MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Contacts

Austin Harris +1.415.274.1707
Associate Lead Analyst
austin.harris@moodys.com

Alexandra J. Cimmiyotti +1.415.274.1754
VP-Sr Credit Officer
alexandra.cimmiyotti@moodys.com

Lori C Trevino +1.415.274.1757
AVP-Analyst
lori.trevino@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

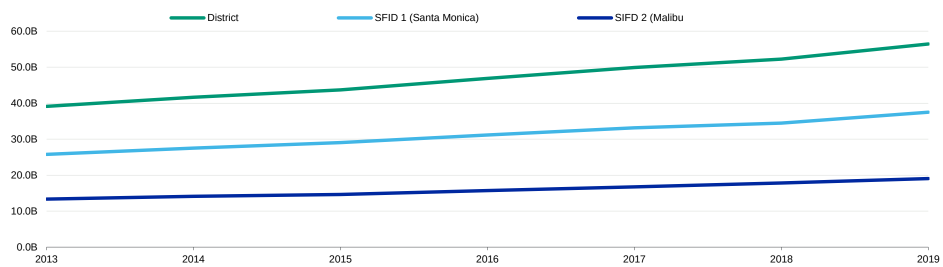
Santa Monica-Malibu USD, CA

Update to credit analysis

Summary

Santa Monica-Malibu USD (Aaa stable) benefits from an exceptionally large, diverse and growing tax base with corresponding affluent resident wealth levels. The local economy is strong, characterized by tourism, technology, and entertainment. Recent strong tax base growth has resulted in the district transitioning to Community-Funded status, which will bolster the district's financial profile going forward. The district's solid financial position is further supported by other local voter-approved revenues, which provide the district a significant level of financial flexibility, offsetting cost pressures including growth in pension contributions. The district has an average debt burden, manageable pension and OPEB liabilities. The district has conservative management with strong financial policies.

Exhibit 1
District and SFID taxbases have all shown strong, steady growth



Source: Moody's Investors Service

Credit strengths

» Especially large, diverse taxbase benefiting from a desirable coastal location

» Very high resident wealth levels

» Significant supplementary revenues which enhance the districts financial position

Credit challenges

» Rising pension contributions affecting all California school districts

» Taxbase exposure to fire risk

» Slow amortization of 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

» Not applicable

Factors that could lead to a downgrade

» Material decline in the district's financial position

» Significant contraction in the tax base or wealth levels

Key indicators

Exhibit 2

Santa Monica-Malibu USD, CA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$41,637,141	$43,691,490	$46,876,732	$49,910,196	$52,223,096
Population	110,934	111,980	112,076	111,995	111,995
Full Value Per Capita	$375,333	$390,172	$418,258	$445,647	$466,298
Median Family Income (% of US Median)	185.8%	184.0%	181.6%	179.4%	179.4%
Finances					
Operating Revenue ($000)	$158,448	$180,979	$239,862	$189,226	$212,795
Fund Balance ($000)	$55,442	$76,627	$68,967	$66,877	$76,907
Cash Balance ($000)	$70,647	$87,830	$92,549	$83,302	$89,853
Fund Balance as a % of Revenues	35.0%	42.3%	28.8%	35.3%	36.1%
Cash Balance as a % of Revenues	44.6%	48.5%	38.6%	44.0%	42.2%
Debt/Pensions					
Net Direct Debt ($000)	$331,948	$352,262	$380,205	$418,560	$395,014
3-Year Average of Moody's ANPL ($000)	$286,759	$319,655	$341,801	$387,411	$440,160
Net Direct Debt / Full Value (%)	0.8%	0.8%	0.8%	0.8%	0.8%
Net Direct Debt / Operating Revenues (x)	2.1x	1.9x	1.6x	2.2x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.7%	0.7%	0.8%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.8x	1.8x	1.4x	2.0x	2.1x

Source: Moodys's Investors Service

Exhibit 3

Both SFIDs compare well to national Aaa taxbase medians

Entity	Taxbase (2019)	% of District Taxbase	MFI	AV/Capita
District	56.5B	100	179%	$526,847
SFID 1 (Santa Monica)	37.5B	66.3	167%	$405,176
SIFD 2 (Malibu	19.0B	33.7	267%	$1,479,403
National Aaa Median	14.2B	N/A	190%	$229,100

Source: Moody's Investors Service

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 ⅔ of the overall district AV. SFID 2 covers the Malibu portion of the district, with around ⅓ of the total AV. Together the two SFIDs cover the entire district.

Detailed credit considerations

Economy and taxbase: very large tax base benefits from long-term, robust growth along Pacific Coast; very strong wealth measures

SMMUSD benefits from an extremely large and affluent taxbase which will continue to underpin the district's credit profile in the coming years. Preliminary fiscal 2020 Assessed Valuation (AV) is $59.4 billion, up 5.1% on last year and 6.3% on annually on average over the past five years. The size of the tax base compares favorably with other Aaa-rated school districts in California and nationally, with medians of $36.5 billion and $14.2 billion, respectively.

The tax base is primarily residential and diverse, with the top ten taxpayers accounting for a low 6.0% of fiscal 2018 total AV, and residential uses reflecting 75.5% of fiscal 2018 secured AV. Median new home sale prices of $2.25 million in Santa Monica and $3.5 million in Malibu are well above the median AV of $974,000 and $1.5 million respectively, which should support continued AV growth even absent additional development, as housing turns over.

The 2018 Woolsey Fire, which spread to over 96,000 acres of Ventura and Los Angeles counties destroyed over 1,500 structures, including around 400 homes within the city of Malibu. The LA county assessors office has been working with the local community to assess individual homes for reductions in AV resulting from fire damage, with around 1,200 claims filed to date. Despite these reductions, secured AV within SFID 2 (Malibu) is estimated to have increased by 4.5% on the prior year. The district, and SFID 2 in particular will continue to be exposed to wildfire risk given its close proximity to the heavily wooded Santa Monica Mountains and location with a very high fire hazard severity zone. However, we expect the overall impact of this fire risk to the district's credit quality is mitigated by both the desirable location and high resident wealth levels. These factors will encourage a rapid rebuilding process in the aftermath of any fire, as is occurring already post Woolesy Fire.

The district has very high resident wealth levels that compare favorably to state and national medians and represent a key credit strength. The median family income for district residents is 179.4% of the US median, compared to 207.6% and 189.7% medians for Aaa rated districts in California and nationally. AV per capita is an extremely strong $503,838 in fiscal 2018, ranking amongst the highest of Moody's-rated school districts.

The taxbases of the district's two SFID's compare well to their Aaa peers with SFID 1 (Santa Monica) sitting at $38.5 billion 2020 AV and 167% MFI while SFID 2 (Malibu) has around $19.8 billion in fiscal 2020 AV and an MFI of 267%.

Financial operations and reserves: Solid financial position supported by Community-Funded status and significant supplemental revenues

Given the district's strong management team and community funded status, we expect that the district will continue to maintain a sound financial position with sufficient liquidity and reserves for its rating category.

The district's general fund available balances totaled $34.7 million at the end of fiscal 2018, equaling 20.4% of revenues, slightly below the medians for the rating category, which are 24.9% nationally and 28.6% in California. Fiscal 2019 estimated actuals show a significant, one off decline in fund balance as the district repays supplemental property tax receipts which it was mistakenly paid by the county when it appeared the district would not qualify as community funded during the fiscal year. Once it was determined the district did in fact qualify these funds were withdrawn. The district's strong financial reserves and continued conservative financial management mitigate the impact of this one off drop in fund balance.

The district's overall financial profile is strengthened by large supplemental revenue streams that significantly increase financial flexibility. In fiscal 2018, the district's revenues include $11.9 million from a parcel tax, which has no sunset date and is annually adjusted for inflation; $9.0 million from a facilities use agreement with the city of Santa Monica; $15.6 million from a one cent sales tax add-on, which does not expire and which the voters directed in a companion ballot measure to be used by the city of Santa Monica to support the district; $2.4 million from property leases; and $2.0 million generated annually by a school foundation. Collectively, these supplemental revenues account for about 25% of fiscal 2018 general fund revenues.

Enrollment has remained stable in recent years and out-of-district transfers in have been providing the district a lever to moderate any declines. Transfers account for about 20% of enrolled students in the current school year. The district's Community-Funded status means management can reduce transfers without a loss in revenue. The district is allowing limited transfers for its dual immersion programs and for the children of city staff, while reducing staffing through attrition as enrollment has started to decline.

On an operating basis, which for the purposes of our analysis includes the general fund and debt service funds, the district's available fund balance equaled $76.9 million in fiscal 2018 or a very strong 36.1% of operating revenues.

LIQUIDITY

The district continues to maintain a healthy liquidity position with general fund net cash totaling $47.7 million, or 28% of general fund revenues as of audited fiscal 2018. The district also has $16.4 million outside the general fund which is available for temporary borrowing.

Debt and pensions: average debt burden; moderate and manageable pension and OPEB liabilities

The district has direct debt levels typical of Aaa-rated school districts in the state and nation and given the taxbase's wealth, size and expected ongoing growth, we expect its debt burden will remain manageable going forward. Net direct debt burden of the district itself is 0.9% of AV, while overall debt, including overlapping tax and assessment-backed obligations to the tax base is 2.9% of AV. The debt burden for each SFID is manageable, at around 1% even after accounting for the overlapping portion of the district's debt for each SFID.

DEBT STRUCTURE

The district's debt portfolio consists of about $444.6 million par value, fixed-rate, current interest and capital appreciation GO bonds, maturing through 2043, and $5.5 million of capital appreciation COPs. It has $115 million in authorized but unissued debt.

The district’s 2010 COPs are supported with redevelopment 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 general fund lease burden, which equaled 1.3% of fiscal 2018 general fund expenses.

The 2016 General Obligation Refunding Bonds, Series C (2020 Crossover) are secured by an escrow that is sufficient to pay debt service on the bonds up until the crossover date, July 1, 2020. Following the crossover date, the bonds will be secured by the typical GO ad valorem tax levy.

Current debt levels across both the District and its SFIDs is expected to increase somewhat over the next six years. The district has $115 million of remaining authorized, but unissued bonding capacity under its 2012 Election, and plans to issue every other year through 2023 to fulfill projects identified in its facility master plan.

SFID 1 (Santa Monica) will have $110 million in debt outstanding post issuance, with $375 million in outstanding authorization remaining. SFID 2 (Malibu) will have $35 million in debt outstanding post issuance, with $160 million in outstanding authorization remaining. Both SFID's and the distruct will likely continue to issue bonds on a 2-3 year cycle as needed.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Pension driven budgetary pressures for the district are manageable, though state mandated pension contribution increases through fiscal 2021 could prove to be a budgetary burden. The district's contribution to the state's retirement system is reasonable relative to the district's overall expenditures.

Moody's three year average adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $485.1 million, or a moderate 2.28 times operating revenue. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. These adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The district has established an irrevocable trust to help fund its other post employment benefits (OPEB) which as of June 2019, stood at $7.95 million compared to a total OPEB liability of $40 million as of June 30 2017 the last actuarial study date. The district's estimated pay go contributions for fiscal 2020 are $1.4 million, under 1% of general fund revenue.

Management and Governance

California school districts have an Institutional Framework score of “A”, or moderate. California school districts' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. These constraints are somewhat offset by the state's practice of holding revenues harmless for one year of enrollment declines. Unpredictable expenditure fluctuations tend to be minor, at under 5% annually.

As a Community Funded or Basic Aid school district, SMMUSD operates under a different funding model from the majority of school districts within the state. As discussed above, it is primarily funded from local property taxes, at a level that is well above the state guaranteed minimum. Therefore the district's revenue predictability, especially during periods of state budgetary challenges, is somewhat higher than the typical district described by the Institutional Framework paragraph above. The district’s expenditure flexibility is also potentially higher than average, given the relatively high revenues per student and extensive curriculum offerings.

Rating methodology and scorecard factors

Exhibit 4

Santa Monica-Malibu USD, CA

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$56,427,330	Aaa
Full Value Per Capita	$503,838	Aaa
Median Family Income (% of US Median)	179.4%	Aaa
Notching Factors:[2]		
Other Analyst Adjustment to Economy/Taxbase Factor: Exposure to Wildfires		Down
Finances (30%)		
Fund Balance as a % of Revenues	36.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	12.4%	Aa
Cash Balance as a % of Revenues	42.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	15.8%	Aa
Notching Factors:[2]		
Other Analyst Adjustment to Finances Factor: Mutliple significant additional sources of revenue and community support		Up
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.9%	Aa
Net Direct Debt / Operating Revenues (x)	2.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.8%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.1x	A
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
Standardized Adjustments [3]: Unusually strong or weak security features: Secured by statute & lockbox		Up
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets: Restatement for ERAF repayment not yet included in audit		Down
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available. [2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016. [3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication.
Source: US Census Bureau; Moody's Investors Service

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