

ISSUER COMMENT

16 September 2019

RATING

General Obligation (or GO Related) ¹

A2 No Outlook

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Skagit County School District 311 (La Conner), WA

Annual Comment on La Conner SD

Issuer Profile

Skagit County School District 311 (La Conner) is located in northwestern Washington and is headquartered in La Conner, approximately 50 miles north of Seattle. The county has a population of 121,725 and a low population density of 70 people per square mile. The county's median family income is \$69,536 (2nd quartile) and the July 2019 unemployment rate was 5.7% (4th quartile) ². The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

Credit Overview

La Conner SD's credit position is sound, though its A2 rating falls short of the median rating of Aa3 for school districts nationwide. The notable credit factors include a satisfactory financial position, a healthy wealth and income profile, and a small tax base. It also reflects a mid-ranged pension liability and a sizable debt burden.

Finances: La Conner SD has a satisfactory financial position in comparison to the A2 rating assigned. The cash balance as a percent of operating revenues (19.3%) is slightly lower than the US median. That said, this metric grew modestly from 2014 to 2018. Also, the district's fund balance as a percent of operating revenues (20.4%) is roughly equivalent to the US median.

Economy and Tax Base: The economy and tax base of La Conner SD are quite healthy overall and are relatively favorable in comparison to the assigned rating of A2. The full value per capita (\$116,348) is slightly above the US median. On the other hand, this metric decreased between 2014 and 2018. Also, the median family income is 101.8% of the US level. However, the total full value (\$538 million) is smaller than other Moody's-rated school districts nationwide.

Debt and Pensions: La Conner SD has somewhat elevated debt and pension liabilities overall, which are consistent with its A2 rating. The Moody's-adjusted net pension liability to operating revenues (1.3x) is on par with the US median, and did not change between 2014 and 2018. Furthermore, the net direct debt to full value (3.1%) is materially higher than the US median.

Management and Governance: Washington School Districts have an institutional framework score ³ of "A", which is moderate. The sector's major revenue source is from enrollment-based state funding. Although school districts do not levy an operating property tax, they may seek voter approval for supplemental property tax levies for educational

programs or capital. With legislative changes in 2018, school districts received significantly higher funding but are substantially more dependent on state revenues and face greater limitations on generating local revenues. At the same time, districts are now able to negotiate salaries with greater latitude. Given the strength of bargaining groups, expenses are expected to increase and may be more volatile from year to year. However, unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Fixed costs are driven primarily by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, or under 5% annually.

Sector Trends - Washington School Districts

Washington school districts are expected to see steady economic growth over the near-term driving continued enrollment increases. With recent legislative changes, school districts are substantially more dependent upon the state for funding and more constrained in their abilities to access local property taxes. Concurrently, districts are now able to negotiate salaries with greater latitude. Given the strength of bargaining groups, expenses are expected to increase and may be more volatile from year to year. Given their limited penetration, charter schools are not a significant credit pressure. As a result, we expect to see more variability in financial performance not only between individual districts, but within individual districts from year to year. Pension costs are not a significant credit driver, as overall fixed costs remain manageable.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

EXHIBIT 1

Key Indicators ⁴/₅ La Conner SD

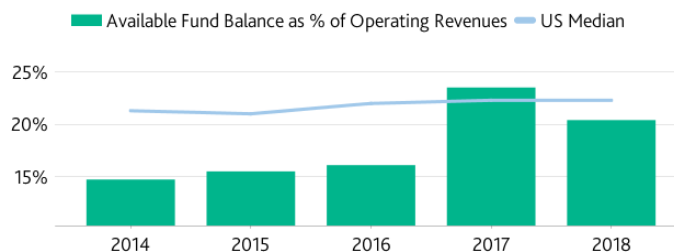
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$587M	\$465M	\$477M	\$499M	\$537M	\$1,919M	Weakened
Full Value Per Capita	\$126,830	\$106,226	\$106,893	\$111,881	\$116,348	\$87,328	Weakened
Median Family Income (% of US Median)	101%	100%	100%	100%	102%	101%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	14.7%	15.5%	16.1%	23.5%	20.4%	22.3%	Improved
Net Cash Balance as % of Operating Revenues	15.0%	15.4%	17.2%	23.1%	19.3%	27.2%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	3.4%	4.1%	3.8%	3.5%	3.1%	1.6%	Stable
Net Direct Debt / Operating Revenues	1.80x	1.67x	1.53x	1.39x	1.36x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.2%	3.4%	3.7%	3.3%	2.9%	3.3%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.18x	1.40x	1.49x	1.31x	1.27x	1.48x	Stable

	2014	2015	2016	2017	2018	US Median
Debt and Financial Data						
Population	4,631	4,379	4,464	4,464	4,621	N/A
Available Fund Balance (\$000s)	\$1,614	\$1,742	\$1,907	\$2,955	\$2,526	\$9,391
Net Cash Balance (\$000s)	\$1,651	\$1,735	\$2,045	\$2,900	\$2,392	\$11,164
Operating Revenues (\$000s)	\$10,991	\$11,266	\$11,871	\$12,556	\$12,383	\$42,583
Net Direct Debt (\$000s)	\$19,753	\$18,857	\$18,161	\$17,481	\$16,840	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$13,007	\$15,719	\$17,716	\$16,490	\$15,749	\$62,410

Source: Moody's Investors Service

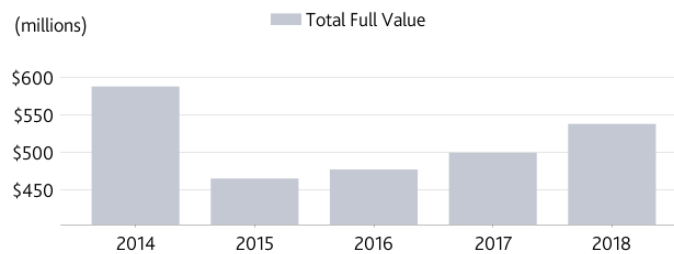
EXHIBIT 2

Available fund balance as a percent of operating revenues increased from 2014 to 2018



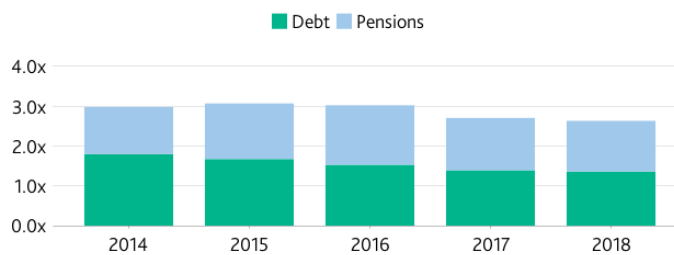
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base decreased from 2014 to 2018

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable from 2014 to 2018

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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