

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

^aThe '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.

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.

Analysts

Alan Gibson
+1 415 732-7577
alan.gibson@fitchratings.com

Graham Schnaars
+1 415 732-7578
graham.schnaars@fitchratings.com

Rating History (IDR and GO Bonds)

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

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

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 \(April 2018\)](#)

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

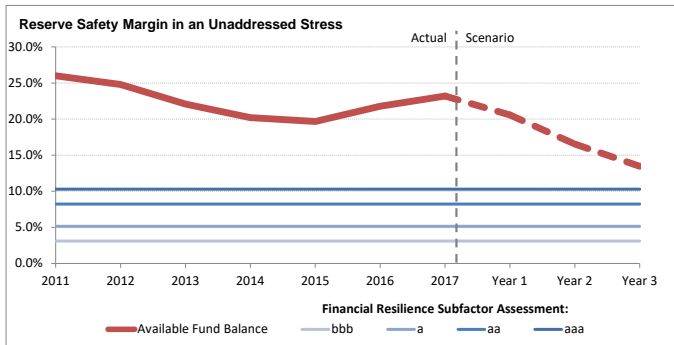
The district has the highest gap-closing capacity. For details, see Scenario Analysis, page 4.

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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.