

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's affirms San Marcos USD, CA's A1 issuer and Aa3 GOULT ratings; outlook revised to stable**

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25 Aug 2022

New York, August 25, 2022 -- Moody's Investors Service has affirmed the A1 issuer and Aa3 general obligation unlimited tax (GOULT) bond ratings for San Marcos Unified School District, CA. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security or structural features. Concurrently, Moody's has affirmed the A2 rating on the district's outstanding lease revenue bonds. At fiscal 2021 year end, the district had approximately \$335 million in GOULT debt and \$72 million in lease revenue bonds outstanding. The outlook was revised to stable from negative.

#### RATINGS RATIONALE

The A1 issuer rating reflects the district's healthy local economy supported by favorable resident income and property wealth. The rating also reflects the district's sound financial position which we expect to remain stable following implementation of the district's fiscal stabilization plan. The district has long been challenged by rising salary and benefit costs and staffing level adjustments in 2023 are projected to return the district to structural balance. Leverage is elevated, but manageable, and enrollment is expected to stabilize in the coming years following significant enrollment loss resulting from the coronavirus pandemic.

The Aa3 rating on the GOULT bonds is one notch higher than the issuer rating. The one notch distinction reflects California school district GO bond security features that include the physical separation through a "lockbox" for pledged property tax collections and a security interest created by statute.

The A2 rating on the lease revenue bonds is one notch lower than the issuer rating reflecting abatement risk and the more essential leased asset of a school building. The district covenants to include lease payments in annual budgets, and payments are not subject to appropriation risk.

#### RATING OUTLOOK

The stable outlook reflects our expectation that the district's financial position will remain sound for the next two years, supported by conservative budgeting practices and the implementation of the district's fiscal stabilization plan.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Material improvement in the district's financial position
- Significant reduction in long-term liabilities and fixed costs

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration of the district's finances
- Enrollment losses that pressure the district's financial performance
- Significant increase in long-term liabilities and fixed costs

#### LEGAL SECURITY

The 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 San Diego County (Aaa stable) on behalf of the district.

The lease revenue bonds are secured by the district's covenant to annually budget and appropriate lease payments for the use and occupancy of the leased asset. Lease payments are made to the San Marcos Schools Financing Authority for the use and occupancy of Mission Hills High School, San Elijo Middle School and San Marcos Middle School.

All of the district's actively managed general revenue is available for lease payments. Although, certain redevelopment pass-through payments from the Successor Agency to the San Marcos Redevelopment Agency are pledged to secure the portion of lease payments attributable to financing district facilities to which such redevelopment payments may be contractually or statutorily applied. Also, excess revenues from these redevelopment payments and special taxes collected from the district's community facilities districts, while not pledged, are available for lease payment and have historically provided moderate coverage.

## PROFILE

The district is located in northern San Diego County and encompasses about 49 square miles including the City of San Marcos, and portions of the cities of Carlsbad, Escondido and Vista, and nearby unincorporated areas of the county. The district operates ten elementary schools, three middle schools, two K-8 school, two comprehensive high schools, a continuation high school, one independent high school and an adult school. Total enrollment was 19,620 students in fiscal 2022.

## METHODOLOGY

The principal methodology used in these ratings was US K-12 Public School Districts Methodology published in January 2021 and available at <https://ratings.moody.com/api/rmc-documents/70054>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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