

**Malibu Unification Negotiations Committee  
Meeting Minutes**

**Tuesday, September 13, 2016  
Malibu City Hall, 23825 Stuart Ranch Road, Malibu, CA**

- I. Call to Order / Roll Call
  - *The committee called the meeting to order at 7:02 p.m. with the following committee members present:*

<i>Debbie Mulvaney</i>	<i>Makan Delrahim</i>
<i>Paul Silvern</i>	<i>Manel Sweetmore</i>
	<i>Laura Rosenthal</i>

*Tom Larmore was present via videoconference from Ashland, Oregon.*
  
- II. Approve Meeting Minutes for September 1, 2016 and September 6, 2016
  - *Mr. Larmore, Ms. Rosenthal, Mr. Silvern, and Mr. Delrahim offered minor corrections to the minutes of September 1, 2016 and September 6, 2016.*
  - *By consensus, the committee approved the corrected minutes for the September 1, 2016 and September 6, 2016 meetings.*
  
- III. Follow-up Business from Previous Meetings
  - A. Status of SSC's final Phase 1 reports
    - *Ms. Orlansky reported that SSC agreed to make the substantive additions to the Phase 1 forecasting report as requested by the committee. However, SSC will provide this additional information in a supplemental chapter as opposed to incorporating the changes into the text of the previous report.*
    - *Mr. Ricketts indicated that he would amend the Executive Summary to include the supplemental information. In addition, SSC will provide both the main report and the supplement in a single PDF document (expected by 9/14); the supplement will also be attached in the spiral-bound hard copies of the SSC reports to be delivered next week.*
  
  - B. Discussion of MUNC update to the Board of Education, tentatively scheduled for September 22, 2016
    - *The Santa Monica team shared its plans to provide an oral (not written) update on the MUNC to the Board on September 22. The intent is to provide the Board with a summary of progress made and work remaining.*
    - *The Santa Monica team reiterated that this public meeting represents one of the "regular" reports to the Board required by the BOE's December 2015 resolution, and that all MUNC members are welcome to attend.*
  
  - C. Status of bond-related information requested from Tony Hsieh
    - *Ms. Orlansky reported that, according to Jan Maez, SMMUSD CFO and Associate Superintendent, Mr. Hsieh recommends waiting until October to talk with the MUNC. This is because Moody's is expected to announce changes in its bond rating criteria on September 27, 2016.*

- *The committee agreed that an early October session with Mr. Hsieh would meet its timing needs. Once the committee's October meeting dates and times are confirmed, Ms. Orlansky will work through Ms. Maez to arrange for a Skype meeting among the committee members and Mr. Hsieh.*
- *The committee asked Ms. Orlansky to pass along to Ms. Maez that in the interest of minimizing the District's costs, the MUNC does not need a formal presentation from Mr. Hsieh.*

D. Continuation of Worksession on Principles and Terms of Agreement

*The committee worked from the latest term sheets and balance sheet revenue summary, which were provided as meeting handouts. (See attachments.)*

*To simplify the committee's task of managing documents going forward, Ms. Orlansky will prepare an updated set of term sheets as a handout for every MUNC meeting. The updated term sheets will reflect the committee's most recent tentative decisions for all of the issues and sub-issues identified in the Plan of Work. Ms. Orlansky requested that MUNC members bring any errors or recommended language changes to her attention, so that edits can be incorporated into the next iteration of the term sheets.*

*The committee continued its discussion of Topic 1, Balance Sheet Allocations, and agreed to the following edits and additions to Table-1, Summary of Recommended Allocation Method By Fund:*

- *On Table-1, as part of A.2, add that the reason for recommending the ADA method for allocating the cash balance in the Restricted General Fund is parallel to the reason for recommending the ADA method for allocation of the Unrestricted General Fund. Specifically, in addition to greatly simplifying the calculation, an analysis of revenue sources for 2015-16 shows that the net contributions from Santa Monica and Malibu to the Restricted General Fund closely mirror the ADA split. Similarly, the analysis of revenue sources for the Restricted Revenue Fund should be repeated at the time of separation to ensure this finding holds.*
- *On Table-1, as part of B.3, add that the ADA method is recommended for allocating the cash balance in the Cafeteria Special Revenue Fund because this fund gets its revenue from students in both Malibu and Santa Monica.*
- *On Table-1, as part of B.4, the allocation method for the Deferred Maintenance Fund should be based on the relative percent of total "floor area" square footage and not "classroom" square footage across all buildings and not just schools. Since this fund is linked to buildings, the only time reference this allocation method needs is to indicate the calculation should occur at the time of separation.*
- *On Table-1, as part of C.1, the allocation method for the Capital Facilities Fund should reference total dollar amounts contributed by "developments" as opposed to "developers." In addition, the committee agreed to add that the calculation of development contributions by location should be a three-year average. The three years should be the year separation occurs and the prior two years.*

Issue #2.3: Allocation method for dividing SMMUSD's land and buildings that serve both Malibu and Santa Monica students

- The committee agreed that a basic principle for allocating land/buildings between SMUSD and MUSD is not to equate an "asset value" with "cash value" in the terms of the separation agreement.
- Besides adopting this principle, the committee agreed to postpone making any specific decisions on allocating this category of assets.
- The committee discussed but decided against requesting a breakdown of how bond funds have been allocated to which improvement projects over time. The committee agreed that these data would be complicated and time consuming to compile, and that such data could be requested at a later time if deemed necessary for the MUNC's decision making.

Comments made during the discussion included:

- The two buildings that belong in this category are the District's Headquarters and Washington West, both located in Santa Monica. (Olympic High School may still constitute its own separate category.)
- There are different ways of thinking about what constitutes a "fair" allocation of these two building. One way is to be guided by the history of each building, and specifically whether it was funded by the Santa Monica School District before Malibu joined to create SMMUSD. There is logic to not "crediting" Malibu for a building that was funded before SMMUSD existed.
- Another way is to approach a "fair" allocation from the perspective of the partnership (financial and otherwise) between Santa Monica and Malibu since the two districts unified in the early 1950's. The logic on this approach also recognizes that bonds issued by SMMUSD (paid for by both Santa Monica and Malibu) have funded all building improvements since that time.
- The committee should be cognizant of how "consistent" its logic is for recommendations across topics and categories.
- The fact that SMMUSD does not intend to sell either of these properties in the foreseeable future needs to be taken into consideration.
- Mr. Silvern and Dr. Rosenthal both agreed to see whether they had any previous reports that might provide relevant information to the committee on the history of SMMUSD's land and buildings.

Issue #2.3: Allocation method for dividing land and buildings that are a source of revenue for SMMUSD.

The committee decided that it needed some additional information from the District before considering some allocation options for revenue-producing assets. The committee requested Ms. Orlansky to ask Ms. Maez for a list of SMMUSD's revenue-producing assets along with an approximate amount of the revenue generated from each property (land/building) each year.

Comments made during the discussion included:

- Because SMMUSD deposits the revenue into the Unrestricted General Fund, the committee agreed it was impractical to track how the revenue from these assets is spent.

- *One type of SMMUSD's revenue producing asset is a ground lease. In these situations, the lessee owns all property improvements and the District receives a flat lease payment without having any obligation for maintenance.*
- *An example of another SMMUSD ground lease deal is a former elementary school that was leased to Santa Monica College for a term of at least 60 years.*

*Issue #3: Allocation method for balance sheet liabilities (other than bond debt and environmental liability)*

*The MUNC's Plan of Work identified three balance sheet liabilities in this category. The committee discussed these three items (listed below) and reached the followed tentative decisions regarding the allocation of liability between SMUSD and MUSD at the time of separation:*

*a. Certificates of Participation*

*The Certificates of Participation liability on SMMUSD's balance sheet reflects the debt owed on the financing for the District's Headquarters' building. SMMUSD's plan is to cover the remaining debt associated with the COPs by RDA pass-through funds. As a result, the committee agreed that at the time of separation, there may be no outstanding cash liability on the COPs to allocate between SMUSD and MUSD.*

*b. Compensated Absences*

*The committee agreed that the liability associated with compensated absences should "move" with the individual teacher or other staff member who has accrued this unused leave. In other words, post-separation, SMUSD will inherit the liability for personnel who are SMUSD employees, and MUSD will inherit the liability for personnel who are MUSD employees.*

*c. OPEB (Other Postemployment Benefits)*

*OPEB is a Government Accounting Standards Board (GASB) term that refers to the outstanding liability for paying benefits (other than pensions) to retired public sector employees. The Committee agreed to wait for Jan Maez' recommendation regarding allocation of the balance in the Retiree Benefits Fund before further discussion of OPEB.*

*Issue #4: Additional off balance sheet financial items*

*The committee agreed to return to this issue after reviewing whether previous reports and other background materials had identified any items in this category.*

*Issue #5: Procedures (if any) for revisiting agreements reached on balance sheet allocations*

*The committee agreed that because the Balance Sheet Allocations are expected to be a one-time division between SMUSD and MUSD at the time of separation, there will unlikely be a need to revisit the agreements made for Topic 1 items.*

**E. Public Comments**

*There were no public comments.*

F. Agenda Planning for Upcoming Meetings

1. *Topics for Next Agenda: Tuesday, September 20*

*The committee agreed to begin with discussion of Topic 2, Allocation of Bond Debt and Authorization to Issue New Bonds. The committee also agreed to continue its discussion of Topic 3, Operating Budget Impacts, and in particular, to address the time frame issue.*

2. *Review of dates, times, and locations of upcoming committee meetings*

- *Tuesday, September 20, 6-9 PM at District offices  
The 6:00 PM start time is to allow for a three-hour meeting.*
- *Tuesday, September 27, 7-9 PM in Malibu*
- *Tuesday, October 4, 1-3 PM in Santa Monica  
An afternoon meeting time is planned due to evening scheduling conflicts.*
- *NO MEETING the week of October 11 due to scheduling conflicts.*
- *Tuesday, October 18, 7-9 PM - probably in Malibu*
- *Tuesday, October 25, 7-9 PM - probably in Santa Monica*

G. Adjournment

*The committee adjourned the meeting at 9:10 p.m.*

**Term Sheet for Topic 1, Balance Sheet Allocations**

The term sheet below outlines the general principles and terms for a nonbinding MUNC agreement on the issues and sub-issues identified for Topic 1, Balance Sheet Allocations. This draft reflects the MUNC’s tentative decisions through the Committee’s 9/6/2016 meeting.

Principle/Parameter	Terms of Agreement
<p><b>Issue #1:</b>  <b>Allocation method for dividing SMMUSD’s cash assets.</b></p> <p>The allocation of cash assets will be decided by fund, and will be guided by the portion of revenue contributed from or attributed to what will be SMUSD and MUSD going forward.</p>	<p>For certain funds, this means that the allocation between SMUSD and MUSD will be based on a calculation of the pro rata Average Daily Attendance (ADA).</p> <p>For purposes of the one-time allocation of cash balances, the term <b>“ADA method”</b> refers to a three-year average of the ADA split between what will be SMUSD and MUSD. The three years will be the year that separation occurs and the prior two years. As a point of reference, the Santa Monica/Malibu ADA ratio was 84/16.</p> <p>The exceptions will be for funds where the relative source of revenue (i.e., SMUSD vs. MUSD) has been substantially different from the ADA ratio, or if there is an alternative, more equitable method of allocating a fund balance.</p> <p>The table that begins on the next page summarizes the recommended method of allocation for each fund.</p>

Fund	Method for Allocating Cash Balance in Fund	MUNC Comments
<b>A. MAJOR FUNDS</b>		
1. Unrestricted General Fund	ADA method	The ADA method is recommended because: it greatly simplifies the calculation required; and analysis of the revenue sources for 2015-16 shows net contributions from Santa Monica and Malibu that closely mirror the ADA split. A similar analysis should be repeated at the time of separation to ensure this finding still holds.
2. Restricted General Fund	ADA method	<i>To add: why ADA makes sense for this fund.</i>
3. Building Fund	<i>Revisit during worksession on bonds.</i>	
4. Bond Interest and Redemption Fund	N/A (Not Applicable)	There is no end-of-year cash balance in this fund to allocate.
<b>B. SPECIAL REVENUE FUNDS</b>		
1. Adult Education Fund	Divide the fund balance based on the ratio (calculated as a three-year average) of students enrolled from each district in Adult Ed. The three years will be the year of separation and the prior two years.	The source of revenue for this fund is the State, which pays school districts a set amount per student participating in Adult Education.  If MUSD does not offer Adult Education, then MUSD's portion will be transferred to SMUSD.
2. Child Development Fund	Divide the fund balance based on the ratio (calculated as a three-year average) of students enrolled from each district in Child Development program(s). The three years will be the year of separation and the prior two years.	The source of revenue for this fund is the State, which pays school districts a set amount per student participating in Child Development programs.  If MUSD does not offer a Child Development program, then MUSD's portion will be transferred to SMUSD.
3. Cafeteria Special Revenue Fund	ADA method	<i>To add: why ADA makes sense for this fund.</i>
4. Deferred Maintenance Fund	The fund balance will be divided based on the percent of total classroom square footage in Santa Monica vs. Malibu schools.	<i>Q: Does a time frame for this calculation need to be designated?</i>

Fund	Method for Allocating Cash Balance in Fund	MUNC Comments
C. CAPITAL PROJECT FUNDS		
1. Capital Facilities Fund – developer fees	The fund balance will be divided based on the percent of total dollar amounts contributed by developers located in Santa Monica vs. Malibu in the year before separation occurs.	Developer contributions by source are tracked annually, so the allocation method recommended should be relatively simple to implement.
2. Special Reserve for Capital Projects Fund – tax increment from RDA	<i>Because the funds in this Special Reserve fund are treated similarly to SMMUSD bond proceeds, the committee agreed to revisit the allocation method for this fund until the committee’s next discussion of bonds.</i>	
D. RETIREE BENEFIT FUND	<i>The MUNC requested Jan Maez and her team to review the most recent actuarial report and provide a recommendation back to the committee about the most equitable way to divide the Retiree Benefit Fund balance.</i>	The allocation will likely be linked to how the liability for providing retiree health benefits is divided between SMUSD and MUSD at the time of separation.



Principle/Parameter	Terms of Agreement
<p><b>Issue #2:</b>  <b>Allocation method for dividing SMMUSD’s land and buildings</b></p> <p>The committee agreed to consider the allocation of SMMUSD’s land and buildings in three categories:</p> <ol style="list-style-type: none"> <li>1) Schools;</li> <li>2) Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica; and</li> <li>3) Land/buildings that are a source of revenue for SMMUSD</li> </ol>	<p>Category 1: Schools</p> <ul style="list-style-type: none"> <li>• With the possible exception of Olympic High School (see second bullet), schools will be allocated to the respective district where they are located.</li> <li>• Olympic High School (located in Santa Monica) may need to be in a separate category because it is SMMUSD’s only alternative high school and currently serves eligible students from both Malibu and Santa Monica.</li> </ul> <p>Category 2: Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica.</p> <ul style="list-style-type: none"> <li>• This category includes two buildings located in Santa Monica (District Headquarters and Washington West) and a small bus yard located on the campus of Malibu HS. (The bus yard in Santa Monica is located on leased space, so is a liability and not an asset.)</li> <li>• The committee considered several options for allocating the land/buildings in this category, but has not yet reached any decisions.</li> </ul> <p>Category 3: Land/buildings that are a source of revenue for SMMUSD  <i>Not yet discussed.</i></p>
<p><b>Issue #3:</b>  <b>Allocation method for liabilities (other than bond debt and environmental liability)</b></p> <ul style="list-style-type: none"> <li>• Certificates of participation</li> <li>• Compensated absences</li> <li>• OPEB</li> </ul>	
<p><b>Issue #4:</b>  <b>Any other financial items related to balance sheet allocations or off balance sheet items?</b></p>	
<p><b>Issue #5:</b>  <b>Procedures (if any) for revisiting agreements reached on balance sheet allocations.</b></p>	

**Summary of 2015-2016 Unaudited Actuals  
 Projected Ending Balance by Fund**

<b>Funds</b>	<b>2015-16 Projected Ending Balance</b>
<b>A. MAJOR FUNDS</b>	
1. Unrestricted General Fund	\$32,609,848
2. Restricted General Fund	\$5,197,573
3. Building Fund	\$92,741,212
4. Bond Interest and Redemption Fund	\$36,509,677
<b>B. SPECIAL REVENUE FUNDS</b>	
1. Adult Education Fund	\$659,900
2. Child Development Fund	\$234,491
3. Cafeteria Special Revenue Fund	\$195,976
4. Deferred Maintenance Fund	\$212,196
<b>C. CAPITAL PROJECT FUNDS</b>	
1. Capital Facilities Fund – developer fees	\$1,236,679
2. Special Reserve for Capital Projects Fund – tax increment from RDA	\$5,244,209 (available funds not yet designated)
<b>D. RETIREE BENEFIT FUND</b>	\$5,120,174

Source of data: PowerPoint presented by Jan Maez, SMMUSD CFO and Associate Superintendent, to the BOE on 9/1/2016.