Malibu Unification Negotiations Committee
Meeting Minutes

Tuesday, December 6, 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 7:00 p.m. with the following committee members present:

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

Mr. Makan Delrahim was absent.

**Ms. Rosenthal was located at the Hyatt Regency Sacramento, 1209 L Street, Sacramento CA 95814, and participated via a Skype videoconference.*

In calling the meeting to order, the committee agreed to end a temporary change in the committee's practice, which had been to hold meetings only when all committee members could participate. Given the complexities of members' schedules, the committee agreed to return to the original ground rule that requires only two members of each negotiating team to be present for a committee meeting to be held. (Note: Being "present" includes participating via videoconference or teleconference.)

II. Approval of November 29, 2016 Meeting Minutes

- *Ms. Mulvaney, Mr. Silvern, and Mr. Larmore 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 handouts for this agenda item are attached: the latest term sheets, and a spreadsheet (provided by Mr. Sweetmore) that depicts the most recent Latest Proposal model.

The committee also received revisions to SSC's projections that incorporated corrected ground lease revenue data. However, as mentioned in the minutes below, the committee continued to have questions about the accuracy of these data.

<u>Discussion on the Latest Proposal</u>

Mr. Sweetmore explained the most recent Latest Proposal model. The committee explored and discussed key components of the model, including:

- *How the model establishes a minimum annual growth rate for the MUSD budget, which then leads to the calculation of a payment to SMUSD based on MUSD's ability-to-pay.*
- *How the dollar amount of the annual "per ADA gap" changes over time. The "per ADA gap" is defined as the difference between the projected payment from MUSD to SMUSD, based on MUSD's ability-to-pay, and the delta (calculated as the difference between SMMUSD per ADA revenue vs. SMUSD per ADA revenue).*
- *The importance of keeping in mind that, due to the difference in the expected total budgets for SMUSD and MUSD, the dollars associated with a percent change in the MUSD budget will equate to a much smaller percent change in the SMUSD budget.*
- *Which elements of the previously considered revenue neutrality proposals should be incorporated into the Latest Proposal, either in their same or modified form.*

<u>Committee Agreements</u>

The committee agreed to continue working from the Latest Proposal as the basis for building a consensus revenue neutrality formula. The committee reiterated its support for a model that:

- *Calculates the projected annual deltas (defined as the annual difference between SMMUSD per ADA revenue vs. SMUSD per ADA revenue) over a specified period of X years. The amounts of each delta are then added together to determine a total estimated amount that MUSD will pay to SMUSD over time.*

- *Based on the principle of providing predictable and stable budget growth for both SMUSD and MUSD and MUSD's ability-to-pay, the model then determines how the total amount of money will flow, i.e., amount each year, over what period of years. The intent will be to maintain an annual revenue growth rate for both districts at or above the state's cost of living adjustment, which is currently 2.67%.*

- *Depending on the timing of payments, the total amount paid from MUSD to SMUSD will be adjusted to take the time value of money into consideration, based on the interest rate being paid by the centralized LACOE investment pool.*

In addition, the committee tentatively agreed to incorporate the following elements into the Latest Proposal:

- *<u>A tracking phase</u>. The committee agreed that the model should retain a "tracking phase" (referenced in earlier proposals). The tracking phase would begin either three years after separation occurs or 2022-23, whichever is later. If, during the tracking phase, there are three consecutive years during which the annually calculated delta (without regard to any credits Malibu may have accrued in previous years) is below some minimum threshold amount (tentatively established as less than $100 per ADA), then the revenue neutrality arrangement ends except that any outstanding payments due from MUSD to SMUSD would still need to be paid.*

- *<u>Criteria for renegotiating the formula/terms of payment</u>. The committee agreed that the model would include criteria for opening a negotiation between SMUSD and MUSD on the agreed-upon formula and/or other terms of payment. The criteria will be defined as a "significant change" in any of the key underlying assumptions behind SSC's projections, such as: the state's LCFF guidelines; the state's annual cost-of-living increase; or changes in assessed valuations.*

  Mr. Silvern agreed to draft language for the committee's consideration that would further define what a "significant change" means for each of the key underlying assumptions.

<u>Next Steps on Refining Formula</u>

Mr. Sweetmore and Mr. Larmore agreed to continue working as a MUNC Subcommittee on the Latest Proposal. They agreed to explore additional iterations, taking into consideration the committee's discussion and tentative agreements.

<u>Other Items Discussed</u>

- *<u>ES funding of system-wide technology improvements</u>. Ms. Mulvaney reported that, as requested, she had obtained additional data from the District about the allocation of the $34.4 million in ES funds for system-wide technology improvements. Ms. Mulvaney shared her assessment that the information does not readily lend itself to calculating a division of these ES funds between schools in Malibu and schools in Santa Monica.*

  As a result, the committee agreed to stay with its earlier decision to subtract the entire $34.4 million from the ES total of $385 million when determining the Santa Monica/Malibu allocation ratio for the one-time division of the fund balance in the Special Reserve for Capital Projects Fund. (See page 5 of the term sheets handout, item C.2.)

- *<u>SMMUSD Ground Lease Revenue</u>. The committee discussed a concern that the revised projections received from SSC (intended to correct the ground lease revenue data) continue to be at odds with District-generated ground lease revenue data by approximately $200K. Mr. Silvern and Mr. Sweetmore agreed to work with Ms. Orlansky to communicate with SSC about the possibility of a remaining data inconsistency.*

- *<u>Phase-2 Work for SSC</u>. The committee asked Ms. Orlansky to find out about SSC's availability between December 14 and December 19 for reviewing a committee-generated revenue neutrality formula. This timing depends on the committee's coming to a tentative agreement on the formula and model. This assignment would be considered Phase-2 work under SSC's existing contract.*

- *<u>Allocation method for SMMUSD's revenue producing properties.</u> The committee briefly reviewed its previous discussion on this issue, which remains to be resolved. The committee agreed to return to figuring out this issue after reaching the next level of agreement on the Latest Proposal.*

IV. Public Comments

Mr. Seth Jacobson suggested that, once the committee completes its work, committee members should consider meeting individually with the members of the Board of Education to educate them on the committee's process and recommendations.

V. Upcoming Meetings

A. Topics for Upcoming Agendas
   - *Next week, the committee will continue its worksession on the principles, terms, and conditions of agreement. The December 13th meeting will include fine-tuning the revenue neutrality model (Topic 3) and discussing the allocation method for SMMUSD's revenue producing properties (Topic 1).*
   - *Additional issues that need to be addressed in future sessions include the details of Topic 5, Implementation, as well as the timing, format, and writing of the committee's report and associated briefing materials for the Board.*

B. Review and confirmation of Committee's upcoming meeting schedule:
   - *Tuesday, December 13 at Malibu City Hall*
   - ~~*Tuesday, December 20 at SMMUSD District Offices*~~
   - *Additional meeting dates and times*

VI. Adjournment

The committee adjourned the meeting at 8:50 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 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 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	The Building Fund will contain the end-of-year cash balance of SMMUSD bond proceeds in the year prior to separation. 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. 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.	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.

Fund	**Method for Allocating Cash Balance in Fund**	**MUNC Comments**
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.
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.

Fund	**Method for Allocating Cash Balance in Fund**	**MUNC Comments**
C. CAPITAL PROJECT FUNDS		
1. Capital Facilities Fund – developer fees	The fund balance will be divided based on 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),	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. 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.	This fund pays for the annual debt service on the existing Certificates of Participation (COPs) for the 16th Street building (District Headquarters). The annual debt services for principle and interest is $1.869M. $5M of this fund is reserved to cover shortfalls occurring in Measure BB, and the balance is used to fund other 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.
D. RETIREE BENEFIT FUND	The MUNC recommends the details of this allocation be assigned to Group 2. 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.	

Term Sheet for Topic 1 (continued from page 2)

<table>
<tr><th>Principle/Parameter</th><th>Terms of Agreement</th></tr>
<tr><td>
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:

Schools;
Land/buildings used for SMMUSD activities that serve both Malibu and Santa Monica; and
Land/buildings that are a source of revenue for SMMUSD

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Category 1: Schools

School buildings will be allocated to the respective district where they are located.
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.)

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.

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.)
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.

Category 3: Land/buildings that are a source of revenue for SMMUSD.

The Committee has not reached decisions on the allocation of assets in this category.
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.

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Issue #3: **Allocation method for balance sheet liabilities (other than bond debt and environmental liability):** **a. Certificates of Participation**	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	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	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 MUNC recommends the details of this allocation be assigned to Group 2. The most equitable allocation of OPEB liability will need to be based on the most recent actuarial data available at the time of separation, and will be linked to how the funds already set-aside for providing retiree health benefits is divided between SMUSD and MUSD at the time of separation.
Issue #4: **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**
Bonds Issued by SMMUSD Before Separation	
Issue #1A: Method of allocating payments owed on bonds issued by SMMUSD before the date of separation.	#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.
Issue #1B Approach to refinancing existing debt. I	#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. 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.
Issue #1C Method of allocating remaining "cash" generated by bonds issued by SMMUSD before separation.	See terms for the one-time allocation of the Building Fund, page 3.
Issue #2: Method of allocating amount of authorized but not yet issued bonds.	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.

	The recommended guiding principles for Group 2 are to: • 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.
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	*Can #4 be deleted?*

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: Measure GSH 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.

Principle/Parameter	Terms of Agreement
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 The minimum threshold amount(s) still needs to be determined.
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.	On November 29, 2016, the Committee agreed to focus its discussion on what the Committee termed "the latest proposal," which is based on the following principles: • A payment schedule 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. • A payment schedule from MUSD to SMUSD that in the aggregate equates to the cumulative delta (calculated annually as the difference between SMMUSD per student revenue vs. SMUSD per student revenue) but is adjusted based on MUSD's ability to pay over time. • A payment schedule that takes the time value of money into 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.

<table>
<tr><th>Principle/Parameter</th><th>Terms of Agreement</th></tr>
<tr><td>E. Other mechanics related to calculations/payments
When in the calendar year the calculation is performed
Payment schedule
Timing of any reconciliation</td><td>The following steps outline the timing of the annual calculation and payment (or credit):
The audited financials for the first fiscal year of separation will be available in December of the second fiscal year of separation.
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.
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.</td></tr>
<tr><td></td><td></td></tr>
<tr><td>F. Criteria and purpose for reopening any of the agreed-upon formulas and/or other terms of payment</td><td>TBD</td></tr>
<tr><td>G. Terms that ensure both the enforceability and legality of agreements</td><td></td></tr>
<tr><td>H. Steps involved in implementation, e.g., MOU, special legislation</td><td>The MUNC’s agreements on this item will feed into terms for Topic 5, Implementation Steps.</td></tr>
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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.
<u>Category (1):</u> Contamination that is not known about at the time of separation.	<u>Category (1):</u> 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.
<u>Category (2)</u>: Contamination that is known about before separation and for which SMMUSD has developed, approved, funded, and begun a remediation plan.	<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. 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.
<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.	<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.

	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 two groups be appointed to assist with transition and implementation. 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. Candidate tasks for Group One mentioned already are: • 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. 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. Candidate tasks for Group Two mentioned already are: • 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. 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.

Santa Monica	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37
SM Only Revenues	$112,610,966	$115,987,486	$119,725,090	$122,727,291	$125,920,872	$128,774,116	$132,125,128	$135,132,386	$139,035,664	$144,351,584	$149,909,722	$156,205,930	$164,078,710	$172,348,277	$181,034,631	$190,158,777	$199,742,780	$209,809,817	$220,384,232
Growth SM Only	*1.6%*	*3.0%*	*3.2%*	*2.5%*	*2.6%*	*2.3%*	*2.6%*	*2.3%*	*2.9%*	*3.8%*	*3.9%*	*4.2%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
SM + Make Whole Due to SM	$112,610,966	$115,987,486	$119,725,090	$122,727,291	$125,929,847	$132,548,621	$137,504,772	$142,677,514	$148,193,808	$153,829,972	$159,713,915	$156,205,930	$164,078,710	$172,348,277	$181,034,631	$190,158,777	$199,742,780	$209,809,817	$220,384,232
Growth SM + Make Whole	*1.6%*	*3.0%*	*3.2%*	*2.5%*	*2.6%*	*5.3%*	*3.7%*	*3.8%*	*3.9%*	*3.8%*	*3.8%*	*-2.2%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
SM Revenues + Ability Pmts	$112,610,966	$115,987,486	$119,725,090	$122,727,291	$125,920,872	$129,899,156	$133,680,773	$137,148,932	$141,545,016	$147,387,333	$153,507,224	$160,375,471	$168,853,650	$177,763,555	$187,126,833	$196,966,205	$203,792,534	$209,809,817	$220,384,232
Growth SM + Malibu Ability	*1.6%*	*3.0%*	*3.2%*	*2.5%*	*2.6%*	*3.2%*	*2.9%*	*2.6%*	*3.2%*	*4.1%*	*4.2%*	*4.5%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*	*3.5%*	*3.0%*	*5.0%*
SM + Pmts vs SM Only	$0	$0	$0	$0	$0	$1,125,040	$1,555,645	$2,016,546	$2,509,352	$3,035,749	$3,597,502	$4,169,540	$4,774,940	$5,415,278	$6,092,202	$6,807,428	$4,049,754	$0	$0
per ADA	$0	$0	$0	$0	$0	$129	$179	$231	$288	$348	$413	$478	$548	$621	$699	$781	$465	$0	$0

Malibu	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37
Malibu Only Revenue	$29,329,594	$30,067,377	$31,202,910	$32,384,677	$33,614,586	$34,894,630	$36,226,883	$37,613,506	$39,056,751	$40,558,963	$42,122,586	$43,723,244	$45,384,728	$47,109,347	$48,899,502	$50,757,683	$52,686,475	$54,688,562	$56,766,727
Growth Malibu Only	*3.7%*	*2.5%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.9%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
Malibu Rev less Make Whole	$29,329,594	$30,067,377	$31,202,910	$32,384,677	$33,605,611	$31,120,125	$30,847,239	$30,068,378	$29,898,607	$31,080,575	$32,318,393	$43,723,244	$45,384,728	$47,109,347	$48,899,502	$50,757,683	$52,686,475	$54,688,562	$56,766,727
Growth Malibu Less MH	*3.7%*	*2.5%*	*3.8%*	*3.8%*	*3.8%*	*-7.4%*	*-0.9%*	*-2.5%*	*-0.6%*	*4.0%*	*4.0%*	*35.3%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
Malibu Min Revenue - Ability to Pay	$29,329,594	$30,067,377	$31,202,910	$32,036,028	$32,891,390	$33,769,590	$34,671,238	$35,596,960	$36,547,399	$37,523,214	$38,525,084	$39,553,704	$40,609,788	$41,694,069	$42,807,301	$43,950,256	$45,123,727	$54,688,562	$56,766,727
Min Rev Growth - Malibu Ability	*3.7%*	*2.5%*	*3.8%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*21.2%*	*3.8%*

Tom's Table

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37
SMMUSD Rev/ADA	$12,906	$13,154	$13,634	$14,142	$14,664	$15,209	$15,778	$16,371	$17,004	$17,651	$18,326	$19,096	$20,058	$21,069	$22,131	$23,247	$24,418	$25,649	$26,942
SM Rev/ADA	$12,922	$13,309	$13,738	$14,082	$14,449	$14,776	$15,161	$15,506	$15,954	$16,564	$17,201	$17,924	$18,827	$19,776	$20,773	$21,820	$22,919	$24,075	$25,288
Diff	($15)	($155)	($104)	$60	$216	$433	$617	$866	$1,051	$1,088	$1,125	$1,172	$1,231	$1,293	$1,359	$1,427	$1,499	$1,574	$1,654
Cum Diff	($15)	($170)	($274)	($215)	$1														
Shortfall	($132,550)	($1,350,660)	($907,823)	$521,302	$1,878,706	$3,774,505	$5,379,644	$7,545,128	$9,158,144	$9,478,388	$9,804,193								
Payments as Due	$0	$0	$0	$0	$8,975	$3,774,505	$5,379,644	$7,545,128	$9,158,144	$9,478,388	$9,804,193								
Payments As Due per ADA					$1.03	$433.10	$617.29	$865.76	$1,050.85	$1,087.59	$1,124.98								
Tot. Rev per ADA	$12,922	$13,309	$13,738	$14,082	$14,450	$15,209	$15,778	$16,371	$17,004	$17,651	$18,326	$17,924	$18,827	$19,776	$20,773	$21,820	$22,919	$24,075	$25,288
Payment Plan	$0	$0	$0	$0	$0	$1,125,040	$1,555,645	$2,016,546	$2,509,352	$3,035,749	$3,597,502	$4,169,540	$4,774,940	$5,415,278	$6,092,202	$6,807,428	$4,049,754	$0	$0
Balance to SM	($132,550)	($1,483,210)	($2,391,033)	($1,869,731)	$8,975	$2,658,440	$6,482,439	$12,011,021	$18,659,813	$25,102,452	$31,309,143	$27,139,602	$22,364,662	$16,949,384	$10,857,182	$4,049,754	$0	$0	$0
Payment Plan Per ADA	$0	$0	$0	$0	$0	$129	$179	$231	$288	$348	$413	$478	$548	$621	$699	$781	$465	$0	$0
SMMUSD + Pmt per ADA	$12,922	$13,309	$13,738	$14,082	$14,449	$14,905	$15,339	$15,737	$16,242	$16,912	$17,614	$18,402	$19,375	$20,397	$21,472	$22,601	$23,384	$24,075	$25,288
Diff per ADA vs as Due	$0	$0	$0	$0	($1)	($304)	($439)	($634)	($763)	($739)	($712)	$478	$548	$621	$699	$781	$465	$0	$0
Cum Diff by ADA	$15	$170	$274	$215	($1)	($305)	($744)	($1,378)	($2,141)	($2,880)	($3,593)	($3,114)	($2,566)	($1,945)	($1,246)	($465)	$0	$0	$0
Cum Diff in Total	$132,550	$1,483,210	$2,391,033	$1,869,731	($8,975)	($2,658,440)	($6,482,439)	($12,011,021)	($18,659,813)	($25,102,452)	($31,309,143)	($27,139,602)	($22,364,662)	($16,949,384)	($10,857,182)	($4,049,754)	$0	$0	$0