S&P Global
Ratings

Research

Summary:
Ojai Unified School District, California; General Obligation

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Summary:

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Ojai Unif Sch Dist GO bnds (Election Of 2014)		
Long Term Rating	A-/Negative	Downgraded, Removed from CreditWatch
Ojai Unif Sch Dist 2021 GO rfdg bnds		
Long Term Rating	A-/Negative	Downgraded, Removed from CreditWatch

Credit Highlights

- S&P Global Ratings lowered its long-term rating on Ojai Unified School District, Calif.'s general obligation (GO) debt three notches to 'A-' from 'AA-'.
- At the same time, we removed the rating from CreditWatch with negative implications, where it had been placed on Nov. 22, 2022.
- The outlook is negative, reflecting a one-in-three chance that we could lower the rating within the outlook horizon if the district is unable to complete the necessary structural reforms to balance its budget with reserves sustained above the statutory minimum.
- The downgrade reflects elevated governance risks. In particular, we see risks associated with the district's risk management, culture, and oversight, as evident in a material weakening of the district's overall financial position precipitated by a long-term trend of enrollment decline and management's historical inability to realign the budget. We believe the financial deterioration stems from frequent turnover in its business office, which has limited the district's ability to develop strong internal controls and maintain transparent and accurate interim financial reporting. We view risk management, culture, and oversight as a governance risk credit factor under environmental, social, and governance (ESG).

Security

The GO bonds are secured by revenue from unlimited ad valorem taxes levied on all taxable property within the district.

Credit overview

The rating reflects our view of the district's weakened financial position and projected structural imbalance culminating in an inability to consistently hold sufficient reserves required by the state. The financial deterioration has primarily been caused by consistent enrollment decreases that affect revenue allocations under the state funding formula and turnover in the district's business office, which has hampered the district's ability to improve internal controls and produce accurate and transparent financial reports. Although the district initially discussed possible spending cuts in 2020, those discussions were tabled due to the COVID-19 pandemic and receipt of federal stimulus funding. Despite its financial difficulties, we understand that the district is supported by the oversight functions of the Ventura County Office of Education (VCOE) and the state of California's Fiscal Crisis & Management Assistance Team (FCMAT), which have been actively engaged with the district in recent years. Therefore, we anticipate that the district will remain supported administratively in its efforts to improve its finances without further financial deterioration. However, should proposed reforms fall short, and the district is unable to sustain at least adequate available reserves, we could lower the rating further.

In the past six years, the district reported mixed financial results, with the most recent result reflecting a $1.3 million decrease in unrestricted fund balances as of the fiscal 2022 unaudited actuals. As a result, available reserves (negative $101,000) fell below the 3% reserve minimum required by the state. According to district officials, the decrease was partially due to incorrect coding of approximately $700,000 in COVID-19-related expenditures, reflecting the impact of recent turnover in the business office. A potential restatement of these costs could lead to an adjusted reserve position of about $600,000 or 1.8% of expenditures. Despite the district's expected return to compliance with the reserve requirement starting in fiscal 2023, we understand that in January, VCOE changed the certification status on the first interim budget report to negative, reflecting its belief that the district would be unable meet this goal in the current and subsequent fiscal years.

In its report to the district, VCOE highlighted various concerns with the 2023 first interim budget, including optimistic revenue projections and incorrect expenditure omissions, resulting in a potential budget shortfall of approximately $5.6 million over the three-year projection period through 2024-2025. We understand that in response to the VCOE report, the district is considering a spending reduction plan of about $3.8 million over the next three years, including personnel cuts, school closures, and reduced material costs. While the plan has not been finalized, on Jan. 20, the district's governing body approved a motion to explore it. Although the proposed plan is a meaningful first step, the district's path to financial stability will also need to address the labor contract with its local teachers union, which is currently in mediation.

Ojai Unified School District serves the small community of Ojai and other unincorporated areas of western Ventura County, northwest of Los Angeles. The primarily residential tax base has grown consistently in the past decade, supporting our view of extremely strong property wealth. Although household incomes are in line with the state average, a lack of affordable housing for young families remains a contributing factor to falling enrollment in the area.

The rating reflects our view of the district's:

- Largely residential and diversified tax base with strong resident incomes;
- Long-term trend of enrollment decline that is projected to continue over the next several years;
- Projected deficit spending and sizable decrease in available reserves in fiscal 2022 that the district plans to correct through a proposed cost-reduction plan starting in fiscal 2023;
- Vulnerable financial management practices, reflecting issues of accuracy in financial reporting, potential noncompliance with state reserve minimums, and reduced frequency in formal budget updates; and
- Manageable long-term liability profile with low carrying charges.

Environmental, social, and governance

As noted, our credit rating action incorporates elevated governance risk pertaining to the district's risk management, culture, and oversight. Our rating action incorporates risk management and internal control weaknesses reflected in recent turnover in the district's business office that contributed to a lack of expertise in key positions. As a result, there have been audit findings, incorrect coding of revenues and expenditures in the district's financial software, and various deficiencies in key areas of fiscal management as identified by FCMAT. If allowed to persist, issues of accuracy in financial reporting could impede the district's efforts to sustainably improve its financial position. In addition, we believe that the district's enrollment decreases represent social capital and demographic pressures that could affect revenue allocations under the state's Local Control Funding Formula. The enrollment trend, which is due to a lack of affordable housing, is unlikely to reverse in the near term, heightening the need for structural budget reforms. Furthermore, given its location, the district is exposed to physical risks and natural disasters including drought, flooding, and earthquakes that could affect its credit profile, particularly given the diminished financial reserves.

Outlook

The negative outlook reflects a one-in-three chance that we could lower the rating within the outlook horizon if the district is unable to complete the necessary structural reforms to balance its budget with reserves sustained above the statutory minimum. In the near term, we anticipate that the district will continue to explore structural reforms and expenditure reductions to right-size the budget and align its expenditure profile with its lower student counts.

Downside scenario

We could lower the rating within the outlook horizon if the district is unable to complete the necessary structural reforms to balance its budget with reserves sustained above the statutory minimum. In addition, we could lower the rating further if fiscal 2023 projections are worse than initially anticipated.

Upside scenario

We could revise the outlook to stable if the district were to stabilize its financial position, evidenced by no deficit spending and reserves sustained in line with the statutory minimum.

Ojai Unified School District, California -- Key Credit Metrics					
	Characterization	**Most recent**	**Historical information**		
			2021	**2020**	**2019**
Economic indicators					
Population			21,378	21,663	22,013
Median household EBI % of U.S.	Strong		114	119	119
Per capita EBI % of U.S.	Strong		125	135	134
Market value ($000)		5,295,198	4,679,642	4,435,148	4,223,003
Market value per capita ($)	Extremely strong	247,694	218,900	204,734	191,841
Top 10 taxpayers % of taxable value	Very diverse	5.2	5.8	5.8	5.5
Financial indicators					
Total available reserves ($000)		(101)	1,560	1,527	1,968
Available reserves % of operating expenditures	Low	(0.3)	5.1	5.3	6.4

Ojai Unified School District, California -- Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2021	2020	2019
Total government cash % of governmental fund expenditures			25.7	17.1	16.2
Operating fund result % of expenditures		(1)	3.0	(3)	1.5
Financial Management Assessment	Vulnerable				
Enrollment		2,301	2,397	2,429	2,453
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.2	2.6	2.2	2.2
Overall net debt per capita ($)	High	5,408	5,796	4,516	4,212
Debt service % of governmental fund noncapital expenditures	Low		7.2	9.3	6.1
Direct debt 10-year amortization (%)	Slow		31	28	27
Required pension contribution % of governmental fund expenditures			6.0	6.7	6.2
OPEB actual contribution % of governmental fund expenditures			1.4	1.6	1.8
Minimum funding progress, largest pension plan (%)			94.8	84.3	89.8

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.