

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa2 UND/Aaa ENH to Nebo School District, UT's GOs, Ser 2024; outlook is positive**

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25 Jul 2024

New York, July 25, 2024 -- Moody's Ratings (Moody's) has assigned a Aa2 underlying and Aaa enhanced ratings to Nebo School District, UT's proposed \$13.675 million in General Obligation School Building Bonds, Series 2024. We maintain the Aa2 issuer and Aa2 GOULT ratings on outstanding debt. Post-sale, the district will have around \$259 million in GOULT bonds. The outlook is positive.

#### RATINGS RATIONALE

The Aa2 issuer rating reflects the district's very solid financial position with sizable surpluses reported the past five years. The district serves a growing area of the state, both reflected in ongoing residential and commercial construction, and in terms of positive enrollment trends of around 3% (three-year average). While leverage is currently manageable, the district plans to renovate and construct new school facilities, which will be funded with a combination of cash reserves and debt issuances over the next several years. Of note, the district entered into a five-year contract with an online provider, which generates around \$20 million in net revenues. Nebo plans to use these monies for one-time capital projects rather than recurring expenditures.

The Aa2 rating on the GOULT bonds is equivalent to the issuer rating based on the district's unlimited property tax pledge that is dedicated to pay debt service.

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 positive outlook reflects the expectation that the district will continue to budget conservatively, and successfully navigate operational pressures associated with a

growing district. Further, future reviews will consider how the district addresses its capital needs, including the use of one-time revenues associated with students participating through its online provider.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Maintenance of reserves and liquidity above 25% of revenues
- Reductions in total leverage to less than 250% of operating revenues

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained decline in reserves and liquidity below 17.5% of operating revenues
- Material increases in total leverage to greater than 250% of operating revenues

#### LEGAL SECURITY

The GOULT bonds are secured by the district's unlimited property tax pledge. 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.

#### USE OF PROCEEDS

The proceeds of the Series 2024 bonds will be used for the purpose of paying all or a portion of the costs to construct or purchase buildings, or purchase school sites, or furnish schools or improve existing school property under the charge of the board.

#### PROFILE

The district covers 1,300 square miles in Utah County south of the City of Provo (Aa1). The district currently operates 47 schools consisting of five high schools, an alternative high school, an advanced learning center, five junior high schools, five middle schools and 30 elementary schools. Additionally, the district also operates three small special purpose schools. Enrollment is a little under 44,000 with approximately 8,500 of those students online.

#### METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425431>. 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.moodys.com/rmc-documents/386295>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.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.moodys.com/rating-definitions>.

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