

## CREDIT OPINION

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## Weber School District, UT

### Update to credit analysis

#### Summary

Weber School District (Aa2) continues to benefit from a growing local economy located near Ogden and Salt Lake City, and continued job growth in the region will further benefit the district's largely residential tax base. Weber has well-managed financial operations with adequate reserves and strong liquidity and a modest debt profile. A below-average socioeconomic profile and an elevated, but manageable, pension profile are constraining factors in the Weber's credit profile.

#### Credit strengths

- » Growing tax base and strong local economy, supported by proximity to Ogden and Salt Lake City
- » Adequate reserves and strong liquidity provide financial flexibility

#### Credit challenges

- » Wealth measures are below average relative to similar districts nationally
- » Unfunded pension liabilities are growing but remain comparable to other Utah school districts

#### Rating outlook

Outlooks are not typically assigned to issuers with this amount of debt outstanding.

#### Factors that could lead to an upgrade

- » Material improvement in the district's socioeconomic profile
- » Significant improvement in the district's financial position

#### Factors that could lead to a downgrade

- » Protracted decline in the district's tax base or local economy
- » Significant deterioration of the district's reserve levels

## Key indicators

Exhibit 1

<b>Weber County School District, UT</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$11,346,023	\$11,638,333	\$12,254,092	\$13,298,663	\$14,401,742
Population	150,508	152,540	154,409	160,859	160,859
Full Value Per Capita	\$75,385	\$76,297	\$79,361	\$82,673	\$89,530
Median Family Income (% of US Median)	111.1%	113.2%	112.4%	112.4%	112.4%
<b>Finances</b>					
Operating Revenue (\$000)	\$191,154	\$195,722	\$200,195	\$207,795	\$218,676
Fund Balance (\$000)	\$30,058	\$32,376	\$34,786	\$36,028	\$34,006
Cash Balance (\$000)	\$66,756	\$72,555	\$69,172	\$70,648	\$70,707
Fund Balance as a % of Revenues	15.7%	16.5%	17.4%	17.3%	15.6%
Cash Balance as a % of Revenues	34.9%	37.1%	34.6%	34.0%	32.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$103,696	\$126,595	\$144,024	\$137,080	\$127,453
3-Year Average of Moody's ANPL (\$000)	\$377,021	\$397,987	\$426,853	\$476,860	\$476,377
Net Direct Debt / Operating Revenues (x)	0.5x	0.6x	0.7x	0.7x	0.6x
Net Direct Debt / Full Value (%)	0.9%	1.1%	1.2%	1.0%	0.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.0x	2.0x	2.1x	2.3x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.3%	3.4%	3.5%	3.6%	3.3%

Source: Moody's Investors Service

## Profile

Weber School District is located approximately 30 miles north of Salt Lake City and provides educational services to residents in Weber County (Aa2), excluding Ogden City, which is served by the Ogden City School District (Aa2). The district's population is 160,860, and covers approximately 548 square miles. The district's enrollment in fiscal 2017 was 31,445 students in kindergarten through twelfth grades.

## Detailed credit considerations

### Economy and tax base: sizeable and growing tax base in the Salt Lake City region

Weber's tax base will continue to grow as the region continues to experience healthy job growth. The main constraint on continued growth is the very low unemployment rate (3.4% in December 2017, unadjusted) that has left some employers struggling to find qualified labor, especially in high-tech manufacturing and construction. The district's diverse economic base includes a sizeable federal government presence, higher education, health care, and manufacturing. Comprising Weber County, excluding Ogden City, most of the population of the county is 30-45 minutes away from the major economic center of the state, Salt Lake City (Aaa stable). A rail connect also provides public transit access from Pleasant View (at the north end of Weber County) to Salt Lake City and further south to Provo (Aa1).

Weber's tax base is large at \$15.8 billion in preliminary fiscal 2018 tax values, which exceeds pre-recession highs. The five-year average annual change is strong at 6.8%, with growth above 8% each of the last three years. Tax base concentration is low, with the top 10 taxpayers representing 8.8% of fiscal 2017 assessed value and comprising a diverse set of payers.

The socioeconomic profile will continue to improve slightly, though we expect it to be a constraining element of Weber's credit profile. Full value per capita, a proxy measure for community wealth, is a healthy at \$98,208, though this is somewhat below national

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averages for similarly rated school districts. Median family income and per capita income demonstrate the same at 112.4% and 89%, respectively, as of the 2015 American Community Survey.

### **Financial operations and reserves: stable and healthy finances supported by modestly growing enrollment**

Weber's financial operations will remain stable and healthy, supported by large and stable student enrollment. Enrollment in the district has been growing at a manageable pace, with five-year average annual growth of 0.8%. Enrollment grew 1.6% in the current fiscal year, however, and the district expects the pace of enrollment growth to continue at just above 1% per year. New housing growth in the district's service area is likely to feed healthy student enrollment growth, particularly in the western portion of the district, where more rural areas are starting to see increased development.

Similar to other Utah school districts, General Fund operations are primarily supported by enrollment-based state aid (73%), followed by local property taxes (19%) and federal revenues (6%). For the operating funds, which includes the General and Debt Service funds, state aid is a smaller share (69%) and local property taxes are a larger share of funding (24%).

Reserves will continue to be adequate, with the district actively managing fund balance around 15% and making optional transfers to capital projects when revenue exceeds expenditures. Available fund balance in the operating funds was a satisfactory \$34 million, or 15.6% of revenues in fiscal 2017. General Fund available balances will follow a similar pattern, and were a healthy \$32.7 million (15.9%) in fiscal 2017.

### **LIQUIDITY**

The district has ample liquidity that exceeds the medians for similarly rated districts in the state and nationally. Operating funds had a remarkably strong net cash balance of \$70.7 million (32.3% of revenues) in 2017. General Fund net cash was similarly strong at \$69.4 million (33.8% of revenues).

### **Debt and pensions: modest pension profile with growing pension liabilities that remain manageable**

The district has a very manageable debt profile which consists primarily of general obligation bonds. Total debt is \$154.5 million, of which \$142.8 million is in the form of unlimited tax general obligation bonds. Capital leases for buses and computer equipment is \$10 million of the total, with an additional \$1.7 million in notes payable.

Total net direct debt is modest compared to similarly rated districts, at 0.98% of preliminary 2018 full value and 0.7 times 2017 operating revenues. This is the first issuance of bonds approved in November 2017 for a total authorization of \$70 million. If the full authorization were already issued, the district's total debt would remain manageable at approximately \$200 million, or 1.3% of preliminary 2018 full value and 0.9-times operating revenues.

### **DEBT STRUCTURE**

All of Weber's debt is fixed rate. The GO bonds have generally declining debt service over the life of the bonds, with maximum debt service of \$14.5 million in fiscal 2019. The debt service schedule is planned allow for the future issuance of debt while maintaining roughly level tax rates for debt service using conservative tax base growth projects.

### **DEBT-RELATED DERIVATIVES**

The district has no debt-related derivatives.

### **PENSIONS AND OPEB**

Pensions are somewhat elevated compared to similarly rated school districts nationally, however net liabilities have been largely stable over the past four years. Reported net pension liabilities were \$120.4 million in fiscal 2017, which is slightly lower than fiscal 2012 NPL of \$125.1 million.

Moody's three-year adjusted net pension liability (ANPL) for the district is \$476.4 million, or a somewhat elevated 3% of preliminary 2018 full value and 2.2 times 2017 operating revenues.

The district participates in the Utah Retirement System (URS), a cost-sharing multiple-employer, defined benefit retirement plan sponsored by the state. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's or URS's reported liability information, but to improve comparability with other rated entities.

**Management and governance: healthy management practices and demonstrated willingness to increase taxes**

Weber has healthy management practices and continues to perform well to budgeted expectations. The school board last held a Truth in Taxation hearing in August 2016 to increase property tax revenues, and has generally not experienced opposition to increases.

Utah School Districts have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source is enrollment based state funding and property taxes. Property tax revenues may be increased by holding a "truth in taxation" or from voter-approval. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Utah is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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