

RatingsDirect®

Summary:

Washoe County School District, Nevada; General Obligation

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Credit Profile		
US\$40.0 mil GO (ltd tax) sch imp bn ds ser 2022C due 06/01/2042		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Washoe County School District, Nev.'s anticipated \$40 million series 2022C general obligation (GO) school improvement bonds.
- The outlook is stable.

Security

The district's full-faith-and-credit pledge to levy a sufficient ad valorem tax to cover debt service secures the GO bonds. The levy is subject to the state's statutory limit of \$3.64 per \$100 of assessed value (AV). The total overlapping tax rate in fiscal 2023 is \$3.66, but two cents of the state rate is exempt from the \$3.64 cap. If the levy limit is reached, GO debt takes priority and operating levies would require a reduction. Despite state constitutional and statutory tax-rate limitations, we do not differentiate between the district's limited-tax debt and its general creditworthiness, since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

Proceeds from the series 2022C bonds will be used to finance improvements and renovations of existing school facilities.

Credit overview

The district is located within the Reno metropolitan statistical area (MSA), which serves as the regional economic center for northern Nevada. The local tax base continues to diversify beyond the volatile gaming and hospitality sectors spurred by significant investments in advanced manufacturing and technology. Despite recent budgetary hurdles tied to a challenging state funding environment and the COVID-19 pandemic, the district maintains a strong financial position that is anchored by proactive management that uses a priority-based budgeting approach. As a result, the district's budget remains structurally balanced, and recent results reflect consecutive operating surpluses in the general fund. Given the district's large geographical footprint and aging facilities, it routinely issues debt to address its capital needs. However, we understand that the district's voter-approved sales tax revenue stream greatly increases its capacity to fund its capital budget and finance debt without affecting operating results.

The rating reflects our view of the district's:

- Large and diverse tax base, supported by strong AV growth, albeit with some exposure to the gaming and tourism

industries;

- Sustained strong available reserves, averaging 11.5% of expenditures over the past three fiscal years, although below average when compared with those of similarly rated peers;
- Strong management, with realistic and well-grounded revenue and expenditure assumptions for budget building, which has anchored the district's overall strong financial profile; and
- Affordable debt profile.

Environment, social, and governance

We assess that the district faces somewhat elevated environmental risk due to its exposure to drought, wildfires, and extreme heat. In addition, we view the 15% population growth in the county during the past 10 years as a social opportunity, as it provides underlying economic strength to drive employment opportunities when compared with areas of the country experiencing population stagnation or loss. Lastly, we consider the district's governance risks in line with our view of the sector standard.

Outlook

The stable outlook reflects our view that the district will continue to manage its budget in a way that sustains its strong financial profile over the near term. In addition, we anticipate that the local economy will remain at least stable in the near term, supporting our view of the district's tax base, debt affordability, and financial performance.

Downside scenario

We could lower the rating if the district's financial performance deteriorates, leading to a large and sustained decrease in reserves to levels that we no longer consider to be in line with those of comparable peers.

Upside scenario

All else equal, we could raise the rating if the district sustains operational surpluses for multiple years, leading to increased reserves held at levels we consider very strong coupled with continued economic growth that results in wealth and income metrics similar to those of higher-rated peers.

Credit Opinion

Regional economic center for northern Nevada that continues to expand and diversify, which has helped minimize its exposure to the tourism and gaming industries

The district is coterminous with Washoe County, which is the state's second-most populous county. The area's leading employers are concentrated in the downtown core of Reno, the county seat. Due to the county's proximity to Lake Tahoe and Northern California, tourism is a key component to the local economy, which includes hotel casinos, special events, and outdoor recreation. Local and state efforts to diversify the tax base have resulted in significant investments in the manufacturing and high-tech sectors. Recent and planned developments in the district include Deantronics' medical device technology campus, Apple Inc.'s new cloud computing data center, Google's northern Nevada facility, and Tesla Motors' lithium-ion battery factory, among several others. In addition, trends in the tourism industry continue to improve from its lows during the height of the pandemic.

Despite a temporary slowdown due to the pandemic, Washoe County's local economy remains resilient as new developments spur ongoing growth.

Strong financial position, aided by revenue growth and cost-control measures despite recent enrollment and state funding pressures

State aid and local sources (property and sales taxes) drive district revenue. Under the new funding formula, state and local school funding revenues are combined to provide a basic level of support to each pupil, adjusted to account for student needs. The pupil centered funding plan (PCFP) funds 98% of the district's operating budget, up from 75% funded by the previous formula. Management expects marginal decreases in enrollment in the future tied to various demographic changes, including recent increases in the local cost of living.

Outside the recent uncertainty associated with the pandemic, the district has faced other fiscal challenges in recent years, largely tied to a difficult state funding environment. As a result, the district implemented structural budget reductions that supported positive operational results over the past three years. In fiscal 2021, the district reported a net increase in fund balance of \$5.8 million due to higher-than-budgeted local revenues and substantial operational savings. The net result incorporates the impact of the district's practice of subsidizing the special education fund from the general fund.

Consistent with previous years, the district expects to report a relatively small surplus of \$1 million-\$5 million for fiscal 2022. The general fund budget for 2023 is structurally balanced. Given the district's history of conservative budgeting and revenue growth fueled by economic expansion, we anticipate that the district's financial profile will remain strong and in line with the recent trend.

Proactive and forward-looking management team supported by formalized financial policies and practices that stabilize the district's credit profile

The district's financial practices include:

- Conservative budgeting that incorporates historical information and outside sources to create projections and meaningful assumptions for both revenue and expenditures as well as for enrollment projections;
- Monthly budget-to-actual updates to the board and the ability to make changes when needed;
- Long-term capital plan with funding sources and uses that is updated annually;
- Multi-year financial planning to identify out-year budget gaps to determine revenue and expenditure adjustments to maintain budgetary balance;
- Formal investment management policy with quarterly holdings and earnings updates to the board;
- Formal debt management policy that includes thresholds to monitor leverage and sets procedures for debt monitoring and oversight; and
- Policy of holding a minimum of 12% of expenditures in the general fund reserve.

Large capital footprint, but an overall affordable debt profile that's supported by a voter-approved sales tax

Including the proposed 2022C bonds, our ratios are based on approximately \$1.5 billion of overall net direct debt. The district's debt burden is largely supported by dedicated revenue streams including property tax levies and sales tax

revenues, which limit the potential budgetary exposure of the district's capital program. In particular, the district benefits from the locally approved WC-1 initiative, which imposes a perpetual sales and use tax of 0.54% to fund capital projects and debt service. Furthermore, the district can utilize excess funds in its debt service fund above 25% of next year's debt service to finance capital projects. District officials anticipating issuing debt in line with the capital renewal program that will address aging district facilities.

Despite potential increases to pensions, costs are likely to remain manageable

Pension and other postemployment benefits (OPEB) liabilities are a source of modest budgetary pressure for the district, although we expect they will remain manageable. In our view, the district's legal flexibility to alter OPEB and closed plans somewhat limit adverse credit effects from its total OPEB liability.

As of June 30, 2021, the district's retirement plans include:

- Public Employees Retirement System of the State of Nevada: 87% funded, with a proportionate share of the plan's net pension liability of about \$479.9 million.
- Washoe County School District Retiree Health Benefits Plan: 38% funded, with a net OPEB liability of \$56.1 million.
- Retiree Life Insurance Plan: 7% funded with a net OPEB liability of \$37 million;
- Nevada Public Employees' Benefits Plan: 85% funded, with a net OPEB liability of \$7.8 million.

The district makes contractual contributions determined by an actuarial calculation, which are based on a level-percent of payroll amortization basis during a closed 20-year period. Its actual 2021 statutorily required pension contributions made some funding progress as contributions were in excess of our static funding metric and close to our minimum funding progress metric. However, we believe that certain underlying funding assumptions, including the 7.5% investment rate of return and level-percent amortization basis, could contribute to rising future contributions if not met.

Washoe County School District, Nevada -- Key Credit Metrics					
		Characterization	Most recent	Historical information	
				2021	2020
				2021	2020
Economic indicators					
Population				478,313	473,186
Median household EBI % of U.S.		Good		110	111
Per capita EBI % of U.S.		Good		107	108
Market value (\$000)			63,705,737	57,039,609	53,957,591
Market value per capita (\$)		Extremely strong	133,188	119,252	114,030
Top 10 taxpayers % of taxable value		Very diverse	3.7	3.3	3.2
Financial indicators					
Total available reserves (\$000)				57,130	51,100
Available reserves % of operating expenditures		Strong		13.2	11.9
Total government cash % of governmental fund expenditures				68.0	65.8
Operating fund result % of expenditures				1.4	2.5

Washoe County School District, Nevada -- Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2021	2020	2019
Financial Management Assessment	Strong				
Enrollment		62,353	61,673	64,037	63,876
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.4	2.4	2.3	1.9
Overall net debt per capita (\$)	Moderate	3,193	2,901	2,582	1,980
Debt service % of governmental fund noncapital expenditures	Moderate		11.9	10.3	10.3
Direct debt 10-year amortization (%)	Slower than average	43	43	44	55
Required pension contribution % of governmental fund expenditures			6.1	6.2	5.8
OPEB actual contribution % of governmental fund expenditures			0.8	1.3	1.2
Minimum funding progress, largest pension plan (%)			93.5	81.2	78.2

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

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