SANTA MONICA-MALIBU UNIFIED SCHOOL DISTRICT

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NEWS RELEASE

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SMMUSD Prepares for Next Round of School Facility and Classroom Improvements Through Second Bond Sales - Expects to Save Taxpayers Big Money Due to Historically Low Interest Rates and Strong Credit Ratings

When the Santa Monica-Malibu Unified School District last sold bonds from the November 2018 election, it was reported that a home run was hit with extremely low interest rates and overall borrowing costs. Now, the District realizes there is a chance to hit a grand slam with the next sale.

The District is expected to sell its second series of bonds for both Measure M (for Malibu Schools) and Measure SMS (for Santa Monica Schools) in the coming months. What is going to make this bond sale that much better? Three things: a strong and growing tax base, historically low interest rates due to the pandemic, and strong ratings from rating agencies Moody’s and Standard and Poor’s (“S&P”).

Melody Canady, Assistant Superintendent, Business and Fiscal Services reported “Since 2018 when the bond program was set up, our tax base has grown in both communities and is ahead of projections, interest rates are far lower, and we have excellent credit scores. This combination is going to result in some major taxpayer savings.”

Based on the latest calculations and projections, the District expects to sell approximately $200 million in Measure SMS bonds and $80 million in Measure M bonds. Combined savings over the life of the programs to property taxpayers in the District are projected to be over $250 million. And this is for just for the new money bond sales.

The District is also contemplating refunding some old bonds, as it has done numerous times in the past, should new federal legislation governing municipal bonds be approved in Washington DC. These savings are not a guarantee and will require this approved legislation to work. But, should the refunding be completed, estimated savings could be in excess of $10 million. The last refunding the District completed saved taxpayers $6.2 million.

Projects that are expected to be paid for by these new bond funds include health, safety, and security improvements; Samohi Exploration and Gold Gym project; multiple improvement projects at Santa Monica elementary and middle schools; and the new administration / library / classroom building at Malibu High School.

An interesting side note on the ratings, last year Moody’s elected to overhaul their rating methodology and framework for rating US K-12 public school districts. They finalized their revised criteria at the beginning of this year. Consequently, Moody's placed ratings of over 600

US K-12 public school districts on review for possible rating changes in conjunction with the release of its new US K-12 Public School Districts Methodology published January 26, 2021.

The school district ratings that were placed under review could see their ratings change as a result of the analytical factors in the new K-12 methodology, which differ from the prior methodologies used to determine the existing ratings. SMMUSD is one such district that saw its rating go down from Aaa to Aa1. It is not alone however, as other affluent districts have also seen rating changes from the old methodology.

Beverly Hills Unified School District and Sequoia Union High School District (home to the nation's most expensive city in Atherton) also saw their Aaa ratings change to Aa1. Dozens of other districts also experienced a similar rating adjustment.

"It's frustrating to have our credit score change due to a unilateral adjustment in ratings methodology when all of our other metrics have improved since our last rating and will continue to improve," School Board President Jon Kean stated. "It seems like wealthier communities with significant and vital facility improvement programs took the biggest hit from this new framework."

"We are confident that the district will be ready to adjust to the new criteria going forward, and that our actions will result in continued low borrowing costs for our resident taxpayers," Canady added. "We are still a phenomenally-rated district." In addition to the Aa1 bond rating by Moody's, the District also is rated AA+ by S&P.

From the recent Moody's rating report: SMMUSD's "rating reflects the district's strong, coastal Los Angeles County (Aa1 stable) economy and the affluence of its residents, which is demonstrated by the district's very high adjusted resident income and full value per capita. The district has a diverse revenue structure and Basic Aid or Community Funded status, which largely insulates SMMUSD from the impact of its enrollment declines."

The challenge facing the District, according to Moody's, is its debt, pension and OPEB liabilities are high, and its fixed cost ratio is elevated. Per the Moody's press release, factors that could lead to an upgrade are "Material reduction to long-term liability and fixed cost burdens" and "Sustained and meaningful improvement to financial position."

"Bond ratings are important," Kean said. "By taking great care in our management practices, financial approach, and educational mission we've been able to achieve these extraordinarily high ratings. These practices have allowed us to save tens of millions of dollars for our generous taxpayers who steadfastly support SMMUSD."

For further information on classroom and school facility improvement projects, please refer to the district's website: www.smmusd.org/FIP. Also, the following link gives a bit more insight as to Moody's changes in methodology and the districts affected by this change https://www.moodys.com/research/Moodys-publishes-US-K-12-School-District-methodology-and-places--PR_906952265

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