TERM SHEET FOR THE FORMATION OF
MALIBU UNIFIED SCHOOL DISTRICT & SANTA MONICA UNIFIED SCHOOL DISTRICT
FROM THE TERRITORY OF THE SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

BACKGROUND

The City of Malibu, on behalf of its residents, has sought the formation of an independent Malibu Unified School District from the portion of the Santa Monica-Malibu Unified School District serving the incorporated City of Malibu and surrounding unincorporated portions of Los Angeles County not served by existing school campuses in the City of Santa Monica.

After extensive conversations, negotiations and mediations, both the City of Malibu and the Santa Monica-Malibu Unified School District agree that it is now in the best interest of all students that a mutually agreed to process for the formation of an independent Malibu Unified School District and Santa Monica Unified School District be pursued jointly by the two parties.

While the City of Malibu has previously submitted a petition under California Education Code 35511, it has been determined that the complexity of the proposed division of Santa Monica-Malibu Unified School District territory will require considerations which the existing petition process may not address. Complexities of the unique General Fund revenues of the Santa Monica-Malibu Unified School District, differentials in service delivery costs specific to individual school sites, as well as specialized programs which are currently provided to students will require a number of discrete agreements to memorialize the terms and conditions required for formation of an independent Malibu Unified School District and Santa Monica Unified School District.

PROCESS

In order to arrive at an equitable and mutually agreeable division of operations, resources and assets, it will require a process leading to a variety of specific agreements to finalize and memorialize the specific terms for formation of two independent successor educational entities. This process shall be undertaken jointly by the City of Malibu and the Santa Monica-Malibu Unified School District and include the following general steps:

1) Execution of this "Termsheet" by the City Council of the City of Malibu and the Board of Education of the Santa Monica-Malibu Unified School District laying out the general terms and process for formation of successor educational entities
2) Stress testing of proposed financial terms and trigger adjustments to revenue sharing formulas required for the formation of successor educational entities to ensure such terms do not create an undue risk of insolvency for the proposed successor educational entities
3) Preparation and execution of a "Tax Revenue Sharing Agreement" between the City of Malibu and the Santa-Monica-Malibu Unified School District for the benefit of the successor educational entities to memorialize the allocation of existing and projected Santa Monica-Malibu Unified School District revenues between the successor educational entities
4) Preparation and execution of a "Operational Transfer Agreement" between the City of Malibu and the Santa Monica-Malibu Unified School District for the benefit of the successor educational entities to memorialize the allocation of staffing, operational processes and resources between the successor educational entities
5) Preparation and execution of a "Joint Powers Agreement" (JPA) between the City of Malibu and the Santa Monica-Malibu Unified School District for the benefit of successor

educational entities to create an entity which shall address legal impediments to the proposed division of territory and serve as a shared body to facilitate execution of governing agreements as well as address historical liability mitigation concerns and pursue special legislation as required to facilitate the planned division of the Santa Monica-Malibu Unified School District

6) Preparation and execution of a new petition process or alternative legal means, if viable, to divide the Santa Monica-Malibu Unified School District into two independent entities, one serving students at campuses within the City of Malibu and surrounding unincorporated Los Angeles County territories and the other serving the students at campuses within the City of Santa Monica

TIMELINE

While the process for formation of an independent Malibu Unified School District and Santa Monica Unified School District is spelled out in various State code sections, some of which have defined time period for certain actions and may be contingent upon other actions required in the formation process, the following timeline provides a general sense of when the City of Malibu and the Santa Monica-Malibu Unified School District are anticipating completion of various process steps.

COMMENCING	ENNDING		ACTION
Oct. 14, 2022	Oct. 19, 2022		Review and finalization of Termsheet for the Formation of Malibu USD & Santa Monica USD
Oct. 20 2022	Dec. 30, 2022		Santa Monica-Malibu USD stress testing of proposed Tax Revenue Sharing Agreement terms and adjustment triggers
Oct. 24, 2022	Oct. 24, 2022		Santa Monica-Malibu USD Board of Education considers approval of Termsheet for the Formation of Malibu USD & Santa Monica USD
Oct. 27, 2022	Oct. 27, 2022		Malibu City Council considers approval of Termsheet for the Formation of Malibu USD & Santa Monica USD
Oct. 31, 2022	Oct. 31, 2022		Provision of Joint Press Release announcing agreement on pathway for formation of successor educational entities
Dec. 15, 2022	Jan. 15, 2023		Preparation and review of draft ancillary agreements for formation of Malibu USD & Santa Monica USD
Dec. 15, 2022	Dec. 15, 2022		Commence process of obtaining special legislation required for formation of Malibu USD & Santa Monica USD
Jan. 2, 2023	Mar. 17, 2023		Community and Stakeholder engagement to sunshine and review plan for formation of Malibu USD & Santa Monica USD
Apr. 14, 2023	Apr. 14, 2023		Deadline for finalization of: • Tax Revenue Sharing Agreement • Operational Agreement • Joint Powers Authority Agreement
May 1, 2023	Dec. 30, 2023		Preparation of Special Legislation for consideration at the

			State in 2024
May 4, 2023	May 4, 2023		Santa Monica-Malibu USD Board of Education approval of Joint Petition for the Formation of Malibu USD and Santa Monica USD
May 10, 2023	May 10, 2023		Malibu City Council considers approval of Joint Petition for the Formation of Malibu USD and Santa Monica USD
May 15, 2023	May 15, 2023		Submission of Joint Petition for the formation of independent successor educational entities
June 14, 2023	June 14, 2023		Deadline for County Superintendent of Schools to determine sufficiency of the Joint Petition and transmit such Joint Petition to the Los Angeles County Committee on School District Organization and State Board of Education
July 5, 2023	July 12, 2023		Los Angeles County Committee on School District Organization conducts hearings in the Cities of Santa Monica and Malibu to obtain feedback on the Joint Petition
Nov. 1, 2023	Nov. 1, 2023		Los Angeles County Committee on School District Organization considers approval of Joint Petition
Dec. 8, 2023	Dec. 8, 2023		Deadline for placement of measure to approve formation of successor educational entities on Mar. 2024 ballot
Mar. 5, 2024	Mar. 5, 2024		Voter consideration of approval of formation of successor educational entities – (State Primary Election)
July 1, 2024	July 1, 2024		Projected earliest possible date for commencement of successor educational entities

GENERAL TERMS

Financial Terms – The following financial terms have been agreed to and are subject to revision and finalization through additional process steps as outlined herein:

1) The proposed Santa Monica Unified School District, comprised of the territory encompassing school sites in the City of Santa Monica shall retain "Local Revenues" as accounted for under the SACS object codes 8600 through 8799 which are generated from the territory which it will serve
2) The proposed Malibu Unified School District, comprised of the territory encompassing school sites in the City of Malibu and surrounding unincorporated portions of Los Angeles County shall retain "Local Revenues" as accounted for under the SACS object codes 8600 through 8799 which are generated from the territory which it will serve
3) Other State Revenues as accounted for under SACS object codes 8300 through 8599 shall be computed for each successor educational entity as prescribed by governing code sections based upon the student population served in each successor educational entity and received by each in accordance with the governing rules for such revenues
4) Federal Revenues as accounted for under SACS object codes 8100 through 8299 shall be computed for each successor educational entity as prescribed by governing code sections based upon the student population served in each successor educational entity and received by each in accordance with the governing rules for such revenues

5) LCFF Sources as accounted for under SACS object codes 8000 through 8099 shall be subject to allocation between the successor educational entities in accordance with the Tax Revenue Sharing Agreement under the following general framework
    a. Each successor educational entity shall upon the first day of operations be allocated a sufficient share of funding to provide for a similar level of service at each school site as delivered by the Santa Monica-Malibu Unified School District in the fiscal year prior to formation
    b. The newly formed Malibu Unified School District shall also be allocated sufficient funding to accommodate the commencement of reasonable district office operations
    c. The Total Unrestricted General Fund Revenues of the Santa Monica-Malibu Unified School District in the year prior to formation of successor educational entities shall be computed
    d. The Total Unrestricted General Fund Revenues shall be inflated by mutually agreed to growth in funding to derive the Projected Total Unrestricted General Fund for the initial year after formation
    e. The Projected Total Unrestricted General Fund Revenues shall be divided by the projected student enrollment of the Santa Monica-Malibu Unified School District to establish the Unadjusted Unrestricted General Fund Per Pupil Revenues in the initial year after formation
    f. The Unadjusted Unrestricted General Fund Per Pupil Revenues for the initial year after formation shall be adjusted by deducting the Per Pupil Cost Differential to establish the Santa Monica Unified School District Unrestricted General Fund Per Pupil Revenues of the Santa Monica Unified School District
    g. The Santa Monica Unified School District Unrestricted General Fund Per Pupil Revenues shall be multiplied by the projected enrollment of the Santa Monica Unified School District to establish the Santa Monica Unified School District Funding Target for the initial fiscal year after formation
    h. In each fiscal year subsequent to the initial year after formation, the Santa Monica Unified School District Funding Target shall be adjusted for prior year true-up computations, trigger adjustments and the Minimum Guaranteed Growth Factor
    i. To the extent that the adjusted Santa Monica Unified School District Funding Target is not met by Unrestricted General Fund Revenues of the Santa Monica Unified School District, the property tax of the Malibu Unified School District, as collected and apportioned by Los Angeles County, shall be transferred to the Santa Monica Unified School District prescribed by the Tax Revenue Sharing Agreement
6) The Tax Revenue Sharing Agreement shall remain in effect until such time as the specified conditions are met for termination, however in the event that such conditions are not met by July 1, 2042, provision for the tapering of tax revenue sharing shall commence with the fiscal year beginning on July 1, 2042
    a. Tapering of tax revenue sharing, if required, shall occur as rapidly as feasible over a period of no less than five (5) fiscal years commencing July 1, 2042

   b. Tapering of tax revenue sharing, if required, shall be conducted over the course of no more than ten (10) fiscal years commencing July 1, 2042
   c. Tapering shall be limited in the event that the proposed reduction in tax revenue sharing results in negative growth in Unrestricted General Fund Per Pupil Revenues of the Santa Monica Unified School District
   d. Termination of tapering of any prescribed tax revenue sharing shall occur no later than such sharing would be due for the fiscal year ending June 30, 2052
7) The Tax Revenue Sharing Agreement shall include Trigger Adjustments to the computation of the Santa Monica Unified School District Funding Target, including provisions for:
   a. Material changes in property tax revenues resulting from calamity, natural disaster or other unforeseen changes in property tax generation, allocation or treatment under the Local control Funding Formula as prescribed by State law
   b. Material changes in unrestricted General Fund revenue sources resulting from changes in State, Federal and Local law
8) While subject to revision through negotiations and mediation, the Per Pupil Cost Differential is provided in acknowledgement of the higher cost of services within the proposed Malibu Unified School District and will be revised as additional financial information becomes available proximate to the date for formation of independent successor educational entities
9) While subject to revision through negotiations and mediation, and subject to changes resulting from then current information, it is at this time believed that the Minimum Guaranteed Growth Factor for Total Unrestricted General Fund Per Pupil Revenues of the Santa Monica Unified School District shall be approximately 4.0%, and may be revised as additional financial information becomes available proximate to the date for formation of independent successor educational entities

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Operational Terms - The following operational terms have been agreed to and are subject to revision and finalization through additional process steps as outlined herein:

1) The City of Malibu and Santa Monica-Malibu Unified School District shall work collaboratively to facilitate for formation of a Malibu Unified School District and a Santa Monica Unified School District
2) Prior to the formation of the successor educational entities, the Santa Monica-Malibu Unified School District shall serve as the representation of the proposed Santa Monica Unified School District
3) Prior to the formation of the successor educational entities, the City of Malibu shall serve as the representation of the proposed Malibu Unified School District
4) As soon as viable, the representation of the successor educational entities shall form a Joint Power Authority (JPA) under California Government Code Section 6502
   a. Upon formation of a JPA, and prior to the formation of successor educational entities, the JPA shall be governed by a seven (7) member board consisting of two (2) elected officials of the Santa Monica-Malibu Unified School District, two (2) elected officials of the City of Malibu and three (3) members of the _____
   b. Subsequent to formation of the successor educational entities the JPA shall be governed by two (2) members of its Board of Education of the Malibu Unified

School District, two (2) members of the Board of Education of the Santa Monica Unified School District and three (3) members of the _____.

5) The JPA shall be charged with taking actions which are mutually required to facilitate the formation of successor educational entities including
    a. Preparation of a joint petition for formation of a Malibu Unified School District and a Santa Monica Unified School district
    b. Execution of the petition process as prescribed by Education Code 35511 or other means of facilitating formation of the successor educational entities which may be legally viable
    c. Pursuit of special legislation which may be required to:
        i. Preserve existing Parcel Tax revenues within each proposed successor educational entity
        ii. Address any legal impediments to the formation of proposed successor educational entities
    d. Negotiation of insurance policies to mitigate exposure of each successor educational entity to liabilities born from actions of the predecessor educational entity, the Santa Monica-Malibu Unified School District
6) The JPA shall serve as the body to review and propose for approval annual targets, triggers and property tax revenue sharing amounts through the duration of the Tax Revenue Sharing Agreement
7) The JPA shall propose for approval the division of assets and liabilities, including:
    a. Any required division of physical property not permanently affixed in the specific territory of the successor educational entities
    b. Any division of funds held by the Santa Monica-Malibu Unified School District which are for the benefit of students in the territory of the successor educational entities

ADDITIONAL REQUIRED AGREEMENTS

The proposed terms of agreement between the City of Malibu and the Santa Monica-Malibu Unified School District shall be memorialized under several subsequent agreements pursuant to the terms, process and timelines outlined in this "Termsheet". The agreements will include, but are not limited to the following:

1) Tax Revenue Sharing Agreement – an agreement to spell out the division of operational revenues of the Santa Monica-Malibu Unified School District to the successor educational entities. This agreement will include provision for allocation of local property taxes as well as sharing of such resources between the entities for a period of time after the formation of a Santa Monica Unified School District and a Malibu Unified School District
2) Operational Agreement – an agreement to spell out the allocation of assets, liabilities and non-operational revenues of the Santa Monica-Malibu Unified School District to the successor educational entities as well as spell out any operational support, sharing or other requirements to facilitate the formation of each successor educational entity
3) Joint Powers Agreement – an agreement to establish a joint body to address process and procedural requirements for the formation of each successor educational entity

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STRESS TESTNG PROCEDURES

In order to ensure that projected outcomes required for the formation of an independent Santa Monica Unified School District and Malibu Unified School District are reasonably achievable, testing of assumptions and various potential operational changes is deemed to be beneficial by both parties. Such testing will include verification, modeling and examination of many potential impacts to the successor educational entities, including:

1) Review and confirmation of existing projections in light of new budgetary and funding information
2) Changes in local revenue sources such as Joint Use, Sales Tax, and site leases
3) Changes in enrollment which may grow or shrink subsequent to formation of independent successor educational entities
4) Changes in taxable valuations which produce property tax revenues and could be impacted by calamity or natural disaster
5) Changes in compensation which may require raises to be provided to employees of each successor educational entity
6) Changes in educational requirements which may result in requirements for additional programs or provision of services to additional students not currently served

While stress testing is not expected to impact the core terms outlined herein, it may inform topics still under discussion such as triggers and adjustments to funding levels and proposed sharing formulas. Additionally, such testing will allow the parties to mutually assert to the long-term viability of each proposed successor educational entity.