

ISSUER COMMENT

3 May 2019

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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Sylvan Union School District, CA

Annual Comment on Sylvan USD

Issuer Profile

Sylvan Union School District is located in Stanislaus County, in the San Joaquin Valley in central California, approximately 25 miles south of Stockton. The county has a population of 535,684 and a moderate population density of 359 people per square mile. The county's median family income is \$60,757 (3rd quartile) and the February 2019 unemployment rate was 7.2% (4th quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and local government.

Credit Overview

Sylvan USD'S credit position is high quality. Its Aa3 rating matches the median rating of Aa3 for US school districts. The key credit factors include a healthy financial position, a substantial tax base with a solid wealth and income profile, a small debt burden and an inflated pension liability.

Finances: The district has a healthy financial position, which is consistent with the assigned rating of Aa3. The cash balance as a percent of operating revenues (29.2%) is roughly equivalent to the US median, and increased between 2014 and 2018. Furthermore, Sylvan USD'S fund balance as a percent of operating revenues (22.9%) approximates other Moody's-rated school districts nationwide.

Economy and Tax Base: The economy and tax base of the district are solid and aligned with its Aa3 rating. The total full value (\$6.4 billion) is larger than the US median, and saw an impressive increase between 2014 and 2018. Additionally, the full value per capita (\$84,384) is consistent with the US median. Lastly, the median family income is 104% of the US level.

Debt and Pensions: The debt burden of the district is light and is quite favorable in comparison to its Aa3 rating. Sylvan USD'S net direct debt to full value (0.7%) is materially below the US median, and stayed the same from 2014 to 2018. That said, the pension liability of the district is inflated and is a weakness in relation to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (2.7x) is materially higher than the US median.

Management and Governance: California school districts have an Institutional Framework score ³ of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California school districts' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable

revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions and additional expenditure constraints, which limit the ability to make cuts. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - California School Districts

California school districts will continue to benefit from improving local economies, growing assessed valuations, and healthy state funding, which has increased more than \$12 billion since the implementation of LCFF in fiscal 2014. Districts will face budgetary pressures from rising pension contributions, academic program expansion and increased employee compensation. Many in areas with high housing costs will also see ongoing enrollment declines. Improved state revenue should help address these challenges, however future growth in base funding will slow as full funding of LCFF is reached in fiscal 2019. Charter schools are not a credit pressure for the majority of California districts. Only in some major urban areas does the prevalence of charter schools pressure districts by reducing enrollment and therefore allocated state funding.

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

EXHIBIT 1

Key Indicators ^{4.5} Sylvan USD

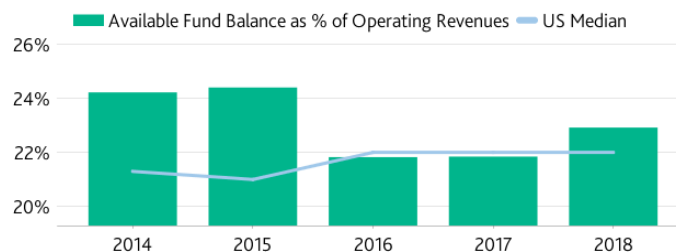
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$4,856M	\$5,451M	\$5,729M	\$6,058M	\$6,380M	\$1,906M	Improved
Full Value Per Capita	\$65,642	\$73,194	\$76,403	\$80,126	\$84,384	\$84,623	Improved
Median Family Income (% of US Median)	104%	105%	106%	104%	104%	102%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	24.2%	24.4%	21.8%	21.8%	22.9%	22.0%	Stable
Net Cash Balance as % of Operating Revenues	20.7%	28.6%	31.0%	31.0%	29.2%	26.8%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	0.7%	0.6%	0.7%	0.6%	0.7%	1.5%	Stable
Net Direct Debt / Operating Revenues	0.55x	0.48x	0.47x	0.44x	0.50x	0.71x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	2.9%	3.0%	3.3%	3.6%	2.9%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	2.24x	2.09x	2.40x	2.69x	1.42x	Stable

	2014	2015	2016	2017	2018	US Median
Debt and Financial Data						
Population	73,983	74,481	74,991	75,611	75,611	N/A
Available Fund Balance (\$000s)	\$15,365	\$17,378	\$17,908	\$18,180	\$19,367	\$8,985
Net Cash Balance (\$000s)	\$13,144	\$20,362	\$25,435	\$25,772	\$24,712	\$10,862
Operating Revenues (\$000s)	\$63,463	\$71,247	\$82,051	\$83,224	\$84,519	\$41,251
Net Direct Debt (\$000s)	\$35,125	\$34,031	\$38,590	\$36,251	\$42,394	\$28,020
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	N/A	\$159,944	\$171,799	\$199,675	\$227,551	\$55,897

Source: Moody's Investors Service

EXHIBIT 2

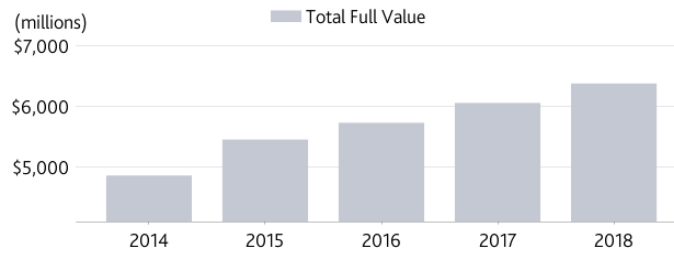
Available fund balance as a percent of operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

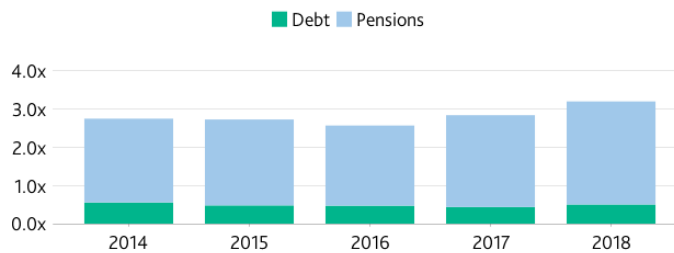
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - 5 The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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