

Rating Action: Moody's affirms Nebo SD, UT's GOULT at Aa2; outlook stable

28 Jul 2022

New York, July 28, 2022 -- Moody's Investors Service has assigned a Aa2 underlying and Aaa enhanced ratings to Nebo School District, Utah's General Obligation School Building and Refunding Bonds, Series 2022 in the expected amount of approximately \$111.5 million. Moody's affirmed its Aa2 rating on the district's outstanding issuer rating, which reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security or structural features. Moody's also affirmed the Aa2 rating on the district's general obligation unlimited tax (GOULT) bonds and a Aa3 rating on the district's outstanding lease revenue bonds totaling approximately \$168.6 million and \$33.8 million, respectively. The outlook is stable.

RATINGS RATIONALE

The Aa2 issuer rating reflects the district's trend of enrollment growth and solid resident income and property wealth levels. The district's financial position is expected to remain strong supported by conservative fiscal practices. The rating also considers our expectation that reserves will remain adequate for the rating category despite the ongoing capital requirements of the district in order to address expectations of enrollment growth. The rating further considers an increasing leverage profile as the district expects to regularly issue debt in the near to medium term.

The Aa2 rating on the district's general obligation bonds is equivalent to the Aa2 issuer rating, based on the district's unlimited property tax pledge that is dedicated to the repayment of debt service.

The Aa3 rating for the district's lease revenue bonds is one notch lower than the district's Aa2 issuer rating and reflects a standard legal structure that includes a pledge of base rental payments and subject to annual appropriation. The Aa3 lease revenue rating reflects the more essential nature of the leased asset (middle school).

The Aaa enhanced rating is based on the additional security provided to bondholders by the Utah School District Bond Guaranty Program (Aaa). Under this program, the state's 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 shortfall for the district.

RATING OUTLOOK

The stable outlook reflects the expectation that the district will continue to benefit from a strong local economy and enrollment growth. Additionally, we expect the district's financial position will remain strong and leverage will remain manageable.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant strengthening in resident income
- Continued trend of operating surpluses, supporting growth or maintenance of reserves and liquidity
- Material reduction in leverage

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Growth of leverage profile beyond current expectations
- Erosion of financial position

LEGAL SECURITY

The district's general obligation unlimited tax (GOULT) bonds are secured by the district's full faith, credit, and unlimited property tax pledge. Additionally, the Utah School District Bond Guaranty Program pledges the state's full faith and credit to make whole any shortfall in debt service by the district, if necessary, on a timely

basis for payment to bondholders.

The district's lease revenue bonds are secured by a pledge by the district to make base rental payments sufficient to pay principal and interest, subject to annual appropriation. The lease is governed by a master lease agreement between the Local Building Authority of Nebo School District and the Board of Education of the Nebo School District.

USE OF PROCEEDS

Approximately \$90 million of the current issuance will be new money to continue the construction of Spanish Fork High School and begin the construction of Payson High School and Springville High School. The remaining approximately \$21.5 million of the current series will be used to refund the district's outstanding General Obligation School Building Bonds, Series 2012A for net present value savings.

PROFILE

The district covers 1,300 square miles in Utah County south of Provo and serves a population of approximately 140,000 residents (as of 2020 American Community Survey). The district currently operates 50 schools consisting of five high schools, an alternative high school, five junior high schools, five middle schools, 30 elementary schools, and four special purpose schools. Enrollment is 35,457 students as of October 1, 2021.

METHODOLOGY

The principal methodology used in the underlying ratings was US K-12 Public School Districts Methodology published in January 2021 and available at <https://ratings.moody.com/api/rmc-documents/70054>. The principal methodology used in the enhanced rating was Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology published in July 2022 and available at <https://ratings.moody.com/api/rmc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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Gregory Danielian
Lead Analyst
REGIONAL_WEST
Moody's Investors Service, Inc.
405 Howard Street
Suite 300
San Francisco 94105
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Tatiana Killen
Additional Contact
REGIONAL_NE
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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INVESTORS SERVICE

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