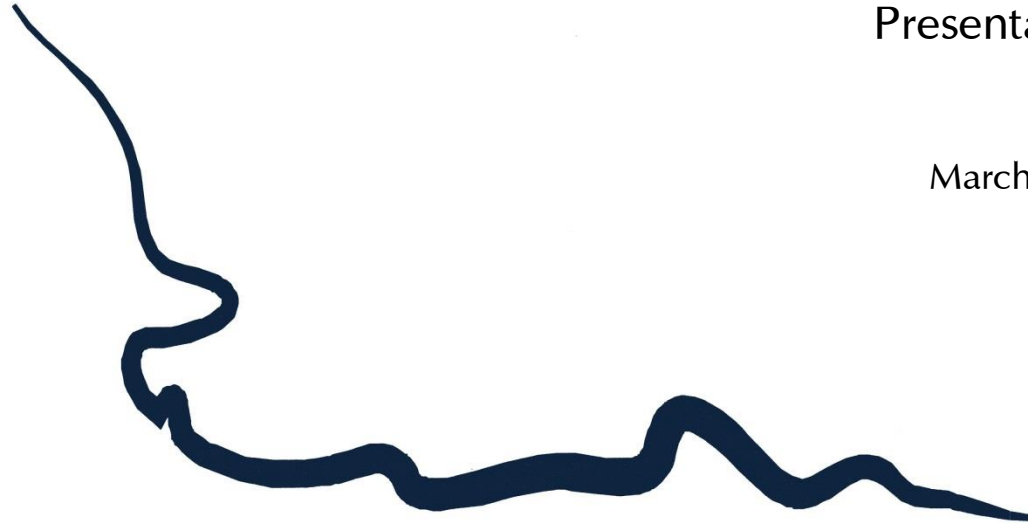


Santa Monica-Malibu Unified School District

'Basic Aid 101'
Presentation

March 2019



EASTSHORE CONSULTING

FINANCIAL ADVISORY & FACILITIES PLANNING · FISCAL CONSULTING · ELECTION STRATEGIES & PUBLIC RELATIONS

Background

- Santa Monica Malibu Unified School District entered “Basic Aid” status during the 2017-18 fiscal year
- Basic Aid is also referred to as Community Funded or Excess Tax
- Occurs when property tax revenues exceed minimum State Aid funding under the LCFF calculations
- Examines only the LCFF component of school funding
- 141 such districts exist statewide
- 104 of those districts are less than 2,500 ADA
- SMMUSD is the eight largest such district in the State and only the second such District in LA County
- With Basic Aid designation a variety of real and perceived factors can be in play which may require a different approach to fiscal and operational policies and procedures
- The perception:
 - Often considered “wealthy” but in reality many are not
 - Combination of low enrollment and high property value (along with Prop 13 allocations) impact likelihood of reaching Basic Aid status

Fiscal Concerns Specific to Basic Aid

- Above average property taxes result in loss of certain funding sources
- Declining enrollment issues become mitigated
- Funding growth becomes less predictable – funding declines are more probable
- Timing of funding is less consistent

2018-19 First Interim
General Fund
Summary - Unrestricted/Restricted
Revenues, Expenditures, and Changes in Fund Balance

| Description | Resource Codes | Object Codes | Original Budget (A) | Board Approved Operating Budget (B) | Actuals To Date (C) | Projected Year Totals (D) | Difference (Col B & D) (E) | % Diff (E/B) (F) |
|--|----------------|--------------|------------------------|---|------------------------|---------------------------------|----------------------------------|------------------------|
| LCFF SOURCES | | | | | | | | |
| Principal Apportionment | | | | | | | | |
| State Aid - Current Year | | 8011 | 8,585,843.00 | 8,585,843.00 | 3,387,714.00 | 8,585,843.00 | 0.00 | 0.0% |
| Education Protection Account State Aid - Current Year | | 8012 | 2,000,000.00 | 2,000,000.00 | 524,054.00 | 2,000,000.00 | 0.00 | 0.0% |
| State Aid - Prior Years | | 8019 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Tax Relief Subventions | | | | | | | | |
| Homeowners' Exemptions | | 8021 | 379,923.00 | 379,923.00 | 0.00 | 379,923.00 | 0.00 | 0.0% |
| Timber Yield Tax | | 8022 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Other Subventions/In-Lieu Taxes | | 8029 | 393,354.00 | 393,354.00 | 265,641.61 | 393,354.00 | 0.00 | 0.0% |
| County & District Taxes | | | | | | | | |
| Secured Roll Taxes | | 8041 | 67,309,727.00 | 67,309,727.00 | 0.00 | 67,309,727.00 | 0.00 | 0.0% |
| Unsecured Roll Taxes | | 8042 | 2,324,448.00 | 2,324,448.00 | 1,965,435.08 | 2,324,448.00 | 0.00 | 0.0% |
| Prior Years' Taxes | | 8043 | 4,771,307.00 | 4,771,307.00 | 2,069,170.76 | 4,771,307.00 | 0.00 | 0.0% |
| Supplemental Taxes | | 8044 | 0.00 | 0.00 | (43,675.50) | 0.00 | 0.00 | 0.0% |
| Education Revenue Augmentation Fund (ERAF) | | 8045 | 849,245.00 | 849,245.00 | (279.55) | 849,245.00 | 0.00 | 0.0% |
| Community Redevelopment Funds (SB 617/699/1992) | | 8047 | 15,000,000.00 | 15,000,000.00 | 0.00 | 15,000,000.00 | 0.00 | 0.0% |
| Penalties and Interest from Delinquent Taxes | | 8048 | 0.00 | 0.00 | (6,838.54) | 0.00 | 0.00 | 0.0% |
| Miscellaneous Funds (EC 41604) | | | | | | | | |
| Royalties and Bonuses | | 8081 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Other In-Lieu Taxes | | 8082 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Less: Non-LCFF (50%) Adjustment | | 8089 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Subtotal, LCFF Sources | | | 101,613,847.00 | 101,613,847.00 | 8,161,221.86 | 101,613,847.00 | 0.00 | 0.0% |
| LCFF Transfers | | | | | | | | |
| Unrestricted LCFF | | | | | | | | |
| Transfers - Current Year | 0000 | 8091 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| All Other LCFF | | | | | | | | |
| Transfers - Current Year | All Other | 8091 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| Transfers to Charter Schools in Lieu of Property Taxes | | 8096 | 0.00 | 0.00 | 0.00 | (38,000.00) | (38,000.00) | New |
| Property Taxes Transfers | | 8097 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| LCFF/Revenue Limit Transfers - Prior Years | | 8099 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.0% |
| TOTAL, LCFF SOURCES | | | 101,613,847.00 | 101,613,847.00 | 8,161,221.86 | 101,575,847.00 | (38,000.00) | 0.0% |

Mitigation of Fiscal Concerns

- Maintaining larger reserves levels
 - Property Tax Appeals now matter
 - Cash Flow management becomes a higher priority
- Projecting conservatively in case of declines
 - SMMUSD number of sizable office and commercial buildings - None make up a large percentage, but as a sector should be understood
 - Added areas to monitor:
 - LCFF COLA Projections matter less
 - Understanding new development and redevelopment is important – The City is a friend and resource (they issue the building permits and taxable value changes lag by 6 months)
- Understanding the depth of basic aid is important
 - Districts can go in and out of Basic Aid status
 - Each time certain revenues may turn on or off
 - If “shallow” status may change mid-year
- Volatility can be real but should be limited
- May require running dual budget scenarios to understand the funding floor
- Robust reserve policy may make sense
 - Basic Aid Reserve

Operational Concerns

- Most concerns stem from budgetary uncertainty
- Inter-district transfers-in can become less attractive
- Programs to mitigate impact of transfers in are less robust than in past
- Perception of high revenue levels is not reality
 - Being one dollar over the threshold DOES NOT EQUAL significant funding above LCFF levels – might even be slightly less
- Recessions happen (AV declines), population shifts occur (Enrollment growth)

Best Practices

- No a one size fits all solutions – each tax base and community is different
- Understanding the factors that drive property tax revenues is important
 - RDA funding levels (part of LCFF computation) will vary over time
 - Tracking Building Permit activity can provide insights – Cities usually provide regular reporting
- Increase reserve levels
- Property Tax Appeals can look back several years - Make your voice hear IF large appeals are in play
- Monitor State activity, especially when Prop 98 funding levels are in question
- Consider prior year funding levels more than current year projections
 - Use abnormal growth blips for one time expenditures until certain growth is permanent
- Set a nominal tax base growth assumption below historical trends for MYPs
- Consider running longer projections and varied scenarios to identify trends and avoid structural imbalances

Remember in some respects your revenues are now your own issue to deal with and the State does not provide a significant amount of additional funding for Basic Aid districts, indeed there are cases of being statutorily excluded and a history of attempts to redistribute “excess property taxes” over the years.