

CREDIT OPINION

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Ocean View School District, CA (Orange County)

Update to credit analysis

Summary

[Ocean View School District, CA](#) (A1 issuer rating, Aa3 GOULT rating) benefits from a growing economy in western [Orange County](#) (Aa1 stable) with strong resident income and wealth levels. The district financial position is solid, supported by conservative and proactive fiscal management. Sharp enrollment declines, driven by low birth rates and demographic changes, pose an ongoing challenge, however. These enrollment challenges are mitigated by management's demonstrated willingness to reduce expenditures to maintain a stable financial operation. The district's leverage, inclusive of debt and adjusted net pension and OPEB liabilities, is somewhat elevated, although fixed costs remain manageable.

Credit strengths

- » Above average resident wealth measures
- » Sound financial position supported by conservative and proactive fiscal management

Credit challenges

- » Sizeable enrollment declines which will limit financial flexibility
- » Elevated leverage with rising pension costs facing California school districts

Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Stabilized to growing enrollment trend
- » Significant and sustained increases in reserves and liquidity
- » Meaningful reduction in long term liabilities and related fixed costs

Factors that could lead to a downgrade

- » Material decline in fund balance or cash
- » Increased pace of enrollment declines not met with expense reductions

Key indicators

Exhibit 1

Ocean View School District, CA (Orange Co.)

| | 2017 | 2018 | 2019 | 2020 | A Medians |
|--------------------------------|--------------|--------------|--------------|--------------|-------------|
| Economy | | | | | |
| Resident income | 121.4% | 119.9% | 122.3% | N/A | 97.0% |
| Full value (\$000) | \$14,652,319 | \$15,512,517 | \$16,291,227 | \$17,169,569 | \$1,077,779 |
| Population | 98,719 | 99,104 | 100,509 | N/A | 13,232 |
| Full value per capita | \$148,425 | \$156,528 | \$162,087 | N/A | \$82,579 |
| Enrollment | 8,467 | 8,263 | 7,986 | 7,721 | 1,870 |
| Enrollment trend | N/A | -2.8% | -2.9% | -3.0% | -0.5% |
| Financial performance | | | | | |
| Operating revenue (\$000) | \$89,801 | \$93,085 | \$99,124 | \$96,766 | \$26,801 |
| Available fund balance (\$000) | \$12,488 | \$16,183 | \$16,062 | \$20,708 | \$5,966 |
| Net cash (\$000) | \$17,762 | \$17,290 | \$17,954 | \$19,577 | \$6,545 |
| Available fund balance ratio | 13.9% | 17.4% | 16.2% | 21.4% | 21.9% |
| Net cash ratio | 19.8% | 18.6% | 18.1% | 20.2% | 26.0% |
| Leverage | | | | | |
| Debt (\$000) | \$68,969 | \$67,561 | \$62,575 | \$104,067 | \$20,717 |
| ANPL (\$000) | \$293,485 | \$286,618 | \$266,188 | \$315,778 | \$40,570 |
| OPEB (\$000) | N/A | \$20,309 | \$22,328 | \$21,319 | \$3,790 |
| Long-term liabilities ratio | N/A | 402.3% | 354.2% | 455.9% | 295.9% |
| Implied debt service (\$000) | \$1,893 | \$5,123 | \$4,978 | \$4,562 | \$1,451 |
| Pension tread water (\$000) | \$7,888 | \$8,782 | \$8,333 | \$8,497 | \$1,311 |
| OPEB contributions (\$000) | N/A | \$459 | \$725 | \$743 | \$167 |
| Fixed-costs ratio | N/A | 15.4% | 14.2% | 14.3% | 13.1% |

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Ocean View School District, CA (Orange Co.)'s financial statements and Moody's Investors Service

Profile

Ocean View School District encompasses 15 square miles in western Orange County and serves portions of the northern half of [Huntington Beach](#) (Aa1) as well as portions of Westminster, Fountain Valley and Midway City. The district operates 10 elementary schools, four middle schools and three pre-schools. For fiscal year 2022, the district has a budgeted enrollment of 7,151 students.

Detailed credit considerations

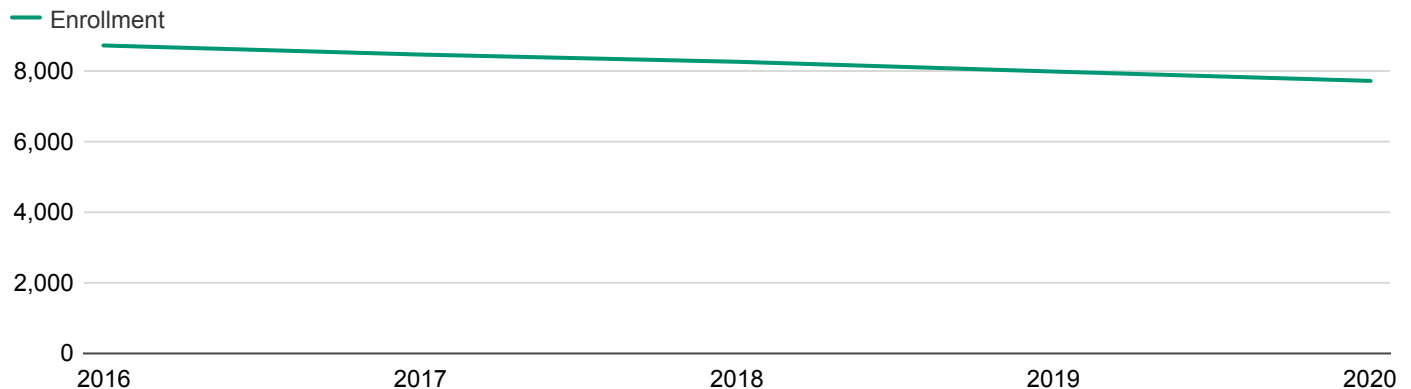
Economy

Ocean View School District's desirable coastal location and proximity to the greater Los Angeles and Orange County employment centers support strong resident income and property wealth (exhibit 1). In 2022, the mostly residential tax base reached \$18.3 billion assessed valuation (AV), driving per capita AV to \$182,079, which is comfortably above the median for the A rating category, \$82,579. This figure saw solid annual growth averaging 4.2% over the last five years and will continue to strengthen, primarily as properties within the district are reassessed upon changes in ownership under California's Prop. 13. The current median sale price of a single family home is around \$1,023,500 in Huntington Beach and \$815,000 in Westminster, both of which exceed the district's median AV of approximately \$468,777.

Similar to many California school districts, Ocean View School District is challenged with a persistent trend of declining enrollment that is likely to continue over the long term. Driven by low birth rates and an aging population, the district's three year enrollment trend is weak at -3.0% as of fiscal 2020. With fewer enrollment as a result of the coronavirus pandemic, this trend accelerated to -3.9% in fiscal 2021, limiting the district's financial flexibility under the enrollment driven Local Control Funding Formula. Positively, the state is holding California school districts harmless for enrollment losses in fiscal 2021 and 2022, which mitigates this near term risk.

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Exhibit 2
Enrollment



Source: State Department of Education

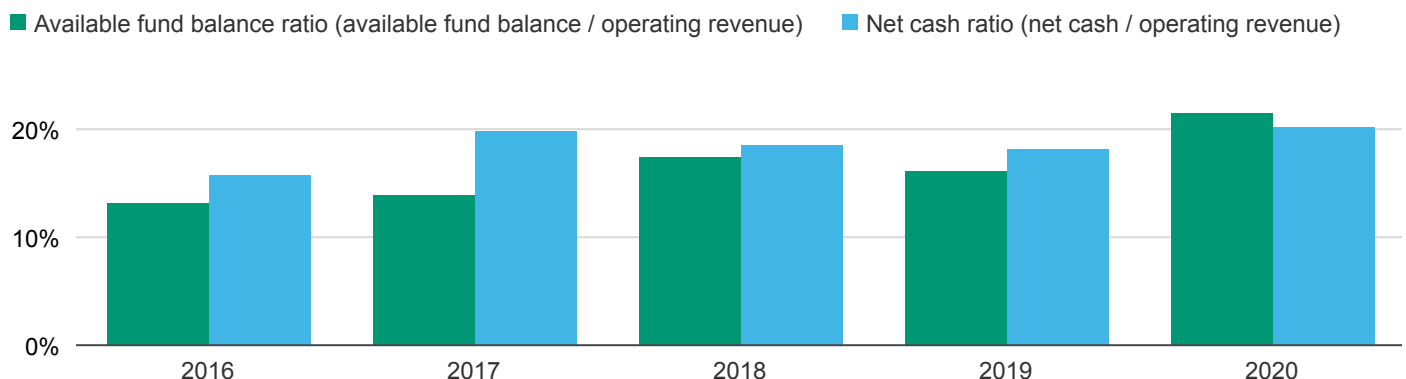
Financial operations

The district has a healthy financial profile which will likely remain solid because of its conservative fiscal management. The district implemented necessary expenditure cuts in light of enrollment declines, eliminating staffing positions and closing a school site in 2016 to address this challenge. Management is considering several initiatives to trim its expenditures and improve operational efficiencies, including monitoring its schools with low enrollment for opportunities of further school consolidations.

Across operating funds, defined as the general fund and debt service fund, available reserves totaled \$20.7 million in fiscal 2020, representing a healthy 21.4% of revenue compared to the national median for the A rating category, 21.9% of revenue. In the general fund alone the district produced its fourth surplus within the last five years, which brought available reserves to \$15.0 million or a solid 16.3% of revenue.

Based on estimated results for fiscal 2021, the district will end the year with relatively balanced operations and a small increase to reserves. Including a "super" 5.07% COLA and hold harmless enrollment funding, budgeted figures for fiscal 2022 reasonably project a \$4.2 million general fund surplus, maintaining stable available fund balance equal to 16.0% of revenue.

Exhibit 3
Fund balance and cash balance as percentage of operating revenues



Source: Issuer financial statements; Moody's Investors Service

Liquidity

Similar to the district's reserve position, liquidity will remain healthy. In fiscal 2020, an operating cash balance of close to \$19.6 million equaled a solid 20.2% of revenues. As such, the district did not have to borrow to cover deferrals of state aid payments from February

through June of fiscal 2021. The district's liquidity is also broadened by approximately \$9.7 million available balances outside of the operating funds that could be used for borrowing purposes, if needed.

Leverage

Ocean View School District's leverage is manageable given residents' favorable socioeconomic profile, but nonetheless a relative credit weakness that will remain elevated as more debt issuances are planned. Total long term liabilities, including debt and adjusted net pension and OPEB liabilities, equaled 455.9% of fiscal 2020 operating revenue, much greater than the A national median of 295.9%, and adjusted fixed costs are moderate at 14.3%. Following the Series C issuance, the district will have \$27.0 million in authorized but unissued general obligation unlimited tax (GOULT) debt under Measure R (Election of 2016), which officials expect to access in the next three years.

Legal security

The district's GOULT 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 Orange County on behalf of the district.

Debt structure

The district's GOULT bonds are long-term fixed rate obligations with a final maturity in 2050 (post issuance). Amortization of GOULT debt is below average with approximately 12% of principal repaid within ten years.

The district's certificates of participation outstanding (not rated by Moody's) are also long-term fixed rate obligations with a final maturity in 2030. Total debt service on these obligations currently represent a moderate 2.3% of general fund revenue.

Debt-related derivatives

The district has no debt-related derivatives.

Pensions and OPEB

Similar to many school districts in California, the district has a large pension burden that will remain a significant portion of its leverage profile. Moody's adjusted net pension liability (ANPL), based on a 3.51% discount rate under our [methodology for adjusting reported pension and OPEB data](#), reached \$315.8 million fiscal 2020 and accounts for 326.3% of long term liabilities. This is significantly higher than the reported unfunded liability of \$103.6 million based on a weighted average discount rate of 7.12%. The district's Moody's adjusted net OPEB liability, using the same method as for pensions, equaled \$21.3 million as of fiscal 2020 or modest 22.0% of operating revenue.

ESG considerations

Environmental

Environmental risks are not a material credit driver for the district at this time. However, by virtue of its location in Orange County, and in common with most of the state, the district has high risk to water stress per data from Moody's affiliate Four Twenty-Seven.

Social

Social considerations factor into the rating, especially ongoing enrollment declines driven by demographic changes, which will require control over expenditure growth. The impact of the coronavirus also represents a social consideration given the substantial implications for public health and safety, however we do not see it as a material credit risk for Ocean View School District. In fiscal 2021, the state is funding school districts based on last year's average daily attendance level, effectively holding the district harmless for enrollment losses through fiscal 2022. The district has also been allocated nearly \$30 million in various one-time state and federal coronavirus related funding to help cover costs related to the pandemic.

Governance

The district benefits from a tenured, capable management team which has demonstrated its willingness and ability to proactively navigate ongoing enrollment decline.

California school districts that rely on state aid to achieve full, equalized funding according to the state budget have an Institutional Framework score ¹ of A. Operating revenue is determined by the state controlled Local Control Funding Formula (LCFF) which

establishes base grant and supplemental funding amounts. Districts' share of the 1% local property taxes authorized by the state constitution are deducted from amounts owed by the state, equalizing payments across districts. LCFF revenue is based on average daily attendance and declines in enrollment can result in funding reductions. While state funding has increased in recent years, during weak economic periods the state has reduced and deferred payments. Districts' ability to raise additional revenue is limited to voter-approved parcel taxes.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 4

Ocean View School District, CA (Orange Co.)

| | Measure | Weight | Score |
|---|---------|--------|-----------|
| Economy | | | |
| Resident Income (MHI Adjusted for RPP / US MHI) | 122.3% | 10.0% | Aaa |
| Full value per capita (full valuation of the tax base / population) | 177,912 | 10.0% | Aa |
| Enrollment trend (three-year CAGR in enrollment) | -3.9% | 10.0% | Baa |
| Financial performance | | | |
| Available fund balance ratio (available fund balance / operating revenue) | 21.4% | 20.0% | Aa |
| Net cash ratio (net cash / operating revenue) | 20.2% | 10.0% | Aa |
| Institutional framework | | | |
| Institutional Framework | A | 10.0% | A |
| Leverage | | | |
| Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue) | 455.9% | 20.0% | Baa |
| Fixed-costs ratio (adjusted fixed costs / operating revenue) | 14.3% | 10.0% | Aaa |
| Notching factors | | | |
| No notchings applied | | | |
| Scorecard-Indicated Outcome | | | A1 |
| Assigned Rating | | | A1 |

Sources: US Census Bureau, Ocean View School District, CA (Orange Co.)'s financial statements and Moody's Investors Service

Appendix

Exhibit 5

Key Indicators Glossary

| | Definition | Typical Source* |
|--------------------------------|--|---|
| Economy | | |
| Resident income | Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US | MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis |
| Full value (\$000) | Estimated market value of taxable property accessible to the district | State repositories, district's audited financial reports, offering documents or continuing disclosure |
| Population | Population of school district | American Community Survey (US Census Bureau) |
| Full value per capita | Full value / population of school district | |
| Enrollment | Student enrollment of school district | State data publications |
| Enrollment trend | 3-year Compound Annual Growth Rate (CAGR) of Enrollment | State data publications; Moody's Investors Service |
| Financial performance | | |
| Operating revenue (\$000) | Total annual operating revenue in what we consider to be the district's operating funds | Audited financial statements |
| Available fund balance (\$000) | Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds | Audited financial statements |
| Net cash (\$000) | Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds | Audited financial statements |
| Available fund balance ratio | Available fund balance / Operating Revenue | Audited financial statements |
| Net cash ratio | Net Cash / Operating Revenue | Audited financial statements |
| Leverage | | |
| Debt (\$000) | District's direct gross debt outstanding | Audited financial statements; official statements |
| ANPL (\$000) | District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| OPEB (\$000) | District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Long-term liabilities ratio | Debt, ANPL and OPEB liabilities as % of operating revenue | Audited financial statements, official statements; Moody's Investors Service |
| Implied debt service (\$000) | Annual cost to amortize district's long-term debt over 20 years with level payments | Audited financial statements; official statements; Moody's Investors Service |
| Pension tread water (\$000) | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met | Audited financial statements; Moody's Investors Service |
| OPEB contributions (\$000s) | District's actual contribution in a given period, typically the fiscal year | Audited financial statements; official statements |
| Fixed-costs ratio | Implied debt service, pension tread water and OPEB contributions as % of operating revenue | Audited financial statements, official statements, pension system financial statements |

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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