Malibu Unification Negotiations Committee
Meeting Minutes

Thursday, November 3, 2016
6:30 pm – 8:30 pm
SMMUSD District Office Conference Room
1651 16th St., Santa Monica, CA 90404

I. Call to Order / Roll Call

The committee called the meeting to order at 6:30 p.m. with the following committee members present:

Tom Larmore	*Laura Rosenthal*
Paul Silvern	*Manel Sweetmore*
Makan Delrahim	*Debbie Mulvaney*

II. Approval of October 29, 2016 Meeting Minutes

- *Mr. Silvern, Mr. Larmore, and Ms. Mulvaney offered minor corrections to the draft minutes.*
- *By consensus, the committee approved the minutes as corrected.*

III. Review/Approval of Committee letter/statement to the Board

- *Mr. Silvern and Mr. Delrahim reported that they were still working to finalize a draft letter.*
- *By consensus, following a brief discussion about the letter's content, the committee delegated the completion of the letter to Mr. Silvern and Mr. Delrahim, with assistance provided by Ms. Orlansky.*
- *The committee agreed to sign the letter at its next meeting, scheduled for November 15. Ms. Orlansky will then send a scanned copy of the signed letter to Ms. Wahrenbrock on November 16, so that it can be provided to the Board President to read aloud directly before SSC's briefing on November 17, 2016.*
- *Ms. Mulvaney report that SSC's briefing was time stamped on the Board's agenda for 7 p.m. on November 17, 2016.*

IV. Continuation of Worksession on Principles and Terms of Agreement

Summary of Discussion

The committee's worksession focus was on Topic 2, Allocation of Bond Debt and Authorization to Issue New Bonds, and some still-to-be-resolved issues in Topic 1, Balance Sheet Allocations.

The results of the committee's worksession are summarized below, divided into three sections: (A) agreements on bond-related issues; (B) agreements on balance sheet allocation issues; and (C) committee requests for information.

(A) Agreements on Bond-Related Issues

By consensus, the committee reached the following agreements on: the allocation of SMMUSD debt that exists at the time of separation; the allocation of cash remaining in the Building Fund at the time of separation; the allocation of authorized but not yet issued bonds; and the issuance of bonds by SMUSD and MUSD post-separation.

- *Allocate SMMUSD's existing bond debt between SMUSD and MUSD based upon the respective assessed values of Santa Monica and Malibu on the most recent assessment rolls as of the date of separation.*

- *The allocation of cash remaining in the Building Fund as well as the allocation of authorized but not yet issued bonds lend themselves to a process recommendation (with guiding principles) because the exact allocation will depend on the status of projects and plans of SMUSD and MUSD at the time of separation.*

  The committee agreed that the responsibility for developing recommendations for the specific allocation of the cash remaining in the Building Fund at the time of separation as well as the allocation of authorized but not yet issued bonds should be delegated to Group 2, the second transition/implementation group that will have members appointed jointly by the respective SMUSD and MUSD Boards of Education. (The roles of Group 1 and Group 2 will be further explained in the committee's recommendations on Topic 5, Implementation.)

  In making allocation recommendations, the guiding principles for Group 2 should be to:

  - *Make allocation recommendations consistent with decisions and commitments regarding projects and division of bond authority made prior to separation, including that out of the ES total of $385 million, Malibu receives a minimum of $77 million in addition to its share of the $34.5 million allocated for system-wide technology; and*
  - *Respectfully consider the needs and preferences of SMUSD and MUSD expressed at the time the allocation decisions are made.*

- *Post-separation, any decisions about issuing new bonds will be made by and for each district (SMUSD and MUSD) on their own. Each district will also assume full responsibility for the debt payments associated with any bonds issued after separation.*

The committee postponed completing discussion about refinancing existing debt until it gets answers to several questions. (See questions 2a and 2b listed below.)

(B) Agreements on Balance Sheet Allocations

By consensus, the committee reached the following agreements on a number of the outstanding items in Topic 1, Balance Sheet Allocations. The committee postponed several decisions pending answers to some questions. (See questions 1a, 1b, 3a, 3b, and 4 listed below.)

- *Building Fund. The recommended process for allocating the balance of cash in the Building Fund (the repository of cash from the sale of bonds) at the time of separation was agreed-upon during the discussion of bond-related issues. (See minutes in section (A) above.)*

- *Retiree Benefit Fund and OPEB Liability. The committee agreed that the most equitable allocation of the cash balance in the Retiree Benefit Fund should be based on the most recent actuarial data available at the time of separation. The committee recognizes the allocation will be linked to how the liability for providing retiree health benefits (OPEB) is divided between SMUSD and MUSD at the time of separation. These are decisions the committee will recommend be delegated to Group 2.*

- *SMMUSD School Buildings. Ownership of the school buildings currently owned by SMMSUD will be allocated to the respective district where each school building is located.*

  The committee also agreed to recommend that, unless MUSD decides to provide a continuation high school program in its own facilities, MUSD will be provided assurance that MUSD students who require enrollment in a continuation high school program will be able to participate in SMUSD's continuation high school, which is currently located at Olympic High School in Santa Monica. Whether this assurance of participation needs to be included in the special state legislation related to unification will be part of Group 1's research and recommendations on the details of implementation.

Note: The committee's discussion on allocating properties (land and buildings) other than schools, revenue producing and not revenue producing, led to an understanding that there are at least two different ways of approaching this allocation issue. One is to approach the allocation decision based on where each property is located, i.e., Santa Monica or Malibu; the other is to approach the allocation decision based on the programmatic use of each property in question.

The committee identified a number of questions related to their further discussion of this issue (see questions 3a, 3b, and 4 listed below), and agreed to continue working on this item at the next MUNC meeting.

(C) Committee Requests for Information

During the course of the worksession, committee members raised the questions listed below, organized by topic. The committee requested that Ms. Orlansky forward these questions to Ms. Maez as the place to start for obtaining answers, and then to others, such as SSC or Procopio, as needed.

1. Topic: Special Reserve for Capital Projects Fund (the fund that contains tax-increment pass through funds from the Santa Monica Redevelopment Successor Agency)

The Committee understands that this Special Reserve Fund is used to pay the debt owed on the COPs for the District Headquarters building. The Committee's questions are:

a. *Each year, once the annual debt on the COPs is paid, how has the "Other Outgo" line item in this Special Reserve Fund for Capital Projects been allocated?*
b. *If the allocation has been to assist with funding BB or ES Bond projects, what is the dollar split between bond projects in Malibu versus Santa in 2015-16 and 2016-17?*

2. Topic: Refinancing of Existing Bond Debt

a. *Post-separation, can a future SMUSD and MUSD make separate decisions about the refinancing of existing bond debt (that was issued prior to separation), or must any future refinancing of bond debt that existed at the time of separation be conducted jointly?*
b. *And related to the above question, is it possible that the mechanics of allocating existing bond debt between SMUSD and MUSD at the time of separation (e.g., allocating the determined amounts by tranche) could enable one district to refinance its allocation without input from the other?*

3. Topic: Washington West

a. *What activities currently take place at Washington West, and to what extent does this property serve schools/students/teachers in both Santa Monica and Malibu?*
b. *Does the District have any plans for changing the use of this property in the foreseeable future?*

4. Topic: Reconciling Ground Lease Revenue Data for Properties in Santa Monica

Specifically, the sum of the 2017-18 ground lease data for properties in Santa Monica ($2,720,222) contained in the 7/15/2016 memo from Carey Upton to the Board (included as Appendix C in SSC's second report) is about $961K more than the ground lease total for 2017-18 ($1,758,838) shown for SMUSD only in SSC's Appendix A forecasts. The Committee is interested in understanding why the two reported totals are not the same.

V. Public Comments
There were no public comments.

VI. Upcoming Meetings

A. Topics for Next Agenda
The committee will continue its worksession on the terms and conditions of agreement. The committee plans to begin with discussion of the remaining issues in Topic 1 concerning the allocation method for SMMUSD's land and buildings.

B. Review and confirmation of Committee's November meeting schedule:
- *No meeting on Tuesday, November 8 (Election Day)*
- *Tuesday, November 15, 7-9 PM at Malibu City Hall*
- *Tuesday, November 22, 7-9 PM at SMMUSD District Office*
- *Tuesday, November 29, 7-9 PM at Malibu City Hall*

VII. Adjournment
The committee adjourned the meeting at 8:45 p.m.

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MEMORANDUM

TO:	Malibu Unification Negotiation Committee Santa Monica-Malibu Unified School District	FILE NO:	123956-01
FROM:	John C. Lemmo		
DATE:	July 21, 2016		
RE:	Reorganization of Santa Monica-Malibu Unified School District: Questions Regarding General Obligation Bond Allocation		

This Memorandum addresses requested legal and financial considerations regarding general obligation bonds, whether issued by the District and currently outstanding, or unissued but authorized by vote of at least 55% within the District as a whole and within the two districts that would result from reorganization of the District. This Memorandum is intended to supplement and not repeat the Nielsen Merksamer analysis of existing statutory provisions regarding allocations to be made with respect to bonds.

You have asked four related questions for guidance. The questions are repeated below, followed by our responses.

1, What are alternative methods of allocating SMMUSD's issued bond debt?

It is important to first note that any reorganization that affects property securing outstanding bonds would be subject to immediate mandatory disclosure to the bond market and could affect the credit ratings on the bonds and consequent market prices and values of bonds held by investors. Any method of allocation should consider this factor, with appropriate evaluation from a financial consultant and possibly the bond rating agencies directly. The terms of reorganization should be disclosed as soon as feasible to mitigate any effect of uncertainty on the market price for bonds traded in the secondary market.

Without regard to special "fairness" allocations relating to specific facility location or use, there are at least four alternative bases for allocations relative to assessed property value, and all may affect existing bond investors and bond credit ratings:

a. Allocation based upon relative assessed values on the most recent assessment rolls as of the effective date of reorganization. This is the simplest method. However, it may not equitably allocate debt over time as assessed values may rise and fall unevenly.

b. Allocation based upon relative assessed values re-determined year-by-year for the remaining duration of each bond issue. This method is likely the most equitable, but also includes annual calculation work (additional cost).

c. Allocation based upon relative assessed values on the most recent assessment rolls as of the date of each bond issue. This method would tend to allocate based upon outdated values that may conflict with more current information available to bond investors.

d. Allocation based upon relative assessed values on the most recent assessment rolls as of the date of each voter authorization. This method would tend to allocate based upon outdated values that may conflict with more current information available to bond investors.

2. What are alternative methods of allocating the authority to issue future bonds that have been authorized but not yet issued?

The method of allocation of assessed property values and the fluctuation in values and tax delinquencies may affect the credit rating and consequent cost of borrowing under authorized bonds to be issued in the future. The fairness of any method of allocation may likewise reflect the value and service areas of specific projects to be financed with unissued bonds.

As discussed in the Nielsen Merksamer memo, the Education Code does not directly address allocation of voter-approved authority for future bonds in your situation, where an existing district reorganizes into two. In your situation, there appear to be three alternatives:

a. <u>Include allocation of bonding authority in the reorganization petition itself</u>. The petition could allocate the authority based upon relative assessed values at time of election or reorganization. This method is vulnerable to a taxpayer challenge (lawsuit), and should therefore be judicially validated after reorganization. If there is an opponent, it could take significant time to resolve, and has risk of being set aside by court as invalid.

b. <u>Special legislation</u>. This is a much safer and surer approach, with some legislative precedent. For example, the Wiseburn and Centinela districts successfully utilized special legislation with regard to indebtedness and revenue limit, as discussed in the Nielsen Merksamer memo. The special legislation would be processed concurrently with the reorganization petition.

c. <u>Joint Powers Authority</u>. An alternative option would be the formation of a joint powers authority that would control issuance of bonds remaining under existing voter authorization. Through the new JPA entity, the two districts could use all or part of the remaining combined voter authorization for the issuance of specific series of bonds to be secured by assessed property value allocations specific to the value and service areas of the projects. The allocation could be relative to prevailing assessed values at the time of each bond issue. Each district could have equal voting representation in the JPA to help ensure equitable allocation. The JPA's power to issue new-money bonds could terminate upon full use of existing bonding authority, but otherwise the JPA could continue in order to maximize the ability of both districts to obtain more favorable ratings for future bond measures or to refinance outstanding debt of the JPA or of either or both resulting districts on more favorable market terms.

3. How would reorganization affect the future bonding capacity of a separate SMUSD and MUSD?

Each district would have its capacity affected (reduced) by the allocation of debt and authorization discussed above. A more significant consideration is that the two smaller districts would each likely obtain less favorable treatment from the rating agencies than the current, larger SMMUSD. The rating differences would reflect factors beyond relative assessed property values, such as diversity of land use and ownership or local geologic hazards.

4. Are there additional issues related to bonds/debt that the Committee should address as part of their package of recommendations to the Board of Education regarding the financial aspects of separation?

Restrictive financial covenants. One potential aspect of reorganization could involve one or more restrictive financial covenants applicable to property remaining encumbered by existing or future bond issues. Either or both resulting districts might agree to not encumber such property further unless certain conditions are satisfied, such as any new property encumbrance secured on a parity basis with outstanding bonds may be conditioned on reaffirmation of credit ratings on outstanding bonds. If reaffirmation were not possible, then subordinated bonds could be issued (but the cost of borrowing under subordinated bonds would be higher due to greater exposure to the impact of property value fluctuations and tax delinquencies, some of which might be mitigated with debt service reserve funds.)

New Voter Authorizations. Obviously, each resulting district may seek its own new voter authorization for bonds. However, to the extent the property to be taxed for bonds issued under the new authorization already secures the payment of existing bonds outstanding, similar considerations may arise warranting restrictive financial covenants. So if the JPA option is pursued, the JPA might continue to function not only until existing voter authorizations are exhausted, but also until all bonds outstanding as of the effective date of reorganization are retired.

# # #

October 4, 2016

Santa Monica-Malibu Unified School District

Bond Program Overview

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Section I

District Overview

SMMUSD Assessed Value by Jurisdiction (1)

Santa Monica Malibu USD ("SMMUSD") is currently comprised of the areas below:

- The City of Santa Monica (assumed to be the potential "Santa Monica USD") makes up approximately 66.44% of SMMUSD
- The City of Malibu and portions of the City of Westlake Village and Unincorporated Los Angeles County (together, assumed to be the potential "Malibu USD") make up approximately 33.56% of SMMUSD

Jurisdiction	2016-17 Assessed Valuation in District	% of District	2016-17 Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Malibu	$ 14,821,609,195	29.70 %	$ 14,821,609,195	100.00 %
City of Santa Monica	33,159,005,934	66.44	33,159,981,350	100.00 %
City of Westlake Village	559,977	0.00	3,323,375,113	0.02 %
Unincorporated Los Angeles County	1,929,021,118	3.86	98,268,176,262	1.96 %
Total District	$ 49,910,196,224	100.00 %		
Los Angeles County	$ 49,910,196,224	100.00 %	$1,344,647,265,846	3.71 %

(1) Source: California Municipal Statistics, Inc.

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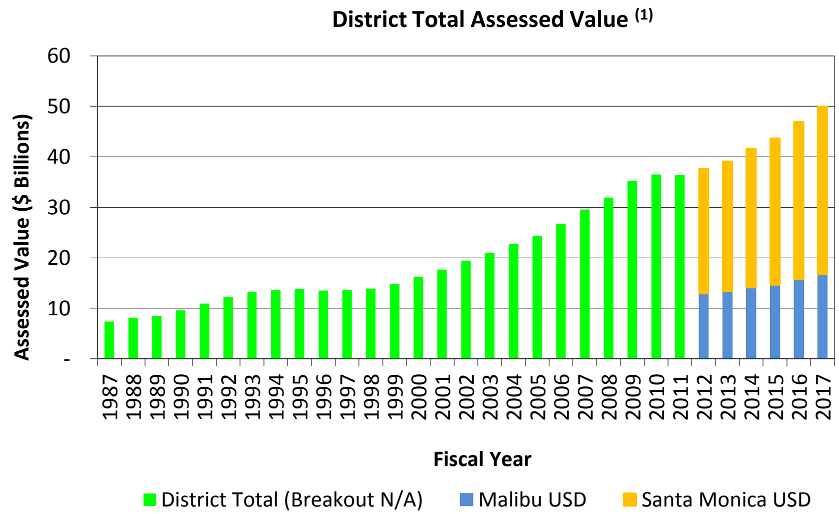
SMMUSD's Assessed Value (1)

SMMUSD's assessed value ("AV") grew by 6.47% in 2016-17

	Malibu USD		Santa Monica USD		SMMUSD	
FY	Total Assessed Value (1)	Annual % Change	Total Assessed Value (1)	Annual % Change	Total Assessed Value (1)	Annual % Change
1987					$ 7,363,965,000	
1988					8,115,946,000	10.21 %
1989					8,497,040,000	4.70
1990					9,569,512,000	12.62
1991					10,959,403,000	14.52
1992					12,247,660,396	11.75
1993					13,212,295,256	7.88
1994					13,589,734,588	2.86
1995					13,831,788,934	1.78
1996					13,517,085,904	-2.28
1997					13,644,313,888	0.94
1998					13,879,224,941	1.72
1999					14,755,885,770	6.32
2000					16,268,617,035	10.25
2001					17,652,511,583	8.51
2002					19,440,867,781	10.13
2003					21,014,678,438	8.10
2004					22,755,683,025	8.28
2005					24,274,572,281	6.67
2006					26,750,651,775	10.20
2007					29,570,115,254	10.54
2008					31,926,254,125	7.97
2009					35,219,582,002	10.32
2010					36,517,722,578	3.69
2011					36,397,355,982	-0.33
2012	12,933,576,249		24,643,220,291		37,576,796,540	3.24
2013	13,336,729,306	3.12 %	25,764,831,084	4.55 %	39,101,560,390	4.06
2014	14,123,821,322	5.90	27,513,319,466	6.79	41,637,140,788	6.48
2015	14,646,090,350	3.70	29,045,399,241	5.57	43,691,489,591	4.93
2016	15,722,234,940	7.35	31,154,496,570	7.26	46,876,731,510	7.29
2017	16,751,190,290	6.54	33,159,005,935	6.43	49,910,196,224	6.47



	SMMUSD	
	Annualized Growth Rates:	***Lowest Rolling***
3-year:	6.23 %	0.11 %
5-year:	5.84	0.99
10-year:	5.37	4.73
15-year:	6.49	6.05
20-year:	6.70	5.57
25-year:	5.78	5.78

(1) Source: California Municipal Statistics, Inc. and Los Angeles County.

Rating Analysis - SMMUSD

The columns below represent Moody's rating medians for Aaa, Aa1 and Aa2

General Entity Information	Aaa	Aa1	Aa2	**SMMUSD** [1]
Current Senior Most Rating	Aaa	Aa1	Aa2	Aa1
Financial Data : Tax Base Statistics and Ratios				
Total Full Value ($000)	$26,557,665	$19,972,508	$11,779,405	$49,910,196
Full Value Per Capita ($)	$347,154	$244,205	$139,835	$393,851
Average Annual Increase in Full Value (%)	4.2	2.8	1.7	6.7
Financial Data : Demographic Statistics				
Actual/Estimated Population, Annual Value	74,066	N/A	430,000	126,724
Population 2010 Census	60,630	85,145	80,653	108,868
Per Capita Income (2010 Census)	$61,586	$45,819	$33,507	$61,986
Per Capita Income as % of State (2010 Census)	211.0	157.0	114.8	207.3
Per Capita Income as % of U.S. (2010 Census)	225.3	167.6	122.5	217.1
Median Family Income (2010 Census)	$123,573	$107,125	$88,963	$75,391
Median Family Income as % of State (2010 Census)	178.2	154.5	128.3	122.6
Median Family Income as % of U.S. (2010 Census)	196.2	170.1	141.2	141.0
Population Change 2000-2010 (%)	4.0	3.5	4.9	N/A
Median Home Value (2010 Census)	$1,000,001	$779,700	$556,400	1,000,000+
Median Gross Rent (2010 Census)	$1,580	$1,442	$1,296	$1,466
County Annual Unemployment Rate (BLS Data, %)	4.2	4.5	5.2	6.7
Financial Data : Debt Statistics & Ratios				
Operating Revenues ($000)	$73,682	$91,511	$99,867	$180,979
Fund Balance as a % of Revenues	37.2	35.2	25.3	42.3
Cash Balance as a % of Revenues	39.4	36.9	26.9	48.5
Basic Aid	Yes	Yes/No	No	No
Financial Data : Pension Statistics and Ratios				
Net Direct Debt ($000)	$155,191	$129,931	$72,721	$322,275
Net Direct Debt/Operating Revenues (x)	1.4	1.7	0.9	1.8
Net Direct Debt/Full Value (%)	2.5	2.2	2.6	0.7

(1) Sources: California Municipal Statistics, Inc., U.S. Census Bureau, 2010 Census, U.S. Census Bureau, 2010-2014 American Community Survey 5-Year estimates, and Bureau of Labor Statistics.

Rating Analysis - SMUSD

The columns below represent Moody's rating medians for Aaa, Aa1 and Aa2

General Entity Information				SMUSD (1)
Current Senior Most Rating	Aaa	Aa1	Aa2	
Financial Data : Tax Base Statistics and Ratios				
Total Full Value ($000)	$26,557,665	$19,972,508	$11,779,405	$33,159,006
Full Value Per Capita ($)	$347,154	$244,205	$139,835	$361,923
Average Annual Increase in Full Value (%)	4.2	2.8	1.7	6.0
Financial Data : Demographic Statistics				
Actual/Estimated Population, Annual Value	74,066	N/A	430,000	91,619
Population 2010 Census	60,630	85,145	80,653	89,736
Per Capita Income (2010 Census)	$61,586	$45,819	$33,507	$58,252
Per Capita Income as % of State (2010 Census)	211.0	157.0	114.8	194.8
Per Capita Income as % of U.S. (2010 Census)	225.3	167.6	122.5	204.0
Median Family Income (2010 Census)	$123,573	$107,125	$88,963	$74,534
Median Family Income as % of State (2010 Census)	178.2	154.5	128.3	121.2
Median Family Income as % of U.S. (2010 Census)	196.2	170.1	141.2	139.4
Population Change 2000-2010 (%)	4.0	3.5	4.9	0.7
Median Home Value (2010 Census)	$1,000,001	$779,700	$556,400	1,000,000+
Median Gross Rent (2010 Census)	$1,580	$1,442	$1,296	$1,583
County Annual Unemployment Rate (BLS Data, %)	4.2	4.5	5.2	6.7
Financial Data : Debt Statistics & Ratios				
Operating Revenues ($000)	$73,682	$91,511	$99,867	N/A
Fund Balance as a % of Revenues	37.2	35.2	25.3	N/A
Cash Balance as a % of Revenues	39.4	36.9	26.9	N/A
Basic Aid	Yes	Yes/No	No	No
Financial Data : Pension Statistics and Ratios				
Net Direct Debt ($000)	$155,191	$129,931	$72,721	$214,120 (2)
Net Direct Debt/Operating Revenues (x)	1.4	1.7	0.9	N/A
Net Direct Debt/Full Value (%)	2.5	2.2	2.6	0.6

(1) Sources: California Municipal Statistics, Inc., U.S. Census Bureau, 2010 Census, U.S. Census Bureau, 2010-2014 American Community Survey 5-Year estimates, and Bureau of Labor Statistics.

(2) Assumes pro-rata split of outstanding debt based on 2016-17 AV shown on page two.

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Rating Analysis - MUSD

The columns below represent Moody's rating medians for Aaa, Aa1 and Aa2

General Entity Information	Aaa	Aa1	Aa2	**MUSD [1]**
Current Senior Most Rating	Aaa	Aa1	Aa2	
Financial Data : Tax Base Statistics and Ratios				
Total Full Value ($000)	$26,557,665	$19,972,508	$11,779,405	$16,751,190
Full Value Per Capita ($)	$347,154	$244,205	$139,835	$1,305,627
Average Annual Increase in Full Value (%)	4.2	2.8	1.7	7.5
Financial Data : Demographic Statistics				
Actual/Estimated Population, Annual Value	74,066	N/A	430,000	12,830
Population 2010 Census	60,630	85,145	80,653	12,645
Per Capita Income (2010 Census)	$61,586	$45,819	$33,507	$95,212
Per Capita Income as % of State (2010 Census)	211.0	157.0	114.8	318.4
Per Capita Income as % of U.S. (2010 Census)	225.3	167.6	122.5	333.4
Median Family Income (2010 Census)	$123,573	$107,125	$88,963	$130,432
Median Family Income as % of State (2010 Census)	178.2	154.5	128.3	212.1
Median Family Income as % of U.S. (2010 Census)	196.2	170.1	141.2	243.9
Population Change 2000-2010 (%)	4.0	3.5	4.9	6.4
Median Home Value (2010 Census)	$1,000,001	$779,700	$556,400	1,000,000+
Median Gross Rent (2010 Census)	$1,580	$1,442	$1,296	2,000+
County Annual Unemployment Rate (BLS Data, %)	4.2	4.5	5.2	6.7
Financial Data : Debt Statistics & Ratios				
Operating Revenues ($000)	$73,682	$91,511	$99,867	N/A
Fund Balance as a % of Revenues	37.2	35.2	25.3	N/A
Cash Balance as a % of Revenues	39.4	36.9	26.9	N/A
Basic Aid	Yes	Yes/No	No	Yes
Financial Data : Pension Statistics and Ratios				
Net Direct Debt ($000)	$155,191	$129,931	$72,721	$108,155 [2]
Net Direct Debt/Operating Revenues (x)	1.4	1.7	0.9	N/A
Net Direct Debt/Full Value (%)	2.5	2.2	2.6	0.6

(1) Sources: California Municipal Statistics, Inc., U.S. Census Bureau, 2010 Census, U.S. Census Bureau, 2010-2014 American Community Survey 5-Year estimates, and Bureau of Labor Statistics.

(2) Assumes pro-rata split of outstanding debt based on 2016-17 AV shown on page two.

Summary of Measure ES

On November 6, 2012, SMMUSD was authorized by voters to issue $385 million of general obligation bonds under Proposition 39

- Passed with a 68.06% affirmative vote
  - 55% voter approval required
- Estimated tax rate of $30 per $100,000 of AV
  - Proposition 39 legal maximum: $60 per $100,000 of AV

The District has issued two series under Measure ES

- On August 13, 2014, SMMUSD issued Series A for $30 million
- On July 7, 2015, SMMUSD issued Series B for $60 million
- Measure ES tax rates:
  - Fiscal year 2013-14: $26.49 per $100,000 of AV
  - Fiscal year 2014-15: $27.96 per $100,000 of AV
  - Fiscal year 2015-16: $27.37 per $100,000 of AV
  - Fiscal year 2016-17: $25.57 per $100,000 of AV

Section II

Bond Scenarios

Scenario 1 - SMMUSD

SMMUSD can access the remaining $295 million in Measure ES authorization by 2023 using all current interest bonds ("CIBs") under the below assumptions

- Assumptions:
  - Interest rates: 5.25% - 6.75% (1)
  - Annual AV growth rates:
    - 2017-18: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0%

Illustrative Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio	Estimated Santa Monica USD Debt Service	Estimated Malibu USD Debt Service	Estimated Total Debt Service	
Series A	August 2014	$ 30,000,000	3.50 %	0.00 %	1.21 to 1	$ 24,120,096	$ 12,184,935	$ 36,305,031	(3)
Series B	July 2015	60,000,000	3.77	0.00	1.54 to 1	61,578,420	31,108,045	92,686,465	(3)
Series C	July 2017	73,750,000	5.25	0.00	1.74 to 1	85,375,567	43,129,833	128,505,400	
Series D	July 2019	73,750,000	5.75	0.00	1.91 to 1	93,349,443	47,158,057	140,507,500	
Series E	July 2021	73,750,000	6.25	0.00	2.06 to 1	100,761,151	50,902,286	151,663,438	
Series F	July 2023	73,750,000	6.75	0.00	1.93 to 1	94,358,236	47,667,676	142,025,913	
Total		$ 385,000,000		0.00 %	1.80 to 1	$ 459,542,915	$ 232,150,832	$ 691,693,746	

(1) Assumes higher than market interest rates of a 'Aa1/AA' district.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's project needs.
(3) Previously issued financing.

Scenario 2 – Unification/SM & Malibu Split ES Proceeds Pro-Rata

Santa Monica USD and Malibu USD can access the remaining $295 million; proceeds are split according to assessed value ratios

- Assumptions:
  - Interest rates:
    - Malibu USD: 5.20% - 6.70% (1)
    - Santa Monica USD: 5.30% - 6.80% (1)
  - Annual AV growth rates:
    - 2017-18: 3.00%
    - Thereafter: 4.00%
  - 100% CIBs

Illustrative Issuance Schedule (2)

Issue	Issue Date	Total Proceeds	Santa Monica USD Proceeds (3)	Santa Monica USD Interest Rate Assumption	Santa Monica USD Estimated Repayment Ratio	Santa Monica USD Estimated Debt Service (3)	Malibu USD Proceeds (3)	Malibu USD Interest Rate Assumption	Malibu USD Estimated Repayment Ratio	Malibu USD Estimated Debt Service (3)	Estimated Total Debt Service
Series A	August 2014	$ 30,000,000	$ 19,931,202	3.50 %	1.21 to 1	$ 24,120,096	$ 10,068,798	3.50 %	1.21 to 1	$ 12,184,935	$ 36,305,031 (4)
Series B	July 2015	60,000,000	39,862,403	3.77	1.54 to 1	61,578,420	20,137,597	3.77	1.54 to 1	31,108,045	92,686,465 (4)
Series C	July 2017	73,750,000	48,997,537	5.30	1.75 to 1	85,776,470	24,752,463	5.20	1.71 to 1	42,203,800	127,980,270
Series D	July 2019	73,750,000	48,997,537	5.80	1.92 to 1	93,860,320	24,752,463	5.70	1.86 to 1	45,951,720	139,812,040
Series E	July 2021	73,750,000	48,997,537	6.30	2.03 to 1	99,508,990	24,752,463	6.20	1.99 to 1	49,338,890	148,847,880
Series F	July 2023	73,750,000	48,997,537	6.80	2.01 to 1	98,653,260	24,752,463	6.70	2.04 to 1	50,392,860	149,046,120
Total		$ 385,000,000	$ 255,783,753		1.81 to 1	$ 463,497,557	$ 129,216,247		1.79 to 1	$ 231,180,249	$ 694,677,806

(1) Assumes higher than market interest rates of 'Aaa/AA+' for Malibu USD and 'Aa2/AA-' for Santa Monica USD.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's project needs.
(3) Proceeds and debt service based on the pro-rata split shown on page two.
(4) Previously issued financing.

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Scenario 3 – Unification/SM Issues All Remaining Proceeds/No Malibu on Series A & B

Santa Monica USD can access the remaining $295 million Measure ES authorization by 2029 using CIBs and capital appreciation bonds ("CABs") under the below assumptions

- Assumptions:
  - Malibu USD does not pay any future debt service on Series A and Series B
  - Interest rates: 5.30% - 6.80% (1)
  - Annual AV growth rates:
    - 2017-18: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0%

Illustrative Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio	Estimated Santa Monica USD Debt Service	Estimated Malibu USD Debt Service	Estimated Total Debt Service
Series A	August 2014	$ 30,000,000	3.50 %	0.00 %	1.21 to 1	$ 29,535,063	$ 6,769,968 (3)	$ 36,305,031 (4)
Series B	July 2015	60,000,000	3.77	0.00	1.54 to 1	88,377,922	4,308,543 (3)	92,686,465 (4)
Series C	July 2017	59,000,000	5.30	10.05	2.02 to 1	119,274,360	-	119,274,360
Series D	July 2020	59,000,000	5.80	15.52	2.33 to 1	137,349,820	-	137,349,820
Series E	July 2023	59,000,000	6.30	19.76	2.58 to 1	152,059,145	-	152,059,145
Series F	July 2026	59,000,000	6.80	23.87	2.87 to 1	169,550,740	-	169,550,740
Series G	July 2030	59,000,000	6.80	50.69	3.49 to 1	205,616,060	-	205,616,060
Total		$ 385,000,000		18.37 %	2.37 to 1	$ 901,763,110	$ 11,078,511	$ 912,841,621

(1) Assumes higher than market interest rates of a 'Aa2/AA-' district.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's project needs.
(3) Estimated debt service paid on issued bonds through 7/1/2016.
(4) Previously issued financing.

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Scenario 4 – Unification/SM Issues All Remaining Proceeds; Malibu Pays Pro-Rata on Series A & B

Santa Monica USD can access the remaining $295 million Measure ES authorization by 2029 using CIBs and CABs under the below assumptions

- Assumptions:
  - Malibu USD pays future pro-rata debt service on Series A and Series B
  - Interest rates: 5.30% - 6.80% (1)
  - Annual AV growth rates:
    - 2017-18: 3.00%
    - Thereafter: 4.00%
  - Secured AV delinquency: 5.0%

Illustrative Issuance Schedule (2)

Issue	Issue Date	Proceeds	Interest Rate Assumption	% CABs	Estimated Repayment Ratio	Estimated Santa Monica USD Debt Service	Estimated Malibu USD Debt Service	Estimated Total Debt Service
Series A	August 2014	$ 30,000,000	3.50 %	0.00 %	1.21 to 1	$ 24,120,096	$ 12,184,935	$ 36,305,031 (3)
Series B	July 2015	60,000,000	3.77	0.00	1.54 to 1	61,578,420	31,108,045	92,686,465 (3)
Series C	July 2017	59,000,000	5.30	7.91	1.92 to 1	113,089,945	-	113,089,945
Series D	July 2020	59,000,000	5.80	4.85	1.98 to 1	116,777,690	-	116,777,690
Series E	July 2023	59,000,000	6.30	15.93	2.33 to 1	137,189,385	-	137,189,385
Series F	July 2026	59,000,000	6.80	22.46	2.70 to 1	159,377,920	-	159,377,920
Series G	July 2029	59,000,000	6.80	44.78	3.20 to 1	189,033,000	-	189,033,000
Total		$ 385,000,000		15.95 %	2.26 to 1	$ 801,166,457	$ 43,292,979	$ 844,459,436

(1) Assumes higher than market interest rates of a 'Aa2/AA-' district.
(2) Issuance schedule for illustrative purposes only. Actual amounts and dates will be tailored to the District's project needs.
(3) Previously issued financing.

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M E M O R A N D U M

To: Board of Education, Santa Monica Malibu Unified School District

From: Financial Oversight Committee

Date: July 15, 2015

Subject: Proposed Action to Reorganize the Existing Santa Monica Malibu Unified School District by Forming a New Malibu Unified School District from Parts of the Existing District - Implications Relating to the Division of Assets and Liabilities

This Memorandum responds to one of the charges given by the Board to the Financial Oversight Committee ("FOC") at our joint meeting in July, 2014. At that meeting, the Board requested that the FOC provide information regarding the financial implications of forming a new "Malibu Unified School District" ("MUSD") from parts of the existing Santa Monica Malibu Unified School District (the "Existing District"). MUSD would consist of all geographic areas currently served by the Existing District which are outside the boundaries of the City of Santa Monica with the Existing District continuing to serve the City of Santa Monica under the name "Santa Monica Unified School District" ("SMUSD").

The FOC divided this task between two subcommittees, one focusing on the division of assets and liabilities, which is addressed in this Memorandum, and the other looking at hypothetical operating budgets for the two districts which will be addressed in a separate memorandum.

Summary

The Board expressed particular interest in learning whether there were any financial issues sufficiently material to preclude support by the Board for the proposed unification - so-called "deal breakers." Based on research and analysis carried out by this subcommittee and discussions by the full FOC, the FOC identified the existing claim and potential future claims against the District and certain of its officials arising from alleged toxic substances and remediation practices at certain Malibu schools as the only potential "deal breaker" within the context of the allocation of assets and liabilities. While we have some preliminary thoughts on how that issue might be satisfactorily resolved, advice from legal counsel will be necessary and we've had neither the time nor the resources to investigate their feasibility.

The California Education Code contains certain default provisions regarding the method to be used for allocating assets and liabilities. It also provides, however, that other methods may be used if found to be more equitable. Therefore, the suggested allocations discussed in this Memorandum are based upon the FOC's conclusions regarding equitable allocations. In some instances we were unable to reach a solution absent more information; however, we are confident that mutually agreeable results can be reached through further analysis and discussion.

A. Division of Assets.

1. Land and Improvements.

In addition to existing school sites, the District owns (a) the land and the building in which the District offices are housed, (b) the land underneath the Doubletree Hotel and the adjacent office building, but not the buildings, (c) the land underneath a single-story multi-tenant building at 9th and Colorado, but not the building, (d) the site previously used for Madison School which is leased to Santa Monica College and the buildings on that site except for the Broad Stage and other buildings constructed by SMC, (e) the site and the buildings previously used for Washington School on 4th Street in Ocean Park and a children's center across the street, and (f) a few additional small parcels, some in Malibu and some in Santa Monica.

The Education Code provides that real property plus the improvements, FF&E, and books and supplies normally situated on that property are to be allocated to the district in which the property is located. The Subcommittee believes this to be a reasonable method of allocation so that, in essence, all real property owned by the District located outside the City of Santa Monica, as well as the associated improvements, etc. located on that property, would be allocated to MUSD with the balance being retained by SMUSD. We are not aware of any real property for which it would be inappropriate to make such an allocation.

2. Personal Property Other Than Cash. We did not have an inventory of personal property but believe that the only major items that are not associated with a particular school site or the District office, all of which would run with that property, are vehicles, primarily large and small buses. In general, the large buses and perhaps some small buses are housed in Malibu and are used almost exclusively in Malibu while most of the small buses are housed in Santa Monica and are used there. The FOC believes that the appropriate allocation should be based on how these buses are used so that, in essence, the ones housed in Malibu would probably be allocated to MUSD and the ones housed in Santa Monica would remain with the District. To the extent buses used in Malibu are currently maintained in Santa Monica, a new MUSD could enter into a maintenance agreement with SMUSD until it was prepared to provide its own maintenance facility.

3. Cash. The FOC believes that cash cannot be allocated using any single method because there are differing sources of money and different restrictions as to how it is permitted to be used. We discussed these issues by looking at the individual funds maintained by the District.

a. Major Governmental Funds.

(1) General Fund (Unrestricted). The easiest way to allocate cash in the unrestricted portion of the General Fund would be based on respective ADA for the last year of operation of the District. Such a method would, however, disregard the different funding sources which we believe are relevant in certain cases. Therefore, we believe that further discussions are needed regarding allocation of the cash in this Fund.

- LCFF Funding. The bulk of the unrestricted general fund money comes from local property taxes and the State. Malibu's share of property tax funding will be disproportionately higher than Santa Monica's share when compared to ADA allocations. However, due to supplemental grants under LCFF, it is likely that a disproportionate amount of State money is due to Santa Monica enrollment.

- City of Santa Monica. Through the joint use agreement and Prop. Y, the City of Santa Monica and its taxpayers are expected to contribute approximately $16,000,000 to the General Fund during the next fiscal year. Therefore, it does not seem appropriate to allocate General Fund cash derived from these payments through use of ADA.

- Prop. R Parcel Tax. Prop. R is expected to generate approximately $11,000,000 for the General Fund during the next fiscal year. There are two ways to look at these dollars. The first would be to assume that none of the cash in the unrestricted portion of the General Fund at the end of the year was derived from Prop. R because it is all legally required to be spent during the year. The other would assume all General Fund dollars are fungible and allocate accordingly, either based on ADA or another method, such as the respective number of parcels for which the owners did not take advantage of the senior exemption.

- Other Local Income. This catch-all category is expected to contribute approximately $3,500,000 to the General Fund over each of the next few years. Much of this money comes from leases, such as the ground leases for the Doubletree Hotel and Madison School. These funds could be allocated based on ADA or allocated based upon the location of the property generating the income.

- SMMEF. Funds contributed by SMMEF will be spent during the fiscal year in which they were contributed. Therefore, as with Prop. R, cash in the unrestricted portion of the General Fund at the end of a fiscal year will not contain any of these dollars. Depending upon the principle used, these funds could either be disregarded or treated as a part of fungible cash and allocated. If they are to be allocated, it would seem inappropriate to allocate much, if any, to MUSD given the history of SMMEF's lack of success in raising contributions in Malibu.

(2) General Fund (Restricted). Funds in this account must be used for specific purposes, such as the acquisition of instructional material from lottery

proceeds. It is not clear whether these restrictions will impact the allocation method but, if not, ADA may be appropriate.

(3) Building Fund - $45,800,000. This fund contains unspent bond proceeds from both BB and ES bonds which are restricted for use in accordance with the bond program. (Of course, it is likely the District will issue one or more additional series of ES bonds before any separation would become effective thereby generating more unspent proceeds.) The FOC believes that to the extent the proceeds have been earmarked for specific projects, the funds should be divided in that manner. To the extent that they have not been earmarked, another method, such as the 80%/20% contemplated in the Board's resolution authorizing the placing of the ES bonds on the ballot could be used with the split taking into account previous expenditures as well as the allocations of the earmarked funds.

We assume that if bond proceeds are transferred to MUSD, some Proposition 39 committee will be required to oversee the expenditures. We are unsure as to whether this would be a new committee created by MUSD or the existing committee.

(4) Bond Interest and Redemption Fund - $40,498,000. This fund contains property tax receipts used to make payments on outstanding bonds as well as any accrued interest received at the time the bonds were sold. It is maintained by the county and should be allocated in a manner consistent with the bond indebtedness.

b. Non-Major Governmental Funds - Special Revenue Funds. These Funds are generally restricted for certain specific purposes and, to that extent, should be allocated based upon use rather than ADA.

(1) Adult Education Fund. This fund accounts for revenue received for adult education and can be used for only that purpose.

(2) Child Development Fund. This fund is legally restricted for child development programs and should be allocated based on use. Most of the child development programs are in Santa Monica with a minor element in Malibu.

(3) Cafeteria Special Revenue Fund. This fund is for operation of the food service programs. Since these programs exist in both SM and Malibu and provide service to all students, an allocation based on ADA may be appropriate.

(4) Deferred Maintenance Fund. This fund holds State and local contributions for deferred maintenance. Rather than ADA, the proper allocation may be based upon square footage of the improvements to be held by each district.

c. Non-Major Governmental Funds - Capital Project Funds.

(1) Capital Facilities Fund. This Fund holds proceeds from developer fees and is likely to be significantly higher than was the case on January 31, 2015, the date of the 2nd Interim Report, when it was approximately $34,000. To some extent, the proceeds of the Fund have already been reserved to assist in the payment of construction costs for Measure BB projects and for the payment of costs associated with environmental remediation in Malibu; those allocations should be preserved. To the extent that the fund contains excess proceeds, we believe it should be allocated on a pro-rata basis measured by the location of the projects giving rise to the developer fee deposits rather than ADA.

(2) Special Reserve for Capital Outlay Projects. This Fund contains that portion of tax increment funds received by the District from the Santa Monica Redevelopment Agency which is required by law to be used for capital expenditures. This Fund has also been allocated to pay a portion of the cost of BB projects and should continue to be available for that purpose. To the extent there remain excess amounts in this Fund, they should remain with SMUSD given the fact that they are attributable to Santa Monica projects.

d. Proprietary Fund - Self Insurance Fund. The negative fund balance in this Fund (almost $5,800,000 at the end of 2013- 2014) represents the difference between the OPEB liability discussed below and the $3,000,000 which has been set aside by the District for future funding of those liabilities. Allocation of the $3,000,000 in cash will depend upon the manner in which the Board responds to the FOC's recommendation that this $3,000,000 be placed in a reserve account handled by CalPERS, as was recently done by the City of Santa Monica.

e. Fiduciary Funds. These are "agency" funds used to account for funds held by the District for the benefit of employees or student groups. Presumably, a portion would be transferred to MUSD for deposit into newly-created agency funds for the benefit of MUSD employees and students with the balance retained by SMUSD.

B. Division of Liabilities.

1. Bonds. This Section addresses indebtedness created by previously issued bonds, unspent proceeds of issued bonds, authorized but unissued bonds and future bonds not currently authorized.

In preparing this Memorandum, members of the Subcommittee (x) met with Tony Hsieh of Keygent, the District's bond advisor, (y) discussed relevant legal issues with attorneys Janet Mueller and Bill Tunick of the San Diego law firm of Dannis Woliver Kelley ("**DWK**"), the firm that represented Centinela Valley Union High School District in the Wiseburn unification, and which the FOC recommends be retained by the District, and (z) reviewed memoranda prepared by WestEd at the request of AMPS and Marguerite Leoni of the law firm of Nielsen Merksamer to Craig Foster, counsel to AMPS.

a. Issued Bonds.

(1) Status. As of June 30, 2014, the District had about $315MM in total outstanding "general obligation" bonds: about $68MM in pre-BB bonds and $247MM in BB bonds. In August, 2014, the District issued $30MM in bonds under Measure ES for a current total of about $345MM less any principal payments that have been made. While these bonds are designated as "general obligation" bonds, the only source of payment is assessments against real property in the current District boundaries; they are not technically general obligations of the District payable from any other assets. Therefore, a separation would not affect bondholders - the bonds would continue to be paid based on assessments against property in Santa Monica and Malibu as if there had been no separation and bondholders would have no access to assets of either SMUSD or MUSD.

(2) Allocation of Indebtedness. Following a separation, SMUSD, as the continuation of the District, would be treated as having been the issuer of these bonds and, at least nominally, be fully liable for the aggregate outstanding debt. However, Section 35576(b) of the Education Code would require MUSD to be liable for a portion of that debt and Section 35576(c) requires the county to assess property in both Santa Monica and Malibu based upon the manner in which the bond indebtedness is allocated.

MUSD would be liable for that portion of the bond debt equal to the larger of (a) and (b) below or determined in accordance with Section 35738 described in (c) below:

> (a) Section 35576(b)(1) uses the percentage of the aggregate assessed valuation of property in the District which is located in the MUSD area in the year immediately preceding the effective date of the separation. Currently, that percentage would be about 29.5%. (For ease of discussion, this Memorandum assumes a 30% share for Malibu recognizing that it will be whatever it is at the time.)
>
> (b) Section 35576(b)(2) uses the portion of the outstanding bonded debt incurred for the acquisition or improvement of school property located within the boundaries of MUSD. Determining the MUSD portion on this basis presents practical difficulties, particularly with respect to expenditures made with pre-BB bond proceeds.
>
> (c) Section 35738, permits allocation in any other manner which would provide "greater equity" taking into account "assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deems pertinent."

The FOC recommends that the petition focus on method (a) - using respective percentages of assessed valuation on the effective date of the separation - because attempting to apply method (b) is not practical and we didn't see any basis upon which to conclude that another allocation method would provide "greater equity."

There is a theoretical effect on property taxes in the respective districts compared to taxes absent a separation. If, for example, the bond debt were allocated 70% to SMUSD and 30% to MUSD, property in Santa Monica would be responsible for 70% of all future payments and property in Malibu 30% irrespective of changes in relative assessed valuations. If the relative assessed valuations were to change to 65% - 35%, Santa Monica property would still be responsible for 70% of the bond payments whereas such property would only be responsible for 65% in the absence of a separation. And, of course, were the shift to be in the other direction, say 75% - 25%, Malibu property would absorb a disproportionately higher percentage of the future payments.

(3) Impact on Bonding Capacity. The FOC considered whether the separation or the manner in which the outstanding bond debt is allocated would affect bonding capacity. Preliminarily, it is important to recognize that, as discussed below, Tony Hsieh believes that the restraint on the timing of new bond issues won't be the bonding capacity of SMUSD but the ability to keep the aggregate bond payments limited to $30/$100,000 of assessed valuation. However, if bonding capacity becomes an issue, separation and allocation might be significant.

(a) Separation. In the absence of separation, the bonding capacity of the District would be limited to 2.5% of the aggregate assessed valuation of all Santa Monica and Malibu property. Separation would limit each district to 2.5% of the assessed valuation of property in that district. To the extent that bond proceeds are needed in one district in a greater proportion than the ratios of assessed valuation, the district requiring more bond proceeds would be negatively affected by a separation.

(b) Allocation. Section 33574 provides that the bond debt liability assumed by MUSD would be considered a liability of MUSD for purposes of computing bonding capacity with, presumably, the liability retained by SMUSD affecting its capacity. Therefore, the manner in which the bond debt is allocated between the two districts may have some residual effect on bonding capacity of the two districts.

(4) Future Refinancing. From time to time, most recently on May 7, 2015, the Board has authorized the refinancing of outstanding bonds due to the movement of interest rates or other factors. The mechanism for taking similar action following a separation isn't clear to us. SMUSD probably wouldn't have the authority to issue new bonds for this purpose which were backed, in part, by Malibu property even though the bonds being paid did have that support. Therefore, special legislation may be required to either give SMUSD that authority or create some other vehicle for issuing the refunding bonds.

b. Authorized But Unissued ES Bonds.

At the moment, an additional $355MM remains in bonding authority under Measure ES. This amount could be reduced by up to another $45MM remaining from the Board's 2014 resolution under which $30MM were issued in August and up to an additional $60MM based on the Board's May 7 resolution. For purposes of this Memorandum, we have assumed the remaining $45MM authorization will not be utilized but that the recently authorized $60MM will be issued, thereby reducing the unissued amount to $295MM. (Of course, this amount may be further reduced prior to separation to the extent additional bonds are authorized and issued.)

In the absence of separation, the District would have authority to authorize the issuance of additional ES bonds in the aggregate amount of $295MM. At a time when the remaining authority was $355MM,Tony Hsieh concluded that it should be possible to issue bonds in that aggregate amount through five more series, one every two years in the amount of $71MM starting this year with all bonds being issued by 2023. Assuming the District issues the full $60MM, this schedule might be adjusted somewhat but would probably permit the District to issue bonds in the aggregate amount of $295MM by no later than 2025. According to Tony, the limiting factor is maintaining a maximum tax rate for all ES bonds of $30/$100,000 of assessed valuation, as promised to the voters in the ballot measure. Assuming the proceeds of these future bonds were split 80%/20% between Santa Monica and Malibu schools, Santa Monica schools would receive $236MM and Malibu schools $59MM over the remaining 10-year period. (Note that this is a simplistic assumption because (a) the 80%/20% split related to the entire $385MM ES authorization and the assumption doesn't attempt to take into account the manner in which the issued bond proceeds have been, or will be split, and (b) there was nothing in the Board's resolution limiting Malibu's share to 20% - that number was only a minimum.)

In connection with a separation, the FOC considered two questions relating to potential future bonds:

- What happens to the bonding authority?
- What is the impact of the Board's original ES resolution stating that not less than 20% of the net bond proceeds are to be spent on projects benefiting schools in Malibu?

It is the FOC's understanding, based on discussions with DWK, that in the absence of special legislation directing a different result, SMUSD, as the continuing district, would probably retain the authority to issue the remaining bonds with any new bond debt being paid for through assessments solely against Santa Monica property. However, there is apparently no provision in the Education Code directly on point. Ms. Leoni noted in her memorandum that in the somewhat, but not identical, situation where an existing district is divided and the original district ceases to exist, Section 35577 requires the board of supervisors to allocate the bonding authority between the two new districts based upon respective assessed valuations. She points out, however, that because a Malibu separation would not result in the District ceasing to exist, Section 35577 is not directly applicable. Therefore, in order to allocate the bonding authority between SMUSD and MUSD, Ms. Leoni and DWK both believe that special legislation would be necessary.

If separation occurs and SMUSD is to issue the remaining bonds, it would obviously give SMUSD more money than Santa Monica schools would receive in the absence of separation because none of the proceeds would need to be shared with MUSD - the full $295MM rather than $236MM. However, due to the 30% reduction in assessed valuation resulting from the loss of Malibu property, it will take considerably longer to issue bonds in the aggregate amount of $236MM and even longer to realize the full $295MM.

Alternatively, if separation occurs and special legislation gives MUSD the authority to issue some portion of the ES bonds backed solely by property Malibu, SMUSD would retain authority to issue bonds in the aggregate amount of about $206.5MM (70% of the $295MM total based on assessed valuation) and MUSD the remaining $88.5MM (30%).

Neither solution leaves Santa Monica voters where they thought the were under Measure ES which was to have up to 80% of the ES bond proceeds available for Santa Monica schools with only 70% of the bonded indebtedness being paid for by Santa Monica property owners. The reasons for the mismatch are that there was (and is) a much greater perceived need for capital expenditures on Santa Monica schools, Santa Monica High School in particular, and the 80%/20% split roughly mirrors the pupil breakdown. The only way to achieve this result would be to have special legislation giving SMUSD the power to issue ES bonds backed by all property that was in the District prior to separation and requiring SMUSD to transfer a portion of the net bond proceeds to MUSD in amounts which would preserve the 20% allocation to Malibu schools. A similar structure was included as a part of the special legislation surrounding the Wiseburn/Centinela Valley separation.

Another unknown is the impact of separation on the AA credit rating of the District since it is possible that neither SMUSD nor MUSD could achieve that same level. Tony Hsieh advised us that a one-level drop in the rating would probably equate to a 15 basis point increase in the interest rate that would be required to be paid on new bond issues.

2. <u>Certificates of Participation</u>. These certificates were issued as a method to finance certain lease obligations in connection with property in Santa Monica. Two series are currently outstanding:

2001 Series C maturing 5/1/2025 - $8,548,000
2010 Series B maturing 2/1/2024 - $7,925,000

The FOC believes that the indebtedness under these instruments should remain with the District because it will continue to own that property.

3. Compensated Absences. This liability is primarily for untaken sick leave and, with respect to classified employees, untaken vacation leave. The FOC believes that allocation of this liability may be feasible based on which employees ultimately work for which district.

4. OPEB. The 2015 actuarial study concludes that the District's unfunded liability is around $36,000,000, an increase of almost $10,000,000 from that contained in the 2013 report. GASB 68 requires, beginning with the current fiscal year, that the unfunded liability be reported on the financial statements. As explained in connection with the Self-Insurance Fund above, the $5,800,000 negative balance reflected in that Fund represents the difference between the amount the District should have been contributing annually in order to retire the unfunded liability over a 30-year period - $8,800,000 - over the $3,000,000 the District has set asiderather than utilizing the pay-as-you-go system. Because the District has contributed about $3,000,000 to the Self-Insurance Fund, as reflected above, the net deficit is $5,487,000. The allocation of this liability will require further discussion because it is a combination of obligations to current employees and retired employees.

C. Litigation.

The Subcommittee is aware of two pending lawsuits against the District and, in one case, against certain officers of the District.

1. School Lights. One pending lawsuit challenges the adequacy of the CEQA analysis relating to installation of lights at Malibu High School - we do not believe it seeks monetary damages against the District. Presumably, if there were a separation, MUSD would step into the District's position with respect to this litigation and the District, now being SMUSD, would be dismissed - SMUSD would no longer have any jurisdiction over installation of the lights. Presumably any funds earmarked for this project would be transferred to MUSD as a part of the allocation of assets. The trial court held in favor of the District but the plaintiffs have recently appealed.

Related to this lawsuit is an appeal of the City's approval of the project under the Coastal Act to the Coastal Commission; that appeal is also pending. If there were a separation, presumably MUSD would assume control of this appeal and SMUSD would no longer be involved.

2. Toxic Substances Control Act. A lawsuit has recently been filed against the District, Board members, Sandy and Jan associated with the disputed procedures followed by the District with respect to the investigation and remediation of PCBs in certain Malibu classrooms. The suit alleges failure to comply with the Toxic Substances Control Act and may have certain other allegations - the Subcommittee has not reviewed the Complaint.

It is the Subcommittee's position that any separation would need to be conditioned upon a release of any such claim to the extent that it might continue to apply to SMUSD, its Board members and officers. The Subcommittee believes that MUSD should be obligated to indemnify SMUSD for any exposure to future claims based upon any failure to properly remediate any existing conditions because responsibility to deal with the Malibu facilities would, following a separation, be under the sole jurisdiction of MUSD. However, we are not clear on what other exposure might remain to SMUSD, such as personal injury claims, and, if any, to what extent it is appropriate for MUSD to provide an indemnity and how a meaningful indemnity would be crafted. Clearly, this subject needs further legal analysis by competent counsel as to the nature of any continuing exposure to SMUSD, the proper allocation of responsibility, and the appropriate means to achieve that allocation.

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TO: Craig Foster
Advocates for Malibu Public Schools

FROM: Marguerite Mary Leoni

DATE: September 22, 2014

RE: Questions Pertaining To Formation Of Malibu Unified School District

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This memorandum summarizes my research to date on several questions you proposed to me concerning various aspects of the potential unification of the Malibu portion of Santa Monica Malibu Unified School District ("SMMUSD") to form Malibu Unified School District ("MUSD").

1. Upon unification of the Malibu portion of SMMUSD, can the bonded debt[1] be divided in a manner that is different from that specified in the Education Code.

Yes. The Education Code specifies two methods for dividing bonded debt, but also allows different methods to achieve greater fairness. Education Code section 35576 provides:

> (a) When territory is taken from one district and annexed to, or included in, another district or a new district by any procedure and the area transferred contains public school buildings or property, the district to which the territory is annexed shall take possession of the building and equipment on the day when the annexation becomes effective for all purposes. The territory transferred shall cease to be liable for the bonded indebtedness of the district of which it was formerly a part and shall automatically assume its proportionate share of the outstanding bonded indebtedness of any district of which it becomes a part.

[1] As we have previously discussed, your questions pertaining to the currently authorized bonds should also be reviewed by SMMUSD's bond counsel, which I have recommended be done to ensure that there is nothing in the bonding agreements that might affect the conclusions stated in this memorandum.

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> (b) The acquiring district shall pay the original district the greatest of the amounts determined under provisions of paragraphs (1) or (2) or the amount determined pursuant to a method prescribed under Section 35738.
>
> (1) The proportionate share of the outstanding bonded indebtedness of the original district, which proportionate share shall be in the ratio which the total assessed valuation of the transferring territory bears to the total assessed valuation of the original district in the year immediately preceding the date on which the annexation is effective for all purposes. This ratio shall be used each year until the bonded indebtedness for which the acquiring district is liable has been repaid.
>
> (2) That portion of the outstanding bonded indebtedness of the original district which was incurred for the acquisition or improvement of school lots or buildings, or fixtures located therein, and situated in the territory transferred.
>
> (c) The county board of supervisors shall compute for the reorganized district an annual tax rate for bond interest and redemption which will include the bond interest and redemption on the outstanding bonded indebtedness specified in paragraph (1) or (2) of subdivision (b) or <u>the amount determined pursuant to a method prescribed under Section 35738</u>. The county board of supervisors shall also compute tax rates for the annual charge and use charge prescribed by former Sections 1822.2 and 1825 as they read on July 1, 1970 when such charges were established prior to November 23, 1970. All such tax rates shall be levied in excess of any other ad valorem property tax authorized or required by law and shall not be included in the computation of the limitation specified in subdivision (a) of Section 1 of Article XIII A of the California Constitution.

(Ed. Code § 35576, emphasis added.)

Section 35738[2], referenced in Section 35576, states:

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[2] All references are to the Education Code unless stated otherwise.

> Plans and recommendations may include a method of dividing the bonded indebtedness other than the method specified in paragraphs (1) and (2) of subdivision (b) of Section 35576 for the purpose of providing greater equity in the division. Consideration may be given to the assessed valuation, number of pupils, property values, and other matters which the petitioners or county committee deems pertinent.

(Ed. Code § 35738, emphasis added; see *Co. of Shasta v. Co. of Trinity*, 106 Cal.App.3d 30, 36, interpreting former provisions and stating that "[t]he legislative power over school districts is plenary and upon the reorganization or unification of districts the Legislature may make provision for the division of property and apportionment of the debts of the old district"; 93 Ops. Cal. Atty. Gen. 117, discussing constitutionality of Education Code provisions for the reapportionment of outstanding bonded debt when districts are merged.)

2. Can the petition for formation of Malibu Unified School District specify how existing bonded indebtedness will be split between the new district and the remaining SMMUSD?

Yes. Education Code section 35703 states: "Any petition filed under this article may include any of the appropriate provisions specified in Article 3 (commencing with Section 35730)."

As noted above, the Education Code specifically provides in Article 3 (commencing with Section 35730), that the Plans and Recommendations of the county committee for the reorganization of a school district may include "a method of dividing the bonded indebtedness ..." that may be different from that provided in Section 35576. (§ 35738.) (See, e.g. 1997 Matter of the Unification Golden Valley Unified from the Territory of Madera Unified School District.)

3. Does the obligation of the newly formed MUSD to repay bonded debt incurred when it was a part of SMMUSD, constitute an ad valorem property tax on the properties that become part of the new district?

The Education Code does not use language to the effect that the portion of existing bonded debt apportioned for payment to the new district shall constitute an "ad valorem property tax" assessed against property in the new district. However, section 35576, quoted above, specifies: "All such tax rates [including that necessary to pay the bond interest and redemption on the outstanding bonded indebtedness allocated to the new district in the reorganization process] shall be levied in excess of any other ad valorem property tax authorized or required by law ...." This language and its reference to "any other ad valorem property tax", indicate that the obligation of the MUSD for payment of the bonded debt of the former SMMUSD is an ad valorem tax levied on the property in the new district and collected in the same manner as other property tax. (See also, § 35571: "When a school district is created, annexed, or abolished, or the boundaries thereof changed, the liability to taxation for the outstanding bonded indebtedness of the district or the territory affected thereby is as provided in this article. The authorities whose duty it is to levy taxes for the payment of principal and interest on the outstanding bonds shall levy the taxes upon the districts affected in such proportions as are provided in, or are determined under, the authority of this article," emphasis added; see, also, *County of Shasta v. County of Trinity*, 106 Cal. App. 3d 30, 36-37 (1980) "With the revision of the Education Code in 1976 (see Stats. 1976, ch. 1010), the Legislature extensively changed the apportionment of indebtedness upon reorganization of school districts. (Ed. Code, §§ 4140, 4152.) Under the current provisions of the Education Code a district acquiring property from another district becomes liable for taxation for the proportionate indebtedness of the district from which the property is acquired. (See Ed. Code, §§ 4142, 4143, 4144, 4146, 4147.)")

4. Can a petition for unification similarly specify how bonded indebtedness authorized by voters but not yet issued can be divided between the new district and the remaining part of the existing district?

The California Education Code does not address this question. While there appears to be some flexibility in statute (aided perhaps by the waiver process) for the inclusion of a provision in a reorganization petition specifying division of already authorized but unissued bonded indebtedness, because of the significant uncertainties, a surer route to achieving this goal would be through special legislation. For example, while factually distinguishable, recent legislation concerning the unification of Wiseburn School District (Ed. Code § 35580) suggests that special legislation would be the advisable route. Special legislation to address unique local circumstances is not unusual. There are numerous examples in the Education Code. The special legislation to facilitate the Wiseburn unification and the unification of the Santa Barbara districts, discussed below, are just two examples.

The Education Code does address two different scenarios with the result that the authorization to issue bonds is divided. Neither, however, fits the factual scenario of the formation of a new Malibu Unified. Section 35577 concerns the division of a district between two or more other districts so that the existing district "ceases to exist". In these circumstances the Code provides that "the board of supervisors shall, ... , make and enter an order in the minutes of its proceedings that the authorization to issue the unsold bonds be divided between the districts in the ratio which the assessed valuation of the territory transferred to the districts bears to the total assessed valuation of the former district. The bonds, if issued by any new district, shall be considered a liability of the new district for purposes of computing the bonding capacity of the new district when applying the State School Building Aid Law of 1952, Chapter 8 (commencing with Section 16000) of Part 10."

The second scenario addressed in Section 35578 is when a district is included "as a whole" in a new school district. In such a case, the unsold bonds "may be issued by the board of supervisors in the name of the new district and the proceeds derived upon the sale thereof shall be the funds of the new district. However, the proceeds derived upon the sale thereof shall be expended only for the purpose, or purposes, for which such bonds were authorized."

Neither of the above scenarios addresses the formation of a new unified district with the former district remaining in existence. In the case of the unification of Wiseburn School District from Centinela Valley Union High School District, with Centinela remaining in existence, special legislation concerning bonded debt, among other topics, was enacted to facilitate the unification. (SB 477; Ed. Code § 35580 et seq.) The legislation is complex. In pertinent part, the legislation provides for the following with regard to the bonded indebtedness and authorization to issue bonds existing prior to the unification:

> (a) Any tax for repayment of bonds of the Wiseburn School District shall be levied on all taxable property of the Wiseburn Unified School District.
>
> (b) Any tax for repayment of bonds issued by the Wiseburn Unified School District, including bonds authorized by the Wiseburn School District, shall be levied on all taxable property of the Wiseburn Unified School District.

> (c) Commencing with the fiscal year that begins on the effective date of the reorganization of the Wiseburn School District by the formation of the Wiseburn Unified School District, any tax for repayment of voter approved bonds of the Centinela Valley Union High School District approved before January 1, 2012, shall be levied on both of the following:
>
> (1) All taxable property located within the Centinela Valley Union High School District as the district exists following the effective date of reorganization pursuant to this section.
>
> (2) All taxable property located within the Wiseburn Unified School District that was formerly part of the territory of the Centinela Valley Union High School District.
>
> (d) <u>In recognition of the authority for Centinela Valley Union High School District to continue levying property taxes on taxable property located within the Wiseburn Unified School District for repayment of bonds approved by voters before January 1, 2012, beginning on the effective date of reorganization of the Wiseburn School District by the formation of the Wiseburn Unified School District, the Centinela Valley Union High School District shall transfer to the Wiseburn Unified School District an amount equal to four million dollars ($4,000,000) from the proceeds of the sale of bonds approved by voters on November 2, 2010, and issued after January 1, 2012.</u> The transfer shall be made from the proceeds of the sale of the first series of bonds issued after January 1, 2012, unless the Centinela Valley Union High School District elects to allocate the transfers to more than one series of bonds, in which case the transfers shall aggregate to the amount of four million dollars ($4,000,000). Proceeds transferred pursuant to this subdivision shall be expended by the Wiseburn Unified School District for purposes consistent with the original voter authorization for the bonds.

(Ed. Code § 35581, emphasis added.)

5. <u>Does Measure R, SMMUSD's parcel tax, remain in place in the new unified district after the unification</u>?

Probably not. In my experience, reorganization results in the departing parcels losing any obligation for the parcel tax of the original home district.

(Compare, *Citizens Assoc. of Sunset Beach v. Orange County LAFCo*, 209 Cal.App.4th 1183 (2012), rev. denied [annexed parcels automatically liable for parcel taxes] & Gov. Code §57330: "Any territory annexed to a city or district shall be subject to the levying or fixing and collection of any previously authorized taxes, benefit assessments, fees, or charges of the city or district.".) I have again reviewed the Education Code and found nothing that clarifies the treatment of parcel taxes of the former district with regard to the departing parcels.

Because of this silence in the law regarding previously assessed parcel taxes when districts reorganize, special legislation was necessary to provide for the continuation in effect of taxes approved by the voters of the Santa Barbara Elementary School District, and the Santa Barbara High School District, upon their unification. Effective January 1, 2012, Education Code section 35560 was specifically amended to provide for the continued imposition of qualified special taxes after reorganization "pursuant to Section 50079.2 of the Government Code." (Ed. Code § 35560(b).)

A qualified special tax is defined as "special taxes that apply uniformly to all taxpayers or all real property within the school district, except that "qualified special taxes" may include taxes that provide for an exemption from those taxes for [specified taxpayers]." (Gov. Code § 50079 (b)(1).) Government Code section 50079.2, however, is special legislation limited to Santa Barbara County. It provides:

> Notwithstanding any other law, when any school district in the County of Santa Barbara is in any manner merged with one or more school districts so as to form a single district pursuant to subdivision (b) of Section 35542 of the Education Code, the district so formed may continue to impose any qualified special taxes imposed in any former district as defined by Section 35516 of the Education Code, provided that the revenues derived from those qualified special taxes remain segregated on a geographical basis conforming to the former boundaries of the school districts prior to unification."

6. <u>Can a parcel tax measure like Measure R be placed on the ballot only in the territory of the proposed new MUSD to become effective only if the unification is successful</u>.

The statutes authorizing a school district to impose special taxes appear intended to permit districts also to place special taxes on the ballot <u>on behalf of a new district in formation</u>. The evolution of the controlling statutes, however, have injected ambiguities into the law. Since special legislation is required to facilitate this unification, these ambiguities could be resolved in the special legislation.

a. Action to place special tax on ballot by SMMUSD.

The WestEd Fiscal Analysis provided with regard to Criterion 9, "No Substantial Negative Impact on District Fiscal Management or Status", as follows:

> This report finds that should the [Santa Monica Malibu] District reorganize, the resulting Santa Monica Unified and Malibu Unified School Districts would be financially viable so long as each district's management team adopt procedures to improve economies of scale and negotiate reasonable salary schedules with their employees that allow for long-term fiscal solvency. <u>The continuation of the Measure R parcel tax is critical to deem the reorganization viable.</u> For this reason, we recommend that legal counsel be consulted; and if necessary, special legislation be considered to delineate conditions for preserving the Measure R parcel tax revenue for the resulting districts. The continued level of uncertainty regarding state funding makes it difficult to fully evaluate this criterion; updates are likely necessary as the state's fiscal condition becomes clearer.

(Emphasis added.)

Article XIII A, Section 4 of the California Constitution provides:

> Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Proposition 62 was a statutory initiative that added a new article to the Government Code. Proposition 62 specified neither it, nor Proposition 13, authorized special districts to impose special taxes that were not authorized by law. In 1987, the Legislature provided that authorization to school districts in Government Code section 50079, which provides:

> (a) Subject to Section 4 of Article XIII A of the California Constitution, any school district may impose qualified special taxes

> within the district pursuant to the procedures established in Article 3.5 (commencing with Section 50075) and any other applicable procedures provided by law.
> (b)
> (1) As used in this section, "qualified special taxes" means special taxes that apply uniformly to all taxpayers or all real property within the school district, except that "qualified special taxes" may include taxes that provide for an exemption from those taxes for all of the following taxpayers:
> (A) Persons who are 65 years of age or older.
> (B) Persons receiving Supplemental Security Income for a disability, regardless of age.
> (C) Persons receiving Social Security Disability Insurance benefits, regardless of age, whose yearly income does not exceed 250 percent of the 2012 federal poverty guidelines issued by the United States Department of Health and Human Services.
> (2) "Qualified special taxes" do not include special taxes imposed on a particular class of property or taxpayers.

Subdivision (c) of Government Code section 50077, which is contained in Article 3.5 subdivision (c), provides that, in the context of the formation and reorganization of municipalities and special districts, the Board of the local agency may place on the ballot in the territory of the proposed new district a measure for the enactment of a special tax on behalf of the new district to be formed. Section 50077 provides, in full:

> (a) Except as provided in Section 7282 of the Revenue and Taxation Code, the legislative body of any city, county, or district may, following notice and public hearing, propose by ordinance or resolution the adoption of a special tax. The ordinance or resolution shall include the type of tax and rate of tax to be levied, the method of collection, and the date upon which an election shall be held to approve the levy of the tax. <u>The proposition shall be submitted to the voters of the city, county, or district, or a portion thereof, and, upon the approval of two-thirds of the votes cast by voters voting upon the proposition, the city, county, or district may levy the tax</u>.
>
> (b) The legislative body of a city, or district, may provide for the collection of the special tax in the same manner and subject to the same penalty as, or with, other charges and taxes fixed and collected by the city, or district, or, by agreement with the county, by the county on behalf of the city, or district. If the special taxes are

> collected by the county on behalf of the city, or district, the county may deduct its reasonable costs incurred for the service before remittal of the balance to the city.
>
> (c) The legislative body of a local agency which is conducting proceedings for the incorporation of a city, the formation of a district, a change of organization, a reorganization, a change of organization of a city, or a municipal reorganization, may propose by ordinance or resolution the adoption of a special tax in accordance with the provisions of subdivision (a) on behalf of an affected city or district.
>
> (d) As used in this section "district" means an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.

(Emphasis added.) In 2000, section 50075.5 was added to Article 3.5 defining "local agency", the term appearing in subsection (c) of Section 50077, to include "special districts". Special district, in turn, is specifically defined to include a school district. (Gov. Code § 50077.5(b).)

According to its legislative history, Section 50077(c) was specifically enacted in 1982 to allow public agencies to place special tax measures on the ballot to support the financial viability of a proposed new city or district. (Cf., 6/30/82 Rpt. of Sen. Com. on Local Govt. re AB 3039 (Farr): "Some proposed new cities and special districts may not be financially feasible unless the voters impose special taxes to pay for new services or facilities. Existing law is not entirely clear on whether the question of imposing a special tax can be put on the same ballot as the city incorporation or district formation. Assembly Bill 3039 allows local officials to put the question of a special tax to the voters at the same time they vote on incorporation or formation. The bill does not change the existing requirement for 2/3 voter approval.")

Despite the intent of Section 50077(c), there is ambiguity in the statutory language as applied to school districts. Section 50077(c) authorizes "[t]he legislative body of a local agency which is conducting proceedings for the incorporation of a city, the formation of a district," etc., to place such a tax measure on the ballot. There is no definition of the phrase, "conducting proceedings". Hence, while "local agency", is specifically defined to include a school district, a school district that is the subject of a petition for reorganization, is not generally understood as "conducting" those proceedings. The County Committee, and the State Board of Education are the two entities empowered to approve school district reorganization, but they are not included in the term, "local agency", and do not otherwise have taxing authority.

Furthermore, subdivision (c) of section 50077 was enacted simultaneously with amendments to District Organization Law of 1965 to permit an entity conducting proceedings for the formation or reorganization of a local agency to condition the approval on the enactment of benefit assessments or special taxes. School districts, however, have never been subject to the Government Code provisions concerning the formation and reorganization of public agencies. School districts are subject to the reorganization procedures in the Education Code. Hence, while school districts are authorized to enact special taxes in Section 50079 in accordance with Section 50075, et seq., it is unclear whether the authority in Section 50077, subdivision (c) was intended to apply in the case of the reorganization of school districts.[3]

Nevertheless, the intent of subdivision (c) of Section 50077 seems clear -- to facility the formation of local agencies by permitting the legislative body of a defined agency to propose the enactment of special taxes on behalf of the proposed new agency. One approach, consistent with the intent of Section 50077(c) would be for SMMUSD to place a contingent special tax measure on the ballot in the portion of the district that would eventually become MUSD, if the reorganization were successful. (See, also § 50077(a), which permits a school district to place a tax measure on the ballot in a "portion" of the district.) However, given the ambiguities, there

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[3] It is even unclear how section 50077, subdivision (c) now applies in the context of other local agency formations. At the time of enactment of subdivision (c) of Section 50077, one of various local agencies with taxing authority had the status of "conducting authority" depending on the type of reorganization as set forth in the District Reorganization Act of 1965, and later by the Cortese-Knox Local Government Reorganization Act of 1985. That has now changed. Proceedings for the formation of local agencies are conducted by the designated Local Agency Formation Commission. (Gov. Code § 56029.) A LAFCo is not within the statutory definition of "local agency", and it does not have taxing authority. Under current law, upon receipt of the order of the LAFCo, the Board of Supervisors of the affected County, or the council of the affected City is required to place the necessary special tax measures on the ballot. (Gov. Code § 57000(d).) But the County or the City are no longer defined to be the "conducting authority".

is risk that the authority of SMMUSD to do so could be challenged. Therefore, a safer approach would be to include clarifying provisions in the special legislation required to address the authorized but unissued bonds, discussed above. The special legislation would clarify the authority of SMMUSD, to place a special tax on the ballot identical to Measure R in the portion of SMMUSD that would become the new district.[4]

b. Conditional approval of the unification.

Since the goal is to have the unification of MUSD contingent upon the passage of the special tax, the special legislation should so specify to solve another ambiguity. While nothing in the Education Code prohibits the conditional approval of a unification, I am not aware of any such "conditional unification" ever being approved. This is a distinction from the formation of districts and cities under the LAFCo law, which specifically authorizes conditional approvals.

7. <u>Can parcels in the newly formed MUSD continue to be included in the applicable bonding limits of the remaining SMUSD, and taxed as if the unification had not occurred.</u>

Not under current law. You asked this question with reference to the special legislation applicable to the unification of the Wiseburn Unified School District, Education Code section 35582, and the Local Public

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[4] I do want to mention a new case, decided this month, that may cast additional doubt on Section 50077(c). City of San Diego v. Shapiro, 2014 Cal. App. LEXIS 697 (August 1, 2014), held that the term, "qualified electors of such district" in Article XIIIA, section 4, meant all of the eligible voters of the jurisdiction. Hence, in proceedings for the formation of a community facilities district under the Mello-Roos Act, the City of San Diego could not limit the vote on the special tax only to the landowners in the district, even if only the landowners would pay the tax. Following the lead of this literal interpretation of Article XIIIA, section 4, it could be argued that subdivision (c) of Section 50077 is invalid because only the legislative body of the local agency that would be subject to the tax can place the measure on the ballot ("special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district.) Special legislation discussed in the preceding section to clarify SMMUSD's authority to place the special tax measure on the ballot pursuant to subdivision (c) of Section 50077, could not solve such a constitutional issue. Hence, the Measure R-continuation tax would need to be placed on the ballot by the board of the new district after its formation. The City of San Diego has recently requested that the California Supreme Court depublish the case so that is it not citable as legal authority.

Schools Funding Authority, a joint powers authority ("JPA") formed by the predecessor districts, Wiseburn School District and Centinela Valley Union High School District. As we discussed, the circumstances of the unification of the Wiseburn Unified School District are significantly different from those of the proposal to form MUSD. In the Wiseburn unification, there were two predecessor districts, both with taxing authority, that formed the JPA. The purpose was, generally speaking, to issue bonded debt, including with regard to certain commercial property within the jurisdiction of both districts. Here there is a single district, SMMUSD. I am not now aware of any entity with appropriate jurisdiction and taxing authority to negotiate such a JPA to which MUSD would become a successor member in the same manner that Wiseburn Unified became the successor to Wiseburn School District as a member of that JPA. An AMPS member recently suggested that possibly the Los Angeles County Board of Education or the Los Angeles County Board of Supervisors could fulfill that roll. At this point, I have not researched those options, but will do so if you wish for me to pursue that research.

MUNC Term Sheets

A “term sheet” is a nonbinding agreement that sets forth the basic terms and conditions under which an agreement is made. It serves as a template for developing a document that provides more details about an eventual agreement.

Attached are the latest versions of the MUNC’s term sheets, which are considered works in progress until the MUNC reaches its final decisions. The left-hand column of the term sheets lists the issues the MUNC identified as needing to be addressed in an agreement and any basic principles that the MUNC agreed to. The right-hand column summarizes the most recent terms and conditions the MUNC has tentatively agreed on.

This draft reflects the MUNC’s tentative decisions through its October 29, 2016 meeting.

Introduction: General Principles for MUNC’s Agreement on Recommendations to the Board

The MUNC agrees that all terms and conditions of an agreement:

1) Must be financially viable for both SMUSD and MUSD. (Note: financial viability for each school district will need to be further defined.)

2) Must ensure a degree of predictability for both SMUSD and MUSD, to enable each school district to be able to plan ahead with a reasonable degree of resource certainty.

3) Must avoid establishing potential negative incentives for either SMUSD or MUSD. For example, creating a disincentive to pursue increased revenue or otherwise improve education in their schools.

4) Must be clear and understandable, legal, and enforceable.

Note: This list will likely be expanded as the MUNC ‘s work continues.

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.

Principle/Parameter	Terms of Agreement
Issue #1: **Allocation method for dividing SMMUSD's cash assets.**	
The allocation of cash assets, i.e., ending fund balances at the time of separation, will be decided by fund, and will be guided by a method representing a fair and equitable division of the ending fund balances between SMUSD and MUSD.	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). For purposes of the one-time allocation of cash balances, the term **"ADA method"** 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%. 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. The table that begins on the next page summarizes the recommended method of allocation for each fund.

Note: The term sheet for Topic 1 continues on page 5, following Table-1.

Table-1
Summary of Recommended Allocation Method By Fund

Fund	Method for Allocating Cash Balance in Fund	MUNC Comments
A. MAJOR FUNDS		
1. Unrestricted General Fund	ADA method	The ADA method for the Unrestricted General Fund is recommended because: it greatly simplifies the calculation required; and analysis of the revenue sources by line item for 2015-16 shows net contributions from Santa Monica and Malibu closely mirrors 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	The ADA method is recommended for the Restricted General Fund for the same reasons listed above for the Unrestricted General Fund.
3. Building Fund	*Revisit during worksession on bonds.*	
4. Bond Interest and Redemption Fund	N/A (Not Applicable)	There is no end-of-year cash balance in this fund to allocate.
B. SPECIAL REVENUE FUNDS		
1. Adult Education Fund	Divide the fund balance based on the ratio (calculated as a three-year average) of students enrolled from each community in Adult Ed. The three years will be the year of separation and the prior two years. However, if MUSD does not plan to offer Adult Education, then the entire fund balance will be transferred to SMUSD.	The source of revenue for this fund is the State, which pays school districts a set amount per student participating in Adult Education.
2. Child Development Fund	Divide the fund balance based on the ratio (calculated as a three-year average) of students enrolled from each community in Child Development program(s). The three years will be the year of separation and the prior two years. However, if MUSD does not plan to offer a Child Development program, then the entire fund balance will be transferred to SMUSD.	The source of revenue for this fund is the State, which pays school districts a set amount per student participating in Child Development programs.

Table-1 continued from previous page.		
Fund	**Method for Allocating Cash Balance in Fund**	**MUNC Comments**
3. Cafeteria Special Revenue Fund	ADA method	The ADA method is recommended because this fund gets its revenue from students in both Santa Monica and Malibu.
Fund	**Method for Allocating Cash Balance in Fund**	**MUNC Comments**
4. Deferred Maintenance Fund	The fund balance will be divided based on the percent of total floor area square footage in Santa Monica vs. Malibu buildings at the time of separation.	The purpose of this fund is to fund routine maintenance needs across all of SMMUSD's buildings, located in both Santa Monica and Malibu.
C. CAPITAL PROJECT FUNDS		
1. Capital Facilities Fund – developer fees	The fund balance will be divided based on a three-year average of the percent of total dollar amounts contributed from developments located in Santa Monica vs. Malibu. The three years will be the year of separation and the prior two years.	Development contributions by location are tracked annually, so the allocation method recommended should be relatively simple to implement.
2. Special Reserve for Capital Projects Fund – Tax increment Pass-Through Fund from the former Santa Monica RDA	*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.*	
D. RETIREE BENEFIT FUND	*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.*	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.

Term Sheet for Topic 1 (continued from page 2)

Principle/Parameter	Terms of Agreement
Issue #2: **Allocation method for dividing SMMUSD's land and buildings** The committee agreed to consider the allocation of SMMUSD's land and buildings, or their asset value, in three categories: 1) Schools; 2) Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica; and 3) Land/buildings that are a source of revenue for SMMUSD	Category 1: Schools • With the possible exception of Olympic High School (see second bullet), schools will be allocated to the respective district where they are located. • 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. Category 2: Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica. • This category includes two buildings located in Santa Monica (District Headquarters and Washington West). • The committee considered several allocation options and underlying principles for allocating the land/buildings in this category, but has not yet reached any decisions. Note: While bus yards might also fit into this category, the current set-up excludes them. Specifically: the bus yard in Malibu is on the campus of Malibu High School and the buses parked there only serve Malibu students; and the bus yard in Santa Monica serves students in both Santa Monica and Malibu, but is located on leased space, so is a liability and not an asset. Category 3: Land/buildings that are a source of revenue for SMMUSD. The Committee wants some additional information about SMMUSD's revenue-producing assets before proceeding with additional discussion of this category. The Committee recognized that the allocation options and principles considered for Category 2 assets (above) may influence the decisions for allocating Category 3 assets. Table continues on next page.

Principle/Parameter	Terms of Agreement
Issue #3: **Allocation method for balance sheet liabilities (other than bond debt and environmental liability):** **a. Certificates of Participation** **b. Compensated absences** **c. OPEB**	a. Certificates of Participation (COPs) 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 continue to pay the remaining debt associated with the COPs using RDA pass-through funds. As a result, 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 liability associated with compensated absences will "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: **Any other financial items related to balance sheet allocations or off balance sheet 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.**	Given that Balance Sheet Allocations are expected to be a one-time division between SMUSD and MUSD at the time of separation, there will unlikely be any need to revisit the agreements made for Topic 1 items.

Term Sheet for Topic 2, Allocation of Bond Debt and Authorization to Issue New Bonds

The term sheet below outlines the general principles and terms for a nonbinding MUNC agreement on the issues and sub-issues identified for Topic 2, Allocation of Bond Debt and Authorization to Issue New Bonds

Principle/Parameter	Terms of Agreement
Issue #1: Method of allocating SMMUSD's issued bond debt. Issue #2: Method of allocating authority to issue future bonds that have been authorized but not yet issued. Issue #3: Mechanism for refinancing of SMMUSD's outstanding bonds Issue #4: Any additional financial items related to bonds that need to be addressed. Issue #5: Procedures (if any) for revisiting agreements reached on bond-related issues.	The MUNC agreed to use the following documents as background to its next worksession on Topic 2, scheduled for November 3, 2016: • July 15, 2015 memo from the FOC to the Board on the Division of Assets and Liabilities • September 22, 2014 memo from Ms. Leoni, Nielsen Merksamer Parrinello Gross & Leoni, LLP, to AMPS, re: Questions Pertaining to Formation of Malibu Unified School District • July 21, 2016 memo from John Lemmo, Procopio to the MUNC re: Reorganization of SMMUSD: Questions Regarding General Obligation Bond Allocation • October 4, 2016 PowerPoint Presentation to the MUNC from Tony Hsieh, Keygent Advisors, re: SMMUSD Bond Program Overview The Committee also agreed that some of the Committee's bond-related issues will lend themselves to a process recommendation (e.g. this issue should be decided a year after separation by a group appointed jointly by the respective districts' Boards) as opposed to a specific recommendation of allocation between SMUSD and MUSD at the time of separation.

Term Sheet for Topic 3, Operating Budget Impact

The term sheet below outlines the general principles and terms for a nonbinding MUNC agreement on a formula (and related procedures) for eliminating any significant adverse financial impact on SMUSD from separation; *financial impact* is defined as the difference in revenue per ADA in what would otherwise have been SMMUSD vs. revenue per ADA in a Santa Monica only district. The calculation of this difference in revenue per ADA is referenced as the "delta." The phrase "revenue neutrality" refers to the goal of eliminating any significant adverse financial impact on SMUSD from separation, as measured by the delta.

Principle/Parameter	Terms of Agreement
A. Revenue sources **A.1 Revenue sources to include in the formula for measuring the delta**	<u>**Unrestricted General Revenue**</u>: **A.1 Revenue Sources to Include** 1. LCFF Revenue a. All categories of LCFF except State Aid b. LCFF State Aid 2. Other State Revenue a. Lottery Fund Revenue b. Mandated Cost Block Grant Revenue 3. Other Local Revenue a. Parcel taxes b. Leases and rentals c. City of Santa Monica contract d. City of Malibu contract e. Santa Monica sales tax: Prop Y; and new 2016 sales tax if adopted by the voters in November 3. New sources of revenue established post-separation a. Revenue from any new revenue streams established and generated post-separation by Santa Monica. b. Revenue from a new Malibu parcel tax, equal to what residents currently pay to SMMUSD, which Malibu has identified as a prerequisite to separation.
A.2 Revenue sources to exclude in the formula for measuring the delta	**A.2 Revenue Sources to Exclude and Rationale for Exclusion** **Education Foundation Revenue (currently SMMEF)** – the rationale for exclusion is that this revenue is money raised by PTAs, businesses, etc. in each district respectively, and the committee does not want to create any disincentives for local fund raising efforts.

B. Details of the calculation B.1 Annual calculations; payments vs. credits B.2. Are there any minimum threshold or *di minimis* amounts in the formula?	 B.1 The delta will be calculated annually. • If SMMUSD per ADA revenue is greater than SMUSD per ADA revenue, then MUSD will owe a payment to SMUSD. • If SMMUSD per ADA revenue is less than SMUSD per ADA revenue, then MUSD will accrue a credit that can be counted towards a future payment. B.2 *TBD.*
C. Time frame for how long a formula for revenue neutrality remains in place. A time frame can be established either: • According to the calendar; and/or • According to some event.	*The Committee continues to discuss the revenue neutrality formula and the length of time some version of the formula will remain in place. The Committee has reached some tentative agreements on certain elements of a formula, but no decisions have been made. See comparative table handout for 11/3 for the latest summary of the proposals currently under consideration.*
D. Source of data to use when making calculations	• Final calculations in the agreed-upon formulas should use data from the audited financial statements ("audited financials") for SMUSD and MUSD, which are expected to be available in December of each year. • However, recognizing the realities of a school district's budgeting process and flow of revenue (in and out) during the year, there may be interim calculations performed that use the best available data at the time, even if that data are not yet audited. *(Q: Members have weighed in with different views about the necessity of keeping this bullet, so the full MUNC will need to discuss this question.)*
E. Other mechanics related to calculations/payments • When in the calendar year the calculation is performed • Payment schedule • Timing of any reconciliation	• The following steps outline the timing of the annual calculation and payment (or credit): 1. The audited financials for the first fiscal year of separation will be available in December of the second fiscal year of separation. 2. The formal calculation of the delta using these audited financials will be performed the following month, that is, in January of the second fiscal year of separation.

	3. If the January calculation shows that MUSD owes SMUSD a payment for the first year of separation, then the payment will be made no later than June 30, the last day of the second fiscal year of separation. Similarly, if the calculation shows that MUSD accrues a credit, then that credit will be booked on June 30, the last day of the second fiscal year of separation. • The decision to use audited financials as the source of data means that there will be no payment (or credit) at the beginning of the first or second fiscal year of separation. The payment (or booking of a credit) at the end of the second fiscal year of separation will reconcile the delta for the first fiscal year of separation. • This pattern of reconciling the delta for each fiscal year at the end of the next fiscal year will continue for the length of the payment agreement.
F. Criteria and purpose for reopening any of the agreed-upon formulas and/or other terms of payment	*TBD*
G. Terms that ensure both the enforceability and legality of agreements	
H. Steps involved in implementation, e.g., MOU, special legislation	The MUNC's agreements on this item will feed into terms for Topic 5, Implementation Steps.

Term Sheet for Topic 4, Environmental Liability

The term sheet below outlines the general principles and terms for a nonbinding MUNC agreement on how to implement the Board's objective, as stated in the Board's December 17, 2015 Action Item, that "MUSD assumes responsibility for any remaining remediation of any contamination in Malibu schools and indemnifies SMUSD for any future claims arising from such remediation work or failure to undertake appropriate work."

Principle/Parameter	**Terms of Agreement**
A. Liability for environmental contamination in Malibu schools.	The MUNC agreed to terms for three categories of liability, differentiated by whether the contamination in a Malibu school is unknown or known at the time of separation, and if known, how far along the remediation process is.
Category (1): Contamination that is not known about at the time of separation.	Category (1): In sum, for environmental liability not known about at the time of separation, each district is on its own. Specifically, any source of environmental liability discovered post-separation will be the responsibility of the school district that owns the property where the liability exists. This includes responsibility for the cost of remediation as well any personal liability that arises related to this contamination. Further, each district will indemnify the other district against any environmental liability discovered post-separation.
Category (2): Contamination that is known about before separation and for which SMMUSD has developed, approved, funded, and begun a remediation plan.	Category (2): The current ongoing remediation of PCBs, as contemplated in SMMUSD's building replacement and renovation program will not be affected by separation and will continue to be funded after separation by the bond program. This program is scheduled to be completed by December 19, 2019. Any remediation project that is underway at the time of separation will be subject to further negotiation (by the "Transition Team") at the time of separation to work out the logistics of project management and completion.
Category (3): Contamination that is known about before separation but for which SMMUSD has not yet developed, approved, or funded a remediation plan.	Category (3): For this category of "known but not yet addressed at time of separation" contamination, each district will be liable for its own properties and in charge of developing, approving, funding, and implementing a remediation plan. For schools in Malibu, the portion of ES bonds allocated to Malibu are a potential source of funding for this remediation work.

	Note: The MUNC expressed an interest in obtaining the latest estimates about the costs of remediation for the known but not yet addressed environmental contamination in Malibu schools.
B. Issues of liability for pending claims against SMMUSD that are specific to the Malibu school sites in the lawsuit brought by America Unites for Kids against SMMUSD.	On September 1, 2016, Judge Anderson issued his ruling on the America Unites for Kids lawsuit The MUNC agreed that Judge Anderson's ruling is clear. Judge Anderson's ruling may remove this environmental liability issue from the Board's assignment to the MUNC.
C. Other?	

Term Sheet for Topic 5, Implementation Steps

The term sheet below outlines the general principles and terms for a nonbinding MUNC agreement on what to recommend to the Board regarding implementation of the MUNC's agreements on Topics 1 through 4.

Principle/Parameter	**Terms of Agreement**
A. The MUNC's final report will address next steps for the Board to take towards implementation of the agreements reached by the MUNC on Topics 1 through 4.	A. The MUNC's report will address the next steps for the Board to take towards implementation by explaining the different options (e.g., petition to LACOE, special State legislation) that support for unification could take. However, the report will not include the details of these options because the MUNC believes that is beyond its charge.
B. The appointment and role of a "Group One" and "Group Two"	B. The MUNC will recommend that: The current Board appoint a "Group One" to work on the things that need to happen between the time the Board approves moving forward with unification and the actual separation occurs; and After separation occurs, the Board of SMUSD and Board of MUSD appoint a "Group Two" to work on the things that need to be resolved to ensure a smooth transition to the interactions of the two districts going forward. As the MUNC addresses each of the topics in the work plan, the "to do" list for Group One and Group Two Transition Team will become more apparent.

	Candidate tasks for Group One mentioned already are: • Drafting special state legislation; • Negotiating final arrangements for completing remediation projects in Malibu schools that are underway at the time of separation. Candidate tasks for Group Two mentioned already are: • Making final decisions about certain aspects of allocating the authority to issue future bonds that have been authorized but not yet issued.

Comparison of Proposals

The table below compares the revenue neutrality proposals currently being discussed. The table has been revised to include the changes to each proposal considered on 10/29/2016, to rename the proposals, and to compare the components of the formulas in terms of calendar years in addition to duration.

Characteristic of Formula	Santa Monica Proposal		Malibu Proposal		Agree/Difference
		CYs		**CYs**	
a. The first five years of separation include a guarantee of 100% revenue neutrality to SMUSD	Yes	2018-19 through 2022-23	Yes	2018-19 through 2022-23	Agree
b. Specifies a "tracking phase" as years during which the delta continues to be calculated annually and SMUSD is guaranteed 100% revenue neutrality. If the tracking shows three consecutive years for which the payment for SMUSD to attain revenue neutrality is zero (because the calculated delta is below some minimum threshold without regard to any credits Malibu might have received from previous years), then the revenue neutrality arrangement ends.	Yes	Tracking begins in 2023-24	Yes	Tracking begins in 2022-23	- Agree on the 3-year tracking result that would lead to an end of the revenue neutrality arrangement. - Not agree on the year that tracking begins.
c. Minimum number of years SMUSD would be guaranteed 100% revenue neutrality. This minimum reflects a scenario under which the first three years of tracking leads to an ending of the revenue neutrality arrangement.	8 (5+3)	2018-19 through 2025-26	7 (4+3)	2018-19 through 2024-25	One year difference (7 years vs. 8 years)
d. Maximum number of years SMUSD would be guaranteed 100% revenue neutrality.	11	2018-19 through 2028-29	7	2018-19 through 2024-25	Four years difference (7 years vs. 11 years)
e. Maximum number of years transfer of revenue (of any amount) could occur.	15	2018-19 through 2032-33	11	2018-19 through 2028-29	Four years difference (11 years vs. 15 years)
f. When does the tracking phase begin and what is its maximum potential end date?	Tracking begins in 2023-24 and can continue thru 2028-29 before tapering would begin	2023-24 with max length through 2028-29	Tracking begins in 2021-22 and can continue thru 2024-25 before tapering would begin	2021-22 with max length through 2024-25	• Start date differs. • Max. end year of tracking differs by four years: 2024-25 vs. 2028-29.

g. Can any of the tracking years overlap with the first five years of guaranteed 100% revenue neutrality?	No			Yes			Disagree on whether overlap can occur.
h. Years of tapering to zero payment	4 years (i.e., no payment in year 5)	2029-30 through 2032-33		4 years (i.e., no payment in year 5)	2025-26 through 2028-29		Number of years of tapering the same, but WHEN tapering begins differs by four years.
i. Formula for tapering	Year 1 – 80% Year 2 – 60% Year 3 – 40% Year 4 – 20%			Year 1 – 80% Year 2 – 60% Year 3 – 40% Year 4 – 20%			Same formula once tapering begins.
j. Affordability measure that reflects Malibu's ability to pay calculated delta	To be further defined*			To be further defined*			Agree on concept.

Table revised 10/31/2016

* On 10/29, two potential "downside protections" for Malibu were identified for possible analysis and further discussion: one option might be to ensure that MUSD would not have to pay an amount to SMUSD that would result in the revenue per ADA in MUSD being less than it was the year before; and another might be to ensure that the revenue per ADA in MUSD never dropped below the revenue per ADA in SMUSD.