

**Malibu Unification Negotiations Committee  
Meeting Minutes**

**Tuesday, November 29, 2016  
Malibu City Hall, 23825 Stuart Ranch Road, Malibu, CA**

I. Call to Order / Roll Call

*The committee called the meeting to order at 7:18 p.m. with the following committee members present:*

*Tom Larmore  
Debbie Mulvaney  
Paul Silvern*

*Laura Rosenthal  
Makan Delrahim\*  
Manel Sweetmore*

*\*Mr. Delrahim was located in Washington, D.C. (on North Carolina Avenue), and participated via videoconference. He joined the meeting at 7:30 PM.*

II. Approve Meeting Minutes for November 22, 2016

- Ms. Mulvaney recommended a correction to the November 22, 2016 minutes.*
- By consensus, the committee approved the November 22<sup>nd</sup> minutes as corrected.*

III. Continuation of Worksession on Principles and Terms of Agreement

*Attached are the handouts for this agenda item: the latest term sheets; excerpts from the latest term sheets that highlight the key issues left for the committee to reach agreement on; a series of charts prepared by Mr. Sweetmore; and a table prepared by Mr. Larmore.*

*Following an explanation of the information contained in the handouts, the committee agreed to focus its discussion on the revenue neutrality formula, and in particular, on what the committee termed the "Latest Proposal."*

*Principles Behind the Latest Proposal*

*After talking about the value of articulating the principles behind the Latest Proposal, the committee agreed that the Latest Proposal is based on developing a payment schedule that:*

- Is designed to provide predictable and stable budget growth for both SMUSD and MUSD, with the annual growth rate never falling below the state's cost of living adjustment.*

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- *Posits payments from MUSD to SMUSD that in the aggregate equate to the cumulative delta (calculated annually as the difference between SMMUSD per student revenue vs. SMUSD per student revenue) but adjusted based on MUSD's ability to pay over time.*
  - *Takes the time value of money into consideration.*

#### Other Committee Agreements

- *The committee agreed that fiscal year 2018-19 should be the base year for running any future revenue neutrality scenarios for committee consideration.*
- *Mr. Sweetmore and Mr. Larmore will work together (as a MUNC Subcommittee) between the November 29<sup>th</sup> and December 6<sup>th</sup> meetings to explore ways the Latest Proposal can be adjusted to fairly balance the interests of the two communities.*
- *Assuming the three-year "tracking phase" is incorporated into the Latest Proposal, then it must be recognized that if there are three consecutive years of zero deltas, then payments might still be required to make up for years during which no payment or a less-than-full payment was made.*
- *On behalf of the committee, Ms. Orlansky will reach out to SSC to discuss the firm's availability to review the eventual revenue neutrality proposal that the committee reaches consensus on. It may also be useful for SSC to project when SMUSD would qualify as an LCFF Basic Aid District. While the scope of SSC's work still needs to be determined, the idea is to obtain SSC's input on a specific proposal before the committee finalizes a recommendation to the Board.*

#### Other Items Discussed

- *Ms. Orlansky reported that Mike Ricketts of SSC had agreed to provide revised projections based on the corrected SMMUSD's ground lease revenue data. She stated that Mr. Ricketts plans to provide the revised tables by the end of the week.*
- *Whether or a large amount of money booked as a district's accounts receivable (an asset) or accounts payable (a liability) might affect either SMUSD or MUSD's bond rating.*
- *That any comparison of revenue per ADA in a future MUSD vs. SMUSD must be interpreted within the context that the total enrollment in MUSD will be about one-fifth of what it will be in SMUSD, and that the per student cost of operating schools in Malibu is higher.*
- *With respect to the length of time that a revenue neutrality arrangement remains in place, it will need to be discussed and clarified whether the length is linked to the calendar years contained in SSC's projections plus four years for tapering, calculated as 16 years following separation, or something else, e.g., when SMUSD reaches Basic Aid status.*

#### IV. Public Comments

*There were no public comments.*

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V. Agenda Planning for Upcoming Meetings:

A. Topics for Next Agenda

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

B. Review of dates and locations for future committee meetings

- *Tuesday, December 6, 7-9 PM at SMMUSD District Offices*
- *(Possible additional committee meeting) Saturday, December 10, 9-11 AM. If SMMUSD offices are not easily available on a Saturday, then the Committee can meet in a conference room at 1250 6th St #200, Santa Monica, CA 90401 (Mr. Larmore's office).*
- *Tuesday, December 13, 7-9 PM at Malibu City Hall*
- *Tuesday, December 20, 7-9 PM at SMMUSD District Offices*

*Note: For next Tuesday's meeting (12/6/2016), Ms. Rosenthal and Mr. Delrahim will both participate via videoconference. Ms. Rosenthal will be in Sacramento and Mr. Delrahim will be in Washington, D.C.*

C. 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 22, 2016 meeting.

<b>Topic</b>	<b>Begins on Page</b>
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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><b>Issue #1: Allocation method for dividing SMMUSD’s cash assets.</b></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 “<b>ADA method</b>” refers to a three-year average of the ADA split between what will be SMUSD and MUSD. The three years will be the year that separation occurs and the prior two years. As a point of reference, the Santa Monica/Malibu ADA ratio was 84%/16%.</p> <p>The exceptions will be for funds where the relative source of revenue (i.e., SMUSD vs. MUSD) has been substantially different from the ADA ratio, or if there is an alternative, more equitable method of allocating a fund balance.</p> <p>The table that begins on the next page summarizes the recommended method of allocation for each fund.</p>

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 SMMUSD 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>	This is the same item listed as Issue #1C under Topic 2. See page 8.
4. Bond Interest and Redemption Fund	N/A (Not Applicable)	There is no end-of-year cash balance in this fund to allocate.

<b>B. SPECIAL REVENUE FUNDS</b>		
1. Adult Education Fund	<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.
<b>C. CAPITAL PROJECT FUNDS</b>		
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 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.</p> <p>To be specific, the calculation of Malibu's share will include the initial allocation of (at least) \$77 million out of ES's total of \$385</p>	<p>This fund pays for the annual debt service on the existing Certificates of Participation (COPs) for the 16<sup>th</sup> Street building (District Headquarters). The annual debt services for principle and interest is \$1.869M.</p> <p>\$5M of this fund is reserved to cover shortfalls occurring in Measure BB, and the balance is used to fund other</p>

	<p>million plus Malibu’s share of the \$34 million allocated from ES for system-wide technology improvements. (Note: Ms. Mulvaney and Ms. Orlansky agreed to calculate the ratio to be applied to the fund balance.)</p>	<p>capital projects as they are identified by the District as a priority. There has been no pattern established for using these funds for capital projects based on the project’s location in Malibu or Santa Monica.</p>
<p><b>D. RETIREE BENEFIT FUND</b></p>	<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><b>Issue #2:</b> <b>Allocation method for dividing SMMUSD's land and buildings</b></p> <p>The committee agreed to consider the allocation of SMMUSD's land and buildings, or their asset value, in three categories:</p> <ol style="list-style-type: none"> <li>1) Schools;</li> <li>2) Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica; and</li> <li>3) Land/buildings that are a source of revenue for SMMUSD</li> </ol>	<p>Category 1: Schools</p> <ul style="list-style-type: none"> <li>• School buildings will be allocated to the respective district where they are located.</li> <li>• To the extent MUSD does not provide for 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 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.)</li> </ul> <p>Category 2: Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica. This category includes property located in Santa Monica: District Headquarters and Washington West.</p> <ul style="list-style-type: none"> <li>• 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.)</li> <li>• 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.</li> </ul> <p>Category 3: Land/buildings that are a source of revenue for SMMUSD.</p> <ul style="list-style-type: none"> <li>• The Committee has not reached decisions on the allocation of assets in this category.</li> <li>• The Committee raised questions about an inconsistency in the ground lease revenue data contained in SSC's report. SSC identified a data error and has agreed to provide updated revenue projection tables for the Committee during the last week of November.</li> </ul>



**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><b>Bonds Issued by SMMUSD Before Separation</b></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>I</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: 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.</p> <p>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.</p> <p>See terms for the one-time allocation of the Building Fund, page 3.</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"><li>• 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</li><li>• Mutual respect for the needs and preferences of SMUSD and MUSD at the time the allocation decision is made.</li></ul>
Issue #3: Method of issuing bonds post-separation.	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.
Issue #4: Procedures (if any) for revisiting agreements reached on bond-related issues	<i>Can #4 be deleted?</i>





	<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"> <li>• 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.</li> <li>• 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.</li> </ul>
<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"> <li>• Drafting special state legislation at the Board’s direction;</li> <li>• Negotiating final arrangements for completing remediation and capital projects in Malibu schools that are underway at the time of separation.</li> </ul> <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"> <li>• 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.</li> </ul> <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 11/22/2016) that identify the major remaining issues that need to be resolved by the Committee, with the exception of adding details to Topic 5, Implementation Steps. Also excluded are some relatively minor questions about wording and details of specific terms.

**Topic 1, Balance Sheet Allocations**

Excerpt: Page 6 (the category of revenue producing land/buildings )

<p><b>Issue #2:</b> <b>Allocation method for dividing SMMUSD's land and buildings</b></p>	<p>Category 3: Land/buildings that are a source of revenue for SMMUSD.</p> <ul style="list-style-type: none"> <li>• The Committee has considered a number of options, but has not yet reached decisions on the allocation of assets in this category.</li> <li>• Earlier in November, the Committee raised questions about an inconsistency in ground lease revenue data contained in SSC's report. SSC identified a data error and has agreed to provide updated revenue projection tables for the Committee. The updates are expected by Friday, December 2.</li> </ul>
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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"> <li>• If SMMUSD per ADA revenue <u>is greater than</u> SMUSD per ADA revenue, then MUSD will owe a payment to SMUSD.</li> <li>• 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.</li> </ul> <p>B.2 Details of this provision need to be decided.</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"> <li>• According to the calendar; and/or</li> <li>• According to some event.</li> </ul>	<p>The Committee continues to discuss the revenue neutrality formula and the length of time some version of the formula will remain in place. On November 22, 2016, the Committee considered a new proposal that everyone agreed to continue discussing on November 29. The attached table compares two previously considered proposals.</p>

### Comparison of Proposals

The table below compares the revenue neutrality proposals discussed before the Committee's November 22 meeting.

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 2021-22	<ul style="list-style-type: none"> <li>• Agree on the 3-year tracking result that would lead to the end of the revenue neutrality arrangement.</li> <li>• Not agree on the year that tracking begins.</li> </ul>
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"> <li>• Start date differs.</li> <li>• Max. end year of tracking differs by four years: 2024-25 vs. 2028-29.</li> </ul>

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.

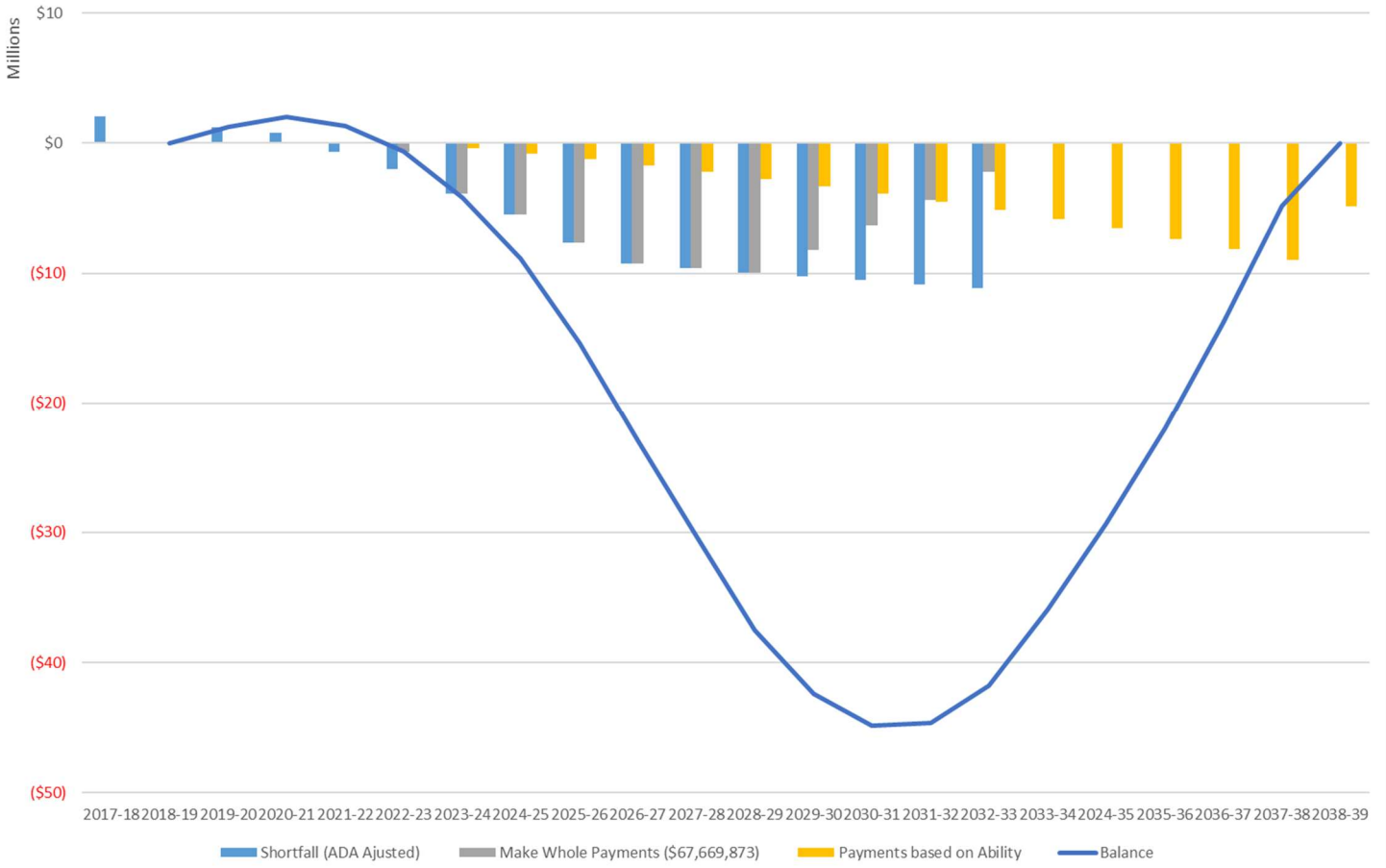
Table revised 10/31/2016

\* 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.

## **Santa Monica Proposal Charts**

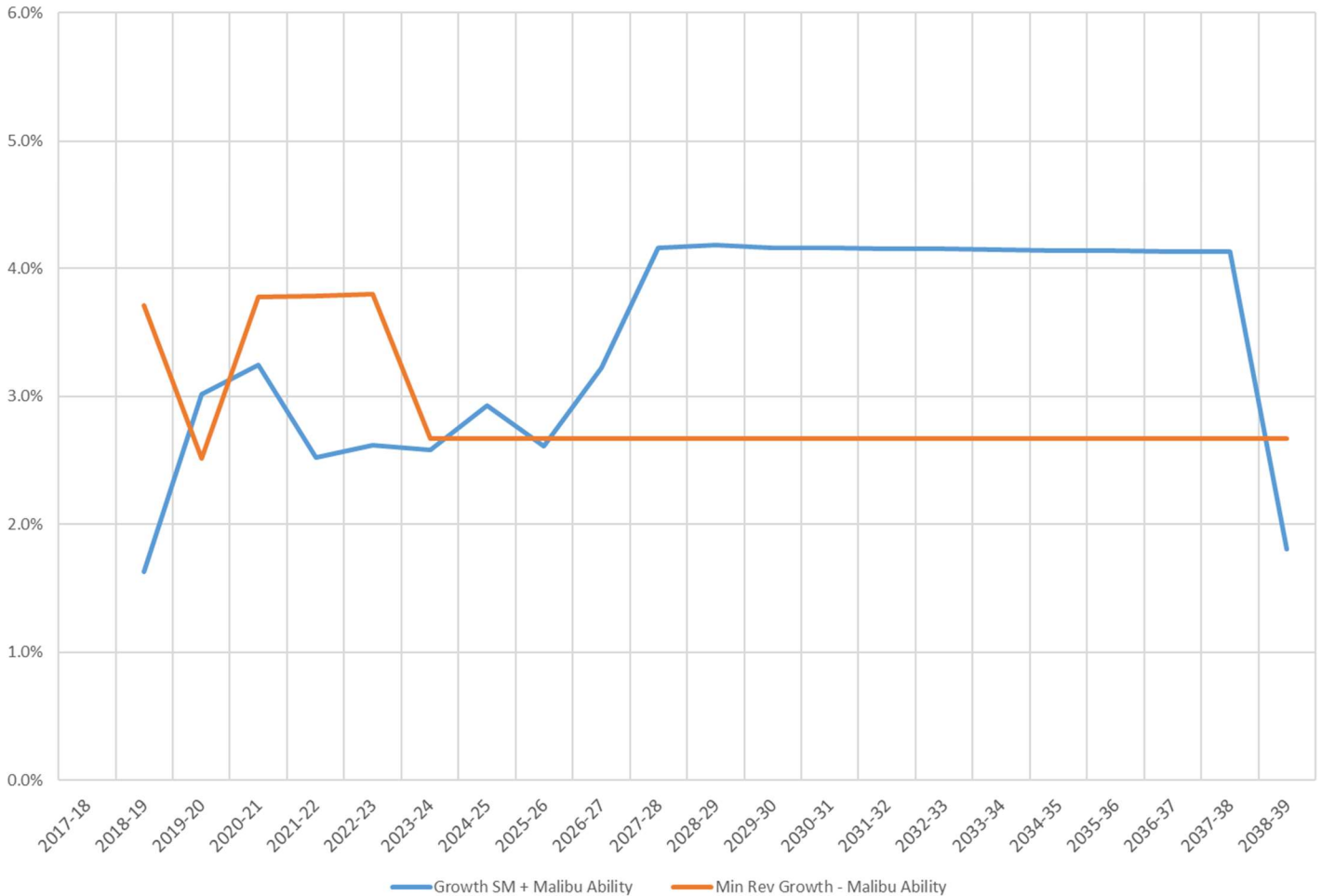
### Make Whole Payments Options

SM Proposal



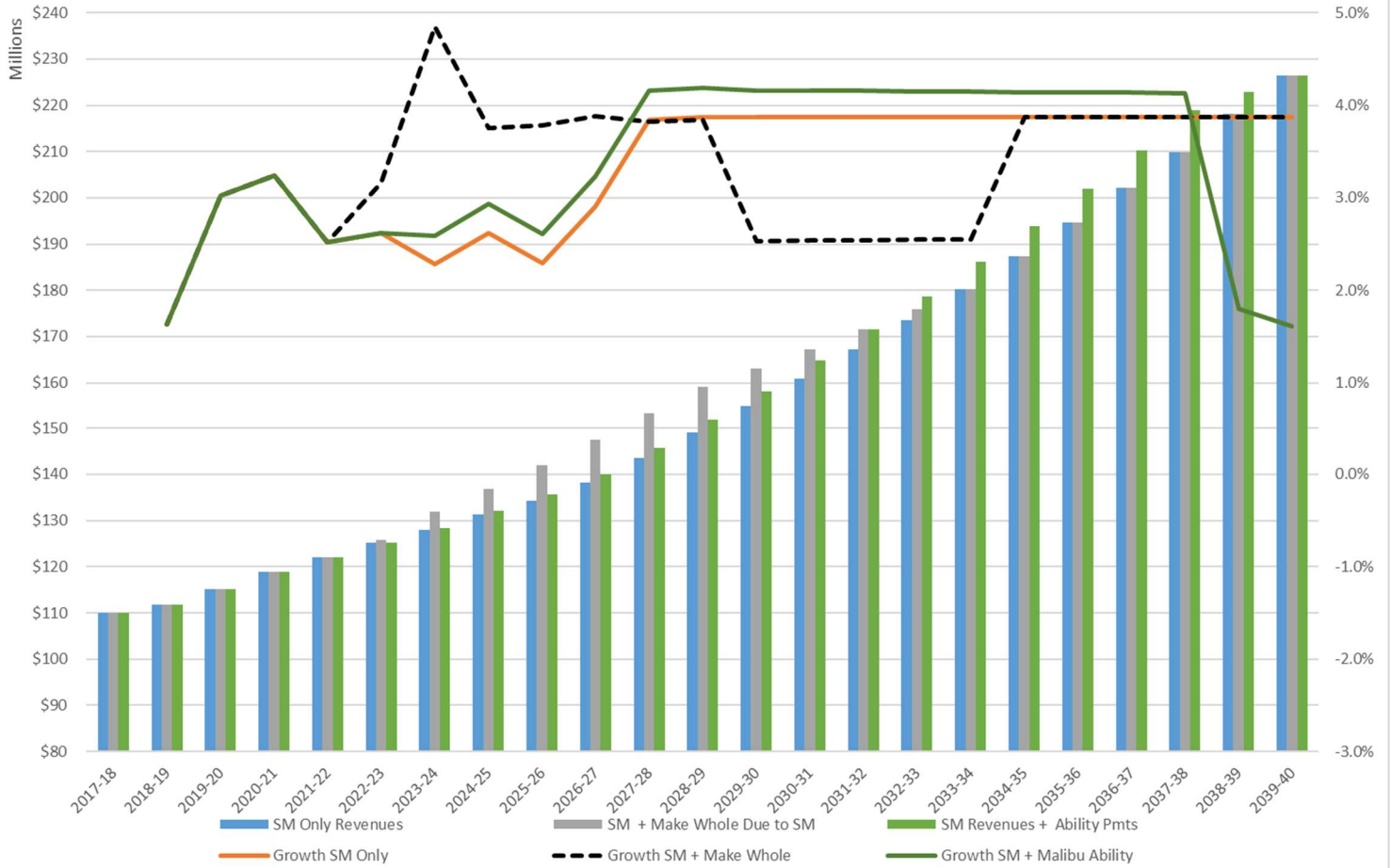
### Revenue Growth Rate Comparison

SM Proposal



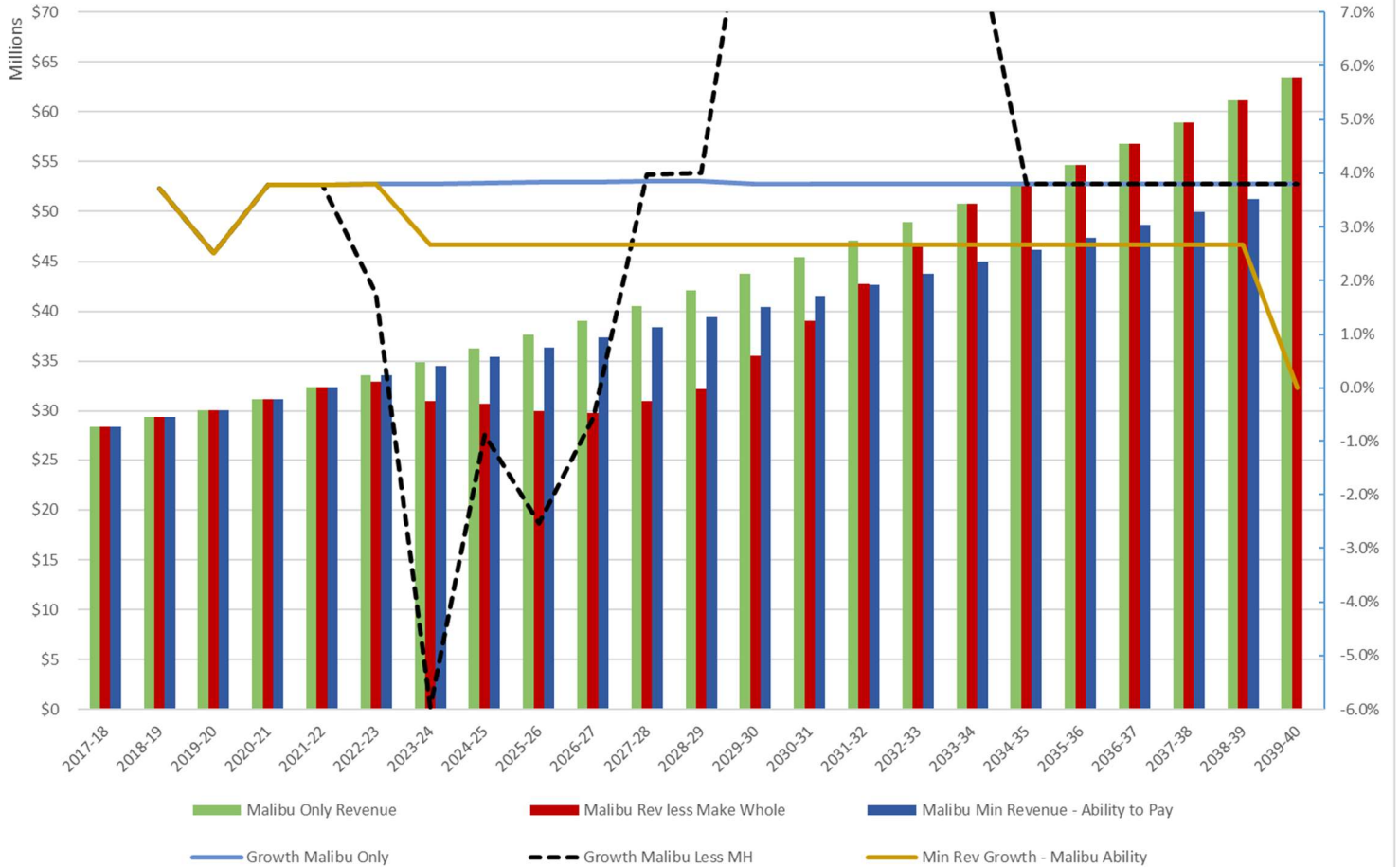
### SM Options Revenue Comparisons

SM Proposal



### Malibu Options Revenue Comparisons

SM Proposal

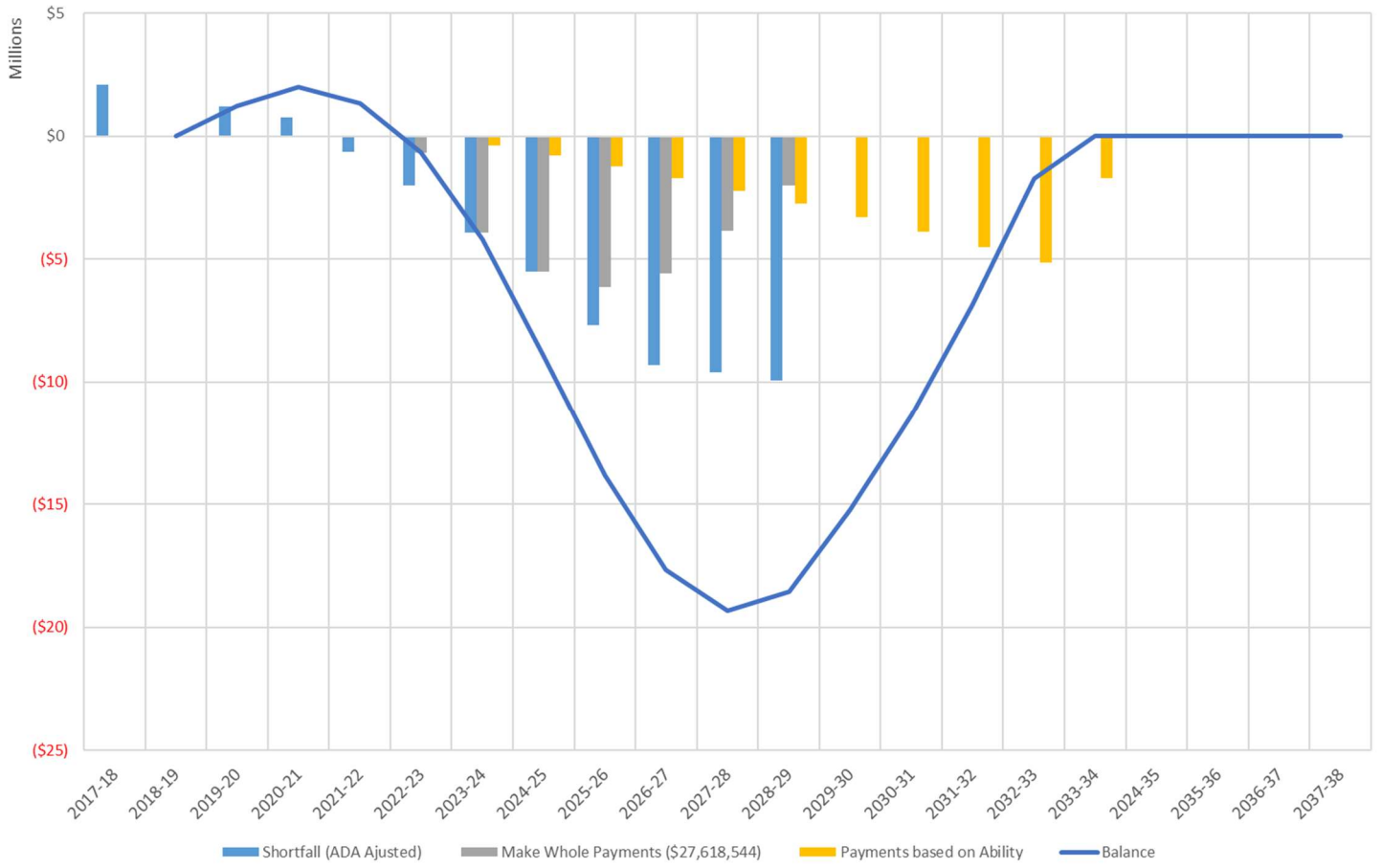




## **Malibu Proposal Charts**

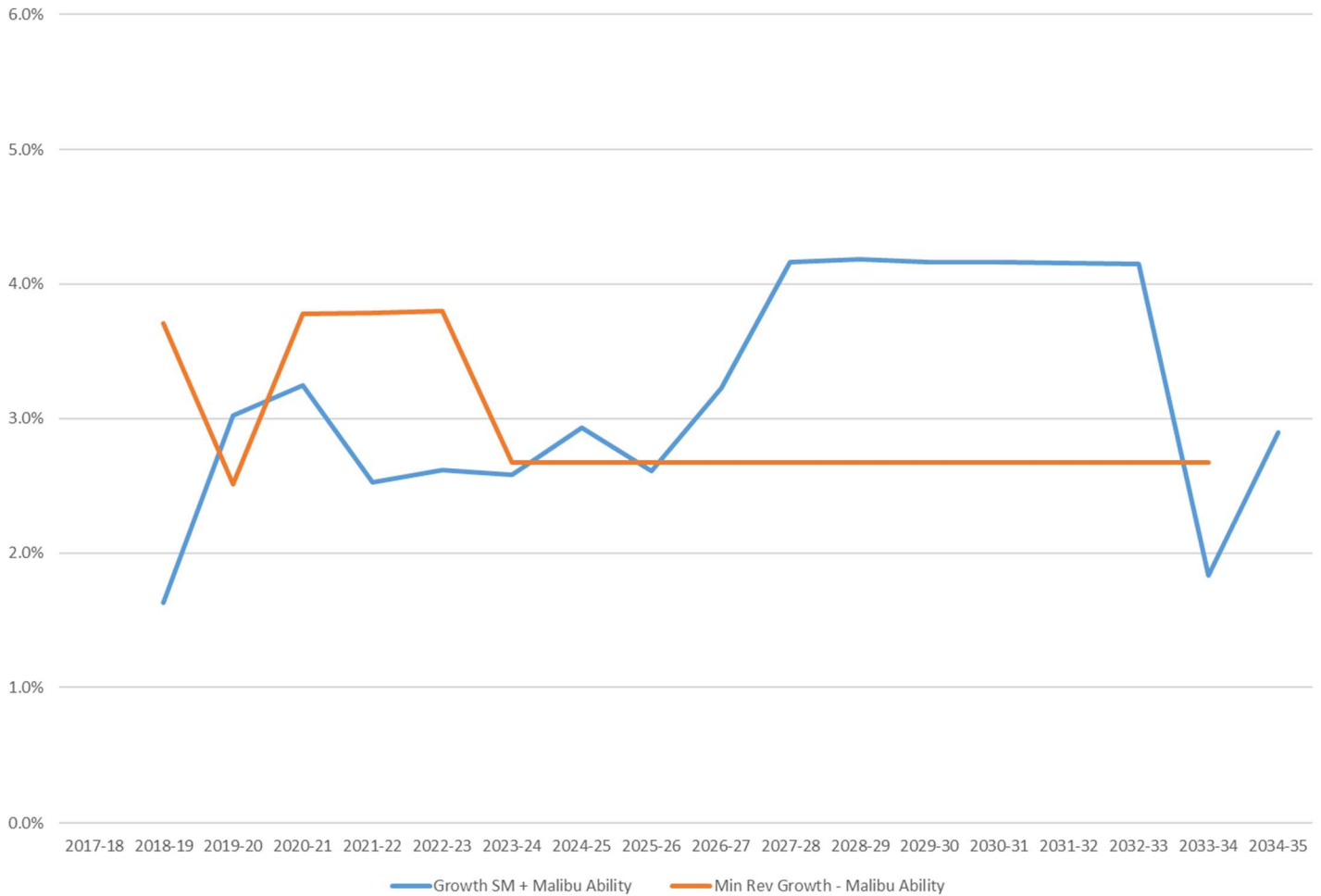
### Make Whole Payments Options

Malibu Proposal



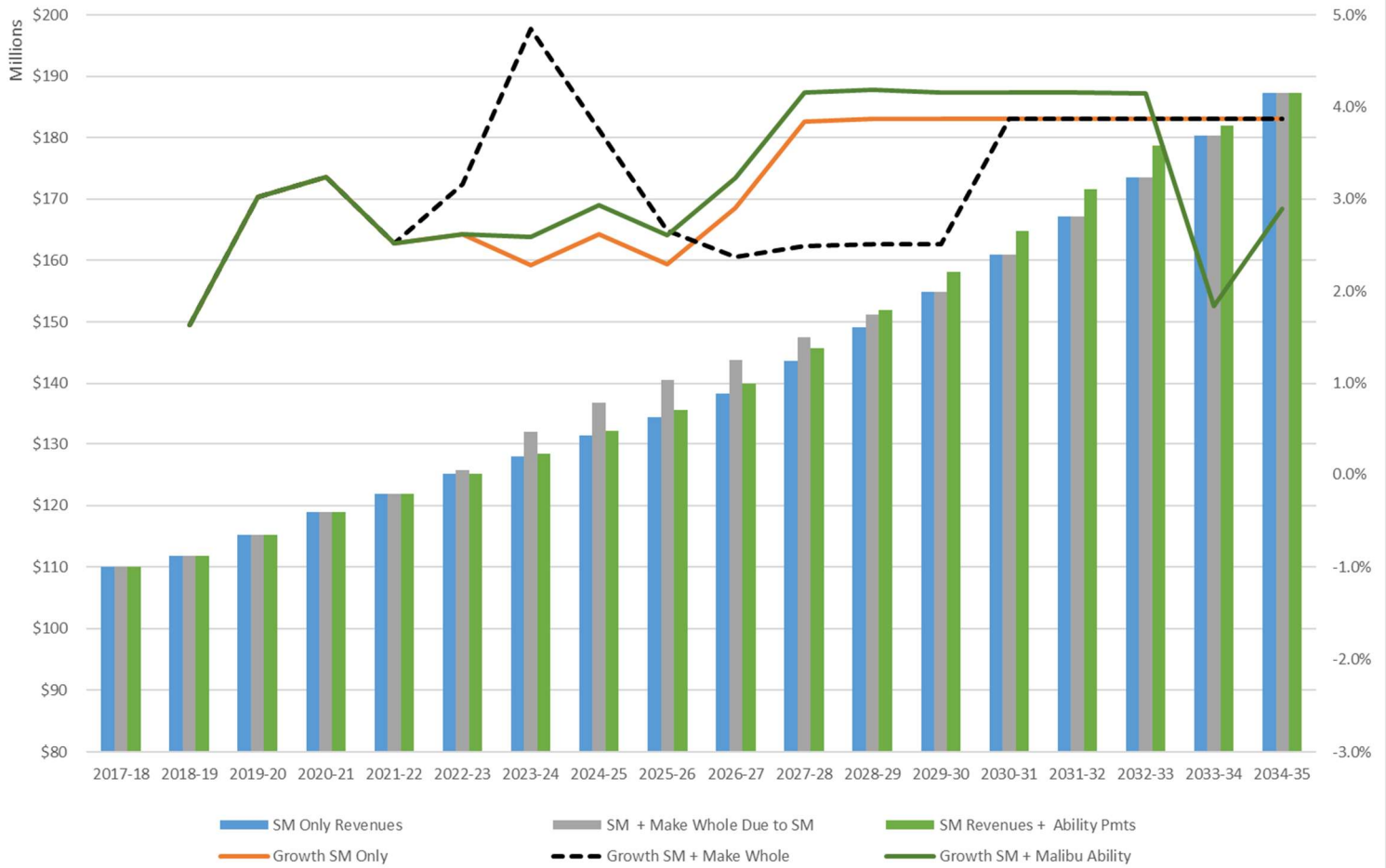
### Revenue Growth Rate Comparison

Malibu Proposal



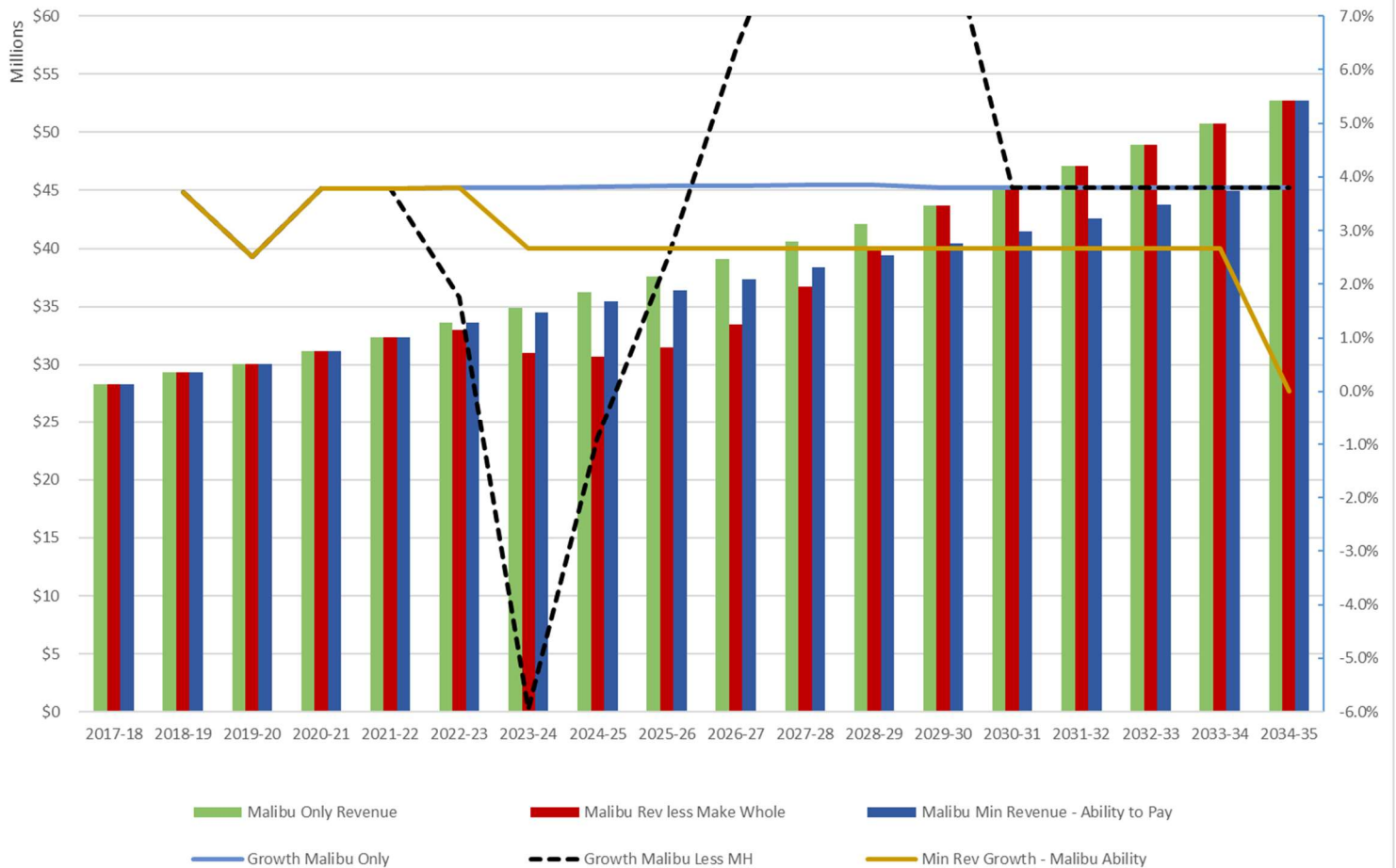
### SM Options Revenue Comparisons

Malibu Proposal



### Malibu Options Revenue Comparisons

Malibu Proposal



Year	1 SMMUSD REV/ADA*	2 SMUSD REV/ADA*	3 DELTA PER ADA LINE 1 - LINE 2	4 CUM DELTA PER ADA	5 MALIBU PAYMENT PER ADA SM TEAM	6 SMUSD REV/ADA USING PAYMENT PER SM TEAM PROPOSAL	7 MALIBU PAYMENT PER ADA PER MANEL	8 SMUSD REV/ADA USING PAYMENT PER MANEL PROPOSAL	9 ANNUAL DIFFERENCE SMUSD REV PER ADA BETWEEN MANEL PROPOSAL AND SM PROPOSAL LINE 8 - LINE 6	10 CUM DIFFERENCE SMUSD REV PER ADA BETWEEN MANEL PROPOSAL AND SM PROPOSAL	11 CUM DIFFERENCE IN DOLLARS (000S)
17-18	12,387	12,626	<239>	<239>	0	12,626	0	12,626	0	0	0
18-19	12,832	12,832	0	<239>	0	12,832	0	12,832	0	0	0
19-20	13,079	13,220	<141>	<380>	0	13,220	0	13,220	0	0	0
20-21	13,559	13,648	<89>	<469>	0	13,648	0	13,648	0	0	0
21-22	14,067	13,994	73	<396>	0	13,994	0	13,994	0	0	0
22-23	14,589	14,360	229	<167>	0	14,360	0	14,360	0	0	0
23-24	15,134	14,686	448	281	281	14,967	44	14,730	<237>	<237>	<2,065>
24-25	15,703	15,071	632	-	632	15,703	91	15,162	<541>	<778>	<6,780>
25-26	16,297	15,417	880	-	880	16,297	142	15,559	<738>	<1,516>	<13,212>
26-27	16,930	15,864	1,066	-	1,066	16,930	196	16,060	<870>	<2,386>	<20,794>
27-28	17,577	16,474	1,103	-	1,103	17,577	254	16,728	<849>	<3,235>	<28,193>
28-29	18,251	17,112	1,139	-	1,139	18,251	316	17,428	<1,003	<4,238>	<36,934

Malibu Payment - Manel Proposal - 17/18 Base Year

29-30	18,945	17,762	1,183	-	946 (80%)	18,708	379	18,141	<567>	<4,805>	<41,876>
30-31	19,665	18,437	1,228	-	737 (60%)	19,174	445	18,882	<292>	<5,097>	<44,420>
31-32	20,412	19,138	1,274	-	510 (40%)	19,648	516	19,654	6	<5,091>	<44,368>
32-33	21,188	19,865	1,323	-	265 (20%)	20,130	591	20,456	326	<4,765>	<41,527>
33-34	21,993	20,620	1,373	-	0	20,620	670	21,290	670	<4,095>	<35,688>
34-35	22,829	21,404	1,425	-	0	21,404	754	22,158	754	<3,341>	<29,117>
35-36	23,696	22,217	1,479	-	0	22,217	842	23,059	842	<2,499>	<21,779>
36-37	24,596	23,061	1,535	-	0	23,061	936	23,997	936	<1,563>	<13,622>
37-38	25,531	23,937	1,594	-	0	23,937	1,034	24,971	1,034	<529>	<4,610>
38-39	26,501	24,847	1,654	-	0	24,847	529**	25,376	529	0	0
39-40	27,508	25,791	1,717	-	0	25,791	0	25,791	0	0	0
Total					7,559		7,739				

\* Uses SSC tables through 28-29 and then 3.8% growth rate for later years.

\*\* Lower than Manel's table but the number here should be whatever is needed to pay off the accumulated deficit.

Total Malibu payments = 65,877,000 PER SM PROPOSAL  
= 67,445,000 PER MANEL PROPOSAL

Malibu Payment - Manel Proposal - 17/18 Base Year