

**Malibu Unification Negotiations Committee
Meeting Minutes**

Tuesday, November 22, 2016

7:00 pm-9:00 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 7:03 p.m. with the following committee members present:

Tom Larmore

*Laura Rosenthal**

Paul Silvern

Manel Sweetmore

Makan Delrahim

Debbie Mulvaney

**Ms. Rosenthal was located in Malibu and participated via Skype.*

II. Approval of November 3, 2016 Meeting Minutes

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

III. Continuation of Worksession on Principles and Terms of Agreement

The three handouts for this agenda item are attached: the latest term sheets; excerpts from the latest term sheets that highlight the key issues left for the Committee to reach agreement on; and answers from Jan Maez to questions raised by Committee Members on November 3, 2016.

Following a review of the written information and discussion of various options, the committee reached a number of agreements that are summarized in the table below.

<i>Topic 1: Balance Sheet Allocations</i>	
<i>Issue</i>	<i>Agreement</i>
<i>Special Reserve for Capital Projects Fund</i>	<p><i>The one-time allocation of the fund balance at the time of separation will be based on the ratio of total ES funds allocated to bond-funded projects in Malibu schools and bond-funded projects in Santa Monica schools.</i></p> <p><i>To be specific, the Santa Monica/Malibu allocation ratio will be 78/22. This is calculated as the allocation to Malibu of (at least) \$77 million out of 350.6 million, which is the amount remaining of \$385 million (the ES total) after subtracting the \$34.4 million allocated for system-wide technology improvements.</i></p>

<i>Issue</i>	<i>Agreement</i>
<p><i>SMMUSD land/buildings currently used for activities that serve both Santa Monica and Malibu. This category includes two properties.</i></p> <p><i>1) District Headquarters</i></p> <p><i>2) Washington West</i></p>	<p><i>1) The District Headquarters building (located in Santa Monica) will be allocated to SMUSD, and SMUSD will assume sole responsibility for paying the outstanding debt owed on the COPs used to fund the purchase of this property. If the District Headquarters is ever sold, then the net proceeds will be divided between SMUSD and MUSD according to the “ADA method,” as defined under the first balance sheet allocation issue. (See the first page of the term sheet for Topic 1.)</i></p> <p><i>2) Washington West will be treated as if it were a school, and therefore will be allocated to Santa Monica as the district where it is located.</i></p>
<p><i>Topic 2: Allocation of Bond Debt and Authorization to Issue New Bonds</i></p>	
<p><i>Issue #1B: Approach to refinancing existing debt.</i></p>	<p><i>The special state legislation and reorganization plan explicitly needs to address the issue of refinancing any of the existing SMMUSD debt that is allocated between SMUSD and MUSD at the time of separation. The intent is to provide that any decisions regarding refinancing of this debt can be made independently by SMUSD or MUSD, without need to coordinate with the other.</i></p> <p><i>In particular, as advised by Procopio (the MUNC’s legal consultant), language in the special legislation needs to specify that each successor district is treated as the issuing district (SMMUSD will not exist anymore) for purposes of Government Code section 53580 and related statutes, and that each is separately responsible for IRS tax compliance and continuing disclosures under SEC regulations.</i></p>

Other Items Discussed

- *The committee discussed but did not yet reach a consensus on how to allocate the land/buildings that are currently a source of revenue for SMMUSD.*
- *The committee discussed its remaining concern about reconciling the ground lease revenue data for properties in Santa Monica contained in SSC's report. As recommended by Ms. Maez, Ms. Orlansky agreed to work with SSC to figure out why the numbers differ. Further, if a calculation error is identified, Ms. Orlansky will request a corrected version be provided to the Committee.*
- *With respect to the revenue neutrality formula, the committee focused its time on understanding a new proposal presented by Mr. Sweetmore. The committee agreed to continue its discussion of this proposal on November 29.*

IV. Public Comments

There were no public comments.

V. Upcoming Meetings

A. Topics for Next Agenda.

The committee will continue its worksession on the principles, terms, and conditions of agreement.

B. Review and confirmation of Committee's upcoming meeting schedule:

- *Tuesday, November 29, 7-9 PM at Malibu City Hall*
- *Tuesday, December 6, 7-9 PM at SMMUSD District Offices*
- *Tuesday, December 13, 7-9 PM at Malibu City Hall*
- *Tuesday, December 20 at SMMUSD District Offices*

VI. Adjournment

The committee adjourned the meeting at 9:00 p.m.

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 November 3, 2016 meeting.

Topic	Begins on Page
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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
<p>Issue #1: Allocation method for dividing SMMUSD’s cash assets.</p> <p>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.</p>	<p>For certain funds, this means that the allocation between SMUSD and MUSD will be based on a calculation of the pro rata Average Daily Attendance (ADA).</p> <p>For purposes of the one-time allocation of cash balances, the term “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%.</p> <p>The exceptions will be for funds where the relative source of revenue (i.e., SMUSD vs. MUSD) has been substantially different from the ADA ratio, or if there is an alternative, more equitable method of allocating a fund balance.</p> <p>The table that begins on the next page summarizes the recommended method of allocation for each fund.</p>

Note: The term sheet for Topic 1 continues on page 6, 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	<p>The Building Fund will contain the end-of-year cash balance of bond proceeds in the year prior to separation.</p> <p>This issue lends itself to a recommendation for a process because the exact allocation will depend on the status of projects in Santa Monica and Malibu at the time of separation. The recommended process is to delegate this allocation decision to Group 2, the second transition/implementation group appointed jointly by the respective Boards of SMUSD and MUSD.</p> <p>The guiding principle recommended for Group 2 to follow is to allocate the cash balance consistent with the decisions and commitments regarding projects and division of bond authority made prior to separation, and the status of projects underway at the time of separation, including that Malibu receives \$77 million (at minimum) out of ES's total of \$385 million.</p>	<p><i>Q: Need to confirm this is the same item listed as Issue #1C under Topic 2. See page 7.</i></p>
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	<p>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.</p> <p>However, if MUSD does not plan to offer Adult Education, then the entire fund balance will be transferred to SMUSD.</p>	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	<p>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.</p> <p>However, if MUSD does not plan to offer a Child Development program, then the entire fund balance will be transferred to SMUSD.</p>	The source of revenue for this fund is the State, which pays school districts a set amount per student participating in Child Development programs.
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.
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 Funding from the former Santa Monica Redevelopment Agency (RDA),	<p>The MUNC understands the first priority for this fund is to pay the annual debt associated with the Certificates of Participation (COPs) for District HQ.</p> <p>Undecided: how to allocate the end-of-year cash balance after the debt payments for the COPs have been made.</p>	The MUNC is requesting more information about the District's practice for allocating the balance in the fund after the debt payments for the COPs have been made.

D. RETIREE BENEFIT FUND	<p>The MUNC recommends the details of this allocation be assigned to Group 2.</p> <p>The most equitable allocation of the cash balance in the Retiree Benefit Fund will need to be based on the most recent actuarial data available at the time of separation, and will be linked to how the liability for providing retiree health benefits is divided between SMUSD and MUSD at the time of separation.</p>	

Term Sheet for Topic 1 (continued from page 2)

Principle/Parameter	Terms of Agreement
<p>Issue #2: Allocation method for dividing SMMUSD's land and buildings</p> <p>The committee agreed to consider the allocation of SMMUSD's land and buildings, or their asset value, in three categories:</p> <ol style="list-style-type: none"> 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 	<p>Category 1: Schools</p> <ul style="list-style-type: none"> • School buildings will be allocated to the respective district where they are located. • MUSD will be provided assurance that MUSD students who require enrollment in an alternative high school program will be able to participate in SMUSD's alternative 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.) <p>Category 2: Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica.</p> <ul style="list-style-type: none"> • This category includes property located in Santa Monica: District Headquarters and Washington West. • The Committee has not reached decisions on the allocation of assets in this category, and has asked for additional information on the use of Washington West and future plans (if any) for that property. <p>Category 3: Land/buildings that are a source of revenue for SMMUSD.</p> <ul style="list-style-type: none"> • The Committee has not reached decisions on the allocation of assets in this category. • The Committee has asked for a clarification of information on ground lease revenue for properties located in Santa Monica provided from the District (7/15/2016 memo from Carey Upton to the Board) and contained in SSC's second report (Appendix A of SSC's second report.)
<p>Issue #3: Allocation method for balance sheet liabilities (other than bond debt and environmental liability):</p> <ol style="list-style-type: none"> a. Certificates of Participation 	<ol style="list-style-type: none"> 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.

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
<p>Bonds Issued by SMMUSD Before Separation</p> <p>Issue #1A: Method of allocating payments owed on bonds issued by SMMUSD before the date of separation.</p> <p>Issue #1B Approach to refinancing existing debt.</p> <p>Issue #1C Method of allocating remaining “cash” generated by bonds issued by SMMUSD before separation.</p>	<p>#1A: 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.</p> <p>#1B: Before making a final decision on this issue, the MUNC wants to know whether it is an option for debt issued by SMMUSD (and allocated to SMUSD and MUSD at the time of separation) to be refinanced separately by either district. And related to this, whether the mechanics of allocating issued bond debt between SMUSD and MUSD can somehow be done (e.g., by tranches) to allow refinancing decisions to be made separately.</p> <p>See terms for Building Fund on page 3. Need to confirm this is a repeat of the same item.</p>
<p>Issue #2: Method of allocating amount of authorized but not yet issued bonds.</p>	<p>This issue lends itself to a recommendation for a process because the exact allocation will depend on the status of projects and plans of SMUSD and MUSD at the time of separation. The recommended process is to delegate the allocation of authorized but not yet issued bonds between SMUSD and MUSD to Group 2, that is, the second transition/implementation group with members appointed jointly by the respective SMUSD and MUSD Boards of Education.</p> <p>The recommended guiding principles for Group 2 are to:</p> <ul style="list-style-type: none"> • Allocate the authority consistent with decisions and commitments regarding projects and division of bond authority made prior to separation, including that Malibu receives \$77 million (at minimum) out of ES’s total of \$385 million; and • Mutual respect for the needs and preferences of SMUSD and MUSD at the time the allocation decision is made.

<p>Issue #3: Method of issuing bonds post-separation.</p>	<p>After the date of separation, the decision by either SMUSD or MUSD to issue bonds is left to the sole discretion of each district. The same hold true for the debt owed on bonds issued after the date of separation.</p>
<p>Issue #4: Procedures (if any) for revisiting agreements reached on bond-related issues</p>	<p><i>Can #4 be deleted?</i></p>

<p>B. Details of the calculation</p> <p>B.1 Annual calculations; payments vs. credits</p> <p>B.2. Are there any minimum threshold or <i>di minimis</i> amounts in the formula?</p>	<p>B.1 The delta will be calculated annually.</p> <ul style="list-style-type: none"> • If SMMUSD per ADA revenue <u>is greater than</u> SMUSD per ADA revenue, then MUSD will owe a payment to SMUSD. • If SMMUSD per ADA revenue <u>is less than</u> SMUSD per ADA revenue, then MUSD will accrue a credit that can be counted towards a future payment. <p>B.2 <i>TBD.</i></p>
<p>C. Time frame for how long a formula for revenue neutrality remains in place. A time frame can be established either:</p> <ul style="list-style-type: none"> • According to the calendar; and/or • According to some event. 	<p><i>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.</i></p>
<p>D. Source of data to use when making calculations</p>	<ul style="list-style-type: none"> • 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. <i>(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.)</i>
<p>E. Other mechanics related to calculations/payments</p> <ul style="list-style-type: none"> • When in the calendar year the calculation is performed • Payment schedule • Timing of any reconciliation 	<ul style="list-style-type: none"> • The following steps outline the timing of the annual calculation and payment (or credit): <ol style="list-style-type: none"> 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.

	<p>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.</p> <ul style="list-style-type: none"> • 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.
<p>F. Criteria and purpose for reopening any of the agreed-upon formulas and/or other terms of payment</p>	<p><i>TBD</i></p>
<p>G. Terms that ensure both the enforceability and legality of agreements</p>	
<p>H. Steps involved in implementation, e.g., MOU, special legislation</p>	<p>The MUNC's agreements on this item will feed into terms for Topic 5, Implementation Steps.</p>

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
<p>A. Liability for environmental contamination in Malibu schools.</p> <p><u>Category (1)</u>: Contamination that is not known about at the time of separation.</p> <p><u>Category (2)</u>: Contamination that is known about before separation and for which SMMUSD has developed, approved, funded, and begun a remediation plan.</p> <p><u>Category (3)</u>: Contamination that is known about before separation but for which SMMUSD has not yet developed, approved, or funded a remediation plan.</p>	<p>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.</p> <p><u>Category (1)</u>: In sum, for environmental liability not known about at the time of separation, each district is on its own.</p> <p>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.</p> <p><u>Category (2)</u>: 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.</p> <p>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.</p> <p><u>Category (3)</u>: 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.</p>

	<i>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.</i>
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
<p>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.</p> <p>B. The appointment and role of a “Group One” and “Group Two”</p>	<p>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.</p> <p>B. The MUNC will recommend that the two groups be appointed to assist with transition and implementation.</p> <p>Group One: The current Board should 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.</p> <p>Candidate tasks for Group One mentioned already are:</p> <ul style="list-style-type: none"> • Drafting special state legislation at the Board’s direction; • Negotiating final arrangements for completing remediation and capital projects in Malibu schools that are underway at the time of separation. <p>Group Two: After separation occurs, the Board of SMUSD and Board of MUSD should appoint 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.</p> <p>Candidate tasks for Group Two mentioned already are:</p> <ul style="list-style-type: none"> • Making recommendations for final decisions about the allocation of “cash” in the Building Fund at the time of separation and the allocation of authority to issue authorized but not yet issued bonds. <p>As the MUNC addresses each of the topics in the work plan, the “to do” list for Group One and Group Two will become more apparent.</p>

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Major Outstanding Issues to Resolve

This document contains excerpts from the term sheets (updated as of MUNC decisions on 11/3/2016) that identify the major “holes” in the terms and conditions for an agreement. This document does not include the outstanding need for more details related to Topic 5, Implementation Steps.

Topic 1, Balance Sheet Allocations

Excerpt: Bottom of page 4

<p>Special Reserve for Capital Projects Fund – Tax increment Pass-Through Funding from the former Santa Monica Redevelopment Agency (RDA)</p>	<p>The MUNC understands the first priority for this fund is to pay the annual debt associated with the Certificates of Participation (COPs) for District HQ.</p> <p>Undecided: how to allocate the end-of-year cash balance after the debt payments for the COPs have been made.</p>	<p>The MUNC is requesting more information about the District’s practice for allocating the balance in the fund after the debt payments for the COPs have been made.</p>
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Excerpt: Page 6 (the second two categories)

<p>Issue #2: Allocation method for dividing SMMUSD’s land and buildings</p> <p>The committee agreed to consider the allocation of SMMUSD’s land and buildings, or their asset value, in three categories:</p> <ol style="list-style-type: none"> 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 	<p>Category 1: Schools</p> <ul style="list-style-type: none"> • School buildings will be allocated to the respective district where they are located. • MUSD will be provided assurance that MUSD students who require enrollment in an alternative high school program will be able to participate in SMUSD’s alternative 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.) <p>Category 2: Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica.</p> <ul style="list-style-type: none"> • This category includes property located in Santa Monica: District Headquarters and Washington West. • The Committee has not reached decisions on the allocation of assets in this category, and has asked for additional information on the use of Washington West and future plans (if any) for that property. <p>Category 3: Land/buildings that are a source of revenue for SMMUSD.</p> <ul style="list-style-type: none"> • The Committee has not reached decisions on the allocation of assets in this category. • The Committee has asked for a clarification of information on ground lease revenue for properties located in Santa Monica provided from the District (7/15/2016 memo from Carey Upton to the Board) and contained in SSC’s second report (Appendix A of SSC’s second report.)
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Topic 2: Allocation of Bond Debt and Authorization to Issue New Bonds

Excerpt from page 8: Major remaining issue is #1B, Approach to refinancing existing debt

<p>Bonds Issued by SMMUSD Before Separation</p> <p>Issue #1A: Method of allocating payments owed on bonds issued by SMMUSD before the date of separation.</p> <p>Issue #1B Approach to refinancing existing debt.</p> <p>Issue #1C Method of allocating remaining “cash” generated by bonds issued by SMMUSD before separation.</p>	<p>#1A: 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.</p> <p>#1B: Before making a final decision on this issue, the MUNC wants to know whether it is an option for debt issued by SMMUSD (and allocated to SMUSD and MUSD at the time of separation) to be refinanced separately by either district. And related to this, whether the mechanics of allocating issued bond debt between SMUSD and MUSD can somehow be done (e.g., by tranches) to allow refinancing decisions to be made separately.</p> <p>See terms for Building Fund on page 3. Need to confirm this is a repeat of the same item.</p>
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Topic 3: Operating Budget Impact

Excerpt from page 12: Revenue Neutrality Formula

<p>A. Details of the calculation</p> <p>B.1 Annual calculations; payments vs. credits</p> <p>B.2. Are there any minimum threshold or <i>di minimis</i> amounts in the formula?</p>	<p>B.1 The delta will be calculated annually.</p> <ul style="list-style-type: none"> • If SMMUSD per ADA revenue <u>is greater than</u> SMUSD per ADA revenue, then MUSD will owe a payment to SMUSD. • If SMMUSD per ADA revenue <u>is less than</u> SMUSD per ADA revenue, then MUSD will accrue a credit that can be counted towards a future payment. <p>B.2 <i>TBD.</i></p>
<p>C. Time frame for how long a formula for revenue neutrality remains in place. A time frame can be established either:</p> <ul style="list-style-type: none"> • According to the calendar; and/or • According to some event. 	<p><i>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 (beginning on next page) for the latest summary of the proposals currently under consideration.</i></p>

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	<ul style="list-style-type: none"> • Agree on the 3-year tracking result that would lead to the 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	<ul style="list-style-type: none"> • Start date differs. • Max. end year of tracking differs by four years: 2024-25 vs. 2028-29.

Characteristic of Formula	Santa Monica Proposal		Malibu Proposal		Agree/Difference
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.

Questions raised by Committee Members on November 3, 2016

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?

The revenue expected in Fund 40 for the 2016-17 fiscal year is \$4.4M. The line item in the budget for Other Outgo is the debt service on the existing COPs for the 16th Street building. The balance remaining on that debt as of 6/30/16 was just above \$15.0M. The annual debt service for principle and interest is \$1.869M.

Currently \$5.0M of the fund is being reserved to cover shortfalls occurring in Measure BB. There has not been an identification of which shortfall is specifically covered. With regards to other expenditures of the fund – these funds are to be used for capital projects only. This could range from smaller "maintenance type" projects to larger ones. The projects are not identified during the budget process. These funds are used to cover projects as they become a priority for the district.

- 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?

See above

2. Topic: Refinancing of Existing Bond Debt

Believe this is a question best answered by the legal firm contracted by the Committee

- 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?

The activities at Washington West include: offices for the district's Facility Improvement Projects staff and consultants, offices for the district's Child Development Services (CDS) staff, offices for the district's Beginning Teacher Support and Assessment (BTSA) staff, a large auditorium referred to as the PDLC (Professional Development Learning Center) that is used for multiple purposes including staff development for all district employees and meetings, and several classrooms that operate a portion of the district's CDS program. In previous information staff provided the distribution of students in our CDS programs between Santa Monica and Malibu - I do not have specific numbers for the students that receive services at the Washington West location. Most likely it would be Santa Monica students.

- b. Does the District have any plans for changing the use of this property in the foreseeable future?

No

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.

Need to do additional research