

**PROPERTY TAX REVENUE SHARING AGREEMENT BETWEEN THE SANTA  
MONICA-MALIBU UNIFIED SCHOOL DISTRICT, REPRESENTING THE  
INTERESTS OF THE FUTURE SANTA MONICA UNIFIED SCHOOL DISTRICT, AND  
THE CITY OF MALIBU, REPRESENTING THE INTERESTS OF THE FUTURE  
MALIBU UNIFIED SCHOOL DISTRICT**

This Property Tax Sharing Agreement (“Agreement”) is entered into and effective \_\_\_\_, 2025 (“Effective Date”), between the Santa Monica-Malibu Unified School District (“SMMUSD”), representing the interests of the future Santa Monica Unified School District (“SMUSD”), and the City of Malibu (“Malibu”), representing the interests of the future Malibu Unified School District (“MUSD”), hereinafter referred to as the “Parties”, and with respect to the following Recitals, which are incorporated by reference into this Agreement.

**A. RECITALS**

WHEREAS, SMMUSD is the current provider of transitional kindergarten through twelfth grade public education for students residing within the cities of Santa Monica and Malibu, as well as the adjacent unincorporated territory of Los Angeles County (“County”); and,

WHEREAS, SMMUSD and Malibu have agreed to pursue the formation of MUSD from territory within SMMUSD with the intention of the two resulting public school districts serving their respective communities; and,

WHEREAS, Education Code section 35511(a)(2) allows for the action to form a new unified school district from all or parts of one or more existing unified school districts; and,

WHEREAS, on the Separation Date (as defined below), SMUSD will become the primary provider of transitional kindergarten through twelfth grade public education for students within the boundaries of the City of Santa Monica, California, which boundaries are reflected and included in **Exhibit A**, attached and incorporated in this agreement (“SMUSD Boundaries”); and,

WHEREAS, on the Separation Date, MUSD will become the primary provider of transitional kindergarten through twelfth grade public education for students in the City of Malibu, a portion of the City of Westlake Village, and contiguous adjacent unincorporated territory of Los Angeles County, which boundaries are reflected and included in **Exhibit B**, attached and incorporated in this agreement (“MUSD Boundaries”); and,

WHEREAS, on June 6, 1978, the voters of the State of California amended the California Constitution by adding Article XIII A (commonly referred to as Proposition 13), which limited the total amount of property taxes which could be levied on property by local taxing agencies having such property within their territorial jurisdiction to one percent (1%) of assessed value of such property; and,

WHEREAS, a portion of the one percent (1%) property tax revenues allocated within the boundaries of SMMUSD has, by law, been used to provide funding for educational programs since 1978 in SMMUSD; and,

WHEREAS, SMMUSD is currently a community-funded school district, also known as a “Basic Aid District,” whereby SMMUSD receives a majority of its general, unrestricted funding from local property taxes because local property taxes exceed the State of California’s (“State” or “California”) guaranteed per-student funding amount as calculated through the Local Control Funding Formula (“LCFF”) and is, therefore, allowed to retain all of the allotted property tax revenues; and,

WHEREAS, it is anticipated, but not certain, that both SMUSD and MUSD will each be Basic Aid Districts on the Separation Date and thereafter, whereby they will receive, under current State law, a majority of their general, unrestricted funding from local property taxes; and,

WHEREAS, the Parties agree that SMUSD and MUSD shall be allocated a sufficient share of funding to provide for a similar level of service at each school site as delivered by SMMUSD in the fiscal year prior to the Separation Date; and,

WHEREAS, SMMUSD and Malibu enter into this Agreement based on a desire to set forth and agree upon a fair and equitable approach to the creation of two separate unified school districts and the division of real property tax revenue currently derived from the territory of SMMUSD and now allocated for educational services to SMMUSD; and,

WHEREAS, California Revenue and Taxation Code section 99 provides a description for the reallocation of the property tax revenue when a jurisdictional change occurs that will alter the service area or service responsibility of a local agency that can be utilized by the Los Angeles County Auditor-Controller to calculate the amount of property taxes that would be allocated to SMUSD and MUSD based on the Tax Rate Areas within each agency’s boundaries; and,

WHEREAS, the allocation of tax revenues is subject to negotiation per Revenue and Taxation Code section 99(i) ; and is otherwise allocated by district territory; and,

NOW, THEREFORE, the parties agree as follows:

### **B. DEFINITIONS**

1. For the purposes of this Agreement, and unless otherwise defined herein, the following terms shall have the meaning(s) set forth below:
  - a. “Annual Calculation Date” shall mean the date by which the calculations to determine the Property Tax Transfer Amount are completed each fiscal year, which shall be no later than October 15.
  - b. “Base Year” shall mean the fiscal year commencing on the Separation Date.

- c. "CALPADS Form 1.17" shall mean a report of the data filed annually with the State of California Department of Education through the California Longitudinal Pupil Achievement Data System by which annual enrollment figures are certified.
- d. "Fiscal Year" shall mean the 12 month period from July 1 until the next following June 30.
- e. "Growth Factor" shall be 1.04, unless the parties have mutually agreed to modification of this amount, with allowable modifications constrained to less than 1.04, but more than 1.00.
- f. "JPA" shall mean a Joint Powers Authority formed to execute the terms of this Agreement.
- g. "Malibu School Sites" shall mean the schools currently operated by SMMUSD within the MUSD Boundaries, specifically Malibu Elementary School, Webster Elementary School, Malibu Middle School, and Malibu High School.
- h. "MUSD Boundaries" shall mean the territory to be served by Malibu Unified School District after the Separation Date that was previously part of the boundaries of SMMUSD, including the City of Malibu, a portion of the City of Westlake Village, and contiguous adjacent unincorporated territory of Los Angeles County, as shown on the map in **Exhibit B**.
- i. "MUSD Enrollment" shall mean the total student enrollment as reported by the California Department of Education through CALPADS from the first Wednesday of October of each school year for the Malibu School Sites.
- j. "Object Code" shall mean the four (4) digit code as defined in the State of California's Standardized Account Code Structure (SACS) for Local Educational Agencies (LEA) and that identifies the type of revenue received or expenditure made by an LEA.
- k. "Operational Transfer Agreement" shall mean that certain agreement entered into between SMMUSD and Malibu to provide the framework for how the Parties will work together during the time preceding the formation of the future MUSD.
- l. "Per Pupil Cost Differential" shall equal \$600 per pupil, recognizing the additional cost to operate all schools within the MUSD boundaries as compared to the cost to operate all schools within the SMUSD boundaries.
- m. "Prior Year" shall mean the immediately preceding 12 month period from July 1 through the next following June 30 before the Fiscal Year.

- n. "Property Tax Transfer Amount" shall mean the amount of property tax revenues transferred from MUSD to SMUSD pursuant to the calculations described in Sections 5 and 6 of this Agreement.
- o. "Property Tax Transfer Calculation" shall mean the calculations set forth in Sections 5 and 6 of this Agreement used to determine the Property Tax Transfer Amount.
- p. "Resource Code" shall mean the four digit code as defined in the State of California's Standardized Account Code Structure (SACS) for Local Educational Agencies (LEA) and that identifies the source of revenue received.
- q. "SACS" is the State of California's Standardized Account Code Structure, defining statewide Object Codes, Resource Codes, and other reporting conventions for LEAs.
- r. "Santa Monica School Sites" shall mean the schools operated by the SMMUSD within the SMUSD Boundaries, specifically Edison Elementary School, Franklin Elementary School, Grant Elementary School, McKinley Elementary School, John Muir Elementary School, Will Rogers Elementary School, Roosevelt Elementary School, SMASH Elementary School, John Adams Middle School, Lincoln Middle School, Olympic High School, and Santa Monica High School.
- s. "Separation" shall mean dissolution of the SMMUSD and the formation of the SMUSD and MUSD.
- t. "Separation Date" shall mean the 1st of July in the year whereby the separate Malibu Unified School District and Santa Monica Unified School District become officially operational as authorized by the California Department of Education.
- u. "SMMUSD Enrollment" shall mean the total student enrollment as reported by the California Department of Education through CALPADS as of the first Wednesday of October of each school year until Separation.
- v. "SMUSD Boundaries" shall mean the territory to be served by Santa Monica Unified School District after the Separation Date, that was previously part of the boundaries of SMMUSD, including the City of Santa Monica, as shown on the map in **Exhibit A**.
- w. "SMUSD Enrollment" shall mean the total student enrollment as reported by the California Department of Education through CALPADS from the first Wednesday of October of each school year for the Santa Monica School Sites.
- x. "Target SMUSD Per Pupil Revenue" shall mean the revenue funding target for SMUSD as calculated in Section 5 in this Agreement.

- y. “Tax Rate Area” shall mean a geographical area comprised of a unique combination of taxing jurisdiction, including a city, county, school district, and special district.
- z. “Unrestricted General Fund Revenues” shall mean the sum of all Fund 01 - General Fund Unrestricted Revenues reported in Object Codes 8010 through 8799 and Resource Codes 0000 through 1999 of the Unaudited Actual Financial Statements as prepared in accordance with SACS.
- aa. “Unaudited Actual Financial Statements” shall mean the annual financial statements prepared and reported to the California Department of Education, which reflect the actual financial activities of the applicable school district for a Fiscal Year.

### **C. AGREEMENT**

1. Effect of Recitals. The foregoing Recitals are incorporated by reference into this Agreement.
2. Calculation of Property Tax Revenues. SMMUSD currently receives property tax revenues derived from one hundred and three (103) Tax Rate Areas, eleven (11) of which will be in the SMUSD Boundaries and ninety-two (92) of which will be in the MUSD Boundaries. The property tax revenues generated within the Tax Rate Areas within SMUSD Boundaries will be distributed to SMUSD after the Separation Date and, likewise, the property tax revenues generated within the Tax Rate Areas of MUSD Boundaries will be distributed to MUSD after the Separation Date. The property tax allocation will be calculated in the following manner:
  - a. In the Base Year, the Parties will request that the Los Angeles County Assessor (“Assessor”) prepare a report which identifies the assessed valuations for the territory that is subject to the jurisdictional change and the related Tax Rate Areas.
  - b. Using the report prepared by the Assessor pursuant to Section 2(a), the parties shall request that the Los Angeles County Auditor-Controller (“Auditor-Controller”) estimate the amount of property tax revenue generated within the territory that is the subject of the jurisdictional change.
  - c. The Parties will request that the Auditor-Controller provide an estimate of what proportion of the property tax revenue determined pursuant to Paragraph 2(b) is attributable to either MUSD or SMUSD, pursuant to Revenue and Taxation Code sections 96.1 and 96.5.
3. Distribution of Property Tax Revenues. Upon Separation, the property tax revenues of the former SMMUSD will be redistributed to SMUSD and to MUSD. The school district share of property tax revenues generated from the Tax Rate Areas within MUSD Boundaries, as defined in **Exhibit B**, will be permanently allocated to MUSD. Likewise, the school district share of

property tax revenues generated from Tax Rate Areas within the boundaries of SMUSD, as defined in **Exhibit A**, will be permanently allocated to SMUSD.

4. Sharing of Property Tax Revenues. The parties have agreed to share property tax revenues in the following manner.
  - a. For the Base Year, a calculation will be completed to determine the Property Tax Transfer Amount pursuant to Section 5 hereof.
  - b. In each subsequent Fiscal Year after the Base Year, the Property Tax Transfer Amount will be calculated by the JPA on the Annual Calculation Date pursuant to Section 6 hereof.
5. Base Year Property Tax Transfer Amount Calculation. By October 15, immediately following the Separation Date, the following calculation shall be completed by the JPA to determine the Base Year Property Tax Transfer Amount.
  - a. Calculate the Base Year Target SMUSD Per Pupil Revenue by completing the following calculation:
    - i. Identify the SMMUSD total Unrestricted General Fund Revenues in the Fiscal Year prior to the Separation Date by totaling unrestricted revenues in Object Codes 8010 through 8799 of the SMMUSD Unaudited Actual Financial Statements, applying adjustments to negate one-time revenues, education foundation revenues, and non-monetary accounting adjustments and accruals, as demonstrated in **Step 1 of Exhibit C** and delineated in **Exhibit D**.
      1. The property tax revenues as identified in Object Codes 8041 through 8048 shall be provided by the Auditor-Controller utilizing the amount provided in Sections 2 and 3 of this Agreement.
    - ii. Multiply the SMMUSD total Unrestricted General Fund Revenues in the Fiscal Year prior to the Separation Date, identified in Section 5.a.i., by the Growth Factor to determine the Base Year “SMMUSD Total Unrestricted Revenues”, as demonstrated in **Step 2 of Exhibit C**.
    - iii. Divide the Base Year SMMUSD total Unrestricted General Fund Revenues, as calculated in Section 5.a.ii., by the SMMUSD Enrollment in the Fiscal Year prior to the Separation Date, to determine the “SMMUSD Unadjusted Per Pupil Revenue”, as demonstrated in **Step 3 of Exhibit C**.

- iv. Deduct the Per Pupil Cost Differential from the SMMUSD Unadjusted Per Pupil Revenue to establish the “Adjusted Per Pupil Revenue”, as demonstrated in **Step 4 of Exhibit C**.
- b. Calculate the “SMUSD Computed Enrollment” in the last Fiscal Year before the Separation Date (capped at 88% of SMMUSD Enrollment) by completing the following calculation:
    - i. Subtract the MUSD Enrollment in the Fiscal Year prior to Separation from the SMMUSD Enrollment in the Fiscal Year prior to Separation to determine the prior Fiscal Year SMUSD Enrollment, as demonstrated in **Step 5 of Exhibit C**.
    - ii. Divide the prior Fiscal Year SMUSD Enrollment by the SMMUSD Enrollment in the Fiscal Year prior to Separation, as demonstrated in **Step 6 of Exhibit C**.
    - iii. If the quotient computed in Section 5(b)(ii), exceeds 88.0%, set the SMUSD Enrollment as Percentage of SMMUSD Enrollment to 88.0%, otherwise, set the SMUSD Enrollment as a percentage of SMMUSD Enrollment to the quotient computed in Section 5(b)(ii), as demonstrated in **Step 7 of Exhibit C**.
    - iv. Multiply the SMMUSD Enrollment in the Fiscal Year prior to Separation by the percentage of SMMUSD Enrollment computed in Section 5(b)(iii) to calculate the SMUSD Computed Enrollment in the last Fiscal Year before the Separation Date, as demonstrated in **Step 8 of Exhibit C**.
  - c. Calculate the “SMUSD Funding Target” by completing the following calculation:
    - i. Multiplying the Adjusted Per Pupil Cost Revenue, as calculated in Section 5.a.iv., by the SMUSD Computed Enrollment to establish the Base Year SMUSD Funding Target, as demonstrated in **Step 9 of Exhibit C**.
  - d. Determine the Base Year Property Tax Transfer Amount by completing the following calculation, as shown in **Exhibit C**:
    - i. Allocate all SMMUSD Unrestricted General Fund Revenues in Object Codes 8010 through 8799, as identified in the SMMUSD Unaudited Actual Financial Statements for the Fiscal Year prior to the Separation Date, between SMUSD and MUSD based on the following, as shown in **Exhibit D1**:
      1. State Aid (Object Code 8011) shall be allocated between entities by such entities’ share of total enrollment, capped at a maximum of 88.0% to SMUSD.

2. Education Protection Account (Object Code 8012) shall be allocated between entities by such entities' share of total enrollment, capped at a maximum of 88.0% to SMUSD.
3. Property Tax Sources (Object Codes 8021-8048) shall be allocated based on calculations provided by the Auditor-Controller based on the territory in which the revenues are generated.
  - a. Prior Year Taxes (Object Code 8043) shall be excluded from this calculation.
4. LCFF Transfers (Object Code 8096) shall be excluded from this calculation.
5. Federal Revenues (Object Code 8290) shall be allocated between entities by such entities' share of total enrollment, capped at a maximum of 88.0% to SMUSD.
6. Other State Revenues (Object Codes 8500-8590), shall be appropriated as ongoing revenues, allocated between entities by such entities' share of total enrollment, capped at a maximum of 88.0% to SMUSD.
  - a. Excluding one-time State allocations.
7. Parcel Taxes (Object Code 8621) shall be allocated based on location of the parcels.
8. Sales (Object Codes (8630-8639) shall be excluded from this calculation.
9. Leases (Object Code 8650) of SMUSD retained property shall be allocated to SMUSD. Leases (Object Code 8650) of MUSD retained property shall be allocated to MUSD.
10. Interest (Object Code 8660) shall be allocated between entities by such entities' share of total enrollment, capped at a maximum of 88.0% to SMUSD.
11. Transportation Fees (Object Code 8675) shall be allocated to MUSD.
12. Other Local Revenues (Object Codes 8699) shall be allocated based on the source of funds.



- a. Measure Y/GSH, Santa Monica Joint Use shall be allocated to SMUSD.
  - b. Malibu Joint Use shall be allocated to MUSD.
  - c. Other Local Revenues that are ongoing in nature shall be allocated based on the source of the revenue.
  - d. Remaining Other Local Revenues that are one time in nature and revenues received from the Santa Monica and Malibu Education Foundations shall be excluded from this calculation.
- ii. Determine the projected SMUSD Unrestricted General Fund Revenues by adding together all unrestricted General Fund revenues in Object Codes 8010 through 8799 (excluding Object Code 8043, Prior Year Taxes) allocated to SMUSD based on the Unaudited Actual Financial Statements as identified in Section 5(d)(i) and increase such revenues based on the projected percentage increase agreed upon by the Parties as identified in **Exhibit D1**, and demonstrated as **Step 10 of Exhibit C**.
- iii. Divide the SMUSD Unrestricted General Fund Revenues by the SMUSD Enrollment in the Fiscal Year commencing with the Separation Date to determine the Base Year SMUSD Per Pupil Revenue, as demonstrated in **Step 11 of Exhibit C**.
- iv. Divide the Base Year SMUSD Funding Target, as calculated in Section 5(c)(i), by the SMUSD Enrollment in the Fiscal Year commencing with the Separation Date to determine the Base Year Target SMUSD Per Pupil Revenue, as demonstrated in **Step 12 of Exhibit C**.
- v. Subtract the Base Year SMUSD Per Pupil Revenue, from Section 5(d)(iii), from the Base Year SMUSD Target Per Pupil Revenue, from Section 5(d)(iv), to determine Base Year “Per Pupil Funding Need”, as demonstrated in **Step 13 of Exhibit C**.
- vi. If the Base Year Per Pupil Funding Need is positive, multiply the Base Year Per Pupil Funding Need by the SMUSD Enrollment to determine the Base Year Property Tax Transfer Amount, as demonstrated in **Step 14 of Exhibit C**.
  - 1. If the Base Year Per Pupil Funding Need is negative, the Base Year Property Tax Transfer Amount shall be \$0.

6. Annual Property Tax Transfer Calculation. Beginning in the first fiscal year following the Base Year, the following calculation shall be completed on each Annual Calculation Date to determine the Annual Property Tax Transfer Amount:
- a. Divide the Prior Year SMUSD Funding Target by the Prior Year SMUSD Enrollment to determine the SMUSD “Actual Per Pupil Revenue”, as demonstrated in **Step 1 of Exhibit E.**
  - b. Multiply the Prior Year SMUSD Funding Target by the Growth Factor to establish the current Fiscal Year SMUSD Funding Target, as demonstrated in **Step 2 of Exhibit E.**
  - c. Divide the current Fiscal Year SMUSD Funding Target by the current Fiscal Year SMUSD Enrollment to establish the SMUSD Target Per Pupil Revenue, as demonstrated in **Step 3 of Exhibit E.**
  - d. Determine the projected SMUSD Unrestricted General Fund Revenues by adding together all unrestricted General Fund revenues in Object Codes 8010 through 8799 as identified in the prior Fiscal Year Unaudited Actual Financial Statements of SMUSD, in the same manner identified in Section 5.d.i. in Exhibit D2, and increase such revenues based on the projected percentage increase agreed upon by the Parties as identified in **Exhibit D2**, and demonstrated as **Step 4 of Exhibit E.**
    - i. The property tax revenues as identified in Object Codes 8041 through 8048 shall be provided by the Auditor-Controller each year.
    - ii. Any new, on-going revenue source not explicitly identified in **Exhibit D2** at the time of execution of this Agreement shall be excluded from the SMUSD Unrestricted General Fund Revenues, except for any revenues intended to replace all or part of an existing, on-going revenue stream previously received by SMUSD and identified in **Exhibit D2.**
    - iii. Santa Monica Education Foundation revenues shall be excluded from the SMUSD Unrestricted General Fund Revenues.
  - e. Divide the SMUSD Unrestricted General Fund Revenues by the SMUSD Enrollment as identified in the most recently available CALPADS Form 1.17 to determine the SMUSD Actual Per Pupil Revenue, as demonstrated in **Step 5 of Exhibit E.**
  - f. Subtract the SMUSD Actual Per Pupil Revenue from the SMUSD Target Per Pupil Revenue to determine the Per Pupil Funding Need, as demonstrated in **Step 6 of Exhibit E.**

- g. If the Per Pupil Funding Need is positive, multiply the Per Pupil Funding Need by the SMUSD Enrollment as identified in the most recently available CalPADS Form 1.17 to determine the Property Tax Transfer Amount, as demonstrated in **Step 7 of Exhibit E**.

- i. If the Per Pupil Funding Need is negative, the Property Tax Transfer Amount shall be \$0.

7. Changes to Other Local Revenue Sources. In the event there is a permanent or temporary reduction or elimination of one or more of the Other Local Revenue Sources in Object Code 8699, and as identified in **Exhibits D1** at the time of the execution of this Agreement, a proportionate adjustment shall be applied to MUSD's Property Tax Transfer Amount. The Property Tax Transfer Amount owed by MUSD shall be adjusted as follows, as demonstrated in **Exhibit F**:

- a. In the Fiscal Year of the change to Other Local Revenue Sources, the proportionate adjustment shall be calculated by multiplying the amount of the change to the Other Local Revenue by 12%. This shall be added to the amount determined by the Annual Property Tax Transfer Calculation which is based on the projected percentage increase agreed upon by the Parties as identified in **Exhibit D1**.

- i. Example: if SMUSD's Joint Use Lease Funding is reduced in the amount of eight million dollars (\$8,000,000), MUSD's Property Tax Transfer Amount shall be increased by nine hundred and sixty thousand dollars (\$960,000).

- b. Once the change in Other Local Revenue Sources is reflected in the Unaudited Actual Financial Statements, in all other Fiscal Years subsequent to a change in Other Local Revenue Sources, as identified in Section 7(a), the proportionate adjustment shall be calculated by multiplying the amount of the change by 88%. This shall be subtracted from the amount determined (**Step 7 of Exhibit E**) by the Annual Property Tax Transfer Calculation which is based on the projected percentage increase agreed upon by the Parties as identified in **Exhibit D1**.

- i. Example: if SMUSD's Joint Use Lease Funding was reduced in the amount of eight million dollars (\$8,000,000), MUSD's Property Tax Transfer Amount shall be reduced by seven million forty thousand dollars (\$7,040,000).

- ii. Once the proportionate adjustment amount has been established, the credit would continue annually, adjusting for inflation at the rate set forth for the identified revenue source in **Exhibit D1**, until all or a portion of the revenue source is re-instated back to its historical basis at the time of the original loss in revenue. If a portion of the revenue source is re-instated, the adjustment will be reduced proportionately, in accordance with this section of the agreement, as demonstrated in **Exhibit F**.

8. Other Loss of Other Local Revenue Sources. If there is a loss to Other Local Revenue Sources of SMUSD, not previously identified in Section 7, that exceeds 20% of the prior Fiscal Year receipts for that line item, there shall be an accounting performed by an independent financial professional engaged and funded by the JPA that compares the previous years' calculations with the current year calculations described in Sections 5 and 6. The accounting shall include an evaluation of how revenues are categorized and included and whether there is evidence of the Parties intent that new revenues replace the prior revenue source identified in **Exhibit D1**. The accounting shall accompany a report of findings, if any, to the Parties and the JPA that identifies any inconsistencies with the Agreement.
- a. Any subsequent corrections required as a result of the findings shall be applied to the true-up calculation, as described below in Section 9.
  - b. If the one or both of the Parties disagree with the independent accounting and report of findings, the Parties shall follow the Dispute Resolution clause of this Agreement found at Section 13.
9. Fund Balance Allocation Adjustments. If the initial allocation of Unrestricted General Fund Balance allocated by SMMUSD to MUSD, as described in Section 8(f)(i) of the Operational Transfer Agreement, results in a MUSD fund balance of less than seven million five hundred thousand dollars (\$7,500,000), then there shall be an adjustment to MUSD's Property Tax Transfer Amount. The Property Tax Transfer Amount owed by MUSD shall be adjusted as follows, and as demonstrated in **Exhibit G**.
- a. In the second Fiscal Year of operations following the Separation Date, the Property Tax Transfer Amount shall be reduced by 66.67% of the amount of the MUSD deficit spending for the prior Fiscal Year Unaudited Actual Financial Statements of the Unrestricted General Fund (first Fiscal Year of operations of MUSD).
  - b. In the third Fiscal Year of operations following the Separation Date, the Property Tax Transfer Amount shall be reduced by 33.33% of the amount of the MUSD deficit spending for the prior Fiscal Year Unaudited Actual Financial Statements of the Unrestricted General Fund (second Fiscal Year of operations of MUSD).
  - c. Repayment of Fund Balance Allocation.
    - i. To the extent that the initial allocation of Unrestricted General Fund Balance allocated by SMMUSD to MUSD, as described in Section 8.f of the Operational Transfer Agreement, results in an allocation in excess of 22% of the SMMUSD Unrestricted General Fund Balance, the amount in excess of 22% shall be repaid by MUSD to SMUSD as an adjustment to the Property Tax Transfer Amount in the final Fiscal Year of this Agreement.

- ii. Any adjustments to the Property Tax Transfer Amount as described in Sections 9.a. and 9.b. shall be repaid by MUSD to SMUSD as an adjustment to the Property Tax Transfer Amount in the final Fiscal Year of this Agreement.

10. True-Up Calculations and Payments. On October 15 of each Fiscal Year, the actual revenues from the prior Fiscal Year, as provided in the Unaudited Actual Financial Statements, shall be used to true-up the Annual Property Tax Transfer Calculation. Any adjustments to the prior Fiscal Year Property Tax Transfer Amount based on actual revenues shall be made in the current Fiscal Year.

- a. Adjustment may be made to true-up for prior Fiscal Year if the annual audit report includes an audit adjustment to be booked for prior Fiscal Year unrestricted revenue.
- b. On October 15 of the second Fiscal Year after Separation, in addition to Section 8(a), the Base Year Property Tax Transfer Calculation shall be recomputed utilizing actual certified CalPADS Form 1.17 for the Base Year applied to the Prior Year SMUSD Funding Target for the second Fiscal Year following Separation.

- i. Any adjustments to the Property Tax Transfer Amount shall be made in the current Fiscal Year.

11. Property Tax Revenue Transfer. The Property Tax Transfer Amount shall be computed by the JPA no later than October 15 of each Fiscal Year and provided to the Auditor-Controller. The Auditor-Controller will re-allocate property taxes from MUSD to SMUSD and distribute the Property Tax Transfer Amount twice annually, in conjunction with other property tax allocations. It is anticipated that such allocations will occur in December and April of each year.

- a. Any delay in providing the Property Tax Transfer Amount could impact the timing of the allocations.

12. Termination.

- a. Early Termination. The calculation described in Section 6 of this Agreement shall be completed each Fiscal Year on the Annual Calculation Date. If no portion of property tax from MUSD tax rate areas transferred to SMUSD from the County Assessor has been required for three (3) consecutive years, the Agreement automatically terminates, i.e., no additional calculations or payments will be made.
- b. In the event that there is no Property Tax Transfer from MUSD to SMUSD in the 2041-42 Fiscal Year, the Agreement shall automatically terminate on June 30, 2042. In the event that a Property Tax Transfer Amount from MUSD to SMUSD occurs in the 2041-

42 Fiscal Year, payments will be tapered off over the course of either a Five-Year Termination Period or a Ten-Year Termination Period, each as described below.

- i. Five-Year Termination Period. If the Property Tax Transfer Amount in the 2041-42 Fiscal Year is greater than zero dollars (\$0) but less than five million dollars (\$5,000,000), the Property Tax Transfer Amount shall be calculated as described in Section 6 and shall be reduced by twenty percent (20%) per Fiscal Year for each Fiscal Year beginning in the 2042-43 Fiscal Year and terminating in the 2046-47 Fiscal Year.

1. For example, in the 2042-43 Fiscal Year, the reduction is twenty percent (20%) of the Property Tax Transfer Amount calculated in Section 6. In the 2043-44 Fiscal Year, the reduction is forty percent (40%) of the Property Tax Transfer Amount calculated in Section 6. In the 2044-45 Fiscal Year, the reduction is sixty percent (60%) of the Property Tax Transfer Amount calculated in Section 6. This annual twenty percent (20%) reduction will continue until the 2046-47 Fiscal Year, at which time the reduction will be one hundred percent (100%) and the Property Tax Transfer Amount will be \$0.
2. If the calculation described in Section 6 results in a Property Tax Transfer of zero dollars (\$0) for any Fiscal Year covered by Section 12(b)(i)(1), the Agreement shall terminate, i.e., no additional calculations or payments will be made. This termination applies to any Fiscal Year during the Five-Year Termination Period.

- ii. Ten-Year Termination Period. If the Property Tax Transfer Amount in the 2041-42 Fiscal Year is five million dollars (\$5,000,000) or more, the Property Tax Transfer Amount shall be calculated as described in Section 6 and shall be reduced by ten percent (10%) per Fiscal Year for each year beginning in the 2042-43 Fiscal Year and terminating in the 2051-52 Fiscal Year.

1. For example, in the 2042-43 Fiscal Year, the reduction is ten percent (10%) of the Property Tax Transfer Amount calculated in Section 6. In the 2043-44 Fiscal Year, the reduction is twenty percent (20%) of the Property Tax Transfer Amount calculated in Section 6. In the 2044-45 Fiscal Year, the reduction is thirty percent (30%) of the Property Tax Transfer Amount calculated in Section 6. This annual ten percent (10%) reduction will continue until the 2051-52 Fiscal Year, at which time the reduction will be one hundred percent (100%) and the Property Tax Transfer will be \$0.

2. If the calculation described in Section 6 results in a Property Tax Transfer of zero dollars (\$0) for any Fiscal Year covered by Section 12(b)(ii)(1), the Agreement shall terminate, i.e., no additional calculations or payments will be made. This termination applies to any Fiscal Year during the Ten-Year Termination Period.

13. Modifications to the Calculations. If an unforeseen event occurs, it is the intent of the Parties to provide protections where unforeseen changes in revenues significantly impact either Party. There are two (2) such conditions identified by the Parties: Significant Variance and Significant Change in Per Pupil Funding.

- a. Significant Variance. A “Significant Variance” occurs when there is an unforeseen change in revenue, including but not limited to: natural disasters, changes in State law, acts of God, or changes in Federal funding affecting how California school districts are funded, including, but not limited to, the collection of property taxes distributed to public school districts, and/or changes to the amount of Local Revenues collected by the Parties.

- i. If any of the events described in Section 13(a) occur and there is a resulting significant variance in the Property Tax Transfer Amount, as defined below in Section 13(a)(i)(1) and Section 13(a)(i)(2), then the Remedy defined in Section 13(c) shall occur.

1. For MUSD, a Significant Variance occurs when the methodology in **Exhibits C, D1, D2, and E** of this agreement results in a Property Tax Transfer Amount that exceeds the following:

- a. For the Base Year, the significant variance is defined by any contribution greater than 38% of MUSD total unrestricted general fund revenues.
- b. For each Fiscal Year after the Base Year, the significant variance is defined by a change from the prior Fiscal Year’s Property Tax Transfer Amount beyond \$675,000.

- b. Significant Change in Per Pupil Funding. When the calculation set forth in Section 6 results in a Property Tax Transfer Amount that would significantly impact the educational program delivery to students by reducing per pupil revenue, as set forth in Section 13(b)(i) below, in any given Fiscal Year due to circumstances beyond the control of the MUSD Board and/or SMUSD Board or administration, then the Remedy defined in Section 13(c) shall occur.

- i. For SMUSD, a Significant Change in Per Pupil Funding occurs if the financial modeling under **Exhibits C, D1, D2, and E** of this agreement results in SMUSD Target Per Pupil Revenue growth of less than two percent (2%) over the immediate prior Fiscal Year SMUSD Actual Per Pupil Revenue.
  - c. Remedy. If there is a Significant Variance or a Significant Change in Per Pupil Funding for either Party, as defined above, then the JPA shall determine whether and/or how to adjust Section 5 and Section 6 of the Agreement based on the guiding principles that no student is harmed, considering the revenues identified in **Exhibit D1 and/or D2**.
14. Dispute Resolution. The Parties shall diligently cooperate with one another and with the person(s) appointed to resolve the dispute and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of such dispute. All disputes shall be decided in accordance with this Agreement and general principles of California law as hereto described.
- a. Initial Dispute Resolution. If there is a dispute or difference arising out of or in connection with this Agreement, the Parties shall first attempt to resolve the dispute by convening a meeting within five (5) business days after the date that a written request for dispute resolution is submitted by one of the Parties. That meeting will include the Superintendents of each Party (and/or their designee) and a representative of the JPA. There shall be at least one meeting to attempt to resolve the dispute at this level, but the Parties may continue to negotiate in this manner until one or both Parties submits a request for Dispute Resolution by an Independent Arbiter to the JPA.
  - b. Dispute Resolution by an Independent Arbiter. If the dispute cannot be resolved with the Initial Dispute Resolution process, then the dispute will be submitted to an Independent Arbiter to be agreed upon by the Parties. If the Parties cannot agree, the JPA will select an Independent Arbiter and send notice to the Parties of their selection within ten (10) calendar days of receiving the request for Dispute Resolution by an Independent Arbiter. Within fifteen (15) calendar days of the JPA sending notice to the Parties identifying the Independent Arbiter, each party shall separately submit the following written information to the Independent Arbiter: (a) an explanation of the nature of the dispute; (b) the party's position; (c) the dollar amount and/or financial impact of the dispute; and (d) any supporting documents the party believes will aid the Independent Arbiter in arriving at a decision. The Independent Arbiter can, but does not have to, request additional information from either party. The Independent Arbiter will issue a written decision within forty-five (45) calendar days of the JPA sending notice to the Parties identifying the Independent Arbiter. The decision of the Independent Arbiter shall be final.
  - c. Depending on the materiality of the amount in dispute, the JPA has discretion to discount the Property Tax Transfer Amount that is provided to the Auditor-Controller, as described in Section 11, to allow time for the Independent Arbiter to reach a



resolution of a financial dispute. Alternatively, the JPA can determine whether any adjustment should be made in the true-up calculation described in Section 9.

- d. Nothing in this Agreement, however, shall be construed as making final the decision of any Independent Arbiter on a question of law, which shall be settled in accordance with the laws of the State.
15. Caveats to Calculations and Exhibits. Every effort was made to make the calculations and exhibits as accurate as possible. However, because the formula is based on estimates and assumptions, the actual funding may differ from the amounts identified in the Exhibits to this Agreement.
16. Entire Agreement/Amendment. This Agreement constitutes the entire understanding and agreement between the Parties as to those matters therein contained and supersedes any and all prior or contemporaneous agreements, representations, and understandings of the Parties on the subject matter hereof. This Agreement may be amended at any time by mutual agreement of the Parties, but any such amendment must be in writing, dated, and signed by the Parties and attached hereto.
17. Attorneys' Fees. If any legal action or proceeding is brought to enforce or interpret this Agreement, not including the Dispute Resolution described in Section 13, each Party shall bear their own attorneys' fees, including any such fees and costs as may be incurred in enforcing any judgment or order entered in any such action.
18. Severability. In the event any portion of this Agreement is declared void, such portion shall be severed from this Agreement and the remaining provisions shall remain in effect, unless the result of such severance would be to substantially alter this Agreement or the obligations of the parties, in which case this Agreement shall be immediately terminated.
19. Waiver. Any failure of a party to insist upon strict compliance with any term, undertaking, or condition of this Agreement shall not be deemed to be a waiver of such term, undertaking, or condition. To be effective, a waiver must be in writing, signed and dated by the Parties.
20. Representation by Counsel. The Parties acknowledge and agree that they were, or had the opportunity to be, represented individually by legal counsel with respect to the matters that are the subject of this Agreement and that they are fully advised with respect to their respective rights and obligations resulting from signing this Agreement.
21. Governing Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State. The Parties agree that venue for any dispute, subject to the provisions of Section 14, shall be in Los Angeles County, California.
22. Section Headings. The headings on each of the sections and subsections of this Agreement are for the convenience of the Parties only and do not limit or expand the contents of any such section or subsection.

23. Exhibits. The exhibits attached to this Agreement and the numbers therein are demonstrative. Each exhibit is intended to be dynamic and will be used annually to calculate the aforementioned formulas based on the accurate and relevant data available to the Parties each fiscal year.
24. No Assignment. Neither Party may assign this Agreement in whole or in part.

**[SIGNATURES ON THE FOLLOWING PAGE]**

## **EXHIBITS**

**Exhibit A:** SMUSD Boundaries

**Exhibit B:** MUSD Boundaries

**Exhibit C:** Sample Calculation of Base Year Property Tax Transfer Amount (2 pages, one with inputs one with formulas)

**Exhibit D:** Allocation of SMMUSD Revenues and Projected Annual Percentage Increases in Revenues

**Exhibit E:** Sample Calculation of Annual Property Tax Transfer Amount (2 pages, one with inputs one with formulas)

**Exhibit F:**     Calculations to Address Change in Other Local Revenues



**Exhibit G:** Caveats to Calculations and Exhibits