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Summary:

Santa Monica-Malibu Unified School District, California; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
US$60.0 mil GO bnds ser B due 01/01/2038		
Long Term Rating	AA/Stable	New
Santa Monica-Malibu Unif Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Santa Monica-Malibu Unified School District, Calif.'s election of 2012 general obligation (GO) bonds, series B. In addition, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on the district's previously issued GO bonds and our 'AA-' long-term rating and SPUR on the district's certificates of participation (COPs). The outlook is stable.

The ratings reflect our view of the district's:

- Large and diverse economic base in the vast Los Angeles region;
- Very strong to extremely strong wealth and income indicators;
- Revenue streams that are uncommon among school districts in the state, including a parcel tax, a sales tax, and municipal payments for use of school facilities; and
- Very strong available reserves.

Partly offsetting the above strengths, in our view, are the district's high debt per capita and slow amortization rate during the next 10 years.

Revenue from unlimited ad valorem taxes levied on property within the district secures the GO bonds. The county board of supervisors has the power and obligation to levy these taxes for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund. The majority of the proceeds will be used for technology and capital upgrades to the district's facilities. The COPs represent an interest in lease payments made by the district, as lessee, to the lessor, for the use and possession of leased assets.

The district is located 16 miles west of downtown Los Angeles along the Pacific coast and serves its namesake cities. Santa Monica and Malibu maintain tourism activity we consider strong while serving as entertainment, restaurant, and retail centers for county residents. Per capita retail sales for the district remain very strong, in our opinion, at 194% of the national average. Its population of roughly 111,000, 88% of whom reside in Santa Monica, has access to employment opportunities throughout the greater Los Angeles metropolitan region. The unemployment rate for Santa Monica in March 2015 was 6.1%, which is lower than the state's rate (6.5%), but higher than the national average (5.1%) during the same time period. The unemployment figures are not seasonally adjusted. For 2013, the district's median household and per capita effective buying incomes were, in our opinion, very strong at 137% and 221% of the national averages, respectively.

The district's total assessed value (AV) has been improving during the past four fours and has grown by an average annual rate of 4.6% during that time. The district's AV reached a record $43.7 billion in fiscal 2015 with a 4.9% increase over the previous year. Management expects the AV to continue to increase as the economy continues to grow. We consider the district's tax base very diverse, with the leading 10 taxpayers -- a mix of multifamily, hotel, retail, and office properties -- accounting for 6.3% of total AV in fiscal 2015. We view market value per capita, an indicator of wealth, as extremely strong, at roughly $393,300.

The district's average daily attendance (ADA), a key revenue driver of state aid funding for a revenue-limit district, has remained fairly steady over the years, though with a slight negative trend. During the past five years, ADA dropped by an aggregate of 2.7% to 10,804 in fiscal 2015. We understand that management projects that ADA will grow slightly over the next couple of years. The district's interdistrict policy of accepting students from neighboring school districts (approximately 10% of enrollment) adds to the stability of ADA by allowing the district to manage its enrollment levels.

The district's financial operations have been very strong when viewing the available general fund balance. Despite ending fiscal 2014 with a $1.1 million deficit, the district has $21.7 million in assigned and unassigned general fund balances, or 17.2% of general fund expenditures, which we view as very strong. Looking forward to fiscal 2015, the district is currently showing an $8.0 million deficit in the second interim. However, management stated that it expects to finish stronger than budgeted with only a roughly $3 million deficit. In addition, the district expects to spend down $4.2 million of restricted money associated with Common Core requirements. As a result, the district expects to end fiscal 2015 with a surplus of about $1.3 million in the assigned and unassigned balances, resulting in an ending balance of $23.0 million, or 16.9% of expenditures, which we view as very strong. In addition, the district benefits from alternative sources of financial flexibility if necessary.

In addition to the revenue received from the state via the local control funding formula, the district receives revenue through other sources. The largest among these revenue sources is a parcel tax that generates approximately $11.2 million per year, or about 8.7% of expenditures. The tax is adjusted annually for inflation and does not have a sunset provision. In addition, city voters in November 2010 approved a 0.5% sales tax rate increase, with no sunset provision, that generates about $14.6 million per year. Half of this total (about 5.4% of general fund expenditures) is designated for the district if the city complies with an accompanying advisory measure that city voters concurrently approved. Furthermore, an agreement between the district and the city generates approximately about $8.45 million, or the equivalent of 6.6% of expenditures, in exchange for public use of the district's recreation facilities. We understand that the contract, which is reviewed annually, has been extended to 2022. Finally, the school district receives up to $4 million from a community foundation and its parent-teacher association. All told, the district generates roughly $30.9 million annually in additional revenue outside of state funding, or approximately 24.2% of total revenues. We consider this a significant benefit to the district in the form of financial flexibility.

In addition, we note that changes to state law may alter the financial management landscape for California school districts that have a consistent track record of maintaining fund balances that we view as strong, including Santa

Monica-Malibu Unified School District. For more information, see "Recent Changes To A California Law On School Districts' Reserves Result In Neutral To Negative Credit Implications," published July 7, 2014, on RatingsDirect.

We consider the district's management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates our view that practices exist in most areas although not all may be formalized or regularly monitored by governance officials. In our opinion, among the strengths of the district's management techniques are its policy of using third-party and trend analysis in revenue and expenditures assumptions, its monthly budget update reports to the financial oversight committee, and its financial forecasting, which goes one additional year beyond the state requirement. The district does not currently have a debt policy. Lastly, the district has an informal policy of maintaining a 10% available fund balance.

The district makes its full annual required contributions to the California State Teachers' Retirement System and the California Public Employees' Retirement System. The district also offers other postemployment benefits to its employees. The combined contributions represented 5.8% of total noncapital governmental funds expenditures in fiscal 2014.

In our view, combined direct and overlapping debt supported by district taxpayers is low as a percentage of market value, at 2.7%, and high on a per capita basis, at $10,500. Amortization is slower than average, in our opinion, at roughly 29% during the next 10 years. Debt service carrying charges are moderate, in our view, at 16.3% of total governmental funds expenditures in fiscal 2014.

Outlook

The stable outlook reflects our view of the district's strong and stable economy and budgetary flexibility derived from its diverse revenue streams. It also reflects our view of the district's very strong reserves. While we don't expect to change the ratings over the two-year outlook horizon, we could raise the ratings should the district improve its overall debt profile while maintaining very strong reserves. While not likely, we could lower the ratings should the district establish a trend of negative operations resulting in a significant drawdown of reserves and a structural imbalance.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of June 10, 2015)		
Santa Monica-Malibu Unif Sch Dist certs of part ser 2001 C dtd 11/1/2001 due 5/1/2002-2018 11/1/2015-2017 cap apprec dtd 11/29/2001 due 11/1/2018 11/0		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of June 10, 2015) (cont.)		
Santa Monica-Malibu Unif Sch Dist GO bnds (Election of 2006)		
Long Term Rating	AA/Stable	Affirmed
Santa Monica-Malibu Unif Sch Dist 2010 rfdg certs of part (tax-exempt)		
Long Term Rating	AA-/Stable	Affirmed
Santa Monica-Malibu Unif Sch Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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