MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Fremont USD, CA's GOs; outlook stable

10 Dec 2020

New York, December 10, 2020 -- Moody's Investors Service has assigned Aa2 ratings to Fremont Unified School District, CA's (Alameda County) Election of 2014 General Obligation Bonds, Series D and 2021 General Obligation Refunding Bonds (Federally Taxable). The bonds will be issued in the expected par amounts of $126.5 million and $126 million, respectively. Moody's maintains Aa2 ratings on the district's approximately $410.9 million in outstanding general obligation debt. We also maintain A1 ratings on the district's $60.4 million in outstanding certificates of participation (COPs).

RATINGS RATIONALE

The Aa2 rating reflects the district's large $57.9 billion tax base. Assessed values (AV) benefit from a strong economy within the San Francisco Bay Area and strong socioeconomic profile, although near-term growth will slow as a result of the coronavirus pandemic. Also factored into the rating is the district's manageable debt burden, somewhat elevated pension burden and moderate unfunded OPEB liabilities. In addition, the Aa2 rating reflects the district's commitment to making budget reductions of $11 million in fiscal 2022 and $15 million in fiscal 2023 to restore budgetary balance following unanticipated enrollment declines. Overly optimistic enrollment forecasts provided by an outside demographer, in combination with multi-year salary increases, resulted in projected budget gaps and operating deficits, through fiscal 2023 that would erode the district's already narrow financial position absent these spending cuts. The Alameda county office of education approved the district's fiscal 2021 budget based upon the district's commitment to spending cuts along with unaudited fiscal 2020 results that are favorable to earlier projections, and reflect an ending general fund balance of $31.8 million equal to 8% of revenues.

The A1 rating on the district's outstanding COPs is two notches lower than the district's GO rating, reflecting the security of a standard, California abatement lease financing and leased assets that are primarily school buildings, which we view as "more essential". The notching also reflects the strong legal features of California general obligation bonds that are not shared by lease revenue debt.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action, and we do not see any material immediate coronavirus related credit risks for Fremont Unified School District. Favorably, the district will be held harmless from a state aid perspective for enrollment losses in fiscal 2021, and it has received $12.1 million in federal aid to cover additional costs associated with the coronavirus pandemic. The district has also approved the issuance of $40 million tax and revenue anticipation notes that it may issue to cover anticipated deferrals of state aid payments from February through June 2021. The situation surrounding coronavirus, however, is rapidly evolving, and the longer-term impact will depend on both the severity and duration of the crisis.

RATING OUTLOOK

The stable outlook reflects our expectation that the district will enact budget reductions sufficient to eliminate structural deficits and stabilize reserves at current levels, with the district significantly reducing outyear budget gaps. It also incorporates the district's history of outperforming budget projections.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

-Substantial and sustained improvement in ending reserve levels supported by adopted policy or formalized targets

-Meaningful improvement in liquidity

-Reduction in pension liabilities

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

-Failure to enact anticipated spending reductions and eliminate outyear budget gaps

-Erosion in reserves below 5%

-Ongoing enrollment declines that further pressure financial performance

LEGAL SECURITY

The district's outstanding GO debt is 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 Alameda County (Aaa stable) on behalf of the district.

The COPs are backed by lease payments made by the district to the Fremont Unified School District Financing Corporation. The district covenants to annually budget and appropriate lease payments from all legally available sources, conditioned on its continued use and occupancy of the leased asset, which consists of the district's Fremont Adult School serving 6,195 students.

USE OF PROCEEDS

The Election of 2014 GO bonds, Series D, represent the fourth issuance of a $650 million authorization approved by voters in 2014. Following the current issuance, which will fund capital projects throughout the district, the district will have $126.5 million in remaining authorization, which it plans to issue in 2022. Debt service is conservatively structured assuming no AV growth in fiscal 2022, 1% in fiscal 2023, 2% in fiscal 2024, and 3.75% thereafter.

The 2021 GO refunding bonds will advance refund portions of the district's outstanding 2012 GO Refunding Bonds, 2012 GO Refunding Bonds, Series B, and Election of 2014 GO Bonds, Series A. The refunding is projected to result in net present value savings of close to 5% of refunded principal with no extension of amortization.

PROFILE

Located in Alameda County, Fremont Unified School District provides K-12 educational services within the City of Fremont. The district operates forty-one schools, including one preschool, twenty-eight elementary schools, five middle schools, five comprehensive high schools, one continuation high school, and one alternative school, in addition to a charter school and adult school. Projected enrollment for fiscal 2021 totals 34,989 students, down 57 students from the prior year.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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 credit rating action on the support provider and in relation to each particular credit 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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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