Granite School District, Utah

New Issue Report

Ratings

Issuer Default Rating	AAA
New Issue	
General Obligation School Building Bonds (Utah School Bond Guaranty Program), Series 2018[a]	AAA
Outstanding Debt	
General Obligation Bonds[a]	AAA

[a]The 'AAA' rating is based on a guarantee provided by the Utah School Bond Default Avoidance Program, which is rated 'AAA'/Stable by Fitch. The district's general obligation bonds have a 'AAA' underlying rating from Fitch, reflecting the district's credit quality without consideration of the guarantee provided by the Utah School Bond Default Avoidance Program.

Rating Outlook

Stable.

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New Issue Summary

Sale Date: To be sold competitively on Nov. 27, 2018.

Series: $50,000,000 General Obligation (GO) School Building Bonds (Utah School Bond Guaranty Program), Series 2018

Purpose: To finance school construction and improvements.

Security: The bonds are general obligations of the district, payable from the proceeds of unlimited ad valorem property taxes levied on all taxable properties within the district. Payment of principal and interest is guaranteed by the full faith and credit and unlimited taxing power of the state under the provisions of the Utah School Bond Guaranty Act.

Analytical Conclusion

The 'AAA' Issuer Default Rating (IDR) and underlying rating on the GO bonds reflect Granite School District's (the district) solid financial operations, flexible labor environment and low liability burden. The district benefits from midrange inherent budget flexibility and the highest gap-closing capacity.

Key Rating Drivers

Revenue Framework: 'aa'
Solid general fund revenue growth will likely continue above inflation but slightly lower than national economic growth. This reflects both largely stable student enrollment and increasing state funding support. The district has satisfactory independent legal ability to raise revenues.

Expenditure Framework: 'aa'
Spending growth will likely remain in line with, to marginally above, anticipated revenue growth. The district enjoys solid expenditure flexibility, supported by productive labor relations.

Long-Term Liability Burden: 'aaa'
The district's combined debt and its share of the state's unfunded pension liability is low relative to its resource base. Direct debt amortizes at an above average pace. While new borrowing is planned, Fitch Ratings expects the long-term liability burden to remain low given amortization and growth in personal income.

Operating Performance: 'aaa'
The district has the highest gap-closing capacity, supporting financial resilience during economic downturns.

Rating Sensitivities

Solid Financial Operations: Fitch expects the district will continue to exercise sound budget management. However, a significant weakening in revenue or overall financial performance could put downward pressure on the rating.

Rating History (IDR and GO Bonds)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	11/7/18
AAA	Assigned	Stable	4/19/10

Related Research

Fitch Rates Granite School District, UT GOs 'AAA'; Outlook Stable (November 2018)

Granite School District, Utah (November 2017)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Credit Profile

Granite School District covers 257 square miles in the northern half of Salt Lake County, placing it centrally within Utah's economic hub. It is Utah's third largest school district based on student population (approximately 65,000) and operates 87 elementary, junior high, and high schools, as well as six special purpose programs.

The district is located at the economic center of the large and resilient Wasatch Front economy that supports almost 1.2 million people. The district's tax base was hurt by the national housing downturn and experienced a 20% taxable assessed valuation (TAV) decline between fiscal years 2009 and 2013, from which it has subsequently more than fully recovered. The tax base remains diverse in that the largest taxpayers represent a variety of employment sectors. The top 10 property taxpayers account for nearly 11% of fiscal 2018 TAV, with the largest property taxpayer, Kennecott Utah Copper, representing over 5% of the tax base.

Revenue Framework

Funding for district operations comes from a combination of property taxes imposed by the school board, state-imposed personal income taxes and corporate franchise taxes, and federal sources. The weighted pupil unit (WPU) is the statutory allocation methodology for equalized school funding across the state. Over the past four years, the WPU has increased by approximately 3% to 4% annually.

Fitch expects that solid general fund revenue growth will likely continue above inflation. The district's 10-year revenue growth has exceeded inflation because of largely stable student enrollment and solid state funding growth over the past six years. The district expects student enrollment to remain stable through 2023.

The district has satisfactory independent legal ability to raise revenues. Additional revenues could be raised each year through a truth-in-taxation public hearing process. The district could increase the board local tax levy by up to $9 million in fiscal 2020. It could also reallocate the education technology and maintenance shop functions to the capital tax levy, thereby increasing potential local tax revenues by another $17 million in fiscal 2020. Such increases would not result in a reduction of state funding.

The district expects to use next the truth-in-taxation process in 2019 to bring its voted levy tax rate back to the maximum level permitted by state law, thereby preserving its ability to receive maximum state funding support. The impact would be revenue neutral. From 2022 onward, the district will likely require regular truth-in-taxation hearings to shift debt service capacity to the capital levy as debt is amortized and to maintain its capital tax levy rate in the face of TAV increases. The resulting capital funding increases would enable pay-as-you-go funding of the district's medium- to long-term capital needs, unless unexpected student population growth necessitated a future bond authorization.

Expenditure Framework

The majority of district spending is for instruction costs at approximately 63% of fiscal 2018 general fund spending (unaudited) and facilities operating costs (approximately 12%). The district's fiscal 2019 general fund budget absorbed almost $18 million in increased employee remuneration costs (over 3% of budgeted general fund spending). In addition, the district is investing $2 million in start-up costs related to a new health clinic for employees and their families, with the goal of reducing employee health care costs in the long term. While the district does not anticipate severe remuneration pressure in fiscal 2020, it continues to operate within a very competitive labor market for teachers.

Based on the district's patterns of revenue and spending, Fitch expects the district's future general fund expenditures to be in line with, to marginally above, general fund revenue growth. The district's carrying costs related to debt repayment and pension contributions, at over 12% of spending, are moderate relative to the district's resources (although there is likely to be some upward pension contribution pressure), leaving solid expenditure flexibility.

If the district needed to reduce expenditures, district officials advise that they would follow past practice and focus on employee attrition, redeployment, hiring restrictions, and compensation freezes. District officials would also seek to maximize any revenue expenditure flexibility permitted by the state. Labor relations are typically productive, with early settlement of annual contracts, aiding budget planning.

Long-Term Liability Burden

The district's overall debt and pension liability burden is low, at about 5% of personal income. Direct debt represents almost one-third of the overall long-term liability burden and amortizes at an above-average 66% in 10 years.

While the district prefers to fund its capital needs on a pay-as-you-go basis wherever possible, the series 2018 bonds will be the first issuance against a November 2017 voter authorization for $238 million in new GO bonds (56% approval) for priority capital projects. The district anticipates issuing a further $100 million in late 2019 and the final $88 million in late 2020. Even if all of the remaining $188 million in new GO bonds were issued immediately, the district's long-term liability burden would remain low as a percentage of personal income, given above-average amortization and growing personal income.

The district participates in several state-sponsored pension plans. The 74% ratio of assets to liabilities is based on Fitch's assumed 6% investment return.

The district estimates that it had funded its post-retirement obligations at 130% at the end of fiscal 2018.

Operating Performance

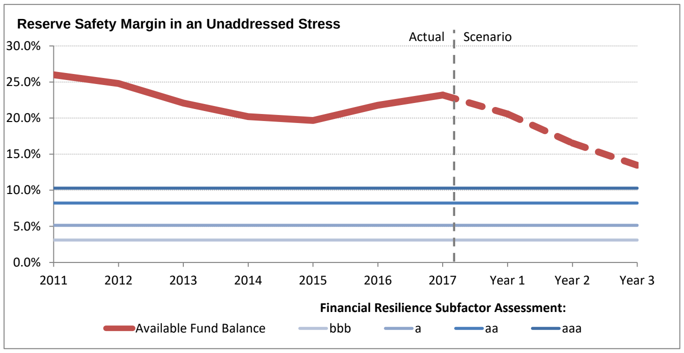
The district has the highest gap-closing capacity. For details, see Scenario Analysis, page 4.

The district ended fiscal 2017 with a net operating surplus of almost $9 million. Consequently, it increased its unrestricted general fund balance to almost $110 million (over 23% of spending). The district projects a $14 million net operating surplus after transfers in fiscal 2018, which could further increase its unrestricted general fund balance to almost $124 million, or nearly 25% of spending. The district's multiyear budget projections indicate fundamentally stable general fund operations through fiscal 2022.

The district continues to fund its undistributed reserve for contingencies at the maximum 5% of budgeted general fund expenditures allowed by state law, which prohibits its use in labor negotiations or settlements. In the event of an emergency, the general fund could borrow up to almost $13 million from its internal service fund for self-insurance.

Granite School District (UT)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The district has the highest gap-closing capacity. Solid general fund balances and very good liquidity were maintained throughout and following the recession. The district did not need to implement layoffs, furloughs, or major program reductions. However, there were three years of general fund draw downs in fiscal years 2012 to 2014 for a mix of reasons, including planned textbook adoption, unexpected state funding shortfalls, one-time priority educational initiatives, and general fund structural imbalance. The district returned to positive operations in fiscal years 2015 to 2017 and is projecting surplus operations again in fiscal 2018 (unaudited). The district's unrestricted general fund balance remains well in excess of Fitch's 'aaa' reserve safety margin given moderately low revenue volatility and midrange inherent budget flexibility. Fitch expects the district to maintain a 'aaa' reserve safety margin even during periods of economic stress.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.1%)	0.4%	3.0%
Inherent Budget Flexibility	Midrange		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	410,077	403,011	422,715	430,282	444,512	467,826	481,319	471,413	473,520	487,499
% Change in Revenues	-	(1.7%)	4.9%	1.8%	3.3%	5.2%	2.9%	(2.1%)	0.4%	3.0%
Total Expenditures	396,924	403,834	428,337	439,666	451,106	458,316	471,303	480,729	490,344	500,151
% Change in Expenditures	-	1.7%	6.1%	2.6%	2.6%	1.6%	2.8%	2.0%	2.0%	2.0%
Transfers In and Other Sources	314	-	228	4,352	9,470	4,791	3	3	3	3
Transfers Out and Other Uses	2,036	2,135	389	1,113	938	1,253	1,081	1,103	1,125	1,147
Net Transfers	(1,723)	(2,135)	(161)	3,239	8,533	3,538	(1,078)	(1,099)	(1,122)	(1,144)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	11,430	(2,958)	(5,783)	(6,145)	1,938	13,049	8,938	(10,416)	(17,945)	(13,796)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.9%	(0.7%)	(1.3%)	(1.4%)	0.4%	2.8%	1.9%	(2.2%)	(3.7%)	(2.8%)
Unrestricted/Unreserved Fund Balance (General Fund)	103,709	100,628	94,690	89,001	88,948	100,076	109,577	99,162	81,217	67,421
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	103,709	100,628	94,690	89,001	88,948	100,076	109,577	99,162	81,217	67,421
Combined Available Fund Bal. (% of Expend. and Transfers Out)	26.0%	24.8%	22.1%	20.2%	19.7%	21.8%	23.2%	20.6%	16.5%	13.4%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	32.9%	16.5%	10.3%	6.2%	4.1%
Reserve Safety Margin (aa)	24.7%	12.3%	8.2%	5.1%	3.1%
Reserve Safety Margin (a)	16.5%	8.2%	5.1%	3.1%	2.1%
Reserve Safety Margin (bbb)	6.2%	4.1%	3.1%	2.1%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.