUAL SUMMARIES			
SELF INSURANCE FUND (67)			
	2013-14 ESTIMATED ACTUALS	2013-14 UNAUDITED ACTUALS	DIFFERENCE
REVENUE	1,075,753	1,817,692	741,939
EXPENDITURES	1,068,753	2,616,392	(1,547,639)
EXCESS OR (DEFICIENCY)	7,000	(798,700)	(805,700)
BEGINNING BALANCE	(4,695,532)	(4,695,532)	-
PROJECTED ENDING BALANCE	(4,688,532)	(5,494,232)	(805,700)

Alternative Funding Schedules

There are many ways to approach the pre-funding of retiree healthcare benefits. The expense is an orderly methodology, developed by the GASB, to account for retiree healthcare benefits.

The table on the next page shows four funding schedules:

1. A Pay-as-you-go payment, our current methodology.
2. A level contribution amount for the next 20 years.
3. A level percent of the Unfunded Accrued Liability.
4. A constant percentage (3%) increase for the next 20 years.

Note:

Funding schedules 2-4 include the "pay-as-you-go" costs; therefore, the amount of pre-funding is the excess over the "pay-as-you-go" amount.

This table provides the District with three alternative schedules for funding retiree healthcare benefits in contrast to the current, "pay-as-you-go" method. The schedules all assume that the retiree fund earns, or is otherwise credited with, 4.0% per annum return on its investments, and that contributions and benefits are paid mid-year.

We are providing these funding schedules to give SMMUSD a sense of the various alternatives to pre-fund its retiree healthcare obligation. They are simply three different examples of how the District may choose to spread its costs.

By comparing the schedules, one can see the effect that early pre-funding has on the total the District will eventually have to pay. Because of investment earnings on fund assets, the earlier contributions are made, the less the District will have to pay in the long run. Of course, the advantages of pre-funding will have to be weighed against other uses of the available funds.

Illustration of Pay-As-You-Go versus Prefunding (source SMMUSD 2013 GASB Report)

Santa Monica-Malibu Unified School District Sample Funding Schedules (Closed Group)

Fiscal Year	Level Contribution	Level % of Unfunded Liability	Constant Percentage Increase	
Beginning	Pay-as-you-go	for 20 years		
2013	\$1,018,451	\$2,987,570	\$5,117,489	\$2,310,683
2014	1,106,692	2,987,570	4,441,666	2,380,003
2015	1,175,142	2,987,570	3,882,405	2,451,403
2016	1,178,876	2,987,570	3,418,672	2,524,945
2017	1,253,121	2,987,570	3,029,905	2,600,694
2018	1,307,130	2,987,570	2,708,606	2,678,714
2019	1,405,657	2,987,570	2,441,963	2,759,076
2020	1,458,480	2,987,570	2,223,551	2,841,848
2021	1,525,348	2,987,570	2,042,069	2,927,103
2022	1,602,993	2,987,570	1,891,998	3,014,917
2023	1,649,490	2,987,570	1,768,419	3,105,364
2024	1,715,125	2,987,570	1,664,795	3,198,525
2025	1,838,289	2,987,570	1,578,606	3,294,481
2026	1,902,563	2,987,570	1,509,555	3,393,315
2027	2,009,279	2,987,570	1,451,166	3,495,115
2028	2,136,846	2,987,570	1,403,299	3,599,968
2029	2,193,773	2,987,570	1,364,502	3,707,967
2030	2,307,665	2,987,570	1,329,421	3,819,206
2031	2,414,090	2,987,570	1,299,412	3,933,782
2032	2,471,918	2,987,570	1,272,609	4,051,796
2033	2,540,449	0	1,245,972	0
2034	2,635,287	0	1,219,434	0
2035	2,616,999	0	1,193,358	0
2036	2,600,359	0	1,163,495	0
2037	2,688,909	0	1,130,541	0
2038	2,742,639	0	1,097,857	0
2039	2,757,273	0	1,063,893	0
2040	2,718,344	0	1,027,531	0
2041	2,663,763	0	987,848	0
2042	2,592,137	0	945,223	0
2043	2,579,671	0	900,074	0
2044	2,531,025	0	854,016	0
2045	2,405,228	0	806,703	0
2046	2,356,443	0	757,703	0
2047	2,244,505	0	708,618	0
2048	2,179,089	0	659,237	0
2049	2,107,515	0	610,403	0
2050	2,030,531	0	562,309	0
2055	1,695,953	0	256,814	0
2060	1,332,022	0	105,086	0
2065	919,329	0	43,073	0
2070	534,196	0	17,692	0

Summary of Analysis:

For these reasons, governments that do not prefund are commonly referred to as “bad actors.”

The FOC recommends prefunding versus the current pay-as-you-go strategy. An OPEB liability is not a measure of current costs, but rather, a discount of what benefits will likely cost in the future. Most OPEB plans in California have been funded on a pay-as-you-go basis since their inception. This approach has three main downfalls:

1. It is more expensive than prefunding over the long-term and shifts costs to future generations.
2. It injects significant future risk into overall budgets and funding.
3. It jeopardizes the ability to provide those benefits in the future.

The FOC recommends the following actions:

1. **SMMUSD join the GASB 45 compliant irrevocable trust (CERBT) managed by Cal-PERS and invest monies held in reserve for this liability in Portfolio Strategy 1.**
2. **SMMUSD and the FOC create a procedure to ensure an annual performance review of the portfolio to accommodate any rebalancing deemed necessary due to a change in economic conditions or investment returns.**
3. **SMMUSD develop a strategy for future contributions to the CERBT as a means of creating a long term solution to the unfunded OPEB liability.**
4. **The FOC continue to support the ongoing efforts of SMMUSD to evaluate its actuarial analysis on a regular basis as has been the practiced norm.**
5. **SMMUSD consider the retiree liability when negotiating future contracts.**

Analysis for recommendations:

1. **SMMUSD join the GASB 45 compliant irrevocable trust (CERBT) managed by Cal-PERS and invest monies held in reserve for this liability in Portfolio Strategy 1.**

Three companies were reviewed for their expertise in overseeing GASB 45 trusts:

- California Employers' Retiree Benefit Trust (CERBT) administered by Cal-PERS.
- California School Board Association (CSBA) administered by Public Agency Retirement Services (PARS) and US Bank.
- Self-Insured Schools of California (SISC) - A Joint Powers Authority administered by the Kern County Superintendent of Schools Office.

Several factors were considered in the review process following a sample request for proposal format. These factors included: number of customers serving, portfolio performance, administration fees, availability of financial reports, investment flexibility, accessibility to request withdraw of the funds, and termination clause and fees.

Based on those factors and other careful due diligence, including the presence of Santa Monica College, the City of Santa Monica and LAUSD as trust members, **the subcommittee recommends joining the CERBT administered by Cal-PERS.**

Once SMMUSD joins the CERBT, there are two options:

1. Join the CERBT but never invest.
2. Contribute all or a portion of the monies held in reserve for OPEB liabilities to the CERBT. The Board would then be tasked with choosing a portfolio from the three available at CERBT based on risk tolerance and anticipated returns, however **the FOC recommends investing all funds held in reserve and choosing portfolio strategy 1.** As a reference point for comparison, Santa Monica College and LAUSD have chosen portfolio 1 while the City of Santa Monica has chosen portfolio 2. More information on the holdings and anticipated returns for each portfolio strategy will be presented later in this report.

Positives for joining the CERBT

- Opportunity to earn more interest income. We currently have \$3 million set aside earning no interest.
- Better discount rate.
- More favorable outlook from the rating agencies.
- Costs 10 basis points or .10% of AUM (assets under management).
- Cal-PERS, the largest public multiple-employer trust in California will oversee all investment decisions and fund management.

CERBT will provide the following services:

- Publishes the required annual financial statements.
- Accepts the fiduciary responsibility of the District's assets.
- Provides online reports on a regular basis.
- Provides education and representation about OPEB.

Risks of joining the CERBT

This fund invests in publicly traded securities and other investment vehicles. While the objective of the CERBT portfolios is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income while reducing risk exposure, like any investment, they are not risk free and will perform broadly in-line with the underlying indices.

2. SMMUSD and the FOC create a procedure to ensure an annual performance review of the portfolio to accommodate any rebalancing deemed necessary due to a change in economic conditions or investment returns.

Even though all investments have inherent risks, these portfolios have been designed as low risk vehicles for asset growth.

If there are concerns about short term market volatility, investments can be spread out over time to benefit from dollar cost averaging, however the FOC does not recommend that action at this time. Instead, the FOC recommends an annual review and report on portfolio performance. Future investments in this trust will allow SMMUSD to adjust imbalances in the portfolio caused by economic conditions.

3. SMMUSD develop a strategy for future contributions to the CERBT as a means of creating a long term solution to the unfunded OPEB liability.

The FOC encourages increased assessment of active employees as a means of identifying savings and reinvesting those savings into the CERBT on an annual basis at year end.

Information about the three CERBT Strategies, Holdings and Historical Performances:

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target
Global Equity	57%	+/- 2%	40%	+/- 2%	24%	+/- 2%
Fixed Income	27%	+/- 2%	39%	+/- 2%	39%	+/- 2%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 2%	10%	+/- 2%	26%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Real Estate Investment Trusts (REITs)	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Liquidity	0%	+ 2%	0%	+ 2%	0%	+ 2%
Total	100%		100%		100%	

Listed below are the performance results for each CERBT portfolio/strategy:

CERBT Strategy 1 Performance as of January 31, 2015							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (June 1, 2007)
Returns before expenses ¹	0.44%	0.10%	-1.16%	7.83%	10.01%	9.97%	4.28%
Benchmark returns	0.52%	0.18%	-1.32%	7.60%	9.76%	9.89%	3.84%

*Returns for periods greater than one year are annualized.

¹ See the Expense section of this document.

CERBT Strategy 2 Performance as of January 31, 2015							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (October 1, 2011)
Returns before expenses ¹	1.28%	1.06%	0.09%	8.15%	8.51%	-	10.50%
Benchmark returns	1.42%	1.25%	0.06%	8.10%	8.25%	-	10.36%

*Returns for periods greater than one year are annualized.

¹ See the Expense section of this document.

CERBT Strategy 3 Performance as of January 31, 2015							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (January 1, 2012)
Returns before expenses ¹	2.01%	1.72%	1.59%	8.78%	7.09%	-	7.95%
Benchmark returns	2.17%	1.92%	1.43%	8.54%	6.73%	-	7.66%

*Returns for periods greater than one year are annualized.

¹ See the Expense section of this document.

Benchmarks for each sector:

Global Equity—MSCI All Country World Index IMI (net)

Fixed Income—Barclay's Capital Long Liability Index

Treasury Inflation Protected Securities (TIPS)—Barclay's Capital Global US TIPS Index

Real Estate Investment Trusts (REITs)—FTSE EPRA/NAREIT Developed Liquid Index (net)

Commodities—S&P GSCI Total Return Index

Expenses:

10 basis points/.10% of AUM (assets under management).

CERBT Contracting Employers

435 Total

- State of California
- 108 Cities or Towns
- 13 Counties
- 36 Schools, Districts, Offices of Education
- 18 Superior Courts
- 259 Special Districts and other Public Agencies
 - (77 Water, 32 Sanitation, 27 Fire, 21 Transportation)

Participating Districts

Agency	Agency Type	County
Acalanes Union High School District	School District	Contra Costa
Barstow Community College District	School District	San Bernardino
Butte-Glenn Community College District	School District	Butte
Campbell Union Elementary School District	School District	Santa Clara
Chula Vista Elementary School District	School District	San Diego
County School Service - Sacramento Co. Schools	School District	Sacramento
County Superintendent of Schools Office - Riverside Co. Schs.	School District	Riverside
Enterprise Elementary School District	School District	Shasta
Foothill-De Anza Community College District	School District	Santa Clara
Fresno Unified School District	School District	Fresno
Grossmont Union High School District	School District	San Diego
Lafayette School District	School District	Contra Costa
Las Lomas Elementary School District	School District	San Mateo
Los Angeles Community College District	School District	Los Angeles
Los Angeles Unified School District	School District	Los Angeles
Marin Community College District	School District	Marin
Menlo Park City School District	School District	San Mateo
Mill Valley School District	School District	Marin
Mt. San Jacinto Community College District	School District	Riverside
Napa Community College District	School District	Napa
Napa County Office of Education	School District	Napa
Orinda Union School District	School District	Contra Costa
Sacramento City Unified School District	School District	Sacramento
San Bernardino City Unified School District	School District	San Bernardino
San Diego County Office of Education	School District	San Diego
San Dieguito Union High School District	School District	San Diego
San Marcos Unified School District	School District	San Diego
San Ramon Valley Unified School District	School District	Contra Costa
Santa Cruz County Office of Education	School District	Santa Cruz
Santa Monica Community College District	School District	Los Angeles
Shasta County Schools	School District	Shasta
Siskiyou County Office of Education	School District	Siskiyou
Tamalpais Union High School District	School District	Marin
Vacaville Unified School District	School District	Solano
West Valley-Mission Community College District	School District	Santa Clara
Western Placer Unified School District	School District	Placer
Yreka Union Elementary School District	School District	Siskiyou
Yreka Union High School District	School District	Siskiyou

May 16, 2014

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Los Angeles Unified School District Chooses to Prefund Retiree Health Benefits Through CalPERS

SACRAMENTO, CA – The Los Angeles Unified School District (LAUSD) Board of Education approved its selection committee's decision to award the contract to prefund health care obligations to their retirees to the California Public Employees' Retirement System (CalPERS). The contracting process and initial contribution of an estimated \$80 million to CalPERS is expected to be completed by June 30, 2014.

The California Employers' Retiree Benefit Trust (CERBT) Fund, an optional program administered by CalPERS, helps employers to prefund Other Post-Employment Benefits (OPEB) such as medical, dental and vision care insurance for retirees. With more than 400 participating employers and total assets of \$3.5 billion, CERBT is currently the largest OPEB trust fund in California.

If employers don't prefund retiree health care costs, premiums must be paid out of operating expenses. CERBT participants contribute funds on a voluntary schedule. These funds are invested by CalPERS so returns can be used to pay premiums in the future, lowering costs for employers.

"The Los Angeles Unified School District, with its more than 100,000 employees, is a major addition to our CERBT program and demonstrates the increasing confidence public employers have with our ability to help prefund health benefits," said Anne Stausboll, Chief Executive Officer for CalPERS. "We are pleased that the district has recognized the importance to prefund retiree health and Other Post-Employment Benefits on behalf of their public employees."

In Fiscal Year 2012-13, employers contributed \$370 million to the CERBT program, and as of June 30, 2013, assets under management were \$2.7 billion. The Fund also provided \$13 million in reimbursements for OPEB costs.

CalPERS is the largest public pension fund in the U.S., with \$291 billion in assets. CalPERS administers health and retirement benefits on behalf of 3,089 public school, local agency and State employers. There are nearly 1.7 million members in the CalPERS retirement system and more than 1.3 million in its health plans. For more information about CalPERS, visit www.calpers.ca.gov.