

Rating Action: Moody's assigns Aa1 to SMMUSD (CA) 2020 COPs and affirms outstanding ratings; outlook negative

10 Nov 2020

New York, November 10, 2020 -- Moody's Investors Service has assigned a Aa1 rating to Santa Monica-Malibu Unified School District (SMMUSD), CA's \$29 million 2020 Certificates of Participation. At the same time Moody's has affirmed the Aaa rating on approximately \$698 million of the district's outstanding general obligation bonds. Similarly we have affirmed the Aaa general obligation ratings on approximately \$110 million of the district's School Facilities Improvement District No. 1 (Santa Monica Schools) bonds and approximately \$35 million of School Facilities Improvement District No. 2 (Malibu Schools) bonds. Moody's has also affirmed the Aa2 rating on Santa Monica-Malibu Unified School District's approximately \$3.2 million of outstanding certificates of participation. Our outlook on the district's and SFIDs' long-term ratings is negative.

RATINGS RATIONALE

SMMUSD's Aaa general obligation unlimited tax (GOULT) rating reflects the district's enormous and growing tax base along coastal Los Angeles County (Aa1 stable) and the affluent wealth and income profile of local residents. The rating reflects the diverse revenue structure of the district and its community funded status, which largely insulates the district from enrollment declines and potential reductions in state funding and is distinguishable strength relative to most California school districts. The rating also incorporates the district's below-average fund balance position that is scheduled to narrow in fiscal 2021. The rating also incorporates the district's average debt burden, manageable pension and OPEB liabilities, and the above-average legal strength of California school districts' general obligation bonds.

The Aa1 rating on SMMUSD's 2020 certificates of participation (COP) is one notch lower than the Aaa rating on the district's GOULT bonds. In this instance the notching relative to the district's GOULT is more narrow than most California k-12 abatement leases, recognizing that the COPs materially benefit from the district's covenant to make lease payments from redevelopment tax increment revenues restricted for educational facilities. These revenues will provide healthy debt service coverage. The notching also reflects a standard legal structure for a California abatement lease financing and leased assets of two elementary schools that we view as "more essential."

The district's outstanding Aa2 rating on the district's 2001 COPs is the standard 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, a district administrative building, that we view as "more essential."

The Aaa rating for SFID#1 and SFID #2 reflect the very large and growing tax base of each of the SFIDs, their affluent socioeconomic profile, and moderate debt burden.

RATING OUTLOOK

The negative outlook continues to reflect our expectation that district reserves will narrow through fiscal 2021 to levels well below the Aaa school district median, despite better than projected financial performance in fiscal 2020.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS (OR REMOVAL OF NEGATIVE OUTLOOK)

Financial outperformance relative to budget in fiscal 2021, supporting balanced operations

Stabilized or improved reserve position

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Deficit spending and use of reserves consistent with 2021 budget

Significant contraction in the tax base or wealth levels

LEGAL SECURITY

The district's general obligation 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 Los Angeles County on behalf of the district.

The series 2020 COPs are secured by lease payments for the district's use and occupancy of Roosevelt and Franklin Elementary Schools. The 2020 COPs are further secured by a covenant of the district to apply its redevelopment pass-through funds as the primary source of payment. The district reasonably projects that these funds will provide an average of over three times coverage of the lease payments over the lifetime of the obligations. The 2001 COPs are secured by a lease payments for the district's use and occupancy of its administrative office facility.

The general obligation bonds issued by the district on behalf of SFID#1 (which is 2/3 of the school district's total AV) are secured by an unlimited ad valorem tax pledge on all taxable property within SFID#1. The general obligation bonds issued by the district on behalf of SFID#2 (1/3 of the school district's AV) are secured by an unlimited ad valorem tax pledge on all taxable property within SFID #2.

USE OF PROCEEDS

Approximately \$27 million of the proceeds will be used to purchase an office building to serve as the district's primary administrative building. The balance of the issuance will be used to refund portions of COPs the district issued in 2010.

PROFILE

Santa Monica-Malibu Unified School District serves residents of the Cities of Santa Monica and Malibu, as well as a portion of unincorporated Los Angeles County. Located on the scenic Pacific Coast, the district encompasses about 29 square miles, with an estimated population of 111,822. 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 #1 covers the Santa Monica portion of the unified district, accounting for approximately 2/3 of the overall district's AV. SFID #2 covers the Malibu portion of the district, accounting for the remaining approximately 1/3 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 July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443 . 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 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1102364 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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