



Overview of Tax Revenue Sharing Agreement

BACKGROUND

- Malibu citizens have expressed a strong desire to try to separate the Malibu area from the Santa Monica Malibu Unified School District (SMMUSD).
- The City of Malibu identified school district separation as a priority in 2015 and has been actively working to achieve separation since.
- In 2017, the City of Malibu submitted a petition to the Los Angeles County Committee for School District Organization to request the desired separation.
 - The petition approval process has been paused pending negotiations with SMMUSD regarding separation terms.

MEDIATION AND CREATION OF TERM SHEET

- Parties have been in mediation since February 2022
 - SMMUSD representing the future interests of Santa Monica Unified School District (SMUSD)
 - City of Malibu representing the interests of Malibu Unified School District (MUSD)
- Term Sheet adopted by Parties in November 2022
 - Contemplated creation of 3 separate agreements to facilitate the separation of the district
 - Revenue Sharing Agreement – **Completed, ratification pending**
 - Operational Agreement – *In process*
 - Joint Powers Agreement – *to come*
 - Set forth a formula for allocating revenues
 - Memorialized in the Revenue Sharing Agreement

PURPOSE OF THE 3 AGREEMENTS CONTEMPLATED IN THE TERM SHEET

Tax Revenue Sharing Agreement

- Memorializes the allocation of existing and projected SMMUSD revenues between the successor educational entities

Operational Agreement

- Memorializes allocation and transition of staffing, operational processes, assets, liabilities, and other resources between the successor educational entities

Joint Powers Authority (JPA) Agreement

- Creates entity to serve as a shared body to facilitate execution of governing agreements to facilitate the planned division of SMMUSD

GUIDING PRINCIPLES

Formation of an independent Malibu Unified School District is in the best interest of all students.

Each successor educational entity to be allocated a sufficient share of funding to provide similar level of service at each school site as prior to separation.

OVERVIEW OF TAX REVENUE SHARING AGREEMENT (RSA)

Goals for MUSD in RSA

- **Achieve local control of future school district operations**
- Ensure sufficient funding to deliver programs at least at the same level as students currently receive for both MUSD and SMUSD
- Set forth a concrete timeframe for revenue sharing until both districts are funded independently

Goals for SMUSD in RSA

- Achieve per student funding at the same level as with the current district
- Realize at least 4% annual growth in overall unrestricted funding
- Eliminate a financial “cliff” when revenue sharing payments from MUSD to SMUSD are terminated



REVENUE SHARING FORMULA



TWO COMPONENTS OF THE REVENUE SHARING FORMULA

Base Year Calculation

- Calculated only once – in the first year of separation
- Used to establish the SMUSD funding target
- Determines the amount of revenue to be transferred from MUSD to SMUSD in the first year of separation

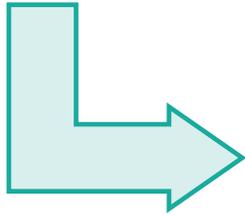
Annual Calculation

- Calculated each subsequent fiscal year until the agreement is terminated
- Used to determine the amount of property taxes to be transferred so that SMUSD achieves historical 4% annual growth in total unrestricted revenues

CONCEPT OF THE BASE YEAR FORMULA

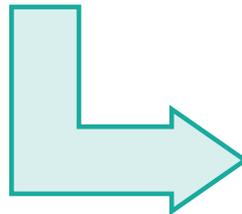
Identify the revenue per pupil of SMMUSD,
adjusting for the additional cost to serve
Malibu students

-Identify "**Per Pupil Revenue**"



Apply the adjusted per pupil funding amount
to the number of students attributed to
SMUSD

-Establish a "**Funding Target**"



Compare the revenues attributed to SMUSD
to the Funding Target. If they are less than
the Funding Target, MUSD makes up the
difference

-Called the "**Property Tax Transfer Amount**"

BASE YEAR FORMULA – CALCULATING THE “FUNDING TARGET”

Financial Terms Descriptions	Sample Figures
SMMUSD Total Unrestricted Revenues	\$ 164,126,915
Growth Factor	104.0%
Base Year SMMUSD Total Unrestricted Revenues	\$ 170,691,992
SMMUSD Enrollment - Prior Year	9,113
SMMUSD Unadjusted Per Pupil Revenue	\$ 18,731
Per Pupil Cost Differential	\$ (600)
Adjusted Per Pupil Revenue	\$ 18,131
Adjusted Per Pupil Revenue	\$ 18,131
SMUSD Computed Enrollment	8,019
Base Year SMUSD Funding Target	\$ 145,397,289

Sample Figures

← SMMUSD Per Pupil Revenue

← Funding Target

BASE YEAR FORMULA – CALCULATING THE “PROPERTY TAX TRANSFER AMOUNT”

Financial Terms Descriptions	Sample Figures
SMUSD Unrestricted General Fund Revenues	\$ 128,928,378
SMUSD Enrollment - Current Year	7,705
Base Year SMUSD Per Pupil Revenue	\$ 16,733
Base Year SMUSD Funding Target	\$ 145,397,289
SMUSD Enrollment - Current Year	7,705
Base Year Target SMUSD Per Pupil Revenue	\$ 18,871
Base Year Per Pupil Funding Need	\$ 2,137
SMUSD Enrollment - Current Year	7,705
Base Year Property Tax Transfer Amount	\$ 16,468,911

Sample Figures

← Property Tax Transfer Amount



ANNUAL REVENUE SHARING CALCULATION

- Each year after the Base Year, until the agreement is terminated, the SMUSD Funding Target is escalated by 4%.
- Unrestricted revenues of SMUSD are compared to the inflated funding target to determine whether a shortfall exists.
 - If a shortfall exists, it is made up through a transfer of property taxes from MUSD to SMUSD.

$$(\text{SMUSD Funding Target} * 104\%) - \text{SMUSD Unrestricted Revenues} = \text{Property Tax Transfer Amount}$$

- *If SMUSD revenue growth results in funding levels which exceed the Funding Target, MUSD will not be required to provide a transfer for that year.*

AGREEMENT TERMINATION

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- Early Termination:
 - The calculated Property Tax Transfer Amount is \$0 for 3 consecutive years
 - If there is no Property Tax Transfer in 2041-42, the Agreement terminates
 - If the Property Tax Transfer Amount is greater than \$0 but less than \$5 million in 2041-42:
 - Payments are tapered off between 2041-42 and 2046-47 (5-year period)
 - The Agreement terminates in 2046-47
 - If the Property Tax Transfer Amount is \$5 million or more in 2041-42:
 - Payments are tapered off between 2041-42 and 2051-52 (10-year period)
 - The Agreement terminates in 2051-52

PROTECTIONS FOR MUSD

- Contingency language allows the Joint Powers Authority (JPA) to consider adjustments to the formula or payment if the MUSD Property Tax Transfer Amount results in undue fiscal pressure on MUSD
- If there is a loss of one or more of the Other Local Revenues that SMUSD receives, without an identified replacement, the two districts will proportionately share in the revenue loss
- SMUSD's percentage of enrollment in the Base Year is capped at 88% to ensure that the initial per pupil funding amount does not exceed what MUSD can accommodate based on the expectations when the formula was developed
- Property tax revenues for each district will be independently calculated by the Los Angeles County Auditor-Controller's Office
- If there is a significant change in reported revenues, an independent financial professional will review SMUSD's revenues to ensure the accounting is in line with the intent of the RSA
- Dispute resolution language provides a process for challenging the annual calculation

PROTECTIONS FOR SMUSD

- Guaranteed total unrestricted General Fund revenue growth of historical 4% per year
- Contingency language allows the JPA to consider adjustments to the formula or payment if the MUSD Property Tax Transfer Amount results in a per pupil funding increase of less than 2% in any year
- MUSD's Property Tax Transfer Amount will be paid directly to SMUSD by the County Auditor-Controller's Office
- Property Tax Transfer payments will be paid in alignment normal County property tax distributions each year to assist with cash flow
- New revenue sources defined for specific purposes created by and for SMUSD will not be included in the RSA formula allowing SMUSD the full benefit of such funding
- Dispute resolution language provides a process for challenging the annual calculation

MECHANICS OF RSA

Revenue Sharing Agreement Example Scenarios and Outcomes

EXAMPLE #1: SMUSD LOSES AN IDENTIFIED, BASE YEAR REVENUE SOURCE PERMANENTLY

- Outcome: Each district proportionately shares in the loss. MUSD's Property Tax Transfer Amount would increase by 12% of the lost revenue, until or unless the revenue source is re-instated.
- Example: Joint Use Revenue is eliminated, resulting in a \$10 million reduction in SMUSD revenues. MUSD would be responsible for \$1.2 million of this revenue loss (12%).

EXAMPLE #2: SMUSD LOSES AN IDENTIFIED, BASE YEAR REVENUE BUT A NEW REVENUE TAKES ITS PLACE

- Outcome #1: If the new revenue replaces the entire amount of the lost revenue, the new revenue would apply to the formula and there would be no impact to MUSD.
- Example: The Parcel Tax of \$9 million is eliminated, but a new Parcel Tax Measure replaces it in its entirety. There would be no impact on the Property Tax Transfer Amount calculation.
- Outcome #2: If the new revenue source only partially replaces the amount of the lost revenue source, each district would proportionately share in the loss. MUSD would increase their contribution by 12% of the net lost revenue.
- Example: The Parcel Tax of \$9 million is eliminated, but a new Parcel Tax of only \$6 million replaces it. The districts would share in the \$3 million loss on a proportionate basis as described in #1.
- Outcome #3: If the new revenue replaces the entire amount of lost revenue plus generates additional revenue to SMUSD, the new revenue would apply to the formula up to the amount lost and there would be no impact to MUSD. SMUSD would receive the benefit of the additional revenue generated.
- Example: SMUSD replaces its existing parcel tax that generates \$9 million with a new parcel tax that generates \$15 million. \$9 million from the new parcel tax would be included in the formula, but the additional \$6 million would be excluded from the formula.

EXAMPLE #3: SMUSD HAS A TEMPORARY (1-2 YEARS) INCREASE IN AN IDENTIFIED, BASE YEAR REVENUE SOURCE

- Outcome: SMUSD keeps the additional, unrestricted revenue, and the Property Tax Transfer Amount paid by MUSD is less than expected in any year that the revenue received exceeds projections. If the revenue source then drops back down, the MUSD Property Tax Transfer Amount would return to previous levels.
- Example: If SMUSD receives an increase in sales tax revenues related to the Olympics, the temporary increase in revenues would be enjoyed by SMUSD and would reduce the amount MUSD would pay during the Olympic year in order for SMUSD to reach its target revenue growth rate of 4%.

EXAMPLE #4: SMUSD HAS A TEMPORARY (1-2 YEARS) DECREASE IN AN IDENTIFIED, BASE YEAR REVENUE SOURCE

- Outcome: Malibu's contribution is more than expected in any year that revenue received falls below projections. When applying this decrease in revenues to the formula, if it results in a year over year increase of more than \$675,000, then the JPA would consider whether or how to adjust the agreement.
- Example: If the hotel were to have a bed bug outbreak, room rentals could decline significantly, which would impact the lease payments to the District. Malibu would absorb the financial impact of the loss of revenue. The JPA would discuss and consider the impacts if the revenue loss resulted in an increase in the Property Tax Transfer Amount from the prior year by over \$675,000.
 - Additional example: In an economic downturn, tourism could decline resulting in less sales tax revenues.

EXAMPLE #5: A CHANGE IN LAW, EITHER STATE OR LOCAL, THAT DECREASES PROPERTY TAXES PERMANENTLY

- Outcome: The Property Tax Transfer Amount would increase based on the amount of loss of property taxes. If this results in a year over year increase of more than \$675,000, then the JPA would consider whether or how to adjust the agreement in light of the change in law.
- Example: Santa Monica has some of the strictest rent control laws in the State. If the City Council were to impose a restriction that was unfavorable to landlords, there could be a fire-sale on multi-family properties resulting in a reduction in property tax values and a reset of the base year value for many properties. Malibu would absorb the financial impact of the loss of revenue. The JPA would discuss and consider the impacts if the revenue loss resulted in an increase in the Property Tax Transfer Amount from the prior year by over \$675,000.
 - Additional example: The State looks to the excess property taxes of basic aid districts to help balance the State budget shortfall resulting in a permanent reduction in property taxes.

EXAMPLE #6: CHANGE IN LAW OR LOCAL ORDINANCE THAT DECREASES OTHER LOCAL TAXES

- Outcome: The Property Tax Transfer Amount would increase based on the amount of loss of other local taxes. If this results in a year over year increase of more than \$675,000, then the JPA would consider whether or how to adjust the agreement in light of the change in law.
- Example: The City of Santa Monica could impose significant regulations on short-term rentals resulting in a decrease in Air BnB availability. This could result in a decrease in tourism and a resulting loss of sales tax revenues. Malibu would absorb the financial impact of the loss of revenue. The JPA would discuss and consider the impacts if the revenue loss resulted in an increase in the Property Tax Transfer Amount from the prior year by over \$675,000.
 - Additional example: A change in business climate (anti-tech, anti-music, anti-film) could create an inhospitable business climate that creates significant commercial vacancies and reduces sale tax revenues.

EXAMPLE #7: SMUSD EXPERIENCES A MATERIAL INCREASE IN ENROLLMENT, RESULTING IN REVENUE PER STUDENT DECLINING SIGNIFICANTLY

- Outcome #1: If the increase in enrollment does not cause SMUSD's per pupil funding to drop below a 2% increase from the prior year, there would be no impact on the Property Tax Transfer Amount as SMUSD's enrollment does not change the ongoing Property Tax Transfer Amount calculation.
- Example: SMUSD's enrollment grows by 100 students. The per pupil funding amount was expected to be \$20,800 with no enrollment growth and a 4% per pupil funding increase. But due to the increase in enrollment, the per pupil funding amount is only \$20,400, which equates to a 3% per pupil funding increase. This does not change the Property Tax Transfer Amount and would not trigger any contingency language because the per pupil funding increase is still above 2%.
- Outcome #2: If the increase in enrollment causes SMUSD's per pupil funding to drop below a 2% increase from the prior year, the JPA would discuss and consider the impacts of the increase in enrollment and the Property Tax Transfer Amount. In the contingency language, if SMUSD's per pupil funding level falls below 2% from the prior year, then the JPA would discuss and consider the impacts.
- Example: Closure of a nearby private school results in 250 additional students in SMUSD. The per pupil funding amount was expected to be \$20,800 with no enrollment growth and a 4% per pupil funding increase. But due to the increase in enrollment, the per pupil funding amount is only \$20,200 which is a 1% per pupil funding increase. This would result in a discussion at the JPA to consider the impacts of the increase in enrollment and the Property Tax Transfer Amount.

EXAMPLE #8: MUSD EXPERIENCES A SIGNIFICANT INCREASE IN ENROLLMENT, DECREASING PER PUPIL FUNDING FOR MALIBU AND INCREASING COSTS TO SERVE MORE STUDENTS

- Outcome: MUSD would need to fund costs related to these additional students out of its available funding after the Property Tax Transfer Amount is paid as there is no affordability language in the RSA to address this issue. Currently small class sizes at MUSD schools allow for some flexibility to accommodate an increase in enrollment. But a significant influx could have an impact on the program offered without a new revenue source, and the amount of available funding to address this situation depends on when these additional students arrive.
- Example: The attractiveness of the new Malibu program brings in students from SMUSD or private schools. MUSD would need to accommodate these students within the funds available after the Property Tax Transfer is made.

EXAMPLE #9: MUSD EXPERIENCES AN EXPENSIVE ACTION THAT CANNOT BE COVERED WITH AVAILABLE FUND BALANCE LEAVING MUSD UNABLE TO AFFORD THE PROPERTY TAX TRANSFER AMOUNT TO SMUSD

- Outcome: Under the RSA, MUSD would still have an obligation to pay the Property Tax Transfer Amount to SMUSD and would need to seek other remedies as there is no affordability language in the RSA to address this issue. MUSD would need to appeal to the JPA, outside of the terms of the RSA, for options to address the funding challenge.
- Example: There is a lawsuit filed against MUSD and the settlement must be paid out within one fiscal year. MUSD would need to appeal to the JPA for alternative options for funding the Property Tax Transfer Amount.

EXAMPLE #10: THERE IS A SHIFT IN THE PROPORTION OF SMUSD VERSUS MUSD ENROLLMENT PRIOR TO THE BASE YEAR CALCULATION OF THE FUNDING TARGET

- Outcome #1: If the proportion of MUSD students to the total SMMUSD enrollment increases, the SMUSD base year target funding amount would be lower and MUSD would have a proportionately lower Property Tax Transfer Amount.
- Example: Malibu's enrollment increases to 15% of the total due to excitement over the upcoming new district and SMUSD's enrollment drops to 85%. The base year funding target would be calculated based on SMUSD's lower percentage share of the total student population, resulting in a proportionately lower Property Tax Transfer Amount for MUSD.
- Outcome #2: If the proportion of MUSD students to the total SMMUSD enrollment decreases, there would be no impact to the funding target or Property Tax Transfer Amount from current projections as the RSA provides a cap on the SMUSD enrollment numbers to prevent a higher than expected Property Tax Transfer Amount. The formula was based on an estimate that MUSD students make up 12% of the total student population and SMUSD students make up 88%. For the initial base year calculation, the RSA caps SMUSD enrollment at 88% of the combined student enrollment of SMMUSD in order to protect MUSD from having to make up a larger proportion of SMUSD's revenues than currently anticipated.
- Example: MUSD's enrollment drops to 10% of the total SMMUSD enrollment prior to unification. Per the RSA, SMUSD's share of enrollment is capped at 88% so the Property Tax Transfer Amount would continue to be calculated with SMUSD making up 88% of the student population even though they actually make up 90%.