

## CREDIT OPINION

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 Rate this Research

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# Washoe County School District, NV

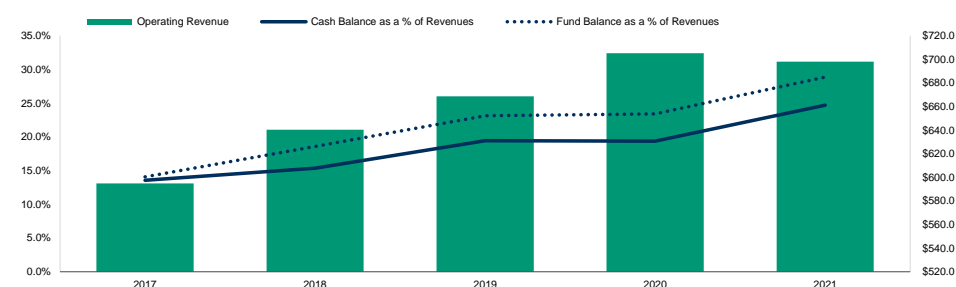
## Update to credit analysis

### Summary

Washoe County School District benefits from an exceptionally large, growing and diversifying economy, with just above average resident income, strong full value per capita and stable enrollment trends. While the coronavirus pandemic negatively affected enrollment in fiscal 2021, a rebound has already been realized in fiscal 2022. The district's healthy and steadily improving reserves are supported by strong management after previous years of structural imbalance. The district's elevated leverage and above-average fixed costs remain long-term credit challenges.

Exhibit 1

### Operating revenue, fund balance and cash continue to grow \$ millions



Sources: District audits, Moody's Investors Service

### Credit strengths

- » Voter approved sales tax provides substantial funding for debt service and pay-go capital needs
- » Large, growing local economy
- » Healthy financial position

### Credit challenges

- » Elevated leverage driven by debt and pension liabilities
- » General fund reserves remain weak relative to peers
- » Economic exposure to gaming and tourism, though the economy continues to diversify

## Rating outlook

The stable outlook reflects our expectations that the district's strong financial position will be maintained, resulting in continued operating flexibility. The stable outlook also reflects the likelihood that the district's economy and resident income levels will continue to grow and diversify.

## Factors that could lead to an upgrade

- » Material, sustained improvement in the district's reserves
- » Significant continued economic diversification and improved resident income
- » Material decrease in total leverage

## Factors that could lead to a downgrade

- » Material increase in total leverage
- » Material drawdown in reserves, especially if not met by subsequent expense reductions to maintain to a balanced budget

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## Key indicators

Exhibit 2

### Washoe County School District, NV

	2018	2019	2020	2021	Aa Medians
<b>Economy</b>					
Resident income	104.3%	102.4%	N/A	N/A	120.3%
Full value (\$000)	\$42,792,777	\$47,002,243	\$51,049,049	\$58,230,394	\$3,767,803
Population	450,486	456,936	N/A	N/A	32,239
Full value per capita	\$94,992	\$102,864	N/A	N/A	\$110,286
Enrollment	64,138	64,019	64,255	61,642	4,353
Enrollment trend	N/A	N/A	0.1%	-1.3%	0.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$640,264	\$668,522	\$705,165	\$698,055	\$70,864
Available fund balance (\$000)	\$118,904	\$154,569	\$164,965	\$201,440	\$17,424
Net cash (\$000)	\$98,242	\$129,895	\$136,496	\$172,375	\$20,807
Available fund balance ratio	18.6%	23.1%	23.4%	28.9%	26.1%
Net cash ratio	15.3%	19.4%	19.4%	24.7%	31.0%
<b>Leverage</b>					
Debt (\$000)	\$709,722	\$735,198	\$1,133,037	\$1,235,497	\$48,829
ANPL (\$000)	\$2,334,322	\$2,231,206	\$2,629,877	\$3,281,040	\$92,102
OPEB (\$000)	\$171,509	\$166,412	\$187,837	\$125,715	\$10,438
Long-term liabilities ratio	502.2%	468.6%	560.3%	665.0%	280.7%
Implied debt service (\$000)	\$38,345	\$52,294	\$53,603	\$81,140	\$3,402
Pension tread water (\$000)	\$61,533	\$65,485	\$62,232	\$65,351	\$3,018
OPEB contributions (\$000)	\$9,086	\$0	\$4,289	\$7,272	\$440
Fixed-costs ratio	17.0%	17.6%	17.0%	22.0%	11.9%

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, Washoe County School District, NV's financial statements and Moody's Investors Service

## Profile

[Washoe County School District](#) is coterminous with [Washoe County](#) (Aa2 stable) and serves a population of approximately 450,486 in northern [Nevada](#) (Aa1 stable), including the cities of [Reno](#) (A1 stable) and [Sparks](#) (A2). The district serves approximately 62,000 students in fiscal 2021 and is the second largest in the state.

## Detailed credit considerations

### Economy: large, growing economy supported by diversification away from tourism-based services

Recent investment from technology, logistics, construction and professional services companies is increasingly diversifying the economy and reducing the region's traditional concentration in gaming and tourism. Within the last few years, [Tesla](#) (Ba1 positive) and [Panasonic](#) (Baa1 stable) began producing batteries in a "Gigafactory" located just across the county border in Storey County. Additionally, [Switch](#) (Ba3 stable), [Apple](#) (Aaa stable), [Alphabet](#) (Aa2 stable) and [eBay](#) (Baa1 stable) have also made investments in the area in manufacturing and distribution operations.

This diversification has supported a more stable economy through the coronavirus pandemic than in the state's major population center of [Las Vegas](#) (Aa2 stable) and [Clark County](#) (Aa1 stable). November 2021 unemployment in Washoe County was 2.9%, below the US average of 3.9% in the same survey. The state's unemployment rate, however, was a much higher 5.4%.

In the past five years the district's full value has increased an average of 8.0% annually, driving growth in full value per capita. Property values continue to increase, supported by an influx in population resulting from continued commercial and manufacturing development. However, new housing development is constrained as 83% of the county's land area is owned by the federal government. Resident income is just above average at 102.4% US MHI and is expected to grow.

Exhibit 3

**Exceptional recent growth in full value is expected to continue**

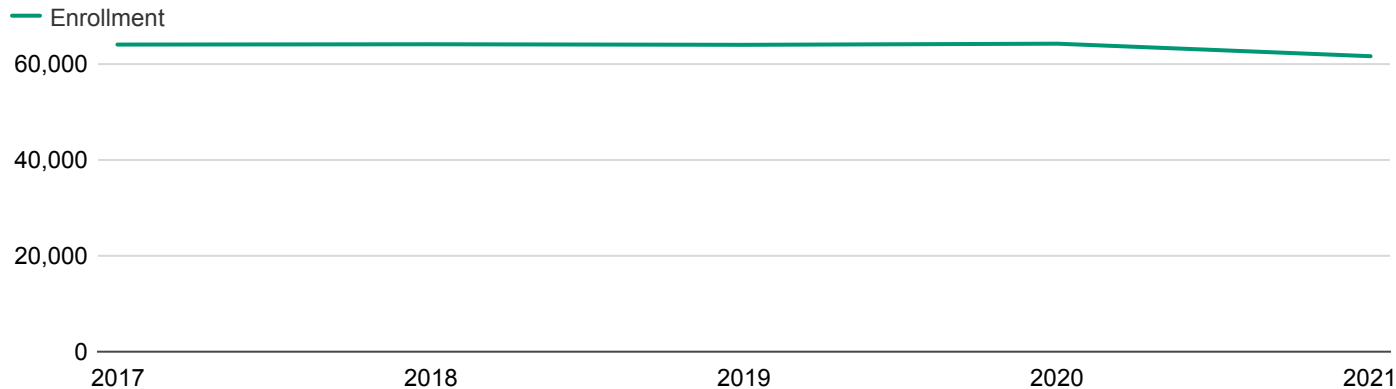
\$ billions



Sources: Financial disclosures, Moody's Investors Service

The district has historically experienced stable enrollment through fiscal 2020. In fiscal 2021 the district saw a sharp decline in enrollment of almost 4% attributable to the COVID-19 pandemic, driving a three-year compound annual change of -1.3%. The district projects stable enrollment over the next few years and has already seen a rebound in enrollment of 1.1% in fiscal 2022 as kindergarteners have returned to the classroom.

Exhibit 4

**Washoe County School District enrollment declined in fiscal 2021, but has been historically stable**

Source: State Department of Education

**Financial operations: steadily increasing fund balances supported by strong management**

The district's finances have been steadily improving over the past five years following a previous structural imbalance in the general fund and are expected to remain healthy going forward. Recent additions to fund balance have been driven by conservative budgeting and \$60 million in cost reductions between fiscal 2018-2020 from strategies including class size increases and deletion of positions.

Fiscal 2021 ended with the district posting a \$34.6 million surplus across the operating funds<sup>1</sup>, further improving available reserves to a healthy \$201.4 million or 28.9% of operating revenue, which is slightly above national medians.

In the general fund alone, available reserves are a weaker but still adequate at \$57.1 million, or 11.8% of revenue, which is about half of the national median for similarly rated districts. Despite this, general fund reserves exceed the district's board-approved policy of 8-10% and these reserves are an improvement from prior balances.

We expect stability in the district's reserves in fiscal 2022 as supported by higher than expected enrollment and savings from staff vacancies, despite the district's conservative budgeted general fund draw of \$1.3 million. Fiscal 2022 is the first year of the state's new "pupil-centered funding plan" (SB 543), which has made substantial changes to the way local and state sources are counted for funding education. The immediate impact of the new plan is positive for the district, as recent litigation over countywide assessment practices in Incline Village has been settled and the associated property taxes are now collected by the state under the new funding plan.

The district received \$112 million in ESSER funding, which the district continues to put toward one-time uses such as increasing learning facilitators, tutoring and summer school programs and mental health support. Positively, WC-1 sales tax revenue, which accounts for approximately 7.4% of total district revenue, increased by 16.4% in fiscal 2021, as taxable sales increased by 19.4% in Washoe County.

### **Liquidity**

Net cash in the general fund is a satisfactory at \$28.6 million, or just 5.9% of revenue in fiscal 2021, and has improved from a ratio of 1.4% of revenue in fiscal 2019. The low cash position in the general fund compared to fund balance is due to large receivables from other governments, primarily the state. Despite low general fund cash, across the operating funds net cash is much stronger at \$172.4 million, or 24.7% of revenue.

### **Leverage: elevated total leverage expected to stabilize with slowing debt issuances**

Debt has grown 2.75x since fiscal 2016, however it remains manageable given increased funding sources for debt service, including the WC-1 sales tax that supports repayment of \$547 million of the total (47%), which was also issued after fiscal 2017. Post issuance of the 2022 bonds, the district will have approximately \$1.3 billion in debt outstanding. This will represent about 3% of 2021 full value, which is slightly above national medians, and 165% of fiscal 2020 operating revenue, which is more than double national medians.

Post-issuance of the 2022 bonds, considering the district's outstanding GO debt, unfunded pension liability and OPEB obligations, the combined long term liabilities ratio is a high 665.0% of operating revenue. Future borrowing plans are limited as the district transitions from a period of expansion to maintenance of existing facilities.

### **Legal security**

The 2022A and 2022B bonds are secured by the full faith and credit of the district within the constitutional and statutory limitations for overlapping operating and debt service levies. Some of the district's bonds, including the 2022A bonds, benefit from the additionally pledged revenue of the 0.54% countywide WC-1 sales and use tax. The 2022B bonds are paid with revenue from the \$0.3885 property tax levy collected by the county.

### **Debt structure**

All of the district's debt is secured by the full faith and credit pledge of the district as well as a limited tax property pledge. About half of the district's debt also benefits from additional pledged WC-1 sales and use tax revenues which continue to pay debt service.

### **Debt-related derivatives**

The district does not have debt-related derivatives.

### **Pensions and OPEB**

The district's pension liabilities are a credit weakness, though annual pension costs are not currently a source of pressure for the district, but a low funding rate at the plan level could lead to future pressure. The plan's higher discount rate means the district is required by the state to underreport their pension liability and contributions are not keeping pace to amortize costs.

The district's pension is with the Nevada Public Employee Retirement System (PERS), a cost sharing, multiple-employer defined benefit plan. In fiscal 2021 the district reported net pension liability totaling \$732.9 million using a weighted average discount rate of 7.5%. Moody's adjusted net pension liability (ANPL) for the district, using a discount rate of 2.7% under our methodology for adjusting reported pension data, equals \$3.28 billion, or 3.9x operating revenue and 4.7% of 2021 full value.

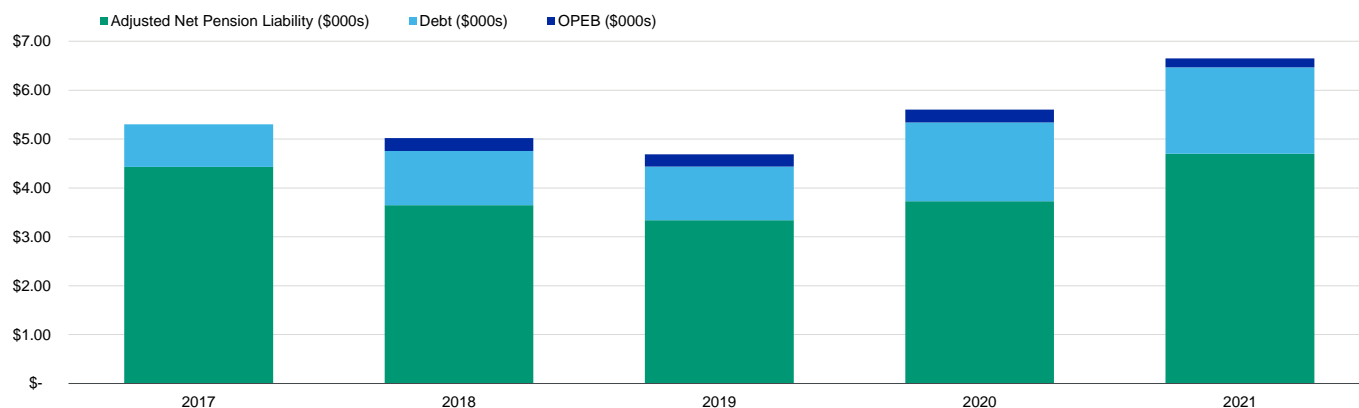
The district's pension and OPEB liabilities add a significant amount of leverage to its balance sheet. Given the substantial size of the district's pension assets relative to revenue (352% in fiscal 2021) and the PERS elevated 7.50% annual return target, the district has an elevated vulnerability to spikes in leverage from pension investment volatility. Moody's "pension asset shock indicator," which is our

estimate of the one year probability of pension investment losses amounting to 25% of a government's operating revenue, is 18.4% in fiscal 2021, an increase from 13.4% in fiscal 2020.

Total fixed costs including debt service and pension and OPEB contributions are average at 22.9% of fiscal 2021 operating revenue and do not appear as though they will create budgetary stress in the near term. Fixed costs, however, are slightly higher each year if the district were to make its full "tread water" payment, resulting in a small tread water gap of 1.5%. The tread water indicator measures the annual government contributions required to prevent reported net pension liabilities from growing, under reported plan assumptions.

Exhibit 5

#### Washoe County School District's total leverage has been rising in recent years



Source: Moody's Investors Service

## ESG considerations

### Environmental

Primary environmental considerations include water stress. According to data from Moody's ESG Solutions, the county has a "high" risk level for water stress. The area's primary water source is Lake Tahoe, which is expected to provide sufficient water to the area given it is the sixth largest lake (by volume) in the US, behind the five Great Lakes. However, as of February 1, 2022, all of Washoe County is in moderate drought according to the U.S. Drought Monitor produced by the USDA, NOAA and University of Nebraska-Lincoln. Despite sufficient water supply for residents, exceptional droughts would not only reduce drinking water availability and quality but could also create additional wildfire-related hazards.

### Social

Social considerations such as income levels, labor force, and education are material considerations that factor in the district's credit. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. School districts have been impacted by the coronavirus through fluctuations in enrollment and staffing challenges. The district had sharp enrollment declines in fiscal 2021, which improved in fiscal 2022. Officials report they have been able to keep schools open despite staff absences and vacancies.

### Governance

Governance is a strength that supports recent improvements in the district's credit profile. Over the past few years, management worked to address the previous structural deficit in the general fund. The board and administrative team set a multi-year goal to balance operations by fiscal 2021, which was exceeded when the district produced surpluses in fiscal years 2019, 2020 and 2021. As part of this work, in 2018 the management team successfully transitioned to a priority based budgeting system and improved accountability by implementing more detailed monthly expenditure tracking while seeing some improvements in revenue. Management credits the new budgeting process with allowing them to reach and just recently exceed the board's 8-10% general fund reserve policy.

Nevada school districts are assigned an institutional framework score <sup>2</sup> of Baa. The bulk of revenue is controlled by state funding formulas and while state funding has generally increased, the state sometimes holds revenue flat or reduces allocations. Additionally, school districts cannot generate meaningful additional local revenue, except for a voter-approved sales tax for capital and debt service.

### 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.

Exhibit 6

#### Washoe County School District, NV

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	102.4%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	127,437	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-1.3%	10.0%	A
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	28.9%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	24.7%	10.0%	Aa
<b>Institutional framework</b>			
Institutional Framework	Baa	10.0%	Baa
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	665.0%	20.0%	Ba
Fixed-costs ratio (adjusted fixed costs / operating revenue)	22.0%	10.0%	A
<b>Notching factors</b>			
Potential for significant change in leverage	-0.50		
Scorecard-Indicated Outcome			A2
<b>Assigned Rating</b>			<b>Aa3</b>

Sources: US Census Bureau, Washoe County School District, NV's financial statements and Moody's Investors Service

## Appendix

Exhibit 7

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
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
<b>Financial performance</b>		
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
<b>Leverage</b>		
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

## Endnotes

- 1 We define the operating funds as the general, debt service, special education, full-day kindergarten, special state appropriations, ERATE, government service tax, WC1 sales tax revenue and class size reductions funds.
- 2 The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.



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