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To: Kari Yeater, Superintendent
Liann Reyes, Assistant Superintendent, Business Services
North Monterey County Unified School District

From: Shin Green, Principal
Eastshore Consulting LLC

Date: August 22, 2019

Re: Preliminary Analysis of Petition for Transfer of Territory from
North Monterey County Unified School District to the Lagunita School District

Background

A petition has been submitted to the Monterey County Office of Education (MCOE) proposing the transfer of territory from the North Monterey County Unified School District (District) to the Lagunita School District (Lagunita SD). The petition proposes the transfer of 13 existing parcels, of which 8 are developed and contain single family residences. The District has preliminarily taken a position of opposing the petition due to the impacts which will result from the proposed transfer of territory.

Preliminary Analysis of Petition Impacts

To estimate the fiscal impacts of the Petition on the District, a preliminary analysis was conducted to explore the loss of revenues and capacities which could result. Based on this preliminary analysis, it appears that there are three general categories of fiscal impacts, including:

1. Loss of operational funding
2. Loss of property tax revenues supporting General Obligation (GO) Bonds
3. Loss of development impact fees

To conduct this analysis, certain assumptions were required to project the fiscal impacts which could be incurred over time. For the purpose of the analysis, the period examined includes 30 years from the projected date for implementation of a territory transfer on July 1, 2020. (Understanding that the process of consideration of a petition includes State Board of Education actions, it is highly likely that the proposed transfer would take longer to enact, but such a delay should not materially impact the analysis of Petition impacts on the District.) We will outline the assumptions applied to the analysis of each of the three impact categories.

1) Loss of Operational Funding

The loss of operational funding will result from the loss of enrollment and associated decrease in Average Daily Attendance (ADA). As a LCFF funded District, operational funding is provided on a per pupil basis from the combined sources of 1% property local property tax revenues allocated to the District and State Aid funding to the extent property taxes are insufficient to provide funding at LCFF target levels. Our preliminary analysis indicates that the District will be LCFF funded throughout the projected period.



To analyze this impact, it was necessary to project full development of the transfer territory. For our analysis, it is assumed that one additional residence will be constructed in the transfer area every two years. Additionally, it is assumed that the transfer territory will eventually be fully developed to applicable zoning standards. Under these zoning standards, there is the ability to generate two additional buildable parcels, providing for a total of 15 residential units.

Based upon a review of recent enrollment and residential unit counts, it appears that student generation rates within the District are approximately 0.64 units of enrollment per housing unit. However, it should be noted that a detailed student generation analysis specific to the transfer territory was not conducted and, given its small size, such an analysis may diverge from Districtwide averages.

While the proposed territory for transfer would be realigned to Lagunita SD, an elementary school district, it would also appear to change the high school matriculation of patterns for these students from the District to Salinas Union HSD. As such, our analysis examines District losses for grades K through 12.

PROJECTION OF LCFF REVENUE LOSS RESULTING FROM TRANSFER OF TERRITORY

Fiscal Year Ending June 30,	Years After Transfer	Developed Housing Units	NMCUSD Average Student Generation Rate	Projected Transfer Territory Students	Projected Weighted Average LCFF Per Pupil Funding*	Projected Annual LCFF Revenue Loss	Projected Cumulative LCFF Revenue Loss
2019	-1	8	0.64	5.12	\$ 11,291		
2020	0	8	0.64	5.12	11,659		
2021	1	9	0.64	5.76	12,009	\$ 69,171	69,171.22
2022	2	9	0.64	5.76	12,345	71,108	140,279.10
2023	3	10	0.64	6.40	12,592	80,589	220,867.91
2024	4	10	0.64	6.40	12,844	82,200	303,068.40
2025	5	11	0.64	7.04	13,101	92,229	395,297.22
2026	6	11	0.64	7.04	13,363	94,073	489,370.49
2027	7	12	0.64	7.68	13,630	104,678	594,048.26
2028	8	12	0.64	7.68	13,902	106,771	700,819.45
2029	9	13	0.64	8.32	14,181	117,982	818,801.47
2030	10	13	0.64	8.32	14,464	120,342	939,142.99
2031	11	14	0.64	8.96	14,753	132,190	1,071,333.37
2032	12	14	0.64	8.96	15,048	134,834	1,206,167.40
2033	13	15	0.64	9.60	15,349	147,354	1,353,521.57
2034	14	15	0.64	9.60	15,656	150,301	1,503,822.66
2035	15	15	0.64	9.60	15,969	153,307	1,657,129.60
2036	16	15	0.64	9.60	16,289	156,373	1,813,502.52
2037	17	15	0.64	9.60	16,615	159,500	1,973,002.73
2038	18	15	0.64	9.60	16,947	162,690	2,135,692.77
2039	19	15	0.64	9.60	17,286	165,944	2,301,636.46
2040	20	15	0.64	9.60	17,631	169,262	2,470,898.85
2041	21	15	0.64	9.60	17,984	172,647	2,643,546.33
2042	22	15	0.64	9.60	18,344	176,100	2,819,646.59
2043	23	15	0.64	9.60	18,711	179,622	2,999,268.69
2044	24	15	0.64	9.60	19,085	183,214	3,182,483.07
2045	25	15	0.64	9.60	19,467	186,879	3,369,361.57
2046	26	15	0.64	9.60	19,856	190,616	3,559,977.47
2047	27	15	0.64	9.60	20,253	194,428	3,754,405.53
2048	28	15	0.64	9.60	20,658	198,316	3,952,721.99
2049	29	15	0.64	9.60	21,071	202,283	4,155,004.60
2050	30	15	0.64	9.60	21,493	206,328	4,361,332.71

* Weighted Average LCFF is derived by averaging the LCFF Base Grant Funding for each grade, (including Grade Span Adjustments and Supplemental and Concentration Grant funding assuming an 86% Unduplicated Pupil Percentage), in each fiscal year. LCFF Base Grants have been inflated for the DOF projections through 2022. Thereafter, LCFF Base Grants are projected to inflate by 2% annually.



The above analysis utilizes projected average LCFF per pupil for all grade spans, including augmentations for Grade Span Adjustments and Supplemental/Concentration Grant funding. Our analysis did not endeavor to examine inter-district transfer impacts. Furthermore, additional revenues which are allocated on the basis of enrollment or ADA, albeit smaller in magnitude, are not reflected. Such revenues include items such as State Lottery Funding and certain Federal revenue sources.

2) Loss of Property Tax Revenues Supporting GO Bonds

The District has issued multiple series of GO Bonds to support construction of and improvements to school sites and District facilities. These GO Bonds are approved by voters within the District and are supported with an annual property tax levy, discrete from the 1% county-wide property tax rate. To the extent territory is transferred from the District without the conveyance of facilities, it would typically result in the termination of GO Bond taxes for District GO Bonds within the transfer territory. That transfer territory would then be responsible for making payment on existing and future GO Bonds of the district into which they have transferred, Lagunita SD.

To quantify the impact of this loss of tax base in support of GO Bonds, it is necessary to project home values for the transferred territory and its future development. For future development, our analysis applies the same one new home added every two years assumption previously utilized of. For existing developed parcels, current assessed valuations were inflated annually by the 2% Prop. 13 growth limit. For undeveloped parcels, an estimate of their developed value of \$1 million per home was utilized. Current average assessed value, which is generally lower than market value due to Prop. 13 limits, is \$950,000 per developed parcel within the proposed transfer territory. Additionally, the aggregate assessed value of the District was projected using the 2% Prop. 13 limit for comparison to the transfer territory.

Based upon these assumptions, the projections indicate that transfer territory comprises 0.25% of the existing tax base. This percentage is projected to grow to approximately 0.39% after full development of the transfer territory. The loss of this assessed value will result in the remaining District property owners paying higher tax rates to make up for revenue lost from the transferred territory.

(Continued on Next Page)



PROJECTION OF GO BOND TAX LOSS RESULTING FROM TRANSFER OF TERRITORY

Fiscal Year	NMCUSD Projected Assessed Value	Assessed Value Growth Rate	Projected Assessed Value of Transfer Territory	Transfer Territory Assessed Value as a % of NMCUSD	Existing GO Bond Debt Service*	Projected GO Bond Tax Rate per \$100,000 of Assessed Value	Projected Transfer Territory GO Bond Tax Revenue Loss
2018-19	\$ 3,499,995,595	8.35%	\$ 8,806,745	0.25%	\$ 2,245,506		
2019-20	3,569,995,507	2.00%	8,982,880	0.25%	2,280,931		
2020-21	3,641,395,417	2.00%	9,812,869	0.27%	2,305,181	\$63.30	\$ 6,212
2021-22	3,714,223,325	2.00%	10,009,127	0.27%	2,343,375	\$63.09	6,315
2022-23	3,788,507,792	2.00%	10,941,085	0.29%	2,369,209	\$62.54	6,842
2023-24	3,864,277,948	2.00%	11,159,907	0.29%	2,398,631	\$62.07	6,927
2024-25	3,941,563,507	2.00%	12,079,343	0.31%	2,430,588	\$61.67	7,449
2025-26	4,020,394,777	2.00%	12,320,930	0.31%	2,429,913	\$60.44	7,447
2026-27	4,100,802,672	2.00%	13,186,559	0.32%	2,470,038	\$60.23	7,943
2027-28	4,182,818,726	2.00%	13,450,290	0.32%	2,131,794	\$50.97	6,855
2028-29	4,266,475,100	2.00%	14,719,296	0.34%	2,170,419	\$50.87	7,488
2029-30	4,351,804,602	2.00%	15,013,682	0.34%	1,361,363	\$31.28	4,697
2030-31	4,438,840,694	2.00%	16,313,955	0.37%	1,395,338	\$31.43	5,128
2031-32	4,527,617,508	2.00%	16,640,234	0.37%	1,431,138	\$31.61	5,260
2032-33	4,618,169,858	2.00%	17,941,142	0.39%	1,470,506	\$31.84	5,713
2033-34	4,710,533,256	2.00%	18,299,965	0.39%	1,513,319	\$32.13	5,879
2034-35	4,804,743,921	2.00%	18,665,964	0.39%	1,552,581	\$32.31	6,032
2035-36	4,900,838,799	2.00%	19,039,283	0.39%	1,597,863	\$32.60	6,208
2036-37	4,998,855,575	2.00%	19,420,069	0.39%	1,638,650	\$32.78	6,366
2037-38	5,098,832,687	2.00%	19,808,471	0.39%	1,684,900	\$33.04	6,546
2038-39	5,200,809,340	2.00%	20,204,640	0.39%	1,731,350	\$33.29	6,726
2039-40	5,304,825,527	2.00%	20,608,733	0.39%	1,783,300	\$33.62	6,928
2040-41	5,410,922,038	2.00%	21,020,907	0.39%	1,831,350	\$33.85	7,115
2041-42	5,519,140,478	2.00%	21,441,326	0.39%	1,880,375	\$34.07	7,305
2042-43	5,629,523,288	2.00%	21,870,152	0.39%	1,935,100	\$34.37	7,518
2043-44	5,742,113,754	2.00%	22,307,555	0.39%	1,990,675	\$34.67	7,734
2044-45	5,856,956,029	2.00%	22,753,706	0.39%			
2045-46	5,974,095,149	2.00%	23,208,780	0.39%			
2046-47	6,093,577,052	2.00%	23,672,956	0.39%			
2047-48	6,215,448,593	2.00%	24,146,415	0.39%			
2048-49	6,339,757,565	2.00%	24,629,343	0.39%			
2049-50	6,466,552,717	2.00%	25,121,930	0.39%			
Total Projected Transfer Territory GO Bond Revenue Loss							\$ 158,630

* The District has two voter approved GO Bond authorizations. Both authorizations, (Election of 2002 and Election of 2013), have issued all authorized bonds. The above analysis does not contemplate the impact from any future GO Bond authorization which the District may seek.

3) Loss of Development Impact Fees

When property owners obtain a building permit for the construction of a new home, they pay a variety of fees to mitigate the impacts of their development. These fees, commonly referred to as developer fees, are collected by a variety of entities including the District. The rate at which these fees are applied to residential construction is \$3.48 per developed square foot. While such rates are typically updated on a periodic basis to account for inflation and changes in projected facility needs, for the purpose of our analysis we do not assume any change from the current District developer fee rates.

To project the impact of lost developer fees requires an analysis of the development anticipated within the transfer territory. For this analysis, we assume the same one new residential unit every two years as in prior projections. Additionally, we assume the same final total residential parcel count of 15, which reflects development to the existing zoning standards. For home size, the developed parcels within the proposed transfer territory were examined and indicate an average home size of 2,778.25 square feet.



PROJECTION OF DEVELOPER FEE REVENUE LOSS RESULTING FROM TRANSFER OF TERRITORY

Fiscal Year Ending June 30,	Yeas After Transfer	Projected Developed Housing Units	Projected Square Footage of Development	Residential Developer Fee per Sq-ft*	Projected Total Developer Fees
2019	-1	8			
2020	0	8			
2021	1	9	2,778.25	\$ 3.48	\$ 9,668.31
2022	2	9	-	3.48	-
2023	3	10	2,778.25	3.48	9,668.31
2024	4	10	-	3.48	-
2025	5	11	2,778.25	3.48	9,668.31
2026	6	11	-	3.48	-
2027	7	12	2,778.25	3.48	9,668.31
2028	8	12	-	3.48	-
2029	9	13	2,778.25	3.48	9,668.31
2030	10	13	-	3.48	-
2031	11	14	2,778.25	3.48	9,668.31
2032	12	14	-	3.48	-
2033	13	15	2,778.25	3.48	9,668.31
2034	14	15	-	3.48	-
2035	15	15	-	3.48	-
2036	16	15	-	3.48	-
2037	17	15	-	3.48	-
2038	18	15	-	3.48	-
2039	19	15	-	3.48	-
2040	20	15	-	3.48	-
2041	21	15	-	3.48	-
2042	22	15	-	3.48	-
2043	23	15	-	3.48	-
2044	24	15	-	3.48	-
2045	25	15	-	3.48	-
2046	26	15	-	3.48	-
2047	27	15	-	3.48	-
2048	28	15	-	3.48	-
2049	29	15	-	3.48	-
2050	30	15	-	3.48	-
Total Projected Developer Fees from Transfer Territory					\$ 67,678

* Assumes current developer fee levels without inflation.

Based upon the assumptions, it is estimated that developer fees for 7 additional homes will be lost by the District. While the residents within the transfer territory would likely be required to pay developer fees in the Lagunita SD as well as the Salinas Union HSD, we do not endeavor to analyze what such fees might be. However, specific to the District, it appears that these lost fees would amount to at least \$67,678.



Other Impacts

In addition to the three primary impacts detailed above, there may be other impacts which we have not quantified. These would include real monetary impacts such as losses of operational efficiencies inherent in larger student populations and other revenue sources which may be based in whole or part on enrollment and ADA.

Furthermore, there may be other less quantifiable losses of opportunity. For example, the loss of the transfer territory would reduce the statutory bonding capacity of the District by 2.5% of the transfer territory assessed valuation. While today the District is not approaching this statutory limitation on outstanding GO Bond balances, the limit would be reduced by \$220,000 at current valuations. This reductions impact would grow over time as development and annual Prop. 13 valuation adjustments occur. While the loss of this capacity does not present an immediate issue, should the trend of greater reliance on local GO Bonds to complete facilities modernization and construction projects continue, such capacity may be of future import. While remedies exist in the form of seeking State Board of Education Waivers, such a process would be time consuming and incur some additional costs for the District. The main point being that such losses of future opportunity would occur with the permanent transfer of territory.

Next Steps

At this time the District will likely need to address the Petition via the prescribed process spelled out in education code. Such code implements a fairly tight timeline for local consideration of the matter at the County Committee for School Organization level. However, it is important to remember that such a process can be delayed if mutually agreeable AND, if impacted parties would like to have an opportunity to seek out mitigations in lieu of opposition, such a delay may be of value to all interested parties.

Additionally, it should be noted that the local portion of the process will result in a recommendation by the County Committee for School Organization which must be ratified by the State Board of Education. This ratification may take several years to receive, given current backlogs in processing territory transfer requests in Sacramento.

As such, it may be of value to seek a conversation with the petitioners to discuss the impacts and see if mitigation of such impacts is a viable component to add to the Petition and its analysis. Such a conversation can, if required, include a request to allow for more time before County Committee for School Organization action is taken.

Alternatively, the District can opt to present its impacts and request mitigation through the process, seeking to have such mitigations included in the recommendation by the County Committee for School Organization.



Summary

The District will be impacted by the proposed transfer of territory through the loss of operation and facilities funding and opportunities. The magnitude of this impact over a 30 year time frame is preliminarily estimated to be as follows:

Projected Territory Transfer Fiscal Impacts	
Loss of Operational Revenues - LCFF	\$ 4,361,333
Loss of Operational Revenues - Other	TBD
Loss of GO Bond Taxes	158,630
Loss of Developer Fees	67,678
Total Projected Fiscal Impact Estimate	\$ 4,587,641

The projections reflect cumulative impacts over a 30 year period under certain demographic and development assumptions.

This preliminary estimate is believed to be conservative; however, further examination may reveal certain assumptions to be erroneous. Additionally, the above estimate does not fully account for opportunity loss or the complexities which the District would incur if a transfer of territory is permitted. Furthermore, the preliminary analysis conducted does not explore alternatives based upon a review of what might make sense for areas surrounding the territory proposed for transfer. Finally, the estimates derived do not account for the history of prior territory transfers or what sort of a precedent this would set for potential future requests from a similar "small" group of parcels, each of which individually may appear modest, but in aggregate may present serious challenges to stable operations for the District.

Depending on the District desired direction for addressing the Petition, we stand ready to provide support to either oppose or seek mitigations which may allow the District to remain unharmed.

