

CREDIT OPINION

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Washoe County School District, NV

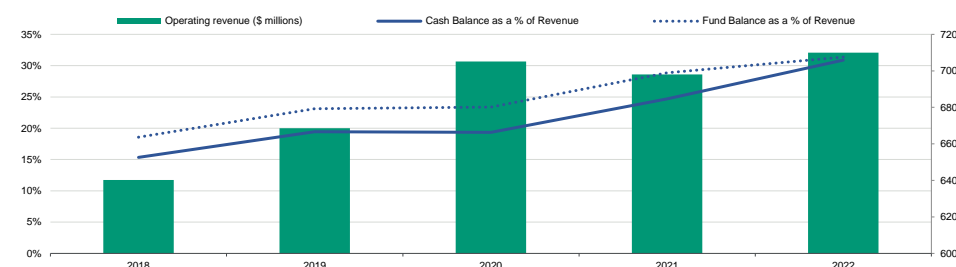
Update to credit analysis

Summary

[Washoe County School District](#) (Aa3 stable) benefits from exceptionally large, growing and diversifying economy, with just above average resident income and strong full value per capita. The district's healthy and steadily improving reserves are supported by strong management after previous years of structural imbalance. The district experienced modest decline in enrollment that is expected to continue in fiscal 2024 (ending June 30, 2024) due to demographic and affordability challenges. This along with elevated leverage and above-average fixed costs remain long-term credit challenges for the district

Exhibit 1

Operating revenue, fund balance and cash continue to grow



Source: 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
- » Enrollment decline due to demographic and affordability challenges
- » Economic exposure to gaming and tourism industry, 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 district's reserves
- » Significant decrease in total leverage
- » Continued economic diversification and improved income levels

Factors that could lead to a downgrade

- » Material increase in total leverage
- » Enrollment declines that outpace the current expectations and pressure finances
- » Significant drawdown in reserves

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.

Key indicators

Exhibit 2

Washoe County School District, NV

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income	102.8%	106.6%	110.5%	N/A	119.0%
Full value (\$000)	\$47,002,243	\$51,049,049	\$58,230,394	\$62,625,849	\$4,006,926
Population	456,936	464,182	479,758	N/A	32,280
Full value per capita	\$102,864	\$109,976	\$121,375	N/A	\$117,713
Enrollment	64,019	64,255	61,642	62,730	4,165
Enrollment trend	N/A	0.1%	-1.3%	-0.7%	-1.1%
Financial performance					
Operating revenue (\$000)	\$668,522	\$705,165	\$698,055	\$709,935	\$73,934
Available fund balance (\$000)	\$154,569	\$164,965	\$201,440	\$222,714	\$19,809
Net cash (\$000)	\$129,895	\$136,496	\$172,375	\$219,275	\$23,502
Available fund balance ratio	23.1%	23.4%	28.9%	31.4%	28.9%
Net cash ratio	19.4%	19.4%	24.7%	30.9%	33.9%
Leverage					
Debt (\$000)	\$735,198	\$1,133,037	\$1,235,497	\$1,228,635	\$52,862
ANPL (\$000)	\$2,231,206	\$2,629,877	\$3,281,040	\$3,163,332	\$130,338
OPEB (\$000)	\$166,412	\$187,837	\$125,715	\$88,633	\$11,158
Long-term liabilities ratio	468.6%	560.3%	665.0%	631.1%	342.1%
Implied debt service (\$000)	\$52,294	\$53,603	\$81,140	\$86,657	\$3,664
Pension tread water (\$000)	\$65,485	\$62,232	\$65,351	\$51,327	\$3,270
OPEB contributions (\$000)	\$0	\$4,289	\$7,272	\$5,118	\$367
Fixed-costs ratio	17.6%	17.0%	22.0%	20.2%	12.2%

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 479,758 in northern [Nevada](#) (Aa1 stable), including the cities of [Reno](#) (A1 positive) and [Sparks](#) (A1 positive). The district serves approximately 60,956 students in fiscal 2022-23 and is the second largest in the state.

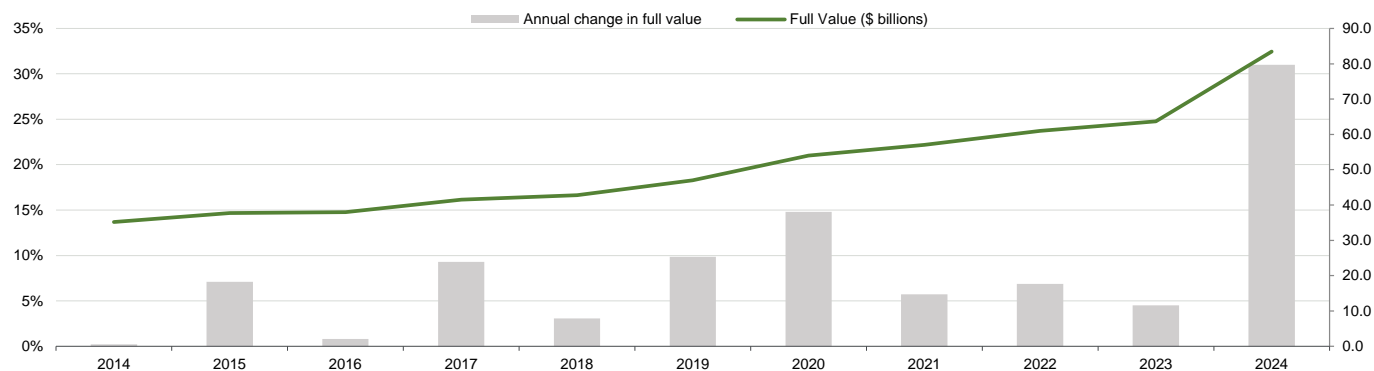
Detailed credit considerations

Economy

Though the economy is heavily dependent on gaming and tourist industry, the influx of investments in past few years from companies like [Apple](#) (Aaa stable), [Tesla](#) (Baa3 Stable), [Panasonic](#) (Baa1 Stable), and Switch and many other startups has helped it diversify and grow strongly. The diversification has helped economy grow and supported a steady household income growth. Median household income is at 110% of US MHI and is in line with national Aa medians. The June 2023 unemployment rate for the county was 4.5%, better than state's unemployment rate of 5.7%.

The district's fiscal 2024 full value crossed \$83.5 billion after reappraisal of the properties in the county, taking full value per capita above \$170,000. In the past five years, the district's full value has increased at an average of 12% annually. The housing market in Washoe County continues to remain strong given a combination of in-migration, number of available buyers (many from outside the region) and relatively low supply of homes for sale. New development is constrained as 83% of the county's land is owned by Federal government.

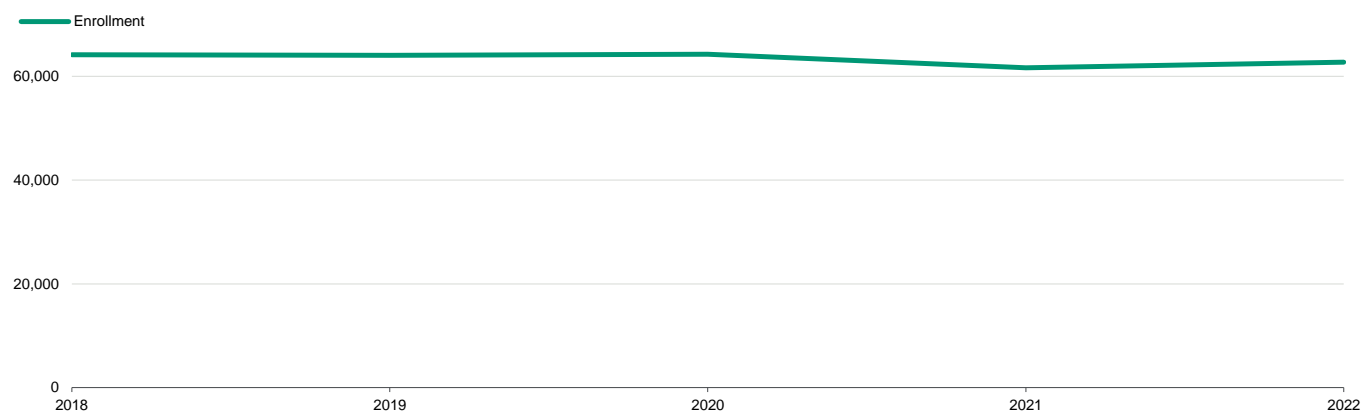
Exhibit 3

Strong recent growth in full value expected to continue

Source: Financial Disclosures, Moody's Investors Service

Though the district is experiencing population increase, it is not directly reflected in enrollment growth due to declined birth rates and greater percentage of workforce not having children. Additionally, families with school aged children are moving out of the region due to housing affordability issues. After modest increase in fiscal 2022, enrollment declined in fiscal 2023 and is expected to decline again in fiscal 2024 due to the factors mentioned above. Enrollment decline is more prominent in the core area of the district whereas the district is seeing growth in its outer areas.

Exhibit 4

Washoe County School District's enrollment increased in fiscal 2022, but expected to decline in coming years

Source: State Department of Education

Financial operations

District's finances have been steadily improving over past few years and are expected to remain healthy going forward. Fiscal 2022 ended with a general fund surplus of around \$3.3 million while fiscal 2023 is estimated to end with a modest deficit of \$5.6 million due to one-time payments to certified staff. According to its fiscal 2024 budget, the district's general fund operations will be balanced. In fiscal 2022, district's total general fund balance was at 11.9% of general fund expenditures against the district's unofficial policy of 12%. This slight drop was because of greater expenditures driven by reallocation of formerly categorical grant programs to general fund and one-time stipends, retention and signing bonuses.

On an operating fund¹ basis, the district's available fund balance is at 31.4% of the operating revenue, which is above national median. With balanced operations, the reserves are expected to remain stable going forward.

The district has benefitted from the implementation of state's new "pupil-centered funding plan" (SB 543 2019). For fiscal 2024, per pupil funding increased by almost 26%, however, due to expected enrollment loss of around 2%, the net increase in revenues for the district would be around 19%. District's other revenue sources include property tax, government service tax (Privilege of using vehicles

on public highways) for capital project portion which is retained by the district, and WC-1 sales and use tax which is restricted to capital projects.

WC-1 Sales and Use tax grew by 12.7% in fiscal 2022 due to reopening of gaming facilities, net in-migration, and federal stimulus money. The total sales tax collected increased by \$7.2 million to \$63.5 million as taxable sales increased by 11%, providing additional funds for capital projects.

Liquidity

Net cash in the general fund has improved from \$28.6 million, or just 5.9% of revenue in fiscal 2021 to \$51 million in fiscal 2022 or 9.8% of revenue. 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 \$219.3 million, or 30.9% of revenue.

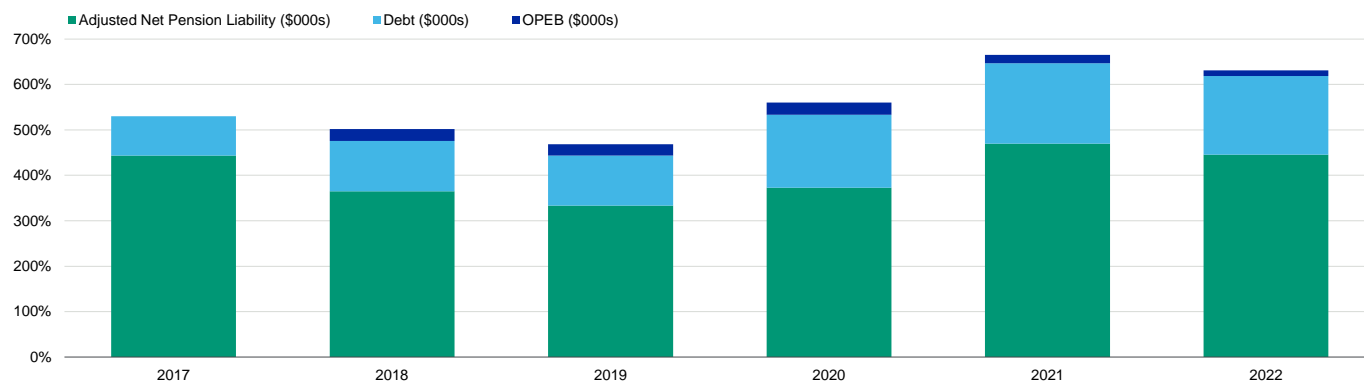
Leverage

The leverage profile continues to remain elevated with a long term liability ratio of 639% of operating revenues. The district's total debt is \$1.28 billion or 173% of operating revenue which is above national median.

Almost half of the district's debt is supported by WC-1 sales tax and was issued after 2017. In addition to current issuance of \$60 million, the district plans to issue \$198 million debt in this fiscal year to support its capital improvement plan (CIP). The CIP budget for the next five years is \$1.6 billion and the projects include a new elementary school, replacement of a middle school, and modernizing various facilities including administration building. The district has also engaged an engineering firm to identify major renovation and modernization projects. Over next five years, the district plans to issue \$840 million towards its CIP. Though the district has substantial capital needs, the overall debt level remains manageable given increased sources for debt service, including the WC-1 sales tax.

Exhibit 5

Washoe County School District's total leverage remains high



Source: Moody's Investors Service

Legal security

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 structure

All of the district's debt is fixed rate.

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 2022 the district reported net pension liability totaling \$480 million using a weighted average discount rate of 7.25%. Moody's adjusted net pension liability (ANPL) for the district, using a discount rate of 2.84% under our methodology for adjusting reported pension data, equals \$3.16 billion, or 4.45x operating revenue and 4.8% of 2022 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 (433% in fiscal 2022) and the PERS elevated 7.25% 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 17.4% in fiscal 2022, an increase from 13.4% in fiscal 2020.

Total fixed costs including debt service and pension and OPEB contributions are average at 20.2% of fiscal 2022 operating revenue and do not appear as though they will create budgetary stress in the near term. Positively district's pension contribution in fiscal 2022 were higher than tread water indicator. The tread water indicator measures the annual government contributions required to prevent reported net pension liabilities from growing, under reported plan assumptions.

ESG considerations

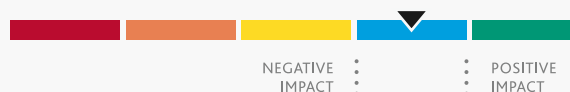
Washoe County School District, NV's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6

ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Washoe County School District's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting moderate exposure to environmental risks and neutral-to-low exposure to social and governance risks.

Exhibit 7

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

Washoe County SD's E Issuer Profile Score is moderately negative (**E-3**), reflecting moderate exposure to physical climate risks. These are primarily exposures to wildfires and water stress. The district has relatively low exposure to carbon transition, water management, natural capital, and waste and pollution risks.

Social

Washoe County SD's S Issuer Profile Score is neutral-to-low (**S-2**), reflecting low exposure to social risks in the categories of labor and income, education, housing, health and safety, and access to basic services. The district benefits from a growing population, though the percentage of school-aged children in the district is slightly below the median of school districts we rate. The district's graduation rate is in line with the national average. The county-wide housing affordability index is worse than the national average.

Governance

Washoe County SD's G Issuer Profile Score is neutral-to-low (**G-2**). The district's financial transparency and disclosure is strong, reflected in its publication of quarterly financial statements and timely filing of audited financial statements. The district also has strong budget management. 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 strong. The institutional structure for all Nevada school districts is weaker than that of districts in most other states since Nevada school districts have relatively limited revenue raising flexibility.

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.

Exhibit 8

Washoe County School District, NV

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	110.5%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	173,948	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-0.7%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	31.4%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	30.9%	10.0%	Aaa
Institutional framework			
Institutional Framework	Baa	10.0%	Baa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	639.1%	20.0%	Ba
Fixed-costs ratio (adjusted fixed costs / operating revenue)	20.2%	10.0%	A
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			Aa3

The complete list of outstanding ratings assigned to the Washoe County School District, NV is available on their [issuer page](#). Details on the current ESG scores assigned to the Washoe County School District, NV are available on their [ESGView page](#).

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

Appendix

Exhibit 9

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

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.

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