MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns an underlying Aa1 rating to Alpine School District, UT's G.O. bonds

Global Credit Research - 07 Oct 2014

$460.1 million in debt affected; Aaa enhanced rating also assigned

ALPINE SCHOOL DISTRICT, UT
Public K-12 School Districts
UT

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
General Obligation School Building Bonds (Utah School Bond Guaranty Program), Series 2014	Aa1	Aaa

Sale Amount	$48,000,000
Expected Sale Date	10/22/14
Rating Description	General Obligation

Moody's Outlook STA

Opinion

NEW YORK, October 07, 2014 --Moody's Investors Service has assigned a Aa1 underlying rating to Alpine School District, Utah's General Obligation School Building Bonds, Series 2014. At this time, Moody's affirms the Aa1 rating on the district's $412.1 million in parity general obligation bonds outstanding. The bonds are secured by the district's full faith, credit and unlimited property tax pledge. The bonds will be used to finance various capital improvement projects.

The current offering will also receive the Aaa enhanced rating of the State of Utah's School District Bond Guaranty Program (BGP).

The district's rating outlook is stable.

RATINGS RATIONALE

The Aa1 underlying rating reflects the district's large and growing tax base, satisfactory wealth measures, structurally balanced financial operations with satisfactory reserve levels, and manageable debt and pension liabilities.

The Aaa enhanced rating, which carries a stable outlook, is based upon the assumption that the bonds will be backed by the State of Utah's School District Bond Guaranty Program. Under this program, the State of Utah's (Aaa GO rating with stable outlook) full faith and credit guarantees debt service payments by transfer of the state's general funds to the paying agent in the event of a payment shortfall for the district.

The stable outlook reflects Moody's expectation that the district will continue to see strong tax base and enrollment growth, and that the district's leadership team will continue to manage this growth while delivering stable financial performance.

STRENGTHS

- Structurally balanced financial operations

- Large and growing tax base with solid socioeconomic measures

CHALLENGES

- Wealth measures below the median for similarly rated districts nationally

- Reserve levels that lag the median of similarly rated districts nationally

DETAILED CREDIT DISCUSSION

RAPIDLY GROWING DISTRICT SOUTH OF SALT LAKE CITY

The district, located approximately 30 miles south of Salt Lake City (Aaa stable), serves a population of just over 300,000 across 724 square miles in the northern part of Utah County (Aa1), including the cities of Lehi, American Fork (Aa3), Orem, and small portions of Draper (Aa2) and Provo (Aa1). The rapidly growing district has a diverse economic base that includes federal government employment, technology, higher education, healthcare, and manufacturing. The National Security Agency recently constructed a facility within the district's boundaries, as have technology companies Adobe and IM Flash. The district's 2014 full value of $23.7 billion is down 14.3% from its 2009 peak of $27.7 billion, but district management expects growth of 10-11% in the next year. At its current size, the district's full value far exceeds the median size for any rating category. The district's ten largest taxpayers comprise 9.5% of assessed value, led by the electric utility Pacificorp. Wealth measures in the district are healthy, with median family income at 110.2% of the U.S., and full value per capita, a proxy measure of wealth, at $78,157. Socioeconomic measures may be muted by the presence of large student populations at Brigham Young University in Provo and Utah Valley University in Orem. Unemployment in the county is low at 3.9% as of July 2014, according to data from the Bureau of Labor Statistics.

STRONG LEADERSHIP TEAM MANAGING A RAPIDLY GROWING STUDENT POPULATION

As we've noted in previous reports, the district's leadership appears well-equipped to handle their rapidly growing student population. Over the past ten years, student enrollment has grown from 52,825 in 2004 to 74,310 in 2014, an increase of 40.7%, (21,485 students). The district is the largest in the state, and has built and opened twenty new schools in the last ten years to accommodate this rapid growth. Like most Utah school districts, revenues are derived primarily from the state based on enrollment. In 2013, state revenue comprised 64.0% of operating funds revenues (defined in this case as general fund revenues and debt service fund revenues), followed by local property taxes at 28.1%. Despite some of the challenges related to state funding during the recession, as well as the additional startup costs associated with opening new facilities, the district's management delivered operating surpluses in three of the last five audited fiscal years (2009 through 2013), with deficits that were small relative to the size of the both the surpluses and overall size of general fund revenues. Although the fiscal 2014 budget showed a $7.2 million operating deficit, preliminary financial figures show just a small draw on reserves of less than $1.0 million. Enrollment growth of 2.4% was offset by the hiring of additional staff, including 101 full-time equivalent teachers, changes to steps and lanes, as well as a 1% salary increase and one-time 1% bonus. The district also transferred $6.5 million to an OPEB (other post-employment benefit) trust fund. In fiscal 2015, the district has budgeted for a $9.5 million draw on reserves. However, given the district's recent track record of conservative budgeting and strong outperformance, Moody's expects an operating deficit smaller than the budget would indicate.

The district's general fund reserves have grown significantly in recent years. Audited fiscal 2013 financial figures show an ending fund balance of $61.5 million, or approximately 14.1% of operating funds revenues, and finalized financial figures for fiscal 2014 are expected to be similar, albeit slightly lower. As recently as 2010, the district's reserves were $33.9 million, or 8.8% of operating fund revenues. At its current levels, the district's reserves are satisfactory but substantially below Aa1-rated school districts nationally. Notably, the district has set aside $45.3 million in an OPEB trust fund as of August 2014. The district's efforts to manage OPEB costs and reduce its future liabilities is a positive credit factor, and will be a focus of future credit reviews.

MANAGEABLE DEBT AND PENSION LIABILITIES

In light of its rapidly growing tax base and student enrollment, the district's direct debt burden appears manageable at 2.44% of full value and 1.33 times operating revenues. After this issuance, the district will have no remaining voter-approved bond authorization. The district is currently updated its 10-year capital improvement plan, and has noted it would like to rely less on debt issuance and do more pay-go capital projects. However, district management at this time is anticipating seeking voter approval for additional debt authorization in the range of $190 million to $200 million in 2016. All of the district's debt consists of fixed rated obligations.

The district participates in the Utah Retirement System (URS), a cost-sharing multiple-employer, defined benefit

retirement plan sponsored by the state. The district's contribution to URS in 2013 was $39.6 million, or a manageable 10.3% of general fund revenues. Moody's three-year adjusted net pension liability (ANPL) for the district is a manageable 2.53% of full value and 1.38 times operating revenues. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability in proportion to its contributions to the statewide plan. 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. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at www.moodys.com/pensions.

WHAT COULD MOVE THE RATING-UP

- Significant improvement in the socioeconomic profile of the district

- Significant improvement in the district's financial position

WHAT COULD MOVE THE RATING-DOWN

- Protracted decline in the district's full valuation

- Significant deterioration in the district's financial position

KEY STATISTICS

2014 full valuation: $23.7 billion

2014 full value per capita: $78,157

Median family income: 110.2% of US

Available fund Balance as % of Revenues: 14.13%

5-Year Dollar Change in Fund Balance as % of Revenues: 6.48%

Cash Balance as % of Revenues: 26.02%

5-Year Dollar Change in Cash Balance as % of Revenues: 7.75%

Institutional Framework: Aa (Strong legal ability to match resources with spending)

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt / Full Value: 2.44%

Net Direct Debt / Operating Revenues: 1.33x

3-year Moody's Adjusted Net Pension Liability / Full Value: 2.53%

3-year Moody's Adjusted Net Pension Liability / Operating Revenues: 1.38x

RATING METHODOLOGIES

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating

action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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