



Feasibility Analysis of Proposed Santa Monica- Malibu Unified School District Reorganization

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WestEd 

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Executive Summary

This report, prepared by WestEd as consultant to the Advocates for Malibu Public Schools (AMPS), assesses the feasibility of reorganizing the current Santa Monica-Malibu School District into two unified school districts that follows city/community demarcations for the areas of Malibu and Santa Monica. This analysis is organized around the nine criteria set forth in Education Code that addresses issues of identity, program, and fiscal viability of reorganization proposals.

Based on the analysis of data, interviews, and review of information, most of the state criteria for reorganization are met. There are a few criteria for which specific conditions must be addressed before the criteria can be considered to be met. Following is a brief description of the criteria for which there are remaining further details required before they can be deemed as substantially met:

- **Criterion 2: Community Identity** – Many residents view the two areas, the City of Santa Monica and the City of Malibu as distinctly separate communities – with their own character and identity. Interviews should be conducted with students and parents from both attendance areas to confirm the presumption that there are indeed ties to their community as defined by their high school and elementary school district enrollment areas. If the interview data bears out this presumption - then this criterion would be met.
- **Criterion 3: Equitable Property and Facility Division** – There are numerous reasons to expect that all property and facilities would be divided equitably. The only remaining questions are what method the districts would use to do so and what facility options are available to address the relocation of central services for Malibu Unified School District. Currently, the District Office, Maintenance and Operations Office and Transportation Yard are located in facilities on sites in Santa Monica.
- **Criterion 6: No Disruption to Educational Programs or Performance** – While the core offerings at all impacted schools would likely remain strong, or even improve, the needs of students requiring special opportunities and services have not been fully addressed. Specifically, this report identifies questions regarding provision of services for students with disabilities, English Learners, and students requiring alternative education options.
- **Criterion 9: No Substantial Negative Impact on District Fiscal Management or Status** – This report finds that should the District reorganize, the resulting Santa Monica Unified and Malibu Unified School Districts would be financially viable so long as each district’s management team adopt procedures to improve economies of scale and negotiate reasonable salary schedules with their employees that allow for long-term fiscal

solvency. The continuation of the Measure R parcel tax is critical to deem the reorganization viable. For this reason, we recommend that legal counsel be consulted; and if necessary, special legislation be considered to delineate conditions for preserving the Measure R parcel tax revenue for the resulting districts. The continued level of uncertainty regarding state funding makes it difficult to fully evaluate this criterion; updates are likely necessary as the state's fiscal condition becomes clearer.

Based on the available information, if the above issues can be addressed to the satisfaction of all affected stakeholder groups, this report finds that the state criteria applied to the evaluation of reorganization proposals are adequately met.

Background

The Petition and Review Process

The California Education Code prescribes a process by which community members, local school boards, or property owners can initiate a petition or recommendation to reorganize a school district. The options include:

- Petition signed by 25% of registered voters in the inhabited territory proposed to be reorganized; or
- Petition signed by the owner(s) of uninhabited territory; or
- Petition signed by governing board(s) of all affected districts.

Presuming one of the above options is followed to formalize a petition for reorganization, the county and state review school district reorganization proposals prior to putting a proposal up for a public election. The petition is filed with the County Superintendent of Schools. A sufficient petition is simultaneously filed with the State Board of Education (SBE) and the County Committee on School District Organization (SDO). The SDO convenes a series of meetings to address the petition. Proponents, opponents and other interested parties present their arguments and make their comments before the SDO at these meetings and formal public hearings. After the state-mandated hearings have occurred, the SDO may then hold additional hearings or other public meetings where they can hear from the impacted and interested parties. Within 120 days of the first public hearing, the SDO shall take action on the petition. The County Committee's actions and recommendations are forwarded to the State Board of Education.

The School District Organization's Role

Under Education Code Sections 35706 and 35707, the SDO must present the SBE with a recommendation on whether or not to approve the petition, based in part on whether the proposed change "would adversely affect the school district organization of the county." In order to formulate a recommendation, the SDO must apply nine criteria laid out in Education Code Section 35753. In transmitting its recommendation, the SDO must also present the SBE with its votes on whether the petition satisfies each of the nine criteria. Finally, the SDO may offer the State Board advice on the voting areas for the petition, should the SBE approve it.

The State Board of Education's Role

While the SDO must apply certain criteria as identified in the Education Code, the SBE enjoys more flexibility in its analysis. While the SBE must apply the same nine criteria listed in Education Code Section 35753, it may determine that the criteria could not be possibly or practically applied to the situation, or that exceptional circumstances exist "sufficient to justify approval of the proposals"

(Ed. Code Section 35753). The SBE may also, by regulation, choose to apply additional criteria.

The SBE determines the election area if it approves the petition for public vote. Several past court cases, including *Board of Supervisors of Sacramento County, et al., v. Local Agency Formation Commission (LAFCO)* (1992) (3 Cal. 4th 903), guide the SBE in its decision. This issue will be addressed in greater detail at the end of this report.

Before the SBE meets to make any of the above decisions, the SBE holds additional public hearings and the California Department of Education (CDE) prepares extensive reports for the SBE's review. Following several months of research, the CDE summarizes the key issues and any previous action on the agenda item and then further analyzes the nine criteria's application to this proposal. The SBE's review process has taken up to nine months.

Report Purpose and Limitations

This report assesses the feasibility of reorganizing the current Santa Monica-Malibu School District into two unified school districts that follows city/community demarcations for the areas of Malibu and Santa Monica. This analysis is organized around the nine criteria set forth in Education Code (Ed. Code) Section 35753 and California Code of Regulations (CCR), Title 5, Section 18573, which specifically address the nine criteria as well as specific elements to use in applying the criteria. In addition, the *School District Organization Handbook*¹ further explores the criteria and their respective elements, and should serve as a key resource for the Committee.

Data is Time-specific

The most current available data was used to complete this analysis. In most cases, this meant that 2011-12 unaudited actuals data was used to complete the fiscal analysis. Data related to school demographics and academic performance was generally from the 2011-12 school year, but when such data was unavailable, data from the most recent available year was used.

We do not expect final data to differ significantly from the information that was used for this analysis. However, it is to be expected that some numbers will change as actual data rather than projections are available.

¹ The *School District Organization Handbook* was approved by the California State Board of Education and written by the California County Superintendents, Educational Services Association and the School Business Services Division of the California Department of Education in 1998.

Source of Data

This analysis is based primarily on data that was provided by the Santa Monica-Malibu Unified School District (District). To adequately address certain criteria, this analysis also relied on other collected data. For the purpose of this analysis, generally we assumed that the provided data was valid and complete. If there was uncertainty about the validity or completeness of data, it was independently verified or not used. The sources of data used as part of the analysis are identified at the end of each section.

Frame of Reference

This analysis is generally based on fiscal information and data from the 2011-12 school year. According to the Education Code, the final calculations of the adjusted revenue limit will be based upon data from the school year two years prior to the reorganization. Depending upon the decision as to whether or not a petition will be filed with the County Superintendent of Schools, the actual timing of the process would be dependent on how long it takes the SBE to reach a decision about the feasibility of the petition. The petition – if approved by voters – would not go into effect until the 2013-14 school year at the earliest. This is a rather optimistic estimate given that the SBE generally takes approximately nine months to review petitions. If the SBE agrees to the reorganization, it must be brought before voters and approved before the change could occur. Under this scenario, it may be more reasonable to expect a 2014-15 school year implementation. If this were the case, data from the upcoming school year, 2012-13, would be the basis for the calculation of the revised revenue limit. The findings based on the 2011-12 data are nonetheless relevant because they provide a basis for understanding trends and effects resulting from the proposed reorganization.

Criterion 1: Adequate Enrollment

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

- *Education Code Section 35753(a)(1)*

It is the intent of the State Board that direct service districts not be created that will become more dependent upon county offices of education and state support unless unusual circumstances exist. Therefore, each district affected must be adequate in terms of numbers of pupils, in that:

- (A) Each such district should have the following projected enrollment on the date that the proposal becomes effective or any new district becomes effective for all purposes:

Elementary District	901
High School District	301
Unified District	1,501

- (B) The analysis shall state whether the projected enrollment of each affected district will increase or decline and the extent thereof.

- *California Code of Regulations, Title 5, Section 18573(a)(1)*

Description & Findings

This criterion requires consideration of the current enrollment level, historic trends, and projections. Currently, the District does not allow open enrollment for its students, but does allow intradistrict transfers on a case by case basis. An analysis of enrollment data sorted by zip codes found that there are currently approximately 42 students from within the Santa Monica area (zip codes 90401-90406) attending schools in Malibu. Approximately 58 students from the Malibu attendance area (zip codes 90262, 90265, 90272, and 90290) are attending schools in Santa Monica. Additionally, there are students attending District schools from other district areas via interdistrict transfers. For the purpose of this analysis, we assume that such interdistrict transfer would continue, but given the small numbers, would have limited to no impact on the evaluation of this criteria.

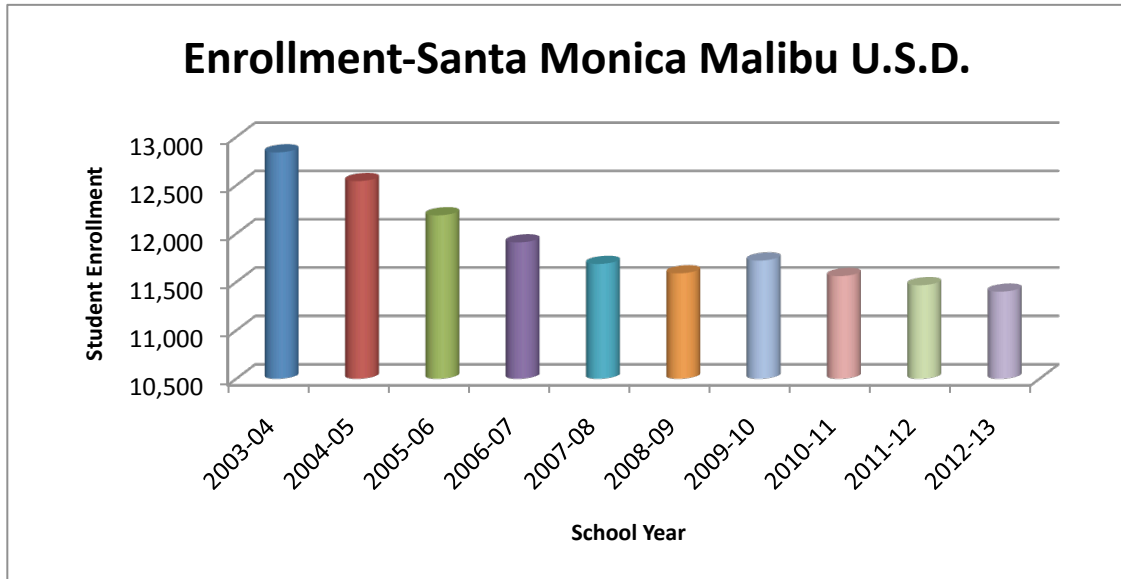
If reorganization occurs, transfer policies would be at the discretion of the new governing boards. Students that wish to attend schools outside their attendance area boundary would need to apply for an interdistrict transfer and the approval of the transfers would be at the discretion of the governing board of the district to which they apply.

Analysis

Analysis under this criterion includes consideration of enrollment based on current data, opportunities for growth in the area, and any factors that could affect future enrollment. As shown in Figure 1, the District has experienced

declining enrollment for the past eight years, with the exception of 2009-10 when the District saw enrollment increase by 132 students.

Figure 1: Enrollment Santa Monica-Malibu Unified School District 2003-2004 through 2011-12



Source: California Department of Education, Dataquest

The enrollment is forecast to remain flat for the near future. One reason for the decline in enrollment is that the cohort of kindergarten students is smaller than the 12 grade cohort, which results in a year over year decline until such a time that the kindergarten and 12 grade cohorts are of equal size or there is enough growth in other grades to equalize or exceed the loss of students.

Proposed Malibu Unified School District

The state expects that reorganizations will not result in districts it deems too small to be efficient. The standard set for unified school district enrollment is that they must at least have 1,501 students or more. The enrollment of students living within the attendance boundaries of Malibu is estimated to be approximately 2,037 and therefore would be sufficient to meet the standard. For the purpose of this analysis, it is presumed that the proposed Malibu Unified School District's attendance area will include the City of Malibu plus the unincorporated areas of Los Angeles County that are currently included in the District's boundaries.

Proposed Santa Monica Unified School District

If the proposed reorganization occurs, the enrollment of the Santa Monica Unified School District would surpass the minimum 1,501 student standard with its approximate enrollment of 9,431.

Limited Opportunity for Short-term Growth

As noted above, over the past several years, enrollment in the District has been declining. Due to environmental constraints and infrastructure limitations the trend of continued decline will likely continue for the City of Malibu. There have been approximately 119 new housing units constructed in the City of Malibu during the period of 2006-2011, which is a low growth rate.

The City of Santa Monica has the constraint of limited vacant land for new single family homes; but by recycling lower density use land into higher density use, there have been 2,174 housing units completed during the period of 1998 to 2005. It is of interest to note that while there has been an increase in the number of housing units, the size of the average household in Santa Monica has declined by 7% since 1980. This decline is attributed to a decline in families and an increase in single households, which more than likely has contributed to the decline in student enrollment. Based on the District's enrollment forecast, this trend is likely to continue.

In general, any shifts in school-age population between the two new districts will likely be minor and would not drive either of the districts enrollments below the standard. Other potential population or enrollment swings, such as the opening or closing of a private school in the area, while difficult to predict, are unlikely to change the ability of the resulting districts to meet the state's criteria.

Conclusions

Under state law, when school districts reorganize, the resulting districts should meet minimum enrollment standards. Assuming no drastic or unexpected change in the population of students attending public schools in Malibu and Santa Monica, both districts will meet the enrollment standards. Therefore, the proposed reorganization would meet this criterion.

Sources Consulted

- California Department of Education's California Basic Educational Data System
- Enrollment data provided by SMMUSD student data system
- 2008-14 City of Malibu Housing Element Report
- 2008-14 City of Santa Monica Housing Element Report
- City of Santa Monica Civic Center Specific Plan FEIR 2004

Criterion 2: Community Identity

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

- Education Code Section 35753(a)(2)

To determine whether the new district is organized on the basis of substantial community identity, the State Board of Education will consider the following criteria:

- (A) Isolation
- (B) Geography
- (C) Distance between social centers
- (D) Distance between school centers
- (E) Topography
- (F) Weather
- (G) Community, school, and social ties, and other circumstances distinctive about the area.

- California Code of Regulations, Title 5, Section 18573(a)(2)

Description

The Ed. Code requires that districts be organized “on the basis of a substantial community identity.” The CCR addresses specific aspects, each of which is analyzed briefly below. These specific aspects include isolation and geography; topography and weather; distance between social and school centers; community, school and social ties; and other circumstances distinctive about the area. In addition, the *School District Organization Handbook* cites factors such as traffic and shopping patterns; recreation, sports and park usage patterns; city council activity; and architecture as important in identifying community identity.

Analysis

Isolation and Geography

The City of Santa Monica is located on the western oceanfront edge of Los Angeles County at the crossroads of the Pacific Coast Highway and Interstate 10 and is bordered by the City of Los Angeles on the east and north; and with just 8.3 square miles of land, it is one of the most densely population urban areas in the state. Given the relatively compact area, as compared to much larger and/or rural districts in the state, little of the Santa Monica area could be considered isolated. All populated areas of the city lie within several miles of shopping, parks, and major transportation routes as well as the area’s public schools.

The City of Malibu also lies on the oceanfront edge of Los Angeles County. The city is bordered by unincorporated Los Angeles County to the north and west; the city of Los Angeles and Pacific Palisades to the east; and the Pacific Ocean to the south. The city has nearly 20 square miles of land and has a relatively low population density, providing for a relatively rural atmosphere. The Pacific Coast

Highway runs east-west through the town and is the major ingress and egress to the city. The majority of the city's populated areas lie within several miles of shopping, parks, and major transportation routes as well as the area's public schools.

Topography and Weather

There would be no significant changes in the topography as a result of the proposed reorganization. This is based on the presumption that there will be no changes to the current attendance areas for students attending schools located in Santa Monica. In other words, the city limits of the City of Santa Monica will become the boundary for the Santa Monica Unified School District. Likewise, the city limits of Malibu plus the unincorporated areas of Los Angeles County that are currently included within the attendance areas served by school locations in Malibu will become the boundary for the Malibu Unified School District. Due to the proximity of both areas being discussed, weather patterns do not differ greatly across the area.

Distance Between School and Social Centers

The relative distances between school and social centers do not impose a major impediment to residents of either city because there are no changes proposed to the attendance areas that currently serve each city.

The same rationale can be applied to the children's activities and community life, athletics, recreation and other extracurricular activities as well as to activities such as Boy Scouts and Girl Scouts, which are dependent on individual neighborhoods, schools or religious organizations.

Conclusion

The two areas are not contiguous geographic areas and many residents view the two areas, the City of Santa Monica and the City of Malibu, as distinctly separate communities – with their own character and identity. This viewpoint includes educational and youth activities as students tend to attend schools and participate in activities within their neighborhood areas. Interviews should be conducted with students and parents from both attendance areas to confirm the presumption that there are indeed ties to their community as defined by their high school and elementary school district enrollment areas. If the interview data bears out this presumption, then this criterion would be met.

Sources Consulted

- Local organization's written materials and web sites
- Local government agencies' written materials and web sites

Criterion 3: Equitable Property and Facility Division

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

- *Education Code Section 35753(a)(3)*

To determine whether an equitable division of property and facilities will occur, the Department will determine which of the criteria authorized in Education Code Section 35736 shall be applied. It shall also ascertain whether the affected school districts and the county office of education are prepared to appoint the committee described in Education Code Section 35565 to settle disputes arising from such division of property.

- *California Code of Regulations, Title 5, Section 18573(a)(3)*

When a school district is reorganized and when the allocation of funds, property, and obligations is not fixed by terms, conditions, or recommendations as provided by law, the funds, property, and obligations of a former district, except for bonded indebtedness, shall be allocated as follows: (a) The real property and personal property and fixtures normally situated thereat shall be the property of the district in which the real property is located. (b) All other property, funds, and obligations, except bonded indebtedness, shall be divided pro rata among the districts in which the territory of the former district is included. The basis for the division and allocation shall be the assessed valuation of the part of the former district which is included within each of the districts.

- *Education Code Section 35560*

... In providing for this division, the plans and recommendations may consider the assessed valuation of each portion of the district, the revenue limit per pupil in each district, the number of children of school age residing in each portion of the district, the value and location of the school property, and such other matters as may be deemed pertinent and equitable.

- *Education Code Section 35736*

Any funds derived from the sale of the school bonds issued by the former district shall be used for the acquisition, construction, or improvement of school property only in the territory which comprised the former district or to discharge bonded indebtedness of the former district, except that if the bonded indebtedness is assumed by the new district, the funds may be used in any area of the new district for the purposes for which the bonds were originally voted for

- *Education Code Section 35561*

If a dispute arises between the governing boards of the districts concerning the division of funds, property, or obligations, a board of arbitrators shall be appointed which shall resolve the dispute...

- *Education Code Section 35565*

Description & Findings

Assessing this criterion requires consideration of the proposed reorganization’s impact on the division of real and personal property and bonded indebtedness. If two new districts formed from the existing District, the real property and personal property and fixtures normally situated in the school sites within the new school district boundaries would belong to the resulting districts. All other property, funds, and obligations (except bonded indebtedness) must be divided pro rata between the impacted districts.

Ed. Code Section 35736 allows the County Committee to recommend, and the SBE to employ, a variety of methods to equitably divide the remaining property and funds—including assessed valuation, average daily attendance, value and location or property, or other equitable means. If the petition is approved, the SDO should be prepared to convene a Board of Arbitrators (per Education Code Section 35565) to settle any disputes related to the division of property. The Board of Arbitrators must consist of one member appointed by each school district and one appointed by the County Superintendent of Schools. Arbitration will be the responsibility of the entire Board unless the districts, by mutual accord, appoint the County Superintendent’s appointee as sole arbitrator.

Analysis

Since the passage of Proposition 13, the most common method for dividing property is by average daily attendance (ADA). Based on data from the 2011-12 attendance report and Dataquest, this would result in the transfer of approximately 17.77% of the assets and liabilities of the Santa Monica-Malibu Unified School District to the Malibu Unified School District and 82.23% to the Santa Monica Unified School District. Figure 2 provides an overview of the financial impact reorganization would have upon the division of assets and liabilities based on the listed methods.

Figure 2: Asset and Liability Distribution

2011-12 Unaudited Actuals	Basis of Division	Total	MUSD	SMUSD
ASSETS				
General Fund	ADA	\$ 20,542,710	\$ 3,650,440	\$ 16,892,270
Adult Education	ADA	\$ 315,809	\$ 56,119	\$ 259,689
Child Development	ADA	\$ 41,298	\$ 7,339	\$ 33,959
Cafeteria Special Revenue	ADA	\$ 296,317	\$ 52,656	\$ 243,661
Deferred Maintenance	ADA	\$ 482,842	\$ 85,801	\$ 397,041
Building Fund	ADA	\$ 89,004,340	\$ 15,816,071	\$ 73,188,269
Capital Facilities	ADA	\$ 9,529,531	\$ 1,693,398	\$ 7,836,133
Special Reserve for Capital Outlay	ADA	\$ 6,462,841	\$ 1,148,447	\$ 5,314,394
Bond Interest and Redemption	Assessed Valuation	\$ 16,500,478	\$ 5,189,400	\$ 11,311,078
Self-Insurance Fund	ADA	\$ (4,002,033)	\$ (711,161)	\$ (3,290,872)
Total Assets		\$ 139,174,133	\$ 26,988,509	\$ 112,185,623

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2011-12 Unaudited Actuals	Basis of Division	Total	MUSD	SMUSD
LIABILITIES				
General Obligation Bonds	Assessed Valuation	\$ 249,594,488	\$ 78,497,466	\$ 171,097,022
Premium and issuance costs	Assessed Valuation	\$ 2,664,442	\$ 837,967	\$ 1,826,475
Compensated Absences	ADA	\$ 1,036,654	\$ 184,213	\$ 852,441
Post Employ. Benefits	ADA	\$ 4,358,801	\$ 774,559	\$ 3,584,242
COP Payable	ADA	\$ 18,388,167	\$ 3,267,577	\$ 15,120,590
COP Premium and Issuance costs	ADA	\$ 386,022	\$ 68,596	\$ 317,426
Total Liabilities		\$ 276,428,574	\$ 83,630,379	\$ 192,798,195

Source: 2011-12 Unaudited Actuals and 2011-10 External Audit

Property Tax Revenue

The distribution of property tax revenue as a result of school district reorganization is determined pursuant to Section 99 of the Revenue and Taxation Code. The county assessor is required to notify the county auditor of the assessed valuation of the territories. The county auditor then estimates the amount of property tax revenue generated in the territories and notifies the school districts' governing boards of this amount. The governing boards of the districts must negotiate property tax exchange within 60 days of receiving notification from the county auditor or the County Board of Education determines the exchange.

In almost all cases the tax revenue generated by the territory within the new district's boundaries is transferred to the district receiving the territory. However, Section 99 of the Revenue and Taxation Code stipulates that the division of property tax revenues is subject to negotiation.

Bonded Indebtedness

In November 1998, voters approved a general obligation bond measure, which authorized the District to issue and sell \$42 million in general obligation bonds. The bonds were issued to accomplish the rehabilitation, construction and renovation of school facilities to improve learning conditions, remove asbestos, make earthquake safety improvements, provide American with Disabilities Act access, and pay for the cost of issuance associated with the bond.

In November 2006, voters approved Measure BB, which authorized the District to issue and sell \$268 million in general obligation bonds. The bonds in this measure were issued to finance construction, renovation, modernization, equipping school facilities, and to pay for the cost of issuance associated with this bond issue.

In addition to these two bond measures, the District has issued Refunding Bonds in 1998 and 2006. The purpose of the 1998 issue was to refund and defease all of the 1991A Bonds and 1993 Bonds maturing after August 1, 1998. The 2006

issue was to refund all or portions of outstanding General Obligation Bonds from the 1998 election, Series 2001 and the costs of issuance.

Figure 3 shows the dates, amounts, type of issuance, and outstanding principal amount for each of the District's bonds.

Figure 3: Bonded Debt

Issue Date	Maturity Date	Original Issue	Bonds Outstanding June 30 2011
June 18, 1998	August 1, 2018	\$ 68,145,000	\$ 34,245,000
May 26, 1999	August 1, 2023	\$ 38,000,034	\$ 44,869,488
June 1, 2001	August 1, 2025	\$ 3,995,000	\$ 140,000
February 23, 2006	August 1, 2025	\$ 3,285,000	\$ 3,130,000
October 2, 2007	August 1, 2032	\$ 60,000,000	\$ 45,210,000
July 23, 2009	August 1, 2019	\$ 11,875,000	\$ 8,875,000
July 23, 2009	August 1, 2034	\$ 48,125,000	\$ 48,125,000
July 14, 2010	July 1, 2023	\$ 10,690,000	\$ 10,690,000
July 14, 2010	July 1, 2035	\$ 54,310,000	\$ 54,310,000
Total			\$ 249,594,488

Source: 2010-11 External Audit and Standard and Poor's Global Credit Portal 2010
*Estimated amount based on Standard and Poor's data

As shown in Table 3, as of June 30, 2011, the District had approximately \$250 million in outstanding bond debt. Currently, the District is in the process of issuing the final series of bonds in Measure BB. The final series will be in the amount of \$83,000,000 and this will complete the bonding authority under Measure BB. Once the transaction related to issuing the final series is complete, the data in Table 3 will need to be updated to reflect the additional bonded indebtedness. Additionally, on November 6, 2012, the voters of Santa Monica and Malibu approved a general obligation bond, Measure ES, which authorizes the District to issue and sell \$385,000,000 in general obligation bonds. The outstanding bond debt should be considered in relation to the net bonding capacity of the districts created by the proposed reorganization. Unified school districts are limited in their bonding capacity by Ed. Code 15270 which states that unified school districts may not exceed 2.5 percent of the taxable property of the district as shown by the last equalized assessment of the county or counties in which the district is located.

Figure 4 reflects the assessed values for the incorporated areas of the City of Malibu and Santa Monica; because there is no territory increase/decrease proposed in the reorganization, there would not be any changes to the bonding capacity of the new districts. The current District boundaries include un-incorporated areas of Los Angeles County; the value of properties contained in the un-incorporated area is not included in Table 4.

Figure 4: Bonding Capacity

Bonding Capacity	Current Capacity		New Capacity	
	SMMUSD	MUSD	SMUSD	
Assessed Value	\$ 35,951,206,235	\$ 11,307,826,952	\$ 24,643,379,283	
Bonding Capacity (AV x 2.5%)	\$ 898,780,156	\$ 282,695,674	\$ 616,084,482	
Outstanding Bonds	\$ 249,594,488	\$ 43,978,549	\$ 205,615,939	
Net Bonding Capacity	\$ 649,185,668	\$ 238,727,125	\$ 410,468,543	

Sources: Los Angeles County Assessor's 2011 Report and District's 2010-11 External Audit Report

The District has a variety of projects in progress funded by Measure BB as shown in Figure 5. In addition to the projects funded by Measure BB, the District's current facilities needs assessment has identified an additional \$932 million in future facility needs/improvements.

Figure 5: Measure BB Projects

Facility	Key Project Tasks	Year of Project Completion=Greyout					
		2010	2011	2012	2013	2014	2015
Edison Learning Community	Replacing all existing facilities with new construction. As well as outdoor space improvements.						
Grant Elementary School	New front entry and outdoor space improvements.						
John Adams Middle School	Modernization and new construction of attendance office, four general classrooms, 80's wing outdoor space improvements.						
John Muir Elementary School	New pedestrian gate, communication and safety improvements.						
Juan Cabrillo Elementary School	Install new fence and gate. Reconfigure campus entryway. Secure pay yard for kinder students. Accessible parking and pathway to office.						
Lincoln Middle school	Modernization of library and three classrooms. Building C removal and replacement and outdoor space improvements.						
Malibu Middle and High School	Modernization and new construction that includes a new library, computer labs, science labs and general classrooms and outdoor space improvements.						
McKinney Elementary School	Reconfigure main entrance, office and front entry restrooms and outdoor space improvements.						
Olympic High School	Modernization and new construction including 15 rooms and outdoor space improvements.						
Pont Dume Marine Science School	Replace main gas supply lines and heating units.						
Santa Monica Alternative School House	New gate, new voice communication system and security improvements.						
Santa Monica High School	Remove existing science and technology buildings and replace with one new facility. Outdoor improvements and relocation of softball field.						
Washington Child Development Services	Modernization to include adequate restrooms, technology upgrades, site, and safety improvements.						
Webster Elementary School	Fire alarm, additional fencing. New parking lots and drop zones.						
Will Rogers Learning Community	Installation of new front entry. Reconfigure front office and reception.						

Source: Measure BB Fact Sheets; note there were no projects included in Measure BB for the Franklin or Roosevelt site

Generally, outstanding bonded indebtedness is divided between the newly formed districts based on assessed valuation ratio. Based on this methodology, approximately 31.45% percent of the outstanding bonded indebtedness would be transferred to the Malibu Unified School District and the remaining 68.55% would transfer to the Santa Monica Unified School District. The actual allocation is subject to negotiation. AMPS has indicated they are committed to an equitable resolution of bonded indebtedness.

Other Considerations

Currently the District's District Office, Maintenance and Operation base, and Transportation Yard are located in the city of Santa Monica. Should the reorganization occur, these sites would become the property of the Santa Monica Unified School District. This would require that the Malibu Unified School District find new accommodations for the displaced offices and service bases. Additionally, there are likely other facility needs that will result from programmatic needs related to the reorganization. This issue will be discussed in detail under Criterion 6.

Conclusion

There are no identified reasons to conclude that property will not be divided in an equitable manner should the reorganization be approved. Using ADA as the basis for dividing property seems reasonable and appropriate. However, the districts should use assessed valuation to divide property taxes and potentially outstanding bond indebtedness.

If the reorganization is approved, the Malibu Unified School District will have to address options for housing a District Office, Maintenance and Operations base, and Transportation Yard.

Sources Consulted

- Los Angeles County Assessor's 2011 Report
- Santa Monica Unified School District bond fund report and external audit
- 2011-12 Unaudited Actuals for Santa Monica Unified School District
- 2010-11 External audits for Santa Monica Unified School District
- P-2 Tax Collection and Distribution Report (J-29-B)
- Standard and Poor's Global Credit Portal 2010

Criterion 4: Non-promotion of Racial/Ethnic Discrimination or Segregation

The reorganization of the school districts will not promote racial or ethnic discrimination or segregation.

- *Education Code Section 35753(a)(4)*

To determine whether the new districts will promote racial or ethnic discrimination or segregation, the State Board of Education will consider the effects of the following factors:

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

- *California Code of Regulations, Title 5, Section 18573(4)*

The *SDO Handbook* offers careful instructions for analyzing this criterion. The *SDO Handbook* includes this information as an appendix entitled, "Handbook for Conducting Racial and Ethnic Studies in School Districts," which will be referred to as *The Handbook* for the remainder of this section.

Definitions Outlined in The Handbook

The *Handbook* defines **promotion of segregation** as a situation in which minority enrollment in a **district or school** changes from "proportionate" to "disproportionate." According to the Handbook, the California Supreme Court's definition of **disproportionate enrollment** indicates that "minority students are isolated and deprived of an integrated educational experience." Typically, 75 percent minority enrollment constitutes disproportionate enrollment. Sixty to 65

percent “may also be considered disproportionate if records over a significant period of time (at least five years) and an assessment of present and future demographic factors indicate the minority percentage has been steadily increasing and will likely continue to do so.” However, the statutes allow for some flexibility in the quantitative application of this criterion, focusing on a before-and-after comparison rather than a strict numeric threshold. In recognition of this lack of clarity, the SBE has been instructed in workshops that they could find violations of this criterion whenever:

1. The minority group percentage in a district or affected schools is more than 50-60 percent as a result of the proposed transfer or reorganization, or becomes more than 50-60 percent as a result of the proposal and is *steadily* increasing; and
2. The trend and rate of minority group increase has been in evidence over a period of at least five years; and
3. The trend will likely continue and become ‘disproportionate’ in five years or less. This determination relies on the use of statistical data and analysis procedures.

- *The Handbook*

The Handbook also defines **minority groups** to include American Indian or Alaskan Native; Asian; Pacific Islander; Filipino; Black, not of Hispanic origin; and Hispanic. For the purposes of applying this criterion, *The Handbook* indicates that all minority students should be combined into one unit to compare the group with a white student group.²

The Handbook references the CDE Intergroup Relations Office’s definition of “integrated educational experience” as a standard for determining under what circumstances segregation may occur.³ Under this definition, segregated schools are “so [quantitatively] disproportionate as realistically to isolate minority students” that minority students do not receive a qualitatively “integrated educational experience.”

Process Outlined in The Handbook

The Handbook also details the process for presenting, summarizing and analyzing the “Findings of Fact” as required in applying the relevant sections of the California Code quoted at the beginning of this section. The following pages present information following this procedure.

² Non-white or minority numbers in this report include students falling in the “Multiple or No Response” category of the CBEDS data.

³ “Integrated educational experience” means the process of education in a racially and ethnically diverse school that has as its goal equal opportunities for participation and achievement among all racial and ethnic groups in the academic program and other activities of the school, together with the development of attitudes, behavior, and friendship based on the recognition of dignity and value in differences as well as similarities. (Definition developed by CDE Intergroup Relations Office)

Findings of Fact

Step 1: Prepare tables and description of racial/ethnic enrollment of—

1. Existing and proposed districts;
2. Affected schools;
3. Adjacent schools in areas of affected districts that could be affected by the proposal;
4. Comparison of *existing* and *proposed* districts and affected schools (i.e., before and after). (At this point of comparison disproportionate differences in minority and racial/ethnic enrollment could indicate a promotion of segregation.)

This step requires consideration of the current and future minority enrollment at the schools involved. This analysis includes all of the schools currently in the Santa Monica-Malibu Unified School District. Furthermore, projections are based on the assumption that the reorganization results in the Malibu Unified School District being comprised of the following schools, Juan Cabrillo Elementary, Point Dume Elementary, Webster Elementary and Malibu High School. The Santa Monica Unified School District would be comprised of the remaining seven elementary schools, two middles schools, one high school, one K-8 alternative school and one continuation school.

Existing Districts: Current Enrollment

As shown in Figure 6, during the 2011-12 school year, approximately 49.4 percent of the District’s students were non-white.

Figure 6: Student Enrollment by Racial Groupings 2011-12

	Non-White Students	White Students
SMMUSD	49.40%	50.60%
SMUSD	55.30%	44.70%
MUSD	21.82%	78.18%

Source: California Department of Education, Dataquest

Affected Schools: Current Enrollment

During the 2011-12 school year, the student population of the schools located within the attendance area of the proposed Malibu Unified School District as shown in Figure 6 was approximately 21.82% non-white compared to the proposed Santa Monica Unified School District’s student population, which was 55.3% non-white.

Proposed Districts: Future Enrollment

The resulting unified districts would each mirror the demographic makeup of the current student population of the schools currently located within their attendance areas. It is important to note that the District does not have an open enrollment policy, thus the student populations of each affected school are not expected to experience any significant changes in demographics as a result of the reorganization.

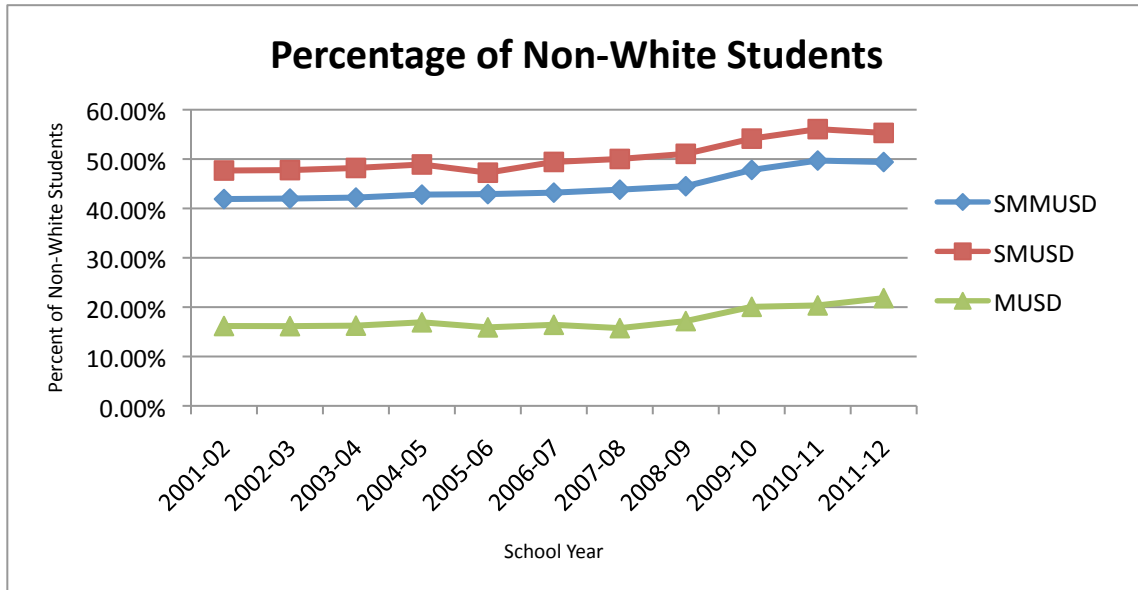
Affected Schools: Future Enrollment

As noted in the above section, the student populations are not expected to change by any significant margin. There might be a slight change in the race/ethnicity based solely on the number of students currently attending schools on intradistrict transfers returning to their attendance area schools.

Step 2: Prepare tables and description of the trends and rates of change in racial/ethnic enrollment and other changes in demographic conditions.

For this step, this analysis includes an examination of historical trends in minority enrollment and the rates of change over time. As shown in Figure 7, non-white enrollment has generally increased over time in the proposed school districts.

Figure 7. Non-White Enrollment By District



Source: California Department of Education, Dataquest

Step 3: Prepare description and assessment of various factors that affect feasibility of integration: distance between schools, safety, capacity of schools, geographic features, etc.

Should the reorganization go forward, two unified school districts would be created. Since each district would have only one high school site, options to integrate students within the district boundaries are limited. Should integration be required, the Santa Monica and Malibu Unified School Districts could adopt an open enrollment policy, or such policies could be implemented with other nearby districts. However, until the new proposed district has elected a school board, no such policy can be established and no such registration option can exist. Since open enrollment agreements cannot exceed five years, any integration plans designed to minimize the impact of the proposal would require ongoing cooperation across district boundaries.

Step 4: Prepare description and assessment of district policies and desegregation programs or plans, voluntary or court ordered.

No districts involved in this proposal have received court orders to desegregate; any current policies were adopted voluntarily. In addition, no districts involved have policies specifically targeted at desegregation, but rather deal with the issue of balanced ethnic enrollment through intra- and inter-district transfer policies.

Step 5: Prepare description and assessment of the duty of affected districts to take reasonable and feasible steps to alleviate segregation.

Based on analysis of the data presented in Steps 1 and 2, minority enrollment in the resulting school districts would not exceed the standards used by the SBE to determine when segregation occurs. However, as described in Step 3, the impacted school districts could pursue open enrollment agreements to address any perceived racial imbalance.

Summary Statement: Findings of Fact and Conclusion

Step 6: Summarize all conditions or changes that would occur if the proposal were approved that would promote segregation, referring only to data or information given in Steps 1 through 5.

Step 7: Prepare a concluding statement to indicate whether the proposal promotes segregation of discrimination.

By quantitative measures, the enrollment of non-white students at the proposed Santa Monica Unified and Malibu Unified School Districts is significantly different. The relevant Ed. Code sections, regulations, and steps outlined in *The Handbook*

permit differences within and between districts. Based on the standards and conditions outlined in *The Handbook*, it does not appear that the non-white population of the resulting Santa Monica Unified School District would exceed the 75 percent mark within the next five years. The population of non-white students, especially Hispanics, will certainly grow, but based on the data described in Steps 1 and 2, it will not grow to such a level as to merit concern about segregation. Therefore, this criterion is met.

Sources Consulted

- California Department of Education, Dataquest (CBEDS)
- California Department of Education, EdData

Criterion 5: No Increase in State Costs

The proposed reorganization will not result in any substantial increase in costs to the state.

- Education Code Section 35753(a)(5)

Description & Findings

Generally, the SBE is concerned that proposals do not increase costs to the state for affected districts by more than ten percent. The factors which should be considered in evaluating this criterion are as follows:

1. The state's portion of the cost of the revenue limit of the district which is losing the students.
2. The state's portion of the cost of the revenue limit of the district which is gaining the students.
3. From the above, whether the state will contribute additional funding for the gaining district's revenue limit.
4. Other state special and categorical programs and the increased cost if students transferring would qualify in the gaining district and not in the losing district.
5. The additional costs to the state if special or categorical program costs per student are higher in the gaining district.
6. The effect on the districts' home-to-school and special education transportation costs and state reimbursement.
7. Additional state costs for school facilities.

Currently, the District is a revenue limit district (i.e. its local property tax revenue does not exceed its state determined revenue limit). However as a result of the reorganization, the proposed Malibu Unified School District would become a Basic Aid District in that its local property tax revenue would exceed its state determined revenue limit, which has two effects: (1) the proposed Malibu Unified School District is able to retain all local property tax revenue in excess of its revenue limit, which significantly increases its per pupil funding; and (2) the resulting loss of the property tax revenue attributed to Malibu would subsequently increase the state aid portion of the proposed Santa Monica Unified District's revenue limit.

Analysis

To address this criterion, this study focuses on three areas:

- Revenue limit changes and impact on basic aid status;
- Special categorical program revenue; and
- Transportation and facility costs.

This analysis assumes that the petition will result in the formation of two unified school districts without open enrollment clauses.

Revenue Limit and Salary Comparison

The revenue limit of a school district quantifies the amount that it receives from state and local resources in the form of general purpose funding. Given that this reorganization does not combine districts, there is no change to the revenue limit amount assigned to each district, nor do the salary adjustments apply in this instance. In other words, given the type of reorganization that would occur, the current per student revenue limit amount would apply to both resulting districts.

However, as noted earlier, the Malibu Unified School District would be considered a basic aid district in that its local property tax revenue would exceed its state determined revenue limit. The transition to basic aid status would result in approximately \$5,800,687 in excess property tax revenue. Based on current information, property tax exceeds the state aid amount by approximately 26%, and it is likely that this level of excess property tax will continue in the future. Local educational agencies that are considered in basic aid status as of the Second Principal Reporting Period are subject to a reduction in state categorical funding in the preceding fiscal year, and this reduction is presumed in the analysis for Malibu Unified School District. The rate of reduction used for the analysis is based on the most current rate of 9.57%, which would result in a \$1,238,610 reduction to the estimated categorical funding for a net increase of approximately \$4,562,077 for Malibu Unified School District.

The reorganization would not change the revenue limit amount per student for Santa Monica Unified, but it would alter the amount of state aid that funds the revenue limit. The increase in state aid for Santa Monica is estimated to be \$5,800,687, which directly offsets a reduction of property tax revenue resulting from the reorganization. It is important to note that the net cost increase to the state would be \$4,562,077 based on the reduction in state categorical funds that would occur as a result of Malibu's basic aid status.

Special Categorical Program Revenue

In general, per pupil funding for most programs will follow the students at the same level regardless of the school district organization of the area. As noted above, Malibu Unified School District would become a basic aid district; and thus, become subject to the reduction in state categorical funds related to basic aid status.

Transportation and Facilities Costs

The petition should have a negligible impact on facility costs. As described in the analysis of Criterion 7, there are no expected school housing costs, aside from one-time moving and possible renovation costs associated with creating a space to house the Malibu District Office. Currently, home-to-school transportation is

provided to the students living in the proposed Malibu attendance area. Students living within the Santa Monica attendance area are not provided home-to-school transportation because the locations of the neighborhood schools are within the approved walking distance of the current District. While the impact on home-to-school transportation costs of any current transportation will be minimal because ridership is not expected to change as a result of the reorganization, it is important to note that the cost would reside with the newly formed Malibu Unified School District. Transportation costs for special education students are not expected to be impacted by the reorganization and the costs would be allocated based upon the student's district of residence.

Conclusion

Based on the above analysis, this study finds that there are no increases in state aid based on the blended revenue or salary and benefit calculations. There would be an increase in state aid as a result of Malibu becoming a basic aid district; the increase is estimated to be approximately of 6.3% based on the undeficit base revenue amount for the former District, which places the cost well below the 10% threshold applied as the standard by the state. Therefore, this criterion is met.

Sources Consulted

- 2011-12 Unaudited Actual Report General Fund Summary Reports
- 2011-12 P-2 and Unaudited Actual K-12 Revenue Limit Reports
- 2011-12 Annual Tax Report from the Los Angeles County Auditor Controller's Office

Criterion 6: No Disruption to Educational Programs or Performance

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

- *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 Ed. 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 *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 a 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 Learner services, alternative education, etc.), 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 a 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 (ELL students), and alternative education; and
- Other opportunities and challenges presented by the proposal.

Academic Performance

Academic performance can be reported in several ways. Each year, the California Department of Education calculates and reports an Academic Performance Index (API) score for all schools where over 85 percent of students have taken the state’s Standardized Testing and Reporting (STAR) standardized achievement tests. Overall academic performance of students attending the District is above state and county averages. The District’s overall API score for 2011 of 855 places it among the top tier of performers in the state. As shown in Figure 8, the level of performance is fairly consistent between all schools within the District. Performance of students classified as English Learners and Students with Disabilities lags that of their peers, but is consistent with trends observed statewide.

Figure 8. Academic Performance

School	API (2011)	% Proficient/ Advanced English-Language Arts (2011)		
		All Students	English Learners	Students with Disabilities
Proposed Malibu District				
<i>Cabrillo Elementary</i>	884	74.7%	60.9%	44.0%
<i>Point Dume Elementary</i>	926	82.4%	N/A	56.2%
<i>Webster Elementary</i>	949	87.7%	61.5%	70.0%
<i>Malibu High</i>	862	79.2%	44.3%	39.5%
Remaining Santa Monica District				
<i>Edison Elementary</i>	882	71.8%	57.5%	46.9%
<i>Franklin Elementary</i>	957	88.4%	85.7%	76.7%
<i>Grant Elementary</i>	899	77.1%	33.3%	48.9%
<i>John Muir Elementary</i>	812	57.0%	32.0%	25.0%
<i>McKinley Elementary</i>	893	75.5%	68.9%	42.3%
<i>Roosevelt Elementary</i>	944	84.9%	83.3%	56.1%
<i>Will Rogers Elementary</i>	828	59.3%	46.2%	42.9%
<i>John Adams Middle</i>	813	63.6%	47.6%	35.4%
<i>Lincoln Middle</i>	902	83.1%	69.4%	50.5%
<i>Santa Monica High</i>	805	76.8%	44.3%	19.4%

Source: California Department of Education, DataQuest - 2010, 2011

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 Figure 9, students who took the SAT performed fairly evenly over time at both high schools, with both groups consistently scoring above national and state averages.

Figure 9. Scholastic Aptitude Test Performance, 2008-2010

		Malibu High	Santa Monica	CA
2010	Reading	548	526	495
	Math	552	545	513
	Writing	556	538	494
2009	Reading	547	545	501
	Math	561	559	520
	Writing	557	559	500
2008	Reading	552	534	495
	Math	569	547	513
	Writing	566	544	494

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, with slightly higher results at schools within the Malibu area, between the two areas. For this reason, we anticipate that a 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.⁴

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 Figure 10. Notably, compared to the statewide AP test passage rate of 58.2%, both Malibu High and Santa Monica High have significantly higher AP test passage rates.

⁴ 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.

Figure 10. Advanced Placement (AP) Test Participation and Performance, 2010-11

	Malibu High	Santa Monica High
Number of Exam Takers	222	962
Passage Rate (Score of 3, 4, or 5)	71.4%	72.6%

Source: California Department of Education

It is difficult to predict what impact the reorganization would have on the availability of AP courses; but if current programs continue, both high schools will offer a variety of AP courses.

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 (EL students); 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. At this time, AMPS has indicated that under the proposed reorganization, it is the intention to, at a minimum, maintain programs of support for ELs, GATE, and students with disabilities. A further consideration for AMPS and the District is whether or not similar or comparable programs can continue to be offered with smaller subsets of students and what, if any, financial impact there is to the change in 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 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, etc.), an alternative placement or interdistrict transfer option would be necessary.

English Language Learners

In 2010-11, there were approximately 1,104 students, or 9.5% of all students, classified as English Language Learner, or EL student. There are significant variations in the number and density of ELs within the District's schools. Under the proposed reorganization, approximately 10.7% of the students attending the Santa Monica district area would be ELs compared to 4.0% 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. There are well document and highly effective models for addressing the needs of small and dispersed EL populations. Selecting and implementing such a model would be necessary 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, including 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.

Conclusion

The proposed reorganization would not result in shifting of programs or necessarily require restructuring of existing program offerings within schools. It is difficult to predict other impacts reorganization could have upon instructional quality and student outcomes. Such impacts would largely result from administrative decisions, and not from the reorganization itself. However, there are several areas where services and programs have been centralized; and for this criterion to be adequately addressed, clear plans for how such services would be offered to address student needs would be required. Among the services that should be included in such a plan are special education, EL support services, and alternative education options. These are important considerations, which should be addressed – especially the provision of an alternative education option for students in the Malibu district area.

This study finds that if provisions are made to ensure that all students' learning needs are met, then this criterion is substantially met. More specifically, meeting the criterion is conditional on the proposed Malibu district area providing sufficient opportunities for special education, ELs, and alternative education.

Sources Consulted

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

Criterion 7: No Increase in School Housing Costs

The proposed reorganization will not result in a significant increase in school housing costs.

- Education Code Section 35753(a)(7)

Description & Findings

This criterion was designed to prevent school districts from reorganizing with the purpose of creating a need for new school facilities. For instance, if a school district of several schools were able to accommodate all of its students with existing facilities, Ed. Code 35753(7) would prevent it from reorganizing a portion of its territory for the sole purpose of needing another school. The proposed reorganization would result in the transfer of the following school sites: Webster Elementary, Cabrillo Elementary, Point Dume Marine Science Elementary, and Malibu High School to the Malibu Unified School District. The Santa Monica Unified School District would be comprised of the remaining seven elementary schools, two middle schools, one high school, one K-8 alternative school, and one continuation school.

Analysis

The proposed reorganization would have limited impact on the facilities and enrollment at the elementary, middle schools and high schools in the existing attendance areas for either Malibu or Santa Monica. Figure 11 summarizes the 2011-12 enrollments at each of the schools and the estimated capacity for each site.

Figure 11. Enrollment and Capacity by Site 2011-12

Site	Enrollment	Capacity *
Edison Elementary School	453	600
Franklin Elementary School	767	972
Grant Elementary School	623	918
John Muir Elementary/SMASH	539	500
Juan Cabrillo Elementary School	256	567
McKinley Elementary School	460	756
Rogers Elementary School	489	918
Roosevelt Elementary School	794	1,107
Webster Elementary School	340	567
Point Dume Elementary School	257	540
John Adams Middle School	1,054	1,296
Lincoln Middle School	1,058	1,242
Malibu High School	1,168	1,674
Olympic High School	103	250
Santa Monica High School	3,069	3,600

*Capacity based on a 27 student per classroom load
Source: Dataquest and District data

Currently the Malibu High site can serve approximately 1,674 students and Santa Monica High site can serve approximately 3,600 students. Based on the information in Figure 11, it appears that there would be some surplus space at Malibu High that could potentially house additional alternative education programs such as Continuation or Opportunity, now and in the future. However, there may be a need to reconfigure accommodations for alternative high school programs based on current classroom usage at Malibu High. Furthermore, each district would have sufficient space to provide educational services to the students currently attending their elementary sites and middle school sites.

Conclusion

The above data indicates that the proposed Malibu Unified School District and resulting Santa Monica Unified School district will have adequate facilities to accommodate all of their students and educational programs for the foreseeable future, should the proposed reorganization occur. However, Malibu Unified School District will need to configure adequate accommodations for their alternative high school programs. With this condition in mind, the study finds that there would be no substantial increase in school housing costs should the reorganization occur. Therefore, this criterion is met.

Sources Consulted

- CDE Dataquest 2011-12 enrollments by site
- District provided capacity data

Criterion 8: Not Designed to Increase Property Values

The proposed reorganization is not primarily designed to result in a significant increase in property values causing financial advantage to property owners because territory was transferred from one school district to an adjoining district.

- Education Code Section 35753(a)(8)

Description

This criterion deals not with outcomes, but rather with intent. While property values may fluctuate after school district reorganization, analysis of a proposal must focus on the intent of the petitioners.

Analysis

In both Malibu and Santa Monica, where the median home value far exceeds that of the state average, it can be generally agreed-upon that there is more than likely a shortage of affordable housing. Santa Monica has an extremely high population density of approximately 10,893 people/square mile, made possible because the majority of its housing is multi-family developments. In contrast, Malibu has a low population density, 119 people/square mile, and the majority of its housing is single family dwellings.

While there are certainly areas of contrast between the two cities as noted above, because the attendance areas for the proposed districts are not changing from those currently in place, it can be argued that property values will not experience any significant changes as a result of the reorganization. Moreover, in a case such as this, when school quality is arguably consistent across both attendance areas, concerns regarding this criterion are minimal.

Our analysis did not reveal that property value is factor that is driving the interest in the proposed reorganization effort. Onlookers have no reason to presume the petitioners' aim in reorganization is to increase their property values.

Conclusion

This study finds no evidence that property values would increase as a result of the proposed reorganization. This study also finds no indication that the petitioners aim to increase property values through this proposal. Therefore, this report concludes that this criterion is substantially met.

Sources Consulted

- City-Data
- Local real estate data

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

The proposed reorganization will not have a substantial adverse effect on the fiscal management or fiscal status of the proposed district or any existing district affected by the proposed reorganization.

- Education Code Section 35753(a)(9)

Each district affected will be adequate in terms of financial ability if:

- (a) The revenue limit per unit of average daily attendance of the proposed district does not vary from the revenue limit per unit of average daily attendance in all of the affected districts by more than 15 percent, or
- (b) The proposal does not increase costs to the State for the affected territory by more than 10 percent.

- CCR, Title 5, Section 18573(a)(2)

Description

In addition to Ed. Code Section 35753(a)(9) and CCR, Title 5, Section 18573(a)(2), the State Board of Education recommends that Ed. 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:

- (1) Cash position at the end of the year.
- (2) Fund Balance position at the end of the year.
- (3) Three-year projection of fund balance.

To comply with these criteria, an initial budget is projected for the new districts based on 2011-12 financial information. This projected budget directly addresses the year-end fund balance position and assumes a similar impact on the cash position. This study does not attempt to project a three-year fund balance because it is expected that subsequent years will follow a similar fiscal trend to the initial year.

At the time this study was initiated, the District had in place contingency plans should the November 2012 tax measures fail. Due to the successful passage of Proposition 30, no further cuts are expected in 2012-13, but the District continues to work to bring its budget into balance.

Analysis

The 2011-12 Unaudited Actuals reflect 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 general fund is 17%, the general fund has a structural deficit spent of approximately \$2.8 million dollars in 2011-12. As noted in the paragraph above, the District is continuing to work on bringing its budget into balance. Our analysis includes the deficit in both the baseline and post-reorganization calculations. If the deficit were to be reduced or eliminated, the net change in fund balance would improve in direct relationship to the budget reductions. Figure 12 provides a summary of the 2011-12 revenue and expenditures for the District.

Figure 12. Summary of Baseline Financial Data (2011-12 Restricted and Unrestricted Sources)

Santa Monica-Malibu Unified School District	
Revenues	
Revenue Limit (including add-ons)	\$ 57,786,231
Prior year *	\$ -
Federal Revenue	\$ 5,577,472
Other State Revenue	\$ 10,204,156
Other Local Revenue	\$ 41,075,170
Other Financing Sources	\$ 1,560,873
TOTAL REVENUES	\$ 116,203,902
Expenditures	
Certificated Salaries	\$ 54,731,938
Classified Salaries	\$ 22,479,449
Employee Benefits	\$ 25,115,709
Books and Supplies	\$ 3,289,462
Services and Contracts	\$ 13,272,724
Capital Outlay	\$ 564,392
Transfers and Other Outgo	\$ (438,372)
TOTAL EXPENDITURES	\$ 119,015,302
Net Change in Fund Balance	\$ (2,811,400)
Beginning Fund Balance	\$ 23,354,108
Ending Fund Balance	\$ 20,542,708
Percent Reserve	17%

Source: 2011-12 Unaudited Actuals

Criterion 5 of this report detailed changes in revenue limits for the proposed reorganization. Generally, two primary areas of expenditures for proposed reorganizations include potential costs for leveling up salaries and one-time start up costs. The expenditure areas that will increase for Malibu will primarily be in response to the costs of developing programs to meet the needs of ELs, students with disabilities, and alternative education options; home-to-school transportation; central administrative staff; and establishing facilities and infrastructure for a district office, maintenance, and transportation yard. The transition to basic aid status increases per-ADA funding for Malibu and will likely provide an offset to the costs associated with the expenses outlined above.

The only potential “new” funding resulting from district reorganization is the salary add-on adjustment. This calculation is meant to approximate the costs of leveling up salaries but does not necessarily reflect the actual costs. Based on the analysis presented in Criterion 5, there are no adjustments for blended revenue limits or for salary schedule leveling because currently all employees are on the same salary schedules. It is important to note that while there is no adjustment for leveling salary and benefits, there is the potential for costs associated with contract negotiations for both districts post reorganization. Appendix A 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 revenue limit. The transition to basic aid status would result in approximately \$5,800,687 in excess property tax revenue, which would be offset by a reduction in its categorical funding of approximately \$1,238,610, resulting in a net increase of approximately \$4,562,077. Santa Monica would not receive any “new” or additional revenue as a result of the reorganization.

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 in Figure 13 assumes that existing cost of district office infrastructure is divided proportionally based on the number of students in each district. Given the current district office infrastructure supported by the Santa Monica-Malibu school district, which includes a wide array of centralized supports, the proposed reorganization would require careful evaluation and likely difficult decisions to scale-back existing support. With this in mind, AMPS has indicated that they are committed to reaching resolution for efficacy in district office level staffing. In addition, the financial information presented in Figure 13 does not include any changes to the costs associated with salary and benefits. However, it is important to note that there could be potential adjustments to salary schedules, but any changes would be subject to negotiations between the schools’ boards elected following a decision to reorganize with newly established collective bargaining units. In addition, this analysis assumes a pro rata split of salary and benefit costs. Actual salary and benefit costs post reorganization will likely be different based on final staffing decisions.

The management of the newly formed Malibu Unified would also need to consider the costs of operating all the programs noted in Criterion 6. In addition, both districts would need to evaluate the viability of existing programs taking into account funding availability, student interest, and staff support.

In addition to potential long-term costs for both new districts such as changes to salary schedules, Malibu will incur on costs associated with adding staff to handle central administrative and programmatic needs as well as costs for

maintaining current home to school transportation services for its students. There are also several one-time, or limited term costs, for Malibu Unified that would be necessary as a result of the reorganization. Such costs would include the need to have facilities for a district office, maintenance and transportation. A likely funding source for such expenditures would be the ending fund balance/reserves.

Figure 13. Financial Summary - Post-Reorganization (2011-12 Restricted and Unrestricted Sources)

2011-12 Unaudited Actuals	Malibu	Santa Monica
Revenues		
Revenue Limit (including add-ons)	\$ 10,267,046	\$ 48,413,387
Excess Property Tax	\$ 5,800,687	
Basic Aid Reduction Categorical	\$ (1,238,610)	
Federal Revenue	\$ 991,117	\$ 4,586,355
Other State Revenue	\$ 1,813,279	\$ 8,390,877
Other Local Revenue	\$ 5,391,028	\$ 35,684,079
Other Financing Sources	\$ 277,367	\$ 1,283,506
TOTAL REVENUES	\$ 23,301,913	\$ 97,464,003
Expenditures		
Certificated Salaries	\$ 9,725,865	\$ 45,006,073
Classified Salaries	\$ 3,994,598	\$ 18,484,851
Employee Benefits	\$ 4,463,061	\$ 20,652,648
Books and Supplies	\$ 584,537	\$ 2,704,925
Services and Contracts	\$ 2,358,563	\$ 10,914,161
Capital Outlay	\$ 100,292	\$ 464,100
Transfers and Other Outgo	\$ (77,899)	\$ (360,473)
TOTAL EXPENDITURES	\$ 21,149,017	\$ 97,866,285
Net Change in Fund Balance	\$ 2,152,894*	\$ (402,280)*
Beginning Fund Balance	\$ 4,150,025	\$ 19,204,083
Ending Fund Balance	\$ 6,302,919	\$ 18,801,803
Percent Reserve	30%	19%

The data reflected in Figure 13, includes the following assumption for revenue:

- Excess Property Taxes for Malibu
- Reduction in categorical aid for Malibu due to basic aid status
- Proceeds from the Measure R parcel tax are split between the districts based on parcel counts.
- Local revenue from lease agreements for school property located in Santa Monica remains as Santa Monica revenue
- The revenue associated with agreements with the City of Santa Monica remains with Santa Monica

The expenditure data in Figure 13 includes the following assumptions:

- Structural imbalance of \$2.8 million split on a pro-rata basis
- Expenditures are split on an ADA-basis

It is important to note that the sum of the ending fund balances (EFB) reflected in Figure 13 is greater than the EFB reflected in Figure 12. This is due to the increase in revenues as a result in Malibu becoming a basic aid district.

* If the structural imbalance between revenue and expenditures was eliminated the net change in ending fund balances would be approximately \$2.6 million for Malibu and \$1.9 for Santa Monica.

Source: 2011-12 Unaudited Actuals and District provided documents

Other Factors

The voters of Santa Monica and Malibu approved Measure R parcel tax in February of 2008. Measure R replaced prior parcel tax measures Measure Y and Measure A and at the time of approval had a maximum rate of \$346, which can be adjusted annually by the Consumer Price Index-Al Urban Consumers(CPI-U). There is no expiration on the Measure R parcel tax. Although Figure 13 assumes that the proceeds of Measure R would be split based on parcel counts, the scope of this report does not offer a qualified opinion on the legality of the split. 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. The continuation of the Measure R parcel tax is critical to deem the reorganization viable. For this reason, we recommend that legal counsel be consulted; and if necessary, special legislation be considered to delineate conditions for preserving the Measure R parcel tax revenue for the resulting districts.

Conclusion

Based on 2011-12 Unaudited Actuals, the financial condition of the impacted school districts appears to be financially feasible. It is important to note that this analysis assumes that the parcel tax proceeds are split based on parcel counts. Any changes to this assumption would require adjustments to the analysis provided in this report. 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

- 2011-12 Unaudited Actuals General Fund Summary Reports
- 2011-12 Unaudited Actuals K-12 Revenue Limit Reports
- CDE P-2 data
- District provided documents

Appendix A

Rights of Employees Under Reorganization

The following information is an excerpt from Chapter 9 of the California Department of Education District Organization Handbook, July 2010 pages 157-160

According to the Handbook, Classified Employees are affected in the following manner after reorganization.

Any reorganization of a school district shall not affect the rights of persons employed in positions *not* requiring certification to retain the salary, leaves, and other benefits that they would have enjoyed, had the reorganization not occurred. (EC 35556, 45121)

In reorganization, the following general rules apply:

- An employee of an original district that is included in a new district shall become an employee of the new district. (EC 35556[a])
- Employees of a district regularly assigned to the territory being lost to another district shall become employees of the new district. Those whose assignments pertain to that territory, but who are not actually sited there, may elect to either remain with the original district or become employees of the new district. (EC 35556[b])
- If a district's territory is completely absorbed into two or more districts, regular employees will become employees of the district acquiring the respective territory. Employees not assigned to specific territory within the original district will join the district of their choice. (EC 35556[d])
- Employees regularly assigned to a particular school shall be employees of the district in which the school is located unless the employee elects to remain with the original district. (EC 35556[e]) Certain conditions apply to the employee's ability to remain with the original district. (EC 35556[c]), 44035]
- In a new unified district, *noncertificated* employees shall continue in employment for not less than two years. (EC 45121)
- As used in this section and in the subsequent section on certificated employees, "the school or other place in which any such employee is employed" and all references thereto, includes but is not limited to, the school services or school program that as a result of any reorganization of a school district will be provided by another district, regardless of whether

any particular building or buildings in which such schoolwork or school program was conducted is physically located in the new district, and regardless of whether any new district resulting from such reorganization elects to provide for the education of its pupils by contracting with another school district until such time as the new district constructs its own facilities.

- Except as stipulated earlier, nothing in the above section shall deprive the governing board of the acquiring district from making reasonable assignments of duties.

According to the Handbook, Certificated Employees are affected in the following manner after reorganization.

The reorganization of school districts shall not affect the classification of certificated employees already employed by any affected school district. (*EC 35555*) The new district shall offer employment as follows:

- Permanent employees assigned to a building located within the new district shall remain at the school or facility to which they had been previously assigned, unless they elect to remain with the original district. (*EC 35555, 44035*)
- Probationary employees assigned to a building located within the new district shall be employed by the new district unless the probationary employee is terminated by such a district prior to May 15. If employment continues, the probationary status shall remain unchanged. (*EC 44803, 44949, 44955*)
- Permanent employees must select the district in which they choose to work before February 1 of the year in which the reorganization becomes effective for all purposes. The request may be made to either the board of the new district or the board of the original district. (*EC 35555*)
- If permanent employees elect to stay with the remainder of the original district in such numbers that the district does not have sufficient positions to accommodate all the employees, then the surplus employees may be dismissed in reverse order of their seniority. (*EC 44955*)
- Should the anticipated attrition of staff in the original district be approximately offset by the decline in enrollment in that district, including the loss of transferred students, this aspect may be used to diminish the number of offers of employment extended by the receiving district. (*EC 44955*)

According to the Handbook, salaries after reorganization are handled in the following manner.

The power to determine employees' salaries resides with the governing board of a school district. The board must determine the salary policy of a newly created district. (*EC 45022, 45160*)

Nonunified District

- The *Education Code* provides for the creation of a revenue limit that may equalize the differences between high salaried districts and lower salaried districts. (*EC 35730 et seq.*) The new board may or may not adopt a salary schedule equal to or better than the best salary schedule of the original districts. All employees are entitled to transfer to the new district the benefits they accrued prior to reorganization. (*EC 44976, 44984*)

Unified District

- The board of a new unified district may or may not adopt a salary schedule equal to or better than the best salary schedule of the original districts. The board has the power to increase or decrease salaries, and the new board could establish a lower salary schedule for teachers, thus decreasing their salaries. However, all noncertificated personnel must receive, for a period of two years, salaries, and benefits equal to those existing at the time of the election. (*EC 45022, 45121, 45160*) In summary, a new unified school board may reduce certificated employees' salaries but may not reduce noncertificated employees' salaries.

Other areas covered under this section are:

Adoption of Merit System: for reorganizations other than unifications, the governing board of the acquiring or new district must—if a majority of the classified employees voting on the adoption of a merit system approve—adopt the merit system that had been adopted in the school district territory it acquired. For unifications, the governing board must employ classified employees in accordance with the system specified in Chapter 5, Article 6 (commencing with *EC Section 45240*) if an affected district had a merit system and a majority of the classified employees voting approve. In both cases, governing boards must adopt a merit system if the reorganized district contains all or part of the territory of two or more districts that had merit systems. Governing boards also have the option of adopting a merit system if the classified employees do not request an election and the number of classified employees from a former merit system district exceeds the number of employees from the acquiring nonmerit system district. (*EC 45119, 45120*).

Role of Public Employment Relations Board (PERB).

PERB has jurisdiction over employer-employee relations matters affecting all school districts. School districts and exclusive bargaining representatives for employees should be advised to contact PERB to determine whether employee unions in the former district(s) may continue to represent the new district's employees and to determine the future validity of existing collective bargaining agreements.

Statutory provisions relating to the PERB's formation, its powers and duties, and procedures for handling charges of unfair labor practices are found in *Government Code* sections 3541–3541.5.

Exemption from FICA for Pre-1986 Employee Wages

Wages of public employees hired prior to April 1, 1986, are not subject to the *Federal Insurance Contributions Act* (FICA) as long as the employee is continuously employed by the public agency. There is no definitive answer to the question of whether or not a school district unification results in a change of employer, thus breaking the continuous employment requirement for FICA exemption and causing employee wages to be subject to FICA. On one hand, a number of employees could have a new employer after a successful unification. On the other hand, the *Education Code* guarantees employees that there will be no change in their rights, status, or classification.

In the past, districts have received private letter rulings from the Internal Revenue Service (IRS) stating that unification of the districts does not violate the continuous employment requirement for FICA. It is recommended that districts, after unification, consult with legal counsel or IRS for a similar determination.