



Rating Action: Moody's assigns Aaa to Santa Monica-Malibu USD, CA's SFID 1 & 2 GO Bonds

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New York, August 20, 2019 -- Moody's Investors Service has assigned a Aaa rating to Santa Monica-Malibu Unified School District, CA's General Obligation Bonds of School Facilities Improvement District No. 1 of Santa Monica-Malibu Unified School District (Santa Monica Schools) (Los Angeles County, California), Election of 2018, Series A with a principal amount of \$110 million and General Obligation Bonds of School Facilities Improvement District No. 2 of Santa Monica-Malibu Unified School District (Malibu Schools) (Los Angeles County, California), Election of 2018, Series A with a principal amount of \$35 million. Concurrently we have affirmed our Aaa rating on the district's outstanding General Obligation bonds affecting approximately \$444.6 million as well as our Aa2 rating on the district's outstanding Certificates of Participation affecting \$5.4 million. The outlook is stable.

RATINGS RATIONALE

The Aaa rating for the district reflects its extremely large and growing tax base, affluent socioeconomic profile and a solid financial position that is supported by both the district's community funded status and significant range of additional revenue sources available to the district including but not limited to, an evergreen parcel tax and two separate taxes those revenues City of Santa Monica passes onto the district. Combined these additional revenue sources provide the district with materially greater revenue flexibility than is typical for a California school district. The rating incorporates the district's average debt burden, manageable pension and OPEB liabilities, and conservative management.

The Aaa ratings for SFID 1 & SFID 2 reflect the very large and growing taxbases of each SFID when considered separately from each other coupled with affluent socioeconomic profiles of each SFID.

The Aa2 COP rating is two notches lower than the district's Aaa GO rating. The notching reflects a standard legal structure for a California abatement lease financing and leased assets that we view as "more essential." The notching also reflects the strong legal features of California general obligation bonds that are not shared by lease revenue debt.

RATING OUTLOOK

The stable outlook reflects our expectation that the district will continue to maintain a strong overall credit profile reflected in a healthy financial position, strong socioeconomic indicators, large, growing tax base, and manageable debt levels.

FACTORS THAT COULD LEAD TO AN UPGRADE

- N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Material decline in the district's financial position
- Significant contraction in the tax base or wealth levels

LEGAL SECURITY

The bonds are a general obligation of the district and secured by the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the district. The portion of the levy restricted for debt service is collected, held and transferred directly to the paying agent by Los Angeles County on behalf of the district.

USE OF PROCEEDS

The bond proceeds will be used to finance the acquisition, construction, modernization and equipping of school sites and facilities in each of the separate SFIDs, and to pay the costs of issuance.

PROFILE

Santa Monica-Malibu Unified School District (SMMUSD) serves residents of the Cities of Santa Monica (Aaa stable) and Malibu, as well as a portion of unincorporated Los Angeles County (Aa1 stable). Located on the scenic Pacific Coast, the district encompasses about 29 square miles, with an estimated population of 111,980. The district currently operates 10 elementary schools, two middle schools, one K-8 school, one 6-12 school, one high school, one continuation high school, a regional occupation program, an adult education program, as well as child care and development centers, with estimated enrollment in fiscal 2020 of 10,098.

School Facilities Improvement District (SFID) 1 covers the Santa Monica portion of the unified district, accounting for approximately of the overall district's AV. SFID 2 covers the Malibu portion of the district, with around of the total AV. Together the two SFIDs cover the entire district.

METHODOLOGY

The principal methodology used in the general obligation ratings was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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