

CREDIT OPINION

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Washoe County School District, NV

Update to credit analysis

Summary

[Washoe County School District](#) (Aa3, stable) benefits from an exceptionally large, growing and diversifying economy, with just above average resident income and strong full value per capita of \$171,476 that will continue to increase. The district's healthy reserves, with an available fund balance ratio equal to 32% as of fiscal 2023, will remain solid, supported by strong management and an improved state funding formula. Modest enrollment declines will continue given lower birth rates and rising home prices that reduce affordability. The district's elevated leverage and above-average fixed costs remain long-term credit challenges.

Credit strengths

- » Growing and increasingly diverse economy
- » Voter approved sales tax provides substantial funding for debt service and pay-go capital needs
- » Healthy financial position supported by improved state funding

Credit challenges

- » Elevated leverage driven by debt and pension liabilities
- » Enrollment declines resulting from lower birth rates and rising housing costs
- » Economic exposure to gaming and tourism industry

Rating outlook

The stable outlook reflects our expectation that the district will maintain its strengthened financial position despite enrollment declines given conservative budgeting and improved state funding. The stable outlook also reflects the likelihood that the district's economy will continue to expand and diversify, supporting growing full valuation per capita.

Factors that could lead to an upgrade

- » Maintenance of available fund balance at around 30%
- » Decrease in total leverage to below 400%
- » Continued economic diversification with income levels closer to 120% of the US

Factors that could lead to a downgrade

- » Ongoing enrollment declines exceeding 2% that pressure financial performance
- » Meaningful increase in leverage beyond current level
- » Significant reduction in available reserves to less than 20%

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.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Washoe County School District, NV

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income	106.6%	110.7%	110.4%	N/A	117.7%
Full value (\$000)	\$51,049,049	\$58,230,394	\$62,625,849	\$65,379,049	\$4,116,112
Population	464,182	479,758	486,674	N/A	33,491
Full value per capita	\$109,976	\$121,375	\$128,681	N/A	\$118,409
Enrollment	64,255	61,642	62,730	61,085	4,140
Enrollment trend	0.1%	-1.3%	-0.7%	-1.7%	-1.1%
Financial performance					
Operating revenue (\$000)	\$705,165	\$698,055	\$709,935	\$714,231	\$72,169
Available fund balance (\$000)	\$164,965	\$201,440	\$222,714	\$228,225	\$19,387
Net cash (\$000)	\$136,496	\$172,375	\$219,275	\$256,362	\$23,204
Available fund balance ratio	23.4%	28.9%	31.4%	32.0%	28.9%
Net cash ratio	19.4%	24.7%	30.9%	35.9%	33.5%
Leverage					
Debt (\$000)	\$1,133,037	\$1,235,497	\$1,228,635	\$1,213,115	\$52,993
ANPL (\$000)	\$2,629,877	\$3,281,040	\$3,163,332	\$2,491,204	\$126,556
OPEB (\$000)	\$187,837	\$125,715	\$88,633	\$69,117	\$9,318
Long-term liabilities ratio	560.3%	665.0%	631.1%	528.3%	339.9%
Implied debt service (\$000)	\$53,603	\$81,140	\$86,657	\$85,808	\$3,664
Pension tread water (\$000)	\$62,232	\$65,351	\$51,327	\$83,429	\$3,207
OPEB contributions (\$000)	\$4,289	\$7,272	\$5,118	\$4,174	\$333
Fixed-costs ratio	17.0%	22.0%	20.2%	24.3%	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 Ratings

Profile

Coterminous with [Washoe County](#) (Aa2 stable) the district serves a population of over 486,500 in northern [Nevada](#) (Aa1 stable), including the cities of [Reno](#) (Aa3 stable) and [Sparks](#) (Aa3). The district is the second largest in the state, serving approximately 60,057 students in fiscal 2024.

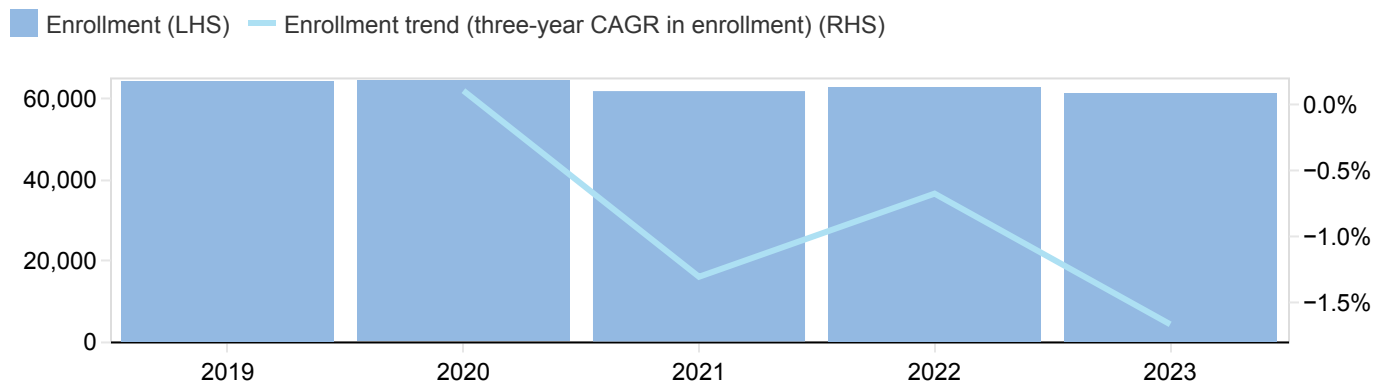
Detailed credit considerations

Economy: economy will continue to expand, but rising home prices contribute to enrollment declines

Although the economy remains dependent on the gaming and tourist industry, it will continue to diversify, supported by technology company investments including [Apple](#) (Aaa stable), [Tesla](#) (Baa3 Stable), [Panasonic](#) (Baa1 Stable), and a number of startups such as Switch. Economic diversification will support continued increases in the district's tax base and full valuation per capita. Over the past decade, annual growth in full valuation has averaged a strong 9%, with full value per capita reaching a favorable \$171,476 as of fiscal 2024. Median household income has also improved somewhat to 110% of US, exceeding the median for similarly rated districts. As of February 2024, the county's unemployment rate stood at 4.2%, in line with the national figure and better than state's overall unemployment rate of 5.0%.

Washoe County housing prices have escalated substantially over the past decade driven by population growth, buyers from outside the region and a relatively low supply of available homes. New development is constrained as 83% of the county's land is owned by Federal government. Higher home prices have reduced affordability and coupled with lower birth rates, have contributed to the district's ongoing enrollment declines, which officials expect will continue at around 2% annually. The district also faces competition from charter schools, with around 6,400 students (10% of total district students) enrolled in charter schools. Changes in enrollment have been uneven, with the greatest declines in the core area of the district whereas enrollment is growing in outer areas, and district officials are managing the challenge of closing between 8-10 schools over the next 10-15 years, while also opening a new elementary school in a growing area.

Exhibit 2
Enrollment



Source: Moody's Ratings

Financial operations: finances will remain stable supported by enhanced state funding

The district's finances have steadily improved over past few years and will remain healthy going forward, supported by conservative budgeting and enhanced state funding that has served to offset enrollment declines. In fiscal 2024, district officials expect to again outperform budgeted figures, with an operating surplus adding to reserve levels. Strong revenue growth, with per pupil funding increasing 26.3% to \$9,243 in fiscal 2024, allowed the district to award 13% - 14% COLA pay increases to staff as well as fund \$6.7 million in new positions including academic coaches and tutors. The fiscal 2025 budget reflects balanced operations with additional spending of over \$25 million focused on high-needs schools and expanding Pre-K sites, especially for English language learners.

Fiscal 2023 ended with a fifth consecutive general fund surplus of just over \$1 million increasing ending total general fund balance to \$62.6 million or 11.9% of revenues, consistent with the prior year. This is close to the district's policy, which sets a target of maintaining unrestricted reserves in the General Fund equal to 12% of General Fund expenditures and transfers. On an operating fund¹ basis, the district's available fund balance equaled \$228.2 million or 32% of operating revenue, exceeding the national median for similarly rated schools. With balanced operations, reserves are expected to remain stable going forward.

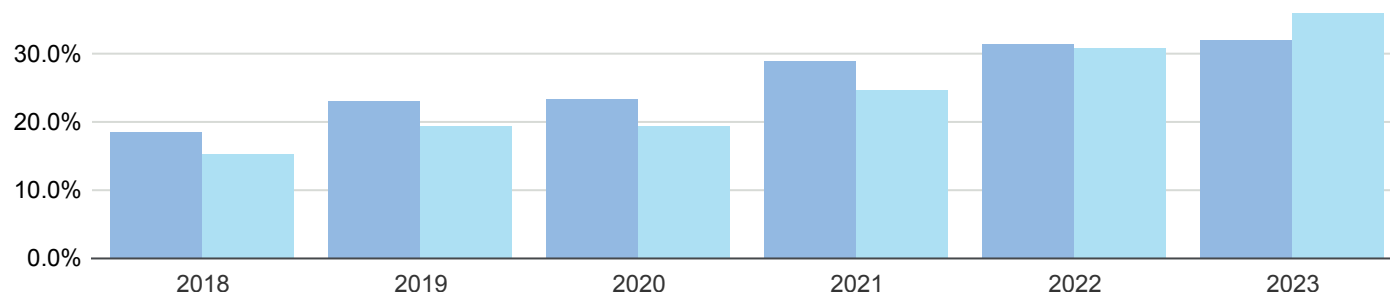
The district has benefitted from the implementation of state's new "pupil-centered funding plan" (SB 543 2019). For fiscal 2024, a 26% increase in per pupil funding translated to an 18.8% increase in revenues inclusive of enrollment losses of close to 2%. The district's other revenue sources for capital projects include property tax, government service tax (charges for the privilege of using vehicles on public highways) of which a portion for capital projects is retained by the district, and WC-1 sales and use tax.

In fiscal 2023, the district's WC-1 sales and use tax revenue remained steady from fiscal 2022, which saw a 12.7% increase emerging from the pandemic. For fiscal 2024, WC-1 tax revenue is up 2.0% through the end of December, providing a growing revenue source for capital projects.

Exhibit 3

Financial Trends

■ Fund Balance as a % of Revenues ■ Cash Balance as a % of Revenues



Source: Moody's Ratings

Liquidity

At the end of fiscal 2023, net cash in the general fund stood at \$82.5 million or 15.7% of revenue. Across operating funds, and consistent with strengthened reserve levels, net cash approached \$256.4 million or a strong 35.9% of revenue. Cash will remain strong supported by favorable state aid growth.

Leverage: leverage will remain elevated given adjusted pension liabilities and large CIP

The district's leverage will remain elevated given substantial borrowing needs and elevated pension liabilities. The district's long term liability ratio equals 538.5% of operating revenues, exceeding a national median for similarly rated districts of just over 300%. The district's total debt equals \$1.12 billion or 175% of operating revenue, also exceeding the national median. Almost half of the district's debt is supported by WC-1 sales tax and was issued after 2017. Following the sale of \$130 million of Series 2024A GOLT bonds, the district plans to issue the \$68.5 million in remaining authorization within the next six months. District officials expect to issue a total of \$255 million in fiscal 2025 to support the capital improvement plan (CIP).

The district's five-year CIP approaches \$1.3 billion, with around \$310 million in annual expenditures. Projects include a new elementary school, replacement of a middle school, and modernizing various facilities including the administration building. Over the next five years, the district plans to issue \$1.1 billion toward 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.

Legal security

The district's GOLT bonds are secured by the full faith and credit pledge of the district, subject to Nevada's constitutional and statutory limitations on overlapping levy rates for ad valorem taxes.

Debt structure

All of the district's debt consists of fixed-rate obligations, and amortization is average with approximately 43% of principal repaid within ten years.

Per state statute, the district is required to hold in reserve the lesser of 25% of the following year's debt service or 10% of outstanding par. Although this money is not specifically pledged for repayment, it cannot be used for any other purpose.

Debt-related derivatives

The district has no debt-related derivatives.

Pensions and OPEB

Adjusted net pension liabilities (ANPLs) are often the largest long-term liability for Nevada K-12 school districts, and the district's pension and OPEB liabilities add a significant amount of leverage to its balance sheet and will remain a credit weakness. Although annual pension costs are not currently a source of pressure for the district, a low funding rate at the plan level could lead to future

pressure. Total fixed costs including debt service and pension and OPEB contributions are somewhat elevated at 24.7% as of fiscal 2023, although given revenue growth, this will not create budgetary stress in the near term.

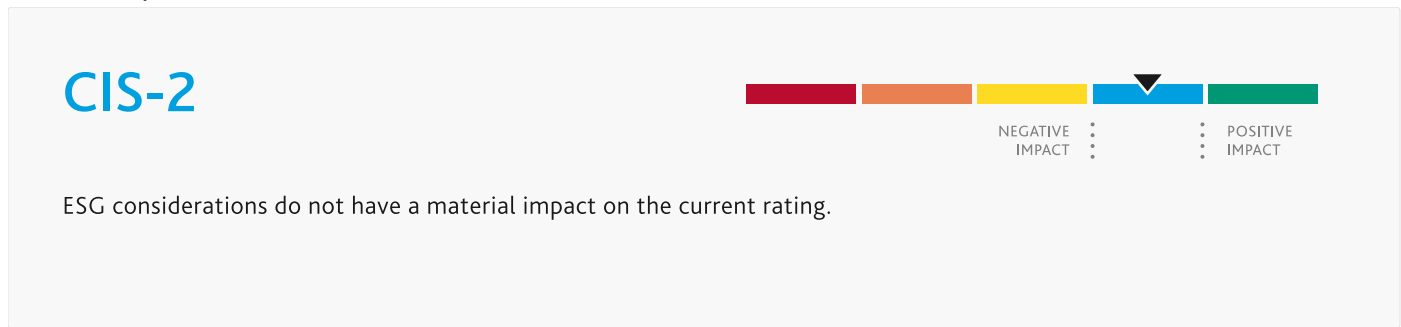
Districts participate in the Nevada Public Employee Retirement System (PERS) and typically report their liabilities on a lag. Contributions (as a percentage of active employee salaries) are set by state statute and are adjusted in odd-numbered years, but are only changed if the new rate is more than 0.5% higher or 2% lower than the existing contribution rate.

In fiscal 2023, the district reported a net pension liability totaling \$929 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 close to \$2.4 billion, or 4x operating revenue. The district's adjusted net OPEB liability, using Moody's same methodology, equaled a more moderate \$69 million at the end of fiscal 2023.

ESG considerations

Washoe County School District, NV's ESG credit impact score is CIS-2

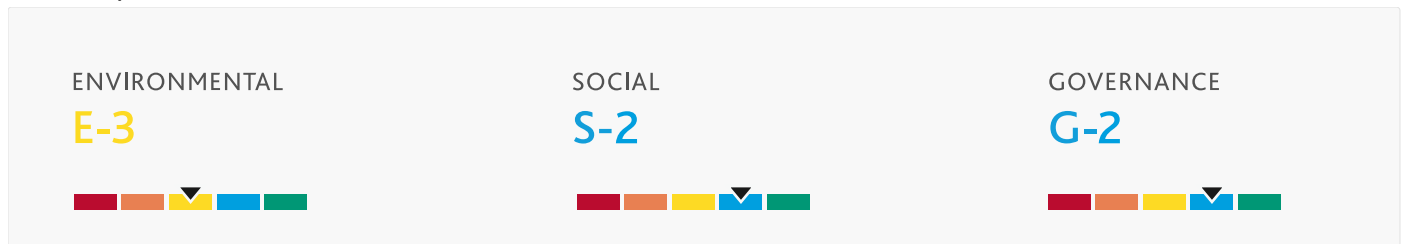
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Washoe County School District's **CIS-2** indicates that ESG considerations are not material to the rating. This reflects exposure to environmental risks associated with water stress, and limited exposure to social and governance risks.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Washoe County SD's **E-3** reflects moderate exposure to physical climate risks, primarily wildfires and water stress. The district has relatively low exposure to carbon transition, water management, natural capital, and waste and pollution risks.

Social

The **S-2** incorporates low exposure to social risks in most categories. The district benefits from a growing population, though the percentage of school-aged children in the district is slightly below the median. 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

The **G-2** reflects strong financial transparency and disclosure as reflected in the district's 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, with around 10% of district students attending charter schools. 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 Moody's.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 6

Washoe County School District, NV

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	110.4%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	171,476	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-1.7%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	32.0%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	35.9%	10.0%	Aaa
Institutional framework			
Institutional Framework	Baa	10.0%	Baa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	538.5%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	24.3%	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 Ratings

Appendix

Exhibit 7

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 Ratings

Endnotes

- 1 Operating funds include: general, debt service, special state appropriations, class size reductions, federal special education, special education fund, WC-a sales tax revenue, government services tax fund, and ERATE funds.

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