

CREDIT OPINION

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San Mateo Union High School District, CA

Update to credit analysis

Summary

[San Mateo Union High School District's](#) (Aa1 issuer rating & Aaa GO) strong credit profile is underpinned by its robust local economy and very high resident incomes that are supported by a favorable location in the San Francisco Bay Area. The district's healthy financial position benefits from conservative management and deep entrenchment in community funded status, which insulates the district from variations or reductions in state per pupil funding. We expect that this entrenchment will continue to increase the district's financial flexibility given growing property values and a manageable enrollment trend. These strengths help mitigate significant leverage stemming from large outstanding debt and pension liabilities. Long-term liabilities and adjusted fixed costs are significantly above national peer medians and will remain elevated as more debt issuances are planned.

On June 21, 2023, Moody's assigned a MIG 1 rating to the district's 2023-24 Tax and Revenue Anticipation Notes (TRANS).

Credit strengths

- » Favorable location in the San Francisco Bay Area
- » Deep and growing entrenchment in community funded status
- » Conservative fiscal practices supported by adopted policies

Credit challenges

- » High leverage stemming from outstanding debt and pension liabilities
- » Adjusted fixed costs are elevated relative to national peers

Rating outlook

The stable outlook reflects our expectation for continued growth in the district's robust local economy and maintenance of a strong financial position that is supported by deep and growing entrenchment in community funded status, prudent management, and adopted financial policies.

Factors that could lead to an upgrade

- » Material reduction in long-term liabilities and fixed costs

Factors that could lead to a downgrade

- » Loss of community funded status

- » Significant decline in fund balance or cash ratios
- » Material increase in long-term liabilities or fixed costs

Key indicators

Exhibit 1

San Mateo Union High School District, CA

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income	174.5%	171.3%	172.2%	N/A	112.2%
Full value (\$000)	\$77,920,002	\$83,526,113	\$88,712,918	\$90,484,923	\$3,864,784
Population	247,044	247,122	248,746	N/A	31,619
Full value per capita	\$315,409	\$337,995	\$356,641	N/A	\$115,171
Enrollment	9,020	9,314	9,203	9,093	4,288
Enrollment trend	2.5%	2.3%	1.0%	0.3%	0.1%
Financial performance					
Operating revenue (\$000)	\$217,196	\$221,562	\$244,300	\$259,159	\$71,385
Available fund balance (\$000)	\$62,531	\$68,411	\$94,618	\$99,397	\$18,076
Net cash (\$000)	\$64,227	\$70,105	\$97,592	\$105,758	\$21,642
Available fund balance ratio	28.8%	30.9%	38.7%	38.4%	26.8%
Net cash ratio	29.6%	31.6%	39.9%	40.8%	31.5%
Leverage					
Debt (\$000)	\$620,341	\$760,763	\$858,765	\$840,849	\$51,433
ANPL (\$000)	\$380,933	\$522,426	\$723,772	\$576,709	\$111,819
OPEB (\$000)	\$2,990	\$2,272	\$2,479	\$2,775	\$10,587
Long-term liabilities ratio	462.4%	580.2%	648.8%	548.1%	317.0%
Implied debt service (\$000)	\$45,983	\$45,229	\$54,480	\$60,234	\$3,485
Pension tread water (\$000)	\$18,183	\$19,132	\$21,369	\$15,247	\$2,924
OPEB contributions (\$000)	\$91	\$93	\$93	\$51	\$368
Fixed-costs ratio	29.6%	29.1%	31.1%	29.1%	11.5%

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, San Mateo Union High School District, CA's financial statements and Moody's Investors Service

Profile

San Mateo Union High School District is located in [San Mateo County](#) (Aaa stable), serving the cities of Burlingame, [Foster City](#) (Aaa stable), Millbrae, San Bruno and [San Mateo](#) (Aaa stable), the town of Hillsborough and unincorporated areas of the county. The district had an estimated enrollment of about 9,300 students in fiscal 2023 across six comprehensive high schools, a continuation high school and an adult school.

Detailed credit considerations

Economy: robust Bay Area economy with strong resident wealth and local support

The district's participation in the robust [San Francisco](#) (Aaa stable) and Silicon Valley economies will continue to drive high resident income levels and property values. The district's tax base reached a substantial \$97.2 billion assessed valuation (AV) in fiscal 2023, contributing to a strong per capita AV of nearly \$391,000. AV is poised for additional growth given appreciation of home values and several residential and commercial developments underway. Median home sale prices throughout the district are well above the median AV of single-family homes, indicating that the district will realize growth through the turnover of homes under California's Prop. 13.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Included in the top 10 property owners are office buildings of several technology and biotech companies, such as [Gilead Sciences, Inc.](#) (A3 stable), Google and [Visa Inc.](#) (Aa3 stable), which support a highly educated and skilled workforce. Median household income adjusted for regional price parity is favorable at 172% of the national median.

The district's 3-year CAGR for enrollment is 0.6% as of fiscal 2023 and will remain relatively stable. Although lower birthrates and the high cost of living in the area may translate to modest enrollment declines, the district's status as a community funded district means that declines will not result in the loss of state per pupil funding.

Financial operations: strong financial position supported by deep entrenchment in community funded status

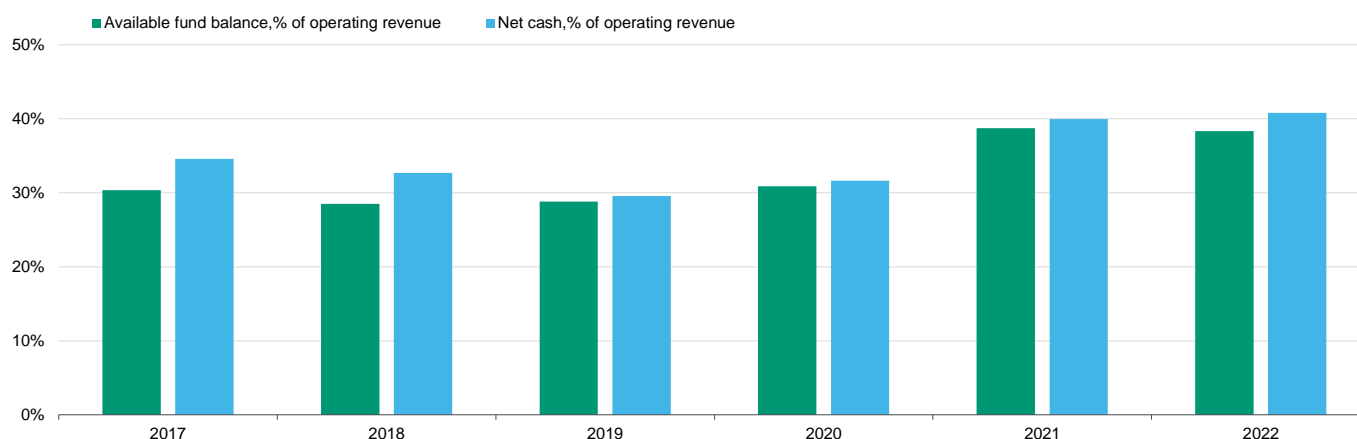
San Mateo UHSD's financial position is sound and should remain stable given the district's deep entrenchment in community funded status and management's conservative fiscal practices. Estimated actual results for fiscal 2023 reflect a modest general fund deficit of \$1.6 million, though management indicates that it may be closer to even given unspent restricted funds. Multiyear projections through fiscal 2025 reflect reserves remaining stable.

As a community funded district for more than 30 years, San Mateo UHSD receives substantially more revenue from its share of the 1% local property tax levy than the level of funding it would receive under the state's enrollment driven Local Control Funding Formula (LCFF). In fiscal 2023, local property tax revenue exceeded what the district would otherwise receive under LCFF by \$71.3 million. Strong local revenue benefits the district through higher per pupil revenue and insulation from potential state budget pressure.

Across operating (general and debt service) funds, the district's available fund balance ratio remained stable and healthy at 38.4% in fiscal 2022. The district's available general fund balance, which comprises the bulk of operating reserves, is similarly stable at 22.1%. The district has a practice of setting aside general fund surpluses into its building fund and special reserve for capital outlay and has a formal policy to maintain an unrestricted general fund balance at no less than 12% of annual expenditures, which it has consistently met.

Exhibit 2

Reserves are stable and strong



Source: Issuer financial statements, Moody's Investors Service

Liquidity

The district's operating liquidity is strong at \$105.8 million in fiscal 2022, resulting in a net cash ratio of 40.8%. Outside of operating funds, the district has an additional \$18.1 million in unrestricted funds that can be transferred to the general fund without repayment.

Leverage: elevated leverage stemming from large outstanding debt and pension liabilities

The district's leverage, while manageable, is very high relative to national peers and will remain elevated given remaining unissued GO authorization of \$192.5 million. The district tentatively plans to issue the remainder of its authorization in late 2023 and 2027. Total long-term liabilities, including gross debt and adjusted net pension and OPEB liabilities, equals 546.2% of operating revenue, which is well above the Aa-national median of 317.0%. Additionally, adjusted fixed costs for debt, pension and OPEB are high at 29.1% of revenue compared to the Aa-national median of 11.5%.

Legal security

The district's GO bonds are secured by a voter-approved unlimited property tax pledge. San Mateo County rather than the district will levy, collect, and disburse the district's property taxes, including the portion constitutionally restricted to pay debt service on GOULT bonds.

The district's TRANs are payable from taxes, income, revenue, cash receipts and other moneys that are received by or that accrue to the district during fiscal 2024 and that are lawfully available for the payment of current expenses and other obligations of the district.

Debt structure

The district's debt is comprised of fixed rate current interest and capital appreciation GO bonds maturing through 2051. Amortization is somewhat slow with about 38% of principal retired within 10 years.

The district issues TRANs annually to provide for short-term cash flow requirements during the fiscal year. As a community funded district, the district receives a majority of its local property tax revenue during two months: December and April. The district's regular TRAN borrowing serves to cover cash flow needs prior to the December receipts, midway through the fiscal year.

Debt-related derivatives

The district does not have any debt-related derivatives.

Pensions and OPEB

The district's adjusted net pension liability (ANPL), which totaled about \$577 million as of the close of fiscal 2022, will remain elevated but decline in the near term. 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's adjusted net liability for other post-employment benefits (OPEB) was \$2.8 million as of fiscal 2022, equal to a very modest 1% of operating revenue.

ESG considerations

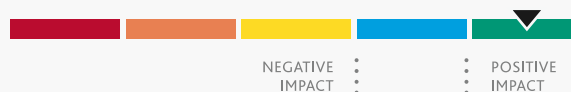
San Mateo Union High School District, CA's ESG Credit Impact Score is Positive CIS-1

Exhibit 3

ESG Credit Impact Score

CIS-1

Positive



For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

Source: Moody's Investors Service

San Mateo Union High School District's ESG Credit Impact Score is positive (**CIS-1**), reflecting strong social attributes and governance and moderately negative exposure to environmental risks.

Exhibit 4

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

San Mateo UHSD's environmental issuer profile score is moderately negative (**E-3**), reflecting relatively moderate exposure to physical climate risk but low exposure to carbon transition, water management, natural capital and pollution risks. The district's biggest physical climate risk is its long-term exposure to sea level rise, although immediate risks are minimal. One of the district's school facilities is within a flood zone; however the district invested in an additional foundation for its construction and also has flood insurance for this site. The district also faces high future water stress and wildfire risks. The district has undertaken a number of projects to support sustainability. For example, the district has completed modernization projects that have added solar power, which now generates over one-third of the district's electric needs. The district has received recognition for its efforts, including its designation as a California Green Ribbon School District Sustainability Awardee.

Social

San Mateo UHSD's social profile score is positive (**S-1**), reflecting a highly educated population, strong labor force participation and low crime rates. The district has neutral-to-low risk associated with access to basic services and demographic factors, such as population growth and percentage of school-aged children. However, housing affordability is a challenge for the district and is moderately negative.

Governance

San Mateo UHSD's governance profile score is positive (**G-1**), primarily reflecting the district's very strong budget management supported by an adopted reserve policy. The district's commitment to transparency and disclosure is also a positive consideration supported by the district's timely filing of audited financial statements, budgets and interim reports. Institutional structure is also a positive consideration given the district's status as a "community funded" district, which insulates it from declines in state funding. The district has good policy credibility and effectiveness, and its capture rate (the percentage of school-aged children within the district's boundaries who attend the district) is solid.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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.

The difference between the scorecard outcome and assigned rating reflects other considerations assessed outside of the scorecard that benefit the district's credit profile. These include the district's strong local support for education and strong management strategy, with implemented policies and conservative budgeting practices. While long-term liabilities are high, pension liabilities are likely to moderate given rising interest rates. Additionally, annual increases in secured property tax revenue, which represents the district's primary source of revenue, continue to outpace increases in fixed costs.

Exhibit 5

San Mateo Union High School District, CA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	172.2%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	390,882	10.0%	Aaa
Enrollment trend (three-year CAGR in enrollment)	0.6%	10.0%	Aa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	38.4%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	40.8%	10.0%	Aaa
Institutional framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	546.2%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	29.1%	10.0%	Baa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa1

The complete list of outstanding ratings assigned to the San Mateo Union High School District, CA is available on their [issuer page](#). Details on the current ESG scores assigned to the San Mateo Union High School District, CA are available on their [ESGView page](#).

Sources: US Census Bureau, San Mateo Union High School District, CA's financial statements and Moody's Investors Service

Appendix

Exhibit 6

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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