S&P Global Ratings

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Summary:

Delano Union Elementary School District, California; General Obligation

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Summary:

Delano Union Elementary School District, California; General Obligation

Credit Profile		
US$12.0 mil GO bnds (Election Of 2024) ser 2025A due 08/01/2054		
Long Term Rating	A+/Stable	New
Delano Un Elem Sch Dist GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to Delano Union Elementary School District, Calif.'s anticipated $12 million series 2025A general obligation (GO) bonds (election of 2024).
- At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the district's GO bonds outstanding.
- The outlook is stable.
- The rating action reflects the application of our "Methodology For Rating U.S. Governments" criteria, published Sept. 9, 2024, on RatingsDirect.

Security

Revenue from unlimited ad valorem taxes, levied on taxable property within the district, secures the GO bonds. The Kern County Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment.

Bond proceeds will finance improvements to district facilities, and pay off about $7.8 million of its outstanding solar energy leases. For this issuance, the district board has authorized an amount not to exceed $13.5 million. After this issuance, the district will have $28.3 million remaining under the authorization.

Credit overview

The rating reflects our view of the district's healthy reserve and liquidity position, coupled with conservative management practices supporting stable operating performance. In our opinion, the district's core economic indicators are weaker compared to those of higher-rated peers, somewhat limiting upward rating movement. (For more information on our view of California school districts and recent trends, see "U.S. Local Governments Credit Brief: California School Districts Means And Medians," published Oct. 22, 2024.)

The district is coterminous with the city of Delano, in the northern portion of Kern County, with an economy centered on agriculture and petroleum related activities. Its leading taxpayer, Wonderful Citrus Packaging LLC (11% of assessed value [AV]), specializes in growing, packing, and delivering nuts and citrus fruits. Enrollment has declined by 10% over the past five years, mirroring statewide demographic trends. However, the average daily attendance rate, a key determinant in the state aid funding formula, has risen due to outreach efforts by the district to boost attendance. The district conservatively manages its budget and staffing levels, which benefits its financial stability given its reliance on state aid.

The district's operating performance has been positive in recent years, aided by one-time federal and state aid and conservative budgeting. In fiscal 2023, it received a $14 million state grant to fund learning recovery and expanded support programs. It received about $57.2 million of total federal COVID-19 aid, used for facility improvements and temporary academic support. The district's fiscal 2024 result reflected lower overall expenditures compared to budget. The fiscal 2025 budget currently includes a $16.5 million general fund deficit, or 14% of general fund revenue, which represents a draw of grant funds. The multiyear financial forecast indicates operating deficits through fiscal 2027 as state grant funds are used. We think management proactively monitors budgetary performance and maintains some expenditure flexibility to potentially outperform projections and support maintenance of a healthy reserve position within the two-year outlook.

The rating further reflects our views of the district's:

- AV, which has grown steadily, and that we expect to grow further given the anticipated residential and commercial development plans underway. Modest taxpayer concentration and income indicators that lag Kern County and the nation weaken our view of the local economy.
- Positive operating results with available reserves exceeding its informal unassigned fund balance policy of 8% of general fund expenditures during the past four fiscal years. Even with budgeted use of fund balance in the outlook, the district's historically positive budget variances support our expectation that its financial position will remain stable. Additionally, it maintains an economic uncertainty reserve of about $8.3 million as of fiscal 2025 that provides further financial flexibility.
- Comprehensive financial management policies and practices, highlighted by monthly financial reports to the board, multiyear financial planning for the current and next two fiscal years, and an informal reserve target of 8% of expenditures. The district has a formal but basic debt management policy, and an investment management policy, albeit with annual reports to the school board. It is updating its five-year capital improvement plan. It has practices in place to mitigate cyber risk.
- Moderate debt burden relative to the budget, with $33.5 million of net direct debt outstanding. We expect debt will remain moderate even with plans to issue the remaining $14.8 million authorization. The district has no alternative debt outstanding.
- Near-term credit risk tied to pension and other postemployment benefits is limited. However, we note that net pension liabilities have increased statewide. (For more information, see "Pension Spotlight: California," published Oct. 17, 2023.)
- For more information on our institutional framework assessment for California school districts, see "Institutional Framework Assessment: California Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We note that the district has elevated exposure to acute physical risk and natural disasters related to drought; extreme heat; water stress; and earthquakes that, if realized, could affect operating revenue or lead to unexpected costs. However, we think state building codes have helped somewhat offset seismic risk. We also understand water preservation initiatives, such as the Sustainable Groundwater Management Act and Senate Bill 200, are helping mitigate the local economy's exposure to drought by providing a framework for groundwater management and financial assistance to upgrade ground wells and filtration systems. In our view, governance and social factors are neutral in our credit rating analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view that management's careful monitoring will allow reserves to remain healthy even with potential plans to draw down funds.

Downside scenario

We could lower the rating if financial performance were to deteriorate, leading to material reserve decreases without a plan to replenish them.

Upside scenario

We could raise the rating further if the district's economic indicators were to materially improve to levels comparable with those of similarly rated peers, coupled with enhanced financial policies and practices, while maintaining stability in other credit factors.

Table 1

Delano Union Elementary School District, California--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	2.75
Economy	6.0
Financial performance	2
Reserves and liquidity	1
Management	2.00
Debt and liabilities	2.75

Table 2

Delano Union Elementary School District, California--Key credit metrics	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	76		76	74
County PCPI % of U.S.	68		68	67
Market value ($000s)	3,713,528	3,485,743	3,376,096	3,122,297
Market value per capita ($)	69,282	65,033	62,987	55,735
Top 10 taxpayers % of taxable value	22.6	22.8	25.4	23.6
County unemployment rate (%)	8.7	8.7	8.2	7.1
Local median household EBI % of U.S.	72		72	74
Local per capita EBI % of U.S.	37		37	36
Local population	53,600		53,600	56,020
Financial performance				
Operating fund revenues ($000s)		120,015	124,965	102,635

Table 2

Delano Union Elementary School District, California--Key credit metrics (cont.)	Most recent	2024	2023	2022
Operating fund expenditures ($000s)		110,308	107,041	97,765
Net transfers and other adjustments ($000s)				(374)
Operating result ($000s)		9,707	17,924	4,496
Operating result % of revenues		8.1	14.3	4.4
Operating result three-year average %		8.9	6.8	1.1
Enrollment		4,396	4,501	4,725
Reserves and liquidity				
Available reserves % of operating revenues		21.5	15.6	22.5
Available reserves ($000s)		25,818	19,482	23,092
Debt and liabilities				
Debt service cost % of revenues		2.5	2.5	4.1
Net direct debt per capita ($)	784	578	643	680
Net direct debt ($000s)	42,021	30,998	34,463	38,071
Direct debt 10-year amortization (%)	66	93	89	85
Pension and OPEB cost % of revenues		9.0	8.0	9.0
NPLs per capita ($)		1,603	1,729	1,593
Combined NPLs ($000s)		85,919	92,699	89,266

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings Detail (As Of April 4, 2025)		
Delano Un Elem Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Delano Un Elem Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Delano Un Sch Dist GO (2000 Election)		
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.