

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa1 UND/Aaa ENH to Davis School District, UT's GOULT bonds; outlook is stable**

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07 Aug 2024

New York, August 07, 2024 -- Moody's Ratings (Moody's) has assigned Aa1 underlying and Aaa enhanced ratings to Davis School District, UT's upcoming sale of \$100 million in General Obligation Bonds (Utah School District Bond Guarantee Program), Series 2024. We maintain the Aa1 issuer and Aa1 general obligation unlimited tax (GOULT) ratings. Post-sale, the district will have around \$543 million in GOULT debt. The outlook is stable.

#### RATINGS RATIONALE

The Aa1 issuer rating reflects the district's solid financial performance that has resulted in healthy reserves and liquidity of over 20% of operating revenues. Due to conservative budgeting, management is forecasting a surplus at fiscal 2024 year-end (June 30) with another projected for fiscal 2025. Management anticipates enrollment to remain flat, if not decline modestly, due to soft birth rates. Favorably, there is ongoing construction across the district, including around 2,000 residential properties, which could help offset these demographic trends. Wealth indices are strong, including MHI of 143%, and the local economy is diverse and vibrant, benefiting from proximity to Salt Lake City, and anchored by Hill Air Force Base. Leverage is currently manageable and inclusive of the current issuance, will hover around 254% of operating revenues (fiscal 2023). Officials report that they do have remaining GO authorization and will likely issue again in 2025 and 2026.

The Aa1 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 stable outlook reflects the expectation that management will continue to budget conservatively, and closely monitor enrollment and staffing, resulting in reserves and liquidity in line with Aa medians.

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

- Growth and maintenance of reserves and liquidity above 25% of operating revenues
- Total leverage below 125% of operating revenues on a consistent basis

## 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 payable from the district's unlimited property tax pledge. Debt service on the lease revenue bonds are payable from base rental payments made by the district sufficient to pay principal and interest, subject to annual appropriation, under a master lease agreement.

## USE OF PROCEEDS

The bonds will be used for constructing buildings, acquiring land and furnishings and remodeling and updating existing school property under the charge of the Board.

## PROFILE

Located between Salt Lake City (Aaa stable) and Ogden City (Aa2), Davis School District is coterminous with Davis County and spans 304 square miles. The district operates 94 schools and had fiscal 2023 enrollment of around 71,000.

## 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 these methodologies.

## 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's.com/rating-definitions>.

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