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Ventura Unified School District, CA

Update to credit analysis

Summary

Ventura Unified School District, CA's (A1) credit profile benefits from a healthy local economy featuring strong resident income and wealth levels. The district's financial position is satisfactory and has improved in recent years, though remains challenged by declining enrollment. Conservative management and strong local support for public education are strengths of the financial profile. Leverage is moderate and will increase with further debt issuance plans, though will remain manageable.

Credit strengths

» Sound local economy with strong resident income and wealth

» Strong local support for public education

Credit challenges

» Long term trend of declining enrollment

» Below median financial position

Rating outlook

Moody's does not typically assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

» Significant and sustained increase in financial reserves

» Material improvement of enrollment trend

Factors that could lead to a downgrade

» Material deterioration of financial reserves

» Significant increases in long-term liabilities and fixed costs

Key indicators

Exhibit 1
Ventura Unified School District, CA

	2018	2019	2020	2021	A Medians
Economy					
Resident income	109.7%	111.0%	110.1%	112.3%	96.2%
Full value ($000)	$17,905,319	$18,557,210	$19,696,645	$20,712,796	$1,160,791
Population	122,584	122,305	120,461	122,632	13,088
Full value per capita	$146,066	$151,729	$163,511	$168,902	$85,943
Enrollment	16,813	16,353	16,236	15,871	1,827
Enrollment trend	-1.1%	-1.5%	-1.5%	-1.9%	-0.5%
Financial performance					
Operating revenue ($000)	$189,100	$207,625	$200,793	$223,098	$26,991
Available fund balance ($000)	$14,202	$20,945	$24,663	$29,712	$6,298
Net cash ($000)	$19,639	$21,792	$12,278	$12,433	$6,971
Available fund balance ratio	7.5%	10.1%	12.3%	13.3%	23.0%
Net cash ratio	10.4%	10.5%	6.1%	5.6%	26.2%
Leverage					
Debt ($000)	$48,509	$45,560	$46,284	$42,977	$21,881
ANPL ($000)	$523,511	$489,053	$577,579	$755,626	$48,862
OPEB ($000)	$17,450	$14,445	$12,084	$10,826	$4,011
Long-term liabilities ratio	311.7%	264.4%	316.7%	362.8%	335.4%
Implied debt service ($000)	$3,815	$3,574	$3,322	$3,315	$1,428
Pension tread water ($000)	$21,337	$20,967	$21,238	N/A	$1,297
OPEB contributions ($000)	$1,846	$1,563	$1,593	$1,494	$146
Fixed-costs ratio	14.3%	12.6%	13.0%	11.7%	12.8%

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, Ventura Unified School District, CA's financial statements and Moody's Investors Service

Profile

The district encompasses 165 square miles in western Ventura County (Aaa stable), serving the City of Ventura and surrounding areas. The district serves approximately 122,000 residents and operates 27 schools with total enrollment of approximately 15,000 students.

Detailed credit considerations

Economy: local economy remains sound; enrollment continues to decline

The district's local economy will remain sound, benefiting from a diverse mix of industries and proximity to other large urban areas including Los Angeles and Santa Barbara. The economy features strong healthcare, technology and public administration sectors, supporting above average resident incomes equal to 112.3% of the US median. Assessed value per capita is strong at $192,127 and will continue to grow with new development and housing turnover. There are numerous single-family and multifamily developments in various stages of construction and the median sales price of homes in Ventura is $787,000, relative to a median assessed value of $450,000, indicating that significant tax base growth is captured with turnover of existing homes. Rising home prices do present affordability challenges, though notably affordability in the district is favorable to nearby Santa Barbara and other coastal cities to the south. The unemployment rate in Ventura is historically favorable to state and national rates, and unemployment was a relatively low 4.2% as of January 2023.

Similar to many California school districts, Ventura Unified is challenged with a trend of declining enrollment that is likely to continue over the next few years. Driven by declining birthrates and rising cost of living which has slowed in-migration of families into the district, enrollment has declined from around 17,000 in 2017 to roughly 15,000 in 2023. The district is very conservatively budgeting for similar levels of enrollment decline over the next few years, though management anticipates that enrollment will begin to stabilize in out years as new housing developments come online. The coronavirus pandemic also exacerbated enrollment decline in recent years, though notably the financial impact of declining enrollment was mitigated by favorable funding from the state, which held districts harmless for enrollment losses in fiscal years 2021 and 2022. Changes in state legislation which allow the district to be funded at a three-year rolling average of average daily attendance going forward will also help to smooth the financial impact of declining enrollment in future years.

Financial operations: satisfactory reserves will remain healthy

The district’s financial reserves are satisfactory and will remain healthy despite being challenged by enrollment-driven revenue loss. Reserves have improved materially in recent years, in part due to an influx of one-time state and federal funds. Favorable operations are expected over the next two years though projections indicate expenditure reductions are necessary to balance operations in fiscal 2025. Prudent and conservative management in addition to strong local support for public education support the maintenance of healthy reserves going forward.

The district achieved its fourth consecutive year of surplus operations in fiscal 2021, growing available general fund balance to $24.8 million or 11.3% of revenue. Strong results in 2021 were primarily attributable to savings from remote learning and the receipt of sizable COVID relief funds. Additionally incorporating the debt service fund, total available operating fund balance of $29.7 million was equal to a satisfactory 13.3% of operating revenue. While significantly improved from a thin 7.5% of revenue in 2018, available operating fund balance remains materially below the median for A-rated schools districts nationally.

Unaudited financials indicate that the district generated roughly balanced operations in fiscal 2022. Projections for fiscal 2023 year-end show a sizable increase in restricted general fund balance, though available general fund balance remains relatively in line with 2021 levels. The increase in restricted fund balance is largely driven by favorable state funding in 2023, which included over $30 million more in grant funding than the district originally conservatively budgeted.

Multiyear projections indicate that absent active expenditure reductions, the district is facing a $14 million structural deficit in fiscal 2025. Management acknowledges a need to rightsize staffing levels with enrollment given the significant decline in enrollment in recent years, though they are exploring all available strategies to lower expenses. The district has taken several actions in recent months to this end, such as closing vacancies and switching to a new benefits provider, which they project will result in about $5 million in annual savings. In addition to eliminating the structural deficit, management is targeting to increase available reserve levels to 20% of expenditures over the next few years.

Management’s conservative budgeting practices will contribute to continued strong operations, while the district will also continue to benefit from strong local support for public education, as evidenced by consistent voter approval of the district’s parcel tax, which generates roughly $2.2 million annually and is renewed through 2025.

Liquidity

The district's liquidity position is significantly improved following the receipt of sizable one-time funds. The district had historically relied upon short-term borrowing to support operations due to an offset in cash flow timing. Unaudited fiscal 2022 results indicate a strong general fund cash position of $36.8 million and the district does not expect a need to engage in short-term borrowing from outside agencies going forward.

Leverage: long-term liabilities and fixed costs will remain manageable

Leverage will remain manageable given the strength of the district’s property taxes and revenue generating base. The district’s debt burden was a low $39.4 million at fiscal 2021 year end, while overall long-term liabilities were equal to a moderate 362.8% of operating revenue. The new issuance will increase the debt burden to $146.8 million, though total long-term liabilities will remain manageable. The district will have $321.5 million in unlimited tax bond authorization remaining following the sale, and plans to next issue in two to three years. Fixed-costs were equal to a moderate 11.7% of revenue in 2021 and will modestly increase as new debt is layered in.

Legal security

The district's GO bonds are secured by the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the district. Ventura County, rather than the district, will levy, collect and disburse the district's property taxes including the portion that is constitutionally restricted to pay debt service on general obligation bonds.

Debt structure

All of the district's GO debt is fixed-rate and matures over the long-term with final maturity in fiscal 2053, incorporating the new issuance.

Debt-related derivatives

The district does not have any debt-related derivatives.

Pensions and OPEB

The district participates in CalPERS and CalSTRS multi-employer defined benefit pension plans and has an elevated liability, a significant component of overall leverage. Moody's adjusted net pension liability (ANPL) for the district was $755.6 million in 2021, or an elevated 3.4 times operating revenue, using a discount rate of 2.70% under our methodology for adjusting reported pension and OPEB data. This is significantly higher than the district's reported net pension liability of $200.5 million based on a 7.11% weighted discount rate. The district has consistently contributed below Moody's "tread water" level, or the contribution needed to keep pension liabilities from growing under reported assumptions, indicating that the pension liability will continue to grow.

The district's other post-employment benefits (OPEB) liability is modest. Moody's adjusted net OPEB liability for the district as of fiscal 2021 was equal to $10.8 million or a low .05 times operating revenue. The district's OPEB are funded on a pay-go basis and contributions in fiscal 2021 were $1.5 million or a modest 0.7% of operating revenue.

ESG considerations

Environmental

The district has moderate exposure to long-term physical climate risks including water stress and wildfires. The Thomas Fire in 2017 burned approximately 600 homes in the district's area, though the district has not experienced any significant fires since and management reports that wildfire prevention is a significant focus of local municipalities.

Social

The district has low overall exposure to social risks. While affordability is becoming an increasing challenge, the district remains relatively affordable compared to many other coastal cities in the area. Unemployment remains low while population growth is stagnant.

Governance

District governance is solid. Management exhibits conservative budgeting practices and is prudent in the use of one-time funds. The district's transparency and financial disclosure are also strong.

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 2

Ventura Unified School District, CA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	112.3%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	192,127	10.0%	Aaa
Enrollment trend (three-year CAGR in enrollment)	-2.1%	10.0%	Baa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	13.3%	20.0%	A
Net cash ratio (net cash / operating revenue)	5.6%	10.0%	Baa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	362.8%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	11.7%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			**A1**

Sources: US Census Bureau, Ventura Unified School District, CA's financial statements and Moody's Investors Service

Appendix

Exhibit 3
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

1 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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