MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Contacts

Lianne Gonsalves +1.415.274.1712
Analyst
lianne.gonsalves@moodys.com

Heather Guss +1.214.979.6881
AVP-Analyst
heather.guss@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Hacienda La Puente Unified School District, CA

Update to credit analysis:

Summary

Hacienda La Puente Unified School District, CA's (Aa3 issuer rating, Aa2 GOULT) credit profile reflects its modest resident income and solid wealth levels and that will continue to improve with growth in the tax base given its favorable location within the large and diverse Los Angeles economy. The district's financial performance remains stable supported by management's prudent and conservative budgeting amid a strong state funding environment. Like many other California school districts, Hacienda La Puente USD has been experiencing declining enrollment. The declines in enrollment are because of lower birthrates and the high cost of living in the area. District management projects enrollment declines to continue over the next several years but are taking proactive measures to address the declining enrollment through various innovative programs aimed to attract students from outside the district as well as to retain existing students. The district's board has also started a reconfiguration process to right size its facilities. The district's long term liabilities ratio is elevated but will remain manageable given the district has no near term debt issuance plans.

Credit strengths

» Strong and stable finances with strong fiscal management

» Solid wealth levels supported by a growing tax base

» Favorable location within the Los Angeles economy

Credit challenges

» Trend of declining enrollment

» Elevated long term liability burden

Rating outlook

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

Factors that could lead to an upgrade

» Reversal in the district's trend of declining enrollment

» Substantial reduction in the long term liabilities ratio

» Material improvement in socioeconomic indicators

Factors that could lead to a downgrade

- Exacerbated enrollment declines not met with commensurate expense reductions
- Material increase in long term liabilities ratio and/or fixed costs ratio
- Deterioration in the district's financial performance

Key indicators

Exhibit 1

Hacienda-La Puente Unified School District, CA

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income	113.5%	110.6%	112.2%	N/A	119.0%
Full value ($000)	$13,939,565	$14,506,086	$15,103,773	$15,515,232	$4,006,926
Population	118,820	118,350	116,006	N/A	32,280
Full value per capita	$117,317	$122,569	$130,198	N/A	$117,713
Enrollment	18,030	17,774	17,282	16,512	4,165
Enrollment trend	-2.4%	-2.0%	-2.1%	-2.9%	-1.1%
Financial performance					
Operating revenue ($000)	$250,960	$245,621	$275,153	$286,359	$73,934
Available fund balance ($000)	$61,875	$65,884	$70,777	$78,910	$19,809
Net cash ($000)	$123,185	$115,535	$118,839	$147,896	$23,502
Available fund balance ratio	24.7%	26.8%	25.7%	27.6%	28.9%
Net cash ratio	49.1%	47.0%	43.2%	51.6%	33.9%
Leverage					
Debt ($000)	$159,830	$172,349	$214,501	$200,357	$52,862
ANPL ($000)	$622,825	$774,154	$1,068,857	$874,450	$130,338
OPEB ($000)	$44,176	$45,709	$47,382	$43,782	$11,158
Long-term liabilities ratio	329.5%	404.0%	483.6%	390.6%	342.1%
Implied debt service ($000)	$12,747	$11,653	$12,342	$15,045	$3,664
Pension tread water ($000)	$26,604	$28,549	$31,159	$21,406	$3,270
OPEB contributions ($000)	$1,325	$3,085	$1,746	$2,647	$367
Fixed-costs ratio	16.2%	17.6%	16.4%	13.7%	12.2%

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, Hacienda-La Puente Unified School District, CA's financial statements and Moody's Investors Service

Profile

Hacienda La Puente Unified school district is a K-12 school district located in Los Angeles County (Aa1 stable) covering an area of approximately 20 square miles. The district serves the communities in the Cities of Industry, Hacienda Heights, La Puente and unincorporated portions of Valinda and West Covina with an enrollment of about 16,200 students as of fiscal 2023. The district is governed by a five-member board elected to staggered four year terms. The district has 16 (TK-6) elementary schools, six K-8 schools, four middle schools, four high schools, one alternative high school, one virtual academy and child development and adult education programs.

Detailed credit considerations

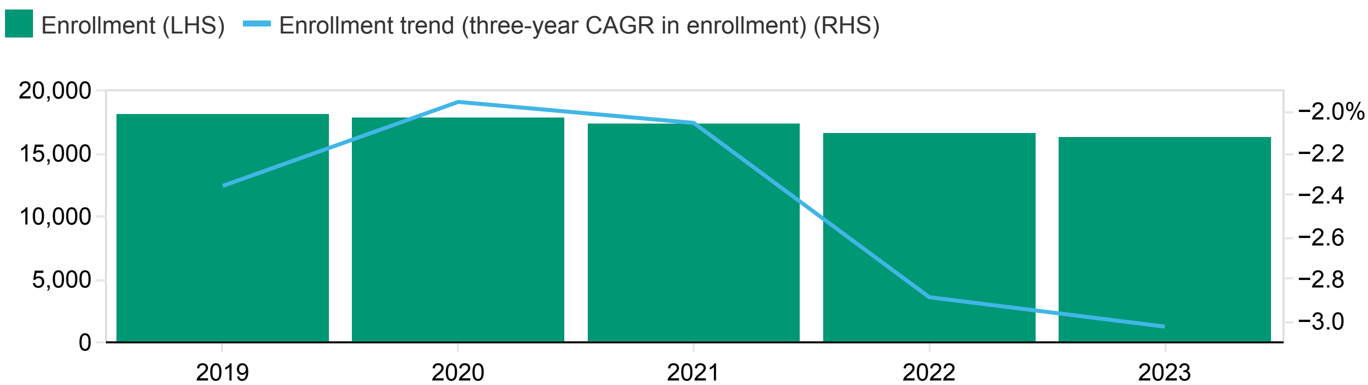
Economy: growing tax base, declining enrollment

Hacienda La Puente USD benefits from its location within the large and diverse Los Angeles economy, with an above average full value per capita of $130,198 compared to similarly rated peers. The district's resident income is slightly below the median for the rating category at 112% of US MHI after adjusting for regional cost of living. The district's tax base, which is largely residential, continues to grow ($16.4 billion as of 2023) as more homes change ownership largely because of the favorable mechanics of Prop 13. The tax base also has a healthy industrial component and is diverse with the top 10 taxpayers making up only 4.8% of total assessed values (AV) in 2023.

Like most school districts in California, the district has historically been experiencing declining enrollment as reflected by its three year enrollment compound annual growth rate (CAGR) of negative 2.9% as of fiscal 2022. The district works with a demographer and is projecting that the declining enrollment will continue, largely because of lower birthrates and high cost of living in the area that makes it harder for young families to stay or move into the area. District management expects the implementation of the universal transitional kindergarten program will hep moderate annual enrollment losses to 1% to 1.5%. Positively the district does not face any charter school competition and has been proactively addressing its declining enrollment through innovative programs aimed to attract out of district students as well as to retain existing students. The district is also in the process of reconfiguring its facilities and recently closed a school and sold two excess properties which will now be used to build housing in the area (about 137 single family homes) that could help future enrollment. There are also some additional multiunit residences that are under construction within the district boundaries which could help future enrollment.

The district is funded based on a three year rolling enrollment average which helps the district manage its enrollment declines. The district also receives supplemental and concentration funding based on its high unduplicated count (about 78%), which is the number of students in the district that are English learners, foster youth, and/or students eligible for free or reduced-priced meals.

Exhibit 2
Enrollment



Source: Moody's Investors Service

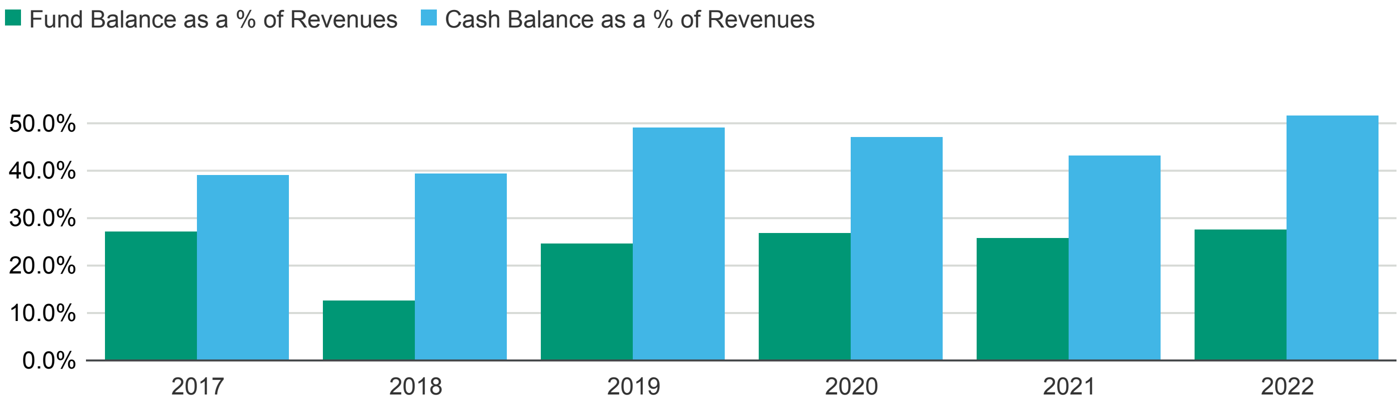
Financial operations: stable financial performance

The district financial performance has been strong and will continue to be stable despite declining enrollment supported by the district's prudent and conservative budgeting and strong internal controls. For fiscal 2023, the district's estimated actuals show the district ending with an available (committed, assigned and unassigned) general fund balance of $72 million or about 21% of general fund revenue. The district has settled negotiations with two of its unions for fiscal 2023 and provided salary increases of 4% (plus 1% health benefits). The district has also settled with one of its three unions for fiscal 2024 and provided an 8% salary increase. The increases have been included in the district's projections. The district's fiscal 2024 budget shows the district ending with a total general fund balance (including restricted) of $130 million or 40% of revenue and an available general fund balance of 18% of general fund revenue.

The district's multiyear projections (MYP) are conservative given district management under budgets its revenues and over estimates its expenditures and has a proven track record of beating its projections. Projections show the district spending down fund balance in the outyears to a still healthy 12% of general fund revenue ending in fiscal 2026. Per district management, the draws on fund balance largely reflect the spend down of restricted funds. The district received a total of $88.8 million in pandemic funding which it has spent on various one time purposes like personal protective equipment, social and emotional learning support, and to mitigate learning loss.

For fiscal 2022, the district ended with an available general fund balance of $48 million or 17% of general fund revenue. On an operating basis, the district ended fiscal 2022 with an available operating fund balance of $78.9 million or 27.6% of revenue, which for our analysis includes the general fund and the debt service fund. While the district does not have a formal fund balance policy, it strives to maintain general fund reserves close to 10%. In addition the district has additional funds outside the general fund that can be temporarily transferred to the general fund, if needed. Given the district's large size and its large and successful adult education program, it also benefits from economies of scale.

Exhibit 3
Financial Trends



Source: Moody's Investors Service

Liquidity
The district's cash positon remains healthy. The district's fiscal 2022 available general fund cash balance was strong at $116.8 million, representing about 40% of revenue. The district's available operating cash balance was $147.9 million, representing about 51.6% of revenue.

Leverage: Above average leverage expected to remain manageable

The district's overall leverage is above average compared to the median but will remain manageable given that the district has no debt plans over the next three years. The district's long term liability burden ratio is 417.9% (including the current issuance) of operating revenue. The district's fixed cost ratio is roughly in line with the median at 13.7%. The current issuance is the district's second and final series of bonds to be issued under its $148 million authorization under Measure BB.

Legal security
The GOULT bonds are secured by a pledge of an unlimited property tax levied on all taxable property within the district's boundaries. The portion of the district's ad valorem tax levy restricted for debt service is collected, held and transferred directly to the paying agent by Los Angeles County on behalf of the district.

Debt structure
All of the district's long term liabilities are fixed rate which include general obligation (GO) bonds and COPs. The final maturity for the GO bonds is in 2048.

Debt-related derivatives
The district has no debt-related derivatives.

Pensions and OPEB
District employees participate in the California State Teachers Retirement System (CalSTRS) and the California State Public Employees Retirement System (CalPERS), which are multiple employer, cost-sharing defined benefit pension plans. The district's fiscal 2022 adjusted net pension liability (ANPL) was $874 million, based on a discount rate of 2.8%. The reported net pension liability of $147 million was based on a discount rate of 7.1%.

In fiscal 2022, the district's combined pension contribution is above the Moody's "tread water" indicator by $6.5 million, or the contribution needed to keep pension liabilities from growing under reported assumptions. Notably, while the contribution in fiscal 2022 exceeded the tread water level, the district typically contributes below the indicator level.

The bulk of California school districts' pension exposure is associated with the California State Teachers' Retirement System (CalSTRS), and districts typically report their share of system liabilities with a one-year lag. The district's fiscal 2022 reporting reflects its share of CalSTRS liabilities as of June 2021. Based on the CalSTRS system in aggregate, we project that the district's ANPL will fall by around 29% in fiscal 2023 due rising interest rates.

The district operates a single employer defined benefit plan on a pay as you go basis that provides health benefits to retirees and their spouses. The district's Moody's adjusted net OPEB liability, using the same method as for pensions, equaled $43 million as of fiscal 2022, or 15% of operating revenue.

ESG considerations

Hacienda-La Puente Unified School District's (USD) ESG credit impact score is neutral-to-low (CIS-2), reflecting moderately negative exposure to environmental risks, neutral-to-low exposure to social risks, and strong governance.

Environmental

Hacienda-La Puente USD's Environmental Issuer Profile Score is moderately negative (E-3), reflecting elevated exposure to wildfires and water stress. The district has relatively low exposure to risks associated with carbon transition, natural capital, and waste and pollution.

Social

Hacienda-La Puente USD's Social Issuer Profile Score is neutral-to-low (S-2) primarily due its exposure to social risks associated with demographics, education, and access to basic services. The district faces labor and income risks owing to an elevated child poverty rate. Housing affordability presents a moderately negative risk to the district since it may drive enrollment declines and generate pressures for higher staff salaries. The district benefits from strong health and safety metrics.

Governance

Hacienda-La Puente USD's Governance Issuer Profile Score is positive (G-1). The district's transparency and disclosure is strong, enhanced by the state's requirement that California schools produce three-year budget forecasts with regular interim reporting. The district files audited financial statements and budgets in a timely manner and has strong budget management and sound policy credibility and effectiveness. The institutional structure for California school districts is solid, though weaker than most state's school districts, because California districts have very limited revenue raising flexibility and exposure to the state's economic and financial volatility.

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

Hacienda-La Puente Unified School District, CA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	112.2%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	141,582	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-3.0%	10.0%	Baa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	27.6%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	51.6%	10.0%	Aaa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	417.9%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	13.7%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
Assigned Rating			**Aa3**

The complete list of outstanding ratings assigned to the Hacienda-La Puente Unified School District, CA is available on their issuer page. Details on the current ESG scores assigned to the Hacienda-La Puente Unified School District, CA are available on their ESGView page.
Sources: US Census Bureau, Hacienda-La Puente Unified School District, CA'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

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