MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Santa Monica-Malibu USD, CA's $60M Election of 2012 GO Bonds, Ser. B

Global Credit Research - 04 Jun 2015

Affirms Aa1 rating on $302M GO bonds, Aa3 rating on $11M COPs

SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT, CA
Public K-12 School Districts
CA

Moody's Rating

ISSUE	RATING
Election of 2012 General Obligation Bonds, Series B	Aa1

Sale Amount	$60,000,000
Expected Sale Date	06/15/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, June 04, 2015 --Moody's Investors Service has assigned an Aa1 to Santa Monica-Malibu Unified School District, CA's $60 million Election of 2012 General Obligation Bonds, Series B. Moody's has affirmed the Aa1 rating on approximately $302 million of outstanding GO bonds, and the Aa3 rating on approximately $11 million outstanding certificates of participation (COPs).

SUMMARY RATING RATIONALE

The rating reflects the district's sizeable, stable and affluent tax base, its satisfactory financial position, and its low debt levels with additional debt anticipated.

OUTLOOK

Outlooks usually are not assigned to local governments with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Significant strengthening of cash and reserves

-Solid entrenchment in basic aid status

WHAT COULD MAKE THE RATING GO DOWN

-Meaningful weakening of financial reserves from current levels

-Significant declines in AV or incomes

STRENGTHS

-Sizeable residential tax base

-High resident wealth levels

-Financial position bolstered by receipt of stable and diverse locally generated revenues

CHALLENGES

- Already modest reserves could narrow further

-FY 2016 ongoing expenditures exceed ongoing revenues

-Debt levels may grow

RECENT DEVELOPMENTS

Incorporated in Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: AFFLUENT, SIZEABLE TAX BASE WITH DIVERSE LOCAL ECONOMY

The district's assessed value (AV) is large at $43.7 billion as of fiscal 2015, representing years of very strong growth and only minimal contraction during the recession. The five-year average annual AV growth rate was 3.7% as of fiscal 2015 with only one year of negative growth in the five-year period, a very limited 0.3% decline during fiscal 2011. The district is well diversified with the top 20 taxpayers representing less than 10% of fiscal 2015 AV, although it is noted that six of the top ten properties are office buildings. Resident wealth is one of the district's strongest characteristics, with median family and per capita incomes respectively at 182% and 227% of the national medians. AV per capita is exceptionally strong at $401,252 in fiscal 2015, more than three times the California school district median.

FINANCIAL OPERATIONS AND RESERVES: GENERAL FUND FINANCES SATISFACTORY BUT FISCAL BALANCE IS NARROW

Unlike most California school districts, Santa Monica-Malibu benefits from strong streams of revenues in addition to its state funding. The district has combined two previous parcel taxes into one parcel tax. Measure R, which has no sunset provision, is a parcel tax and is adjusted annually for inflation; it currently totals $376 and provided $11.2 million in fiscal 2014. The district also derives financial support from the City of Santa Monica (Aaa stable). City residents recently approved Measure Y, which increased the local sales tax rate by one half-percent, with half of the incremental revenues, approximately $7.5 million in fiscal 2014, dedicated to the district. The increase does not sunset. Additionally, the city and district have a master facilities use agreement, recently extended until fiscal 2023 with an option to extend, for which the city contributed $8.45 million to the district in fiscal 2014. The high level of community support is notable in that it affords the district comparatively greater revenue raising capacity and less dependence on state funding or enrollment growth than the majority of California school districts.

Despite these healthy sources of revenue, General Fund reserves are expected to remain modest and in line with past levels. After drawing down its reserves for several years, the result of the district both absorbing state funding cuts and electing to maintain many non-core activities and programs, fiscal 2013 performance ended with a $7.8 million surplus due primarily to the unanticipated receipt of revenues from the dissolution of the former redevelopment agency. Fiscal 2013 General Fund balance ended at $28.4 million, or a satisfactory 22.2% of revenues. Fiscal 2014 resulted in a modest $1.1 million use of reserves despite the district's award of a 4% salary increase to all employees retroactive to fiscal 2013. Fiscal 2015 performance is on course for an approximate $3 million draw on reserves and is entirely attributable to performance in the restricted General Fund. Following the 2015 May Revision, the fiscal 2016 budget has a surplus, although this surplus is partially attributable to one-time revenues (mandated cost reimbursement) and may narrow as the district negotiates pay awards with employees. However, the district has consistently realized favorable variances from its budgets due to conservative estimation of local revenues and reductions to, or deferral of, certain discretionary spending items. The district is able to control its finances to a moderate extent as it receives numerous requests for interdistrict transfers, allowing it to maintain enrollment at desirable levels.

Liquidity

Liquidity is healthy. The district ended FY 2014 with $36 million of General Fund cash, or a healthy 29% of revenues. Liquidity will improve further in FY 2015 due to the state's buy down of a substantial portion of the outstanding K-12 deferrals.

DEBT AND PENSIONS: LOW DEBT LEVELS; MANAGEABLE LEASE BURDEN

The district's post-sale direct debt burden of 0.9% is modest and payout of principal is approximately 30% in ten years. The district's gross lease burden is higher than average but remains manageable at 2.6% of General Fund revenues, and more than half of annual lease payments are paid from former redevelopment agency pass-through revenues. Additional issuance is imminent, as the district has $295 million remaining under an existing GO bond authorization and more than $900 million of additional facilities needs according to a recent facility master plan.

The district has $11 million of outstanding COPs, represented by a 2001 (Series C) and 2010 (Series B) issue. Both COPs are standard California abatement leases backed by similarly essential assets, although the 2001 COPs have a $1 million cash debt service reserve and the 2010 COPs have no debt service reserve. The absence of a debt service reserve is a notable credit weakness, particularly as the 2001 Series C reserve was drawn on in fiscal 2003 after a series of administrative errors, although the district has since instituted strong procedures that make it unlikely such errors would happen again. The absence of a reserve on the 2010 COPs is partially mitigated by the district's generally strong credit fundamentals, healthy available liquidity and use of RDA pass-through payments received in a special revenue fund that are more than sufficient to pay debt service on these COPs and thus alleviate the burden on the General Fund. However, the notching between the two leases would likely widen to reflect the absence of this security feature if the district's finances were to deteriorate.

Debt Structure

All of the district's debt is fixed rate, long term, fully amortizing debt.

Debt-Related Derivatives

None.

Pensions and OPEB

The district participates in CalPERS and CalSTRS multi-employer defined benefit pension plans. The district makes 100% of its annual required contribution (ARC) to each plan. Based on Moody's standard adjustments to reported pension data, the 3-year average of the district's adjusted net pension liability (ANPL) was a modest 1.9 times General Fund revenues. The district's payments to both systems will increase over the next several years. The district provides other post-employment benefits (OPEB) to active employees and retirees. The district contributes a percentage of payroll to its internal service fund each year, with the assessments designed to generate a small surplus above the pay-go portion in the fund each year.

MANAGEMENT AND GOVERNANCE

California school districts have an institutional framework score of 'A' or moderate. California school districts have a low level of revenue raising ability. For most school districts, revenues are primarily set by the state with revenue raising ability limited to fundraising or approval of a parcel tax requiring a two-thirds majority vote. State law sets a minimum annual funding level for K-12 schools that is designed to provide schools with a guaranteed funding source that grows each year with the economy and the number of students enrolled. However, revenue predictability has proven somewhat unstable, given that the state can easily make unexpected revenue reductions based on the volatility of the state's general fund revenues per capita. Expenditures for K-12 schools are highly predictable, but the ability to reduce expenditures is low due to pressures from collective bargaining and state rules that limit when and how staff reductions can be made.

The district has demonstrated strong budget management, navigating the funding cuts of recent years without detriment to its finances and emerging without significant program restorations needed or backlogged labor and maintenance costs.

KEY STATISTICS

-Full Value, 2015: $43.7 billion

-Full Value Per Capita, 2015: $401,252

-Median Family Income as % of US Median: 181.7%

-Fund Balance as % of Revenues, Fiscal 2014: 21.8%

-5-Year Dollar Change in Fund Balance as % of Revenues: -0.5%

-Cash Balance as % of Revenues, Fiscal 2014: 29.5%

-5-Year Dollar Change in Cash Balance as % of Revenues: 4.3%

-Institutional Framework: "A"

-5-Year Average Operating Revenues / Operating Expenditures: 1.00x

-Net Direct Debt as % of Full Value: 0.9%

-Net Direct Debt / Operating Revenues: 3.0x

-3-Year Average ANPL as % of Full Value: 0.6%

-3-Year Average ANPL / Operating Revenues: 1.9x

OBLIGOR PROFILE

The Santa Monica-Malibu Unified School District was established in 1875 and includes within its boundaries the cities of Santa Monica (Aaa stable) and Malibu, as well as a portion of unincorporated Los Angeles County (Aa2 stable). 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 ("ROP") and an adult education program, as well as child care and development centers. Fiscal 2014 average daily attendance (ADA) was 10,808.

LEGAL SECURITY

The bonds are 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 the county on behalf of the district.

USE OF PROCEEDS

Proceeds will fund improvements to district facilities.

PRINCIPAL METHODOLOGY

The principal methodology used in rating the general obligation debt was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the lease revenue debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011.Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Moses Kopmar

Lead Analyst
Public Finance Group
Moody's Investors Service

Christian Ward
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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