Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Encinitas Union School District, Calif.'s $60 million series A (election of 2024) general obligation (GO) bonds.
- At the same time, we affirmed our 'AA+' underlying rating (SPUR) on the district's GO debt outstanding.
- The outlook is stable.
- The rating reflects the application of our "Methodology for Rating U.S. Governments," published Sept. 9, 2024.

Security

Unlimited ad valorem taxes levied on taxable property in the district secure the GO bonds. The San Diego County Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund.

An escrow comprised of State and Local Government (SLGS) Treasury securities secures interest payments on the series 2020B GO refunding bonds up to the crossover date of Aug. 1, 2025. Thereafter, the series 2020B bonds will be secured by an unlimited-property tax (GO) pledge on all taxable property within the district.

The series A proceeds will be used for repair and modernization of district infrastructure as approved by voters.

Credit overview

The rating reflects the district's large and growing tax base, sound financial performance, healthy liquidity, and community-funded (aka, basic-aid) status. As the tax base generates significantly more revenue per student than the district would otherwise receive under the state's per-pupil funding formula, we believe its basic-aid status supports enhanced revenue stability and predictability.

The district serves a population of 75,000 in the communities of Encinitas and Carlsbad. The tax base, anchored by commercial, retail, and residential developments, remains a source of credit strength. Assessed valuation has continued to appreciate, with an average annual growth rate of 5.6% over the past five years. Management notes two recent significant residential developments totaling 292 units. Given the ongoing development and strong wealth metrics, we believe that the strong demand in the local residential market will continue to drive growth in the medium term. Although enrollment has declined somewhat in recent years due to broader demographic trends, we do not view this as a significant source of pressure as the district is community funded.

While recent operating results for the district have trended positively, we believe that these surpluses are slightly overstated due to the impact of one-time funds. As of the second interim for fiscal 2025, management is projecting a deficit of 9.1% of general fund revenue (approximately $7.7 million), reflective of a planned spend-down of restricted funds received in prior years. Multiyear projections show a return to balanced operations in fiscal 2026. We believe the district will maintain available reserve balances in line with those of peers. For more information, see "U.S. Local Governments Credit Brief: California School Districts Means and Medians," published Oct. 22, 2024.

The rating reflects our view of Encinitas Union School District's:

- Large and growing tax base, with strong wealth metrics and incomes that compare favorably with national and county averages, both on a household and per capita basis.
- Positive operating results, although somewhat overstated in recent years due to one-time funding. While the district is projecting a deficit in fiscal 2025, it is driven by a planned spend-down of one-time restricted funds

and not reflective of persistent operational challenges. We expect the district to continue to maintain healthy reserves comparable to those of peers.

- Management practices highlighted by conservative assumptions and consultation with outside sources during the budgeting process; formal monitoring at the standard interim intervals; current-plus-two-year financial-planning projections; a rolling long-term capital plan with funding sources identified; monthly reporting on investments and adherence to the county's investment-management policy; a localized debt-management policy; and a formal fund-balance minimum of maintaining 10% of expenditures in reserve, with an informal target of 20%, which the district has historically exceeded. The district is taking steps to mitigate cyber-security risk.
- Manageable debt-and-liabilities profile, which we expect will likely remain so in the near term. Post-issuance, the district will have $98.3 million of authorized but unissued debt remaining from the 2024 election, which management plans to issue in three additional series through 2032. We have incorporated the district's additional medium-term debt plans into our analysis.
- Given the district's community-funded designation, we assess that it has greater operating predictability and a stronger capacity to determine revenue and expenditures on an ongoing basis compared with what we typically see in California school districts that rely on state funding. For more information on the context for how we evaluate California School Districts, see "Institutional Framework Assessment: California Local Governments," published Sept. 9, 2024 on RatingsDirect.

Environmental, social, and governance

We view the district as having elevated exposure to acute physical risks related to wildfires, water stress, and drought, as well as to natural disaster risk related to seismic activity. However, we believe California's strong building codes substantially mitigate risk of material tax base effects associated with seismic activity. We view governance and social factors as neutral in our analysis.

Outlook

The stable outlook reflects our view of the district's large and growing tax base, positive financial performance, and robust reserve balances comparable to those of its peers, which we expect the district will maintain at similar levels in the near term.

Downside scenario

We could lower the rating if the district were unable to maintain balanced operations, resulting in deterioration of available reserves to levels we no longer consider comparable with those of its peers.

Upside scenario

We could raise the rating if incomes were to improve to levels comparable to those of higher-rated peers and if the district maintains positive operating results and builds reserves to levels comparable to those of higher-rated peers.