



LA HONDA-PESCADERO UNIFIED SCHOOL DISTRICT
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John Wilson, Superintendent

A Lighthouse District

November 30, 2003

Martha Poyatos, Executive Officer
 San Mateo Local Agency Formation Commission
 455 County Center, 2nd Floor
 Redwood City, CA 94063-1663

Dear Ms. Poyatos:

In your letter of October 30th you asked for LHPUSD's comments regarding the proposed annexation of the San Mateo County Coastal Area by the Midpeninsula Open Space District.

I am a member of the Governing Board of the La Honda-Pescadero Unified School District, and chair of the interim subcommittee created to research potential impacts of the proposed MROSD annexation. At the November 20th LHPUSD Board meeting I was authorized and directed to respond on behalf of the district to your request.

This letter will summarize our actions, concerns, and plans as of this date, and to that extent represents an official response of the school district. Please note, however, that the bulk of this letter pertains to a request for a time extension, to delay both the December 1st deadline for comments and the concomitant consideration by LAFCO of MROSD's application (which you say may take place as early as February 11th).

REQUEST FOR EXTENSION

LHPUSD respectfully submits four reasons in support of its request for an extension of at least 120 days.

1. Ongoing Fact-Finding. Our final position on the proposed annexation will be based on our evaluation of its impact. LHPUSD began gathering information in earnest in July 2002. Facts and implications have both been slow to emerge. Its representatives have pursued the matter methodically and rather doggedly throughout 2003 as well. All this research has placed a significant burden on the resources (and especially the volunteer time) of one of California's smallest school districts. But our fact-finding work is unfinished. From most of the sources we mention below we require and have asked for additional information.

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We request an extension in order to complete our study and evaluation of the manifold impact we anticipate.

2. Active Negotiations. LHPUSD and MROSD are engaged in ongoing negotiations. In his November 20th letter to members of the LHPUSD Board, MROSD General Manager Craig Britton said, “I am writing to express my appreciation in allowing [MROSD] continued opportunities to address concerns and/or issues regarding the [LAFCO] application....MROSD’s enthusiastic commitment in working with all public and private sectors is underscored by our meeting with the La Honda-Pescadero Unified School District (LHPUSD) staff in September and the meetings being planned for the future. The dialogue between our two districts over the last several months has proven very constructive. The issues LHPUSD has shared with us weigh heavy in importance and priority, which is why we wish to continue our discussion and provide answers to any perceived impacts caused by this project, combined with mitigating remedies to allay your concerns.... I look forward to our continued discussions.”

LHPUSD aspires to conclude arrangements with MROSD that will mitigate negative impacts of the proposed annexation, as well as those of any land acquisitions. The present discussions should influence the timing of LAFCO’s deliberations because:

- a. The outcome of the negotiations will be central to LHPUSD’s position vis-à-vis opposition to or support of the annexation
- b. The success or failure of joint attempts to arrange mitigation would be an important factor for LAFCO to consider in weighing the proposal
- c. LAFCO should not interfere, by imposing deadlines, with ongoing negotiations between public agencies seeking a mutual accommodation in the public interest.

We request an extension so that these collaborative efforts between two key public agencies in this matter are given every reasonable opportunity to succeed—avoiding, it is to be hoped, any necessity for LAFCO (or even state arbitrators) to resolve a contentious dispute.

3. Procedural Issues. In responding to requests for a formal decision, position, or comment, the LHPUSD Board is constrained by practice; the Government and Education Codes; our bylaws; the Brown Act; a compelling need to afford the public a role in our deliberations; and lastly by sheer practical concerns such as accommodating holiday plans and the occasional illness or unavailability of key personnel. The normal sequence of events in responding to LAFCO’s request for comments (“RFC”) would entail:
 - a. At the first meeting after the RFC is issued, the request is noted and someone assigned to draft a response
 - b. At a subsequent meeting, the draft is presented for public comment and review by the Board
 - c. At that or a later meeting, a resolution is presented endorsing the draft, adopting it as the official position of the district and authorizing its dispatch to the requester
 - d. At that or a later meeting, and after adequate public consideration, the resolution is voted on and a position reached.

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The LHPUSD Governing Board meets regularly on the fourth Thursday of each month. Within a comment period one month long, it is manifestly impossible for LHPUSD to consider the matter of a response to your request *at two regular meetings*. Indeed, no responsive resolution (concerning, say, formal opposition to the proposed annexation) could legally come before the Board within the comment period unless a special meeting were convoked. But even that extreme action was rendered infeasible by the fact that the Thanksgiving holiday occurred on the sole week that followed the regular meeting and preceded your deadline. Further, deciding the issue at a special meeting would have risked the disenfranchisement of those of our constituents (and Members) who might wish to weigh in but could not attend a short-noticed special meeting around the holidays.

This matter is a controversial one for our communities. (Just as 1998's "Measure F" advisory vote can be said to have passed by a clear but narrow margin of 54.8%-45.2% over the entire annexable region, so did it fail by a nearly identical margin—according to published but unofficial results—of approximately 54.5%-45.5% overall within LHPUSD precincts.) The LHPUSD Board must therefore provide ample opportunity for public input into any comment we submit. This letter will summarize concerns but cannot delineate a final position.

We request an extension in order to have the time to legally and responsibly develop and deliver a final official position after all the facts are in and before LAFCO begins its deliberations.

4. A Comprehensive Reply. The December 1st deadline for a comment from LHPUSD does not allow sufficient time for a comprehensive and representative position paper to be drawn up, considered, and approved. Once the facts have been ascertained; when negotiations are concluded; after the public and the Board have considered the matter, and a conclusion reached: then will begin a considerable effort to summarize the findings, concerns, and conclusions of the LHPUSD Governing Board. The writing of such a summary could itself consume several weeks at the pace at which our little school district, relying in this arena mostly on volunteers, must operate.

We request an extension so that we may carefully prepare and release an appropriately detailed comment for your consideration.

ACTIONS TO DATE

LHPUSD's thorough study of the proposed annexation began in July 2002, during the MROSD FEIR period, when the LHPUSD Governing Board conducted a public study session on the proposed annexation. The result of this session was a letter from Superintendent John Wilson to MROSD posing several questions. In February 2003, having received no response, the Governing Board created an interim subcommittee to investigate and report on potential impacts. The effort continues today.

1. Seeking Information. In seeking to foresee any impacts of the proposed annexation and anticipated MROSD land acquisitions, LHPUSD has to date sought information and advice from, among other sources, MROSD itself; the San Mateo County offices of the Assessor,

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Comptroller, Education, Elections Office, and General Counsel; San Mateo County Supervisors the Honorable Rich Gordon and Jerry Hill; state Assemblymembers the Honorable Gene Mullin and Joe Simitian; and many concerned well-informed private citizens representing several points of view on the central issue of annexation.

We have also plumbed relevant sections of the Government and Education Codes.

We have undertaken to research the impact of similar historical annexations, as well as acquisitions of land in other inhabited rural areas of California by tax-exempt organizations.

In the past year the LHPUSD Board has studied precisely how property taxes and state interact in the funding of public schools; learned line-by-line how our district's "revenue limit" and other financial factors are calculated; and tried to project future student population sizes in our district. These efforts have been of considerable help as we attempt to project the impact of the proposed annexation on our future property tax revenues.

The subcommittee created to study these matters issued its initial report on June 6th, 2003, the same day the MROSD Board issued its final Environmental Impact Report (FEIR). Seeing in the subcommittee report sufficient reason for significant concern, the Governing Board authorized and directed the subcommittee to communicate and negotiate with MROSD with an eye to clarification and mitigation of potential impacts. Several exchanges have since taken place, as described earlier.

2. Establishing a Framework. In parallel with the research efforts of the subcommittee since February of this year, two policies have been working their way through the deliberative processes of the Governing Board. In initial draft they called out MROSD specifically. As adopted a few weeks ago (on October 23rd) they address key general issues brought to light by the proposed annexation and provide, as will be seen, a necessary framework for deciding whether the district should support or oppose the proposal.
 - a) "Public Agency Annexation of an Area Within LHPUSD Boundaries. The La Honda-Pescadero Unified School District opposes any annexation by a Public Agency of an area within the geographical boundaries of the LHPUSD, unless the LHPUSD Governing Board (a) has decided on a case-by-case basis that the proposed annexation is accompanied by sufficient financial or other arrangements as satisfactorily compensate for or mitigate (1) any lost tax revenues, and (2) any other significant foreseeable negative impacts on the operations of the LHPUSD, its ability to carry out its responsibilities, or the value of its real estate or other tangible or intangible assets; or (b) has decided, on a case-by-case basis that no such negative impact can reasonably be foreseen; or (c) has decided on a case-by-case basis that the annexation is in the best interest of LHPUSD."
 - b) "Acquisition of Land Within LHPUSD Boundaries for Tax-Exempt Purposes. The La Honda-Pescadero Unified School District opposes the acquisition by any tax-exempt group, including a governmental body, of land within the geographical boundaries of the LHPUSD unless the LHPUSD Governing Board (a) has decided, on a case-by-case basis, that the proposed acquisition is accompanied by sufficient financial or other

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arrangements as satisfactorily compensate for or mitigate (1) any lost tax revenues, and (2) any other significant foreseeable negative impacts on the operations of the LHPUSD, its ability to carry out its responsibilities, or the value of its real estate or other tangible or intangible assets; or (b) has decided, on a case-by-case basis, that no such negative impact can reasonably be foreseen; or (c) has decided on a case-by-case basis that the annexation is in the best interest of LHPUSD.”

Both through the actions of its subcommittee and in open session at several regular meetings this year, the LHPUSD continues to explore with the public whether it should formally oppose or support the annexation proposal.

ABOUT LHPUSD

Before we turn to a discussion of some concerns about the potential effects of annexation, a few quick facts about our school district may be in order.

1. Size. La Honda-Pescadero Unified School District is located in the rural heart of San Mateo County. Although it comprises tens of thousands of acres—a sizeable fraction of the area proposed for annexation—U.S. Census data from the year 2000 suggests the district has fewer than four thousand inhabitants. (Precise numbers are difficult to come by, in part because there are *no* incorporated towns within LHPUSD boundaries. Our estimate is based on analysis of census data sorted by *zip codes*.)

LHPUSD is one of the smallest districts in California in terms of student population. We currently serve about 380 students. Enrollment has declined almost 50% from several years ago, though it has stabilized this year. Among factors contributing to the decline in students are competition from private schools, notably Sea Crest School in Half Moon Bay, and the opening of the Moonridge low-cost housing facility, also in Half Moon Bay. Interdistrict transfers to other public schools on the South Coast are a significant drain, too. This year’s halt to the decline may be in part the result of the Board’s stricter enforcement of rules governing outgoing interdistrict transfers.

2. Operations. We operate four schools, on three sites. They are La Honda Elementary; Pescadero Elementary; Pescadero Middle School (co-sited with the elementary school); and Pescadero High School.

The total budget of the district this year is about \$4.3M. And like other public schools in California, we face very lean times. Our educational foundations, for example—staffed by parent volunteers—are working hard to raise \$90,000 this year, because that would fund two teaching positions (about 8% of the teaching staff!) we otherwise may have to eliminate. The fund-raising events, which have been going on all year, have included a garden tour, “Parents’ Night Out” child care, Hawaiian luaus, and (soon) wine tastings. Next month La Honda Elementary will begin experimenting with renting videos for \$1 on Fridays.

In such a setting, every dollar counts. Expenditures come under tight control. We recently examined, for example, the lease on the copying machine at district headquarters. We

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restructured it to lower costs for the next year or two. A recent request for some standards-based textbooks for La Honda Elementary, at a cost of some \$7,000, was debated thoroughly at a Board meeting this fall before the Superintendent was ultimately authorized to dip into the district's reserve funds (about \$184,000, the legal minimum) if necessary to finance the expenditure.

It is within this context that any potential losses due to annexation must be considered.

3. Revenue Sources. From the County of San Mateo, LHPUSD receives property tax revenues. The amount we receive is based on a percentage of property tax monies collected each year. Property tax monies amount to 1% of the assessed value of those parcels that are not tax-exempt. In San Mateo County, about two-thirds of every property tax dollar goes to schools.

From the State of California, we have in the past received, among many other categories of funding, money related to the state's "revenue limit". The revenue limit is a sort of safety measure, intended to ensure that all school districts—which rely primarily on property taxes—receive adequate funding to provide basic services. Each year the state sets a "revenue limit". (It's based, in general terms, on Average Daily Attendance in the district.) Any district that does not receive at least that amount of money from property taxes is given a supplement by the state to bring it up to that limit.

Many districts, as it happens, receive property tax funds that exceed the revenue limit threshold. Such a district is called a "basic aid" district. Mostly because of an increase in the assessed value of land within its boundaries, LHPUSD just last year qualified as a basic aid district. Last year, property tax revenues exceeded the revenue limit by about \$45,000. This year, that margin increased to \$81,000. The number is likely to increase again next year.

Will our basic aid levels continue to rise after that? We don't have enough information yet to project more than a year or two out. We would expect property tax revenues to increase, of course, unless annexation reduces them. But there is a countervailing force. Pescadero High School is considered by the state a "Small and Necessary" school. Without going into details, this means that an increase of 20% or so in attendance at the high school—that is, adding another 13 or 14 students—could raise the funds we receive from the state enough that state funds would once again exceed the property tax figure. Such a rise is possible, based on the size of our current 8th and 9th grade classes, if the recent rate of increase of property values remains stable. The vagaries of such figures, combined with imponderables such as how many parents of our current 8th graders will elect to keep their children in our district for high school, contribute to our difficulties in projecting the precise financial impact of the proposed annexation.

CONCERNS ABOUT POTENTIAL IMPACTS

Some key concerns the LHPUSD Board has identified as potential immediate impacts of annexation are:

- An immediate loss of property tax revenues
- A net loss of available housing

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Our small district is so sensitive to further loss of revenues (down about 50% over the last several years, as our auditor has warned us) and any further decline in enrollment that the prospect of even small losses in revenues or local housing exacerbates some concerns about the short-term viability of the district.

In the longer run, we worry about other effects:

- Competition for tax dollars from the tax base
- The removal of more property from the tax rolls if, as we anticipate, annexation facilitates or accelerates the acquisition of land by tax-exempt agencies
- A long-term cap on even minor population growth
- A decline in the quality and viability of other support services, such as La Honda's volunteer fire department

Some of the citizens who have addressed these issues with us have raised other, more speculative questions we have not figured out how to research. What effect would annexation have on property values? On our fire insurance rates? How much land must remain on the tax rolls in order for community services to be funded at practical levels? Finally, will the funding model currently used to support California's schools change sometime in the future, making property tax revenues more (or, perhaps, less) important to public schools? Without facts, it is hard to weigh the value of such concerns.

At this time, within the period allotted for our response, we are not able to cover all the issues we enumerated above in detail. As we said earlier, we are still awaiting answers to many queries we have made to various public agencies which we hope will help us quantify our concerns. We will focus on four key points.

1. Direct Loss of Tax Revenues. If MROSD, having annexed the Coastal Area, began receiving at any point a share of the County's property tax revenues, we would expect one effect to be a direct loss to LHPUSD during those years we are a basic aid district.

The scale of this potential loss has proven difficult to nail down. The funds at risk, this year, amount to \$81,000 (the monies by which we exceed this year's "revenue limit"). If we knew how much money would go to MROSD in this scenario, and what proportion of those funds otherwise would have gone to us, we could back-calculate the answer. Several inquiries into the County Comptroller's and Assessor's offices have not yet cleared this up for us. We look forward, as others might, to a concrete answer.

Some have argued that the issue is now moot. This summer, apparently on the same day that the LHPUSD subcommittee issued its interim report, the MROSD Board of Directors adopted a "Resolution of No Property Tax Exchange". We have seen explanations of the principle involved in MROSD press releases, the Half Moon Bay Review, and indeed in the material distributed as part of your RFC. If LHPUSD can take advantage of this resolution to insulate our district from a direct loss of property tax revenues resulting from annexation, that will certainly neutralize a key issue.

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From LHPUSD’s point of view, this matter is still in doubt. We have inquiries in to several County agencies concerning the impact of the MROSD resolution. Do resolutions of this type take precedence over any redistribution of property taxes mandated by statute for a newly expanded special district? Precisely what steps (such as a reciprocal resolution) would we need to take to complete the protection? Could the effect of MROSD’s resolution be negated if that Board of Directors passed a nullifying resolution in the future? These concerns abide.

2. Losses to Due Future Acquisitions. What *indirect* financial impact would the proposed annexation have on area schools? If annexation facilitates acquisition, as we believe MROSD represents, we must also consider losses to the tax rolls resulting from future MROSD land acquisitions.

The fiscal impact analysis presented in MROSD’s FEIR recognizes the problem. On the subject of acquisitions, it says (page 22):

“The primary issue of concern to local school districts is the reduction in tax revenues that will occur as a result of District acquisitions in the Coastal Annexation Area. Because the La Honda-Pescadero Unified School District has become a basic aid district, any losses resulting in a reduction of local property tax revenues would no longer be offset by state funds.”

While we might not agree with the implicit prioritization of this issue, we echo the concern. The devil, however, is in the details; for the report states elsewhere, in a section headed “Impact on Property Tax Revenues of Other San Mateo County Agencies and Districts” (page 5):

"The coastal School districts comprise less than 5 percent of the total tax revenue loss, which translates to approximately \$4,100 over the 15-year period. This total takes into account the fact that the La Honda-Pescadero Unified School District has become a basic aid district."

The total of four thousand one hundred dollars does not appear to be a misprint. It appears in 3 places in the report, and is consistent with year-by-entries in the tables given on pages 46 and 47. In those tables, precise estimates are given for the total LHPUSD property tax losses due to MROSD acquisitions. For 2004, the total effect is projected to be \$56.00. In the year 2017, for example, the loss is projected to be \$348.00. These figures, we believe, are adjusted for inflation at an annual rate of 3%.

We cannot agree these estimates are useful.

- a. We think that an accurate estimate would have to take into account the growth LHPUSD is experiencing in “basic aid” monies. Ours have jumped from \$45,000 to \$81,000 in a single year
- b. We think that an accurate estimate would have to account for yearly changes in the state budget for education, leading to adjustments to the “floor”—the state’s annual revenue limit—against which revenues must be compared in order to judge a basic aid district’s losses

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- c. We think a 3% inflation rate may not adequately represent the rise of property values in San Mateo County
- d. We would want to see (and base our decisions on) projections over a much longer period than 15 years—50, perhaps, or (using historical data) even longer
- e. Generally, we find it difficult to lend credence to projections to the nearest dollar, based on California real estate values that extend over so many years.

These issues we find with MROSD's figures point out, we think, that even professional economists have difficulty making accurate estimates of these effects, and help explain why our small district has not yet produced a reliable set of figures of its own.

We see another, larger point in assessing losses resulting from the removal of property from the tax rolls. We assert that the impact of Proposition 13 on the delayed timing of property assessments is significant. Many large properties within our district have not been re-assessed since the passage of Proposition 13. A careful study of lists from the Assessor has led us to think that, in some cases, the assessed value for these "older" properties is significantly below market value. In the fullness of time, if such properties are not pulled off the tax rolls, we can expect some would eventually be bought by private individuals. When such sales take place today, the assessed value rises to approximate the "true" market value, and the result is increased property taxes. Such increases are an everyday event in San Mateo County, as in other parts of California.

The rarity in LHPUSD's case is that we have such large tracts of land that have not been re-assessed, holding *latent* property tax value. Some of our constituents have argued to us that such latent value represents a sort of covenant, in which Californians have postponed the maturation of the assessed value under the assumption that a re-adjustment would inevitably occur, increased funds flowing at that time (and year after year, into the future) to the public agencies whose fiscal interests had been deferred.

Many of these large tracts might not be sold within the 15 years dealt with by the economic analysts who wrote MROSD's fiscal impact analysis. The trustees of LHPUSD, however, must attempt to anticipate financial impacts that would last as long as the annexation itself—that is, *ad infinitum*.

3. A Cap on Population Growth. The Fiscal Impact Analysis touched on another point, gleaned from a 2001 interview with our then-Superintendent. From page 23:

“The Superintendent did express concern that due to increased acquisition by the District and other land trust organizations, future population growth within the School District boundaries may be lower than initially projected. The Superintendent was also concerned that this may result in a situation where the School District population is not sizeable enough to justify the existing schools.”

This possibility remains a concern, and it relates to the long-term viability of the schools and the district itself. The Board raised it also in the letter sent to MROSD on July 29, 2002. We have encountered no suggestions about how such an effect might be mitigated. Balancing that, we will add that neither have we yet found any decisive indicators to help determine whether

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this is a realistic concern. Still, very small school districts, battered by disruptions to state funding, unfunded federal mandates, and many ordinary business concerns, must be wary of any factor (such as a population cap) which limits their maneuverability in times of crisis.

4. Competition for Future Taxes. Annexation would give MROSD the right to attempt, pending voter approval, to levy special taxes. We are not prepared to address now all of the implications of this right, but let us consider one simple example: a parcel tax.

The LHPUSD Board of Trustees has discussed in open session throughout the year the possibility of seeking voter approval for a parcel tax. We might proceed with an attempt next year, or several years, or not at all. It seems a reasonable proposition to us that in this arena, as in others relating to taxes, annexation would mean LHPUSD would be placed in competition with MROSD for parcel tax dollars if the latter decided to seek a parcel tax as well. We think that collision of such interests in the next few years is a reasonable prospect. Given the recent difficulty Cabrillo USD has experienced in passing a parcel tax—three consecutive failures, all by close margins—any factor that might raise additional hurdles to efforts of our own is a significant concern to us.

We anticipate a rebuttal that, in the event that the districts compete electorally for funds, the democratic principle should rule: “Let the people decide.” Yes, but there are special factors here. The voters who reside within the wholly unincorporated region comprising LHPUSD number fewer than two thousand. We would expect the wishes of our constituents to have little impact on the outcome of a vote marshaled by MROSD to raise a parcel tax on lands within our district. As the only elected officials to represent solely that body of voters, we are concerned that annexation might diminish our ability to protect the district’s tax base.

PLANS

While awaiting a reply from you concerning an extension, we will continue as before to gather and evaluate information. We will negotiate in good faith with MROSD in hopes of agreeing on substantive mitigations. We will talk and listen to our constituents to learn how they balance the potential benefits of annexation against the possible risks. And we will continue to operate our little district, so important to so many local families and indeed the lives of our communities as a whole, on the knife’s edge of solvency.

Speaking for the LHPUSD Board of Trustees, I hope you will give every consideration to our concerns and our request for additional time.

Sincerely,

Mark G. Graff
Member, Board of Trustees
LHPUSD Governing Board

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