

July 9, 2009

**Summary:**

**Santa Monica-Malibu Unified School District, California; Appropriations; General Obligation; Note**

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## Summary:

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Credit Profile		
US\$52.3 mil GO bnds (Build America bnds) (Election Of 2006) ser B-1 due 08/01/2034		
<i>Long Term Rating</i>	AA/Stable	New
US\$20. mil GO BANs ser 2009 due 08/01/2010		
<i>Short Term Rating</i>	SP-1+	New
US\$7.7 mil Tax- Exempt GO bnds (Election Of 2006) ser B due 08/01/2017		
<i>Long Term Rating</i>	AA/Stable	New
Santa Monica-Malibu Unif Sch Dist GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to Santa Monica-Malibu Unified School District, Calif.'s election of 2006 (series B and series B-1) general obligation (GO) bonds. Standard & Poor's also assigned its 'SP-1+' short-term rating to the district's 2009 general obligation bond anticipation notes (BANs).

In addition, we affirmed our 'AA' rating on the district's GO bonds and our 'AA-' underlying rating (SPUR) on the district's certificates of participation (COPs) outstanding. The outlook is stable.

The 'AA' rating on the GO bonds reflects our view of the district's:

- Large and diverse property tax base in western Los Angeles County that is characterized by very strong income and extremely strong wealth;
- Significant sources of discretionary funding, including a parcel tax and payments by the city of Santa Monica to use school facilities, which provides the district with greater expenditure flexibility than other nonbasic aid districts; and
- Large property tax base that has continued to increase despite the recent economic downturn.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The board of supervisors of the county has the power and obligation to levy these taxes at the request of the district for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund.

The district intends to qualify its election of 2006 series B-1 GO bonds as Build America Bonds and, as such, the 35% interest credit received from the federal government could be used for debt service. It is Standard & Poor's understanding that the district will direct Los Angeles County to levy for the full amount of debt service. In addition, we understand that the district will offset the debt service levy a year later to the extent the federal interest subsidy is received.

Securing the 2009 BANs are proceeds of the GO bonds, BANs, and other obligations that the district could subsequently issue and are lawfully available to pay the 2009 BANs. After the sale of the 2009 GO bonds, we expect the district to have \$148 million in remaining GO bond authorization under its 2006 authorization. The notes are scheduled to mature Aug. 1, 2010. District representatives project that the district's maximum permitted debt service tax levy in fiscal 2011 would be able to cover existing GO debt service, anticipated future GO debt service, and projected take-out GO bond debt service, in an amount just sufficient to retire the 2009 BANs, assuming no change in AV in fiscals 2010 and 2011. Representatives also report that the median sale price of homes within the district was generally well over \$1 million in 2008, exceeding the median district home assessed value (AV) of \$705,884, which they believe should protect against AV declines.

The SPUR on the district's COPs reflects our view of the appropriation risk of appropriation-backed securities as well as our view of the district's general creditworthiness as lessee. The district has covenanted to annually budget and appropriate lease payments for the payment of debt service, subject to abatement in the event of damage or destruction of the leased asset.

The district provides K-12 educational services to an estimated 110,000 people in the cities of Santa Monica and Malibu and sections of unincorporated Los Angeles County. Its robust economic base contributes to what we consider its very strong income indicators; the median household and per capita income levels measure 132% and 221% of the national averages, respectively. Fiscal 2009 AV was \$35.2 billion, an average annual increase of 9.8% since fiscal 2005. The district's 10 largest taxpayers account for what we view as a very diverse 7.3% of AV and its market value per capita is very strong, in our opinion, at about \$320,000.

Management estimates that 15% of the district's average daily attendance (ADA) comes from out-of-district transfer students, which gives it some additional control over student enrollment levels and the corresponding state revenue-limit funding. The district's ADA was 11,031 in fiscal 2009, down from a recent peak of 12,186 in fiscal 2004. Overall declines in ADA notwithstanding, management reports that the district refuses hundreds of permit requests annually.

The district's financial position has steadily improved in the past several years; its unreserved general fund balance rose to 17.7% of expenditures at fiscal year-end 2008 (which we consider very strong) from 2.6% of expenditures at fiscal year-end 2005 (which we consider adequate). A surplus in fiscal 2008 boosted the year-end total general fund balance to \$28.1 million (24.3% of expenditures), of which \$20.5 million was unreserved (17.7%). Estimated actual results for fiscal 2009 show a \$6.7 million general fund decline (5.4% of expenditures) and the budget for fiscal 2010 includes a \$8.6 million general fund drawdown (7.3% of expenditures). Fiscal 2010 budget assumptions include the prior-year ADA, a 12.4% revenue limit deficit factor, step-and-column salary increases, and the elimination of several positions.

In February 2008, district voters approved the combination of two existing parcel taxes into one. We believe this tax is a significant credit strength as it provides the district with additional revenues outside the state funding formula, is subject to inflation, and does not have an expiration date. The district has further revenue flexibility from an agreement with the city of Santa Monica whereby the city pays the district for after-hours use of various district facilities and athletic fields. This agreement was renewed in January 2009 and will be in effect through June 2012. Management reports that the fiscal 2010 adjusted base revenue limit will be \$5,665 per ADA; the parcel tax and city agreement are budgeted to generate an additional \$934 per ADA and \$675 per ADA, respectively.

The district's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. We changed the assessment to good from standard following management's representation that the board receives quarterly updates on both the district's investments and general fund budget.

We understand that GO bond and BAN proceeds will finance upgrades at several sites as well as technology improvements. Standard & Poor's believes the district's overall debt burden is low at 1.9% of market value and high at about \$6,000 per capita. We also believe that the debt burden is manageable given what we see as the district's very strong income levels.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the district will maintain a good financial position in its general fund and that management will make budgetary adjustments should there be further state-funding cuts. The outlook also reflects our assessment of the ongoing financial flexibility that revenue beyond the revenue-limit sources provides.

## Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007
- USPF Criteria: "Short-Term Debt," June 15, 2007

<b>Ratings Detail</b> (As Of July 9, 2009)		
Santa Monica-Malibu Unif Sch Dist certs of part ser 2001 C dtd 11/1/2001 due 5/1/2002-2018 11/1/2015-2017 cap apprec dtd 11/29/2001 due 11/1/2018 11/0		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Santa Monica-Malibu Unif Sch Dist certs of part ser 2001B</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Santa Monica-Malibu Unif Sch Dist certs of part ser 2001C</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Santa Monica-Malibu Unif Sch Dist GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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