

# RatingsDirect®

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**Summary:**

## Ocean View School District (Orange County), California; Appropriations; General Obligation

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## Summary:

# Ocean View School District (Orange County), California; Appropriations; General Obligation

### Credit Profile

US\$55.0 mil election of 2016 GO bnds ser 2021C due 08/01/2050

<i>Long Term Rating</i>	AA-/Stable	New
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Ocean View Sch Dist (Orange Cnty) GO bnds (Election Of 2016) ser A due 08/01/2046

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Ocean View Sch Dist (Orange Cnty) GO (BAM) (SECMKT)

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Ocean View Sch Dist (Orange Cnty) APPROP (AGM)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Ocean View School District, Calif.'s anticipated \$55 million series C (election of 2016) general obligation (GO) bonds. At the same, S&P Global Ratings affirmed its 'AA-' long-term rating on the district's GO debt outstanding, and its 'A+' underlying rating (SPUR) on the district's previously issued certificates of participation (COPs). The outlook is stable.

The GO bonds are secured by unlimited ad valorem taxes levied on taxable property within the district. We understand that the proceeds from the sale of series C GO bonds will be utilized to finance the repair, upgrading, acquisition, construction, and equipping of aging district facilities.

The existing COPs represent an interest in the district's covenant to budget and appropriate payments for the use of the leased assets. The rating on the COPs is one notch lower than the district GO rating, in accordance with our criteria, to reflect the appropriation risk associated with appropriation-backed obligations.

### Credit overview

The rating reflects the district's connection to the broad and diverse Orange County and Los Angeles economic area. Despite a declining student population, the primary driver of revenue under the state funding formula, the district has been able to produce positive operating results and maintain very strong available reserves. The district's unaudited actuals for fiscal 2021 indicate a surplus due in part to COVID-19 relief funding, which district officials note will relieve general fund expenditures in the near term. As the district has been able to demonstrate balanced financial operations, we expect it will maintain very strong available reserves.

The stable outlook reflects our view of a recovering national economy. For more information on the coronavirus' effect on U.S. public finance, see S&P Global Economics' report "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here it Comes", published June 24, 2021, on RatingsDirect.

The rating further reflects our view of the district's:

- Strong to very strong income indicators,
- Extremely strong market value per capita,
- Trend of strong to very strong available reserves, and
- Good financial policies and procedures.

### **Environmental, social, and governance (ESG) factors**

We analyzed the district's ESG risks relative to its economy, management, financial measures, and debt and liability profile. Environmental risks are elevated due to the possibility of seismic events, however, strong state building codes have helped substantially mitigate some of these risks. We see a social risk in the form of demography: low birth rates in the region are contributing to enrollment declines and state funding pressure. We determined the district's governance risks are in line with our view of the sector standard.

## **Stable Outlook**

### **Upside scenario**

Should the district reduce its dependency on state funding for revenue, either via a parcel tax or attaining community funded status, we could raise the rating.

### **Downside scenario**

Should the district significantly draw on available reserves with no plan to rebuild, we could lower the rating.

## **Credit Opinion**

### **Strong local economy within Orange County**

Established in 1874, Ocean View School District encompasses approximately 15 square miles in western Orange County and serves an estimated population of 97,735. It provides education to students from grades transitional kindergarten through eighth grade (TK-8) and operates 17 schools.

The district's economy is connected to the broad and diverse Los Angeles and Orange County areas. Major employers include health care, retail, manufacturing, and aerospace industries. The majority of assessed value (AV) is attributed to residential use, at 82%. Despite the economic headwinds due to the COVID-19 pandemic, local property values have held relatively steady, with the district reporting an increase in AV for 2021.

### **Trend of positive financial performances**

General purpose funding for California school districts is determined by a formula based primarily on average daily attendance (ADA), grade levels served, and share of students served that are English language-learners, low-to-moderate income, or foster youth. This share is known as the district's "unduplicated count." Most school districts are funded through a combination of state general fund revenue and local property tax revenue, up to the amount determined by formula. For these districts, increases or decreases in ADA can lead to increases or decreases,

respectively, in general purpose funding under the formula. ADA has historically been declining, however, the state is holding districts harmless for ADA enrollment for fiscal years 2021 and 2022. District officials anticipate stabilization of enrollment in the near future.

Despite enrollment declines, the district has been able to produce positive operating results over the past two audited years. The district anticipates an additional surplus in fiscal 2021, driven in part by receipt of COVID-19 relief funds. For fiscal 2022, the district has budgeted for an additional surplus, as additional COVID-19 relief funds will be used to support the general fund. Looking forward, district management notes no major cost pressures, but will continue to consider its staffing levels in relation to its declining enrollment. Given the district's ability to produce stable results, we anticipate the district will continue to maintain very strong available reserves.

### **Good financial management assessment (FMA)**

Factors contributing to this opinion reflect the district's:

- Adherence to the state requirement that districts report state revenue and expenditures projections and provide the underlying assumptions, which includes ADA changes, contract settlements, and cost-of-living adjustments, in addition to its use of historical data to forecast revenue and expenditures and reliance on guidance from its financial oversight agency to forecast state revenue assumptions;
- Six budget-to-actual reports presented to the board throughout the year, including state mandated interim reports.
- Maintenance of internal financial projections for the current budget year plus three years, which is beyond the state mandate;
- Master facilities plan that identifies capital needs and projects, though it is not updated on an annual basis;
- Adherence to the state's requirement of investing in a county pool, and quarterly reports of holdings and earnings to the board;
- Debt policy, in compliance with California Senate Bill 1029, that defines debt issuance guidelines for areas such as amount, oversight, structure, timing, and type, but lacks specific numerical constraints; and
- Follows state requirement reserve policy of 3% of expenditures, with internal goal of 3% and month of expenditures.

### **High debt burden on a per capita basis**

Inclusive of this issue, the district's direct and overlapping debt totaled \$507.4 million. The district has \$27 million remaining from its 2016 authorization, which it intends to issue in approximately two years. We also note that the district is not party to any direct-purchase or private-placement agreements that would pose a risk to either operations or liquidity.

### **Pension and other postemployment benefit (OPEB) liabilities to rise but not likely be a key source of credit pressure**

- Despite potential increases to pensions, costs will likely remain manageable as we do not consider the district's pension liabilities a significant source of budgetary pressure.
- While the district's pension contributions are set to increase for the next few years, the statutory funding policy for the district's larger pension plan mitigates the risk of dramatic cost escalation contributions because the state is required to absorb most of any needed future cost increases.
- The district offers other postemployment benefits (OPEB) through a single-employer defined benefit plan, which it

funds on a pay-as-you-go basis.

The district participates in the following plans funded as of June 30, 2020:

- California State Teachers' Retirement System (CalSTRS), an agent multiple-employer plan: 71.8% funded with a net pension liability of \$73.8 million.
- California Public Employees' Retirement System (CalPERS): 70.0% funded with a net pension liability of \$36.6 million.
- OPEB Plan, a single-employer defined benefit health care plan: net OPEB liability of \$20.8 million.

CalPERS lowered the discount rate to 6.8% from 7.0% starting in fiscal 2022, with the idea of reducing market risk. We note the new discount rate is still above our pension guideline of 6.0% and it could lead to contribution volatility. For more information on our view of California pensions, see "Pension Spotlight: California", published July 13, 2021.

Key Credit Metrics					
	Characterization	Most recent	Historical information		
Economic indicators			2020	2019	2018
Population			97,406	98,308	97,735
Median household EBI % of U.S.	Very strong		138	141	137
Per capita EBI % of U.S.	Strong		130	133	129
Market value (\$000)		17,881,777	17,169,569	16,291,227	15,512,517
Market value per capita (\$)	Extremely strong	183,580	176,268	165,716	158,720
Top 10 taxpayers % of taxable value	Very diverse	7.6	7.6	7.6	7.6
<b>Financial indicators</b>					
Total available reserves (\$000)			14,998	12,587	11,555
Available reserves % of operating expenditures	Very strong		16.8	13.5	13.0
Total government cash % of governmental fund expenditures			0.0	0.0	0.0
Operating fund result % of expenditures			2.6	2.2	-2.3
Financial Management Assessment	Good				
Enrollment			7,464	7,737	7,988
<b>Debt and long-term liabilities</b>					
Overall net debt % of market value	Low	2.5	1.8	1.7	1.7
Overall net debt per capita (\$)	Moderate	4,645	3,189	2,775	2,768
Debt service % of governmental fund noncapital expenditures	Low		6.7	6.9	6.9
Direct debt 10-year amortization (%)	Slower than average	36	37	47	47
Required pension contribution % of governmental fund expenditures			7.7	7.0	8.1
OPEB actual contribution % of governmental fund expenditures			0.6	0.5	0.4
Minimum funding progress, largest pension plan (%)			84.3	89.8	67.7

EBI--Effective buying income. OPEB--Other postemployment benefits.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- U.S. Local Governments Credit Brief: California School Districts 8/30/2021

### Ratings Detail (As Of September 13, 2021)

Ocean View Sch Dist (Orange Cnty) certs of part (2015 Sch Facs Proj) (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Ocean View Sch Dist (Orange Cnty) GO (BAM) (SECMKT) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Ocean View Sch Dist (Orange Cnty) (BAM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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